CHAPTER 3

LIABILITY FOR TAX, INCOME DETERMINATION, AND ADMINISTRATION OF THE INCOME TAX SYSTEM

Review Questions

1. Which of the following entities are subject to income tax?

   (a) proprietorship

   (b) individual

   (c) joint venture

   (d) trust

   (e) limited partnership

   (f) corporation

   (g) partnership

2. Describe how the income earned by any of the non-taxable entities listed in Question 1 is included in the Canadian tax system.

3. How and when does income earned by a corporation affect the tax position of an individual who is a shareholder?

4. In describing who is liable for tax in Canada, the *Income Tax Act* simply states, "An income tax shall be paid, as required by this Act, on the taxable income for each taxation year of every person resident in Canada at any time in the year." Accepting that "person" includes an individual and a corporation, briefly discuss the meaning and ramifications of this statement.

5. In what circumstances are non-residents subject to Canadian income tax?

6. Can a Canadian resident be subject to tax in Canada as well as in a foreign country on the same earned income? If yes, explain how. Also, what mechanism is available to minimize double taxation?

7. Explain the difference between *net income for tax purposes* and *taxable income* for the taxable entities.

8. Explain what is meant by the statutory scheme, and describe the scheme's relevance to the Canadian income tax system.

9. For tax purposes, would you prefer that a financial loss be a capital loss or a business loss? Explain.

10. Explain the difference between *income from property* and *a gain on the sale of capital property*.

11. You may have heard that "corporations are entitled to more deductions for tax purposes than individuals." Based on your reading of Chapter 3, is this statement true? Explain.

12. If an individual earns a living as a lawyer, what possible categories of income, for tax purposes, may the person generate? Describe the circumstances for each possible classification.

13. What types of income for tax purposes may result when a profit is achieved on the sale of property (e.g., land)?

14. Individual A, a Canadian resident, owns and operates a profitable small farm in North Dakota, U.S. They also have a large amount of money earning interest in an American bank. Individual B, also a Canadian resident, owns 100% of the shares of an American corporation that operates a profitable small farm in North Dakota. The corporation also has a large amount of money earning interest in an American bank. Describe and compare the tax positions of these two individuals who conduct the same activities but use different organizational structures.

15. Jane Quinn owned an apple orchard for 20 years. During that time, she had cultivated a unique brand of apple that was popular with health food fans. Toward the end of the 2022 growing season, Jane became seriously ill and put the orchard up for sale. Jane's neighbour agreed to purchase the entire orchard for $250,000. It upset Jane to have to sell at that time of year because the year's crop was of high quality and in three weeks would have been ripe for picking. What types of property might have been included in the total purchase price of $250,000? For tax purposes, what types of income might have been generated from the sale of the orchard? Explain your answer.

Solutions to Review Questions

R3-1 Of the seven entities listed, the following are subject to tax:

- individuals
- corporations
- trusts

R3-2 Proprietorships, partnerships, joint ventures and limited partnerships can all earn income as separate entities. However, for tax purposes the income is allocated annually to the owners of the entities and included in their income for tax purposes. The owners are normally one of the taxable entities: individuals, corporations or trusts.

R3-3 A corporation is a separate legal entity distinct from its owners - the shareholders. Consequently, a corporation is taxed on its income earned in each taxation year. However, the after-tax corporate profits may be distributed as a dividend to the individual shareholder. Upon receipt of the dividend, the individual shareholder has earned property income (return on the share capital) and is subject to tax consequences at that time [ITA 12(1)(j),(k)].

Alternatively, if the corporation does not distribute the after-tax profits but retains them for corporate use, the value of the shares owned by the shareholder will increase in value. If and when the shareholder disposes of the shares, a capital gain may result due to the increased share value caused by the corporate earnings retained [ITA 40(1)(a)(i)].

