Complete Preface In Volume I
The complete preface to this three volume set of Byrd & Chen's Canadian Tax Principles can be found in Volume I.

Companion Website
The website for Canadian Tax Principles can be found at:

www.pearsoncanada.ca/byrdchen/ctp2018

Here you will find:

• Updates and corrections to the textbook and Study Guide (please check periodically)
• Pearson eText of the complete set - 2 Volumes plus Study Guide
• Self Study Problems (The solutions are in the print and online Study Guide)
• Supplementary Self Study Problems and Solutions
• Access to CPA Canada’s Federal Income Tax Collection (FITAC)
• Access to Intuit Canada's ProFile tax return preparation software
• Practice Examinations and Solutions
• Power Point Presentations
• Glossary Flashcards
• 2017 tax rates, credits and common CCA Classes (PDF file)
• Tax Returns for examples and Self Study tax return problems

In January, 2018, shortly after the first 2017 filing version of the ProFile tax program is available, updated sample tax returns and Tax Software Problems will also be available.

It’s Our Fault
Any errors are solely the responsibility of the authors and we apologize for any confusion that they may cause you. We welcome any corrections or suggestions for additions or improvements. These can be sent to us at:

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July, 2017
2017 Rates, Credits And Other Data

For your convenience, this information, as well as the Chapter 5 Appendix of common CCA rates, is available online as a .PDF file.

Federal Tax Rates For Individuals

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<td>$ -0-</td>
<td>$ -0-</td>
<td>15.0%</td>
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<td>45,916</td>
<td>6,887</td>
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<tr>
<td>91,831</td>
<td>16,300</td>
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<td>142,353</td>
<td>29,436</td>
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</tr>
<tr>
<td>202,800</td>
<td>46,966</td>
<td>33.0%</td>
</tr>
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Federal Tax Credits For Individuals - Personal Credits (ITA 118)

118(1)(a) Married Persons 15% of $11,635 ($1,745).

118(1)(a) Spousal 15% of $11,635 ($1,745), less 15% of the spouse’s Net Income For Tax Purposes. Base amount increased by $2,150 (to $13,785) if the spouse is mentally or physically infirm. Not available when the spouse’s income is more than $11,635 (or $13,785).

118(1)(b) Eligible Dependant 15% of $11,635 ($1,745), less 15% of the eligible dependant’s Net Income For Tax Purposes. Base amount increased by $2,150 (to $13,785) if the eligible dependant is mentally or physically infirm. Not available when the eligible dependant’s income is more than $11,635 (or $13,785).

118(1)(b.1) Canada Caregiver For Child Under 18 15% of $2,150 ($323).

118(1)(c) Single Persons 15% of $11,635 ($1,745).

118(1)(d) Canada Caregiver 15% of $6,883 ($1,032), reduced by 15% of the dependant's income in excess of $16,163.

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 ($6,883 - less the spouse or dependant's income in excess of $16,163), an additional Canada caregiver credit is available based on 15% of the deficiency.

118(2) Age 15% of $7,225 ($1,084). The base for this credit is reduced by the lesser of $7,225 and 15% of the individual's net income in excess of $36,430. Not available when income is more than $84,597. 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 $1,178. This produces a maximum credit of $177.
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 $15,670 per adoption. This results in a maximum credit of $2,351.

118.02 Public Transit Passes Credit 15% of the cost of monthly or longer transit passes acquired prior to July 1, 2017. Unavailable for passes acquired subsequent to that date.

118.031 Children’s Arts Credit Repealed for 2017 and subsequent years.

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:

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

where:
- \(A\) = The first $200 of eligible gifts.
- \(B\) = The lesser of:
  - Total gifts, less $200; and
  - Taxable Income, less $202,800.
- \(C\) = The excess, if any, by which the individual’s total gifts exceed the sum of $200 plus the amount determined in \(B\).

118.1(3.1) Charitable Donations - First-Time Donor’s Super Credit For qualified “first-time” donors, a maximum of 25% of $1,000 ($250) credit which is added to the regular donations tax credit. This credit can only be claimed one time during the years 2013 through 2017.

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

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

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 $2,268 (2017 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 $2,268 (2017 figure).

118.3 Disability - All Ages 15% of $8,113 ($1,217). If not used by the disabled individual, it can be transferred to a person claiming that individual as a dependant.
Disability Supplement - Under 18 And Qualifies For The Disability Tax Credit  15% of $4,733 ($710), reduced by the total of amounts paid for attendant care or supervision in excess of $2,772 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**

- **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.

