The Quarterly

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Foreign Assets and Currency: Exchange Gains, Losses, and Surprises

Winter 2016

The recent weakening of the Canadian dollar relative to the U.S. dollar has had varied degrees of implications to Canadians.

Canadian Snowbirds who typically vacation or spend a large part of the winter months in the southern United States may be hesitant this year as a result of the higher costs resulting from the strengthened U.S. dollar. Canadians remaining at home are also feeling the pinch as a result of increased cost of food, clothing and other imports coming into Canada.

U.S. Vacation Property

Canadians fortunate enough to be holding a vacation home or other property in the United States are looking at the possibility of taking advantage of the increased foreign exchange benefit of the U.S. dollar. A review of the U.S. and Canadian income tax implications should be considered before making a decision.

U.S. Reporting

Where an individual sells U.S. real estate, the calculation with respect to the capital gain or loss for U.S. reporting purposes is fairly straight forward. A capital gain will arise to the extent the proceeds, net of selling costs, exceeds the original cost base of the property and any capital improvements to the property calculated in U.S. dollars. Any gain or loss will need to be reported to the Internal Revenue Service and possibly the State tax authorities depending on the State in which the property was located. Where a property, for example, was purchased in early January, 2014 for USD$100,000, and is sold in early 2016 for USD$120,000, net of selling expenses, a capital gain of USD$20,000 will be realized.

U.S. federal tax rate of up to 20% may apply on the capital gain. A higher rate may also apply if the property sold was held for less than one year. In addition, State taxes may apply depending on the State.

The purchaser of the U.S. property is generally required to withhold 10% of the gross proceeds when the vendor is a non-resident. An application to reduce or eliminate this withholding can be made when the ultimate tax liability with respect to the property disposition is less than the amount to be withheld. The withholding can also be waived where the sale price is less than USD$300,000 and the purchaser will take possession as a principal residence.

Canadian Reporting

A Canadian resident is required to report their worldwide income which would include the disposition of U.S. real estate. The calculation of the gain or loss with respect to the disposition is a little bit more complex. In determining the cost base of the property, we would need to determine the foreign exchange rate at the time of purchase. For example, if the property was purchased on January 1, 2014 when the exchange rate was 1 USD = 1.06 CAD, a property purchased for USD$100,000 will have a cost of CAD$106,000. If the U.S. property is then sold on January 1, 2016 when the foreign exchange rate is 1 USD = 1.40 CAD for proceeds of USD$100,000, the Canadian dollar equivalent will be CAD$140,000. This will result in a CAD$34,000 capital gain. Presuming the individual is not in the business of buying and selling real estate, one half of the capital gain is to be reported on the individual's Canadian income tax return as a taxable capital gain and subject to tax at the individual's marginal tax rate. Generally, any foreign taxes paid will be available as a credit towards part or all of the Canadian taxes payable.

An individual may claim the U.S. property as a principal residence for the principal residence exemption in Canada to reduce or eliminate the capital gain income inclusion in Canada. However, if foreign taxes are paid and available to partially or fully offset the Canadian tax, the principal residence exemption may be better reserved for another home.

USD$ Bank Accounts

Canadians should be aware that they do not need to own U.S. property to be caught by foreign currency gain or loss reporting in Canada. For example, where an individual holds a U.S. dollar bank account, either in Canada or United States, foreign currency exchange differences may have implications.

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For example, where a Canadian has deposited USD$10,000 into his/her U.S. account on January 1, 2014, when the exchange rate was 1 USD = 1.06 CAD, the base measure will be CAD$10,600. If the individual withdrew USD$10,000 from this U.S. dollar bank account on January 1, 2016, and converts this amount into Canadian dollars when 1 USD = 1.40 CAD, a foreign currency gain of $3,400 will be realized. Provided the individual is not in the business of buying and selling foreign currencies, the gain will be considered a capital gain. The Canada Revenue Agency does provide an exemption of up to $200 on any foreign currency gain. However, one half of any gains above this amount must be reported on a Canadian's individual income tax return.

Individuals with bank accounts in U.S. dollars in U.S. financial institutions should also be reminded that they may be required to report these accounts on Form T1135 "Foreign Income Verification Statement" on an annual basis if the amount contributed exceeds CAD $100,000.

