Taxation of U.S. Citizens or U.S. Residents Living or Working in Canada

2026 edition (chapter excerpt)

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At a glance

This chapter summarizes common U.S. tax and reporting issues for U.S. citizens or U.S. residents living or working in Canada.

Key annual filings (typical)

- Form 1040 (U.S. Individual Income Tax Return), plus applicable schedules (e.g., Schedule C for self-employment).
- Form 1116 (Foreign Tax Credit) and/or Form 2555 (Foreign Earned Income Exclusion), where applicable.
- FinCEN Form 114 (FBAR) for foreign accounts; Form 8938 for specified foreign financial assets (FATCA).
- Form 8621 for Passive Foreign Investment Companies (often Canadian mutual funds).
- Form 3520 and 3520-A for foreign grantor trusts (commonly TFSA/RESP structures), where applicable.
- Form 5471 for Controlled Foreign Corporations; Form 8854 for expatriation compliance (if relevant).

Common due dates (general)

- Form 1040: generally April 15 (extensions commonly available to October 15).
- Taxpayers living outside the U.S.: generally automatic extension to June 15 for filing and payment in certain cases.
- Form 3520-A: generally due March 15 (extension often available to September 15 if filed timely).
- FBAR (FinCEN 114): due with the (extended) Form 1040 due date.

How to use this chapter

- Use headings as a checklist: identify which sections apply, then confirm requirements and thresholds for the specific year.
- Treaty-based positions often still require filing an information return to claim the benefit.
- When in doubt (especially with PFICs, trusts, or corporations), obtain advice before filing - penalties for incorrect or late forms can be significant.

I. Taxation of U.S. Citizens or U.S. Residents Living or Working in Canada

1.01 Introduction

The United States taxes individuals based on citizenship or residence, while Canada generally taxes individuals based on residence. As a result, U.S. citizens and U.S. residents who live or work in Canada may face taxation on worldwide income in both countries.

Even where relief is available under the Canada–U.S. Income Tax Convention (the Treaty) or other provisions, U.S. returns and elections often still must be filed to claim the intended treatment. Late, incomplete, or incorrect filings can lead to denial of treaty-based exemptions, loss of deductions, and penalties and interest.

This chapter provides a high-level overview of selected topics and is not a substitute for case-specific international tax advice.

2025 U.S. individual income tax brackets (ordinary income)

Rate / bracket	Single	Married filing jointly	Head of household
10%	11,925	23,850	17,000
12% (starts)	11,926	23,851	17,001
22% (starts)	48,475	96,950	64,850
24% (starts)	103,350	206,700	103,350
32% (starts)	197,300	394,600	197,300
35% (starts)	250,525	501,050	250,500
37% (starts)	626,350	751,600	626,350

2025 long-term capital gains rates

Rate	Single	Married filing jointly	Head of household
0%	$48,350	$96,700	$64,750
15%	Under 533,400	Under 600,050	Under 566,700
20%	Over 533,401	Over 600,051	Over 566,701

1.02 U.S. Income Taxation of Citizens & Residents

(a) Taxation of individuals

U.S. citizens and U.S. residents are generally taxed on income from all sources, inside and outside the United States. Form 1040 is generally due April 15 for the prior calendar year (extensions may apply).

Filing status affects rate schedules. Common statuses include: single, married filing jointly, married filing separately, qualifying widow(er), and head of household (HOH).

2025 filing thresholds (minimum gross income to file)

Filing status	2025 threshold
Single	$14,600
Single (over 65)	$16,550
Head of household	$21,900
Head of household (over 65)	$25,625
Married filing jointly	$32,200
MFJ (one spouse over 65)	$33,100
MFJ (both over 65)	$34,700
Married filing separately	$15,750

(b) Itemized deductions and standard deduction

Taxpayers generally choose between the standard deduction and itemizing deductions (e.g., medical expenses, state and local taxes, charitable contributions, and certain investment expenses).

