Web Site
The web site for this book can be found at:

www.pearsoned.ca/byrdchen/ctp2005/

This web site contains updates and corrections to the text that are available to all users. It also contains an “Instructor’s Resource” area that can only be accessed with a user name and password (available from your Pearson Education Canada representative). Please check the web site for additions or corrections to the text before using this book.

Objectives
This book is designed to be used as a text in a comprehensive university or college course in taxation, usually of two semesters duration. The first 14 Chapters are largely concerned with personal taxation and could serve as a text for a one semester course in that subject. Chapters 15 through 19 deal with corporate taxation, while Chapters 20, 21, and 22 deal respectively with partnerships, trusts, and international taxation. These Chapters would provide the basis for a second one semester course in taxation. Note, however, that coverage of much of the material in the first 14 Chapters is essential to an understanding of this later material.

In terms of style, we have attempted to strike a medium ground between the kind of complete documentation that can render material on taxation totally incomprehensible, as opposed to the total elimination of references that would make it impossible for readers to expand their understanding of particular points. In those situations where we feel the issue is sufficiently complex that further investigation may be required, we have provided a reference to the relevant Sections of the Income Tax Act or other related materials. In contrast, no direction has been provided when the material is either very straightforward, or where the relevant parts of the Act would be obvious.

This book can be used with or without additional source material. Some instructors require students to acquire a copy of the Income Tax Act and permit its use as a reference during examinations. For instructors wishing to take this approach, frequent references to the Act have been included. In addition, we have included an electronic version of the Income Tax Act as part of the accompanying “Companion CD-ROM”.

For instructors not wishing to require the use of the Income Tax Act, we have designed the problem material so that students should be able to solve all of the included problems, except the Electronic Library Research Problems, relying solely on the text as a reference.

Companion CD-ROM

Content
Through our affiliations with the Canadian Institute of Chartered Accountants (CICA) and Intuit Greenpoint, we are able to provide you with a Companion CD-ROM that contains an extensive tax research library, as well as a complete tax preparation software package. The content of this CD-ROM is as follows:
• Chapters 1 through 19 of *Canadian Tax Principles*, presented in Folio Views software. In addition to providing you with a highly portable version of the text, the fact that it is presented in Folio Views means that this software’s powerful search engine can be applied. In addition, this electronic version of the text has jump links to other parts of the research library (e.g., if there is a reference to a Section of the *Income Tax Act* in the text, you can “jump” from the text to that Section by clicking on the reference). Note that this electronic version of the text does not contain any problem material.

• The first 14 chapters of the separate Companion Study Guide to *Canadian Tax Principles*. This material is presented in PDF format.

• PowerPoint slide presentations for each of the first 14 chapters of the text.

• The CICA’s Federal Income Tax Collection (FITAC Lite). This includes the complete *Income Tax Act and Regulations*, Interpretation Bulletins, Information Circulars, Guides, and Forms. These materials are also presented in Folio Views software, which provides for hypertext links for all references in the electronic version of *Canadian Tax Principles*.

• Intuit Greenpoint’s T1 ProFile software for preparing 2003 personal tax returns (software for 2004 returns is not available at the time this book is published).

• Intuit Greenpoint’s T2 ProFile software for preparing corporate tax returns.

The availability of these materials should provide a setting that reflects the manner in which tax work is carried on in real world situations. To facilitate your use of these materials, each Chapter of the text has an Electronic Library Research Problem that requires students to use the materials provided on the Companion CD-ROM.

**Using Folio Views**

In the preceding section we indicated that some of the material on the Companion CD-ROM was presented in Folio Views. This is an extremely powerful software package that is being used by all Canadian publishers of electronic accounting and tax materials. It provides for sophisticated searching throughout the infobases, with hyperlinks between the various documents contained in the infobases. If you intend to do any work in the tax area, we strongly recommend that you learn to use this software.

Many of the features of this software are intuitive and can be used with little additional assistance. However, if help is needed, it is available under the Help tab that opens with all of the infobases included on the CD-ROM.

