

00:00:00.000 – 00:00:03.720 · Speaker 1
Each return that is not filed has a \$2,500 minimum penalty.

00:00:03.760 – 00:00:08.200 · Speaker 2
There's ones that just take your financials, take your slips, and do the bare minimum.

00:00:08.480 – 00:00:15.080 · Speaker 1
It was all misreported. I think both sides of the accounts never talked to each other and it was a disaster.

00:00:15.120 – 00:00:20.440 · Speaker 2
LLC stands for Limited Liability Company and it is a business entity.

00:00:20.760 – 00:00:36.800 · Speaker 1
You know, a lot of people like having limited liability protection because he owes interest penalties and even more taxes that now exceed over \$1 million. Just the penalties alone are non filing with \$750,000.

00:00:36.840 – 00:00:47.200 · Speaker 2
There's different tiers of accountants out there or service providers. So for the LLC contributions and distributions count as a reportable transaction.

00:00:47.240 – 00:00:52.360 · Speaker 1
That's huge. The interest and penalties and these types of exposures that greatly exceed the investment amount.

00:00:52.400 – 00:00:56.040 · Speaker 2
It's harder to be a generalist in US tax.

00:00:56.080 – 00:01:00.350 · Speaker 1
And all because he did not seek tax advice at the beginning.

00:01:18.230 – 00:01:40.669 · Speaker 1
I'll tell you a situation that I came across last year. And you I had a client, Canadian resident, lives in Canada, bought 20 US properties, all located in Florida, about eight, around 20, not 2009 2010 timeline. And he got them really cheap. Um, about you know, like

00:01:41.950 – 00:02:58.820 · Speaker 1
the prices you would just not get in Canada basically. And it turns out the way he purchased them, he purchased all the properties in a LLC. So he bought one property, and each property was owned by an LLC, and he owned

the LLC. So he's a single shareholder. Single owner of an LLC. And that one LLC will own one property.

He had 20 of those. So it turns out that as a Canadian resident buying an LLC, buying a property, an analysis like a terrible idea. But his reporting was all wrong in Canada, the way he reported stuff in Canada. It made things worse because he was subjected to reporting this, disclosing that he owns a foreign company, which is a US company, and the US company disclosure has a return on its own.

And each return that is not filed has a \$2,500 minimum penalty. So he had not filed for, let's say, about 15 years for 20 LLCs. And the penalties came up to 15 LLC for 20 properties. So the penalties came up to just the penalties alone on non filing was \$750,000. Wow. And

00:03:00.380 - 00:04:56.450 · Speaker 1

the way. And that's just the penalty of not filing a certain return of all this time. And secondly, what he's done is he's reported all his income. Wrong. Right. LLCs in the US is doesn't file a tax return. He was filing a he was filing a US tax return to report all the rental income. And then in Canada, he was also reporting all the rental income personally and claiming any US taxes paid as a credit against his Canadian taxes owed.

It turns out Canada and US looks at the LLCs very differently, right? And it was all misreported. I think both sides of the account never talked to each other and it was a disaster. So we're in a situation where he has he owes interest penalties, and even more taxes that now exceed over \$1 million. And it was a disaster.

And we have tried to figure this out with him so far. We don't have a solution that could take him very far. We've given him options. It's just that he's not able to take, um, understand which illusion, which solution is the best because there is some exposure that he has to pay some tax anyway. Okay. And he doesn't like the fact that in order to fix it, you need to go and change your returns for IRS filed returns and maybe put a target on his back for career purposes.

So he's afraid about that. So let's break it down. Like what led to the situation? What is an LLC? I see it's a super popular vehicle for US purposes, and a lot of Canadians seems to be owning LLCs anytime we come across, um, these people. So you're a US tax specialist? Help me understand, what is a US LLC basically.

00:04:56.490 - 00:05:25.370 · Speaker 2

Okay. So LLC stands for Limited Liability Company and it is a business entity that's formed under state law that combines characteristics of a partnership and a corporation. So for federal tax purposes, the treatment depends on the structure of the LLC of who owns it. Um, and the owners are called members in these cases.

00:05:25.730 - 00:05:32.930 · Speaker 1

So they're not shareholders basically members. That's the legal term as you describe them. Correct. Okay.

00:05:33.050 - 00:05:52.570 · Speaker 2

Now an LLC is a legally separate entity which basically allows the members to have limited liability protection, um, from itself personally. So that's why that's one of the characteristics that makes it very popular.

00:05:52.650 - 00:05:53.290 · Speaker 1

So,

00:05:54.330 - 00:06:40.850 · Speaker 1

uh, you know, a lot of people like having limited liability protection because they don't want to be responsible for any legal issues come to them personally. So instead of owning anything directly, they want to have a corporation or in the US, maybe an LLC that would then own that property, and then you don't have that risk if a tenant sues you for a slip and fall or something that happens that insurance doesn't cover, then at least they can't bankrupt you because LLC will protect you basically.

So that's why most people would say, okay, I need a corporation, and an LLC is one of the ways. Basically, yes. So is there a tax advantage when people set it up in the US like LLCs? Okay. Why is it being so popular?

00:06:40.970 - 00:07:06.800 · Speaker 2

Okay. So before we get into that, let's break down what an LLC is by default when you create one. Sure. So if it has one member it's considered a disregarded entity. And what it means is that the profits and losses flow directly to the owner. Um, and that depends if you're, if the owner is an individual or a corporation that results in different filings.

00:07:06.960 - 00:07:32.760 · Speaker 1

So if I am, if I own, um, a property through an LLC and I'm the only owner or a member there is going to be for legal purposes, the LLC is there and protects me, but for tax purposes it's ignored. And then any income or expenses, uh, or any results from that property financially flow to me directly for tax. And I pay my tax in the US.

Correct. Okay.

00:07:32.800 - 00:07:49.760 · Speaker 2

Okay. But if there's more, if there's two or more members by default, it's a partnership. Got it. So that means that the LLC has its own filing requirement as a partnership. And then the slips that that partnership issue gets picked up on its members.

00:07:49.800 - 00:08:07.360 · Speaker 1

Got it. So basically, the LLC still doesn't pay any taxes, but you are not computing the income of the LLC as a separate person. And then you split the income and you report it into the their owners or members. Yes. As a partnership income in the US.

00:08:07.400 – 00:08:26.280 · Speaker 2

And the reason why it's popular is because it avoids the double taxation as like as a corporation you get taxed. Mhm. Um, and then when it flows to its owners they get taxed. But with the LLC, with this flow through mechanism it doesn't get taxed at the LLC like you're saying it goes directly to its members.

00:08:26.320 – 00:08:56.670 · Speaker 1

Right. So I mean that concept on its own like it doesn't exist in Canada right. Either you have a corporation or you don't, but you don't have an entity type like us LLC, where in Canada you can have an LLC that acts like a corporation but doesn't get taxed like a corporation. That's pretty much what it is. So an LLC in the US is disregarded if you have single member.

If it's a partnership, by default it is more than one member. Correct. But I have often seen that it can also be treated as a corporation.

00:08:56.710 – 00:09:18.630 · Speaker 2

Correct. So there's the third option, which is not a default option. The taxpayer has to file a change in classification form. And this form has a time frame that it needs to be filed by. And it needs IRS approval. Got it. And when you when you use this form you can check it to be a C corporation in the US.

