

DETAILED TABLE OF CONTENTS

CHAPTER 1 — INTRODUCTION

1. HISTORY	3
2. BASIC LEGISLATIVE DOCUMENTS	3
2.1. Income Tax Act (ITA).....	3
2.2. Income Tax Application Rules, 1971 (ITAR)	3
2.3. Income Tax Regulations	3
2.4. Tax Treaties.....	4
3. OTHER BASIC DOCUMENTS.....	4
3.1. Bulletins, Circulars, Folios and Other Documents	4
3.2. The Influence of Court Cases in Fiscal Matters.....	6
4. PRINCIPLES AND INTERPRETATION OF THE ACT	6
5. NOMENCLATURE.....	6
6. STRUCTURE OF THE ACT	6
7. TABLE OF CONTENTS OF THE ACT	7
7.1. Income Tax Act (ITA).....	7
7.2. Income Tax Application Rules, 1971 (ITAR)	11
7.3. Income Tax Regulations	12
7.4. Tax Treaties.....	14

CHAPTER 2 — LIABILITY FOR TAX AND RULES FOR COMPUTING INCOME

1. BASIC SECTIONS	29
1.1. Person	29
1.2. Resident of Canada.....	29
1.2.1. Corporation	30
1.2.2. Individual	30
1.2.2.1. Factual Residence — Leaving Canada.....	30
1.2.2.2. Factual residence — Entering Canada	34
1.2.2.3. Deemed resident of Canada.....	35
1.2.2.4. Deemed non-resident of Canada.....	36
1.2.2.5. Tie-breaker rules in tax treaties.....	36
1.2.3. Trust.....	36
1.2.4. Examples	36
1.3. Income and Taxable Income	37
1.4. Income Tax.....	37
1.5. Taxation Year.....	38
2. NON-RESIDENTS.....	39
3. PERSONS EXEMPT FROM TAX	39
4. COMPUTATION OF INCOME	41
4.1. Overview	41
4.2. Comments on Section 3 of the Act.....	42
4.3. Other Comments on the Computation of Income.....	42
4.4. Examples of Computation of Income.....	43
5. AMOUNTS NOT INCLUDED IN COMPUTATION OF INCOME.....	44
5.1. Miscellaneous Amounts	44
5.2. Canada Child Benefit	45

5.3. Working Income Tax Benefit	45
CHAPTER 3 — ADMINISTRATION	
1. INTRODUCTION.....	49
2. RETURNS, ASSESSMENT AND PAYMENT	50
2.1. Returns and Estimate of Tax.....	50
2.2. Assessment and Reassessment	51
2.3. Payment of Tax	53
2.3.1. Deductions at source	53
2.3.2. Individuals.....	55
2.3.3. Corporations.....	56
2.4. Interest.....	57
2.5. Penalties	59
2.6. Refunds	62
3. OBJECTIONS AND APPEALS	63
3.1. Introduction	63
3.2. Notice of Objection.....	64
3.3. Appeals to the Tax Court of Canada.....	65
3.3.1. Informal procedure	65
3.3.2. General procedure	66
3.4. Appeals to the Federal Court of Canada	66
3.5. Appeals to the Supreme Court of Canada	67
4. ADMINISTRATION AND ENFORCEMENT.....	67
4.1. Administration.....	67
4.2. Collection.....	69
4.3. Obligations and Enquiries	69
4.3.1. Books and records	69
4.3.2. Foreign property reporting.....	70
4.4. Tax Shelters.....	71
4.5. Audit.....	71
4.6. Voluntary Disclosures.....	71
4.7. Offences and Punishment.....	72
4.8. Procedure and Evidence	74
5. GENERAL ANTI-AVOIDANCE RULE	74
CHAPTER 4 — INCOME FROM AN OFFICE OR EMPLOYMENT	
1. BASIC SECTIONS	79
1.1. Office and Employment	80
1.2. Salary, Wages and Other Remuneration, Including Gratuities.....	80
1.3. Amounts Received in the Year	80
1.4. Income or Loss.....	81
1.5. Deductions at Source.....	81
2. AMOUNTS TO BE INCLUDED	81
2.1. Value of Benefits.....	81
2.1.1. General rule	81
2.1.2. GST and employment	83
2.2. Allowance for Personal or Living Expenses	84
2.2.1. General rule	84

