

## TABLE OF CONTENTS

Dedication .....	iii
Preface .....	v
Table of Cases .....	xxxvii

### Chapter 1 — The Fiscal Landscape

I.	General Comment .....	3
II.	The Meaning of “Tax” .....	4
	A. The Difference Between Taxes and Other Levies .....	6
	B. Taxes and Penalties .....	7
	C. Tariffs .....	8
	D. Behavioral Finance .....	9
	E. Badly Drafted .....	10
III.	The Basic Questions of Tax Law .....	11
IV.	Historical Background .....	13
V.	Sources of Tax Law .....	15
VI.	Types of Taxpayers .....	19
VII.	The Incidence of Taxes .....	20
VIII.	The Authority to Tax .....	21
	A. Division of Powers .....	22
	B. Restraint on Powers .....	25
	C. Responsibility for Taxation .....	26
	D. Federal-Provincial Agreements .....	28
IX.	The Executive Process .....	29
X.	The Legislative Process .....	29
XI.	Tax Policy .....	32
	A. Revenue Generation .....	34
	a) The Tax Base .....	34
	b) Tax Rates .....	38
	c) Marginal rates .....	40
	d) Average Rates .....	41
	e) Effective Rates .....	43
	f) Provincial Taxes .....	45
	g) Who Actually Pays Income Taxes? .....	45
	B. Neutrality .....	46
	C. Efficiency .....	46
	D. Fairness and Equity .....	47
	a) Horizontal and Vertical Equity .....	47

## Table of Contents

i) Horizontal Equity .....	47
ii) Vertical Equity .....	48
b) Proportional Tax Rates .....	49
c) Certainty and Simplicity .....	50
E. Compromise of Values .....	51
XII. Retrospective Effect .....	51
XIII. Declaration of Taxpayer Rights .....	52
XIV. Tax Expenditures .....	53
XV. Structure of the Act .....	55
XVI. The Tax Cycle .....	59
XVII. Dispute Resolution Process .....	60
A. CRA Administrative Appeals Process .....	62
B. Judicial Appeals .....	65
XVIII. Conclusion .....	68

### Chapter 2 — Statutory Interpretation

I. Introduction .....	78
II. Historical Approaches .....	79
A. The Mischief Rule .....	80
B. The Ordinary Meaning Rule .....	80
C. The Golden Rule .....	81
III. The Modern Approach .....	83
A. The <i>Interpretation Act</i> .....	83
B. Textual, Contextual and Purposive Meaning .....	83
a) Textual Meaning .....	84
i) Statutory Definitions .....	84
ii) Technical Meaning of Words .....	85
iii) Legal Terms .....	85
iv) Ambiguity .....	86
b) Contextual Meaning .....	88
c) Balancing Literal and Purposive Interpretation .....	88
d) Judicial Statements of the Supreme Court .....	91
IV. Tax Treaties .....	92
V. Summary of Rules of Interpretation .....	92
A. Ordinary Meaning of Words .....	92
B. Consistent Meaning .....	92
C. Harmonious Interpretation .....	93
D. No Superfluous Provisions .....	93
E. No Surplusage .....	93
F. Criminal Provisions .....	93
G. Ut Magis Valeat Quam Pereat (“So that It May Survive Rather than Perish”) .....	93

Table of Contents

H.	Inclusio Unius Est Exclusio Alterius (“The Inclusion of One Implies the Exclusion of Others”) . . . . .	93
I.	Ejusdem Generis (“Of the Same Kind”) . . . . .	93
VI.	Burden of Proof . . . . .	94
A.	Presumption of Validity . . . . .	94
B.	Reversal of Onus . . . . .	94
VII.	The General Anti-Avoidance Rule (GAAR) . . . . .	95
VIII.	Conclusion . . . . .	97

**Chapter 3 — Taxable Nexus**

I.	General Comment . . . . .	101
A.	Citizenship . . . . .	102
B.	Domicile . . . . .	103
C.	Residence . . . . .	103
D.	Territorial Taxation . . . . .	103
E.	Who Is Taxable? . . . . .	104
II.	Individuals . . . . .	105
A.	Statutory Rules . . . . .	106
a)	Sojourners . . . . .	107
b)	Government Personnel . . . . .	108
c)	Prescribed Agencies . . . . .	108
B.	“Common Law” Rules . . . . .	108
C.	Administrative Rules . . . . .	112
D.	International Treaty Rules . . . . .	113
a)	Permanent Home . . . . .	114
b)	Centre of Vital Interests . . . . .	114
c)	Habitual Abode . . . . .	115
d)	Nationality . . . . .	115
e)	Competent Authorities . . . . .	116
III.	Part-Year Residents . . . . .	116
A.	Immigration and Emigration . . . . .	116
B.	Key Issues . . . . .	116
C.	Timing of Residence . . . . .	117
a)	Giving up Residence . . . . .	117
b)	Becoming a Resident . . . . .	118
c)	Part-Year Resident . . . . .	119
d)	Deemed Disposition of Property . . . . .	119
IV.	Corporations . . . . .	120
A.	Statutory Rules . . . . .	120
B.	The “Common Law” (Factual Residence) Rules . . . . .	121
a)	General Propositions . . . . .	122
b)	Dual Residence . . . . .	123

