

Taxation Overview

Taxation

INTRODUCTION

Welcome to Taxation. This six-week course serves as an introduction to both personal and corporate taxation.

COURSE PREREQUISITES

- The prerequisites for this course are the following courses or equivalent post-secondary course credits:
 - Intermediate Financial Reporting 1
 - Intermediate Financial Reporting 2
- **Mathematics:** You are expected to have a sound understanding of basic mathematics and its application in the business context. The required level of knowledge can be gained from any standard business mathematics text.
- **Software skills:** You are expected to have acquired basic competence with Microsoft Windows and Microsoft Excel.

STRUCTURE AND DELIVERY

Taxation is delivered over six weeks and includes the following material:

- Student Notes
- Practice Problems with Solutions
- Student Slides (PDF)
- In-Class Problems
- Quizzes
- Projects
- Instructional videos
- Suggested Study Plans
- CPA Canada Learning eBook: Volume 6 – Taxation

The student notes and Learning eBook readings are the basis for learning the material presented in the course. The notes and readings cover each concept in sufficient detail as

related to the competency map. The practice problems give you individual practice in mastering the concepts taught in the student notes. The student slides provide a summary of the concepts covered in the course and should be used concurrently while reviewing the instructional videos and/or in-class lectures. In-class problems (ICPs) are facilitator led — either taught in class or, for distance students, presented as a video of each ICP. ICPs help you establish an effective approach to use while working through the practice problems. Quizzes are detailed in the assessment section of the course overview. You will be required to submit two separate projects.

Finally, suggested study plans are provided to assist in planning study time. You are encouraged to personalize these plans to meet your individual needs. The suggested study plan for each week also provides required readings from reference documents provided to you.

Students should note that the solutions to ICPs and slide exercises can be accessed by watching the video for that week or by attending a class. In some cases, slides, problems or exercises have been edited for clarity and formatting and therefore may appear different in the individual student files than they do in the video presentations.

Students should expect to spend 16 to 20 hours each week completing the material, excluding time spent in class or viewing videos. **Students are strongly encouraged to review the material and related exercises prior to attending class or watching the videos each week. It is also recommended to bring a copy of the *Income Tax Act* to class each week (electronic or hard copy).**

Canadian *Income Tax Act*

Please note that the student notes include references to sections of the Canadian *Income Tax Act* (ITA). This statute is the primary source of tax law in Canada and will be the primary reference source for this course. The referenced sections of the ITA are mandatory reading, equal in value to the student notes and related material; however, students are not required to reference sections of the ITA when responding to exam or quiz questions. Instructors may refer to section numbers in order to assist students in finding a relevant section of the ITA to allow further study.

Unless stated otherwise, this version of Taxation covers tax legislation in effect as of June 22, 2017. Pending amendments to the ITA and Regulations are not examinable as they are not yet enacted.

If there are any references to income tax folios, interpretation bulletins (IT bulletins), information circulars (ICs) and technical news, they are located on the Canada Revenue Agency (CRA) website. The folios, IT bulletins, ICs and technical news will assist you in understanding the application of the law.

Note that the CRA is phasing out the IT bulletins and technical news and will replace these publications with income tax folios, a new tax technical publication. The folios are subdivided into topic-specific chapters. This update process is expected to take place over a number of years. IT bulletins and technical news will be cancelled as new folio chapters become available. For more information, see the CRA website (cra-arc.gc.ca/menu-eng.html).

The CRA website is also a reference source for Taxation, in addition to the ITA.

Virtual Professional Library (VPL)

You will be provided with access to the Virtual Professional Library (VPL). The VPL is a collection of standards, rules and guidelines published by CPA Canada.

Although not required reading for the course, you are encouraged to start becoming familiar with the standards as currently provided through the *CPA Canada Handbook*.

The VPL also contains the *Income Tax Act*, Income Tax Regulations and related reference materials.

