Canadian Tax Principles, 2020-2021 Edition **(Byrd/Chen)**
Chapter 2   Procedures and Administration

Essay Questions

1) An individual can request that an employer reduce the amounts withheld for income taxes. What conditions must be met for this request to be granted? Provide an example of a situation where this request would be granted.
Answer: For an employer to grant this request, the reason for the reduction must be documented in a reasonable fashion and it must be recurring. While there are other examples, the one mentioned in the text involves an individual with deductible spousal support payments.

2) In some situations, an employee may request an increase in the amounts that are withheld for future income taxes. What circumstances might lead an employee to make such a request?
Answer: While there are other possibilities, the ones that are mentioned in the text are:
• Normal withholding is based on rates in a low tax rate province, but the individual resides in a high tax rate province (e.g., the individual works in Alberta, but lives in Saskatchewan).
• An individual receives large amounts of taxable spousal support payments that are not subject to withholding.

3) Under what circumstances must an individual make income tax instalment payments during the current year?
Answer: Individuals are required to make instalment payments if their net tax owing is greater than $3,000 ($1,800 in Quebec) in the current year and in either of the two preceding years. An alternative approach would be to indicate when instalments are not required. The statement here would be that instalments are not required when the net tax owing for the current year, or for each of the two preceding years is $3,000 or less.

4) If an individual is required to make quarterly instalment payments on their income taxes, how is the required amount of the instalments determined?
Answer: An individual can choose from three different methods in determining their instalment payments:
Method 1 - The instalments could be based on one-quarter of the estimated net tax owing for the current year.
Method 2 - The instalments could be based on one-quarter of the net tax owing for the previous year.
Method 3 - The first two instalments could be based on one-quarter of the net tax owing for the second previous year, with the third and fourth instalments based on one-half of the net tax owing for the previous year, less the sum of the first two instalments paid.

5) By making all instalments on the basis of the CRA's instalment reminder, the taxpayer is assured that no interest will be assessed for deficient instalments. However, this may not be the best alternative for making instalment payments. Explain why this is true.
Answer: The CRA's instalment reminder results in total instalment payments equal to the net tax owing in the previous taxation year. If the estimated net tax owing for the current year is less, lower instalments could be paid using the estimated current year net tax owing as the base.

6) One of your clients has received his instalment notice and has asked your advice as to whether he should make the payments. Provide the requested advice.
Answer: If the client has debt on which he is paying non-deductible interest (e.g., interest on non-business credit cards), you should determine the applicable rates. If he is paying at a rate in excess of the rate he will be charged on deficient instalments (i.e., the prescribed rate plus 4 percent), he might consider paying down the debt in lieu of making instalment payments. Alternatively, if the rate that he is paying on the personal debt is lower, he should make an effort to pay his instalments. The excess penalty under ITA 163.1 would also have to be taken into consideration if the instalment payments are large.

7) How is interest on late instalments calculated?
Answer: Interest on later instalments is calculated using the highest prescribed rate (the regular rate plus 4 percentage points) applied for the period from the date the instalment is due until the balance due date for the total tax payable.

8) On April 30 of the current year, her filing due date, Nicole Houde finds that she has a significant net tax owing. She will not be able to pay this until the beginning of July. She doesn't want to file her return until she has the funds available to pay the balance. What advice would you give Ms. Houde in this regard?
Answer: She should file the return on the due date, regardless of whether she has the funds to pay the balance owing. Whether or not she files, she will have to pay interest on the balance owing. However, if she delays filing until early July, she will not only have to pay the non-deductible interest, she will also be subject to an immediate penalty of 5 percent of the balance owing, plus an additional 1 percent per complete month for the period from April 30, for a total penalty of 7 percent.

If, within the last three years, there has been another late filing of her return, the penalty can double to an immediate 10 percent, plus 2 percent per month. The monthly penalty will be assessed for a maximum of 20 months.

9) Under what circumstances must a corporation make income tax instalment payments during its current taxation year?
Answer: Corporations are generally required to make either monthly or quarterly instalment payments throughout their taxation year. The only exception to this is when the estimated taxes payable for the current year, or the taxes payable in the preceding year, are $3,000 or less.

10) If a corporation that is not a small CCPC is required to make instalment payments on their income taxes, how are the required amounts determined?
Answer: A corporation that is not a small CCPC can choose from three different methods in determining their instalment payments:
Method 1 - The instalments can be based on one -twelfth of the estimated taxes payable for the current taxation year.
Method 2 - The instalments can be based on one -twelfth of the taxes payable for the previous taxation year.
Method 3 - The first two instalments can be based on one -twelfth of the taxes payable for the second previous year. The remaining 10 instalments will then be based on the taxes payable for the previous taxation year reduced by the amounts paid in the first two instalments, with this amount divided by 10.

11) If a corporation that is a small CCPC is required to make quarterly instalment payments on their income taxes, how are the required amounts determined?
Answer: A corporation that is a small CCPC can choose from three different methods in determining their instalment payments.
Method 1 - The instalments can be based on one -fourth of the estimated taxes payable for the current taxation year.
Method 2 - The instalments can be based on one -fourth of the taxes payable for the previous taxation year.
Method 3 - The first instalment can be based on one -fourth of the taxes payable for the second previous year. The remaining three instalments will then be based on the taxes payable for the previous taxation year reduced by the amount paid in the first instalment, with this amount divided by three.

12) A corporation's balance due date is not the same as its return due date. Explain how these dates differ.
Answer: Corporate tax returns must be filed within six months of the end of the corporation's taxation year. In contrast, the balance due date is either 2 months after the end of the corporation's taxation year (general rule) or 3 months after the end of the corporation's taxation year (qualifying CCPCs). As a consequence, payment is always required prior to the due date for filing the corporate tax return.

13) The normal reassessment period is 3 years for individuals and CCPCs and 4 years for other corporations. Indicate two situations where a reassessment can occur outside the normal reassessment period.
Answer: There are a number of situations that could be cited. The ones listed in the text are as follows:
• Reassessment can occur at any time if the taxpayer or person filing the return has made any misrepresentation that is attributable to neglect, carelessness or willful default, or has committed any fraud in filing the return or in supplying information under the Income Tax Act.
• Reassessment can occur at any time if the taxpayer has filed a waiver of the normal time limit. A taxpayer can revoke such a waiver at any time.
• Reassessment can occur outside the normal reassessment period if an individual or testamentary trust has requested a reduction in taxes, interest, or penalties. The ability to use this provision is limited to ten years after the particular year in question.
• Reassessment can occur beyond the normal reassessment period when reassessment within the normal period affects a balance outside of this period.
• Reassessment can occur outside the normal reassessment period in situations where the taxpayer is claiming certain specified deductions, such as a loss carry back for that year.

14) Cases can be heard by the Tax Court of Canada using either the general or the informal procedures. How do these two procedures differ?
Answer: The general and informal procedures differ as follows:
• Under the informal procedures, the tax involved must be less than $25,000, or the loss in question is less than $50,000.
• Under the informal procedures, an individual can represent himself, or be represented by someone other than a lawyer (e.g., an accountant).
• Under the informal procedures, the taxpayer cannot be assessed court costs.
• Under the informal procedures, if the taxpayer loses, there is no appeal to a higher court.
• Informal procedures usually resolve a dispute much more quickly than the general procedures.

15) Briefly describe the difference between tax evasion and tax avoidance.
Answer: Tax evasion is described on the CRA web site as follows:
Tax evasion typically involves deliberately ignoring a specific part of the law. For example, those participating in tax evasion may under-report taxable receipts or claim expenses that are non- deductible or overstated. They might also attempt to evade taxes by wilfully refusing to comply with legislated reporting requirements.

A less clear description of tax avoidance is as follows:
When tax planning reduces taxes in a way that is inconsistent with the overall spirit of the law, the arrangements are referred to as **tax avoidance**. The Canada Revenue Agency's interpretation of the term "tax avoidance" includes all unacceptable and abusive tax planning. Aggressive tax planning refers to arrangements that "push the limits" of acceptable tax planning.

True/False Questions

1) If an individual believes that the amount of income taxes withheld by his employer is greater than the amount that he will have to pay in a particular year, he can make a request to the CRA to have his source deductions reduced.
Answer: FALSE
Explanation: The deficiency must be recurring, not just for a particular year.

2) Because the taxation year of an individual must be based on the calendar year, all individuals will have the same filing due date.
Answer: FALSE
Explanation: There are two filing due dates for individuals. April 30 or, for individuals earning business income, June 15. In addition, deceased taxpayers may have a different filing date.

3) If an individual dies after October in a particular taxation year, his legal representatives must file his tax return by the later of his normal filing due date and six months after the date of his death.
Answer: TRUE

4) If quarterly instalments must be paid by an individual, they can be calculated as one-quarter of the net tax owing for the preceding year.
Answer: TRUE

5) If an individual is required to make income tax instalment payments, one acceptable pattern of payments is to base each payment on one-quarter of the estimated Tax Payable for the current taxation year.
Answer: FALSE
Explanation: The acceptable approach is to use one-quarter of the net tax owing for the current year.

6) The interest rate applicable on refunds to individuals is 4 percentage points less than the interest rate applicable on amounts owing to the CRA.
Answer: FALSE
Explanation: The interest rate applicable on refunds to individuals is 2 percentage points less than the interest rate on amounts owing to the CRA.

7) The penalty for an individual making insufficient instalment payments is 5 percent of the total unpaid tax at the filing date, plus 1 percent per month.
Answer: FALSE
Explanation: There is no penalty for late payment of taxes. The penalty is for late filing of a return.

8) Without regard to whether an individual's filing due date is April 30 or June 15, any balance of tax owing must be paid by April 30.
Answer: TRUE

9) All corporations must file their tax returns no later than six months after the end of their fiscal year, and pay any balance of tax owing no later than three months after the end of their fiscal year.
Answer: FALSE
Explanation: Corporations, other than some CCPCs, must pay the balance of tax owing no later than two months after the end of their fiscal year.

