Canadian Tax Principles 2016 / 2017 Solutions Manual – Chapters 11 to 21

Solutions Manual Table of Contents– Chapters 11 to 21

For a listing of the subjects covered and difficulty of each Assignment Problem, please refer to the .PDF version of the Solutions Manual that is available at the Instructor's Resource Centre on the online catalogue listing for this book, at

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CHAPTER ELEVEN SOLUTIONS

Solution to Assignment Problem Eleven - 1

2013 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Business Income	$19,800	
Taxable Dividends [(138%)($1,870)]	2,581	$22,381
ITA 3(b)		
Taxable Capital Gains [(1/2)($1,320)]	$ 660	
Allowable Capital Losses [(1/2)($4,620)]	(2,310)	Nil
ITA 3(c)		$22,381
ITA 3(d)		
Farm Loss (See Note)		(6,750)
Net Income For Tax Purposes And Taxable Income	$15,631	

Note Dale's farm losses are restricted as follows:

Total Farm Loss		$11,000
Deductible Amount:		
First $2,500	($2,500)	
One-Half Of $8,500 ($11,000 - $2,500)	(4,250)	(6,750)
Restricted Farm Loss Carry Forward		$ 4,250

As noted in the problem, none of the losses can be carried back before 2013. This would leave the following carry forward balances at the end of 2013:

- Restricted Farm Loss Carry Forward $4,250
- Net Capital Loss Carry Forward ($2,310 - $660) $1,650

2014 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Farm Income	$ 2,200	
Taxable Dividends [(138%)($2,351)]	3,244	$ 5,444
ITA 3(b)		
Taxable Capital Gains [(1/2)($2,200)]	$ 1,100	
Allowable Capital Losses	Nil	1,100
ITA 3(c)		$ 6,544
ITA 3(d)		
Business Loss		(15,400)
Net Income For Tax Purposes		Nil
2013 Net Capital Loss Carry Forward		($ 1,100)
Taxable Income (Loss)		Nil

Since there are taxable capital gains this year, and the problem states that Dale would like to deduct the maximum amount of his net capital loss carry forwards, the net capital loss carry forward of $1,100 is added to the balance of the non-capital loss.

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

Business Loss	$15,400
2013 Net Capital Loss Deducted	1,100
ITA 3(c) Income	(6,544)
Non-Capital Loss Carry Over For 2014	$ 9,956

The entire non-capital loss carry over could be carried back to 2013, but since Dale requires $15,400 in Taxable Income to fully utilize his tax credits, the maximum carry back to 2013 is $231, calculated as follows:

2013 Taxable Income (As Reported)	$15,631
Non-Capital Loss Carry Back From 2014	(231)
2013 Amended Taxable Income (Minimum)	$15,400

This carry back leaves Dale with his required $15,400 in Taxable Income. There would be the following carry forward balances at the end of 2014:

- Restricted Farm Loss Carry Forward (Unchanged) $4,250
- Net Capital Loss Carry Forward ($1,650 - $1,100)] $ 550
- Non-Capital Loss Carry Forward ($9,956 - $231) $9,725

2015 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Business Income	$33,000	
Farm Income	3,465	
Taxable Dividends [(138%)($3,160)]	4,361	$40,826
ITA 3(b)		
Taxable Capital Gains [(1/2)($4,400)]	$2,200	
Allowable Capital Losses	Nil	2,200
Net Income For Tax Purposes		$43,026
Restricted Farm Loss Carry Forward (Equal To Farm Income)		(3,465)
Net Capital Loss Carry Forward (Less Than $2,200)		(550)
Non-Capital Loss Carry Forward (All)		(9,725)
Taxable Income		$29,286

There would be the following carry forward balance at the end of 2015:

- Restricted Farm Loss Carry Forward ($4,250 - $3,465) $ 785

2016 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Taxable Dividends [(138%)($5,140)]		$ 7,093
ITA 3(b)		
Taxable Capital Gains [(1/2)($4,950)]	$ 2,475	
Allowable Capital Losses [(1/2)($15,950)]	(7,975)	Nil
ITA 3(c)		$ 7,093
ITA 3(d)		
Business Loss	($20,900)	
Farm Loss	(2,200)	(23,100)
Net Income For Tax Purposes And Taxable Income	Nil	

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

Business Loss	$20,900	
Farm Loss (Unrestricted)	2,200	$23,100
ITA 3(c) Income		(7,093)
Non-Capital Loss Carry Over For 2016		$16,007

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. ITA 31 states that any loss allowed under that provision is considered an unrestricted loss from a farming business for the year for the purposes of calculating the non-capital loss carryover. As a result, the preceding loss carry over of $16,007 is available for carry back to 2015 to be applied against any type of income.

With respect to the net capital loss of $5,500 ($7,975 - $2,475), there are $1,650 ($2,200 - $550) in taxable capital gains left in 2015 as the basis for a carry back. This means that $1,650 of the 2016 net capital loss can be carried back, leaving $3,850 ($5,500 - $1,650) to be carried forward as a net capital loss balance.

If both the $16,007 non-capital loss and the $1,650 net capital loss were carried back to 2015, the result would be a Taxable Income of $11,629 ($29,286 - $16,007 - $1,650), less than the $15,400 that is required to fully utilize Dale'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 $12,236 ($29,286 - $15,400 - $1,650), an amount that will provide for full use of Dale's 2015 tax credits:

2015 Taxable Income (As Reported)	$29,286
Non-Capital Loss Carry Back From 2016	(12,236)
Net Capital Loss Carry Back From 2016	(1,650)
2015 Amended Taxable Income	$15,400

These carry backs leave Dale with his required $15,400 in 2015 Taxable Income. There would be the following carry forward balances at the end of 2016:

- Restricted Farm Loss Carry Forward (Unchanged) $ 785
- Net Capital Loss Carry Forward ($5,500 - $1,650)] $3,850
- Non-Capital Loss Carry Forward (Nil + $16,007 - $12,236) $3,771

Solution to Assignment Problem Eleven - 2

Before consideration of any carry backs, Lucinda would have 2015 Taxable Income as follows:

Net Rental Income	$ 91,450
Interest Income	38,275
Taxable Capital Gains	17,300
Net Income For Tax Purposes And Taxable Income	$147,025

The loss on Recovery Inc. is a Business Investment Loss (BIL) However, because of her use of the lifetime capital gains deduction in 2014, $156,000 of this amount would be disallowed. Given this, the available Allowable Business Investment Loss (ABIL) would be calculated as follows:

Total Loss	$675,000
Disallowed By Lifetime Capital Gains Deduction Use	(156,000)
Balance	$519,000
Inclusion Rate	1/2
Allowable Business Investment Loss (ABIL)	$259,500

Using this value, Lucinda's 2016 Taxable Income is calculated as follows:

Income Under ITA 3(a)		
Net Rental Income	$86,300	
Interest Income	27,438	$113,738
Income Under ITA 3(b)		
Taxable Capital Gains	$18,620	
Allowable Capital Loss (Disallowed ABIL)		
[(1/2)($156,000)] (Note 1)	(78,000)	Nil
Balance Under ITA 3(c)		$113,738
Deduction Under ITA 3(d)		
ABIL (Note 2)		(259,500)
Net Income For Tax Purposes And Taxable Income		Nil

Note 1 As the $156,000 disallowed BIL becomes an ordinary capital loss, it must be deducted against the 2016 capital gain. This leaves a net capital loss carry over of $59,380 ($78,000 - $18,620) of which $17,300 can be carried back to 2015.

Note 2 As the ABIL was realized in 2016, it must be used to reduce that year's income to Nil. Note that, because of this rule, Lucinda cannot deduct a smaller amount in order to have sufficient income to absorb her basic personal tax credit. After this deduction, a carry over of $145,762 ($259,500 - $113,738) remains.

The amount that should be carried back is calculated as follows:

2015 Net Income For Tax Purposes (As Originally Calculated)	$147,025
Net Capital Loss Carried Back	(17,300)
Optimum Taxable Income = 2015 Basic Personal Amount	(11,327)
Non-Capital Loss Carried Back	($118,398)

As planned, these deductions would leave a Taxable Income of $11,327 ($147,025 - $17,300 - $118,398). The taxes on this amount will be eliminated by Lucinda's basic personal credit. Since there was no 2014 Tax Payable, there would be no carry back to that year. The following carry forwards remain after the carry back amounts are deducted:

Net Capital Loss Carry Forward ($59,380 - $17,300)	$42,080
Non-Capital Loss Carry Forward ($145,762 - $118,398)	$27,364

For the next 10 years, the ABIL will be treated as a non-capital loss carry forward that can be deducted against other sources of income. If it has not been utilized within the 10 years, it then becomes a net capital loss carry forward, deductible for an unlimited number of future periods, but only against net taxable capital gains.

Solution to Assignment Problem Eleven - 3

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:

2016 BIL Realized ($345,000 - $78,000)	$267,000
BIL Disallowed By Previous Use Of ITA 110.6 ($29,500 + $49,000)	(78,500)
Remaining Business Investment Loss	$188,500
Inclusion Rate	1/2
Allowable Business Investment Loss	$ 94,250

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

Net Employment Income		$142,000
Allowable Business Investment Loss		(94,250)
Net Taxable Capital Gains:		
Taxable Capital Gain		
[(1/2)($480,000 - $187,000 - $4,000)]	$144,500	
Allowable Capital Loss (Disallowed ABIL)		
[(1/2)($78,500)]	(39,250)	105,250
Net Income For Tax Purposes		$153,000

Doug's Taxable Income under the two different assumptions would be calculated as follows:

	Part A	**Part B**
Net Income For Tax Purposes	$153,000	$153,000
Net Capital Loss Carry Forward Deducted	(3,400)	Nil
Lifetime Capital Gains Deduction (Note)	(5,300)	(8,700)
Taxable Income	$144,300	$144,300

Note As the only capital gains during 2016 are on qualified property, the simplified formula for the annual gains limit can be used. Given this, the lifetime capital gains deduction is the cumulative gains limit for both Part A and B as it is the least of the following:

	Part A	**Part B**
Amount Available [(1/2)($824,176*)]	$412,088	$412,088
Amount Used [(1/2)($29,500 + $49,000)]	(39,250)	(39,250)
Amount Available	$372,838	$372,838

*This is the 2016 limit for gains on dispositions of shares of a qualified small business corporation. For gains on qualified farm or fishing property, the 2016 limit would be $1,000,000.

	Part A	**Part B**
Taxable Capital Gain On Qualified Property	$144,500	$144,500
ABIL Realized	(94,250)	(94,250)
Allowable Capital Loss Deducted (Disallowed ABIL)	(39,250)	(39,250)
Net Capital Loss Carry Forward Deducted	(3,400)	Nil
Annual Gains Limit	$ 7,600	$ 11,000

	Part A	Part B
Sum Of Annual Gains Limits		
($14,750 + $24,500 + $7,600)	$46,850	
($14,750 + $24,500 + $11,000)		$50,250
Amounts Deducted In Previous Years		
($14,750 + $24,500)	(39,250)	(39,250)
CNIL (Given)	(2,300)	(2,300)
Cumulative Gains Limit	$ 5,300	$ 8,700

In Part B, Doug will still have his $3,400 net capital loss carry forward, but will have used $3,400 more of his lifetime capital gains deduction. His Taxable Income in both cases is the same.

Solution to Assignment Problem Eleven - 4

Part A

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

	Mrs. Resso	Mr. Resso	
Employment Income	Nil	$95,000	CPP
Receipts	Nil	9,500	
Registered Pension Plan Receipts	Nil	31,000	
RRIF Withdrawals	Nil	18,000	
Eligible Dividends Received	$14,000	Nil	
Gross Up On Dividends (38 Percent)	5,320	Nil	
Net Income For Tax Purposes And Taxable Income Before Any Transfer Of Dividends	$19,320	$153,500	

Mrs. Resso's Tax Payable would be calculated as follows:

Federal Tax Before Credits [(15%)($19,320)]		$2,898
Tax Credits		
Basic Personal	$11,474	
Age And Disability (Transferred To Mr. Resso)	Nil	
Medical Expenses (Note 1)	Nil	
Total Base	$11,474	
Rate	15%	(1,721)
Dividend Tax Credit [(6/11)($5,320)]		(2,902)
Federal Tax Payable		Nil

Note 1 Without regard to who pays for them, medical expenses can be claimed by either spouse. As they must be reduced by the lesser of $2,237 and 3 percent of the taxpayer's Net Income For Tax Purposes, in some circumstances, it is better for the expenses to be claimed by the lower income spouse. However, after the application of the basic personal and dividend tax credits, Mrs. Resso has no Tax Payable, resulting in a situation where she cannot make any use of the medical expense credit. Given this, Mr. Resso should claim the medical expenses, despite the fact that they will be reduced by a larger figure than would have been the case if Mrs. Resso claimed them.

