



# Rotman Commerce UNIVERSITY OF TORONTO

## **RSM 424 H1S**

Canadian Income Taxation II

Winter 2019

Course Meets on Tuesdays: **L0101** 9-11 in BL 325 (Douglas); **L0201** 1-3 in PB 255 (Iqbal); **L0301** 11-1 in BL 325 (Douglas).

Tutorials are an integral part of this course. One-hour tutorials are held on Mondays – T0101 (12-1 in ES 4001); T0201 (1-2 in LA 248); T0301 (2-3 in VC 215). All students must register in the tutorial as well as the class.

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Course coordinator: Joan Kitunen, FCPA, FCA  
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Instructor: Scott Douglas, MFin, CPA, CMA  
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## **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 324 H1

After taking this course students are expected to be able to

- identify tax issues,
- determine the tax implications of the issues identified,
- calculate income taxes payable for a corporation,
- analyse the alternatives and make recommendations, and
- prepare the appropriate communication.

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

***Canadian Income Taxation – Planning and Decision Making, with CONNECT PrePak*** by Buckwold/Kitunen, published by McGraw-Hill Ryerson, **2018-2019** edition.

***Income Tax Act***. Students are NOT required to purchase a copy of the *Income Tax Act* (the “Act”). The Act will be referenced in the text and in the lectures. You can access a copy of the Act at <http://edu.knotia.ca.myaccess.library.utoronto.ca/Home.aspx> or at <http://laws-lois.justice.gc.ca/eng/acts/i-3.3/>

***Current Readings in Taxation***, provided by the instructor. 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.

## 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   |
| Connect Assignments (4) | 10%         | Jan 22, Feb 5, Mar 12, Apr 2                          |
| Term Test               | 35%         | Feb 12  |
| Group Assignment        | 10%         | Mar 12  |
| Final Exam              | <u>40%</u>  | During Faculty of Arts & Science<br>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 tutorials and to contribute to discussions, both in class, tutorial, and online.

Students are to bring the *Buckwold/Kitunen* text 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 Quercus 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?

*Connect Assignments:* These are online assignments that are to be completed by each student on assigned dates within a 12-hour period. The assignments should take no longer than 20 minutes. Please ensure that you have access to **CONNECT before the second class.**

*Group Assignment:* Students are required to work in teams of 4 to complete a corporate tax return. Learning to work together in teams is an important aspect of your education and preparation for your future careers. That said, project-based teamwork is often new to students; to work well in teams, it helps to follow a set of core expectations to best succeed at your team projects.

1. Read the document entitled, "Working in Teams: Guidelines for Rotman Commerce Students" which is available on the RC portal under the Academic Services tab.

2. When working in a team, Rotman Commerce students are expected to:

- Treat other members with courtesy and respect;
- Honour the ground rules established by the team;
- Contribute substantially and proportionally to the final project;
- Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
- Meet the project timeline as established by the team.

3. Resolving conflicts:

Conflicts are part of the team's process of learning how to work together. When handled well, it can generate creativity and bring-multiple perspectives to the solution.

Student teams are expected to work through their misunderstandings as soon as they arise (and prior to submission of the final project). When teams are unable to arrive at a solution that works for all members, the team must meet with the Rotman Commerce Team Coach\*\* as soon as possible. The Coach will listen to the team and help develop options for improving the team process. All members of the project team must commit to, and, utilize their action plans.

\*\*For an appointment with a Rotman Commerce Team Coach, please contact Nouman Ashraf at [nouman.ashraf@rotman.utoronto.ca](mailto:nouman.ashraf@rotman.utoronto.ca) Nouman is highly skilled at facilitating team dynamics and collaboration. Note that the Team Coach's role is to provide guidance, support and advice on team matters – not to formally evaluate or assess teamwork for academic purposes.

*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.

### Electronic Course Materials

This course will be using the following electronic course materials:

- **KNOTIA** Income Tax Act, and
- **CONNECT**, which contains solutions to Review Questions & Key Concept Questions, Self-study Questions, as well as Assignment Questions.

There is no charge for the use of the Knotia Income Tax Act. Printed text + Connect retails for \$159.95. The printed text alone retails for \$149.95. Connect with E-Book retails for \$89.00. Connect without the E-Book retails for \$65.

### Class Schedule

| Class | Date                  | Topic   |
|-------|-----------------------|---|
| 1     | Jan 8                 | Corporations – An Introduction <ul style="list-style-type: none"> <li>• Relationship between the Corporation and its Shareholders</li> <li>• Determination of Taxable Income</li> <li>• Calculation of Corporate Tax (excluding Manufacturing &amp; processing deduction)</li> <li>• The Integration of Corporate and individual Taxation</li> </ul> <p><b>Readings:</b> Chapter 11</p>   |
| 2 & 3 | Jan 15<br>&<br>Jan 22 | Organization, Capital Structures and Income Distributions of Corporations <ul style="list-style-type: none"> <li>• Corporate capitalization – Debt or Equity</li> <li>• Transferring Assets to a Corporation</li> <li>• Corporate Distributions to Shareholders</li> <li>• Technical Information on Transferring Assets to a Corporation</li> </ul> <p><b>Readings:</b> Chapter 12 including Supplement; Chapter 6 Part II – K and L)</p> |