## Table of Contents

C.	Tax Treaties .....	123
a)	“Permanent Establishment” .....	124
b)	Fixed Place of Business .....	124
c)	Electronic Commerce .....	126
d)	Treaty Shopping .....	127
e)	Deemed Non-Residents .....	130
V.	Trusts .....	131
A.	Nature of Trust .....	131
B.	Residence of Trust .....	131
a)	The De Beers Principle .....	132
b)	Multiple Trustees .....	133
C.	Provincial Residence .....	133
VI.	Partnerships .....	134
VII.	Provincial Residence .....	134
VIII.	Non-Residents .....	135
IX.	Exempt Persons .....	136
X.	Aboriginals .....	137
A.	Exemption for Status Indians .....	137
B.	Rationale for Exemption .....	138
C.	Property Situated on a Reserve .....	139
XI.	Conclusion .....	139

### **Chapter 4 — The Meaning of Income**

I.	Introduction .....	145
A.	What Is Income? .....	145
II.	Concepts of Income .....	148
A.	The Economic Concept .....	149
B.	The Legal Nature of Income .....	152
a)	The Judicial Concept of Income .....	153
b)	Characteristics of Income .....	154
i)	Flow of Receipts .....	155
ii)	Periodic Receipts .....	155
iii)	Ownership of the Gain .....	156
iv)	Income in the Hands of the Taxpayer .....	156
v)	Income Must Be a Money Gain or Convertible into Money’s Worth .....	156
vi)	Nominal Gains .....	156
c)	The Time Value of Money .....	157
i)	Payments for Arrears .....	158
ii)	Payments for Future Amounts .....	158
iii)	When Do We Recognize Income? .....	159
III.	Basic Concepts .....	159

## Table of Contents

A. Realization .....	159
B. Tax Deferral .....	162
C. Valuation .....	163
D. Net Income .....	164
E. Income Shifting .....	164
F. Form and Substance .....	166
IV. Income by Source .....	167
A. Origin of the U.K. Source Doctrine .....	168
B. Addington’s Act of 1803 .....	170
C. Canadian Source Doctrine .....	173
V. Recovery of Capital .....	177
VI. Imputed Income .....	179
VII. Section 3 .....	181
A. The Named Sources of Income .....	182
B. Losses by Source .....	185
VIII. Structure of the Act .....	186
IX. Deductions vs. Credits .....	187
X. Judicial Exclusions from Income .....	189
A. General Comment .....	189
B. Gambling Gains .....	189
C. Gifts and Inheritances .....	191
D. Windfall Gains .....	192
XI. Barter Transactions .....	193
XII. Statutory Exclusions from Income .....	194
XIII. Conclusion .....	197

### **Chapter 5 — Measurement of Income**

I. General Comment .....	201
II. Accounting Principles .....	203
III. Accounting Concepts .....	205
A. Historical Cost Accounting .....	205
B. Stable Dollar Value .....	206
C. The Going Concern Assumption .....	206
IV. Accounting Principles and Tax Law .....	206
V. Measurement and Timing .....	208
A. Realization .....	208
B. Recognition .....	209
C. Accrual .....	211
D. Matching .....	211
E. Conservatism .....	213
VI. Accounting Statements .....	214
VII. Accounting Methods .....	218

Table of Contents

A.	Time Intervals	218
B.	Cash vs. Accrual Accounting	218
C.	Tests for Revenue Recognition	220
D.	Accounting Adjustments	221
a)	The “Timing” Adjustments	221
b)	The “Measurement” Adjustments	222
VIII.	Other Accounting Methods	223
IX.	Basic Income Tax Accounting	223
A.	Accounting Period	223
B.	Accounting Methods	224
a)	General Comment	224
b)	Instalment Sales	224
c)	Completed Contract	224
d)	Cash	225
e)	Accrual	226
f)	Modified Accrual	226
g)	Holdbacks	227
h)	Net Worth	227
C.	Generally Accepted Accounting Principles	229
a)	Section 9	229
b)	Tax Profits	230
c)	Statutory Deviations	230
i)	Reserves and Allowances	231
ii)	Depreciation	231
iii)	Inventory	231
D.	Realization and Recognition of Income	232
E.	Conformity of Accounting Methods	233
a)	Use of GAAP	233
b)	Conformity of Methods	234
c)	A “Truer Picture” of Income?	236
G.	Timing of Income	237
a)	Payments in Advance	238
b)	Receivables	238
c)	Professionals	239
i)	Modified Accrual	239
ii)	Work in Progress	239
iii)	Advance Payments	240
d)	Farmers and Fishers	240
X.	Reserves and Allowances	240
A.	Prohibition Against Reserves	240
B.	Doubtful and Bad Debts	241
C.	Prepaid Income	242
a)	Inclusion in Income	242

## Table of Contents

b) Deduction from Income . . . . .	243
c) Uncertainty . . . . .	243
d) Reserve for Future Goods and Services . . . . .	244
XI. Accounting for Inventory . . . . .	245
A. Cost of Goods Sold . . . . .	245
B. Alternative Methods . . . . .	246
C. Change of Method . . . . .	246
XII. Conclusion . . . . .	247

### Chapter 6 — Income from Office and Employment

I. General Comment . . . . .	254
II. General Structure . . . . .	256
III. The Essential Questions . . . . .	259
IV. Characterization of Relationship . . . . .	259
A. Supervision and Control . . . . .	262
B. Total Relationship . . . . .	263
C. Office . . . . .	264
D. CRA Views . . . . .	264
E. International Dimensions . . . . .	265
V. Timing . . . . .	265
VI. Scope of Employment Income . . . . .	266
A. Salary and Wages . . . . .	267
B. Benefits & Perks . . . . .	267
a) Economic Advantage . . . . .	270
b) Psychic Income . . . . .	272
c) For Whose Convenience? . . . . .	272
d) By Virtue of Employment? . . . . .	274
VII. When is a Benefit Realized? . . . . .	275
A. The Cash Method . . . . .	276
B. Tax Deferral . . . . .	276
C. “In Kind” Benefits . . . . .	276
D. Contingencies . . . . .	278
VIII. What is the Value of the Benefit? . . . . .	278
A. Taxable Benefits . . . . .	280
B. Excluded Benefits . . . . .	280
C. Allowances . . . . .	281
IX. Special Work Sites . . . . .	283
X. Advances and Loans . . . . .	284
XI. Automobiles . . . . .	284
A. General Comment . . . . .	284
B. Operating Costs . . . . .	284
C. Standby Charge . . . . .	285

