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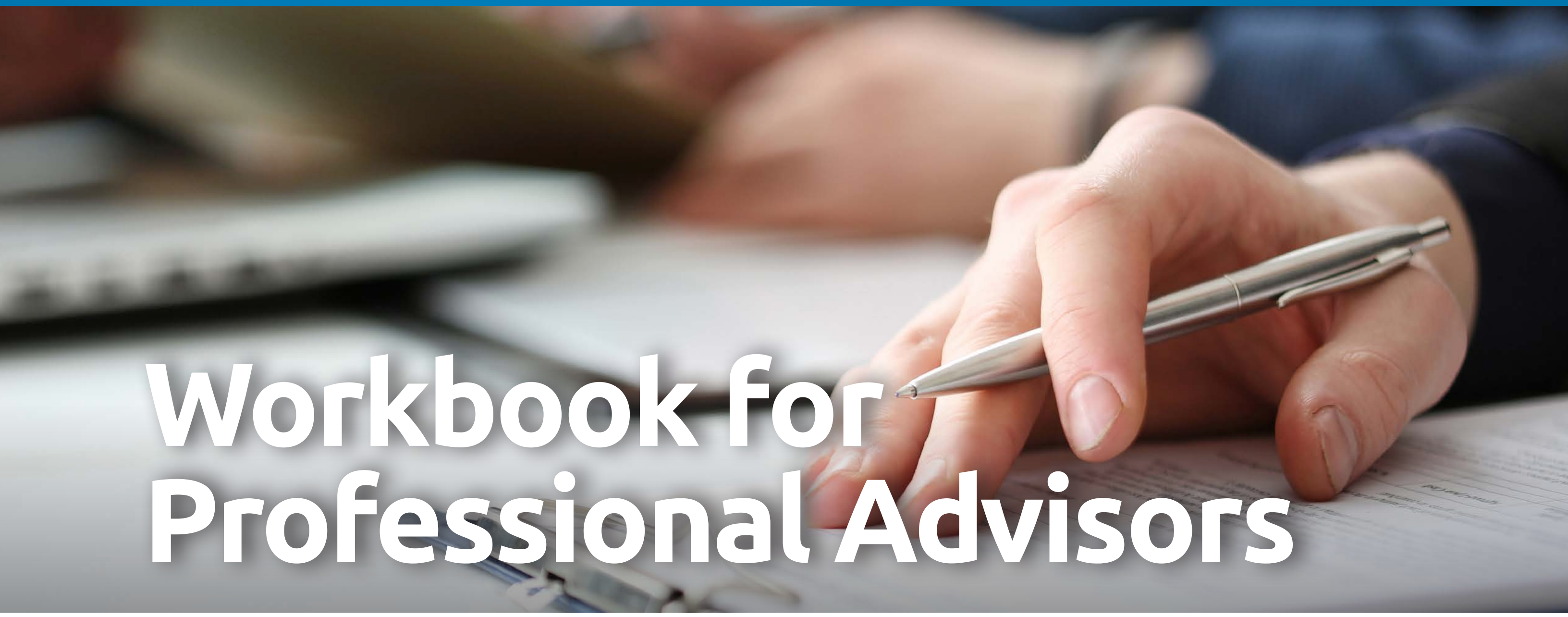
PATHWAYS TO HOMEOWNERSHIP



Workbook for Professional Advisors

HOMEOWNERSHIP OPTIONS FOR PEOPLE WITH DEVELOPMENTAL DISABILITIES

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MHMC - Pathways to Homeownership

WORKBOOK FOR PROFESSIONAL ADVISORS

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NATIONAL HOUSING STRATEGY

INTRODUCTION

This workbook is intended to help professional advisors, such as lawyers, accountants, and financial advisors evaluate and identify models of homeownership for their clients with developmental disabilities.

The workbook is divided into three stages:

Stage 1: Know your client:

You will learn about homeownership and the options available to your client.

Action: Gather information about your client using a *Client Checklist.*

Stage 2: Identify a homeownership model:

Using the information that you have gathered in Stage 1, you will consider six key factors when evaluating models of homeownership.

Action: Identify a homeownership model that is suitable for your client.

