



Wealth
Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES



Changes to trust reporting requirements

Understanding the new changes

Weatherill Wealth
of RBC Dominion Securities
4900 - 50th Street, Suite 300
Red Deer, AB T4N 1X7
www.bradweatherill.ca

Brad Weatherill, CIM
Senior Wealth Advisor
Tel: 403-341-8868
brad.weatherill@rbc.com

Sue Senio
Associate Wealth & Investment
Advisor
Tel: 403-341-7400
susan.senio@rbc.com

Trent Nicolay, CFP, BComm
Associate Wealth Advisor
Tel: 403-341-8872
trent.nicolay@rbc.com

Nathan Dyck, BBA
Associate Advisor
Tel: 403-341-7225
nathan.dyck@rbc.com

Shauna Gaume
Client Experience Associate
Tel: 403-341-8854
shauna.gaume@rbc.com

Theron Gustafson, BComm
Administrative Assistant
Tel: 403-340-7303
theron.gustafson@gmail.com

Are you an executor or a trustee? If so, you should be aware of the changes to the reporting requirements for certain trusts. As part of the 2018 federal budget, the government proposed changes to reporting requirements for trusts. On December 15, 2022, Bill C-32, which included the most recent draft of the trust reporting rules, received Royal Assent and is now law. The new trust reporting requirements will therefore apply to trusts with a taxation year ending after December 30, 2023. Since most trusts have December 31 taxation year-ends, the trusts that are required to comply with these new requirements will need to do so for the 2023 tax year and onwards.

In accordance with these new measures, certain trusts that were not required to do so in the past may need to now file annual tax returns and provide additional beneficial ownership information for 2023 and subsequent tax years.

As per the Canada Revenue Agency (CRA) guidance, bare trusts are not required to comply with the new reporting requirements for the 2023 tax year.

Filing a trust tax return

A trust needs to file a tax return (*T3 Trust Income Tax and Information Return*, also known as a T3 return) in certain circumstances. For example, a trust will be required to file a tax return if income from the trust property is subject to tax and, in a tax year, the trust has tax payable, is requested to file, has disposed of

(or is deemed to have disposed of) a capital property, or holds property that's subject to subsection 75(2) of the Income Tax Act (the "super attribution" rules). A trust will also be required to file a tax return in a year if it receives income or capital gains from the trust property that's allocated to one or more beneficiaries, and the trust has:

- Total income from all sources of more than \$500;
- Income of more than \$100 allocated to any single beneficiary;
- Made a distribution of capital to one or more beneficiaries; or
- Allocated any portion of the income to a non-resident beneficiary.

Note that this is not an exhaustive list.

A T3 return is viewed by the CRA as both an income tax return (which calculates tax liability) and an information return (which reports amounts allocated and designated to trust beneficiaries).

Based on the new measures, beginning in 2023, an “express trust” (or for civil law purposes, a trust other than a trust that’s established by law or by judgment) resident in Canada or deemed to be resident in Canada will be required to file a tax return, unless it meets certain exceptions, discussed later.

While the phrase “express trust” isn’t defined in the legislation or anywhere else in the Income Tax Act, it’s generally understood to be a trust that’s deliberately created by a settlor or Will maker. A non-express trust is a trust that’s imposed or created by courts, such as a resulting trust or a constructive trust.

As a result of these changes, beginning in 2023, certain trusts that currently don’t have to file a tax return may be required to do so. An example of a trust that may not need to file a trust return under the old rules, but will need to file under the new measures, is a properly structured trust in which the only asset is a cottage used by the beneficiaries of the trust where no income is earned on the cottage. Another example is a properly structured trust that holds a deferred growth investment portfolio with a market value of more than \$50,000 and where no income or capital gains have been realized in the year. This assumes none of the exceptions that follow apply to these trusts.

The new measures also provide that a trust considered to be acting as an agent for all of the beneficiaries under the trust, with respect to all dealings in all of the trust’s property, commonly known as a “bare trust,” will be subject to the new reporting requirements. However, in March 2024, the CRA announced that a bare trust would be exempt from the trust reporting requirements for the 2023 tax year, unless the CRA makes a direct request to file a T3 return.

What are the exceptions?