The transfer to Mr. Resso would be calculated as follows:

Credits Available For Transfer:		
Age		$ 7,125
Disability		8,001
Total Available		$15,126
Reduced By Excess Of:		
Mrs. Resso's Net Income	($19,320)	
Over Basic Personal Credit Amount	11,474	(7,846)
Available For Transfer		$7,280

Since Mr. Resso has not applied for OAS, there can be no social benefits repayment. The federal Tax Payable for Mr. Resso would be calculated as follows:

Tax On First $140,388	$ 29,029	
Tax On Next $13,112		
($153,500 - $140,388) At 29 Percent	3,802	$32,831
Tax Credits		
Basic Personal	($11,474)	
Spousal Including FCA (Income Too High)	Nil	
EI	(955)	
Canada Employment	(1,161)	
Age {$7,125 - [(15%)($153,500 - $35,927)]}	Nil	
Pension	(2,000)	
Medical Expenses (Note 2)	(13,763)	
Transfer From Spouse (Preceding Calculation)	(7,280)	
Credit Base	($36,633)	
Rate	15%	(5,495)
Federal Tax Payable		$27,336

Note 2 The allowable medical expenses would be calculated as follows:

Medical Expenses	$16,000
Reduced By The Lesser Of:	
• [(3%)($$153,500)] = $4,605	
• 2016 Threshold Amount = $2,237	(2,237)
Allowable Medical Expenses	$13,763

Part B - Eligibility For Transfer

Mr. Resso's current base for the spousal credit is nil. If Mrs. Resso's dividends are transferred, she would be left with Net Income For Tax Purposes of nil, resulting in Mr. Resso being eligible for the full spousal tax credit. As this is an increase from the previous amount, the transfer is permitted.

Part C

If Mrs. Resso's dividends are transferred to Mr. Resso, their new Taxable Income figures would be calculated as follows:

	Mrs. Resso	**Mr. Resso**
Net Income Before Clawback As Per Part A	$19,320	$153,500
Dividend Transfer	(14,000)	14,000
Gross Up Transfer	(5,320)	5,320
Net And Taxable Income After Dividend Transfer	Nil	$172,820

The transfer to Mr. Resso would be calculated as follows:

Credits Available For Transfer:		
Age		$ 7,125
Disability		8,001
Total Available		$15,126
Reduced By Excess Of:		
Mrs. Resso's Net Income	Nil	
Over Basic Personal Credit Amount	11,474	(Nil)
Available For Transfer		$15,126

With respect to Mr. Resso, his amount owing would be calculated as follows:

Tax On First $140,388	$29,029	
Tax On Next $32,432		
($172,820 - $140,388) At 29 Percent	9,405	$38,434
Tax Credits		
Basic Personal	($11,474)	
Spousal Including FCA	(13,595)	
EI	(955)	
Canada Employment	(1,161)	
Age {$7,125 - [(15%)($153,500 - $35,927)]}	Nil	
Pension	(2,000)	
Medical Expenses (Note 3)	(13,763)	
Transfer From Spouse (Preceding Calculation)	(15,126)	
Credit Base	($58,074)	
Rate	15%	(8,711)
Dividend Tax Credit [(6/11)($5,320)]		(2,902)
Federal Tax Payable		$26,821

Note 3 The allowable medical expenses would be calculated as follows:

Medical Expenses	$16,000
Reduced By The Lesser Of:	
• [(3%)($$172,820)] = $5,185	
• 2016 Threshold Amount = $2,237	(2,237)
Allowable Medical Expenses	$13,763

The use of the ITA 82(3) dividend transfer has decreased Mr. Resso's federal Tax Payable by $515, from $27,336 to $26,821.

Solution to Assignment Problem Eleven - 5

Case One

The regular Tax Payable calculation for Marita Ulman would be as follows:

Net Employment Income	$ 32,000
Net Taxable Capital Gains	206,000
Net Income For Tax Purposes	$238,000
Home Relocation Loan Deduction	(500)
Lifetime Capital Gains Deduction	(206,000)
Taxable Income	$ 31,500
Federal Tax Before Credit [(15%)($31,500)]	$4,725
Basic Personal Credit	(1,721)
Regular Federal Tax Payable	$3,004

The alternative minimum tax calculations are as follows:

Regular Taxable Income	$ 31,500
Home Relocation Loan Benefit	500
30 Percent Of Capital Gains [(30%)(2)($206,000)]	123,600
Adjusted Taxable Income	$155,600
AMT Exemptions	(40,000)
AMT Base	$115,600
Rate	15%
Federal AMT Before Credit	$ 17,340
Basic Personal Credit	(1,721)
Federal AMT	$ 15,619

Since the AMT is larger than the regular federal Tax Payable, it must be paid. The excess AMT over regular tax payable for Marita of $12,615 ($15,619 - $3,004) can be carried forward for 7 years and applied against any future excess of regular Tax Payable over the alternative minimum tax.

Case Two

The regular Tax Payable calculation for Fiona Acevedo would be as follows:

Net Employment Income	$149,000
Eligible Dividends Received	41,000
Gross Up [(38%)($41,000)]	15,580
Taxable Capital Gains	12,000
Net Rental Loss	(17,000)
RRSP Deduction	(32,000)
Net Income For Tax Purposes	$168,580
Stock Option Deduction	(31,500)
Taxable Income	$137,080

Tax On First $90,563	$16,075
Tax On Next $46,517 ($137,080 - $90,563) At 26%	12,094
Tax Before Credits	$28,169
Basic Personal Credit	(1,721)
Dividend Tax Credit [(6/11)($15,580)]	(8,498)
Regular Federal Tax Payable	$ 17,950

The alternative minimum tax calculations are as follows:

Regular Taxable Income	$137,080
Excess Of Interest Charges Deducted Over Net Rental Loss Of $2,000 ($18,000 - $20,000)	15,000
Stock Option Deduction [(3/5)($31,500)]	18,900
30 Percent Of Capital Gains [(2)($12,000)(30%)]	7,200
Dividend Gross Up	(15,580)
Adjusted Taxable Income	$162,600
AMT Exemption	(40,000)
AMT Base	$122,600
Rate	15%
AMT Before Credit	$ 18,390
Basic Personal Credit	(1,721)
Federal AMT	$ 16,669

Since the AMT is less than the regular Tax Payable, the regular Tax Payable is the amount that will be paid.

Solution to Assignment Problem Eleven - 6

Deemed Dispositions Immediately Before Death

Under ITA 70(5), there is a deemed disposition of all of the capital property of a deceased taxpayer (decedent) immediately before the moment of death. In general, the deemed proceeds of disposition will be the fair market value of the property.

There is, however, an exception to this rule provided by ITA 70(6). Under this provision, if the transfer is to a spouse, common-law partner, or a trust in favour of a spouse or common-law partner, the deemed proceeds of disposition will be the tax cost of the property, adjusted cost base for non-depreciable property and UCC for depreciable property.

With respect to this exception, the executor of the decedent's estate can elect out of ITA 70(6) and use the values that would apply in ITA 70(5). This will result in the use of deemed proceeds based on fair market value, thereby resulting in tax consequences which will be reported on the decedent's final tax return. As stated in the problem, Rachelle's will instructs the executor to opt out of the ITA 70(6) spousal rollover provisions.

Any property inherited by her daughter could not be exempt from the usual deemed disposition rules on death as there is no rollover that would be applicable to the assets she has inherited.

Net Business Income

Rachelle's net business income would be calculated as follows:

Net Business Income From Proprietorship	$69,400
Recapture On Sale Of Business Assets (Given)	5,900
Net Business Income	$75,300

Property Income

Rachelle's property income is calculated as follows:

Interest Attributed From Martin (Note 1)	$ 876
Net Rental Income ($46,300 - $31,400)	14,900
Recapture On Rental Property ($210,000 - $174,795)	35,205
Eligible Dividends	860
Gross Up On Eligible Dividends [(38%)($860)]	327
Non-Eligible Dividends	6,200
Gross Up On Non-Eligible Dividends [(17%)($6,200)]	1,054
Total Property Income	$59,422

Note 1 With respect to the interest received by Martin, it was earned on a guaranteed investment certificate given to him by Rachelle and, as a consequence, it would be attributed to her up until the day of her death. As she died 188 days into the year, the attributed amount would be $876 [(188/365)($1,700)]. As attribution from a spouse ceases when the transferor spouse dies, the remaining $824 ($1,700 - $876) would be included in Martin's income. When this is combined with his $2,100 salary, his total income for the year is $2,924. His income for the whole year, not just prior to Rachelle's death, will decrease the spousal credit available on Rachelle's final return.

Net Taxable Capital Gains

Rachelle's net taxable capital gains would be calculated as follows:

Rental Property - Land ($112,000 - $102,000)		$10,000
Rental Property - Building ($243,000 - $210,000)		33,000
RAF Ltd. Shares (Note 2)		Nil
Flax Fittings Inc. Shares ($104,000 - $72,000)		32,000
Principal Residence ($507,000 - $382,600)		124,400
Principal Residence Exemption (100%)		(124,400)
Listed Personal Property:		
Gain On Art ($57,000 - $23,400)	$33,600	
Loss On Jewelry ($32,000 - $8,300)	(23,700)	
Listed Personal Property Carry Forward (Note 3)	(5,400)	4,500
Taxable Capital Gains		$79,500
Inclusion Rate		1/2
Net Taxable Capital Gains		$39,750

Note 2 Donations of publicly traded securities benefit from special rules that make gifting these assets particularly attractive. While a donor can receive a donations tax credit based on the full fair market value of such assets, ITA 38(a.1) deems the capital gain on gifts of publicly traded securities to be nil.

Note 3 The listed personal property loss carry forward decreases the net gain on listed personal property in the calculation of Net Income For Tax Purposes. All of the carry forward amount can be claimed as it is less than the net capital gains on listed personal property for the year.

Net Income For Tax Purposes

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

Net Business Income	$ 75,300
Property Income	59,422
Net Taxable Capital Gains	39,750
Other Income - RRSP (Tax Free Transfer To Spouse)	Nil
CPP Contribution (Maximum)	(2,544)
Net Income For Tax Purposes	$171,928

Taxable Income

Rachelle's Taxable Income would be calculated as follows:

Net Income For Tax Purposes	$171,928
Net Capital Loss Carry Forward (Note 4)	(89,400)
Taxable Income	$ 82,528

Note 4 In the year of death, capital loss carry forwards can be deducted against any type of income, not just capital gains (as long as the lifetime capital gains deduction has not been claimed). As a result, all of the available net loss carry forward can be deducted.

Tax Payable

Rachelle's minimum federal Tax Payable would be calculated as follows:

Tax On First $45,282		$ 6,792
Tax On Remaining $37,246 ($82,528 - $45,282) At 20.5 Percent		7,635
Federal Tax Before Credits		$14,427
Basic Personal Amount	($11,474)	
Spousal ($11,474 - $2,924) (See Note 1)	(8,550)	
CPP (Maximum)	(2,544)	
Credit Base	($22,568)	
Rate	15%	(3,385)
Eligible Dividend Tax Credit [(6/11)(38%)($860)]		(178)
Non-Eligible Dividend Tax Credit [(21/29)(17%)($6,200)]		(763)
Charitable Donation (Note 5)		(8,266)
Federal Tax Payable		$ 1,835

Note 5 As Rachelle's Taxable Income is less than $200,000, the 33 percent tax rate is not relevant to the calculation of her charitable donations tax credit. Given this, the credit is $8,266 [(15%)($200) + (29%)($28,600 - $200)].

Solution to Assignment Problem Eleven - 7

Part A

Lyla's Federal Tax Payable

Lyla's net employment income would be calculated as follows:

Salary	$270,000
Group Disability Plan	Nil
Registered Pension Plan Contributions	(12,450)
Net Employment Income	$257,550

As Lyla has no other sources of income and no deductions for determining Taxable Income, this would also be her Taxable Income. Given this, her Tax Payable would be calculated as follows:

Tax On First $200,000		$ 46,317
Tax On Next $57,550 ($257,550 - $200,000) At 33 Percent		18,992
Tax Before Credits		$65,309
Basic Personal Amount	($11,474)	
Spousal (Income Too High)	Nil	
EI Premiums	(955)	
CPP Contributions	(2,544)	
Canada Employment	(1,161)	
Medical Expenses (Note 1)	(78,763)	
Credit Base For Personal Credits	($94,897)	
Rate	15%	(14,235)
Charitable Donations (Note 2)		(53,025)
Lyla's Federal Tax Payable		Nil

Note 1 The base for the medical expense tax credit, after taking into consideration the 100 percent coverage of Canadian medical expenses, would be calculated as follows:

Total Expenses ($70,200 + $10,800 + $4,800 - $4,800)	$81,000
Lesser Of:	
[(3%)($257,550)] = $7,727	
2016 Limit = $2,237	(2,237)
Credit Base	$78,763

You should note that given the fact that a doctor has indicated the required treatment was not available in a reasonable period of time, the travel costs associated with the surgery would be included in the base for the medical expense tax credit.

Note 2 The charitable donations tax credit would be calculated as follows:

15 Percent Of $200	$ 30
33 Percent Of The Lesser Of:	
$175,000 - $200 = $174,800	
$257,550 - $200,000 = $57,550	18,992
29 Percent Of $117,250 [$175,000 - ($200 + $57,550)]	34,003
Total Credit	$53,025

Clark's Federal Tax Payable

Clark's property income would be calculated as follows:

Interest	$ 28,600
Eligible Dividends	136,000
Eligible Dividends Gross Up [(38%)($136,000)]	51,680
Net Taxable Capital Gains	77,000
Mortgage Interest*	(12,000)
Total Property Income	$281,280

*As the direct use of the mortgage funds was for investments, the interest is deductible against investment income.