THE CPA WAY

You are encouraged to use the CPA Way, a methodical process for working through complex problems, when answering judgment-based questions in the course materials. CPA Way videos are located on the course homepage.

ASSESSMENTS

The overall mark needed to pass the course is 60% (with an average of 65% across all prerequisite courses required for entry into the Professional Education Program). There are three components to the evaluation of Taxation: quizzes, the projects and the final exam.

Quizzes

- Quizzes are worth 12% of the course mark.
- You are encouraged to print off the quiz questions and work through them as you study each week's material.
- Study group discussion/collaboration on the D2L discussion board is encouraged, but you must individually complete all quizzes.
- Quizzes are due at the end of each week. Ensure that you submit your answers online by the required dates and times listed in the calendar on D2L. **Do not wait until the last minute to submit in case you have an Internet connection problem.** There is only one opportunity to submit each quiz.
- Quizzes are graded based on the marks you receive. (If you answer four out of the five questions on the quiz correctly, you would receive 80% on that quiz.)

Projects

- The projects are worth 18% of the course mark.
- Completion and submission of the projects is mandatory.
- Study group discussion/collaboration is encouraged, but you must individually complete and submit your projects.
- There are two separate projects:
 - Project 1 is due at the end of Week 3.
 - Project 2 is due at the end of Week 5.
- Ensure that you submit your work online by the required dates and times listed in the calendar in D2L. **The projects cannot be submitted late.**
- The projects will require approximately 15 to 20 hours of work in total.
- Upload your submission to D2L following the instructions in the Project Formatting document.
- **It is highly recommended that you start working on the projects after you have reviewed the content for each week. This will prevent you from spending a large amount of time completing the projects near the due dates.**

Exam

- The exam is worth 70% of the course mark.
- It is four hours in length.
- It consists of approximately 50% multiple-choice questions and approximately 50% constructed-response questions.
- A copy of the Taxation Exam Reference Schedule is provided with the exam. This schedule is available on D2L for student reference. It is recommended that you use this schedule to complete practice problems and in-class problems so you become familiar with it.
- An exam review webinar will take place for study purposes. The webinar will be recorded and available on D2L.
- The exam tests material covered throughout the entire course.
- Your provincial/regional affiliate will communicate the date and time of your final exam.
- The exam must be written in order to pass the course.

Rewriting the exam

- Students who score 50% or more in the course can attempt to write the exam again in the next available offering of the course. The mark received on this exam attempt will replace the mark received for the previously written exam (70% of the course mark).
- For study purposes, exam review materials will be posted after the final course marks are released.
- Your provincial/regional affiliate will communicate the date and time of the next available offering of the course exam.

MARKS CALCULATION EXAMPLE

The following scenarios with Student A and Student B demonstrate how course marks are calculated.

Student A

Student A struggled to complete the quizzes and received a mark of 1/5 on three of the quizzes and 2/5 on the other three. Quizzes are worth 12% of the final mark, or 2% per quiz. Student A received a mark of 15 out of 40 on the first project and 15 out of 45 on the second. Projects are worth 18% of the final mark, or 9% each. Student A received a mark of 55% on the exam, which is worth 70% of the final mark. Student A's final course mark would be calculated as follows:

$$\begin{aligned} \text{Quizzes} &= (1/5 \times 2) + (1/5 \times 2) + (1/5 \times 2) + (2/5 \times 2) + (2/5 \times 2) + (2/5 \times 2) = 3.6 \\ \text{Project 1} &= 15/40 \times 9 = 3.4 \\ \text{Project 2} &= 15/45 \times 9 = 3.0 \\ \text{Exam} &= 55/100 \times 70 = 38.5 \end{aligned}$$

$$\text{Final course mark} = 3.6 + 3.4 + 3 + 38.5 = 48.5\%$$

Student B

Student B did very well on the quizzes, and received a mark of 4/5 on four of the quizzes, and a perfect score of 5/5 on the other two quizzes. Quizzes are worth 12% of the final mark, or 2% per quiz. Student B received 35 out of 40 on the first project and 43 out of 45 on the second. Projects are worth 18% of the final mark, or 9% each. Student B received a mark of 85% on the exam, which is worth 70% of the final mark. Student B's final course mark would be calculated as follows:

$$\begin{aligned} \text{Quizzes} &= (4/5 \times 2) + (4/5 \times 2) + (4/5 \times 2) + (4/5 \times 2) + (5/5 \times 2) + (5/5 \times 2) = 10.4 \\ \text{Project 1} &= 35/40 \times 9 = 7.9 \\ \text{Project 2} &= 43/45 \times 9 = 8.6 \\ \text{Exam} &= 85/100 \times 70 = 59.5 \end{aligned}$$

$$\text{Final course mark} = 10.4 + 7.9 + 8.6 + 59.5 = 86.4\%$$

OVERVIEW OF TOPICS

The following is a brief overview of the topics covered in Taxation by week.

Week 1

Week 1 introduces you to the *Income Tax Act* (ITA) and the taxation laws in Canada. You will look at legal forms and structures, and sources of income. Week 1 also discusses income from office and employment, employment inclusions and deductions, and sales and home office expenses.

Topic 1.1: Introduction

1.1-1 Levels of government and their roles in the Canadian tax system (Level C)

- the federal government
- the Department of Finance
- the Canada Revenue Agency
- provincial and territorial governments

1.1-2 Sources of income tax law (Level C)

- the *Income Tax Act*
- draft legislation
- Income Tax Regulations
- court decisions (common law)
- income tax conventions and treaties

1.1-3 Sources of interpretation of the *Income Tax Act* (ITA) (Level C)

- income tax folios
- interpretation bulletins
- information circulars

1.1-4 Other types of taxation (Level B)

1.1-5 Federal income tax collection (Level C)

1.1-6 Structure of the ITA (Level C)

- Part I
- understanding the wording of the ITA

Topic 1.2: Types of taxpayers and business entities and computation of income

1.2-1 Types of taxpayers and business entities (Level B except as noted)

- definitions
 - taxable income
 - person resident in Canada
 - taxation year
 - taxpayer
- corporations
 - public corporations and private corporations, including CCPCs
 - other corporations
- other (non-taxpayer) entities/structures
 - sole proprietorships
 - partnerships
 - joint ventures and syndicates

1.2-2 Sources of income (Level B)

- concept of “sources of income”
- five sources of income
 - employment income
 - business income
 - property income
 - capital gains
 - other income

1.2-3 The aggregating formula for net income for tax purposes (Division B) (Level B)

1.2-4 Net income for tax purposes and taxable income — an overview (Level B)

1.2-5 Tax rates (Level B)

Topic 1.3: Income from an office or employment and employment income inclusions

1.3-1 Income from an office or employment (Level B)

- salaries, wages and other remuneration
- taxable benefits
- items excluded from employment income by the ITA
- items excluded from employment income based on CRA administrative practice
- insurance plans
- gifts, awards and long-service awards

1.3-2 Allowances for personal or living expenses (Level B)

- exceptions

1.3-3 Director's fees (Level B)

1.3-4 Automobile benefits (Level B)

- standby charge
- reduction available to basic standby charge
- operating cost benefit on employer-owned automobiles
- operating cost benefit on employee-owned automobiles
- reimbursements
- summary of automobile benefits

1.3-5 Payments by employer to employee (Level B)

1.3-6 Interest on employee debt (Level B)

- imputed interest benefit
- home purchase loan
- home relocation loan
- deemed interest benefit is interest paid
- amount of the loan included in income
- summary of interest benefit

1.3-7 Eligible housing loss (Level B)

1.3-8 Stock options (Level B)

- purpose
- no deduction to employer
- general rule
- grant date, exercise date, date of sale
- factors affecting timing of income inclusion
- stock option deduction in computing taxable income
- summary of rules for stock options