For 2026, the standard deduction is increased and itemized deductions are more restricted. Notable limitations discussed in this chapter include:

- State and local tax (SALT) and real estate tax deductions generally limited to $40,000 for most taxpayers (subject to income-based phaseouts under current law).
- Home mortgage interest generally limited to interest on the first $750,000 of acquisition debt for a married couple.
- Personal exemptions are eliminated, reducing the number of taxpayers who itemize.

(c) When returns are due (common deadlines)

- Form 1040 is generally due April 15; an automatic extension commonly moves the filing deadline to October 15 if requested timely.
- U.S. citizens (or permanent residents) living outside the U.S. (and with no U.S.-source employment or self-employment income) generally have until June 15 to file and pay without requesting an extension.
- Foreign grantor trust reporting often includes Form 3520 with the Form 1040 and Form 3520-A generally due March 15 (with a possible extension to September 15 if requested timely).
- Foreign financial reporting commonly includes FinCEN 114 (FBAR) and, where applicable, Form 8938 filed with the Form 1040.

(d) Medicare-related taxes

High-income taxpayers may be subject to additional Medicare-related taxes, including:

- Net Investment Income Tax (NIIT) of 3.8% on certain investment income above thresholds (generally $200,000 single, $250,000 married filing jointly, $125,000 married filing separately).
- Additional Medicare tax of 0.9% on earned income above the same thresholds (reported on Form 8959). Employers may withhold this additional tax once wages exceed $200,000, which can create under/over-withholding issues when combining multiple jobs or spousal income on a joint return.

(e) Taxes and passports

Failure to file and pay U.S. taxes when due may affect eligibility to renew a U.S. passport.

(f) Americans employed in Canada (Treaty overview)

Employment income may be taxable in the country where employment is exercised, subject to Treaty rules (commonly referenced under Article XV, "Dependent Personal Services").

As summarized in this chapter, Canadian taxation and withholding may be avoided in limited circumstances (including a threshold level of employment income and tests relating to days present and whether the cost is borne by a Canadian employer or a permanent establishment/fixed base in Canada).

Employers with a fixed base in Canada should coordinate Canadian payroll withholding and consider the impact of U.S. withholding to avoid cash-flow issues for employees.

(g) Self-employed U.S. citizens abroad

Self-employed individuals typically report business income on Schedule C and may be subject to U.S. self-employment tax (15.3% up to $176,100 of self-employment income for 2025) in addition to income tax.

Under totalization (social security) agreements, a self-employed individual subject to dual coverage generally pays social security taxes (or equivalent) only in the country of residence. This chapter notes that U.S. citizens resident in Canada generally pay Canada Pension Plan (CPP) premiums and may be exempt from U.S. self-employment tax in appropriate cases.

(h) Election to treat a nonresident alien spouse as a U.S. resident

A U.S. citizen or resident married to a nonresident alien may be able to elect to treat the spouse as a U.S. resident for income tax purposes. This election can affect worldwide income reporting, available deductions, filing status, and treaty access.

The chapter highlights the following consequences (non-exhaustive):

- Both spouses agree to U.S. taxation on worldwide income.
- Joint filing rates may apply and additional deductions may be available.
- The nonresident alien spouse may lose access to treaty benefits for U.S. tax purposes.
- The election may increase exposure to NIIT depending on investment income levels.

Because results can vary significantly, compare alternative filings before electing.

(i) Identification numbers

U.S. tax returns generally require a valid taxpayer identification number. Individuals entitled to work in the U.S. generally use a Social Security Number (SSN). Others may require an Individual Taxpayer Identification Number (ITIN) obtained via Form W-7, typically with certified identification documentation. Entities and self-employed persons may require an Employer Identification Number (EIN) via Form SS-4.

Section 1.02(j) Identity Theft

Due to increased identity theft, the chapter recommends obtaining an Identity Protection PIN (IP PIN) from the IRS. An IP PIN must be included to file a return once issued; returns submitted without the PIN may be rejected.

