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TAXES

Will higher tax rates abroad have millionaires knocking on Canada's door?



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Under new rules in the U.S., incomes over US\$400,000 for individuals and US\$450,000 for couples would be taxed at 39.6%, up from the current top rate of 35%, bringing U.S. rates closer to Canada's.

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When it comes to taxes, the oft-mentioned magic number is 50%.

Once taxes exceed 50%, people become extremely offended that half of their money is going to the government, says Peter Megoudis, a partner at Deloitte LLP.

French movie star Gérard Depardieu, for example, was so offended by France's proposed 75% tax on income over €1-million (\$1.3-million) that he announced he was packing his bags; then Thursday, President Vladimir Putin granted him citizenship in Russia where the flat income tax rate is 13%.

So with top income taxes rising globally in response to deficit concerns (according to a recent KPMG study) and the new tax legislation dinging rich Americans, where will the wealthy go? Might millionaires in the U.S. be considering a run for our border?

"I will not be surprised if, come Jan. 7, my phone starts to ring a little more aggressively with [Canadian expatriates] saying, 'You know what? Might be time to come back,' " says Bill Vlaad, founder of Toronto-based executive search firm Vlaad & Co. "You've got talented individuals in banking or film or the sports industry ... they move to other countries. Why? Because they get paid more and you have to look at what they'll get paid on a net basis — taxes are a big part of that."



French actor KENZO TRIBOUILLARD/AFP/Getty Images Gerard Depardieu leaves his mansion on his scooter on January 04, 2013 in Paris.

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To avoid the so-called fiscal cliff, U.S. Congress agreed to raise tax rates on incomes over US\$400,000 for individuals and US\$450,000 for couples. Income above that level would be taxed at 39.6%, up from the current top rate of 35%, bringing U.S. rates closer to Canada's.

The old rule of thumb that Canadian tax rates are hands-down higher than U.S. tax rates is not the case anymore

"The old rule of thumb that Canadian tax rates are hands-down higher than U.S. tax rates is not the case anymore and you need to evaluate on a state-by-state and province-by-province level," says Michael Pereira, a partner at KPMG LLP with international executive services. "There are provinces where you can end up with lower effective tax rates than if you were in the U.S."

Take the income taxes for affluent Ontarians and New Yorkers. With Ontario Premier Dalton McGuinty's 2% surtax for those earning more than \$500,000, at the highest income bracket, Ontarians currently pay about 49.5% in provincial and federal taxes combined. New Yorkers, meanwhile, pay about 48% after taking into account a federal and state tax. (Those who live in New York City are subject to an additional city tax which would bring taxes closer to about 51%.)

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Residents in both areas may look enviously at Alberta where the rate is 39% or in Florida which has no state tax, leaving just the federal tax of 39.6%.

But even with tax increases, most high-income earners in the U.S. will still pay less taxes than in Canada, Ted Rechtshaffen, president and CEO of Tridelta Financial, says. "I know some Americans that are very upset. They talk about wanting to leave to Canada; but in the sober second thoughts when they look

at the numbers, they go, 'Maybe not.'"

Other taxes will affect the appeal of living in a certain state or province. Above the US\$400,000 income threshold for American individuals, capital gains and qualifying dividends tax rates would rise to 20%, from 15%. Using rich Ontarians and New Yorkers again as a marker, the capital gains rate is almost 25% in Ontario and 32% in New York (federal and state tax plus 3.8% for a new medicare tax). In Florida, it would be 23.8%.

But in the case of eligible dividends, rates are higher in Canada — almost 34% in

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“You really need to look at the character of your income when evaluating when one jurisdiction may be better than another jurisdiction

“Someone who generates principally dividend income, that’s a 10% difference. That’s a large splice of a pie,” Mr. Pereira says. “You really need to look at the character of your income when evaluating when one jurisdiction may be better than another jurisdiction.”

Of 114 countries, Canada ranks 40th from the top, KPMG’s December study notes. A number of European countries have heavier tax burdens. (For anyone feeling offended by taxes, the Cayman Islands, the Bahamas, and Saudia Arabia are among the countries that have zero income tax. But if you’re an American citizen or greencard holder, you have to file U.S. taxes regardless of where you live.)

When looking for a place to settle, a country’s tax rate may have more of an influence on the mega moneyed,experts say.

“High net worth perfomers like Gérard Depardieu or U2...are working and living all over the world. For them, it makes a difference,” Mr. Megoudis says. “But for people who are working where they live, other factors will be more important than a couple of percentage rates of tax.”

That is certainly the case for professional athletes who are among those affected by the higher taxes in the U.S., say sports agents.

Sports Consulting Group’s Steve Bartlett, who handles Canadian and U.S. tax returns for his clients, says tax rates are “definitely a factor” when he’s negotiating contracts. “But is it the be-all, end-all in their decisions? Of course not,” says the veteran agent who represents Montreal Canadiens captain Brian Gionta.

“Would you rather make \$200,000 less and play for a team that has a Stanley Cup win or would you rather play for a basement dweller and pay less tax?”

He added that even though tax rates are now more comparable between Canada and the U.S., Americans still benefit from more tax deductions, although the U.S. bill restored caps on itemized deductions and phases out the personal exemption for those individuals making more than US\$250,000 (US\$300,000 for couples).

“I don’t think [the new legislation] will change anything at all,” Neil Abbott, another long-time NHL agent, said. “We have a week before the season starts ... No one is going to be worried about tax rates, they’re going to be worried about getting a deal.”

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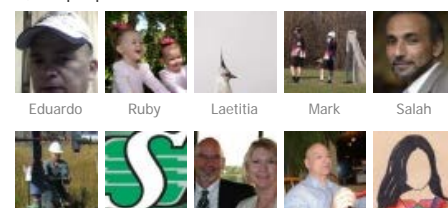
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