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Multinationals — Prepare Now for Expanded Foreign Affiliate Reporting

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Many multinational corporations resident in Canada will have to provide additional information on their foreign affiliates for taxation years beginning after 2020. The CRA recently released a preview of the revised Form T1134, “Information Return Relating to Controlled and Not-Controlled Foreign Affiliates”, that includes additional questions and more detailed requests than in the past. The CRA says the new form, which has been expanded to 12 pages (from six), will be published in January 2021 and will apply to filings for taxation years that begin after 2020.

In light of this upcoming change, taxpayers may want to start putting processes in place now to meet these new obligations. Starting on this form early this year may be especially important as these new information demands coincide with the shorter 10-month filing deadline that applies to filings for taxation years that begin after 2020.

Background
Canadian resident taxpayers (and certain partnerships) with foreign affiliates must generally file form T1134, "Information Return Relating to Controlled and Not-Controlled Foreign Affiliates", including a separate T1134 Supplement for each foreign affiliate held at any time in a reporting year or period (other than certain dormant affiliates).

New T1134 information requirements

The revised T1134 form will require reporting entities to provide significantly more information. In particular, these entities will have to provide:

- Details on certain transactions and arrangements, including upstream loans, foreign affiliate dumping, tracking interests and certain elections
- Surplus balances and relevant elections in some cases (taxpayers that already provide this information will now also have to provide additional details)
- Additional details on reorganizations to determine whether certain rules may apply (e.g., rollovers, liquidation)
- Unconsolidated financial statements for foreign affiliates in which the reporting entity has an interest of at least 20% of the voting shares
- More information on foreign accrual property losses and foreign accrual capital losses
- A breakdown of gross revenue for each foreign affiliate including whether the source was arm's length or non-arm's length
- The tax adjusted cost base of the foreign affiliates' shares, instead of book value
- Details on transactions and events that affect surplus account balances for certain lower-tier non-controlled foreign affiliates.

If specific information requested on the form is not available at the time of filing, taxpayers must explain the steps that they took to obtain the required information.

Additional T1134 changes

The revised T1134 also includes a few welcome changes, some of which may provide relief for certain multinationals. These changes:

- Allow reporting entities to jointly file one set of T1134 summary and supplements for all foreign affiliates, where certain conditions are met
- Increase the gross receipts threshold to qualify for exemptions based on dormancy to $100,000 (from $25,000) and apply the $100,000 cost amount threshold on a legal entity basis
- Allow reporting entities to attach a group organizational chart electronically instead of completing certain sections of the form.

KPMG observation
Taxpayers can start to prepare for this change now by ensuring that their surplus calculations and adjusted cost base of foreign affiliate shares are up to date. Taxpayers

should also consider how they will gather the additional required information for their taxation year beginning after 2020, since they may need additional time to meet many of these new requirements, including for upstream loans, foreign affiliate dumping and elections regarding ordering surplus distributions.

At KPMG, we have developed a sophisticated, web-based Surplus Calculator that can assist your corporation in preparing and maintaining its surplus calculations. Our Surplus Calculator creates audit-ready files and assists in ensuring you have access to accurate and up-to-date surplus calculations. The importance of keeping these calculations current was also highlighted by the CRA's comments last year that it will deny dividend deductions to corporations that rely on surplus pools, if the corporations are not able to provide complete surplus calculations to support the deductions.

Due to the added complexity of the new T1134 questions on reorganizations, taxpayers may also want to contact their tax adviser now for assistance in preparing for these upcoming requirements.

KPMG's Tax Transformation & Technology team has also developed an end-to-end solution to assist with the collection, management, and transformation of the data needed to complete T1134 returns in time to help meet the expanded information requirements and new shortened deadline. We can analyze financial data and other required information to ensure completeness and accuracy by employing analytics, visualization, and data reconciliation techniques.

In addition to assisting with tax compliance, your KPMG adviser can also help simplify structures and identify improved efficiencies to help ease this reporting burden. Specifically, we can assist your organization by looking at legal entity rationalization, reviewing substance in intermediaries, and addressing the complex tax environment.

We can help

Your KPMG adviser can help you assess the effect of these new requirements and changes on your business and provide guidance on how this might impact you going forward. For more details, contact your KPMG adviser.