



# CANADIAN OVERVIEW

## Q1, 2025



CHARTERED PROFESSIONAL  
ACCOUNTANTS



demersbeaulne  
allies in your success



SEGAL  
Beyond today



Marcil Lavallée

A quarterly Canadian newsletter produced by the Canadian member firms of Moore North America for the purpose of inspiring conversation and collaboration throughout Canada and beyond.



# DIGITAL PLATFORM OPERATORS: HOW TO REPORT INCOME FROM UBER, AIRBNB, ETSY, AND MORE

The Canada Revenue Agency (CRA) has introduced new [Reporting Rules for Digital Platform Operators](#) to enhance transparency and promote international tax compliance. These rules ensure income earned through digital platforms is accurately reported, marking a significant shift for both platform operators and individuals earning income through these platforms.

## Overview of the reporting rules

Under the new rules, digital platform operators facilitating transactions involving goods, services, or property rentals must collect and report detailed information about their sellers to the CRA. A platform operator is classified as a “reporting platform operator” if it either:

- Resides in Canada; or,
- Facilitates transactions involving Canadian residents, even if the operator itself is based abroad.



## What information must be reported?

Platform operators are required to collect and report identification details (e.g., the seller's name, address, and tax identification number) and transaction activity data (e.g., payment amounts, and platform fees).

## Who is a reportable seller?

Sellers are considered “reportable” if they meet all three of the following criteria:

1. They are registered on a digital platform (e.g., Airbnb, Etsy, or Uber);
2. They reside in Canada or a country with similar reporting standards; and,
3. They sell goods or services, including property rentals, to customers in Canada or other jurisdictions adopting these rules.

## Key dates to remember?

The first reporting deadline was January 31, 2025, covering activity from the 2024 calendar year. If you missed this deadline, penalties and interest won't be charged if the return is filed late but submitted by July 31, 2025. Platform operators must collect and verify accurate seller information by the end of each reporting period.

## Key takeaways for operators and sellers

### For platform operators

Platform operators need to act quickly to ensure compliance with these reporting requirements. This includes:

- Implementing systems to accurately collect and verify seller information. For example, platforms like Uber may need to upgrade their systems to ensure driver data is complete and accurate; and,
- Meeting the January 31 reporting deadline (or filing by July 31) to avoid non-compliance penalties.

### For sellers

Sellers should:

- Maintain accurate records of income earned through digital platforms such as Etsy or Airbnb;
- Ensure the information provided to platform operators, such as tax identification numbers and financial details, is up to date; and,
- Consult their CPA advisor about addressing past omissions or inaccuracies to minimize penalties.





## Deadlines and penalties

The CRA considers your return to be filed on time if it's received on or before the due date. If a penalty is applied for late filing, you will receive a notice. The minimum penalty for late filing the Part XX information return is \$100, and the maximum penalty is \$7,500.

If you fail to pay an amount owed, interest can be applied starting from the due date. The interest rate is the prescribed interest rate, which is determined quarterly and is compounded daily.

As mentioned above, for the initial filing deadline of January 31, 2025, penalties and interest won't be charged if the return is filed late but submitted by July 31, 2025. Despite this temporary relief, it's strongly encouraged to file on time to avoid potential issues in future filings.

## Tax considerations

The new reporting rules also provide an opportunity for sellers to review and optimize their tax strategies. Consider the following:

### Expense deductions

Sellers involved in short-term rentals or freelance work may be eligible to deduct related expenses, such as advertising costs, platform fees, or home office expenses, from their taxable income. For instance, an Airbnb host can deduct the cost of cleaning services or property repairs. Proper documentation is essential to claim these deductions.



## Corporate structuring

Some sellers may benefit from structuring their activities through a corporation to take advantage of lower tax rates or better manage liability. Consult with your CPA advisor to determine if this strategy aligns with your broader financial and tax planning goals.

The Reporting Rules for Digital Platform Operators introduce significant administrative responsibilities for platform operators while underscoring the importance of accurate income reporting for sellers. Seeking tailored advice from your CPA advisor can help both operators and sellers navigate these new requirements effectively.

Article written by: [Nav Pannu, CPA](#)





## THE QUÉBEC AGRIFOOD INDUSTRY: BETWEEN RESILIENCE AND CHALLENGES

Present in every region of Quebec, the agri-food industry is an essential component of the economy and of people's daily lives. It goes far beyond primary production, encompassing processing, distribution, and retailing, supporting a value chain that is vital to local economies.

With over 75,000 businesses, this dynamic sector contributes to the province's food self-sufficiency and stimulates innovation. However, it faces many challenges: labor scarcity, climate change, pressure from international markets, changing consumer behaviors, and technological transformations.