**PowerPoint Slides**

As we have noted, the Companion CD-ROM contains a PowerPoint slide presentation for each of the first 14 chapters of the text. Equivalent slide presentations for Chapters 15 through 19 are available on the web site. We suggest you use these after you have completed your work on the Chapter as the basis for a quick review of the concepts and procedures that were covered in the Chapter. If you do not have access to the Microsoft PowerPoint program, the PowerPoint Viewer program can be installed from the Companion CD-ROM.


**The Book**

We have made every effort to enhance the usefulness of this book. At the beginning of the book, following this preface, you will find a summary of tax rates and other data, including relevant web sites, that will be convenient and useful references when using the book. This summary is followed by a detailed table of contents that will direct you to the subject matter in each Chapter. In addition, to facilitate easy access to any subject being researched, there is a comprehensive topical index at the end of the book.
Five types of problem material are included in the book. They can be described as follows:

**Exercises**  These are short problems that are generally focused on a single issue. This type of problem was first introduced several years ago and has been very favourably received by users of this text. For your convenience, each Exercise is presented in the text directly following the material that is relevant to its solution. Solutions to these Exercises can be found in the Companion Study Guide.

**Self Study Problems**  These problems are more complex than the Exercises and often deal with more than one subject. As was the case with the Exercises, solutions to the Self Study Problems are included in the Companion Study Guide.

**Assignment Problems**  In general, these are the most difficult problems included in the text. They are often adapted from professional examinations and some problems involve a number of different issues. Solutions to these problems are available in a separate solutions manual provided only to instructors. We do not make this solutions manual available to students.

**Electronic Library Research Problems**  The final Assignment Problem for each Chapter contains a group of questions that cannot be solved by using the text. Solving these problems requires the use of the materials that have been provided on the Companion CD-ROM. As with other Assignment Problems, solutions to these problems are available only in a separate solutions manual that is provided to instructors.

**Cases**  These cases are designed to be solved using the Intuit Greenpoint software provided on the Companion CD-ROM. There is a Self Study Case in both Chapter 6 and 14. Solutions to these two Self Study Cases are included in the Companion Study Guide and on the Companion CD-ROM.

Assignment Cases dealing with personal tax returns, including a Progressive Running Case, are found in Chapters 6 through 14. An additional Assignment Case, involving a corporate tax return, is included in Chapter 16. Solutions to Assignment Cases are available only in a separate solutions manual that is provided to instructors.

We would note that the problem material in this text provides coverage of all of the issues that are specified in the Syllabuses of the CA, CGA, and CMA programs.

**Glossary**
A new feature in this year’s edition of the text is a comprehensive Glossary of terms that are used in tax work. This unique feature is likely to be extremely useful to both students and tax practitioners, in that it carefully defines almost 500 terms that are used throughout the text. This provides an easy solution to the problem of finding the meaning of the term that was introduced and defined in Chapter 2, but is being referred to again in Chapter 12 (e.g., Resident). The complete Glossary, including the definition for each term, is found just before the Index at the back of the book.

Tied to this important new resource, at the end of each chapter, you will find a list of the Key Terms that were used in that chapter. This provides an additional resource for reviewing the text material in that, by reviewing this list, you can ensure that you are familiar with all of the concepts that are presented in the Chapter. These Key Terms are listed at the end of the chapter without definitions.

**The Companion Study Guide**
The basic textbook is accompanied by a Companion Study Guide. As noted in our discussion of the problem material, solutions to both the Exercises and the Self Study Problems and Cases will be found in this Guide. In previous years, these solutions have been included as an Appendix to the basic text. We believe that moving them to this separate Guide will greatly
facilitate their use by students and, in addition, provide for a more conveniently sized basic
text.

For each Chapter, there is detailed guidance on how to work through the Chapter, as well as a
list of objectives for each Chapter. You may find these lists to be useful both in working your
way through the Chapter (the How To Work Through The Chapter lists) and in verifying your
understanding of the concepts and procedures that were covered in the Chapter (the Objectives lists).

