Canada Revenue Agency
Agence du revenu du Canada

Handbook on Securities Transactions

A Summary of the Reporting Requirements Under the *Income Tax Regulations*

Available electronically only

RC4268(E)

Canada

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Before you start

Is this handbook for you?

This handbook provides detailed information on securities transactions for the T5008 information return filing requirements provided in *Regulation* 230 and subsections (6) and (7) of *Regulation* 201 of the *Income Tax Act*.

This handbook does not deal with every tax situation. It also does not replace the legislation found in the *Income Tax Act* and the *Income Tax Regulations*. For a list of publications that explain situations in more detail, see Appendix A on page 15.

For instructions on how to complete Form T5008, see Guide T4091, *T5008 Guide–Return of Securities Transactions.*

Who should use this handbook?

- Traders and dealers in securities to report purchases of securities as principal (for their own account) and sales of securities they make as an agent or nominee for any vendor;
- Issuers of securities and their agents or nominees to report redemptions, acquisitions or cancellations of securities;
- Traders in the business of buying and selling precious metals; and
- Persons reporting dispositions or redemptions of debt obligations in bearer form by individuals (including trusts) resident in Canada.

Who has to file a T5008 information return?

Traders or dealers in securities have to file a T5008 information return to report purchases of securities as principal, and sales they make as an agent or nominee, for any vendor. Issuers of securities and their agents must report redemptions, acquisitions, and cancellations of securities.

You should also use the T5008 information return to report dispositions, or redemptions of debt obligations in bearer form by individuals resident in Canada.

You have to prepare a T5008 information return for non-resident individuals, partnerships, unincorporated businesses, corporations, and taxable trusts **only if** the transaction is concluded directly with the non-resident. You do not have to prepare a T5008 information return to report transactions that are carried out through a non-resident trader or dealer in securities.

Electronic filers

For technical information about filing on electronic media, see our Web site at **www.cra.gc.ca/electronicmedia**. Electronic media filers can submit T5008 slips to their clients on customized forms. However, the client's copy of these customized forms must be pre-approved by the Canada Revenue Agency (CRA). The CRA will review your proposed draft of this form and issue an approval number before the customized version can be used. For more information on customized forms, see Information Circular IC-97-2, *Customized Forms*.

For technical information about filing by Internet file transfer, see our Web site at **www.cra.gc.ca/file-xml**.

Foreign currency reporting

Complete all T5008 slips in Canadian currency. Use the exchange rate that was in effect at the time of the transaction or an average rate that includes the transaction period.

Foreign currency is usually converted to Canadian funds before it is credited to the recipient's account. However, certain taxpayers keep foreign currency accounts and choose to convert their account balances themselves. If you receive proceeds of disposition in a foreign currency and deposit the amounts to your client's foreign currency account **without** converting them to Canadian funds, you can report in the foreign currency that applies. Identify foreign currency amounts by entering the applicable currency code on the T5008 slip under International Standard (ISO) 4217.

General information

Publications are available from our Web site at **www.cra.gc.ca/formspubs**. You can also call **1-800-959-2221**.

Chapter 1 – Securities and debt obligations

What are securities?

For the purposes of subsection (1) of *Regulation* 230, securities mean:

- publicly traded shares of the capital stock of a corporation;
- publicly traded debt obligations;
- debt obligations (whether publicly traded or not) of, or guaranteed by:
  - the Government of Canada (such as treasury bills);
  - the government of a province or territory or its agents;
  - a municipality in Canada;
  - a municipal or public body performing a function of government in Canada (this includes school boards, educational institutions, and hospitals); or
  - the government of a foreign country or a political subdivision of a foreign country, including a local authority of such a government;
- publicly traded interests in a partnership or a trust;
- any option or contract for any of the properties listed above;
- publicly traded options or contracts for any property including any commodity;
- publicly traded options or contracts in respect of financial futures, foreign currency, or precious metal; and
- publicly traded options or contracts for any index relating to any property.

What are debt obligations?

A debt obligation is a fixed obligation to pay money or some other valuable consideration. Debt obligations include bonds, notes, bills, debentures, banker's acceptances, and any other certificates of indebtedness. These investments can be sold in registered or bearer form.

If the debt obligation is in registered form, a record of the owner's name is maintained. If they are in bearer form, they trade without this record of ownership and ownership is evidenced by possession of the security.

