Objectives Of The Canadian Tax Principles Package

Subject Coverage
The objective of this text is to provide coverage of all the tax subjects that are taught in Canadian college and university tax courses. In so doing, it also provides comprehensive coverage of almost all the tax issues that are required in the educational programs of CPA Canada. The one area of these programs that is not covered is "Reporting Systems And Data Requirements For Tax Compliance".

This material is designed to be used in a two semester university or college course and is far too extensive to be completely covered in a single one semester course. The traditional split in the material would be to cover Chapters 1 through 11 in a first course dealing with the determination of Net Income For Tax Purposes for all taxpayers, as well as the calculation of Taxable Income and Tax Payable for individuals. This could be followed by a second course where the focus is primarily on the taxation of corporations. The relevant material on corporations is found in Chapters 12 through 17. The remaining Chapters 18 through 21 deal with partnerships, trusts, international taxation, and GST/HST.

Level Of Coverage
In terms of style, we have attempted to strike a balance between the kind of complete documentation that can render the material incomprehensible to anyone other than a tax professional, and the total elimination of references that would make it impossible for readers to expand their understanding of particular points. In those situations where we feel the issue is sufficiently complex that further investigation could be helpful, we have provided a list of references to the relevant Sections of the Income Tax Act or other related materials. In contrast, no direction has been provided when the material is either very straightforward, or where the relevant parts of the Act would be obvious.

This book can be used with or without additional source material. Some instructors require students to acquire a copy of the Income Tax Act and permit its use as a reference during examinations. For instructors wishing to take this approach, frequent references to the Act have been included. For instructors not wishing to require the use of the Income Tax Act, we have designed the problem material so that students should be able to solve all of the included problems relying solely on the text as a reference.

The Need For Two Volumes
In the over 30 years that we have been writing this text, we have seen the content grow from about 400 pages to more than 1,500 pages. We initially dealt with this increase in size by providing a separate Study Guide. However, the text alone has grown to over 1,000 pages and, while accommodating this in a single volume is feasible, the result would be far less useful to students than dividing the material into two reasonably sized volumes.

If there was any consensus among our users as to which subjects should be dealt with in each volume, they could be made available separately. However, virtually all of our users omit material from Volume I and include material from Volume II. Further, there is no consistent
pattern as to which material is omitted and which material is included. Given this, it would not be possible to produce separate volumes that meet the needs of all of our users.

**The Study Guide**

The major objective of the Study Guide is to provide students with convenient access to the solutions for the Exercises and Self Study Problems. Having these solutions in a separate volume makes it much easier for students to simultaneously view the problem while solving it and then consult its complete and detailed solution.

The Study Guide also provides a number of additional features to enhance the learning experience. These can be described as follows:

- Detailed instructions on "How To Work Through" each Chapter in the text. This includes guidance on when to attempt Exercises and Self Study Problems as the student reads through the text.
- A detailed list of "Learning Objectives" for each Chapter. This allows the student to ensure that he/she has understood all of the relevant subjects covered in the Chapter.
- Sample tax returns for both individuals and corporations. These are useful practice for students using the ProFile tax software that is available with this text.
- At the end of each Chapter in the text, there is a list of key terms that were used in that Chapter. All of these terms are alphabetically listed in a Glossary that is at the back of the Study Guide. This provides an easy way to find the meaning of a term that was introduced in one Chapter, but is being referred to again in a subsequent Chapter.

**Problem Material Available**

**For Students - Problems and Practice Exams With Solutions**

The *Canadian Tax Principles* package contains a large number of problems with detailed solutions. See the Online Student Supplements section of this preface for more information about online access. The various types of problems and their location are as follows:

- **Exercises** These are short problems that are focused on a single issue. Each Exercise is presented in the *Canadian Tax Principles* text, directly following the material that is relevant to its solution. This provides you with immediate feedback as to whether you have understood the material that you have just read. Solutions to the Exercises can be found in the Study Guide.

- **Self Study Problems** These problems are more complex than the Exercises and include a number of comprehensive problems. Solutions to the Self Study Problems are included in the Study Guide while the problems are available online.

- **Tax Software Self Study Problems** These problems are designed to be solved using the ProFile software that is available with *Canadian Tax Principles*. These problems are found in the Study Guide. The completed tax returns are available online.

- **Supplementary Self Study Problems** Additional Self Study Problems, along with their detailed solutions, are available online for each chapter.

- **Practice Examinations** A 90 minute practice examination and solution is available online for each chapter.

