Taxation of Business Organizations – Updates and Errata
Current to July 1, 2016

This supplement serves to advise of the corrections to be made to *Taxation of Business Organizations in Canada* by David Duff and Geoffrey Loomer.

Note from author:

This supplement corrects errors in the first edition of *Taxation of Business Organizations in Canada*, and updates material to reflect amendments up to June 2016. The supplement does not include any revisions regarding repeal of the eligible capital property regime, which is scheduled to come into effect on January 1, 2017.

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p. 223
- in the first paragraph, replace "12(i)(j)" with "12(1)(j)"

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p. 227
- delete indented paragraphs (a) and (b) listing the small business deduction rate for taxation years before 2008 and after 2007, and replace these with the following:

> (a) that proportion of 17% that the number of days in the taxation year that are in 2015 is of the number of days in the taxation year,
> (b) that proportion of 17.5% that the number of days in the taxation year that are after 2015 is of the number of days in the taxation year,

- in the sentence immediately following this, replace the words "thereby effectively reducing the federal corporate income tax rate on qualifying taxable income earned in a province to 12 per cent for the portion of the corporation's taxation years before 2008 and 11 per cent for the portion of the year after 2007" with the following:

> thereby effectively reducing the federal corporate income tax rate on qualifying taxable income earned in a province to 11 per cent for the portion of the corporation's taxation years in 2015 and 10.5 per cent for the portion of the corporation's taxation years in 2016 and subsequent tax years.

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p. 228
- in the first paragraph, delete the sentence beginning "Note also …" including the indented paragraphs, down to the words "this income accordingly."
- change existing references in the paragraph beginning with "While section 215…" from "6 2/3 percent" to "10 $^2/_3$ per cent" and reference from "34 2/3 percent" to "38 $^2/_3$ per cent"

- amend sentence beginning "Introduced in 1995 ..." as follows: "Introduced in 1995 at a rate of 6 $^2/_3$ per cent and increased to 10 $^2/_3$ per cent in 2016 to accompany an increase in the top marginal individual tax rate from 29 per cent to 33 per cent, ..."

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pp. 230-31
- change the words "are currently" in each of the paragraphs explaining combined federal and provincial rates for B.C., Alberta, Ontario, Quebec and Nova Scotia to "were in 2015"

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p. 236
- first sentence: delete "As the following numerical example illustrates" and change present tense in first full sentence to past tense ("is" to "was" and "corresponds" to "corresponded")
- add the following sentence immediately after the amended sentence: "With the reduction in the federal rate for qualifying active business income of a CCPC in 2016, the federal gross-up and dividend tax credit were further amended, with the gross-up decreasing to 17 per cent and the dividend tax credit computed as 21/29 of the federal gross up.
- replace the current table with the following table:

	Income Earned Directly	Income Earned Through Corporation @ 15% Rate (2014)	Income Earned Through Corporation @ 14.5% Rate (2016)
Income	100.00	100.00	100
- Corporate tax		15.00	14.50
= Distributed income		85.00	85.50
+ Gross-up under 82(1)(b)(i)		15.00 (18% of $85)	14.5(17% of $85.5)
= Amount included in income	100.00	100.00	100
Federal tax before credit (at top marginal rate)	2014 2016 29.00 33.00	29.00	33.00
- Federal dividend tax credit		11.00 (13/18 of $15.00)	10.5 (21/29 of $14.50)
= Net federal tax	2014 2019 29.00 33.00	18.00	$22.50
Provincial tax before credit (at assumed 17% rate)	17.00	17.00	17.00
- Assumed provincial dividend tax credit		4.00	4.00
= Net provincial tax		13.00	13.00
Combined individual tax	2014 2019 46.00 50.00	31.00	$35.50
Total tax	2014 2019 46.00 50.00	46.00	$50.00

p. 237

- in the second sentence of the last paragraph on the page, replace the words "for taxation years after 2011" with "for the 2016 taxation year"

p. 238

- replace the existing table with the following table:

	Income Earned Directly	Income Earned Through Corporation
Income	100.00	100.00
- Corporate tax @ 27.5%	-	27.50
= Distributed income		72.50
+ Gross-up under 82(1)(b)(ii)	-	27.50 (38% of $72.50)
= Amount included in income	100.00	100.00
Federal tax before credit at top rate	33.00	33.00
- Federal dividend tax credit		<u>15.00</u> (6/11 of $27.50)
= Net federal tax	33.00	18.00
Provincial tax before credit (at assumed rate of 17%)[1]	17.00	17.00
- Assumed provincial dividend tax credit		12.50 (5/11 of $27.50)
= Net provincial tax	17.00	4.50
Combined individual tax	50.00	22.50
Total Tax	50.00	50.00

