TEST ITEM FILE - PROBLEMS

Byrd & Chen's Canadian Tax Principles
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Here you will find:

- Updates and corrections to the supplements package
- PowerPoint slide presentations for all chapters
- Online posting policy for assignment problem solutions and permission form
- Solutions to Tax Software Problems, updated for the 2011 version of ProFile (January, 2012)

Problem Concordance

A concordance of the problems in the 2010/11 vs. 2011/12 editions is available after the Problem Listing (and on the instructor's web site) to assist instructors who have previously used ***Canadian Tax Principles***.

Bookmarks In PDF File

To assist you in navigating through the electronic version of this Test Item File, (available on the Instructor's CD-ROM) there are bookmarks on the first page of each Test Item problem and solution

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Chapter One Test Item File Problems

TIF PROBLEM ONE - 1
Introduction - Essay Questions

Provide brief answers to each of the following questions:

1. Indicate three disadvantages of a tax system that uses progressive rates.

2. A regressive tax is one that taxes high income individuals at lower effective rates. Explain why a sales tax levied at a flat rate of 8 percent can be regressive.

3. The Canadian income tax system is often used to achieve various economic objectives. Give three examples that illustrate this point.

4. Distinguish between horizontal equity and vertical equity as these terms are used in describing tax systems.

5. The government pays a "child tax benefit" to the parents of children who are under 18 years of age. The payments are reduced by a percentage of income in excess of a specified level. What objectives are achieved by this benefit system?

6. What is the meaning of "taxation year" as the phrase is used in the *Income Tax Act*.

7. Under what circumstances will a person who is not resident in Canada be required to pay Canadian income taxes?

8. What are the components of Net Income For Tax Purposes?

9. ITA 3(b) states that a taxpayer should “determine the amount, if any”, by which taxable capital gains exceeds allowable capital losses. In this context, what is the meaning of the phrase “the amount, if any”?

10. What is the difference between tax avoidance and tax deferral?

11. What is income splitting? Under what circumstances will it provide tax benefits to an individual?

12. Contributions to a Registered Retirement Savings Plan can be deducted to reduce the taxes of an individual in the year that they are made. However, these contributions will be subject to tax when they are withdrawn from the plan. What type of tax planning is involved in this arrangement?

TIF PROBLEM ONE - 2
Introduction - True Or False

1. A value added tax is a tax levied on the increase in value of a commodity or service that has been created by the taxpayer's stage of the production or distribution cycle.

   True or False?

2. A partnership can be a taxable entity for income tax purposes.

   True or False?

3. A partnership can be a taxable entity for GST purposes.

   True or False?

4. In general, provincial income taxes are based on a specified percentage of federal tax payable.

   True or False?

5. The federal government does not collect personal or corporate taxes for Ontario or Quebec.

   True or False?

6. A sales tax is a regressive tax even when it is applied at a single rate on all transactions.

   True or False?

7. A major advantage of progressive tax rates is that their use encourages economic growth.

   True or False?

8. Tax expenditures are less costly to administer than direct funding programs.

   True or False?

9. Part I of the *Income Tax Act* is the largest and most important part.

   True or False?

10. The citation ITA 61(4)(b)(ii) would be read Paragraph 61, Subparagraph 4, Section b, Subsection ii.

    True or False?

11. An income tax is payable for each taxation year on the Taxable Income of every person resident in Canada at any time in the year.

    True or False?

12. Any taxpayer can choose the calendar year as their taxation year.

    True or False?

TIF PROBLEM ONE - 3
Introduction - Multiple Choice

Canadian Tax System

1. Which of the following is not a taxable entity for Canadian income tax purposes?

   A. Darklyn Ltd., a Canadian resident corporation.
   B. Ms. Sarah Bright, a Canadian resident.
   C. Walters and Walters, a group of CMAs operating as a partnership.
   D. The Martin family trust.

2. With respect to provincial income taxes, other than those assessed in Quebec, which of the following statements is not correct?

   A. Each province can apply different rates to as many brackets for individuals as it wishes.
   B. The federal government collects the provincial income tax for individuals for every province except Quebec.
   C. Each province can establish its own tax credits to apply against Tax Payable for individuals.
   D. Each province can establish rules for determining the Taxable Income of individuals.

Tax Policy Concepts

3. Which of the following can be considered an advantage of an income tax system based on progressive rates?

   A. A progressive rate system is simpler to administer.
   B. A progressive rate system provides greater stability in the context of changing economic conditions.
   C. A progressive system discourages tax evasion.
   D. A progressive system encourages greater effort on the part of individuals.

4. Which of the following statements with respect to using tax expenditures rather than program spending is not correct?

   A. It is more costly to administer tax expenditures as opposed to program spending.
   B. Tax expenditures reduce the visibility of government actions.
   C. Tax expenditures leave fewer decisions in the hands of the private sector, thereby providing for more efficient allocation of resources.
   D. Tax expenditures reduce the impact of progressive rates on higher income taxpayers.

5. Which of the following would not be considered a desirable characteristic of a tax system?

   A. Balance between sectors.
   B. Inelasticity.
   C. Neutrality.
   D. Flexibility.

6. Which of the following would be considered a desirable characteristic of an effective tax system?

   A. Inelasticity.
   B. Lack of international competitiveness.
   C. Simplicity.
   D. Ambiguity.

7. We should not have a tax system which encourages investment in particular assets or in particular areas of the country. This statement reflects which of the following qualitative characteristics of an effective tax system?

   A. Neutrality.
   B. Horizontal equity.
   C. Simplicity.
   D. Elasticity.

8. Taxpayers who earn $100,000 in dividends should pay the same amount of tax as taxpayers who earn $100,000 in capital gains. This statement reflects which of the following qualitative characteristics of an effective tax system?

   A. Vertical equity.
   B. Neutrality.
   C. Elasticity.
   D. Horizontal equity.

Income Tax Reference Materials

9. With respect to the structure of the *Income Tax Act*, which of the following statements is correct?

   A. The major components of the *Income Tax Act* are called Divisions.
   B. The current *Income Tax Act* has Sections numbers 1 through 260, reflecting the fact that there are 260 Sections in the *Act*.
   C. All Parts of the *Income Tax Act* have Divisions.
   D. All Parts of the *Income Tax Act* contain at least one Section.

10. Of the following publications, indicate the one that is not a legislative source.

   A. *Income Tax Act*.
   B. Interpretation Bulletins.
   C. Income Tax Application Rules.
   D. International Tax Treaties.
   E. Income Tax Regulations.

11. Of the following publications, indicate the one that is not published by the CRA.

   A. Interpretation Bulletins.
   B. Information Circulars.
   C. Dominion Tax Cases.
   D. Income Tax Technical News.

12. There are a number of common areas of litigation involving the CRA. Indicate which type of transaction is least likely to be in dispute.

   A. Arm's length versus non-arm's length transactions.
   B. Capital versus income transactions.
   C. Unreported revenues from business transactions.
   D. Establishment of fair market value.
   E. The deductibility of farm losses against other sources of income.

13. Where would an individual find the formula for determining the prescribed rate?

   A. The Income Tax Act.
   B. The Income Tax Regulations.
   C. A CRA Interpretation Bulletin.
   D. A CRA Information Circular.

14. Which of the following statements is not correct?

   A. Most major income tax changes are introduced in the annual Federal Budget.
   B. A federal election can prevent passage of draft legislation.
   C. Proposed changes in tax law are usually introduced to parliament in the form of a Notice of Ways and Means Motion.
   D. When there is a conflict between the Canadian *Income Tax Act* and an international agreement, the terms of the Canadian *Income Tax Act* prevail.

Liability For Tax

15. With respect to the calculation of Net Income For Tax Purposes, which of the following statements is not correct?

   A. Subdivision e deductions are subtracted from the total of all positive sources of income.
   B. Allowable capital losses for the year can only be deducted to the extent of taxable capital gains for the year.
   C. Business losses can be netted against employment income in determining the positive amounts to be included under ITA 3(a) and 3(b).
   D. Property losses can only be deducted after the subtraction of Subdivision e deductions.

Tax Planning

16. Providing employees with private health care benefits involves what type of tax planning?

   A. Tax evasion.
   B. Tax deferral.
   C. Income splitting.
   D. Tax avoidance.

17. Making contributions to an RRSP always involves what type of tax planning?

   A. Tax avoidance and tax deferral.
   B. Tax deferral.
   C. Tax avoidance.
   D. Income splitting.

TIF PROBLEM ONE - 4
Introduction - Exam Exercises

Exam Exercise One - 1 (Taxable Entities For Income Tax Purposes)

Which of the following entities could be required to file an income tax return?

- Sally Forbes (an individual)
- Forbes Boutique (an unincorporated business)
- Forbes and Delaney (a partnership)
- The Forbes family trust (a trust)
- Forbes Enterprises Ltd. (a corporation)
- The Forbes Foundation (an unincorporated charity)

Exam Exercise One - 2 (Taxable Entities For GST Purposes)

Which of the following entities could be required to file a GST return?

- Sally Forbes (an individual)
- Forbes Boutique (an unincorporated business)
- Forbes and Delaney (a partnership)
- The Forbes family trust (a trust)
- Forbes Enterprises Ltd. (a corporation)
- The Forbes Foundation (an unincorporated charity)

Exam Exercise One - 3 (Federal And Provincial Taxes Payable)

Joan Smith has Taxable Income of $37,500. For the current year her federal tax rate is 15 percent, while the corresponding provincial rate is 8.2 percent. Determine Ms. Smith's combined federal and provincial tax payable, before consideration of any available credits against Tax Payable.

Exam Exercise One - 4 (Regressive Taxes)

Samantha Taylor has Taxable Income for the current year of $625,000, of which $216,000 is spent on goods and services that are subject to Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister, Martha Taylor, is a part-time student living in the same province and has Taxable Income of $12,000. During the current year, as a result of using some of her savings, she spends $21,400 on goods and services that are all subject to HST.

Determine the effective sales tax rate as a percentage of the income of the two sisters.