Topic 1.4: Employment income deductions

1.4-1 Deductions in computing income from employment (Level B)

1.4-2 Legal expenses of employee (Level B)

1.4-3 Travel expenses (Level B)

- non-motor vehicle expenses
- meals
- motor vehicle expenses
- leasing costs of motor vehicles
- record-keeping requirement

1.4-4 Dues and other expenses of performing duties (Level B)

1.4-5 Form T2200 (Level B)

1.4-6 Motor vehicle and aircraft costs (Level B)

- restrictions on CCA and interest deduction

- 1.4-7 Registered pension plan contributions (Level B)
 - 1.4-8 Other deductions (Level B)
 - 1.4-9 Sales expenses of commission employees (Level B)
 - 1.4-10 Home office expenses (Level B)
 - 1.4-11 Employee GST/HST rebate (Level B)
 - 1.4-12 Optimizing a claim for employment expenses (Level B)
- APPENDIX A: Glossary
- APPENDIX B: Acronyms

Week 2

Week 2 first focuses on capital cost allowance (CCA). CCA is key to understanding business income. The second part of the week looks at business income, including basic rules and principles, determination of profit, inclusions and deductions.

Topic 2.1: Capital cost allowance

2.1-1 Introduction to capital cost allowance (CCA) (Level B)

- legislation
- terminology
- key concepts

2.1-2 CCA calculations (Level B)

- calculation methods
- undepreciated capital cost (UCC)
- recapture and terminal loss
- common CCA classes
- specific classes
- available for use
- short taxation year

2.1-3 CCA Class 14.1 (Level B)

- rules in effect prior to 2017
- rules effective January 1, 2017
- transitional rules

Topic 2.2: Business income introduction

- 2.2-1 Basic rules and principles of business income (Level B)
- 2.2-2 Business income versus employment income (Level C)
- 2.2-3 Business income versus property income (Level B)

2.2-4 Business income versus capital gains (Level B)

2.2-5 Timing of reporting of business/property income (Level B)

Topic 2.3: Business income — determination of profit and inclusions

2.3-1 Determination of profit (Level B)

- the concept of profit
- separating sources

2.3-2 Inclusions (Level B)

- inventory valuation
- amounts received during the year
- amounts receivable in the year
- prior-year reserves
- insurance proceeds

Topic 2.4: Business income — deductions

2.4-1 General limitations on deductions (Level B)

- the “reasonableness” test
- expenses for food and entertainment
- interest on borrowed money for passenger vehicle
- cost of leasing passenger vehicle
- unpaid remuneration
- conventions
- prepaid expenses

2.4-2 Specific limitations on deductions (Level B)

- the income-producing test
- capital expenditures
- reserves
- personal and living expenses
- use of recreational facilities and club dues
- political contributions and charitable donations
- certain automobile expenses
- fines, penalties and illegal payments
- costs relating to construction of building or ownership of land
- home office
- the limit on certain interest and property taxes

2.4-3 Financing: Interest and expenses (Level B)

- interest
- expenses
- premiums on insurance used for collateral

2.4-4 Deductible reserves (Level B)

- doubtful or impaired debts
- bad debts
- reserve for future goods and services
- reserve for unpaid amounts
- summary of certain income inclusions and related reserves

2.4-5 Various other deductions (Level B)

- employer contributions
- landscaping costs
- expenses of representation
- site investigation
- utilities service connection
- private health services plan premiums
- CPP/QPP contributions on self-employed earnings
- summary

APPENDIX A: T2 Schedule 1

Week 3

This week first explores property income, in particular interest, dividends and rental income. The concept of integration as it relates to dividend income is introduced. The remaining topics cover the general and specific rules for capital gains and losses, followed by other income, other deductions and deferred income plans.