As Clark has no other sources of income and no deductions for determining Taxable Income, this would also be his Taxable Income Figure. Given this, his Tax Payable would be calculated as follows:

Tax On First $200,000		$ 46,317
Tax On Next $81,280 ($281,280 - $200,000) At 33 Percent		26,822
Tax Before Credits		$73,139
Basic Personal Amount	($11,474)	
Spousal (Income Too High)	Nil	
Credit Base For Personal Credits	($11,474)	
Rate	15%	(1,721)
Dividend Tax Credit [(6/11)(38%)($136,000)]		(28,189)
Clark's Federal Tax Payable		$43,229

Combined Federal Tax Payable

The couple's combined Tax Payable, assuming the Lyla claims all of the medical expenses and charitable donations, would be as follows:

Lyla's Federal Tax Payable	Nil
Clark's Federal Tax Payable	$43,229
Combined Federal Tax Payable	$43,229

Part B

Lyla's Federal Tax Payable

If Lyla did not claim the medical expenses and charitable donation amounts, her Taxable Income would be unchanged from Part A. Based on this, her federal Tax Payable would be calculated as follows:

Tax On First $200,000		$ 46,317
Tax On Next $57,550 ($257,550 - $200,000) At 33 Percent		18,992
Tax Before Credits		$65,309
Basic Personal Amount	($11,474)	
Spousal (Income Too High)	Nil	
EI Premiums	(955)	
CPP Contributions	(2,544)	
Canada Employment	(1,161)	
Credit Base For Personal Credits	($16,134)	
Rate	15%	(2,420)
Lyla's Federal Tax Payable		$ 62,889

Clark's Federal Tax Payable

If Clark claims the medical and charitable donations amounts, his Taxable Income would be unchanged from Part A. Based on this, his federal Tax Payable would be calculated as follows:

Tax On First $200,000		$ 46,317
Tax On Next $81,280 ($281,280 - $200,000) At 33 Percent		26,822
Tax Before Credits		$73,139
Basic Personal Amount	($11,474)	
Spousal (Income Too High)	Nil	
Medical Expense Tax Credit (Note 3)	(78,763)	
Credit Base For Personal Credits	($90,237)	
Rate	15%	(13,536)
Dividend Tax Credit [(6/11)(38%)($136,000)]		(28,189)
Charitable Donations Tax Credit (Note 4)		(53,973)
Clark's Federal Tax Payable		Nil

Note 3 The base for this credit would not be changed from Part A when Lyla claimed the expenses. The calculation is as follows:

Total Expenses ($70,200 + $10,800+ $4,800 - $4,800)	$81,000
Lesser Of:	
[(3%)($281,280)] = $8,438	
2016 Limit = $2,237	(2,237)
Credit Base	$78,763

Note 4 Clark's charitable donations tax credit would be calculated as follows:

15 Percent Of $200	$ 30
33 Percent Of The Lesser Of:	
$175,000 - $200 = $174,800	
$281,280 - $200,000 = $81,280	26,822
29 Percent Of $93,520 [$175,000 - ($200 + $81,280)]	27,121
Total Credit	$53,973

Combined Federal Tax Payable

The couple's combined Tax Payable, assuming that Clark claims all of the medical expenses and charitable donations, would be as follows:

Lyla's Federal Tax Payable	$62,889
Clark's Federal Tax Payable	Nil
Combined Federal Tax Payable	$62,889

Part C

The combined federal Tax Payable in Part B is $19,660 ($62,889 - $43,229) higher than in Part A. This is despite the fact that Clark's charitable donation credit is $948 ($53,973 - $53,025) larger than Lyla's.

The difference is due to unused credits. In Part A, $1,951 in credits available to Lyla are not used. In Part B, $22,559 in credits available to Clark are not used.

In looking to reduce combined Tax Payable, three things should be noted:

- While the value of the medical expense tax credit is the same without regard to who claims it, it would be better for Lyla to make the claim as it would not leave any unused credits for her.
- With respect to the charitable donations credit, as Clark has the highest Taxable Income, a larger amount of the donation is eligible for a credit based on 33 percent.
- When the entire donation is claimed by either individual, a significant part of the claim results in a credit based on the 29 percent rate, $117,250 when Lyla claims the entire amount, and $93,520 when Clark claims the entire amount.

This would suggest that Lyla should claim all of the medical expenses and $57,750 of the donations. Based on this, her federal Tax Payable would be as follows:

Tax On First $200,000		$46,317
Tax On Next $57,550 ($257,550 - $200,000) At 33 Percent		18,992
Tax Before Credits		$65,309
Basic Personal Amount	($11,474)	
Spousal (Income Too High)	Nil	
EI Premiums	(955)	
CPP Contributions	(2,544)	
Canada Employment	(1,161)	
Medical Expenses (As In Part A and B)	(78,763)	
Credit Base For Personal Credits	($94,897)	
Rate	15%	(14,235)
Charitable Donations (Note 5)		(19,022)
Lyla's Federal Tax Payable		$32,052

Note 5 The charitable donations tax credit would be calculated as follows:

15 Percent Of $200	$ 30
33 Percent Of The Lesser Of:	
$57,750 - $200 = $57,550	
$257,550 - $200,000 = $57,550	18,992
29 Percent Of Nil [$57,750 - ($200 + $57,550)]	Nil
Total Credit	$19,022

This would leave $117,250 ($175,000 - $57,750) of the donations to be claimed by Clark. Based on this, his federal Tax Payable would be calculated as follows:

Tax On First $200,000		$ 46,317
Tax On Next $81,280 ($281,280 - $200,000) At 33 Percent		26,822
Tax Before Credits		$73,139
Basic Personal Amount	($11,474)	
Spousal (Income Too High)	Nil	
Credit Base For Personal Credits	($11,474)	
Rate	15%	(1,721)
Dividend Tax Credit [(6/11)(38%)($136,000)]		(28,189)
Charitable Donations Tax Credit (Note 6)		(37,225)
Clark's Federal Tax Payable		$ 6,004

Note 6 Clark's charitable donations tax credit would be calculated as follows:

15 Percent Of $200	$ 30
33 Percent Of The Lesser Of:	
$117,250 - $200 = $117,050	
$281,280 - $200,000 = $81,280	26,822
29 Percent Of $35,770 [$117,250 - ($200 + $81,280)]	10,373
Total Credit	$37,225

Combined Federal Tax Payable

The couple's combined Tax Payable, for all three parts, would be as follows:

	Part A	**Part B**	**Part C**
Lyla's Federal Tax Payable	Nil	$62,889	$32,052
Clark's Federal Tax Payable	$43,229	Nil	6,004
Combined Federal Tax Payable	$43,229	$62,889	$38,056

The combined federal Tax Payable in Part C is less than that for Part A and a significant improvement over the combined federal Tax Payable in Part B.

While we do not have sufficient information to pursue this alternative, a still better result might be achieved if part of the donations were carried over to a subsequent year. Even under the improved solution in Part C, the credit related to $35,770 of the donation was calculated at 29 percent. If Lyla and Clark expect to have Taxable Income amounts in excess of the 33 percent threshold and they do not expect to make large donations in the future, any carry forward amount could result in a credit based on 33 percent rather than the 29 percent applicable for 2016.

Tax Planning Note

Although it is not required by the problem, it could be tax advantageous for Clark to donate public company shares from his portfolio rather than cash. If he has public company shares whose adjusted cost base is less than their fair market value at the time of donation, he would be able to reduce his present and/or future tax liability.

Solution to Assignment Problem Eleven - 8

Part A - Jihoon's Results

Net Income For Tax Purposes

Note, because Jihoon's income is subject to the tax on split income, the income attribution rules are not applicable. Given this, Jihoon Son's Net Income For Tax Purposes would be calculated as follows:

Dividends Received	$20,000
Gross Up [(17%)($20,000)]	3,400
ITA 20(1)(ww) Deduction For Split Income	(23,400)
Universal Child Care Benefits Received By Jimon	360
Net Income For Tax Purposes	$ 360

Taxable Income

As he has no Taxable Income deductions, Jihoon's Taxable Income would also be $360.

Tax Payable

As his Taxable Income is only $360, his personal credit would reduce his regular Tax Payable to nil. However, he would have a tax on his split income, calculated as follows:

Split Income	$23,400
Rate	33%
Tax Before Credit	$ 7,722
Dividend Tax Credit [(21/29)(17%)($20,000)]	(2,462)
Tax Payable On Split Income	$5,260

As his regular Tax Payable is nil, his total Tax Payable would be $5,260.

Part B - Jimon's Results

Net Income For Tax Purposes

Ms. Son's Net Income For Tax Purposes would be calculated as follows:

Net Employment Income (Salary - Musical Notes Inc.)	$150,000
Property Income (Note 1)	110,700
Net Taxable Capital Gains (Note 2)	386,900
Child Care Expenses (Note 6)	(3,500)
RRSP Deduction (Given)	(9,500)
Net Income For Tax Purposes	$634,600

Note 1 Ms. Son's property income would be calculated as follows:

Non-Eligible Dividend On Son Enterprises Shares	$ 60,000
Gross Up [(17%)($60,000)]	10,200
Interest Income From South Korean Bank Account (100%)	500
Royalties	40,000
Property Income	$110,700

Note 2 Ms. Son's net taxable capital gains would be calculated as follows:

Gain On Musical Notes Inc. Shares ($575,000 - $100)	$574,900
Listed Personal Property Gain On Painting ($50,000 Minus The Lesser Of $200 And $1,000 Floor)	49,000
Listed Personal Property Loss Carry Forward (Note 3)	(500)
Sale Of Vacant Land (Note 4)	150,000
Net Foreign Currency Gain ($700 - $100)	600
Foreign Currency Exemption For Individuals	(200)
Loss On Music Collection (Note 5)	Nil
Net Capital Gains	$773,800
Inclusion Rate	1/2
Net Taxable Capital Gain	$386,900

Note 3 Under ITA 41(2) the net gain on listed personal property is defined as the gains for the current year, reduced by the carry over amounts from the 7 preceding years or the 3 subsequent years. Ms. Son had a listed personal property loss carry forward of $500, which is deducted against her listed personal property gain on the painting that was sold. Note that the listed property loss carry forward is deducted in the calculation of net taxable capital gains for inclusion in Net Income For Tax Purposes, not in the calculation of Taxable Income.

Note 4 Since Jimin had made a small profit annually on renting the land, the property taxes must have been deducted each year and would have no effect on the calculation of the capital gain. The gain would be $150,000 ($175,000 - $25,000).

Note 5 The fair market value of the music collection donated to the university is less than Jimin's adjusted cost base. However, since this is personal use property, the loss is not deductible.

Note 6 Child care expenses cannot be deducted for a child with net income in excess of the basic personal credit ($11,474 for 2016). However, since split income is deducted in the determination of Net Income For Tax Purposes, Jihoon's only Net Income For Tax Purposes is $360, significantly less than this threshold amount.

Taxable Income

Ms. Son's Taxable Income would be calculated as follows:

Net Income For Tax Purposes	$634,600
Less: Lifetime Capital Gains Deduction (Note 7)	(267,450)
Less: Net Capital Loss Carry Forward	(2,000)
Taxable Income	$365,150

Note 7 The maximum lifetime capital gains deduction would be $267,450 calculated as the least of the following amounts:

Capital Gains Deduction Available = $312,088

Maximum Lifetime Limit On Shares [(1/2)($824,176*)]	$412,088
Less: Used In Previous Year [(1/2)($200,000)]	(100,000)
Capital Gains Deduction Available	$312,088

*This is the limit for gains on dispositions of shares of a qualified small business corporation for 2016. For gains on qualified farm or fishing property, the 2016 limit would be $1,000,000.

Annual Gains Limit = $287,450
This limit is equal to A - B, where

A = $287,450
The lesser of the net taxable capital gains (see Note 2) on:

- All Capital Assets = $386,900
- Qualifying Property [(1/2)($574,900)] = $287,450

B = Nil
The total of:

- The amount, if any, by which net capital loss carry overs deducted for the year under ITA 111(1)(b), exceeds the excess of net taxable capital gains for the year [ITA 3(b)] over the amount determined in Part A of this formula. This amount is nil [$2,000 – ($386,900 - $287,450)]; and

- Allowable Business Investment Losses realized during the current year. This amount is also nil.

This provides an annual gains limit of $287,450 ($287,450 - Nil).

Cumulative Gains Limit = $267,450

Annual Gains Limit From Previous Years	$100,000
Current Year Annual Gains Limit	287,450
Less: Previous Lifetime Capital Gains Deduction	(100,000)
Less: CNIL (Given - See Note 8)	(20,000)
Cumulative Gains Limit	$ 267,450

Note 8 Note that if Ms. Son had paid herself sufficient dividends, rather than salary, she could have eliminated her CNIL and increased her lifetime capital gains deduction by $20,000.