Exam Exercise One - 5 (Non-Resident Liability For Tax)

Ms. Michelle Walker, a U.S. citizen, has Canadian employment income of $42,000 and U.S. employment income of $40,000 Canadian. She lives in Seattle, Washington and is a resident of the United States for the entire year. Ms. Walker does not believe that she is subject to taxation in Canada. Is she correct?

Explain your conclusion.

Exam Exercise One - 6 (Net Income For Tax Purposes)

Ms. Sonia Nexus is a computer specialist with net employment income of $66,000. During the current year she has:

- a taxable capital gain on the sale of land of $13,500,
- an allowable capital loss on the sale of shares of $24,000,
- interest income of $10,250,
- net rental losses of $6,750, and
- a loss from her unincorporated business of $28,000.

In addition, she makes spousal support payments of $14,000 and makes a deductible contribution to her RRSP of $3,000 (these are Subdivision e deductions). Determine her minimum Net Income For Tax Purposes for the current year and indicate the amount and type of any loss carry overs that are available at the end of the year. Show all of your calculations.

Exam Exercise One - 7 (Tax Planning)

Mr. Jack Bronson makes a $5,000 contribution to his Registered Retirement Savings Plan. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 8 (Tax Planning)

Mr. John Lenonovitz is an unemployed poet. As Mr. Lenonovitz has no known sources of income, his wife Natasha, a successful painter, has decided to make contributions to an RRSP in his name, rather than making contributions to her own plan. What type of tax planning is involved in this decision? Explain your conclusion.

Exam Exercise One - 9 (Tax Planning)

Mrs. Janice Theil gives $50,000 in Canada Savings Bonds to her 27 year old, unemployed daughter. What type of tax planning is involved in this transaction? Explain your conclusion.

TIF PROBLEM ONE - 5
Introduction - Key Term Matching

The following eight key terms are listed at the end of Chapter 1, "Introduction To Federal Taxation In Canada":

A. Fiscal Period
B. Flat Tax System
C. Income Tax Regulations
D. Income Tax Technical News
E. Person
F. Regressive Tax System
G. Tax Expenditure
H. Value Added Tax

The following list contains ten potential definitions for the preceding key terms.

1. A taxation year that does not exceed 53 weeks.

2. A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.

3. An irregularly published newsletter prepared by the Income Tax Rulings Directorate.

4. A group of over 500 individual publications which provides the CRA's interpretation of the various laws that they administer.

5. A term used in the *Income Tax Act* to refer to taxable entities.

6. Foregone tax revenues due to special exemptions, rate reductions, rebates, and credits that reduce the amount of tax that would otherwise be payable.

7. A tax based on the value added to a product at each stage of production or distribution by a particular entity.

8. A tax on Income that is applied at the same rate to all taxpayers, without regard to the level of their income.

9. A set of rules concerning administration and enforcement of the *Income Tax Act*.

10. A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.

11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed, indicate the number of the item that provides the best definition of that term, or that none of the definitions apply. Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM ONE - 6
Application Of Qualitative Characteristics

The city of Elysium is located on an island in the Nirvana River. Because of its very desirable climate, it has attracted wealthy immigrants from all over the world. These immigrants have either built palatial new homes on the river waterfront, or moved into luxurious residences, largely in high-rise buildings in the city's core.

In general, real estate values on the island are among the highest in the world. In order to protect their extremely orderly environment, the residents have prevented the development of any reasonably priced housing. To help maintain this environment the city has a large, well trained security force.

The economic activity on the island consists of financial services, haute cuisine restaurants, and retail shops which feature high-end products from all over the world. Because of the high real estate cost, staff for these operations must live off island and commute on a daily basis.

For residents of the island, the city operates a large heliport. This allows the residents of the island to quickly access a nearby airport where most maintain at least one private jet.

Until recently, the only other access to the island was via a city operated ferry. This service was provided free of charge by the city. While it was rarely used by the residents of Elysium, the staff of the various businesses on the island relied on it for access to their jobs.

Last year, the city completed a four lane bridge to access the island. In order to finance the tremendous cost of this project, there is a $10 toll for each trip across the bridge. To ensure that the bridge produces adequate revenues, the city has canceled the ferry service.

Required: Evaluate the $10 toll on the basis of the qualitative characteristics of tax systems that are listed in your text.

TIF PROBLEM ONE - 7
Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions of Ms. Leslie Burke for the current taxation year:

Case A Ms. Burke had employment income of $17,000 and net rental income of $8,500. Her unincorporated business lost $12,300 during this period. As the result of dispositions of capital property, she had taxable capital gains of $17,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year totalled $6,300. Fortunately for Ms. Burke, she won $1,000,000 in a lottery on March 3.

Case B Ms. Burke had employment income of $42,100, interest income of $8,200, and a loss from her unincorporated business of $51,000. As the result of dispositions of capital property, she had taxable capital gains of $22,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year amounted to $4,200.

Required: For both Cases, calculate Ms. Burke's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year.

TIF PROBLEM ONE - 8

Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions of Mr. Morris Dorne for the current taxation year:

Case A Mr. Dorne had employment income of $50,000 and interest income of $12,000. His unincorporated business lost $23,000 during this period. As the result of dispositions of capital property, he had taxable capital gains of $95,000 and allowable capital losses of $73,000. His Subdivision e deductions for the year totalled $8,000. He also experienced a loss of $5,000 on a rental property that he has owned for several years.

Case B Mr. Dorne had employment income of $45,000, net rental income of $23,000, and a loss from his unincorporated business of $51,000. As the result of dispositions of capital property, he had taxable capital gains of $25,000 and allowable capital losses of $46,000. His Subdivision e deductions for the year amounted to $10,500. Fortunately for Mr. Dorne, he won $560,000 in a lottery on February 24.

Required: For both Cases, calculate Mr. Dorne's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year.

TIF PROBLEM ONE - 9
Net Income For Tax Purposes

The following four Cases make different assumptions with respect to the amounts of income and deductions of Jonathan Oakley for the current year:

	Case A	Case B	Case C	Case D
Employment Income	$83,000	$92,000	$46,000	$57,000
Income (Loss) From Business	(22,000)	(22,000)	21,000	16,000
Rental Income (Loss)	12,000	16,000	(42,000)	(92,000)
Taxable Capital Gains	81,000	18,000	22,000	31,000
Allowable Capital Losses	(35,000)	(32,000)	(53,000)	(35,000)
Subdivision e Deductions	(15,000)	(12,000)	(16,000)	(17,000)

Required For each Case, calculate Mr. Oakley's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year.

Chapter Two Test Item File Problems

TIF PROBLEM TWO - 1
Procedures And Administration - Essay Questions

1. An individual can request that an employer reduce the amounts withheld for income taxes. What conditions must be met for this request to be granted? Provide an example of a situation where this request would be granted.

2. Briefly describe the due dates applicable to the remittance of source deductions by the various classes of employers.

3. Under what circumstances must an individual make income tax instalment payments during the current year?

4. If an individual is required to make quarterly instalment payments on their income taxes, how is the required amount of the instalments determined?

5. On April 30 of the current year, her filing due date, Nicole Houde finds that she has a significant net tax owing. She will not be able to pay this until the beginning of July. She doesn't want to file her return until she has the funds available to pay the balance. What advice would you give Ms. Houde in this regard?

6. Under what circumstances must a corporation make income tax instalment payments during its current taxation year?

7. If a corporation that is not a small CCPC is required to make instalment payments on their income taxes, how are the required amounts determined?

8. If a corporation that is a small CCPC is required to make quarterly instalment payments on their income taxes, how are the required amounts determined?

9. Cases can be heard by the Tax Court of Canada using either the general or the informal procedures. How do these two procedures differ?

10. One of your clients has received his instalment notice and has asked your advice as to whether he should make the payments. Provide the requested advice.

TIF PROBLEM TWO - 2
Procedures And Administration - True Or False

1. If an individual believes that the amount of income taxes withheld by his employer is greater than the amount that he will have to pay in a particular year, he can make a request to the CRA to have his source deductions reduced.

   True or False?

2. Because the taxation year of an individual must be based on the calendar year, all individuals will have the same filing due date.

   True or False?

3. If an individual dies after October in a particular taxation year, his legal representatives must file his tax return by the later of his normal filing due date and six months after the date of his death.

   True or False?

4. If quarterly instalments must be paid by an individual, they can be calculated as one-quarter of the net tax owing for the preceding year.

   True or False?

5. If an individual is required to make income tax instalment payments, one acceptable pattern of payments is to base each payment on one-quarter of the estimated Tax Payable for the current taxation year.

   True or False?

6. The interest rate applicable on refunds to individuals is 4 percentage points less than the interest rate applicable on amounts owing to the CRA.

   True or False?

7. The penalty for an individual making insufficient instalment payments is 5 percent of the total unpaid tax at the filing date, plus 1 percent per month.

   True or False?

8. Without regard to whether an individual's filing due date is April 30 or June 15, any balance of tax owing must be paid by April 30.

   True or False?

9. All corporations must file their tax returns no later than six months after the end of their fiscal year, and pay any balance of tax owing no later than three months after the end of their fiscal year.

   True or False?

10. The notice of objection for a corporation must be filed within 90 days from the date of mailing of the notice of assessment.

    True or False?

11. Tax avoidance involves deliberately ignoring a specific provision in the *Income Tax Act*.

    True or False?

12. The GAAR provisions are not applicable to gifts to adult children.

True or False?

13. Interest and penalties may be waived or reduced in extraordinary circumstances, such as those involving natural disasters or serious illness.

True or False?

TIF PROBLEM TWO - 3

Procedures And Administration - Multiple Choice

Individual Filing Requirements

1. With respect to the filing of an individual income tax return, which of the following statements is correct?

   A. An individual is required to file an income tax return if their only source of income is business income, even if no tax is payable.
   B. An individual is required to file an income tax return if they have reached the age of 18 by the end of the year.
   C. If an individual has disposed of a capital property during the year, they are required to file an income tax return, even if no tax is payable.
   D. An individual is not required to file an income tax return if no tax is payable for the year.

2. For the 2011 taxation year, John Bookman had a taxable capital gain of $45,000 and a net business loss of $45,000, resulting in a Taxable Income of nil. Which of the following statements is correct?

