FP-BoK Topic 09: Taxation

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TOPIC 09 OVERVIEW: TAXATION

Both CFP professionals and QAFP professionals are expected to possess knowledge to allow them to complete and interpret an individual's basic personal tax return, including identifying and explaining the income tax assessment rules for individuals, explaining the tax implications of how different types of income received by individuals may be taxed and identifying the tax deductions and credits for which an individual may be eligible. They should further be able to identify and estimate the benefit of engaging in foundational income splitting strategies.

CFP professionals are also expected to have knowledge to allow them to identify income tax assessment rules for corporations and trusts; explain the taxation of business ownership structures and trusts, as well as those who receive income from them; evaluate capital gains deductions and deferral opportunities for individuals; and identify tax deductions that may benefit self-employed business owners. They will also be responsible for ensuring they are aware of the risks of engaging in tax shelters; explaining the method for determining if an individual is considered a U.S. person and the tax implications of being a U.S. person who is resident in Canada; explain the tax consequences upon the death of an individual; and understand factors that may impact an individual engaging in an estate freeze

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
9.1 Foundations of Tax	✓	
9.2 Relationships under Income Tax	✓	
9.3 Income Tax Assessment Rules for Individuals	✓	✓

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
9.4 Income Tax Assessment for Corporations		✓
9.5 Income Tax Assessment Rules for Trusts		✓
9.6 Basic Income for Tax Purposes	✓	✓
9.7 Other Income for Tax Purposes		✓
9.8 Income Received by Self-Employed Business Owner		✓
9.9 Tax Deductions and Tax Credits for Individuals	✓	✓
9.10 Tax Deductions for Self-Employed Business Owners		✓
9.11 Income Attribution	✓	✓
9.12 Foundations of Income Splitting for Individuals	✓	✓

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
9.13 Income Splitting for Investors		✓
9.14 Income Splitting for Self-Employed Business Owners		✓
9.15 Tax Shelters		✓
9.16 United States Taxation		✓
9.17 Tax Consequences at Death		✓
9.18 Trusts		✓
9.19 Estate Freezes		✓
9.20 Taxation of Business Ownership Structures		✓

Taxonomy of the FP-BoK

The **verbs** used in the FP-BoK articulate the depth of knowledge expected of QAFP professionals and CFP professionals. The verbs are grouped into four **knowledge levels** which set out the depth or level of knowledge required for each knowledge topic.

KNOWLEDGE LEVELS

Knowledge Level	Associated Verbs Used in the BoK
Awareness	Define, Identify
Understanding	Explain
Application	Determine, Compare, Estimate, Calculate, Convert
Evaluation	Evaluate, Interpret

GLOSSARY OF VERBS USED IN THE FP-BOK

Verb	Description
Define	To state exactly the meaning of
Identify	To be aware of / to recognize and correctly name / to locate an appropriate resource
Explain	To make clear the meaning of / to describe something in more detail or reveal relevant facts or ideas related to it
Determine	To ascertain / to come to a decision, such as by investigation or reasoning
Compare	To note the similarities and differences between two or more things
Estimate	To determine an approximate value for
Calculate	To find the value using mathematics
Convert	To change from one form or purpose to another
Evaluate	To reach a conclusion or make a through careful study
Interpret	To give the meaning of / to construe or understand / to translate orally

TOPIC 09 KNOWLEDGE REQUIREMENTS

9.1 FOUNDATIONS OF TAX

9.1.1 FOUNDATIONS OF TAX

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define taxation.
- Explain the purpose of taxation.
- Explain types of taxation that exist in Canada, such as:
  - Income tax
  - Sales tax
  - Excise tax
  - Property tax
- Explain the impact of taxation.
  - On income
  - On consumption
- Define income taxation (income tax) structures, such as:
  - Progressive
  - Flat
  - Surtax
- Define types of income tax rates, such as:
  - Marginal income tax rate
  - Average income tax rate
  - Effective marginal income tax rate
- Compare a marginal and average income tax rate.
- Define income tax avoidance.
- Define income tax evasion.
- Compare tax avoidance and tax evasion.
  - Letter of the law versus spirit of the law
  - Potential for criminal consequences
- Explain the purpose of the General Anti-Avoidance Rule (GAAR) under the Canadian Income Tax Act.
- Explain the purpose of income tax advice, such as:
  - Minimize income tax
  - Defer income tax
- Explain the factors that may affect income taxes, such as:
  - Fair market value of assets
  - Adjusted cost base of assets
  - Liquidity of assets

- Ownership structure of assets
- Potential for capital gains / losses
- Availability of capital gains exemptions
- Availability of capital losses
- Sources of income
- Eligible tax deductions and credits
- Marginal tax rates
- Family circumstances
- Business interests

9.2 RELATIONSHIPS UNDER INCOME TAX

9.2.1 RELATIONSHIPS UNDER INCOME TAX

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define taxpayers identified in the Income Tax Act, such as:
  - Individual taxpayers
  - Corporate taxpayers
  - Trusts
- Define individual taxpayers for income tax filing purposes.
  - An individual taxpayer
  - A sole proprietor
  - An individual person who is a partner in a partnership
- Define relationships for income tax purposes, such as:
  - Spouse
  - Common-law partner
  - Separated spouse
  - Separated common-law partner
  - Former spouse
  - Former common-law partner
  - Child
  - Dependent child

9.3 INCOME TAX ASSESSMENT RULES FOR INDIVIDUALS

9.3.1 INCOME TAXES PAYABLE – INDIVIDUALS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify that the income thresholds and ranges associated with income tax brackets may increase over time due to inflation.
- Identify the deadline by when an individual is required to pay income tax owing.
- Explain the reason why an individual may be required to make installment payments.
- Explain when installments are required for an individual.
- Identify the deadline by when installments are payable for an individual.
- Identify current tax brackets for an individual.
    - Federal
    - Provincial
- Estimate the combined income tax rates for an individual.
    - Marginal tax rate
    - Average tax rate
    - Marginal effective rate
- Estimate taxes payable for an individual.
    - Federal taxes
    - Provincial/Territorial taxes

Additional Knowledge Expected of CFP Professionals

- Identify the deadline by when installments are payable.
    - For an individual with farming income

9.3.2 ALTERNATIVE MINIMUM TAX (AMT)

Additional Knowledge Expected of CFP Professionals

- Define alternative minimum tax.
- Identify that an alternative minimum tax process exists under federal income tax rules.
- Identify that some provinces/territories have an alternative minimum tax process.
- Identify that federal and provincial surtaxes may exist.

9.3.3 ADMINISTRATION

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify that federal and provincial/territorial governments develop and maintain their respective tax laws.
- Identify the bodies responsible for administering and collecting taxes.
- Explain that the tax filing system is based on self-assessment.
- Identify the processes, including timelines, that exist for tax and information returns.

  - For submission of a return
  - For assessment of a return
  - For reassessment of a return by the taxpayer or taxpayer's legal representative(s)
  - For objections or appeals to a return or reassessment
- Explain the purpose of a personal Notice of Assessment.
- Explain the sections of a personal Notice of Assessment.
- Identify methods that may be used to obtain a personal Notice of Assessment.
- Identify that a process exists for reassessment of an income tax return by the Canada Revenue Agency.

9.3.4 ENFORCEMENT – INDIVIDUALS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify interest rates applied by the Canada Revenue Agency to tax account balances for an individual taxpayer.
- Charged for outstanding income tax payable
- Refunded for overpayments of income tax
- Explain how interest on tax owing is calculated.
- Explain income tax and reporting penalties for individuals.
- Explain remedies available to the CRA for non-payment of income taxes, omission of information or falsifying information.