00:09:18.670 – 00:09:36.030 · Speaker 1

Got it. Okay. So an LLC then if it's a C corporation not only then it calculates its taxes, but then it also pays the taxes as a as a corporation. If it's a C corporation, got it. And C corporations are basically a regular corporations that we have in Canada essentially.

00:09:36.070 – 00:09:36.270 · Speaker 2

Yes.

00:09:36.270 – 00:09:40.950 · Speaker 1

Right. It's the equivalent basically a C corporation. Generally it's an equivalent.

00:09:40.990 – 00:09:59.190 · Speaker 2

Yes. it's definitely the equivalent where it's. It has the limited liability protection and it pays its own taxes. The IRS differentiates a C

corporation with a C because they also have other options like S corporations. And that's a whole nother topic.

00:09:59.230 – 00:10:48.820 · Speaker 1

So I get it I think I mean, going back to the example that that client I have. They've got 20 properties. Each property is owned by one LLC. So 20 LLCs 20 properties but not one LLC is limited to one property essentially. So he's protected. So not one property can cause issue to another property basically.

And not one property can actually cause more than damage. Like the legal issues will not rise to the individual. Correct. But I don't have to file any US tax returns for any US LLCs because they're all disregarded because it's owned by the same person. So all the income will flow to the individual. Yes. Right.

And so I have the protection all around and less filings in the US, basically because I'll report all the rental income expenses on my personal US tax return, basically.

00:10:48.860 – 00:10:50.300 · Speaker 2

That's great. Yes, exactly.

00:10:50.300 – 00:10:51.700 · Speaker 1

So that's why it's so popular.

00:10:51.740 – 00:10:59.460 · Speaker 2

Yes, exactly. If your US resident citizen who's filing a 1040, then you don't have to file a separate return for.

00:10:59.460 – 00:11:00.660 · Speaker 1

The 20 corporate returns.

00:11:00.660 – 00:11:03.420 · Speaker 2

By default, you pick it up on your personal tax return.

00:11:03.460 – 00:11:28.540 · Speaker 1

Got it. So it simplifies everything, but it gives you the corporate protection or liability protection. In Canada, we just don't have that concept. So if you have a corporation, an LLC in fact in Canada is seen as a regular corporation. We ignore the fact that it's treated as disregarded in the US. We just don't care what US has as a concept.

But if a Canadian owns a US, LLC, it's a corporation, and I think that's where the disconnect is, because

00:11:29.820 - 00:11:30.860 · Speaker 1
the, um,

00:11:32.020 - 00:11:37.660 · Speaker 1
when you said that the individual picks up the income on their personal tax return.

00:11:39.140 - 00:12:34.740 · Speaker 1
The in Canada. We just never see that. We always think from a Canadian tax law that the LLC has that income because it's a corporation, right. So in my client situation, what had happened was when in the US they filed their 1040 personal income tax return to report all the rental income and expenses, etc. and determine what their US taxes are.

They filed Canadian tax return, picked up all the rental income treated as if it's the similar concept is in the US and is also existing in Canada. And they picked up all the rental income and whatever taxes they paid in the US. Right. They claimed as a creditor on their personal income tax return. So now they have deducted from their Canadian tax liability, the US taxes paid, and they paid the net because Canadian taxes generally are higher than the US.

The problem is that for Canadian tax purposes.

00:12:37.090 - 00:13:21.210 · Speaker 1
He should have never received that income, because each LLC would have been picking up its own taxes and picking up its own, um, and then it would have its own tax credits. So there's a disconnect in treatment between an LLC should have been paying taxes for Canadian tax purposes, but US tax purposes, that purpose doesn't exist.

Basically. So now all the tax credit paid by all the taxes claimed as credits in the personal income tax return is all wrong, because LLC should have paid US taxes for Canadian tax purposes and actually filed a US tax returns basically also. Right. Okay. So, um, how would you

00:13:22.330 - 00:13:26.530 · Speaker 1
if you had to think about a US LLC, is there any

00:13:27.970 - 00:13:35.410 · Speaker 1
is there any way that it's it should it should be okay that a us sorry a Canadian person should be owning a US LLC at all or no?

00:13:36.010 - 00:14:43.960 · Speaker 2
Yes there is. Structures that it makes it, uh, advantageous. Um, especially if we're we're dealing with this real estate scenario where we're trying to limit our liability and having an LLC for each property. But then you need to put blockers in place. Um, from a Canada and US

perspective, to make sure that there is not this mismatch where the CRA is looking at the entity at one way, and the IRS is looking at it at another way.

Um, and also, what's really important when you're working across border is the Canadian tax, sorry, the Canadian US tax treaty. Um, anytime you want to move money out of the US into Canada, um, we want to reduce the withholding. We want to avoid the double taxation. So blockers are very important. It's basically having a corporation on both sides of the border.

00:14:44.200 - 00:14:45.120 · Speaker 1

Got it. So

00:14:46.800 - 00:14:47.400 · Speaker 1

um.

00:14:47.520 - 00:14:48.640 · Speaker 3

If, if.

00:14:48.760 - 00:15:18.640 · Speaker 1

That, uh, individual the client, let's call him John. Okay. Because like, I mean, it's a made up name, but let's call him John for reference purposes. So if John had to redo his structure properly so he didn't get into this whole mess of taxation between Canada and the US and created a huge tax liability in Canada that he cannot reduce anymore.

What you're suggesting is that if he has 20 LLCs, fine, just don't own it directly.

00:15:18.680 - 00:15:19.600 · Speaker 2

Correct.

00:15:19.640 - 00:15:20.840 · Speaker 1

Add a blocker.

00:15:21.040 - 00:15:22.680 · Speaker 2

Yes. A US holding company.

00:15:22.720 - 00:15:23.280 · Speaker 1

So

00:15:24.320 - 00:15:30.720 · Speaker 1

in incorporate a US C Corp. Yes. That now owns all the 20 LCS.

00:15:30.760 - 00:15:31.360 · Speaker 2
Correct.

00:15:31.400 - 00:15:37.440 · Speaker 1
And then that C Corp will pick up all the incomes and all the expenses and pay taxes.

00:15:37.480 - 00:15:38.080 · Speaker 2
Correct.

00:15:38.120 - 00:15:56.960 · Speaker 1
Got it. And then then you're suggesting is that okay? If you've got the LLC, then at least you're aggregating all the income to one place, which is a USC corp. And then for a Canadian tax perspective, we would see the USC Corp as a regular corporation. There's no mismatch in the entity classification type, meaning

00:15:58.160 - 00:16:13.600 · Speaker 1
LLCs are still corporations for US tax purposes, but at least there's no mismatch in how we would see it. Money would flow up to the US, C Corp and the US Corp now has all the income. Got it. You also mentioned there's a corporation on both sides of the border.

00:16:13.680 - 00:16:14.320 · Speaker 2
Correct.

00:16:14.320 - 00:16:31.750 · Speaker 1
So describe who should generally own the US C Corp. Is it John directly that can own it because that's the option. Or would you own it any differently. Um, generally speaking I can add my Canadian \$0.02 on it. How I would do it.