Tax Payable

Ms. Son's regular Tax Payable would be determined as follows:

Tax On First $200,000		$ 46,317
Tax on Next $165,150 ($365,150 - $200,000) at 33%		54,500
Tax Before Credits		$100,817
Tax Credits:		
Basic Personal	($11,474)	
Eligible Dependant ($11,474 - $360)	(11,114)	
CPP	(2,544)	
Canada Employment Credit	(1,161)	
Children's Arts Credit ($250 Maximum)	(250)	
Medical Expenses (Note 9)	(17,763)	
Total Credit Base	($44,306)	
Rate	15%	(6,646)
Charitable Donation Credit (Note 10)		(5,739)
Foreign Tax Credit (Note 11)		(50)
Non-Eligible Dividend Tax Credit [(21/29)(17%)($60,000)]		(7,386)
Tax Payable Before Refundable Credits		$ 80,996
Refundable Child Fitness Credit [(15%)($200)]		(30)
Federal Tax Payable - Regular		$ 80,966

Note 9 The base for Ms. Son's medical expense credit can be calculated as follows:

Eligible Medical Expenses – Jihoon Son	$20,000
Reduced By The Lesser Of:	
• [(3%)($634,600)] = $19,038	
• 2016 Threshold Amount = $2,237	(2,237)
Total Credit Base	$17,763

Note 10 The maximum charitable donation receipt she can receive is for $17,500, the fair market value of the collection donated to the university as it is less than Jimin's adjusted cost base. The First-Time Donor's Super Credit (FDSC) is limited to cash donations, so non-cash donations that qualify for the regular charitable donations tax credit would not qualify for the FDSC. Using this as the base, Jimon's charitable donations tax credit would be calculated as follows:

15 Percent Of $200	$ 30
33 Percent Of The Lesser Of:	
$17,500 - $200 = $17,300	
$365,150 - $200,000 = $165,150	5,709
29 Percent Of [$17,500 - ($200 + $17,300)]	Nil
Total Credit	$5,739

Note 11 Ms. Son's Adjusted Division B Income would be calculated as follows:

Net Income For Tax Purposes	$634,600
Lifetime Capital Gains Deduction Taken	(267,450)
Capital Loss Carry Forward Deducted	(2,000)
Adjusted Division B Income (= Taxable Income)	$365,150

Her Tax Otherwise Payable would be calculated as follows:

Tax Before Credits	$100,817
Personal Credits	(6,683)
Charitable Donation Credit	(5,739)
Refundable Child Fitness Credit	(30)
Tax Otherwise Payable	$ 88,365

Since the foreign non-business tax withheld is less than 15 percent of the foreign income, Ms. Son's credit for foreign tax paid would be the lesser of the foreign tax withheld of $50 and an amount determined by the following formula:

[(Foreign Non-Business Income ÷ Adjusted Division B Income)(Tax Otherwise Payable)]
= [($500 ÷ $365,150)($88,365)] = $121

As the amount withheld is the lesser of the two figures, her foreign tax credit is $50.

Alternative Minimum Tax Payable

Ms. Son's Adjusted Taxable Income for alternative minimum tax purposes would be calculated as follows:

Regular Taxable Income	$365,150
30 Percent Of Net Capital Gains [(30%)(2)($386,900)]	232,140
Dividend Gross Up [(17%)($60,000)]	(10,200)
Adjusted Taxable Income (For AMT)	$587,090

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

Adjusted Taxable Income	$587,090
Basic Exemption	(40,000)
Amount Subject To Tax	$547,090
Rate	15%
Minimum Tax Before Credits	$ 82,064
Personal Credits	(6,683)
Charitable Donation Credit	(5,739)
Refundable Child Fitness Credit	(30)
Alternative Minimum Tax Payable	$ 69,612

As the alternative minimum tax payable is less than the regular tax payable, the regular amount would be paid.

Part C

Ms. Son – RRSP, TFSA and cash flow considerations

Ms. Son has asked you to consider whether she should use her TFSA or her RRSP funds if she needs cash in the next few years as her jazz quartet develops a following and becomes a significant source of income for her.

If the condo Ms. Son is planning to buy will be her principal residence, she will be eligible to withdraw funds from her RRSP under the Home Buyers' Plan. Since the maximum withdrawal available under this Plan is $25,000, that may not prove adequate for all her cash needs.

It would be best for her to use her TFSA funds next should she need access to additional cash or if she does not qualify for the Home Buyers' Plan. Withdrawing money from her TFSA will not result in any additional tax cost to Jimin. In addition, she will be able to return funds to her TFSA in the future, which will not be possible if funds are withdrawn from her RRSP other than through the Home Buyers' Plan.

With respect to withdrawing money from her RRSP other than through the Home Buyers' Plan, it is possible to do so, but not recommended. These withdrawals from an RRSP account will be taxed in the year of withdrawal. Also, this type of RRSP withdrawal does not result in an increase in the ability to make future contributions, so it would result in a permanent reduction in the amount of money that Ms. Son could save for her retirement in a tax deferred savings arrangement.

Solution to Assignment Problem Eleven - 9

Part A

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

Salary	$71,500
RPP Contributions	(3,100)
Housing Benefit (12 Months At $2,500)	30,000
Less: Rents Paid	(18,000)
Director's Fees	1,300
Performance Award	3,600
Automobile Benefit:	
Standby Charge [(2%)(12)($42,000)(4,000 ÷ 20,004*)]	2,016
Operating Cost: Lesser Of:	
• [(1/2)($2,016)] = $1,008	
• [(0.26)(4,000)] = $1,040	1,008
Stock Option Benefits [(500)($9 - $5)]	2,000
Net Employment Income	$90,324

* [(12)(1,667)]

Part B

Since Mr. Kim's son is over 17 years of age, the eligible dividends are not attributed to Mr. Kim. Mr. Kim's income from property would be calculated as follows:

Royalties On Patent	$29,400
Interest On Bonds	960
Income From Property	$30,360

Part C

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

Listed Personal Property:			
Proceeds From Necklace	$1,100		
Deemed Cost ($1,000 Floor)	(1,000)	$ 100	
Proceeds From Painting	$3,800		
Cost	(5,100)	(1,300)	Nil
Personal Use Property:			
Graphic Novel Collection		Nil	
Proceeds From Assault Rifles		$8,000	
Cost		(6,200)	
Capital Gain		$1,800	
Inclusion Rate		1/2	$900
Net Taxable Capital Gains			$900

See Part G for Listed Personal Property loss carry forward. The loss on the graphic novel collection of $1,500 ($1,000 Floor - $2,500) is not deductible as it is personal use property.

Part D

The TFSA withdrawal and contribution have no effect on Net Income For Tax Purposes. Mr. Kim's Net Income For Tax Purposes would be calculated as follows:

Employment Income	$ 90,324
Income From Property	30,360
Taxable Capital Gain	900
Spousal RRSP Contribution (Actual - See Note)	(4,200)
Net Income For Tax Purposes	$117,384

Note As you are asked to assume that Mr. Kim's RRSP Earned Income for 2015 is equal to his Earned Income for 2016, this figure would be calculated as follows:

Net Employment Income	$90,324
RPP Deduction	3,100
2016 RRSP Earned Income	$93,424

Given this, his RRSP deduction room for 2016 would be calculated as follows:

January 1, 2016 Unused Deduction Room	Nil
2016 Addition - Lesser Of	
2016 Limit = $25,370	
[(18%)($93,424)] = $16,816	$16,816
2015 PA [(2)($3,100)]	(6,200)
Maximum 2016 Deduction Room	$10,616

While Mr. Kim's deduction room is $10,616, his actual deduction is limited by the fact that his spousal contribution during 2016 is only $4,200.

Part E

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

Net Income For Tax Purposes	$117,384
Stock Option Deduction [(1/2)($2,000)]	(1,000)
Taxable Income	$116,384

Part F

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

Federal Tax On First $90,563		$16,075
Federal Tax On Next $25,821 ($116,384 - $90,563) At 26 Percent		6,713
Gross Federal Tax		$22,788
Tax Credits:		
Basic Personal Amount	($11,474)	
Spousal ($11,474 - $3,400)	(8,074)	
CPP	(2,544)	
EI	(955)	
Canada Employment	(1,161)	
Transfer Of Son's Tuition, Education And Textbook - Lesser Of (See Note):		
• $5,000		
• [$4,500 + (4)($400) + (4)($65)] = $6,360	(5,000)	
Credit Base	($29,208)	
Rate	15%	(4,381)
Federal Tax Payable		$18,407

Note As his son's income of $6,336 [$3,300 + (138%)($2,200)] is below the basic personal amount, he will have no Tax Payable and he will be able to transfer the maximum $5,000 amount. Since his son is over 15, there is no child fitness credit available. There is no caregiver credit for Mr. Kim's father because he is not a resident of Canada.

Part G

Mr. Kim would have a listed personal property loss carry over of $1,200 [(1/2)($100 - $1,300)]. This unused loss can be carried back three years and forward for seven years, but it can only be deducted against net taxable capital gains on listed personal property.

Mr. Kim's son has unused education related amounts of $1,360 ($6,360 - $5,000). He can carry them forward and deduct them in any future year.

Part H

Since Mr. Kim's son is 19, in 2016 he can contribute up to $15,500 ($10,000 for 2015 + $5,500 for 2016) into a TFSA. As there is no information on his prior employment income, it is not possible to calculate his RRSP deduction room for 2016, but given his $3,300 employment income, he can contribute at least $594 [(18%)($3,300)] in 2016.

Since he currently has a portfolio of public company shares, it would be advisable that he sell some of those shares to contribute the maximum each year to a TFSA and an RRSP where the earnings can accumulate tax free.

Although the shares could be transferred, with the low transaction costs available, transferring shares directly has minimal advantages and possible disadvantages since any gains are taxable and any losses are non-deductible.

He should not deduct the RRSP contributions unless doing so will enable him to transfer more of his education related credits to his father (if that is still the agreement) or he has tax payable.

Solution to Assignment Problem Eleven - 10

Part A - Adam's Federal Tax Payable

Adam's Employment Income

Adam's net employment income would be calculated as follows:

Salary	$350,000
Additions:	
Travel Allowances (Note 1)	
Hotels And Food	Nil
Use Of Personal Automobile	15,600
Stock Option Benefit [(1,000)($28 - $25)]	3,000
Deductions:	
Hotels And Food (Note 1)	Nil
Automobile Costs (Note 2)	(14,805)
RPP Contributions	(12,300)
Net Employment Income	$341,495

Note 1 Given his actual costs, the allowance for hotels and food seems reasonable. This means it does not have to be included in income. However, this will prevent Adam from deducting his actual costs. With respect to the allowance for personal use of his automobile, it is not based on kilometers driven and this means it cannot be considered "reasonable". It must be included in income.

Note 2 His deductible automobile costs would be calculated as follows:

Operating Costs Paid	$11,300
CCA On Class 10.1 [(1/2)(30%)($30,000)]	4,500
Total Automobile Costs	$15,800
Employment Related Percentage (59,000 ÷ 63,000)	93.7%
Total Deductible Costs	$14,805

The luxury car rules limit the capital cost of the car to $30,000 for vehicles purchased during 2016.

Adam's Net And Taxable Income

Adam's Net Income For Tax Purposes and Taxable Income can be calculated as follows:

Net Employment Income	$ 341,495
Taxable Capital Gains On Donation (Note 3)	57,500
Recapture On Donation (Note 3)	30,141
Net Income For Tax Purposes	$429,136
Stock Option Deduction [(1/2)($3,000)]	(1,500)
Taxable Income - Adam	$427,636

Note 3 The taxable capital gains realized on Adam's donation to the Red Cross would be calculated as follows:

	Land	Building
Proceeds Of Disposition	$75,000	$250,000
Adjusted Cost Base/Capital Cost	(60,000)	(150,000)
Capital Gain	$15,000	$100,000
Inclusion Rate	1/2	1/2
Taxable Capital Gains	$ 7,500	$ 50,000

The recapture on this donation would be calculated as follows:

Capital Cost Of Building	$150,000
January 1, 2016 UCC	(119,859)
Recapture	$ 30,141

Adam's Tax Payable

Since Estelle's Net Income will be higher than the income threshold for medical expenses of $74,567 ($2,237 ÷ 3%), it makes no difference to the family's tax liability who claims the credits either spouse can claim. As a result, as stated in the problem, Adam will claim these credits. Adam's federal Tax Payable would be calculated as follows:

Tax On First $200,000		$ 46,317
Tax On Next $227,636 ($427,636 - $200,000) At 33 Percent		75,120
Tax Before Credits		$121,437
Personal Non-Refundable Credits:		
Basic Personal Amount	($11,474)	
Spousal (Income Too High)	Nil	
Volunteer Firefighters	(3,000)	
Children's Arts Credit ($250 Maximum)	(250)	
Public Transit Pass (Given)	(2,400)	
Transfer Of Portia's Education Related Amounts (Note 4)	(5,000)	
Caregiver For Jack (Includes FCA)	(6,788)	
Medical Expenses (Note 5)	(4,624)	
EI Premiums	(955)	
CPP Contributions	(2,544)	
Canada Employment	(1,161)	
Credit Base For Personal Credits	($38,196)	
Rate	15%	(5,729)
Charitable Donations (Note 6)		(103,328)
Federal Tax Payable - Adam		$ 12,380

Note 4 Portia's available education related amounts would be calculated as follows:

Tuition	$3,900
Education [(4)($400)]	1,600
Textbook [(4)($65)]	260
Total	$5,760

The amount of the transfer is the $5,000 maximum as it is less than the total amount available of $5,760. Portia would have an education related amount of $760 to carry forward for her own use.

