Chapter 1 – Solutions to Assignment ProblemsSolution to AP 1-1There is, of course, no one solution to this problem. Further, student answers will be limited  
as, at this point, their understanding of tax concepts and procedures is fairly limited. However,  
the problem should provide the basis of an interesting discussion. What we have provided  
here are some suggested comments related to the various qualitative characteristics.  
Equity Or Fairness The increase provides both horizontal and vertical equity. Individuals  
with the same income will receive the same treatment, while individuals with different income  
will be treated differently.  
Neutrality The increase is not neutral. It targets high-income individuals and is likely to  
influence their economic decisions.  
Adequacy While the increase was intended to create additional revenues, there is some  
evidence that the opposite has happened. This reflects the fact that individuals with high  
levels of income are sometimes in a position to move some, or all, of that income out of  
Canada (e.g., move their residence to the U.S.).  
Flexibility With respect to flexibility, the rate can be changed at any time. However, as a  
practical matter, such changes would need to be on an annual basis.  
Simplicity And Ease Of Compliance This change would not appear to present any  
compliance issues.  
Certainty The increase makes it clear to individual taxpayers the amount of taxes that they  
will be required to pay.  
Balance Between Sectors Unfortunately, this change will increase the imbalance in the  
Canadian tax system between corporate and individual taxpayers. Before the change,  
individuals were already paying a disproportionate share of tax revenues. The intent of this  
change was to further increase this imbalance.  
International Competitiveness This increase further widens the gap between Canadian  
and U.S. tax rates, making Canada far less competitive with the U.S. However, Canadian tax  
rates are not out of line with tax rates in other industrialized countries.  
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Solution to AP 1-2Instructor Note There is obviously no definite solution to this problem. What follows  
represents only possible comments that could be made.  
For the Canadian tax system to be more competitive with the United States, both individual  
and corporate tax rates in this country would have to be lowered. The most obvious conflict  
that would arise would be with ADEQUACY of revenues. Tax rate reductions reduce revenues  
and would create additional problems with the large budget deficits that exist in Canada.  
Another issue is BALANCE BETWEEN SECTORS. The Canadian system is heavily  
dependent on individual income taxes as opposed to corporate income taxes. Lowering  
corporate rates would further exacerbate this problem.  
The question of NEUTRALITY could also be involved. Trying to match either U.S. individual  
or U.S. corporate rates could have an impact on economic decisions.  
Any change in tax rates has an impact on CERTAINTY.Depending on whether changes are made to corporate rates or, alternatively, individual  
rates, this could have an impact on FAIRNESS or EQUITY.  
Trying to match rates in the U.S. reduces the FLEXIBILITY of the Canadian tax system. As  
noted, other comments could be appropriate.  
Solution to AP 1-3A. Diamonds, South Africa In a monopoly, the tax will probably be entirely shifted to  
employees and/or consumers. The incidence shift will depend on competition in world  
markets and employment levels. If the international diamond market is price sensitive  
and there is high unemployment in South Africa, then the tax will be shifted almost  
entirely to employees.  
The shifting assumptions affect evaluation of the tax using the characteristics of a “good”  
tax system. A tax that is entirely shifted to employees is similar to one on wages and is  
non-neutral, as it affects the decisions of employees to continue working. Some  
employees will work less and thus increase the excess burden resulting from the  
imposition of the tax.  
B. Diamonds, Sierra Leone The taxing authorities will find it difficult to enforce the tax, due  
to their inability to track diamond movements. Records maintained by the mine will likely  
be inaccessible, and those presented will be incomplete. The tax will not be effective,  
and the tax revenue will be uncertain and inadequate.  
C. Principal Residences, Canada This exemption is non-neutral because investment  
decisions are affected by the tax preference. Given the choice of investing in real estate  
to hold for resale or a principal residence, both of which are likely to appreciate, a  
taxpayer will invest in a principal residence so that the gain on disposition is tax exempt.  
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It is also vertically inequitable because it benefits high-income families who can invest in  
more expensive residences, which have the potential of earning greater returns.  
This tax expenditure is spread among all taxpayers, and general tax revenue must be  
larger to compensate for the reduced revenue.  
D. Business Meals, Canada This restriction adds complexity to accounting for deductible  
expenses, as all business meals have to be accounted for and accumulated separately  
from other promotion expenses. The tax could be shifted to consumers, employees, and/or  
shareholders. If it is shifted to consumers, it could be more advantageous to raise personal  
taxes so that incidence is more certain. If it is shifted to shareholders or employees, then it  
would be non-neutral as it could affect investment decision making and willingness to work.  
