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Distribution Report

Cardinal Point Wealth Management Cautions Cross-Border Taxpayers on Implications of Selling a Personal Residence

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United States, 15th Nov 2025 – Cardinal Point Wealth Management has released an advisory explaining the U.S. and Canadian tax implications of selling a personal residence, especially for U.S. citizens living in Canada. While both countries offer exemptions to reduce capital gains taxes, individuals with cross-border status can face unexpected dual reporting requirements and significant U.S. tax exposure.

For most Canadians, the sale of a principal residence is simple and tax-free. But for U.S. citizens residing in Canada, the same transaction can trigger a U.S. capital gains tax—even when the gain is fully exempt under Canadian law. Cross-border taxpayers are strongly urged to consider the potential tax liability before selling their home.

United States: Principal Residence Exclusion

The Internal Revenue Service (IRS) allows taxpayers to exclude a portion of the gain from the sale of their principal home, if they have owned and lived in it for at least two of the previous five years. Single filers can exclude up to $250,000, and married couples up to $500,000. The exclusion can be used only once every two years and applies only to a primary residence.

Any gain above these limits is taxable as a long-term capital gain, typically up to 20%, plus a 3.8% Net Investment Income Tax (NIIT) for higher earners.

Canada: Principal Residence Exemption

In Canada, the *principal residence exemption (PRE)* generally eliminates tax on gains from the sale of a qualifying home. A property is eligible if the taxpayer, spouse, or dependents “ordinarily inhabited” it during ownership. Only one property per family per year can be designated using CRA Form T2091(IND).

Since January 1, 2023, properties owned for less than a year may be fully taxable unless a life event, such as death or job relocation, applies. In most cases, Canadians selling their home pay no capital gains tax.

Cross-Border Challenges for U.S. Citizens in Canada

U.S. citizens must report worldwide income, including gains from selling a Canadian home. Even when the sale is exempt under Canada’s PRE, the U.S. portion above the exclusion remains taxable by the IRS. Because no Canadian tax is owed, there is generally no foreign tax credit available to offset the U.S. liability. This creates a potential double-tax scenario for those with large gains.

Illustrative Example

A married U.S. citizen couple in Montreal buys a home for CAD $500,000 and sells it in 2025 for CAD $2 million. With a 1.30 CAD/USD rate, their U.S. gain is about $1.15 million. The first $500,000 is excluded. That leaves $653,000 taxable at up to 20%, plus 3.8% NIIT—roughly $155,000 in U.S. tax. Because the gain is tax-free in Canada, no foreign tax credit applies.

Spousal Planning Consideration

If one spouse is not a U.S. citizen, the U.S. spouse may transfer their ownership interest in the home before the sale. Since the non-citizen spouse is not subject to U.S. tax, that allows the future sale to avoid U.S. capital gains while maintaining Canada's PRE. However, transfers to a non-citizen spouse above the annual exclusion limit of $190,000 trigger a U.S. gift tax filing on IRS Form 709. Professional advice is essential before considering this complex strategy.

Key Takeaways

- **Dual Exposure:** U.S. citizens in Canada must report and potentially pay U.S. tax on Canadian home sales, even when exempt in Canada.
- **Canada vs. U.S. Exemptions:** Canada's PRE can fully exempt the gain. U.S. rules cap exclusions at $250,000 (single) or $500,000 (joint).
- **Limited Relief:** No Canadian tax means no foreign tax credit to apply against U.S. liability.
- **Planning Tools:** Spousal transfers and the timing of sales may reduce exposure, but must strictly follow IRS and CRA requirements.
- **Compliance:** All sales must be correctly reported to both agencies using proper forms.
- **Professional Guidance:** Coordinated planning is crucial and strongly recommended, in order to successfully navigate overlapping U.S. and Canadian tax systems.

What taxpayers need to know: While Canadian homeowners often sell their principal residence tax-free, U.S. citizens face added complexity. Without proactive planning, they may owe substantial U.S. tax on gains that are exempt in Canada. Coordinated cross-border tax and estate planning helps reduce this risk and ensures compliance on both sides of the border.

About Cardinal Point Wealth Management

Cardinal Point Wealth Management provides integrated financial, tax, and estate planning services for clients with assets in Canada and the United States. The firm specializes in **cross-border wealth management**, **cross-border tax planning**, and **cross-border estate planning**, serving as a trusted **Canada–U.S. expat advisor** for individuals and families managing multi-jurisdictional tax obligations. Its multidisciplinary team assists clients with complex taxation and compliance issues, helping ensure financial transitions are handled accurately and efficiently.

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