See "Chapter 3 – Security transactions" on page 7 for more information on debt obligations.

What does "publicly traded" mean?

For the purpose of the T5008 information return, "publicly traded" means:

- a security that is listed or posted for trading on any exchange; or
- a security that is sold and distributed by prospectus, registration statement, or similar document filed with a public authority.

A public authority is an agency established by government that is subject to some government control, such as a provincial securities commission.

Securities posted on a foreign country's commodities or stock exchange also qualify as publicly traded securities.

What are proceeds?

Proceeds is a term used to describe the amount that arises as the result of a sale, disposition, deemed disposition, redemption, acquisition, or cancellation of securities, or an exchange or conversion of property. The term does not mean only cash or money. For the purposes of *Regulation* 230, it means the fair market value, and includes all consideration, such as cash, debt obligations, and shares, that is paid or payable to the transferor.

Chapter 2 – Who has to report securities transactions?

The following persons have to report security transactions on a T5008 information return:

Traders or dealers in securities

A "trader or dealer in securities" is:

- a person who is registered or licensed under provincial or territorial law to trade in securities; or
- a person who, in the ordinary course of business, makes sales of securities as an agent for other persons.

Every trader or dealer in securities who buys a security as principal (for their own account) or sells a security as a trader or dealer has to file a T5008 information return. A T5008 is also required if you purchase securities for your own account from a non-resident trader or dealer in securities.

Most traders or dealers reporting securities transactions are investment dealers, financial institutions, trust companies, and mutual fund companies.

Discount brokers are also traders and dealers in securities.

Issuers of securities or their agents

Every person who issues securities generally **has to** report the redemptions, acquisitions, or cancellations of those securities. See "Chapter 4 – Transactions that you do not have to report on a T5008 slip" on page 9 for exceptions to this rule.

Issuers of securities can include:

- corporations;
- certain trusts;
- partnerships;
- federal and provincial/territorial governments;
- municipalities;

- municipal or public bodies (which includes school boards, educational institutions, and hospitals); and
- foreign governments and their political subdivisions or local authorities.

Issuers frequently use the services of transfer agents (often a trust company) to administer the redemptions, acquisitions, or cancellations of their securities. As part of this arrangement, the transfer agent usually prepares the T5008 information return.

Traders in precious metals

Every person who, in the ordinary course of a business of buying and selling precious metals in the form of certificates, bullion, or coins, makes a payment in the calendar year to another person for a sale by that other person, has to report those payments on a T5008 information slip.

Examples of how the reporting requirement applies:

- a coin dealer who buys gold coins, that are not numismatic coins, from an individual has to report the purchase to the individual on a T5008 slip; however;
- a pawnbroker who buys a gold ring (jewellery) does not have to report that purchase on a T5008 slip.

Nominees

A nominee is a person or firm, such as a bank official or brokerage house, into whose name securities are transferred to facilitate transactions. The customer remains the true owner of the securities.

In many cases, a broker who sells the securities can only identify the nominee, not the actual owner of the securities. Under these circumstances, the nominee who receives the proceeds of disposition from the transaction has to prepare the T5008 slip for the security owner.

Agents

An agent is a person authorized to act for another person in transactions involving a third party. An agent includes:

- an account executive or an investment counsellor who advises and handles orders for clients; or
- a person appointed by a corporation to maintain records of stock and bond owners, to cancel and issue certificates, and to distribute payments to stock or bond owners.

Any agent of a security owner who receives the proceeds from a securities transaction carried out in the agent's name is required to report the transaction to the owner of the securities.

Investment counsellors

Investment counsellors are not usually licensed to trade in securities. They generally engage the services of a broker or other trader or dealer in securities to make the purchase or sale, and they only act as agent of the security owner.

However, investment counsellors have to file a T5008 information return if they sell securities and receive the proceeds of disposition as agents for their clients.

Example
John instructs his investment counsellor, Anne, to sell common shares held in safety deposit and to credit his account with the proceeds from the disposition. Anne carries out the transaction in her own name through an investment broker. She receives the proceeds and credits John’s account. Anne is required to prepare a T5008 slip for John.

Chapter 3 – Security transactions

You **have to** report the sale of securities on a T5008 slip for a vendor if you have acted as an agent or nominee for the vendor. You also have to prepare a T5008 slip for the vendor if you have purchased securities as principal (for your own account).