10) The notice of objection for a corporation must be filed within 90 days from the date of mailing of the notice of assessment.
Answer: TRUE

11) Tax avoidance involves deliberately ignoring a specific provision in the Income Tax Act.
Answer: FALSE
Explanation: Deliberately ignoring a specific provision in the Income Tax Act is tax evasion, not tax avoidance.

12) The GAAR provisions are not applicable to gifts to adult children.
Answer: TRUE

13) Interest and penalties may be waived or reduced in extraordinary circumstances, such as those involving natural disasters or serious illness.
Answer: TRUE

Multiple Choice Questions

1) Which of the following statements is **NOT** correct?
A) If an individual has business income during the year, the due date for their income tax return is June 15 of the following year.
B) An income tax return may be required of an individual, without regard to their age.
C) If an individual has no Taxable Income for the year, they do not have to file an income tax return.
D) If an individual sells a capital property during the year, they are required to file an income tax return, even if there is no gain or loss on the transaction.
Answer: C
Explanation: C) If an individual has no Taxable Income for the year, they do not have to file an income tax return.
Topic: Individual Filing Requirements

2) Which of the following statements is correct?
A) When an individual dies in a year, an income tax return must be filed for that year within 6 months of the date of death.
B) Only residents of Canada are required to file Canadian income tax returns.
C) An individual with business income during the year must pay any balance owing by June 15 of the following year.
D) A self employed individual with a net business loss for the year does not have to file an income tax return for the year.
Answer: D
Explanation: D) A self employed individual with a net business loss for the year does not have to file an income tax return for the year.
Topic: Individual Filing Requirements

3) With respect to the filing of an individual income tax return, which of the following statements is correct?
A) An individual is required to file an income tax return if their only source of income is business income, even if no tax is payable.
B) An individual is required to file an income tax return if they have reached the age of 18 by the end of the year.
C) If an individual has disposed of a capital property during the year, they are required to file an income tax return, even if no tax is payable.
D) An individual is not required to file an income tax return if no tax is payable for the year.
Answer: C
Explanation: C) If an individual has disposed of a capital property during the year, they are required to file an income tax return, even if no tax is payable.
Topic: Individual Filing Requirements

4) For the 2020 taxation year, John Bookman had a taxable capital gain of $45,000 and a net business loss of $45,000, resulting in a Taxable Income of nil. Which of the following statements is correct?
A) John is not required to file a tax return for 2020.
B) John must file a tax return on or before June 15, 2021.
C) John must file a tax return on or before December 31, 2021.
D) John must file a tax return on or before April 30, 2021.
Answer: B
Explanation: B) John must file a tax return on or before June 15, 2021.
Topic: Individual Filing Requirements

5) John Barron is self-employed and plans to file his 2020 tax return on June 15, 2021. His balance-due day is:
A) April 30, 2020.
B) April 30, 2021.
C) June 15, 2021.
D) June 15, 2020.
Answer: B
Explanation: B) April 30, 2021.
Topic: Individual Filing Requirements

6) Bunly Im is a self-employed hairdresser. Which of the following dates are correct for the date by which his tax return for a year must be filed (1st item) and his payment due date (2nd item)?
A) April 30, April 30.
B) June 15, April 30.
C) April 30, June 15.
D) June 15, June 15.
Answer: B
Explanation: B) June 15, April 30.
Topic: Individual Filing Requirements

7) Ms. Deveco's 2020 income tax return is due on April 30, 2021. While she is too busy to file her tax return on that date, she remits a cheque to the government for $10,000, her estimated amount of net tax owing on that date. She has never filed a late return before. She prepares and files her tax return on May 31, 2021. At this time, the return shows that her actual net tax owing was $9,800. Assuming that the interest rate applicable to late payment of taxes is one-half percent per month without daily compounding, how much will she owe in penalties and interest on the late filing?
A) $ 49.
B) $490.
C) $588.
D) $637.
E) Nil.
Answer: E
Explanation: E) Nil. The late filing penalty amounts to 5 percent of the tax that was unpaid at the filing due date. Since Ms. Deveco has paid more than her net tax owing by April 30, 2021, there are no penalties or interest.
Topic: Individual Filing Requirements

8) Mr. Finlay, a retired individual whose only source of income was pension receipts, dies on August 15, 2020. By what date must Mr. Finlay's final tax return be filed?
A) April 30, 2021.
B) February 28, 2021.
C) February 15, 2021.
D) December 31, 2020.
E) None of the above.
Answer: A
Explanation: A) The final tax return of individuals who die between January 1 and October 31 must be filed no later than April 30 of the following year. The 6-month filing extension provided by ITA 150(1)(b) only applies where an individual dies between November 1 of the year and April 30 of the following year.
Topic: Individual Filing Requirements

9) Ms. Ali, a self-employed music teacher with business income, dies on November 15, 2020. What is the latest filing date for her 2020 income tax return?
A) April 30, 2021.
B) May 15, 2021.
C) May 30, 2021.
D) June 15, 2021.
Answer: D
Explanation: D) June 15, 2021.
Topic: Individual Filing Requirements

10) Mr. Khan, a self-employed construction contractor, dies on April 1, 2020. What is the latest filing date for his final tax return?
A) April 30, 2021.
B) June 15, 2021.
C) October 1, 2021.
D) December 31, 2021.
Answer: B
Explanation: B) June 15, 2021, his regular filing date for his 2020 tax return.
Topic: Individual Filing Requirements

11) Ms. Loren dies on February 1, 2021. All of her income is from employment activities and she does not have a spouse or common-law partner. What is the latest date for filing her 2020 income tax return?
A) April 30, 2021.
B) June 15, 2021.
C) August 1, 2021.
D) June 30, 2021.
Answer: C
Explanation: C) August 1, 2021.
Topic: Individual Filing Requirements

12) Greta died on September 10, 2020. She has never reported any business income. By what date must her final tax return be filed?
A) April 30, 2021.
B) April 30, 2022.
C) March 10, 2021.
D) June 15, 2021.
Answer: A
Explanation: A) April 30, 2021
Topic: Individual Filing Requirements

13) Which of the following individuals did **NOT** have to pay instalments in 2020?
A) Jane Austen, who had business income of $50,000 in both 2018 and 2020 and a $1,000 business loss in 2019.
B) Charlotte Bronte, who realized capital gains of $3,500 in 2019 and $4,000 in 2020. Her only other income during the years 2018 through 2020 was $5,000 in employment income.
C) George Eliot, who had rental income of $50,000 in the years 2018 through 2020 and a net allowable capital loss of $50,000 in 2019.
D) Emily Bronte, who received spousal support payments of $20,000 per year in each of the years 2018 through 2020.
Answer: B
Explanation: B) Charlotte Bronte, who realized capital gains of $3,500 in 2019 and $4,000 in 2020. With her only other income during the years 2018 through 2020 being $5,000 in employment income, the net tax owing on the taxable one-half of the capital gains plus the employment income would be less than $3,000.
A. is not correct. Although there is a requirement to pay instalments, the minimum instalment would be nil because the prior year's net tax owing was nil.
Topic: Individual Instalments

14) Ms. Marston has net tax owing for 2018 of $4,500, net tax owing for 2019 of $8,000, and estimated net tax owing for 2020 of $7,500. If she wishes to pay the minimum total amount of instalments for the 2020 taxation year, her first payment on March 15 will be for what amount?
A) Nil.
B) $1,125.
C) $1,875.
D) $2,000.
Answer: C
Explanation: C) $1,875 ($7,500 ÷ 4).
Topic: Individual Instalments

15) Jason Marks has to pay his tax by instalments as a result of his significant investment income. His net tax owing in 2018 was $13,600. In 2019, it was $15,000. His estimate for 2020 is $17,000. If he decides to pay his 2020 tax instalments according to the prior year option, how much should he pay on September 15, 2020?
A) $3,400.
B) $3,750.
C) $4,250.
D) $6,500.
Answer: B
Explanation: B) $3,750 ($15,000 ÷ 4).
Topic: Individual Instalments

16) All of the following people will have to pay tax by instalments this year, except:
A) Jane White, who received a one-time bonus of $60,000 last year and, because her employer had not deducted enough tax, found herself with net tax owing of $8,200.
B) Karen Phillips, who has started to earn investment income, which resulted in net tax owing of $3,100 last year. Her investment income is expected to be even greater this year.
C) Blake Fortin, who established a sole proprietorship two years ago. Blake had a very successful first year and, as result, he had net tax owing that year of $85,000. Business dropped in his second year, resulting in net tax owing of only $1,500. This year, business has picked up again and he expects to have net tax owing of $53,000.
D) Terri Jones, who has had net taxable capital gains on real estate in excess of $40,000 in each of the last two years, and who expects to have similar gains this year.
Answer: A
Explanation: A) Jane White, who received a one-time bonus of $60,000 last year and, because her employer had not deducted enough tax, found herself with net tax owing of $8,200.
Topic: Individual Instalments

17) Larry Short has self-employment income of $62,000 in 2020. Prior to this year, he was employed full-time and his employer's withholdings more than covered his tax liability for the year. Larry estimates that, based on his self-employment income, his net tax owing for 2020 will be $8,000. Which of the following statements is true?
A) Larry must file his return for 2020 by April 30, 2021.
B) Larry should pay instalments in 2020.
C) Larry must pay his income tax for 2020 by June 15, 2021.
D) If Larry has as much income in 2021 as he had in 2020, he will have to pay instalments during 2021.
Answer: D
Explanation: D) If Larry has as much income in 2021 as he had in 2020, he will have to pay instalments during 2021.
Topic: Individual Instalments

18) Individuals are required to pay instalments:
A) when net tax owing is over $3,000 for any one of the past two years.
B) when net tax owing is over $3,000 for the current year and both of the two prior years.
C) when net tax owing is over $3,000 for the current year and one of the two prior years.
D) when net tax owing is over $3,000 for the current year only.
Answer: C
Explanation: C) When net tax owing is over $3,000 for the current year and one of the two prior years.
Topic: Individual Instalments