### Contrasting performances in 2023

Despite these challenges, biofood companies maintained a solid performance in 2023, according to Le bioalimentaire économique, Bilan de l'année 2023, published by the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation du Québec (MAPAQ). Rising prices underpinned some of this growth, although the increases were less marked than in 2022. Quebecers nonetheless felt this food inflation in their grocery baskets, as prices rose by 8.3% for food and non-alcoholic beverages, well above the general inflation rate of 4.5%.

The biofood industry's real gross domestic product (GDP) grew for the third year running in 2023, increasing by 0.9% to reach \$29.5 billion, or 6.9% of Quebec's GDP. However, this figure remains below the pre-pandemic peak of \$30.2 billion.

A closer look at this data reveals that some industry segments are faring better than others. Commercial food and drinking places have been the growth drivers, posting a 5.2% increase in 2023. However, with a real GDP of \$5.8 billion, this sub-sector has yet to recover its pre-pandemic level of \$6.8 billion.

### **Agriculture and Fisheries**

Results were more mixed in agriculture and fisheries, which saw their GDP fall by 4.9%, while food processing grew slightly (+0.5%). Wholesalers and traditional food stores recorded declines of 1.1% and 2.2% respectively, continuing a downward trend that began in 2022.

### **Labour Shortages: A Persistent Challenge**

With 530,085 workers, up 2.6% on the previous year, the Quebec agrifood sector has almost returned to its pre-pandemic employment levels, but the labor shortage remains a major concern, affecting all segments of the industry.

### **Agri-food Jobs in Quebec**

In food processing, there are some 7,000 unfilled jobs in the province. According to Food & Beverage Canada, this represents a quarter of all job vacancies in the country, or 28,000.

Agriculture, meanwhile, is struggling to hire locally, relying more and more on temporary foreign workers (TFWs) to fill its labor needs, a trend that has been growing steadily over the years. In 2022, the Canadian agricultural sector employed 64,660 TFWs, the majority of whom were deployed in Quebec and Ontario.





This high number is explained by specific barriers to local recruitment, including the location of businesses in rural areas and the physical nature of the work. Lack of access to childcare also hinders the participation of women in this sector. Retention is another headache for farm operators, as the turnover rate among farm employees is particularly high.

Signing bonuses or other incentives put in place by employers do not seem to be sufficient measures to attract and retain candidates. In 2022, according to the Canadian Agricultural Human Resource Council (CAHRC), two out of five farm businesses were unable to find all the employees they needed. The shortage of workers is likely to get even worse, with over 85,300 people expected to retire from Canadian farms by 2030.

## Technology to the Rescue

Automation is often presented as one of the answers to labor shortages. However, several obstacles are slowing down its adoption. High technology costs and a lack of digital infrastructure, including high-speed Internet access in rural areas, are holding back the take-up of automation.

Despite these difficulties, some companies see modernizing their processes as the way to increase productivity and remain competitive. According to MAPAQ, technology use in the agricultural sector in Quebec shows a growing adoption of various advanced solutions, with a clear progression in recent years.

By 2021, around 19% of dairy farms in Quebec were using fully automated milking machines, an increase on 2016, when only 8% of farms had them. This trend is particularly marked on large farms generating gross revenues of over \$500,000. Just over 3,400 farms, or one in nine, have installed automated steering systems on their farm equipment. These technologies, which ensure precise application of crop protection solutions and nutrients in the field, are particularly widespread among grain and oilseed producers (31%), as well as vegetable farms (24%).

However, with the increasing use of technology, employee skills development is becoming an important issue. The general perception of agricultural occupations as low-skilled hinders the attraction of new talent. According to Agriculture and Agri-Food Canada, nearly 64% of employers feel that the employees they hire lack the skills needed to succeed in this sector, which hampers opportunities for growth and innovation.



## Market Diversification (export)

Last year, Quebec's biofood exports reached \$11.9 billion, an increase of 3.3% over 2022. Although positive, this growth is lower than that observed in Ontario (+9.4%) and Canada as a whole (+6.4%). This gap is due in particular to lower exports in certain key sectors. Pork, Quebec's main export product, saw a third consecutive year of decline (-7%). Foreign sales of fish and seafood fell by 22%.

However, other sectors offset these declines: oilseeds saw exports rise by 25%, reflecting growing global demand for these products. Cereal products (+25%) and unprocessed grains (+12%) also underpinned growth, as did poultry meats and eggs, which rose by 16%, with a 53% increase since 2020.

The United States remains Quebec's main trading partner, absorbing \$8.1 billion of exports, an increase of 3%. However, sales to other key markets, such as the European Union, China and Japan, showed signs of slowing, largely due to lower pork exports to these countries.