|       |                   |  |
|-------|-------------------|--|
| 4 & 5 | Jan 29<br>& Feb 5 | <p>Canadian-Controlled Private Corporations</p> <ul style="list-style-type: none"> <li>• Definition and Basic Principles</li> <li>• Taxation of Income Earned by a Canadian-Controlled Private Corporation (excluding SR&amp;ED)</li> <li>• Benefits of Incorporations</li> <li>• Dividend Policy</li> <li>• Loans to Shareholders</li> <li>• Limitations of the Small Business Deduction</li> <li>• Overall Tax Calculation for a Canadian-Controlled Private Corporation</li> </ul> <p><b>Readings:</b> Chapter 13</p>   |
| 6     | Feb 12            | <p style="text-align: center;"><b>**TERM TEST**</b></p> <p style="text-align: center;">Time &amp; Location: 8:00 AM GB 405 &amp; SF 2202</p>   |
|       | Feb 19            | <b>READING WEEK</b>  |
| 7     | Feb 26            | <p>Introduction to GST/HST</p> <ul style="list-style-type: none"> <li>• General Rules with Respect to Carrying on a Business</li> <li>• Input Tax Credits</li> <li>• Streamlined Methods for Calculating Net Tax</li> <li>• Rules with Respect to Real Property</li> <li>• Special Situations</li> <li>• Administrative Matters</li> </ul> <p><b>Readings:</b> Chapter 22 (except Part IV and Part VI A)</p>   |
| 8 & 9 | Mar 5 &<br>Mar 12 | <p>Business Acquisitions and Divestitures- Assets versus Shares</p> <ul style="list-style-type: none"> <li>• Assets versus Shares</li> <li>• Implications for the Vendor</li> <li>• Implications for the Purchaser</li> <li>• The Relationship Between Asset Price and Share Price</li> <li>• The Decision to Purchase</li> <li>• Basic Principles and Methods of Business Valuations</li> </ul> <p>GST/HST implications on asset sales</p> <ul style="list-style-type: none"> <li>• Sale of a Business as a Going Concern</li> </ul> <p><b>Readings:</b> Chapters 18, Chapter 22 (Part VI A.)</p> |
| 10    | Mar 19            | <p>Business Acquisitions and Divestitures – Tax Deferred Sales</p> <ul style="list-style-type: none"> <li>• Corporate reorganizations</li> <li>• Tax-Deferred Sales and Acquisitions</li> <li>• Sale of a Closely Held Corporation</li> </ul> <p>Use of Holding companies</p> <p><b>Readings:</b> Chapters 19, Chapter 14 (Part II)</p>  |

|    |             |   |
|----|-------------|---|
| 11 | Mar 26      | Liability for Tax <ul style="list-style-type: none"> <li>• Resident Individuals and Corporations</li> <li>• Non-Resident Individuals and Corporations</li> <li>• Decision making and the Residence Issue</li> </ul> Fundamentals of Tax Planning <ul style="list-style-type: none"> <li>• General anti-avoidance rule</li> </ul> <i><b>Readings:</b></i> Chapters 3 (Part II); and Chapter 2  |
| 12 | Apr 2       | Partnerships <ul style="list-style-type: none"> <li>• The Standard Partnership – Definition and Format</li> <li>• Taxation of Partnership Operations             <ul style="list-style-type: none"> <li>○ Partnership Income and Losses</li> <li>○ The Partnership Interest</li> </ul> </li> </ul> Joint Ventures<br>Trusts <ul style="list-style-type: none"> <li>• The Trust Entity</li> <li>• Tax Treatment of Trusts             <ul style="list-style-type: none"> <li>○ Determination of Taxable Income and Tax</li> </ul> </li> </ul> <i><b>Readings:</b></i> Chapter 15 (Part I & II (A&B)); Chapter 16 (Part II); and Chapter 17 (Part I & II (A&B)) |
|    | Apr 6 to 30 | <b>Final Examination – To be scheduled by the Registrar</b>   |

Last Date to drop course from Academic Record and GPA: March 17, 2019.

## **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. The Request for Special Consideration Form and supporting documentation must be submitted in a timely manner in order for the request to be reviewed.

In such cases, students must notify the Rotman Commerce Program Office on the date of the course deliverable such as a missed test, or assignment missed class (in the case of participation marks), or due date. They must then complete a [Request for Special Consideration Form](#) and submit it along with supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Office within **2 business days** of the originally scheduled course deliverable. Students who do not provide appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed course deliverable.

Documentation submitted in support of petitions for missing tests and assignments must be original; no faxed or scanned copies will be accepted.

**Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce 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 75%.

### **Late Assignments**

The Group assignment is due at the beginning of tutorial on the date specified in the course outline. Late submissions will normally be penalized by 10% if the assignment is not received on the specified date, at the specified time. A further penalty of 10% will be applied to each subsequent day.

Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

### **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.

### **Quercus and the Course Page**

The online course page for this course is accessed through Quercus. To access the course page, go to [q.utoronto.ca](http://q.utoronto.ca) and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours.

### **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, Quercus 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.