

New filing requirements for partnerships

November 19, 2010

On September 17, 2010, The Canada Revenue Agency (CRA) released new guidelines regarding which partnerships are required to file a partnership information return (Form T5013). The new rules will apply for partnerships with a fiscal period ending in 2011.

The new policy

Under the law, all Canadian partnerships, or partnerships carrying on business in Canada, are required to file a partnership information return (Form T5013). However, for a number of years, the CRA has administratively exempted partnerships with up to five partners from this filing requirement, unless one of the partners was another partnership.

Under the new administrative policy, the requirement related to the number of partners in a partnership is replaced with a new requirement related to financial thresholds. Also, the filing requirements based on the types of partners is revised and clarified.

Specifically, a partnership that carries on a business in Canada, or a Canadian partnership with Canadian or foreign operations or investments, will have to file a T5013 for each fiscal period of the partnership if

- at the **end of the fiscal period**, the partnership has an absolute value of gross revenues plus an absolute value of expenses of more than \$2 million, or has more than \$5 million in assets;

OR

- at **anytime during the fiscal period**; the partnership is a tiered partnership (has another partnership as a partner or is itself a partner in another partnership); the partnership has a corporation or a trust as a partner; the partnership invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership; or the Minister of National Revenue requests one in writing.



Absolute value is determined by adding revenues and expenses (i.e., it is not based on net income). For example, a partnership with revenues of \$1.5 million and expenses of \$750,000 would have an absolute value of \$2.25 million. The amount of partnership assets includes the cost of both tangible and intangible assets without taking into account the depreciated amount.

In addition to the filing requirement changes, the CRA has indicated that it will be introducing a revised information return and tax guide for partnerships in 2011. No further details are available at present.

To file or not to file

Based on the new criteria, partnerships that have simple structures and modest financial activity will no longer be required to file a partnership return. For partnerships with fiscal periods ending in 2010, the current criteria and administrative exceptions still apply.

Although a partnership may not be required to file a partnership information return under the CRA's administrative policy, it's still a good idea to file a return in order to start the clock ticking on the assessment period. If a partnership return is never filed, the tax year never becomes statute barred and the partners' taxation years will remain open for reassessment indefinitely on their partnership income or loss.

Please contact us for more information or if you need assistance in determining how these new guidelines will apply to you.

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