By FOREST LI

FOREIGN TAX CREDITS

If you earn incomes from a foreign source, you need to report them on your income-tax return. Canada taxes its residents on worldwide income no matter where the income is earned.

Foreign incomes typically include capital gain as well as money derived from employment, investment and pension. They are broadly classified into business and non-business incomes.

If you own foreign-investment properties in excess of $100,000 you need to declare them in Form T1135 and mail it to Canada Revenue Agency every year that you meet the $100,000 threshold. If you don't, you could end up facing penalties or more serious sanctions.

Taxes paid for foreign-source income may be claimed as foreign tax credits on your Canadian income-tax return. The foreign tax credit prevents double taxation as it recognizes taxes paid to a foreign government on income earned in a foreign country. Check to see if the country from which your foreign income is derived has a bilateral agreement with Canada. Canada has 86 tax treaties in force.

There are two types of foreign tax credit: a foreign tax credit for business income taxes and another for non-business income taxes. Foreign tax credits are calculated on a country-by-country basis.

In cases in which you are unable, in a particular tax year, to claim as tax credits all of the taxes paid to a foreign jurisdiction in that same tax year, unused foreign tax credits may be carried back three years or forward 10 years.

OVERSIGHT

What happens if, by oversight, you inevitably failed to report your foreign incomes? CRA has a voluntary disclosure program, which allows taxpayers to disclose previously unreported income.

If you need help in obtaining the appropriate information, speak with a tax professional and comply with all the applicable tax rules.

FOREST LI is a certified income-tax consultant.