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Dear Client:

FILING YOUR 2020 U.S. TAX RETURN(S)

The April 15, 2021 deadline to file your 2020 U.S. Form 1040 – U.S. Individual Income Tax Return is quickly approaching. However, if you reside outside the U.S. on April 15, 2021, the deadline to file your 2020 U.S. From 1040 is automatically extended to June 15, 2021. Please note that all taxes owing must be paid by April 15, 2021 to avoid any interest and penalties from accruing regardless of your filing deadline.

Due to changes in tax laws and the ever-increasing complexity in preparing personal tax returns, please gather your required tax information and submit the information to us no later than March 16, 2021.

1. **Foreign Bank Account Reporting – FBAR (Form FinCEN 114 formerly known as TDF 90-22.1)**

   The IRS requires individuals to report their financial interest in, signing authority or other authority over one or more financial accounts in foreign countries. This applies to individuals where the aggregate value of the financial accounts exceeds U.S. $10,000 at any time during the year.

   All Canadian financial accounts are considered foreign accounts for U.S. tax reporting purposes. These accounts include both registered and non-registered accounts, chequing accounts, savings accounts, investment accounts, RRSPs, RESPs, and TFSAs.

   This form must be filed electronically. In order to assist us with completing the form 114 please provide the following information:
   - Name(s) of account holder
   - Name of the financial institution
   - Account number
   - Mailing address of the financial institution
   - Maximum value of the account (in U.S. dollars) during the year

2. **Statement of Specified Foreign Financial Assets – Form 8938**

   Form 8938 must be filed with your income tax return if you satisfy the reporting thresholds discussed below. Please note that the thresholds for U.S. citizens living in the U.S. are different from the thresholds for U.S. citizens living abroad.

   Thresholds for U.S. Citizens Living Abroad

   > ***Unmarried taxpayers:*** The total value of your specified foreign financial assets is more than U.S. $200,000 on the last day of the tax year or more than U.S. $300,000 at any time during the tax year.
   >
   > ***Married taxpayers filing a joint income tax return:*** The total value of your specified foreign financial assets is more than U.S. $400,000 on the last day of the tax year or more than U.S. $600,000 at any time during the tax year.
   >
   > ***Married taxpayers filing separate income tax returns:*** The total value of your specified foreign financial assets is more than U.S. $200,000 on the last day of the tax year or more than U.S. $300,000 at any time during the tax year.

   All Canadian accounts are considered foreign bank accounts for U.S. tax reporting purposes. These accounts are comprised of both registered and non-registered accounts and include chequing accounts, savings accounts, investment accounts, RRSPs, RESPs, and TFSAs.

3. **Information Return of U.S. Persons With Respect To Certain Foreign Corporations**

   If you are a shareholder, director or officer of a Canadian corporation, please let us know immediately as additional reporting may be required.

4. **Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts**

   If you have transactions with a foreign trust during the year (a Canadian trust is considered a foreign trust for U.S. tax reporting), please let us know as additional reporting may be required.

5. **Canadian Mutual Funds:**

   The IRS classifies Canadian mutual funds as corporations for U.S. tax purposes. For Canadian residents who are U.S. citizens, the benefits from investment may be mitigated by increased U.S. tax compliance and additional U.S. tax liabilities. Please contact your Lipton advisor to discuss the implications of investment in Canadian mutual funds by U. S. Citizens.

6. **Net Investment Tax - commonly known as the 'Obamacare' tax (NIT):**

   The NIT applies to a U.S. taxpayer whose modified adjusted gross income (MAGI) is at least U.S. $200,000 (a single filer), U.S. $250,000 (joint filers) and US $125,000 (married filing separately). The taxable amount is the lesser of (1) the excess MAGI over the taxpayer's threshold and (2) the taxpayer's net investment income, which includes interest, dividends, capital gains, rental and royalty income, income from business involved in trading financial instruments or commodities, and income from businesses that are passive activities to the taxpayer (Code section 469).

7. **Tax Free Savings Account – TFSA and Registered Education Savings Plan - RESP:**

   U.S. citizens resident in Canada may have U.S. tax compliance and U.S. tax liabilities where they hold TFSA and RESP investments. Please contact your Lipton advisor to discuss the implications of holding these types of financial accounts.

8. **Sale of home:**

   When you sell your principal residence, you may qualify for an exclusion of up to $250,000 of the capital gain from your income. You may qualify to exclude up to $500,000 of that gain if you file a joint return with your Spouse.

   In general, this exclusion applies where you have owned and used your home as your principal residence for a period, aggregating, at least two out of the five years prior to its date of sale.

9. **Virtual currencies:**

   Starting in 2019, the IRS required a disclosure of any trading with respect to virtual currencies.

   In order to complete this disclosure, please provide details with respect to any transactions in virtual currencies completed in the year.

10. **Alimony deduction:**

    For recently divorced Americans, alimony payments are <u>no longer tax deductible</u> by the payer. They are also not included in taxable income for the person receiving alimony.

    The change affected divorce agreements signed or modified after Dec. 31, 2018. Those divorced in 2019 cannot deduct alimony payments on their tax returns.

11. Economic Impact Payment

The Internal Revenue Service and the Treasury Department is expected to begin delivering a second round of Economic Impact Payments in the near future.

Generally, U.S. citizens and resident aliens who are not eligible to be claimed as a dependent on someone else's income tax return are eligible for this second payment. Eligible individuals will automatically receive an Economic Impact Payment of up to \$600 for individuals or \$1,200 for married couples and up to \$600 for each qualifying child.

Generally, if you had adjusted gross income for 2019 up to \$75,000 for individuals and up to \$150,000 for married couples filing joint returns and surviving spouses, you will receive the full amount of the second payment. For filers with income above those amounts, the payment amount is reduced.

If you are eligible for the first or second impact payment but did not receive it, please discuss this with your Lipton advisor, since it may be possible to claim a credit for payments not received.

We look forward to hearing from you early in the tax season!

Yours very truly,

Lipton LLP

LIPTON LLP

Chartered Professional Accountants
Licensed Public Accountants