Transactions generally have to be reported to the security owner if an issuer redeems, acquires or cancels its securities. See "Chapter 4 – Transactions that you do not have to report on a T5008 slip" on page 9 for exceptions to this requirement.

You have to report all security transactions that fall under any section of the *Income Tax Act* not specifically excluded under subsection 230(3) of the *Income Tax Regulations*, even if no tax arises as a result of the transaction. For example, transactions undertaken pursuant to section 85 and section 85.1 of the *Income Tax Act* are not exempt from the requirement to report.

Securities listed or posted for trading on any exchange, and securities that are sold and distributed by prospectus, registration statement, or similar document filed with a public authority are subject to the requirements of *Regulation* 230.

Debt obligations in bearer form are subject to the requirements of subsections (6) and (7) of *Regulation* 201.

You have to file a T5008 information return to report transactions involving any of the following securities:

Shares

- preferred and common shares
- shares of mutual fund corporations
- short sales (the sale of borrowed shares)
- rights to publicly traded shares

Regulation 230 applies only to publicly traded shares of a corporation's capital stock.

Debt obligations – securities

The following debt obligations qualify as securities under subsection (1) of *Regulation* 230:

- any publicly traded debt obligation; and
- any securities (whether publicly traded or not) issued by:
  - the Government of Canada (such as treasury bills);
  - provincial or territorial governments;
  - municipal or public bodies performing a function of government in Canada (including school boards, educational institutions, and hospitals); or
  - the government of a foreign country or of a political subdivision of a foreign country including a local authority of such a government.

Debt obligations – in bearer form

Subsections (6) and (7) of *Regulation* 201 require the filing of a T5008 information return for dispositions or redemptions of debt obligations in bearer form. Examples are banker's acceptances and commercial paper in bearer form that are not usually traded publicly. Debt obligations in bearer form include debt obligations payable to the "bearer" or to "cash." Instruments held in street form (that is, in the name of a broker or nominee) are usually endorsed to the bearer.

The reporting requirement for debt obligations in bearer form applies to redemptions or dispositions by individuals (including trusts) resident in Canada. Do not prepare a T5008 slip to report these transactions for corporations and non-residents.

Note
The reporting requirements for strip bonds are not subject to the same reporting requirements as certain other bearer form debt obligations, by virtue of their exclusion in paragraph 201(7)(b) of the *Income Tax Regulations*. See "Strip bonds" on this page for instructions on how to report strip bonds.

Mutual funds and pooled funds

Mutual funds and pooled funds are arrangements where investors make contributions to the funds and their money is invested in securities. Pooled funds and mutual fund trusts issue units in their funds. Mutual fund corporations issue shares.

The purchase (for your own account), sale, redemption, acquisition, or cancellation of units or shares of publicly traded pooled funds, mutual funds and mutual fund corporations qualify as publicly traded securities and have to be reported on a T5008 information return.

Units in a trust that trade at a constant fixed price, such as money market funds, are excluded from this T5008 filing requirement. The income earned from money market funds should be reported on T3 or T5 slips as appropriate.

A trustee, who administers the unit trust or corporation, or a broker acting as nominee or agent of the beneficial owner, reports the redemption (cashing in) or disposition of units or shares to the beneficial owner.

Partnership interests

A partnership is generally described as being a relationship between two or more persons carrying on business in common with a view to profit.

A publicly traded interest in a partnership qualifies as a security under *Regulation* 230 and the purchase (for your own account), sale, redemption, acquisition, or cancellation of units requires you to file a T5008 information return.

Strip bonds

Strip bonds are government or corporate debt instruments that have been separated into two parts: the principal amount (residuals) and the interest amounts (coupons). These parts are then sold at a discount to investors as individual securities.

The difference between the purchase price and the maturity price of both the residue and interest coupons constitute accrued interest. As a result, a certain amount of this difference has to be recognized as income each year even though it is not received until maturity.

Investors who sell strip bonds before they mature could realize a capital gain (or loss) in addition to the accrued interest.

It is rare, though possible, that an investor would actually possess a strip bond residue or interest coupon. These are usually held in nominee form by the financial institution.

However, if an agent negotiates a strip bond with an investor and the historical information is not available to the financial institution, it will be acceptable to report the proceeds or settlement amount of the residue and coupons on a T5008 slip for these situations only.