1.03 Foreign Bank Account Reporting and FATCA

FATCA introduced expanded reporting for foreign financial assets held by U.S. persons. In addition to income tax reporting, separate disclosures may be required.

(a) Reports of foreign financial assets (FBAR)

U.S. persons with interests in foreign financial accounts may need to file FinCEN Form 114 (FBAR) electronically by the (extended) due date of the Form 1040. The FBAR generally reports the bank and securities accounts and the maximum balance during the year; penalties can be significant for noncompliance.

(b) Statement of specified foreign financial assets - Form 8938

Certain U.S. persons with specified foreign financial assets above thresholds may need to file Form 8938 with the Form 1040. Specified assets can include bank and securities accounts, foreign pensions, foreign grantor trusts, RRSP interests, interests in controlled foreign corporations, and other financial assets.

(c) Passive Foreign Investment Companies (PFICs) - Form 8621

Many Canadian mutual funds and holding companies may be treated as PFICs, which can trigger Form 8621 reporting and potentially unfavorable tax outcomes. The chapter advises avoiding PFIC exposure without prior analysis.

(d) Foreign grantor trusts (e.g., TFSA/RESP) - Forms 3520 and 3520-A

The chapter treats Canadian TFSA and RESP arrangements (and certain other structures) as foreign grantor trusts for U.S. purposes, potentially triggering annual filing of Form 3520 (with the Form 1040) and Form 3520-A (generally due March 15). It notes that late or inadequate filing can lead to significant civil penalties.

(e) Affordable Care Act

The federal requirement to maintain minimum essential coverage has been reduced to zero since 2019, although certain states may have their own mandates.

1.04 The Importance of Determining Residence

Residence status is central to Canadian taxation, which generally applies to worldwide income of Canadian residents. Canada also has rules taxing certain Canadian-source income of non-residents.

(a) Canadian residence rules (selected factors)

Canada does not provide a single statutory definition of residence; residence is determined based on facts and ties. Factors discussed in this chapter include the permanence and purpose of time outside Canada, residential ties in Canada, residential ties abroad (including visa status), and the regularity and length of visits to Canada.

Individuals who spend 183 days or more in a year in Canada may be deemed resident for Canadian tax purposes. The chapter also discusses deemed non-resident outcomes under Treaty tie-breaker interpretations.

(b) Dual-resident individuals

Some individuals may be resident in both Canada and the U.S. under domestic rules. Dual-residence can trigger worldwide taxation in both countries, and careful planning is needed to apply Treaty and foreign tax credit rules in the correct order and avoid penalties.

1.05 Elimination of Double Taxation

(a) Canada-U.S. Income Tax Convention (Treaty)

The Treaty includes provisions for residence determination, taxation of specific income types, withholding rules, and mechanisms (notably foreign tax credits) to mitigate double taxation. Invoking Treaty protection typically requires timely and accurate filings.

(b) Claiming foreign tax credits (Form 1116)

Foreign income taxes may be claimed as a deduction or as a credit; the chapter notes that a credit is often preferable for U.S. citizens living in Canada. Foreign tax credits are generally computed separately by income category and by country (e.g., passive income vs. general limitation income), and unused credits may carry forward subject to limitations.

(c) Foreign earned income exclusion (IRC 911) and housing

If tests are met, U.S. citizens or resident aliens may elect to exclude foreign earned income under IRC 911 (the chapter states up to $130,000 for 2025), subject to tax home and either the bona fide residence test or the physical presence test (330 full days in 12 consecutive months).

A foreign housing cost exclusion may also be available in some cases.

(e) Foreign tax credits vs. earned income exclusion

Because the earned income exclusion is elective and reduces the ability to claim foreign tax credits on excluded income, the chapter recommends comparing outcomes before choosing an approach.

(f) Alternative Minimum Tax (AMT)

AMT rules can limit certain tax benefits by recalculating income and deductions under alternate rules. The chapter notes that AMT foreign tax credits may reduce AMT exposure for many expatriates.