00:16:31.870 - 00:17:12.510 · Speaker 2
Okay. I mean, John definitely can own it directly, but is it the most tax efficient manner? No. Got it. When he wants to, um, you know, move funds from the US to Canada. Got it. So if he puts a blocker as a C corp. Sorry. With a Canadian corporation holding the the US C Corp holding company as the parent. Now we're looking at two corporations.

Um, and when you go to the treaty, if you want to take out a dividend, the and you qualify for treaty benefits. Um,

00:17:13.630 - 00:17:32.430 · Speaker 2
the dividend rate is reduced to 5% withholding. Um, depending on the ordering rules for the dividend. But for being simple, we're going to say

it's it's a dividend classification and they qualify for treaty benefits. It'll be 5% withholding. If you held it directly, it will be more withholding. So I.

00:17:32.430 - 00:17:33.230 · Speaker 4
Think the.

00:17:34.110 - 00:17:43.910 · Speaker 1
So you're saying okay C Corp now pays this regular US tax. It files this US tax return. What's the tax return that it has to file the US C Corp.

00:17:43.990 - 00:18:04.390 · Speaker 2
It has to file in 1120. And right now there's a 21% flat federal rate. Okay. Um and then for the states, depending on where the property is, it will create a filing requirement. But if we're just looking at it on a federal level, um, the C Corp will be paying 21% flat tax rate.

00:18:04.430 - 00:18:05.230 · Speaker 4
Okay. So.

00:18:06.510 - 00:18:15.350 · Speaker 1
Um, assuming just to simplify stuff, if, if that corporation was situated in Florida, yes. There's no state tax. Is that.

00:18:15.350 - 00:18:15.950 · Speaker 4
Right?

00:18:15.990 - 00:18:19.350 · Speaker 2
Um, for corporations it will need to pay state tax.

00:18:19.590 - 00:18:20.150 · Speaker 4
So okay.

00:18:20.430 - 00:18:21.790 · Speaker 2
We'll look at it differently

00:18:22.910 - 00:18:27.460 · Speaker 2
in the states. The tax rates depend on if it's personal and corporate.

00:18:27.500 - 00:18:28.740 · Speaker 4
Got it. And yes.

00:18:28.780 – 00:18:30.740 · Speaker 1
All states generally have corporate tax.

00:18:30.980 – 00:18:31.540 · Speaker 4
Yes.

00:18:31.580 – 00:18:32.220 · Speaker 2
Generally.

00:18:32.260 – 00:18:32.660 · Speaker 4
Got it.

00:18:32.740 – 00:18:32.980 · Speaker 1
Yeah.

00:18:32.980 – 00:18:33.780 · Speaker 4
Generally.

00:18:33.900 – 00:18:40.860 · Speaker 1
I know it's hard to like talk about so complex situations like these and like break it down. But I think we can generalize things.

00:18:40.900 – 00:18:41.140 · Speaker 4
Yes.

00:18:41.180 – 00:18:58.980 · Speaker 1
And for this purpose of discussion. So um, so if my C corp now has all the income. I think the question becomes like, how should John access that money that he's collected as rental income in the US? C Corp.

00:18:59.020 – 00:18:59.300 · Speaker 4
Yes.

00:18:59.340 – 00:19:33.530 · Speaker 1
Right. And you're suggesting is that. Well, there's one way is to just have C Corp in the US pay a taxable dividend to from US Corp to John directly. Right. And you're saying that after you've paid a US corporate tax of 21% federal plus maybe some state tax, depending on what state you're in, that dividend when it flows up to John, US will withhold about statutory rate.

I think I've heard I could be wrong 30% of withholding tax.

00:19:33.650 – 00:19:41.050 · Speaker 2
Yes. That's if you don't qualify for a treaty and you don't provide the proper documentation. The obligation is the flat 30%.

00:19:41.090 – 00:19:47.170 · Speaker 1
30%, which is huge because you've paid maybe 21 in the US already, plus 30. But if you're if.

00:19:47.210 – 00:19:48.250 · Speaker 3
You apply if.

00:19:48.450 – 00:19:51.530 · Speaker 1
Generally speaking between Canada and US is a treaty.

00:19:51.570 – 00:19:52.050 · Speaker 4
Correct?

00:19:52.090 – 00:19:55.410 · Speaker 1
I believe it drops it down from 30 to 15%.

00:19:55.450 – 00:19:55.690 · Speaker 2
As an.

00:19:55.690 – 00:19:56.090 · Speaker 4
Individual.

00:19:56.130 – 00:20:37.290 · Speaker 1
As an individual. So my total tax is 21 plus 15, all paid to us so far. If John owns US Corp and he's taken the money out right. Okay. So you're saying there's, um, an opportunity to reduce that tax from 15 down to 5% if. John doesn't own the shares of USC Corp., but instead he has a US Canadian holding company he creates that owns the shares in USC Corp..

So if any dividends you pay from C Corp US to Canadian holding company are tax drops from

00:20:38.330 – 00:20:41.850 · Speaker 1
15% down to 5%.

00:20:41.890 – 00:20:43.130 · Speaker 2
Correct the withholding.

00:20:43.170 – 00:20:43.530 · Speaker 4

Right.

00:20:43.570 - 00:20:53.250 · Speaker 1

So our tax rate in the US, what taxes you paid in the US goes from 21% plus five. So about 26% plus any state tax. Is that.

00:20:53.250 - 00:20:54.970 · Speaker 4

Right? Correct. Yeah. Yeah. Okay.

00:20:55.770 - 00:20:56.410 · Speaker 1

So.

00:20:59.130 - 00:21:02.970 · Speaker 1

Then John can own the holding company and decide how you want us to take the money.

00:21:03.010 - 00:21:04.170 · Speaker 4

Yes, basically.

00:21:04.850 - 00:21:09.050 · Speaker 1

Um, do you normally see people owning this way at all?

00:21:10.290 - 00:21:11.890 · Speaker 2

Well, when they come for advice.

00:21:11.930 - 00:21:12.370 · Speaker 4

Yeah.

00:21:12.770 - 00:21:14.810 · Speaker 2

Yes, they do. Reorganize.

00:21:14.850 - 00:21:15.330 · Speaker 4

Yeah.

00:21:15.370 - 00:21:44.000 · Speaker 2

But what I find is that, especially with the vast information on the internet, and you always have to know the audience that it's geared towards. So all the information about the LCS, how amazing it is, how it's so flexible, how it's so simple, how, you know, all the pros are geared towards Americans. Yeah.

Because it's American system.

00:21:44.040 - 00:21:44.680 · Speaker 4
Yeah.

00:21:44.720 - 00:21:59.760 · Speaker 2
So what I find is that entrepreneurs you know there's that go energy. They want to get things done. They go on the internet. They find this information they like oh great. This is a no brainer.

00:21:59.800 - 00:22:00.960 · Speaker 4
Yeah. And I.

00:22:00.960 - 00:22:05.280 · Speaker 1
Like LLC. I wish I could be having that system in Canada. I would do it if it works.

00:22:05.320 - 00:22:19.320 · Speaker 2
Exactly. And then what these entrepreneurs do is they they go on the they go on the world Wide Web again. Yeah. And they find a third party operator. Yeah. Um, who can create this LLC on their behalf?

