Introduction

I – Tax minimization versus abusive tax avoidance

What is tax avoidance?
Central role of economic consequences

II – Effects of unchecked abusive tax avoidance

Detrimental effects on taxpayer compliance
Inequitable allocation of tax liabilities
Wasting of resources on uneconomic activity
Interference with government social and economic policies
Distortion of competition
Conclusion

III – A case for standards in responding to abusive tax avoidance

IV – Limits of judicial doctrines in Canada

Legal ineffectiveness
Substance versus form
Sham
Business purpose

V – SCC’s treatment of economic substance

Legal form trumps economic substance in tax cases
Mara Properties Ltd. v. The Queen
Duha Printers (Western) Ltd. v. The Queen
Shell Canada Ltd. v. The Queen

SCC’s rationale
Prohibition against “judicial re-drafting”
Certainty and predictability
Right to minimize taxes
SCC’s different approach in non-tax cases

VI – U.S. economic substance doctrine

Leading U.S. court cases
Gregory v. Helvering
Knetsch v. United States
Goldstein v. Commissioner
Frank Lyon v. United States

An ordinary business exception?
Legislatively intended benefits
Import of bona fide legal relationships
### Table of Contents

#### U.S. tax shelter cases
- Sale and leaseback ("SILO") shelters
- Contingent instalment sale ("CINS") shelters
- Corporate owned-life insurance ("COLI") shelters
- High-basis, low-value shelters
- Bond and option sales strategy ("BOSS") and son-of-BOSS shelters
- Distressed asset debt ("DAD") shelters

#### U.S. economic substance doctrine codified
- For and against codification
- Budget proposal for fiscal year 2000
  - *Abusive Tax Shelter Shutdown Act of 1999*
- Joint Committee Study / White Paper on Corporate Tax Shelters
- Budget Proposal for the Fiscal Year 2001
  - *Abusive Tax Shelter Shutdown Act of 2001*
- *Jumpstart Our Business Strength (JOBS) Act 2004*
- *Tax Reduction and Reform Act of 2007*
- Budget Proposal for Fiscal Year 2010
- Codification at last

#### VII – Economic Substance under GAAR in other jurisdictions

##### South Africa
- Historical GAAR
- 2005 Discussion Paper on Tax Avoidance
- 2006 GAAR amendments
- Eleven factors: the draft legislation
- Application to scheme as a whole or any part thereof
- Application in the alternative
- Remedies under GAAR
- Notice requirement
- What has been accomplished
- Conclusion

##### Australia
- Historical GAAR in Australia
  - Part IVA
  - Reconstruction provision
  - Notice provision
  - Provision of last resort
  - What has been accomplished
  - Conclusion

##### New Zealand
- Historical GAAR
  - Section BG 1
Reconstruction provision
Relationship of section BG 1 to other provisions
What has been accomplished
Conclusion

Other countries

U.K. draft GAAR

Historical anti-avoidance efforts
HMRC’s administrative position
1997 Tax Law Review Committee Report
1998 Inland Revenue Consultation Document
2009 Tax Law Review Committee Discussion Paper
2011 Advisory Committee GAAR Study Group Report
European Community concept of abusive practice or abuse of law
Observations
Conclusion

VIII – Reporting requirements and penalties

Canada

Reporting requirements
Promoter penalties
Proposed additional reporting requirements
Proposed additional penalty
Observations

Québec

Mandatory disclosure regime / Understatement penalties
Observations

United States

Reporting requirements
Promoter penalty
Penalties for failure to file returns and failure to maintain investor lists
Penalties for false statements and gross valuation overstatements
Penalties for failure to disclose
Penalties for understatement
Strict liability understatement penalty
Website advisories, standards of practice and settlement initiatives
Enjoined conduct
Observations

Australia

No reporting requirement
Shortfall penalties
Promoter penalties
Tax alerts
Table of Contents

Observations
New Zealand
- No reporting requirement
- Shortfall penalties
- Promoter penalties
- Revenue alerts
- Observations

South Africa
- Reporting requirements
- Reporting penalties
- No shortfall penalties
- Observations

U.K.
- Reporting requirements
- Promoter penalties
- Investor penalties
- Observations

Conclusion

IX – Case studies

Canada Trustco Mortgage Co. v. The Queen
OSFC Holdings Ltd. v. The Queen
Donohue v. The Queen
Faraggi v. The Queen
4145356 Canada Ltd. v. The Queen

X – Conclusion

XI – Select Bibliography

APPENDIX A – ECONOMIC AND COMMERCIAL REALITIES IN TAX CASES

Reliance on economic realities in tax cases
- Computation of Profit
- Employees versus Independent Contractors
- Whether Business Exists
- Fair Market Value Determinations
- Miscellaneous Instances
- Reliance on commercial realities in tax cases

APPENDIX B – TAX COURT GAAR CASES