



TaxNewsFlash Canada

FIIs — Get Ready for New Common Reporting Standard Rules

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Canadian financial institutions will be required to provide the CRA with information on accounts held by non-residents of Canada beginning in 2018. The CRA will provide this information to other countries' tax authorities in exchange for information about Canadian financial account holders in their jurisdictions. Financial institutions must have procedures in place to identify this information by July 1, 2017.

To allow the CRA to access this information, Canada proposed legislation on April 15, 2016 to require financial institutions in Canada to identify accounts held by non-residents (including dual or multiple residents) and report specific information relating to these accounts directly to the CRA. Information that must be reported includes account balances, interest, dividends received and proceeds from the sale of financial assets. These rules apply to accounts held by individuals and certain entities.

A wide variety of entities are included in the broad definition of financial institution used for these reporting rules. Financial institutions required to report under the proposed legislation will need to have procedures in place beginning July 1, 2017 to identify accounts held by tax residents of various foreign jurisdictions and report the required information to the CRA.

The draft legislation introduces new provisions to *the Income Tax Act* contained in new Part XIX, "Common Reporting Standard". While many of these provisions are similar to those contained in Part XVIII of the *Income Tax Act* relating to the *Foreign Account Tax Compliance Act* (FATCA), there are a number of key differences.

Background

The OECD recently developed the “Standard for Automatic Exchange of Financial Account Information in Tax Matters”, which calls for an annual automatic exchange of financial account information between governments.

To make the exchange of information possible, financial institutions, as broadly defined under domestic and international law, must report information according to common reporting standards on accounts held by non-resident individuals and entities such as certain corporations, trusts and foundations.

Countries around the world have begun enacting legislation to implement these common reporting standards in their jurisdictions. These measures are a significant step towards a globally coordinated approach to disclosure of income earned by individuals and organizations and build on other information-sharing legislation such as FATCA in the U.S.

In Canada, the CRA signed the international Multilateral Competent Authority Agreement in June 2015 to activate the automatic exchange of financial information between tax jurisdictions beginning in 2018. Finance released 25 pages of proposed legislation and 42 pages of explanatory notes on April 15, 2016 to facilitate Canada's compliance with this agreement. Finance will accept comments on these proposals until July 15, 2016.

Who has to report

A wide variety of entities are required to report under the proposed legislation, including banks, custodians, brokers, credit unions, investment funds, fund managers and insurance companies. As anticipated, several of the exceptions available under FATCA are not available under the proposed legislation.

Financial institutions will have to undertake due diligence requirements on pre-existing individual and entity accounts. The timeframe for compliance for these due diligence requirements for individuals and entities are similar to those provided under FATCA, with a phase-in for the completion of due diligence procedures between 2019 (for high value individual accounts) through 2020 (low value pre-existing individual accounts and entity accounts greater than \$250,000). The due diligence procedures are also similar to those required under FATCA, with certain key differences.

For new accounts opened on or after July 1, 2017, both individuals and entities will have to provide self-certifications of their status for reporting purposes.

What information has to be reported

Financial institutions in Canada must identify accounts held by non-residents, including dual or multiple residents, who are individuals or certain entities. The information that must be reported includes account balances, interest, dividends received and proceeds from the sale of financial assets.

KPMG observations

Although most registered plans will be treated as excluded accounts under Part XIX of the *Income Tax Act*, it appears that Tax-Free Savings Accounts may be subject to review under the proposed legislation.

More countries signing on

The OECD recently released of a list of jurisdictions that have committed to an automatic exchange of information according to the common reporting standards. According to the OECD's announcement:

- Fifty-six jurisdictions will undertake the first exchange of information for tax purposes by 2017
- Forty-one jurisdictions, including Canada, will undertake the first exchange of information for tax purposes by 2018.

KPMG observations

While the intention is to have a single global information sharing standard, requirements will vary across countries, making it more difficult for affected financial institutions to standardize their approach to supplying this information.

We can help

Your KPMG adviser can help you evaluate your organization's readiness to comply with reporting obligations in countries adopting the OECD's common reporting standards, including Canada. We can help you meet reporting obligations as required by domestic and international tax law. For details, contact your KPMG adviser.

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