00:22:19.360 - 00:22:19.920 · Speaker 4
Yeah.

00:22:20.040 - 00:22:31.960 · Speaker 2
You know, very quickly, at a low cost. And they're like, why not? Why do I need to get any professional involved? This is pretty straightforward. And then that's where I see the.

00:22:32.400 - 00:22:46.480 · Speaker 1
That that problem. I totally agree because I find John and in this example I use him not to bash him. But like this is a very typical way of how people go about doing things. People are extremely resourceful.

00:22:46.520 - 00:22:46.800 · Speaker 4
Yes.

00:22:46.840 - 00:23:01.840 · Speaker 1
And they want to make sure they cut costs. They don't incur any extra costs because everything is in investment money checks written up to buy properties. And you want to save every little bit to make that investment. Um, so sometimes you not that you're cutting corners, you just don't know what you don't know.

00:23:01.880 – 00:23:02.360 · Speaker 4
Exactly.

00:23:02.400 – 00:23:04.800 · Speaker 3
So if you if you just.

00:23:04.800 – 00:23:10.760 · Speaker 1
Go on Google and say create LLC, you're going to find a bunch of providers to get one.

00:23:10.760 – 00:23:11.480 · Speaker 4
For you. Yeah.

00:23:11.520 – 00:23:17.630 · Speaker 1
But they're not giving legal advice. They're not giving tax advice. They're certainly not giving you cross-border tax advice.

00:23:17.670 – 00:23:18.310 · Speaker 4
Correct.

00:23:18.310 – 00:24:14.030 · Speaker 1
So they just go and create one on their own. And then the year end when it happens, they tell their accountant, hey, I have an LLC, I need to file a tax return. And then sometimes I'm talking from my experience, they'll find some filing accounting. Call it a tax service provider. They're not tax advisors, but they'll see an LLC and they'll just file the tax return.

They won't question anything about oh, is this owned by a Canadian resident? What are the tax implications. Are they properly set up. Are they going to be paying double tax in Canada? They don't care anything about that. They've got a volume of returns to process. They'll see what's the rental income in this case.

They'll prepare the tax return signing and off you go. And that's what happened in John case because he was filing tax returns for like ten plus years. And he never had any issue until this became an issue that we brought up.

00:24:14.070 – 00:24:18.349 · Speaker 2
Yeah, I see that very often as well. I mean, sometimes

00:24:19.550 – 00:24:24.389 · Speaker 2
I know this is probably harsh, but you get what you pay for. Mhm. Um, you know

00:24:26.350 - 00:24:34.229 · Speaker 2
as a volume. Yeah I see this all the time in practice as well. Um you know there's different tiers of

00:24:35.270 - 00:25:29.900 · Speaker 2
accountants out there or service providers. Mhm. Um there's ones that just take your financials, take your slips and do the bare minimum, get you in, get you out. Mhm. Call it a day and a year. And then there's service providers who ask the questions. Um you know tell you how it is holistically. Um that's why it's important when you are operating, you know, in the US, in Canada that you get a cross border specialist which is looking at it holistically and will tell you, um, or advise you or work with your Canadian advisor on how to do things properly.

And I'm of the mindset like, let's do it right. To begin with, then to fix the problem. Yes, we can definitely fix problems and we can get to that later, but it's much cheaper to do it right in the first place. So the money.

00:25:30.140 - 00:25:30.660 · Speaker 4
I started in.

00:25:30.660 - 00:25:42.660 · Speaker 1
Front. But I can tell you for sure if it was done right, it would not cost \$1 million more to join, right? It would have it cost a fraction, a small fraction of it, to get proper tax advice.

00:25:42.700 - 00:26:08.620 · Speaker 2
Yeah. And the thing about tax returns is, is that if you do file a return and you know, you're hoping that by filing the statute of limitations runs in, that year is closed. But if you do something that's negligent, you know, even if it's not, um, intentional, then those years are always open. So that's why this, you know, this the CRA is going back 15 years.

00:26:08.660 - 00:26:09.420 · Speaker 1
Yeah, they can go back.

00:26:09.460 - 00:26:15.180 · Speaker 2
They can go back because the year is open. If there's something that's terribly wrong.

00:26:15.220 - 00:28:04.290 · Speaker 1
Yeah. You know, the, um, I want to I want to say two points, which are always been on my mind, is that I find us market on its own, has so much fragmentation when it comes to taxes. And I've told you this before, I find not one tax practitioner can generally answer taxes, generally answer

questions when it comes to taxes related to your personal tax, estate tax, state tax.

They're there. Um, um, you know, the, the, the GST or their version of that, uh, indirect taxes, um, and then corporate tax. Right. If you ask a question about one, they'll point to somebody else. So they'll just say I just don't know. Yeah. Right. And I feel people feel lost when it comes to that. It's just because even if they look for advice, it's just not available every single time.

Unless you go to like a large firm like one of the Big Fours or like some of the big eight accounting firms, and they'll charge you like, you know, \$1,000 an hour or USD \$1,500 a USD to like, give you basic set of information that I think that scares a lot of people when they have to, like cut a check of like, you know, they want to make modest investment, but not like spend all their money that they have saved to make an investment.

All in fees. Right? Um, and, and I think that's a fear that most people have, but I think even so, not only you're trying to get the US tax advice, you're also trying to get the Canadian tax advice. And not only Canadian. You're trying to see what are the differences in my tax systems that if I did something in the US will still be okay and accepted by for Canadian tax purposes, and it's not going to cause me double or triple taxation.

I think that's the fear.

00:28:04.610 - 00:28:12.449 · Speaker 2

Yes. So I, I definitely agree with you in terms of the US complex IT

00:28:13.490 - 00:28:14.570 · Speaker 2

complexity. Yes.

00:28:14.610 - 00:28:15.210 · Speaker 1

Yeah.

00:28:15.250 - 00:28:43.490 · Speaker 2

It is vast. And it was this great book that was written on it. I can't remember top of my head. Um, which talks about how convoluted the system is in the US, that if they just simplified it, they could actually collect more revenue, like tax revenue. Yeah. Um, then to, you know, people have to go to tax accountants because they can't figure out all these complex laws, complexities.

00:28:43.530 - 00:28:58.610 · Speaker 1

Yeah. It's more complexity when you look at two sets of countries, their laws, domestic laws, and then have a treaty to bridge certain things. Yes. So, um, the other point I wanted to mention was that, um, if

00:28:59.730 - 00:29:40.200 · Speaker 1

locks are so popular and that's how you find in on the internet and like greatly pushed to the people. Um, what can someone do, practically speaking, in order to find out whether they're doing it correctly at a high level? Like what if what's a journey of somebody wanting to identify, hey, I want to do business in the US, or I want to buy a rental property in the US, and they've identified the investment, but they don't know all the other steps that they need to take other than to hire a real estate lawyer, perhaps to just go and buy the property.

And that's going to be rental. Like, how do people what's the proper journey in your mind?

00:29:41.400 - 00:30:40.240 · Speaker 2

The well, the first okay. The first step, as you said, is, is, uh, identifying that they want to operate in the US and finding that property, but before they even execute on anything, sign any contracts. They do need to understand that the tax law. And in order to do that, I would advise to try to connect with a cross border specialist, and I know that is a hurdle in and of itself.