2.2.2. Disabled employees	85
2.2.3. Part-time employees	86
2.2.4. Emergency Service Volunteers	86
2.2.5. Employment in a remote area.....	86
2.3. Directors' or Other Fees	87
2.4. Profit Sharing Plan	87
2.5. Automobile Provided by Employer	87
2.5.1. Definition	88
2.5.2. Standby charge benefit	88
2.5.3. Operating expense benefit	90
2.5.4. Examples: automobile owned by employer.....	91
2.5.5. Examples: automobile leased by employer.....	92
2.5.6. Automobile salesperson	94
2.6. Employment Insurance Benefits.....	94
2.7. Employee Benefit Plans, Employee Trust and Salary Deferral Arrangement Payments	94
2.8. Payments by Employer to Employee.....	95
2.9. Group Term Life Insurance Policy	95
2.10. Amount in Respect of Interest on Employee Debt	95
2.10.1. General rule	95
2.10.2. Exceptions	96
2.10.3. Home relocation loan	97
2.11. Taxable Benefits in Connection with a Move or Relocation	97
2.12. Agreement to Issue Shares to Employees	98
2.12.1. Employment benefit.....	98
2.12.2. Deduction in computing taxable income.....	99
2.12.3. Shares of Canadian-controlled private corporations	100
2.12.4. Employment benefit deferral — Shares of public corporations	101
2.12.5. Other rules.....	101
3. DEDUCTIONS ALLOWED	102
3.1. Legal Expenses of Employee	102
3.2. Clergyman's Residence	103
3.3. Teachers' Exchange Fund Contribution	103
3.4. Expenses of Railway Employees.....	103
3.5. Transport Employees' Expenses	103
3.6. Sales Expenses	103
3.7. Travel Expenses	104
3.8. Automobile Expenses	104
3.9. Aircraft Costs	107
3.10. Dues and Other Expenses of Performing Duties	107
3.11. Contribution to Registered Pension Plan.....	108
3.12. Salary Reimbursement	108
3.13. Salary Deferral Arrangement	108
3.14. Musical Instrument Owned by an Employee.....	108
3.15. Artists' Employment Expenses.....	108
3.16. Apprentice Mechanic's Tool Costs.....	109
3.17. Tradespeople's Tool Expenses	109
3.18. Home Office.....	109

4. EXAMPLE	110
CHAPTER 5 — MISCELLANEOUS SOURCES OF INCOME AND DEDUCTIONS	
1. INTRODUCTION.....	115
2. MISCELLANEOUS SOURCES OF INCOME	115
2.1. Canada Pension Plan and Other Pension Benefits	115
2.2. Retiring Allowances	116
2.3. Death Benefits.....	117
2.4. Employment Insurance Benefits	118
2.5. Support Payment	118
2.6. Annuity Payments	119
2.7. Other Annuities.....	119
2.8. Miscellaneous Deferred Income Plans.....	119
2.9. Life Insurance Policy Proceeds.....	119
2.10. Legal Expenses Repayment.....	120
2.11. Scholarships, Bursaries, Etc.....	120
2.12. Research Grants.....	121
2.13. Education Savings Plan Payments	121
2.14. Social Assistance, Financial Assistance and Workers' Compensation Payments	121
2.15. Salary Deferral Arrangements and Retirement Compensation Arrangements.....	122
2.16. Benefits from the Arts	122
2.17. Indirect Payments	122
2.18. Retroactive Lump-sum Payments.....	123
2.19. Pension Income Splitting	124
3. MISCELLANEOUS DEDUCTIONS IN COMPUTING INCOME	124
3.1. Support Payment	125
3.1.1. Child support amount.....	125
3.1.2. Other support amount.....	125
3.2. Canada Pension Plan	127
3.3. Registered Retirement Savings Plan.....	127
3.4. Transfers	127
3.5. Overpayment.....	127
3.6. Legal Expenses	128
3.6.1. Objection or appeal	128
3.6.2. Other expenses	128
3.7. Employment Insurance Benefit Repayment	128
3.8. Tax on Old Age Security Benefits	129
3.9. Moving Expenses.....	130
3.10. Child Care Expenses	132
3.11. Disability Supports Deduction	135
3.12. Individuals Absent from Canada.....	136
CHAPTER 6 — TAXABLE INCOME OF INDIVIDUALS	
1. INTRODUCTION.....	139
2. DEDUCTIONS ALLOWED UNDER SECTION 110	140
2.1. Employee Stock Options	140
2.2. Deduction for Payments	141

2.3. Home Relocation Loan.....	142
2.4. Gift By a Member of a Religious Order	142
3. LOSS CARRYOVERS.....	142
3.1. Non-Capital Loss	143
3.2. Net Capital Loss	144
3.3. Farm Loss	144
3.4. Restricted Farm Loss.....	145
3.5. Limited Partnership Loss	146
4. CAPITAL GAINS DEDUCTION	146
5. NORTHERN RESIDENTS DEDUCTION.....	146
6. EXAMPLE OF DEDUCTIONS IN COMPUTING TAXABLE INCOME.....	147

CHAPTER 7 — INCOME TAX PAYABLE BY INDIVIDUALS

1. INTRODUCTION.....	153
2. TAX RATES.....	155
3. INDEXATION	155
4. PERSONAL TAX CREDITS	155
4.1. Basic Credit	155
4.2. Spouse Credit	156
4.3. Equivalent-to-Spouse Credit for Wholly Dependent Person	157
4.4. Canada Caregiver Credit for Minor Child	157
4.5. Canada Caregiver Credit	158
4.6. Age Credit	158
4.7. Employment Credit	159
4.8. Amount of Personal Tax Credits	159
4.9. Example	159
5. EMPLOYMENT INSURANCE AND CANADA PENSION PLAN TAX CREDITS	160
5.1. Employment Insurance.....	160
5.2. Canada Pension Plan	160
6. PENSION CREDIT	161
7. CREDIT FOR MENTAL OR PHYSICAL IMPAIRMENT (DISABILITY CREDIT).....	162
8. STUDENTS' CREDITS.....	163
8.1. Tuition Credit.....	163
8.2. Education Credit	164
8.3. Interest on Student Loan Credit	165
8.4. Textbook Tax Credit	166
9. TRANSFER OF UNUSED TUITION CREDIT, EDUCATION AND TEXTBOOK CREDITS	166
10. TRANSFER OF CERTAIN UNUSED CREDITS TO SPOUSE.....	167
11. MEDICAL EXPENSE	169
11.1. Medical Expense Tax Credit.....	169
11.2. Refundable Medical Expense Supplement	170
12. CHARITABLE AND SIMILAR GIFTS TAX CREDIT.....	171
12.1. Charitable Gifts.....	171
12.2. Ecological Gifts.....	173
12.3. Cultural Gifts	173
13. OTHER CREDITS	174
13.1. Public Transit Pass Credit.....	174