- **Education**  Repealed for 2017 and subsequent years.

- **Textbook**  Repealed for 2017 and subsequent years.

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

- **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.

**Employment Insurance**  15% of amounts paid by employees up to the maximum Employment Insurance premium of $836 (1.63% of $51,300). This produces a maximum tax credit of $125 [(15%)(836)].

**Canada Pension Plan**  15% of amounts paid by employees up to the maximum Canada Pension Plan contribution of $2,564 [4.95% of ($55,300 less $3,500)]. This produces a maximum tax credit of $385 [(15%)(2,564)]. For self-employed individuals, the payment is $5,128 ($2,564 times 2).

**Refundable Medical Expense Supplement**  The individual claiming this amount must be over 17 and have earned income of at least $3,514. The amount is equal to the lesser of $1,203 and 25/15 of the medical expense tax credit (25% of allowable medical expenses). The refundable amount is then reduced by 5% of family Net Income in excess of $26,644. Not available when family income is more than $50,704.

**Refundable Child Fitness Credit**  Repealed for 2017 and subsequent years.

**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.

**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.

**Labour Sponsored Venture Capital Corporations (LSVCC) Credit**  The federal credit is equal to 15 percent of acquisitions of provincially registered LSVCCs.
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 17%. The federal dividend tax credit is equal to 21/29 of the gross up. The credit can also be calculated as 10.52% of the grossed up dividends, or 12.31% 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 17% 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 $74,788.

**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 $64,125 (1.25 times the maximum insurable earnings of $51,300). 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 2017, the addition to RRSP deduction room is equal to:

- the lesser of $26,010 and 18% of 2016 Earned Income,
- reduced by the 2016 Pension Adjustment and any 2017 Past Service Pension Adjustment,
- and increased by any 2017 Pension Adjustment Reversal.

**Chapter 11**

**Lifetime Capital Gains Deduction** For 2017, the deduction limit for dispositions of shares of qualified small business corporations is $835,716. There is an additional amount for farm or fishing properties of $164,284, 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, several provinces use surtaxes.
**Information Applicable To Individuals And Corporations**

**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>2015</td>
<td>All</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>2016</td>
<td>All</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>2017</td>
<td>I and II</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*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 = $0.25 per kilometre.
- Deductible Rates = $0.54 for first 5,000 kilometres, $0.48 for additional kilometres.

**CCA Rates**  See Appendix to Chapter 5.

**Quick Method Rates (GST Only)**

<table>
<thead>
<tr>
<th>Percentage On GST Included Sales</th>
<th>First $30,000</th>
<th>On Excess</th>
</tr>
</thead>
<tbody>
<tr>
<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>
</tr>
</tbody>
</table>

**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  10.5%
- Part IV Refundable Tax  38-1/3%
- Part I Refundable Tax On Investment Income Of CCPC (ART)  10-2/3%

**Reference**

125(1)  **Small Business Deduction**  is equal to 17.5% 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 reduction for large corporations.
125.1 **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).

123.4(2) **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.

126(1) **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:

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

126(2) The 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:

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

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

129(4) **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.

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.

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

1. the amount determined by the formula
   \[ A - B, \]
   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.

Refundable Dividend Tax On Hand (RDTOH) is defined as follows:

- The corporation’s RDTOH at the end of the preceding year; less
- The corporation’s dividend refund for its preceding taxation year; plus
- The Refundable Portion Of Part I tax for the year; plus
- The total of the taxes under Part IV for the year.

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
  - eligible dividends received during the year; plus
  - adjustments related to amalgamations and wind-ups; less
  - eligible dividends paid during the preceding year.

Tax Related Web Sites

GOVERNMENT

Canada Revenue Agency  www.cra.gc.ca
Department of Finance Canada  www.fin.gc.ca

CPA FIRMS

BDO  https://www.bdo.ca/en-ca/services/tax/domestic-tax-services/overview/
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.CPAcanada.ca
Canadian Tax Foundation  www.ctf.ca
ProFile Tax Suite  www.intuit.ca/professional-tax-software/index.jsp
The textbook is published in two Volumes:

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Glossary: Located at the back of the print and online Study Guide.
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Study Guide

Your two volume textbook is accompanied by a separate Study Guide that is available in print and online.

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.