Faced with this situation, Québec diversified its export markets. Less traditional partners such as Iran, the UK, Algeria and Taiwan, among others, have contributed significantly to growth. These new markets accounted for 8% of exports last year, an impressive 157% increase over 2022.





At the same time, Quebec's biofood imports continued to rise in 2023, reaching \$10.3 billion, a 5% increase over 2022. This increase can be explained in part by Quebec's heavy dependence on certain raw materials, such as raw cane sugar and cocoa beans, which saw their imports rise by 74% and 19% respectively.

While international trade agreements offer interesting opportunities for agricultural businesses, particularly with Asia-Pacific, they also introduce greater competition, particularly with the Canada-United States-Mexico Agreement (CUSMEA), which authorizes an increase in American exports to Canada, notably in dairy and poultry products.

**Even so, Quebec maintained a positive trade balance in 2023, amounting to \$1.6 billion. However, this surplus is down from the peak of \$2.2 billion reached in 2021.**

## Key changes for a sustainable future

By 2050, agricultural demand is expected to be 50% higher than in 2013 due to global population growth, according to the Food and Agriculture Organization of the United Nations. While this creates exciting growth prospects for the agri-food sector, the situation also calls for major changes if businesses are to keep up with demand. According to a recent McKinsey study, the focus will have to be on green agriculture. Quite a challenge, considering that the agri-food sector has been responsible for some 30% of global greenhouse gas (GHG) emissions.

## Innovation as a partner for sustainable growth

McKinsey has identified a number of possible solutions for adopting more environmentally-friendly practices:

**Encourage the development of regenerative agronomy:** although it is gaining ground, farmers need to step up their game in this area. Regenerative agronomy is a set of

agricultural practices that aim to restore and improve soil health, biodiversity and ecosystems, while producing food in a sustainable way. Due to climate change, extreme weather events such as droughts, floods or heat waves are becoming more frequent. Regenerative agronomy, by strengthening soil structure and increasing its capacity to retain water, enables crops to better withstand these climatic shocks. This makes farms more resilient.

**Rethinking the use of agricultural land:** it should no longer be used solely for production, but also for preserving biodiversity and sequestering carbon. It's about creating land value that goes beyond crops. Practices such as agroforestry (combining trees and crops) could not only contribute to soil preservation, but also create new sources of income, notably via carbon credits.

**Reducing food waste:** with nearly 30% of the world's food wasted, waste reduction is becoming crucial. Sources of improvement include better crop storage, thanks to solar-powered cold-storage solutions, and downstream recovery of food waste, which could be converted into energy or compost.

**Diversifying food production:** the transition to more sustainable protein sources is underway. Plant-based proteins and laboratory-grown meat are booming, with a potential market for cultured meat of over \$25 billion by 2030. However, challenges remain, not least production costs and consumer acceptance.

## Meeting consumer demand

In this transition to sustainability, the adoption of ESG (environment, society and governance) criteria in corporate strategies and business models is no longer an option, but a necessity to maintain a competitive edge in the global marketplace.

Consumers are increasingly concerned about climate change and environmental sustainability, and these concerns are reflected in their daily purchasing habits. According to a recent study by Boston Consulting Group (BCG), the food sector is particularly affected by this trend.

The survey reveals that 77% of consumers are concerned about sourcing food with a low

environmental impact, and 10% make this a top priority. As a result, the market for food products that meet sustainable criteria is experiencing significant growth. Between 2015 and 2021, sales of these foods grew 2.7 times faster than those of conventional products. By 2022, they accounted for 17% of market share, up 3.3% since 2015.

What may slow progress is the price of these foods, since only a small proportion of consumers are prepared to pay a premium for eco-responsible products.

Faced with this complexity, food companies have a key role to play. By focusing on products that are healthy, high-quality and nutritious, they could win over a significant proportion of consumers who are sensitive to these criteria, but still reluctant to make a full commitment to buying sustainable products. In so doing, they can not only meet growing demand but also contribute to a more environmentally friendly food system.

Article written by: [Demers Beaulne](#)







## PART IV.1 AND PART VI.1 – TAX ON PREFERRED SHARE DIVIDENDS

### The Purpose of Parts IV.1 and VI.1

The tax-free nature of most intercorporate dividends makes equity financing a more attractive avenue for investors to deploy their capital than acquiring debt, as debt would give rise to interest income that would be subject to tax.

Part IV.1 tax and Part VI.1 tax was introduced to mitigate this inequity and prevent the avoidance of tax through the use of tax-free intercorporate dividends. Parts IV.1 and Part VI.1 are generally applicable in situations where preferred shares have been issued with terms that closely resemble the terms commonly found in debt instruments. The applicable sections do this by applying a tax to what would otherwise be tax-free intercorporate dividends.

