



MAR 06 2012

2012FIN365183

Ms. Blaze Canadian
1867 Maple Way
Maple Sandbox, Canada
MPL SBX

Dear Ms. Canadian:

Thank you for your correspondence of January 25, 2012 regarding U.S. government taxation policy, specifically the Foreign Bank Account Report (FBAR) and the Foreign Account Tax Compliance Act (FATCA).

Rest assured, the Government of Canada shares many of these concerns and has expressed them directly to the U.S. government.

While we all understand that Canada and the U.S. share many common values, including ensuring fair tax systems where everybody pays their share, we have concerns about the impact of FBAR and FATCA on Canadians.

For instance, many dual Canadian-American citizens captured under FBAR have complained they have only very remote links to the U.S. and a very limited knowledge of their tax reporting obligations to the U.S. (Note: please find enclosed a 'fact sheet' on the history of U.S. tax and FBAR filing requirements for U.S. citizens no matter where they live in the world.)

We recognize – and have publicly told the U.S. – that the vast majority of these dual citizens being targeted are honest, hardworking and law-abiding people – including many senior citizens – who have dutifully paid their Canadian taxes. Their only transgression has been failing to file IRS paperwork that they were unaware they were required to file. These are not high rollers with exclusive offshore bank accounts looking to evade paying their fair share of taxes.

Faced with the knowledge they have an obligation to file U.S. tax returns (even if they most often do not actually owe any taxes), we appreciate that many dual citizens want to fulfill that obligation. But we also understand that the threat of prohibitive fines for simply failing to file a return they were never aware they had to file has become a frightening prospect causing unnecessary stress and fear among many honest, hardworking individuals.

As such, we have called on the U.S. government to look upon those individuals impacted in Canada with leniency.

Canada

I am happy to report the U.S. government has listened to our concerns and the concerns of Canadians.

On December 7, 2011, the IRS released guidance on U.S. tax return and FBAR filing requirements for U.S. citizens living in Canada and other countries. According to the guidance, U.S. taxpayers who owe no U.S. tax are not subject to any penalties for a failure to file a U.S. tax return. In the case of a failure to file an FBAR, where the IRS determines that a violation was due to reasonable cause, the guidance says that there is no penalty. The guidance is available on the IRS website at www.irs.gov/newsroom/article/0,,id=250788,00.html.

Please be aware, we have also been clear that penalties imposed by the IRS under FBAR will not be collected by the Canada Revenue Agency (CRA) on their behalf. While the Canada-United States Income Tax Convention contains a provision that allows for the collection by a country of taxes imposed by the other country, this does not apply to penalties imposed under laws that impose only a reporting requirement. Furthermore, the CRA does not and will not collect the U.S. tax liability of a Canadian citizen if the individual was a Canadian citizen at the time the liability arose (whether or not the individual was also a U.S. citizen at that time).

A related piece of U.S. legislation causing similar concern is FATCA, which is proposed to come into force on January 1, 2014.

To be clear, Canada respects the sovereign right of the U.S. to determine its own tax legislation and its efforts to combat tax evasion – the underlying objective of FATCA. In fact, our two jurisdictions co-operate to prevent tax evasion.

But FATCA has far-reaching extraterritorial implications, as it would turn Canadian banks into extensions of the IRS and would raise significant privacy concerns for Canadians.

We strongly believe this is unwarranted. Canada is not a tax haven and people do not flock to Canada to avoid paying taxes. In addition, we have existing ways of addressing these issues with the U.S. through our bilateral Tax Information Exchange Agreement. We strongly believe that to rigidly impose FATCA on our citizens and financial institutions would not accomplish anything except waste resources on all sides.

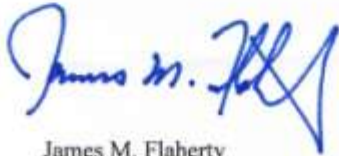
As such, the Government of Canada has and will continue to express its strong concerns relating to FATCA with the U.S. government. We are actively seeking a solution that both countries will find agreeable.

Please consider the enclosed fact sheet, which may provide additional information on FBAR, and which contains a link to the recent IRS guidance. This letter and the fact sheet are intended for information purposes only and should not be viewed as tax advice.

Taxpayers who think they may be affected by any of the measures discussed in these documents should seek advice based on their particular circumstances from an independent tax advisor with appropriate experience.

Thank you for communicating your concerns about U.S. taxation policy.

Yours sincerely,



James M. Flaherty

Enclosure