Table of Contents

	D. Employee-Owned Cars .....	285
XII.	Imputed Interest .....	286
	A. Exclusions .....	287
	B. Deemed Payments .....	287
	C. Forgiveness of Loan .....	288
XIII.	Summary of Employed versus Self-Employed .....	288
XIV.	Summary of Advantages and Disadvantages of Self-Employed Status .....	288
XV.	Impact on Personal Service Business Corporation .....	289
XVI.	Health and Welfare Trusts .....	290
	A. Background .....	290
	B. CRA Interpretation .....	290
	C. Structure of Section 6 .....	291
	a) Use of Funds .....	293
	b) Amount of Funding .....	294
XVII.	Employee Stock Options .....	294
	A. Timing and Valuation Problems .....	294
	B. The Statutory Scheme .....	296
	a) Rules Applicable to Public Corporations .....	297
	i) Option Grant Date .....	297
	ii) Option Exercise Date .....	297
	iii) Selling Date .....	298
	b) Rules Applicable to CCPCs .....	300
	i) Option Grant Date .....	300
	ii) Option Exercise Date .....	300
	iii) Selling Date .....	301
	c) Summary .....	302
XVIII.	Disposition of Rights .....	304
XIX.	Proposed Cap on Stock Option Deductions .....	304
XX.	Salary Deferral Arrangements .....	306
	A. General Comment .....	306
	B. Exclusions .....	307
	C. Contingent Arrangements .....	308
	D. Leave of Absence Plans .....	308
XXI.	Counselling Benefits .....	309
XXII.	Directors' Fees .....	310
XXIII.	Strike Pay .....	310
XXIV.	Deductions from Employment Income .....	311
	A. General Comment .....	311
	B. Salesperson's Expenses .....	311
	C. Capital Cost Allowance .....	312
	D. Travelling Expenses .....	312
	E. Inadequate Compensation .....	313
	F. Requirement of Travel .....	313



## Table of Contents

G. Motor Vehicles and Aircraft .....	314
H. Meals .....	314
I. Legal Expenses .....	314
J. Musicians .....	317
K. Other Deductions .....	317
L. Limitations on Deductions .....	319
XXV. Conclusion .....	319

### Chapter 7 — Business Income

I. General Comment .....	328
A. “Business” .....	329
B. “Property” .....	332
C. “Capital Gains” .....	333
D. “Investment” .....	334
a) Taxpayer Intention .....	335
b) Criteria to Determine Taxpayer Intention .....	338
i) Number of Similar Transactions .....	338
ii) Nature of Asset .....	339
iii) Related Activity .....	341
iv) Corporate Objects and Powers .....	342
v) Degree of Organization .....	343
E. Electing Capital Gains .....	344
F. Conversion of Property .....	345
G. Business vs. Property (Investment) Income .....	345
a) Real Estate .....	348
b) Short-Term Investments .....	349
i) Integration Test .....	349
ii) “Employed and Risked” Test .....	350
iii) Separate Business Test .....	351
II. Carrying on Business in Canada .....	351
III. Conclusion .....	353

### Chapter 8 — Inclusions in Business and Investment Income

I. General Comment .....	359
II. Timing Adjustments .....	360
III. Modification of Common Law Rules .....	361
A. Interest Income .....	361
a) Consistency .....	362
b) Annual Reporting .....	362
c) Blended Payments .....	363
d) Discounts .....	364

## Table of Contents

(i) Rate Adjustments .....	364
1. Tax-Exempt Organizations .....	365
2. Taxable Entities .....	365
IV. Variations from Accounting Practice .....	366
A. Payments Based on Production or Use of Property .....	366
B. Stock Dividends .....	368
C. Inducement Payments .....	369
V. Other Inclusions in Income .....	369

### **Chapter 9 — Deductions from Business and Property Income: General**

I. Concept of Net Income .....	378
II. Business or Commercial Purpose .....	383
III. Current Expense or Capital Expenditure .....	385
IV. Unreasonable Expenses .....	397
V. Fines and Penalties .....	397
VI. Bribes and Illegal Payments .....	399
VII. Personal and Living Expenses .....	401
VIII. The General Anti-Avoidance Rule .....	409
IX. Selected Bibliography .....	411

### **Chapter 10 — Business and Property Income: Specific Deductions**

I. Specific Deductions .....	420
II. Reserves and Contingent Liabilities .....	421
A. General Scheme .....	421
B. Tax Arbitrage .....	433
C. Statutory Requirements .....	434
D. Legal Obligation .....	435
E. Use of Money .....	435
F. Purpose of Borrowing .....	436
G. Expectation of Income .....	439
H. Current Use .....	440
I. Reloaned Funds .....	440
J. Exempt Income .....	441
K. Compound Interest .....	441
L. Bond Discounts .....	441
M. Refinancing .....	444
N. Existence of Source .....	444
O. Accrued Interest .....	444
P. Financing Costs .....	445
Q. Capitalizing Interest .....	445
a) Depreciable Property .....	446

Table of Contents

b)	Election .....	446
c)	Reassessment .....	446
d)	Compound Interest .....	447
e)	“Soft Costs” .....	447
R.	Limitations on Deduction .....	447
a)	Real Estate .....	447