   A. John is not required to file a tax return for 2011.
   B. John must file a tax return on or before June 15, 2012.
   C. John must file a tax return on or before December 31, 2012.
   D. John must file a tax return on or before April 30, 2012.

3. John Barron is self-employed and plans to file his 2011 tax return on June 15, 2012. His balance-due day is:

   A. April 30, 2011.
   B. April 30, 2012.
   C. June 15, 2012.
   D. June 15, 2011.

4. Ms. Loren dies on February 1, 2012. All of her income is from employment activities and she does not have a spouse or common-law partner. What is the latest date for filing her 2011 income tax return?

   A. April 30, 2012.
   B. June 15, 2012.
   C. August 1, 2012.
   D. June 30, 2012.

5. Mr. Finlay, a retired individual whose only source of income was pension receipts, dies on August 15, 2011. By what date must Mr. Finlay's final tax return be filed?

   A. April 30, 2012.
   B. February 28, 2012.
   C. February 15, 2012.
   D. December 31, 2011.
   E. None of the above.

6. Ms. Deveco's 2011 income tax return is due on April 30, 2012 While she is too busy to file her tax return on that date, she remits a check to the government for $10,000, her estimated amount of net tax owing on that date. She has never filed a late return before. She prepares and files her tax return on May 31, 2012. At this time, the return shows that her actual net tax owing was $9,800. Assuming that the interest rate applicable to late payment of taxes is one-half percent per month without daily compounding, how much will she owe in penalties and interest on the late filing?

   A. $ 49.
   B. $490.
   C. $588.
   D. $637.
   E. Nil.

Individual Instalments

7. Ms. Marston has net tax owing for 2009 of $4,500, net tax owing for 2010 of $8,000, and net tax owing for 2011 of $7,500. If she wishes to pay the minimum total amount of instalments for the 2011 taxation year, her first payment on March 15 will be for what amount?

   A. Nil.
   B. $1,125.
   C. $1,875.
   D. $2,000.

8. Jason Marks has to pay his tax by instalments as a result of his significant investment income. His net tax owing in 2009 was $13,600. In 2010, it was $15,000. His estimate for 2011 is $17,000. If he decides to pay his 2011 tax instalments according to the prior year option, how much should he pay on September 15, 2011?

   A. $3,400.
   B. $3,750.
   C. $4,250.
   D. $6,500.

9. All of the following people will have to pay tax by instalments this year, except:

   A. Jane White, who received a one-time bonus of $60,000 last year and, because her employer had not deducted enough tax, found herself with net tax owing of $8,200.
   B. Karen Phillips, who has started to earn investment income, which resulted in net tax owing of $3,100 last year. Her investment income is expected to be even greater this year.
   C. Blake Fortin, who established a sole proprietorship two years ago. Blake had a very successful first year and, as result, he had net tax owing that year of $85,000. Business dropped in his second year, resulting in net tax owing of only $1,500. This year, business has picked up again and he expects to have net tax owing of $53,000.
   D. Terri Jones, who has had net taxable capital gains on real estate in excess of $40,000 in each of the last two years, and who expects to have similar gains this year.

10. Larry Short has self-employment income of $62,000 in 2011. Prior to this year, he was employed full-time and his employer's withholdings more than covered his tax liability for the year. Larry estimates that, based on his self-employment income, his net tax owing for 2011 will be $8,000. Which of the following statements is true?

   A. Larry must file his return for 2011 by April 30, 2012.
   B. Larry should pay instalments in 2011.
   C. Larry must pay his income tax for 2011 by June 15, 2012.
   D. If Larry has as much income in 2012 as he had in 2011, he will have to pay instalments during 2012.

Corporate Filing Requirements

11. For corporations, the filing deadline for tax returns is:

A. April 30.
B. the fiscal year end.
C. three months after the fiscal year end.
D. three months after the fiscal year end if the small business deduction is claimed, otherwise two months after the fiscal year end.
E. six months after the fiscal year end.

12. PS Swim Inc. has a year end of November 30. For its 2011 taxation year, its income tax return is due on:

A. January 31, 2012.
B. February 29, 2012.
C. April 30, 2012.
D. May 31, 2012.
E. None of the above.

13. For its 2011 taxation year, its first year of operation, PS Swim Inc. filed its return three months late. The unpaid tax at the due date for the return was $2,500. This amount was not paid until the return was filed. What would its penalty be?

A. Nil.
B. $75.
C. $125.
D. $200.
E. $500.

Corporate Instalments

14. PP Ltd., a client of your firm, has a November 30th year end and has requested you to advise them on what its monthly instalments for the 2011 tax year will be. Its taxes payable for its November 30, 2009 and November 30, 2010 years were $13,800 and $13,200, respectively. Its estimated taxes payable for the November 30, 2011 year are $14,400. PP Ltd. wants to pay the lowest amount possible, without incurring interest penalties. What would its instalments be?

A. Twelve payments at $1,200 per month.
B. Twelve payments at $1,100 per month.
C. Twelve payments at $1,150 per month.
D. Two monthly payments at $1,200 each, followed by ten monthly payments at $1,140 each.
E. None of the above.

15. A Canadian public corporation had federal taxes payable in 2009 and 2010 exceeding $3,000. One correct option it has with respect to its 2011 instalments is to pay:

A. equal instalments, on a quarterly basis, based on its 2010 federal taxes payable.
B. on a monthly basis, instalments equal to 1/12th of its estimated 2011 federal taxes payable.
C. one lump-sum payment, within three months of its 2011 year end.
D. on a monthly basis, instalments equal to 1/12th of its 2009 federal taxes payable.

16. If a Canadian public corporation is experiencing a year-to-year decrease in taxes payable, the most advantageous calculation of instalments that would be allowed is:

    A. monthly, based on the estimated tax for the current year.
    B. quarterly, based on the estimated tax for the current year.
    C. monthly, based on the estimated tax for the immediately preceding year.
    D. quarterly, based on the estimated tax for the immediately preceding year.
    E. monthly, based on the estimated tax for the second preceding year and the immediately preceding year.
    F. quarterly, based on the estimated tax for the second preceding year and the immediately preceding year.

Assessments And Appeals

17. Tom Arnold filed his 2011 tax return on March 1, 2012. The CRA mailed a notice of assessment to Tom dated May 15, 2012, and Tom received it on May 30, 2012. If Tom disagrees with the notice of assessment, he has until which one of the following dates to file a notice of objection?

    A. 90 days from March 1, 2012.
    B. 90 days from April 30, 2012.
    C. 90 days from May 15, 2012.
    D. 90 days from May 30, 2012.
    E. None of the above.

18. Minnie Belanger is retired. She mailed her 2011 tax return on March 5, 2012. She received a portion of the tax refund claimed and an assessment notice, dated April 19, 2012, which set out the difference between the amount claimed and the amount of the refund. As Minnie disagrees with the notice of assessment, she wishes to file a notice of objection. By which of the following dates must she file her notice of objection?

    A. March 5, 2013.
    B. April 19, 2013.
    C. April 30, 2013.
    D. July 18, 2012.
    E. June 15, 2013.

19. For a public corporation, which of the following statements is true with respect to filing a notice of objection?

    A. It must be filed no later than 180 days from the date the notice of assessment was mailed.
    B. It must be filed the later of 90 days after the date the notice of assessment was filed and one year from the filing date for the return under assessment.
    C. It must be filed the later of 180 days after the date the notice of assessment was filed and one year from the filing date for the return under assessment.
    D. It must be filed no later than 90 days after the notice of assessment was mailed.

TIF PROBLEM TWO - 4
Procedures And Administration - Exam Exercises

Exam Exercise Two - 1 (Individual Due Dates)

Mark Brown's 2011 Net Income includes business income. When is his 2011 tax return due? By what date must his 2011 tax liability be paid in order to avoid the assessment of interest on amounts due?

Exam Exercise Two - 2 (Deceased Taxpayer Due Date)

George Klause dies on March 1, 2012. All of his income during 2011 was earned through his unincorporated accounting practice. By what date must his representatives file his 2011 income tax return? Explain your answer.

Exam Exercise Two - 3 (Individual Instalments)

At the beginning of 2011, the following information relates to Sarah Elmsley:

Year	Net Tax Owing
2009	$1,800
2010	6,400
2011 (estimated)	3,600

Indicate whether Ms. Elmsley is required to make instalment payments during 2011. Explain your conclusion and, if your answer is positive, indicate the minimum instalments that will be required and when they are due.

Exam Exercise Two - 4 (Individual Instalments)

Horace Greesom filed his 2010 return on time. At the beginning of 2011, the following information relates to Mr. Greesom:

Year	Taxes Payable	Amounts Withheld
2009	$56,000	$45,000
2010	49,000	46,000
2011 (estimated)	65,000	45,000

What amounts will be shown on the Instalment Reminder notices for 2011 and when will the amounts be due? Should he pay those amounts? Explain your conclusion.

Exam Exercise Two - 5 (Penalties And Interest For Individuals)

Despite the fact that her net tax owing has been between $7,000 and $8,000 in the two previous years, and is expected to be a similar amount during 2011, Marsha Fields has made no instalment payments for 2011. While her normal filing date would be April 30, 2012, she does not file her 2011 return or pay the balance owing until August 24, 2012. What penalties and interest will be assessed for the 2011 taxation year?

Exam Exercise Two - 6 (Corporate Instalments - Regular And Small CCPC)

Lemar Ltd. has a December 31 year end. It is not a small CCPC. For 2009, its taxes payable were $71,500, while for 2010, the amount was $93,600. For 2011, its estimated taxes payable are $114,700. What would be the minimum instalment payments for the 2011 taxation year and when would they be due? How would your answer differ if Lemar Ltd. qualified as a small CCPC?

Exam Exercise Two - 7 (Corporate Instalments - Regular And Small CCPC)
Chemco Inc. has a December 31 year end and is not a small CCPC. For 2009, its taxes payable were $146,300, while for 2010, the amount was $94,650. For 2011, its estimated taxes payable are $52,300. What would be the minimum instalment payments for the 2011 taxation year and when would they be due? How would your answer differ if Chemco Inc. qualified as a small CCPC?