13.2. Refundable School Supplies Tax Credit.....	174
13.3. Home Accessibility Tax Credit	174
13.4. First-Time Home Buyers' Tax Credit	174
13.5. Volunteer Firefighters Credit.....	175
14. DIVIDEND TAX CREDIT	175
15. INCOME EARNED IN A PROVINCE	176
16. RESIDENTS OF QUEBEC AND OTHER PROVINCES	178
17. INCOME NOT EARNED IN A PROVINCE	178
18. FOREIGN TAX CREDIT	179
19. POLITICAL CONTRIBUTION TAX CREDIT.....	180
20. INVESTMENT TAX CREDIT	181
20.1. Atlantic Investment Tax Credit	181
20.2. Scientific Research and Experimental Development (SR&ED)	181
20.3. Capital Cost	182
20.4. Deduction and Carryover	182
20.5. Refund	183
20.6. Effect on Depreciable Base.....	183
20.7. Example	183
21. LABOUR-SPONSORED FUNDS TAX CREDIT	184
22. GOODS AND SERVICES TAX CREDIT	185
23. TAX ON OLD AGE SECURITY BENEFITS	186
24. EXAMPLE	186
25. MINIMUM TAX	188
25.1. Introduction	188
25.2. Liability	189
25.3. Adjusted Taxable Income	189
25.4. Basic Exemption	191
25.5. Minimum Tax Computation.....	191
25.6. Minimum Tax Payable.....	192
25.7. Minimum Tax Carryforward	193
25.8. Exceptions	193
25.9. Example	193
CHAPTER 8 — DEFERRED INCOME PLANS	
1. INTRODUCTION.....	199
2. REGISTERED PENSION PLAN (RPP).....	199
2.1. Definition	199
2.2. Types of Plans	200
2.3. Employee's Contribution	200
2.4. Money Purchase Plan: Voluntary Contributions.....	201
2.5. Employer's Contribution.....	202
2.5.1. Minimum contribution: money purchase plan	202
2.5.2. Contribution: defined benefit plan	202
2.6. Maximum Contribution: Defined Benefit Plan	202
2.7. Pension Adjustment.....	203
2.7.1. Money purchase plan.....	203
2.7.2. Defined benefit plan.....	204
2.8. Past Service Pension Adjustment.....	204

2.9. Pension Adjustment Reversal	205
3. DEFERRED PROFIT SHARING PLAN (DPSP)	205
3.1. Definition	205
3.2. Contribution Limit	205
3.3. Pension Adjustment.....	206
3.4. Special Rules	207
4. REGISTERED RETIREMENT SAVINGS PLAN (RRSP)	207
4.1. Definition	207
4.2. Deduction	208
4.2.1. Contribution of the individual	208
4.2.2. Contribution to a spousal RRSP.....	211
4.3. Unused RRSP Deduction Room	211
4.4. RRSP Deduction Limit	212
4.5. Overpayment.....	212
4.5.1. Special tax.....	212
4.5.2. Refund.....	213
4.6. Transfer	213
4.7. Withdrawal of Funds	215
4.7.1. Individual's RRSP.....	215
4.7.2. Transfer to an RRIF.....	216
4.7.3. Spousal RRSP and RRIF	216
4.7.4. Death of the individual	217
4.7.5. Withdrawal to acquire a residence (HBP).....	218
4.7.6. Withdrawal for lifelong learning (LLP).....	219
5. RETIREMENT COMPENSATION ARRANGEMENT.....	220
5.1. Definition and Overview.....	220
5.2. Pension Adjustment.....	222
6. EMPLOYEE BENEFIT PLAN, EMPLOYEE TRUST AND SALARY DEFERRAL ARRANGEMENT	222
7. EMPLOYEES PROFIT SHARING PLAN (EPSP).....	224
8. REGISTERED SUPPLEMENTARY UNEMPLOYMENT BENEFIT PLAN (RSUBP).....	225
9. REGISTERED EDUCATION SAVINGS PLAN (RESP)	225
10. REGISTERED DISABILITY SAVINGS PLAN (RDSP)	227
11. TAX-FREE SAVINGS ACCOUNTS (TFSA)	227
12. TAXATION OF TRUSTS THAT GOVERN DEFERRED INCOME PLANS	227
 CHAPTER 9 — INCOME FROM BUSINESS OR PROPERTY	
1. BASIC CONCEPTS	233
1.1. Business vs Property Income	234
1.2. Business Income vs Capital Gains	234
1.3. Accounting Income vs Income for Tax Purposes.....	235
1.4. Fiscal Period of a Business.....	236
1.5. Inventory	237
2. INCLUSIONS	238
2.1. Services to be Rendered	239
2.2. Amounts Receivable	239
2.3. Interest.....	240
2.4. Reserve for Doubtful Debts.....	242