9.3.5 REQUIREMENT TO FILE – INDIVIDUALS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify when an individual must file an income tax return for a given year.
- Identify when an individual may wish to file an income tax return for a given year.
- Identify that an individual required to file a tax return will do so using a T1 General Income Tax and Benefit Return.
- Identify the deadline by when an individual is required to file a T1 General Income Tax and Benefit Return.
  - For an individual taxpayer and their spouse where neither are self-employed
  - For a self-employed taxpayer and their spouse
  - For a deceased taxpayer

9.3.6 RESIDENCY – INDIVIDUALS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify how income tax obligations in Canada are determined.
- Identify how residency for Canadian tax purposes is established.
- Define the types of residents for income tax purposes.

    - Factual resident
    - Deemed resident
    - Non-resident
- Identify the factors the Canada Revenue Agency may use when determining an individual's residency status for income tax purposes.

Additional Knowledge Expected of CFP Professionals

- Explain the factors the Canada Revenue Agency may use when determining an individual's residency status for income tax purposes.
- Explain when the Canada Revenue Agency may consider an individual to be:
    - A factual resident
    - A deemed resident
    - A non-resident
- Explain the tax obligations for an individual.
    - As a factual resident
    - As a deemed resident
    - As a non-resident
- Explain an individual's benefit and tax credit entitlements.
    - As a factual resident
    - As a deemed resident
    - As a non-resident
- Identify the income tax impact of a change in residency status from resident to non-resident.

9.4 INCOME TAX ASSESSMENT RULES FOR CORPORATIONS

9.4.1. INCOME TAXES PAYABLE – CORPORATIONS

Additional Knowledge Expected of CFP Professionals

- Identify the deadline by when a corporation is required to pay income tax owing.
- Explain the reason why a corporation may be required to make installment payments.
- Identify current tax brackets for a corporation.
  - Federal taxes
  - Provincial/Territorial taxes
- Estimate the combined income tax rates for a corporation.
  - Marginal tax rate
  - Average tax rate

9.4.2 RESIDENCY – CORPORATIONS

Additional Knowledge Expected of CFP Professionals

- Identify that residency for a corporation is established on a case-by-case basis considering the Income Tax Act and common law.
- Define when a corporation is considered by the Canada Revenue Agency to be a deemed resident for income tax purposes.
- Identify factors under common law that may impact the residency status of a corporation for income tax purposes.

9.4.3 REQUIREMENT TO FILE – CORPORATIONS

Additional Knowledge Expected of CFP Professionals

- Identify when a corporation must file an income tax return.
- Identify that a corporation required to file an income tax return will do so using a T2 Corporation Income Tax Return.
- Identify that in some jurisdictions an additional provincial income tax return is required to be filed by a corporation.
- Identify the deadline by when a corporation is required to file a T2 Corporation Income Tax Return.
- Identify the corporations that the CRA exempts from filing an income tax return.

9.4.4 ENFORCEMENT – CORPORATIONS

Additional Knowledge Expected of CFP Professionals

- Identify interest rates applied by the Canada Revenue Agency to income tax account balances for a corporate taxpayer.
  - Charged for outstanding taxes payable
  - Refunded for overpayments of taxes payable
- Identify income tax and reporting penalties for a corporation.

9.5 INCOME TAX ASSESSMENT RULES FOR TRUSTS

9.5.1 INCOME TAXES PAYABLE – TRUSTS

Additional Knowledge Expected of CFP Professionals

- Identify the deadline by when a trust is required to pay income tax owing.
- Explain the reason why a trust may be required to make installment payments.
- Identify the current income tax rates for a trust.
    - Federal taxes
    - Provincial/Territorial taxes
- Estimate the combined income tax rates for a trust.
    - Marginal tax rate
    - Average tax rate

9.5.2 RESIDENCY – TRUSTS

Additional Knowledge Expected of CFP Professionals

- Identify that residency for a trust is established on a case-by-case basis considering the Income Tax Act and common law.
- Identify factors that the Canada Revenue Agency may consider when determining the residency status of a trust for income tax purposes.

9.5.3 REQUIREMENT TO FILE – TRUSTS

Additional Knowledge Expected of CFP Professionals

- Identify when a trust must file an income tax return.
- Identify that a trust required to file an income tax return will do so using a T3 Trust Income Tax and Information Return.
- Identify the deadline by when a trust is required to file a T3 Trust Income Tax and Information Return.

9.5.4 ENFORCEMENT – TRUSTS

Additional Knowledge Expected of CFP Professionals

- Identify interest rates applied by the Canada Revenue Agency to outstanding tax account balances for a trust.
- Identify income tax and reporting penalties for trusts.

9.6 BASIC INCOME FOR TAX PURPOSES

9.6.1 INCOME RECEIVED BY INDIVIDUALS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the types of income that may be received by an individual.
- Explain the tax treatment of receiving each type of income.
- Estimate the tax impact of receiving each type of income.

9.6.2 INCOME RECEIVED BY EMPLOYEES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the types of income that may be received by an employee.
- Identify the types of income that are included in employment income.
- Identify sources from which employment income may be found, such as:
  - T4
  - Paystub
  - Direct deposit
  - Tax return
  - Record of employment
- Explain when the Canada Revenue Agency considers an employee to have received a taxable benefit.
- Explain the factors the CRA may consider when determining if an employee benefit is taxable, such as:
  - Type of benefit
  - Reason the benefit is provided
  - Benefit received
- Identify taxable benefits that may be added to an employee's income.
- Explain how the value of a taxable benefit is determined.
- Explain the tax treatment of income received by an individual from an employer-paid group wage replacement plan.
- Estimate the tax impact to an employee from the receipt of a taxable benefit.
- Identify non-taxable benefits that will not be added to an employee's income.
- Explain the tax treatment of receiving each type of income.
- Estimate the tax impact of receiving each type of income.

Additional Knowledge Expected of CFP Professionals

- Explain when a taxpayer will incur a taxable benefit related to the receipt of stock options through an employer.
- Identify how a salary deferral arrangement (SDA) affects the taxation of income.

9.6.3 INCOME RECEIVED BY SENIORS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the types of income that may be received by seniors.
- Explain the tax treatment of receiving each type of income.
- Estimate the tax impact of receiving each type of income.

9.6.4 INCOME RECEIVED BY STUDENTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the types of income that may be received by students.
- Explain the tax treatment of receiving each type of income.
- Estimate the tax impact of receiving each type of income.

9.6.5 INTEREST INCOME RECEIVED BY INVESTORS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define interest income.
- Explain the methods for reporting interest income, such as:
    - Cash method
    - Receivable method
    - Annual accrual method
- Explain the method for how interest income must be reported for an individual taxpayer.
- Explain the income tax treatment of interest income received by an individual.
- Estimate the income tax impact of interest income received by an individual.

Additional Knowledge Expected of CFP Professionals

- Explain the method for how interest income must be reported.
    - For a corporation
    - For a trust
- Explain the income tax impact of interest income received by a Canadian-controlled private corporation (CCPC) such as:
    - Aggregate investment income subject to Part I tax
    - Ineligible for small business or general rate reduction in tax rate
    - Impact on Refundable Dividend Tax on Hand (RDTOH) account
- Explain the income tax impact of interest income received by a trust.
    - When maintained in the trust
    - When distributed to beneficiary(ies) of the trust

9.6.6 INCOME RECEIVED FROM PENSIONS OR REGISTERED SAVINGS PLANS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the types of income that may be received from pensions or registered savings plans.
- Explain the tax treatment of receiving each type of income.
- Estimate the tax impact of receiving each type of income.

9.6.7 INCOME RECEIVED BY INDIVIDUALS WITH A DISABILITY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify the types of income that may be received by individuals with a disability.
- Explain the tax treatment of receiving each type of income.
- Estimate the tax impact of receiving each type of income.