Exam Exercise Two - 8 (Corporate Due Dates)
The taxation year end for Grange Inc. is March 31, 2011. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending March 31, 2010 of $165,000. Indicate the date on which the corporate tax return must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 9 (Corporate Due Dates)
The taxation year end for Lawnco Inc. is January 31, 2011. Indicate the date on which the corporate tax return must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 10 (Notice of Objection)
Ms. Nancy Forth filed her 2011 tax return as was required on April 30, 2012. She receives an initial assessment notice during May, 2012. However, on July 12, 2013, she receives a reassessment indicating that she owes additional taxes, as well as interest on the unpaid amounts. The reassessment was mailed on July 2, 2013. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.

TIF PROBLEM TWO - 5
Procedures And Administration - Key Term Matching

The following eight key terms were listed at the end of Chapter 2, "Procedures And Administration".

A. Instalment Threshold
B. Net Tax Owing
C. NETFILE
D. Notice Of Assessment
E. Prescribed Rate
F. Source Deductions
G. Tax Avoidance
H. Tax Evasion

The following list contains ten potential definitions for the preceding key terms.

1. An interest rate which changes quarterly and is based on the average interest rate paid on 90 day Treasury Bills during the first month of the preceding quarter.

2. The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.

3. A form that the CRA sends to all taxpayers after they process their returns which describes any changes made to the returns and states the amount of their additional tax payable or their refund.

4. A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.

5. The undertaking of transactions or arrangements that do not comply with legislated reporting requirements.

6. An electronic filing system that requires the use of an approved software program.

7. Amounts withheld by an employer from the income of employees that must be remitted to the government.

8. This ITA 245 provision attempts, in a very generalized manner, to limit the ability of taxpayers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.

9. An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.

10. A formal determination of taxes to be paid or refunded.

11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed, indicate the number of the item that provides the best definition of that term, or that none of the definitions apply. Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM TWO - 6
Individual Tax Instalments

The following information relates to Ms. Shannon Birch for tax years ending December 31:

	Federal And Provincial Income Taxes Payable	Income Taxes Withheld By Employer
2009	$23,000	$21,500
2010	$27,000	$15,000
2011 (Estimated)	$21,200	$18,000

Required:

A. Indicate whether Ms. Birch has an obligation to make instalment payments during the 2011 taxation year. Explain your conclusion.

B. If Ms. Birch is required to make instalment payments, indicate the amounts that should be paid and the dates on which the amounts are payable. Your answer should include the alternatives that are available to Ms. Birch, as well as an indication as to which alternative is preferable.

C. Ms. Birch would like your advice as to whether or not she should make the recommended instalment payments. Explain your conclusion.

TIF PROBLEM TWO - 7
Individual And Corporate Tax Instalments

For the year ending December 31, 2009, the taxpayer's combined federal and provincial taxes payable amounted to $93,000, while for the year ending December 31, 2010, the amount payable was $108,000. It is estimated that federal and provincial taxes payable for the year ending December 31, 2011 will be $82,500.

Case A
The taxpayer is an individual whose employer withholds combined federal and provincial taxes of $86,700 in 2009, $109,500 in 2010, and $79,200 in 2011.

Case B
The taxpayer is an individual whose employer withholds combined federal and provincial taxes of $91,500 in 2009, $98,700 in 2010, and $78,300 in 2011.

Case C
The taxpayer is a small CCPC with a December 31 year end.

Case D
The taxpayer is a publicly traded corporation with a December 31 year end. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2009 are estimated to be $78,100, instead of the $93,000 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during the year ending December 31, 2011.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the acceptable methods would best serve to minimize instalment payments during 2011. If instalments must be paid, indicate the date on which they are due.

TIF PROBLEM TWO - 8
Individual Tax Instalments

In January, 2011, you are asked to provide tax advice to Ms. Leslie Garond. She has provided you with the following information about her combined federal and provincial taxes payable and the income taxes withheld by her employer for the 2009 and 2010 taxation years:

Year	Taxes Payable	Taxes Withheld
2009	$22,000	$9,500
2010	18,000	9,700

For 2011, she estimates that her combined federal and provincial taxes payable will be $14,000 and that her employer will withhold a total of $9,850 in income taxes.

She has asked you whether it will be necessary for her to pay instalments in 2011 and, if so, what the minimum amounts that should be paid are, and when they are due.

Required: Provide the information requested by Ms. Garond.

TIF PROBLEM TWO - 9
Corporate Tax Instalments

The fiscal year of the Sloan Company, a public company, ends on October 31. During the year ending October 31, 2009, its federal taxes payable amounted to $168,000, while for the year ending October 31, 2010, the federal taxes payable were $153,000. It is estimated that federal taxes payable for the year ending October 31, 2011 will be $144,000.

Required:

A. Calculate the instalment payments that are required for the year ending October 31, 2011 under the alternative methods available. Indicate which of the alternatives would be preferable.

B. If the Company did not make any instalment payments towards its 2011 taxes payable, and did not file its corporate tax return or pay its taxes payable on time, indicate how the interest and penalty amounts assessed against it would be determined (a detailed calculation is not required).

TIF PROBLEM TWO - 10
Individual And Corporate Tax Instalments

For the year ending December 31, 2009, the taxpayer's combined federal and provincial taxes payable amounted to $18,000, while for the year ending December 31, 2010, the amount payable was $14,400. It is estimated that federal and provincial taxes payable for the year ending December 31, 2011 is $13,500.

Required: For each of the following independent Cases, calculate the minimum instalment payments that are required to be made towards the settlement of the taxes payable for the year ending December 31, 2011. Included in your answer should be the date that each instalment is due to be paid. Note that, in answering this question, you should state a conclusion on whether or not instalments are required, even if the amount of the instalments is nil.

A. The taxpayer is an individual whose employer withholds combined federal and provincial taxes of $12,000 in 2009, $10,000 in 2010, and $10,000 in 2011.

B. The taxpayer is an individual whose employer withholds combined federal and provincial taxes of $7,000 in 2009, $15,000 in 2010, and $9,000 in 2011.

C. The taxpayer is a small CCPC with a December 31 year end.

D. The taxpayer is a corporation with a December 31 year end. It is not a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2011 are estimated to be $16,000, instead of the $13,500 given in the problem.

TIF PROBLEM TWO - 11
Individual And Corporate Tax Instalments

For the three years ending December 31, 2011, the taxpayer's combined federal and provincial tax payable was as follows:

Year Ending December 31	Taxes Payable
2009	$72,300
2010	89,400
2011 (Estimated)	78,300

Case One The taxpayer is an individual whose employer withholds combined federal and provincial taxes of $73,700 in 2009, $83,200 in 2010, and $75,000 in 2011.

Case Two The taxpayer is an individual whose employer withholds combined federal and provincial taxes of $65,100 in 2009, $90,100 in 2010, and $71,900 in 2011.

Case Three The taxpayer is a small CCPC with a taxation year that ends on December 31.

Case Four The taxpayer is a corporation with a taxation year that ends on December 31. It is not a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2010 were $74,500, instead of the $89,400 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2011. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2011. If instalments must be paid, indicate the date on which they are due.

Chapter Eleven Test Item File Solutions

TIF Solution Eleven - 1

1. Such lump-sum payments often reflect compensation for services rendered over several years. The fact that it is received in a single year can result in significant portions of it being taxed at rates higher than would have been applicable had it been received over the several years during which it was earned. The deduction of such amounts provides the basis for an alternative Tax Payable calculation which attempts to adjust the amount paid to the amount that would have been paid if the amount had been received over several years. The objective of such provisions is fairness or equity.

2. The carry forward periods for the various types of losses identified in the *Income Tax Act* and covered in the text up to Chapter 11 are as follows:

   - Non-Capital Losses and Farm Losses: 20 years.
   - Net Capital Loss: Unlimited.
   - Listed Personal Property Losses: 7 years.
   - Allowable Business Investment Losses: 10 years, then converted to net capital loss with unlimited carry forward.

   Covered in Chapter 18 are limited partnership losses. They have no carry back and an unlimited carry forward, but only against the partnership income to which they relate.

3. There are two reasons for having to track each type of loss carry forward separately. First, different types of losses have different carry forward periods (e.g., 20 years for farm losses vs. unlimited for capital losses). Second, some types of losses can only be applied against the equivalent type of income (e.g., capital losses can only be carried over and applied against capital gains).

4. Losses on listed personal property can be deducted during the current year, but only against gains on listed personal property. If the loss cannot be used during the current year, it can be carried back three years or forward seven years. However, in the carry back or carry forward years, it can only be deducted to the extent of capital gains on listed personal property during those years.

5. The difference between the two loss carry forwards is that the non-capital loss balance is time limited and will expire at the end of 20 years. In contrast, the net capital loss will never expire but can only be applied against taxable capital gains. If Mr. Broley is concerned about having sufficient income to use the non-capital balance in the time remaining until it expires, he should deduct that balance. Alternatively, if he feels that he is likely to have sufficient income in that period, but that he is unlikely to have further capital gains, he should deduct the net capital loss. There is no clear answer to this question as it involves estimates about the future.

6. ITA 111(2) contains a special provision with respect to both net capital losses from years prior to death and to net capital losses arising in the year of death. Essentially, this provision allows these accumulated losses to be applied against any type of income in the year of death, or the immediately preceding year, as long as the lifetime capital gains deduction has not been claimed. A further difference is that, in the case of carry overs, the deduction in the year of death is applied using the capital gains inclusion rate (1/2, 2/3, or 3/4) that prevailed in the year the loss was realized, rather than at the rate that applies in the year of deduction.

7. An Allowable Business Investment Loss (ABIL) is the deductible portion of a capital loss resulting from the disposition of shares or debt of a small business corporation. The special provisions associated with this type of loss are:

   - It can be deducted against any type of income in the year in which it occurs.
   - It can be carried back and applied against any type of income in the preceding three taxation years.