As you said, like the big four, the big eight, they charge, uh, they their fees are significant. Um, and you also mentioned before that, you know, when you go to a US tax practitioner, sometimes you, you know, they direct you to other people or uh, and I touched base on how complex it is, but also it's um, and so it's harder to be a generalist in US tax.

But having the right network of people is great. Yeah.

00:30:40.440 - 00:30:56.440 · Speaker 1

Um, that's a good point. The network, so I always suggest is that, you know, if you have enough money to like, go and buy a property in the US, like as an investment, I always go start with the basics, right? Like, talk to your accountant.

00:30:56.480 - 00:30:57.040 · Speaker 2

Yes.

00:30:57.590 - 00:31:13.710 · Speaker 1

Hopefully someone's filing your tax return in Canada if you don't have a proper accountant. He doesn't have any connections. Then I would suggest talk to your friends and family who may have an accountant. That accountant has resources. People who they work.

00:31:13.710 - 00:31:13.910 · Speaker 2

With.

00:31:14.230 – 00:32:00.590 · Speaker 1

Potentially. And they might know someone who does not just Canadian taxes as an advice, but also advises someone, uh, does us correct. And how I generally think about it is that you need a Canadian tax advisor who has experience in dealing with us because they can they know their domestic rules of set of laws, and they know the Canada US treaty.

And then you need someone who understands the counterpart, which is a US advisor, who knows the US domestic tax law, federal and then can also bridge the Canadian US tax, US tax treaty. Basically. So then both of them have to basically hear you.

00:32:00.630 – 00:32:01.270 · Speaker 2

Yes.

00:32:01.590 – 00:32:05.710 · Speaker 1

And talk to you at the same time and then try to figure out how to structure it properly.

00:32:05.750 – 00:32:13.430 · Speaker 2

Correct. So like step two, reach out to your current account and see who's in their network. Um, and hopefully they have a US tax.

00:32:13.590 – 00:32:13.950 · Speaker 1

Someone they.

00:32:13.950 – 00:32:14.670 · Speaker 2

Know, someone they.

00:32:14.670 – 00:32:40.790 · Speaker 1

Know. Now once they have then, um, spoken to them, then generally they will help you set up a structure. Okay. Either they'll advise you to buy the property directly, or they'll say you can have an LLC, or you might need a C Corp or a Canadian holding company, but it all comes with cost of setting up and maintaining it also.

00:32:40.830 – 00:32:41.390 · Speaker 2

Correct.

00:32:41.430 – 00:34:07.900 · Speaker 1

I generally say that, you know, if you're doing something and testing the waters to figure stuff out, try the most minimalistic, simplistic approach that doesn't cost you an arm and a leg to maintain it later. And if that experiment or you got, you know, you, you, you sort of understood the market where you're investing, you think it's a good idea because you're

making money now then take the step higher, then start to organize it properly.

Right. Like maybe you need an LLC. Sure. For limited liability protection purposes. Maybe you need that Canadian holding company and a C corp. ET cetera. But I think where I, I generally run into, um, an issue is that people want the, the limited liability protection, but the, but the maintenance of filing returns in the US and in Canada gets pretty complicated.

Mhm. So is there in my mind, like if I'm trying to figure out whether or not I want to make an investment, sometimes that cost is so hidden. Mhm. You think you've got a property that is a steal in the US and you're going to have all this rental income. But then people forget these other cost of filings and maintaining filings.

So I think it's good to like, even when you speak with the cross-border advisor to like understand what it is, find out what's the cost of maintenance, because then you want to make that part of your economics. So whether or not this actually makes sense to go make that investment in the first.

00:34:07.900 – 00:34:09.379 · Speaker 2
Place if it's a viable investment.

00:34:09.419 – 00:34:21.980 · Speaker 1
Right. Um, I want to ask you a question, like off the cuff, like what would be the cost of, like, filing a return ranges, high level, uh, low highs in terms of what the LLC costs would be.

00:34:22.419 – 00:34:23.139 · Speaker 2
I mean, I know.

00:34:23.179 – 00:34:24.179 · Speaker 1
I know, it depends.

00:34:24.260 – 00:34:37.419 · Speaker 2
Yeah, just that's my rough idea of choice. It depends. I mean, any accountant you speak to. Yeah. Yeah, it depends because it depends on, you know, the number of transactions, what's flowing through there. Um,

00:34:38.659 – 00:35:13.090 · Speaker 2
yes. And then it also depends on like there are different price points for sure. Mhm. Um, if you go to, you know, the big for the big eight, uh you're definitely looking like they they definitely have a barrier entry level fee, which they won't reduce. Yeah. Um, you know, a lot of firms are at capacity, and, uh, you know, they can afford supply and demand to have these high costs.

Um, and then you have, on the other hand, individuals who,

00:35:14.410 – 00:35:18.490 · Speaker 2
um, teach themselves to US tax and DIY.

00:35:18.850 – 00:35:20.570 · Speaker 1
I wouldn't recommend that, I think.

00:35:20.610 – 00:35:46.850 · Speaker 2
And, you know, you can pay a lower fee. Yeah. Um, and then you, if you're lucky, you know, you can end up with someone like me who has big four under their belt. Um, my experience also has, you know, who's playing in a smaller sandbox. Um, where you can get the right hit of expertise versus fees. Yeah. But generally speaking, without actually.

Yeah.

00:35:46.930 – 00:36:06.690 · Speaker 1
No one's gonna. No one's going to hold you to it. But yeah, no, what you see in the market, not just yourself, but what you see in the market. What would be the cost of filing, let's say that. Well, if John, for example, John had 20 LLCs. Yeah. And he had one 1040 US return 1040 an hour. I think as a nonresident.

00:36:06.730 – 00:36:07.250 · Speaker 2
Okay.

00:36:07.290 – 00:36:11.170 · Speaker 1
Let's start there. What would be the cost of filing a 1040 high level?

00:36:11.890 – 00:36:27.210 · Speaker 2
Okay. Well, we're assuming he's holding individual. Let's stick to the corporation. Sure. Because that's that's my that's easy. Okay, okay. Um, let's just assume he set it up. Right. And that was a C Corp. Yeah. Um, so the fact that there is 20 LLCs.

00:36:27.410 – 00:36:29.490 · Speaker 1
Let's just start with one, because I think that's what more.

00:36:29.490 – 00:36:33.930 · Speaker 2
People. Exactly. Because each LLC should have their own financials.

00:36:33.970 – 00:36:34.490 · Speaker 1

Right.

00:36:34.530 – 00:36:43.170 · Speaker 2

Even though they are not a taxpayer in and of itself. If by default. If that's the structure. Yeah, yeah. So if we just say one.

00:36:43.250 – 00:36:49.480 · Speaker 1

One LLC simple. One property. Yes. And that LLC is owned by a US C Corp. Yes. What would be the cost?

00:36:49.520 – 00:37:15.640 · Speaker 2

And then so there's a federal filing 1120 and then just assuming it's in Florida. There's a Florida filing. And then we're assuming in this scenario keeping it simple again. Yeah, we are assuming that there are no related party transactions happening from the US to Canada. Because yeah, any time as you say, you add complexity, it could result in a different form.