**For Instructors - Assignment Problems And Test Items**

*Canadian Tax Principles* contains several types of problems designed for instructors:

- **Assignment Problems** These problems vary in difficulty and include the most difficult non-comprehensive problems in the text. They are found at the end of each chapter of *Canadian Tax Principles*. They are sometimes adapted from professional examinations and may involve a number of different issues. Solutions to these
problems are available only to instructors. These solutions are not available to students.

**Assignment Problems (Comprehensive)** These comprehensive problems are the most challenging type of problem material in the text. They are cumulative in that they incorporate issues from previous chapters. There are two comprehensive assignment problems per chapter in Chapters 6 through 11 and they are found at the end of the Assignment Problems for the chapter. Solutions to these problems are available only to instructors.

**Assignment Tax Software Problems** Assignment Tax Software Problems dealing with personal tax returns are found at the end of Chapters 4 and 11. An additional Assignment Tax Software Problem, involving a corporate tax return, is located at the end of Chapter 14. Solutions to Assignment Tax Software Problems are available only to instructors.

**Examination Problems** For instructors adopting *Canadian Tax Principles*, a large and comprehensive selection of problems and solutions for use on examinations is available. These include multiple choice questions (over 700), true/false questions (over 200), essay questions (over 400), exercises (over 400), as well as more than 350 comprehensive types of problem ranging in difficulty from easy to very difficult.

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**Online Student Supplements**

**MyLab Accounting**

MyLab Accounting for *Canadian Tax Principles* contains a great deal of additional material that will provide significant assistance to users of this text. Instructions on how to access MyLab can be found on the access card provided with this package. The URL for MyLab is:

http://www.pearsonmylabandmastering.com

The various items that are included on MyLab can be described as follows:

- **Pearson eText** In response to concerns over the growing size (and weight) of the print version of this text, access to the eText is included with the print version. This eText gives you access to the text whenever and wherever you have access to the Internet, through various devices. It contains the content of both volumes of the text and the Study Guide. The eText pages look exactly like the printed text and offer powerful functionality. You can create notes, highlight text in different colours, create bookmarks, zoom, and search.

- **Self Study Problems** While the actual Self Study Problems are only available on MyLab, we have marked the point within the text that you should work each Self Study Problem. Their solutions are included in the Study Guide.

- **Supplementary Self Study Problems** Additional Self Study Problems for each chapter, along with their detailed solutions, are available for further practice in problem solving.

- **CPA Canada’s Federal Income Tax Collection (FITAC)** This comprehensive electronic tax research library contains the *Income Tax Act*, *Income Tax Folios*, and other official materials. In addition, it includes an electronic version of the *Canadian Tax Principles* text. Designed for reference purposes, this version provides electronic links from the text material to the various references contained in FITAC (e.g., the *Income Tax Act*). Note however, it only includes the text and does not have the Exercises and other problem material that are provided with the printed text.

- **ProFile Tax Return Preparation Software** Intuit’s professional tax preparation software, ProFile, is available free of charge to users of *Canadian Tax Principles*. You can use this software to prepare returns for individuals, corporations and trusts and a large number of tax forms. This software is for educational use only and cannot be used to file tax returns.

- **Corrections** Any corrections to the text, Study Guide, or other student material are provided here throughout the year. Please check periodically to help avoid frustration.
• **Practice Examinations** A 90-minute practice examination, along with a solution and suggested marking guide, is available for each chapter. These examinations contain a variety of problems, including multiple choice, essay questions and longer problems.

• **Power Point Presentations** There is a PowerPoint presentation for each chapter. These provide the basis for a quick review of the material covered in the chapter.

• **Glossary Flashcards** These flashcards help you test your understanding of the key terms used in each chapter.

• **2019 Tax Rates, Credits and Common CCA Classes** This is available as a PDF file, for reference. This tax information is also available at the front of Volumes 1 and 2, and CCA classes are available in the Chapter 5 Appendix.

• **Tax Returns** The Study Guide contains tax return examples and Self Study tax software problems, along with notes to their solutions. The completed tax returns are available on MyLab, to download and use with your ProFile software, or to view in PDF files.

### Instructor Supplements

In addition to all of the materials that are available to students, instructors will be provided with the following additional resources through the Pearson online catalogue:

• **Solutions Manual** A complete solutions manual is available to instructors. This manual includes detailed solutions to all of the Assignment Problems found in the textbook, including those that use the ProFile software. It also includes a problem concordance which correlates all problems from the last edition to this one. This is provided to assist instructors who have used the last edition with revising their courses.

• **Test Item File** For instructors adopting *Canadian Tax Principles*, a large and comprehensive selection of problems with detailed solutions for use on examinations is available (see previous description).

