



**Corporate
Income Tax Filing
Fundamentals**

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

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Corporate Income Tax Filing Fundamentals

<p>OVERVIEW</p> <p>This course serves as an introduction to the filing of a corporate income tax return for small business operating under a corporate structure as a Canadian Controlled Private Corporation (CCPC). From a company's transformation from Proprietorship through to Corporation, this course will teach you the fundamentals of filing a T2 return for the majority of small business corporations operating in Canada today.</p>
<p>APPROACH</p> <p>The focus of this course is to provide you with an understanding of the business issues and tax options that underlie the taxation of corporate income so that the return can be prepared accurately, the tax minimized, and planning opportunities identified on a timely basis. From a company's transformation from Proprietorship through to Corporation, this course will teach you the fundamentals of preparing a T2 return for the majority of small business corporations operating in Canada today.</p>
<p>WHY IS THIS CONTENT ESPECIALLY TIMELY AND/OR IMPORTANT</p> <ul style="list-style-type: none"> • This course serves as an introduction to the preparation of a corporate income tax return for small business operating under a corporate structure as a Canadian Controlled Private Corporation (CCPC). • From a company's transformation from Proprietorship through to Corporation, this course will teach you the fundamentals of preparing a T2 return for the majority of small business corporations operating in Canada today. • T2 returns in the case studies may be prepared using any T2 software program. For those who don't have their own T2 software, student versions of the following major software programs are provided: TaxCycle, Intuit Profile and Thomson Reuters Dr. Tax.
<p>WHAT YOU WILL LEARN?</p> <p>You will learn to identify accrual and cash base accounting, retained earnings and the return of capital, and active business income and specified investment business income. You'll understand how to properly report income for tax purposes and reconciliation of transactions, various schedules most prevalent on the T2 tax return and tax principles for reserves utilized to defer taxes. Also covered are tax consequences for stakeholders on various methods of remuneration and tax planning as an opportunity for both corporate and personal integration.</p>
<p>SCOPE OF THE CONTENT:</p> <ol style="list-style-type: none"> 1. Basis of Reporting Income 2. Understanding the Corporate Balance Sheet 3. Understanding Shareholder Equity 4. Sources of Corporate Income 5. Creating an Audit Trail for CRA Purposes 6. Completing the T2 Return 7. Tax Reserves 8. Shareholder Remuneration 9. Corporate and Shareholder Integration Theory

CHAPTER 1

BASIS OF REPORTING INCOME

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn that (in most cases), a corporation is required to report and pay tax on income computed on an accrual basis accounting. The student will be guided to understand the accounting principles underlying accrual basis accounting. The student will understand the difference between a sole-proprietor and a corporation.

NEW SKILLS TO BE MASTERED:

The student will gain the skills to enable them to assess client information in order to ascertain whether the accounts have been properly compiled on an accrual basis accounting. Understanding such accounting principles will then enable the student to identify adjustments which might be required in order for the corporate income to be fully and completely reported for tax purposes. The student will understand that a corporation is treated as a separate taxpayer by the CRA.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain the difference, in accounting principles, between accrual and cash basis accounting and explain which types of business are permitted to use cash basis accounting for tax reporting.
- Understand the bookkeeper's and/or accountant's role in preparing a T2.
- Explain what the "matching" principle means in terms of accrual accounting.

CHAPTER 2

UNDERSTANDING THE CORPORATE BALANCE SHEET

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn how to read and understand the corporate balance sheet and why the balance sheet is an integral part of a properly prepared corporate T2 Return. The student will know what the GIFL codes are and what purpose a Subsection 85(1) rollover has when transferring property into and out of a corporation from a shareholder.

NEW SKILLS TO BE MASTERED:

- Understand a corporate balance sheet and understand why it is required when preparing a T2 return.
- Identify the different sections of the GIFL code and where each code is located on the Balance Sheet.
- The use of a Subsection 85(1) rollover will be discussed.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Identify the sections of a Balance Sheet and why this is a necessary component of a T2 return
- Understand GIFL code and enter data accurately from Financial Statements onto T2
- Why is a Section 85 rollover important when transferring property to/from a shareholder to a corporation?