Stage 3: What to consider:

By this stage, you will have selected a model of homeownership.

Action: Discuss legal considerations, tax implications, and compliance requirements of your chosen model of homeownership with your client.

Let's get started!

TERMS

Beneficial interest: The right to receive benefits on assets held in a trust.

Beneficiary: The person(s) who benefits from the assets held in trust.

Contractual capacity: The capacity to enter into a contract.

Discretionary trust: A trust where the trustee has control (exercises absolute and unfettered discretion) over the management of the assets in the trust.

Inter vivos trust: A trust where the person establishing the trust (the "settlor") is living at the time the trust is created and the trust may own assets during the settlor's lifetime.

Non-discretionary trust: A trust where the trustee has no control of the management of the assets in the trust and must adhere to the instructions established in the trust agreement.

PRE: Principal Residence Exemption. Under the *Income Tax Act*, an income tax exemption on the amount of capital gains triggered upon the sale of a principal residence.

Presumption of resulting trust: When a parent transfers assets to their adult child from their estate, the adult child is presumed to hold the property in trust for the parent's estate, unless the adult child can prove that the transfer was intended to be a gift.

Probate: A legal process where the estate of a deceased person is administered. It usually involves the payment of a tax associated to the assets held in an estate (i.e. Estate Administration Tax in Ontario).

Settlor: The person(s) who establishes and may contribute property to the trust for the person they intend to benefit (a "beneficiary").

Testamentary capacity: The capacity to make a will.

Testamentary trust: A trust established in a will.

Trust: A trust is established when legal ownership, control and management of property is vested in one or more individuals (a "trustee") for the benefit of another individual (a "beneficiary").

Trustee: Person(s) appointed to control and manage the assets in the trust for the beneficiary.

Stage 1:
KNOW YOUR CLIENT

STAGE 1: KNOW YOUR CLIENT

BACKGROUND – HOMEOWNERSHIP

I. "Homeownership" vs. "A Home of One's Own"

In general, "homeownership" is defined as holding legal title to a home, as either a sole or joint owner of a property. The sole or joint owner is able to exercise choice and control over the property, what happens to it in the future and benefit from any increased value when it is sold. However, given restrictive legal capacity laws and the lack of legally-recognized mechanisms to homeownership in Canada, people with developmental disabilities may face some barriers to owning their own home. We have therefore broadened the definition of homeownership to include *a means of achieving homeownership* where a person with a developmental disability may exercise choice and control of a home through the use of a bare trust. A bare trust would provide a person with a developmental disability to secure housing and enjoy its benefits, without having to oversee management of the property. In a "bare trust" arrangement, the trustee of the trust must abide by the beneficiary's instructions.

A bare trust is in keeping with the understanding of homeownership because it affords the benefits of homeownership: benefitting from the value of an asset and exercising choice and control over one's home, even if the beneficial owner does not hold legal title.

This workbook considers three models of homeownership: sole ownership, joint ownership and beneficial ownership through a bare trust. There are other mechanisms available to people with developmental disabilities to obtain a 'home of one's own' – understood to be secure, permanent housing where one is able to exercise control over what happens in their home. People may also obtain a home of one's own through a discretionary trust or through a not-for-profit corporation, among other options. The three homeownership models represented were selected based on our definition of homeownership, where a person with the developmental disability may exercise choice and control over the home.

II. Models of Homeownership

1. **Sole Ownership**
   Similar to many people owning a home, the person with a disability (the "owner") becomes both the legal and beneficial owner of the home. The owner is ultimately responsible for all decisions in respect of the home—this may include purchasing/selling the home and the timely payment of home expenses such as maintenance, insurance, property taxes, utilities, and mortgage amounts. Even though the owner may rely upon a network of trusted family

and/or friends for support, the owner is solely responsible for all decisions with respect to their home.

Alternatively, the owner may own the home, but have any decisions with respect to their property delegated to a substitute decision-maker. The owner may appoint a substitute decision-maker of their own accord and remove the authorities of the substitute decision-maker at their discretion.