[1] The applicable marginal tax rate does not affect integration provided the resulting tax exceeds the provincial credit.

p. 239

- amend footnote 40 to replace the words after "an additional tax of $17 (20 per cent of $85)" with the following: "which would require the corporation to earn an additional $20 of taxable income on which it would be required to pay an additional $3 of tax at a rate of 15 per cent, resulting in aggregate corporate tax of $15 + $17 +$3 = $35, which is approximately 29 per cent of the aggregate corporate income of $100 + $20 = $120, from which the $85 dividend and aggregate corporate taxes are paid."

p. 244

- in the last paragraph, replace the fraction "1/3" with the number "38 1/3%"

p. 245
- replace the first full paragraph (before the table) with the following:

As the following table illustrates, the $38^1/_3$ per cent rate corresponds to the effective rate of tax payable by an individual subject to a marginal tax rate of 51 per cent under an average of the corporate tax rates of 27.5 per cent and 13 per cent that correspond to the applicable gross-up rates of 38 per cent for eligible dividends and 15 per cent for non-eligible dividends that will apply in 2019.

p. 245
- replace the table with the following:

	Gross-up and Credit
Corporate Income	100.00
- Assumed corporate tax	20.25
= Distributed income	79.75
+ Gross-up	20.25
= Amount included in individual's income	100.00
Tax before credit	50.82
Dividend tax credit	20.25
= Net tax on individual	30.57
Effective rate of tax on cash amount of dividend	30.57 / 79.75 = 38.33%

p. 245, footnote 47
- add the following text after the existing text in the note: "Subsection 89(1) defines a "public corporation" at any particular time as either a corporation that is resident in Canada with shares listed on a designated stock exchange in Canada, or a corporation (other than a prescribed labour-sponsored venture capital corporation) that complied with prescribed conditions relating to the number of its shareholders, dispersal of ownership and public trading of its shares that elected in prescribed manner to be a public corporation and did not subsequently elect not to be a public corporation."

pp. 263-64
- in the paragraph running from p. 263 to p. 264, replace the words "non-deductible" (which appear twice in the paragraph) with the words "non-allowable"

p. 265
- in first paragraph continuing from previous page, "individual" should read "individuals"
- in the table at the bottom of the page (which continues over to p. 266), replace the reference to "@ 20%" with "@ 15%) and replace "15 + 51= 9 = 75" with "15 + 51 + 9 = 75"

p. 276
- in the second paragraph of note 2, replace "Revenue Canada" with "the revenue department"

p. 365
- in the first paragraph, replace "17 per cent" with "17.5 per cent"
- in the ninth line of the first paragraph, replace "11 per cent" with "10.5 per cent"
- in footnote 2, delete the second sentence

p. 366
- in the fourth-last line replace "accounting for an estimated $3.17 billion of foregone federal revenue in 2014 – an amount that is projected to increase by over $1.2 billion each year when the rate is reduced to 9 per cent as promised in the 2015 Federal Budget" with "accounting for an estimated $3.62 billion of foregone revenue in 2016."
- replace the text of footnote 13 with the following: "Department of Finance, *Report on Federal Tax Expenditures – Concepts, Estimates and Evaluations 2016* (Ottawa; Department of Finance, 2016) at 31: online https://www.fin.gc.ca/taxexp-depfisc/2016/taxexp16-eng.asp.

p. 404
- replace the second sentence in the first paragraph with "Nonetheless, if this third corporation is not a Canadian-controlled private corporation, the two corporations are deemed not to be associated with each other for the purpose of section 125, and if this third corporation elects not to be associated with either of the other two corporations, the two corporations are deemed not to be associated with each other for the purpose of section 125 and the business limit of the third corporation is deemed to be nil."

p. 412
-in the second-last line on the page, replace "256(1)(e)" with "256(1)(b)"

p. 491
- renumber current notes 7, 8 and 9 as numbers 4, 5 and 6

p. 496, footnote 2
- change "a federal rate of 28 per cent after October 2011," to "a federal rate of 33 per cent as of 2016,"

p 509 - in the first line of the first indented paragraph change "(i) 1/3 of all" to "(i) 38 1/3% of all"

- in the second indented paragraph change "(i) ... 26 2/3% of" to "(i) ... 30 2/3% of"
- in the next line of the second indented paragraph change "(ii) 26 2/3%" to "(ii) 30 2/3%"

p. 510
- in the second line of the first full paragraph change "refunds up to 26 2/3" to "refunds up to 30 2/3"
- in the fourth/fifth line of the first full paragraph replace "combined federal and provincial rate ranging from approximately 45 per cent to 50 per cent to a combined rate of 18 per cent to 24 per cent" with "combined federal and provincial rate ranging from approximately 49 per cent to 54 per cent to a combined rate of 18 per cent to 24 per cent"

p. 545, footnote 7
- change the last sentence to: "This amount is not indexed to inflation until the lifetime exemption for QSBC shares exceeds $1 million. At that time, the same exemption, indexed to inflation, will apply to all exempt property."