**Chapter 11 — Capitalization and Depreciation**

I.	General Comment .....	465
II.	The Basic Rules .....	468
III.	Tax Depreciation .....	468
A.	Structure .....	469
B.	Bonus Tax Depreciation .....	470
C.	Classification .....	470
D.	Permissive .....	471
E.	General Structure .....	471
a)	Depreciable Property .....	474
b)	Classes .....	475
c)	Capital Cost of Property .....	477
i)	General Commentary .....	477
ii)	Foreign Currency Transactions .....	479
iii)	Change of Use of Property .....	480
iv)	Non-Arm’s Length Transactions .....	480
v)	Luxury Automobiles .....	481
vi)	Reduction for Government Assistance .....	482
d)	Exchanges of Property .....	482
e)	Undepreciated Capital Cost .....	483
f)	Adjustments on Disposition of Assets .....	484
i)	General Comment .....	484
ii)	Terminal Losses .....	484
iii)	Automobiles .....	484
iv)	Recapture .....	485
1)	Negative Balance .....	485
2)	Limited to Capital Cost .....	486
3)	Deferral .....	486
g)	First Year Half-Rate Rule .....	487
h)	Available for Use .....	488
i)	Short Taxation Year .....	488
j)	Separate Classes for Similar Properties .....	488
k)	Rental Buildings over \$50,000 .....	489
l)	Transfers of Property Between Classes .....	490
m)	Leaseholds .....	491

## Table of Contents

n)	Patents, Franchises, Concessions, or Licences . . . . .	491
o)	Works of Art . . . . .	491
p)	Restrictions on Automobiles . . . . .	492
F.	Conclusion . . . . .	492
IV.	Intangible Capital Properties . . . . .	493

### Chapter 12 — Damages

I.	General Commentary . . . . .	502
II.	Breach of Contract . . . . .	506
A.	Nature of the Claim . . . . .	506
B.	The Surrogatum Principle . . . . .	507
C.	Nature of Legal Rights . . . . .	508
D.	Global Payments . . . . .	508
E.	Capital Receipts . . . . .	508
F.	Non-Performance . . . . .	509
III.	Employment Damages . . . . .	510
A.	Wrongful Dismissal . . . . .	510
a)	Nature of the Claim . . . . .	510
b)	Statutory Rules . . . . .	510
c)	Blended Payments . . . . .	511
B.	Signing Bonuses . . . . .	511
C.	Arbitration Awards . . . . .	512
D.	Employment Insurance Benefits [para. 6(1)(f)] . . . . .	512
E.	Stock Options . . . . .	512
IV.	Breach of Warranty of Authority . . . . .	513
A.	Nature of Claim . . . . .	513
B.	Damage Principles . . . . .	513
V.	Tort Damages . . . . .	514
A.	General Principles . . . . .	514
B.	Business or Investments . . . . .	514
C.	Depreciable Property . . . . .	515
D.	Capital Property . . . . .	515
E.	Personal Injuries . . . . .	515
a)	Determination of Settlement . . . . .	516
b)	Taxation of Settlement . . . . .	516
F.	Fatal Accidents . . . . .	517
G.	Investment Income . . . . .	517
a)	Interest on Special Damages . . . . .	518
b)	Deductibility of Damages Paid . . . . .	518

Table of Contents

**Chapter 13 — Capital Gains and Losses: Basic Rules**

I.	General Comment	529
A.	Structure	529
B.	Meaning of “Capital Gain”	530
C.	The Capital Gains Preference	532
D.	Segregation of Capital Gains by Type	535
E.	Types of Capital Property	537
F.	Deemed Capital Property	537
G.	Computation of Gain or Loss	538
H.	Reserves	539
	a) Limitations	540
	b) “A Reasonable Reserve”	540
	c) Maximum Reserve	541
	d) Special Reserves	542
I.	Amounts “Not Payable”	543
J.	Selling Expenses	543
II.	Dispositions	543
A.	General Comment	543
B.	“Property”	544
C.	“Disposition”	544
D.	Proceeds of Disposition	547
E.	Changes in Terms of Securities	547
	Debt securities	547
	Equity securities	548
F.	Foreign Currencies	549
	a) Characterization	549
	b) Method of Accounting	549
	c) Determination of Cost	550
G.	Purchase of Bonds by Issuer	550
H.	Deemed Dispositions	551
	a) Change in Use of Property	551
	i) Personal to Commercial	551
	ii) Commercial to Personal	552
	iii) Mixed Use Property	552
	b) Leaving Canada	554
	i) “Departure Tax”	554
	ii) Election to Dispose	555
III.	Options	555
A.	Nature	555
	a) Characterization on Issuance	556
	b) Granting of Options	556
B.	Call Options	556
C.	Put Options	558