19) One way to ensure that no interest will be assessed for late instalments is:
A) to pay the amounts provided by the CRA in their instalment reminder on or before the required dates.
B) to pay the lowest amount calculated using the three alternative calculations on or before the required dates.
C) to pay the estimated tax owing for the current year on the first instalment due date.
D) to pay the average of the three amounts calculated using the three alternative calculations on or before the required dates.
Answer: A
Explanation: A) To pay the amounts provided by the CRA in their instalment reminder on or before the required dates. B is wrong as the estimate for the current year may be too low.
Topic: Individual Instalments

20) Dora Chen has determined that her minimum tax instalments for 2020 are $8,000 per quarter. She also owes $30,000 on her credit card, which carries an interest rate of 20%. She has destroyed her credit card, so no more can be put on it. Dora is unable to pay both the entire instalment amounts and her credit card balance, but she does have $8,000 in cash each quarter for her debts. Which of the following would be the best choice for Dora from a financial planning perspective?
A) Dora should pay off her credit card balance before making instalment payments.
B) Dora must make all her instalment payments, even if it means she cannot pay anything off on her credit card this year.
C) Dora should split her payments equally between the credit card balance and the instalment liability, in order to show the CRA that she is trying her best to meet her obligations to them.
D) Dora should pay her first two instalments and then make payments on her credit card balance.
Answer: A
Explanation: A) Dora should pay off her credit card balance before making instalment payments.
Topic: Interest and Penalties

21) Lang Lang Ltd., a CCPC eligible for the small business deduction, has a March 31 year end. Due to the death of the owner/manager, the tax return for the year ended March 31, 2019 was not filed until May 12, 2021. The unpaid tax on March 31, 2019 was $15,500. Lang Lang Ltd. has never filed a return late before. What is the total late file penalty that the corporation is required to pay? (Do not include any interest payable.)
A) $775.
B) $2,635.
C) $1,860.
D) $3,720.
Answer: B
Explanation: B) The penalty for a first offence is 5% + 1% per full month late to a maximum of 12 months. Since the return was more than 19 months late, the maximum penalty is 17% of $15,500 = $2,635.
A = (5%)($15,500) = $775
C = (12%)($15,500) = $1,860
D = (24%($15,500) = $3,720
Topic: Interest and Penalties

22) Which of the following scenarios will result in a penalty being charged by the CRA?
A) A taxpayer pays less than the required amount of instalments.
B) A taxpayer who is owed a refund files their tax return late.
C) A taxpayer who has a balance owing files their tax return late, with the payment enclosed.
D) A taxpayer who has a balance owing files their tax return on time, but does not include a payment.
Answer: C
Explanation: C) A taxpayer who has a balance owing files their tax return late, with the payment enclosed.
Topic: Interest and Penalties

23) Which of the following statements with respect to corporations is **NOT** correct?
A) Corporate income tax returns must be filed within 6 months of the end of the taxation year.
B) All corporations must file their income tax returns electronically.
C) If the corporation is a CCPC, the due date for any balance owing is three months after the end of the taxation year.
D) If a corporation has foreign operations, it can determine its Canadian tax liabilities on the basis of financial statements prepared in the corporation's functional currency.
Answer: B
Explanation: B) All corporations must file their income tax returns electronically. If their gross revenues are less than $1,000,000, they can file a paper return.
Topic: Corporate Filing Requirements

24) For corporations, the filing deadline for tax returns is:
A) April 30.
B) the fiscal year end.
C) three months after the fiscal year end.
D) three months after the fiscal year end if the small business deduction is claimed, otherwise two months after the fiscal year end.
E) six months after the fiscal year end.
Answer: E
Explanation: E) Six months after the fiscal year end.
Topic: Corporate Filing Requirements

25) PS Swim Inc. has a year end of November 30. It is a small CCPC. For its 2020 taxation year, its income tax return is due on:
A) January 31, 2021.
B) February 28, 2021.
C) April 30, 2021.
D) May 31, 2021.
E) None of the above.
Answer: D
Explanation: D) The return would be due on May 31, 2021, six months after the taxation year end.
Topic: Corporate Filing Requirements

26) For its 2020 taxation year, its first year of operation, PS Swim Inc. filed its return three months late. The unpaid tax at the due date for the return was $2,500. This amount was not paid until the return was filed. What would its penalty be?
A) Nil.
B) $75.
C) $125.
D) $200.
E) $500.
Answer: D
Explanation: D) The penalty would be 5 percent of the tax unpaid at the date the return was due to be filed, plus 1 percent per month for three months, a total of 8 percent. This amounts to $200 [(8%)($2,500)].
Topic: Corporate Filing Requirements

27) The balance due date for a corporation is:
A) April 30 of the following year.
B) the same as the filing deadline.
C) three months after the end of the fiscal year, or two months after the end of the fiscal year if the corporation is a small CCPC.
D) two months after the end of the fiscal year, or three months after the end of the fiscal year if the corporation is a small CCPC.
Answer: D
Explanation: D) Two months after the end of the fiscal year, or three months after the end of the fiscal year if the corporation is a small CCPC.
Topic: Corporate Filing Requirements

28) A Canadian public company has Tax Payable of $62,000 in 2018, $95,000 in 2019, and $75,000 in 2020. The company would like to minimize its 2020 instalments. What would its instalments be?
A) One monthly payment of $5,167 per month, followed by eleven monthly payments of $8,167 per month.
B) Twelve payments of $5,167 per month.
C) Twelve payments of $6,250 per month.
D) Two monthly payments of $5,167 per month, followed by ten monthly payments of $8,467 per month.
Answer: C
Explanation: C) Twelve payments of $6,250 per month.
Topic: Corporate Instalments

29) PP Ltd., a client of your firm, has a November 30 year end and has requested you to advise them on what its monthly instalments for the 2020 tax year will be. Its taxes payable for its November 30, 2018 and November 30, 2019 years were $13,800 and $13,200, respectively. Its estimated taxes payable for the November 30, 2020 year are $14,400. PP Ltd. wants to pay the lowest amount possible, without incurring interest penalties. What would its instalments be?
A) Twelve payments at $1,200 per month.
B) Twelve payments at $1,100 per month.
C) Twelve payments at $1,150 per month.
D) Two monthly payments at $1,200 each, followed by ten monthly payments at $1,140 each.
E) None of the above.
Answer: B
Explanation: B) Its preceding year's taxes payable of $13,200, divided by twelve months.
Topic: Corporate Instalments

30) A Canadian public corporation had federal taxes payable in 2018 and 2019 exceeding $3,000. One correct option it has with respect to its 2020 instalments is to pay:
A) equal instalments, on a quarterly basis, based on its 2019 federal taxes payable.
B) on a monthly basis, instalments equal to 1/12th of its estimated 2020 federal taxes payable.
C) one lump-sum payment, within three months of its 2020 year end.
D) on a monthly basis, instalments equal to 1/12th of its 2018 federal taxes payable.
Answer: B
Explanation: B) The only correct approach listed is to pay monthly instalments equal to 1/12th of the current year's estimated tax liability.
Topic: Corporate Instalments

31) If a Canadian public corporation is experiencing a year-to-year decrease in taxes payable, the most advantageous calculation of instalments that would be allowed is:
A) monthly, based on the estimated tax for the current year.
B) quarterly, based on the estimated tax for the current year.
C) monthly, based on the estimated tax for the immediately preceding year.
D) quarterly, based on the estimated tax for the immediately preceding year.
E) monthly, based on the estimated tax for the second preceding year and the immediately preceding year.
F) quarterly, based on the estimated tax for the second preceding year and the immediately preceding year.
Answer: A
Explanation: A) Monthly, based on the estimated tax for the current year.
Topic: Corporate Instalments

32) Which of the following is **NOT** one of the criteria for a CCPC to be considered a small CCPC eligible to pay instalments on a quarterly basis?
A) Taxable income cannot exceed $500,000 for the corporation and its associated corporations for the current taxation year and the two previous years.
B) The corporation has claimed the small business deduction in the current or previous year.
C) The corporation has a perfect compliance record during the last 12 months.
D) The corporation and its associated corporations do not have Taxable Capital Employed in Canada that exceeds $10 million for the current or previous year.
Answer: A
Explanation: A) Taxable income cannot exceed $500,000 for the corporation and its associated corporations for the current taxation year and the two previous years.
Topic: Corporate Instalments

33) Dora Burch files her 2020 income tax return on March 2, 2021. She receives a nil assessment on June 3, 2021. However, on December 28, 2021, she receives a reassessment indicating that she owes a substantial amount of additional tax. She would like to object to this reassessment. What is the latest date for her to file a notice of objection? (Ignore the effect of leap year if applicable.)
A) March 2, 2022.
B) April 30, 2022.
C) March 28, 2022.
D) December 28, 2022.
Answer: B
Explanation: B) April 30, 2022.
Topic: Assessments And Appeals

34) Which of the following statements is **NOT** correct?
A) When the person filing the return has made any misrepresentation due to neglect, carelessness or wilful default, the normal reassessment period can be extended beyond 3 years.
B) A taxpayer can choose to file a waiver to extend the 3 year time limit.
C) When a return has been reassessed once, no further reassessments are permitted.
D) Reassessment can occur outside the normal reassessment period when reassessment within the normal period affects a balance outside of the normal period.
Answer: C
Explanation: C) When a return has been reassessed once, no further reassessments are permitted.
Topic: Assessments And Appeals

35) Which of the following is **NOT** one of the criteria that must be met before an adjustment to a previous year tax return is permitted?
A) The CRA must be satisfied that the previous assessment was incorrect.
B) The change is based on a successful appeal to the courts by another taxpayer.
C) The taxpayer's return was filed within 3 years of the end of the year to which it relates.
D) The reassessment must be made within the normal assessment period, or under certain permitted extensions to this period.
Answer: B
Explanation: B) The change is based on a successful appeal to the courts by another taxpayer.
Topic: Assessments And Appeals