Interest income should be reported on a T600 or T5 slip as appropriate.

Options and contracts

Some options are called "rights" or "warrants."

A share **right** is a privilege that entitles the stockholder to purchase additional shares, generally at a discount from the current market price at the date of issue, usually within a short, specified time period, after which the option expires.

A **warrant** is similar to a share right, except that it usually has a longer term before expiry. Companies often attach warrants to debt obligations or stock issues to make them more attractive to investors and raise capital in the future.

A **contract** is an agreement that creates an obligation. The main contracts affected by the T5008 reporting requirements are futures contracts. Futures contracts are legally binding commitments to deliver or take delivery of a specified quantity of a commodity or financial product at a specified future date, at a specified price.

You have to report the following option or contract purchases as principal (for your own account) or sales on a T5008 slip:

- an option or contract for any of the properties listed as securities in the first four bullet points in "Chapter 1 – Securities and debt obligations" on page 4;
- publicly traded options or contracts for any property including any commodity, financial futures, foreign currency, or precious metal; and
- publicly traded options or contracts for any index relating to any property.

See "Chapter 4 – Transactions that you do not have to report on a T5008 slip" below for comments on options, rights, and warrant transactions that you do not have to report.

Redemptions, acquisitions, and cancellations of securities

Subsection (3) of Regulation 230 requires you to file a T5008 slip when an issuer redeems, acquires, or cancels securities that it issued.

The redemption of a debt obligation or the cancellation of shares frequently involves the payment of interest or dividends up to the date of redemption or cancellation. The proceeds of disposition or settlement amount reported on the T5008 slip should not include any interest or dividend income. This income has to be reported on a T5 slip, *Statement of Investment Income*.

See "Chapter 4 – Transactions that you do not have to report on a T5008 slip" below for comments on redemptions, acquisitions, or cancellations of securities that are excluded from these reporting requirements.

Share exchanges – different companies

You have to report transactions involving the exchange of shares in one company for the shares in a different company unless the companies are involved in an amalgamation.

See chapter 4 below for comments on amalgamations and share exchanges that you do not have to report.

Chapter 4 – Transactions that you do not have to report on a T5008 slip

You do not need to file a T5008 slip for the following transactions:

Debt obligations

Do not report the redemption of a debt obligation if:

- the debt obligation was issued for its principal amount;
- the redemption satisfies all of the issuer's obligations (that is, once the redemption occurs, no more amounts are payable to any person with an interest in the debt obligation);
- each person with an interest in the debt obligation is entitled to an equal proportion of principal and interest payments (that is, the debt obligation is not a strip bond); and
- another information return is also required as a result of the redemption, (for example, a T5 slip for the redemption of an investment contract or a T600 slip for accrued interest on redemption of a bond, debenture, or similar security).

Deemed dispositions

You do not have to report deemed dispositions on a T5008 slip.

The *Income Tax Act* provides for a number of deemed dispositions where the property is transferred to another person, but the owner does not receive any real compensation in the form of money or other consideration.

Examples of deemed dispositions are:

- transfers of property to a trust;
- gifts of property (that is, the name of the beneficial owner of the property is changed);
- a person dies; or
- a person ceases to be a resident of Canada.

The word "sale" refers to a transaction where the absolute ownership of property is transferred from one person to another for a sum of money or other consideration. In the case of a deemed disposition, ownership of the property is not transferred to another person for money or other consideration. Consequently, a deemed disposition cannot be considered a "sale" for the purposes of subsection (2) of Regulation 230 and a T5008 slip is not required.

The word "redeem" means "buy back." In the case of a deemed disposition, the issuer does not buy back the security and would not be considered to have redeemed it under subsection (3) of Regulation 230. In addition, a deemed disposition is not considered to be a cancellation of a security by the issuer since the security remains outstanding.

Dividends

You should not report dividend payments on the T5008 slip. Dividend income **has to be** reported on the T5 slip.

Dividends can be paid in different forms. Here are some examples of dividends that you **have to** report on a T5 slip:

- amounts paid under an automatic dividend reinvestment plan (DRIP). Under such a plan, the company uses the shareholder's dividends to buy more shares of the company in the shareholder's name. These dividends are taxable even though they are not received in cash; and
- dividends paid in the form of additional stock or stock rights (stock dividends) are also treated as regular cash dividends for tax purposes.