Note 5 The base amount for medical expenses would be calculated as follows:

Adam, Estelle, And Portia ($1,350 + $360 + $820 + $500)		$3,030
Reduced By The Lesser Of:		
• [(3%)($429,136)] = $12,874		
• 2016 Threshold Amount = $2,237		(2,237)
Jack's Medical Expenses	$4,200	
Reduced By The Lesser Of:		
• [(3%)($12,300)] = $369		
• $2,237	(369)	3,831
Allowable Medical Costs		$4,624

The fees for teeth whitening and breast enhancement would be considered cosmetic and would not be allowable medical costs.

Note 6 The maximum charitable donation that Adam can use in the current year is calculated as follows:

Net Income [(75%)($429,136)]	$321,852
Taxable Capital Gains [(25%)($57,500)]	14,375
Recapture [(25%)($30,141)]	7,535
Limit	$343,762

Since the limit is greater than the amount of the tax receipt, the entire $325,000 can be used in the following calculation.

15 Percent Of $200	$ 30
33 Percent Of The Lesser Of:	
$325,000 - $200 = $324,800	
$427,636 - $200,000 = $227,636	75,120
29 Percent Of $97,164 [$325,000 - ($200 + $227,636)]	28,178
Charitable Donation Credit	$103,328

Adam might consider carrying forward some portion of the charitable donation, up to $97,164, if he is confident that he will have Taxable Income that will be taxed at 33 percent in the subsequent year. The credit would be 4 percentage points larger if the credit is calculated at 33 percent rather than 29 percent. However, he would pay more taxes in the current year in order to do this.

Part B - Estelle's Federal Tax Payable

Estelle's Net And Taxable Income

Estelle's Net Income For Tax Purposes and Taxable Income would be calculated as follows:

Universal Child Care Benefits		$ 360
Non-Eligible Dividends		32,000
Gross Up [(17%)($32,000)]		5,440
Taxable Capital Gain On GHI Shares [(1/2)($302,000)]	$151,000	
Allowable Capital Loss On JKL Shares (Note 7) [(1/2)($20,000)]	(10,000)	141,000
Net Income For Tax Purposes		$178,800
Net Capital Loss Carry Forward		(15,000)
Lifetime Capital Gains Deduction (Note 8)		(96,088)
Taxable Income - Estelle		$ 67,712

Note 7 Normally, the loss on the JKL shares would be classified as a business investment loss (BIL) and be deductible against any source of income. However, BILs are disallowed to the extent of previous use of the lifetime capital gains deduction. When disallowed, they become a regular capital loss that can only be deducted against capital gains.

Note 8 The lifetime capital gains deduction would be the least of the following three amounts:

Beginning Amount For 2016 [(1/2)($824,176*)]	$412,088
Amounts Used:	
[(1/2)($500,000 - $275,000)]	(112,500)
[(1/2)($623,000 - $216,000)]	(203,500)
Amount Available	$ 96,088

*This is the limit for gains on dispositions of shares of a qualified small business corporation for 2016. For gains on qualified farm or fishing property, the 2016 limit would be $1,000,000.

Lesser Of:	
• Net Taxable Capital Gains = $141,000	
• Net Taxable Capital Gains On Qualified Property = $151,000	$141,000
Net Capital Loss Carry Forward Deducted	(15,000)
Annual Gains Limit	$ 126,000

Sum Of Annual Gains Limits ($112,500+ $203,500 + $126,000)	$442,000
Amounts Deducted In Previous Years ($112,500 + $203,500)	(316,000)
Cumulative Gains Limit	$126,000

The least of these amounts is $96,088, the amount available.

Estelle's Tax Payable

Tax On First $45,282	$ 6,792
Tax On Next $22,430 ($67,712 - $45,282) At 20.5 Percent	4,598
Tax Before Credits	$11,390
Basic Personal Credit [(15%)($11,474)]	(1,721)
Dividend Tax Credit [(21/29)(17%)($32,000)]	(3,939)
Federal Tax Payable - Estelle	$ 5,730

Because of her extensive use of the lifetime capital gains deduction, it is necessary to calculate her alternative minimum tax:

Regular Taxable Income	$ 67,712
30 Percent Of Net Capital Gains [(30%)(2)($141,000)]	84,600
Dividend Gross Up	(5,440)
30 Percent Of Net Capital Loss Carry Forward [(30%)(2)($15,000)]	(9,000)
Adjusted Taxable Income	$137,872
AMT Exemptions	(40,000)
AMT Base	$ 97,872
Rate	15%
Federal AMT Before Credit	$ 14,681
Basic Personal Credit	(1,721)
Estelle's Federal AMT	$ 12,960

Estelle's Tax Payable would be the AMT amount of $12,960 as it is larger than her regular Tax Payable.

Estelle would have an excess of AMT over regular Tax Payable claimed of $7,230 ($12,960 - $5,730). This excess can be carried forward for up to 7 years to be applied against any future excess of regular Tax Payable over the alternative minimum tax. Note that with the amount of the ITA 110.6 deduction claimed in the past, it is probable that Estelle already has an AMT amount carry forward, but no information on this is provided in the problem.

Solution to Problem Tax Software Eleven - 1

This problem and solution contain 2015 (not 2016) information as software for 2016 is not yet available. Shortly after the first filing version of the 2016 Intuit ProFile software is available in January, 2017, the updated 2016 version of this problem will be available on the textbook web site at:

www.pearsoncanada.ca/byrdchen/ctp2017

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catalogue.pearsoned.ca

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Notes To Tax Return

- When the Universal Child Care Benefits are input on Buddy's Form RC62, the amounts will be transferred to show on S2 as Natasha's income.
- Mr. Musician can claim the caregiver tax credit for both his father and mother. He can claim the full amount because neither has income in excess of the threshold. Eunice's caregiver tax credit includes the family caregiver amount. Earl's caregiver tax credit does not as he is not disabled.
- The ITA 118(1)(d) infirm dependant over 17 tax credit is only available for dependants who have attained the age of 18 by the end of the year and are dependent because of mental or physical infirmity. The only dependant of Mr. Musician who satisfies these criteria is his mother. However, since he is claiming the caregiver tax credit for her, he cannot claim this credit for her.
- Mr. Musician's mother's unused disability tax credit can be transferred to him. If she filed a tax return, her age credit would eliminate any Tax Payable.
- The medical expense rules require that the medical expense payments be paid in respect of medical services provided to persons who are dependants of Buddy within the meaning of ITA 118(6). ITA 118(6) requires that the persons be dependent on Buddy at some point during the year for support and that they are his children. Since it is stated in the problem that the children of Ms. Nurse and Mr. Musician are not dependent on him for support, Megan's medical expenses cannot be claimed by him.
- An individual can claim a tax credit based on the medical expenses of a spouse and any other individual who meets the ITA 118(6) definition of a dependant. The medical expenses of Lori Musician ($300) and Dolly Nurse ($675) would not be eligible as neither woman is his spouse or common-law partner.
- Although the spousal support can be deducted, the child support payments cannot be deducted.
- The transfer of education related amounts is limited to $5,000 per child. For Richard, the total of $4,860 [$3,000 + (4)($400) + (4)($65)] is within this limit. Sarah has available amounts of $15,180 [$9,600 + (12)($400) + (12)($65)], well over the limit. Given this, the maximum transfer for Sarah is $5,000. However, the $10,180 excess can be carried forward indefinitely to be used against her future Tax Payable.
- Mr. Musician's age credit is nil as his Net Income For Tax Purposes is higher than the income threshold.
- Mr. Musician is not eligible for the refundable medical expense supplement or the working income tax benefit as his Net Income For Tax Purposes is too high.
- The Industry Code must be chosen from the list near the top right corner of the T2125. The appropriate choice is 711130, "Musical Groups and Artists".
- The royalties are received from Buddy's work as a composer. As a result, they are entered as professional income on the T2125. His rent of $1,400 (2 months) and CCA on his piano are deducted on the T 2125.

Although he would have to be a GST registrant given his level of self-employed income, the problem states that GST/HST implications should be ignored.

- There is no tax effect from the TFSA contribution or the growth in value in his TFSA account.
- There is no CPP payable on Mr. Musician's self-employed income as he has elected to stop contributing to the CPP on Schedule 8. The election to stop CPP contributions on his employment income must be filed with his employer.

Tax Planning Points

- Richard, Sarah, Eunice, and Earl should all file tax returns in order to receive the GST credit. Filing a tax return will also make the unused education related tax credits of Richard and Sarah easier to keep track of for carry forward purposes. Sarah, Eunice, and Earl will need to have a Social Insurance Number to file returns.
- Buddy has paid the dental expenses for Ms. Nurse and Megan Nurse, but cannot claim them as Ms. Nurse is not a spouse and Megan is not a dependant of Buddy's. Ms. Nurse cannot claim the dental expenses as she has not paid for them. If there is an agreement between Buddy and Ms. Nurse that requires him to pay her and their children's dental and medical expenses, or he chooses to pay these costs for other reasons, it would be better from a tax point of view if Buddy gave Ms. Nurse the funds to pay the medical expenses rather than pay them personally. That way Ms. Nurse could claim the expenses that he cannot.
- Since Buddy cannot deduct Lori Musician's medical expenses either, it would be better from a tax point of view if he gave Lori the funds to pay her own expenses so that she can claim them.
- Pension income splitting could be advantageous for Mr. Musician if he had eligible pension income. Although it is available on annuity payments out of an RRSP, it is not available on non-annuity withdrawals such as he made. If he thinks he will require funds from his RRSP on a regular basis before he turns 71, he could set up an annuity in his RRSP in order to take advantage of the pension income tax credit and pension income splitting. Alternatively, he could transfer some or all of his RRSP funds into a RRIF. Any withdrawals from the RRIF would be eligible for both the pension income credit and pension splitting.
- Mr. Musician could apply to split his CPP pension income with his wife.
- Mr. Musician should analyze whether any future funds needed should be withdrawn tax free from his TFSA or on a taxable basis from his RRSP (as he has already done this year). Since he can replace funds withdrawn from a TFSA in the following year, tax free TFSA withdrawals would appear to be the more advantageous alternative.
- Mr. Musician should consider contributing to a spousal RRSP in the future. Although he will not be able to contribute to his own RRSP after he turns 71, he can contribute to an RRSP in the name of his wife until she is 71 (should he live so long).
- Mr. Musician should also consider RESPs for his minor children and TFSAs for his wife and Sarah. The decision as to whether he should contribute to a spousal RRSP, RESPs or TFSAs requires the consideration of many factors (see the text).

Solution to Problem Tax Software Eleven - 2

This problem and solution contain 2015 (not 2016) information as software for 2016 is not yet available. Shortly after the first filing version of the 2016 Intuit ProFile software is available in January, 2017, the updated 2016 version of this problem will be available on the textbook web site at:

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Notes To Tax Return

- Since Valerie's father David is not a Canadian resident, he cannot be claimed as a dependant. His medical expense cannot be claimed either.
- Valerie's age credit is transferred to George as her Net Income For Tax Purposes is less than the basic personal amount.
- On the Dependants form, for Kevin and Joan the question "Qualify for family caregiver amount?" must be answered yes. Given the doctor's letter, Joan would qualify.
- Kevin's disability credit for all ages and his disability supplement credit for under 18 are transferred to George. The $3,500 in childcare costs will decrease the disability supplement available and is entered on the Dependants form.
- On the Dependants form for Kevin, the $1,000 (maximum) children's fitness amount and the $250 children's arts amount should be input. The program will automatically add the $500 supplements for disabled children on Schedule 1.
- Martin's education related credits can only be transferred to a spouse, parent, or grandparent. As a result, they cannot be transferred to George and must be carried forward by Martin for his own use.
- Although it will not affect George Pharmacy, Martin should file his tax return to receive the GST credit. Filing a tax return will also make his education related tax credits easier to keep track of for carry forward purposes.
- Joan Drugstore should file a tax return to receive the GST credit. She would need a Social Insurance Number before she can file a return.
- The reimbursement of George's employment expenses has no effect on his income taxes.
- The cost of a residential phone line, the internet connection, mortgage interest, and mortgage life insurance premiums cannot be deducted as work space in the home costs. George's work space in the home expenses are input on form T777Details. George lives in Ontario, so his expenses would normally include HST. Since we are ignoring HST implications, this means that we are ignoring the GST/HST rebate. At the top of the T777Details form "Do you qualify for the GST/HST Rebate?" is answered "No". With that box ticked, it does not make a difference to the calculations what column the expenses are put into.
- The new computer and software are capital assets and no part of their cost can be deducted as an employment expense.
- As the deduction of CCA cannot be used to create or increase a net rental loss, maximum CCA cannot be taken. When the maximum CCA cannot be deducted, the CCA should usually be taken from the classes with the lowest rates. In this case, the Class 1 building at 4 percent is less than the 20 percent applicable to Class 8.

Since the building was not a new building, the applicable rate is 4 percent, not 6 percent. While CCA of $4,297 [(4%)($107,441)] is available on Class 1, only $1,788 can be taken.