2. **Joint Ownership**

Under a joint ownership arrangement, a person is both a joint legal title holder and joint owner of the home. The person and the co-owner of the home are jointly responsible for all decisions in respect of the home—this may include purchasing/selling the home and the timely payment of home expenses such as maintenance, insurance, property taxes, utilities, and mortgage amounts. Even though the person may rely upon a network of trusted family and friends for support, the person is solely responsible for making decisions in respect of his or her interest in the home.

The person may also delegate their property decisions to a power of attorney and remove those authorities at their discretion. If a person is considered incapable of appointing a power of attorney, there may be no other option but to appoint a substitute decision maker under relevant provincial/territorial laws. This benefit of home ownership should be weighed against removing the person's legal capacity. We recognize this places persons in a "catch-22." Law reform is urgently needed to recognize a supported approach to decision making in property, health care and personal life decisions. Such reforms would ensure that people with developmental and other disabilities have access to the supports and accommodations they require to exercise power, choice and control in decision making.

Joint owners may own a home as **joint tenants** or **tenants in common**. Under a joint tenancy, there is a right of survivorship, meaning that if one owner passes away, their interest in the home flows to the surviving owner. If the owners are tenants in common, and one owner passes away, their interest in the home does not flow to the surviving owner but becomes part of the deceased owner's estate.

Oftentimes, in a joint ownership arrangement between non-family members, the co-owners enter into a joint ownership agreement. This agreement addresses issues such as dispute resolution, financial contributions, and the passing of a joint owner. In some instances of joint ownership arrangements between family members (i.e. parent and adult child), some of these issues are addressed in the family member's will. It is possible for family members to also enter into a joint ownership agreement, such as between a parent and child, or between siblings. This could help to account for uneven financial contributions, the passing of a joint owner, or resolutions to disputes. The use of joint ownership agreements should be considered on a case-by-case basis and based on legal advice.

3. Bare Trust

A trust is established when legal ownership, control and management of property is vested in one or more individuals (a "trustee") for the benefit of another individual or individuals (a "beneficiary"). In most cases, the legal relationship is established under a formal trust agreement whereby one person (the "settlor") transfers property to the trustee for the benefit of the beneficiary. For example, a parent (as the Settlor) establishes a trust and transfers a housing unit (the property) to a trusted family member or friend (as the Trustee) for the benefit of a child with a disability (as the Beneficiary).

A bare trust is a trust arrangement whereby the trustee holds property with the sole purpose of conveying it to the beneficiary upon the beneficiary's request.. For clarity, a bare trust is really an *agency agreement* under which the trustee acts strictly on the instructions of the beneficial owner, acting solely as agent to the beneficiary without any discretionary powers.

In respect of a bare trust arrangement in which the trustee holds the home for the beneficiary with a disability, even though the legal title to the home is held by the trustee, the true beneficial owner is the beneficiary, who has full control and decision making in respect of the home under the bare trust agreement. The trustee acts merely as an agent for the beneficiary and holds no power with respect to the home.

ACTION ITEM!
Complete the Client Checklist

Complete the checklist below to gather information about your client – this will assist you in evaluating homeownership options.

ITEM	NOTE	✓
1. PRELIMINARY MATTERS		
Is your client a person with a developmental disability who is considering homeownership?		☐
Has your client already acquired a home or is in the process of acquiring a home? If purchased, request a copy of the purchase and sale details of the home including the source of funds used to acquire the home.		☐
Is your client being assisted by a family member, friend or support network?		☐
2. ABILITY TO MANAGE PROPERTY		
Does your client have the ability to manage property (financial matters) on their own?		☐
Does your client require any supports or accommodations to manage property or make decisions associated to property?		☐
If your client does not have the capacity to manage property on their own, even with supports and accommodations, do they have a power of attorney, recognized supported decision-making arrangement, other representative, or a legal guardian?		☐
3. ACQUISTION AND FINANCING OF THE HOME		
What is your client's income? Request a copy of their latest tax return.		☐
What is your client's source of income?		☐
Is your client currently receiving provincial/territorial disability support payments?		☐
Is there a financing arrangement in relation to your client's homeownership? Consider the source of funds for the acquisition of the home, a forecast of the funds required to maintain the home, and the likelihood of a renter required to offset expenses.		☐

