

# NOTE ON CHANGES IN INCOME TAX LEGISLATION FOR 2019 CFE

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As a CPA candidate, you are responsible for the regulation that are “in effect as of December 31” (of the prior year). The cut-off date of the version of the *Income Tax Act* for the Common Final Examination (CFE) is December 31 of the prior year.

## **FURTHER DETAILS ON TAXATION CHANGES FROM CPA CANADA FOR 2019**

(source: CPA Canada, Technical update for 2019 CPA PEP examinations and the CFE, online April 2, 2019, <https://www.cpacanada.ca/en/become-a-cpa/cpa-certification-program-evaluation/technical-update-for-examinations>)

“For the 2019 CPA PEP module examinations and the CFE, this should be interpreted to mean that the following standards and legislation are testable:

[...]

tax legislation substantively enacted (which includes legislation introduced into the House of Commons) up to December 31, 2018 ”

“The Finance Minister released the 2018 Fall Economic Statement on November 21, 2018. This statement included significant changes to the calculation of capital cost allowance on purchases, providing for an Accelerated Investment Incentive on acquisition of qualifying assets after November 20, 2018. Several other tax measures were also identified in the statement. The legislation to enact these changes has not been introduced into parliament as of December 31, 2018, and therefore these changes are not testable.

However, following the principle that you may apply a more current standard than what is required, on the CFE and on the PEP exam cases you may use the new rules in your case responses. To enable this, the reference schedule provided in the exam booklets will contain a CCA tax shield formula under both the old and proposed rules. Objective-format questions follow the cut-off dates outlined above.

You are advised that the detailed enacted amendments to items found in the *Knowledge Supplement* are not listed here.”

## INTRODUCTION

This note aims to present changes in income tax legislation during 2019, 2018 and 2017 for the 2019 CFE. A previous note presents changes in income tax legislation for the 2018 CFE. The note includes the list of taxation draft legislation, the list of Income Tax Act amending acts, and the details on the recent changes in legislation included and excluded in 2019 CFE.

## LIST OF TAXATION DRAFT LEGISLATION

Year	Title	Released Date	Details
2019	Notice of Ways and Means Motion to amend the <i>Income Tax Act</i> and other related legislation Federal Budget 2019	March 19, 2019	√(exc)
	Draft Regulation Amending the Fuel Charge Regulations and Explanatory Notes	March 19, 2019	-
	Proposed amendments to the <i>Income Tax Act</i> , <i>Canada Pension Plan</i> and <i>Employment Insurance Act</i> and Explanatory Notes Salary Overpayments, including Phoenix Pay System	January 15, 2019	√(exc)
2018	Notice of Ways and Means Motion to amend the <i>Income Tax Act</i> and the <i>Income Tax Regulations</i> , and Explanatory Notes 2018 Fall Economic Statement	November 21, 2018	√(exc)
2018	Notice of Ways and Means Motion to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures and Explanatory Notes <i>Budget Implementation Act, 2018 No. 2</i>	October 25, 2018	√(inc)
	Draft Regulations (Fuel charge)	October 23, 2018	-
	Regulatory and Legislative Proposals Relating to the Taxation of Cannabis and Explanatory Notes	September 17, 2018	-
	Legislative Proposals Relating to Income Tax and Explanatory Notes	September 14, 2018	√(inc)
	Legislative Proposals Relating to Income Tax and Other Legislation and Explanatory Notes	July 27, 2018	√(inc)
	Legislative and Regulatory Proposals Relating to <i>Excise Tax Act</i> , the <i>Excise Act, 2001</i> and the <i>Air Travellers Security Charge Act</i> and Explanatory Notes	July 27, 2018	-
	Notice of Ways and Means Motion to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures and Explanatory Notes <i>Budget Implementation Act, 2018 No. 1</i>	February 27, 2018	√(inc)
	Legislative and Regulatory Proposals Relating to the <i>Greenhouse Gas pollution Pricing Act</i> and Explanatory Notes	January 15, 2018	-