R3-4 This statement is important because it establishes the basic framework of the income tax system, who is liable for tax, and on what income. The statement indicates that tax is calculated on the taxable income of resident persons for each taxation year. By defining each of the relevant terms in the statement, the general scope of the tax system is apparent. It is, therefore, necessary to define the terms *person, resident, taxable income*, and *taxation year* [ITA 2(1)].

As stated in the question, both individuals and corporations are considered to be persons for tax purposes. Therefore, resident individuals and resident corporations are liable for Canadian tax [ITA 248(1)].

Individuals are resident of Canada if they maintain a continuing state of relationship with the country. Whether or not an individual has a continuing state of relationship is a question of fact determined from the facts of each situation. To establish this relationship, the courts consider the time spent in Canada, motives for being present or absent, the maintenance of a dwelling place, the origin and background of the individual, the routine of life, and the existence of social and financial connections. If an individual does not have a continuing state of relationship, the individual may be deemed to be a resident if the individual is present in Canada for 183 days or more in a particular year [ITA 250(1)(a)].

A corporation is a resident of Canada if it has been incorporated in Canada [ITA 250(4)].

Taxable income is defined as the person's net income for tax purposes minus a limited number of deductions. Net income for tax purposes consists of world income derived from five specific sources: employment, business, property, capital gains, and other sources. These sources are combined in a basic formula known as the statutory scheme. If income does not fit one of the above five categories, it is not taxable. Both individuals and corporations determine net income for tax purposes using the same set of rules.

Tax is calculated on taxable income for each taxation year. The taxation year of an individual is the calendar year. The taxation year for a corporation is the fiscal period chosen by the corporation, which cannot exceed one year, 53 weeks to be exact [ITA 249(1), 249.1(1)]. Professional corporations (a corporation that carries on the professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian or chiropractor [ITA 248(1)]) are required to have a fiscal period that coincides with the calendar year if the professional corporation carries on business as a member of a professional partnership [ITA 249.1(1)(b)].

R3-5 A non-resident individual or corporation is subject to Canadian income tax in a manner similar to a Canadian resident on taxable income earned in Canada if they are employed in Canada, carry on business in Canada, or dispose of taxable Canadian property [ITA 2(3)]. In addition, a non-resident who does not have any of the above activities in Canada may be subject to a special withholding tax (a flat tax) on income which has its source in Canada [ITA 212]. (For example, dividends, rents royalties, certain management fees, and so on.)

R3-6 Yes. The resident of Canada is taxed on world income and the foreign country, which is the source of that income, may also impose tax. For example, a Canadian corporation which operates a business branch location in a foreign country will be taxable on the branch profits in both countries. In order to avoid double taxation, the Canadian tax calculation permits a reduction of Canadian taxes for foreign taxes paid on the same income [ITA 126(1), (2)].

R3-7 Net income for tax purposes consists of a taxpayer's combined net income from employment, business, property, capital gains and other sources. The separate sources of income are combined in accordance with an aggregating formula which takes into account any losses from the above sources. Net income for tax purposes is determined by the same set of rules for individuals and corporations.

Taxable income is the base amount upon which the rates of tax are applied and is determined by reducing a taxpayer's net income for tax purposes (above) by a limited number of specific deductions. While individuals and corporations use the same formula for determining net income, the calculation of taxable income is different. Deductions for individuals include a capital gains deduction on qualified properties, and unused losses of other years. Deductions for corporations include charitable donations, dividends from Canadian corporations and foreign affiliates, and unused losses of other years.

R3-8 The statutory scheme is the fundamental base of the income tax system. It is simply an aggregating formula which establishes the concept of a taxpayer's income for tax purposes in comparison to other concepts of income. The formula defines what types of income are subject to tax and how any related losses affect a taxpayer's income. As the formula is restricted to five basic types of income activities, the scope of the tax system is established. The formula establishes that, although a taxpayer may carry on several separate activities, each separate type of income is not taxed separately but rather forms part of a total concept of income. As a result, with the exception of capital losses, a loss from one activity within a specified time period may be offset against the income derived from other activities.