Part IV.1 of the Income Tax Act levies a tax on dividends that are received on certain types of preferred shares while Part VI.1 levies a tax on dividends paid on certain preferred shares.

In essence, Parts IV.1 and VI.1 of the Act attempt to provide a tax-neutral landscape between debt financing and equity financing.

## Who Pays the Tax?

### Part IV.1

The tax is payable by any corporation that has received a dividend, other than an excepted dividend, on a taxable preferred share, to the extent that the dividend was deductible under section 112 or 113, or subsection 115(1) or 138(6) of the Act.

### Part VI.1

The tax is payable by a taxable Canadian corporation that pays dividends, other than excluded dividends, on short-term preferred shares and on taxable preferred shares.

**Note the difference between the two taxes; Part IV.1 applies to any corporation, while Part VI.1 only applies to taxable Canadian corporations, which are defined in the Act.**

## How Much is the Tax?

### Part IV.1

Corporations in receipt of dividends subject to Part IV.1 tax are liable to pay 10% of the dividends received to the extent the dividends were deductible under Section 112 or 113, or Subsection 138(6).

### Part VI.1

For taxation years ending after 2011, taxable Canadian corporations that pay dividends subject to Part VI.1 tax are liable to pay 40% of the dividends paid to the extent the dividends exceeded the corporation's dividend allowance for the year.

## What Preferred Shares are Impacted?

Short-term Preferred Shares and Taxable Preferred Shares are potentially subject to Parts IV.1 and VI.1. Both types of shares are defined in the Act.

A Short-term Preferred Share is a share that is:

- (a) A share, the terms of which require, or may require at any time within 5 years of issue, the corporation to redeem, acquire, or cancel the share, unless the requirement is only in the event of the death of a shareholder or because of a conversion right, or
- (b) A share that is convertible or exchangeable at any time within 5 years from the date of issue, unless:

- a. It is convertible into or exchangeable for a share that would not be a short-term preferred share, or for a right or warrant that is exercisable for a share that would not be a short-term preferred share, and
- b. The only consideration received on the conversion or exchange is the share, right or warrant, or consideration in lieu of a partial share, right, or warrant.

Any share that is retractable solely at the option of the holder will fall into (a) above as it only requires that the corporation may be required to redeem the share within 5 years. These terms are prevalent in the characteristics of most classes of preferred shares, including freeze shares.

A Taxable Preferred Share is defined as either a Short-term Preferred Share, or a share, the terms of which:

- a. Limit the number of dividends that may be paid to a fixed amount, a maximum amount, or a minimum amount
- b. Limit the amount to which the shareholder is entitled to receive upon the dissolution, liquidation, or winding up of the corporation, or upon the redemption, acquisition, or cancellation of the share, or on a reduction of the PUC of the share, to a fixed amount, a maximum amount, or a minimum amount
- c. Provide that the share is convertible or exchangeable at any time (unless convertible or exchangeable only into a share that would not be a taxable preferred share), or
- d. Obligate any person, other than the corporation, to provide guarantees that either limit losses sustained by the shareholder, or guarantee some level of earnings to the shareholder

In the case of both definitions, the share must only meet one of the criteria to be a Taxable Preferred Share, which makes it incredibly easy for many private corporations to unknowingly issue Short-term and Taxable Preferred Shares and fall into these rules.

Because of the prevalence of Short-term Preferred Shares and Taxable Preferred Shares in the authorized share capital of private corporations, it is important to understand the exceptions to Parts IV.1 and VI.1 and how to ensure your clients are not inadvertently subject to either tax.

## Excepted Dividends

There is a carveout from the application of Part IV.1 tax for Excepted Dividends. Although there are several types of dividends included in the definition of Excepted Dividend, we will focus on three common scenarios. Pursuant to Section 187.1, an Excepted Dividend for purposes of Part IV.1 is:

- (a) A dividend received by a corporation on a share of the capital stock of a foreign affiliate,
- (b) A dividend received by a corporation from another corporation in which it has a substantial interest, or
- (c) A dividend received by a corporation that is a private corporation or a financial intermediary corporation,

Paragraph 187.1(c) excepts many corporations from Part IV.1 tax simply by virtue of being a private corporation or a financial intermediary corporation. A financial intermediary corporation is defined to include certain Prescribed Venture Capital Corporations. This key exception provides private corporations and certain venture capital organizations with more freedom in how they invest funds.

## Excluded Dividends

Similar to Excepted Dividends, there is a carveout from the application of Part VI.1 tax for Excluded Dividends. There are several parts to the definition of Excluded Dividend in Subsection 191(1), but we will focus on the most relied upon carveout for private corporations. An Excluded Dividend is:

- (a) A dividend paid by a corporation to a shareholder that had a substantial interest in the corporation at the time the dividend was paid.