9.6.8 NON-TAXABLE INCOME AND RECEIPTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify sources of non-taxable income.
- Explain the tax treatment of income earned from the investment of non-taxable income.

9.6.9 TAXATION FOR FIRST NATIONS PEOPLE IN CANADA

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify that an individual must be registered as an Indian† with Aboriginal Affairs and Northern Development Canada to be eligible for exemption from tax.
- Identify types of tax exemptions that an individual may be eligible for based on their registration as an Indian, such as:
  - Income earned on a reserve
  - Purchases made on a reserve
  - Investment income situated on a reserve
  - Dispositions of property situated on a reserve
- Identify factors that the Canada Revenue Agency may use to determine if income is connected to a reserve, such as:
  - Residence of the individual earning income on a reserve
  - Duties of employment are performed on a reserve
  - Investment income is situated on a reserve
  - Residence of employer on a reserve
  - Business activities of self-employed individuals occurs on or from a reserve
- Explain how income for an Indian is treated for tax purposes.
  - For employment income
  - For self-employed business income

    - For interest and investment income
    - For rental income
    - For capital gains
    - For Registered Retirement Savings Plan income
    - For Old Age Security benefits
- Explain how purchases made by an Indian are treated for tax purposes.
    - For purchases made on a reserve
    - For purchases made off a reserve
- Explain how deductions are treated for tax purposes.
    - Canada Pension Plan contributions
    - Employment Insurance premiums

Additional Knowledge Expected of CFP Professionals

- Explain how income for an Indian is treated for tax purposes.
    - For royalty income
    - For United States Social Security benefits
    - For pension income from the United States
    - For support payments
    - For income received from a trust

† The term "Indian" is used here to align with the legal definition of an Indian under the Indian Act.

9.6.10 CAPITAL GAINS FOR INVESTORS

Knowledge Common to Both QAFP Professionals and CFP Professionals

Capital Property

- Identify factors that the Canada Revenue Agency considers when determining whether property is capital property, such as:
    - Intention at purchase date
    - Frequency of disposition
- Identify that property acquired for the purpose of generating income may be disallowed by the Canada Revenue Agency as capital property.
- Define types of capital property, such as:
    - Non-depreciable capital property
        - Personal-use property
        - Listed personal property
        - Other property
    - Depreciable capital property
    - Eligible capital property

Acquisition and Disposition of Property

- Identify when the Canada Revenue Agency considers that an individual has disposed of property.
- Define terms associated with the acquisition and disposition of property, such as:
    - Adjusted cost base
    - Deemed acquisition
    - Deemed cost
    - Fair market value
    - Proceeds of disposition
    - Deemed proceeds of disposition
    - Undepreciated capital cost (for depreciable property)
    - Outlays and expenses
    - Inclusion rate
    - Inadequate consideration
- Explain when inadequate consideration applies to the disposition of property.
- Explain the tax impact of inadequate consideration.
- Define types of dispositions, such as:
    - Actual disposition
        - Voluntary disposition
        - Involuntary disposition
    - Deemed disposition

Capital Gains

- Define terms associated with capital gains, such as:
    - Capital gain
    - Taxable capital gain
- Explain the impact of a capital gain when property is transferred between spouses or common-law partners on:
    - Taxation
    - Adjusted cost base
- Estimate the capital gain and taxable capital gain resulting from the disposition of capital property.
    - Non-depreciable capital property
        - Personal-use property
        - Listed personal property
        - Other property
    - Depreciable capital property
- Explain the income tax treatment to an individual from a capital gain.
- Estimate the income tax impact to an individual from a capital gain.

Principal Residence Exemption

- Identify criteria for a property to qualify as a principal residence in Canada.
- Identify that a process exists for claiming the principal residence exemption.

Additional Knowledge Expected of CFP Professionals

Capital Property

- Define Valuation Day.

Acquisition and Disposition of Property

- Define former business property (FBP).
- Explain ways in which former business property may be disposed.
    - Involuntary
    - Voluntary
- Explain the eligibility requirements for property to qualify as replacement property under the replacement property rules.

9.6.11 CAPITAL LOSSES FOR INVESTORS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define values associated with capital losses, such as:
    - Capital loss
    - Allowable capital loss
    - Non-capital loss
    - Net capital loss
    - Terminal loss
- Define a recapture of capital cost (for depreciable property).
- Estimate the capital loss and allowable capital loss resulting from the disposition of capital property.
    - Non-depreciable capital property
    - Personal-use property
    - Listed personal property
    - Other property
- Identify how a capital loss for depreciable capital property is handled.
- Explain the carryforward and carryback provisions for net capital losses.
    - For listed personal property
    - For other capital property
- Define an affiliated person
- Define a superficial loss.
- Identify when a loss may not be considered a superficial loss.
- Explain the income tax treatment of a superficial loss.

    - For the transferor
    - For the transferee
- Explain how the adjusted cost base of property is affected by a superficial loss.
- Define a cumulative net investment loss (CNIL).
- Identify the significance of a cumulative net investment loss.

Additional Knowledge Expected of CFP Professionals

- Estimate a superficial loss.
- Define a business investment loss.
- Define an allowable business investment loss (ABIL).
- Explain the carryforward and carryback options available for an allowable business investment loss.
- Explain the significance of a cumulative net investment loss.

9.6.12 DIVIDEND INCOME RECEIVED BY INVESTORS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define types of dividends, such as:
    - Eligible
    - Other than eligible
    - Capital
    - Foreign

Dividends Received by an Individual from a Canadian Corporation

- Explain the purpose of the federal dividend tax credit.
- Identify the gross-up rates for dividend income received from a Canadian corporation.
- Estimate the dividend gross-up for dividend income received from a Canadian corporation.
- Explain the dividend tax credit for dividend income received from a Canadian corporation.
    - For eligible dividends
    - For other than eligible dividends
- Explain the income tax treatment of dividend income received from a Canadian corporation.
- Explain the criteria for dividend income to be transferred between spouses.

Dividends Received by an Individual from a Non-Resident (Foreign) Corporation

- Explain the tax treatment of dividend income received from a non-resident (foreign) corporation.
- Identify that a foreign dividend tax credit may exist and be applied to dividend income received from a non-resident (foreign) corporation.

Dividends Received by an Individual from a Trust

- Explain the tax treatment of receiving dividends from a trust.

Additional Knowledge Expected of CFP Professionals

- Estimate the income tax impact of dividend income received from a Canadian corporation.
- Estimate the income tax impact of dividend income received from a non-resident (foreign) corporation.
- Estimate the income tax impact of dividend income received from a trust.

9.7 OTHER INCOME FOR TAX PURPOSES

9.7.1 FOREIGN PROPERTY REPORTING

Additional Knowledge Expected of CFP Professionals

- Define specified foreign property.
- Identify that there are reporting requirements for Canadian resident individuals, corporations and certain trusts that own specified foreign property with a cost of more than $100,000.
- Explain that an individual who is classed as a dual resident for tax purposes of Canada and a foreign nation may be subject to double taxation because of differences in tax legislation between the countries.

9.7.2 RENTAL INCOME FOR INVESTORS

Additional Knowledge Expected of CFP Professionals

- Identify types of income that are included in gross rental income.
- Define a current expense.
- Define a capital expenditure.
- Identify expenses that may be deducted in the calculation of net rental income.
- Explain advantages and disadvantages of claiming capital cost allowance for a rental property.

