Do you own foreign investments? Here's how to make sure you disclose them correctly at tax time

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The release of the Panama Papers this week couldn't have come at a more opportune time as it will serve as helpful reminder to Canadians, who are already knee-deep in tax filing season, to complete and file Form T1135, "Foreign Income Verification Statement" to disclose certain offshore investments when you prepare your tax return this season.

If you owned certain foreign investments whose total cost exceeded $100,000 at any point in 2015, you must file this form, which is due on May 2, the normal filing date for most taxpayers (since April 30 falls on a Saturday this year). If you or your spouse or partner was self-employed in 2015, you have until June 15. Penalties for late-filing Form T1135 are $25 for each day beyond the deadline that the form is late, up to a maximum of $2,500, plus interest.

Foreign property that's reportable on the form includes the obvious things — like money in an Arizona bank account or a Florida rental property — as well as foreign stocks that are held in your Canadian, non-registered brokerage account. It excludes foreign securities held inside of pooled products, like Canadian mutual funds, or inside a registered account like an RRSP, RRIF, TFSA, RESP or RDSP. It also excludes personal use property, such as a vacation home, which is not ordinarily rented out.

This year, after consultations with various external stakeholders including the banking, accounting, legal and tax community, the Canada Revenue Agency has implemented a number of changes to Form T1135 to make it easier to complete.

Firstly, taxpayers who held foreign investment property with a total cost of more than $100,000 but less than $250,000 throughout the entire year, can complete "Part A" of the Form, known as the "Simplified reporting method." This reporting method allows you to simply check the 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, 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 most commonly checked off for someone with a non-registered Canadian brokerage account.

You are then asked to select the top three countries based on the maximum cost amount of foreign property you held during the year and enter those country codes. Finally, income from all foreign property, as well as any gains (or losses) from the disposition of any foreign property during 2015, must also be reported.

The second option, "Part B," is the "Detailed reporting method" and is similar to prior years. This option continues to apply to you if, at any time during the year, you held foreign property with a total cost of $250,000 or more. However, if you fall into this category and you maintain an account with a registered Canadian securities dealer, you can use the "aggregate reporting method." This method, reported in a table in Category 7 of the Form, allows you to report the aggregate value of all your foreign property on a country by country basis. Under this method, the total value you must report is the highest fair market value at the end of any month during the year, in addition to the fair market value at year end. And, like above, you must still report the total foreign income earned in the year, and the gain (or loss) realized from all dispositions of that property during the year, but that too must be on a country by country basis.

Note that since the 2014 tax year, you can now file Form T1135 electronically.

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