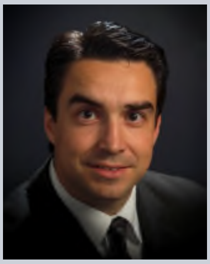
RBC Dominion Securities Inc.

Jason Baba Wealth Management Group

Newsletter



Views and opinions
for the clients and friends of

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Foreign Reporting Requirements in Canada

For many years, Canadian residents have been required to annually disclose their foreign assets to CRA if the assets' cumulative cost exceeded C$100,000 at any time in the calendar year. The assets are disclosed through the filing of a Form T1135 – Foreign Income Verification Statement.

The 2013 Federal Budget included a revised Form T1135. The revised form requires the disclosure of significantly more information than previously required. In an effort to assist taxpayers in transitioning to the new reporting requirements, the CRA has provided transitional reporting guidance for the 2013 tax year. The deadline for filing the T1135 for 2013 has been extended from the income tax return filing deadline for the year to July 31, 2014.

Who Has to File Form T1135?

The reporting requirement applies to Canadian resident individuals, corporations, partnerships and trusts owning "specified foreign property" with a cumulative cost exceeding C$100,000 at any time in the year. This means that the total cost of foreign assets must be considered, not the cost of each asset individually.

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Specified foreign property generally includes (but is not limited to):

- Funds held in foreign bank accounts and foreign investment accounts, even if holding Canadian securities
- Shares of foreign corporations, even if held in Canadian investment accounts
- Bonds or debentures issued by foreign governments or foreign corporations
- Land and buildings located outside Canada (for example, foreign rental property)
- Interests in non-resident trusts
- Interests or units in foreign mutual funds

Specified foreign property does not include:

- Foreign assets held in tax-deferred accounts such as RPPs, RRSPs, RRIFs, RESPs, RDSPs, TFSAs and other registered accounts
- Units of Canadian-registered mutual funds that invest in foreign securities
- Personal-use property (such as vacation homes, vehicles, jewellery, artwork, etc.)
- Property used or held exclusively in the course of carrying on an active business

What Must Be Reported?

For 2013 and subsequent years, the following information must be provided on Form T1135:

- Description of the property
- Name of the bank or other entity holding funds or investments
- Country where the property is located
- The highest cost of each property held during the year
- Cost of each property at year-end
- Any income (loss) earned by each property
- Any gain (loss) realized on disposition of the property

Exclusion Where T3 or T5 Slip Issued

Where a T3 or T5 slip has been provided by a Canadian issuer in respect of specified foreign property for the year, that specified foreign property is excluded from the Form 1135 by completing the identification information and checking the reporting exclusion box on form T1135. It is important to note that any property excluded by way of T3/ T5 reporting must still be taken into account in determining whether the total cost amount of all specified foreign property held at anytime in the year exceeds $100,000 and whether or not you need to submit a Form T1135.

2013 Transitional Rules

For the 2013 tax year, the CRA has announced its intention to assist taxpayers in transitioning to the new requirements by permitting streamlined reporting for certain specified foreign property on Form T1135.

Canadian resident individuals, corporations, partnerships and trusts who hold specified foreign property in an account with a Canadian registered securities dealer may report the combined value of all such property at the end of the tax year, rather than reporting the details of each property.

The following information needs to be provided on Form T1135 if this transitional reporting method is used:

- The market value of all specified foreign property held in that account at year-end.
- Total income (loss) earned on all specified foreign property held in that account at any time during the year.
- Total gain (loss) realized on the disposition of all specified foreign property held in that account at any time during the year.

If you choose to use this reporting method, it must be used for all accounts with Canadian registered securities dealers. Also, the T3/T5 reporting exclusion cannot be used for an account with a Canadian registered securities dealer if the 2013 transitional reporting method has been used for any other account with a Canadian registered securities dealer.

Failure to file Form T1135 by the due date or filing a Form T1135 with inaccurate information results in a penalty of $25 per day (subject to a minimum penalty of $100) to a maximum of $2,500 per year. Additional penalties may result if the failure to file was done knowingly.

In addition to these penalty provisions, failure to comply with the requirements of Form T1135 (for example, where the form is filed late, in an incomplete manner, or is incorrect) will result in a three-year extension to the normal reassessment period which will apply to the entire tax return. The extension of the reassessment period allows CRA to review the entire return for the particular year and does not restrict their review to just the income related to foreign property. Therefore, you should consider gathering the required information as early as possible in order to ensure that Form T1135 is filed accurately and on time.

The content in this article is for information purposes only and is not intended to provide tax or legal advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

We are able to offer you access to our in house RBC Wealth Management team of lawyers, accountants and financial planning professionals. If you are interested in reviewing your estate or financial plan, please call us to book an appointment.