9.7.3 DIVIDEND INCOME RECEIVED BY INVESTORS - OTHER TOPICS

Additional Knowledge Expected of CFP Professionals

Dividends Received by a Canadian Controlled Private Corporation (CCPC) from a Canadian Corporation

- Explain the tax treatment of dividend income received by a Canadian-controlled private corporation from a Canadian corporation, such as:
    - Generally, not subject to Part I tax
    - Subject to Part IV tax
    - Impact on Refundable Dividend Tax on Hand (RDTOH) Account

Dividends Received by a Trust from a Canadian Corporation

- Explain the tax treatment of dividend income received by a trust from a Canadian corporation.
    - When maintained in the trust
    - When distributed to beneficiary(ies) of the trust

9.7.4 CAPITAL GAINS FOR INVESTORS - OTHER TOPICS

Additional Knowledge Expected of CFP Professionals

Capital Gains Deduction

- Identify requirements for claiming a capital gains deduction.
- Define an eligible small business corporation.
- Define eligible small business corporation shares.
- Define eligible individuals who may claim a capital gains deduction.
- Define qualified properties for the capital gains deduction.
  - Qualified small business corporation shares
  - Qualified farm property
  - Qualified fishing property
- Identify the maximum amount of the current capital gains deduction limit.
  - For qualified small business corporation shares
  - For qualified farm property
  - For qualified fishing property
- Identify amounts that limit a taxpayer's claim for the capital gains deduction, such as:
  - Cumulative net income loss
  - Allowable business investment loss
  - Previously used amount of the capital gains deduction
- Determine the factors to consider in determining the amount of the capital gains deduction that should be claimed, such as:
  - Remaining availability of capital gains deduction
  - Availability of capital losses
  - Current marginal tax rate
  - Expected marginal tax rate based on amount of capital gains deduction claimed
  - Future need for capital gains deduction
  - Cash flow needs
  - Impact of Alternative Minimum Tax
  - Impact on asset's adjusted cost basis
- Explain methods that may be used to maximize the capital gains exemption.
- Explain the income tax impact to an individual from claiming the capital gains deduction.

Deferral of Capital Gains / Capital Gains Reserve

- Explain circumstances where capital gains may be deferred, such as:
  - When capital property is transferred to a spouse or common-law partner
  - When capital property is transferred to the surviving spouse, common-law partner or qualifying spousal or common-law partner trust of a deceased taxpayer
  - When capital property is transferred to an alter ego or joint partner trust by a taxpayer

- When capital property is transferred to a corporation by a taxpayer who is or becomes a shareholder of the corporation
- When capital property is transferred to a partnership by a taxpayer who is a partner or receives an interest in the partnership
- When an inter vivos transfer of farm property occurs between a taxpayer and their child or at death, subject to certain limitations
- When shares of a Canadian small business corporation are disposed of and the proceeds of the shares are reinvested into another Canadian small business corporation

- Define a capital gains reserve.
- Explain requirements for claiming a capital gains reserve such as:
    - Holding period of eligible small business corporation shares
    - Maximum period over which the deferral may be claimed
    - Maximum time frame for acquisition of replacement property
- Identify that the capital gains reserve may not be claimed upon the death of an individual.
- Explain the income tax treatment on deferred capital gains on a transfer of capital property.
- Explain circumstances when income attribution may still apply despite capital gains being deferred, such as:
    - Transfer of capital property to a spouse or common-law partner
    - Transfer of capital property to a child
- Determine the factors to consider in determining the timing and amount of the capital gains reserve that should be claimed, such as:
    - Amount of sale proceeds not yet received
    - Availability of capital losses
    - Current marginal tax rate
    - Expected marginal tax rate if full gain was realized in one year
    - Future expected marginal tax rates in years that gain could be spread over
    - Cash flow needs
    - Type of asset sold
    - Legislated government amount

Principal Residence Exemption

- Identify criteria for a property to qualify as a principal residence in Canada.
- Identify that a process exists for claiming the principal residence exemption.
- Identify housing units that may qualify as a principal residence.
- Explain the principal residence exemption for Canadian residents for a property located in Canada.
- Explain rules associated with designating multiple properties as principal residences in Canada.

- Estimate the principal residence exemption that a taxpayer may claim.
- Determine the factors to consider in determining the amount of the principal residence exemption that should be claimed when two or more properties qualify for the exemption, such as:
    - Current marginal tax rate
    - Capital gain on each property
    - Length of ownership of each property
    - Future use of remaining property(ies)
    - Expected growth in remaining property(ies)
    - Availability of capital losses that may be applied against property(ies)
    - Cash flow needs

9.8 INCOME RECEIVED BY SELF-EMPLOYED BUSINESS OWNERS

9.8.1 INCOME RECEIVED BY SELF-EMPLOYED BUSINESS OWNERS

Additional Knowledge Expected of CFP Professionals

- Explain the factors the Canada Revenue Agency considers when determining whether an individual is self-employed or an employee.
- Explain that any undertaking for the purposes of business must have a reasonable expectation of profit in order for income earned to be classed as self-employment income and allowable deductions to be permitted against such income.
- Explain the factors the Canada Revenue Agency considers when determining if a business has a reasonable expectation of profit.
- Identify the types of self-employment income.
- Explain the tax impact of receiving each type of income.
- Estimate the tax impact of receiving each type of income.
- Explain the methods of accounting used by businesses.
    - Cash
    - Accrual

9.8.2 INCOME RECEIVED FROM FARMING AND FISHING

Additional Knowledge Expected of CFP Professionals

- Define farming income for income tax purposes.
- Define fishing income for income tax purposes.

9.9 TAX DEDUCTIONS AND TAX CREDITS FOR INDIVIDUALS

9.9.1 FOUNDATIONS OF TAX DEDUCTIONS AND CREDITS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a tax deduction.
- Explain the purpose of a tax deduction.
- Identify when claiming a deduction may be beneficial.
- Define a tax credit.
- Define the types of tax credits.
    - Non-refundable
    - Refundable
- Explain the purpose of each type of tax credit.
- Identify when claiming a tax credit may be beneficial.
- Explain the impact on taxes payable of a:
    - Tax deduction
    - Tax deduction as income varies
    - Non-refundable tax credit when taxes payable exist
    - Non-refundable tax credit when taxes payable do not exist
    - Refundable tax credit when taxes payable exist

9.9.2 FEDERAL TAX DEDUCTIONS AND CREDITS FOR INDIVIDUALS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify federal tax deductions and credits for individuals.
- Explain eligibility criteria for federal tax deductions and credits for individuals.
- Identify federal non-refundable tax credits that may be transferred from a taxpayer to their spouse or common-law partner if the taxpayer does not require the whole amount to reduce their federal tax payable to zero.
- Identify federal non-refundable tax credits that may be transferred from a taxpayer's child to the taxpayer if the child does not require the whole amount to reduce their federal tax payable to zero.

Additional Knowledge Expected of CFP Professionals

- Estimate the tax impact of claiming a federal tax deduction or credit for individuals.
- Identify that federal foreign tax credits may exist for income earned or received from a foreign country.

9.9.3 FEDERAL TAX DEDUCTIONS AND CREDITS FOR EMPLOYEES

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify federal tax deductions and credits for employees.
- Explain eligibility criteria for federal tax deductions and credits for employees.

Additional Knowledge Expected of CFP Professionals

- Identify employment expenses that may be deducted against employment income.
    - For salaried employees
    - For commission employees
    - For transportation employees
    - For forestry operations
    - For employed artists
    - For employed tradespersons
- Estimate the tax impact of claiming a federal tax deduction or credit for employees.

9.9.4 FEDERAL TAX DEDUCTIONS AND CREDITS FOR SENIORS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify federal tax deductions and credits for seniors.
- Explain eligibility criteria for federal tax deductions and credits for seniors.

Additional Knowledge Expected of CFP Professionals

- Estimate the tax impact of claiming a federal tax deduction or credit for seniors.