Under these new measures, certain trusts, known as “listed trusts” will be excluded from the expanded reporting requirements, even if they otherwise have to

Based on the new measures, beginning in 2023, an “express trust” (or for civil law purposes, a trust other than a trust that’s established by law or by judgment) resident in Canada or deemed to be resident in Canada will be required to file a tax return, unless it meets certain exceptions, discussed later.

file a tax return. The expanded reporting requirements include reporting beneficial ownership information on Schedule 15 of the T3 return. Some of these listed trusts include the following:

- A trust that has been in existence for less than three months at the end of the year;
- A trust that holds assets with a total fair market value that doesn’t exceed \$50,000 throughout the year, if the only assets held by the trust throughout the year are one or more of cash; certain government debt obligations; a share, debt obligation or right listed on a designated stock exchange; mutual fund corporation shares or trust units; or an interest in a related segregated fund (and note that this list doesn’t include private company shares or real estate);
- A trust that qualifies as a registered charity or non-profit organization;
- A mutual fund or segregated fund trust;
- A trust, all of the units of which are listed on a designated stock exchange (i.e. an ETF structured as a trust);
- A graduated rate estate;
- A qualified disability trust;
- An employee life and health trust; and
- Registered plans (e.g. RRSP, RRIF, RDSP, RESP, RPP, PRPP, DPSP, TFSA or FHSA).

The new rules also exempt the disclosure of information that’s subject to solicitor-client privilege.

It’s important to note that even if a trust is exempt from the information reporting obligations under these new rules and the requirement to file Schedule 15, a T3 return will still need to be filed if it’s required under any other rules as discussed previously.

Additional disclosure on trust tax return

Under the original rules, only a limited amount of information with respect to the parties to the trust had to be disclosed on the trust tax return. The new measures increase the amount of information that needs to be included and reported on Schedule 15 when a trust tax

return is filed. When a trustee files a trust tax return, they'll need to include the name, address, date of birth (in the case of an individual other than a trust), jurisdiction of residence and taxpayer identification number for each person who, in the year:

- Is a trustee, beneficiary or settlor of the trust; or
- Has the ability through the terms of the trust or a related agreement to exert influence over trustee decisions regarding the appointment of income or capital of the trust (i.e. a protector of a trust).

For the purpose of the new rules, the definition of a settlor is expanded to include anyone who has loaned or transferred property to the trust, unless they were dealing with the trust at arm's length at that time and have made a commercial loan to the trust at a reasonable rate of interest or a transfer of property for fair market value consideration.

Information requirements

A trustee will be considered to have fulfilled the requirement of providing information about the trust beneficiaries if they've made reasonable effort to obtain information about each beneficiary whose identity is known or ascertainable. For those trust beneficiaries whose identity is not known or ascertainable, a trustee will be considered to have met this requirement if they provide sufficiently detailed information so it can be determined whether any particular person is a beneficiary of a trust.

An example of where a beneficiary of a trust may not be known or ascertainable is where the trust instrument provides for a class of beneficiaries that includes the settlor's children or grandchildren, or any future born children or grandchildren. In these circumstances, the trust reporting requirement will be met if the relevant information about all of the settlor's current children and grandchildren is included, as well as the details of the trust terms that extend the class of beneficiaries to any of the settlor's future children or grandchildren.

This new requirement to provide information about all beneficiaries, ascertained and unascertained, may make things more difficult for trustees to comply with their obligations.

Additional penalties for failing to file a return with the expanded disclosure information

Under the new measures, a trustee who fails to file a trust tax return to comply with the new expanded reporting requirements, or who makes a false statement or omission on the trust tax return knowingly or in circumstances that amount to gross negligence, will be subject to a penalty.

For the purpose of the new rules, the definition of a settlor is expanded to include anyone who has loaned or transferred property to the trust, unless they were dealing with the trust at arm's length at that time and have made a commercial loan to the trust at a reasonable rate of interest or a transfer of property for fair market value consideration.

This penalty will also apply where a trustee fails to comply with a demand by the CRA to file a trust tax return.

The new penalty, which is in addition to penalties that already existed, will be equal to the greater of \$2,500 or 5% of the highest total fair market value of all of the property held by the trust for the year. With this in mind, this penalty may be quite substantial if the trust holds assets of significant value.

Québec trust reporting requirements

Revenu Québec will harmonize with the federal changes to the trust reporting rules and apply these new rules for taxation years ending after December 30, 2023. The only difference is the amount of the new penalty. If a trust fails to file a tax return with the additional information requested under the new rules, it is liable to a penalty of \$1,000, and starting on the second day, an additional penalty of \$100 per day until the tax return with the additional information is filed, to a maximum of \$5,000.