Unfortunately, unlike the definition of Excepted Dividends for purposes of Part IV.1 tax, there is no exception for being a private corporation in the definition of Excluded Dividends for purposes of Part VI.1 tax. Therefore, it is crucial to focus on what amounts to a Substantial Interest for the purposes of the definition of an Excluded Dividend.

## Substantial Interest

The Substantial Interest test has two ways to meet it as set out in Subsection 191(2). The first test relies on the shareholder being related to the dividend payer. This is most often achieved by the shareholder controlling the dividend payer or being related to a person that controls the dividend payer. In many closely held structures, this is easily achieved between spouses, children, and parents.

The second test relies on the shareholder crossing certain thresholds with their holdings if the related test isn't met. The shareholder is required to own, at the time the dividend is paid, shares with at least 25% of the total votes of the corporation plus shares with a fair market value of at least 25% of the fair market value of all issued shares of the corporation. In addition to that, the shareholder must also own either:

- (a) Shares that would not be taxable preferred shares with a fair market value of at least 25% of all such issued shares, or
- (b) In respect of each class of shares, shares with a fair market value of at least 25% of that class

There is also a deeming rule Subsection 191(2) that deems a shareholder to own any shares that are owned by a related person which counts towards meeting the 25% thresholds.

If either test is met at the time the dividend is paid, the dividend will be an Excluded Dividend and won't be subject to Part VI.1 tax.

## Dividend Allowance

If a dividend isn't an Excluded Dividend for purposes of Part VI.1 tax, there may still be no tax owing if the amount of dividends paid is below the corporation's Dividend Allowance amount.



A taxable Canadian corporation's maximum Dividend Allowance is \$500,000 per year. A group of associated corporations must share the same \$500,000 Dividend Allowance and must file an annual agreement to allocate the allowance between members of the group.

The \$500,000 Dividend Allowance is ground down, on a dollar-for-dollar basis, where non-excluded dividends paid on taxable preferred shares in the prior calendar year exceed \$1,000,000. Once the prior year dividends equal or exceed \$1,500,000, the Dividend Allowance for the current year will be fully ground to nil.

### Other Special Rules

Taxpayers who are subject to tax under Part IV.1 or VI.1 are required to file an information return with their corporate income tax returns and is due to be filed by the taxpayer's regular income tax filing deadline.

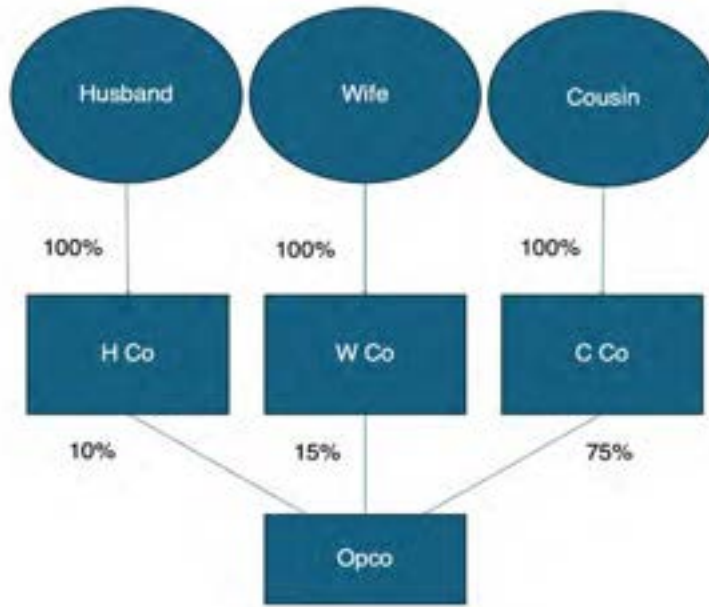
Paragraph 110(1)(k) provides a deduction from net income equal to 3.5 times the amount of Part VI.1 tax paid by a corporation. This deduction is intended to ensure that overall no excess tax is paid but rather the Part VI.1 tax payment is treated as an advance of tax. A corporation paying Part VI.1 tax that has no other taxable income will however be subject to additional taxes as it cannot make use of the deduction under Paragraph 110(1)(k).

Subsection 191.3(1) allows two corporations to file an agreement with the CRA to transfer the Part VI.1 tax liability of a dividend payer to the dividend recipient. This may be a useful tool where the dividend payer cannot make use of the deduction under Paragraph 110(1)(k) but the dividend recipient can. It should be noted that there is an anti-avoidance rule that prevents the transfer of liability (and thereby the transfer of the deduction) where the principal purpose for the two corporations becoming related was to make use of the deduction under Paragraph 110(1)(k).

