



# Rotman Commerce UNIVERSITY OF TORONTO

## **RSM 424 H1F**

Canadian Income Taxation II

Summer 2016

Course Meets: Mondays & Wednesdays 2-5 p.m. in WO 35.

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Office Hours: Wed. 10:45 – 11:45; Location TBA

### **Mission**

This is the second in a two-course series in Canadian federal income taxation. The course is designed to give the student an understanding of more complex issues of Canadian income tax law and tax planning. Topics include computation of corporate taxes, corporate reorganizations, business acquisitions and divestitures, partnerships, joint ventures, and trusts.

### **Course Prerequisite**

RSM 324H1

After taking this course students are expected to be able to

- identify tax issues,
- use the *Income Tax Act* (the “ITA”) to determine the tax implications of the issues identified,
- calculate income taxes payable for a corporation,
- analyse the alternatives and advise on specific tax-planning opportunities,
- communicate issues, tax implications, alternatives and make recommendations.

The two course sequence (RSM324 & RSM424) has been designed to provide participants with coverage of all the tax topics in the CPA Competency Map Knowledge Supplement.

### **Required Readings**

- 1) ***Canadian Income Taxation – Planning and Decision Making, with CONNECT PrePak*** by Buckwold/Kitunen, published by McGraw-Hill Ryerson, **2015-2016** edition.
- 2) ***The Practitioner's Income Tax Act***, published by Carswell (Thomson Reuters), 48<sup>th</sup> edition.

- 3) **Current Readings in Taxation.** Readings will be assigned during the term with the objective of highlighting current discussions on topics covered in this course. Sources will include Canadian Tax Focus, the Canadian Tax Journal & Conference Reports provided by the Canadian Tax Foundation, as well as newspaper and magazine articles.

### Supplemental Materials:

**KNOTIA Tax Suite Premium.** This online tax research infobase includes - income tax (*FITAC-Platinum*), GST/HST (*EARL*), and provincial tax databases (*PERL*), as well as daily news updates (*Knotia News*). This package enables students to access the most up-to-date tax law, court cases, and administrative practices. These databases are accessed using your UTOR ID and password via the following URL:

<http://edu.knotia.ca.myaccess.library.utoronto.ca/Home.aspx> Note that Ernst & Young's Guide to Tax Research and Writing and the CICA Handbook are also available through this website.

### Tax Related Web Sites

Canada Revenue Agency (CRA): [www.cra.gc.ca](http://www.cra.gc.ca)

Canadian Tax Foundation (CTF): [www.ctf.ca](http://www.ctf.ca)

Chartered Professional Accountants Canada (CPAC): <http://cpacanada.ca/>

Department of Finance Canada: [www.fin.gc.ca](http://www.fin.gc.ca)

### Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials.

<u>Work</u>		<u>Due Date</u>
Participation	5%	Ongoing
Quizzes (3)	15%	May 16 <sup>th</sup> , June 8 <sup>th</sup> and June 15 <sup>th</sup>
Term Test	35%	Friday, May 27; noon – 2 PM; BA 1190
Final Exam	<u>45%</u>	During Faculty of Arts & Science Final Exam Period
	<u>100%</u>	

### COURSE FORMAT AND EXPECTATIONS

We expect our students to be highly motivated in learning the subject matter and to dedicate adequate time to the course each week. Students are expected to be prepared for class and to contribute to discussions, both in class and online. New topics will be discussed in each class using the ITA and Key Concept Questions from the text. Problems and cases from the text will be assigned for discussion during the following class. The ITA will be used throughout the entire class.

Students are to bring the *Buckwold/Kitunen* text and the ITA to all classes. To prepare for classes and tutorials students should:

- Complete the assigned Readings, Questions, Problems and Cases.
- Be prepared to discuss the prepared solutions and readings.

It is recommended that students form study groups and work together to prepare for class & tutorials.

*Discussion Board:* The discussion board on the Blackboard portal will be set up for discussions. Questions related to course material should be posted to the discussion board. Students in the course are expected to answer the questions. The answers will be monitored by a teaching assistant. Questions related to course administrative matters should be emailed to the course instructor.

*Participation:* The 5% grade component for participation is being awarded as an additional incentive for students to do the readings and problems/cases assigned each week and to actively participate in class discussions. Learning and retention can be increased substantially through active discussion.

Some of the behaviors that contribute to effective participation are captured in the questions that follow:

- 1) Is the participant a good listener?
- 2) Are the points that are made relevant to the discussion? Are they linked to the comments of others?
- 3) Do the comments show evidence of preparation for the class?
- 4) Is there a willingness to share knowledge and ideas with other class members?
- 5) Do comments clarify important aspects of earlier comments and lead to a clearer statement of the concepts being covered?

