

THE ONE BIG BEAUTIFUL BILL – WHAT DOES IT MEAN FOR CANADIANS?



Krysta Adamski, CPA, CA
Wealth Planning Consultant
Wealth Planning Group

US President Trump's One Big Beautiful Bill Act (the Bill) is in all of the headlines right now. The Bill was passed by the House of Representatives with a narrow vote of 215 to 214 on May 22, 2025 and is now being debated in the Senate. The Bill includes several measures aimed at reducing taxes for US taxpayers. It also has the potential to negatively impact Canadians. Changes are likely, but the Bill is expected to be approved and signed into law by the President by July 4, 2025.

Most significantly, a new provision of the Internal Revenue Code (IRC) Section 899 entitled "Enforcement Remedies against Unfair Foreign Taxes" seeks to increase US withholding tax rates on certain non-US individuals and entities who are resident in "discriminatory foreign countries". Based on the wording in the Bill, it is likely Canada will be viewed as a discriminatory foreign country.

This is a retaliatory measure, due to Canada's Digital Services Tax (DST) which was introduced by the Canadian government in 2024 and falls under the category of "unfair foreign taxes" within the Bill. The DST requires foreign and domestic businesses to pay a tax of 3% of revenues exceeding \$20 million that is generated from digital services provided to Canadian users. In addition, the OECD has introduced the Global Minimum Tax (GMT) which ensures large multinational corporations pay a minimum tax rate of 15% on their income. Canada, as a member of the OECD, is seeking implementation of the GMT which the Bill also deems as an unfair foreign tax.

Without either Canada backing down on these measures or further amendments to the Bill, it appears that some Canadian individuals, businesses, investment funds, trusts and even the Canadian government will be penalized through increased US withholding taxes on certain types of US sourced income. There are two key aspects that will impact Canadians.

ELIMINATION OF TAX-EXEMPT STATUS FOR FOREIGN GOVERNMENTS

Currently US-source income earned by foreign governments is exempt from US taxation. The Bill would override this exemption causing US income earned by government agencies of discriminatory foreign countries to be taxable.

INCREASE TO VARIOUS US WITHHOLDING TAX RATES

Currently Canadians earning US-source income are subject to withholding tax rates as determined by the Canada-US Tax Treaty: interest and dividends on portfolio investments are subject to withholding tax rates of 0% and 15%, respectively, while capital gains on portfolio investments are only subject to taxation in the country of residence. The Bill seeks to override the Treaty withholding tax rates to increase the rate by 5% per year to a maximum of 20%. However, it appears the 20% cap only applies in respect of the statutory rate, which is generally 30% without the Treaty. That could bring the withholding tax on dividends to 50% after seven years.

Another significant concern is the uncertainty of whether Canada will allow the additional withholding tax as a foreign tax credit to reduce Canadian taxes on the same income. It is also uncertain if the increased withholding tax will apply to registered accounts such as RRSPs and RRFs, which are currently protected from taxation under the Tax Treaty.

The increase in withholding tax rates also applies to other fixed, determinable, annual or periodical income (FDAP income) which includes US pension income. The rates also apply to US effectively connected income (ECI), which is generally any income connected to a US trade or business including income from rent, royalties and capital gains from real property. Previously the sale of US real estate by a Canadian was subject to a 15% withholding tax (FIRPTA). The Bill would increase this to 20% which could increase to 35% within four years.

EFFECTIVE DATES

For most individuals earning the impacted income directly, the effective date will likely be January 1, 2026. For trusts or corporations, the effective date could be sooner. More specifically, Section 899 would apply to each taxable year beginning:

- i. after the later of
 - I. 90 days after the enactment of section 899,
 - II. 180 days after the enactment of the unfair foreign tax that causes such country to be a discriminatory foreign country, or
 - III. the first date that the unfair foreign tax begins to apply, and
- ii. before the last date that the unfair foreign tax is in effect.

US ESTATE TAX EXEMPTION

It is worth noting one measure in the Bill (outside of Section 899) that may benefit some Canadians is the increase in the US estate tax exemption. The 2025 US estate tax exemption is currently \$13,990,000. This means, provided total assets are below this amount at death, you will not be subject to US estate tax. These thresholds extend to Canadians pursuant to the Canada-US Tax Treaty. This becomes important for Canadians who own US situs assets that would be subject to US estate taxes. Canadians receive a prorated portion of the exemption for their US situs assets as compared to their total net wealth to minimize or eliminate US estate tax on death.

This exemption was set to revert back to approximately \$7 million in 2026. The Bill seeks to increase the US estate tax exemption permanently to \$15 million effective for deaths on or after January 1, 2026. This limit will be indexed for inflation after 2026.

SUMMARY

For many individual investors, Canadian personal taxes will outweigh US withholding taxes initially, resulting in no additional taxes paid by the average investor in respect of portfolio investments. This assumes Canada allows the additional

withholding tax as a foreign tax credit. Similarly, for sales of real estate, in many cases the Canadian tax rate will outweigh the US withholding tax. However, if the cap on the increase is based on statutory rates and not Treaty rates, within seven years, many of the withholding tax rates could be as high as 50%, making it quite costly to invest in the US and putting US rates much higher than Canadian rates for the average investor.

For Canadians who hold US pension plans (IRAs, 401(k)s) and are wanting to liquidate them to bring the funds to Canada, lump-sum payments are currently subject to a 30% withholding tax. The Bill would increase the withholding tax rate to 35%, and further to as high as 50% after four years. The impact of this could make it too costly to move these plans to Canada. Even periodic pension payments that are currently subject to a 15% rate would increase to 20%, rising to 50% after seven years.

Another very significant implication from a Canadian perspective is the potential impact these rules will have on our Canada Pension Plan (CPP) as well as other normally tax-exempt pension funds. Previously the CPP benefited from tax-exempt status under the Treaty on US investment income earned by the CPP. The Bill would seek to charge withholding tax on these investments once enacted. This will leave the CPP with less invested funds. How will this impact future pensioners? Will it mean lower benefits for us in the future? Will it mean the Canadian government will need to intervene to ensure pensioners receive their benefits? Consider also other government pensions at the federal, provincial and municipal level and how many Canadians are, or will be, relying on these pensions for their retirement. These are valid concerns, and time will tell the impact these measures will have on investment policy going forward.

Changes to the Bill are likely and all of the measures mentioned in this article may not be approved. There are still many items in the Bill which require clarification.

We will be tracking the progress of the Bill and any changes that may impact Canadians. If you have questions about this Bill, please speak to your Regional Vice President, Wealth Planning.



IMPORTANT DISCLAIMERS

This document is published as a general source of information and should not be considered personal, investment, tax, accounting or legal advice or an offer or solicitation to buy or sell securities. Every effort has been made to compile this material from reliable sources however it is subject to change without notice and no warranty can be made as to its accuracy or completeness. Please speak directly with a professional advisor for individual financial advice based on your personal circumstances. CI Assante Wealth Management is a registered business name of Assante Capital Management (Canada) Ltd. © 2025 CI Assante Wealth Management. All rights reserved. Published June 16, 2025.

25-06-1381608_E_AWM (06/25)