The Companion CD-ROM
While many students leave the Companion CD-ROM unopened in its sleeve at the back of the
text, we would strongly encourage you to make use of the resources that it makes available.
These materials are not only interesting, they reflect the manner in which people do their
work in tax. It would be difficult to find a serious tax practitioner who does not use a copy of
the Income Tax Act in electronic form on a regular basis.

The Federal Budget
The Process
One of the great difficulties in preparing material on Canadian taxation is the fact that changes
in the relevant legislation are made each year. This is complicated by the fact that the arrival
date for each year’s budget is no longer very predictable. The budget for 2002 was presented
on December 10, 2001, while the 2003 budget arrived on February 18, 2003. The 2004
budget did not arrive until March 23, 2004 and, because of following election campaign, no
draft legislation has appeared to this date (August, 2004).

The lack of draft legislation, along with the uncertainties created by the presence of a minority
government, makes the preparation of this year’s edition of Canadian Tax Principles more
difficult than usual. For the most part we have incorporated the changes proposed in the
March 23, 2004 budget. However, in a few cases, the lack of draft legislation created suffi-
cient uncertainty that we have left material unchanged pending clarification of the revisions
proposed in the 2004 budget.

Proposed Changes For 2004
The major proposals included in the 2004 budget are as follows:

- Increasing the CCA rate for computer equipment from its current level of 30 percent to a
  new rate of 40 percent.
- Increasing the CCA rate for data network infrastructure equipment from 20 percent to 30
  percent.
- Eliminating the deductibility of most fines and penalties, even in circumstances where
  they are business related.
- Replacement of the attendant care deduction with a more broadly based disability
  supports deduction.
- Removal of the “notch” provision which reduced the medical expense credit that was
  available for the medical expenses of dependants with income in excess of the basic
  personal amount.
- Introduction of a new Canada Learning Bond, a program under which payments would be
  made into the RESPs in favour of the children of low-income families.
- Enhancement of the Canada Education Savings Grants for low-income families.
- Extending the carry forward limit for business losses from seven years to ten years.
- Accelerating the availability of a $300,000 annual business limit for the small business
deduction from 2006 to 2005.
- Removal of the requirements that companies under common control share the $2 million
  limit on the base for the enhanced, refundable investment tax credit for scientific
  research and experimental development.
- A number of specialized proposals related to the regulation of registered charities.
In addition to the changes proposed in the March 23, 2004 budget, there are two major pieces of draft legislation outstanding. The first was issued on December 20, 2002 in a 562 page behemoth titled "Draft Legislation, Explanatory Notes And Technical Amendments To The Income Tax Act". While this legislation was neither passed nor withdrawn, it appears to have been replaced by an even larger volume (848 pages) issued on February 27, 2004. Unfortunately, this has created a confusing situation in which it is not at all clear what has and has not been replaced in the earlier set of proposals. Our approach is to assume that the February 27, 2004 publication reflects the intent of the government. This, of course, is based on the somewhat charitable assumption that there is some overall vision as to what that intent might be.

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- Mr. Ari Kapitany spent long hours reviewing both the text and the problem material. In the process, he corrected numerous errors that were included in the initial draft of the material. In addition, he is responsible for much of the work on the PowerPoint slides, the How To Work Through The Chapter lists, and the Objectives lists.
- Mr. Gary Donell of the Canada Revenue Agency did a technical review of all the chapters. He made many valuable suggestions that have contributed greatly to the accuracy and clarity of the text. In addition, he assisted in the writing of Chapters 20 and 22.

As always, we have made every effort to accurately reflect appropriate tax rules. However, it is virtually certain that errors remain. These errors are solely the responsibility of the authors and we apologize for any confusion that they may cause you.

We welcome any corrections or suggestions for additions or improvements. These can be sent to us at:

Clarence Byrd Inc.
139 Musie Loop Road, Chelsea, Quebec J9B 1Y6
e-mail address: byrddawg@primus.ca

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Clarence Byrd, Athabasca University
Ida Chen, Clarence Byrd Inc.