

More details needed on Foreign Income Verification Statement (Form T1135): Ensure you comply

August 6, 2013

In brief

Taxpayers required to file Form T1135, "Foreign Income Verification Statement," must include additional information on foreign property, starting taxation years ending after June 30, 2013. Ensure you comply with the new requirements to avoid penalties.

In detail

Starting 2013 taxation years, the Canada Revenue Agency (CRA) had expanded the information requirements for Canadian taxpayers holding specified foreign property with a cost amount exceeding \$100,000 in total, at any time in the taxation year. This information must be reported in Form T1135, "Foreign Income Verification Statement."

On June 25, 2013, the CRA further revised Form T1135 to require even more detailed information. On July 31, 2013, the CRA stated that this revised form must be filed for taxation years ending after June 30, 2013.

You or your investment advisor must collect and report the additional information now

required, making Form T1135 more onerous and costly to file.

What does the revised T1135 require?

Disclosure for each foreign investment must include:

- the name of the specific foreign institution or other entity holding funds outside Canada
- the name of the specific investment and the specific country to which the foreign property relates
- the income or loss and capital gain or capital loss realized from the foreign property during the taxation year
- the highest cost amount during the year and the cost amount at year end

What is exempt?

If the taxpayer received a T3 or T5 from a Canadian issuer in respect of the foreign property, that property will be exempt from the detailed reporting requirement. If several properties are held in one investment account, only those properties for which a T3 or T5 was issued for the taxation year would be exempt from detailed reporting in that year.

Each foreign property must be evaluated in each taxation year to determine if the exemption applies. A property that is exempt in one year may not be in the next, depending on whether it earned income for which a T3 or T5 was issued.

What if you don't comply?

The March 21, 2013 federal budget extends the normal assessment period for any tax matter for a taxation year by three years, if the taxpayer fails to report an amount in respect of a specified foreign property that is required to be included in computing income and:

- a Form T1135 for the year was not filed on time, or
- a specified foreign property was not, or not properly, identified on the form

In addition, non-compliance can result in the penalties listed in the tables below.

Background**Who must file Form T1135?**

The criteria for filing Form T1135 have not changed; it must be filed by:

- Canadian resident individuals, corporations, and trusts that, at

any time during the year, own foreign investment property costing more than \$100,000

- partnerships that hold more than \$100,000 in foreign investment property and whose non-resident members' share of income or loss is less than 90% during the reporting period

What property must be reported?

The property that must be reported has not changed; it includes:

- amounts in foreign bank accounts
- shares in foreign companies (other than foreign affiliates)
- indebtedness owned by non-residents (other than foreign affiliates)
- interests in certain non-resident trusts
- interests or units in offshore mutual funds

- real estate situated outside Canada (other than personal use property and real property used in an active business)
- other types of foreign property such as intangible property not used in a business and certain rights under contract

What is the filing deadline?

The filing deadline remains:

- for individuals and corporations – the deadline for the taxpayer's income tax return
- for partnerships – the deadline for the partnership information return (or what would be the deadline if the partnership had to file one)

Failure to file a return

When imposed	Penalty
Failure to file	\$25/day for up to 100 days (minimum \$100; maximum \$2,500)
Failure to file knowingly or because of gross negligence	\$500/month for up to 24 months (maximum \$12,000), less any penalties already levied
After 24 months	5% of the greatest total cost of the specified foreign property at any time in the year, less any penalties already levied

False statements or omissions

When imposed	Penalty
Person or partnership knowingly or under circumstances amounting to gross negligence, makes false statements or omissions in Form T1135	5% of the greatest cost, at any time in the year, of the foreign property about which the false statement or omission was made (minimum \$24,000)

Let's talk

For a deeper discussion of what the expanded reporting requirements mean for you or your company, please contact:

- your PwC advisor
- any of the individuals at www.pwc.com/ca/pescontacts or:

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