E. Head Tax A head tax is neutral as it does not affect economic choices. However, it is  
vertically inequitable, based on the ability to pay concept of equity, as all taxpayers,  
regardless of their income levels, are taxed the same. This tax serves the objectives of  
certainty, simplicity, and ease of compliance. It could promote stability in the economy.  
Solution to AP 1-4While there is not one “correct” solution to this problem, the following solution contains  
comments on each of the listed qualitative characteristics.  
Equity Or Fairness The toll is clearly regressive in nature in that it is assessed almost  
exclusively on lower-income individuals. In general, regressive taxes are viewed as being  
less fair. While the toll has horizontal equity (individuals with the same Taxable Income would  
pay the same amounts), it lacks vertical equity (the higher-income residents of the island  
would not normally be subject to the tolls).  
Neutrality The concept of neutrality calls for a tax system that interferes as little as possible  
with decision making. The toll may influence employment decisions. If the non-residents have  
off-island employment opportunities, they may choose not to work on the island.  
Adequacy While we do not have any information on this, it would be safe to assume that the  
toll was established at a level that would be adequate for the funding requirements related to  
the bridge.  
Flexibility This refers to the ease with which the tax system can be adjusted to meet  
changing economic or social conditions. The tolls can be easily adjusted and therefore get  
high marks for this characteristic.  
Simplicity And Ease of Compliance A good tax system is easy to comply with and does  
not present significant administrative problems for the people enforcing the system. The toll  
would receive high marks in this regard.  
Certainty Individual taxpayers should know how much tax they have to pay, the basis for  
payments, and the due date. There is no uncertainty associated with a clearly posted toll  
rate.  
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Balance Between Sectors A good tax system should not be overly reliant on either  
corporate or individual taxation. The toll is totally reliant on the taxation of individuals.  
International Competitiveness If a country’s tax system has rates that are out of line with  
those in comparable countries, the result will be an outflow of both business and skilled  
individuals to those countries that have more favourable tax rates. Although international  
competitiveness would not appear to be an issue with the toll, it would affect the ability of the  
city to maintain and attract workers.  
Solution to AP 1-5Mr. Valmont would be considered a part year resident and would only be assessed for  
Canadian income taxes on worldwide income during the portion of the year prior to his  
ceasing to be a resident of Canada.  
S5-F1-C1 indicates that, in general, the CRA will view an individual as becoming a nonresident on the latest of three dates:  
• The date the individual leaves Canada.  
• The date the individual’s spouse or common-law partner and dependants leave  
Canada.  
• The date the individual becomes a resident of another country.  
While Mr. Valmont departed from Canada in May 2021, he will be considered a Canadian  
resident until his family’s departure on June 30, 2021. The fact that his family remained in  
Canada would lead to this conclusion. While not essential to this conclusion, the fact that he  
did not sell his Canadian residence until after that date would provide additional support.  
His Canadian salary from January 1, 2021, to May 27, 2021, would be subject to Canadian  
taxes. In addition, his U.S. salary for the period May 28, 2021, through June 30, 2021, will be  
subject, first to U.S. taxes, and then subsequently to Canadian taxes. In calculating his  
Canadian taxes payable, he will receive a credit for the U.S. taxes that he has paid on this  
income. However, because Canadian tax rates at a given income level are usually higher  
than those that prevail in the U.S., it is likely that he will be required to pay some Canadian  
income taxes in addition to the U.S. taxes on that income.  
Note to Instructors The preceding solution reflects the content of the text with  
respect to departures from Canada and students should be evaluated on that basis.  
However, S5-F1-C1 qualifies the general departure rules as follows:  
Paragraph 1.22 An exception to this will occur where the individual was resident in another  
country prior to entering Canada and is leaving to re-establish his or her residence in that  
country. In this case, the individual will generally become a non-resident on the date he or  
she leaves Canada, even if, for example, his or her spouse or common-law partner remains  
temporarily behind in Canada to dispose of their dwelling place in Canada or so that their  
dependants may complete a school year already in progress.  
On the assumption that Mr. Valmont was a resident of the U.S. prior to his working years in  
Canada, this exception would mean that he would cease to be a resident of Canada on  
May 27, 2021, the date that he departs from Canada.  
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The textbook does not deal with the residency rules of countries other than Canada.  