Excluded redemptions, acquisitions, or cancellations

You do not have to file a T5008 slip for the following transactions if they meet the requirements of the *Income Tax Act*.

Section 86 rollovers – corporate reorganizations

You do not have to report the exchange of old shares for new shares that occur in the course of a reorganization of the capital structure of a corporation, where the exchange meets the requirements of section 86 of the *Income Tax Act*, and no consideration other than new shares is receivable.

The provisions of section 86 apply where a corporation's capital structure is reorganized and the following conditions are met:

- the shares (old shares) must be the shareholder's capital property. They cannot be an inventory of securities;
- the transaction must result in an exchange of all of the outstanding shares of a particular class that are owned by the shareholder (old shares) in exchange for another type of shares (new shares). The rollover does not apply if the shareholder does not dispose of all the old shares, even if this happens inadvertently; and
- subsections 85(1) or (2) of the *Income Tax Act* **do not apply** to the transactions.

The rollover provision applies only to the disposition of the old shares. It does not apply to the disposition of other securities such as bonds or other debt securities.

The rollover provisions can apply to non-residents as well as residents, and the corporation does not have to be a Canadian corporation.

There is no capital gain if the shareholder receives only new shares in exchange for the old shares, and a T5008 slip is not required. However, a T5008 is required if the taxpayer receives cash or some other consideration in addition to the new shares.

Dissolution and continuation of partnerships

You are not required to file a T5008 slip for partnership transactions that meet the following requirements:

Dissolutions – Subsection 98(3) of the *Income Tax Act* provides special elective provisions that must be met to qualify for a tax-free rollover of the partnership assets on the termination of a partnership. These rules will only apply in cases where:

- all of the partners are a resident of Canada;
- each partner jointly elects with the partnership;
- each partner receives their proportionate share of the partnership assets distributed on the wind-up; and
- a valid election is made by the partners in prescribed Form T2060.

The timing requirements for filing subsection 98(3) elections are provided in subsections 96(4), 96(5), and 96(5.1) of the *Income Tax Act*.

A deemed disposition of the partnership assets could occur at fair market value if the requirements of subsection 98(3) are not met, and in that case a T5008 information return would be required.

Continuation of a partnership – Subsection 98(6) of the *Income Tax Act* provides for a rollover if a Canadian partnership (the predecessor partnership) ceases to exist and all of its assets are transferred to another Canadian partnership whose partners were all members of the predecessor partnership.

The new partnership is deemed to be a continuation of the predecessor partnership, and each partner's interest in the new partnership is deemed to be a continuation of the partner's interest in the predecessor partnership.

Subsection 98(6) only applies if all of the property is transferred to the new partnership.

Tax consequences could result if all of the partnership property is not transferred to the new partnership, and in that situation, a T5008 slip should be prepared.

Amalgamations

Section 87 of the *Income Tax Act* provides for a rollover in situations where there is an amalgamation of corporations. As a result of an amalgamation, a new corporation is formed that replaces the merged corporations (predecessors). The purpose of section 87 of the *Income Tax Act* is to allow the assets of the predecessor corporations to rollover to the new corporation tax free.

Subsection 87(4) of the *Income Tax Act* provides for a rollover to a shareholder of a predecessor corporation whose shares are exchanged during an amalgamation for shares of the new corporation. This rollover applies if:

- the shares of the predecessor corporation were capital property of the shareholder; and
- the shareholder received no consideration other than the shares of the new corporation.

If these conditions are met, you do not have to file a T5008 slip to report the transaction.

Convertible property

Section 51 of the *Income Tax Act* applies to transactions where convertible securities of a corporation are exchanged for shares of the same corporation without resulting in a disposition for capital gains purposes. Bonds, debentures, or notes can be exchanged for shares if the convertible security has a term that gives the owner the right to make the exchange. Shares can be exchanged even though the terms of the exchanged shares do not provide a right of exchange or conversion.

Conversions under section 51 do not create a disposition for capital gains purposes if there is no consideration receivable other than new shares. You will be required to file a T5008, however, if any other consideration forms part of the transaction.

