

WATERLOO CENTRE FOR TAXATION IN A GLOBAL ECONOMY

2020 | 2021 ANNUAL REPORT

SCHOOL OF
**ACCOUNTING
& FINANCE**



UNIVERSITY OF
WATERLOO

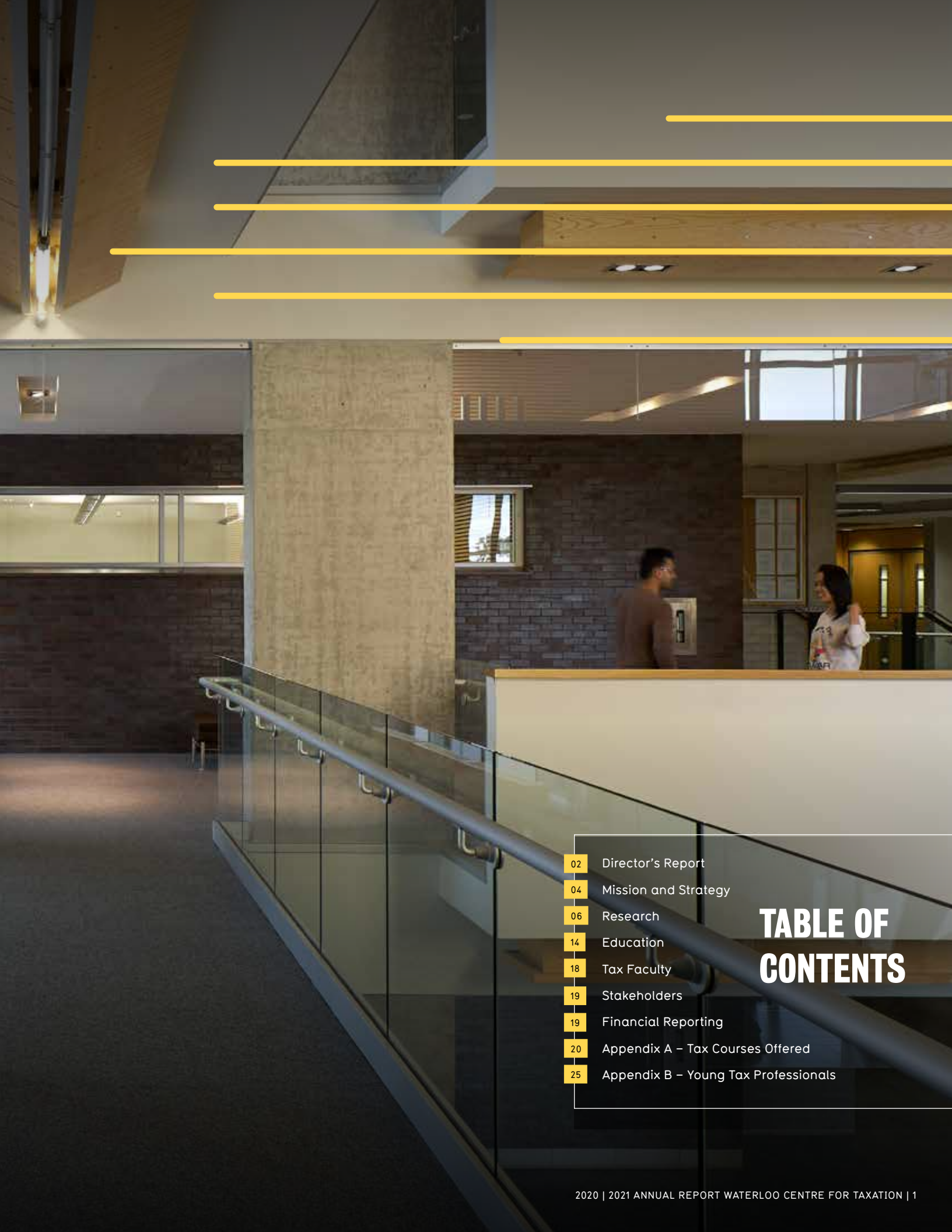
OVERVIEW OF THE CENTRE

The Waterloo Centre for Taxation in a Global Economy was officially launched in 2014 with eight supporters, 6 supporters continue to support the centre: CPA Canada, Canadian Tax Foundation, Deloitte, EY, KPMG, and PricewaterhouseCoopers.

The Centre's research mandate is to enhance tax thought. The Centre supports researchers as they explore critical tax issues and inform tax professionals, including those engaged directly in tax policy. The Centre also aggregates and disseminates academic research, and links Canadian tax researchers with global counterparts through academic partnerships. To achieve these goals, the Centre hosts annual tax policy symposia, facilitates biennial multinational tax research symposia, and develops a variety of channels to disseminate academic research.

The Centre's education mandate is to develop the knowledge and skills needed by young tax professionals entering the marketplace, implement the best practices to help students learn, and build a national reputation for tax pedagogy. To achieve these goals, the Centre identifies the knowledge and skills needed by new tax professionals, supports the development of course content, and inspires and supports students who are interested in a tax career. The Centre hosts an annual tax educator conference whose objective is to bring together tax educators to discuss current tax education issues and trends.





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DIRECTOR'S REPORT

“... the new tax curriculum at Waterloo, begun in 2016 came to full fruition in 2018. We are now well on our way to another revision to the tax curriculum as the entire undergraduate program is being modernized. This process of revitalization will result in the most significant changes to the teaching of tax at Waterloo in the last 20 years.”

KEN KLASSEN, DIRECTOR

The Waterloo Centre for Taxation in a Global Economy completed its seventh year in 2021, thus ending the second round of sponsor commitments. I continue to be so very grateful for the sponsors that continue to support the work of the Centre. I believe we have made significant progress on our goals. Through the Centre, Waterloo faculty have advanced knowledge in taxation, enhanced educational programming, and participated in tax policy debate.

This past year has been exceptionally difficult for many. The innumerable effects of the COVID-19 pandemic have affected all aspects of life at the Centre, like everywhere else. With the timing of the pandemic and the resulting uncertainty around travel and technology, Tax Policy Research Symposium did not go ahead, with its panel topic being deferred to May 2021. We regret the need to not hold the symposium in 2020. With more advanced warning, we were able to hold the September 2020 Biennial Tax Symposium, hosted jointly with the University of Texas at Austin, in an online format. While the online format was a more challenging one in many ways, it also allowed us to invite accounting tax researchers from around the world without a capacity constraint. We had a significant attendance from scholars in Europe and Asia, increasing the global reach of the Centre's activities.

