Form T1135: New streamlined reporting option

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In June 2013, the Canada Revenue Agency (CRA) released a new version of Form T1135, Foreign Income Verification Statement. This form must be filed by all Canadian-resident taxpayers[1] that hold specified foreign property (SFP) exceeding $100,000 (CDN) at any time in the year.

There were several changes to this revised form, one of the main changes being the requirement to provide detailed information for each SFP held during the year. Please refer to our Grant Thornton release ***CRA releases new Form T1135 – What does that mean for you?*** for details on what SFP includes and a list of the new information requested on the revised form.

2013 taxation year reporting

Some limited relief from the additional reporting requirements was provided for the 2013 taxation year, where the reporting taxpayer received a T3 or T5 slip from a Canadian issuer with respect to a SFP. In such cases, the taxpayer could check a box on the form and did not have to provide details on each SFP where related income was reported on a T3 or T5 slip. Another alternative provided for the 2013 taxation year was a transitional relief option where the CRA allowed a taxpayer holding SFPs in an account with a Canadian registered securities dealer or Canadian trust company[2] to report the combined value of all such properties held, rather than reporting the details of each SFP. Further details were provided in our Grant Thornton release, ***Revised Form T1135: CRA announces transitional relief***.

2014 taxation year reporting: New streamlined option

For the 2014 and later taxation years, Form T1135 has again been revised by introducing a new streamlined reporting option for SFPs held in accounts with Canadian registered securities dealers and/or Canadian trust companies. Like the 2013 transitional method, the streamlined method provides an alternative to the requirement for detailed reporting on an SFP by SFP basis, but

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[1] With a few exceptions including mutual fund corporations and trusts, non-resident owned investment corporations and tax-exempt persons.
[2] Originally applied to investments held by unit trusts and later extended to include Canadian trust companies.

includes a few differences as to how and what kind of information is provided. Neither the transitional method nor the T3/T5 reporting exceptions are available after the 2013 taxation year.

Under the streamlined reporting option, all SFPs (regardless of category) held in accounts with a particular Canadian registered securities dealer or Canadian trust company can be aggregated and reported on a country-by-country basis. There is no need to segregate the SFPs by categories (e.g. shares, indebtedness, interest in non-resident trusts) as required under the detailed reporting method.

The CRA will also accept the reporting of aggregate SFP totals for each particular account provided they are reported on a country-by-country basis. Amounts have to be reported for the highest fair market value during the year[3], as well as the fair market value at year-end, on a country-by country basis[4] (instead of reporting the maximum and year-end cost of every single SFP under the regular detailed method). In addition, the combined income or loss earned on all SFPs held at any time in the year, as well as the total gains or losses realized on the disposition of SFPs during the year, have to be reported on a country-by-country basis. Detailed reporting on an SFP by SFP basis is still required for SFPs that are not held in accounts with Canadian registered securities dealers or Canadian trust companies.

Amounts reported on the T1135 are required to be determined in the applicable foreign currency and then translated into Canadian dollars. Under the streamlined option, for the highest fair market value during-the-year amount, the average exchange rate for the year must be used. For the fair market value at year-end amount, the exchange rate at the end of the year must be used.

Where the streamlined option is chosen, information should be entered into new section 7 on the T1135 titled, “Property Held in an Account with a Canadian Registered Securities Dealer or a Canadian Trust Company.”

As an example, assume that Evelyn owned 20 US and 5 UK stocks in 2014 with a total cost of over $100,000 CDN. The total fair market value of the securities at the end of 2014 was $270,000, of which $210,000 were in respect to the US stocks and $60,000 to the UK stocks. The highest month-end fair market value for the US stocks occurred in August, when the total shares were worth $245,000, and the corresponding amount for the UK stocks occurred in May, when they were worth $71,500. The US stocks paid out dividends of $6,500 during 2014 while the UK stocks paid out $1,200 in dividends. Evelyn sold 50 shares of General Electric stock during 2014, for which she realized a capital gain of $7,800. The securities are all held in her TD Waterhouse foreign securities brokerage account.[5]

If Evelyn uses the detailed reporting method, she would need to report detailed information on each of her 25 securities. However, as TD Waterhouse is a Canadian registered securities dealer, Evelyn has the option of using the streamlined reporting method for 2014. Under this method, Evelyn would report the following in section 7 of the T1135 form:

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[3] This may be based on the highest month-end fair market value.
[4] Where the residence of the security issuer is uncertain, the country in which the security was issued would be acceptable. Taxpayers may use "Other" where they are uncertain of the appropriate country code to use on the form for a particular SFP.
[5] Assume all figures noted in this paragraph have been converted to and are expressed in Canadian dollars.

Name of registered security dealer	Country code	Maximum FMV during the year	FMV at year-end	Income/(loss)	Gain/(loss) on disposition
TD Waterhouse	USA	$245,000	$210,000	$6,500	$7,800
TD Waterhouse	GBR	$ 71,500	$ 60,000	$1,200	$ 0

Conclusion

At the current time, no additional relieving measures for 2014 filings have been announced, so you need to proceed on the basis that the optional streamlined reporting method (if you are eligible) is the only available alternative to the detailed reporting method. In many cases, this method will significantly reduce the reporting burden for 2014 and later taxation years. However, some of the information you're required to report may not be readily available and you'll need time to accumulate it. If you think you may own SFPs that would require disclosure, and would like to discuss how these rules will impact you, do not hesitate to contact your Grant Thornton adviser. We can assist you in determining which method makes the most sense for you given your particular circumstances.

Please contact your Grant Thornton LLP adviser if you have any questions about the matters discussed in this release.

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