### Recent Changes

#### Fall Economic Statement

Perhaps the most important change for 2019 was announced on November 21, 2018, when the Department Of Finance released the Accelerated Investment Incentive (AccII) provisions as part of its fall economic statement. These provisions remove the half-year reduction for most depreciable assets. In its place, there is a 50 percent addition to the base for calculating CCA on assets acquired during the year. This, in effect, triples the amount of CCA that can be deducted in the first year of a depreciable asset’s life.

These provisions are discussed in detail in Chapter 5. However, the application of the AccII provisions required changes to material in almost every subsequent Chapter.

#### The Federal Budget

**Complications**

While the fall economic statement included what is, perhaps the most important change for 2019, most changes in legislation are introduced in the annual federal budget. This can greatly complicate the production of a comprehensive text that must be in bookstores the first week in September.

The first complication is that the date for each year’s budget is not entirely predictable. Between 2002 and 2019, the arrival date has ranged from December 10th of the preceding year (the 2002 budget) to May 2nd of the budget year (the 2006 budget). For 2019, the budget was presented on March 19, 2019.

The second potential complication is there is usually a considerable period of time between the budget statement and the release of the required legislation. This is further complicated in
2019 by fact that there will be a fall election. If the Liberals do not maintain their majority in parliament, some or all of the provisions in the 2019 budget may never see the light of day. In preparing material based on the budget announcements, we have to recognize that some of the included material may not be appropriate if the proposed changes do not make it through parliament.

**Previously Announced Measures**

There are several measures that were announced in previous budgets that are still working their way through the system in 2019. They can be described as follows:

**Small Business Deduction**  In October, 2017, the government announced a phased in increase in the small business deduction. The applicable amounts are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>17.5%</td>
</tr>
<tr>
<td>2018</td>
<td>18.0%</td>
</tr>
<tr>
<td>2019</td>
<td>19.0%</td>
</tr>
</tbody>
</table>

The increases in this deduction are reflected in lower rates on income eligible for the small business deduction. The federal rate on such income goes from 10.5 percent in 2017, to 10 percent in 2018, and to 9 percent in 2019.

**Non-Eligible Dividends**  Non-eligible dividends are dividends that are paid out of income that is eligible for the small business deduction. The gross up and tax credit amounts that are applicable to these dividends are being altered to reflect the changes in the small business deduction. The phased in changes are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Up (% Of Dividends)</th>
<th>Federal Credit (Fraction Of Gross Up)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>17%</td>
<td>21/29</td>
</tr>
<tr>
<td>2018</td>
<td>16%</td>
<td>8/11</td>
</tr>
<tr>
<td>2019</td>
<td>15%</td>
<td>9/13</td>
</tr>
</tbody>
</table>

**Income Sprinkling**  Prior to 2018, the Tax On Split Income (TOSI) only applied to related minors. However, on December 13, 2017, the government released measures that extended this punitive tax measure to individuals of any age. The measures are effective for 2018 and subsequent taxation years. The goal of these measures was to make splitting income with related individuals significantly more difficult. These complex and complicated measures are likely to achieve this goal.

**Billed Basis Accounting**  The 2017 budget indicated that the government will eliminate the use of the billed basis of revenue recognition that is currently permitted for some groups of professionals. The elimination of this provision is being phased in over a five year period at the rate of 20 percent in each year, starting in 2018.

**Passive Income Of CCPCs**  The government has concluded that these companies have an unfair advantage in the accumulation of passive investments held within the corporation. This is because they retain more funds after the payment of the small amount of taxes applicable to income that is eligible for the small business deduction.

To make this situation less attractive, the 2018 Budget included legislation that would grind down the annual limit on the amount of income that is eligible for the small business deduction. Specifically, the $500,000 limit will be reduced on a straight-line basis for CCPCs having between $50,000 and $150,000 in investment income. This was accompanied by a number of other changes to the taxation of this income.

While this legislation was included in the 2018 Budget, it is only applicable to 2019 and subsequent years. Our coverage of these changes is found in Chapter 13.
They March 19, 2019 budget contained a fairly large number of proposals that were of varying importance. The following lists describes most of these changes.