Year	Title	Released Date	Details
2017	Legislative and Regulatory Proposals Relating to the Taxation of Cannabis and Explanatory Notes Relating to the to the <i>Excise Act, 2001</i> , the <i>Excise Tax Act</i> , and Related Regulations	November 10, 2017	-
	Notice of Ways and Means Motion to implement certain provisions of the budget tabled in Parliament on March 22, 2017 and other measures and Explanatory Notes <i>Budget Implementation Act, 2017 No. 2</i>		√(inc)
	Notice of Ways and Means Motion to amend the <i>Income Tax Act</i> and Explanatory Notes	October 24, 2017	√(inc)
	News release	October 18, 2017	√(inc)
	Legislative and Regulatory Proposals Relating to the Goods and Services Tax / Harmonized Sales Tax and to the <i>Excise Tax Act</i> and Explanatory Notes	September 8, 2017	-
	Legislative Proposals Relating to the <i>Income Tax Act</i> and Explanatory Notes	September 8, 2017	√(inc)
	Legislative Proposals Relating to the <i>Income Tax Act</i> and the <i>Income Tax Regulations</i> , and Explanatory Notes	July 18, 2017	√(inc)
	Notice of Ways and Means Motion to amend the <i>Income Tax Act</i> and Explanatory Notes		√(inc)
	Legislative Proposals Relating to Income Tax and Explanatory Notes		√(inc)
	Notice of Ways and Means Motion to implement certain provisions of the budget tabled in Parliament on March 22, 2017 and other measures and Explanatory Notes <i>Budget Implementation Act, 2017 No. 1</i>	March 22, 2017	√(inc)

(source: Department of Finance Canada, Draft Legislation, online April 18, 2019, <https://www.fin.gc.ca/legislation/draft-avant-eng.asp>)

Note: (exc) = excluded from 2019 CFE; (inc) = included in 2019 CFE; √ = details included in recent changes section

**LIST OF INCOME TAX ACT - AMENDING ACTS**  
(R.S.C. 1985 (5<sup>th</sup> Supplement), c.1 as amended)

Year	Bill	Title	Chapter	Royal Assent
2019		-		
2018	C-86	<i>Budget Implementation Act, 2018 No. 2</i> (budget tabled on February 27, 2018)	27	December 13, 2018
	C-74	<i>Budget Implementation Act, 2018 No. 1</i> (budget tabled on February 27, 2018)	12	June 21, 2018
2017	C-63	<i>Budget Implementation Act, 2017, No. 2</i> (budget tabled on March 22, 2017)	33	December 14, 2017
	C-44	<i>Budget Implementation Act, 2017, No. 1</i> (budget tabled on March 22, 2017)	20	June 22, 2017
	C-4	<i>An Act to amend the Canadian Labour Code, the Parliamentary Employment and Staff Relations Act, the Public Service Labour Relations Act and the Income Tax Act</i>	12	June 19, 2017

(source: Justice Canada, Annual Statutes, online April 18, 2019  
<https://www.laws-lois.justice.gc.ca/eng/AnnualStatutes/>)

## RECENT CHANGES IN LEGISLATION INCLUDED IN 2019 CFE

### Acts included in 2019 CFE

\* *Budget Implementation Act, 2018, No. 2* (C-27 - royal assent December 13, 2018)

- introducing rules intended to provide greater certainty with respect to various tax consequences arising from certain foreign divisive reorganizations
- ensuring that the existing cross-border anti-surplus stripping rules cannot be circumvented through transactions involving the use of partnerships and trusts
- introducing rules to prevent misuse of the foreign accrual property income (FAPI) regime through the use of tracking interests involving foreign affiliates
- ensuring consistency between the trading and dealing in indebtedness rules and the investment business rules within the foreign accrual property income (FAPI) regime
- ensuring that the at-risk rules apply appropriately at each level of a tiered partnership structure
- providing that the Minister of Public Safety and Emergency Preparedness can determine international operational missions for the purpose of the deduction available for income earned by members of the Canadian Forces or police officers on such missions
- amending the synthetic equity arrangements rules and securities lending arrangement rules to prevent the artificial generation of losses through the use of equity-based financial instruments
- ensuring that social assistance payments under certain programs do not preclude individuals from receiving the Canada Child Benefit
- ensuring that an individual who is eligible to receive the Canada Workers Benefit can receive the benefit without having to claim it
- introducing a refundable tax credit for the purposes of the climate action incentive
- providing allocation rules for losses applied against Part IV taxes
- preventing the creation of artificial losses on shares held as mark-to-market property by financial institutions
- revising the rules relating to the non-partisan political activities of charities
- ensuring that a taxpayer is subject to a three-year extended reassessment period in respect of any income, loss or other amount arising in connection with a foreign affiliate of the taxpayer
- providing the CRA with an extended reassessment period of an additional three years, to the extent that the reassessment relates to the adjustment of a loss carryback for transactions involving a taxpayer and non-resident non-arm's length persons
- extending the reassessment period of a taxpayer by the period of time during which a requirement for information or compliance order is contested
- requiring that information returns in respect of a taxpayer's foreign affiliates be filled within 10 months after the end of the taxpayer's taxation year
- enabling the disclosure of taxpayer and other confidential tax information to Canada's bilateral mutual legal assistance treaty partners for the purposes of non-tax criminal investigations and prosecutions of certain serious crimes
- providing a deduction for employee contributions to the enhanced portion of Québec Pension Plan (QPP)