2.5.	Reserve in Respect of Certain Goods and Services	242
2.6.	Insurance Proceeds Expended	242
2.7.	Payments Based on Production or Use	242
2.8.	Bad Debt Recovered and Bad Debt Inclusion	242
2.9.	Dividends from Corporations Resident in Canada	242
2.10.	Dividends from Other Corporations	245
2.11.	Income from Partnerships and Trusts	245
2.12.	Employees Profit Sharing Plan, Employee Benefit Plan, Salary Deferral Arrangement and Retirement Compensation Arrangement	245
2.13.	Inventory Adjustment	245
2.14.	Payments as Inducement or as Reimbursement	245
3.	RESTRICTIONS ON DEDUCTIONS	246
3.1.	General limitation	247
3.2.	Capital Outlay or Loss	247
3.3.	Limitation re: Exempt Income	248
3.4.	Annual Value of Property	248
3.5.	Reserves	248
3.6.	Payments on Discounted Bonds	248
3.7.	Payments on Income Bonds	248
3.8.	Personal or Living Expenses	248
3.9.	Deferred Income Plans	248
3.10.	Use of Recreational Facilities and Club Dues	248
3.11.	Political Contributions	249
3.12.	Expenses Related to a Personal Services Business	249
3.13.	Allowance for the Use of an Automobile	249
3.14.	Interest and Property Taxes on Land	249
3.15.	Soft Costs	250
3.16.	Thin Capitalization Rules	251
3.17.	Prepaid Expenses and Prepaid Interest	251
3.18.	Interest in Respect of Indebtedness for Deferred Income Plans	252
3.19.	Home Office	252
3.20.	Illegal Payments	253
3.21.	Fines and Penalties	253
4.	DEDUCTIONS PERMITTED	254
4.1.	Capital Cost of Property	254
4.2.	Interest	254
4.3.	Expenses of Issuing Shares, Borrowing Money, Life Insurance Premiums and Other Similar Expenses	257
4.4.	Discount on Certain Obligations	258
4.5.	Share Transfer and Other Fees	259
4.6.	Repayment of Loan by Shareholder	259
4.7.	Reserve for Doubtful Debts and Bad Debts	259
4.8.	Reserve in Respect of Certain Goods and Services	260
4.9.	Reserve for Unpaid Amounts	260
4.10.	Deferred Income Plans and Other Similar Plans	261
4.11.	Cancellation of Lease	261
4.12.	Landscaping of Grounds	262
4.13.	Investment Counsel Fees	262

4.14. Expenses of Representation.....	262
4.15. Site Investigation Expenses	262
4.16. Utilities Service Connection.....	263
4.17. Foreign Taxes on Income From Property.....	263
4.18. Foreign Non-Business Income Tax.....	263
4.19. Convention Expenses	263
4.20. Entertainment Expenses.....	264
4.21. Automobile Expenses	265
4.22. Private Health Services Plan Premiums.....	268
5. SPECIAL SECTIONS.....	268
5.1. Benefit Conferred on Shareholder	268
5.2. Shareholder Debt.....	269
5.3. Small Business Development Bonds.....	272
5.4. Small Business Bonds	273
5.5. Obligation Issued at Discount	273
5.6. Amounts Owing by Non-Residents	273
5.7. Unpaid Amounts	273
5.7.1. Unpaid amounts other than remuneration	274
5.7.2. Late filing.....	274
5.7.3. Unpaid remuneration.....	276
6. SPECIAL CASES.....	276
6.1. Farming Business	276
6.2. Insurance Agents and Brokers.....	278
6.3. International Banking Centre	278
6.4. Professional Business	279
6.5. Scientific Research and Experimental Development.....	279
6.5.1. Definition	279
6.5.2. Deduction	282
6.5.3. Investment tax credit.....	283
6.5.4. Example	283
7. CEASING TO CARRY ON A BUSINESS.....	284
7.1. Sale of Accounts Receivable.....	284
7.2. Sale of Inventory.....	286
7.3. Fiscal Period of an Individual Proprietor	286
8. PERSONS NOT DEALING AT ARM'S LENGTH	287
9. AFFILIATED PERSONS	290
CHAPTER 10 — CAPITAL COST ALLOWANCE	
1. INTRODUCTION.....	295
2. DEPRECIABLE PROPERTY	295
3. DATE OF ACQUISITION.....	296
3.1. General Rule.....	296
3.2. "Available-For-Use Rule".....	297
4. CAPITAL COST.....	298
4.1. Definition	298
4.2. Special Rule: Non-arm's Length Transaction	299
4.3. Subsidy	300
4.4. Capitalizing Interest	301