Crowdfunding

One of the latest means of raising money to start a new business, raise operating funds, or tackle costly research and development projects is to make a broad-based appeal for funds with crowdfunding.

Social media has expanded the use of crowdfunding and makes it possible to reach a large audience that might be willing to make personal contributions for needy causes or investments in startup ventures.

In 2013, an estimated $51 billion was provided to crowdfunding appeals around the globe.

Crowdfunding and Business

Business entrepreneurs have also discovered crowdfunding as a new means of raising funds because it creates an alternative to traditional financial institutions. Further, the receipt of funds from complete strangers through crowdfunding removes the need for a business to provide the donor with shares, a promissory note, or to pay interest or dividends. At first blush, the recipient might think crowdfunding income meets all of the criteria of a windfall.

Taxation

Funds raised through crowdfunding are not considered a windfall or gift. As a result, they are treated as income and thus, are subject to income tax.

Whether the business organizational structure is a proprietorship, a partnership or a corporation, funds received from crowdfunding are subject to tax. If, as part of the crowdfunding activity, consideration is provided in the form of thank-you plaques, pens, T-shirts, etc., then these costs are deductible expenses. In addition, many campaigns raise money for a particular purpose. If spent for that purpose, little or no taxable income may result. If one also considers that financing costs are minimized along with the need for debt repayment and perhaps personal guarantees for the borrowed money, the income tax cost, if any, may not be onerous.

Selling Ownership

Some entrepreneurs want to use crowdfunding to raise equity capital. Several provincial securities regulators have implemented or expect to implement registration and prospectus exemptions that will enable start-ups and early-stage companies to do just that. Funds raised through an equity issue are not taxable to the recipient company, but any dividends or capital gains received by the contributors will be subject to income tax.

New Year Goals

As the New Year begins, we reflect and consider the year that has just passed, our accomplishments and achievements. We review the goals we had set out and what aspirations we initially had but are no longer a priority. This is both true in our personal lives and professional lives.

Every New Year brings new goals and objectives. Many workplaces not only have individual objectives they set with their team members, but office and workplace resolutions that team members can focus on as a group for best success.

Individual team members have career goals and expectations for their personal progression in their jobs; they set out to achieve success every year for many reasons. Professional growth, increase in compensation, and social recognition are some of the many reasons that individuals strive to achieve success in their professional careers. Regardless of the reason, it is beneficial for employers to support team members in reaching their goals. The value in human capital and professional development is very difficult to measure at times, however, in the end it will result in increased profits for the company.

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When an employee is reaching their goals, they hold more knowledge and expertise in your business, are more vested in the company and are proud of their achievements. This will resonate in their interactions with other personnel internally, and clients externally. They will work harder to achieve their best results and continue to be an ambassador of your company.

If you do not have a defined performance review program in your company, at a minimum, take time to discuss goals and objectives with your team members. Write them down to ensure they are accounted for and can be revisited and re-evaluated throughout the year. If you are interested in implementing a more formalized program or receiving consultation on workplace and individual goals and objectives, we welcome you to contact our Human Resources Manager, Luisa De Jesus at luisa.dejesus@williamsandpartners.com for more information.

Changes to AODA

New Employer Obligations Under the Accessibility For Ontarians With Disabilities Act

Effective January 1, 2016, every private sector employer will have new obligations under the Accessibility for Ontarians with Disabilities Act (AODA). Many of these obligations have been in place since January 1, 2015.

AODA has been in effect since 2005, however now requires some new obligations as part of the phase-in process. Under AODA, organizations that either work with customers or create customer service plans are required to comply. The requirements under AODA vary depending upon the size of your business - one set of standards if you have fewer than 50 employees, and one set of standards if you have more than 50 employees. Other provinces have already implemented similar acts.

The following requirements may apply to your organization:

- Policy Requirement
- Training Requirement
- Feedback Requirement
- Accessible Public Information
- Accessible Employment Practices
- Reporting Requirement

Employers should be certain to comply and focus their attention to these requirements as there could be steep penalties for contraventions of up to $100,000 daily. If you are not yet in compliance with the AODA, now is the time to take steps to comply. Please contact Luisa De Jesus, Human Resources Manager, at luisa.dejesus@williamsandpartners.com for further details on how we can support your organization in meeting its obligations under AODA.

