



# Proposed Republican tax change would lead to spike in costs for Canadians who invest in U.S. securities

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The U.S. Capitol, in Washington, on April 8.

TIERNEY L. CROSS/THE NEW YORK TIMES NEWS SERVICE

Canadian investors holding U.S.-listed securities could see a sudden spike in the amount of tax they owe under a recent U.S. bill that has been tabled as a retaliatory measure

against what it calls “discriminatory taxes” of foreign countries, including Canada’s digital services tax.

If passed, the proposed legislation would add 5 percentage points to the withholding tax rate each year for four years on certain types of U.S. income for anyone living in a country that imposes a tax that the U.S. considers discriminatory or extraterritorial for U.S. citizens or corporations. The additional 20-per-cent withholding tax would remain in place as long as the other country’s disputed tax is in effect.

The proposed bill appears to be targeting jurisdictions that have implemented a digital services tax on large U.S. technology companies or have an undertaxed payments rule (UTPR). Canada’s DST was enacted in 2024.

The proposal means that Canadians who own U.S. securities that pay dividends or interest, or have realized gains, could see a large tax increase, said Kris Rossignoli, a cross-border tax and financial planner with Cardinal Point Wealth in New York.

Investors who hold foreign securities – including from the U.S. – may have to pay a non-resident withholding tax on income. The calculation of that amount can be complex and depends on the tax laws of the country the investment is issued from, and whether a tax treaty exists.

Typically, non-U.S. residents are subject to a 30-per-cent withholding tax on U.S. dividends. Currently, under the Canada-U.S. tax treaty, Canadians receive a reduced tax rate of 15 per cent.

To receive that rate, investors must submit a tax form through their financial institution. In some instances, investors may be provided a foreign tax credit.

But under the proposed draft legislation – known as H.R. 591 – Canadian investors could be denied the reduction and required to pay the higher 30-per-cent rate. Investors would also be subject to the additional 20-percentage-point rate hike, bringing their withholding tax rate to 50 per cent.

In addition, the Canada-U.S. tax treaty currently provides an exemption from withholding tax earned within certain registered retirement accounts, such as a registered retirement savings plan. However, the proposed bill could override the

current tax treaty, and expose retirement accounts to an immediate 35-per-cent withholding tax, including the first annual 5-percentage-point hike.

Karl Dennis, KPMG's national leader for the U.S. corporate tax team in Canada, said it is still early days in the legislative process for the proposed tax bill, and Canadian investors should not make any drastic changes to their investment portfolio as a result.

In the U.S., there are dozens of legislative proposals put forward by members of Congress, he said, and few of them make it into tax law.

However, a number of Republicans have voiced support for the revised tax changes – a “step towards becoming more real,” he added.

President Donald Trump has been targeting taxes in more than 120 countries that he argues discriminate against American companies. One of his biggest complaints is the digital services tax that Canada enacted last year, which requires tech giants such as Amazon, Google, and Facebook to pay a 3-per-cent levy on revenue they generate from Canadian users. (A number of other countries such as Britain, Spain, Italy and France have imposed a DST for years without any retaliation from the U.S.)

House ways and means committee chair Jason Smith introduced the proposed tax bill in late January. At that time, he said the bill was intended to reinforce Mr. Trump's executive order rejecting the Biden administration's Organization for Economic Co-operation and Development's (OECD) global tax deal – which could allow foreign jurisdictions to impose additional taxes on U.S. multinationals.

“The Defending American Jobs and Investment Act will ensure that President Trump has every tool at his disposal to pushback against any foreign country that seeks to undermine America's economic vitality or unfairly target our workers and businesses,” Mr. Smith said in a January statement.

The additional tax in the proposed bill would apply exclusively to U.S. source income, such as U.S. dividends.

According to Statistics Canada, Canadians held \$3.045-trillion of U.S. securities, at the end of December 2024. Canadian mutual fund investors have about \$1.46-trillion invested in equity funds, of which 47.7 per cent – or nearly \$700-billion – is held in U.S. securities, as of December, according to data provided by Investor Economics.

There is another \$170-billion of U.S. bonds held by Canadian investment funds, and more than \$127-billion in U.S. securities purchased through Canadian exchange traded funds.

If passed, the draft legislation could mean investors owe billions in additional U.S tax dollars.

The Securities and Investment Management Association (SIMA), previously known as the Investment Funds Institute of Canada, has been monitoring the tax proposal for its members, who collaboratively manage more than \$4-trillion of investments in Canada.

SIMA's director of taxation policy, Josée Baillargeon, said the organization has initiated discussions with members on the issue and are actively seeking input.

“We have not yet established an official position and will continue to monitor the legislative process in the U.S. as well as the federal election here,” Ms. Baillargeon said in an e-mailed response to a question from The Globe about whether SIMA is lobbying the Canadian government to reconsider the tax measures the U.S. is disputing.

KPMG's Mr. Dennis said it is unclear how the current draft bill would be passed as it is currently “not very articulately worded” and has some “internal inconsistencies” in it.

“It will need more work before it can be put up to vote,” he said.

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