- The motorcycle and sailboat would be classified as personal use property. Therefore, the loss realized on the motorcycle cannot be recognized. The taxable capital gain on the disposition of the Molson Inc. shares, the Imperial Oil shares, and the sailboat is calculated as follows:

	Molson Inc.	**Imperial Oil**	**Sailboat**
Proceeds Of Disposition	$37,000	$ 9,600	$74,000
Adjusted Cost Base	(27,600)	(12,100)	(72,000)
Selling Costs	(35)	(29)	N/A
Capital Gain (Loss)	$ 9,365	($ 2,529)	$ 2,000
Inclusion Rate	1/2	1/2	1/2
Taxable Capital Gain	$ 4,683	($ 1,265)	$ 1,000

- The net taxable capital gain is $4,418 ($4,683 - $1,265 + $1,000).

- The $10,500 net capital loss carry forward from the 2014 sale of shares can be deducted in 2015 to the extent of the $4,418 in taxable capital gains realized in 2015. This leaves a net capital loss carry forward of $6,082.

- The painting and coin collection are classified as listed personal property. The gain and loss calculations are as follows:

	Painting	**Coin Collection**
Proceeds Of Disposition (Minimum = $1,000)	$1,100	$ 1,000
Adjusted Cost Base (Minimum = $1,000)	(1,000)	(1,800)
Capital Gain (Loss)	$ 100	($ 800)
Inclusion Rate	1/2	1/2
Taxable Capital Gain (Allowable Loss)	$ 50	($ 400)

- As losses on listed personal property can only be claimed against gains on such property, the unused loss of $350 ($400 - $50) cannot be applied in the current year. However, the loss can be carried forward for 7 years.

Tax Planning Points

- George should immediately open a spousal RRSP and contribute as much as he can for as long as he can. Since Valerie is one year older than he is, George will be able to contribute to his own RRSP for one year more than he could to a spousal RRSP. The pension income splitting rules should benefit him when he begins to withdraw from his RRIF. Since he and Valerie are approaching 71 years of age, he does not have much time to contribute to RRSPs.

- Given his employment income and the fact it appears his employer does not have an RPP, he should have considerable RRSP deduction room. Since Kevin is blind, it is likely that he would be considered a financially dependent child. As a result, if Kevin is named the beneficiary of the RRSP or RRIF on the death of George and Valerie, the tax burden to the estate could be considerably reduced.

- George should consider an RESP for Kevin. Since Kevin blind, he can also be a beneficiary of an RDSP. If George makes any contributions to these plans, he should try to maximize the Canada Education Savings Grant and the Canada Disability Savings Grant that the government will contribute.

- George should consider TFSAs for himself and his wife. The decision as to whether he should contribute to a spousal RRSP, an RESP, an RDSP or TFSAs requires the consideration of many factors (see the text).

Solution to Problem Tax Software Eleven - 3

This problem and solution contain 2015 (not 2016) information as software for 2016 is not yet available. Shortly after the first filing version of the 2016 Intuit ProFile software is available in January, 2017, the updated 2016 version of this problem will be available on the textbook web site at:

www.pearsoncanada.ca/byrdchen/ctp2017

The complete tax returns for Chapter 8 and Chapter 11 are available in both ProFile and PDF format at the Instructor's Resource Centre on the online catalogue listing for this book, at:

catalogue.pearsoned.ca

For more information on how to use the ProFile tax program, please refer to the sample tax returns in the Study Guide.

Solution For Tax Software Assignment Problem 11-3 Contains Chapter 8 Interim Solution

Tax Software Assignment Problem Eleven-3 is a very comprehensive problem. The material related to each chapter is clearly identified to help users determine where the relevant coverage is in the textbook.

For instructors wishing to assign a tax software problem after Chapter 4, but before Chapter 11, an interim solution is available for the material up to and including Chapter 8 (capital gains).

Notes Related To Chapter 4 Material

Either spouse can claim the charitable donations made by the couple, including donations shown on Mary's T4. As we are assuming Seymour has income of only the UCCB at this point, they have been claimed by Mary.

Notes Related To Chapter 6 Material

If The Separate Chapter 4 Version Was Completed In the separate Chapter 4 version of this problem, it was assumed that Seymour had no income other than the UCCB for 2015. With the information on Seymour's income available in the Chapter 6 material of the problem, the charitable donations should be transferred to Seymour (see first bullet for this Chapter).

- Either spouse can claim the charitable donations made by the couple, including donations on T4s. Since Mary would be getting a refund and Seymour has insufficient instalments (see Chapter 7 material), these should all be claimed by Seymour to reduce his tax liability. To transfer the donations in the program, open the form Donations on Mary's return. On your mouse, click the right button (i.e. alternate click) and select "Transfer all donations". All donations, including the "Reported on slips" line containing $1,000, will be transferred to Seymour's return.
- Since the course at Dalhousie did not have any relevance to Seymour's work, he does not have the option of deducting the course fees or travel to the University as a business expense.
- When inputting the T4A for Seymour, the payment entered into box 48 (Professional) will be carried forward to the T2125.
- The Industry Code must be chosen from the list near the top right corner of the T2125. The appropriate choice is 711513, "Independent Writers and Authors".
- The installation of the new gas furnace is not deductible as a house cost. It should be capitalized and will increase the capital cost of the house. The life insurance premiums on the mortgage are not deductible as house costs as the mortgagee does not require life insurance. The payments on principal are not deductible.
- The interest on the late property taxes is included in the deductible home office costs as part of the property taxes paid.
- To enter the interest paid on the car loan, the commencement and termination dates for the interest must be input. The loan has been outstanding since the car was purchased on February 15, 2012, and will be paid back after four years. The deductible auto interest costs limit of $10 per day is not relevant as the loan was outstanding for the year. As a result, all of the interest paid is included in the calculation of deductible interest.
- The CCA on the car of $1,116.23 [(30%)($15,470)(8,412 km ÷ 34,975 km)] is deducted as part of the total CCA on line 9936 of the T2125. Note that the CCA for Class 10.1 on the T2125 CCA Summary is only the deductible portion of $1,116.23. The maximum CCA of $4,641 [(30%)($15,470 UCC)] has been adjusted by the portion of business usage from the T2125CCA form for the car.

Forms Used Or Revised For Chapter 6 Material

- Seymour's return is created
- If Chapter 4 problem was previously completed, the donations previously claimed by Mary are transferred to Seymour

Notes Related To Chapter 7 Material

- The “Other income - interest” on Mary’s T3 appears on Line 130 on the T1, not on Schedule 4.
- Of the amounts listed for interest and penalties paid by Seymour, the following are deductible on his Statement Of Business or Professional Income (T2125):

Interest on credit cards for business expenses	$627.27
Interest on laptop and software loan	104.24
Interest deductible from professional income	$731.51

- The interest of $1,372.52 on the loan to purchase XXX Art Films securities is deductible from investment income on Schedule 4. Although he no longer holds the securities in the Company, ITA 20.1 permits the interest on the borrowed funds to be deducted (disappearing source rules).
- The following interest and penalties paid are not deductible:

Interest on loan to make 2014 RRSP contribution	$162.15
Interest on late payment of 2014 income tax	233.72
Interest on insufficient tax instalments for 2014	52.81
Interest on late GST/HST payments	212.82
Penalty for late filing of 2014 tax return	303.92

- Note that while penalties for late tax returns and interest on late payment of income taxes and GST/HST, and insufficient instalments are not deductible, interest paid due to late payment of property taxes is deductible. The interest on the late property taxes was deducted as part of the property taxes in his home office costs.
- Since Seymour filed late last year, his penalty for late filing this year will be doubled. He should not file late (June 15 deadline) and he should attempt to pay his taxes by April 30.
- As Seymour appears to have made no instalments for 2015, he should be strongly advised to pay his instalments for 2016 on time to prevent more non-deductible interest.
- As mentioned in the Chapter 6 Notes, Seymour should claim all the family tax credits possible as Mary does not need to pay instalments for 2015 and Seymour should have. He will be charged interest on his insufficient instalments and it is advisable to decrease his tax liability.
- As the deduction of CCA cannot be used to create or increase a net rental loss, maximum CCA cannot be taken. When the maximum CCA cannot be deducted, the CCA should usually be taken from the classes with the lowest rates. However, in this case, since the rental income before CCA is only $180.04, it is advisable to take the CCA on the appliances (20 percent) rather than the house (4 percent).
- Since Seymour has been living in Mary’s house since 2013, and only one taxpayer in a family unit can designate a property as a principal residence for a particular year, it is improbable that he will designate the Moncton property as a principal residence after 2013. As a result, the fact that it is more likely the appliances will decrease in value is the key factor for the decision to take CCA on them. The CCA on the building would be recaptured on a subsequent sale if the proceeds were greater than the UCC.

Forms Used Or Revised For Chapter 7 Material

- Schedule 4 for both Seymour and Mary is filed
- The rental statement for Seymour is created
- Seymour’s T2125 is revised for interest paid of $731.51

Notes Related To Chapter 8 Material

The adjusted cost base of the Extreme Wi-Fi Technologies shares are calculated using the average cost as follows:

Acquisition Date	Shares Purchased (Sold)	Cost Per Share	Total Cost	Average Cost/Share
April 1, 2013	1,500	$ 2.00	$ 3,000	
October 1, 2013	2,000	12.00	24,000	
Subtotal	3,500		$27,000	$ 7.71
April 1, 2014	(1,000)	(7.71)	(7,710)	
June 1, 2014	400	25.00	10,000	
Subtotal	2,900		$29,290	$10.10
January 6, 2015	(800)	(10.10)	(8,080)	
February 1, 2015	800	20.00	16,000	
Subtotal	2,900		$37,210	$12.83
March 14, 2015	(600)	(12.83)	(7,698)	
December 31, 2015 Balances	2,300		$29,512	$12.83

The superficial loss rules are not applicable to the January 6 sale as there were no losses.

The taxable capital gains and losses on the securities are as follows:

	Disposition 1	Disposition 2	Disposition 3
Proceeds Of Dispositions	$11,806	$13,465	$2,982
Adjusted Cost Base	(8,080)	(7,698)	(5,300)
Selling Costs	(29)	(29)	N/A
Capital Gain (Loss)	$ 3,697	$ 5,738	($2,318)
Inclusion Rate	1/2	1/2	1/2
Taxable Capital Gain	$ 1,849	$ 2,869	($1,159)

The jewelry is classified as listed personal property. The dining room set and chandelier are classified as personal use property. As a result, the loss realized on the dining room set cannot be recognized. For the capital gain and loss calculations for both listed personal property and personal use property, a minimum value of $1,000 applies to both the proceeds of disposition and the adjusted cost base. Since the gold ring has proceeds of disposition and an adjusted cost base of less than $1,000, there is no gain or loss on the sale of the ring. The gain and loss calculations are as follows:

	Diamond Pendant	Pearl Brooch	Chandelier
Proceeds Of Disposition (Minimum = $1,000)	$4,000	$1,300	$ 1,500
Adjusted Cost Base (Minimum = $1,000)	(5,800)	(1,000)	(1,000)
Capital Gain (Loss)	($1,800)	$ 300	$ 500
Inclusion Rate	1/2	1/2	1/2
Taxable Capital Gain (Allowable Loss)	($ 900)	$ 150	$ 250

As losses on listed personal property can only be claimed against gains on such property, the unused allowable capital loss of $750 ($900 - $150) cannot be applied in the current year. However, the loss will be available for carry overs to other years. As covered in Chapter 11, the loss can be carried back three years and forward seven years.

The total taxable capital gain is $3,809 ($1,849 + $2,869 - $1,159 + $250).

Forms Used Or Revised For Chapter 8 Material

- Schedule 3 is created for Mary (S3Details)

Notes Related To Chapter 9 Material - Moncton Property

- Seymour lived in the Moncton house from 2002 until 2013 and he would designate the house as his principal residence for these 12 years. Assuming the property is transferred to his daughter in 2015 (in reality, given the date of his death, this would be almost impossible), he would have owned the property for an additional 2 years, for a total of 14 years.
- Seymour has been living in Mary's house since his marriage to her in 2013. Since only one taxpayer in a family unit can designate a property as a principal residence for a particular year, he would not designate the Moncton property as a principal residence after 2013.
- The total capital gain would be \$45,000 (\$240,000 - \$195,000). The gain reduction formula would calculate his capital gain as \$3,214 [\$45,000 - (\$45,000)(12 + 1) ÷ 14].
- The ACB of the land is input as a Class 90 asset that has been disposed of for its ACB. The capital gain on the building and land is accounted for on the T2091 (Principal residence designation).
- Since the disposition of the rental property occurs before the end of 2015, the Statement of Real Estate Rentals would show the disposition of the building and appliances. The proceeds of disposition of the building, for CCA purposes, would equal its capital cost and UCC of \$150,000.
- The disposition of the appliances would create a terminal loss. Note that on the second line of the form T776 CCA, the question "Terminal loss?" must be answered "Yes" to have a terminal loss calculated. The UCC at the beginning of the year was \$1,350. The deemed proceeds of disposition is the fair market value at his death of \$700. This creates a terminal loss of \$650 (\$1,350 - \$700). When combined with the rental income before CCA of \$180.04, this leaves a net rental loss of \$469.96. Since the loss was created by a terminal loss, it is not limited and is deductible.
- Since all of his other assets have been willed to Mary, any other deemed dispositions would take place at his tax values unless Mary, as his executor, elects out of the ITA 70(6) rollover.