In spite of the fact that the formula combines several types of income into a single income amount, each type of income is determined in accordance with its own sets of rules. The formula then binds them together and establishes their relationships.

R3-9 A taxpayer would normally prefer that a loss incurred be a business loss as opposed to a capital loss. In accordance with the aggregating formula for computing net income, a business loss can be deducted from any other source of income which increases the opportunity to reduce taxes payable as soon as possible. A capital loss, on the other hand, can only be deducted against a capital gain and, therefore, its ability to reduce taxes payable is considerably restricted. In addition, only one-half of a capital loss is included as part of the aggregating formula [ITA 3(b)].

For example, a taxpayer who has employment income of $30,000 and a business loss of $30,000 has no net income under the aggregating formula and, therefore, no tax liability. However, if the same taxpayer has employment income of $30,000 and a capital loss of $30,000, a tax liability would be incurred because the net income for tax purposes would be $30,000 (from employment) and the capital loss would remain unused.

R3-10 Income from property is the return that is earned on invested capital. For example, dividends earned on shares of a corporation are property income because they represent the return from the ownership of capital property (the shares). On the other hand, a gain derived from the sale of capital property is considered to be a capital gain. Using the previous example, if the shares were sold at a profit the gain from that property would be a capital gain and not property income.

R3-11 Based on the determination of net income for tax purposes, the statement is not true. Both individuals and corporations determine net income for tax purposes in accordance with the same aggregating formula. In addition, an individual who earns business income determines that income in accordance with the same set of rules as a corporation that earns business income.

With respect to the conversion of net income for tax purposes to taxable income, individuals are entitled to a capital gains deduction whereas a corporation is not. In this context, an individual receives preferential treatment. In arriving at taxable income, a corporation can reduce its net income by dividends received from other Canadian corporations, whereas, individuals cannot. However, corporate income is ultimately distributed to shareholders who are individuals and, therefore, this corporate advantage is temporary [ITA 110.6, 112(1)].

R3-12 Working as a lawyer, an individual may earn either employment income or business income. If the lawyer provides services to a law firm as an employee in return for a salary, bonus, and fringe benefits, the income would constitute employment income. If the lawyer independently provides services directly to clients on a fee-for-service basis, the income derived is business income [ITA 5(1), 9(1)].

R3-13 A profit derived from the sale of property may be classified as either business income or capital gain. Using the example of property that is land, business income will occur if the land was acquired for the purpose of reselling it at a profit. Alternatively, if the land was acquired, not for resale, but for long term use to generate income or for personal enjoyment, the profit on the sale will be a capital gain.

R3-14 All Canadian residents are taxed on their world income. The world income of individual A includes the business profits from the U.S. farm plus the interest earned from the U.S. bank account. These amounts are, therefore, taxable in Canada in the year earned. The income would also be taxable in the U.S. but Canadian taxes may be reduced by U.S. taxes on that income.

In comparison, individual B's world income does not include the U.S. farm profits and the U.S. interest. This income belongs to the U.S. corporation and is, therefore, taxed only in the U.S. The foreign corporation is not a resident of Canada and is not subject to Canadian tax. The after-tax profits of the foreign corporation may be distributed to individual B in the form of dividends at some future time. Such foreign dividends would then be part of individual B's world income and taxed a second time.

Although both individuals A and B conduct the same activities, the organization structure alters the amount and the timing of the related taxes on the income.

R3-15 The sale of the entire orchard for a total price of $250,000 may include the following separate properties:

- land
- the permanent stock of trees
- the almost mature crop of apples

(The student may also recognize the possibility of including equipment and goodwill.)

The sale of the land may result in a capital gain because it is property that was acquired and used to generate income. Similarly, the sale of the trees is capital property because the trees are used to produce a regular crop of apples.

