GMS Flash Alert

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Canada - Financial Institutions to Start Collecting Non-resident Account Details

Canadian financial institutions will soon have to collect information on financial accounts held by tax residents of jurisdictions outside of Canada and the United States and provide these details to the Canada Revenue Agency (CRA).[1]

WHY THIS MATTERS

Individuals with affected accounts should be aware that Canadian financial institutions must report to the Canadian tax authority information such as individuals' account balances, interest and dividends received, and proceeds from the sale of financial assets. This information may subsequently be shared with other countries' tax authorities.

The rules include a CAD 500 penalty for persons who fail to provide their Taxpayer Identification Number (TIN) upon request to a reporting financial institution.

Background

This requirement is part of an international initiative under which Canada has agreed to provide this information to other countries' tax authorities in exchange for information about financial accounts held by Canadians in those jurisdictions.

A reporting financial institution must complete enhanced due diligence procedures before 2019 for pre-existing individual accounts with an aggregate balance or value that exceeds USD 1 million on June 30, 2017. For pre-existing individual accounts that do not exceed USD 1 million and entity accounts that have account balances greater than USD 250,000, due diligence procedures must be completed before 2020.

For new accounts that are opened after June 30, 2017, reporting financial institutions are required to collect appropriate self-certifications and documentary evidence to identify reportable accounts. Financial institutions must validate these self-certifications.

KPMG NOTE

Although this reciprocal exchange of information begins in 2018, affected financial institutions must have procedures in place to identify this information by July 1, 2017. Such institutions should be thinking about developing and implementing appropriate procedures and systems to collect the required information and report it correctly.

New Common Reporting Standard Rules

Canada's proposed common reporting standard rules will require financial institutions in Canada to identify accounts held by residents of jurisdictions outside of Canada and the United States (including persons with dual or multiple residency) and report specific information relating to these accounts directly to the CRA each year. Under these rules, financial institutions must report information such as account balances, interest, dividends received, and proceeds from the sale of financial assets. These rules apply to accounts held by individuals and certain entities.

Who Has to Report

Under the proposed common reporting standard rules, a "reporting financial institution" is required to identify accounts held by tax residents of jurisdictions other than Canada and the United States and report certain account information to the CRA. However, a corporation, trust, partnership, joint venture or other Canadian resident entity that is not a Canadian financial institution (a "non-financial entity" or "NFE") is still generally required to self-certify its entity classification under the proposed rules to any reporting financial institution with which it holds a financial account.

Annual Returns

A reporting financial institution must file a prescribed information return with the CRA by May 1 of each year, starting May 1, 2018. This return must provide information relating to reportable accounts that it maintained at any time during the preceding calendar year and after June 30, 2017. Specifically, financial institutions will be required to report information such as account balances, interest, dividends received, and proceeds from the sale of financial assets.

KPMG NOTE

Canada's proposed common reporting standard rules, introduced on April 15, 2016, include concepts that are largely drawn from the U.S.-based *Foreign Account Tax Compliance Act* (FATCA), which has a similar focus on financial accounts and the financial institutions that maintain them. As a result, Canadian financial institutions may be able to leverage certain aspects of the systems they currently have in place to meet the Canadian rules that require them to comply with FATCA (the Canadian FATCA rules in Part XVIII of the *Income Tax Act*).

Some aspects of the common reporting standard rules are significantly broader than those under the Canadian FATCA rules. For example:

- The concept of "reportable persons" in the common reporting standard rules is broader than the concept of "specified U.S. persons" under the Canadian FATCA rules.
- The common reporting standard rules require a factually-sensitive assessment of tax "residence" to determine residency, as opposed to the bright-line threshold of U.S. citizenship applicable to most accounts reportable under FATCA.

KPMG NOTE (cont'd)

- Unlike Canadian FATCA, the common reporting standard does not provide a de minimis exception for pre-existing individual accounts below USD 50,000. Accounts in the form of, or held by, a tax-free savings account (TFSA) are subject to due diligence and potential reporting under the common reporting standard rules. RRSPs and RRIFs continue to be exempted.

- A portfolio manager whose sole role or activity is to provide investment management advice or portfolio management services to clients will likely have no due diligence or reporting obligations under the common reporting standard rules even though portfolio managers will typically qualify as reporting financial institutions.

There are no registration or withholding tax regimes under the common reporting standards as there is with the Canadian FATCA rules. Instead, reporting financial institutions can expect to be subject to penalties for failure to report (although these provisions have yet to be proposed). In addition, as mentioned earlier, the rules include a CAD 500 penalty for reportable persons who fail to provide their Taxpayer Identification Number (TIN) upon request to a reporting financial institution.

RELATED RESOURCE

This article is excerpted from "Canadian FIs – Start Collecting Non-Resident Account Details," in *TaxNewsFlash-Canada* (August 11, 2016, No. 2016-40, a publication of the KPMG International member firm in Canada.

FOOTNOTE:

1 For more details, see the CRA webpage at: http://www.cra-arc.gc.ca/gncy/bdgt/2016/qa08-eng.html .

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Contact us

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