Notes Related To Other Chapter 9 Material

- The amount paid for spousal support of \$2,400 is deductible, while the child support of \$3,000 is not deductible.
- The Canada Savings Bond interest of \$120 should be attributed back to Seymour's mother under the income attribution rules. It should not be claimed in William's name. It should be suggested to Seymour's mother that she contribute to William's RESP instead.
- The art classes took place on the weekend and the primary goal of the lessons was to provide an education in art, not provide child care. As a result, the art classes are not a child care expense, but are eligible for the children's arts credit as Mary has been issued the appropriate receipt. The maximum amount of \$500 is claimed by Seymour as he has the higher tax liability, although it makes no difference in tax savings.
- Since Seymour is the lower income spouse, he would normally deduct child care expenses. However, since he was a full time student for 12 weeks, Mary will be able to deduct \$1,200 (12 weeks @ \$100) of the child care expenses. As she is in a higher tax bracket, this is advantageous. As a result, both Mary and Seymour should file the T778, Child Care Expenses Deduction form.
- With Seymour deceased, Mary is a single parent and she can include the UCCB in William's income.

- Although the ProFile software suggests that Mary claim the eligible dependant amount for William, she is not eligible for the credit. Because she was married during the year, she claims her personal credits for 2015 under ITA 118(1)(a) "Married person". She would have been eligible for the spousal credit had Seymour's income been below the income threshold, but it was not.
- The eligible dependant credit only applies to taxpayers who are not claiming an amount under ITA 118(1)(a) for the year and Mary does not qualify. She will be able to claim the eligible dependant credit for William in 2016 if she is still single.

Forms Used Or Revised For Chapter 9 Material

- On both Mary and Seymour's T1, the date of death/change in status is revised
- Both Mary and Seymour file the T778
- On the RC62, the UCCB is included in the income of William and added to his income on the Dependants form.
- For Seymour:
  - Claim support on Support
  - Claim the children's arts credit on Dependants
  - Revise the rental statement for deemed dispositions
  - Revise both T2125 and rental statement to be last year of business/rental operation
  - File T2091

Notes Related To Chapter 10 Material

With the increase in Seymour's income due to the RRSP withdrawal, the program will deduct the $3,100 in child care expenses from Mary as the lower income spouse.

Although no contributions can be made to a deceased individual's RRSP after the date of death, ITA 146(5.1) permits the deceased individual's legal representative to make contributions to the surviving spouse's RRSP in the year of death or during the first 60 days after the end of that year. Contributions made to a spouse's RRSP can be claimed on the deceased individual's return. However, such payments are subject to limits based on the deceased taxpayer's Earned Income in the year prior to death, plus any Unused RRSP Deduction Room available from previous years. As a result, even though Seymour has Earned Income in 2015, no RRSP contributions based on that income can be made in 2016.

As calculated on the Form RRSP, Seymour's maximum deductible contribution for 2015 is as follows:

Unused RRSP Deduction Room At The End Of 2014 (Given)	$19,762
Plus The Lesser Of:	
• $24,930 (2015 Maximum)	
• [(18%)($45,000)] = $8,100	8,100
RRSP Deduction Limit	$27,862

Mary's RRSP calculations for 2015 (Form RRSP) and 2016 (Form RRSPLimit) are as follows:

Unused RRSP Deduction Room At The End Of 2014 (Given)	$14,091
Plus The Lesser Of:	
• $24,930 (2015 Maximum)	
• [(18%)($180,000)] = $32,400	24,930
RRSP Deduction Limit For 2015	$39,021
Contributions Made For 2015 Prior To February, 2016 (Given)	(22,200)
Unused RRSP Deduction Room At The End Of 2015	$16,821
Plus The Lesser Of:	
• $25,370 (2016 Maximum)	
• [(18%)($152,866)] = $27,515	25,370
Additional Deductible RRSP Contribution For 2015 and 2016	$42,191

Forms Used Or Revised For Chapter 10 Material

- All of the child care expenses must be claimed by Mary on T778
- For both Mary and Seymour, the RRSP form must be filed.
- Mary's deductible RRSP contribution that can be made for 2016 is found on RRSPLimit

Notes Related To Chapter 11 Material

Since both spouses have substantial amounts of income taxed at the highest tax bracket, the Family Tax Cut would have been nil.

Mary has a listed personal property loss carry forward of $1,500 (100%). This loss carry forward can only be claimed against gains on listed personal property.

In the year of death, any unclaimed capital losses from years prior to death can generally be deducted against any type of income in the year of death. For Seymour, this means that his $17,500 net capital loss carry forward can be fully deducted, despite having only $1,607 in taxable capital gains. With Seymour's date of death input, ProFile will automatically deduct all of the net capital loss.

Forms Used Or Revised For Chapter 11 Material

- LossNetCap for Seymour's $17,500 loss carry forward
- Mary's T4 is revised

Notes On Tax Planning

You advised Mary to make additional RRSP contributions of $41,091 as calculated for the Chapter 10 information in this problem. By contributing this, it will give her the maximum deduction for 2015 and leave a carry forward of undeducted RRSP contributions equal to the maximum limit for 2016.

Mary should ensure that Seymour's 2015 taxes are paid by June 30, 2016 to avoid any interest. Since Seymour died in December, the usual April 30 due date for payment is extended to six months after his date of death. She should pay any unpaid 2014 taxes as soon as possible to avoid further interest.

If Mary wishes to make charitable donations, she should consider exercising her remaining stock options and/or donating any publicly traded common stock that she owns with large unrealized capital gains. This could be advantageous due to the favourable tax treatment for this type of donation.

Given the funds she has received, she should discuss William's RESP with her parents and Seymour's mother to ensure the maximum contributions are made, without contributing more than the limit. With only $300 per year being contributed to William's RESP, he is not taking full advantage of the Canada Education Savings Grant program. Mary should determine the amount of contributions needed to take full advantage of William's accumulated CESG contribution room. Mary can contribute to the same RESP for William as her parents or a different RESP.

Mary should maximize her contributions to a TFSA and if she has additional funds to invest, she can overcontribute up to $2,000 into her RRSP.

If Mary Was The Higher Income Spouse

Although not relevant in the final version of this case, where Mary has the lower Net Income, if Mary had been the spouse with the higher Net Income, even by $1, she would have had the option of splitting the child care expenses deduction. If the Net Incomes of both Mary and Seymour are in the same tax bracket, the marginal tax rate will be the same. As a result, the deduction of child care expenses will result in the same tax savings, regardless of who claims them.

As mentioned in the Chapter 7 Notes, Seymour should claim all the family tax credits possible as Mary does not need to pay instalments for 2015 and Seymour should have. His estate will be charged interest on his insufficient instalments and it is advisable to decrease his tax liability as much as possible.

If Seymour was still alive, it would be even more advantageous to have Seymour reduce his tax liability as much as possible. He would be decreasing his 2016 instalment base, as well as decreasing the non-deductible interest that would be charged on insufficient instalments.

Part B

If Mary's instructions had been followed and the shares donated in 2015, she would have been eligible for an additional deduction under ITA 110(1)(d.01) equal to 50 percent of the $16,600 employment benefit, or $8,300. The effect on her Net Income could be calculated as follows:

Employment Income [(200)($125 - $42)]	$16,600
Deduction Under ITA 110(1)(d) [(1/2)($16,600)]	(8,300)
Deduction Under ITA 110(1)(d.01) [(1/2)($16,600)]	(8,300)
Increase In Taxable Income	Nil

The adjusted cost base of the shares would equal $25,000 [(200)($42 + $83)], which would have also been the fair market value of the shares on that date. There would have been no capital gain or loss as the proceeds of disposition for the donation (the fair market value) would have equaled the adjusted cost base.

The 2015 charitable donation receipt would have reduced her (or Seymour's) 2015 federal Tax Payable by $7,250 [($25,000)(29%)].

CHAPTER TWELVE SOLUTIONS

Solution to Assignment Problem Twelve - 1

1. The adjustments here would be as follows:

- Add the donation of $45,000.
- Deduct the accounting gain of $7,000 ($45,000 - $38,000).
- Add the taxable capital gain of $1,500 [(1/2)($45,000 - $42,000)].
- Add the recapture of $5,500 ($42,000 - $36,500).

2. The adjustments here would be as follows:

- Add the amortization expense of $32,450.
- Deduct the CCA of $27,650.

3. The adjustment here would be as follows:

- Add the increase in the warranty liability of $2,010 ($10,470 - $8,460).

4. Since item 1 created a taxable capital gain of $1,500, the adjustments here would be as follows:

- Add the accounting loss of $550 ($12,870 - $12,320).
- Deduct the allowable capital loss of $275 [(1/2)($12,870 - $12,320)].

5. The adjustment here would be as follows:

- Add the $2,600 in bond discount amortization.

6. The adjustments here would be as follows:

- Add the accounting loss of $14,810 ($107,000 - $92,190).
- Deduct the terminal loss of $9,580 ($92,190 - $101,770).

Solution to Assignment Problem Twelve - 2

The Taxable Income of Cabrera Digital would be calculated as follows:

Operating Income ($1,234,000 - $962,000)		$272,000
Dividends Received ($23,600 + $61,300)		84,900
Taxable Capital Gain [(1/2)($312,000)]		156,000
Net Income For Tax Purposes		**$512,900**
Deductions:		
Dividends Received	($ 84,900)	
Donations To Registered Charities (Note 1)	(241,000)	
Net Capital Loss Carry Forward (Note 2)	(156,000)	(481,900)
Taxable Income Before Non-Capital Loss Carry Forward		$ 31,000
Non-Capital Loss Carry Forward (Note 3)		(31,000)
Taxable Income		**Nil**

Note 1 There is no addition to Net Income For Tax Purposes with respect to the donations as this calculation does not start with accounting Net Income (e.g., it is a direct calculation of income, not a reconciliation schedule). The donations to registered Canadian charities total less than 75 percent of Net Income For Tax Purposes and are therefore fully deductible in the calculation of Taxable Income.

Note 2 The net capital loss carry forward can only be deducted to the extent of the $156,000 taxable capital gain.

Note 3 The non-capital loss carry forward has only been deducted to the extent of the amount required to reduce Taxable Income to nil. It would have been possible to carry forward the donations instead, but the non-capital loss carry forward period is greater than the five year donation carry forward.

Loss Carry Forwards

At the end of the current year, Cabrera will have:

- a net capital loss balance of $106,000 ($262,000 - $156,000). Since the problem states that no future capital gains are anticipated, the maximum amount of the net capital loss carry forward was claimed first.
- a non-capital loss carry forward of $162,000 ($193,000 - $31,000).

Solution to Assignment Problem Twelve - 3

The Net Income For Tax Purposes and Taxable Income of Sweat Ltd. for the 8 month period ending August 31, 2016 is as follows:

Accounting Income Before Taxes		$ 87,400
Add:		
Reserve For Inventory Obsolescence		
(Included In Cost Of Sales)	$17,800	
Bonus (Note 1)	35,000	
Amortization	49,300	
Non-Deductible Meals And Entertainment		
[(1/2)($15,200)]	7,600	
Golf Club Memberships	7,700	
Increase In Warranty Reserve ($6,200 - $5,400)	800	
Charitable Donations	3,100	
Taxable Capital Gain On Investments [(1/2)($3,900)]	1,950	123,250
Deduct:		
Accounting Gain On Sale Of Investments	($ 3,900)	
CCA (Note 2)	(32,010)	(35,910)
Net Income For Tax Purposes		**$174,740**
Deduct:		
Charitable Donations	($ 3,100)	
Net Capital Loss Carry Forward (Note 3)	(1,950)	
Non-Capital Loss Carry Forward (All)	(18,700)	(23,750)
Taxable Income		**$ 150,990**

Note 1 As the bonus is not paid until more than 180 days, but less than 3 years after the Company's fiscal year end, it cannot be deducted until it is paid.

Note 2 The CCA for the 8 month period ending August 31 , 2016 (243 days), can be calculated as follows:

Class 8 Opening UCC		$79,800
Additions	$20,500	
Disposals - Lesser Of:		
• Capital Cost = $14,200		
• Proceeds Of Disposition = $9,500	(9,500)	11,000
One-Half Net Additions [(1/2)($11,000)]		(5,500)
CCA Base		$85,300
Rate (Class 8)		20%
Full Year Amount		$17,060
Proration For Short Fiscal Year		243/365
Class 8 CCA		$11,358

The total CCA for the 8 month period ending August 31, 2016 would be as follows:

Class 8 CCA (Preceding Calculation)	$11,358
Class 10 CCA [(30%)($103,400)(243/365)]	20,652
Total CCA	$32,010

Note 3 The net capital loss carry forward deducted is limited to the taxable capital gain of $1,950. This deduction will leave a net capital loss balance of $4,300 ($6,250 - $1,950).

The following additional points are relevant to the solution:

- Dividends declared are not deducted in the calculation of either accounting Net Income or Taxable Income.
- The interest expense is fully deductible.
- Where a foreign exchange loss arises in the normal course of business operations, it is fully deductible.