\* *Budget Implementation Act, 2018, No. 1* (C-12 - royal assent June 21, 2018)

- ensuring appropriate tax treatment of amounts received under Veterans Well-being Act
- exempting from income amounts received under Memorial Grant for First Responders
- lowering the small business tax rate and adjustments on gross-up factor / dividend tax credit
- reducing business limit on small business deduction based on passive income
- restricting access to dividend refunds on the payment of eligible dividends
- preventing the avoidance of tax through income sprinkling arrangements
- removing the risk score requirement and increasing the level of income that can be deducted for Canadian Armed Forces personnel and police officers serving on international missions
- introducing the Canada Workers Benefit
- expanding the medical expenses tax credit to recognize expenses incurred in respect of an animal specially trained to perform tasks for a patient with a severe mental impairment
- indexing the Canada Child Benefit as of July 2018
- extending, for one year, the mineral exploration tax credit for flow-through share investors
- extending, for five years, the ability of a qualifying family member to be a plan holder of an individual RDSP (Registered Disability Savings Plan)
- allowing transfers of property from charities to municipalities to be considered as qualifying expenditures for the purpose of reducing revocation tax
- ensuring that appropriate taxpayers are eligible for the Canada Child Benefit and that information related to the Canada Child Benefit can be shared with provinces and territories for certain purposes
- extending, by five years, eligibility for Class 43.2

\* *Budget Implementation Act, 2017, No. 2* (C-63 - royal assent Dec 14, 2017)

- removing the classification of the costs of drilling a discovery well as ‘Canadian exploration expenses’
- eliminating the ability for small oil and gas companies to reclassify up to \$1 million of ‘Canadian development expenses’ as ‘Canadian exploration expenses’
- revising the anti-avoidance rules for registered education savings plans (RESP) and registered disability savings plans (RDSP)
- eliminating the use of billed-basis accounting by designated professionals
- providing enhanced tax treatment for eligible geothermal energy equipment
- extending the base erosion rules to foreign branches of Canadian insurers
- clarifying who has factual control of a corporation for income tax purposes
- introducing an election that would allow taxpayers to mark to market their eligible derivatives
- introducing a specific anti-avoidance rule that targets straddle transactions
- allowing tax-deferred mergers of switch corporations into multiple mutual fund trusts and allowing tax-deferred mergers of segregated funds
- enhancing the protection of ecologically sensitive land donated to conservation charities and broadening the types of donations permitted
- closing loopholes surrounding the capital gains exemption on the sale of a principal residence

- providing additional authority for certain tax purposes to nurse practitioners
- ensuring that qualifying farmers and fishers selling to agricultural and fisheries cooperatives are eligible for the small business deduction
- extending the types of reverse takeover transactions to which the corporate acquisition of control rule apply
- improving the consistency of rules applicable for expenditures in respect of scientific research and experimental development
- ensuring that the taxable income of federal credit unions is allocated among provinces and territories using the same allocation formula as applicable to the taxable income of banks
- ensuring the appropriate application of Canada's international tax rules
- improving the accuracy and consistency of the income tax legislation and regulations

\* *Budget Implementation Act, 2017, No. 1* (C-44 - royal assent June 22, 2017)

- eliminating the investment tax credit for child care spaces
- eliminating the deduction for eligible home relocation loans
- ensuring that amounts received on account of the caregiver recognition benefit under the *Veterans Well-being Act* are exempt from income tax
- eliminating tax exemptions of allowances for members of legislative assemblies and certain municipal officers
- eliminating the tax exemption for insurers of farming and fishing property
- eliminating the additional deduction for gifts of medicine
- replacing the existing caregiver credit, infirm dependant credit and family caregiver tax credit with the new Canada caregiver credit
- eliminating the public transit tax credit (none after July 1, 2017)
- ensuring certain costs related to the use of reproductive technologies qualify for the medical expense tax credit
- extending the list of medical practitioners that can certify eligibility for the disability tax credit to include nurse practitioners
- extending eligibility for the tuition tax credit to fees for occupational skills courses at post-secondary institutions and taking into account such courses in determining whether an individual is a qualifying student under the Income Tax Act
- extending, for one year, the mineral exploration tax credit for flow-through share investors
- eliminating the tobacco manufacturers' surtax
- permitting employers to distribute T4 information slips electronically provided certain conditions are met
- delaying the repeal of the provisions related to the National Child Benefit supplement in the Income Tax Act