36) Tom Arnold filed his 2020 tax return on March 1, 2021. The CRA mailed a notice of assessment to Tom dated May 15, 2021, and Tom received it on May 30, 2021. If Tom disagrees with the notice of assessment, what is the latest date he has to file a notice of objection?
A) 90 days from March 1, 2021.
B) 90 days from April 30, 2021.
C) 90 days from May 15, 2021.
D) 90 days from May 30, 2021.
E) None of the above.
Answer: E
Explanation: E) For individuals, the notice of objection must be filed before the later of: 90 days from the date of the notice of assessment or reassessment, and one year from the filing due date for the return under assessment or reassessment.
Topic: Assessments And Appeals

37) Minnie Belanger is retired. She filed her 2020 tax return on March 5, 2021. She received a portion of the tax refund claimed and an assessment notice, dated April 19, 2021, which set out the difference between the amount claimed and the amount of the refund. As Minnie disagrees with the notice of assessment, she wishes to file a notice of objection. What is the latest date she has to file a notice of objection?
A) March 5, 2022.
B) April 19, 2022.
C) April 30, 2022.
D) July 18, 2021.
E) June 15, 2022.
Answer: C
Explanation: C) Her notice of objection must be filed before the later of: 90 days from the date of the notice of assessment (July 18, 2021), and one year from the filing due date for the return (April 30, 2022).
Topic: Assessments And Appeals

38) For a public corporation, which of the following statements is correct with respect to filing a notice of objection?
A) It must be filed no later than 180 days from the date on the notice of assessment.
B) It must be filed the later of 90 days after the date on the notice of assessment and one year from the filing date for the return under assessment.
C) It must be filed the later of 180 days after the date on the notice of assessment and one year from the filing date for the return under assessment.
D) It must be filed no later than 90 days after the date on the notice of assessment.
Answer: D
Explanation: D) It must be filed no later than 90 days after the date of the notice of assessment.
Topic: Assessments And Appeals

39) Marc Mayer filed his 2020 personal tax return on March 1, 2021. Neither he nor his spouse has business income in any year. The CRA mailed a Notice of Assessment to Marc dated May 5, 2021 and Marc received it on May 14, 2021. If Marc disagrees with the Notice of Assessment, he has until which one of the following dates to file a Notice of Objection?
A) August 3, 2021.
B) August 12, 2021.
C) March 1, 2022.
D) April 30, 2022.
Answer: D
Explanation: D) April 30, 2022.
Topic: Assessments And Appeals

Exam Exercises

1) Mark Brown's 2020 Net Income includes business income. When is his 2020 tax return due? By what date must his 2020 tax liability be paid in order to avoid the assessment of interest on amounts due?
Answer: While Mr. Brown's 2020 tax return does not have to be filed until June 15, 2021, his tax liability must be paid by April 30, 2021 in order to avoid the assessment of interest.
Topic: Individual Due Dates

2) Ms. Jeanine Farrel has 2020 Net Income which includes business income. When is her 2020 tax return due? In addition, indicate when any remaining tax liability must be paid in order to avoid having interest assessed on the amount due.
Answer: While Ms. Farrel's 2020 tax return does not have to be filed until June 15, 2021, her tax liability must be paid by April 30, 2021 in order to avoid the assessment of interest.
Topic: Individual Due Dates

3) George Klause dies on March 1, 2021. All of his income during 2020 was earned through his unincorporated accounting practice. By what date must his representatives file his 2020 income tax return? Explain your answer.
Answer: Mr. Klause's 2020 tax return must be filed by the later of six months after the date of his death and his normal filing date. Given that his income is from an unincorporated business, his normal filing date for the 2020 return would be June 15, 2021. However, the later date is September 1, 2021, six months after the date of his death.
Topic: Deceased Taxpayer Due Date

4) Gloria Klump dies on December 1, 2020. Much of her 2020 income resulted from an unincorporated business which she operated. By what date must her representatives file her 2020 income tax return? Explain your answer.
Answer: Ms. Klump's 2020 tax return must be filed by the later of six months after the date of her death and her normal filing date. Six months after her death would be June 1, 2021. However, because she has income from an incorporated business, her normal filing date would be June 15, 2021. Given this, the later date is June 15, 2021.
Topic: Deceased Taxpayer Due Date

5) At the beginning of 2020, the following information relates to Sarah Elmsley:

Year	**Net Tax Owing**
2018	$1,800
2019	6,400
2020 (Estimated)	3,600

Indicate whether Ms. Elmsley is required to make instalment payments during 2020. Explain your conclusion and, if your answer is positive, indicate the minimum instalments that will be required and when they are due.
Answer: As the net tax owing for the current year and one of the two preceding years exceeds $3,000, she is required to make instalment payments. The best alternative for instalment payments would be to use the current year estimate. This would result in required instalment payments of $900 ($3,600 ÷ 4) to be paid on March 15, June 15, September 15, and December 15. Note, however, that if the estimated taxes payable are below actual taxes payable for 2020, instalment interest may be charged.
Topic: Individual Instalments

6) Horace Greesom filed his 2019 return on time. At the beginning of 2020, the following information relates to Mr. Greesom:

Year	Taxes Payable	Amounts Withheld
2018	$56,000	$45,000
2019	49,000	46,200
2020 (Estimated)	65,000	45,000

What amounts will be shown on the Instalment Reminder notices for 2020 and when will the amounts be due? Should he pay those amounts? Explain your conclusion.

Answer: The net tax owing amounts can be calculated as follows:

2018 $11,000 ($56,000 - $45,000)
2019 $2,800 ($49,000 - $46,200)
2020 $20,000 ($65,000 - $45,000)

As the net tax owing exceeds $3,000 in the current year and the second preceding year, instalments are required. The Instalment Reminder will have March 15 and June 15 instalments of $2,750 each ($11,000 ÷ 4). There would be no further instalments required for 2020 as his net tax owing for 2019 is only $2,800 and he would already have paid $5,500 [(2)($2,750)].

The best alternative for instalment payments would be to use the prior year option. This would result in required instalment payments of $700 ($2,800 ÷ 4) to be paid on March 15, June 15, September 15, and December 15.

Topic: Individual Instalments

7) At the beginning of 2020, the following information relates to Jerry Farrow:

Year	Taxes Payable	Amounts Withheld
2018	$83,000	$78,000
2019	76,000	77,200
2020 (Estimated)	63,000	59,000

Is Mr. Farrow required to make instalment payments during 2020? If he is required to make instalment payments, indicate the amounts that would be required under each of the three alternative methods of calculating instalments. Indicate which alternative would be preferable.
Answer: The net tax owing amounts can be calculated as follows:

2018	$5,000 ($83,000 - $78,000)
2019	Nil ($76,000 - $77,000). Note this is nil, not a negative amount.
2020	$4,000 ($63,000 - $59,000)

As the net tax owing exceeds $3,000 in the current year and the second preceding year, instalments are required. The three alternatives for calculating instalment payments are as follows:

• Based on the estimate for the current year, the instalments would be $1,000 ($4,000 ÷ 4).
• Based on the estimate for the preceding year, the instalments would be nil.
• Based on the second preceding year, the first two instalments would each be $1,250 ($5,000 ÷ 4). As the net tax owing for the previous year is nil, no further instalments would be required. The best alternative would be to base the payments on the previous year, resulting in instalments of nil.
Topic: Individual Instalments

8) Despite the fact that her net tax owing has been between $7,000 and $8,000 in the two previous years, and is expected to be a similar amount during 2020, Marsha Fields has made no instalment payments for 2020. While her normal filing date would be April 30, 2021, she does not file her 2020 return or pay the balance owing until August 24, 2021. Marsha has filed her return on time in all previous years. What penalties and interest will be assessed for the 2020 taxation year?
Answer: Given the size of her net tax owing , ITA 163.1 will not be applicable and there will be no penalties for late instalments. However, a penalty of 8 percent of taxes payable will be assessed for filing three complete months late (5 percent, plus 1 percent per month).

Interest will be assessed on the deficient instalments, the balance owing on her filing date, and the penalty assessed for late filing. It will be assessed at the prescribed base rate plus 4 percent for the period May 1 through August 24, 2021.
Topic: Penalties and Interest For Individuals

9) As his Taxable Income in 2019 was nil, Mark Felton did not make any instalment payments during 2020. In completing his return for 2020, he finds that he has tax payable of $22,500. While his normal filing date would be April 30, 2021, he does not file his return or pay the balance owing until September 12, 2021. What penalties and interest will be assessed for the 2020 taxation year?
Answer: A penalty of 9 percent of Tax Payable will be assessed for filing 4 complete months late (5 percent, plus 1 percent per month). There will be no interest on late instalments because, with the previous year's Tax Payable at nil, the required instalments were nil. This would also mean that the ITA 163.1 penalty could not apply.

Interest at the prescribed base rate plus 4 percent will be assessed on the balance owing on his filing date and the penalty assessed for late filing for the period May 1 through September 12, 2021.

If, in one of the three preceding taxation years he has also late filed, the penalty could be 18 percent (10 percent, plus 2 percent per month) if the CRA has already sent a request for the return.
Topic: Penalties and Interest For Individuals

10) Lemar Ltd. has a December 31 year end. It is not a small CCPC. For 2018, its taxes payable were $71,500, while for 2019, the amount was $93,600. For 2020, its estimated taxes payable are $114,700. What would be the minimum instalment payments for the 2020 taxation year and when would they be due? How would your answer differ if Lemar Ltd. qualified as a small CCPC?
Answer:
Not Small CCPC — The first two instalments would be based on the second preceding year and would be $5,958.33 each ($71,500 ÷ 12). The remaining 10 instalments would be based on the preceding year, less the $11,916.66 paid in the first two instalments. The amount would be $8,168.33 [($93,600 - $11,916.66) ÷ 10]. The instalments would be due on the last day of each month in 2020.