### Personal Tax Measures

- A proposal to limit access to the 50 percent deduction on stock options (see Chapter 3). The limit would be based on the first $200,000 of the fair market value of the securities included in new grants. It is unlikely that these proposals will be implemented this year.
- Provisions designed to limit the ability of mutual funds to defer certain types of capital gains and to convert ordinary income into capital gains.
- A new Canada training credit that will become available in 2020 (see Chapter 4).
- An increase in the Home Buyers’ Plan limit from $25,000 to $35,000 (see Chapter 10).
- A modification of the change in use rules for multi-unit residential properties (see Chapter 8).
- An expansion of the types of annuities that can be used by registered plans to fund retirement income (see Chapter 10).
- Changes to the rules for Registered Disability Savings Plans.
- Changes to the rules for kinship care providers.
- Removal of the requirement that donations of cultural property be of national importance in order to qualify for enhanced charitable donations treatment.
- Amended the legislation for the medical expense tax credit to reflect the new rules for cannabis regulation.
- Modification of the rules for determining pensionable service under an individual pension plan.
- New rules applicable to individuals carrying on a business in a tax free savings account.

### Business Tax Measures

- New rules that provide for a 100 percent write off of zero emission vehicles in the year of acquisition (see Chapter 5).
- Removal of the income constraint for determining the amount of scientific research expenditures that are eligible for the enhanced 35 percent investment tax credit (see Chapter 14).
- Changes in the rules for determining the amount of farming and fishing income that is eligible for the small business deduction.
- Several provisions to enhance government support for Canadian journalism. These include:
  - a non-refundable tax credit for digital news subscriptions (see Chapter 4);
  - a refundable credit for salaries paid to newsroom employees (see Chapter 12);
  - a provision that extends qualified donee status to registered journalism organizations.

We have provided coverage of some, but not all, of these changes as indicated by the Chapter references included in the list items.

## Acknowledgments

We would like to thank the many students who have used this book, the instructors who have adopted it at colleges and universities throughout Canada, as well as the assistants and tutors who have been involved in these courses.

In terms of the content of the book, we would like to give special thanks to:

**Gary Donell**  After many years with the CRA, Gary is now affiliated with the Ottawa office of Welch LLP. Gary has been a significant contributor to this text for nearly 20 years.
years, bringing to it an outstanding knowledge of income tax issues. He has made many valuable suggestions that have contributed greatly to the accuracy and clarity of the material. In addition, he was responsible for writing much of the Chapter 18 material on partnerships and the Chapter 20 material on international taxation. Mr. Donell has undertaken this work independently of his work with Welch LLP. The views that are contained in this publication do not, in any way, reflect the policies of Welch LLP.

Ruth Ann Strickland (a.k.a. Eagle Eye) - Western University (London) Over the last few years, Ruth Ann has shown an uncanny ability to spot both major and minor errors. She has been responsible for helping us eliminate many such items, greatly enhancing the quality of our material. We are very grateful for her assistance.

Also of great help in improving the text over the years were the comments and corrections provided by the following instructors:

- Joseph Armanious - McGill University (Montreal)
- Ann Bigelow - Western University (London)
- Laura Cumming - Dalhousie University (Halifax)
- Larry Goldsman - McGill University (Montreal)
- Susan Hurley - NAIT (Edmonton)
- Patrick Massicotte - St. Lawrence College
- Jay Perry - Niagara College (Niagara-On-The-Lake)
- Victor Waese - BCIT (Burnaby)
- Ronald Wong - Capilano University (Vancouver)

It’s Our Fault
As always, we have made every effort to accurately reflect appropriate tax rules. Every word in the text, problems, and solutions has been read by at least two and, in most cases three, individuals. However, it is virtually certain that errors remain. These errors are solely the responsibility of the authors and we apologize for any confusion that they may cause you.

Clarence Byrd, Clarence Byrd Inc.
Ida Chen, Clarence Byrd Inc.
June, 2019
2019 Rates, Credits And Other Data

Information Applicable To Individuals

Federal Tax Rates For Individuals

<table>
<thead>
<tr>
<th>Taxable Income In Excess Of</th>
<th>Federal Tax</th>
<th>Marginal Rate On Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ -0-</td>
<td>$ -0-</td>
<td>15.0%</td>
</tr>
<tr>
<td>47,630</td>
<td>7,145</td>
<td>15.0%</td>
</tr>
<tr>
<td>95,259</td>
<td>16,908</td>
<td>20.5%</td>
</tr>
<tr>
<td>147,667</td>
<td>30,535</td>
<td>26.0%</td>
</tr>
<tr>
<td>210,371</td>
<td>48,719</td>
<td>33.0%</td>
</tr>
</tbody>
</table>

Federal Tax Credits For Individuals - Personal Credits (ITA 118)

118(1)(a) Married Persons 15% of $12,069 ($1,810).

118(1)(a) Spousal 15% of $12,069 ($1,810), less 15% of the spouse’s Net Income For Tax Purposes. Base amount increased by $2,230 (to $14,299) if the spouse is mentally or physically infirm. Not available when the spouse’s income is more than $12,069 (or $14,299).