Although this solution concludes that June 30 is the date residency is terminated in Canada,  
it is probable that the foreign jurisdiction (the U.S.) would consider Mr. Valmont to be resident  
under their own rules effective May 28. In effect, the period between May 28 and June 30th  
would become a dual residency period. We would not expect students to come to this  
conclusion, but include this to illustrate the complexities of international issues in taxation.  
Solution to AP 1-6Note To Instructors This problem is based on a Tax Court Of Canada case, Hamel vs.The Queen (2012 DTC 1004). The actual year in question is 2007, with the judgment  
being rendered in 2011. We have changed the dates in the problem. It is important to  
keep in mind that the determination of residency is based on the facts supporting an  
intention to permanently depart and therefore sever Canadian residency. In this case  
the Judge was convinced that the individual did intent to permanently depart which  
was consistent with the facts.  
BackgroundThe minister assessed Mr. Hamel on the basis of his not giving up Canadian residency on  
January 13, 2007 (the original date in the case). Mr. Hamel appealed to the Tax Court of  
Canada, which resulted in Hamel vs. The Queen (2012 DTC 1004).  
The solution that follows is the judge’s analysis and decision in the case (note that it was  
translated from French). The judge’s conclusion also contained a long section of references to  
other cases, which we have not included in this solution. The original dates in the solution have  
been changed to correspond to the dates in the problem.  
Judge’s Analysis and DecisionThe respondent’s main argument is that every person must have a residence. Presuming the  
appellant had not resided in Qatar, she found that he must necessarily have resided in  
Canada.  
After arriving at this conclusion, she relied on the following facts:  
• The appellant came to Canada a few times.  
• The appellant had two bank accounts in Canada, which he used to make all his  
payments, in particular for his credit cards, which were also issued in Canada.  
• The appellant had some money in an RRSP.  
• The appellant had no postal address in Qatar.  
As for the other elements, for example, not having a driver’s licence, not having property  
such as furniture, clothing, accommodations, or vehicles, and not having a health insurance  
card, the respondent claims that they have no impact one way or the other.  
The evidence clearly showed that the appellant’s decision came after a lengthy period of  
reflection. It also showed that the appellant did not have any deep roots and did not hesitate  
to leave when his son, who was ill, let him go with no regrets.  
His relationship with his wife was so tense that they tolerated one another only because of  
their shared concern about their son who was ill.  
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The appellant had a very good position. He did not want to run away from his  
responsibilities. He gave all his property and agreed to pay generous support payments  
before leaving; he has always complied with these commitments. He did not apply for a new  
Canadian driver’s licence when his was suspended, even though the evidence showed it was  
important for him to be able to use a car if he wanted an international driver’s licence or even  
a driver’s licence from the country in which he was living.  
He specifically gave up his health card in 2021.  
Regarding the beginning of the relevant period of the appeal, the beginning of 2020 (the  
original year), it must be considered that a reasonable person would be careful. The  
appellant stated he could only get a work permit if a medical exam showed he was in good  
health, otherwise he had to return to his country of origin. The same can be said for the  
position, the duration of which generally depends on the employer, not the employee. In other  
words, there is, normally, a reasonable delay before a permanent break. This explains the  
time between the beginning of the period in question and the time the appellant gave up his  
health insurance.  
As for the argument that the appellant never had a residence in Qatar, I do not believe it is  
cogent, because the appellant was employed and had a residence. The appellant’s  
strong interest in staying in Qatar was shown by the intensive courses he took to get a  
driver’s licence, when he could have travelled with coworkers, even though he had cancelled  
his Canadian driver’s licence. When his employment ended in Qatar, the appellant returned  
to the country to see the people with whom he had worked and the work he had done.  
In particular, in view of the following facts, I find that, on the preponderance of the evidence,  
the appellant’s position must be accepted:  
• The family context was special and conducive to a permanent departure.  
• The appellant left after disposing of all his own property.  
• The appellant waived his right to obtain a new driver’s licence a few months before  
leaving Canada.  
• The appellant returned to Canada a few times for very short stays that were for the  
purpose of visiting his two sons, his mother, and friends.  
After leaving Qatar upon the expiry of his work contract, the appellant returned to meet  
friends and business acquaintances, thereby showing he had been happy there.  
The break came after a long period of thorough reflection.  
The appellant has set out all the facts showing his intention to sever ties with this country  
permanently.  
Although the relevance of prior facts is limited, they tend to confirm that the appellant  
severed his ties with Canada in mid-January 2020.  