## Table of Contents

	D. Bad Debts . . . . .	558
	a) Subsequent Recovery . . . . .	558
	b) Insolvent Corporations . . . . .	559
	E. Death . . . . .	559
	F. Depreciable Capital Property . . . . .	559
	G. Other Capital Property . . . . .	561
IV.	Trusts . . . . .	561
	A. Involuntary Dispositions . . . . .	561
	a) Election to Defer Gain . . . . .	562
	b) Proceeds of Disposition . . . . .	562
	B. Adjusted Cost Base . . . . .	564
	C. Deemed Adjusted Cost Base . . . . .	565
	D. Change of Use . . . . .	565
	a) Identical Properties . . . . .	565
	b) Becoming a Canadian Resident . . . . .	566
	c) Options . . . . .	566
	d) Conversions . . . . .	566
	e) Non-Arm's Length Transactions . . . . .	567
	f) Prizes . . . . .	567
	g) Dividends in Kind . . . . .	567
	h) Stock Dividends . . . . .	567
V.	Adjustments to Cost Base . . . . .	568
	A. General Comment . . . . .	568
	B. Acquisition of Land . . . . .	569
	C. Stock Dividends and Options . . . . .	569
	D. Negative Adjusted Cost Base . . . . .	569
	E. Part Dispositions . . . . .	570
VI.	Personal-Use Property . . . . .	571
	A. General Comment . . . . .	571
	B. Listed Personal Property . . . . .	572
	C. Computational Rules . . . . .	572
	a) Bad Debts . . . . .	573
	b) Part Dispositions . . . . .	574
	c) Capital Losses . . . . .	575
VII.	Identical Properties . . . . .	575
VIII	Losses Deemed to Be Nil . . . . .	576
	A. General Comment . . . . .	576
	B. Dispositions between Affiliated Persons . . . . .	577
	C. Lotteries . . . . .	578
	D. Superficial Losses . . . . .	578
	E. Disposition of a Debt . . . . .	579
	F. Disposition of Personal-Use Property . . . . .	580

Table of Contents

**Chapter 14 — Capital Gains & Losses: Special Cases**

I.	Principal Residence Exemption . . . . .	583
A.	Meaning of “Principal Residence” . . . . .	584
	a) The type of property: . . . . .	585
	b) Owner occupation: . . . . .	585
	c) Ordinarily Inhabited . . . . .	586
	d) Designation on Tax Return: . . . . .	586
	e) Land Included . . . . .	587
B.	Exempt Gains . . . . .	587
C.	Limits on Exemptions . . . . .	590
D.	Farm Houses . . . . .	591
	a) Alternative 1 . . . . .	591
	b) Alternative 2 . . . . .	592
E.	Change in Use Elections . . . . .	592
	a) Personal to Income-Earning Use . . . . .	592
	i) Application to Principal Residence . . . . .	593
	ii) Timing of Election . . . . .	593
	iii) Duration . . . . .	593
	b) Income-Earning Use to Principal Residence . . . . .	594
II.	Capital Gains Exemption . . . . .	594
III.	Capital Losses . . . . .	596
A.	Current Year Losses . . . . .	596
	a) Listed Personal Property Losses . . . . .	596
	b) Allowable Capital Losses . . . . .	597
	c) Allowable Business Investment Losses (“ABIL”) . . . . .	597
	i) General Comment . . . . .	597
	ii) “Small Business Corporation” . . . . .	597
	iii) Deemed Disposition . . . . .	598
B.	Unused Losses . . . . .	598
	a) LPP Losses . . . . .	598
	b) Net Capital Losses . . . . .	598
	i) Change of Corporate Control . . . . .	599
	ii) Death . . . . .	599
IV.	Transitional Rules . . . . .	600
A.	General Comment . . . . .	600
B.	Valuation Day . . . . .	601
C.	Depreciable Property . . . . .	601
V.	Anti-Avoidance Provisions . . . . .	601

**Chapter 15 — Other Sources of Income**

I.	General Comment . . . . .	622
II.	Pension Benefits . . . . .	624

## Table of Contents

III.	Death Benefits .....	625
IV.	Support Payments .....	625
V.	Retiring Allowances .....	625
VI.	Scholarships, Bursaries, and Fellowships .....	626
VII.	Research Grants .....	627
VIII.	Prizes .....	628
IX.	Social Assistance Payments .....	628
X.	Other Selected Inclusions .....	629

### Chapter 16 — Child Care Expenses

I.	General Comment .....	637
II.	Statutory Structure .....	638
III.	General Limitation .....	639
IV.	Who May Claim the Deduction? .....	639
V.	Nil Income .....	641
VI.	Dollar Limits on Deductions .....	641
VII.	Eligible Children .....	641
VIII.	Meaning of “Child Care Expense” .....	642
IX.	Residence in Canada .....	643

### Chapter 17 — Family Transactions

I.	General Comment .....	646
II.	Overview of Tax Structure .....	648
	A. Background .....	648
	B. Meaning of “spouse” .....	649
	C. Common Law Partners .....	649
III.	Spousal Support .....	652
	A. General Comment .....	652
	B. Deduction for Spousal Support .....	652
	a) Living Separate and Apart .....	653
	b) Order or Written Agreement .....	653
	i) Written Agreement .....	653
	ii) Paid Under an Agreement .....	654
	iii) Payments Prior to Agreement .....	654
	c) “Allowance” .....	655
	d) Payable on a Periodic Basis .....	656
	i) Periodic vs. Lump Sum Payments .....	658
	ii) Indicia .....	659
	iii) Frequency of Payments .....	660
	e) Amount Paid in Relation to Living Standards .....	660
	i) Interest .....	661



## Table of Contents

		ii) Acceleration Clauses . . . . .	661
		iii) Accumulation of Capital . . . . .	661
		iv) Term of Payments . . . . .	661
		v) Assignment of Obligation . . . . .	662
		vi) Release from Future Obligations . . . . .	662
IV.	Capital Property Transfers . . . . .		662
	A. Arrears . . . . .		663
V.	Child Support . . . . .		664
VI.	Third-Party Payments . . . . .		664
	A. Deemed Allowance . . . . .		666
	B. Prior Payments . . . . .		666
VII.	Legal Fees . . . . .		667

