

## Foreign exchange and capital gains reporting



What is the impact of foreign exchange associated with foreign-denominated capital assets or resulting from the conversion of foreign currency? In particular, when are capital gains generated and when do they have to be reported?

In general, Canadians report all income and capital gains in Canadian currency, or converted to the Canadian currency equivalent, for Canadian income tax compliance purposes.

### Foreign currency

Miscellaneous dispositions of foreign currency, such as the conversion of foreign currency or traveller's cheques denominated in a foreign currency to Canadian dollars or another currency are to be reported on account of capital. In the case of individuals, where the cumulative capital gains or losses from such exchanges during the year total more than \$200, they must be reported for tax compliance purposes.

### Capital assets

For capital property bought and disposed of in a foreign currency, the adjusted cost basis (ACB) and proceeds of disposition (POD) will be tracked and converted in Canadian currency for tax compliance purposes. Any foreign exchange component associated with the disposition of the capital asset will be linked to the transaction and also treated on account of capital.

Let's examine where foreign exchange gains are generated and when they must be reported:

### 2013

On June 5th, Mr. A converts \$100,000 CDN and receives \$76,923 USD (\$1 USD = \$1.30 CDN). Three days later, on June 8th, Mr. A's purchase of Apple shares worth \$76,923 USD is settled. The CDN/USD exchange rate was also \$1.30 on June 8th. Note that Canada Revenue Agency uses the settlement date, not the transaction date, for tax reporting purposes.

### 2015

A good friend of Mr. A has decided to sell his condo in Florida and, given the previous nasty Canadian winter, Mr. A indicates he wants to buy it. On July 2nd, Mr. A receives \$93,000 from the sale of his Apple shares. The CDN/USD exchange rate is \$1.28. One week later on July 9th, Mr. A closes on the purchase of his new Florida condo for \$93,000 cash. The CDN/USD exchange rate is \$1.30.

### 2016

Unfortunately, Mr. A did not use his condo as much as he anticipated, and his former colleague is interested in buying it. They agree on a sale price of \$100,000 and the sale closes on December 22nd. The CDN/USD exchange rate on that day was \$1.32.

As Mr. A was not comfortable with the U.S. economy, he converted the condo proceeds back into CDN and presented you with a cheque for \$132,500 on December 29th to invest in his non-registered account.

What capital gains does Mr. A have to report on the aforementioned transactions? When are the capital gains reported?

### 2015

Mr. A will have to report the capital gain associated with the disposition of his Apple shares. The capital gain for Canadian tax purposes would be \$119,040 ( $\$93,000 \times 1.28$ ) -  $\$100,000$  ( $\$76,923 \times 1.30$ ) = \$19,040.

### 2016

Mr. A will have to report the capital gain associated with the disposition of the condo (assuming he is not using his principal residence exemption). The capital gain for Canadian tax purposes would be \$132,000 ( $\$100,000 \times 1.32$ ) -  $\$120,900$  ( $\$93,000 \times 1.30$ ) = \$11,100. Note: Mr. A will also have to report the disposition of the condo on a U.S. tax return and have a corresponding foreign tax credit but we will disregard for the purposes of this article.

As well, Mr. A has a potential capital gain to be reported relating to the conversion of the USD currency back into CDN – the question is, is the capital gain or loss relating to the currency conversion in excess of the \$200 threshold?

First, we have to determine the ACB of the USD currency. Mr. A accumulated USD currency from the following transactions:

- June 5, 2013: \$76,923 at 1.30 = \$100,000
- July 2, 2015: \$16,000 ( $\$93,000 - \$77,000$ ) at 1.28 = \$20,480
- December 22, 2016: \$7,000 ( $\$100,000 - \$93,000$ ) at 1.32 = \$9,240

Thus the ACB of the \$100,000 USD is \$129,720 CDN.

Per the above calculation, the ACB of the \$100,000 USD is \$129,720 CDN and given he received \$132,500 at the time of conversion (thus his proceeds of disposition), Mr. A does have a capital gain from the appreciation of the USD currency of \$2,780. Assuming Mr. A has no other capital gains or losses relating to foreign currency in 2016, Mr. A should report a capital gain of \$2,580 (\$2,780 less the \$200 threshold) relating to his USD currency exchange on his 2016 personal tax return.

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