



Filing T3 Returns

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A PERSONAL NOTE OF WELCOME FROM EVELYN JACKS, PRESIDENT, KNOWLEDGE BUREAU

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Filing T3 Returns

OVERVIEW
This course introduces the types of trust that may be created in Canada and how each of them is taxed. Students will learn how to prepare T3 returns as part of the case study exercises in the course. Case studies include the preparation of trust returns, slips, and slip summaries for trusts. The students will also learn how to optimize taxes payable on income earned by a trust by choosing to pay the taxes through the trust or allocating income to beneficiaries and having them pay the taxes on those allocations. The Trust Tax Estimator tool, provided with this course, will help you to minimize taxes on trust income. This tool will allow you to determine whether the trust or beneficiary will pay more taxes on allocated income so that tax can be paid by the trust before allocation if the beneficiary would have to pay more tax than the trust.
APPROACH
With all the changes in the mechanics of how trusts function, including the introduction of Graduated Rate Estate (GRE), this course will provide you with professional skills necessary to include this service in your practice.
WHY IS THIS CONTENT IMPORTANT
<ul style="list-style-type: none"> Upon completion of this course, you will be familiar with the taxation of various trusts and be able to prepare T3 trust returns and prepare T3 slips for beneficiaries.
WHAT YOU WILL LEARN?
<p>You will learn how to optimize taxes payable on income earned by a trust by choosing to pay the taxes through the trust or allocating income to beneficiaries and having them pay the taxes on those allocations.</p> <p>The Trust Tax Estimator tool, provided with this course, will help you to minimize taxes on trust income. This tool allows you to determine whether the trust or beneficiary will pay more taxes on allocated income so that tax can be paid by the trust before allocation if the beneficiary would have to pay more tax than the trust.</p>
SCOPE OF THE CONTENT:
<ol style="list-style-type: none"> 1. Introduction to Trusts 2. The T3 Return 3. Identification 4. Income of the Trust 5. Deductions 6. Dealing with Losses 7. Allocation of Trust Income 8. Calculation of Tax and Credits 9. Filing 10. Special Trusts

CHAPTER 1

INTRODUCTION TO TRUSTS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

You will gain an understanding of:

- what a trust is
- the most common types of trusts
- how trusts are taxed
- the distinctive characteristics of a graduated rate estate

NEW SKILLS TO BE MASTERED:

An awareness of what a trust is and how it is taxed in Canada

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What is a trust?
- What/who is a settlor?
- What are the obligations of a trustee?
- What is a beneficiary?
- How is income earned by a trust taxed?
- What return is filed by a trust?
- What is a graduated rate estate?
- How is the year-end of a trust determined?
- What is a testamentary trust?
- What is an *inter vivos* trust?

CHAPTER 2

THE T3 RETURN

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

In this chapter, you'll learn when a trust return is required, and when it is not. You'll also learn about the deadlines for filing that return and the penalties for not filing by the due date. In addition, you'll learn about fiscal years of a trust and how to choose a year-end for a graduated rate estate. Finally, we'll review the sections of the T3 return.

NEW SKILLS TO BE MASTERED:

1. To determine whether a trust return will be required.
2. To be able to choose the most appropriate year-end for a graduated rate estate.
3. To determine the filing due date for the trust return based on the fiscal year.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Under what circumstances is a trust return required?
- Under what circumstances would a trust not be required to file a return?
- What is changing about filing requirements starting in 2021?
- What is the fiscal year of a trust?
- When does the first fiscal year of a graduated estate end?
- What is the due date of the trust return?
- What is the penalty for filing a trust return late?
- What is the penalty for not including the social insurance number of a beneficiary on the T3 slip?

CHAPTER 3

IDENTIFICATION

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

This chapter deals with the issues of completing the Identification section of the T3 return, including the determination of residency of the trust.

NEW SKILLS TO BE MASTERED:

By the end of this chapter, you will be able to complete the identification section of the T3 return and will understand the significance of the questions in the "Other Information Required" section.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What factors are used to determine the residency of a trust?
- How does the province of residence of a trust affect the income taxes payable by the trust?
- How does one determine the name of the trust?
- How does one get an account number for a new trust?
- How is the type of trust specified to CRA when the T3 return is filed?
- What is the fiscal year of the trust for a new trust?
- Under what circumstances does a trust have to report foreign holdings?
- Under what circumstances may the trustees pay the tax on income rather than allocating the income to the beneficiaries?

CHAPTER 4

INCOME OF THE TRUST

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

In this chapter, you'll learn how to report income received by the trust on the T3 return, including CPP Death Benefits, investment income, pensions, proprietorship, farming, and fishing income and other income.

NEW SKILLS TO BE MASTERED:

- Completion of the T3 return reporting all income received by the trust.
- Claiming reserves for proceeds not due on capital dispositions of the trust.
- Understand the application of the capital gains deduction on the disposition of qualified small business corporation shares, qualified farm property, and qualified fishing property.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- How is the CPP death benefit treated?
- How are capital dispositions taxed when made by a trust?
- What is the difference if capital property is donated or sold and the proceeds donated?
- What happens with capital losses incurred by a trust?
- What happens if a taxpayer dies and has a reserve for proceeds not due and settles the outstanding debt on his testamentary trust?
- What is the twenty-one-year rule?
- How are dividends received by a trust taxed?
- If a trust receives pension income, how is this taxed?
- If a trust receives a death benefit from the testator's employer, how is this taxed?
- If a trust operates a business in a province other than the province of residence of the trust, what must be done?