Topic 3.1: Property income

3.1-1 Property income: Introduction (Level B)

3.1-2 Interest income (Level B)

- reporting interest

3.1-3 Dividend income (Level B)

- corporations
- individuals
- non-eligible dividends
- eligible dividends
- 2017 gross-up and federal dividend tax credit rates
- integration
- other dividends
- election to include dividend income of spouse

3.1-4 Investment counsel fees (Level B)

3.1-5 Rental income (Level B)

- CCA claims for rental income

Topic 3.2: Taxable capital gains and allowable capital losses — general rules

3.2-1 General rules (Level B)

- capital gains and losses
- adjusted cost base (ACB)
- allocation of proceeds of disposition

3.2-2 Special types of capital property (Level B)

- principal residence
- personal-use property (PUP)
- listed personal property (LPP)
- summary of PUP and LPP
- identical properties

3.2-3 Business investment loss (BIL) (Level B)

Topic 3.3: Taxable capital gains and allowable capital losses — special rules

3.3-1 Special rules (Levels B and C)

- dispositions to affiliated persons — superficial losses
- capital gains reserves
- small business share rollover
- election — disposition of Canadian securities
- options
- convertible property

Topic 3.4: Other sources of income and other deductions

3.4-1 Other sources of income (Level B)

3.4-2 Other deductions (Level B)

- support
- transfers of certain retirement income
- moving expenses
- child care expenses
- disability supports deduction

3.4-3 Deferred income plans (Level C)

- Registered Retirement Savings Plan (RRSP)
- Tax-Free Savings Account (TFSA)
- Registered Education Savings Plan (RESP)
- Registered Disability Savings Plan (RDSP)

Week 4

Week 4 discusses stakeholder relationships, special rules for dispositions of capital property, and calculation of taxable income and tax payable for an individual.

Topic 4.1: Stakeholder relationships

4.1-1 Related and non-arm's-length persons (Levels B and C)

- relationships between taxpayers
- ITA scenarios: related persons (control)
- inadequate consideration — gifting
- transfer of property to spouse
- transfer of property to children
- attribution rules

4.1-2 Associated corporations (Level B)

- relationships between corporations
- ITA scenarios: Association between two corporations
- association through a third corporation

Topic 4.2: Special dispositions of capital property

4.2-1 Rules for special dispositions of capital property (Level C)

4.2-2 Replacement property (Level C)

- capital gain
- recapture

4.2-3 Disposition of land and building together (Level C)

4.2-4 Non-arm's-length acquisitions (Level C)

- non-depreciable property
- depreciable property

4.2-5 Loss on transfers between affiliated persons (Level C)

- terminal losses realized by affiliated persons

4.2-6 Change in use of property (Level C)

- income-producing to personal-use property
- personal-use to income-producing property
- election available

4.2-7 Consideration — FMV (Level C)

Topic 4.3: Taxable income for an individual

4.3-1 Common deductions in calculating taxable income (Level B)

4.3-2 Overview of loss-carryover system (Level B)

- non-capital losses
- net capital losses
- ordering of loss carryforwards
- summary of losses

4.3-3 Capital gains deduction (CGD) (Level B)

- qualified small business corporation (QSBC) shares
- allowable business investment losses revisited

Topic 4.4: Tax payable for an individual

4.4-1 Tax payable for an individual — overview (Level B)

- calculating taxes payable for an individual
- calculating gross federal tax on taxable income

4.4-2 Non-refundable tax credits (Level B)

- personal
- age amount
- spousal or common-law partner
- eligible dependant
- Canada caregiver amount
- CPP/QPP contributions
- EI premiums
- Canada employment amount
- disability amount
- transfer of disability amount
- adoption expenses
- medical expenses
- home accessibility amount
- home buyers' amount
- pension income amount
- interest on student loans
- tuition amount
- transfer of tax credits to a spouse
- other non-refundable tax credits
- ordering of non-refundable tax credits

4.4-3 Refundable tax credits (Level B)

- GST/HST credit
- refundable medical expense supplement
- working income tax benefit (WITB)

4.4-4 Alternative minimum tax (AMT) (Level C)

4.4-5 Clawback of Employment Insurance and Old Age Security (Level B)

4.4-6 Completion of tax payable calculation (Level B)

- calculate net federal tax before payroll withholdings, instalments and refunds for overpayments of CPP and EI
- determine balance of tax payable or refundable

APPENDIX A: Quick reference of more common non-refundable tax credits

Week 5

This week focuses on the net income, taxable income and types of income for a corporation, including public corporations and Canadian-controlled private corporations (CCPCs). It also looks at integration and tax planning for individuals.