CHAPTER 3

UNDERSTANDING SHAREHOLDER EQUITY

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn and understand the “equity” section of the corporate balance sheet. The student will understand the difference between the retained earnings of a company and the share capital for accounting purposes, versus the paid-up capital for corporate income tax purposes.

NEW SKILLS TO BE MASTERED:

The student should increase their understanding of the corporate balance sheet. The equity section of the corporate balance sheet will be reviewed in detail. The student will be able to identify and explain how different forms of corporate distributions received and paid by a company are subject to tax. This chapter will also discuss how to identify issues which might affect the preparation and filing of the corporate T2 Return.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- What is the purpose of the equity section of the balance sheet and how do transactions in the corporation affect the shareholder’s equity?
- Explain what the retained earnings of a corporation means for accounting purposes and how this may differ from the accumulated tax paid earnings of a corporation for tax purposes.
- What is paid-up capital for income tax purposes?
- Explain the different ways that capital can be returned to an owner of a corporation, and the corresponding tax implications to the company and the shareholder for each of the following:
 - Taxable dividend
 - Capital dividend
 - Share redemption
 - Reduction of paid-up capital

CHAPTER 4

SOURCES OF CORPORATE INCOME

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn that a Canadian controlled private corporation (CCPC) is taxed differently on different “sources” of income. The student will learn how to identify and differentiate the various types of corporate income and the corresponding tax rules and related tax rates particular to a source of income.

NEW SKILLS TO BE MASTERED:

The student will gain an understanding of the corporate “mechanics” of the tax system and how different sources of corporate income are taxed. The student will gain a basic understanding of the tax principles and rules which differentiate the various types of income.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain the key difference between active business income and specified investment business income earned by a corporation
- Explain the Small Business Deduction Limit and how it applies to a Canadian controlled private corporation.
- Explain the tax principle which differentiates a capital gain from ordinary business income.

CHAPTER 5

CREATING AN AUDIT TRAIL FOR CRA PURPOSES

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn how to evaluate and assess information given to them by the client, in order to build an appropriate and complete “audit trail” that will stand up, should the CRA audit the T2 file. The student will gain a basic awareness of the issues that are relevant in assessing tax risk and in documenting the file.

NEW SKILLS TO BE MASTERED:

The student will learn how to identify tax-sensitive items and to assess their potential impact on the preparation of the T2 Return. The student will also gain the ability to assess client information and determine whether the information is complete or whether additional information may be required to correctly assess and report the transaction for tax purposes.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- How to identify and categorize all sources of corporate income correctly and completely as to a particular source.
- How to identify and document all tax-sensitive items so that they can be correctly reported for tax purposes.
- How to reconcile all shareholder loan transactions.

CHAPTER 6

COMPLETING THE T2 RETURN

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will learn, in more detail, how to accurately and completely prepare the corporate T2 Return and to identify schedules which should be utilized for a particular situation.

NEW SKILLS TO BE MASTERED:

The student should gain an ability to correctly complete the various required schedules forming part of the T2 Corporate Income Tax Return. The student will be able to reconcile income reported for corporate tax purposes with income reported on the company's financial statements.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain the purpose for using Schedule 1 of the T2 Corporate Tax Return
- What type of income is reported on
 - Schedule 7
 - Schedule 3
 - Schedule 6
 - Schedule 23
 - Schedule 14of the corporate T2 Return

CHAPTER 7

TAX RESERVES

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain an understanding of the income tax concepts relating to the availability of “tax reserves” and also recognize the opportunity to utilize tax reserves in a given situation.