118(1)(b) Eligible Dependant 15% of $12,069 ($1,810), less 15% of the eligible dependant’s Net Income For Tax Purposes. Base amount increased by $2,230 (to $14,299) if the eligible dependant is mentally or physically infirm. Not available when the eligible dependant’s income is more than $12,069 (or $14,299).

118(1)(b.1) Canada Caregiver For Child Under 18 15% of $2,230 ($335).

118(1)(c) Single Persons 15% of $12,069 ($1,810).

118(1)(d) Canada Caregiver 15% of $7,140 ($1,071), reduced by 15% of the dependant's income in excess of $16,766.

118(1)(e) Canada Caregiver - Additional Amount If either the income adjusted infirm spousal credit base or the income adjusted infirm eligible dependant credit base is less than the spouse or eligible dependant's income adjusted credit base ($7,140, less the spouse or dependant's income in excess of $16,766), an additional Canada caregiver credit is available based on 15% of the deficiency.

118(2) Age 15% of $7,494 ($1,124). The base for this credit is reduced by the lesser of $7,140 and 15% of the individual’s net income in excess of $37,790. Not available when income is more than $87,750. If the individual cannot use this credit, it can be transferred to a spouse or common-law partner.

118(3) Pension 15% of up to $2,000 of eligible pension income for a maximum credit of $300 [(15%)($2,000)]. If the individual cannot use this credit, it can be transferred to a spouse or common-law partner.

118(10) Canada Employment Credit 15% of up to $1,222. This produces a maximum credit of $183.
Other Common Federal Personal Credits (Various ITA)

118.01 **Adoption Expenses Credit** 15% of eligible expenses (reduced by any reimbursements) up to a maximum of $16,255 per adoption. This results in a maximum credit of $2,438.

118.041 **Home Accessibility Credit** 15% of lesser of $10,000 and the amount of qualifying expenditures for the year.

118.05 **First Time Home Buyer’s Credit** 15% of $5,000 ($750) of the cost of an eligible home.

118.06 **Volunteer Firefighters Credit** 15% of $3,000 ($450) for qualifying volunteers.

118.07 **Volunteer Search And Rescue Workers Credit** 15% of $3,000 ($450) for qualifying volunteers.

118.1 **Charitable Donations - Regular** The general limit on amounts for this credit is 75% of Net Income. There is an addition to this general limit equal to 25% of any taxable capital gains and 25% of any recapture of CCA resulting from a gift of capital property. In addition, the income inclusion on capital gains arising from a gift of some publicly traded shares is reduced from one-half to nil. For individuals, the credit is equal to:

\[(15\% \times A) + (33\% \times B) + (29\% \times C)\]

where:

- \(A\) = The first $200 of eligible gifts.
- \(B\) = The lesser of:
  - Total gifts, less $200; and
  - Taxable Income, less $210,371.
- \(C\) = The excess, if any, by which the individual’s total gifts exceed the sum of $200 plus the amount determined in \(B\).

118.2 **Medical Expenses** The medical expense tax credit is determined by the following formula:

\[15\% \times (B - C + D),\]

where:

- \(B\) is the total of an individual’s medical expenses for himself, his spouse or common-law partner, and any of his children who have not reached 18 years of age at the end of the year.
- \(C\) is the lesser of 3% of the individual’s Net Income For Tax Purposes and $2,352 (2019 figure).
- \(D\) is the total of all amounts each of which is, in respect of a dependant of the individual (other than a child of the individual who has not attained the age of 18 years before the end of the taxation year), an amount determined by the formula:

\[E - F,\]

where:

- \(E\) is the total of the dependant’s medical expenses.
- \(F\) is the lesser of 3% of the dependant’s Net Income For Tax Purposes and $2,352 (2019 figure).

118.3 **Disability - All Ages** 15% of $8,416 ($1,262). If not used by the disabled individual, it can be transferred to a person claiming that individual as a dependant.

118.3 **Disability Supplement - Under 18 And Qualifies For The Disability Tax Credit** 15% of $4,909 ($736), reduced by the total of amounts paid for attendant care or supervision in excess of $2,875 that are deducted as child care costs, deducted as a disability support amount, or claimed as a medical expense in calculating the medical expense tax credit.
Education Related Credits

118.5 Tuition Fees Which Includes Examination And Ancillary Fees
   • 15% of qualifying tuition fees
   • 15% of examination fees for both post-secondary examinations and examinations required in a professional program
   • 15% of ancillary fees that are imposed by a post-secondary educational institution on all of their full or part-time students. Up to $250 in such ancillary fees can be claimed even if not required of all students.

