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The CRA's Foreign Reporting Requirements

Since Canada represents only a small portion of the world's capitalization it may make sense to include some foreign investments in your portfolio. However, it is important to understand Canadian and other foreign tax implications of owning investments outside of Canada. For example, there may be withholding and estate tax implications for Canadians investing in foreign securities. Another important Canadian tax implication is the Canada Revenue Agency's (CRA) foreign reporting requirement for Canadian residents.

Specifically, if the aggregate cost of your foreign assets exceeded CDN$100,000 at any time during the year, you are required to complete and file Form T1135 (Foreign Income Verification Statement) with the CRA. The deadline for filing Form T1135 with the CRA is the same deadline as your income tax return. Note that even if you are not required to file an income tax return, or if you electronically file your income tax return, you are still required to file a paper copy of the T1135 form if you meet the required criteria discussed herein.

Canadian resident individuals, as well as corporations, trusts and certain partnerships, are taxed on their worldwide income (regardless of source). Disclosing the details of your foreign assets on Form T1135 on an annual basis allows the CRA to determine whether you are reporting all income from foreign sources on your income tax return.

The following foreign investments should be included when calculating the CDN$100,000 threshold:

- Shares, bonds or other securities issued by foreign corporations (public or private)
- Cash held in foreign bank accounts
- Debt of foreign governments (such as U.S. Treasury Bills)
- Certain mutual funds offered by foreign companies in Canada (does not include Canadian mutual fund companies that offer funds which invest in foreign securities)
- Interests in foreign rental properties
- Foreign trusts and partnerships, including limited partnerships.

Form T1135 filing requirements do not apply to:

- Investments held within a registered plan, such as a Tax-Free Savings Account (TFSA), Registered Retirement Savings Plan (RRSP), Registered Retirement Income Fund (RRIF) or Registered Education Savings Plan (RESP)
- Personal use property, such as a foreign vacation property used primarily as a personal residence.

2013 Federal Budget - Increased Reporting Requirements

The 2013 Federal Budget introduced serveral changes to Form T1135. Not filing Form T1135 by the annual deadline effectively reduces the time available for the CRA to obtain the information necessary to properly examine the foreign income reported on your income tax return. As a result, the Federal Budget changes extend the normal reassessment period in certain circumstances, including situations when income from a specified foreign property is not properly identified or reported, or a Form T1135 is not filed on time. In addition, Form T1135 was revised in order to gather more detailed information on foreign holdings, such as the specific country to which the property relates, the amount of foreign income generated, the property's highest cost amount during the year, as well as the cost amount at year-end. The revised form with the above measures was released by CRA in June 2013 and applies for all taxation years ending after June 30, 2013.

It is important to note that the new foreign reporting requirements apply to foreign securities held in Canadian brokerage accounts. However, the new T1135 form notably excludes foreign property from this detailed reporting if the taxpayer has received a T3 or T5 tax slip from a Canadian issuer with respect to any income received from the foreign investment. This exemption only applies to foreign securities that actually distribute reportable income. Even if specific securities are excluded from this detailed reporting, these securities must still be noted on the T1135 form and included as part of the CDN$100,000 cost threshold in determining the need to complete this form. In addition, these securities do not impact the detailed reporting requirements otherwise required for all other foreign securities not meeting this exemption.

Conclusion

Understanding the Canadian and foreign tax implications of investing in foreign securities is advisable when making investment decisions. Therefore, it is important to be aware of the CRA's annual (enhanced) foreign reporting requirements – since failure to file Form T1135 when due or failure to disclose the relevant information can result in financial penalties. Individuals with significant foreign investments should consult with their tax advisor to understand the Canadian foreign reporting rules and how the new detailed reporting requirements for 2013 will affect them – in addition to any other Canadian or foreign tax implications of investing in foreign securities.

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