5. DISPOSITION AND PROCEEDS OF DISPOSITION.....	302
6. HOW THE CCA SYSTEM OPERATES	302
6.1. General Rules	302
6.2. The Half-Year Rule.....	305
6.3. Terminal Loss on Disposition of a Building.....	306
6.4. Deemed Transfers and Separate Classes.....	308
6.5. Certain Types of Property and Separate Classes	308
7. TAXATION YEAR	309
8. CLASSES: EXAMPLES.....	309
8.1. Classes 1 (4%), 3 (5%) and 6 (10%)	313
8.2. Class 8 (20%)	314
8.3. Class 10 (30%), Class 45 (45%), Class 50 (55%), Class 52 (100%).....	315
8.4. Class 10.1 (30%)	315
8.5. Class 12 (100%)	316
8.6. Class 13.....	317
8.7. Classes 14 and 44 (25%)	319
8.8. Class 14.1 (5%).....	319
8.9. Class 43 (30%), Class 29 (50%) and Class 53 (50%)	320
9. REVISION OF CAPITAL COST ALLOWANCE	321
10. INVOLUNTARY AND VOLUNTARY DISPOSITIONS	322
10.1. Involuntary Disposition	322
10.2. Voluntary Disposition	323
10.3. Other Considerations	323
10.4. Example	323
11. RECLASSIFIED PROPERTY.....	324
12. MISCLASSIFIED PROPERTY	325
13. CHANGE IN USE OF PROPERTY	326
14. RESTRICTIONS ON CAPITAL COST ALLOWANCE	328
14.1. Rental Property.....	328
14.2. Leasing Property.....	329
14.3. Deemed Rental Income.....	330
14.4. Specified Leasing Property	330
15. ELECTION ON SPECIFIED LEASING PROPERTY	332
16. LEASE-OPTION AGREEMENT	334
17. SEPARATE CLASSES.....	335
17.1. Building Costing \$50,000 or More	335
17.2. Class 10.1 Automobile	336
17.3. Leasing Property.....	336
17.4. Specified Leasing Property	336
17.5. Land Acquired Under a Lease-Option Agreement.....	337
18. SPECIAL RULES	337
 CHAPTER 11 — CAPITAL GAINS	
1. INTRODUCTION.....	341
2. GENERAL RULES	342
2.1. Definition	342
2.2. Disposition	342
2.3. Proceeds of Disposition.....	343

2.4.	Business Income vs Capital Gain	343
2.5.	Excluded Property	344
2.6.	Disposition Costs	344
2.7.	Adjusted Cost Base	344
2.8.	Reserve	346
2.9.	Meaning of "Taxable" and "Allowable"	348
2.10.	General Formula	349
2.11.	Capital Gain Deferral in Respect of Certain Shares	349
3.	PROPERTY OWNED ON DECEMBER 31, 1971	352
3.1.	Valuation Days	352
3.2.	Non-Depreciable Property	352
3.2.1.	Median rule	352
3.2.2.	Adjustment to proceeds of disposition	354
3.2.3.	Valuation day method	356
3.3.	Depreciable Property	357
3.4.	Other Non-Arm's Length Transactions	359
4.	CLASSIFICATION OF PROPERTY	360
4.1.	Personal-Use Property	360
4.2.	Listed Personal Property	361
4.3.	Shares and Debts of Certain Private Corporations	362
5.	CAPITAL LOSSES	363
5.1.	Deduction of Capital Losses	363
5.2.	Restrictions on Deductibility	365
5.3.	Summary	366
6.	CAPITAL GAINS DEDUCTION	368
6.1.	Introduction	368
6.2.	Individuals Who Qualify	368
6.3.	Computation of Deduction	368
6.4.	Example	371
6.5.	Comments	372
6.5.1.	Net capital losses	372
6.5.2.	Pre-1986 capital loss balance	373
6.5.3.	Allowable business investment losses	373
6.5.4.	Cumulative net investment loss	375
6.6.	Qualified Small Business Corporation Share	377
6.6.1.	General rule	377
6.6.2.	Indirect ownership	378
6.6.3.	Death	378
6.6.4.	Going public	379
6.7.	Qualified Farming or Fishing Property	379
6.8.	Anti-Avoidance Rules	381
6.9.	February 22, 1994 Election	381
7.	SPECIAL TYPES OF PROPERTY	382
7.1.	Principal Residence	383
7.1.1.	Qualification as a principal residence	383
7.1.2.	Computing the gain on disposition	383
7.1.3.	Land used in a farming business	387
7.1.4.	Change in use	387

7.2. Identical Property	388
7.3. Bonds and Similar Obligations	390
7.4. Options	390
7.5. Bad Debts and Bankrupt Corporations	392
7.6. Debtor's Gain on Settlement of Debts	393
7.7. Gains in Respect of Foreign Currencies	397
7.8. Interest in a Partnership	397
7.9. Life Estates in Real Property	398
8. SPECIAL SITUATIONS	398
8.1. Change in Use of Property	398
8.2. Emigration and Immigration	399
8.3. Involuntary Disposition	403
8.4. Voluntary Disposition	404
8.5. Mortgage Foreclosures	405
8.6. Dispositions Subject to Warranty	406
9. MISCELLANEOUS	407
9.1. Rollover	407
9.2. Capital Gain Avoidance	408
9.3. Individual vs Corporation	408
 CHAPTER 12 — GIFTS, ATTRIBUTION RULES AND DEATH	
1. INTRODUCTION	411
2. GIFTS	412
2.1. General Rules	412
2.2. Transfer of Property to a Spouse or Spousal Trust	412
2.3. Transfer of Farm, Woodlot, or Fishing Property to a Child	414
2.4. Transfer Back to a Parent	416
2.5. Summary	416
3. ATTRIBUTION RULES	417
3.1. Introduction	417
3.2. General Rules	417
3.2.1. Transfer or loan to a spouse	417
3.2.2. Transfer or loan to a minor	419
3.2.2.1. Tax on Split Income	420
3.2.3. Loan to a related person	421
3.2.4. Repayment of indebtedness	421
3.3. Exceptions and Special Rules	422
3.3.1. Exceptions relating to the persons involved	422
3.3.2. Exceptions relating to the property transferred	422
3.3.3. Special rules	423
3.4. Transfer or Loan to a Trust	424
3.5. Transfer or Loan to a Corporation	424
4. DEATH	426
4.1. Introduction	426
4.2. Periodic Payments	427
4.3. Separate Returns	428
4.4. Amounts Receivable — Rights or Things	429
4.5. Deferred Income Plans	430