- If it cannot be used during the current or three preceding years, it becomes part of the non-capital loss balance and can be deducted against any type of income in the 10 subsequent years.
- If it is not used in the subsequent 10 years, it becomes part of the net capital loss balance and can be carried forward indefinitely, subject to the constraint that during these additional years, it can only be deducted against taxable capital gains.
- It is disallowed as an ABIL (i.e., it becomes a regular allowable capital loss), to the extent that the taxpayer has used the ITA 110.6 lifetime capital gains deduction.
- The realization of an ABIL reduces the annual gains limit that is used to determine the maximum deduction under ITA 110.6.

8. A small business corporation is defined in ITA 248(1) as a Canadian controlled private corporation (CCPC) of which "all or substantially all", of the fair market value of its assets are used in an active business carried on "primarily" in Canada. In tax work, the term "substantially all" generally means 90 percent or more, while "primarily" is generally interpreted to mean more than 50 percent.

9. The three categories, along with the treatment of their losses, are as follows:

   Hobby Farmer This is an individual who runs a farming operation on a part time basis as a hobby or as a way of enhancing his lifestyle. The operation has no reasonable expectation of a profit and its losses cannot be deducted against any other source of income.

   Part Time Farmer This is an individual for whom farming is not his principal source of income. However, there is a reasonable expectation of a profit and he is allowed to deduct a portion of his farm losses. In each year, the portion of the farm loss that can be deducted against any source of income is limited to the first $2,500, plus one-half of the next $12,500, to a maximum amount of $8,750. Losses in excess of this deductible amount are referred to as restricted farm losses and, when they are carried over to earlier or later years, they can only be deducted to the extent of farm income in that year.

   Full Time Farmer This is an individual for whom farming is his principal source of income and activity. For this category of farmer, farm losses are fully deductible against any other source of income.

10. In order to be a qualified small business corporation for the purposes of the lifetime capital gains deduction, the corporation must be a "small business corporation" at the time of the disposition of the shares. This means that substantially all (90 percent or more) of the fair market value of its assets must be used to produce active business income, primarily (more than 50 percent) in Canada. If the small business corporation test is met, two other conditions must be met for the enterprise to be a "qualified" small business. These are as follows:

    - the shares must not be owned by anyone other than the taxpayer or a related person for at least 24 months preceding the disposition; and

    - throughout this 24 month period, more than 50 percent of the fair market value of the corporation's assets must be used in an active business carried on primarily in Canada.

11. The tax policy issue is the fact that some individuals, through the use of tax privileges (e.g., tax shelters, the non-taxable component of capital gains, or employee stock option deductions) can wind up paying little or no tax, despite having a very large income. The alternative minimum tax deals with this by requiring an alternative calculation of income in which these tax privileges are added back. After the deduction of a basic $40,000 exemption, the minimum tax rate is applied to the balance. If the result is a Tax Payable figure that is larger than that resulting from the regular calculation, this amount must be paid. Any excess of alternative minimum tax over regular Tax Payable can be carried forward for up to seven years to be applied against any future excess of regular Tax Payable over the alternative minimum tax.

TIF Solution Eleven - 2

1. False. There are other deductions that can create a difference between Net Income For Tax Purposes and Taxable Income.

2. False. It can be carried back three years and forward 20 years.

3. False. The Allowable Business Investment Loss is $10,000 [(1/2)($20,000)].

4. False. Its net allowable capital loss for the year is $5,500 [(1/2)($11,000)].

5. True. Net capital losses can only be carried forward or back to be deducted against net taxable capital gains.

6. i. False. In the current year, she can deduct a maximum of $8,750 [$2,500 + (1/2)($12,500)] of the farm loss against other income.

   ii. False. Any loss that is not deductible in the current year can be carried forward for a maximum of 20 years.

   iii. True. A restricted farm loss can only be used to the extent of farm income in the carry over period.

7. True. The $375,000 deduction can be used against gains arising on the disposition of either type of property.

8. True. The foreign tax credit deductible from federal Tax Payable cannot exceed 15 percent of the foreign investment income that, in this case, is $1,500. The remaining $500 would be deductible under ITA 20(11).

9. True. ITA 82(3) only allows such transfers when the spousal credit is either created or increased for the taxpayer.

10. True. Any gain would be deemed to be nil.

TIF Solution Eleven - 3

1. D. A credit for a charitable donation.

2. A. A non-capital loss carried forward from a previous year.

3. C. i and iv.

4. C. If a gain occurs, one-half of this amount can be offset by allowable capital losses on any disposition of capital property.

5. A. Nil.

6. A. When such balances are deducted, the amount deducted will be based on the capital gains inclusion rate which applied in the year in which the loss was realized.

7. D. If they are not used during the current year, they are added to the non-capital loss balance.

8. B. If not used during the current year, an Allowable Business Investment Loss can only be applied against taxable capital gains in a carry forward or carry back period.

9. B. An individual sells 15 percent of the shares of a CCPC that uses 95 percent of its assets in the operation of an active business.

10. D. The deduction is available on any disposition of shares of a small business corporation.

11. B The tax is applied at a 29 percent rate to all of the income of a specified individual.

12. C $139,500 [(75%)($147,500) + (25%)(1/2)($300,000 - $225,000) + (25%)($225,000 - $147,000)]

13. A. Business income only.

14. B. Dividend tax credits.

15. A. Stock options not yet exercised.

TIF Solution Eleven - 4

Exam Exercise Solution Eleven - 1

Ms. Michaels will have a listed personal property loss carry forward from 2010 of $12,000 [(1/2)($78,000 - $102,000)]. This can be applied against the 2011 taxable capital gain on listed personal property of $2,950 [(1/2)($7,000 - $1,100)]. Based on this, her Net and Taxable Income would be calculated as follows:

Income Under ITA 3(a)	$69,000
Income Under ITA 3(b) ($2,950 - $2,950)	Nil
Net Income And Taxable Income	$69,000

In this case, there is a listed personal property loss carry forward of $9,050 ($12,000 - $2,950) that can only be applied against taxable capital gains on listed personal property.

If the sale had been of shares, Ms. Michaels would have had a regular net capital loss carry forward of $12,000 from 2010. Her Net and Taxable Income would be calculated as follows:

Income Under ITA 3(a)	$69,000
Income Under ITA 3(b)	2,950
Net Income	$71,950
Loss Carry Forward (Limited To Taxable Capital Gains)	(2,950)
Taxable Income	$69,000

In this case, the $9,050 net capital loss carry forward can be applied against any taxable capital gains.

Exam Exercise Solution Eleven - 2

Mr. Klaus will have Net Income For Tax Purposes and Taxable Income of nil for 2011.

Prior to making any use of the amounts, he will have a non-capital loss balance of $56,000 and a net capital loss of $3,300 [(1/2)($9,800 - $3,200)]. Of this net capital loss amount, $3,000 can be carried back to the preceding year, leaving a net capital loss carry forward of $300. With respect to the $56,000 non-capital loss, $19,000 ($22,000 - $3,000) can be carried back to the previous year. This leaves a non-capital loss carry forward of $37,000 ($56,000 - $19,000).

The 2010 Net Income For Tax Purposes is unchanged at $22,000 and the 2010 Taxable Income is amended to nil after the carry back.

Exam Exercise Solution Eleven - 3

Ms. Claus will have Net Income For Tax Purposes and Taxable Income of nil for 2011.

At the beginning of the year, she will have a net capital loss carry forward of $5,250 [(1/2)($10,500)] from 2010. Of this amount, $3,150 [(1/2)($12,600 - $6,300)] can be deducted against the 2011 net taxable capital gain. This will leave a non-capital loss at the end of the year as follows:

Amount E ($83,000 + $3,150)	$86,150
Income Under ITA 3(c)	(3,150)
Non-Capital Loss	$83,000
Carry Back To 2010	(45,000)
Non-Capital Loss Carry Forward	$38,000

In addition to the non-capital loss carry forward, Ms. Claus will have a net capital loss carry forward of $2,100 ($5,250 - $3,150).

The 2010 Net Income For Tax Purposes is unchanged at $45,000 and the 2010 Taxable Income is amended to nil after the carry back.

Exam Exercise Solution Eleven - 4

The net amount that would be included in Ms. Forester's income as a result of these items would be calculated as follows:

Employment Income	$47,000
Taxable Capital Gain	15,500
Net Capital Loss Applied Against Current Taxable Capital Gain [(1/2)($31,000)]	(15,500)
Net Capital Loss Applied Against Other Income [(3/4)($42,000 - $31,000)]	(8,250)
Net Inclusion	$38,750

As it is Ms. Forester's year of death, the net capital loss can be deducted against any type of income. Note that the carry forward amount must be adjusted for application against current taxable capital gains, but does not require adjustment for application against other types of income.

Exam Exercise Solution Eleven - 5

The Allowable Business Investment Loss for the year would be calculated as follows:

Actual Loss On Disposition	$47,000
Reduction For Capital Gains Deduction [(2/1)($15,000)]	(30,000)
Business Investment Loss	$17,000
Inclusion Rate	1/2
Allowable Business Investment Loss	$ 8,500

All of the $8,500 can be deducted against Mrs. Brown's employment income. With respect to the disallowed $30,000, it becomes an ordinary capital loss, of which $21,000 can be deducted against the current year's capital gains on the publicly traded securities. This leaves a net capital loss carry over of $4,500 [(1/2)($30,000 - $21,000)].

Exam Exercise Solution Eleven - 6

Ms. Close's maximum lifetime capital gains deduction is the least of the following three items:

Available Deduction Her remaining deduction would be $339,000 [$375,000 - (1/2)($18,000 + $54,000)].

Annual Gains Limit In the absence of capital gains on non-qualified property in any of the years under consideration, the simplified version of this calculation can be used. The annual gains limit for 2011 would be the qualified taxable capital gain of $374,000 [(1/2)($748,000)], reduced by the net capital loss deducted of $30,000. This leaves a net amount of $344,000 ($374,000 - $30,000).

Cumulative Gains Limit This amount would be calculated as follows:

Sum Of Annual Gains Limits ($9,000 + $27,000 + $344,000)	$380,000
Previous Years' Capital Gains Deduction ($9,000 + $27,000)	(36,000)
CNIL	(23,000)
Cumulative Gains Limit	$321,000

The least of these three amounts is $321,000, the Cumulative Gains Limit.