The profit on the sale of apples would constitute business income because the apples are being produced for the purpose of resale at a profit. Even though the apples are not mature, they represent inventory in process.

Key Concept Questions

QUESTION ONE

Determine the Canadian residency status for the current year for each of the following taxpayers:

a) Paula Silva was born and has lived her life to date in Canada. On November 1 of the current year, she leaves Canada permanently.

b) Al Rossi is spending the current year in Belgium on temporary work assignment. His family and friends are looking forward to his return to Canada in June of next year.

c) Kimberley Murphy lives in Ireland. In the current year, she was in Canada from the first day of February to the end of May and again from the first day of August to the end of October caring for her sick friend.

d) 102864 Limited was incorporated in Canada five years ago. The corporation has carries on business exclusively in Bermuda since incorporation.

e) Navy Ltd. was incorporated in the United States. In the current year, Navy Ltd. carried on business in Canada as well as in the United States.

CPA Competency 6.3.1 Individual residency & 6.5.1 Full year, part-year, and deemed residents. Income tax reference: ITA 250(1), (4); S5-F1-C1.

QUESTION TWO

Mateo Lopez is *not* a resident of Canada. For the current year, Mateo has worldwide income of $120,000, including $15,000 of employment income earned in Canada and $2,000 of interest received from Canadian banks. The remainder of his income is from sources outside of Canada.

What amount of income must be reported on Mateo's Canadian personal income tax return for the current year?

CPA Competency 6.5.2 Income taxation of non-residents. Income tax reference: ITA 2(3).

QUESTION THREE

A Ltd. is resident in Canada for tax purposes. In the current year, A Ltd. earned interest income of $4,000 in Canada, $6,000 in England, and $8,000 in Bermuda.

What amount of interest income must be reported on A Ltd.'s Canadian corporate income tax return for the current year?

CPA Competency 6.5.2 Income earned inside and outside Canada. Income tax reference: ITA 2(1), 3(a).

QUESTION FOUR

The Canadian income tax system includes five specific categories of income (*Employment, Business, Property, Taxable capital gains, and Other*). Identify the income category to which each of the following pertains:

a) Interest earned on a bond investment
b) Pension income
c) Consulting fees
d) Profit on the sale of shares of a public corporation; the shares were acquired as a long-term investment
e) Wages from employment services
f) Share of profits from a partnership that operates a restaurant
g) Dividends from the shares of a corporation that carries on a retail business
h) Tips from customers of an employer's business
i) Rents from tenants of a commercial building
j) Fees for providing piano lessons to several students
k) Profit on the sale of land that was used by the owner for farming
l) Profit on the sale of a summer cottage that was used by the owner for personal enjoyment
m) Profit on the sale of land that was purchased for resale

CPA Competency 6.5.2 Sources and types of income.

QUESTION FIVE

Calculate net income for tax purposes for each of the three taxpayers.

	Taxpayer A	Taxpayer B	Taxpayer C
Employment income			$30,000
Business income (loss)		$(20,000)	
Property income (loss)	$(1,000)		
Pension income	40,000		
Capital gain (loss)		50,000	(6,000)

CPA Competency 6.5.2 Net income. Income tax reference: ITA 3.

QUESTION SIX

Maureen Singh, a resident of Canada, has the following sources of income and losses for tax purposes for 2022.

• Employment income	$60,000
• Business X profit	3,000
• Business Y loss	7,000
• Interest income	2,000
• Taxable capital gain on sale of land	18,000
• Allowable capital loss on sale of securities	20,000
• Allowable business investment loss	5,000

Calculate Maureen's net income for tax purposes for 2022 in accordance with Section 3 of the *Income Tax* Act.

CPA Competency 6.3.2 Net income. Income tax reference: ITA 3.

QUESTION SEVEN

What is the filing due date for each of the following income tax returns for the 2022 taxation year?

(a) A corporation for its year ending November 30.

(b) An individual who carried on a business in the year.

(c) A single individual living alone who did not carry on a business.