### Chapter 18 — Whose Income Is It?

I.	General Comment . . . . .	673
II.	Indirect Payments . . . . .	675
	A. Transfers of Rights to Income . . . . .	677
	B. Interest-Free or Low-Interest Loans . . . . .	678
III.	Transfers/Loans to Spouse . . . . .	679
IV.	Separated Spouses or Common-Law Partners . . . . .	680
V.	Transfers/Loans to Persons Under 18 Years of Age . . . . .	680
VI.	Non-Arm’s Length Loans . . . . .	681
VII.	Transfers and Loans to Corporations . . . . .	681
VIII.	GAAR May Apply . . . . .	682
IX.	Reversionary Trusts . . . . .	683
X.	Interpretation and Application of Attribution Rules . . . . .	684
XI.	Tax on Split Income (TOSI) . . . . .	685
	A. Background . . . . .	685
	B. Who is Subject to TOSI? . . . . .	687
	C. Basic Concept . . . . .	687
	D. Who is Taxable on Split Income? . . . . .	688
	E. What is Taxable? . . . . .	689
	F. What is Excluded from Split Income? . . . . .	690
	a) What is a “Related Business”? . . . . .	691
	b) What is a “Reasonable Return”? . . . . .	691
	G. Summary of Scope of the TOSI . . . . .	692
	a) Children Under 17 . . . . .	692
	b) Children aged 17 to 24 . . . . .	692
	c) Adults aged 24+ . . . . .	693
	H. Example (Department of Finance Guidelines) . . . . .	693
	I. CRA’s Assessment Policies . . . . .	694
	J. Inherited Property . . . . .	695

Table of Contents

K.	Specified Exclusions . . . . .	696
L.	Spouses Age 65 and Over . . . . .	697
M.	Artificial Transactions . . . . .	697
N.	Summary of Income Splitting Techniques . . . . .	697
O.	Liability for Taxes . . . . .	698
	a) Overview . . . . .	698
	b) The Basic Rule . . . . .	699
	c) Four Essential Conditions . . . . .	699
	d) Purpose of Rule . . . . .	700
	e) Strict Liability . . . . .	701
	f) Meaning of Transfer . . . . .	701
	g) Non-Arm's Length . . . . .	702
	h) No Limitation Period . . . . .	702
	i) The Power of Section 160 . . . . .	703
	j) Corporate Law of Dividends . . . . .	703
	k) Fair Market Value of a Dividend . . . . .	704
	l) Potential Liability of Shareholders . . . . .	705
	m) Loans . . . . .	707
	n) Attributed Income . . . . .	708
	o) Liability before Assessment . . . . .	708

**Chapter 19 — From Income to Taxable Income**

I.	General Comment . . . . .	716
II.	“Taxable Income” . . . . .	717
III.	Deduction or Credit? . . . . .	718
IV.	Residents of Remote Regions . . . . .	718
	A. Who is Eligible? . . . . .	719
	B. Amount of Deductions . . . . .	719
V.	Carryover of Losses . . . . .	720
	A. General Comment . . . . .	720
	B. Types of Losses . . . . .	721
	a) Non-Capital Losses . . . . .	722
	i) Meaning of non-capital loss . . . . .	723
	ii) Non-residents . . . . .	723
	iii) Order of Deductions . . . . .	724
	iv) Transfer of Losses . . . . .	724
	b) Net Capital Losses . . . . .	724
	c) Farm Losses . . . . .	725
	i) Business Farm Losses . . . . .	725
	ii) Restricted Farm Losses . . . . .	727
	iii) Hobby Farm Losses . . . . .	727
	d) Allowable Business Investment Losses . . . . .	727

## Table of Contents

i)	Defined	727
ii)	Hybrid Nature of Loss	728
e)	Net Capital Losses in Year of Death	728
f)	Limited Partnership Losses	728
C.	Change of Corporate Control	729
a)	Meaning of “Control”	729
i)	De Jure Control	729
ii)	Statutory Exceptions	730
iii)	Restrictions on Losses	730
iv)	Non-Capital Losses	731
v)	Deemed Year-End	731
vi)	Capital Losses	732
VI.	Capital Gains Exemption	732
A.	Structure	733
B.	Who Is Eligible?	733
a)	Residents	733
b)	Deemed Residents	734
C.	Eligible Properties	734
a)	Restrictions	734
D.	Small Business Corporation Shares	735
E.	Qualified Farm or Fishing Property	735
a)	“Qualified Farm or Fishing Property”	736
b)	The Business of Farming or Fishing	736
c)	Rollovers	737
F.	Reporting Requirements	737
G.	Anti-avoidance Rules	737
a)	Type A Conversions	738
b)	Type B Conversions	738
VII.	Adjusted Taxable Income	739

### **Chapter 20 — Charitable Donations**

I.	General Comment	746
II.	Legislative Background	747
III.	Statutory Context	748
A.	Individuals	748
a)	Corporations	749
b)	Qualified Donees	749
IV.	What Constitutes a Gift?	751
A.	Essential Requirements of “Gift”	752
B.	Eligible Amount of the Donation	754
C.	Comparable Law in Other Common Law Jurisdictions	754
D.	Gifts that Confer an Advantage	755

## Table of Contents

V.	What is a Charity? . . . . .	756
	A. Charitable Purposes . . . . .	757
	B. The Pemsel Test . . . . .	758
	C. The Modern Test . . . . .	759
	D. Tax-Exempt Status . . . . .	760
VI.	Registration as Charity . . . . .	760
VII.	Valuation Methodologies . . . . .	762
	A. Leveraged Financing . . . . .	763
	B. Arm’s Length Transactions . . . . .	764
	a) De Jure Control . . . . .	765
	b) De Facto Control . . . . .	766
	c) Consequences of Non-arm’s Length Transactions . . . . .	767
	d) Limited Recourse Debt . . . . .	767
	e) Expert Evidence . . . . .	768
	f) Artificial Transactions . . . . .	770
	g) Duty to Inform Donee . . . . .	771
VIII.	Political Activities . . . . .	771
IX.	Donations of Capital Property . . . . .	774
X.	Summary of Charitable Donation Requirements . . . . .	774