Obtaining a CRA trust account number

The enhanced income tax reporting requirements for certain trusts are part of the Canadian government's increased efforts over the last number of years to determine taxpayers' tax liabilities and to effectively counter aggressive tax avoidance. In addition to these measures, the CRA requires financial institutions to collect additional information for trusts and other entity accounts. This includes trust account numbers for legal trusts. The CRA may apply a penalty to the trustee of \$100 if the trustee fails to provide a valid trust account number to a financial institution and the financial institution issues tax slips to the trust without a trust account number. This penalty may not be imposed in certain circumstances, including where an application for a number is made to the CRA within 15 days after receiving the financial institution's request and the number is provided to the financial institution within 15 days after its receipt by the trustee.

If a trust doesn't already have a trust account number, the CRA will issue one to the trust when the first T3 return for the trust is filed (if paper filing). The CRA will show the trust account number assigned on the T3 Notice of Assessment for the trust. A trustee may also choose to apply for a trust account number before filing its first T3 return.

It's important to note that a trustee will generally need to provide a financial institution with a trust account number when it's requested by them, regardless of whether a T3 return needs to be filed for the trust.

If an existing trust currently doesn't have a trust account number but should have one, it's important that the trustee seek advice from a qualified tax and/or legal advisor before filing a T3 return or applying for a trust account number.

Conclusion

As a result of these new measures, executors and trustees may face more onerous reporting requirements, and the information gathering requirements may also be increased. If you're an executor or trustee, you may want to review these new measures with a qualified legal and tax advisor to determine how they might impact the estate or trust under your administration and prepare for the potential implementation of these measures.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax, legal and/or insurance advisor before acting on any of the information in this article.



**Wealth
Management**

This document has been prepared for use by the RBC Wealth Management member companies, RBC Dominion Securities Inc. (RBC DS)*, RBC Phillips, Hager & North Investment Counsel Inc. (RBC PH&N IC), RBC Wealth Management Financial Services Inc. (RBC WMFS), Royal Trust Corporation of Canada and The Royal Trust Company (collectively, the "Companies") and their affiliates, RBC Direct Investing Inc. (RBC DI)* and Royal Mutual Funds Inc. (RMFI)*. *Member – Canadian Investor Protection Fund. Each of the Companies, their affiliates and the Royal Bank of Canada are separate corporate entities which are affiliated. "RBC advisor" refers to Private Bankers who are employees of Royal Bank of Canada and mutual fund representatives of RMFI, Investment Counsellors who are employees of RBC PH&N IC, Senior Trust Advisors and Trust Officers who are employees of The Royal Trust Company or Royal Trust Corporation of Canada, or Investment Advisors who are employees of RBC DS. In Quebec, financial planning services are provided by RMFI or RBC WMFS and each is licensed as a financial services firm in that province. In the rest of Canada, financial planning services are available through RMFI or RBC DS. Estate and trust services are provided by Royal Trust Corporation of Canada and The Royal Trust Company. If specific products or services are not offered by one of the Companies, RBC DI or RMFI, clients may request a referral to another RBC partner. Insurance products are offered through RBC Wealth Management Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC Wealth Management Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC Wealth Management Financial Services Inc. RBC Wealth Management Financial Services Inc. is licensed as a financial services firm in the province of Quebec. The strategies, advice and technical content in this publication are provided for the general guidance and benefit of our clients, based on information believed to be accurate and complete, but we cannot guarantee its accuracy or completeness. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult a qualified legal, tax or other professional advisor when planning to implement a strategy. This will ensure that their individual circumstances have been considered properly and that action is taken on the latest available information. Interest rates, market conditions, tax rules, and other investment factors are subject to change. This information is not investment advice and should only be used in conjunction with a discussion with your RBC advisor. None of the Companies, RMFI, RBC WMFS, RBC DI, Royal Bank of Canada or any of its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. In certain branch locations, one or more of the Companies may carry on business from premises shared with other Royal Bank of Canada affiliates. Notwithstanding this fact, each of the Companies is a separate business and personal information and confidential information relating to client accounts can only be disclosed to other RBC affiliates if required to service your needs, by law or with your consent. Under the RBC Code of Conduct, RBC Privacy Principles and RBC Conflict of Interest Policy confidential information may not be shared between RBC affiliates without a valid reason. ®/™ Trademark(s) of Royal Bank of Canada. Used under licence. © Royal Bank of Canada 2024. All rights reserved.