(g) Totalization agreement - social security

The Canada–U.S. totalization agreement coordinates social security coverage for cross-border workers. The chapter notes a common case: U.S. citizens temporarily assigned to Canada (up to 5 years) by a U.S. company may remain covered under U.S. Social Security and be exempt from CPP, supported by a certificate of coverage.

(h) Canadian RRSPs and U.S. taxes

RRSP income is generally deferred for U.S. purposes until withdrawal under Treaty treatment. The chapter notes that a separate RRSP reporting form (previously Form 8891) has been eliminated; RRSP interests may be reportable on Form 8938 and on FinCEN Form 114.

(i) Roth IRAs in Canada

Under Treaty protocol provisions referenced in the chapter, Roth IRAs may be treated as pensions for Treaty purposes if no contributions are made while resident in Canada after December 31, 2008. The chapter notes an election deadline (by April 30 following the year Canadian residency begins) to support deferral treatment, and states that late elections are not provided for.

1.06 U.S. Corporate Rules Applicable to U.S. Citizens

(a) Controlled Foreign Corporations (CFCs) - Form 5471

U.S. shareholders of controlled foreign corporations may be required to include certain income (e.g., Subpart F income) on their U.S. returns, and to file detailed annual disclosures on Form 5471. The chapter emphasizes that penalties for non-filing can be severe.

(b) Accumulated earnings tax

The chapter discusses U.S. accumulated earnings tax rules, which can impose a 20% penalty tax when retained earnings exceed thresholds. It highlights that common Canadian private corporation planning strategies may not translate for U.S. taxpayers.

Thresholds referenced in the chapter include $150,000 for professional/scientific and similar companies and $250,000 for other companies.

1.07 Foreign Corporation Treatment in the U.S.

(a) Deferred foreign income corporations (DFICs) / transition tax concepts

The chapter summarizes the transition to a participation exemption system and defines DFIC and specified foreign corporation concepts (referencing Code Sec. 965). It notes that accumulated post-1986 deferred foreign income as of key 2017 measurement dates can drive inclusions.

(b) Global Intangible Low-Taxed Income (GILTI)

The chapter notes that U.S. shareholders of CFCs may need to include GILTI in gross income, computed under complex rules that aggregate certain items across CFCs. It cautions Canadians spending significant time in the U.S. to understand potential exposure.

1.08 Ceasing to be Taxable in the U.S. or Canada

To cease Canadian taxation, individuals generally must sever Canadian residency. For the U.S., citizens generally remain taxable unless citizenship is relinquished; long-term residents may also have expatriation considerations.

(a) Revoking U.S. citizenship or long-term U.S. residence

The chapter discusses IRC 877A expatriation rules (effective June 17, 2008) and the concept of a "covered expatriate," including a mark-to-market deemed disposition regime.

It references thresholds such as a $2 million net worth test and an average U.S. tax liability test (noting that these thresholds are subject to change and inflation adjustments).

Form 8854 is required to assess covered expatriate status and provide the information needed to compute any expatriation tax.

(b) Leaving Canada - Canadian taxation of non-residents (selected issues)

Departing Canadian residents may be subject to deemed disposition rules on departure (departure tax), generally taxing accrued gains while resident. The chapter notes exceptions for certain "taxable Canadian property" such as Canadian real estate.

(ii) Rental real estate in Canada (non-resident)

The chapter discusses the possibility of filing under Income Tax Act paragraph 216 to report rental income on a net basis rather than being taxed on gross rents under Part XIII withholding, and the use of Form NR6 to reduce withholding where appropriate.

(iii) RRSPs (non-resident)

The chapter notes that rollovers between Canadian RRSPs and U.S. retirement plans are generally not feasible without triggering taxation. It describes Canadian non-resident withholding on RRSP withdrawals (25% lump sum or 15% annuities) and the optional paragraph 217 return (generally due June 30 of the following year) that may be beneficial in certain cases.