Teaching has also had to adapt to this new reality. Beginning in March 2020, all teaching has been online. To permit learning in an online environment has required significant redevelopment of teaching materials and methods. Instructors teaching in the Spring 2020 term had the biggest job as they only had about 6 weeks to redevelop their content and delivery. We continue to refine these as the online instruction continued throughout the last year.

A key mandate of the Centre is to support, develop and disseminate research on a variety of leading-edge issues in taxation. Our reputation for research within the academic community continues to be elevated through the publication of new articles, as described in this report. Brigham Young University maintains a database of all research published in the leading accounting academic journals worldwide. With these data, they produce a variety of rankings. For tax research, the University of Waterloo is ranked 16th in the world for research produced and published in the last six years. The next highest Canadian university is the University of Toronto, ranked

27th. University of Texas at Austin is ranked first. Canadian tax-policy relevant research is in progress as the Centre continues to emphasize this new direction. These activities support the research mandate of the Centre.

The educational mandate of the Centre was also advanced through the dedicated efforts of Centre members. As the profession and practice of tax evolves, so too does the content of our courses. Over the last two years, Dan Rogozynski and Andy Bauer have made significant strides in introducing data analytics into our undergraduate tax classes. These assignments build on other SAF courses to apply the concepts around data aggregation and analysis into specific tax settings. The Young Tax Professionals student group continues to be very successful. Together these improvements and ongoing activities incorporate even stronger opportunities for students to learn and engage with tax topics using new, more active, learning pedagogies.

As the Centre looks to 2022, we anticipate moving forward with a blend of activities and approaches from the pre-pandemic era and the activities and methods that were developed and adopted over the last year. We look forward to an enhanced education and research environment as a result. The support of the Centre's sponsors in lending expertise and support continues to be critical to our success.



KEN KLASSEN, DIRECTOR

MISSION AND STRATEGY

The School of Accounting and Finance (SAF) at the University of Waterloo is presently about half way through its present ten-year strategic plan. That plan sees SAF leveraging our people and the University's strengths and align our combined resources and energy towards our mission of *transforming the professions* through:

1. world-class research, and
2. experiential education

As a School composed of students, faculty and staff, we will transform the accounting and finance professions in two ways. First, our faculty will conduct world-class research and disseminate the findings to the business community, policy makers and standard setters. Second, our graduates will transform the professions through the impact that they will have in their careers based on the capabilities they develop through experiential education here at Waterloo.





Over the next five years, the SAF will:

WORLD-CLASS RESEARCH

- › Strengthen Waterloo's reputation for outstanding scholarship in the global academic community by enhancing scholarship excellence in both accounting and finance.
- › Strengthen our reputation as thought leaders in the business community by conducting research that has an impact on business, the professions and policy making.
- › Develop resources to support applied research.

Over the next five years, the SAF will:

EXPERIENTIAL EDUCATION

- › Differentiate Waterloo's financial leaders as versatile, adaptive and confident professionals.
- › Develop financial leaders fluent in the languages of business, analytics, and technology.

RESEARCH



TAX RESEARCH PUBLISHED:

“How aggressive tax planning facilitates the diversion of corporate resources: Evidence from path analysis.” Andrew M. Bauer (University of Waterloo), Junxiong Fang (Fudan University), Jeffrey Pittman (Memorial University), Yinqi Zhang (American University) and Yuping Zhao (University of Houston). *Contemporary Accounting Research*, 37(3): 1882-1913., Fall 2020.

Which elements of corporate tax planning can corporate insiders use to benefit themselves at the expense of corporate outsiders?

This study helps address two controversial assumptions. One is that managers and corporate owners try to shield income from both tax authorities and external shareholders. Two, for this to be true, certain agency costs must exist, like available cash flows and

complex, opaque reporting. Little direct evidence exists to support the practical relevance of these assumptions, and the role of cash flows is all but ignored.

We rely on a Chinese setting of “tunneling”, the use of related loans to move cash flows within a corporate group, and aggressive tax planning, differences between statutory and firms’ effective tax rates. We find evidence not only of a link between tunneling and aggressive tax planning supported by available cash flows and opaque reporting, but also that cash flows play a more prominent role.

“The importance of IRS enforcement to stock price crash risk: The role of CEO power and incentives.” Andrew M. Bauer (University of Waterloo), Xiaohua Fang (Florida Atlantic University), Jeffrey Pittman (Memorial University). *The Accounting Review*, forthcoming.

Does tax monitoring generate spillover benefits that limit the risk of managers withholding relevant bad news from equity shareholders?

Sure, theoretical models suggest that investors learn more about a company when tax enforcement is stronger. But really, does tax enforcement affect anything other than taxes, particularly stock market outcomes? Can tax enforcement actually represent a useful corporate governance mechanism? Despite the inherent doubts, a spillover role of tax authority monitoring has important policy implications given the steep rise in company stock price crashes over the last two decades. This study also represents an important test of existing agency theory.

We provide consistent evidence that as the threat of an IRS audit increases, stock price crash risk decreases. We also find that this monitoring role is more important in companies where executives have stronger agency conflicts and underlying incentives to withhold the bad news that leads to crashes.

“The influence of corporate income taxes on investment location: Evidence from corporate headquarters relocations.” Travis Chow (The University of Hong Kong), Sterling Huang (Singapore Management University), Kenneth J. Klassen (University of Waterloo) and Jeffrey Ng (The Hong Kong Polytechnic University). *Management Science*, forthcoming.

Are the effects of jurisdictions’ corporate taxes and other policies sufficiently important to alter firms’ headquarters (HQ) location decisions?

We use changes in state corporate income tax rates across time and states as the setting to explore this question. This research contributes to the literature on corporate

decision making by showing how state income taxation affects a real corporate decision that has significant economic consequences for the company and the state. As such, it has important implications to state and provincial governments as they consider the effects of setting their corporate income tax rate.