(d) An individual who died on February 21, 2023

CPA Competency 6.4.1 Filing deadlines for tax returns. Income tax reference: ITA 150(1)(a), (b), (d).

QUESTION EIGHT

For each of the following individuals, determine when their income tax return for 2022 is due and when any balance of tax owing is due.

a) Bob Wu is single. He has two sources of income, employment income and interest income.

b) Maria Rodriguez is a self-employed lawyer. Her law practice has a December 31 year-end.

c) Ron Smith's only source of income is employment income. Ron's spouse is Maria. See (b) above.

d) Zeta Ali is married to Leo Ali. Their only source of income is pension income. Zeta died on November 20, 2022.

e) Sarah Chen died on March 12, 2022 without having filed her tax return for 2021.

CPA Competency 6.4.1 Filing deadlines for tax returns, and deadlines for final tax payments. Income tax reference: ITA 150(1), 156.1(4), 248(1) balance-due day.

QUESTION NINE

When is the balance of tax due for each of the following entities?

a) A public corporation, resident in Canada

b) A Canadian-controlled private corporation, with taxable income less than $500,000, and claiming the Small Business Deduction

c) An individual who carried on business in the year

d) An individual where no business is carried on by the individual or their spouse

CPA Competency 6.4.1 Final tax payments. Income tax reference: ITA 156.1(4), 157(1)(b).

QUESTION TEN

For each of the following corporations, determine when the income tax return for 2022 is due and when any balance of tax owing is due.

a) A Ltd. is a public corporation with a May 31 year-end.

b) B Ltd. is a private corporation with an October 31 year-end. All of B's income is taxed at the high corporate rate.

c) C Ltd. is a Canadian-controlled private corporation with an October 31 year-end. Last year, all of C's income was subject to the low rate of tax from claiming the small business deduction.

d) D Ltd. is a Canadian-controlled private corporation with a May 31 year-end. Last year, D had taxable income of $550,000. D claimed the small business deduction this year as well as last year.

CPA Competency 6.4.1 Deadlines for filing corporate tax returns and paying tax balance. Income tax reference: ITA 150(1), 157(1)(b), 248(1) balance-due day.

QUESTION ELEVEN

A taxpayer's tax liability was $1,200 for 2020 and $12,000 for 2021, and is expected to be $36,000 for 2022.

Is the taxpayer required to make tax instalments for 2022? If so, what are the amounts and the due dates for the instalments?

CPA Competency 6.4.1 Tax instalments. Income tax reference: ITA 156(1), 156.1(1), (2), 157(1), (2.1), 157(1.1), (1.2).

QUESTION TWELVE

The date issued on the Notice of Reassessment for a taxpayer's 2017 tax return was July 10, 2022. The date issued on the original Notice of Assessment for the taxpayer's 2017 tax return was June 20, 2018.

a) Does the CRA have the right to reassess the 2017 tax return on July 10, 2022?

b) If the taxpayer wishes to dispute the reassessment, by what date must the Notice of Objection be filed?

A Competency 6.4.1 Reassessment period and filing deadline for Objections. Income tax reference: ITA 152(3.1), 165(1).

QUESTION THIRTEEN

A Canadian-controlled private corporation filed its tax return for its year ended December 31, 2021 on June 30, 2022. The Notice of Assessment was received August 31, 2022. The date issued on the Notice of Assessment was August 28, 2022.

a) Assuming there were no misrepresentations and that a waiver was not filed, how long does the CRA have to issue a reassessment for 2021?

b) If the corporation wishes to object to the original Notice of Assessment for 2021, by what date must the Notice of Objection be filed?

A Competency 6.4.1 Reassessment period for CCPC and filing deadline for Objections. Income tax reference: ITA 152(3.1), 165(1).

QUESTION FOURTEEN

Successful Ltd. is a Canadian company with a December 31 year-end. The federal income tax return for 2021 was filed with the CRA on September 30, 2022. The balance of tax owing, $10,000, was paid at the bank on September 30 as well.