Convertible debt obligations

Section 51.1 of the *Income Tax Act* provides for the exchange of certain convertible debt obligations for other debt obligations of the same debtor. This section only applies in cases which:

- the terms of the convertible obligation contained a provision conferring on the holder the right to make the exchange; and
- the principal amount of the new obligation is equal to the principal amount of the convertible obligation.

If these two conditions are met, the cost of the new obligation and proceeds of disposition of the convertible obligation are deemed to be equal to the adjusted cost base of the convertible obligation.

Exchanges under section 51.1 of the *Income Tax Act* do not create a disposition for capital gains purposes if there is no consideration receivable other than the new shares. You must prepare a T5008 slip, however, if any other consideration is received as part of the transaction.

> **Note**
> If cash or some other consideration totalling $200 or less is received instead of a fractional interest in shares during an exchange to which section 51 or 87 applies, you do not need to report the transaction. If the cash or other consideration is more than $200, you have to report the entire exchange transaction. For more information, see Interpretation Bulletin IT-115, *Fractional Interest in Shares*.

Miscellaneous excluded transactions

You **do not** have to report any of the following transactions on a T5008 slip:

- a sale of securities on behalf of a non-taxable entity such as a registered retirement savings plan (RRSP), a registered income fund (RIF), a registered educations savings plan (RESP), a deferred profit-sharing plan (DPSP), a registered pension plan (RPP), a municipality, an agricultural organization, a board of trade, a chamber of commerce, or a municipal or public body such as a school board, educational institution, or hospital;
- capital property that is a bond exchanged for another bond of the same debtor when the provisions of the exchanged bond gave the holder the right to make the exchange and the exchanged bond and the acquired bond both have the same maturity value;
- convertible property, that is, shares, bonds, debentures, or notes of a corporation which give the holder the right to exchange the security for shares of the same corporation (you have to report the entire transaction to the security owner if cash or consideration other than shares, of more than $200, is received);
- a reclassification or redesignation of mutual fund units to another class or series of units of the same fund, provided there has not been a disposition of the units. The question of whether there is a disposition is a question of fact and this exemption only applies when the change does not result in a disposition of the units;
- security transactions for which an information return (other than a T5008) is required. For example, a T5 return might be required under Regulation 201 to report interest and dividends to residents of Canada, or an NR4 return to report payments to non-residents under Regulation 202;
- the reinvestment of dividends issued under dividend reinvestment plans (DRIPs); and
- the redemption or sale of units or shares in money market funds. (The interest income earned on these funds should be reported on a T3 or T5 slip as appropriate.)

Options, rights, and warrants

You do not have to report the expiry or exercise of an option, right or warrant as the expiry means that the agreement is no longer valid and ceases to exist.

However, if an option, right, or warrant is exercised, any subsequent sale or purchase (for your own account) of the underlying securities has to be reported on a T5008 slip.

Example
A client of a trader or dealer in securities owns an option to buy publicly traded shares in XYZ Corporation. If the trader or dealer buys the option from the client or sells the option to a third party for the client, the trader has to prepare a T5008 slip to report the transaction. However, the trader does not have to file the T5008 slip if the option is allowed to expire, or the client exercises the option and acquires the shares of XYZ Corporation.

Stock splits

You do not have to report stock splits on a T5008 slip.

In a stock split, a company's existing shares are divided into any number of shares. While the number of shares outstanding may increase, the total value of the outstanding shares remains the same.

Traders and dealers in securities

You do not have to report:

- a purchase of securities from another trader or dealer in securities;

- a sale of a security by a trader or dealer in securities for another trader or dealer in securities; and
- transactions for non-resident investors that are carried out through a non-resident trader or dealer in securities (reporting is only required if the transaction is conducted directly with the non-resident).

Traders in precious metals

You do not have to report a sale of currencies or precious metal in the form of jewellery, works of art, or numismatic coins. Also do not report a sale of precious metals by a person who, in the ordinary course of business, produces or sells precious metals in bulk or commercial quantities.

Trust income

The allocation of amounts from a trust results from the activities carried on within the trust and is reported under section 204 of the *Income Tax Regulations*. These amounts are reported on a T3 slip and should not be reported on a T5008 slip.

However, you have to report sales, purchases (for your own account), redemptions, acquisitions, or cancellations of the units of a trust to the unit holders on a T5008 slip.

Chapter 5 – Payments to non-residents of Canada

You do not have to withhold income tax on any amounts reported on a T5008 slip as the result of a security transaction conducted directly with a non-resident investor.