## Examples

Example 1:

Assume Opco has only one class of common shares and one class of preferred shares. The percentages below represent the same percentage owned in both common shares and preferred shares and represent the share of votes and fair market value.



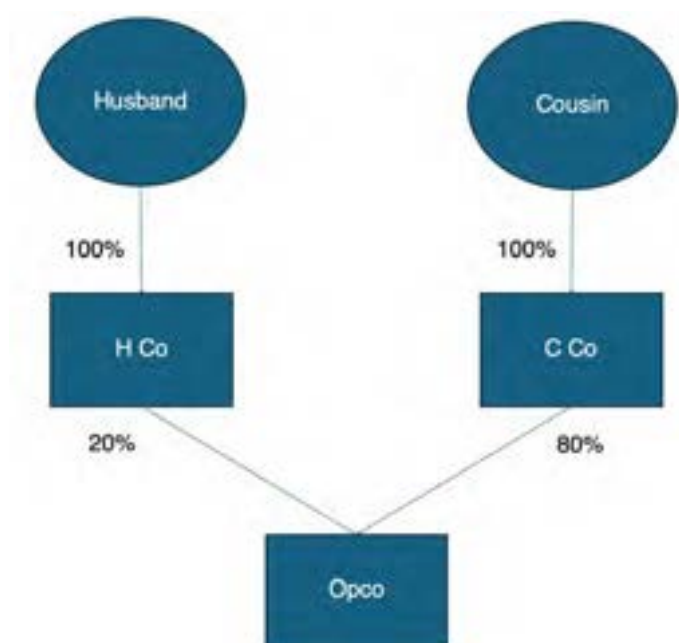
C Co has a substantial interest in Opco because it is related to Opco by virtue of control. Dividends paid on taxable preferred shares to C Co will be excluded dividends.

Initially it does not appear that H Co and W Co have substantial interests in Opco because neither is related to Opco as they don't control Opco and Husband/Wife are not related to Cousin for purposes of the Act. As Husband and Wife are related, however, the deeming rule in 191(2) deems H Co to own shares owned by the related W Co, and vice versa. This results in both H Co and W Co owning shares with 25% of the Opco votes, 25% of the fair market value of Opco, and 25% of each class of Opco shares. As a result, now both H Co and W Co have a substantial interest in Opco.

As seen above, caution should be exercised when establishing corporate structures between family members that are unrelated for purposes of the Act. Structures between aunts/uncles and nieces/nephews or structures that include cousins require extra scrutiny to ensure the shareholdings align with the substantial interest tests.

## Example 2:

The same assumptions apply from Example 1.



C Co still controls Opco and therefore is still related to Opco and has a substantial interest in Opco.

Husband is still not related to Cousin for purposes of the Act. As such, H Co is still not related to Opco, and H Co has no related person to make use of the deeming rules to meet the 25% thresholds. H Co therefore does not have a substantial interest in Opco and any dividends paid by Opco to H Co on taxable preferred shares will be subject to Part VI.1 tax to the extent they any dividend allowance allocated to H Co.

## Example 3:

Assume a taxable Canadian corporation has no dividend allowance available and has paid \$1,000,000 of non-excluded dividends on a taxable preferred share.

The deduction available under Paragraph 110(1)(k) will mostly offset the Part VI.1 tax paid to ensure the dividend payer is not paying additional taxes, but just prepaying tax on behalf of the dividend recipient.



Non-excluded Dividends paid	1,000,000
Part VI.1 tax	400,000
Net income, excluding dividends	5,000,000
110(1)(k) deduction	(1,400,000)
Taxable income	<u>3,600,000</u>
Corporate tax at 26.5%	954,000
Total taxes paid	<u>1,354,000</u>
Taxable income without 110(1)(k)	<u>5,000,000</u>
Corporate tax at 26.5%	<u>1,325,000</u>
Additional taxes paid because of Part VI.1	<u>29,000</u>

## Summary

Parts IV.1 and VI.1 can be a costly surprise for unexpecting taxpayers if attention is not paid to the ownership structure when involving unrelated parties. Consideration should be given to Part VI.1 tax when ownership is divided between traditionally related family members that may not be related for tax purposes. Uncles, aunts, nieces, and nephews may all create situations where a corporation is inadvertently subject to Part VI.1 tax. Where unrelated parties own shares, tax advice should be obtained to ensure the structure is appropriate and meets the Substantial Interest requirements to pay Excluded Dividends.

Taxpayers subject to Part IV.1 or Part VI.1 must remember to file the appropriate information return with their corporate tax returns. Taxpayers may face unexpected late filing penalties on top of the tax if this is not filed. If a group of associated corporations is subject to Part VI.1 tax, it is important to remember that the group must also file an annual allocation of the Dividend Allowance between dividend payers.