118.62 Interest On Student Loans
   15% of interest paid on qualifying student loans.

118.9 Transfer Of Tuition Credit
   If the individual cannot use the credit, is not claimed as a dependant by his spouse, and does not transfer the unused credit to a spouse or common-law partner, then a parent or grandparent of the individual can claim up to $750 [(15%)(5,000)] of any unused tuition credit. The amount that can be transferred is reduced by the amount of the credit claimed by the student for the year.

118.7 Employment Insurance 15% of amounts paid by employees up to the maximum Employment Insurance premium of $860 (1.62% of $53,100). This produces a maximum tax credit of $129 [(15%)(860)].

118.7 Canada Pension Plan 15% of amounts paid by employees up to the maximum Canada Pension Plan contribution of $2,749 [5.1% of ($57,400 less $3,500)]. This produces a maximum tax credit of $412 [(15%)(2,749)]. For self-employed individuals, the payment is $5,498 ($2,749 times 2).

122.51 Refundable Medical Expense Supplement The individual claiming this amount must be over 17 and have earned income of at least $3,645. The amount is equal to the lesser of $1,248 and 25/15 of the medical expense tax credit. The refundable amount is then reduced by 5% of family Net Income in excess of $27,639. Not available when family income is more than $52,599.

122.9 Refundable Teacher And Early Childhood Educator School Supply Tax Credit A maximum of 15% of up to $1,000 ($150) of eligible expenditures that are made by eligible educators.

127(3) Political Donations Three-quarters of the first $400, one-half of the next $350, one-third of the next $525, to a maximum credit of $650 on donations of $1,275.

127.4 Labour Sponsored Venture Capital Corporations (LSVCC) Credit The federal credit is equal to 15 percent of acquisitions of provincially registered LSVCCs.

ITA 82 and ITA 121 Dividend Tax Credit
   • Eligible Dividends These dividends are grossed up by 38%. The federal dividend tax credit is equal to 6/11 of the gross up. The credit can also be calculated as 15.02% of the grossed up dividends, or 20.7272% of the actual dividends received.
   • Non-Eligible Dividends These dividends are grossed up by 15%. The federal dividend tax credit is equal to 9/13 of the gross up. The credit can also be calculated as 9.0301% of the grossed up dividends, or 10.3846% of the actual dividends received.
Other Data For Individuals

ITA 82

Dividend Gross Up

Eligible Dividends  For these dividends, the gross up is 38% of dividends received.

Non-Eligible Dividends  For these dividends, the gross up is 15% of dividends received.

Chapter 4

OAS Clawback Limits  The tax (clawback) on Old Age Security (OAS) benefits is based on the lesser of 100% of OAS benefits received, and 15% of the amount by which "threshold income" (Net Income For Tax Purposes, calculated without the OAS clawback) exceeds $77,580.

Chapter 4

EI Clawback Limits  The tax (clawback) on Employment Insurance (EI) benefits under the Employment Insurance Act is based on the lesser of 30% of the EI benefits received, and 30% of the amount by which "threshold income" exceeds $66,375 (1.25 times the maximum insurable earnings of $53,100). For this purpose, "threshold income" is Net Income For Tax Purposes, calculated without the OAS or EI clawbacks.

Chapter 9

Child Care Expenses  The least of three amounts:

1. The amount actually paid for child care services. If the child is at a camp or boarding school, this amount is limited to a weekly amount $275 (any age if eligible for disability tax credit), $200 (under 7 year of age), or $125 (age 7 through 16 or over 16 with a mental or physical impairment).

2. The sum of the Annual Child Care Expense Amounts for the taxpayer’s eligible children. The per child amounts are $11,000 (any age if eligible for disability tax credit), $8,000 (under 7 year of age), or $5,000 (age 7 through 16 or over 16 with a mental or physical impairment).

3. 2/3 of the taxpayer’s Earned Income (for child care expenses purposes).

Chapter 10

RRSP Deduction Room  For 2019, the addition to RRSP deduction room is equal to:

- the lesser of $26,500 and 18% of 2018 Earned Income,
- reduced by the 2018 Pension Adjustment and any 2018 Past Service Pension Adjustment,
- and increased by any 2018 Pension Adjustment Reversal.

Chapter 11

Lifetime Capital Gains Deduction  For 2019, the deduction limit for dispositions of shares of qualified small business corporations is $866,912. There is an additional amount for farm or fishing properties of $133,088, providing a total of $1,000,000 for such properties.