In our analysis using firms that relocate their headquarters, we find that a one-percentage-point increase in the HQ state corporate income tax rate increases the likelihood of firms relocating their HQ out of the state by 16.8%, and an equivalent decrease in the HQ state rate decreases the likelihood of HQ relocations by 9.1%. Exploiting the unique tax policy features within the U.S. state apportionment system lends strong support to the interpretation that taxation drives this effect.

“Evidence on Tax Auditors’ Incentives and Assessments,” Kenneth J. Klassen (University of Waterloo) and Nick Pantaleo (University of Waterloo), C.D. Howe E-Brief. September 3, 2020.

Do the incentives that CRA tax auditors face influence the way they conduct their audits?

Building on the analysis in Klassen (2016), we explore new incentives created by recent funding for the CRA and how additional tax revenues are explicitly linked to the CRA’s measures of the tax gap. The is practitioner concern about the effects of the incentives on audit quality. These are important issues in the implementation of the Canadian tax system.

In our analysis we discuss the incentives given to CRA in detail, and also explore the limited public evidence on the time it takes CRA to conduct its audits, and the accuracy of their reporting of their audit efforts. The paper provides some recommendations to calibrate the efforts of CRA in a manner that provides better incentives to the audit function.

WORKING PAPERS:

“The relation between book-tax conformity and earnings quality: the role of accruals in taxable income,” Linda Krull (University of Oregon) and Kaishu Wu (University of Waterloo).

Prior studies in general find a negative association between book-tax conformity and earnings quality. Using an international setting, we hypothesize and find that this negative association is conditional on the level of accruals that a country applies to the definition of taxable income. Specifically, conformity is no longer negatively associated with earnings quality when the level of accruals in taxable income is high. We also find that earnings’ informativeness with regard to stock returns decreases in conformity, but only when the level of accruals in taxable income is low. This finding informs policy makers to consider accrual factors when making regulatory decisions concerning book-tax conformity. We also examine the relation between conformity and earnings management but find no evidence that accruals in taxable income facilitate earnings management.

“The interaction of incentive and opportunity in corporate tax avoidance: evidence from financially constrained firms,” Kaishu Wu (University of Waterloo).

I hypothesize and find that the variation in corporate tax avoidance is jointly determined by firms’ incentive and opportunities to avoid taxes. Specifically, results based on a variety of identification strategies demonstrate that

the positive relation between financial constraints (my proxy for an incentive to avoid taxes) and tax avoidance is significantly stronger for firms with more tax planning opportunities (TPO), where TPO is the distance between a firm’s actual and predicted ETRs. I then split a firm’s TPO into the components based on permanent and temporary book-tax differences (BTDs), and show that firms with TPO based on either component would exploit the corresponding type of BTDs under financial constraints. Finally, I find little evidence that financial constraints drive low TPO firms to pursue risky tax strategies. In general, the findings in this paper provide evidence consistent with an incentive-opportunity interaction story to help explain differences in corporate tax avoidance.

“The Effect of International Tax Planning Aggressiveness on Corporate Investment,” Lisa De Simone (Stanford University), Kenneth Klassen (University of Waterloo), and Jeri K. Seidman (University of Virginia).

Do firms balance tax and operating considerations when making investment decisions? We investigate whether income-shifting aggressiveness affects new investments and predict firms that aggressively shift income will choose affiliate-level investments driven less by local investment opportunities. We use affiliate-level data from multinational

corporations to develop a firm-specific measure of the sensitivity of reported profits to cross-border tax incentives. Results suggest firms with below-median income-shifting aggressiveness exhibit the typical positive relation between investment opportunities and investment level, but firms with above-median income-shifting aggressiveness exhibit no statistical relation. Our tests extend the literature on investment distortions by documenting that multinational corporations' international tax considerations alter their tangible investment decisions.

“Managers’ Use of Tax Settlements in Future Unrecognized Tax Benefit Accruals,”
Andrew M. Bauer and Kenneth J. Klassen
(University of Waterloo).

We electronically “read” the financial statement disclosures that accompany settlements of unrecognized tax benefits (UTB) to explore how managers reflect this information in their underlying probability assessments and thus future estimates of UTB accruals. We use textual analysis to develop a measure of the similarity between tax footnotes and our own tax settlement-specific list of terms capturing unfavorable and favorable outcomes. With this proxy, we examine whether these disclosures predict future UTBs and find that managers revise upwards future UTBs following unfavorable tax settlements, but do not revise future UTBs following favorable tax settlements. These findings build on extant literatures that suggest, first, managers respond more

to unfavorable information and, second, UTB balances tend to be over-stated. Our research extends these literatures by providing evidence on how managers incorporate new information into their accounting estimates.

“The Real Effects of Tax Risk: Evidence from Acquisition Structure and Pricing,”
Kenneth J. Klassen (University of Waterloo)
and Hamza Warraich (University of Waterloo
PhD student).

Theoretical research predicts that uncertainty about the true value of a target in an acquisition transaction induces an acquirer to pay with its own stock rather than with cash because stock payments have a contingency pricing effect. We apply this theory to a setting in which the target’s valuation uncertainty arises due to its tax risk, as measured by unrecognized tax benefits (UTBs) under ASC 740. Consistent with the theory, we find that 1) stock consideration is increasing in the size of the target’s UTB, and 2) the acquirer’s deal announcement returns are decreasing in the size of the target’s UTB, but this is offset by higher stock consideration. The opposing acquirer and target reactions we document suggest that risk-sharing results in a wealth transfer between the two parties. By documenting contingency pricing wealth effects to both acquirers and targets, we provide a more complete view of the theory. Our evidence also provides new insight into how tax risk influences corporate investment decisions and whether tax risk is value-relevant to capital market participants.

“Corporate social responsibility and tax planning: evidence from the adoption of constituency statutes,” Kaishu Wu (University of Waterloo).