CHAPTER 5

DEDUCTIONS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

This chapter deals with the deductions that may be claimed by a trust in determining taxable income, with the exception of losses and allocation of trust income to beneficiaries.

NEW SKILLS TO BE MASTERED:

After completing this chapter, you will be able to prepare T3 returns to claim deductions other than losses and allocation of income to beneficiaries.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- How are carrying charges claimed by a trust?
- How are rental expenses claimed by a trust?
- How are business expenses claimed by a trust?
- What are the criteria that must be met for trustee fees to be deductible?
- What are the consequences of non-deductible trustee fees?
- What legal fees can be claimed by a trust?
- Can accounting fees be claimed by a trust?
- Under what circumstances may a trust claim a deduction for foreign taxes paid?
- How is the gross-up of dividend income treated on the T3 return?
- If the trust receives exempt foreign income, how is this income reported on the T3 return?

CHAPTER 6

DEALING WITH LOSSES

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

In this chapter, you'll learn how to deal with various types of losses incurred by a trust both in the current year and in prior years.

NEW SKILLS TO BE MASTERED:

How to deal with the following loss types on the T3 return:

- Capital losses
- Listed personal property losses
- Allowable business investment losses
- Non-capital losses
- Farm losses
- Restricted farm losses
- Fishing losses
- Limited partnership losses

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What form is used to apply losses incurred in the current year to a prior year?
- How are capital losses claimed on the T3 return?
- What special rules apply to capital losses incurred in the first year of a testamentary trust?
- What is different about capital losses from listed personal property?
- What rules apply to the cancellation of debts in a will?
- How are business investment losses incurred by a trust claimed?
- What actions by the trustee can reduce the business investment loss that can be claimed by the trust?
- How are non-capital losses incurred by the trust claimed?
- How are farm losses incurred by a trust claimed?
- How are fishing losses incurred by a trust claimed?
- How are limited partnership losses incurred by a trust claimed?

CHAPTER 7

ALLOCATION OF TRUST INCOME

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

In this chapter, you'll learn the rules for allocating income to beneficiaries and for designating income to be taxed in the trust even if it is distributed to beneficiaries. In addition, you'll learn how to complete and file the T3 Summary return and T3 slips.

NEW SKILLS TO BE MASTERED:

- Allocation of income to beneficiaries
- Designation of income to be taxed in the trust
- Preparation of T3 slips
- Preparation of T3 summary return
- Completion of T3 Schedule 9
- Filing of T3 slips and T3 Summary return

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What types of income retain their nature when allocated to a beneficiary?
- What credits may be allocated to a beneficiary?
- Under what circumstances is it better for the trust to pay the taxes instead of the beneficiary?
- What rules apply to paying the taxes in the trust rather than allocating the income to the beneficiaries?
- What are the consequences of the trust paying expenses of a beneficiary?
- What is a preferred beneficiary?
- What is the preferred beneficiary election?
- What is the due date for distributing T3 slips to beneficiaries?
- What options are available for distributing T3 slips to beneficiaries?
- What are the options for filing the T3 Summary return and related slips?

CHAPTER 8

CALCULATION OF TAX AND CREDITS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

In this chapter, you will learn of the federal and provincial/territorial taxes payable by the trust on income not allocated to beneficiaries. You'll learn about the special taxes that apply only to trusts and the credits that are available to trusts.

NEW SKILLS TO BE MASTERED:

Completion of T3 Schedule 11 to determine

- how to deal with lump sum RPP or DPSP payments that accrued prior to 1971
- federal recovery tax
- dividend tax credits
- donation tax credits
- minimum tax
- surtax on income not subject to provincial or territorial tax
- foreign tax credits
- political contribution tax credit
- investment tax credit
- logging tax credit
- additional tax on RESP accumulated income payments
- Quebec abatement

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What factors determine the rate of tax payable by a trust?
- Which trusts are subject to the recovery tax?
- What happens when the dividend tax credit exceeds federal tax otherwise payable?
- How are donations by Will treated?
- How is the donation credit calculated if claimed by a trust?
- What is the benefit of a trust donating shares rather than cash?
- What are the consequences of a trust being subject to minimum tax?
- How is income from a business taxed differently than income from property?
- How are excess foreign tax credit claimed?
- What determines the provincial/territorial tax to which the trust pays taxes?

CHAPTER 9

FILING

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

In this chapter, you will learn the rules for filing T3 returns as well as T3 slips and Summaries; what to do if you find an error after filing the return; and the consequences of not filing on time.