Topic 5.1: Net income for tax purposes and taxable income for a corporation

5.1-1 Net income for a corporation (Level B)

5.1-2 Taxable income for a corporation (Level B)

- deduction for charitable gifts
- dividends received from other corporations
- losses of other years

5.1-3 Types of corporations

Topic 5.2: Types of income for a CCPC

5.2-1 Types of income for a CCPC (Level B)

- active business income (ABI)
- specified investment business (SIB)
- personal-services business (PSB)
- aggregate investment income (AII)
- dividends

Topic 5.3: Tax payable for a public corporation

5.3-1 Tax payable for a public corporation (Level B)

- basic corporate tax rate
- federal abatement for income earned in a province
- general rate reduction
- other tax credits

Topic 5.4: Tax payable for private corporations including CCPCs

5.4-1 Tax payable for a CCPC (Level B)

5.4-2 Taxation of ABI: The small business deduction (SBD) (Level B)

5.4-3 Taxation of personal-services business income (Level B)

5.4-4 Taxation of aggregate investment income (All) (Level B)

5.4-5 Additional refundable tax (ART) on CCPC investment income (Level B)

5.4-6 Taxation of dividend income (Level B)

- refundable Part I tax
- Part IV tax

5.4-7 Connected corporations (Level B)

5.4-8 Refundable dividend tax on hand (RDTOH) (Level B)

- formula for RDTOH
- dividend refund

5.4-9 Capital dividend account (CDA) (Level B)

5.4-10 Summary of refundable tax system (Level B)

5.4-11 Summary of corporate tax rates (Level B)

Week 6

Week 6 focuses on integration and tax planning for individuals. Week 6 also discusses GST/HST, general administrative requirements for income tax filings and the general anti-avoidance rule.

Topic 6.1: Integration and tax planning for individuals

6.1-1 Integration under the ITA — revisited (Level C)

- the need for integration
- the tools of integration
- perfect integration
- integration of a CCPC's investment income

6.1-2 Owner-manager tax planning (Level C)

- incorporation
- tax reasons for incorporating a business
- non-tax issues regarding incorporating a business
- salary versus dividends
- shareholder loans

6.1-3 Lifelong tax planning for all (Level C)

- reducing or avoiding taxes
- deferring taxes
- income splitting
- tax-planning approaches

6.1-4 Tax planning for corporations (Level C)

- non-arm's-length sale of shares

Topic 6.2: Goods and services tax (GST)/harmonized sales tax (HST)

6.2-1 Introduction to GST/HST (Level B)

6.2-2 GST/HST registration (Level B)

6.2-3 GST/HST rates (Level B)

6.2-4 Taxable supplies and input tax credits (ITCs) (Level B)

6.2-5 Collection of GST/HST (Level B)

6.2-6 Accounting for GST/HST (Level B)

6.2-7 Remittance and filing deadlines (Level B)

Topic 6.3: Administration

6.3-1 General administrative requirements (Levels B and C)

- filing requirements and deadlines
- penalties for failure to file
- instalments
- arrears interest
- interest on late instalments
- refunds and refund interest
- penalties for omissions and other offences
- notice of assessment
- notice of objection and appeal process

Topic 6.4: General anti-avoidance rule (Level C)

APPENDIX A: Supply examples for GST/HST purposes

APPENDIX B: Interest and penalties summary

APPENDIX C: GAAR decision tree