Calculate the late-filing penalty for Successful Ltd. Assume taxable capital is under $10 million.

CPA Competency 6.4.1 Late-filing penalty. *Income tax reference: ITA 162(1)*.

Solutions to Key Concept Questions

KC 3-1

[ITA: 250(1), (4) – Residence]

a) Paula is a part-year resident. She is resident in Canada from January 1 to November 1 and non-resident for the remainder of the year.

b) Al is resident in Canada. Although he is out of the country on a temporary work assignment for the current year, his residential ties remain in Canada.

c) Kimberley is deemed to have been resident in Canada throughout the current taxation year. Although she is not ordinarily resident in Canada, she sojourned (temporary stay) in Canada for more than 182 days, in total, in the current year [ITA 250(1)(a)].

d) 102864 Limited is resident in Canada. Any company incorporated in Canada after April 26, 1965 is deemed resident in Canada [ITA 250(4)(a)].

e) Navy Ltd. is a non-resident corporation.

KC 3-2

[ITA: 2(3) – Tax payable by non-residents]

A non-resident must report three sources of income on a Canadian tax return: employment income earned in Canada, business income from carrying on business in Canada, and gains on the disposal of taxable Canadian property [ITA 2(3)]. In this case, Mateo must report on a Canadian tax return his $15,000 of employment earned in Canada.

KC 3-3

[ITA: 2(1), 3(a) – World income reported by residents]

Since A Ltd. is resident in Canada, income earned anywhere in the world must be reported on its Canadian tax return. Therefore, all $18,000 of interest income earned must be included on the Canadian corporate income tax return.

KC 3-4

[Income categories]

a) Property income

b) Other income

c) Business income

d) Capital gain

e) Employment income

f) Business income

h) Employment income

i) Property income

j) Business income

k) Capital gain

l) Capital gain

m) Business income

g) Property income

KC 3-5

[ITA: 3 – Net income]

		Taxpayer A	Taxpayer B	Taxpayer C
3(a)	Employment Income			$30,000
	Business income			
	Property income			
	Other income (pension)	$40,000		.
		40,000		30,000
3(b)	Taxable capital gains		$25,000	0
	Allowable capital losses		(0)	(3,000)
	Excess		25,000	0
		40,000	25,000	30,000
3(c)	Other deductions	0	0	(199)
		40,000	25,000	29,801
3(d)	Business loss		(20,000)	
	Property loss	(1,000)	(0)	
		(1,000)	(20,000)	
	Net Income	$39,000	$ 5,000	$29,801

Taxpayer C has $30,000 of employment income and is entitled to a deduction for CPP enhanced contributions of 0.75% of ($30,000 – basic exemption $3,500) = $199

KC 3-6

[ITA: 3 – Net income]

3(a)	Employment income		$60,000
	Business income		3,000
	Property income (interest)		2,000
			65,000
3(b)	Taxable capital gain	$18,000	
	Allowable capital loss	(20,000)	
	Excess	0	0
			65,000
3(c)	Other deductions		(424)
			64,576
3(d)	Business loss	(7,000)	
	Allowable business investment loss	(5,000)	(12,000)
	Net income		$52,576

Maureen has $60,000 of employment income and is entitled to a deduction for CPP enhanced contributions of (5.7% - 4.95%) x ($60,000 – basic exemption $3,500) = $424.