9.9.5 FEDERAL TAX DEDUCTIONS AND CREDITS FOR FAMILIES AND CAREGIVERS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify federal tax deductions and credits for families and caregivers.
- Explain eligibility criteria for federal tax deductions and credits for families and caregivers.

Additional Knowledge Expected of CFP Professionals

- Estimate the tax impact of claiming a federal tax deduction or credit for families and caregivers.

9.9.6 FEDERAL TAX DEDUCTIONS AND CREDITS FOR STUDENTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify federal tax deductions and credits for students.
- Explain eligibility criteria for federal tax deductions and credits for students.

Additional Knowledge Expected of CFP Professionals

- Estimate the tax impact of claiming a federal tax deduction or credit for students.

9.9.7 FEDERAL TAX DEDUCTIONS AND CREDITS ASSOCIATED WITH PENSIONS AND REGISTERED SAVINGS PLANS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify federal tax deductions and credits for individuals with a pension or registered retirement savings plan.
- Explain eligibility criteria for federal tax deductions and credits for individuals with a pension or registered retirement savings plan.

Additional Knowledge Expected of CFP Professionals

- Estimate the tax impact of claiming a federal tax deduction or credit for individuals with a pension or registered retirement savings plan.

9.9.8 FEDERAL TAX DEDUCTIONS AND CREDITS FOR INDIVIDUALS WITH A DISABILITY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify federal tax deductions and credits for individuals with a disability.
- Explain eligibility criteria for federal tax deductions and credits for individuals with a disability.

Additional Knowledge Expected of CFP Professionals

- Estimate the tax impact of claiming a federal tax deduction or credit for individuals with a disability.

9.9.9 PROVINCIAL AND TERRITORIAL TAX DEDUCTIONS AND CREDITS FOR INDIVIDUALS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify provincial tax or territorial tax credits for individuals.
- Explain eligibility criteria for provincial or territorial tax credits for individuals.

Additional Knowledge Expected of CFP Professionals

- Estimate the tax impact of claiming a provincial or territorial tax credit for individuals.
- Identify that provincial or territorial foreign tax credits may exist for income earned or received from a foreign country.

9.10 TAX DEDUCTIONS FOR SELF-EMPLOYED BUSINESS OWNERS

9.10.1 FEDERAL TAX DEDUCTIONS FOR SELF-EMPLOYED BUSINESS OWNERS

Additional Knowledge Expected of CFP Professionals

- Explain the factors the Canada Revenue Agency may consider when determining the deductibility of an expense incurred in the pursuit of a business profit, such as:
  - Reasonability of expense
  - Incurred to earn business income
- Identify expenses for which a self-employed individual may claim a deduction.
- Explain eligibility requirements for a deduction that may be claimed by a self-employed individual.

Capital Cost Allowance (CCA)

- Identify opportunities when capital cost allowance may be claimed.
- Define terms associated with capital cost allowance such as:
  - Capital cost
  - Depreciable property
  - Fair market value (FMV)
  - Proceeds of distribution
  - Undepreciated capital cost (UCC)
- Identify classes of depreciable property.
- Explain capital cost allowance.
  - For the first year of ownership of an asset
  - For each year subsequent to the first year of ownership of the asset
- Define a terminal loss.
- Define a recapture of capital cost allowance.
- Explain potential risks to an individual associated with claiming capital cost allowance deductions for a personal residence.
- Explain the income tax treatment resulting from the disposition of depreciable capital property.

9.10.2 FEDERAL TAX DEDUCTIONS FOR CREDITS FOR FARMING AND FISHING

Additional Knowledge Expected of CFP Professionals

- Identify that expenses related to farming can be deducted in the calculation of net farming income.
- Identify that restrictions exist for net farming losses.
- Identify that expenses related to fishing can be deducted in the calculation of net fishing income.

9.11 INCOME ATTRIBUTION

9.11.1 INCOME ATTRIBUTION

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define income attribution.
- Define beneficial interest.
- Explain the purpose of the income attribution rules.
- Identify individuals who the Canada Revenue Agency deems to be related persons.
- Identify individuals who the Canada Revenue Agency deems to be unrelated persons.
- Explain how the Canada Revenue Agency views dealings between individuals with respect to arm's length.
    - When they are related persons
    - When they are unrelated persons
- Explain criteria used in determining whether parties to a transaction are dealing at arm's length.
- Identify when income attribution may exist.
    - Between spouses or common-law partners
    - Between a parent and an adult child
    - Between a parent and a related minor child

Additional Knowledge Expected of CFP Professionals

- Estimate the potential income tax impact that may occur due to the transfer of property.
    - Between spouses or common-law partners
    - Between a parent and an adult child
    - Between a parent and a related minor child

9.12 FOUNDATIONS OF INCOME SPLITTING FOR INDIVIDUALS

9.12.1 INCOME SPLITTING FOUNDATIONS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define income splitting.
- Explain the purpose of income splitting.

9.12.2 INCOME SPLITTING USING REGISTERED PLANS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain methods for splitting income using pension and registered plans, such as:
    - Contributing to a spousal Registered Retirement Savings Plan for which the taxpayer's spouse or common-law partner is the annuitant
    - Gifting property to spouse or common-law partner to invest in a Tax-Free Savings Account
    - Contributing to a Registered Education Savings Plan for which the taxpayer's child or grandchild is the beneficiary
    - Contributing to a Registered Disability Savings Plan for which the taxpayer's child or grandchild is the beneficiary
    - Sharing Canada Pension Plan retirement pension income with spouse or common-law partner
    - Splitting eligible pension income with spouse or common-law partner
- Explain eligibility criteria for splitting pension income.
    - Sharing Canada Pension Plan retirement pension income with spouse or common-law partner
    - Splitting eligible pension income with spouse or common-law partner
- Explain the estimated income tax impact for each income-splitting method.
- Determine how each of these factors may impact the suitability of investors splitting income:
    - Marginal tax rate differential between the taxpayer and annuitant
        - In current year
        - In future years when withdrawals are made, if applicable
    - Impact on net taxes paid by the taxpayer and annuitant
    - Income attribution rules
    - Potential impact on government benefits
    - Potential impact on government-sponsored savings plans, including grants and bonds
    - Potential impact on ownership of assets
    - Potential impact on creditor protection of assets
    - Cost and fees associated with implementing the strategy to split income

- Evaluate how each of the factors may impact the suitability of splitting income using registered plans.

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of investors splitting income:
    - Potential for CRA to deem method unreasonable and used only for tax avoidance under General Anti-Avoidance Rules (GAAR)
- Estimate the income tax impact for each income-splitting method.

9.12.3 INCOME SPLITTING FOR SENIORS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain methods by which seniors may split income, such as:
    - Sharing Canada Pension Plan retirement pension income with spouse or common-law partner
    - Splitting eligible pension income with spouse or common-law partner
- Explain eligibility criteria for seniors to split income.
    - Sharing Canada Pension Plan retirement pension income with spouse or common-law partner
    - Splitting eligible pension income with spouse or common-law partner
- Explain the estimated income tax impact of each income-splitting method.
- Determine how each of these factors may impact the suitability of seniors splitting income:
    - Marginal tax rate differential between the taxpayer and spouse
        - In current year
        - In future years when withdrawals are made, if applicable
    - Impact on net taxes paid by the taxpayer and spouse
    - Income attribution rules
    - Potential impact on government benefits
    - Potential impact on government-sponsored savings plans, including grants and bonds
    - Potential impact on ownership of assets
    - Potential impact on creditor protection of assets
    - Cost and fees associated with implementing the strategy to split income
- Evaluate how each of the factors may impact the suitability of seniors splitting income.