ITEM	NOTE	✓
5. FUTURE TRANSITION FROM THE HOME		
Is your client planning on selling the home in the future?		☐
6. ESTATE PLANNING		
Does your client have a will?		☐
Is your client the beneficiary of any trusts?		☐
Does your client have a Registered Disability Savings Plan ("RDSP")? If so, request a statement.		☐
Does your client have any other assets? If so, list them.		☐

Stage 2:
IDENTIFY A MODEL OF HOMEOWNERSHIP

STAGE 2: IDENTIFY A MODEL OF HOMEOWNERSHIP

BACKGROUND – KEY FACTORS TO CONSIDER

Now that you have gathered information about your client, consider the following six factors that may enhance or eliminate homeownership options under one of the three models.

1. **Legal Status and Contractual Capacity**

   The capability of a homeowner with a developmental disability to manage property (financial matters) will directly impact which option for homeownership may be implemented. A person's capability for this purpose results from a combination of their individual skills and abilities, the decision-making supports they might need and whether they have access to them (e.g., communication aids/devices, decision-making supporters), the accommodations that a bank or others provide in the process, and their legal status. For example, if the homeowner is not capable of signing a contract is not able to appoint a power of attorney, does not have a substitute decision-maker/guardian in place, and supported decision-making arrangements are not available in that jurisdiction, it is unlikely the person could own the home as the sole owner, as a joint owner, or under a bare trust agreement with a family member. It may be beneficial to explore other options such as a housing or discretionary trust. The determination of contractual capacity varies between provinces and territories.

2. **Acquisition and Financing of the Home**

   How the home is acquired and financed is relevant in narrowing homeownership options.

   Homes for people with developmental disabilities could be acquired and financed in one of three ways:

   a) **A transfer from a parent or family member (either while the parent or family member is alive or upon passing, through their estate);**

      While alive, a parent or family member could transfer 100% of a home to an adult family member with a developmental disability or transfer a share of the home to their family member with the intent of that member becoming a joint owner of the home. Under this type of transfer, the adult family member becomes a beneficial owner of the home at the date of transfer and is therefore liable for their share of the expenses of the home (i.e. mortgage, property tax).

      If the acquisition of a home is from the estate of a parent or family member, the home could either be property of the estate, or acquired from the proceeds from the estate for their adult family member (as a beneficiary of the estate). Depending on the terms of the parent or family member's will, it is up to the individual who is in charge of the estate (the executor) to decide whether the home is to be held in a trust for the beneficiary, or if the beneficiary is capable of being the sole owner of the home.

b) A direct purchase agreement (either solely or jointly); or

The home could be acquired and financed directly by a person with a developmental disability, either as the sole owner or jointly with a parent or other trusted person. In this case, qualification for financing (i.e. mortgage) may be affected by the person's legally recognized capacity to manage property and/or level of income. If so, options may include having a family member provide a personal loan or act as a mortgage guarantor.

c) An indirect purchase agreement (through the use of a bare trust).

The home could be purchased through a bare trust arrangement, which may be established by a family member for the beneficiary of the trust. In this case, a family member could transfer a home to the trust, or contribute funds to a trust to purchase a home.

3. Impact on Social Assistance

Homeownership may have an impact on the social assistance received by a person with a developmental disability. Most social assistance programs consider a person's principal residence as an exempt asset for the purpose of determining income support. If a portion of the home is rented out, however, the rental income to the person with a developmental disability may impact the amount of social assistance received.

If the home is eventually sold, the proceeds from the sale of the home may also impact the amount of social assistance received by a personal with a developmental disability. In order to remain eligible for social assistance, these proceeds may be transferred to an asset that is considered exempt (such as another principal residence or a Registered Disability Savings Plan).

4. Funding for Recurring Home Expenses

The responsibility for the funding of recurring home upkeep and maintenance expenses (i.e. property taxes, utilities, property upkeep, and mortgage payments) should be a consideration when deciding the following options for homeownership:

A. Sole and Joint Owners:

The source of the funds for recurring home upkeep and maintenance expenses is either from contributions from the sole owner or from each of the joint owners in proportion to their ownership share in the home. In considering a sole or joint home ownership option, estimates of recurring home expenses should form part of the budget when determining the affordability of sole or joint home ownership.

