

Module One Class Notes

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Agenda

- Go over course overview and outline
- Some frequently asked questions
- Introduction to tax

FAQ:

Is this a hard course? Are the exams hard?

Are you a tough marker?

Is the final exam cumulative?

Can I use last year's textbook and Income Tax Act?

Should I check UBC Connect regularly?

How do I get a good grade in this course?

Why are tax laws so complicated?

What is a tax?

A tax is an involuntary fee paid by individuals or businesses to a state, or to functional equivalents of a state, including tribes, secessionist movements or revolutionary movements.

What are the objectives of the Canadian tax system?

- Raise revenue
 - to provide for public goods and services, such as military, transportation infrastructure, education, health, Quebec ad sponsorship, etc...

- Redistribute Income
 - Robin Hood theory...take from the rich and give to the poor

- Promote or penalize certain activities
 - R&D tax credits
 - Sin taxes

- Re-allocation of wealth among different layers of government
 - Provincial transfer payments

What is a progressive tax system?

As the individual earns more income, higher tax rates are applied to higher level of income.

What is the difference between marginal tax rate (MTR) and average tax rate (ATR)?

$$\text{MTR} = \frac{\Delta \text{ tax liability}}{\Delta \text{ income}}$$

$$\text{ATR} = \frac{\text{Total tax liability}}{\text{Total income}}$$

Example using hypothetical tax brackets:

<u>Tax brackets</u>	<u>Tax rate</u>
\$0 - \$10,000	0%
\$10,001-\$15,000	25%
\$15,001 - \$25,000	35%
> \$25,000	40%

What are the MTR and ATR of someone making (1) \$14,000/year and (2) \$40,000/year?

What is more important for tax planning?

Tax revenue (liability) = (tax rate) x (tax base)

Structure of the Income Tax Act

- Section, Subsection, Paragraph, Subparagraph, Clause, Subclause
- Important to remember section 248

Tools

- Law
 - Income Tax Act
 - Court Cases
- Interpretation Tools
 - CRA publications
 - Website: <http://www.cra-arc.gc.ca/menu-e.html>
 - IT Bulletin, IC, Technical Interpretations, ATR, Technical News, Guides, and Pamphlets
 - Journal Articles