NEW SKILLS TO BE MASTERED:

The student should gain an ability to identify where a tax reserve can be utilized to defer taxes to a subsequent taxation year. The student will also gain an understanding of where certain accounting reserves or deductions are not available for tax purposes. The student will learn the specific rules pertaining to the inclusion and deduction of reserves.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain the tax principle in permitting a corporation to claim a capital gains reserve.
- Explain how the matching concept for accounting purposes relates to the claiming of contractor holdbacks (receivable and payable), for corporate tax purposes.
- What is permitted for tax purposes, in respect of an inventory reserve?
- What is reported on: Schedule 13

CHAPTER 8

SHAREHOLDER REMUNERATION

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain an understanding of the different forms of remuneration to the shareholder(s) and related family members of a corporation. The student will recognize the basic planning opportunities in order to structure remuneration in a tax-efficient manner, while also minimizing the potential for tax risk.

NEW SKILLS TO BE MASTERED:

The student should gain an ability to understand the tax consequences to both the shareholder and the corporation as to the payment of different forms of remuneration, including salaries, year-end bonuses, and dividends. The student will also learn how to properly report and disclose such forms of remuneration on the corporate T2 Return.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain how the payment of a salary versus the payment of a dividend is treated for tax purposes:
 - To the shareholder, and
 - To the corporation.
- Explain the tax consequences to a corporation if an accrued bonus is not paid within 179 days of the amount being accrued.
- What are the factors that the CRA considers as to the “reasonableness” of a salary paid to a shareholder or a family member of a company?

CHAPTER 9

CORPORATE / SHAREHOLDER INTEGRATION THEORY

KEY CONCEPTS AND ISSUES - WHAT YOU WILL LEARN:

The student will gain a basic understanding of the fundamental concept of corporate and shareholder (personal) taxation, which “underpins” the principles governing our Canadian taxation system. The student will gain an appreciation of how personal and corporate tax rates affect the integration of income earned and taxed through a corporation and paid out to a shareholder, as compared to income earned directly by the individual.

In Canada, tax rates have changed over the years but the concept of integration, as introduced in 1972, has not.

NEW SKILLS TO BE MASTERED:

The student should gain an ability to recognize opportunities for tax planning by understanding the mechanics of corporate/personal tax-integration. The student will also recognize how different forms of corporate income (Active Business Income subject to the Small Business Deduction, General Rate Income Pool (GRIP) Business Income, and Specified Investment Business Income) integrate when paid out to the shareholder in the form of a dividend.

READING GUIDE - KEY QUESTIONS TO BE ANSWERED:

- Explain how “double-tax” is avoided when corporately tax-paid earnings are distributed to a shareholder in the form of a dividend.
- Explain how “double-tax” is avoided on the distribution of capital gains taxed within a corporation.
- What is Refundable Dividend Tax On Hand (“RDOTH”) and how does it operate to avoid “double-tax” to a shareholder?

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"It is important that we are proactive in terms of planning our clients' affairs. Knowledge Bureau continues to provide me with relevant knowledge and strategies to help my clients navigate through the complex world of finance, life and taxation."

- George Donkor, ON

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LEVEL I COURSES - CORE PROFESSIONAL SKILLS

Build your core professional skills by taking the three courses below.

Understand family-owned enterprises throughout the lifecycle of the business - from startup to successful transition. That insight requires a firm understanding of the latest tax changes for incorporated family businesses.

1

Corporate Tax Filing Fundamentals

This course serves as an introduction to the filing of a corporate income tax return for small business operating under a corporate structure as a Canadian Controlled Private Corporation (CCPC). From a company's transformation from Proprietorship through to Corporation, this course will teach you the fundamentals of filing a T2 return for the majority of small business corporations

Knowledge Journal Topics:

- Basis of Reporting Income
- Understanding the Corporate Balance Sheet
- Understanding Shareholder Equity
- Sources of Corporate Income
- Creating an Audit Trail for CRA Purposes
- Completing the T2 Return
- Tax Reserves
- Shareholder Remuneration
- Corporate/Shareholder Integration Theory

2

Tax Planning for Corporate Owner-Managers

New tax legislation has created "new realities" for owners of private corporations and they have added considerable complexity to the tax component of this process. Learn to provide advice throughout the year with a view to minimizing the total amount of income taxes paid by the family.

