Expanded mandatory disclosure reporting

July 2024

Mandatory Disclosure Reporting (MDR) in Canada has significantly expanded the requirement to disclose certain transactions. KPMG can help you navigate the changes and make the appropriate disclosures.

Overview

Canada's enhanced mandatory disclosure rules are a set of reporting requirements. These rules consist of:

- A lower threshold for reportable transactions involving one of contingent fee arrangements, confidential protections contractual protections, where it can reasonably be concluded that one of the main purposes of entering into the transaction is to obtain a tax benefit.
- A category of "notifiable transactions" that includes transactions the CRA finds to be abusive or identifies as transactions of interest, plus related reporting requirements.
- Reporting requirements on uncertain tax treatments in Canadian income tax filings of corporations having at least $50 million in assets for taxation years that begin after 2022.

Examples of notifiable transactions

According to federal guidance, the following transactions would be reported:

- Transactions to manipulate CCPC status to avoid anti-deferral rules applicable to investment income
- Straddle-loss creation transactions using a partnership
- Transactions to avoid deemed disposal of trust property
- Transactions to manipulate bankrupt status to reduce a forgiven amount in respect of a commercial obligation
- Transactions that rely on the purpose tests in section 256.1 to avoid a deemed acquisition of control
- Back-to-back arrangements (thin capitalization and Part XIII tax)

Reporting timelines and requirements

- The expanded rules for reportable and notifiable transactions will apply to transactions occurring after June 21, 2023, or tax years beginning after 2022 for reportable uncertain tax treatments.
- Taxpayers are required to disclose reportable transactions and notifiable transactions (or "substantially similar" transactions) within 90 days of the earlier of the day the taxpayer (or advisor) entering into the transaction or becoming contractually obligated to enter into the transaction.
- The draft legislation specifies that persons who fail to disclose reportable or notifiable transactions as required face a penalty of $500 per week for each failure, up to the greater of $25,000 or 25% of the tax benefit. Corporations failing to disclose reportable or notifiable transactions with assets having a total carrying value of $50 million or more face a higher penalty of $2,000 per week, up to the greater of $100,000 or 25% of the tax benefit.
- Taxpayers are required to disclose uncertain tax treatments at the same time that the reporting corporation's income tax return is due.
- The expanded reporting rules extend to promoters or advisors (and non-arm's length persons who are entitled to receive a fee with respect to the transaction) who offer such arrangements, except where solicitor-client privilege may apply.

KPMG can help

The expanded MDR rules are complex and require detailed preliminary analysis to ascertain whether transactions meet the new definitions and thresholds. Should reporting be required, a detailed informational package must be assembled for timely submission to tax authorities.

To help navigate the changes, KPMG has developed a comprehensive **MDR technology tool** that assists in analyzing the attributes of transaction(s) to determine whether reporting is required.

The **MDR technology tool** is designed to analyze MDR rules in Canada as well as over 75 other countries, if required, to ensure that transactions spanning multiple jurisdictions are properly analyzed and reported as necessary to all applicable tax authorities. As well, KPMG's **MDR technology tool** can store all data in Canada.

The **MDR technology tool** also helps streamline the assembly and submission of reporting packages.

KPMG Service Offering

i. KPMG Impact Analysis

- KPMG will evaluate areas/departments within your organization that are most likely to be impacted by MDR. This will be done through meetings, interviews and reviews of departments to determine which are most likely to incur recurring transactions that will fall under MDR to be able to customize the MDR compliance system implementation.

ii. Customized Training Materials

- KPMG will develop and deliver customized training materials for frontline advisors in each department identified for education purposes including providing specific descriptions and red flags for each designated transaction.

iii. Customized Job Aid for Advisors

- KPMG will prepare and deliver initial customized job aid for frontline advisors to identify transactions for escalation or further consideration, such as identifying simple red flags.

iv. Collection System for Completion Analysis

- KPMG can implement a collection system within your organization for completion analysis by KPMG of transactions that are identified by frontline advisors for a period of 12 months to determine whether reportable or notifiable transactions exist, as well as provide a report on the results and documentation in the reporting package.
- All transactions, reports, and supporting documentation can be stored on a server located in Canada either with your organization or KPMG for documentation purposes.

v. Staff Training

- KPMG can provide customized training to staff identified by your organization to utilize KPMG's MDR tool.
- Alternatively, KPMG can continue to provide outsourced MDR analysis and documentation.

To stay ahead of your MDR responsibilities from a tax perspective, contact a KPMG tax advisor to discuss our service offerings.

Contact us

For more information on expanded MDR rules, or on how KPMG's MDR support service packages can help your organization, please contact a KPMG advisor or one of the following tax professionals:

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