The existing literature documents mixed evidence towards the association between corporate social responsibility (CSR) and corporate tax planning. In this study, I identify a causal relationship between CSR and tax planning, leveraging the staggered adoptions of U.S. constituency statutes that permit firm directors to consider the interests of all constituents when making business decisions, including those who benefit from firms paying their fair share of income taxes. Thus, the adoption of the statutes raises the importance of firms’ social responsibility in paying income taxes. I find that firms incorporated in states that have adopted constituency statutes exhibit significantly higher effective tax rates (ETRs) based on current tax expense. This finding suggests that managers, with the legitimacy to consider the social impact of tax avoidance, become less aggressive in tax planning. I further find that the effect of adoption is stronger for financially unconstrained firms and firms in retail businesses, where the demand (cost) for tax avoidance is lower (higher). Finally, I show that my main results are driven by firms located in states with a high sense of social responsibility and firms with high levels of tax avoidance prior to the adoption. Overall, the findings in this paper

contribute to the literature by delineating a negative causal relationship between corporate social responsibility and tax avoidance and identifying a positive social impact brought by the passage of constituency legislation.

“Tax deductibility of interest expense and conditional conservatism,” Shawn Huang (Arizona State University), Mark Ma (University of Pittsburgh), and Kaishu Wu (University of Waterloo).

Many countries have imposed limits to the tax deductibility of interest expenses and thus created a plausibly exogenous increase in the net cost of borrowing. Firms in these countries are expected to rely less on debt financing and face weaker demand for conditional conservatism from creditors as compared to firms in other countries. Using a large sample of firms in OECD countries from 1985 to 2013 and a difference-in-differences design, we provide evidence that the adoption of these tax deductibility limits reduces firms’ conditional conservatism. The decline in conservatism is more pronounced among firms that previously had higher leverage and in countries with higher statutory tax rates or stronger creditor rights. We also document similar findings using a sample involving only U.S. firms, based on the 2017 Tax Cuts & Jobs Act (TCJA). Overall, our findings suggest that limits to interest deductibility have important impacts on corporate financial reporting.

“Employee education and corporate tax planning: evidence from firm-level reporting,” Hanzhong Shi (Huazhong University of Science and Technology) and Kaishu Wu (University of Waterloo).

Taking advantage of a unique financial reporting feature in the Chinese setting, this study examines whether the education level of a firm’s rank-and-file employees is associated with its level of tax planning. We conjecture that highly educated employees should either play an information role and facilitate corporate tax planning or play a monitoring role and restrict it. Using a variety of identification strategies, we provide evidence consistent with the monitoring role of employees in restricting tax avoidance. We find that the main effect is more pronounced when employees have the incentive and ability to “blow the whistle” on financial misreporting and managerial diversion, and when external monitoring and tax regulation are weak. We also find a negative association between employee education and tax risk. Overall, our study extends an emerging body of literature on the association between employee education and firm-related outcomes (Call et al., 2017), along with identifying another important determinant of corporate tax planning.

“The merits of cooperative vs. adversarial tax enforcement.” Jillian Adams (University of Waterloo), Andrew M. Bauer (University of Waterloo), and Andrea Bauschke (EY and University of Waterloo).

Are voluntary, cooperative tax audits associated with greater corporate tax compliance and financial reporting quality compared to adversarial, enforced tax audits?

Existing research scarcely evaluates the effectiveness of the various methods a tax authority can employ to ensure tax compliance, particularly with respect to corporations. Moreover, that tax enforcement is constrained by available resources and tax compliance decreases when tax audit budgets are reduced reinforces the need to study more efficient alternatives. Finally, firms undertaking voluntary audits may have lower costs associated with information asymmetry, which could benefit the firm’s financial reporting and its investors’ economic well-being more than any externalities of enforced tax monitoring.

We propose to answer this question by comparing the tax reserves and financial restatements of two sets of U.S. firms: those that we estimate are continuously under audit and those that we use an algorithm to identify as participating in the IRS’ compliance assurance program.

“The governance of profit shifting.”

Fotis Delis (University of Piraeus),
Manthos Delis (Montpellier Business
School), Panagiotis I. Karavitis
(University of Glasgow), Kenneth J.
Klassen (University of Waterloo).

Do characteristics of the board of directors influence the aggressiveness with which the corporations shifts income internationally for tax purposes?

This study contributes to our understanding of the features internal to a multinational corporation that lead to decisions around tax planning activities in the international environment. We hypothesize that audit committee size and experience, as well as CEO duality are key factors affecting profit shifting.

Because board characteristics and systematic corporate choices are often mutually reinforcing, we develop a novel subsidiary-year measure of profit shifting that is not the result of past corporate decisions. Our main tests show that increasing audit committee size by one standard deviation increases profit shifting by an economically significant 7.8%. We also find that this positive effect reverses for MNEs with higher numbers of audit committee members who have audit expertise and for MNEs without CEO duality.

“Does the tax deductibility of interest affect financial reporting and investment?”

Shawn Huang (Arizona State University),
Kenneth J. Klassen (University of Waterloo),
Mark Ma (University of Pittsburgh), and
Kaishu Wu (University of Waterloo).

When companies adjust their capital structure in response to limits on the tax deductibility of interest, does this have other important effects on the firm?

Many countries have imposed tax policies that limit the deductibility of interest costs, creating an increase in the net cost of borrowing. Firms in these countries are expected to rely less on debt financing. It is important to understand the unintended consequences on corporate financial reporting and investment from these responses.

Using a large sample of firms in OECD countries from 1985 to 2013, we provide evidence that the adoption of these tax deductibility limits reduces firms' borrowing and reduce the asymmetry between the financial reporting of negative economic events, versus positive economic events, one form of financial reporting conservatism. The combined effect of these responses leads to a significant worsening in investment efficiency, a real cost to the countries that implement this rule.

“Does reputational cost lead to reduced corporate tax avoidance? Evidence from well-known trademarks in China.” Hanzhong Shi (Huanzhong University of Science), Kaishu Wu (University of Waterloo) and Xin Yang (Hohai University).

Does the reputation that arises from well-known trademarks in China create costs to the firm that reduce its corporate tax planning activities?

The recognition of well-known trademarks marks is a sudden and significant increase in the popularity of a firm’s products and, hence, provides an ideal setting to test whether firms bear reputational costs in aggressive tax planning activities. We find that firms with well-known trademarks exhibit a lower level of tax avoidance, and this effect is concentrated in firms whose brand names are similar to entity name, firms located in regions that show high levels of social trust, and firms that are not owned by the government. These findings support the notion that reputational costs lead firms to engage less in aggressive tax reporting and inform tax policy makers of an important factor that drives corporate tax behavior.