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of seniors splitting income:
    - Potential for CRA to deem method unreasonable and used only for tax avoidance under General Anti-Avoidance Rules (GAAR)
- Estimate the income tax impact of each income-splitting method.

9.12.4 INCOME SPLITTING WITH INDIVIDUALS WITH A DISABILITY

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Identify methods by which income-splitting may be accomplished with an individual with a disability, such as:
  - Contributing to a Registered Disability Savings Plan for which the individual is a beneficiary

Additional Knowledge Expected of CFP Professionals

- Estimate the income tax impact for each income-splitting method.
- Determine how each of these factors may impact the suitability of splitting income with individuals with a disability:
  - Marginal tax rate differential between the taxpayer and individual with a disability
    - In current year
    - In future years when withdrawals are made, if applicable
  - Impact on net taxes paid by the taxpayer and individual with a disability
  - Income attribution rules
  - Potential impact on government benefits
  - Potential impact on government-sponsored savings plans, including grants and bonds
  - Potential impact on ownership of assets
  - Potential impact on creditor protection of assets
  - Potential for CRA to deem method unreasonable and used only for tax avoidance under General Anti-Avoidance Rules (GAAR)
  - Cost and fees associated with implementing the strategy to split income
- Evaluate how each of the factors may impact the suitability of splitting income with an individual with a disability.

9.12.5 INCOME SPLITTING WITH STUDENTS

Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain methods by which income splitting may be accomplished with a student, such as:
  - Contributing to a Registered Education Savings Plan for which the student is a beneficiary
- Explain the estimated income tax impact for each income-splitting method.
- Determine how each of these factors may impact the suitability of splitting income with students:
  - Marginal tax rate differential between the taxpayer and student
    - In current year
    - In future years when withdrawals are made, if applicable
  - Impact on net taxes paid by the taxpayer and student
  - Income attribution rules
  - Potential impact on government benefits

    - Potential impact on government-sponsored savings plans, including grants and bonds
    - Potential impact on ownership of assets
    - Potential impact on creditor protection of assets
    - Cost and fees associated with implementing the strategy to split income
- Evaluate how each of the factors may impact the suitability of splitting income with students.

Additional Knowledge Expected of CFP Professionals

- Determine how each of these factors may impact the suitability of splitting income with students:
    - Potential for CRA to deem method unreasonable and used only for tax avoidance under General Anti-Avoidance Rules (GAAR)
- Estimate the income tax impact for each income-splitting method.

9.13 INCOME SPLITTING FOR INVESTORS

9.13.1 INCOME SPLITTING FOR INVESTORS

Additional Knowledge Expected of CFP Professionals

- Define prescribed interest rate.
- Explain how the prescribed interest rate must be used when engaging in income-splitting opportunities that require it.
- Explain methods by which investors may split income, such as:
  - Investing income in lower-income spouse or common-law partner's name
  - Transferring capital losses to a spouse or common-law partner
  - Loaning† funds to spouse or common-law partner for investment or business purposes
  - Gifting or loaning† property to adult child
  - Gifting or loaning property to adult child for the purchase of a principal residence
  - Gifting capital gains-producing property to minor child
- Explain the income tax treatment for each income-splitting method.
- Determine how each of these factors may impact the suitability of investors splitting income:
  - Marginal tax rate differential between the taxpayer and investor
    - In current year
    - In future years when withdrawals are made, if applicable
  - Impact on net taxes paid by the taxpayer and investor
  - Income attribution rules
  - Potential impact on government benefits
  - Potential impact on government-sponsored savings plans, including grants and bonds
  - Potential impact on ownership of assets
  - Potential impact on creditor protection of assets
  - Potential for CRA to deem method unreasonable and used only for tax avoidance under General Anti-Avoidance Rules (GAAR)
  - Cost and fees associated with implementing the strategy to split income

† The loan must be made at the prescribed rate, at a rate that would be agreed upon between arm's-length parties under similar circumstances, and interest paid no later than 30 days after the end of each calendar year in which it becomes payable.

9.14 INCOME SPLITTING FOR SELF-EMPLOYED BUSINESS OWNERS

9.14.1 INCOME SPLITTING FOR SELF-EMPLOYED BUSINESS OWNERS

Additional Knowledge Expected of CFP Professionals

- Explain methods for how self-employed business owners may split income, such as:
  - Paying reasonable wages to spouse, common-law partner, adult or minor child for services performed in the operation of a business owned by the taxpayer
  - Paying reasonable director's fee to spouse, common-law partner, or adult child for services performed in the operation of a corporation owned by the taxpayer
  - Paying reasonable guarantee fee to spouse, common-law partner or adult child for services performed in the operation of a business owned by the taxpayer
  - Creating a business with shared ownership between a taxpayer and spouse
  - Adding adult family members as shareholders to a corporation to receive dividends
  - Adding adult family members as shareholders to a corporation owned by the taxpayer to maximize the capital gains deduction
  - Establishing a family trust
- Identify that Tax on Split Income (TOSI) rules impact methods of income splitting.
- Explain how Tax on Split Income (TOSI) rules impact methods of income splitting.
- Explain terms used in the application of TOSI rules, including:
  - Related business
  - Specified individual
  - Excluded amount
  - Excluded shares
  - Excluded business
  - Reasonable return
- Explain the income tax treatment for each income splitting method.
- Determine how each of these factors may impact the suitability of self-employed business owners splitting income:
  - Marginal tax rate differential between the taxpayer and self-employed business owner.
  - In current year
  - In future years when withdrawals are made, if applicable
  - Impact on net taxes paid by the taxpayer and self-employed business owner.
  - Income attribution rules
  - Potential impact on government benefits
  - Potential impact on government-sponsored savings plans, including grants and bonds
  - Potential impact on ownership of assets
  - Potential impact on creditor protection of assets

    - Potential for CRA to deem method unreasonable and used only for tax avoidance under General Anti-Avoidance Rules (GAAR)
    - Cost and fees associated with implementing the strategy to split income
- Evaluate how each of the factors may impact the suitability of self-employed business owners splitting income.

9.15 TAX SHELTERS

9.15.1 TAX SHELTERS

Additional Knowledge Expected of CFP Professionals

- Define a tax shelter.
- Explain risks of participating in a tax shelter.
- Explain potential reassessments that can be made to an individual's income tax return if the benefits received from a tax shelter are denied.

9.16 UNITED STATES TAXATION

9.16.1 UNITED STATES PERSONS

Additional Knowledge Expected of CFP Professionals

- Identify that income tax obligations in the United States are based on citizenship and residency status.
- Identify that residency is established on a case-by-case basis.
- Define a "United States Person" under the Internal Revenue Code of the United States.
- Define an "Alien" for United States taxation purposes.
- Explain the tests for determining if an individual is a United States resident for income tax purposes.
    - Green card test
    - Substantial presence test
- Explain requirements for an individual who qualifies as a resident of the United States under the substantial presence test to be deemed to be a non-resident due to a "closer connection" to another country.
- Identify factors that may establish that an individual has a closer connection to a country outside of the United States.
- Identify that United States persons are required to pay tax on their worldwide income.
- Identify that United States persons may be required to file an annual tax return with the Internal Revenue Service (IRS).

9.16.2 TAXATION OF INVESTMENTS OWNED BY UNITED STATES PERSONS

Additional Knowledge Expected of CFP Professionals

Taxation of Investments Owned by United States Persons

- Identify types of accounts that a United States Person may have to report under the Report of Foreign Bank and Financial Accounts (FBAR), such as:
    - Personal financial accounts which they own or for which they have signing authority
    - Commercial financial accounts at a business for which they may have ownership or signing authority
    - Trusts for which they have signing authority
    - Estates for which they have signing authority
- Define types of foreign corporations denoted under the Internal Revenue Code of the United States, such as:
    - Controlled Foreign Corporations (CFC)
    - Passive Foreign Income Company (PFIC)
- Identify that any United States Person who as a shareholder owns greater than 10% of the stock in a Controlled Foreign Corporation (CFC) must report and include a share of the income of the corporation in their personal income.

