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Canadian Finance Minister Reproves IRS

Canadian Finance Minister Jim Flaherty issued a strong reproof of the IRS in his response to the Wall Street Journal, New York Times and Washington Post, blasting a new IRS tax crackdown that could ensnare tens of thousands of innocent Americans living in Canada. Flaherty's irate statement called for the IRS to stop badgering "innocent and law-abiding people" who live in Canada and do not owe the US any taxes. According to him, the US requirement for taxes to be paid by those holding dual US and Canadian citizenship is spreading "unnecessary stress and fear."

The US has a worldwide taxation policy that requires US citizens to declare all their income for taxation regardless of where they live or where their income is drawn from. The Toronto Globe and Mail reports that there are up to one million US citizens living in Canada, and the majority of them do not know of this policy. The conservative Ottawa cabinet Minister Flaherty adds, "Most of these Canadian citizens, many of which have only distant links to the United States, have a very limited knowledge of their reporting obligations to the US."

Flaherty is also unhappy over impending US legislation that compels Canadian banks to release banking information on all their US clients, which was originally set to be enforced January 2013. But due to strong objections from Canadian banks, the start was postponed to 2014. But Canadian banking authorities say the fight is not over.

The whole purpose of the cross-border requirement on US citizens in Canada is to flush out tax evaders and collect taxes left unpaid for whatever reasons. But lumping Canada together with commonly-known tax havens like Switzerland, the Bahamas or Panama is

totally ludicrous. For one thing, Canadians are subject to a higher tax rate (federal and provincial) than the US. So tax dodgers would certainly not live in Canada. At most, the US will be collecting small amounts from “people who have made innocent errors of omission” according to Flaherty. He also added that “to impose FACTA (the Foreign Account Tax Compliance Act) on (Canadian) citizens and financial institutions would not accomplish anything but to waste resources on both sides.”

Furthermore, there is already a bilateral tax agreement between the US and Canada that deals with tax evasion. So, the conclusion is that the IRS should target other countries in their efforts to nab tax evaders, not Canada.