It is also important to remember that a dividend payer and dividend recipient must file an agreement with the Minister of Finance when transferring Part VI.1 tax liability to the dividend recipient as the Act deems the transfer not to have been made if the agreement has not been filed. This will have adverse consequences where the pair of corporations are relying on transferring the deduction under Paragraph 110(1)(k) and will result in actual additional taxes if the dividend payer cannot make use of the deduction.

Article written by: [John Pollock, CPA, CA, MAccw](#)



# ARTIFICIAL INTELLIGENCE, MACHINE LEARNING, AND THE ACCOUNTING PROFESSION

Change is inevitable. As accountants, we tend to be conservative; if anything, reactive to change. We are typically slow to adapt as we analyze before acting. Being slow, methodical and detailed are characteristics that seem to attract accountants to the profession, they're certainly characteristics that are part of the professional training. However, change comes regardless of whether we act; it is inevitable. A change that has come recently and is poised to make an impact to every facet of life, including accounting, is the dawn of Artificial Intelligence ("AI") and Machine Learning ("ML"). This change begs some interesting questions that have begun speculation including, "How will AI and ML impact the accounting profession?" and "What are you doing to prepare for it?".

I thought it appropriate to use artificial intelligence in my analysis of artificial intelligence to illustrate the pervasiveness and accessibility of this relatively new technology.

Please note that Microsoft Copilot was used below, and I have included the credit citation, as given by Copilot, where applicable. As is a typical AI disclaimer, beware of inaccuracies.

The initial questions belong to me, but the responses were generated by AI. Please review, and following the interaction with the AI tool, I will provide some additional thoughts.

**You said:**

How is AI and ML affecting the accounting industry?

**Copilot said:**

AI and ML are significantly transforming the accounting industry in several ways:

1. **Automation of Routine Tasks:** AI-powered systems can handle repetitive tasks such as data entry, invoice processing, and transaction categorization. This reduces the risk of human error and frees up accountants to focus on more strategic activities[1].

2. **Enhanced Data Analysis:** Machine learning algorithms can analyze large datasets to identify patterns and anomalies. This helps in detecting fraud, forecasting trends, and providing deeper insights into financial data[2].

3. **Real-Time Financial Monitoring:** AI systems can process and analyze financial data in real-time, allowing for more timely decision-making and improved financial management[1].

4. **Improved Compliance and Accuracy:** AI can help ensure compliance with regulatory requirements by continuously monitoring transactions and flagging any irregularities. This enhances the accuracy and reliability of financial reporting[1].

5. **Skill Development:** As AI and ML become more integrated into accounting, professionals need to develop new skills in data analytics, AI tools, and technology management. This shift is leading to a more tech-savvy workforce[2].

Overall, AI and ML are reshaping the accounting landscape by making processes more efficient, accurate, and insightful.

[1]: [Focus People](#) [2]: [IMA](#)

References

[1] [2024 and Beyond: The Impact of AI on the Future of Accounting](#)

[2] [The Impact of Artificial Intelligence on Accounting and Finance](#)

**You said:**

Can you be more specific as it relates to public accounting firms?

**Copilot said:**

Certainly! AI and ML are having a profound impact on public accounting firms in several specific ways:

1. **Audit Automation:** AI tools can automate many aspects of the audit process, such as data extraction, analysis, and anomaly detection. This not only speeds up the audit process but also enhances accuracy by reducing human error[1].

2. **Tax Compliance:** AI can help public accounting firms manage complex tax regulations by automating the preparation and filing of tax returns. Machine learning algorithms can also identify potential tax savings and ensure compliance with ever-changing tax laws[2].

3. **Client Advisory Services:** AI-driven analytics provide deeper insights into clients' financial data, enabling firms to offer more strategic advisory services. This includes predictive analytics for financial planning and risk management[3].

4. **Fraud Detection:** Machine learning models can analyze vast amounts of transaction data to identify unusual patterns that may indicate fraud. This proactive approach helps firms detect and prevent fraudulent activities more effectively[1].

5. **Efficiency and Cost Reduction:** By automating routine tasks, AI allows accountants to focus on higher-value activities, improving overall efficiency and reducing operational costs. This is particularly beneficial for public accounting firms that handle large volumes of transactions and data[2].

6. **Enhanced Client Experience:** AI can streamline client interactions through chatbots and automated customer service, providing quick responses to common queries and improving overall client satisfaction[3].

These advancements are helping public accounting firms stay competitive and deliver more value to their clients.