Provincial Tax Rates And Provincial Credits For Individuals  Provincial taxes are based on Taxable Income, with most provinces adopting multiple rates. The number of brackets range from three to five. Provincial tax credits are generally based on the minimum provincial rate applied to a credit base that is similar to that used for federal credits. In addition to regular rates, two provinces use surtaxes.

Information Applicable To Individuals And Corporations

ITR 4301

Prescribed Rate  The following figures show the base rate that would be used in calculations such as imputed interest on loans. It also shows the rates applicable on amounts owing to and from the CRA. For recent quarters, the interest rates were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Quarter</th>
<th>Base Rate</th>
<th>Owing From*</th>
<th>Owing To</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>All</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>2018</td>
<td>I</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>2018</td>
<td>II to IV</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>2019</td>
<td>I, II</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
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*The rate on refunds to corporations is limited to the base rate, without the additional 2%.
Automobile Deduction Limits

- CCA is limited to the first $30,000 of the automobiles cost, plus applicable GST/HST/PST (not including amounts that will be refunded through input tax credits).
- Interest on financing of automobiles is limited to $10 per day.
- Deductible leasing costs are limited to $800 per month (other constraints apply).
- Operating cost benefit = $0.28 per kilometre.
- Deductible rates = $0.58 for first 5,000 kilometres, $0.52 for additional kilometres.

CCA Rates See Appendix to Chapter 5.

Quick Method Rates (GST Only)

<table>
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<td>Retailers And Wholesalers</td>
<td>0.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Service Providers And Manufacturers</td>
<td>2.6%</td>
<td>3.6%</td>
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Note Different rates apply in the provinces that have adopted an HST system.

Information Applicable To Corporations

Federal Corporate Tax Rates are as follows (federal tax abatement removed):

- General Business (Before General Rate Reduction) 28%
- General Business (After General Rate Reduction Of 13%) 15%
- Income Eligible For M&P Deduction 15%
- Income Eligible For Small Business Deduction 9%
- Part IV Refundable Tax 38-1/3%
- Part I Refundable Tax On Investment Income Of CCPC (ART) 10-2/3%

Reference

89(1) General Rate Income Pool A CCPC’s General Rate Income Pool (GRIP) is defined as follows:

- The GRIP balance at the end of the preceding year; plus
- 72% of the CCPC’s Taxable Income after it has been reduced by amounts eligible for the small business deduction and aggregate investment income; plus
- 100% of eligible dividends received during the year; plus
- adjustments related to amalgamations and wind-ups; less
- eligible dividends paid during the preceding year.

125(1) Small Business Deduction is equal to 19% of the least of:

A. Net Canadian active business income.

B. Taxable Income, less:

1. 100/28 times the ITA 126(1) credit for taxes paid on foreign non-business income, calculated without consideration of the additional refundable tax under ITA 123.3 or the general rate reduction under ITA 123.4; and

2. 4 times the ITA 126(2) credit for taxes paid on foreign business income, calculated without consideration of the general rate reduction under ITA 123.4.

C. The annual business limit of $500,000, less any portion allocated to associated corporations, less the grinds for large corporations and passive income.

123.3 Additional Refundable Tax On Investment Income (ART) is equal to 10-2/3% of the lesser of:

- the corporation’s “aggregate investment income” for the year [as defined in ITA 129(4)]; and

- the amount, if any, by which the corporation’s Taxable Income for the year exceeds the amount that is eligible for the small business deduction.
General Rate Reduction is equal to 13% of Full Rate Taxable Income. This is Taxable Income, reduced by: income eligible for the small business deduction, income eligible for the M&P deduction and the corporation’s "aggregate investment income" for the year.

Manufacturing And Processing Deduction is equal to 13% of the lesser of:

A. Manufacturing and processing profits, less amounts eligible for the small business deduction; and

B. Taxable Income, less the sum of:
   1. the amount eligible for the small business deduction;
   2. 4 times the foreign tax credit for business income calculated without consideration of the ITA 123.4 general rate reduction; and
   3. "aggregate investment income" (of CCPCs) as defined in ITA 129(4).

Foreign Tax Credits For Corporations The Foreign Non-Business Income Tax Credit is the lesser of:

- The tax paid to the foreign government (for corporations, there is no 15% limit on the foreign non-business taxes paid); and
- An amount determined by the following formula:

\[
\text{Foreign Non-Business Income} - \text{Adjusted Division B Income} \quad \text{[Tax Otherwise Payable]}
\]

Foreign Business Income Tax Credit is equal to the least of:

- The tax paid to the foreign government;
- An amount determined by the following formula:

\[
\frac{\text{Foreign Business Income}}{\text{Adjusted Division B Income}} \quad \text{[Tax Otherwise Payable]}; \quad \text{and}
\]

- Tax Otherwise Payable for the year, less any foreign tax credit taken on non-business income under ITA 126(1).