*Quizzes:* The quizzes will be held online through CONNECT. Please ensure that you have access to CONNECT **before the second class**.

*Term test and Final Examination:* The term test will examine material covered in the first five classes and is one hour and 45 minutes in length. Material covered during the entire term is examinable on the final examination which is three hours in length. Students are allowed to use a non-programmable calculator and the ITA as aids during the term test and final examination. It is the responsibility of each student to bring to the test and exam his/her personal calculator and ITA.

## **Rules for the ITA**

### **Permitted:**

- Underlining and highlighting are permitted in the ITA.
- Tabs may be used but must be blank or contain an ITA section number, only. Maximum tab size of 1.5 cm x 5 cm will be enforced.

### **NOT Permitted:**

- Writing in the ITA. This includes margins and blank areas of pages.
- inserting additional pages or post-it notes.

In the event invigilators suspect a breach of the above rules, the offending reference material will be confiscated for detailed review. The confiscated reference material will not be replaced. The candidate will be permitted to continue to write the remainder of the examination. All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*.

## Class Schedule

Class	Date	Topic
1	May 9	<p>Corporations – An Introduction:</p> <ul style="list-style-type: none"> <li>• Computation of taxable income (e.g., dividends, donations, loss carryovers)</li> <li>• Acquisition of control</li> </ul> <p>Special topics:</p> <ul style="list-style-type: none"> <li>• Financially troubled businesses <ul style="list-style-type: none"> <li>- Debt forgiveness</li> <li>- Unpaid amounts</li> </ul> </li> </ul> <p><b>Readings:</b> Chapter 11, Chapter 9 (pages 336-337)</p>
2	May 11	<p>Types of corporations (public, private, CCPC)</p> <p>Taxes payable for a corporation:</p> <ul style="list-style-type: none"> <li>• Federal tax, Abatement, General tax reduction</li> <li>Refundable tax on Investment Income, Small Business deduction</li> </ul> <p>Integration of Corporate and Individual Taxation</p> <p>Foreign tax credits</p> <p>Scientific research and experimental development</p> <ul style="list-style-type: none"> <li>• Investment tax credit – basic rules</li> <li>• Refundable Investment tax credit</li> </ul> <p><b>Readings:</b> Chapter 11; Chapter 20 (page 727); Chapter 13 (pages 526-527)</p>
3	May 16	<p>Organization, Capital structures and Income Distributions of Corporations</p> <ul style="list-style-type: none"> <li>• Corporate capitalization – Debt or Equity</li> <li>• Transferring Assets to a Corporation <ul style="list-style-type: none"> <li>- FMV</li> <li>- Election options</li> </ul> </li> <li>• Distributions to shareholders, including on a winding-up of the corporation</li> </ul> <p>Special rules:</p> <ul style="list-style-type: none"> <li>• CCA – loss on certain transfers</li> <li>• CEC – Acquisition – non-arm’s length</li> <li>• Inadequate consideration, gifting</li> <li>• Dispositions to affiliated persons</li> </ul> <p><b>Readings:</b> Chapter 12 including Supplement ; Review Chapter 6 (Part II – K and L)</p>

<p>4 And 5</p>	<p>May 18  May 25</p>	<p>Canadian-controlled private corporations:</p> <ul style="list-style-type: none"> <li>• Types of income (ABI, SIB, PSB)</li> <li>• Stakeholder Relationships: <ul style="list-style-type: none"> <li>- Non-arm's length and related persons</li> <li>- Associated corporations</li> <li>- Connected corporations</li> <li>- Affiliated persons</li> </ul> </li> <li>• Detailed Part I Tax calculation: <ul style="list-style-type: none"> <li>- Small Business Deduction</li> <li>- Refundable Tax on Investment Income</li> <li>- General Tax Reduction</li> <li>- Refundable Dividend Tax on Hand (RDTOH)</li> <li>- Dividend Refund</li> <li>- General Rate Income Pool (GRIP)</li> <li>- Investment Tax Credit (SR&amp;ED)</li> </ul> </li> <li>• Part IV Tax on Dividend Income</li> </ul> <p>Owner-manager tax-planning:</p> <ul style="list-style-type: none"> <li>• Incorporation <ul style="list-style-type: none"> <li>○ Benefits of Incorporating a Business</li> <li>○ Benefits of Incorporating Investments</li> </ul> </li> <li>• Compensation options for owner-manager/employment income versus dividends</li> <li>• Shareholder and employee benefits and loans, deemed interest paid</li> <li>• <b>Readings:</b> Chapter 13</li> </ul> <p><b>Readings:</b> Chapter 13</p>
<p>6</p>	<p>Friday May 27</p>	<p style="text-align: center;"><b>**TERM TEST**</b></p> <p style="text-align: center;">12 noon – 2 PM Location: BA 1190</p>
<p>7</p>	<p>May 30</p>	<p>Business structure planning:</p> <ul style="list-style-type: none"> <li>• Business combinations and corporate reorganizations</li> <li>• Asset transfers</li> <li>• Wind-up of a subsidiary into its parent corporation</li> <li>• Amalgamation of multiple corporations</li> <li>• Reorganization of Share Capital</li> <li>• Use of holding companies <ul style="list-style-type: none"> <li>- Leveraged buy-outs</li> <li>- Dividends deemed to be proceeds (safe income)</li> </ul> </li> <li>• Corporate dividend – transfer of property</li> </ul> <p><b>Readings:</b> Chapter 14</p>
<p>8</p>	<p>June 1</p>	<p>Business acquisitions and divestitures- Assets versus Shares</p> <p><b>Readings:</b> Chapter 18</p>