\* *An Act to Amend ... the ITA* (C-4 - royal assent June 19, 2017)

- remove the requirement that labour organizations and labour trusts provide annually to the Minister of National Revenue certain information returns containing specific information that would be made available to the public (ITA 149.01, 239(2.31))

## Draft legislation included in 2019 CFE

### \* October 25, 2018

Notice of Ways and Means Motion to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures and Explanatory Notes  
(Integrated in *Budget Implementation Act, 2018, No. 2*)

- division of corporation under foreign laws
- deemed dividend
- non-resident corporation shares held by a partnership
- trading or dealing in indebtedness and tracking interests
- tiered partnership
- dividend rental arrangements
- climate action incentive
- Part IV tax - allocation of losses
- qualified donees
- returns and information

### \* September 14, 2018

Legislative Proposals Relating to Income Tax and Explanatory Notes  
(Integrated in *Budget Implementation Act, 2018, No. 2*)

- Definition of charitable organization
- Charitable purposes, deemed charitable activity and political activity

### \* July 27, 2018

Legislative Proposals Relating to Income Tax and Other Legislation and Explanatory Notes  
(Integrated in *Budget Implementation Act, 2018, No. 2*)

- Canada Workers Benefit - improving access
- deduction for employee contributions to the enhanced portion of Québec Pension Plan (QPP)
- reporting requirements for trusts
- artificial losses using equity-based financial arrangements
- stop-loss rule on share repurchase transactions
- at-risk rules for tiered partnership structure
- cross-border anti-surplus stripping rules using partnerships and trusts
- foreign affiliates
- foreign divisive reorganizations
- passive investment income - allocation of losses
- reassessment period - requirement for information and compliance
- reassessment period - non-resident non-arm's length persons
- sharing information for criminal matters
- mutual legal assistance in criminal matters act



\* February 27, 2018

Notice of Ways and Means Motion to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures and Explanatory Notes (Tax Measures: Supplementary Information)

(Integrated in *Budget Implementation Act, 2018, No. 2*)

(Integrated in *Budget Implementation Act, 2018, No. 1*)

- Canada workers benefit
- medical expenses tax credit - eligible expenditures (animal specially trained)
- RDSP (Registered Disability Savings Plan) - qualifying plan holder
- deductibility of employee contributions to the enhanced portion of the Québec Pension Plan (QPP)
- child benefits
- charities (municipalities as eligible donee, universities outside Canada)
- flow-through mining expenditures and mineral exploration tax credit
- reporting requirements for trusts
- small business deduction / passive investment income
  - business limit reduction
  - business limit adjusted aggregate investment income
  - anti-avoidance
- refundability of taxes on investment income
  - refundable dividend tax on hand (RDTOH) (eligible / non-eligible)
  - transitional RDTOH
- tax support for clean energy
- artificial losses using equity-based financial arrangements
  - synthetic equity arrangements
  - securities lending arrangements
- stop-loss rules on share repurchase transactions
- at-risk rules for tiered partnership structure
- health and welfare trusts
- cross-border surplus stripping using partnerships and trusts
- foreign affiliates - foreign accrual property income (FAPI) regime
  - investment businesses
  - controlled foreign affiliate status
  - trading or dealing in indebtedness
  - reassessment
  - reporting requirements
- reassessment period - requirements for information and compliance orders
- reassessment period - non-resident non-arm's length persons
- sharing information for criminal matters

- \* October 24, 2017 - Fall Economic Statement 2017  
(Integrated in *Budget Implementation Act, 2018, No. 2*)  
(Integrated in *Budget Implementation Act, 2018, No. 1*)
  - moving forward with measures to limit the tax deferral opportunities related to passive investments
  - Canada Child Benefit indexing
  - working income tax benefit (WITB)
  - lowering taxes for small business
  - income sprinkling
  - passive investments
  - conversion of income into capital gains
  