NEW SKILLS TO BE MASTERED:

You will know how to submit the T3 return and schedules with all the required schedules so that the return can be assessed without CRA asking for more information.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What happens if you discover an error after the T3 slips are filed?
- How is the T3 return filed?
- How is a T3 return adjusted for errors or omissions?
- How is a balance due paid for a T3 return?
- What procedure should be followed if the trust is due a refund of taxes withheld?
- What documents should be attached to the first return for a trust?
- How do you indicate to CRA that the trust has been wound up?
- What procedures should be followed before the final distribution of trust assets?
- What is the penalty for late filing of a T3 return?
- What is the penalty for late distribution of T3 slips?

CHAPTER 10

SPECIAL TRUSTS

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

In this chapter, you'll learn about the rules surrounding several types of trusts that you may come across in your practice. These include alter ego trusts, spouse trusts, joint partner trusts and charitable remainder trusts. You'll also learn the new rules regarding the principal residence exemption for trusts.

NEW SKILLS TO BE MASTERED:

You will understand these types of trusts from a tax preparation standpoint.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- At what age may an individual set up an alter ego trust?
- What are the benefits of an alter ego trust?
- Who has a right to receive the capital from an alter ego trust?
- What is the spouse entitled to if they are the beneficiary of a spouse trust?
- What are the consequences of the death of the beneficiary of a spouse trust?
- Which types of trusts allow the tax-free rollover of assets into the trust?
- In a joint partner trust, what happens to the assets if the settlor dies first?
- If a charitable remainder trust is set up, when is the charitable donation credit claimed and by whom?
- What rights does the settlor have to the assets under a charitable remainder trust?
- What are the negative tax consequences of settling an asset on a charitable remainder trust?
- What types of trusts may claim the principal residence exemption?

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1

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This course introduces a proven process for consistently accurate T1 tax preparation services with a professional client interview and document management system, as well as a thorough understanding of tax preparation for the five anchor profiles upon which every personal tax return is based—credit filing, employees, families and children, investors, and seniors.

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- Intro to Income Taxation in Canada
- Using Software to Prepare the Return
- Filing the Return
- Low Income and Credit Filers
- Reporting Employment Income
- Claiming Employment Deductions
- Families and Children
- Reporting Investment Income
- Pensioners
- New for current tax year and beyond

2

Professional Income Tax Filing - Advanced

Fully updated to the latest federal Budgets, this comprehensive course delves deeply into the deductions, tax credits, and tax calculations on the personal tax return, with an emphasis on capital gains and losses, and registered and non-registered investment income sources. It overviews common and advanced client profiles, while sending students to the dynamic commentary in EverGreen Explanatory Notes.

Knowledge Journal Topics:

- Update and Review
- Family Filing
- Employees - Part 1
- Employees - Part 2
- Retirement
- Investors
- Asset Management
- Life Events
- Business Starts and Stops
- Death and Estate Planning

3

Filing Proprietorship Returns

This course for professional advisors uses CRA's prescribed forms: Statement of Business or Professional Activities, Capital Cost Allowance statements, worksheets for reporting home office, automobiles, other assets, inventory control, and cost of goods sold.

Knowledge Journal Topics:

- Taxation of Income from a Proprietorship
- Reporting Requirements: GST/HST
- Claiming Business Expenses
- Transactions Involving Business Assets
- Home-based Businesses
- Hiring Human Resources
- Inventory-Based Businesses
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4

Filing T3 Returns

This course introduces the types of trusts that may be created in Canada and how each of them is taxed. Students will learn how to prepare T3 returns as part of the case study exercises in the course. The students will also learn how to optimize taxes payable on income earned by at trust The Trust Tax Estimator tool, provided with this course, will help you to minimize taxes on trust income.

Knowledge Journal Topics:

- Introduction to Organizational Structures
- Consolidated and Combined Financial Statements
- Foreign Currency Transactions
- Purchase of a Business
- Sales of a Business
- The Sale of Assets
- The Sale of Shares
- Business Succession
- Tax Planning in Succession
- The Role of a Value Centered Accounting Function

5

Filing Final Returns at Death

This course deals comprehensively with the taxation of individuals at death and the new relationship with the CRA when taxpayers die. Gain a thorough understanding of how income and capital accumulations are taxed on final returns and learn strategies to minimize taxes.

Knowledge Journal Topics:

- Death and Taxes
- Returns in the Year of Death
- Reporting Income
- Capital Assets
- Registered Accounts
- Claiming Deductions
- Non-Refundable Credits
- Refundable Credits
- The Estate
- Avoiding Probate Fees

6

Investment Tax Strategies

This course covers a strategic and tax-efficient investment income planning process which places capital accumulations in the right hands of individuals in the family. The objective is to save capital and earn investment income with tax-efficiency and then to average down the tax paid on both by arranging to share with family members within the tax rules allowed.

Knowledge Journal Topics:

- Introduction to Real Wealth Management
- Tax Efficient Investing: Planning for Income and Capital
- Business Income and Asset Planning
- Introduction to Canadian Income Tax
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- Evelyn Jacks, President of Knowledge Bureau

“Everything so far has had value to it. These studies have added to my knowledge and skills and I have put this knowledge to use immediately for our clients or I gained new skills which has given me the opportunity to expand our services.”

- William Samplonius, ON

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