Refundable Portion Of Part I Tax Payable is defined as the least of three items:

1. the amount determined by the formula
   \[ A - B, \text{ where} \]
   
   A is 30-2/3% of the corporation’s aggregate investment income for the year, and
   
   B is the amount, if any, by which the foreign non-business income tax credit exceeds 8% of its foreign investment income for the year.

2. 30-2/3% of the amount, if any, by which the corporation’s taxable income for the year exceeds the total of:
   
   - the amount eligible for the small business deduction;
   
   - \( 100 \div 38-2/3 \) of the tax credit for foreign non-business income; and
   
   - 4 times the tax credit for foreign business income.

3. the corporation’s tax for the year payable under Part I.

Aggregate Investment Income is the sum of:

- net taxable capital gains for the year, reduced by any net capital loss carry overs deducted during the year; and

- income from property including interest, rents, and royalties, but excluding dividends that are deductible in computing Taxable Income. Since foreign dividends are generally not deductible, they would be included in aggregate investment income.
129(4) **ELIGIBLE 2019 Refundable Dividend Tax On Hand** (RDTOH) is defined as follows:

**Beginning Balance**  The transitional January 1, 2019 Eligible RDTOH balance which is the lesser of:
- The January 1, 2019 single RDTOH balance; and
- 38-1/3 percent of the January 1, 2019 GRIP balance

**Additions**  
- Part IV taxes paid on eligible dividends from non-connected taxable Canadian corporations. These are commonly referred to as portfolio dividends.
- Part IV taxes paid on eligible dividends from connected corporations to the extent that such dividends included a refund from the paying corporation's Eligible RDTOH.

**Deduction**  Deducted from this total would be any dividend refund claimed from the Eligible RDTOH account in the previous taxation year. For 2019, this deduction is reflected in the transitional RDTOH balance and will not be deducted again.

**NON-ELIGIBLE 2019 Refundable Dividend Tax On Hand** (RDTOH) is defined as follows:

**Beginning Balance**  The transitional January 1, 2019 Non-Eligible RDTOH balance is equal to the excess, if any, of the January 1, 2019 balance in the single RDTOH account, over 38-1/3 percent of the January 1, 2019 GRIP balance.

**Additions**  There are three items that are added to the Non-Eligible RDTOH beginning balance:
- All of the Part I refundable tax for the year.
- Part IV taxes paid on non-eligible dividends from connected corporations to the extent that such dividends included a refund from the paying corporation's Non-Eligible RDTOH.
- Part IV taxes paid on non-eligible dividends from non-connected taxable Canadian corporations.

**Deduction**  Deducted from this total would be any dividend refund claimed from the Non-Eligible RDTOH account in the previous taxation year. For 2019, this deduction is reflected in the transitional RDTOH and will not be deducted again.

186(1) **Part IV Tax** is assessed at a rate of 38-1/3% of portfolio dividends, plus dividends received from a connected company that gave rise to a dividend refund for the connected company as a result of the payment.

**Tax Related Web Sites**

**GOVERNMENT**
- Canada Revenue Agency  www.canada.ca/en/revenue-agency
- Department of Finance Canada  www.fin.gc.ca

**CPA FIRMS**
- BDO  www.bdo.ca/en-ca/services/tax/domestic-tax-services/overview/
- Deloitte  www2.deloitte.com/ca/en/pages/tax/topics/tax.html
- Ernst & Young  www.ey.com/CA/en/Services/Tax
- KPMG  www.kpmg.com/ca/en/services/tax
- PricewaterhouseCoopers  www.pwc.com/ca/en/tax/publications.jhtml

**OTHER**
- CPA Canada  www.CPacocktail.ca
- Canadian Tax Foundation  www.ctf.ca
- Profile Tax Suite  www.profile.intuit.ca
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The chapters of this Study Guide correspond to the chapters of Byrd & Chen's Canadian Tax Principles.

Each of these Study Guide chapters contains the following:

• Detailed guidance on how to work through the text and problems in the chapter.
• Detailed solutions to the Exercises and Self Study Problems in the textbook for the chapter.
• A list of learning objectives for the material in the chapter.

In addition, the Study Guide contains:

• Two sample personal tax returns and two Self Study Tax Software Problems in Chapters 4 and 11.
• A sample corporate tax return in Chapter 13.
• An extensive Glossary.