And anytime you add a form, the price goes up. Yes. So we are assuming.

00:37:15.640 – 00:37:22.680 · Speaker 1

So the corporate tax return only the 1120. Yes. US corporate tax return for the C Corp would be generally be high level.

00:37:22.720 – 00:37:24.000 · Speaker 2

It would be a few thousand dollars.

00:37:24.040 – 00:37:28.240 · Speaker 1

So like can I say 2 to 3000 us.

00:37:29.040 – 00:37:30.120 · Speaker 2

Yes. Okay. Roughly.

00:37:30.160 – 00:37:36.680 · Speaker 1

Yeah. Roughly. Okay. And then you mentioned that if there's a related party transaction, it could trigger other types of filings.

00:37:36.680 – 00:37:37.440 · Speaker 2

Correct?

00:37:37.480 – 00:38:00.920 · Speaker 1

Um, well, I would imagine that any money that's been given by a shareholder to the US company, its all related party. Even \$1 given to buy shares in a company or to give it a loan so it could buy a property in the

US. Money has to flow no matter what. Right. And what would be the form generally your you might trigger in the US very commonly.

Okay. In that case.

00:38:00.960 – 00:38:27.800 · Speaker 2

So it's the form number is 5472. And it's a dreaded form because if you file late or you file inaccurately, but late is normally the trigger because when you file the return and this form is included, the taxpayer automatically gets hit with a \$25,000 USD penalty per late filing of this form.

00:38:28.120 – 00:38:29.240 · Speaker 1

That's ridiculous.

00:38:29.280 – 00:38:30.320 · Speaker 2

It is ridiculous.

00:38:30.360 – 00:38:33.720 · Speaker 1

\$25,000 for not filing a form us on time. On time.

00:38:33.760 – 00:38:33.920 · Speaker 2

Just.

00:38:33.960 – 00:38:34.960 · Speaker 1

On time. If you're late.

00:38:35.000 – 00:38:36.880 · Speaker 2

If you're late. If you missed the deadline.

00:38:36.920 – 00:38:38.280 · Speaker 1

Sure. Okay. So.

00:38:40.160 – 00:39:05.550 · Speaker 1

So 54, 72. For sure. If it's a Canadian tax owner, I think in most cases would be applicable. And then you've got to file 1120, right? Yes. Um, and 11 and 1120 has all your usual characteristics of like, okay, what was the income, what's the assets. Because the balance sheet, income statement, financial statements and then pay the US tax.

5472 seems like it's just disclosure.

00:39:05.590 – 00:39:07.910 · Speaker 2

Yes it is. It's simply a disclosure.

00:39:07.910 - 00:41:24.900 · Speaker 1

So you're not paying any taxes. You're just filing and disclosing the transactions that you have separately. Right? Correct. So, um, let me tell you this. Like that's just the Canadian. That's just the US portion of the filings that you have to do. If now imagine that U.S.C. Corp in our example is owned by the individual or owned by the corporation, that's, you know, let's say a regular Canadian corporate holding company that owns the US or whoever owns the shareholder, Canadian shareholder.

Um, they have further disclosure requirements. Yes. That disclosure is approximately. It's a very lengthy return. I might say it's like somewhat equivalent to 54, 72. In the US we call it T11 34 and T11 34 are like these ginormous tax returns super technical. You can Google it T11 34 look it up on your website.

You'll see, like many pages of just scrolling through and just a lot of tax technical section, this subsection, that paragraph this, what was the number. And nobody can decipher that if they don't know anything what they're doing and non filing. Because if you own a any foreign company in this case it's a US company did not file to 1134 A the penalty of just not filing it can be minimum um uh \$25 a day for 100 days.

Very typically, you know, people are usually late more than 100 days. So you're looking at minimum \$2,500 per return for each year. In John's case, that that's the. That's what I gave him. I said, for the last 15 years, you have not filed 11/34 for 20 LLCs. That's \$50,000 a year times 15 year \$750,000 is the T11 34 minimum penalty.

It could be higher if Chris says you were negligent and you did it on purpose, then the penalties can rise comp like go even higher, right? So but then hearing that there might be 5472 on top of that, that's \$25,000 per year in US dollars per form.

00:41:24.900 - 00:41:25.700 · Speaker 2

Per form.

00:41:26.100 - 00:41:28.139 · Speaker 1

There's 20 forms potentially

00:41:29.460 - 00:41:32.740 · Speaker 1

with an LLC. I think you have to file it 5472 it depends.

00:41:33.140 - 00:41:38.610 · Speaker 2

Um, so in the how it works in the US, it depends who the party is. So if it's the same party.

00:41:38.650 - 00:41:41.330 · Speaker 1

Well, in John's case, he owned LLCs directly.

00:41:41.370 - 00:41:42.330 · Speaker 2
Okay. If we're talking.

00:41:42.330 - 00:41:58.170 · Speaker 1
About he has he has 20 LLCs. He is a single owner of each LLC. Would he have to file 50 for 72? Imagining that he has done related party transactions because he has to in order to maintain the properties and pay for it and all that stuff.

00:41:58.370 - 00:42:16.610 · Speaker 2
Okay, so when we talk about related party transactions and filing a 5472 in the US, there's there is a difference between if the C Corp has the filing requirement and if the LLC has the filing requirement, and

00:42:17.690 - 00:42:33.250 · Speaker 2
the LLC only starting in, I think 2018, it had a filing requirement that if it's a disregarded entity like a single member, that it had its own filing requirement for.

00:42:33.650 - 00:42:37.370 · Speaker 1
That could change came in 2018. That now requirement. Oh Trump came. Okay.

00:42:37.410 - 00:42:38.730 · Speaker 2
Trump came in. And when he did all that.

00:42:38.850 - 00:42:42.010 · Speaker 1
I remember he did like a massive changes in US taxes. Right.

00:42:42.050 - 00:42:57.410 · Speaker 2
Yeah. And obviously any it's anytime there's foreign. That's where the big penalties are. Yeah. So there's a difference in what's reportable on a C Corp versus a a non-U.S. disregarded LLC.

00:42:57.770 - 00:43:10.930 · Speaker 1
So so if John is a Canadian resident. Yes. He owns us LLC. Yes. Under the Trump rules starting 2018. Yes. He made it mandatory to file 5472.

00:43:11.370 - 00:43:14.010 · Speaker 2
For the LLC. Correct. So in this case, it would be 20.

00:43:14.050 - 00:43:18.530 · Speaker 1

Even though it's disregarded, doesn't file it's own 1120. Yes. It needs to file 5472.

00:43:18.570 – 00:43:20.610 · Speaker 2
If it has related party transactions.

00:43:20.650 – 00:43:25.130 · Speaker 1
And I think it would it would because he needs to go and like do transactions even \$1.

00:43:25.170 – 00:43:30.490 · Speaker 2
Yes. So for the LLC contributions and distributions count as a reportable transaction.

00:43:30.530 – 00:43:31.370 · Speaker 1
That's huge.

00:43:31.690 – 00:43:46.040 · Speaker 2
Um, when you're dealing with a C Corp where those are not requirements. Right. So there's a difference. So it actually puts more burden on a non US disregarded LLC.