- Identify accounts where a United States person may be responsible for reporting the ownership of a passive foreign income company, such as:
    - Non-Registered
    - Registered Education Savings Plan
    - Tax-Free Savings Account
- Identify types of investments that may be considered a Passive Foreign Income Company, such as:
    - Canadian mutual funds
    - Canadian exchange traded funds (ETF)
    - Canadian income trusts
    - Canadian pooled funds
- Identify when a United States Person may be exempted from reporting ownership of a passive foreign income company (PFIC), such as:
    - No distributions from the passive foreign income corporation (PFIC) occurred during the year
    - No dispositions of the passive foreign income corporation (PFIC) occurred during the year
    - Year-end value of all passive foreign income corporations (PFICs) held is less than $25,000
    - The passive foreign income corporation (PFIC) is held in a registered pension plan, Registered Retirement Savings Plan or Registered Retirement Income Fund
- Identify that there may be tax implications when holding passive foreign income corporations (PFIC).
- Explain the tax treatment applied to a passive foreign income corporation (PFIC) owned by a United States Person who fails to report and file an election for the passive foreign income corporation (PFIC) they own, such as:
    - Any gains upon disposition or distributions received from the passive foreign income corporation (PFIC) during the year greater than 125% of the average distributions received during the previous three years will be taxed as ordinary income (i.e., back to the commencement of ownership of the passive foreign income corporation (PFIC))
    - Amounts allocated to prior years will be taxed at highest marginal tax rate and subject to interest
- Identify that the passive foreign income corporation (PFIC) rules do not apply in the first year of owning the PFIC.
- Identify that there may be additional U.S. tax impacts for an individual with a business interest in a private Canadian corporation.
- Identify factors that an individual should consider before renouncing their citizenship to avoid the reporting and tax requirements of a United States person, such as:

- Legal and tax filing
- Tax filing requirements
- Expatriation tax
- Administrative costs
- Loss of access to enter United States
- Loss of ability to work in United States
- Loss of potential benefits to current or future children of being U.S. person
- Loss of voting privileges in United States
- Amount of potential current and future tax being saved

Investing in Canadian Registered Plans by United States Persons

- Explain how registered retirement savings plans owned by United States persons are treated by the Internal Revenue Service, such as:
  - Deductibility of contributions
  - Growth of assets while assets remain in plan
  - Income earned within plan
  - Withdrawals from plan
- Identify the impact of employer contributions to a Registered Pension Plan (RPP) or Deferred Profit-Sharing Plan (DPSP) for United States persons residing in Canada when completing their United States tax return.
  - Non-deductibility of contribution amount
  - Contribution taxable when vested
  - Excluded from foreign earned income exclusion
  - Foreign tax carryover credit may be applicable

9.16.3 UNITED STATES ESTATE TAX

Additional Knowledge Expected of CFP Professionals

- Define U.S. situs property.
- Identify that U.S estate tax may apply to any individual with U.S. situs property.
- Identify property that may be included in the valuation of worldwide estate for U.S. estate tax purposes.
- Identify property that may not be included in the valuation of worldwide estate for U.S. estate tax purposes.
- Estimate the value of an individual's worldwide estate.
- Define the unified credit.
- Identify the current limit of the unified credit at which United States estate taxes are not payable.
- Identify the current limit of an individual's worldwide estate at which United States estate taxes are not payable.

- Identify when United States estate tax may be payable.
    - Value of United States estate
    - Value of worldwide estate
- Explain when a non-resident may need to file an estate return in the United States.

9.17 TAX CONSEQUENCES AT DEATH

9.17.1 TAX RETURNS FOR THE DECEASED

Additional Knowledge Expected of CFP Professionals

- Identify types of tax returns for a deceased individual.
  - Mandatory
  - Optional
- Explain the purpose of optional returns for a deceased taxpayer.
- Identify due dates for tax returns upon death.
  - For the final tax return
  - For the rights or things tax return
  - For a return for a partner or proprietor
  - For a return for income from a testamentary trust
- Explain the purpose of acquiring a clearance certificate from the Canada Revenue Agency.
- Explain the risk to the personal representative or estate administrator of distributing assets prior to receiving a clearance certificate from the Canada Revenue Agency.
- Identify the requirement for the personal representative or estate administrator to receive a clearance certificate from the Canada Revenue Agency to confirm acceptance of the final tax return(s).
  - Final return clearance certificate
  - Distribution of assets clearance certificate
- Identify documentation a personal representative or estate administrator may choose to obtain in the act of closing an estate, such as:
  - Clearance certificate from the Canada Revenue Agency
  - Valid releases from beneficiaries
  - Application to the court for passing of accounts

9.17.2 TAXATION OF THE DECEASED

Additional Knowledge Expected of CFP Professionals

- Explain how the death of an individual may be treated for income tax purposes.
  - When the deceased owned capital property at the time of their death
  - When the deceased owned non-depreciable capital property at the time of their death
  - When the deceased owned depreciable capital property at the time of their death
- Explain how net capital losses may be used for a deceased taxpayer.
- Explain how medical expenses may be claimed on the return for a deceased individual.
- Explain how charitable donations may be used for a deceased taxpayer
- Identify the availability of donation tax credits for:

- Donations of the deceased and
- Donations of the estate

9.18 TRUSTS

9.18.1 TAXATION OF INTER VIVOS TRUSTS

Additional Knowledge Expected of CFP Professionals

- Define an inter vivos trust.
- Identify how an inter vivos trust is viewed in relation to the parties to the trust for tax purposes.
- Explain how property transferred into an inter vivos trust may be treated for tax purposes.
- Explain circumstances when a tax-deferred transfer of capital property may be made into an inter vivos trust.
- Identify circumstances when an election to opt out of a tax-deferred rollover of property into an inter vivos trust may be beneficial, such as:
    - Settlor has carry-forward capital losses that may be used to offset capital gains upon deemed disposition of property
    - Settlor has capital gain deduction limit that may be used upon deemed disposition of property
- Explain how income earned by an inter vivos trust will be taxed.
    - For income retained by a trust
    - For income distributed to the beneficiaries
- Explain when property is deemed to have been disposed of by an inter vivos trust.
    - For a spousal trust
    - For an alter ego trust
    - For a joint partner trust
    - For all other trusts
- Define a preferred beneficiary of a trust for income tax purposes.
- Explain the value at which capital property may be transferred to a beneficiary from an inter vivos trust.
    - When the trust is irrevocable
    - When the trust is revocable
- Identify that an election is available where a preferred beneficiary may be allocated income from an inter vivos trust without having the funds distributed to them.
- Identify the tax year-end for an inter vivos trust.
    - For an inter vivos trust
    - For an inter vivos trust in the year the trust is wound up

9.18.2 TAXATION OF TESTAMENTARY TRUSTS

Additional Knowledge Expected of CFP Professionals

- Define a testamentary trust.
- Identify how a testamentary trust is viewed in relation to the parties to the trust for tax purposes.
- Explain how property transferred into a testamentary trust will be treated for tax purposes.
- Identify circumstances when an election to opt out of a tax-deferred rollover of property into a testamentary trust may be beneficial, such as:
    - Settlor has carry-forward capital losses that may be used to offset capital gains upon deemed disposition of property
    - Settlor has capital gain deduction limit that may be used upon deemed disposition of property
- Explain circumstances when a tax-deferred transfer of capital property may be made into a testamentary trust.
- Explain how income earned by a testamentary trust will be taxed.
    - For income retained by a trust within the first 36 months after the settlor's date of death (trust is part of a Graduated Rate Estate)
    - For income retained by a trust after the first 36 months after the settlor's date of death
    - For income distributed to the beneficiaries
    - For trusts where the beneficiary is eligible for the federal Disability Tax Credit (Qualified Disability Trust)
- Explain when property is deemed to have been disposed of by a testamentary trust.
    - For a spousal or common-law partner trust
    - For all other trusts
- Explain the value at which capital property may be transferred to a beneficiary from a testamentary trust.
- Identify the tax year-end for a testamentary trust.
    - During the life of the trust
    - In the year the trust is wound up

