

## TABLE OF CONTENTS

Table of Statutory References .....	xiii
<b>CHAPTER 1 — INTRODUCTION</b> .....	1
<b>CHAPTER 2 — GENERAL CONCEPTS</b> .....	5
2.1 Separate Entities .....	7
Exhibit 2A — Example of Separate Taxpayers .....	11
2.2 Legal Basics .....	11
2.3 Integration .....	13
Exhibit 2B — Example of Integration .....	15
2.4 Non-Monetary Transactions .....	16
2.5 Foreign Currency Transactions .....	16
2.6 Elections .....	17
2.7 General Anti-Avoidance Rule .....	17
<b>CHAPTER 3 — RESIDENCE</b> .....	21
3.1 Individuals .....	22
Exhibit 3A — Examples of an Individual’s Residence for Income Tax Purposes .....	24
3.2 Corporations .....	26
3.3 Becoming a Canadian Resident .....	26
Exhibit 3B — Example of Acquiring Canadian Residence for Income Tax Purposes .....	28
3.4 Becoming a Non-Resident of Canada .....	29
Exhibit 3C — Example of Ceasing Canadian Residence for Income Tax Purposes .....	31
3.5 Foreign Tax Credits .....	32
3.6 Withholding Tax on Payments to Non-Residents .....	32
Exhibit 3D — Examples of Withholding Taxes on Pay- ments to Non-Residents of Canada .....	34

## Table of Contents

3.7 Section 116 Certificates .....	35
3.8 Foreign Reporting .....	36
3.9 Stop International Tax Evasion .....	37
<b>CHAPTER 4 — BUSINESS AND PROPERTY INCOME, TAX DEPRECIATION AND CAPITAL GAINS .....</b>	<b>39</b>
4.1 Business and Property Income .....	39
Exhibit 4A — Examples of Business and Property Income .....	47
(1) Goods and Services Tax (GST) .....	48
Exhibit 4B — Examples of GST .....	52
(2) Other Federal Taxes .....	53
4.2 Business and Property Losses .....	55
Exhibit 4C — Example of Non-Capital Loss Carryovers .....	56
4.3 Tax Depreciation .....	56
Exhibit 4D — Examples of CCA, Terminal Loss and Recapture .....	64
4.4 Half-Year Rule and Short Taxation Years .....	67
Exhibit 4E — Example of the Half-Year Rule .....	68
4.5 Special CCA Asset Classes .....	70
(1) Separate Class 8 .....	70
(2) Separate Class 10.1 .....	70
(3) Class 13 .....	71
(4) Class 14 .....	71
(5) Class 43 .....	71
(6) Separate Class 43 .....	72
4.6 Indefinite Life Intangibles .....	72
Exhibit 4F — Examples of Indefinite Life Intangibles ...	74
4.7 Capital Gains and Capital Losses .....	75
(1) General .....	75
(2) Carry Over .....	77
Exhibit 4G — Examples of Capital Gains and Capital Losses .....	79

## Table of Contents

(3) Foreign Currency Assets .....	80
(4) Stock Options .....	81
(5) Capital versus Income Nature .....	82
Exhibit 4H — Example of a Disposition on Account of Capital versus on Account of Income .....	84
(6) Identical Property .....	85
Exhibit 4I — Example of Identical Property Rules .....	85
(7) Capital Gains Reserve .....	86
Exhibit 4J — Example of the Capital Gains Reserve ...	88
(8) Personal Use Property .....	90
4.8 Spousal Transfers .....	91
4.9 Allowable Business Investment Losses .....	91
4.10 Change in Use .....	93
Exhibit 4K — Example of Change in Use Rules .....	94
4.11 Proration of Changing Tax Rates or Credits .....	95
4.12 Replacement Property Rules .....	96
4.13 Non-Arm's-Length Transactions, Related Persons, Affiliated Persons and Stop-Loss Rules .....	98
<b>CHAPTER 5 — TAXATION OF INDIVIDUALS .....</b>	<b>103</b>
5.1 Instalments and Withholdings at Source .....	106
Exhibit 5A — Examples of Instalments .....	109
5.2 Employed versus Self-Employed .....	111
5.3 Net Income for Tax Purposes .....	113
5.4 Employee Benefits .....	114
5.5 Automobile Benefits .....	116
(1) For Automobiles Owned by the Employer .....	118
(2) For Automobiles Leased by the Employer .....	119
Exhibit 5B — Example of the Standby Charge (Taxable Benefit) .....	119
Exhibit 5C — Example of Operating Benefit	