Small CCPC — In this case, the first instalment would be based on the second preceding year and would be $17,875 ($71,500 ÷ 4). The remaining 3 instalments would be based on the preceding year, less the $17,875 paid for the first instalment. The amount would be $25,241.67 [($93,600 - $17,875) ÷ 3]. The instalments would be due on the last days of March, June, September, and December, 2020.

Note that when the initial instalment(s) are based on the second preceding year, the total amount of instalments will be the same as when all of the instalments are based on the first preceding year. However, using the second preceding year is preferable in that it provides some deferral of taxes.
Topic: Corporate Instalments - Regular And Small CCPC

11) Chemco Inc. has a December 31 year end and is not a small CCPC. For 2018, its taxes payable were $146,300, while for 2019, the amount was $94,650. For 2020, its estimated taxes payable are $52,300. What would be the minimum instalment payments for the 2020 taxation year and when would they be due? How would your answer differ if Chemco Inc. qualified as a small CCPC?
Answer: **Not Small CCPC —** The minimum instalments would be based on the estimated taxes payable for 2020. The amount would be $4,358.33 ($52,300 ÷ 12). The instalments would be due on the last day of each month in 2020. Note that, if the estimate for 2020 is too low, interest will be assessed on the deficiency.

Small CCPC — In this case, all four instalments would be based on the estimated taxes payable for 2020. The amount would be $13,075 ($52,300 ÷ 4). The instalments would be due on the last days of March, June, September, and December, 2020.

Note that when the initial instalment(s) are based on the second preceding year, the total amount of instalments will be the same as when all of the instalments are based on the first preceding year. However, using the second preceding year is preferable in that it provides some deferral of taxes.
Topic: Corporate Instalments - Regular And Small CCPC

12) Dustin Inc. has a September 30 year end and is not a small CCPC. For its taxation year ending September 30, 2018, its tax payable was $33,500. The corresponding figure for the year ending September 30, 2019 was $93,400. It is estimated that, for the year ending September 30, 2020, its tax payable will be $56,200. What would be the minimum instalment payments for the taxation year that ends on September 30, 2020, and when would they be due? How would your answer differ if Dustin Inc. qualified as a small CCPC?
Answer: **Not Small CCPC —** Minimum instalments would be based on the estimate for the current year. The monthly amount would be $4,683.33 ($56,200 ÷ 12). If the second previous year was used, the first two installments would be lower. However, as the remaining instalments would be based on the previous year's $93,400, the total would be significantly larger. The instalments would be due on the last day of each month during the period October, 2019 through September, 2020. Note that, if the estimate for 2020 is too low, interest will be assessed on the deficiency.

Small CCPC — Minimum instalments would be based on the estimate for the current year. The monthly amount would be $14,050 ($56,200 ÷ 4). The instalments would be due on the last day of December, 2019, March, 2020, June, 2020, and September, 2020.
Topic: Corporate Instalments - Regular And Small CCPC

13) The taxation year end for Grange Inc. is March 31, 2020. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending March 31, 2019 of $165,000. Indicate the date on which the corporate tax return for the year ending March 31, 2020 must be filed, as well as the date on which any final payment of taxes is due.
Answer: Grange Inc.'s tax return is due six months after its year end, on September 30, 2020. As it is a CCPC that claims the small business deduction, and its Taxable Income for the preceding taxation year did not exceed $500,000, the final tax payment is due three months after the year end. This would be June 30, 2020.
Topic: Corporate Due Dates - CCPC

14) The taxation year end for Lawnco Inc. is January 31, 2020. Lawnco Inc. is a Canadian public company and does not qualify for the small business deduction. Indicate the date on which the corporate tax return must be filed, as well as the date on which any final payment of taxes is due.
Answer: Lawnco Inc.'s tax return is due six months after its year end, on July 31, 2020. As Lawnco is a public company that is not eligible for the small business deduction, the final tax payment is due two months after the year end, on March 31, 2020.
Topic: Corporate Due Dates

15) The taxation year end for Breyson Ltd. is June 30, 2020. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending June 30, 2019 of $132,000. Indicate the date on which the corporate tax return for the year ending June 30, 2020 must be filed, as well as the date on which any final payment of taxes is due.
Answer: Breyson's tax return is due six months after its year end of June 30, 2020. This would be December 31, 2020. As it is a CCPC that claims the small business deduction, and its Taxable Income for the preceding taxation year did not exceed $500,000, its final tax payment is due three months after the year end on September 30, 2020.
Topic: Corporate Due Dates - CCPC

16) Nancy Forth filed her 2020 tax return as was required on April 30, 2021. Her Notice of Assessment dated May 15, 2021 indicated that her return was accepted as filed. On July 12, 2022, she receives a Notice of Reassessment dated July 2, 2022 indicating that she owes additional taxes, as well as interest on the unpaid amounts. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.
Answer: A notice of objection must be filed by the later of:

- 90 days after the date on the Notice of Reassessment (September 30, 2022); or
- one year after the due date for filing the return that is being reassessed (April 30, 2022).

The later of these two dates is September 30, 2022.
Topic: Notice of Objection

17) Norman Foster filed his 2020 tax return as was required on June 15, 2021. His Notice of Assessment dated August 28, 2021, indicated that his return was accepted as filed. On March 15, 2022, he receives a Notice of Reassessment dated March 8, 2022 indicating that he owes additional taxes, as well as interest on unpaid amounts. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.
Answer: A notice of objection must be filed by the later of:

- 90 days after the date on the Notice of Reassessment (June 6, 2022); or
- one year after the due date for filing the return that is being reassessed (June 15, 2022).

The later of these two dates is June 15, 2022.
Topic: Notice of Objection

Key Term Matching - Easy

For each of the key terms listed, indicate the BEST definition of that term, or that none of the definitions apply.

A) A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.
B) A formal determination of taxes to be paid or refunded.
C) The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.
D) Amounts withheld by an employer from the income of employees. The withholdings for income taxes, Canada Pension Plan contributions, and Employment Insurance premiums must be remitted to the government.
E) Deliberately ignoring a specific part of the law or willfully refusing to comply with legislated reporting requirements.
F) An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.
G) An interest rate which changes quarterly and is based on the average interest rate paid on 90 day Treasury Bills during the first month of the preceding quarter.
H) A form that the CRA sends to all taxpayers after they process their returns which describes any changes made to the returns and states the amount of their additional tax payable or their refund.
I) This ITA 245 provision attempts, in a very generalized manner, to limit the ability of taxpayers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.
J) None of the definitions apply. (This answer can be used more than once.)
K) An electronic filing system that requires the use of an approved software program.

1) Instalment Threshold

2) Net Tax Owing

3) NETFILE

4) Notice Of Assessment

5) Prescribed Rate

6) Source Deductions

7) Tax Avoidance

8) Tax Evasion

Answers: 1) F 2) A 3) K 4) H 5) G 6) D 7) C 8) E

Key Term Matching - Moderate

For each of the key terms listed, indicate the BEST definition of that term, or that none of the definitions apply.

A) An amount of total tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.
B) An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.
C) Amounts withheld by an employer from the income of employees. The withholdings for income taxes, Canada Pension Plan contributions, and Employment Insurance premiums must be remitted to the government.
D) None of the definitions apply. (This answer can be used more than once.)
E) A formal determination of taxes to be paid or refunded.
F) An interest rate which changes quarterly and is based on the average interest rate paid on 90 day Treasury Bills during the first month of the preceding quarter.
G) An electronic system for filing individual tax returns. While the system can be used by anyone, the return must be transmitted by a registered EFILE service provider using approved software.
H) Amounts withheld by an employer from the income of employees. The amounts withheld are based on the expected income tax liability of the employee for the current year.
I) A form that the CRA sends to all taxpayers after they process their returns which describes any changes made to the returns and states the amount of their additional tax payable or their refund.
J) This ITA 245 provision attempts, in a very generalized manner, to limit the ability of taxpayers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.
K) A term used to describe the sum of the total federal and provincial taxes owing for the year.
L) A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.
M) An electronic filing system that requires the use of an approved software program.
N) Deliberately ignoring a specific part of the law or willfully refusing to comply with legislated reporting requirements.
O) The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.

1) Instalment Threshold

2) Net Tax Owing

3) NETFILE

4) Notice Of Assessment

5) Prescribed Rate

6) Source Deductions

7) Tax Avoidance

8) Tax Evasion
Answers: 1) B 2) L 3) M 4) I 5) F 6) C 7) O 8) N

Problems

1) In the three independent cases which follow, assume that Barry Levenor's combined federal and provincial Tax Payable is as follows:

2018	$14,256
2019	15,776
2020 (Estimated)	16,483

The amount Barry's employer withholds for the three independent cases is as follows:

Case 1 - $11,800 in 2018, $14,150 in 2019, and $12,400 (estimated) in 2020.
Case 2 - $14,920 in 2018, $11,400 in 2019, and $13,226 (estimated) in 2020.
Case 3 - $11,220 in 2018, $13,275 in 2019, and $12,873 (estimated) in 2020.

Required:

A. For each of the three cases:

• indicate whether instalments are required for the 2020 taxation year;

• in those Cases where instalments are required, calculate the amount of the instalments that would be required under each of the three acceptable methods; and

• in those cases where instalments are required, indicate which of the three acceptable methods would be the best alternative.

B. For those Cases where instalments are required, indicate the dates on which the payments will be due.

Answer:

Part A - Case 1

Barry's net tax owing in each of the three years is as follows:

2018 = $2,456 ($14,256 - $11,800)
2019 = $1,626 ($15,776 - $14,150)
2020 = $4,083 ($16,483 - $12,400) Estimated

While the net tax owning in the current year is expected to exceed $3,000, it did not exceed $3,000 in either of the two previous years. The payment of instalments is not required.

Part A - Case 2

Barry's net tax owing in each of the three years is as follows:

2018 = Nil ($14,256 - $14,920) Note that a negative number is not used here.
2019 = $4,376 ($15,776 - $11,400)
2020 = $3,257 ($16,483 - $13,226) Estimated

As his net tax owing is expected to exceed $3,000 in 2020 and was more than $3,000 in 2019, the payment of instalments is required.