However, you do have to file an NR4 information return to report any other amounts paid or credited, or amounts we consider to be paid or credited, to non-residents of Canada. You have to do this if the total annual amount you paid or credited is $50 or more, or if you withheld tax (regardless of the amount you paid or credited).

For more information on how to complete the NR4 return, see Guide T4061,
NR4 – Non-Resident Tax Withholding, Remitting and Reporting.

You have to withhold income tax of 25% (or the percentage established under a tax convention or agreement) on certain amounts you paid or credited to non-residents. These amounts include pensions, annuities, investment income, interest, dividends, rents, royalties, and estate or trust income.

If you have never remitted non-resident income tax deductions, contact the International Tax Services Office (ITSO) at **1-800-267-3395** (in Canada and the United States), or from other countries at **613-952-2344**.

Send remittances of tax withheld to:

Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1B1
Canada

For more information, see Information Circular IC76-12, *Applicable Rate of Part XIII Tax on Amounts Paid or Credited to Persons in Countries With Which Canada Has a Tax Convention*, and Information Circular IC77-16, *Non-Resident Income Tax*. These rates may change as the result of amendments to tax treaties. Updated rates can be obtained from the ITSO at the telephone numbers above.

If, as a resident of Canada who pays or credits amounts to or for a non-resident of Canada, you do not withhold (or you withhold but do not remit) non-resident tax, you are liable for the amount of tax you should have withheld and remitted, plus a penalty of 10% of the tax. We charge interest, compounded daily at the prescribed rate, on the total of the tax, penalties, and outstanding interest.

For more information about how we determine an individual's residence for tax purposes, see Interpretation Bulletin IT-221-Consolid, *Determination of an Individual's Residence Status.*

Appendix A – References

The following publications relate to topics included in this guide and are available from our Web site at **www.cra.gc.ca/forms** or by calling **1-800-959-2221**.

Information Circulars

IC82-2 *Social Insurance Number Legislation That Relates to the Preparation of Information Slips*

IC97-2 *Customized Forms* (available in electronic format only)

Interpretation Bulletins

IT-95 *Foreign exchange gains and losses*

IT-96 *Options Granted by Corporations to Acquire Shares, Bonds, or Debentures and by Trusts to Acquire Trust Units*

IT-115 *Fractional Interest in Shares*

IT-146 *Shares Entitling Shareholders to Choose Taxable or Capital Dividends*

IT-346 *Commodity Futures and Certain Commodities*

IT-396 *Interest Income*

IT-479 *Transactions in Securities* (and its Special Release)

Archived Interpretation Bulletins

The following interpretation bulletins are archived and kept for historical purposes. They are no longer available in print but can be accessed through our Archived income tax interpretation bulletins (ITs) Web page at **www.cra-arc.gc.ca/menu/ITSA-e.html**. These bulletins may contain law not currently in force.

IT-52 *Income Bonds and Income Debentures*

IT-77 *Securities in Satisfaction of an Income Debt*

IT-265 *Payments of Income and Capital Combined*

IT-410 *Debt Obligations - Accrued Interest on Transfer* (and its Special Release)

Guides

T4015 *T5 Guide - Return of Investment Income*

T4091 *T5008 Guide – Return of Securities Transactions*

Glossary

Some of the following definitions are not provided in the *Income Tax Act* or *Income Tax Regulations*. These definitions give only the common usage of the terms for the benefit of the reader.

Accrued interest – interest that has accumulated between interest payment dates, or between the last interest payment date and the sale or redemption of the debt obligation. Generally, it is interest that accumulates without being paid.

Agent – any person authorized to act on behalf of another person in transactions involving a third party.

As principal – on your own account. A financial institution that makes portfolio investments is acting as principal.

Banker's acceptance – a short-term credit instrument sold on the open market at a discount and payable at maturity.

Bearer form – a debt is in bearer form if its terms state that it is payable to the bearer or to "cash," or if it does not indicate a specific payee.

Beneficial owner – a person who does not have title to property but has rights that are normally associated with owning the property.

Capital – an amount invested, especially in securities; all preferred and common shares representing ownership.

Commercial paper – a promissory note or draft of a corporation, government agency, or bank that is issued for short-term credit needs and usually sold at a discount from face value.

Commodities – staples such as wool, cotton, or any articles of merchandise that are useful or serviceable.