KC 3-7

[ITA: 150(1)(a), (b), (d) – Filing due dates]

The filing due dates are as follows:

a) May 31, 2023 (six months after the year-end of the corporation [ITA 150(1)(a)]). When the corporation's tax year ends on the last day of a month, the tax return is due by the last day of the sixth month after the end of the tax year.

b) June 15, 2023 [ITA 150(1)(d)(ii)]

c) April 30, 2023 [ITA 150(1)(d)(i)]

d) August 21, 2023 (later of six months after death and the normal filing due date [ITA 150(1)(b)]

KC 3-8

[ITA: 150(1), 156.1(4), 248(1) – filing deadline and balance-due day for individuals]

a) Bob's tax return is due April 30, 2023 [ITA 150(1)(d)(i)]. The balance of tax owing, if any, is due on the same day [ITA 156.1(4), 248(1)].

b) Maria's tax return is due June 15, 2023 [ITA 150(1)(d)(ii)]. The balance of tax owing, if any, is due on April 30, 2023 [ITA 156.1(4), 248(1)].

c) Ron's tax return is due June 15, 2023 [ITA 150(1)(d)(ii)]. The balance of tax owing, if any, is due on April 30, 2023 [ITA 156.1(4), 248(1)].

d) Zeta's tax return is due May 20, 2023, being the later of April 30th of the following year and 6 months after the date of death [ITA 150(1)(b)]. The balance of tax owing, if any, is due on the same day [ITA 156.1(4), 248(1)]. Leo's tax return is also due on May 20, 2023; however, his balance of tax is due on April 30, 2023.

e) Sarah's tax return for the current year, 2022, (the year of death) is due April 30th or June 15th of 2023 being the later of the date the return is normally due and 6 months after the date of death. The balance of tax owing, if any, is due on April 30, 2023 [ITA 156.1(4), 248(1)]. Also note that Sarah's tax return for the prior year (2021) is due September 12, 2022, being the later of the date the tax return would normally be due and 6 months after the date of death [ITA 150(1)(b)]. The balance of tax owing, if any, is due on September 12, 2022 as well [ITA 156.1(4), 248(1)].

KC 3-9

[ITA: 156.1(4); 157(1)(b); 248 – Balance-due day]

The balance of tax is due as follows:

a) Two months after the corporation's year-end [ITA 157(1)(b), "balance-due day" ITA 248]

b) Three months after the corporation's year-end [ITA 157(1)(b), "balance-due day" ITA 248]

c) April 30th of the following year [ITA 156.1(4), "balance-due day" ITA 248]

d) April 30th of the following year [ITA 156.1(4), "balance-due day" ITA 248]

KC 3-10

[ITA: 150(1), 157(1)(b), 248(1) – filing deadline and balance-due day for corporations]

a) A Ltd.'s tax return is due November 30, 2022 (the last day of the 6th month after the year end) [ITA 150(1)]. The balance of tax owing, if any, is due July 31, 2022 (2 month after the year end) [ITA 157(1)(b), 248].

b) B Ltd.'s tax return is due April 30, 2023 (the last day of the 6th month after the year end) [ITA 150(1)]. The balance of tax owing, if any, is due December 31, 2022 (2 month after the year end) [ITA 157(1)(b), 248].

c) C Ltd.'s tax return is due April 30, 2023 of the following year (the last day of the 6th month after the year end) [ITA 150(1)]. The balance of tax owing, if any, is due January 31, 2023 of the following year (3 month after the year end) since C Ltd. is a CCPC whose taxable income in the previous year did not exceed the business limit and the small business deduction was claimed [ITA 157(1)(b), 248].

d) D Ltd.'s tax return is due November 30, 2022 (the last day of the 6th months after the year end) [ITA 150(1)]. The balance of tax owing, if any, is due July 31, 2023 (2 month after the year end). Although D Ltd. is a CCPC claiming the small business deduction, it does not qualify for the one-month extension since its taxable income in the preceding year exceeded the business limit [ITA 157(1)(b), 248].