9	June 6	<p>Business acquisitions and divestitures – Tax Deferred</p> <ul style="list-style-type: none"> <li>• Arm’s length sale of shares</li> <li>• Non-arm’s length sale of shares</li> </ul> <p><b>Readings:</b> Chapter 19</p>
10 & 11	June 8 & June 13	<p>Partnerships:</p> <ul style="list-style-type: none"> <li>• Transactions between a partnership and its partners</li> <li>• Limited partnership – at-risk rules</li> <li>• Transfer of property to partnership</li> <li>• Admission or withdrawal of a partner</li> <li>• Termination of a partnership</li> <li>• Flow-through of partnership income to a corporate partner</li> <li>• Allocation of income/loss from a partnership to be recorded on the individual’s tax return</li> </ul> <p>Joint ventures</p> <p>Trusts:</p> <ul style="list-style-type: none"> <li>• Types of trusts (inter vivos and testamentary)</li> <li>• Distributions from trusts to beneficiary</li> <li>• Income and taxes payable for inter vivos and testamentary trusts</li> </ul> <p>Succession and Estate Planning:</p> <ul style="list-style-type: none"> <li>• Deemed disposition on death</li> <li>• Capital losses in estate</li> <li>• Returns of a deceased individual <ul style="list-style-type: none"> <li>- Basic rules</li> <li>- Reserves for year of death</li> <li>- Elective returns</li> </ul> </li> </ul> <p><b>Readings:</b> Chapters 15, 16, and 17; Chapter 9 (Part VII J); Chapter 10 (Part VII)</p>

12	June 15	<p>Non-resident taxpayers (Individuals &amp; Corporations)</p> <ul style="list-style-type: none"> <li>• Tax payable under Part I</li> <li>• Tax payable under Part XIII</li> <li>• Impact of tax treaties and conventions</li> </ul> <p>Determination of residence status:</p> <ul style="list-style-type: none"> <li>• Ordinarily resident</li> <li>• Deemed resident</li> <li>• Part-year resident</li> </ul> <p>International Business Expansion:</p> <ul style="list-style-type: none"> <li>• Basic issues</li> <li>• Direct Export Sales</li> <li>• Foreign Branch Location</li> <li>• Foreign Subsidiary Corporation</li> <li>• Foreign tax credits</li> <li>• Transfer pricing</li> </ul> <p>General anti-avoidance rule Tax Planning, Tax Avoidance and Tax Evasion</p> <p><b>Readings:</b> Chapters 3 (Parts I &amp; II); Chapter 20 (Part II); and Chapter 2 (page 19-21)</p>
	June 20 to June 24	<b>Final Examination – To be scheduled by the Registrar</b>

Last Date to drop course from Academic Record and GPA: June 6, 2016.

## **POLICY AND PROCEDURE**

### **Missed Tests and Assignments (including midterm examinations)**

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Program Office within **48 hours** of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed test or course deliverable.

**Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. The Faculty will not accept a statement that merely confirms a later report of illness made by the student to a physician.**

For this course, specifically, if the term test is missed with acceptable documentation, the weighting of the final exam will be increased to 80%.

## Accessibility Needs

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible:

[accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca) or <http://www.accessibility.utoronto.ca/>.

## Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

*The University of Toronto's Code of Behaviour on Academic Matters*

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by following the procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.



## **Email**

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UT mail + email address. You are responsible for ensuring that your UT mail + email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

## **Blackboard and the Course Page**

The online course page for this course is accessed through Blackboard. To access the course page, go to the UofT Portal login at <https://portal.utoronto.ca/> and log in using your UTORid and password. Once you have logged in, look for the My Courses module where you'll find the link to all your course websites. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours. If the course does not appear, go to the Information Commons Help Desk in Robarts Library, 1st floor, for help, or explore the Portal Information and Help at <http://www.portalinfo.utoronto.ca/content/information-students> and review the Frequently Asked Questions.

## **Recording Lectures**

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Blackboard materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.