MarketWatch

Should you pull a 'Burger King' to cut your tax bill?

By Catey Hill
Published: Aug 27, 2014 12:41 p.m. ET

Getty Images
Would you like to join the King in Canada?

For individuals, pulling a "Burger King" — a.k.a. moving to Canada to cut your taxes — may not work out in your favor.

Burger King agreed to buy Tim Hortons THI, +2.08% , a Canadian coffee and doughnut shop, in an effort to cut what it pays in taxes.

It would do this through a so-called inversion deal, in which company moves its official headquarters into a lower-tax area (in this scenario, Burger King BKW, +5.12% would move its base to Canada) to save money on its foreign earnings and the cash it keeps abroad and possibly lower its overall corporate tax rate.

A number of companies have announced plans to complete inversion deals recently, a move that the Obama administration has criticized.

Also read: Boycott iPhones before Whoppers if tax maneuvers are upsetting

About 11,000 Americans move to Canada annually (up from fewer than 10,000 Americans who moved to Canada in 2001, and compared to about 34,000 Canadians who move to the U.S. each year). But unlike with the Burger King move, Americans’ cross-border migration isn’t a sure bet for tax savings. As Gary Gauvin, a principal at Gary Gauvin Income Tax Services, which specializes in people seeking Canada-U.S. income tax help, puts it, “it’s complicated … and you might save money, you might not.”

Here are some issues to consider:

Residency and citizenship: Americans moving to Canada have to consider the issue of citizenship and residency. Canada taxes individuals on income based on residency (usually if you have lived 183 days in a year or more in the country, you are considered a resident) not citizenship, but the U.S. taxes based on citizenship, so U.S. citizens who become Canadian residents sometimes may face double taxation, though in general, the tax treaty between the countries helps you avoid this, explains Gauvin. Often, you avoid this double taxation on U.S. income by claiming a foreign tax credit or the foreign earned income exclusion, says Laurie Samay, a client services associate at Palisades Hudson — though both of these have exclusions and limitations.

Buffett to finance Burger King-Hortons merger
(4:42)
Warren Buffett will help Burger King finance its acquisition of the Canadian coffee-and-doughnut chain Tim Hortons.

Income taxes: When you look just at federal taxes, becoming a Canadian resident sometimes means you pocket more of your hard-earned cash — but only by a little. If you make a salary of $50,000 in the United States, you’ll take home roughly $725 per week in this county but $743 in Canada (this includes withdrawals for federal income tax and social-safety-type taxes that are withdrawn from your paycheck; this only factors in wage-based income); at a $100,000 salary, you’d take home $1,450 per week in the U.S. vs. $1,486 in Canada .

But depending on what state or province you live in, the rates can vary dramatically. If you were living in say, Florida, which doesn’t levy income tax, you could end up paying much more in taxes if you moved to Canada, says Gauvin. But if you were living in a high-tax state like New York or California, that burden might seem much less, he adds. In general, Canadian provinces levy higher individual income taxes than do U.S. states, says Miguel G. Farra, chairman of the tax and accounting department at public accounting firm MBAF; part of the reason for these higher rates is because they help fund Canada’s universal health-care system, he adds.

Sales tax: In general, you’re likely to pay higher sales taxes in Canada (these taxes are called GST at the federal level and PST taxes at the provincial level in Canada) than in the U.S. because in Canada you pay both federal and provincial sales tax on goods and services, while in the U.S., you just pay them at the state level, explains Gauvin. In general, Canadian sales taxes (federal and provincial combined) are between 12% and 15%. Those looking to move to Canada need to look at what is subject to and exempt from PST and GST taxes in Canada, says John Archer, international tax managing director at CBIZ MHM.

Estate and gift taxes: Canada does not have an estate tax like we do in the U.S., but that doesn’t mean that those who die in Canada don’t have any tax liability, says Samay. Indeed, in Canada, your estate may be subject to capital gains taxes. So, if your estate is now worth $100,000 but was originally worth $50,000, you might pay capital gains taxes on that $50,000 gain. In some cases, usually with wealthy taxpayers, U.S. citizens residing in Canada who die in Canada "can face three to four levels of taxation — Canadian capital gains taxes, U.S. and Canadian income tax on retirement plans and deferred compensation, U.S. federal estate taxes and U.S. state estate taxes."

Bottom line: "Planning before you move is the most important and critical thing," says Gauvin. Hire a professional to help you plan as even seemingly simple issues like retirement accounts can get complicated, says Samay. And Douglas Goldstein, a certified financial planner and author of "Rich as a King: How the Wisdom of Chess Can Make You a Grandmaster of Investing," says that it's worth it to save a year's emergency fund up before you move to cover any surprising tax liabilities or other expenses.