PRESENTATIONS:

KAISHU WU

American Taxation Association Midyear Meeting. Discussion of “Do companies manage earnings less after a critical audit matter disclosure? Evidence from tax accounts.” February 2021.

Hong Kong Baptist University. “Does tax deductibility of interest expenses affect financial reporting? Evidence from conditional conservatism.” September 2020

Henan University. “Corporate tax research.” September 2020

National Taxation Association Annual Meeting. “Does tax deductibility of interest expenses affect financial reporting? Evidence from conditional conservatism “ 2020

ANDREW BAUER

Hong Kong University. “How does non-GAAP reporting alter the incentives to manage GAAP earnings?” December 2020.

KENNETH KLASSEN

Carnegie Mellon University. “Does the tax deductibility of interest affect financial reporting and investment?” April 2021

Arizona State University. “Does the tax deductibility of interest affect financial reporting and investment?” April 2021

AWARDS AND GRANTS:

KENNETH KLASSEN

Best Manuscript Award, American Taxation Association, for “Unprofitable affiliates and income shifting behavior” coauthored with Lisa De Simone and Jeri Seidman, February 2021.

Social Sciences and Humanities Research Council of Canada. Co-investigator (Principal Investigator, Devan Mescall, University of Saskatchewan). “The determinants and impacts of tax certainty in a global economy.” 2020–2025. \$193,741.

ANDREW BAUER

CPA Canada-CAAA Financial Accounting, Assurance & Tax Research Grant. \$8,000, with D. Henderson and K. Mamo of Wilfrid Laurier University.

KAISHU WU

School of Accounting & Finance Small Research Grant. \$7,000. 2021.

TAX POLICY RESEARCH SYMPOSIUM

The 2020 Tax Policy Research Symposium was cancelled due the Covid outbreak as it has always been an in-person forum for policy discussions. During the current year, planning was done to present the 2021 Symposium in a virtual format in May, 2021.

EDUCATION



TAX EDUCATOR CONFERENCE

Our Tax Educator Conference was held virtually May 7, 2020. 40 people from 15 Canadian universities, CPA Canada, Wolters Kluwer, Deloitte, EY, KPMG and PwC participated.

The 2020 conference topic was “Incorporating Data Analytics in Tax Education”. This topic was chosen as it has increased in importance for employers and CRA over the past few years, and CPA Competency Map expectations of students have increased in this area.

Anu Varadharajan of KPMG LLP (USA), and formerly of Tulane University, spoke on how introducing data analytics into the classroom can be done in a way that is gradual and manageable for both faculty and students that are not familiar with these techniques. Dan Rogozynski and Andy Bauer discussed how they have introduced specific data analytics cases in their undergraduate and graduate courses at the University of Waterloo.

YOUNG TAX PROFESSIONALS

Our Young Tax Professionals program was started in 2014 to offer excellent students who have an interest in a career in taxation the opportunity to closely interact with faculty, alumni and other full-time tax professionals. Students gain a deeper understanding of career options, develop some key skills needed for tax practice, network with tax professionals and learn about current issues and specialty areas within the field.

THIS YEAR WE HAD 100 STUDENTS INVOLVED IN THE PROGRAM ENGAGING WITH SPEAKERS SUCH AS:

- > **NANCY SONG**, Transaction Tax Manager, EY
- > **NICHOLAS TSAI**, Senior Tax Manager, EY
- > **DANNY CISTERNA**, Partner, Deloitte
- > **MARA BELGRAVE**, Partner Indirect Tax, Deloitte
- > **BONNIE LONG**, Direction of Taxation, Morguard Corporation
- > **JUSTIN PARK**, Tax Partner, KPMG
- > **KATHLEEN LI**, US Tax Partner KPMG
- > **TIM ROLLINS**, Waterloo Region, Office Managing Partner, EY
- > **MATTHEW WALL**, Transfer Pricing Expert, MDW Consulting Inc.
- > **BRENDA BRAZIER**, Retired Partner, Deloitte, Tax Educator

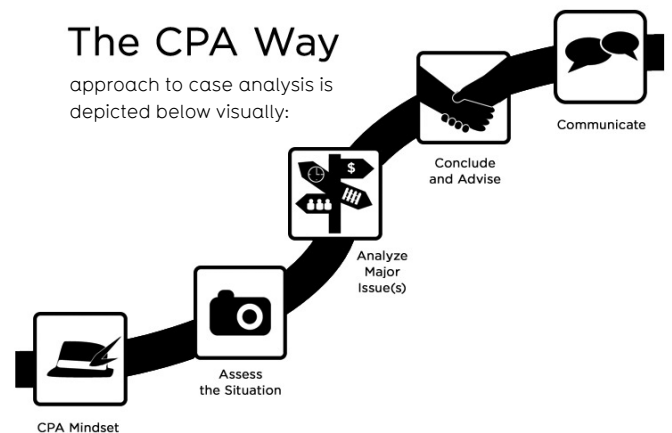
TECHNICAL SESSIONS

During the year, we ran technical tax sessions designed to provide students with skill development beyond that gained in our undergraduate and graduate tax courses. Danny Cisterna of Deloitte, provided a technical session on HST issues. Kathleen Li of KPMG provided a technical session on the fundamentals of US personal and corporate tax. Julie Robson and Brenda Brazier provided a 2021 Federal Budget update. Matthew Wall provided a primer on transfer pricing in Canada.

UNDERGRADUATE PROGRAM

For students currently in third year, there are three undergraduate tax courses that students take as they work towards a CPA designation must complete within our program: AFM 362, AFM 363 and AFM 462. All three courses emphasize skill development rather than topic coverage. The first two courses include an element of repetition to reinforce learning. The first course, AFM 362 emphasizes the development of a strong base of fundamental knowledge and skills needed for students to be able to understand and apply knowledge to more advanced fact situations. AFM 363 reinforces fundamentals through the application and integration of knowledge gained in AFM 362 to familiar but less structured fact situations and more complex case-based tax issues. Both courses introduce the use of data analytics and data mining techniques to students in tax situations to further develop their skills in these key practice areas of the future.