## Table of Contents

(Taxable Benefit) .....	121
5.6 Low Interest Loans .....	121
Exhibit 5D — Example of Low Interest Employee Loans (Taxable Benefit) .....	122
5.7 Employee Stock Options .....	124
Exhibit 5E — Example of Employee Stock Options ...	125
5.8 Dividends Received from Canadian Corporations .....	126
Exhibit 5F — Example of the Tax Treatment of Dividends .....	128
5.9 Non-Taxable Receipts .....	129
5.10 Deductions from Employment Income .....	131
Exhibit 5G — Example of Employment Income Deductions .....	134
Exhibit 5H — Example of Net Income for Tax Purposes (for an Individual) .....	136
5.11 Tax-Deferred Plans (Pensions, RPPs, DPSPs, RRSPs, RESPs, RDSPs) .....	137
(1) General .....	137
(2) Contribution Limits .....	139
(3) Taxation of Plan Withdrawals and Earnings ... .....	141
(4) Spousal RRSP Contributions and Withdrawals .....	143
(5) Special RRSP Withdrawals .....	144
Exhibit 5I — Example of an RRSP Deduction .....	144
(6) Pension Income-Splitting .....	145
(7) RESPs .....	146
(8) RDSPs .....	147
5.12 Other Income and Deductions .....	147
Exhibit 5J — Example of Child Care Expense Deduction .....	151
Exhibit 5K — Example of Net Income for Tax Purposes (for an Individual) .....	153

## Table of Contents

5.13 Taxable Income .....	154
Exhibit 5L — Example of Employee Stock Option (Division C Deduction).....	156
Exhibit 5M — Example of Taxable Income (for an Individual).....	158
5.14 Capital Gains Exemption .....	159
Exhibit 5N — Examples of a Small Business Corporation .....	163
Exhibit 5O — Examples of the Basic Asset Test .....	166
Exhibit 5P — Example of the Capital Gains Exemption .....	169
5.15 Taxes Payable .....	170
5.16 Tax Credits .....	171
(1) Spousal Credit .....	173
(2) Equivalent to Spousal Credit .....	173
(3) Age Credit .....	174
(4) Pension Credit .....	174
(5) Canada Employment Credit .....	175
(6) Charitable Donation Credit .....	175
(7) Medical Expense Credit .....	176
(8) Tuition Credit and Examination Fees .....	178
(9) Credit for Interest on Student Loans .....	179
(10) EI and CPP Contributions Credit .....	179
(11) First Time Homebuyers Tax Credit .....	179
(12) Home Accessibility Tax Credit.....	179
(13) Refundable Canada Training Credit .....	180
(14) Tax Credit for Digital Subscriptions .....	180
(15) Multigenerational Home Renovation Tax Credit .....	181
Exhibit 5Q — Example of Personal Tax Credits .....	181
Exhibit 5R — Example of Calculation of Income Taxes	

## Table of Contents

Payable and Taxes Owning .....	183
5.17 Other Less Common Personal Tax Credits .....	184
(1) Canada Caregiver Credit .....	184
(2) Additional Amount .....	184
(3) Adoption Expense Tax Credit .....	185
(4) Disability Tax Credit .....	185
(5) Volunteer Firefighters Tax Credit .....	186
(6) Search and Rescue Volunteers Tax Credit .....	186
(7) Teacher and Early Childhood Educator School Supply Tax Credit .....	186
5.18 Transfer of Unused Tax Credits to a Spouse .....	187
5.19 Foreign Tax Credit and Political Contribution Tax Credit .....	187
5.20 Principal Residence Exemption .....	191
Exhibit 5S — Examples of the Principal Residence Exemption .....	194
5.21 Attribution .....	195
(1) Transfers and Loans to a Spouse .....	197
(2) Transfers and Loans to Minors .....	198
(3) Kiddie Tax .....	198
(4) Income Sprinkling (Tax on Split Income) .....	199
Exhibit 5T — Example of Attribution .....	201
5.22 Other Less Common Attribution Rules .....	202
(1) Indirect Income Transfers .....	202
(2) Transfer of Rights to Income .....	202
(3) Interest Free or Low Interest Loans .....	202
5.23 Death of a Taxpayer .....	203
5.24 Hobby Farming .....	206
<b>CHAPTER 6 — TAXATION OF CORPORATIONS</b> ...	<b>209</b>
Exhibit 6A — Example of Corporate Instalments .....	211