### Chapter 21 — Taxable Income to Tax Payable

I.	General Comment . . . . .	780
II.	Rules Applicable to Individuals . . . . .	781
	A. Basic Federal Rate . . . . .	781
	B. Bracket Creep . . . . .	782
	C. Provincial Taxes . . . . .	782
III.	Tax Credits . . . . .	784
	A. Personal Tax Credits . . . . .	785
	a) Method of Calculation . . . . .	786
	b) Single Status . . . . .	786
	c) Spousal Status . . . . .	786
	d) Wholly-Dependent Persons (“Equivalent-to-spouse Credit”) . . . . .	787
	e) Canada Caregiver Credit . . . . .	788
	B. Age . . . . .	789
IV.	Pension Income . . . . .	789
V.	Tuition Fees . . . . .	791
	A. Education Institutions . . . . .	792
	B. Educational Institutions in Canada . . . . .	792
	C. Deemed Residence . . . . .	792
	D. Transfer of Unused Credits . . . . .	793
	E. Fees Paid by Employer . . . . .	793
	F. “Tuition Fees” . . . . .	793

Table of Contents

	G.	Books	794
	H.	Period Covered by Fees	794
	I.	Educational Institutions Outside Canada	794
	J.	Post-Graduate Studies	795
	K.	Commuting to United States	795
	L.	Canada Training Credit	795
VI.		Medical Expenses	797
	A.	Computation of Credit	797
	B.	Who may Deduct?	797
	C.	Who is a Medical Practitioner?	798
	D.	What is a Medical Expense?	798
	E.	Cannabis	799
	F.	Mental or Physical Impairment	800
VII.		Dividend Tax Credit	800
	A.	Tax Integration	800
	B.	The Gross-up Factor	801
	C.	The Federal Credit	802
	D.	The Provincial Credit	802
	E.	Effect of Integration	802
	F.	Example of Perfect Theoretical Integration on Small Business	803
	G.	Limitations	804
	H.	Example of Perfect Theoretical Integration on Full Rate Business	804
	I.	Tax Deferral	805
VIII.		Alternative Minimum Tax	805
IX.		Rules Applicable to Corporations	806
	A.	Basic Tax Rate	806
	B.	Tax Adjustments	807
	C.	Provincial Tax Credits	807
	D.	General Corporation Tax Rates on Business Income (2019)	807
	E.	Corporate Tax Rates on Small Businesses	808
	F.	Permanent Establishment in Province	809
	a)	Allocation of Taxable Income	810
	b)	Computation of Provincial Tax Credit	811
	G.	Small Business Deduction	811
X.		Rules Applicable to All Taxpayers	812
	A.	Foreign Tax Credit	812
	a)	Non-Business-Income Tax	813
	i)	Definition	813
	ii)	Limits on Deductions	815
	iii)	No Carryover	815
	b)	Business Income Tax	816
	i)	Definition	816
	ii)	Separate Calculation	816

## Table of Contents

iii)	Carryover .....	816
iv)	Limits .....	816
c)	Employees of International Organizations .....	817
d)	Canadian Forces Deployed in International Missions .....	817
B.	Political Contributions Credit .....	817
C.	Other Tax Credits .....	818
a)	Logging Tax Credit .....	818
b)	Investment Tax Credit .....	818

### **Chapter 22 — Tax Avoidance and GAAR**

I.	Overview .....	827
II.	Judicial Antecedents .....	828
A.	The Westminster Case .....	828
B.	The Facts .....	829
C.	Form or Substance? .....	830
D.	Westminster Principle .....	831
III.	Judicial Control of Tax Avoidance .....	831
IV.	The Westminster Principle in Canada .....	833
A.	Stubart .....	834
B.	Object, Spirit and Purpose .....	835
V.	Statutory Control of Tax Avoidance .....	835
A.	Specific Anti-avoidance Rules (SAARs) .....	836
B.	Targeted Anti-avoidance Rules (TAARs) .....	836
C.	Limited Success .....	837
VI.	General Anti-avoidance Rule (GAAR) .....	838
A.	Section 245 .....	838
B.	Definition and Scope of GAAR .....	840
C.	Interpretation & Standards of Review .....	843
D.	Analysis .....	844
E.	The Charging Provision .....	846
VII.	Analysis of GAAR .....	846
A.	Tax Benefit .....	846
B.	Tax Avoidance .....	849
C.	Abuse of the Act .....	852
a)	Determining Abuse .....	855
b)	Burden of Proving “Abuse” .....	856
VIII.	Re-characterization of Transactions .....	857
IX.	Summary of GAAR .....	858
X.	Discoveries .....	859
A.	Mode of Discovery .....	860
B.	Who May be Examined? .....	860
C.	Scope of Disclosure .....	861