00:43:46.080 – 00:43:56.240 · Speaker 1
So in this case if John has to like pay some money on behalf of the LLC, let's say he had a plumbing repair and he paid someone directly like a plumber.

00:43:57.280 – 00:44:05.080 · Speaker 1
Let's say LLC owns a property, XYZ Street in Florida. And now he's paid a he's paid for a plumber's bill.

00:44:05.120 – 00:44:05.640 · Speaker 2
Directly.

00:44:05.680 – 00:44:14.520 · Speaker 1
Directly to the plumber on behalf of the LLC. Yeah, that's a related party transaction because he's done a transaction with on behalf of the LLC, basically.

00:44:14.560 – 00:44:20.000 · Speaker 2
Made a contribution for ordinary and regular expenses that the LLC is contributing.

00:44:20.040 – 00:44:23.760 · Speaker 1
Now, that transaction should be captured on 5472.

00:44:23.800 – 00:44:24.240 · Speaker 2
Yes.

00:44:24.280 – 00:44:30.960 · Speaker 1
Okay. The cost of not doing 5472 in that one LLC is 50 is 25,000 USD.

00:44:31.000 – 00:44:31.520 · Speaker 2
Correct.

00:44:31.560 – 00:44:57.280 · Speaker 1
So every year, if he's got 1 or 1 off transaction at least once a year, at least once a year, he has, in his case, he probably is exposed to \$25,000 per LLC, and he's got 20 of them for 15 years. Correct. So that's like ridiculous number and millions correct. Of just penalties in the US. Correct. And all because he did not seek tax advice at the beginning.

00:44:57.320 – 00:44:58.120 · Speaker 2
Correct.

00:44:58.480 – 00:45:23.680 · Speaker 1
And and then that happens basically. Right. So um, if is there if, if someone now is in John's shoes, let's say someone's watching this podcast and there's like, shoot, I've got an LLC. As a Canadian resident, I'm not sure if I'm structured properly for something like this. And they need to understand what they're in for and what the potential remedies could be to fix it.

00:45:25.240 – 00:46:21.470 · Speaker 1
Um, I can speak from Canadian tax perspective how you might deal with 1134 or Canadian tax issues. But because I know I'm going to say maybe let's just go and like, figure out what the missing filings are and let's go file them now before CRA comes to you, because CRA has a voluntary disclosure program where disclosure program will eliminate or waive interest penalties and any criminal prosecution.

Right. Syria has a big program that I think is very generous. Currently. It was revamped just like in October of last year, 2025. But I'm not sure in terms of if someone is in that 5472 issue or like not properly structured in the US, and they've got this huge issue historically. Are there any equivalent of voluntary disclosure program in the US that they can go and fix their issues with and not be exposed to these ginormous penalties?

00:46:21.710 – 00:46:28.550 · Speaker 2
So on a corporate level, federally, no, there is not a voluntary disclosure program.

00:46:28.590 – 00:46:31.950 · Speaker 1
So if you're John owned through a corporation. No.

00:46:32.830 – 00:46:34.070 · Speaker 2
Correct. In the LLC.

00:46:34.110 – 00:46:35.430 · Speaker 1
Even LLCs don't.

00:46:36.230 – 00:47:06.550 · Speaker 2
It. So the 5472 is a civil penalty. Okay. Um, and the IRS is generous in the in the event that they offer a first time abatement. However, to qualify for this, um, you have to be compliant, uh, to begin with. So you just made, like, a simple mistake. So, like, you've been filing the correct filings. You just missed this one year.

You caught up, and then they.

00:47:06.750 – 00:47:18.270 · Speaker 1
The way John was functioning is that he was filing his 1040 answer, which is a US personal tax return every year, reported all the incomes for the the rental properties he's had. And he thought he was good.

00:47:18.310 – 00:47:18.990 · Speaker 2
Yes.

00:47:19.310 – 00:47:27.180 · Speaker 1
Except from what I'm sensing is that there might be 5472 for each year since at least 2018 that he's this he's not compliant with.

00:47:28.300 – 00:47:37.860 · Speaker 1
Can he go to IRS and ask for the first time abatement? So assuming what would be your opinion of it, maybe everybody has a different opinion, but what would you think?

00:47:38.020 – 00:47:41.140 · Speaker 2
Okay, so if he's filing correctly let's just assume he was.

00:47:41.300 – 00:47:42.180 · Speaker 1
He was filing correctly.

00:47:42.220 - 00:48:03.860 · Speaker 2

Let's just assume he is filing correctly. Yeah. On a personal US tax basis. Mhm. That's that's one filing of picking up the LLC if it's disregarded. Yeah. However the 5472 filing requirement for the LLC it's for the LLC. So the LLC is the filer. It's not an indication.

00:48:04.300 - 00:48:15.660 · Speaker 1

It's John would never file it. Correct. It's each of the 20 LLCs might have to file one. Correct. But you said LLCs don't have to file anything. They except for 5472 that might be applicable.

00:48:15.780 - 00:48:19.860 · Speaker 2

Trump brought in. Yeah. Um but before. Yes. So

00:48:21.460 - 00:48:24.340 · Speaker 2

in terms of that It's not an individual filing.

00:48:26.220 - 00:48:29.940 · Speaker 2

They could file a reasonable cause.

00:48:31.420 - 00:48:36.660 · Speaker 2

Sorry letter to the IRS stating their case of, you know,

00:48:38.420 - 00:48:53.060 · Speaker 2

their case that why they didn't. Um, they weren't compliant. Um, and just like with the CRA, you know, there's certain stronger points than others, like, say, death or whatnot.

00:48:53.100 - 00:48:55.900 · Speaker 1

Extraordinary circumstance, ordinary circumstances.

00:48:55.900 - 00:49:07.260 · Speaker 2

But when you don't fall into that, um, you know, and there's and there's more gray area, it's always up to the IRS agent who gets the letter and the IRS.

00:49:07.300 - 00:49:08.060 · Speaker 1

Sort of discretion.

00:49:08.060 - 00:49:46.210 · Speaker 2

They have discretion. And it as you know, the the US environment and all the cuts that they're having, um, IRS is very backlogged. Um, and so I've

seen taxpayers who've submitted these, these letters and they have to wait years. And if you don't pay the penalty, you're still accruing the interest in penalties.

Um, if it gets if the agent waives it based on your reasoning and how this letter is structured, citing case law, um, then you're good. But, uh, it's not a, it's not a good.

00:49:46.250 – 00:49:49.970 · Speaker 1
So John would have to basically potentially write a letter.

00:49:50.370 – 00:49:51.450 · Speaker 2
Oh, he should get.

00:49:51.490 – 00:49:52.730 · Speaker 1
He shouldn't write the letter.

00:49:52.770 – 00:49:53.410 · Speaker 2
No he shouldn't.

00:49:53.450 – 00:50:35.290 · Speaker 1
He should not. Yeah. Why this? No. Okay. Not at this stage. After screwing up so much. So he should get tax advice? Yes. Figure out his exposure. Actual calculation. Try to see whether the go forward, um, advice is to be compliant. Uh, file 5472 going forward or go back and, like, fix the historical ones you haven't filed.