1.09 U.S. Vs Canadian Estate Taxation

Canada and the United States approach estates differently. Canada generally taxes capital gains through a deemed disposition at death, while the U.S. imposes an estate tax system (with gift tax integration) based on estate value.

(a) U.S. estate taxation of residents and citizens (overview)

The chapter notes U.S. estate tax rates historically ranging from 18% to 40% and gift tax concepts, including an annual gift exclusion ($19,000 per donee in 2025) and a unified gift and estate exemption ($13.99 million per person in 2025).

(b) Receipt of gifts from abroad - Form 3520

Foreign gifts and bequests meeting reporting thresholds may need to be reported on Form 3520, subject to detailed rules and exceptions (e.g., qualified tuition/medical payments).

(c) Estates in Canada (overview)

For Canadian purposes, a resident is generally deemed to dispose of property at fair market value at death, triggering capital gains tax and income inclusions for certain tax-deferred assets (e.g., RRSPs), subject to spousal rollover rules. The chapter notes that up to four separate Canadian returns may be available for the year of death to apply graduated rates and credits across different income categories.

(d) Canadian marital credit (Treaty)

The chapter references a special Treaty marital credit (Article XXIX B) for transfers to a surviving spouse who is not a U.S. citizen but is a Canadian citizen or resident, subject to conditions and limitations.

(e) U.S. estate taxation of nonresident aliens

The chapter summarizes U.S. rules for estates of nonresident aliens, including concepts of U.S.-situated assets and proportionate exemptions for smaller estates, and mentions planning tools such as Qualified Domestic Trusts (QDOTs) for deferral where a spouse is not a U.S. citizen.

(f) Foreign tax credits for estates

Because the basis of taxation differs between Canada and the U.S., the chapter indicates that foreign tax credits may not be permitted in certain estate contexts, but Canadian capital gains taxes arising on deemed disposition may be deductible from the gross estate for U.S. purposes.

2026 Updates and Appendices

Section 1.03 New Above-the-Line Charitable Deduction (2026)

Beginning January 1, 2026, individuals may claim an above-the-line charitable deduction for cash contributions to qualifying charitable organizations. The deduction is limited to $1,000 for single filers and $2,000 for married couples filing jointly, and is available whether or not the taxpayer itemizes.

Section 1.04 One Big Beautiful Bill Act - Permanent Extension of Key Provisions

This chapter states that the Act makes permanent many provisions previously enacted temporarily, including rate structures, the expanded standard deduction framework, and limitations applicable to itemized deductions. Taxpayers should expect continuity in rate brackets and deduction structures that would otherwise have reverted after 2025.

Section 1.05 Summary of Changes from 2025 to 2026

- For 2026, the standard deduction amounts increase modestly.
- Several temporary credits relating to home electrification and clean energy expired at the end of 2025.
- Additional reporting adjustments may apply depending on income phaseouts introduced under the Act.

Section 1.06 Comparison of Key U.S. Tax Rules: 2025 vs. 2026

Category	2025	2026
Standard deduction - Single	$15,750	$16,100
Standard deduction - HOH	$23,625	$24,150
Standard deduction - MFJ	$31,500	$32,200
Charitable above-the-line deduction	N/A	$1,000 / $2,000 (MFJ)
SALT cap	$40,000 (generally)	$40,000 (continues)

Section 1.07 Appendix: Key Considerations for Canadian Residents Filing U.S. Returns

- Canadian residents who are U.S. citizens or U.S. resident aliens must continue to meet U.S. filing obligations regardless of residence.
- Foreign tax credits remain a primary mechanism to mitigate double taxation between Canada and the United States.
- Treaty provisions may affect treatment of certain Canadian-source pensions and may permit RRSP/RRIF income deferral in appropriate cases.

- TFSA accounts remain non-qualified for U.S. purposes and may trigger annual reporting under Forms 3520/3520-A unless an exception applies.
- Canadian mutual funds are often PFICs for U.S. purposes, requiring Form 8621 reporting and potentially punitive taxation unless an election (e.g., QEF/MTM) applies.

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