Instalments under the three acceptable alternatives would be as follows:
Alternative 1 - Using the estimated net tax owing for the current year would result in quarterly instalments of $814.25 ($3,257 ÷ 4), for a total amount of $3,257.
Alternative 2 - Using the net tax owing for the previous year would result in quarterly instalments of $1,094 ($4,376 ÷ 4), for a total amount of $4,376.
Alternative 3 - Using the net tax owing for the second previous year would result in the first two instalments being nil. The remaining two instalments would be $2,188 ($4,376 ÷ 2), a total of $4,376.

The best choice would be Alternative 1. While the first two instalments are lower under Alternative 3, the total for the year under Alternative 3 is $1,119 ($4,376 - $3,257) higher.

Part A - Case 3

Barry's net tax owing in each of the three years is as follows:

2018 = $3,036 ($14,256 - $11,220)
2019 = $2,501 ($15,776 - $13,275)
2020 = $3,610 ($16,483 - $12,873) Estimated

As his net tax owing is expected to exceed $3,000 in 2020 and was more than $3,000 in 2018, the payment of instalments is required.

Instalments under the three acceptable alternatives would be as follows:
Alternative 1 - Using the estimated net tax owing for the current year would result in quarterly instalments of $902.50 ($3,610 ÷ 4), for a total amount of $3,610.
Alternative 2 - Using the net tax owing for the previous year would result in quarterly instalments of $625.25 ($2,501 ÷ 4), for a total amount of $2,501.
Alternative 3 - Using the net tax owing for the second previous year would result in the first two instalments being $759 ($3,036 ÷ 4) each, a total of $1,518. The remaining two instalments would be $491.5 [($2,501 - $1,518) ÷ 2], a total of $983. When combined with the first two instalments, the total for the year would be $2,501 ($1,518 + $983).

The best choice would be Alternative 2. While the total for the year under Alternative 3 is the same, the first two instalments are lower under Alternative 2, allowing for a small amount of tax deferral.

Part B

In Case Two and Case Three, the required instalments would be due on March 15, June 15, September 15, and December 15, 2020.
Topic: Individual Tax Instalments

Problems

1) For 2018, Mr. Mason Boardman has combined federal and provincial Tax Payable of $62,350. For this year, his employer withheld $61,600.

For 2019, his combined federal and provincial Tax Payable is $29,760. For this year, his employer withheld $13,740.

For 2020, he anticipates having combined federal and provincial Tax Payable of $52,370. He expects that his employer will withhold $47,390.

In January, 2020, you are asked to provide tax advice to Mr. Boardman. He has asked you whether it will be necessary for him to pay instalments in 2020 and, if so, what the minimum amounts that should be paid are, along with the dates on which these amounts are due.

Required: Provide the information requested by Mr. Boardman. Show all your calculations.
Answer:
Need For Instalments
Instalments are required when an individual's "net tax owing" exceeds $3,000 in the current year and in either of the two preceding years. In somewhat simplified terms, "net tax owing" is defined as the combined federal and provincial taxes payable, less amounts withheld under ITA 153. Mr. Boardman's net tax owing figures are as follows:

2018 = $750 ($62,350 - $61,600)
2019 = $16,020 ($29,760 - $13,740)
2020 = $4,980 ($52,370 - $47,390) Estimated

As Mr. Boardman's net tax owing in 2020 (the current year) and his net tax owing in 2019 (one of the two preceding years) is greater than $3,000, he is required to make instalment payments.

Amounts
If Mr. Boardman bases the first two quarterly payments on the 2018 net tax owing , they would only be $187.50 each ($750 ÷ 4). However, the payments for the last two quarters would be $7,822.50 each {[$16,020 - (2)($187.50)] ÷ 2}, resulting in total instalment payments of $16,020.

A preferable alternative would be to base the payments on the estimated net tax owing for 2020. These payments would be $1,245 each ($4,980 ÷ 4), for a total of $4,980.

Payment Dates
The quarterly payments would be due on March 15, June 15, September 15, and December 15 of 2020.
Topic: Individual Tax Instalments

Problems

1) For the three years ending December 31, 2018 through December 31, 2020, a corporation's combined federal and provincial Tax Payable is as follows:

2018 = $153,640
2019 = $186,540
2020 = $172,340 (Estimated)

Case One
The taxpayer is a small CCPC.

Case Two
The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2019 were $163,420, instead of the $186,540 given in the problem.

Case Three
The taxpayer is a publicly traded corporation.

Case Four
The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2019 were $163,420, instead of the $186,540 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:
1. Indicate whether instalments are required during 2020. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments.

Answer:
Case One
1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation is a small CCPC, instalments will be quarterly.

2. The three acceptable alternatives would be as follows:
- Quarterly instalments of $43,085 ($172,340 ÷ 4) based on the current year estimate.
- Quarterly instalments of $46,635 ($186,540 ÷ 4) based on the first preceding year.
- One instalment of $38,410 ($153,640 ÷ 4) based on the second preceding year, followed by three instalments of $49,376.67 [($186,540 - $38,410) ÷ 3], a total of $186,540.

3. The best alternative in terms of minimum instalments would be four instalments of $43,085, for total payments of $172,340. The instalments are due on March 31, June 30, September 30, and December 31, 2020.

Case Two
1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation is a small CCPC, instalments will be quarterly.

2. The three acceptable alternatives would be as follows:
- Quarterly instalments of $43,085 ($172,340 ÷ 4) based on the current year estimate.
- Quarterly instalments of $40,855 ($163,420 ÷ 4) based on the first preceding year.
- One instalment of $38,410 ($153,640 ÷ 4) based on the second preceding year, followed by three instalments of $41,670 [($163,420 - $38,410) ÷ 3], a total of $163,420.

3. The best alternative would be one payment of $38,410, followed by three payments of $41,670. While the total instalments are the same $163,420 in both the second and third alternatives, the third alternative is preferable because the first payment is lower. This provides a small amount of tax deferral.

The instalments are due on March 31, June 30, September 30, and December 31, 2020.

Case Three
1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation is not a small CCPC, monthly instalments are required.
2. The three acceptable alternatives would be as follows:
- Monthly instalments of $14,361.67 ($172,340 ÷ 12) based on the current year estimate.
- Monthly instalments of $15,545 ($186,540 ÷ 12) based on the first preceding year.
- Two monthly instalments of $12,803.33 ($153,640 ÷ 12) based on the second preceding year, followed by 10 monthly instalments of $16,093.33 {[($186,540 - (2)($12,803.33)] ÷ 10}, a total of $186,540.03.

3. The best alternative in terms of minimum instalments would be 12 instalments of $14,361.67, resulting in a total of $172,340 of instalment payments.

The instalments would be due on the last day of each month, beginning in January, 2020.

Case Four

1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation is not a small CCPC, monthly instalments are required.
2. The three acceptable alternatives would be as follows:
   - Monthly instalments of $14,361.67 ($172,340 ÷ 12) based on the current year estimate.
   - Monthly instalments of $13,618.33 ($163,420 ÷ 12) based on the first preceding year.
   - Two monthly instalments of $12,803.33 ($153,640 ÷ 12) based on the second preceding year,

followed by 10 monthly instalments of $13,781.33 {[$163,420 - (2)($12,803.33)] ÷ 10}, a total of $163,420.

3. The best alternative would be two payments of $12,803.33, followed by ten payments of $13,781.33. While the total instalments are the same $163,420 in both the second and third alternatives, the third alternative is preferable because the first two payments are lower. This provides a small amount of tax deferral.

The instalments would be due on the last day of each month, beginning in January, 2020.

Topic: Corporate Tax Instalments

Problems

1) For the three years ending December 31, 2020, Galina Skurnick's combined federal and provincial taxes payable are as follows:

2018	$28,800
2019	23,040
2020 (Estimated)	21,600

Assume Ms. Skurnick's employer withholds combined federal and provincial taxes for each year as follows:

Case One	$19,200 in 2018, $16,000 in 2019, and $16,000 in 2020.
Case Two	$11,200 in 2018, $24,000 in 2019, and $14,400 in 2020.
Case Three	$27,500 in 2018, $16,200 in 2019, and $18,200 in 2020.

Required: For each of the preceding independent Cases, calculate the minimum instalment payments that are required to be made towards the settlement of the taxes payable for the year ending December 31, 2020. Show all required calculations.

If instalments must be paid, your answer should include the date that each instalment is due.
Note that, in answering this question, you should state a conclusion on whether or not instalments are required, even if the amount of the instalments is nil.

Answer: While there are alternatives in all Cases, the following answers represent the "minimum" instalments, as required in the problem.

Case One
Ms. Skurnick's net tax owing in each of the three years is as follows:

2018 = $9,600 ($28,800 - $19,200)
2019 = $7,040 ($23,040 - $16,000)
2020 = $5,600 ($21,600 - $16,000) Estimated

As her net tax owing is expected to exceed $3,000 in 2020 and was more than $3,000 in both 2018 and 2019, the payment of instalments is required.
Alternative 1 - Using the estimated net tax owing for the current year would result in quarterly instalments of $1,400 ($5,600 ÷ 4) for a total of $5,600.
Alternative 2 - Using the net tax owing for the previous year would result in quarterly instalments of $1,760 ($7,040 ÷ 4), for a total amount of $7,040.
Alternative 3 - Using the net tax owing for the second previous year would result in a figure of $2,400 ($9,600 ÷ 4) for the first two instalments. The remaining two instalments would be $1,120 each {[$7,040 - (2)($2,400)] ÷ 2]. This would result in total instalments of $7,040.

The best choice would be Alternative 1 with total instalments of $5,600. They would be due on March 15, June 15, September 15, and December 15.

