

The CRA's Foreign Reporting Requirements

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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.

However, a simplified reporting method is available on this form for taxpayers who held specified foreign property with a total cost of more than CDN \$100,000, if the total was less than CDN \$250,000 throughout the year.

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, you are still required to file the T1135 form if you meet the criteria discussed herein. The CRA allows individuals, trusts, partnerships and corporations to file the T1135 form electronically.

Reporting worldwide income

Canadian residents 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.

Some common foreign investments that should be included when calculating the CDN \$100,000 threshold are as follows:

- 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 or ETFs offered by foreign companies in Canada (does not include Canadian ETF or mutual fund companies that offer funds which invest in foreign securities);
- Interests in foreign rental properties; and
- 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"); or
- Personal use property, such as a foreign vacation property used primarily as a personal residence.

Increased reporting requirements

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 normal reassessment period will be extended by three years if the taxpayer fails to report income from a specified foreign property on their annual tax return, and the Form T1135 was not filed on time, or a specified foreign property was not identified (or was improperly identified) on the Form T1135. In addition, Form T1135 was revised several years ago 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 or value during the year, as well as the cost or value at year-end.

Simplified reporting

The CRA implemented further changes to Form T1135 several years ago to simplify this reporting obligation. In particular, taxpayers who held specified foreign property with a total cost amount of more than CDN \$100,000, but throughout the year was less than CDN \$250,000, can report under a simplified reporting method rather than providing the detail of each such property.

Specifically, the form reflects a two-tier information reporting structure for specified foreign property, comprised of the following two sections:

- **Part A** is a simplified reporting method for taxpayers who held specified foreign property with a total cost of more than CDN \$100,000, but less than CDN \$250,000 throughout the year. This reporting method allows taxpayers to tick the box for each type of property they held during the year, rather than providing details for each property.
- **Part B**, the detailed reporting method, continues to apply to those taxpayers who, at any time during the year, held specified foreign property with a total cost of CDN \$250,000 or more.

Note that taxpayers who owned specified foreign property with a total cost of more than CDN \$100,000, but less than CDN \$250,000 throughout the year can choose either the simplified reporting method in Part A or the detailed reporting method in Part B.

Securities held in Canadian brokerage accounts

It is important to note that the foreign reporting requirements apply to foreign securities held in Canadian brokerage accounts. However, in addition to the relief provided above, the CRA also allows a special reporting method for specified foreign property held with a Canadian registered securities dealer or trust company.

Specifically, an aggregate reporting method is available for taxpayers who held specified foreign property in an account with a Canadian

registered securities dealer or a Canadian trust company. This method allows the specified foreign property in these accounts to be reported by using the aggregate value of all such property, on a country-by-country basis, instead of reporting the details of each specific property. (Note that it is also acceptable to provide aggregate totals for each account on a country-by-country basis.)

The total value reported is the highest fair market value at the end of any month during the year in addition to the fair market value at year-end. The aggregate income (loss) earned in the year and the gain (loss) realized from all dispositions during the tax year must also be reported. This aggregate reporting is done in Part B, Category 7 on Form T1135, "Property held in an account with a Canadian registered securities dealer or a Canadian trust company."

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 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 reporting requirements will affect them – in addition to any other Canadian or foreign tax implications of investing in foreign securities.

BMO Private Wealth publishes information on a variety of investing, tax and estate planning topics. Readers of this article may also be interested in *Tax and Estate Consequences of Investing in U.S. Securities* and *The CRA's Foreign Reporting Requirements for Foreign Affiliates*.

For more information, please speak with your BMO financial professional.



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