p. 546
- replace the last sentence of the paragraph continuing from the previous page with the following: "This exemption will be indexed to inflation onced the lifetime exemption for QSBC shares exceeds $1 million."

p. 550
- in the sixth line of the paragraph beginning on the page, add the word "to" between the words "attributable" and "shares"

p. 561
- in the seventh line of the paragraph explaining the Annual Gains Limit, add the words "and fishing" between the words "farm" and "properties"

p. 563, footnote 20
- change the opening words of the note from "The deduction" to "Because the deduction" and add the word "the" between the words "that" and "risk" in the second last line of the note

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p. 565
- in the first line of the second paragraph explaining the Cumulative Gains Limit, delete the word "appears"

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p. 568
- in the last line of third indented paragraph (quoting 110.6(8)) change average annual rate "or" return to average annual rate "of" return

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p. 597
- in note 8, change "*Vaillantcourt-Tremblay*" to "*Vaillancourt-Tremblay*"

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p. 613
-in subparagraph (ii) of the excerpt from paragraph 84.1(2)(b), change "84(2)(b)(i)" to "84.1(2)(b)(i)"

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p. 614
- in paragraph (d) of the excerpt from subsection 84.1(2.2), replace the word "thought" with the word "though"

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p. 615
- in the first paragraph that begins on the page, replace "Where section 84.1 applies" with "Where subsection 84.1(1) applies"

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p. 616
- in the first line after the except of paragraph 84.1(1)(a) continuing from the previous page, replace the words "the second" with "paragraph 84.1(1)(b)"

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p. 638
- in the third last line of the last paragraph of the note 10 replace "186(2)" with "186(4)"

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p. 662
- in the fifth line of note 7 on the *Evans* case, add ther words "at an amount of $100" after the words "Class B shares"
- in the third line of the second paragraph in note 7, replace the word "exemption" with the word "deduction"

p. 704
- in the fourth line of note 3, insert the word "a" between "by" and "plumbing"

p. 827
- eliminate the indenting and increase the font size of the last paragraph (which begins "Similarly, Rothstein J." since this is part of the judgment, not an excerpt from *Collins & Aikman Products Co.*

p. 843
- in the second full paragraph on the page, replace "$1.40" with "$1.52", "$46^2/_3$" "$50^2/_3$", "8.60" with "8.48", "4.60" with "4.48", "2.30" with "2.24", "$3 + $2.40 = $5.40" with "$3 + $2.24 = $5.24", and "$.80" with "$.92"

p. 852
-in the second-last line of the first paragraph on the page, replace the word "are" with the word "is"
- in the second line of the last paragraph add the word "and" between the words "adjusted cost base" and "a fair market value"

p. 853
- in the fourth last line of the first paragraph on the page, replace the words "paid-up capital" with the words "stated capital"

p. 880
- in the second last line of paragraph 80 of the case excerpt, replace "643288" with "[the purchaser]"

p. 884
- in the second last line of the page from paragraph 103 of the case excerpt, replace "643288" with "[the purchaser]"p. 1012
- in the fourth line on the page, insert the word "notional" between the words "portion of the" and "gain that is reduced by the dividend"

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p. 910
- in footnote 19, replace "summarized at note 2, *supra*" with "summarized at note 15, *supra*".

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p. 970
- In paragraph 125 of the case extract, third line, replace "Copthorne argued that <u>by</u> leaving" with "Copthorne argued that leaving" (delete "by").

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p. 990
- in the first full paragraph, fourth last line, change "acquired control of subsidiary" to "acquired control of <u>the</u> subsidiary" (insert "the").

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p. 1034
- in the fourth last line on the page, insert the word "and" between the words "defeated the purpose of subsection 55(2) (para. 33)" and "amounted to capital gains stripping"

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p. 1047
- in the first set of numbers on the page, replace the first "$252,997" with "$313,923" and the second "$252,997" with "$633,080"

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p. 1061
- in the last line on the page, replace the word "pays" with the words "to pay"

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p. 1062
- in the third line of the first full paragraph on the page, replace the word "is" with the word "it"

p. 1063
- in the seventh line of the last paragraph on the page, replace the word "or" with the word "of"

p. 1064
- in the third line of the first paragraph under the heading Disposition of Shares of Dividend Payer, add the word "and" after the words "receives a dividend," and "shares of the corporation that paid the dividend"

p. 1071
- in example 11, add a double arrow between Newco and Distributing Corporation with the explanation "2. property for preferred shares" and change the number for the explanation "cross-redemption of shares" from "2" to "3"