Exam Exercise Solution Eleven - 7

Joanne's Net Income For Tax Purposes would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$61,000	
Business Income	14,200	
Farming Income	2,950	$78,150
Income Under ITA 3(b):		
Taxable Capital Gains		10,500
Net Income For Tax Purposes		$88,650

Joanne's Taxable Income is as follows:

Net Income For Tax Purposes	$88,650
Loss Carry Forwards:	
Restricted Farm Losses (Limited to farming income)	(2,950)
Net Capital Losses (Limited to taxable capital gains)	(10,500)
Non-Capital Losses (All)	(41,000)
Taxable Income	$34,200

Loss Carry Forwards

• Restricted farm loss carry forward ($7,200 - $2,950)	$ 4,250
• Net capital loss carry forward ($25,000 - $10,500)	$14,500
• Non-capital loss carry forward	Nil

Exam Exercise Solution Eleven - 8

Harriet's regular Tax Payable would be calculated as follows:

Tax On Split Income [(29%)(125%)($13,000)]	$4,713
Tax On Balance [(15%)($13,100)]	1,965
Dividend Tax Credit [(2/3)(25%)($13,000)]	(2,167)
Basic Personal Credit [(15%)($10,527)]	(1,579)
Regular Tax Payable	$2,932

The alternative calculation under ITA 120.4(3) is as follows:

Tax On Split Income [(29%)(125%)($13,000)]	$4,713
Tax On Balance (Only Split Income Is Included In This Calculation)	Nil
Dividend Tax Credit [(2/3)(25%)($13,000)]	(2,167)
Basic Personal Credit (Not Available)	Nil
ITA 120.4(3) Tax	$2,546

Harriet's tax payable would be the greater of these two amounts, $2,932.

Exam Exercise Solution Eleven - 9

In the absence of the transfer, Mrs. Senton would have no spousal tax credit. In contrast, with the transfer, she would be eligible for the full $1,579 [(15%)($10,527)]. Given this, the analysis of her position at the federal level would be as follows:

Additional Tax On Dividends [(141%)($9,000)(29%)]	$3,680
Spousal Tax Credit	(1,579)
Dividend Tax Credit [(13/23)(41%)($9,000)]	(2,086)
Tax Increase (Decrease)	($ 15)

As there is a small decrease in federal Tax Payable, the election would be marginally desirable.

Exam Exercise Solution Eleven - 10

Ms. Wave's gift will result in a taxable capital gain of $55,250 [(1/2)($132,500 - $22,000)]. Her Net Income For Tax Purposes equals $67,750 ($12,500 + $55,250).

The limit on the credit base for the charitable donations credit is as follows:

75% Of Net Income For Tax Purposes [(75%)($67,750)]	$50,813
25% Of Taxable Capital Gain [(25%)($55,250)]	13,813
Charitable Donations Credit Base Limit	$64,626

This base results in a potential credit of $18,714 [(15%)($200) + (29%)($64,626 - $200)].

While this amount could be used, she does not have sufficient Tax Payable to utilize the whole potential credit. Her federal Tax Payable for the year would be calculated as follows:

Tax On First $41,544	$ 6,232
22 Percent Of $26,206 ($67,750 - $41,544)	5,765
Tax Payable Before Credits	$11,997
Basic Personal Credit	(1,579)
Federal Tax Payable Before Donations Credit	$10,418

Given this amount of federal Tax Payable, the use of $36,021 of her donation will produce a credit of $10,418 [(15%)($200) + (29%)($36,021 - $200)], an amount sufficient to eliminate her federal Tax Payable. This will leave a carry forward of $96,479 ($132,500 - $36,021).

Exam Exercise Solution Eleven - 11

Mr. Deveau's gift will result in a capital gain of $174,000 ($346,000 - $172,000), with a taxable amount of $87,000 [(1/2)($174,000)]. In addition, there will be recapture of $95,000 ($172,000 - $34,000 - $43,000). This will bring his total Net Income For Tax Purposes for 2011 to $190,300 ($8,300 + $87,000 + $95,000).

The limit on the credit base for the charitable donations credit is as follows:

75% Of Net Income For Tax Purposes [(75%)($190,300)]	$142,725
25% Of Taxable Capital Gain [(25%)($87,000)]	21,750
25% Of Recapture [(25%)($95,000)]	23,750
Charitable Donations Credit Base Limit	$188,225

This base results in a potential credit of $54,557 [(15%)($200) + (29%)($188,225 - $200)]. While this amount could be used, he does not have sufficient Tax Payable to utilize the whole potential credit. His federal Tax Payable for the year would be calculated as follows:

Tax On First $128,800	$27,256
29 Percent Of $61,500 ($190,300 - $128,800)	17,835
Tax Payable Before Credits	$45,091
Basic Personal Credit	(1,579)
Federal Tax Payable Before Donations Credit	$43,512

Given this amount of federal Tax Payable, the use of $150,138 of his donation will produce a credit of $43,512 [(15%)($200) + (29%)($150,138 - $200)], an amount sufficient to eliminate his Tax Payable. This will leave a carry forward of $195,862 ($346,000 - $150,138).

Exam Exercise Solution Eleven - 12

Mr. Fung's credit for foreign tax paid would be the lesser of the foreign tax withheld of $507 [(13%)($3,900)] and an amount determined by the following formula:

[(Foreign Non-Business Income ÷ Adjusted Division B Income)(Tax Otherwise Payable)]

In this formula, the Adjusted Division B Income would be calculated as follows:

Net Income For Tax Purposes	$56,500
Net Capital Loss Deducted	(3,200)
Adjusted Division B Income	$53,300

Note that this is not the same as his Taxable Income of $48,300 ($56,500 - $3,200 - $5,000).

His Tax Otherwise Payable would be calculated as follows:

Tax On First $41,544	$6,232
Tax On Next $6,756 At 22 Percent	1,486
Tax Before Credit	$7,718
Basic Personal Credit	(1,579)
Tax Otherwise Payable	$6,139

Using these figures, the calculation would be as follows:

[($3,900 ÷ $53,300)($6,139)] = $449

As the amount determined by the formula would be the lesser of the two figures, his foreign tax credit for 2011 would be $449.

Exam Exercise Solution Eleven - 13

Mr. Leigh's regular Tax Payable would be calculated as follows:

$24,816 At 15 Percent	$3,722
Basic Personal Credit	(1,579)
Dividend Tax Credit [(13/23)(41%)($17,600)]	(4,079)
Federal Tax Payable - Regular	Nil

His Adjusted Taxable Income for minimum tax purposes would be calculated as follows:

Regular Taxable Income	$24,816
30 Percent Of Capital Gains [(30%)(2)($120,000)]	72,000
Dividend Gross Up [(41%)($17,600)]	(7,216)
Adjusted Taxable Income	$89,600

The calculation of the alternative minimum tax would be as follows:

Adjusted Taxable Income	$89,600
Basic Exemption	(40,000)
Amount Subject To Tax	$49,600
Rate	15%
Minimum Tax Before Credit	$ 7,440
Basic Personal Credit	(1,579)
Alternative Minimum Tax Payable	$ 5,861

As the alternative minimum tax payable is higher than the regular tax payable, the alternative amount would have to be paid. The $5,861 excess can be carried forward to be applied against any excess of regular tax payable over minimum tax payable in the next seven years.

TIF Solution Eleven - 5

The correct definitions for each of the listed key terms are as follows:

A. 5

B. 2

C. 7

D. 8

E. 10

F. 1

G. 9

H. 6

The two unused definitions are as follows:

Cumulative Gains Limit = 4

Non-Capital Loss = 3

TIF Solution Eleven - 6

2008 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Business Income	$18,000	
Taxable (Grossed Up) Dividends	2,360	$20,360
ITA 3(b)		
Taxable Capital Gains [(1/2)($1,200)]	$ 600	
Allowable Capital Losses [(1/2)($4,200)]	(2,100)	Nil
ITA 3(c)		$20,360
ITA 3(d)		
Farm Loss (See Note)		(6,250)
Net Income For Tax Purposes And Taxable Income		$14,110

Note Ms. Breau's farm losses are restricted as follows:

Total Farm Loss		$10,000
Deductible Amount:		
First $2,500	($2,500)	
One-Half Of $7,500 ($10,000 - $2,500)	(3,750)	(6,250)
Restricted Farm Loss Carry Forward		$3,750

As noted in the problem, none of the losses can be carried back before 2008. This would leave the following carry forward balances at the end of 2008:

- Restricted Farm Loss Carry Forward $3,750
- Net Capital Loss Carry Forward [(1/2)($4,200 - $1,200)] $1,500

2009 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Farm Income	$ 2,000	
Taxable (Grossed Up) Dividends	2,950	$ 4,950
ITA 3(b)		
Taxable Capital Gains [(1/2)($2,000)]	$ 1,000	
Allowable Capital Losses	Nil	1,000
ITA 3(c)		$ 5,950
ITA 3(d)		
Business Loss		(14,000)
Net Income For Tax Purposes		Nil
2008 Net Capital Loss Carry Forward		($ 1,000)
Taxable Income (Loss)		Nil

Since there are taxable capital gains this year, and the problem states that Ms. Breau would like to deduct the maximum amount of her net capital loss carry forwards, the net capital loss carry forward of $1,000 is added to the balance of the non-capital loss.