AFM 462 develops enabling competencies and skills with the introduction of the CPA Way approach to case analysis. Students often have difficulty identifying tax issues in non-directed situations and analyzing multi-topic tax focused cases. We use the process from the CPA Professional Education Program adapted to be tax specific in this course to teach students these skills in preparation for the MAcc or the CPA Canada Professional Education Program.



Students are better prepared for the challenge of our case-based MAcc tax courses having been introduced to this method of case analysis in this fourth year course. In recent years, we have also introduced financial reporting topics to the course to encourage integration of knowledge and increased the emphasis on communication skill development through new assessment methodologies.

Significant changes are underway in the undergrad tax courses students take. Students entering the program in the past 2 years will take a different mix of tax courses. Students start the new tax sequence with AFM 206 in the Fall 2A term. The focus of this course is on personal tax and tax compliance and the course develops skills needed for students' own tax returns and a first coop work term experience. AFM 206 is followed by AFM 321 in the 3A term. This course provides students with a background in financial planning and personal tax relevant to financial advisors. AFM 363 (3B term) and AFM 462 (4B term) focus on corporate taxation, owner-manager tax planning and skill development relevant to the CPA student. Both courses are CPA required courses for students working towards a CPA designation.



MASTER OF ACCOUNTING PROGRAM

We offer four tax courses in our MAcc program. The first one, Tax Issues Integration, is our equivalent of the CPA tax elective in the CPA Professional Education Program. The other three courses, Tax for the CFO, Business Structuring & International Tax, and Tax Practice are electives. In the 2021 MAcc class, there was significant interest in these courses with the following number of students enrolled:

2021 MAcc TAX COURSE STUDENT ENROLMENT

234 STUDENTS
Tax Issues Integration

82 STUDENTS
Tax for the CFO

33 STUDENTS
International Tax

66 STUDENTS
Tax Practice

MASTER OF TAXATION PROGRAM

Employer demand for MTax graduates remains strong with 75 per cent of our 2021 graduates going to work for a professional firm, while 20 per cent have begun their career at the CRA, either in the Toronto area or at headquarters in Ottawa.

We also continue to experience strong demand for MTax co-op students, having once again achieved 100 percent success in placing all students during the Fall 2020 co-op recruiting cycle. Interest at the professional firms remains high with approximately three quarters of our eligible group going to work for an accounting firm. The remaining group was split between the CRA and industry, at 18% and 6% respectively.

In addition to hiring from within the MTax group, we are delighted to have the strong support of the big-four professional firms each of whom provide instructors that continue to lead the teaching of advanced tax courses within the program. The generous sharing of time and support from practitioner faculty is truly appreciated and a bonus for our students who benefit from valuable mentoring both during academic terms and work terms.

Throughout the past year, all classes in the MTax program continued in real-time using our virtual classroom while following our regular schedule. A special shout-out to our very dedicated team of highly-experienced tax professionals whose humour and openness allowed for an amazingly smooth transition to our v-classroom!

PRACTITIONER FACULTY:

- > Carolyn Hurst and David Van Voorst (EY)
- > Jayme Yeung and Ian Bradley (PWC)
- > Hugh Chasmar, Andrew Oldham, and Jasdeep Johal (Deloitte)
- > Ruth Cummings, Steve Barichello and Dan Vance (KPMG)
- > Brian Arnold (Canadian Tax Foundation)

MTax COURSES

- > Accounting for Income Taxes
- > Tax Research and Statutory Interpretation
- > Tax Policy
- > Advanced Taxation of Corporations
- > Introduction to Business Structuring
- > Advanced Business Structuring
- > International Tax I
- > Tax Planning for the Owner-Manager and Executive
- > Tax Risk Management
- > Estate & Retirement Planning
- > International Tax II
- > Research Paper

PhD PROGRAM

The School's PhD program is the only accounting doctoral program in Canada where students can specialize in taxation. Our graduates are researching and teaching in leading universities in Canada, the U.S. and in Asia.

During the fall, our PhD student, Betty Xing, successfully completed her studies and left for her new position at Baylor University, Waco, Texas. We have four additional students focused on tax research at various stages of their programs. For example, Hamza Warraich is nearing the end of his program and is seeking a full time faculty position. His research focuses on the implications of tax loss carryforwards on the form and pricing of public M&A deals.



KEN KLASSEN, MACC, PhD, FCPA, FCA
ANDREW BAUER, MACC, PhD, CPA, CA

TAX FACULTY



DAVID LIN, MACC, CPA, CA



KAISHU WU, PhD



DEB KRAFT, MTAX, TEP, CFP



DAN ROGOZYNSKI, MACC, CPA, CA, CPA (ILLINOIS)



JULIE ROBSON, MACC, CPA, CA, CPA (ILLINOIS)



ANDREW BAUER, MACC, PhD, CPA, CA

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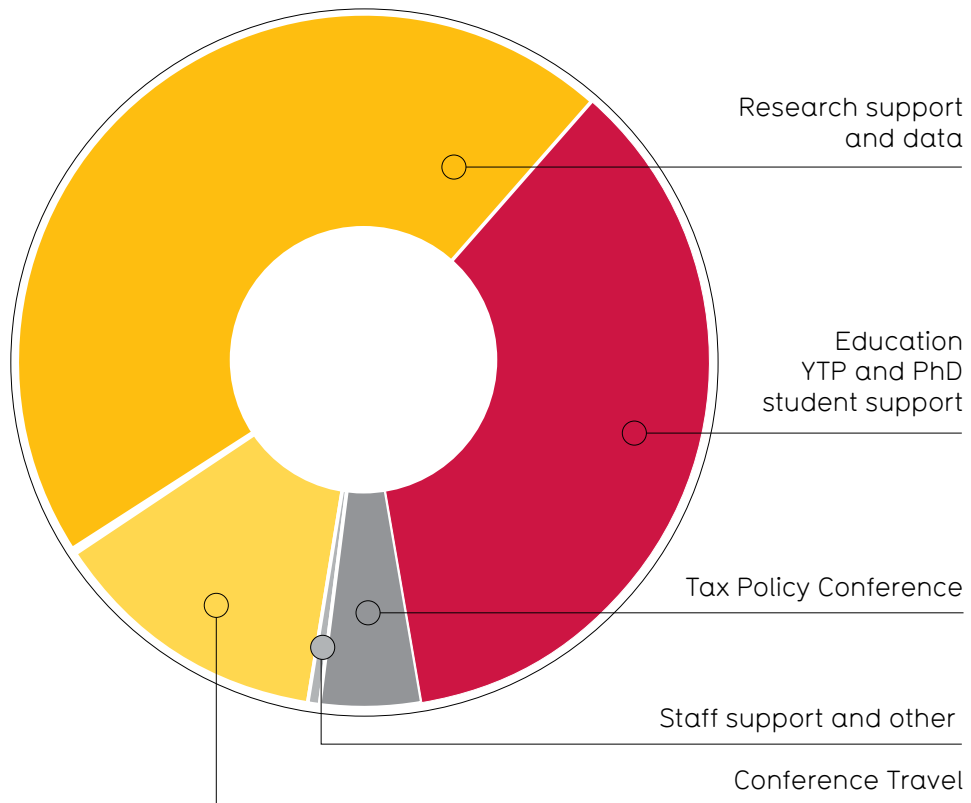