4.6.	1971 Receivables.....	431
4.7.	Resource Properties	431
4.8.	Land Inventory.....	432
4.9.	Capital Property.....	432
4.10.	Transfer of Property to a Spouse or Spousal Trust.....	433
4.11.	Transfer of Farm, Woodlot or Fishing Property to a Child	435
4.12.	Summary.....	436
4.13.	Example.....	437
4.14.	Capital Loss.....	438
4.15.	Reserve	439
4.16.	Charitable Donations.....	439
4.17.	Medical Expenses	440
4.18.	Minimum Tax	440
4.19.	Disposition of Property by Legal Representative	440
4.20.	Payment of Tax	442
4.21.	Certificate before Distribution.....	442
CHAPTER 13 — CORPORATIONS		
1.	INTRODUCTION.....	449
2.	COMPUTATION OF NET INCOME	451
2.1.	General Rules	451
2.2.	Personal Services Business	452
2.3.	Example.....	453
3.	COMPUTATION OF TAXABLE INCOME.....	454
3.1.	Ordering of Provisions.....	454
3.2.	Charitable Gifts.....	455
3.3.	Ecological Gifts.....	457
3.4.	Cultural Gifts	457
3.5.	Dividends: General Rule.....	457
3.6.	Dividends: Special Rules	459
3.7.	Non-Capital Losses	459
3.7.1.	Computation.....	459
3.7.2.	Taxable dividend deductible	460
3.7.3.	Other use	460
3.7.4.	Addition for foreign tax deduction	461
3.8.	Loss Carryovers.....	461
3.8.1.	Non-capital loss	461
3.8.2.	Net capital loss.....	461
3.8.3.	Farm losses	462
3.8.4.	Restricted farm loss.....	462
3.8.5.	Limited partnership loss.....	462
3.9.	Acquisition of Control	462
3.9.1.	General rule	462
3.9.2.	Accrued losses	464
3.9.3.	Special rules	466
3.9.4.	Example.....	467
3.10.	Attribution of Taxable Income	468
3.11.	Example.....	469

4. COMPUTATION OF TAX PAYABLE.....	469
4.1. Types of Corporations.....	469
4.2. Tax Rates.....	470
4.3. Income Earned in a Province: Federal Tax Abatement.....	471
4.4. General Tax Reduction.....	471
4.5. Canadian-controlled Private Corporations.....	472
4.5.1. Small business deduction.....	472
4.5.2. Effective tax rates for the current year.....	475
4.5.3. Associated corporations.....	475
4.5.4. Investment income from associated corporation.....	478
4.5.5. Services or property provided to other private corporations.....	479
4.6. Manufacturing and Processing Profits.....	479
4.7. Refundable Tax on Investment Income.....	482
4.8. Foreign Tax Credit.....	483
4.8.1. General rule.....	483
4.8.2. Addition for foreign tax deduction.....	484
4.8.3. Foreign tax deduction.....	484
4.9. Political Contribution Tax Credit.....	485
4.10. Investment Tax Credit.....	485
4.10.1. Corporate Mineral Exploration and Development Tax Credit.....	485
4.10.2. SR&ED Investment Tax Credits for CCPCs.....	486
4.10.3. Capital cost.....	486
4.10.4. Deduction and carryover.....	487
4.10.5. Refund.....	487
4.10.6. Effect on depreciable base.....	488
4.10.7. Example.....	488
4.11. Example.....	489
5. PRIVATE CORPORATIONS.....	491
5.1. Business Income.....	492
5.1.1. ABI eligible for small business deduction.....	492
5.1.2. ABI not eligible for small business deduction.....	493
5.2. Investment Income and Refundable Portion of PART I Tax.....	496
5.3. Dividend Income and PART IV Tax.....	499
5.3.1. General rule.....	499
5.3.2. Non-connected corporation.....	501
5.3.3. Connected corporation.....	502
5.3.4. Election on certain losses.....	502
5.3.5. Example.....	502
5.4. Refundable Dividend Tax on Hand and Dividend Refund.....	502
5.5. Example.....	504
5.6. Capital Dividend Account.....	504
5.6.1. General rule.....	504
5.6.2. Computation.....	505
5.6.3. Distribution.....	508
5.6.4. Anti-avoidance rule.....	510
6. SALARY vs DIVIDENDS.....	511
7. LARGE CORPORATIONS.....	512
8. SUMMARY.....	513