For these reasons, I conclude that the appellant ceased being a resident of Canada as of  
January 13, 2020. As a result, the appeal is allowed with costs in favour of the appellant.  
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Solution to AP 1-7Case AResidency terminates at the latest of:  
• the date the individual leaves Canada;  
• the date the individual’s family leaves Canada; and  
• the date that individual establishes residency elsewhere.  
As Gary’s family did not leave Canada until June 30, 2021, Gary would be considered a  
Canadian resident until that date. Provided he has no intention of returning to Canada, he  
would be a Canadian resident for the period January 1, 2021, through June 30, 2021. He  
would be subject to Part I tax on his worldwide income during this period. He would not be  
subject to Part I tax on his rental income subject to that date.  
Note to Instructors As will be discussed in Chapter 20, the tax on the rental income  
would not be subject to Part I tax. It would be Part XIII tax.  
Case BAs noted in S5-F1-C1, “Determining an Individual’s Residence Status”, commuting from the  
U.S. for employment purposes does not make an individual a deemed resident under the  
sojourner rules. Therefore, Sarah would not be considered a Canadian resident for income  
tax purposes.  
Sarah would be subject to Canadian tax on her 2021 Canadian employment income. She  
would not be subject to Canadian tax on her U.S. savings account interest.  
Case CByron’s cruise would be considered a temporary absence from Canada. Given the facts, it  
appears his intent is not to permanently sever residential ties with Canada. This position is  
evidenced by the fact his cruise is for a limited time and he will not be establishing residency  
in another country.  
Byron's departure does not appear to be a true departure in that he has only taken a leave of  
absence from his job. In addition, he has retained some residential ties.  
Given these facts, Byron will remain a Canadian resident during his cruise and would be  
subject to Canadian tax on his worldwide income during all of 2021.  
Case DAs she is exempt from taxation in Germany because she is the spouse of a deemed  
Canadian resident, Hilda would be a deemed resident of Canada for income tax purposes  
during 2021 [(ITA 250(1)(g)].  
Hilda would be subject to Canadian tax on her worldwide income during 2021.  
Case EBecause she has an employment contract that requires her to return to Canada in 2024,  
Jessica will be viewed as having retained Canadian residence status. Although she has  
severed her ties with Canada, the requirement to return would show that she does not intend  
to permanently leave Canada.  
Jessica will be subject to Canadian tax on her worldwide income during 2021.  
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Solution to AP 1-8Canada/U.S. Tax Treaty Tie Breaker RuleIn cases of dual residency for corporations, where a corporation could be considered a  
resident of both countries, the Canada/U.S. tax treaty considers that the corporation will be a  
resident only of the country in which it is incorporated.  
Case AThe mind and management of the Allor Company are in Canada and as a result the company  
is a factual resident of Canada. However, as the Allor Company was incorporated in the  
U.S., it is also a resident of that country. Using the tie breaker rule, the Allor Company will be  
considered a resident of the U.S. and deemed to be a non-resident of Canada.  
Case BKodar Ltd. was incorporated in Canada after April 26, 1965. This means that, under ITA  
250(4)(a), Kodar Ltd. is a deemed resident of Canada. Because the mind and management of  
the company are in the United States, it is a factual resident of the U.S. Using the tie breaker  
rule, Kodar Ltd. will be considered a resident of Canada only as it was incorporated in  
Canada.  
Case CThe Karlos Company was not incorporated in Canada and its mind and management are not  
currently located in Canada meaning it is neither a factual or deemed resident of Canada.  
Therefore, Karlos would be considered a non-resident of Canada.  
Case DBradlee Inc. was incorporated in Canada prior to April 27, 1965. In addition it carried on  
business in Canada after that date and therefore it is a deemed resident under ITA  
250(4)(c).  
As the mind and management of the company are currently in the United States, the company  
is a factual resident of that country. Under the tie breaker rule, Bradlee Inc. would be a  
resident of Canada only since it was incorporated in Canada.  
Solution to AP 1-9Part ABrian Palm would be considered a part year resident of Canada until July 31, 2021, the date  
of his departure, and would be taxed on his worldwide income for this period. As his  
presence in Canada during the first part of the year was on a full time basis (e.g. not  
vacationing or other temporary stay), he would not fall under the sojourning rules.  
Part BRachel is a deemed resident of Canada under ITA 250(1)(b). As Gunter is exempt from  
German taxation because he is related to Rachel, he is also considered a deemed resident  
of Canada under ITA 250(1)(g).