Knowledge Journal Topics:

- The Taxation of Business Income and Its Integration in Personal Taxation
- Understanding Family Compensation Requirements
- Income Tax Treatment of Salary
- Income Tax Treatment of Dividends
- Other Compensation Issues - Benefits, Shareholder Loans
- Income Splitting, Kiddie Tax, Tax on Split Income
- Basic Issues in Using a Holding Company or Trust
- Registered Deferred Income Plans
- Unregistered Deferred Income Plans
- Planning Pitfalls - the Capital Gains Deduction, CNIL, ABIL's

3

Tax Planning for Incorporated Professionals

This course will focus on personal and corporate tax planning for small to medium sized businesses, owned and operated by professionals, with a special focus on financial advisors and medical practitioners. Retirement and succession planning is an integral part of the course.

Knowledge Journal Topics:

- Tax Rules for Professional Corporations
- Incorporated vs Non-Incorporated Professional Businesses
- Corporate Structures
- Shareholder Remuneration
- Corporate/Shareholder Integration Theory
- Using the PC for Family Benefits
- Retirement Planning for the Incorporated Professional
- Getting the Business Ready for Sale

"This program was very challenging and the information contained was valuable to me in my practice. I plan to keep my journal nearby as a reference when required. This is a very valuable program for anyone in private practice."

- Heather McLeod, MFATM - Business Services Specialist

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Looking for a way to stand out in the competitive tax services industry and attract more business? Advance your business (or career) and guide clients through succession planning, valuations and transitions. You will be able to provide a superior level of service that will continue to pay off throughout your career.

4

Cross Border Taxation

Advisors who work with affluent boomers must be prepared to discuss cross border taxation with a comprehensive general knowledge, as well as recognize and advise on how certain actions on both sides of the border affect a person's tax situation.

Knowledge Journal Topics:

- Residency
- Immigration and Emigration
- Snowbirds
- Owning Property as a Non-resident
- Canada - U.S. Tax Treaty
- U.S. Citizenship
- Canadian and U.S. Investments (including FATCA)
- U.S. Estate and Gift Tax
- Renouncing U.S. Citizenship

5

Understanding Business Valuation

This course is designed in a practical format and will help an advisor become a valuable resource to their clients when considering business valuation issues. The objective of this course is to provide an overview of the fundamentals of business valuation, enabling advisors to assist clients in facing various types of business transactions, including mergers, transfer of an ownership position, sale of a business, or raising capital.

Knowledge Journal Topics:

- The Notion of Value
- Valuation Approaches: Company Specific
- Valuation Approaches: Market-Based
- Issues That Could Impact Value
- Business Transactions: Preparation Stage
- Business Transactions: Closing and Transition
- Value and Investment Transactions
- Business Succession
- Financial Performance and Implications
- Selected Topics in Valuation

6

Use of Trusts in Tax & Estate Planning

Trusts are used on an ever-increasing basis to plan for the wealth and succession objectives of medium and high-worth clients. The advisor with the ability to assist with that process creates the opportunity to establish a long-term, potentially intergenerational connection with a client and their family; provided their strategy considers recent tax changes in the planning process.

Knowledge Journal Topics:

- Basic Trust Mechanics
- Trusts as Mechanisms to Exert Control
- Basic Tax Treatment
- Testamentary Trusts
- Inter Vivos Trusts, Inter Vivos Trusts
- Charitable Remainder Trusts
- Alter Ego a& Joint Partner Trusts
- Insurance and RRSP Trusts
- Spousal Trusts
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About Knowledge Bureau:

Founded by tax expert, award-winning financial educator and best-selling author, Evelyn Jacks in 2003, Knowledge Bureau™ is a widely respected financial education institute and publisher based in Canada. Our world-class education solutions are innovative, informative, and in-depth, with a multi-disciplinary approach to professional development in the tax, accounting, bookkeeping and financial services.

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“Our team of educational consultants and instructors make all the difference. We are always by your side as you study in the convenience of home or office. We want you to make the best educational decisions for your time and money and we are here to help.”

- 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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