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## Canada-based US Citizens Get Tax Reprieve

Good news for the one million or so US citizens who reside and work in Canada. The IRS will waive any penalty against you if you file your taxes in the US and it shows that you do not have any tax liabilities. The new ruling will be officially announced in a few weeks' time, according to David Jacobson, the US Ambassador to Canada. In a recent interview, Jacobson said, "What the IRS is saying here is that if ... you don't owe taxes to the US, and you file your return and they show you don't owe taxes, there aren't going to be any penalties for having filed late."

Most of the many Americans living and working in Canada have not been filing tax returns in the US because of the assumption that being based in Canada (and paying taxes to the Canadian government), they are exempted from paying taxes back home. But the US is one of the few countries that require all its citizens to report and pay taxes on all their earnings worldwide. This resulted in a furor among Americans based in Canada, especially in light of the IRS' actions against tax evaders who have been hiding their taxable income in offshore bank accounts. They resent being lumped together with those tax offenders and were quick to point out that Canada has one of the world's highest tax rates (typically higher than the US itself), and does not qualify as a "tax haven" unlike countries like Switzerland.

Nevertheless, this does not change the tax regulations that require Americans to report all their foreign bank, brokerage, mutual fund and pension accounts to the IRS every year. By 2014, all foreign banks will have to declare all their accounts held by US citizens to the IRS.

The penalty for not filing tax returns can be very substantial. The fine is \$10,000 a year for every account which that can quickly reach hundreds of thousands of dollars. In some extreme cases, the IRS can fine you up to half the balances in your accounts. If you fail to file certain tax schedules you may also be fined. Even Ambassador Jacobson acknowledged the penalties can be “draconian,” even for “typical” Americans in Canada who owe nothing. The new reprieve will ensure the innocent US taxpayers who were ignorant of their tax obligations are not unduly punished.

“Our intention was not to abscond with some innocent grandmothers’ savings,” Jacobson said. “From where I’m sitting, it’s going to take care of the problem I was most concerned about ... which is that people just didn’t know they were supposed to do this.”

Canadian Finance Minister Jim Flaherty expressed his satisfaction at the new development to this thorny issue. He said, “We told the US that the vast majority of Canadians targeted were honest, hard-working and law-abiding individuals and they listened. It’s a victory for Canadians and a testament to our positive working relationship with our American neighbors.”

In summary, the IRS regulation will state 3 rules:

1. If a US citizen files tax returns late but has no tax liability, no penalty will be imposed for failure to file.
2. US citizens who were ignorant of the requirement to report their foreign bank accounts can file previous reports now but must explain the reasons for late filing. You will not be fined if the IRS determines that there is reasonable cause.
3. If you have taken part in earlier amnesty programs this year and in 2009, you can reapply and get back penalties already paid.