B. Bare Trusts:

The source of funds for recurring home upkeep and maintenance expenses is 100% from contributions from the beneficiary in the bare trust agreement. Since the role of the trustee is **only** as legal title holder of the home, the beneficiary is fully responsible for recurring home expenses and estimates of these expenses should form part of the budget when the beneficiary is determining the affordability of home ownership under a bare trust arrangement.

C. Other Trusts:

The source of funds for recurring upkeep and maintenance expenses for homes held in either an inter vivos trust or a testamentary trust may be from the capital or income of the trust. In general, the role of the trustee under these types of trusts is to **manage trust property** for the benefit of the beneficiary and the trustee may use funds from the trust to pay for recurring home expenses. In considering home ownership under these types of trusts, the availability of funds in the trust to pay for recurring home expenses should form part of the budget in determining the viability of these types of trusts to hold the home and pay recurring upkeep and maintenance expenses.

5. Future Transition from the Home

Planning for an unexpected move from the home by the homeowner with a developmental disability may influence the choice of homeownership option. For example, as a sole owner, the homeowner is responsible for the sale of the property, and the decisions related to the proceeds of sale. If the homeowner is in a joint ownership arrangement, the homeowner requires the joint owner to agree to the sale of the property. Upon the sale of the home, there may be tax consequences to the joint owner that may make them reluctant to sell the property.

Upon the sale of a home held in an inter vivos trust, the current legislation does not allow for the beneficiary to claim the principal residence exemption (however, in late 2019, Finance Canada proposed a change to the legislation to allow such arrangements to be able to claim the exemption. As of December 2020, this change has not yet been enacted). As such, any capital gains from the eventual sale of the home will be taxed at the highest tax rate (unlike a home held in a testamentary trust, in which the beneficiary is eligible to claim the principal residence exemption).

Therefore, planning for a possible transition from the home is likely to affect the decision under which model the home is held.

6. Estate Planning

For anyone, it is important to preserve and protect assets that are earned throughout a lifetime. For most people, a home is their largest asset. Therefore, under any of the homeownership options, it is imperative that the parent(s) and any family member with an ownership interest in a home carefully draft a will to ensure the home is disbursed according to their wishes.

For a person with a developmental disability, as with anyone, drafting a proper will is especially important if the person owns a home or the home is held in a bare trust, as it will form part of their estate upon death. Without a will in place, the person cannot determine to whom the home or ownership interest in the home goes to upon their passing. If the person is a sole owner of a home or the beneficial owner of a home through a care trust and there is no will in place, the home will likely be transferred to next of kin, in accordance with provincial/territorial legislation. If the person is a joint owner of a home and there is no will in place, their ownership interest in the home will transfer to any surviving joint owners (in a joint tenancy arrangement) or to their next of kin, in accordance with provincial/territorial legislation (in a tenancy in common arrangement.) With a properly drafted will, the person may identify their choice of beneficiary for the home or their ownership interest in the home (if they are a tenant in common).

In order to draft a will, a person must have testamentary capacity in accordance with provincial or territorial law. Note that testamentary capacity is not fixed and unchanging but may fluctuate over time.

ACTION ITEM!
Identify a Model of Homeownership

Applying the six key factors, use the chart below to identify which homeownership model best suits your client.