- \* October 24, 2017  
Notice of Ways and Means Motion to amend the Income Tax Act and Explanatory Notes  
(Integrated in *Budget Implementation Act, 2018, No. 1*)
  - gross-up amount of non-eligible dividend (16% in 2018, 15% after 2018) (ITA 82(1))
  - dividend tax credit of non-eligible dividend (8/11 in 2018, 9/13 after 2018) (ITA 121)
  - dividend tax credit of non-eligible dividend (17.5% in 2018, 15% after 2018) (ITA 122.61)
  - annual adjustment on Canada child benefit after July 1, 2020 (ITA 122.61(5))
  - small business deduction (17.5% before 2018, 18% in 2018, 19% after 2018) (ITA 125)
  
- \* October 18, 2017  
News release - Targeted tax fairness measures will protect middle class small business owners  
(Integrated in *Budget Implementation Act, 2018, No. 1*)
  - moving forward with measures to limit the tax deferral opportunities related to passive investments
  - passive income threshold of \$50,000 per year for future, go-forward investments
  - draft legislation in Budget 2018
  
- \* September 8, 2017  
Legislative Proposals Relating to the Income Tax Act and Explanatory Notes  
(Integrated in *Budget Implementation Act, 2017, No. 2*)
  - ecological gifts program
  - anti-avoidance rules for registered plans
  - taxes in respect of registered plans
  - investment fund managers
  - clean energy generation equipment: geothermal energy
  - Canadian exploration expenses: oil and gas discovery wells
  - reclassification of expenses renounced to flow-through share investors

- meaning of actual control
  - timing of recognition of gains and losses on derivatives
  - billed-basis accounting
  - extending the base erosion rules to foreign branches of life insurers
  - stub period FAPI
  - nurse practitioners
  - Armed Forces deduction
- \* July 18, 2017 (consultation paper with partial draft proposal)  
 Consultations on Tax planning strategies using private corporations tax  
 Legislative Proposals Relating to the Income Tax Act, the Income Tax Act Regulations and Explanatory Notes
- income sprinkling
    - split income to adults
    - restricting strategies that multiply access to the lifetime capital gains exemption
  - holding passive investments inside a private corporation (no draft legislation)
  - converting income into capital gains
- \* May 18, 2017  
 Notice of Ways and Means Motion to amend the Income Tax Act and Explanatory Notes  
 (Integrated in *Budget Implementation Act, 2018, No. 1*)
- tax exemption for salaries of deployed Canadian Armed Forces personnel and police officers
- \* May 2017  
 Legislative Proposals Relating to the Income Tax Act and Explanatory Notes  
 (Integrated in *Budget Implementation Act, 2018, No. 1*)
- change in definition of specified corporate income regarding specified cooperative income
- \* March 22, 2017  
 Notice of Ways and Means Motion to implement certain provisions of the budget tabled in Parliament on March 22, 2017 and other measures and Explanatory Notes  
 (Integrated in *Budget Implementation Act, 2017, No. 1*)

## RECENT CHANGES IN LEGISLATION EXCLUDED FROM 2019 CFE

### \* March 19, 2019 - Federal Budget 2019

Notice of Ways and Means Motion to amend the Income tax Act and Other Related Legislation

- Canada training credit
- RRSP Home Buyers' Plan
- change in use rules for multi-unit residential properties
- permitting additional types of annuities under registered plans
- RDSP - Cessation of eligibility for the disability tax credit
- tax measures for kinship care providers
- donations of cultural property
- medical expense tax credit (cannabis)
- contributions to a specified multi-employer plan for older members
- pensionable service under an individual pension plan
- mutual funds: allocation to redeemers methodology
- carrying on Business in a Tax-Free Savings Account
- electronic delivery of requirements for information
- support for Canadian journalism (qualified donee, registered journalism organization)
- personal income tax credit for digital subscriptions
- business investment in zero-emission vehicles (new class 54, 55)
- small business deduction - farming and fishing
- scientific Research and Experimental Development (SR&ED) program
- Canadian-Belgian co-productions - Canada film or video production tax credit
- character conversion transactions
- transfer pricing measures
- foreign affiliate dumping
- cross-border share lending arrangements

### \* January 15, 2019

Consulting Canadians on Draft tax Legislation Regarding Salary Overpayments, including those made through Phoenix Pay System

- repayment of the net (not gross) amount of the overpayment received in a previous year
- income taxes, CPP, EI will be claimed by employer to the CRA  
(CPP - Canada Pension Plan, EI - Employment Insurance)
- three calendar year period to make repayment

### \* November 20, 2018 - Fall Economic Statement 2018

- accelerated investment incentive on acquisition of qualifying assets before 2024
  - capital cost allowance
  - class 13, 14, vessels, 43.1, 43.2, 53
  - ½ year rule exclusion
- Canadian development expense and Canadian oil and gas property expense