The non-capital loss carry over is calculated as follows:

Business Loss	$14,000
2008 Net Capital Loss Deducted	1,000
ITA 3(c) Income	(5,950)
Non-Capital Loss Carry Over For 2009	$ 9,050

The entire non-capital loss carry over could be carried back to 2008, but since Ms. Breau requires $14,000 in Taxable Income to fully utilize her tax credits, the maximum carry back to 2008 is $110, calculated as follows:

2008 Taxable Income (As Reported)	$14,110
Non-Capital Loss Carry Back From 2009	(110)
2008 Amended Taxable Income (Minimum)	$14,000

This carry back leaves Ms. Breau with her required $14,000 in Taxable Income. There would be the following carry forward balances at the end of 2009:

- Restricted Farm Loss Carry Forward (Unchanged) $3,750
- Net Capital Loss Carry Forward ($1,500 - $1,000)] $ 500
- Non-Capital Loss Carry Forward ($9,050 - $110) $8,940

2010 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Business Income	$30,000	
Farm Income	3,150	
Taxable (Grossed Up) Dividends	3,963	$37,113
ITA 3(b)		
Taxable Capital Gains [(1/2)($4,000)]	$2,000	
Allowable Capital Losses	Nil	2,000
Net Income For Tax Purposes		$39,113
Restricted Farm Loss Carry Forward (Equal To Farm Income)		(3,150)
Net Capital Loss Carry Forward (Less Than $2,000)		(500)
Non-Capital Loss Carry Forward (All)		(8,940)
Taxable Income		$26,523

There would be the following carry forward balance at the end of 2010:

- Restricted Farm Loss Carry Forward ($3,750 - $3,150) $ 600

2011 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Taxable (Grossed Up) Dividends		$ 6,450
ITA 3(b)		
Taxable Capital Gains [(1/2)($4,500)]	$ 2,250	
Allowable Capital Losses [(1/2)($14,500)]	(7,250)	Nil
ITA 3(c)		$ 6,450
ITA 3(d)		
Business Loss	($19,000)	
Farm Loss	(2,000)	(21,000)
Net Income For Tax Purposes And Taxable Income		Nil

The available non-capital loss can be calculated as follows:

Business Loss	$19,000
ITA 3(c) Income	(6,450)
Non-Capital Loss Carry Over	$12,550
Farm Loss (Unrestricted)	2,000
Total Loss Carry Over For 2011	$14,550

Although technically, the farm loss is accounted for separately from the non-capital loss, since the farm loss is less than $2,500 it is treated as an unrestricted farm loss and can be applied against all types of income. Given the carry over rules are the same, we have treated this farm loss as part of the non-capital loss carry over. The preceding loss carry over of $14,550 is available for carry back to 2010.

With respect to the net capital loss of $5,000 [(1/2)($10,000)], there are $1,500 ($2,000 - $500) in taxable capital gains left in 2010 as the basis for a carry back. This means that $1,500 of this year's allowable capital loss can be carried back, leaving $3,500 ($5,000 - $1,500) to be carried forward as a net capital loss balance.

If both the $14,550 non-capital loss and the $1,500 net capital loss were carried back to 2010, the result would be a Taxable Income of $10,473, less than the $14,000 that is required to fully utilize Ms. Breau's available tax credits. As the net capital loss can only be deducted to the extent of taxable capital gains, it would be advisable to claim the full amount of this loss carry back. Based on this view, the non-capital loss deduction will be limited to $11,023 ($26,523 - $14,000 - $1,500), an amount that will provide for full use of Ms. Breau's 2010 tax credits:

2010 Taxable Income (As Reported)	$26,523
Non-Capital Loss Carry Back From 2011	(11,023)
Net Capital Loss Carry Back From 2011	(1,500)
2010 Amended Taxable Income	$14,000

These carry backs leave Ms. Breau with her required $14,000 in Taxable Income. There would be the following carry forward balances at the end of 2011:

- Restricted Farm Loss Carry Forward (Unchanged) $ 600
- Net Capital Loss Carry Forward ($5,000 - $1,500)] $3,500
- Non-Capital Loss Carry Forward (Nil + $14,550 - $11,023) $3,527

TIF Solution Eleven - 7

To the extent that there has been use of the lifetime capital gains deduction in previous years, business investment losses (BILs) are disallowed. When they are disallowed, they become ordinary capital losses that must be deducted against the current year's taxable capital gains. Given this, the non-disallowed portion of the BIL would be calculated as follows:

2011 BIL Realized ($59,000 - $186,000 - $500)	$127,500
BIL Disallowed By Previous Use Of ITA 110.6 ($60,000 + $50,000)	(110,000)
Remaining Business Investment Loss	$ 17,500
Inclusion Rate	1/2
Allowable Business Investment Loss	$ 8,750

Using this analysis, Ms. Berger's minimum Net Income For Tax Purposes and Taxable Income would be calculated as follows:

Net Employment Income		$85,000
Net Taxable Capital Gains:		
Taxable Capital Gain [(1/2)($290,000 - $142,000 - $1,000)]	$73,500	
Allowable Capital Loss [(1/2)($110,000)]	(55,000)	18,500
Allowable Business Investment Loss		(8,750)
Net Income For Tax Purposes		$94,750
Lifetime Capital Gains Deduction (See Note)		(8,250)
Net Capital Loss Carry Forward Deducted		Nil
Taxable Income		$86,500

Note The lifetime capital gains deduction is the least of:

Amount Available [(1/2)($750,000)]	$375,000
Amount Used [(1/2)($60,000 + $50,000)]	(55,000)
Amount Available	$320,000

Net Taxable Gain On Qualified Property ($73,500 - $55,000)	$18,500
Net Capital Loss Carry Forward Deducted	Nil
ABIL Realized	(8,750)
Annual Gains Limit	$ 9,750

Sum Of Annual Gains Limits ($45,000 + $25,000 + $9,750)	$79,750
Amounts Deducted In Previous Years ($45,000 + $25,000)	(70,000)
CNIL	(1,500)
Cumulative Gains Limit	$ 8,250

TIF Solution Eleven - 8

Part A - Taxable Income

Mr. and Mrs. Hanson's Taxable Income would be calculated as follows:

	Mr. Hanson	Mrs. Hanson
Old Age Security Benefits	$ 6,300	$ 6,300
RRIF Income	50,000	Nil
Registered Pension Plan Receipts	15,380	1,680
Dividends Received	800	180
Gross Up On Dividends (41 Percent)	328	74
Interest On Government Bonds	500	4,359
Net Taxable Capital Gain	Nil	Nil
Net Income Before Clawback	$73,308	$12,593
Social Benefits Repayment (See Note)	(846)	Nil
Net Income For Tax Purposes And Taxable Income	$72,462	$12,593

Note Mrs. Hanson would not have to repay any of her OAS benefits as her Net Income is well below the threshold income of $67,668. Mr. Hanson's social benefits repayment would be $846, the lesser of:

- $6,300, and
- [(15%)($73,308 - $67,668)] = $846.

Part A - Tax Credits

Mr. Hanson cannot take the spousal credit because Mrs. Hanson's Net Income is more than the $10,527 base for this credit. Mrs. Hanson cannot transfer her dividends under ITA 82(3) as the transfer would leave her with Net Income of $12,339 ($12,593 - $180 - $74). This would still be more than the $10,527 base for the spousal credit and, as a consequence, no spousal tax credit would be created. Given these considerations, the amount that can be transferred from Mrs. Hanson to Mr. Hanson is calculated as follows:

Age	$6,537
Pension (On RPP Only)	1,680
Less Excess Of Taxable Income Over Basic Personal Amount ($12,593 - $10,527)	(2,066)
Credit Base Transferred To Spouse	$6,151

Mr. Hanson's maximum tax credits would be as follows:

Basic Personal Amount	$ 10,527
Age $6,537 - [(15%)($72,462 - $32,961)]	612
Pension	2,000
Transfers From Mrs. Hanson (See Preceding)	6,151
Total Base	$19,290
Rate	15%
Total	$ 2,894
Dividend Tax Credit [(13/23)($328)]	185
Charitable Donations [(15%)($200) + (29%)($600 + $200 - $200)]	204
Total Credits	$ 3,283

Charitable donations can be claimed by either spouse, as long as the total donations are less than 75 percent of the claiming spouse's Net Income For Tax Purposes. As Mrs. Hanson has no Tax Payable, Mr. Hanson will claim her charitable donations. It is usually advantageous for one spouse to claim all the charitable donations if they total more than $200, as the low rate of credit is only applied once.

Part A - Loss Carry Overs

Mrs. Hanson's net capital loss of $175 [(1/2)($725 - $375)] can be carried back three years and forward indefinitely to be claimed against taxable capital gains.

Part B - Pension Income Splitting

The optimum use of pension income splitting would accomplish the following objectives:

- it would permit Mrs. Hanson to claim her dividend tax credit,
- it would permit Mrs. Hanson to fully utilize her pension income tax credit,
- it would eliminate Mr. Hanson's OAS clawback, and
- it would enable both Mr. and Mrs. Hanson to be in the same 22 percent tax bracket.

TIF Solution Eleven - 9

The regular Tax Payable calculations would be as follows:

	Wanda	Wally	Wesley
Employment And Business Income	$ 39,500	$32,800	$ 18,250
Non-Eligible Dividends Received	60,500	Nil	62,000
Dividend Gross Up (25 Percent)	15,125	Nil	15,500
Retiring Allowance	Nil	50,000	Nil
RRSP Deduction	Nil	(50,000)	Nil
Taxable Capital Gains	24,500	Nil	267,750
Net Income For Tax Purposes	$139,625	$32,800	$363,500
Lifetime Capital Gains Deduction	(24,500)	Nil	(267,750)
Taxable Income	$115,125	$32,800	$ 95,750
Federal Tax (Note)	$ 23,701	$ 4,920	$ 18,663
Basic Personal Credit	(1,579)	(1,579)	(1,579)
Dividend Tax Credit (2/3 of Gross Up)	(10,083)	Nil	(10,333)
Regular Federal Tax Payable	$ 12,039	$ 3,341	$ 6,751

Note The federal tax payable, before the dividend tax credit, is as follows:

	Taxable Income	Federal Tax Calculations	Federal Tax
Wanda	$115,125	$15,371 + (26%)($32,037)	$23,701
Wally	$ 32,800	(15%)($32,800)	$ 4,920
Wesley	$ 95,750	$15,371 + (26%)($12,662)	$18,663

The alternative minimum tax (AMT) calculations would be as follows:

	Wanda	Wally	Wesley
Regular Taxable Income	$115,125	$32,800	$ 95,750
30% Of Capital Gains (Note)	14,700	Nil	160,650
Dividend Gross Up	(15,125)	Nil	(15,500)
Adjusted Taxable Income	$114,700	$32,800	$ 240,900
AMT Exemption	(40,000)	(40,000)	(40,000)
AMT Base	$ 74,700	Nil	$200,900
Rate	15%		15%
Federal AMT Before Credit	$ 11,205		$ 30,135
Basic Personal Credit	(1,579)		(1,579)
Federal AMT	$ 9,626		$ 28,556
Regular Federal Tax Payable	(12,039)		(6,751)
Additional Tax Required	Nil		$ 21,805

Note The 30 percent capital gain inclusion can be calculated by taking 30 percent of double the taxable capital gain.