9.19 ESTATE FREEZES

9.19.1 ESTATE FREEZES

Additional Knowledge Expected of CFP Professionals

- Define an estate freeze.
- Define types of estate freezes.
    - Full
    - Partial
- Explain the purpose of an estate freeze.
- Identify when an individual may benefit from an estate freeze.
- Explain methods used to implement an estate freeze, such as:
    - Section 86 exchange: Reorganization of common shares for preferred shares
    - Section 85 transfer: Common shares transferred to holding company in return for preferred shares
    - Asset freeze: Unincorporated assets transferred to a corporation in return for shares
    - Use of trusts
    - Stock dividend freeze
- Explain objectives of an estate freeze, such as:
    - Fix capital gain and probate liabilities
    - Lock in a purchase price for the business
    - Gain commitment to the business by future owners
    - Efficient transfer of ownership (to family or key employees)
    - Transfer growth and risk to future owners
    - Provide retirement income to current owners
    - Facilitate income splitting
    - Avoid family / heir disputes
    - Enhance creditor protection of assets
- Explain factors impacting establishment of an estate freeze, such as:
    - Existing owners' life expectancy
    - Existing shareholders lifestyle and income needs
    - Impact of inflation on income needs of existing shareholders
    - Control of ownership of assets / corporation
    - Dynamic of personal relationships
    - Ability of next-generation shareholders to manage ownership of the corporation
    - Ability of next-generation shareholders to manage wealth of corporation
    - Ability of the corporation to fund redemptions as needed of existing shareholders
    - Number of next-generation shareholders that will be involved / affected
    - Costs of implementing estate freeze
    - Current tax implications arising from estate freeze

- Future tax implications arising from estate freeze
- Attribution rules
- Capital gain realized
- Availability of capital gains deduction
- Method of implementing estate freeze
- Potential for re-freeze
- Instructions contained in a will
- Existing legal agreements
- Tax on Split Income (TOSI) rules

9.20 TAXATION OF BUSINESS OWNERSHIP STRUCTURES

9.20.1 TAXATION OF A SOLE PROPRIETORSHIP

Additional Knowledge Expected of CFP Professionals

- Explain how income earned by a sole proprietor is taxed.
- Explain how personal property transferred by a sole proprietor into a sole proprietorship may be treated for tax purposes.
- Explain how property disposed of by a sole proprietorship may be treated for tax purposes.

9.20.2 TAXATION OF A PARTNERSHIP

Additional Knowledge Expected of CFP Professionals

- Define types of income that a partner may receive from a partnership, such as:
    - Income allocation
    - Distribution
- Explain how income earned by a partnership is taxed.
- Explain how Capital Cost Allowance (CCA) is allocated in a partnership.
- Explain how personal property transferred by a partner into a partnership may be treated for tax purposes.
- Explain how property disposed of by a partnership may be treated for tax purposes.
- Define a capital account for a partnership.
- Explain the purpose of a capital account for a partnership.
- Define components of the capital account for a partnership, such as:
    - Contributions
    - Income allocations
    - Draws
- Explain how the balance of the capital account for a partnership is affected by its components.
- Identify components that affect the adjusted cost base of a partner’s partnership interest.
- Explain the tax implications when the adjusted cost base of a partner’s interest in a partnership becomes negative.

9.20.3 TAXATION OF A CANADIAN CONTROLLED PRIVATE CORPORATION

Additional Knowledge Expected of CFP Professionals

- Identify the Canada Revenue Agency’s requirements for a corporation to qualify as a Canadian-controlled private corporation.
- Identify the Canada Revenue Agency’s requirements for a corporation to qualify as a private corporation.
- Identify the Canada Revenue Agency’s requirements for a corporation to qualify as a public corporation.

- Identify the Canada Revenue Agency's requirements for a corporation to qualify as an other corporation.
- Identify methods by which a business owner may draw income or assets from a Canadian-controlled private corporation in which they are a shareholder, such as:
    - Salary or bonus
    - Capital Dividend Account
    - Refundable Dividend Tax on Hand Account
    - Dividends
    - Loans to shareholder
    - Repayment of shareholder loans
    - Repayment of capital
- Explain the theory of integration that aligns the tax liability of a business owner who receives either dividends or a salary from a Canadian-controlled private corporation in which they are a shareholder.
- Explain the tax treatment of a business owner drawing a salary from a Canadian-controlled private corporation in which they are a shareholder.
    - Tax treatment to the business owner
    - Tax treatment to the corporation
- Explain advantages to a business owner of drawing a salary from a corporation in which they are a shareholder.
- Define capital dividend account.
- Define capital dividend.
- Explain the tax treatment of receiving a capital dividend from a Canadian-controlled private corporation.
    - For the business owner
    - For the corporation
- Define a connected Canadian-controlled private corporation.
- Explain the purpose and application of the Small Business Deduction.
- Define the Small Business Limit.
- Identify the effect of receiving passive income on the Small Business Limit for a Canadian-controlled private corporation.
- Define the Refundable Dividend Tax on Hand.
    - Non-eligible RDTOH
    - Eligible RDTOH
- Explain the purpose of the Refundable Dividend Income Tax on Hand.
- Identify that Canadian-controlled private corporations are entitled to the Refundable Dividend Tax on Hand.
- Identify the amounts that a Canadian-controlled private corporation can post to its Refundable Dividend Tax on Hand notional account, such as:

    - An addition equal to a percentage of aggregate investment income from Canadian sources
    - An addition equal to the tax paid on dividends received from a Canadian corporation that is not connected
    - A reduction equal to the amount paid as a dividend out of the Refundable Dividend Tax on Hand account
- Explain the tax treatment of receiving a dividend from a Canadian-controlled private corporation.
    - For the business owner
    - For the corporation
    - For a non-resident shareholder
- Define a shareholder loan.
- Identify the purpose for which a shareholder loan may be used.
- Define paid-up capital.
- Identify the purpose of a business owner removing an amount up to the value of the paid-up capital from a Canadian-controlled private corporation for which they are a shareholder.
    - For the business owner
    - For the corporation
- Identify benefits associated with purifying the assets of a Canadian-controlled private corporation, such as:
    - Qualification for capital gains deduction
    - Creditor protection
- Explain methods to purify the assets of a Canadian-controlled private corporation, such as:
    - Paying dividends out of the company to remove passive assets from the corporation sold
    - Using passive assets to pay down debts
    - Using passive assets to purchase business assets
    - Paying salaries or bonuses to remove passive assets
- Define a personal service business.
- Identify the purposes for which a personal service business (PSB) may be used.
- Define a specified employee.
- Explain the purpose of an operating company.
- Explain the purpose of a holding company.
- Explain advantages of using a holding company, such as:
    - Creditor protection
    - Estate freeze
    - Purification
    - Income splitting
    - Protection from legal claims against operating income
    - Tax deferral opportunities

- Explain disadvantages of using a holding company, such as:
  - Additional costs
  - Additional regulatory and reporting requirements
  - Double taxation may occur
  - Ineligible for capital gains exemption
  - Difficulty obtaining credit