And if you are going to go file them. Figure out whether you're going to file it with a letter basically. And then. Have a tax professional cross-border person like you prepare something that gets them a better shot. Potentially, yes, to waive the penalties.

00:50:35.290 – 00:50:43.770 · Speaker 2
So they have to file the proper forms. They're going to get hit with the penalty because you can't ask the IRS to waive something that hasn't.

00:50:43.810 – 00:50:53.730 · Speaker 1
But what if you just prospectively filed it and ignored the like only for the future years. So you're compliant and then ignore previous years.

00:50:53.770 – 00:50:56.290 · Speaker 2
And those previous years will be open. Mhm.

00:50:56.330 – 00:50:58.850 · Speaker 1
Um, so the IRS can still come back and.

00:50:59.010 – 00:51:00.450 · Speaker 2
They can always come back if, if.

00:51:00.810 – 00:51:03.890 · Speaker 1
If it's a very difficult conversation.

00:51:03.930 – 00:51:09.810 · Speaker 2
It is. Yeah it is and it's not a lot of money. Um, um, yes.

00:51:09.850 – 00:51:28.080 · Speaker 1
The funny thing is like the money that people have invested is not even that much. But sometimes, like the cost of the property might be like half \$1 million USD. Yes, but sometimes you can run up the interest and penalties and these types of exposures that greatly exceed the investment amount. Yes. Right.

So I think the lesson here would be is that

00:51:29.120 – 00:52:14.840 · Speaker 1
a don't get into LLC by default. Get tax advice. Yeah. B if you did get into an LLC figure out should it how it should be owned through a US corporation, through a Canadian holding company or through an individual. And there's different permutations, combinations that might result in different tax results.

But then in each case you need to figure out whether it makes sense to do it. And I think in anybody who's like trying to make an investment into the US, they should compute the cost of filings and all these setup costs and cost of filing returns into their math to see if they would be profitable after.

00:52:15.920 – 00:53:05.480 · Speaker 1
uh, you know, uh, taking on all the cost of compliance so that they don't get hit with penalties and whatnot and possibly bankrupt somebody basically. Right. Um, I want to give, like, a, like an action plan or like some sort of checklist. Um, I think we've prepared something that we're going to put up on our website.

So advisors table com so that people can download it and see, um, how they can navigate potentially if they want to have an LLC or they have an LLC and what they should do about it, potentially. So, um, is there anything you want to mention that I didn't ask related to LLCs, I feel like. Um, it's a very complicated area, at least from the US cross-border perspective.

00:53:08.080 – 00:53:11.399 · Speaker 2

Did we not mention anything? I think we've we've

00:53:13.190 – 00:53:34.150 · Speaker 2

We clarified what it is. We clarified there's a mismatch between Canada and the US. Yeah, CRA and the IRS. Uh, we talked about the 5472 filing requirements. We talked about the economics of the tax consequences and understanding them.

00:53:35.350 – 00:53:35.990 · Speaker 2

Um.

00:53:38.190 – 00:53:47.230 · Speaker 2

I guess on a side note, and this could be a whole different segment on its own. But when you sell your, uh, the property.

00:53:47.430 – 00:53:48.390 · Speaker 1

Oh, we could do a part.

00:53:48.430 – 00:53:50.630 · Speaker 5

Two and three on all of this stuff, because.

00:53:51.030 – 00:53:57.550 · Speaker 1

How you sell the property and I even get into, like, all the Canadian tax concessions.

00:53:57.590 – 00:53:57.910 · Speaker 2

Exactly.

00:53:57.910 – 00:53:59.190 · Speaker 5

It's a lot like.

00:53:59.590 – 00:54:17.430 · Speaker 1

Just to throw it out there. We have all kinds of like jargon in the Canadian tax. We have like foreign accrual property income rules, which is why, yes, um, how the money gets into us through a Canadian company or through a Canadian shareholders. There's like rules about deductions of interest and how the equity is set up.

Yes, there's so much more to it.

00:54:17.470 – 00:54:18.590 · Speaker 2

There's so much more to it.

00:54:18.630 - 00:54:31.550 · Speaker 1

So I feel like I kind of walked in. Yes. Um, into a big question mark in terms of what we missed. But I feel like there's so much more this this could be a part three, four, five, six, depending on how deep people want to go into it.

00:54:31.590 - 00:54:36.830 · Speaker 2

But the end, uh, I guess I guess action point is, before you do anything.

00:54:36.910 - 00:54:37.550 · Speaker 1

Yeah.

00:54:37.670 - 00:54:39.830 · Speaker 2

Let's talk to a professional.

00:54:39.870 - 00:54:48.110 · Speaker 1

Yeah. And then I think that could make or break your decision to whether to go ahead with buying something. And it isn't just about like the property you want to buy.

00:54:48.150 - 00:54:48.630 · Speaker 2

Yes.

00:54:48.670 - 00:54:57.790 · Speaker 1

It could be like, are you going to do business into us? Are you soliciting to customers in the US? Yes. Do you want to enter that market through a Canadian company or set up a US company?

00:54:58.030 - 00:55:41.980 · Speaker 2

Yes. Yeah, I know that you bring up a valid point. So in terms of what you're actually doing in the US has, I guess, a different decision tree in a different, you know, and a result of even if it creates a filing requirement. Um, as I said, US taxes are quite complex. Um, so yes, what we spoke about today, we talked mainly about real estate and how that real estate is the easy way to say that, hey, you have a permanent establishment in the US.

Like it's pretty clear cut. You have boots on the ground in the US. Yeah. Um, when you get into services and other items, you know, it's not as clean cut.

00:55:42.060 - 00:55:54.980 · Speaker 1

Yeah. Because you don't have a property to point to. Yeah. You just have people doing some work, and that work could be done across the border, like from Canada. But you're like selling into the US with Canadian, with US customers. And that's hard to trace sometimes.

00:55:55.020 – 00:55:55.420 · Speaker 2
Yes.

00:55:55.460 – 00:56:05.140 · Speaker 1
And those rules are even more complicated because they're trying to see the intangible, the invisible, and try to put tax on it on the US perspective.

00:56:05.180 – 00:56:35.460 · Speaker 2
Exactly. And if we go back to the Canada-U.S. tax treaty, you know, um, where it describes what a permanent establishment is. There is a separate carbo for services. And, uh, the IRS put that in in the early 2000 because that was a loophole. And yeah, you I always say it's always interesting that if you see a law in place not only like tax, but like, you know, um, just every day,

00:56:36.700 – 00:56:45.140 · Speaker 2
what's happening in the environment, someone did something. Yeah. And it triggered the authorities to be like, wait a second.

00:56:45.580 – 00:56:46.620 · Speaker 1
We wanted to tax that.

00:56:46.660 – 00:56:52.980 · Speaker 2
Yeah, we have to tax that or we have to put a rule on that. So now we have to, um, you know,

00:56:54.420 – 00:57:00.500 · Speaker 2
lay out how how things operate. So I always like to step back and think of it from a big picture point of view.

00:57:00.780 – 00:57:02.580 · Speaker 1
Perfect. Well, thank you so much.

00:57:02.660 – 00:57:03.460 · Speaker 2
Thank you.