KC 3-11

[ITA: 156(1), 156.1(1), (2), 157(1), (2.1) – instalments for individuals and corporations]

If the taxpayer is an **individual**, instalments are required for 2022 since the tax liability for 2022 is expected to exceed $3,000 and the tax liability exceeded $3,000 for one of the two prior years (2021) [ITA 156.1(1)]. The instalments are due the 15th day of March, June, September, and December. The amount payable for each instalment is calculated using one of the following three methods [ITA 156(1)]:

1) $9,000; ¼ x estimated tax payable for 2022 (1/4 x $36,000)
2) $3,000; ¼ x tax payable for 2021 (1/4 x $12,000)
3) $300 for the March and June instalments; ¼ x tax payable for 2020 (1/4 x $1,200); and $5,700 for the September and December instalments; ½ ($12,000 - $600).

The CRA uses method (3) in their instalment notices. Since method (3) results in the taxpayer paying the least amount of tax in March and June, the taxpayer will probably choose this method.

If the taxpayer is a **corporation**, instalments are required for 2022 since the tax liability for 2021 (the prior year) and the estimated tax liability for 2022 exceed $3,000 [ITA 157(2.1)].

The instalments are generally due at the end of each month. The amount payable for each instalment is calculated using one of the following three methods [ITA 157(1)]:

1) $3,000; 1/12 x estimated tax payable for 2022 (1/12 x $36,000)
2) $1,000; 1/12 x tax payable for 2021 (1/12 x $12,000)
3) $100 for the first two instalments; 1/12 x tax payable for 2020 (1/12 x $1,200); and $1,180 for the remaining ten instalments; 1/10 x ($12,000 - $200).

If the taxpayer is a small-CCPC then quarterly tax instalments are permitted. The quarterly instalments are due the last day of each quarter and are calculated using one of the following three methods [ITA 157(1.1)]:

1) $9,000; ¼ x estimated tax payable for 2022 (1/4 x $36,000)
2) $3,000; ¼ x tax payable for 2021 (1/4 x $12,000)

3) $300 for the March instalment; ¼ x tax payable for 2020 (1/4 x $1,200); and $3,900 for the June, September and December instalments; 1/3 x ($12,000 - $300).

A small-CCP has the following characteristics [ITA 157(1.2)]:

- Taxable income for the current or preceding year does not exceed $500,000,
- Taxable capital for the current or preceding year does not exceed $10 million,
- Claims the small business deduction in the current or preceding year, and
- Has a perfect compliance record for the past 12 months with respect to tax payments and filing of returns.

KC 3-12
[ITA: 152(3.1), 165(1) – Normal reassessment period and notice of objection]

a) Individuals, trusts, and CCPCs can be reassessed within three years of the date the original assessment was mailed. For other corporations, the time limit is extended to four years.

   Since the date issued on the notice of assessment was June 20th, 2018, the normal reassessment period expired prior to July 10, 2022 for all taxpayers. However, a tax return can be reassessed at any time if the taxpayer has made a misrepresentation that is attributable to neglect, carelessness, or willful default or has committed any fraud in filing the return or supplying information.

b) The notice of objection must be filed by October 8, 2022. If the taxpayer is an individual, the notice of objection must be filed by the later of April 30, 2019, being one year after the tax return filing date for the 2017 year; and October 8, 2022, being 90 days after the date the reassessment was mailed. For all other taxpayers, the notice of objection must be filed by 90 days after the date the reassessment was mailed.

KC 3-13

[ITA: 152(3.1)(b); 165(1)(b) – Normal reassessment period; Notice of objection]

a) The CRA has until August 28, 2025, being three years from the date issued on the Notice of assessment (August 28, 2022) to issue a reassessment [ITA 152(3.1)(b)].

b) If the corporation wishes to object to the Notice of assessment, the Notice of objection must be filed by November 26, 2022, being 90 days after the date issued on the Notice of assessment [ITA 165(1)(b)].

KC 3-14
[ITA: 162(1) – Late filing penalty]

The late filing penalty is $800, being $10,000 x 8% (5% + 1% x 3 months). The tax return was filed three complete months late. The penalty is **5%** of the unpaid tax that is due on the filing deadline, **plus 1%** of this unpaid tax for each **complete** month that the return is late, up to a maximum of **12** months.