Case Two
Ms. Skurnick's net tax owing in each of the three years is as follows:

2018 = $17,600 ($28,800 - $11,200)
2019 = Nil ($23,040 - $24,000)
2020 = $7,200 ($21,600 - $14,400) Estimated

As her net tax owing is expected to exceed $3,000 in 2020 and was more than $3,000 in 2018, the payment of instalments is required.
Alternative 1 - Using the estimated net tax owing for the current year would result in quarterly instalments of $1,800 ($7,200 ÷ 4) for a total of $7,200.
Alternative 2 - Using the net tax owing for the previous year would result in quarterly instalments nil.
Alternative 3 - Using the net tax owing for the second previous year would result in a figure of $4,400 ($17,600 ÷ 4) for the first two instalments. As the first two instalments total more than the nil balance for 2019, no further instalments are required.

The best choice would be Alternative 2 with required instalments of nil.

Case Three
Ms. Skurnick's net tax owing in each of the three years is as follows:

2018 = $1,300 ($28,800 - $27,500)
2019 = $6,840 ($23,040 - $16,200)
2020 = $3,400 ($21,600 - $18,200) Estimated

As her net tax owing is expected to exceed $3,000 in 2020 and was more than $3,000 in 2019, the payment of instalments is required.

Instalments under the three acceptable alternatives would be as follows:
Alternative 1 - Using the estimated net tax owing for the current year would result in quarterly instalments of $850 ($3,400 ÷ 4) for a total of $3,400.
Alternative 2 - Using the net tax owing for the previous year would result in quarterly instalments of $1,710 ($6,840 ÷ 4), for a total amount of $6,840.
Alternative 3 - Using the net tax owing for the second previous year would result in a figure of $325 ($1,300 ÷ 4) for the first two instalments. The remaining two instalments would be $3,095 each {[$6,840 - (2)($325)] ÷ 2]. This would result in total instalments of $6,840.

The best choice would be Alternative 1. While the first two instalments are lower under Alternative 3, the total for the year under Alternative 3 is $3,340 ($6,840 - $3,400) higher.

They would be due on March 15, June 15, September 15, and December 15.
Topic: Individual Tax Instalments

Problems

1) For both tax and accounting purposes Ledux Inc. has a January 31 year end. Ledux is a publicly traded Canadian company.

For the year ending January 31, 2018, Ledux Inc. had federal Tax Payable of $193,420. During the following year ending January 31, 2019, the federal Tax Payable was $215,567. While final figures are not available at this time, it is estimated that federal Tax Payable for the year ending January 31, 2020 will be $203,345.

Required:
A. Calculate the instalment payments that are required for the year ending January 31, 2020 under each of the alternative methods available. Indicate which of the alternatives would be preferable.
B. If the Company did not make any instalment payments towards its 2020 taxes payable, and did not file its corporate tax return or pay its taxes payable on time, indicate how the interest and penalty amounts assessed against it would be determined (a detailed calculation is not required).
Answer:
Part A
Under ITA 157(1), Ledux Inc. would have three alternatives with respect to the calculation of its instalment payments. The alternatives and the relevant calculations are as follows:
Current Year Base — The instalment payments could be 1/12th of the estimated Tax Payable for the current year. In this case the resulting instalments would be $16,945.42 per month ($203,345 ÷ 12).
Preceding Year Base — The instalment payments could be 1/12th of the Tax Payable in the immediately preceding taxation year. The resulting instalments would be $17,963.92 ($215,567 ÷ 12).
Preceding And Second Preceding Years — The third alternative would be to base the first two instalments on 1/12th of the Tax Payable in the second preceding year and the remaining instalments on 1/10th of the Tax Payable in the preceding year, less the total amount paid in the first two instalments.

In this case, the first two instalments would be $16,118.33 ($193,420 ÷ 12) each, a total of $32,236.66. The remaining 10 instalments would be $18,333.03 [($215,567 - $32,236.66) ÷ 10] each. The total instalments under this approach would be $215,567.

While the third approach would provide the lowest payments for the first two instalments, the payments would total $215,567. As this is larger than the $203,345 total when the instalments are based on the current year's estimated Tax Payable, the use of the current year's Tax Payable approach would be the best alternative.

Part B

If the Company failed to make instalment payments towards the 2020 taxes payable, it would be liable for interest from the date each instalment should have been paid to the balance due date, March 31, 2020.

Assuming the actual 2020 taxes payable are $203,345, it would be the least of the amounts described in ITA 157(1), and interest would be calculated based on the current year instalment alternative. The rate charged would be the one prescribed in ITR 4301 for amounts owed to the Minister, the regular base rate plus 4 percentage points.

There is a penalty on large amounts of late or deficient instalments. This penalty is specified in ITA 163.1 and is equal to 50 percent of the amount by which the interest owing on the late or deficient instalments exceeds the greater of $1,000 and 25 percent of the interest that would be owing if no instalments were made. While detailed calculations are not required, we would note that this penalty would clearly be applicable in this case.

Interest on the entire balance of $203,345 of taxes payable would be charged beginning on the balance due date, March 31, 2020, two months after the end of the 2020 taxation year. The rate charged would be the one prescribed in ITR 4301 for amounts owed to the Minister, the regular base rate plus 4 percentage points.

There is also a penalty for late filing . If no return is filed by the filing due date of July 31, 2020, the penalty amounts to 5 percent of the tax that was unpaid at the filing date, plus 1 percent per complete month of the unpaid tax for a maximum period of 12 months. This penalty is in addition to any interest charged due to late payment of instalments or balance due. In addition, interest would also be charged on any penalties until such time as the return is filed or the instalments (balance due) paid.

The late file penalty could be doubled to 10 percent, plus 2 percent per month for a maximum of 20 months for a second offence within a three year period.
Topic: Instalments, Interest And Penalties For Corporations

Problems

1) For the three years ending December 31, 2020, Gloria Sloan had combined federal and provincial Tax Payable as follows:

2018	$23,600
2019	25,400
2020 (Estimated)	27,200

Using this information consider the following three independent cases.

Case One	Ms. Sloan's employer withholds $23,100 in 2018, $21,100 in 2019, and $23,300 in 2020.
Case Two	Ms. Sloan's employer withholds $24,100 in 2018, $18,600 in 2019, and $23,700 in 2020.
Case Three	Ms. Sloan's employer withholds $19,100 in 2018, $20,200 in 2019, and $24,300 in 2020.

Required:

A. For each of the three cases:

• indicate whether instalments are required for the 2020 taxation year. Show all of the calculations required to make this decision;

• in those cases where instalments are required, indicate the amount of the instalments that would be required under the approach used in the CRA's instalment reminder; and

• in those cases where you have calculated the instalments required under the CRA's instalment reminder, indicate whether you believe there is a better approach and calculate the required instalments under that approach.

B. For those Cases where instalments are required, indicate the dates on which the payments will be due.

Answer: While there are alternatives in all Cases, the following answers represent the "minimum" instalments, as required in the problem.

In all three Cases, the current year alternative is the best, but you should note that if the estimated net tax owing is lower than the actual net tax owing, she may be charged interest on the insufficient instalments if the interest totals more than $25.

Part A - Case One

Ms. Sloan's net tax owing in each of the three years is as follows:

2018 = $500 ($23,600 - $23,100)
2019 = $4,300 ($25,400 - $21,100)
2020 = $3,900 ($27,200 - $23,300) Estimated

As her net tax owing is expected to exceed $3,000 in 2020 and was more than $3,000 in 2019, the payment of instalments is required.

Under the CRA approach, the first two instalments would be $125 [($500 ÷ 4)] each, for a total of $250. The remaining two instalments would be $2,025 [($4,300 - $250) ÷ 2], for a total of $4,050. This would bring the total instalments for the year to $4,300 ($250 + $4,050). A better solution would be to base the instalments on the estimated 2020 results. Each instalment would be $975 ($3,900 ÷ 4). The resulting total of $3,900 would be less than the $4,300 total under the CRA approach.

Part A - Case Two

Ms. Sloan's net tax owing in each of the three years is as follows:

2018 = Nil ($23,600 - $24,100)
2019 = $6,800 ($25,400 - $18,600)
2020 = $3,500 ($27,200 - $23,700) Estimated

As her net tax owing is expected to exceed $3,000 in 2020 and was more than $3,000 in 2019, the payment of instalments is required.

Under the CRA approach, no payment would be required for the first two instalments. However, the remaining two instalments would be $3,400 each [($6,800 - Nil) ÷ 2], bringing the total for the year to $6,800. A better solution would be to base the instalments on the estimated 2020 results. Each instalment would be $875 ($3,500 ÷ 4). The resulting total of $3,500 would be less than the $6,800 total under the CRA approach.

Part A - Case Three

Ms. Sloan's net tax owing in each of the three years is as follows:

2018 = $4,500 ($23,600 - $19,100)
2019 = $5,200 ($25,400 - $20,200)
2020 = $2,900 ($27,200 - $24,300) Estimated

As her net tax owing is not expected to exceed $3,000 in 2020, the payment of instalments is not required.

Part B

In Case One and Case Two, the required instalments would be due on March 15, June 15, September 15, and December 15.

Topic: Individual Tax Instalments

Problems

1) For the taxation year ending December 31, 2018, a corporation's combined federal and provincial Tax Payable is $57,600. The corresponding figure for 2019 is $67,900. For the year ending December 31, 2020, it is estimated that combined federal and provincial Tax Payable will be $62,900.

Case One
The taxpayer is a publicly traded corporation.

Case Two
The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2019 were $61,400, instead of the $67,900 given in the problem.

Case Three
The taxpayer is a small CCPC.

Case Four
The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2019 were $61,400, instead of the $67,900 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:
1. Indicate whether instalments are required during 2020. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2020. If instalments must be paid, indicate the dates on which they are due.
Answer:
Case One
1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation is not a small CCPC, monthly instalments are required.
2. The three acceptable alternatives would be as follows:
   - Monthly instalments of $5,241.67 ($62,900 ÷ 12) based on the current year estimate.
   - Monthly instalments of $5,658.33 ($67,900 ÷ 12) based on the first preceding year.
   - Two monthly instalments of $4,800 ($57,600 ÷ 12) based on the second preceding year, followed by
10 monthly instalments of $5,830 {[($67,900 - (2)($4,800)] ÷ 10}, a total of $67,900.
3. The best alternative in terms of minimum instalments would be 12 instalments of $5,241.67, resulting in a total of $62,900 of instalment payments.