<table>
<tr><th></th><th>SOLE OWNERSHIP</th><th>JOINT OWNERSHIP</th><th>BARE TRUST</th></tr>
<tr><td>ABILITY TO MANAGE PROPERTY</td><td colspan="3">• If your client is incapable of entering into a contract on their own, in accordance with existing provincial/territorial law, consider:
o Whether decision-making supports and accommodations would address their capacity needs in the circumstances
o Having your client appoint a power of attorney
o Creating a joint ownership or bare trust
• If your client cannot be accommodated or appoint a power of attorney, some may suggest appointing a guardian of property for the person. While this is an option, it requires a legal finding that the person is incapable and a removal of their decision-making authority. Research shows this can have lasting negative consequences for the equal recognition and status of a person. Housing tenure options which avoid this outcome should be the priority.</td></tr>
<tr><td>ACQUISITION AND FINANCING OF THE HOME</td><td>• The home could be acquired and financed directly by your client. Qualification for financing (i.e. a mortgage) could be a barrier. A family member may have to provide a loan or act as a mortgage guarantor.
• A family member, while alive or upon passing, could transfer the home to your client as a sole owner. Your client would become beneficial owner of the home and be liable for financing obligations (i.e. a mortgage.)
• Proceeds from an estate (usually a family member's estate) could be</td><td>• The home could be acquired and financed directly by your client as joint owner with a family member. Qualification for financing (i.e. a mortgage) could be a barrier. A family member may have to provide a loan or act as a mortgage guarantor.
• A family member, while alive or upon passing, could transfer a portion of the home to your client as a joint owner. Your client would become a beneficial co-owner of the home and be liable for financing obligations (i.e. a mortgage.)</td><td>• The home could be purchased through a bare trust established by a family member (the "settlor") for your client. The settlor could transfer a home to the trust, or contribute funds to a trust to purchase a home.
• The bare trust is an agency relationship where the trustee holds the property only as nominee for the beneficiary.</td></tr>
</table>

	SOLE OWNERSHIP	JOINT OWNERSHIP	BARE TRUST
	used to purchase a home for your client, as beneficiary of the estate.		
IMPACT ON SOCIAL ASSISTANCE	• If the home is your client's principal residence, it may be an exempt asset for the purpose of determining income support. • If a portion of the home is rented out, any rental income may impact social assistance. • The proceeds from the sale of the home may impact the amount of social assistance. In order to remain eligible for social assistance, these proceeds may be transferred to an asset that is considered exempt (such as another principal residence or a Registered Disability Savings Plan). • *Be sure to review any related legislation.*		• Ownership of the home in a trust should not affect your client's social assistance. • If a portion of the home is rented out, any rental income may impact social assistance. • *Be sure to review any related legislation.*
FUNDING FOR RECURRING HOME EXPENSES	• Your client is responsible for funding recurring home expenses.	• The joint owners are responsible for funding recurring home expenses.	• Your client is responsible for funding recurring home expenses.
FUTURE TRANSITION FROM THE HOME	• Your client would be responsible for the sale of the home, and the decisions related to proceeds of sale. • If your client lives in the home, they may claim a **principal residence exemption ("PRE")** upon the sale of the home and not be liable for taxes on any gain in the value of the home during their ownership.	• The joint owners must agree to the sale of the home. • There may be tax consequences to the joint owner for the sale of the home. • If both joint owners live in the home, the PRE may apply to offset any tax liability that may arise upon the sale of the home.	• As your client is the beneficial owner of the home, the PRE may apply to offset any tax liability that may arise upon the sale of the home.
ESTATE PLANNING	• It is imperative that your client have a will, as the home will form part of their estate upon death. • If there is no will in place, the home will transfer to family members in a specified order. • The PRE on any capital gains would apply.	• It is imperative that your client have a will to denote what happens to their ownership interest in the home upon death. • The PRE on any capital gains may only apply to your client's ownership interest in the home.	• It is imperative that your client have a will, as the home will form part of their estate upon death. • If there is no will in place, the home will transfer to family members in a specified order. • The PRE on any capital gains may apply while the home is held by the estate.

Stage 3:
WHAT TO CONSIDER

ACTION ITEM!
Inform Your Client

Now that you have selected a model of homeownership, convey any legal considerations, tax implications or compliance requirements to your client.