FINANCIAL REPORTING

RESULTS FOR 2020-2021

Our April 30, 2021 fiscal year is the seventh operating year of the Centre.

The following graph shows the relationship among the various expense categories and provides an overview of the types of expenses incurred.







TAX COURSES OFFERED

AT THE UNIVERSITY OF WATERLOO FOR
STUDENTS CURRENTLY IN THIRD YEAR



UNDERGRADUATE

Accounting and Financial Management (AFM) Program

YEAR 2 - 2A TERM

SAF students have the option of taking a six-week segment designed to prepare them for a work term in personal tax preparation.

YEAR 3 - 3A TERM: TAXATION 1

Theme: Type of Taxpayer + Type of Income = Tax Treatment

Students will develop their understanding of the various sources of income and the components of taxable income and tax payable for individuals and corporations. The topics are covered at a high level to give them a broad perspective on the tax system and an understanding of the importance of the types of income and taxpayer in the determination of tax payable.

YEAR 3 - 3B TERM: TAXATION 2

Theme: Integration across topics

Students will study the same topics as their first full-term tax course but both in more detail and across topics. For example, when discussing employment and business income, students will address both the tests for determining whether an individual is an employee or a self-employed contractor as well as consider the impact on the taxable income and deductions available to both individuals and corporations receiving this type of income.

YEAR 4 - 4B TERM: TAXATION 3

Theme: Advising Private Corporations and their Shareholders

Students will explore tax planning opportunities available to private corporations and their owner-manager including compensation, business structuring and estate planning.

Students will develop their ability to identify issues as well as their ability to plan out the analysis that needs to be done. Students will also expand their knowledge and skills beyond the technical tax rules to analyzing, evaluating and creating tax planning ideas.

U.S. TAX

This elective course will provide an introduction to the US tax system for both individuals and corporations. Students will explore the concept of US individual taxation of "U.S. persons" and the filing requirements of a U.S. citizen living in Canada. Students will also study the Canada-U.S. Income Tax Convention (Treaty) and when a Canadian corporation will become subject to U.S. tax. Students will develop their technical competencies, such as how to compute U.S. taxable income and how to populate U.S. tax forms.

PERSONAL FINANCIAL PLANNING

Students will learn how to develop and present a Personal Financial Plan, and understand the major issues in financial planning, tax planning, debt, and mortgage management. Students will study personal income tax, and its impacts on financial planning.

GRADUATE

Master of Accounting

TAX ISSUES INTEGRATION

This course is designed to build on the skill development started in AFM 462 – Taxation 3. Students develop case analysis skills through the analysis of multi-topic tax cases. The course emphasizes the integration of knowledge, further development of problem-solving and communication skills and adding value as a professional advisor. It is relevant to students interested in developing issue identification skills and understanding the interrelationship of tax and related issues in practical settings. The course is a CPA elective course relevant to students preparing for CPA exams and public accounting licensing eligibility.

BUSINESS STRUCTURING & INTERNATIONAL TAX IN A CANADIAN CONTEXT

This course is designed to provide students with a foundation in the basics of business structuring and international tax law in Canada. The course is of interest to students interested in a specialization in taxation and relevant to students who will not specialize in tax but want to understand basic corporate reorganization provisions in the Income Tax Act and the tax implications of international transactions.

TAX PRACTICE

Students in this course develop tax research, tax writing and tax presentation skills while working on practical tax cases. The course uses a problem based learning approach that allows students to work in groups to address tax and non-tax issues in real life cases. Students will learn to read and interpret the Income Tax Act, Canada Revenue Agency (CRA) documents, information provided by the tax services and Tax Court cases as they research, write and present their analyses of the cases. The course is designed for students who will specialize in taxation. Students that do not plan to specialize in tax take this course to develop research, writing and presentation skills that are of value to all finance professionals.

TAX FOR THE CFO

This course is designed to provide students with a foundation of tax concepts that will be relevant to industry practitioners. It is most relevant to students interested in developing an understanding of tax reporting, risk management and related accounting issues and will be useful to both students that will specialize in taxation. Students that will not specialize in taxation benefit from taking this course as well as it provides a strong base of understanding of an organization's tax function and position.

Master of Taxation

INTRODUCTORY TAX AND ACCOUNTING FOR MTAX

This course is designed to provide the student with the fundamentals of Canadian income taxation and the accounting needed to begin work in the tax field. It will cover both personal and corporate taxation with assigned cases used to demonstrate how the tax system actually works. It will also cover balance sheet and income statement accounting topics related to tax practice. The course will be held in August each year.

AN INTRODUCTION TO THE ACCOUNTING FOR INCOME TAXES

The goal of financial accounting is to reflect the economic activities of the firm in its financial statements. This course introduces students to the accounting for income taxes with a particular focus on analyzing differences between accounting and tax treatments, computing tax provisions, and disclosing tax information in corporate financial statements. The course also provides exposure to both internal and external uses of tax accounting disclosures. In doing so, the course builds a solid grounding in the preparation of accounting information, but also helps students gain an appreciation for the role of financial accounting in tax planning and compliance decisions.