Consideration – anything received in a transaction (usually cash) including any tangible or intangible property.

Creditor – a person to whom another person owes an amount. The other person is the debtor.

Debenture – a promissory note or bond backed by the issuer's general credit.

Debt obligation – a written agreement to pay money or some other valuable consideration.

Debtor – a person who owes an amount to another person. The other person is the creditor.

Deferred-income plan – any number of arrangements where contributions are invested to earn income. For income tax purposes, the income is not recognized until a future time.

Discount – a debt obligation is said to be discounted if it is sold at less than face value. The amount of a discount replaces interest if interest is not paid on the note. A discount may also be offered to compensate for an interest rate on the debt obligation that is lower than current market rates.

Face amount – the nominal value that appears on the face of a document recording an entitlement. For debt obligations, the face value is the amount to be repaid at maturity.

Future value – a value that will exist at some future date, as opposed to a present value that already exists.

Futures contract – a standardized exchange-traded contract to buy or sell at a future date a specific quantity of a given commodity for a fixed price.

Income Tax Regulations – regulations made under the *Income Tax Act* that provide various rules and conditions for the purposes of specific provisions of the Act, including rules on when and who has to prepare an information return.

Index – a list of the current values of marketable securities given through a stock, commodities, or futures exchange.

Instrument –any negotiable written document.

Interest period – the period specified under the terms of a debt obligation during which the interest on the debt obligation is calculated.

Maturity – the date on which an obligation, such as the principal of a bond or note, becomes due. The delivery or settlement date for a futures contract is also its maturity date.

Money market – the financial environment for dealing in short-term debt obligations.

Mutual fund – an investment company or plan that raises money by selling its own stock or units in the plan, and invests the funds in other securities. The value of the stock or units fluctuates with the performance of the securities in its portfolio.

Nominee – a person or firm, such as a bank official or brokerage house, into whose name securities are transferred to facilitate transactions.

Numismatic coins – coins or coin-like objects, such as medals, that have a special value to collectors.

Par – when the market price of a security equals its face or nominal value, it is said to trade at par. Par value may also refer to a value stated on a security that does not necessarily represent its market value.

Partnership – the relationship between two or more persons to carry on a trade or business for profit.

Portfolio – the collective term for the securities a person owns.

Premium – an amount sometimes given by the issuer in consideration for the early repayment of a debt obligation; the amount by which the issue price exceeds par value when the market price of a security is more than its face value, or when market interest rates are less than interest payable on a debt obligation.

Principal amount – the capital sum of a debt obligation, as distinguished from interest or other additions to it.

Proceeds – see “What are proceeds?” on page 5 for a definition of proceeds.

Publicly traded – under subsection (1) of Regulation 230, publicly traded means listed or posted for trading on a stock exchange, commodity exchange, futures exchange or any other exchange, including exchanges in foreign jurisdictions, or distributed and sold by prospectus, registration statement, or similar document filed with a public authority such as a provincial securities commission.

Security owner – the person who has legally acquired a security and is entitled to receive any payments resulting from ownership of the security.

Short sale – by selling short, a person borrows shares from a broker and seeks to make a profit from a drop in the share price. If the shares drop, the investor buys them back more cheaply and returns them to the broker. If the shares rise in value, however, the investor loses money.

Stock – all shares representing ownership of a corporation including preferred and common stock.

Street name – securities held in a broker's name instead of in the name of the broker's customer are said to be in "street name." The broker's name appears on the security with blank endorsement, so that the security is payable to the bearer and negotiable by delivery alone.

Trader or dealer in securities – under subsection (1) of Regulation 230, a trader or dealer in securities is a person who is registered or licensed under provincial laws to trade in securities, or a person whose ordinary business includes making sales of securities as an agent of another person.

Transfer agent – a bank or trust company designated by a corporation to keep records of each registered owner of the corporation's securities, to record transfers of those securities, and to pay interest or dividends on outstanding securities on behalf of the corporation.

Trust – an arrangement where a trustee administers property for another's benefit.

Trustee – a person who holds title to property and administers it for another's benefit.

Vendor – a person who sells or disposes of property they own.

Yield – an imputed interest rate representing the return on an investment. It is the ratio of the income from an investment to the total cost, taking into account the time during which the investment was outstanding before it was paid off.

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