The instalments would be due on the last day of each month, beginning in January, 2020.

Case Two
1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation is not a small CCPC, monthly instalments are required.
2. The three acceptable alternatives would be as follows:
- Monthly instalments of $5,241.67 ($62,900 ÷ 12) based on the current year estimate.
- Monthly instalments of $5,116.67 ($61,400 ÷ 12) based on the first preceding year.
- Two monthly instalments of $4,800 ($57,600 ÷ 12) based on the second preceding year, followed by 10 monthly instalments of $5,180 {[($61,400 - (2)($4,800))] ÷ 10}, a total of $61,400.

3. The best alternative would be two payments of $4,800, followed by ten payments of $5,180. While the total instalments are the same $61,400 in both the second and third alternatives, the third alternative is preferable because the first two payments are lower. This provides a small amount of tax deferral.

The instalments would be due on the last day of each month, beginning in January, 2020.

Case Three
1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation is a small CCPC, instalments will be quarterly.

2. The three acceptable alternatives would be as follows:
- Quarterly instalments of $15,725 ($62,900 ÷ 4) based on the current year estimate.
- Quarterly instalments of $16,975 ($67,900 ÷ 4) based on the first preceding year.
- One instalment of $14,400 ($57,600 ÷ 4) based on the second preceding year, followed by three instalments of $17,833.33 [($67,900 - $14,400) ÷ 3], a total of $67,900.

3. The best alternative in terms of minimum instalments would be four instalments of $15,725, for total payments of $62,900. The instalments are due on March 31, June 30, September 30, and December 31, 2020.

Case Four
1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation is a small CCPC, instalments will be quarterly.

2. The three acceptable alternatives would be as follows:
- Quarterly instalments of $15,725 ($62,900 ÷ 4) based on the current year estimate.
- Quarterly instalments of $15,350 ($61,400 ÷ 4) based on the first preceding year.
- One instalment of $14,400 ($57,600 ÷ 4) based on the second preceding year, followed by three instalments of $15,667.67 [($61,400 - $14,400) ÷ 3], a total of $61,400.

3. The best alternative would be one payment of $14,400, followed by three payments of $15,667.67. While the total instalments are the same $61,400 in both the second and third alternatives, the third alternative is preferable because the first payment is lower. This provides a small amount of tax deferral.

The instalments are due on March 31, June 30, September 30, and December 31, 2020.
Topic: Corporate Tax Instalments

Problems

1) Mr. James Simon has asked for your services with respect to dealing with a Notice of Reassessment requesting additional tax for the 2016 taxation year which he says he has just received. Your first interview takes place a week later, on April 25, 2020, and Mr. Simon informs you that he has had considerable difficulty with the CRA in past years and, on two occasions in the past five years, he has been required to pay penalties as well as interest.

With respect to the current reassessment, he assures you that he has complied with the law and that there is a misunderstanding on the part of the assessor. After listening to him describe the situation, you decide it is likely that his analysis of the situation is correct.

Required: Indicate what additional information should be obtained during the interview with Mr. Simon and what steps should be taken if you decide to accept him as a client.
Answer: The following additional information would be relevant in considering Mr. Simon's situation:
A. Determination of the date of the Notice of Reassessment. A notice of objection must be filed prior to the later of:

- 90 days from the date of the Notice of Reassessment; and
- one year from the due date for the return under reassessment.

In this case, the later date is clearly 90 days after the date of the Notice of Reassessment.

B. Determination of the date of the Notice of Assessment for the 2016 taxation year. A three year time limit applies from the date of the Notice of Assessment. As the Notice of Assessment for 2016 could have been sent in early April, 2017, this reassessment could be within the three year limit.

C. Determination of whether Mr. Simon has signed a waiver of the three year time limit or if he is guilty of fraud or misrepresentation. If the reassessment is not within the three year time limit, Mr. Simon would not usually be subject to reassessment. However, if Mr. Simon has signed a waiver of the three year time limit, or if fraud or misrepresentation is involved, he becomes subject to reassessment, regardless of the time period involved.

If the preceding determinations indicate that the reassessment is valid and you decide to accept Mr. Simon as a client, the following steps should be taken:

- You should have Mr. Simon file a Consent Form, T1013, with the CRA which authorizes you to represent him in his affairs with the CRA and/or authorize you to access his file through the online Represent a Client service.
- A notice of objection should be filed before the expiration of the 90 day time limit.
- You should begin discussions of the matter with the relevant assessor at the CRA.

Topic: Appeals

Problems

1) For each of the following independent cases, indicate whether you believe any penalty would be assessed under ITA 163.2 on any of the parties involved. Explain your conclusion.

Case 1
In preparing a tax return for one of his established clients, an accountant relies on the financial statements that another accountant has prepared for the client's business income. Nothing in these statements seemed unreasonable.

On audit, the CRA finds that the business income financial statements prepared by the other accountant contained material misrepresentations.

Case 2
An accountant is asked to prepare tax return for a new client. The accountant had no previous acquaintance with the individual.

The client provides statements, prepared using the appropriate tax figures, showing a net business income of $45,000. He has no other income. He indicates that, during the current year, he made a $32,000 contribution to a registered Canadian charity, but has lost the receipt and has requested a duplicate. As it is now April 29, in order to avoid a late filing penalty, the accountant e-files the tax return, claiming a tax credit for the contribution without seeing the receipt.

Case 3
An accountant has been engaged by a new client to use his records to prepare an income statement and to use the information in this statement to prepare a tax return. As part of this engagement, the accountant reviews both the expense and revenue information that has been provided to him by the new client. He finds revenues of $285,000 and expenses of $201,000. The information used to arrive at these figures seems reasonable and, given this, the accountant files the required tax return.

When the client is audited, the CRA finds a large proportion of the expenses claimed cannot be substantiated by adequate documentation and may not have been incurred. Furthermore, it appears that the client has a substantial amount of unreported revenues.

Case 4
An accountant who lives in an expensive neighbourhood notices that the house next door has just been sold. It was listed for $1 million. The accountant introduces himself to the new neighbour and they become friends.

At tax time the friend hires the accountant to prepare his return. The accountant is given a T4 with $25,000 in income reported. Thinking that the gross income is on the low side, the accountant asks if this is all the income he has and the friend replies that it is so. The accountant is still not satisfied with the answer as the income seems to be out of proportion with the living standard of the friend, so he then asks him if he has received money from any source other than his employment and the friend replies that he received a substantial inheritance from his mother last year.

The accountant does not ask any further questions and prepares and files the return. When the friend is audited it is discovered that he has over $200,000 in unreported income.

Case 5
Units in a new limited partnership tax shelter are being sold by a company. The company has established this limited partnership by acquiring a software application in the open market for $100,000. However, the prospectus prepared by the company states that the fair market value of the application is $5,000,000, a value that was supported by an independent appraiser. The tax shelter is registered with the CRA and is available as an investment opportunity in the current year.

On audit, the CRA determines that the $100,000 that was paid for the software application is, in fact, its fair market value on the date of the transfer. In discussing the matter with the independent appraiser, the CRA finds that the appraisal was not prepared using normal valuation procedures. In addition, the appraiser based his work entirely on assumptions and facts that were provided by the company. The appraiser was paid $50,000 for his work.

Case 6 (Requires Basic GST/HST Knowledge)
An accountant is asked to file a HST return for a client who has not kept records of the HST paid or payable on her business purchases for the year. However, the client does have financial statements for her business which, after a brief review, the accountant finds to be reasonable.

In his review, the accountant found that these statements contain large amounts for wages and interest expense, as well as a significant amount of purchases that are zero-rated. (HST is not paid on any of these types of expenses). In preparing the HST return, the accountant applies a factor of 13/113 to all of the expenses shown in the income statement. This results in an overstatement of input tax credits reported on the HST return.

Answer:

Case 1

While the use of the other accountant's business income statements resulted in the tax return that was filed, the tax return preparer would be entitled to the good faith defense since he relied, in good faith, on information provided by another professional on behalf of the client. Therefore, he would not be subject to the preparer penalty.

The third party penalties may be applied to the other accountant if he knew or would be expected to know, but for circumstances amounting to culpable conduct, that the financial statements contained false statements.

Case 2

Since the tax return preparer e-filed the taxpayer's return without viewing the charitable donation receipt, the CRA would consider assessing the tax return preparer with the preparer penalty. Given that the size of the donation is so disproportionate to the taxpayer's apparent resources as to defy credibility, to proceed unquestioningly in this situation would show wilful blindness and thus an indifference as to whether the ITA is complied with.

Case 3

In view of the business that the taxpayer is in, there was nothing in the income statement that would have made the accountant question the validity of the information provided to him. Therefore, he could rely on the good faith reliance exception and would not be subject to the preparer penalty.

Case 4

The accountant would not be subject to the penalties for participating or acquiescing in the understatement of a tax liability. The facts were highly suspect until the accountant asked questions to clear up the doubt in his mind that the client was not presenting him with implausible information. The response addressed the concern and was not inconsistent with the knowledge he possessed.

Case 5

The prospectus prepared by the company contains a false statement (overstated fair market value of the software) that could be used for tax purposes. The company knew or would reasonably be expected to know, but for culpable conduct, that the fair market value of the software was a false statement. The CRA would consider assessing the company and the appraiser with third party civil penalties.

Case 6

The issue here is whether the accountant is expected to know that HST is not payable on wages, interest expense, and zero-rated purchases. It is clear that the accountant should have known that no HST could be claimed on these items. Given this, in filing a claim that includes an HST refund on the preceding items, the accountant made a false statement, either knowingly, or in circumstances amounting to culpable conduct. Consequently, the CRA would consider assessing the accountant with the third party civil penalty, specifically, the preparer penalty.

Topic: Tax Preparer's Penalties