The excess AMT over regular tax payable for Wesley can be carried forward for seven years and applied against any future excess of regular Tax Payable over the alternative minimum tax.

TIF Solution Eleven - 10

The calculation of Mr. Fine's minimum Net Income For Tax Purposes and Taxable Income for the year would be as follows:

Gross Billings		$162,000
Additions:		
Opening Allowance For Bad Debts	$ 2,500	
Bad Debts Recovered	300	2,800
		$164,800
Deductions:		
Salaries For Staff	($42,900)	
Office Rent	(12,000)	
Bad Debts Written Off	(1,300)	
Closing Allowance For Bad Debts	(1,800)	
Cost Of Legal Convention	(800)	
Office Expenses	(33,700)	(92,500)
Net Business Income		$ 72,300
Less: Farm Loss [$2,500 + (1/2)($2,000)] (Note 2)		(3,500)
Net Income For Tax Purposes And Taxable Income		$ 68,800

Notes:

1. While the charitable donations will generate a credit against Tax Payable, they are not deductible in the computation of Taxable Income.

2. Mr. Fine has a restricted farm loss carry over of $1,000 ($4,500 - $3,500) that can be carried back 3 years and forward 20 years, but can only be applied against farming income in those years.

TIF Solution Eleven - 11

Part A

Mr. Leonard's net employment income would be calculated as follows:

Salary	$58,000
Housing Benefit (12 Months At $1,000)	12,000
Less: Rents Paid	(1,200)
Award	2,100
Director's Fees	1,300
Stock Option Benefits [(100)($16 - $7)]	900
Net Employment Income	$73,100

Part B

Since Mr. Leonard's son is over 17 years of age, the interest on the bonds is not attributed to Mr. Leonard. Mr. Leonard's income from property would be calculated as follows:

Royalties On Patent	$24,070
Interest On Bonds	430
Income From Property	$24,500

Part C

Mr. Leonard's net taxable capital gains would be calculated as follows:

Listed Personal Property:			
Proceeds From Ring	$1,200		
Deemed Cost	(1,000)	$ 200	
Proceeds From Painting	$1,100		
Cost	(1,800)	(700)	Nil
Personal Use Property:			
Proceeds From Pistols		$2,000	
Cost		(1,400)	
Capital Gain		$ 600	
Inclusion Rate		1/2	$300
Net Taxable Capital Gains			$300

The preceding calculations indicate that Mr. Leonard would be left with a listed personal property loss of $250 [(1/2)($$200 - $700)]. Unlike other capital losses, this amount can be carried back three years and forward for only seven years, to be deducted against capital gains on listed personal property.

Part D

Mr. Leonard's Net Income For Tax Purposes would be calculated as follows:

Employment Income	$73,100
Income From Property	24,500
Taxable Capital Gain	300
RRSP Contribution (Actual - See Note)	(3,600)
Net Income For Tax Purposes	$94,300

Note Mr. Leonard's RRSP Deduction Limit for 2011 is the lesser of $22,450 and 18 percent of his 2010 Earned Income. His Earned Income for 2010 is assumed to be equal to his 2011 Earned Income. This amount is calculated as $13,158 by taking 18 percent of his employment income of $73,100. There is no PA to take into consideration. However, his actual deduction is limited by the fact that his contribution during 2011 is only $3,600. The royalty income would not form part of earned income for RRSP purposes since Mr. Leonard is not the author or inventor.

Part E

Mr. Leonard's Taxable Income would be calculated as follows:

Net Income For Tax Purposes	$94,300
Stock Option Deduction [(1/2)($900)]	(450)
Taxable Income	$93,850

Part F

Mr. Leonard's federal Tax Payable would be calculated as follows:

Federal Tax On First $83,088		$15,371
Federal Tax On Next $10,762 ($93,850 - $83,088) At 26 Percent		2,798
Gross Federal Tax		$18,169
Tax Credits:		
Basic Personal Amount	($10,527)	
Spousal ($10,527 - $2,990)	(7,537)	
CPP	(2,218)	
EI	(787)	
Canada Employment	(1,065)	
Transfer Of Son's Tuition, Education And Textbook		
- Lesser Of (See Note):		
• $5,000		
• [$3,000 + (4)($400) + (4)($65)] = $4,860	(4,860)	
Credit Base	($26,994)	
Rate	15%	(4,049)
Federal Tax Payable		$14,120

Note As his son's income is $3,700 [(12)$250) + $700], he will have no Tax Payable and Mr. Leonard will be able to take the full credit. There is no credit for his aunt because she is not a resident of Canada.

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Part A - Taxable Income
Daniel Tong's employment income would be calculated as follows:

Inclusions:		
Salary	$78,000	
2010 Bonus (Cash Basis)	6,000	
Home Office Allowance	2,400	
Standby Charge - No Reduction [($5,200)(2/3)]	3,467	
Automobile Operating Benefit [(14,000 km)($0.24)]	3,360	
Group Term Life Insurance Premium	650	
Dental Insurance	Nil	
Stock Option Benefit [(2,500)($15 - $12)]	7,500	$101,377
Deductions:		
Company Pension Contributions	($ 3,900)	
Home Office [(30/300)($2,100 + $750)]	(285)	
Office Supplies	(230)	(4,415)
Net Employment Income		$ 96,962

Notes

- In general, the only home office costs that can be deducted are utilities and maintenance. In the case of employees with commission income, a pro rata share of insurance and property taxes would also be deductible. However, it does not appear that Mr. Tong has any commission income.
- As the only capital costs that are deductible by an employee are those related to an automobile, aircraft, or musical instrument, the cost of the computer and fax machine are not deductible.
- The use of employment related frequent flyer points is not considered a taxable benefit by the CRA.
- In the determination of his Taxable Income, Mr. Tong will be able to deduct one-half of the stock option benefit.

Mr. Tong's Net Income For Tax Purposes and Taxable Income would be calculated as follows:

Net Employment Income (See Preceding)		$ 96,962
Business Income - Sale Of Automobile [$14,500 - ($2,500 + $8,100)]		3,900
Property Income:		
Portus Dividends Received	$4,500	
Gross Up [(41%)($4,500)]	1,845	
Less Interest Expense	(1,200)	5,145
Spousal RRSP Withdrawal (Attributed To Mr. Tong)		1,000
Net Taxable Capital Gain:		
Taxable Capital Gain On Portus Shares (Note 1)	$3,581	
Allowable Capital Loss On Global Shares (Note 2)	Nil	3,581
RRSP Contribution (Note 3)		(10,200)
Net Income For Tax Purposes		$100,388
Stock Option Benefit		(3,750)
Net Capital Loss Carry Forward (Note 4)		(3,581)
Taxable Income		$ 93,057

Note 1 For shares acquired through the exercise of stock options, the adjusted cost base is the fair market value of the shares at the time of exercise. Applying the identical property rules, the adjusted cost base of Mr. Tong's entire shareholding of Portus Ltd. shares is $42,000 [(2,500)($15) + (250)($18)]. This provides for an average cost per share of $15.27 ($42,000 ÷ 2,750). The taxable capital gain would be calculated as follows:

Proceeds [(1,250)($21)]	$26,250
Adjusted Cost Base [(1,250)($15.27)]	(19,088)
Capital Gain	$ 7,162
Inclusion Rate	1/2
Taxable Capital Gain	$ 3,581

Note 2 The $2,400 loss ($8,600 - $11,000) is deemed to be superficial, as Mr. Tong repurchased 800 Global shares within 30 days of the original disposition. This means that the loss will be disallowed. However, it will be added to the adjusted cost base of the replacement shares, giving a total adjusted cost base of $8,200 ($5,800 + $2,400).

Note 3 Mr. Tong's 2011 RRSP Deduction Limit is the lesser of the 2011 RRSP Dollar Limit of $22,450 and $11,070, 18 percent of his $61,500 Earned Income for 2010. However, his actual deduction is limited to $10,200, the sum of his undeducted $2,200 contribution from 2010 and his $8,000 contribution to his spouse's RRSP.

Note 4 Mr. Tong has a net capital loss balance of $11,500 ($2,500 + $6,000 + $3,000). However, the amount that can be deducted is limited to the 2011 taxable capital gain, or $3,581. This will leave a net capital loss balance of $7,919 ($11,500 - $3,581).

Part B - Tax Payable

Mr. Tong's minimum federal Tax Payable is calculated as follows:

Tax On First $83,088		$15,371
Tax On Next $9,969 ($93,057 - $83,088) At 26 Percent		2,592
Gross Federal Tax		$17,963
Basic Personal Amount	($10,527)	
Spousal	(10,527)	
Child	(2,131)	
CPP	(2,218)	
EI	(787)	
Canada Employment	(1,065)	
Transfer Of Education Related Amounts (Note 5)	(5,000)	
Credit Base	($32,255)	
Rate	15%	(4,838)
Dividend Tax Credit [(13/23)(41%)($4,500)]		(1,043)
Federal Tax Payable		$12,082

Note 5 Marion's federal Tax Payable is nil as the scholarship is not taxable income.

Interest Income	$ 3,000
Scholarship ($10,000 - $10,000)	Nil
Taxable Income	$ 3,000
Basic Personal Amount	(10,527)
Federal Tax Payable	Nil

As Marion is unable to use her education related credits, a portion can be transferred to her father. The transfer is the lesser of:

- $5,000
- [$7,150 + (8)($400) + (8)($65)] = $10,870

Given this, the maximum transfer is $5,000. However, the $5,870 ($10,870 - $5,000) excess can be carried forward indefinitely to be used against Marion's future Tax Payable.

Part B - Carry Forwards

- From Note 4, there is a net capital loss of $7,919 available for carry forward to subsequent years.
- From Note 5, Marion has a $5,870 education related credit amount available for carry forward to subsequent years.