



Snapshots™

NEWCOMERS: FOREIGN PENSIONS AND TAX TREATIES

YOUR CAREER HAS TAKEN YOU TO A NUMBER OF COUNTRIES. OR MAYBE YOU HAD ESTABLISHED YOURSELF IN YOUR CAREER IN YOUR COUNTRY OF ORIGIN, BEFORE YOU CAME TO CANADA. AS A RESULT, YOU MAY BE RECEIVING OR BE ELIGIBLE TO RECEIVE A PENSION FROM ANOTHER COUNTRY – AND THAT HAS TAX IMPLICATIONS FOR YOU IN CANADA.

Pension benefits you receive from outside of Canada are regarded as taxable income in Canada when you file your annual income tax return. These benefits must be reported in Canadian-dollar terms on line 115 of your T1 return. If you receive the payment in a lump sum, use the exchange rate for the country in which the pension originates vs. the Canadian exchange rate for the day that the money goes into your account. If you receive the pension periodically, then use an average exchange rate for the period that you received payments. For example, if your pension comes monthly, the exchange rate you use to report the income will be the average of those 12 points in time. If your pension comes six times a year, the exchange rate will be the average of those six points in time (for help converting currencies to Canadian dollars, go to [Exchange Rates](#)).

Complications arise if your foreign-sourced pension was already taxed in its country of origin. It is about to be taxed again when you file your Canadian income taxes. Fortunately, Canada Revenue Agency (CRA), seeks to avoid double taxation and there are several mechanisms in place to prevent or reduce the effects of double taxation.

Tax treaties

Tax treaties go a long way toward simplifying the complexities involved in reporting foreign pensions in Canada. And Canada has such tax conventions or agreements with about 90 countries (to see if your foreign-sourced income is covered, go to [Notices of Tax Treaty Developments](#)). These agreements define which taxes are covered and often reduce the amount of taxes to be paid. Where a treaty is in place, there is usually an amount of pension income you can receive that is deemed not taxable in Canada. This amount is then deducted from your income at Line 256 of your T1 return. In addition, some foreign government pensions similar to the Canadian Old Age Security (OAS) receive special treatment.

If you have paid taxes on pension income in a country that does not have a tax treaty with Canada, you may be able to obtain at least partial relief through the Foreign Tax Credit. Use Form T2209 on your tax return to make this calculation.

Tax treatment of foreign-sourced income can be complicated and professional advice can keep you from going astray. Speak to me or a tax specialist about your foreign-sourced pension and other income.

Transferring assets into Canada

When you came to Canada, you probably brought with you the funds you needed to live day to day. Now you are beginning to feel settled and would like to transfer your financial assets – such as a savings account or an investment portfolio – to Canada where your Canadian Advisor can keep an eye on them. So, what are the tax implications of such a move?

Transferring your savings is straightforward. The most expeditious way is to transfer the funds electronically from your bank outside Canada to your bank in Canada. The bank making the transfer will require the name, address, bank branch and bank account number of your Canadian account.

Transferring your investment portfolio is a little more complex. As a general rule, the CRA assumes that any assets brought into Canada have been sold at their fair market value. For the sake of simplicity, let's say your investment portfolio is one stock, ABC Corp. You have 1,000 shares and on the day you make the transfer, ABC Corp. is trading at \$200 a share, for a portfolio value of \$200,000. For Canadian tax purposes, regardless of what you paid for the shares originally, your new "adjusted cost base" is \$200 a share. Let's say in a year ABC Corp. is in the midst of a takeover and it is trading at \$350 a share. After some discussion, you and your advisor decide to sell your shares. You have just made a capital gain of \$150,000 (\$350,000 minus \$200,000) and you will have to pay Canadian income taxes on the capital gain in that year. (See the Taxation of Investments part in the [Tax System in Canada](#) section).

On the other side of the transaction, when the shares of ABC Corp. left your country of origin, there was a "deemed disposition" of the investment, as if you had sold the shares. Depending on the tax rules in that country, you may have to pay taxes on the difference between what you originally paid for the shares and the \$200 a share at which they were deemed sold.

The tax implications are many and complex. Before initiating any transactions, it is wise to consult tax professionals in both countries.

After all, tax treaties and international tax law can be very complex and differ from jurisdiction to jurisdiction. If you are or will be the recipient of foreign pension income, or are transferring assets into Canada, it is a good idea to contact the administrator of your pension, refer to the CRA regulations and consult with a competent tax lawyer or accountant. I can help you navigate the challenges.

This publication is intended as a general source of information and should not be considered as estate, tax planning, personal investment or tax advice, nor should it be construed as being specific to an individual's investment objectives, financial situation or particular needs. We recommend that individuals consult with their professional financial or tax advisor before taking any action based upon the information found in this publication. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. While we endeavour to update this information from time to time as needed, information can change without notice and Dynamic Funds® does not accept any responsibility for any loss or damage that results from any information contained herein.

© 2014 1832 Asset Management L.P. – All rights reserved. Reproduction in whole or in part of this content without the written consent of the copyright owner is forbidden. Snapshots™ is a trademark of its owner, used under license.