

Does American 'co-borrower' have to pay tax on Canadian property?

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Tribune Content Agency

Q: I helped my cousin buy a home in Canada, and she used it as her principal residence. I did not help her financially to purchase the house or pay any mortgage or taxes. I only went with her to the bank, and because our credit and finances were stronger than hers, the bank asked us to be the co-borrower and co-owner for her to get the mortgage.

She is now selling her house. Will I have to report the sale to the IRS even though I will not be making any gains? I have contacted the Canadian Revenue Agency; they said I do not have to do anything since I did not pay anything to begin with.

A: Good question. We think that the IRS will treat you the same way as its Canadian counterpart. While you were technically an owner of the property, your cousin used the home and gained from the sale of the home. Interestingly, you mentioned that the home was your cousin's primary residence. For IRS purposes, it may not matter if the home was located in the United States or abroad as long as the taxpayer is a U.S. citizen.

If you buy a home and live in it for two

out of the last five years as your primary residence, current IRS rules allow you to exclude up to \$250,000 from federal income taxes profits if the homeowner is single (or up to \$500,000 if the homeowner is married). If you buy a home and it is not your primary residence, but is a second home that you visit or a family member uses, profits realized upon sale may be subject to capital gains tax.

If your cousin is a U.S. citizen (or is someone who is, for whatever reason, required to file a U.S. federal income tax return) and owned and use the home as her primary residence for at least two out of the last five years, she may have no tax to pay the IRS on any profit on the sale even if the property is located abroad. If she has no tax to pay, you certainly will have no tax to pay.

However, her taxes may be complicated. If she is required to pay tax in Canada relating to the profits generated in the sale, she may find that she is allowed to take a credit for those on her IRS tax return. That would be helpful; but to be sure, she will need someone knowledgeable in this area to assist her in preparing her income tax return in the United States to make sure she does it right.

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