## Table of Contents

6.1 Net Income .....	212
Exhibit 6B — Examples of Reserves .....	215
(1) General Limitation .....	217
(2) Capital Outlay or Loss .....	217
(3) Use of Recreational Facilities and Club Dues .....	217
(4) Payments Under the Act .....	218
(5) Expenses Related to Financing .....	218
(6) Employer’s Contributions to RPP or DPSP .....	218
(7) Scientific Research and Experimental Development .....	218
(8) Meals and Entertainment .....	219
(9) Accrued Salary and Bonuses .....	219
Exhibit 6C — Example of Net Income for Tax Purposes for a Corporation .....	220
6.2 Less Common Differences Between Accounting Net Income and Tax Net Income .....	222
(1) Discount on Debt Obligations .....	222
(2) Home Office .....	222
(3) Foreign Advertising Aimed at the Canadian Market .....	223
(4) Premiums on Life Insurance Used as Collateral .....	223
(5) Cancellation of Lease .....	223
(6) Landscaping of Grounds .....	224
(7) Expenses of Representation .....	224
(8) Investigation of Site .....	224
(9) Utility Service Connection .....	224
(10) Disability-related Modification to Buildings and Equipment .....	225
6.3 Taxable Income .....	225

## Table of Contents

(1) Charitable Donations .....	225
(2) Loss Carryovers .....	226
(3) Dividends .....	226
Exhibit 6D — Example of Taxable Income for a Corporation .....	227
6.4 Taxes Payable and Taxes Owing .....	227
(1) General Rate Reduction .....	229
(2) Small Business Deduction .....	230
(a) Actual Calculation of the Small Business Deduction .....	231
(b) Small Business Deduction (continued) .....	231
Exhibit 6E — Example of Integration of Business Income .....	233
(3) Manufacturing and Processing Profits Deduction .....	234
(4) Foreign Tax Deduction .....	235
(5) Political Contribution .....	235
(6) Investment Tax Credits .....	235
Exhibit 6F — Examples of SR&ED .....	237
Exhibit 6G — Example of Corporate Taxes Payable and Taxes Owing .....	239
6.5 Permanent Establishment .....	240
Exhibit 6H — Calculation of Taxable Income Earned in a Province .....	242
6.6 Associated Corporations .....	244
(1) Additional Association Rules .....	247
6.7 Refundable Taxes .....	249
(1) Additional Refundable Tax .....	250
(2) Refundable Part I Tax .....	251
(3) Refundable Part IV Tax .....	252
(4) Dividend Refund .....	253
Exhibit 6I — Example of Refundable Taxes .....	254



## Table of Contents

6.8 Capital Dividends .....	257
6.9 Shareholder Benefits and Loans .....	259
6.10 Sale of Accounts Receivable .....	261
6.11 Paid-up Capital .....	262
6.12 Sale of a Corporation .....	265
Exhibit 6J — Example of Sale of Shares versus a Sale of Assets .....	267
6.13 Corporate Attribution .....	273
Exhibit 6K — Example of Corporate Attribution .....	275
6.14 Corporate Reorganizations .....	276
(1) Redemption of Shares .....	276
Exhibit 6L — Example of a Redemption of Shares .....	277
(2) Rollovers .....	278
(a) Section 85 Rollover .....	279
Exhibit 6M — Example of s. 85(1) Rollover .....	286
(b) Exchange of Shares in a Reorganization of Capital .....	288
Exhibit 6N — Example of a s. 86 Rollover .....	290
(c) Arm’s-length Share-for-share Exchange (s. 85.1 rollover) .....	293
(d) Convertible Securities .....	294
(3) Amalgamations .....	295
(4) Winding up a Subsidiary into its Parent .....	297
6.15 Non-arm’s-length Sale of Shares to a Corporation .....	299
6.16 Arm’s-length Sale of Shares by a Corporation .....	302
6.17 Acquisition of Control .....	304
<b>CHAPTER 7 — TAXATION OF TRUSTS, PARTNERSHIPS AND JOINT VENTURES .....</b>	<b>307</b>
7.1 Trusts .....	307
Exhibit 7A — Example of the Taxation of Trusts .....	310
7.2 Partnerships .....	315
Exhibit 7B — Example of the Taxation of	

## Table of Contents

Partnerships .....	319
7.3 Joint Ventures .....	322
7.4 Concluding Remarks .....	322
Glossary of Abbreviations .....	325
Index .....	329