TAX RESEARCH AND STATUTORY INTERPRETATION

This course covers two of the most fundamental skills of a tax practitioner: statutory interpretation and the understanding and application of case law. Students will learn the basic structure of the Income Tax Act and related legislation, gain familiarity with the various tools for interpreting and applying the legislation (e.g., defined terms, deeming rules, general rules of statutory interpretation etc.) and understand the various external sources for guidance and their relevance (e.g., CCRA opinions, cases etc.). Students also learn how to read cases, to determine what legal principles and precedents a case established, and to apply case law to particular fact situations.

TAX POLICY

This course investigates the Canadian tax system in light of the objectives of that system. For any current tax rule, the idea is to identify the underlying policy problem the rule is intended to solve, consider alternative solutions, and then determine if the current tax rule can be improved or to identify tax planning opportunities.

TAXATION OF CORPORATIONS

This course concentrates on issues related to the taxation of corporations. This course is taught by integrating a variety of tax issues into cases for discussion.

INTRODUCTION TO BUSINESS STRUCTURING

This course introduces students to the more advanced areas of taxation including corporate reorganizations, partnerships and trusts.

BUSINESS STRUCTURING

The Business Structuring course is intended to provide students with an overview, from a tax and business perspective, of a variety of corporate structures that may be used to carry on business. The course examines how these structures differ from one another and how businesses may be reorganized with existing corporate groups and within the context of purchase and sale transactions. The course also deals with related debt and equity financing and capital restructuring issues. Focus is placed on the use of the numerous reorganization provisions contained in the Income Tax Act. This is done to facilitate the completion of transactions designed to meet the stakeholders' objectives in a tax efficient manner while taking into account an analysis of the business and tax risks associated with the structure.

INTERNATIONAL TAX I

The International Tax I course is designed to provide an introduction to Canada's international tax rules and tax treaties. Barriers to cross border trade and investment continue to come down. At the same time, technology has enabled business organizations to access markets that were previously out of reach and to develop new business models that improve the profitability of their operations. The business operations for companies of all sizes are increasingly global. International tax plays a significant role in shaping the manner in which multi-national enterprises organize and finance their operations. The practice of international tax provides an exciting opportunity to actively participate in the fast changing world of global commerce alongside a multi-disciplinary team of other professionals and business leaders.

TAX PLANNING FOR THE OWNER-MANAGER AND EXECUTIVE

Owner-Managers usually have dynamic tax circumstances which demand that the tax advisor adapt their thinking quickly and effectively to bring significant value to their businesses.

TAX RISK MANAGEMENT

This course investigates tax and related accounting issues found in the tax provision on the financial statements to deepen the understanding of the impact of tax on accounting. It will also address the identification, measurement and reporting of tax risk. Corporate governance issues involved in the tax provision process are also considered in this course.

ESTATE AND RETIREMENT PLANNING

This course integrates the tax, legal, family and business issues involved in planning for the estate and retirement of the business owner, the professional and the executive.

INTERNATIONAL TAX II

International Tax II builds on the fundamental principles taught in International Tax I. The course examines in more detail the foreign affiliate and foreign accrual property income rules and practices that apply to Canadian companies seeking to establish, expand, structure and finance their foreign operations in a tax efficient manner. The course also examines how Canadian companies can make effective use of low-tax jurisdictions in international tax planning to own and to finance foreign operations. Finally, the course explores how domestic and international developments and rules, such as transfer pricing, might impact such planning currently and in the future.

RESEARCH PAPER

There are two aspects to this course. First, this is the major research paper course, which requires students to design and conduct original research on a specific tax issue. Second, the classes address current and emerging tax policy and practice initiatives which practitioners need to recognize to properly advise their clients. They also cover tax and economic issues which might be addressed only tangentially in other courses.



YOUNG TAX PROFESSIONALS

THE FOLLOWING ARE THE MEMBERS OF OUR YOUNG TAX PROFESSIONAL TEAM AT APRIL 30, 2021

- | | |
|----------------------------|------------------------------|
| Arsalan Ali | Brendan Mick |
| Thulasi Arulanantham | Vidya Rajan Nair |
| Jeffery Bae | Asif Nawaz |
| Suellen Bai | Arushi Negi |
| Andrea Bauschke | Stephanie Irene Otto |
| Chen Gang Cai | Marcelina Pitula |
| Lauren Victoria Callaghan | Brianna Prive |
| Michael Carusi | Muhammad Ibrahim Qazi |
| Winston Timothy | Queeny Qiu |
| Samuel Cestnick | Laura Robertson |
| Kevin Lucas Yuan-Fong Chan | Claire Gabrielle Saddy |
| Megan Esmee Chan | Manasvita Sethi |
| Joyce Wing Yan Chan | Alina Sewani |
| Jack Chen | Davin Shao |
| YuanYuan Chen | Laura Shi |
| Xinzhu Chen | Isabel Shu |
| Amber Cheung | Simran Kaur Sidhu |
| Elisa Ching | Davika Dyal Singh |
| Sarah Wing Sze Chu | Simran Sodhi |
| Daniel Matthew Clarke | Anika Tahsin |
| Iris Fong | Sinthugan Tharmaratnam |
| Guan Qun Gao | Thilakshya Theiventhirarajah |
| Inderjit Gill | Karlina Bella Tucci |
| Maggie Mingyue He | Melissa Ulrich |
| Amaris He | Jacob Van Voorst |
| Zachary Jonkman | Sean Alexander Veitch |
| Jacob Joshy Kalarickal | Miao Luna Wang |
| Radhika Khosta | Field Hendrik Westbroek |
| Soyeon Kim | James Mackenzie Wong |
| Victoria Kwok | Karen Xu |
| Tanvir K Lamba | Qian Ru Ruby Yang |
| Kelvin Pak Hong Lee | Kevin Yang |
| Kiera Alexandra Lee | Olivia Yang |
| Ellie Li | Vincent Yang |
| Alicia Lim | Tiffany Yu |
| David Lin | Kelvin Zeng |
| Maggie Liu | Tony Zhang |
| Elina Xiangyu Ma | Kelly Yufei Zhang |
| Sean Mark | Yurong Zhang |
| Callum McLean | Isabel Zhu |
| | Matthew Zhu |

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IN A GLOBAL ECONOMY

UNIVERSITY OF
WATERLOO



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