[1]: [Airbase](#) [2]: [ICPAS](#) [3]: [Peakflo](#)

## References

[1] [Accounting and AI: How AI & ML Impact Finance Teams - Airbase](#)

[2] [The Transformative Impact of AI on Accounting - ICPAS](#)

[3] [AI in Accounting: Trends, Use Cases, and the Transformative Role](#)



**You said:**

Can you talk about the limitations of AI and ML as it relates to the above? For example, there are concerns that AI and ML technology will replace jobs currently occupied by people; what is it that people are still better at than machines?

**Copilot said:**

Absolutely, while AI and ML bring numerous benefits to public accounting firms, there are several limitations and areas where human expertise remains crucial:

1. **Human Judgment and Expertise:** AI can process and analyze data at an unprecedented scale, but it lacks the nuanced judgment and ethical considerations that human accountants bring. Complex decision-making, especially in ambiguous situations, still requires human intuition and experience[1].

2. **Contextual Understanding:** AI may struggle with understanding the context behind certain financial transactions or decisions. Humans are better at interpreting the subtleties and nuances that can affect financial outcomes[1].

3. **Data Security and Privacy:** Implementing AI involves handling sensitive financial data, which raises concerns about data security and privacy. Ensuring that AI systems are secure and compliant with regulations is a significant challenge[2].

4. **Job Displacement Concerns:** There is a valid concern that AI and ML could replace jobs currently occupied by people. However, while AI can automate routine tasks, it also creates opportunities for accountants to focus on higher-value activities such as strategic planning and advisory services[3].

5. **Adaptability and Learning:** AI systems require continuous updates and training to adapt to new regulations and financial practices. Humans, on the other hand, can quickly adapt to changes and apply their knowledge in real-time[3].

6. **Ethical Considerations:** AI lacks the ability to make ethical decisions. Human accountants are essential for ensuring that financial practices adhere to ethical standards and for making decisions that consider the broader impact on stakeholders[1].

In summary, while AI and ML are powerful tools that enhance efficiency and accuracy in public accounting, human accountants remain indispensable for their judgment, contextual understanding, and ethical considerations.

[1]: [Canopy](#) [2]: [Trullion](#) [3]: [Space Coast Daily](#)

## References

[1] [How AI is Used in Accounting: Capabilities and Limitations](#)

[2] [AI in Accounting: The Benefits & Challenges - Trullion](#)

[3] [AI Implementation in Accounting: Use Cases, Challenges and Trends](#)



## Final Thoughts

Copilot uses Large Language Model (“LLM”) algorithms using neural network techniques to process and understand vast amounts of data enabling it to generate the above responses. There are types of models other than LLMs, that analyze types of data other than language, like numerical data, even images.

But where does this underlying data come from? Who has designed the algorithms that run the engines behind these systems? Are there biases included in their design? Who owns it? Where can we find it? How will it be regulated? How will it be monetized?

Carl Sagan once said, “We have arranged a society based on science and technology, in which nobody understands science and technology... this combustible mixture of ignorance and power, sooner or later, is going to blow up in our faces... Who is running the science and technology, in a democracy, if the people don’t know anything about it? ...If we are not able to skeptically interrogate those who tell us that something is true, to be skeptical of those in authority, then we’re up for grabs for the next charlatan... who comes ambling along. (Per Jefferson), it wasn’t enough to enshrine some rights in a constitution... the people had to be educated, and they had to practice their skepticism and their education, otherwise, we don’t run the government, the government runs us.”

How can you question the truth if you have no underlying knowledge about that truth’s subject matter? The data and algorithms that underly this technology are proprietary. They are a black box to which we, the public, often have no real insight. To practice skepticism, we shouldn’t blindly trust this technology (or the people who design and control it).

AI and ML will be useful tools, and they will help us find efficiency and even new revenue streams. But I think accountants will remain relevant because someone must understand the subject matter to maintain the skepticism that Sagan refers to. We should not give

away our agency to AI, and we should be skeptical of the underlying data and engines it uses. As accountants, to do that, we must understand how accounting works. But in the future, to remain in our role as trusted advisors and to effectively use these tools, we'll also have to have at least a basic understanding of what neural network techniques are as well as other statistical models behind how AI and ML tools work. Perhaps we can have a hand in delaying that combustible mixture Sagan mentioned from blowing up in our faces for a little while longer.

Welcome to the age of Data Science!

Article written by: [Scott Nabozniak CPA, CA](#)



**MOORE**

Moore North America (MNA) is an association of independent accounting and consulting firms, which is itself a regional member of Moore Global Network Limited. All firms associated with MNA are independently owned and managed entities based in the United States, Canada, and Mexico. Their membership in, or association with, MNA should not be construed as constituting or implying any partnership between them. MNA does not provide professional services of any kind. [www.moore-na.com](http://www.moore-na.com)