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Contacts

National GES Leader
Lorna Sinclair
416-643-8224

National PCS Leader
Dominic Vendetti
450-978-3527

Atlantic
Jim MacGowan
902-721-5697

Quebec
Terri Spadorcia
514-393-5138

Denis de la Chevrotiere
819-797-7419

Philippe Belair
514-393-7045

Christian Provencher
450-978-3526

Ontario
Guy Jason
613-751-6674

Scott Elms
905-315-6773

David Mason
613-751-6685

Toronto
Sean McGroarty
416-601-6128

Peter Megoudis
416-601-6654

Robert O'Connor
416-601-6316

Prairies
Brian Anderson
204-944-3628

Maria Snelgrove
204-944-3553

Alberta
Bill Fridfinnson
403-261-8159

Canadian tax alert

Form T1135 – Foreign Income Verification Statement: 2013 transitional reporting

March 21, 2014

Background – revised Form T1135

In June 2013, the Canada Revenue Agency (CRA) released revised Form T1135 – Foreign Income Verification Statement. Form T1135 is required to be filed by Canadian residents who, at any time during the year, owned specified foreign property with a total cost in excess of $100,000. Individuals, corporations and trusts resident in Canada are subject to this filing requirement. Certain partnerships are also required to file Form T1135. The revised form must be used for taxation years ending after June 30, 2013.

Common examples of specified foreign property include: funds held outside of Canada, shares of non-Canadian corporations, indebtedness owed by a non-resident and real property situated outside of Canada (excluding personal use property). The revised form requires details of foreign property to be provided *on an asset-by-asset basis*, including the applicable country code, the maximum and year-end cost of the foreign property, the amount of income (or loss), and the capital gain (or loss) generated from the foreign property during the year. An exclusion from the detailed reporting requirement applies where the taxpayer receives a Canadian T3 or T5 slip which reports income from the property. This exclusion applies on an asset-by-asset basis. For example, a taxpayer would not receive a T3 or T5 for a foreign security which does not make a distribution, or for a security which was purchased after the ex-dividend date.

For a detailed discussion of revised Form T1135, please refer to our October 8, 2013 **Canadian tax alert**. As well, the CRA has published **answers to a number of frequently asked questions** to assist taxpayers with completing the revised form. If taxpayers have additional questions relating to Form T1135, the CRA invites them to contact the general enquiries line.

Extended filing deadline

The CRA has recently announced that it will extend the filing deadline for Form T1135 for the 2013 taxation year until July 31, 2014. This extended filing deadline applies to taxpayers whose tax year ended on or before December 31, 2013.

Mike Bird
403-267-1852

British Columbia

Ron MacDonald
604-640-3343

Claude Rinfret
604-640-3120

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2013 transitional reporting method

The CRA's announcement also included a streamlined reporting process available to taxpayers who hold specified foreign property with a Canadian registered securities dealer. Rather than report details of foreign property on an asset-by-asset basis, for assets held by a Canadian registered securities dealer, taxpayers can instead report the year-end market value of the foreign property held in each account. The income (or loss) as well as the capital gain (or loss) from this foreign property would then also be reported on an aggregate basis. If a taxpayer chooses to use the transitional reporting method, it must be used for all accounts held with Canadian registered securities dealers.

The CRA has indicated that taxpayers who use the 2013 transitional reporting method should report each account which contains specified foreign property in Category 6 of Form T1135, as follows:

- "Description of Property": Indicate the name and account number of each Canadian registered securities account which contains specified foreign property. Each account should be listed on a separate row;
- "Country Code": Indicate CAN;
- "Maximum cost amount during the year": Indicate "0";
- "Cost amount at year end": Indicate the market value of the specified foreign property held within the account on the last day of the taxpayer's year;
- "Income (loss)": Indicate the total income earned (or loss incurred) from specified foreign property during the tax year within the account;
- "Gain (loss) on disposition": Indicate the total capital gain (or loss) resulting from the disposition of specified foreign property within the account.

The transitional reporting method will be available to taxpayers for the 2013 tax year only.

Deloitte's view

As noted above, the revised form requires disclosure on an asset-by-asset basis. In some cases, this could include assets which were not purchased and have a cost of zero to a taxpayer. For example, specified foreign property includes unexercised stock options in a non-Canadian entity, as well as non-Canadian insurance policies. Taxpayers should carefully review their assets in order to ensure that they do not omit foreign assets from Form T1135. Taxpayers holding specified foreign property with Canadian financial institutions should note two key considerations for 2013:

- The 2013 transitional reporting method applies only for assets held with a Canadian registered securities dealer. Taxpayers are encouraged to confirm whether the organization or individual holding their securities is a Canadian registered securities dealer.
- Taxpayers have the choice of using either the 2013 transitional reporting method or the T3/T5 reporting exception. In cases where all securities qualify for the T3/T5 reporting exception (that is, each security made an interest or dividend payment during the year which was reported on a T3 or T5 slip), taxpayers may wish to rely on the T3/T5 reporting exception as they would not be required to provide details of holdings on Form T1135.

Can we assist?

Should you wish to discuss how this information applies to your circumstances, please contact your Deloitte advisor or any of the practitioners noted on this release.

Chris Watt Bickley, Ottawa

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2 Queen Street East, Suite 1200
Toronto, ON M5C 3G7 Canada