9. T2 FORM	513
CHAPTER 14 — PARTNERSHIPS	
1. INTRODUCTION.....	517
2. COMPUTATION OF INCOME	518
2.1. General Rule.....	518
2.2. Information Return.....	518
2.3. Computation of Income	519
2.4. Capital Cost Allowance and Reserves.....	520
2.5. Rental Income	521
2.6. Farming Business	522
2.7. Dividends.....	523
2.8. Foreign Income.....	523
2.9. Capital Property	523
2.10. Alternative Method and Certain Reserves	524
2.11. Partner's Expenses	524
2.12. Automobile Provided by Partnership	525
2.13. Loss Carryovers.....	525
2.14. Charitable Donations.....	525
2.15. Personal and Other Tax Credits.....	525
2.16. Partner's Salary and that of Spouse	525
2.17. Example	526
3. COMPUTATION OF ADJUSTED COST BASE OF INTEREST IN PARTNERSHIP	530
3.1. Partnership Formed After 1971	530
3.2. Partnership Existing on December 31, 1971	533
4. SPECIAL RULES	534
4.1. Income Paid to Retiring Partner	534
4.2. Residual Interest	535
4.3. Fiscal Period When Partnership Ceases to Exist.....	538
4.4. Discretionary Power.....	538
4.5. Limited Partnership.....	538
4.6. Tax Shelters.....	541
4.7. Scientific Research and Experimental Development.....	542
5. TRANSACTIONS BETWEEN PARTNERS AND PARTNERSHIP	543
5.1. Introduction	543
5.2. Transfer of Property to Partnership.....	544
5.3. Transfer of Property from Partnership to Partners	545
5.4. Transfer of Property from Partnership to Corporation	547
CHAPTER 15 — TRUSTS	
1. DEFINITION.....	551
2. CLASSIFICATION	551
2.1. Types of Trusts.....	551
2.2. Special Definitions.....	552
3. CREATION OF A TRUST	554
4. TAXATION OF A TRUST	556
4.1. Computation of Net Income.....	556
4.2. Amount Payable	557

4.3. Accumulating Designated Income.....	558
4.4. Non-Resident Beneficiaries	559
4.5. Computation of Taxable Income.....	559
4.6. Computation of Income Taxes Payable	560
4.7. Income Tax Return.....	561
5. TAXATION OF BENEFICIARIES.....	561
6. EXAMPLE	562
7. DEEMED DISPOSITION	563
8. INCOME INTEREST	564
9. CAPITAL INTEREST	565
10. CERTIFICATE BEFORE DISTRIBUTION.....	567
 CHAPTER 16 — NON-RESIDENTS	
1. INTRODUCTION.....	571
2. RESIDENT IN CANADA DURING PART OF YEAR.....	572
2.1. Introduction	572
2.2. Computation of Net Income.....	572
2.3. Computation of Taxable Income.....	574
2.4. Computation of Tax Payable	574
2.5. Example	575
3. NON-RESIDENTS.....	577
3.1. Introduction	577
3.2. Computation of Net Income.....	578
3.3. Computation of Taxable Income.....	579
3.4. Computation of Tax Payable	579
3.5. Exception	580
3.6. Disposition of Taxable Canadian Property.....	580
3.7. Special Rules	582
3.8. Example	582
4. PART XIII TAX	584
4.1. General Rule.....	584
4.2. Section 216 Election	586
4.3. Section 217 Election	588
5. PART XIV TAX.....	589
6. FOREIGN ACCRUAL PROPERTY INCOME	590
 CHAPTER 17 — ROLLOVER, REORGANIZATION AND WINDING-UP	
1. INTRODUCTION.....	597
2. DEEMED DIVIDEND (SECTION 84).....	598
2.1. Arbitrary Increase in Paid-up Capital.....	598
2.2. Other Surplus Distributions	600
2.3. PART II.1 Tax	602
3. CONVERTIBLE PROPERTY (SECTIONS 51 AND 51.1)	603
3.1. General Rule.....	603
3.2. Exception	604
3.3. Paid-up Capital Under Subsection 51(3).....	606
4. TRANSFER OF PROPERTY BY SHAREHOLDER TO CORPORATION (SECTION 85)	607

4.1.	Overview	607
4.2.	General Example	616
4.3.	Detailed Explanation	617
4.3.1.	Purpose	618
4.3.2.	Agreed upon amount	618
4.3.3.	Basic rule: paragraph 85(1)(b)	618
4.3.4.	Basic rule: paragraph 85(1)(c)	621
4.3.5.	Basic rule: paragraphs 85(1)(c.1) and (e).....	621
4.3.6.	Determination of agreed upon amount	622
4.3.7.	Subsection 85(2.1)	623
4.3.8.	“The ideal rollover”	625
4.3.9.	Capital gains deduction	626
4.3.10.	Change of fiscal period	627
4.3.11.	Accounts receivable.....	627
4.3.12.	Examples	627
4.3.13.	Summary.....	636
5.	NON-ARM'S LENGTH SALE OF SHARES	637
5.1.	General Purpose.....	637
5.2.	Application	638
5.3.	Applicable Rules	638
5.4.	Reduction of Paid-up Capital	639
5.5.	Modified ACB	639
5.6.	Deemed Dividend.....	640
5.7.	Example	641
5.8.	General Test	642
5.9.	Addition to Paid-up Capital.....	643
5.10.	Example	643
5.11.	Planning.....	644
6.	SHARE FOR SHARE EXCHANGE (SECTION 85.1).....	644
6.1.	Overview	644
6.2.	Computation of Paid-up Capital	646
6.3.	Example	647
7.	REORGANIZATION OF CAPITAL	648
7.1.	Overview	648
7.2.	Example	650
7.3.	Paid-up Capital Under Subsection 86(2.1)	652
8.	AMALGAMATION	654
8.1.	Definition	654
8.2.	Rules with Respect to Corporations.....	654
8.3.	Rules with Respect to Shareholders and Creditors	657
9.	WINDING-UP OF A SUBSIDIARY (SUBSECTION 88(1))	658
10.	WINDING UP OF A CANADIAN CORPORATION (SUBSECTION 88(2)).....	665
10.1	Introduction	665
10.2	Pre-1972 Capital Surplus on Hand	665
10.3	Overview	667
10.4	Example	668
11.	CORPORATE EMIGRATION (SUBSECTION 128.1(4))	669
12.	CERTIFICATE BEFORE DISTRIBUTION (SUBSECTION 159(2))	670

