T1135 Reporting of foreign property

February 2025

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If you own "specified foreign property" whose total cost exceeds $100,000 at any point in a tax year, you are required to file Canada Revenue Agency's Form T1135, Foreign Income Verification Statement. Specified foreign property held inside a registered account, however, such as a registered retirement savings plan (RRSP), registered retirement income fund (RRIF), tax-free savings account (TFSA), registered education savings plan (RESP), registered disability savings plan (RDSP) or first home savings account (FHSA), is excluded from T1135 reporting.

Where property is denominated in a foreign currency, the cost must be converted to Canadian currency. The Canada Revenue Agency's (CRA) position is that this conversion should be at the spot rate quoted by the Bank of Canada on the day the security was purchased. In certain circumstances another quoted rate, or average exchange rate, may be acceptable.

The $100,000 threshold is not reduced by any loan or margin used to purchase investments. In addition, the $100,000 cost threshold must be met in a particular year for the filing to be required. For example, let's assume that you were required to file Form T1135 in 2023 as the cost of specified foreign property held in your non-registered account at some point in 2023 was $125,000. If, however, you sold some investments in November 2023, and used the proceeds to invest in Canadian securities so that in 2024 the total cost of this foreign property never exceeded $75,000, you would not be required to file Form T1135 for the 2024 tax year.

What is specified foreign property that must be reported?

Included are obvious foreign assets, such as a Bahamian bank account or Bermudian offshore investment portfolio, or precious metals held outside Canada. Also included are foreign stocks, such as Apple Inc., Microsoft Corp. or Meta Platforms Inc., debt of a non-resident issuer, or an interest in a non-resident trust held in a Canadian, non-registered brokerage account. An option to purchase a specified foreign property, or a property convertible into a specified foreign property, must also be reported. The cost for reporting purposes will be the price paid for the original option or convertible property.

For securities held in a Canadian brokerage account, it is important to consider the residency of the issuer of the security. If the issuer is a non-resident of Canada, then the securities count as specified foreign property for your T1135 reporting purposes. It is not relevant whether the security is listed on a Canadian or foreign stock exchange, nor if the security is denominated in Canadian or foreign currency.

Certain assets are not included in your specified foreign property to be reported. For instance, foreign securities held inside Canadian pooled products, such as Canadian mutual funds, need not be reported; however, if you invest in a non-resident mutual fund or exchange traded fund, then that is considered specified foreign property. A foreign currency bank account held with a bank in Canada is not specified foreign property, such as a USD chequing or deposit account, nor would foreign cash held in a Canadian investment account. Only cash in offshore accounts is included in specified foreign property that needs to be reported.

If you own a foreign vacation home, such as a Florida condo, it is excluded provided it's primarily for your personal use. A rental property located outside of Canada would, however, be included in assets to be reported.

Finally, foreign property used exclusively in carrying on an active business need not be reported. The CRA has indicated that whether the actions of a day trader constitute carrying on an active business is "a question of fact that can only determined on a case-by-case basis."

Completing Form T1135

Form T1135 can be filed electronically. To make the task of identifying your reportable foreign holdings a bit easier, some brokerage firms will send you a foreign property report as part of their annual tax packages. Each report may vary, but it typically includes the total maximum cost during the year of all foreign securities. Reports generally group foreign securities based on the country code of the security, and then also provide the maximum month-end fair market value for the calendar year for each country code, along with totals of any income and/or gain (loss) for the year, again by country. Keep in mind that it's your maximum cost of specified property that determines whether you must complete and file Form T1135. This additional information provided by brokerage firms is to assist those who meet the $100,000 cost threshold and, therefore, are required to complete and file the T1135.

Total cost less than $250,000

If you are required to file Form T1135 in a year, but the cost of your specified foreign property is below $250,000 throughout the entire year, you can use a "simplified reporting method" found on Part A of Form T1135. This method allows you to check a box for each type of property you held during the year, rather than providing the details of each property. Types of property include: funds held outside Canada, shares of non-resident corporations, indebtedness owed by non-residents, interests in non-resident trusts and real property outside of Canada (other than personal-use real estate), as well as "property held in an account with a Canadian registered securities dealer or a Canadian trust company." This last category of property would likely be the one most commonly checked off for someone with a non-registered Canadian brokerage account.

You also must enter the country codes for the top three countries where you hold this foreign property, based on the maximum cost of the property held during the year. Finally, income from all specified foreign property, as well as any gains or losses from the disposition of the property during the year, must also be reported.

Total cost $250,000 or more

If the cost of your specified foreign property is at least $250,000 at any time in the year, you must complete Part B of Form T1135 which contains a “detailed reporting method”. This requires reporting of maximum fair market value (FMV) of the property during the year, the FMV at year-end, and income and gain/loss from the property. If, however, you maintain an account with a registered Canadian securities dealer, or a Canadian trust company, you can report the required information in aggregate on a country-by-country basis.

As indicated above, if your specified foreign property is in a Canadian brokerage account, you will likely receive a report with information sufficient to complete the T1135. For those with other specified foreign property, such as a rental property located outside Canada, the maximum and year-end FMVs may be more difficult to determine.

Penalties for late or non-filing

If you are required to file a T1135, it is important you file on time or risk a penalty for late filing of $25 per day to a maximum of $2,500, plus arrears interest. There have been many reported cases in which taxpayers have gone to court after being assessed a late filing penalty. Many of these cases involved a purely innocent failure-to-file penalty assessed by the Canada Revenue Agency even though all the income from the foreign property and/or the capital gain/loss upon its disposition was fully declared on the Canadian return.

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