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Dear Clients and Friends:

With the enactment of modifications to the Internal Revenue Code of the United States on December 22, 2017 (via the Tax Cuts and Jobs Act), a new one-time repatriation tax was created that impacts certain direct, or indirect, U.S. Shareholders of Canadian (and other foreign) corporations. Additionally, changes were made to certain attribution rules (deemed ownership rules) that further complicate the application of this new repatriation tax, and that can also impact the traditional reporting of ownership in Canadian (and other foreign) corporations (Form 5471) by "U.S. persons" (this definition is not limited to U.S. individuals). The changes to these attribution rules vastly expand the number of entities that are subject to Form 5471 information reporting (each failure to comply with these requirements may be subject to a \$10,000 penalty), and may also expand which owners of foreign corporations are subject to the repatriation tax.

The new provisions require calendar year U.S. Shareholders (both corporate and individual) of certain Canadian (or foreign) corporations to report a dividend from the Canadian (or foreign) corporation in 2017 relating to certain previously deferred earnings (i.e. include an amount in taxable income that was previously eligible for deferral until actual distributions were made). Fiscal year taxpayers are also subject to these rules, but the implementation may be delayed by up to a year for them. Generally speaking, these rules may impact you if:

1. You are a U.S. citizen, or green card holder, and you own 10% or more of any foreign entity;
2. You are a U.S. citizen, or green card holder, and you own 10% or more of any U.S. entity;
3. You are a Canadian (or foreign) citizen, and you own 10% or more of any U.S. entity;
4. You are a Canadian (or foreign) citizen, are married and your spouse is a U.S. citizen (or green card holder) and he/she owns 10% or more of any U.S. or Canadian (or foreign) entity;
5. You own a U.S. entity that owns 10% or more of any Canadian (or foreign) entity; or
6. You own a Canadian (or foreign) entity that owns 10% or more of a U.S. entity.

These rules should not impact you if you meet all of the following: you, your spouse, your children and your parents (1) are not U.S. citizens or green card holders, (2) are not U.S. residents, (3) own only Canadian (or other non-U.S.) entities, and (4) hold more than a 90% interest in each of those entities.

Due to the scope and complexity of these new provisions, if you believe these new provisions may apply to you, it is crucial that you contact your U.S. and foreign tax advisors immediately for assistance with assessing the impact of these new rules, and to protect you from exposure to significant penalties, since **unanticipated tax may be due by April 17, 2018** and additional foreign reporting requirements may be required with your income tax returns.

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