Table of Contents

D.	Rule 240 of the Federal Courts Rules, SOR/98-106	862
E.	Preparation for Discovery	863
F.	Disclosure in GAAR Appeals	863
G.	Review upon Appeal	864
H.	Refusal to Answer	864
	a) Restriction on Use at Hearing	864
	b) Additional Sanctions	864
I.	Effect of Counsel Answering Question	865
J.	Information Subsequently Obtained	865
K.	Use of Examination for Discovery at Hearing	865
XI.	Summary of GAAR Decisions	866
	A. GAAR applied in the following cases:	866
	B. Litigation Considerations	870
	C. GAAR Not Applied in the Following Cases	870
	a) Purpose, The Charging Provision, Avoidance Transactions	879
	b) Purpose of Transaction	880
	c) Determining the Policy of the Statute	881
	d) Series of Transactions	881
	i) General Comment	881
	ii) The Common Law	882
	e) Administration	882
	i) Assessments	882
	f) Administrative Structure	884
	g) Administrative Interpretation	884
	h) Interpretations and Rulings	884
	i) Form of Business Organization	884
	i) Consolidation of Profits and Losses in a Corporate Group	884
	j) Purifying a Corporation	885
	k) Conversion of Salary into Capital Gain	885
	l) Section 85 Rollover to Related Corporations	885
	m) Estate Freezing	885
	n) Avoidance of Part IV Tax on Taxable Dividends	886
	o) Indirect Transfer of Land Inventory	886
	p) Indirect Disposition of Property Through a Partnership	886
	q) Conversion of Dividend Income into Capital Gains	886
	Australia and New Zealand	
	a) General Comment	886
	b) Taxpayers' Rights	887
	c) Evasion, Avoidance and Mitigation	887
	d) Sham Transactions	888
	i) Background	889
	e) Purpose	889
	f) Determining the Policy of the Statute	890

## Table of Contents

g)	Series of Transactions .....	890
	i) Common Law .....	890
h)	Westminster Principle .....	891
i)	Administrative Structure .....	891
j)	Administrative Interpretation .....	891
	i) Discretionary Power .....	891
k)	Interpretations and Rulings .....	891
	i) Form of Business Organization .....	891
l)	Estate Freezing .....	891
m)	Avoidance of Part IVA Tax on Taxable Dividends .....	892
United Kingdom		
a)	General Comment .....	893
b)	Judicial Doctrines .....	893
c)	Evasion, Avoidance, and Mitigation .....	894
d)	Motive .....	895
e)	Sham Transactions .....	895
f)	Background .....	895
g)	Purpose of Transaction .....	896
h)	Series of Transactions .....	896
	i) General Comment .....	896
i)	The Common Law .....	896
j)	Section 245 .....	898
k)	The Westminster Principle .....	898
l)	Discretionary Power .....	898
m)	Purposive Approach .....	898
n)	Form of Business Organization .....	898
United States		
a)	General Comment .....	899
b)	Judicial Doctrines .....	899
c)	Evasion, Avoidance, and Mitigation .....	899
d)	Motive .....	900
e)	Sham Transactions .....	900
f)	Substance vs. Form .....	900
g)	The General Anti-Avoidance Rule .....	900
	i) Background .....	900
h)	Avoidance Transactions .....	901
i)	Purpose of Transaction .....	901
j)	Redetermination of Tax Liability .....	901
k)	Series of Transactions .....	902
	i) General Comment .....	902
l)	The Common Law .....	902
m)	Administration .....	902
	i) Assessments .....	902



Table of Contents

n)	Interpretations and Rulings . . . . .	902
i)	Form of Business Organization . . . . .	902
o)	Consolidation of Profits and Losses in a Corporate Group . . . . .	903
p)	Conversion of Dividend Income into Capital Gains . . . . .	903
	Ireland	
a)	Evasion, Avoidance, and Mitigation . . . . .	903
b)	The General Anti-Avoidance Rule . . . . .	904
i)	Background . . . . .	904
c)	The Common Law . . . . .	904

**Chapter 23 — International Tax Avoidance**

I.	General Comment . . . . .	906
II.	Background . . . . .	907
III.	Structure of Tax Treaties . . . . .	908
IV.	Implementation of Treaties . . . . .	909
V.	Application of International Law . . . . .	909
VI.	Interpretation . . . . .	911
VII.	The Vienna Convention on the Law of Treaties . . . . .	913
A.	Primary Document . . . . .	914
B.	Good Faith . . . . .	916
C.	Ordinary Meaning of Words . . . . .	916
D.	Special Meaning of Words . . . . .	917
E.	Contextual Interpretation . . . . .	917
F.	The Preamble . . . . .	918
G.	Subsequent Agreements and Practice . . . . .	918
H.	Customary International Law . . . . .	919
I.	Intention of Parties . . . . .	919
J.	Use of Supplementary Materials . . . . .	920
K.	Summary . . . . .	922
VIII.	Canadian Approach to Interpretation . . . . .	922
IX.	Model Tax Conventions . . . . .	924
A.	The OECD Model Tax Convention and Commentary . . . . .	925
a)	Historical Background . . . . .	925
b)	Structure of the Model Convention . . . . .	926
c)	Scope . . . . .	926
d)	Taxes Covered . . . . .	928
e)	Interpretation of Undefined Terms . . . . .	929
f)	Whose Internal Tax Law? . . . . .	931
X.	Bilateral Tax Treaties . . . . .	933
A.	General . . . . .	933
B.	Ambulatory Meaning . . . . .	934
XI.	Treaty Shopping . . . . .	935

Table of Contents

	A. Economic Impetus for Treaty Shopping .....	937
XII.	OECD Model Convention (2017) .....	938
XIII.	Specific legislative Anti-abuse Rules (SAARs) .....	941
	A. Legislated Anti-Abuse Rules .....	942
	B. Judicial Doctrines in Domestic Law .....	943
XIV.	Judicial Control .....	944
	A. The United States .....	944
	B. Canada .....	948
XV.	Multilateral Instrument (“MLI”) .....	954

**Appendices**

	Appendix — Time Value of Money Tables .....	957
	Appendix — Glossary .....	961
	<i>Index</i> .....	1125