	SOLE OWNERSHIP	JOINT OWNERSHIP	BARE TRUST
Legal Considerations	• The owner must be contractually capable to enter into a contract. For example, the owner must be competent to enter into buy/sell agreements or to understand and sign mortgage documents. • Consider exposure to creditor action or domestic action on account of a relationship breakdown. For example, if the owner resided in a common law relationship that suffered a breakdown, the estranged common law partner could launch action against the owner and their assets (i.e. the home). • It is imperative that your client have a will that protects and reflects their wishes, as the home will form part of their estate upon death. • It is imperative that your client have a Power of Attorney for Property (or	• Joint owners must be contractually capable to enter into a contract. For example, the joint owners must be competent to enter into buy/sell agreements or to understand and sign mortgage documents. • Joint owners may be joint tenants, with a right of survivorship, or tenants in common, where the co-owner's interest in the home forms part of their estate upon death. • Consider exposure to creditor action or domestic action on account of a relationship breakdown. For example, if the joint owner resided in a common law relationship that suffered a breakdown, the estranged common law partner could launch action against the joint owner and their assets (i.e. the home).	• As a matter of good practice, a bare trust agreement should be drafted to explicitly state that legal title to the property (i.e. the home) is held by the trustee acting only in the role as an agent for the beneficiary. • The trust agreement should also state (i) that the trustee has no authority, responsibilities, or power in respect of the decision making for the property, and (ii) the trustee acts only on instruction from the beneficiary and those instructions must be carried out. • It is imperative that your client have a will that protects and reflects their wishes, as the home will form part of their estate upon death. • It is imperative that your client have a Power of Attorney for Property (or similar mechanism) in place to

<table>
<tr><th></th><th>SOLE OWNERSHIP</th><th>JOINT OWNERSHIP</th><th>BARE TRUST</th></tr>
<tr><td></td><td>similar mechanism) in place to appoint a substitute decision-maker for property-related decisions, in case of incapacity.</td><td>If the ownership is between a parent and an adult child with a developmental disability, a right of survivorship usually applies that makes the adult child the sole owner of the home upon the parent's passing. However, depending on the financing of the joint homeownership, the presumption of resulting trust may apply — that is, the adult child joint owner may be presumed to hold the beneficial interest in the home as a result of a trust from the parent's estate (which may or may not be the parent's wishes). In other words, rather than being a party to joint ownership, the adult child may be presumed the beneficiary of a trust established by their parent.
If the joint owners are non-family members, they may wish to enter into a joint ownership agreement.</td><td>appoint a substitute decision-maker for property-related decisions, in case of incapacity.</td></tr>
<tr><td>Tax Implications</td><td>The owner may claim the principal residence exemption ("PRE") upon the sale of the home and not be liable for taxes on any gain in the value of the home during their ownership (as long as the owner occupied the home)
The owner may claim the PRE up to the date of their passing. Upon</td><td>Upon the eventual sale of the home, income tax is payable on the sale of proceeds that are greater than the original purchase price of the home.
If both joint owners ordinarily reside in the home, the PRE will apply to offset any tax liability that may arise upon the sale of the home.</td><td>A bare trust is not considered a taxpayer. There are no income tax and GST/HST filings or tax obligations required (i.e. no annual T3 is required, nor is there application of the 21-year deemed disposition rule).
The beneficiary, as the beneficial owner, is responsible for reporting any income earned in the bare trust.</td></tr>
</table>

	SOLE OWNERSHIP	JOINT OWNERSHIP	BARE TRUST
	passing, the home is part of the owner's estate, and any gain in the value of the home, from the date of passing to the eventual sale by the estate, is subject to tax. • If the owner rents a portion of their home for fair market rent, the owner must claim the rent amount as income on their T1 personal income tax return (which may or may not affect the amount of provincial/territorial disability assistance the owner may receive).	• If both joint owners do not reside in the home: (i) the joint owner that does *not* live in the home will be subject to an income tax liability on their fraction of the sale proceeds of the home exceeding the initial purchase price of the home; and (ii) the joint owner that lives in the home may claim the PRE and avoid any tax liability that may arise upon the sale of the home.	This income is reported on the beneficiary's T1 personal income tax return. • As the beneficial owner, the beneficiary is eligible to claim the PRE on a home held in a bare trust.
Compliance Requirements	• Upon the sale of the home, the owner is required to report the proceeds of sale on their T1 personal income tax return (with the offsetting claim for the PRE). • Upon the owner's passing, the property may need to be probated (depending on all of the property in the estate).	• Upon the sale of the home, the joint owners are required to report the proceeds of sale on their T1 personal income tax return (with the offsetting PRE for each joint owner, if applicable). • Upon the owner's passing, the property may need to be probated (depending on all of the property in the estate).	• There are no annual reporting requirements.