News Bits

Promotions:

We are pleased to announce the following promotions within our team:

Michael Covello: Michael Covello has been promoted to Senior Accountant effective January 1, 2016. Michael started with the firm in May 2012 as an Analyst and has worked hard to progress at the firm. He was promoted to a Staff Accountant in July 2014 and shortly thereafter passed the UFE in December of that year. Michael has developed and fostered excellent relationships with many of our clients and extends the same support internally to the team. Most recently, Michael qualified and achieved his CPA, CA designation.

Calvin Yu: Calvin Yu has been promoted to Senior Forensic Accountant effective January 1, 2016. Calvin started with the firm in May 2014 as a Forensic Accountant and has worked hard to progress and learn the Forensic side of the business. Calvin is a recently qualified CPA. Calvin's enthusiasm and positive attitude towards all work he is provided is recognized and appreciated. We have confidence that Calvin will continue to do well as he takes on new challenges in this elevated role.

New Team Members: We are proud to announce the following new additions to our team:

LLP Team:

Anthony Barone: Anthony Barone has joined Williams & Partners as a Manager. Anthony comes to the firm with over 8 years' experience working for a large accounting firm as a Senior Manager. Anthony is an excellent complement to our current management team, ensuring we continue to deliver exceptional client service.

Helen Yang: Helen Yang has joined the firm as an Analyst, specializing in compilation engagements. She came with previous experience working for a mid-size accounting firm as a technician, mainly supporting clients in the healthcare industry. Helen is an excellent addition to the team and we look forward to continue working with her.

Forensic Team:

Peter Dziarski: Peter Dziarski has started with the Forensic Group as a Forensic Accountant. Peter is a graduate of University of Guelph and is currently pursuing his CPA designation. Peter has several years of experience working as a Forensic Accountant and a Financial Analyst. The Forensic group is happy to have him on board.

New Partner Announcement - Chris Jones

Christopher Jones – Admission to Partnership

Williams & Partners is proud to announce the admission of Christopher Jones, CPA CA, CFA, CBV to the partnership, effective January 1, 2016.

Chris joined the firm in January, 2015 from an international business advisory firm and focuses on assurance, valuation and corporate finance for our clients. His technical knowledge and expertise have proven invaluable to our clients, colleagues and team members over the past year.

In addition to serving our clients, Chris is a member of several for-profit and non-profit boards and advisory committees.

We are very excited to have Chris as the newest member of our partnership team and we look forward to having Chris take on a key leader role with our accounting and assurance clients.

Successful CFE Writers

Michelle LeBlanc & Darcy Eveleigh:

Williams & Partners is proud to announce that Michelle LeBlanc and Darcy Eveleigh have successfully passed the 2015 Chartered Professional Accountants of Canada Certified Final Exam (CFE).

The CFE is recognized as one of the most demanding professional exams requiring CPA, CA students to demonstrate a high level of accounting and tax knowledge, analytical ability, integrative thinking and professional judgment.

Congratulations Michelle & Darcy!

DFK Member Firm Announcement

Williams & Partners is proud to announce that it has joined DFK Canada as an independent member firm.

DFK Canada is part of DFK International, a world-wide association of independent member firms. The organization is represented in over 400 offices in 90 countries – and growing. Our affiliation with DFK will further support us in meeting the needs of our clients with interests throughout Canada and other countries.

Winter 2016 Planner		
	February 29th	Deadline for filing T4's and T5's for 2015
	February 29th	2015 RRSP contribution deadline
	March 30th	Deadline for filing T3 – Trust Returns; NR4 Returns
	March 31st	Deadline for filing WSIB Reconciliation Form
	April 1st	Deadline to qualify for personal tax return "Early Bird Draw"

CONTACT US

You can reach us by phone at **416.969.8166** or online at **www.williamsandpartners.com.**

NOTICE

Williams & Partners distributes tax tips on a regular basis via email to our clients. If you wish to be on our email distribution list for tax tips, please contact Jackie Pincente at 416.969.8166 ext. 235, or by email to jackie.pincente@williamsandpartners.com.