

Week 1 **CHAPTER 1**

THE CANADIAN TAX SYSTEM

Various levels of Government (Federal, Provincial, and Municipal) finance their expenditures and programs (e.g., health care) by levying taxes. There are a number of tax bases that are used as a source of government revenues:

1. Consumption taxes – GST & QST
2. Income taxes
3. Property taxes
4. School taxes
5. Transfer taxes (The Welcome Tax)

The course will concentrate on Federal Income Taxes generated from individuals, and corporate taxpayers.

The Canadian Federal tax system uses a progressive approach.

GENERAL FRAMEWORK OF THE INCOME TAX ACT (ITA)

- Part I to Part XVII
- Parts broken down into Divisions and then into subdivisions
- Sections, subsections, paragraphs, clauses & sub-clauses
- The course will concentrate on Part I of the Act, and more specifically on Division B - computation of net income for tax purposes for individual and corporate taxpayers.
 - Subdivision A Employment Income
 - Subdivision B Business & Property income
 - Subdivision C Taxable Capital Gains
 - Subdivision D Other Sources of Income
 - Subdivision D Other Deductions

THE LAW SHOULD PROVIDE THE FOLLOWING:

1. Who is liable for tax – Addressed by Division A of the ITA
2. Amounts (base) subject to tax – Addressed by Division B – D of the ITA
 - Division B - Computation of Income
 - Division C - Computation of Taxable Income
 - Division D - Taxable Income earned in Canada by Non-residents
3. What are the rates of tax - Addressed by Division E of the IT
4. When & how is the tax to be paid - Addressed by Divisions I & J of the ITA

DIVISION B INCOME (Net Income for tax purposes):

3(a)	Net employment income		xxx
	Net Business income		xxx
	Net Property income		xxx
	Other income		xxx
3(b)	Net taxable capital gains		
	Taxable capital gains	xxx	
	Allowable capital losses	<u>(xxx)</u>	xxx
3(c)	Other deductions		
	Moving expenses	(xxx)	
	Attendant care	(xxx)	
	Childcare expenses	(xxx)	
	RRSP contributions	<u>(xxx)</u>	(xxx)
3(d)	Negative amounts of 3(a)		<u>(xxx)</u>
	DIVISION B INCOME		xxx

Less- Specified Deductions:

- Employee stock Option deduction (xxx)
- Home relocation Loan deduction (xxx)
- Life time capital gain deduction (xxx)
- Losses from prior years (xxx) (xxx)

Taxable Income xxxx

CHAPTER 20

RESIDENCY OF INDIVIDUALS

- Under Canadian tax law, it is important to determine if the taxpayer is a resident or not of Canada. A resident will be taxed on his worldwide income, while a non-resident is taxed only on Canadian source income.

I - Residence:

- Definition
- Primary social and economic ties:
- Secondary residential ties:

- Temporary absences:

Actions which may be taken to indicate that ties with Canada have been broken in order to become a non-resident:

1. Sell home or lease it on a long term bases
2. Move personal effects or sell them
3. Close bank accounts
4. Cancel credit card with Canadian financial institutions
5. Immediate family should move ASAP
6. Cancel Canadian registration of cars, boats
7. Keep visits to Canada to a minimum
8. Cancel provincial hospitalization plan (i.e., Medical Card)

II - Deemed Resident of Canada:

1. ambassadors, members of the armed forces including spouses (depending if the spouse was a resident of Canada or not at the time of marriage) & children
2. sojourner rule

III - Part-year resident

An individual coming to Canada or leaving Canada will be considered a part year resident for that particular year:

- will be taxed on worldwide income while resident
- will be taxed on Canadian source income while a non-resident
- personal credits will be pro-rated

IV - Non-residents

Subsection 2 will tax the following sources of income under Part 1 of the ITA:

1. employment income earned in Canada
2. business income earned in Canada
3. taxable capital gains from the disposition of Taxable Canadian Property

Investment & other sources of income earned in Canada will be taxed under Part XIII of the ITA

- Withholding tax of 25%.
- Legal obligation of the payer.
- Election
- Tax Treaties (general understanding)

CONCEPT OF INCOME

- The term "Income" is not defined in the ITA. Section 3 establishes sourcing rules
 1. employment income (cash basis)
 2. business & Property income
 3. taxable capital gains
 4. other income
 5. other deductions

PERSON

A person must be:

1. Individual
2. Corporation
3. Trust

Taxation year

1. Individual - Calendar year
2. Corporation – Fiscal period (not exceeding 53 weeks)
3. Trust: Calendar year or other

Residency of Corporations:

- 1- Incorporated in Canada **after** April 26,1965
- 2- Incorporated in Canada **before** April 26,1965 **and** carried on business or mind and management is in Canada after April 26,1965
- 3- Incorporated **outside** Canada
- 4- **Mind and management:**

(Ignore Dual Residency)