13. CAPITAL GAIN AVOIDANCE (SUBSECTION 55)	670
13.1 General Purpose	670
13.2 Application	671
13.3 Exceptions	672
13.4 Computation of Income Earned or Realized After 1971	673
CHAPTER 18 — PURCHASE AND SALE OF A BUSINESS	
1. PURCHASE AND SALE OF ASSETS	677
1.1. Basic Sections	677
1.2. Accounts Receivable	678
1.3. Inventory	678
1.4. Non-Depreciable Capital Property	678
1.5. Depreciable Capital Property	679
1.5.1. Purchaser's point of view	679
1.5.2. Vendor's point of view	679
1.5.3. Other considerations	679
1.6. Reserves	679
1.7. Other Assets of the Business	680
1.7.1. Cash	680
1.7.2. Prepaid expenses	680
1.7.3. Securities (shares, bonds, etc.)	680
1.7.4. Life insurance policies	680
1.8. Other Considerations	680
1.8.1. Goods and services tax	680
1.8.2. Provincial sales tax	680
1.8.3. Land transfer tax	680
1.8.4. Canada Pension Plan	680
1.8.5. Government assistance	681
1.8.6. Collective agreements	681
1.8.7. Registered pension plan	681
2. PURCHASE AND SALE OF SHARES	681
2.1. Interest Deduction	681
2.2. Capital Dividend Account	681
2.3. Corporation's Losses Carried Over	681
2.4. Private Corporations: Special Considerations	682
2.4.1. Canadian-controlled private corporation	682
2.4.2. Private corporation ceasing to be a CCPC	682
2.4.3. Private corporation acquired by public corporation	682
2.5. Paid-up Capital	682
2.6. Capital Gain	682
3. CLOSING OF THE TRANSACTION	683
3.1. Capital Gain	683
3.2. Bad Debts If Sale Price Remains Unpaid	683
3.2.1. Sale of shares	683
3.2.2. Sale of assets	683
3.3. Payment Based on Production or Use	683
3.4. Warranty	684
3.5. Income and Capital Combined	684

3.6. Transaction with a Non-Resident.....	684
3.7. Price Adjustment Clause	684
3.8. Restrictive Covenants	685
4. SUMMARY	685
5. EXAMPLE	686
 CHAPTER 19 — TAX PLANNING	
1. INTRODUCTION.....	697
2. DEFINITION.....	697
3. FUNDAMENTAL STEPS	698
4. NET INCOME OF AN INDIVIDUAL	700
4.1. Employment Income	700
4.2. Business Income.....	701
4.3. Property Income	703
4.4. Capital Gain	704
4.5. Other	705
4.5.1. Deferred income plans	705
4.5.2. Tax shelters	706
4.5.3. Income splitting.....	706
5. TAXABLE INCOME OF AN INDIVIDUAL.....	707
6. INCOME TAX PAYABLE BY AN INDIVIDUAL.....	708
7. CORPORATION	709
 CHAPTER 20 — CONSUMPTION TAXES	
1. INTRODUCTION.....	715
1.1. Goods and Services Tax	715
1.2. Harmonized Sales Tax	715
1.3. First Nations Taxation	717
2. GOODS AND SERVICES TAX	717
2.1. Definitions.....	717
2.2. How It Works	720
2.2.1. Conceptual framework.....	720
2.2.2. Input tax credit.....	721
2.2.3. Allowance and reimbursement	722
2.2.4. Taxable benefit	722
2.2.5. Bad debt	723
2.2.6. Cash discount	723
2.3. Tax Base.....	723
2.3.1. Zero-rated item	724
2.3.2. Tax-exempt item	724
2.4. Import and Export	725
2.4.1. Import	725
2.4.2. Export	725
2.5. Administration.....	725
2.5.1. Registration and collection	725
2.5.2. Supporting documentation for input credits.....	726
2.5.3. Reporting period	726
2.5.4. Remittance and refund	727

2.5.5. Administration and enforcement	727
2.5.5.1. Books and records	727
2.5.5.2. Assessment	727
2.5.5.3. Objection	727
2.5.5.4. Appeal	727
2.6. Small Supplier	728
2.7. Small Business	728
2.8. Purchase and Sale of a Business	733
2.9. Specific Sectors	733
2.9.1. Real estate	733
2.9.1.1. Long-term residential rent	733
2.9.1.2. Sale of used residential housing	734
2.9.1.3. Sale of personal-use land	734
2.9.1.4. Charity and similar organization	734
2.9.1.5. Self-supply	734
2.9.1.6. Change in use	734
2.9.1.7. Renovation	734
2.9.1.8. Small supplier	734
2.9.1.9. New housing refund	735
2.9.2. Financial sector	735
2.9.2.1. General rules	735
2.9.2.2. Insurance	736
2.9.2.3. Bank, trust and loan company, and financial co-operative	736
2.9.2.4. Investment dealer (broker)	736
2.9.3. Transportation and travel	736
2.9.4. Farmer and fisherman	737
2.9.5. Public sector bodies	737
2.9.6. Charity	738
2.9.7. Public institution	738
2.9.8. Non-profit organization	739
3. OTHER FEDERAL TAXES	739
3.1. Excise Tax	739
3.2. Excise Duties	739
Topical Index	741