Solution to Assignment Problem Twelve - 4

Part A

The required calculation of Net Income For Tax Purposes and Taxable Income is as follows:

ITA 3(a) Dividends		$ 30,400
ITA 3(b) Taxable Capital Gains	$21,400	
Allowable Capital Losses	(6,500)	14,900
ITA 3(c)		$ 45,300
ITA 3(d) Business Loss		(142,000)
Net Income For Tax Purposes		Nil
Dividends Received		($ 30,400)
Net Capital Loss Carry Forward (Limited To Net Taxable Capital Gains)		(14,900)
Charitable Donations		Nil
Taxable Income		Nil

The carry forward balances available at the end of the year are as follows:

Net Capital Loss Carry Forward

Beginning Balance	$75,600
Used During Year	(14,900)
Net Capital Loss Carry Forward	$60,700

Charitable Donations Carry Forward

Beginning Balance	$4,600
Added During Year	3,200
Used During Year	Nil
Unused Charitable Donations	$7,800

2016 Non-Capital Loss

Balance Under E	
Net Business Loss	$142,000
Dividends	30,400
Net Capital Loss Carry Forward Deducted	14,900
Subtotal	$187,300
Balance Under F - Income Under ITA 3(c)	(45,300)
2016 Non-Capital Loss	$142,000

Non-Capital Loss Carry Forward

Balance From Previous Years	$ 51,400
Added During Year	142,000
Used During Year	Nil
Non-Capital Loss Carry Forward	$193,400

As per the policy stated in Part A, this solution minimizes the net capital loss carry forward. In the absence of this policy, an alternative solution could minimize the non-capital loss balance as is found in Part B.

Part B

The required calculation of Net Income For Tax Purposes and Taxable Income is as follows:

ITA 3(a) Dividends		$ 30,400
ITA 3(b) Taxable Capital Gains	$21,400	
Allowable Capital Losses	(6,500)	14,900
ITA 3(c)		$ 45,300
ITA 3(d) Business Loss		(142,000)
Net Income For Tax Purposes		Nil
Dividends Received		($ 30,400)
Net Capital Loss Carry Forward		Nil
Charitable Donations		Nil
Taxable Income		Nil

The carry forward balances available at the end of the year are as follows:

Net Capital Loss Carry Forward

Beginning Balance	$75,600
Used During Year	Nil
Net Capital Loss Carry Forward	$75,600

Charitable Donations Carry Forward

Beginning Balance	$4,600
Added During Year	3,200
Used During Year	Nil
Unused Charitable Donations	$7,800

2016 Non-Capital Loss

Balance Under E	
Business Loss	$142,000
Dividends	30,400
Net Capital Loss Carry Forward Deducted	Nil
Subtotal	$172,400
Balance Under F - Income Under ITA 3(c)	(45,300)
2016 Non-Capital Loss	$127,100

Non-Capital Loss Carry Forward

Balance From Previous Years	$ 51,400
Added During Year	127,100
Used During Year	Nil
Non-Capital Loss Carry Forward	$ 178,500

Note that, in contrast to Part A, the non-capital loss carryforward is $14,900 lower ($193,400 - $178,500), reflecting the fact that in this Part we were asked to minimize the non-capital loss balance, as opposed to the net capital loss balance. As you would expect, the net capital loss balance is $14,900 higher ($75,600 - $60,700).

Comparison (Not Required)

A comparison of the carry forward amounts under the two Parts is as follows:

	Part A	Part B
Net Capital Loss Carry Forward	$ 60,700	$ 75,600
Non-Capital Loss Carry Forward	193,400	178,500
Charitable Donations Carry Forward	7,800	7,800
Total Of The Carry Forwards	$261,900	$261,900

Solution to Assignment Problem Twelve - 5

2013 Analysis

Net And Taxable Income

The required calculations for Net Income For Tax Purposes and Taxable Income are as follows:

Accounting Income	$165,000
Charitable Donations	4,100
Accounting Gain On Disposition Of Shares	(26,000)
Taxable Capital Gains [(1/2)($26,000)]	13,000
Net Income For Tax Purposes	**$156,100**
Charitable Donations	(4,100)
Dividends Received	(17,100)
Taxable Income	**$134,900**

Carry Forwards

There are no amounts carried forward at the end of 2013.

2014 Analysis

The required calculations for Net Income For Tax Purposes and Taxable Income are as follows:

Accounting Loss	($263,000)
Charitable Donations	7,800
Accounting Loss On Disposition Of Shares	13,500
Net Income For Tax Purposes	**Nil**
Dividends Received	(28,900)
Taxable Income	**Nil**

The allowable capital loss is equal to $6,750 [(1/2)($13,500)].

The accounting loss of $263,000 includes dividends received of $28,900, an accounting loss on the sale of shares of $13,500, and a deduction for charitable donations of $7,800. Given this, the business loss must be $270,600 ($263,000 + $28,900 - $13,500 - $7,800). This can be verified by the following schedule:

Business Income (Loss)	($270,600)
Dividends	28,900
Accounting Loss On Disposition Of Shares	(13,500)
Charitable Donations	(7,800)
Accounting Income (Loss)	($263,000)

Using this information, the non-capital loss would be calculated as follows:

Amount E ($270,600 + $28,900)	$299,500
Income Under ITA 3(c) - Dividends	(28,900)
Non-Capital Loss	$270,600

Loss Carry Back And 2013 Amended Return

As the Company's policy is to deduct non-capital losses prior to deducting net capital losses, there is a $134,900 carry back of the non-capital loss to 2013. The amended Taxable Income is as follows:

Taxable Income As Reported	$134,900
Non-Capital Loss Carry Back from 2014	(134,900)
Amended 2013 Taxable Income	Nil

2014 Carry Forwards

The following carry forward amounts are available at the end of 2014:

Charitable Donations All of the charitable donations of $7,800 will be carried forward. Note there is no provision for a carry back of such donations.

Net Capital Losses As the non-capital loss carry back eliminated all of the 2013 Taxable Income, all of the $6,750 net capital loss will have to be carried forward.

Non-Capital Losses The non-capital loss carry forward, after the carry back, is equal to $135,700 ($270,600 - $134,900).

2015 Analysis

Net And Taxable Income

The required calculations for Net Income For Tax Purposes and Taxable Income are as follows:

Accounting Income	$127,000
Charitable Donations	5,600
Accounting Gain On Disposition Of Shares	(18,400)
Taxable Capital Gain [(1/2)($18,400)]	9,200
Net Income For Tax Purposes	**$123,400**
Charitable Donations	(5,600)
Dividends Received	(27,600)
Taxable Income Before Carry Forwards	$90,200
Charitable Donations Carry Forward (All)	(7,800)
Non-Capital Loss Carry Forward (Note)	(82,400)
Taxable Income	**Nil**

Note The amount of the non-capital loss carry forward that was deducted was the amount required to reduce the 2015 Taxable Income to nil.

2015 Carry Forwards

The following carry forward amounts are available at the end of 2015.

Charitable Donations All of the current and previous years' charitable donations were deducted. There is no carry forward balance.

Net Capital Loss Carry Forward The $6,750 net capital loss balance from 2014 remains at the end of 2015.

Non-Capital Loss Carry Forward The non-capital loss carry forward balance is calculated as follows:

Carry Forward From 2014	$135,700
Used In 2015	(82,400)
Balance At December 31, 2015	$ 53,300

2016 Analysis

Net And Taxable Income

The required calculations for Net Income For Tax Purposes and Taxable Income are as follows:

Accounting Loss	($62,100)
Charitable Donations	3,400
Accounting Gain On Disposition Of Shares	(3,700)
Taxable Capital Gain [(1/2)($3,700)]	1,850
Net Income For Tax Purposes	**Nil**
Dividends Received	(15,100)
Taxable Income	**Nil**

The accounting loss of $62,100 includes dividends received of $15,100, the accounting gain on the sale of shares of $3,700, and a deduction for charitable donations of $3,400. Given this, the business loss must be $77,500 ($62,100 + $15,100 + $3,700 - $3,400). This can be verified by the following schedule:

Business Income (Loss)	($77,500)
Dividends Received	15,100
Accounting Gain On Disposition Of Shares	3,700
Charitable Donations	(3,400)
Accounting Income (Loss)	($62,100)

Based on this, the non-capital loss would be calculated as follows:

Amount E ($77,500 + $15,100)	$92,600
Income Under ITA 3(c) [$15,100 + (1/2)($3,700)]	(16,950)
Non-Capital Loss	$75,650

As the 2015 Taxable Income was reduced to nil, none of this 2016 loss can be carried back to that year.

2016 Carry Forwards

The following carry forward amounts are available at the end of 2016.

Charitable Donations There is a $3,400 carry forward of charitable donations.

Net Capital Loss Carry Forward While there was a capital gain available in 2016, the non-capital loss carry forward eliminated all of that year's income. Given this, the $6,750 net capital loss balance from 2014 remains at the end of 2016.

Non-Capital Loss Carry Forward The non-capital loss carry forward balance is calculated as follows:

Carry Forward From 2015	$ 53,300
2016 Addition	75,650
Balance At December 31, 2016	$128,950

Solution to Assignment Problem Twelve - 6

2013 Analysis

Net And Taxable Income

The required calculations for Net Income For Tax Purposes and Taxable Income are as follows:

Net Business Income	$233,500
Dividends	13,500
Net Income For Tax Purposes	**$247,000**
Dividends	(13,500)
Charitable Donations	(4,800)
Taxable Income	**$228,700**

There is an allowable capital loss of $12,300 [(1/2)($24,600)] that can only be deducted against taxable capital gains.

2013 Carry Forwards

The following carry forward amount is available at the end of 2013:

- Net Capital Loss $12,300

2014 Analysis

Net And Taxable Income

The required calculations for Net Income For Tax Purposes and Taxable Income are as follows:

Net Business Income	$34,000
Taxable Capital Gain [(1/2)($45,600)]	22,800
Dividends	13,500
Net Income For Tax Purposes	**$70,300**
Dividends	(13,500)
Charitable Donations	(15,600)
Net Capital Loss Carry Forward (All)	(12,300)
Taxable Income	**$28,900**

2014 Carry Forwards

As the Company was able to deduct all of the net capital loss from 2013, no carry forward amounts remain.

2015 Analysis

Net And Taxable Income

The required calculations for Net Income For Tax Purposes and Taxable Income are as follows:

Dividends = Income Under ITA 3(c)	$ 13,500
Business Loss [ITA 3(d)]	(163,000)
Net Income For Tax PurposesAnd Taxable Income	Nil

Net Capital Loss Carry Back And Amended 2014 Return

In 2015, there is a net capital loss of $24,200 [(1/2)($48,400)]. While there was a $22,800 taxable capital gain in 2014, $12,300 of this amount was used by the net capital loss carry forward from 2013. This means that only $10,500 ($22,800 - $12,300) of the $24,200 can be carried back to 2014. Given this, the 2014 amended return would be as follows:

Taxable Income As Reported	$28,900
Net Capital Loss Carry Back From 2015	(10,500)
Amended 2014 Taxable Income	$18,400

Non-Capital Loss Carry Back And Amended 2013 Return

The 2015 non-capital loss would be calculated as follows:

Business Loss	$163,000
Dividends Received And Deducted	13,500
Amount E	$176,500
Income Under ITA 3(c)	(13,500)
2015 Non-Capital Loss	$163,000

As the 2013 Taxable Income was $228,700, all of this loss can be carried back to that year. Given this, the amended return for 2013 would be as follows:

Taxable Income As Reported In 2013	$228,700
Non-Capital Loss Carry Back from 2015	(163,000)
Amended 2013 Taxable Income	$ 65,700

2015 Carry Forwards

The following carry forward amounts are available at the end of 2015:

• Net Capital Loss ($24,200 - $10,500)	$13,700
• Charitable Donations	7,400
• Non-Capital Loss	Nil

2016 Analysis

Net And Taxable Income

The required calculations for Net Income For Tax Purposes and Taxable Income are as follows:

Net Business Income	$57,000
Taxable Capital Gains [(1/2)($33,200)]	16,600
Dividends	13,500
Net Income For Tax Purposes	**$87,100**
Dividends	(13,500)
Current Charitable Donations	Nil
Charitable Donations Carry Forward	(7,400)
Net Capital Loss Carry Forward (All)	(13,700)
Taxable Income	**$52,500**

2016 Carry Forwards

At the end of 2016, there are no carry forward balances.

Solution to Assignment Problem Twelve - 7

The allocation to each of these provinces and the United States would be based on the following calculations:

	Salaries And Wages		Gross Revenues	
Province	**Amount**	**Percent**	**Amount**	**Percent**
British Columbia	$ 309,120	21%	$1,155,000	25%
Alberta	559,360	38%	1,570,800	34%
Saskatchewan	220,800	15%	877,800	19%
United States	382,720	26%	1,016,400	22%
Total	$1,472,000	100%	$4,620,000	100%

The province by province average of the two percentages, calculated above, would be used to allocate the total Taxable Income of $1,127,000 as follows:

Province	**Wages**	**Revenues**	**Average**	**Taxable Income**
British Columbia	21%	25%	23%	$ 259,210
Alberta	38%	34%	36%	405,720
Saskatchewan	15%	19%	17%	191,590
United States	26%	22%	24%	270,480
Total	100%	100%	100%	$1,127,000

Solution to Assignment Problem Twelve - 8

Webb's Part I tax payable for the year would be calculated as follows:

Base Amount Of Part I Tax [(38%)($723,000)]	$274,740
Federal Tax Abatement [(10%)(85%)($723,000)] (Note One)	(61,455)
Foreign Business Tax Credit	
(Assumed To Be Equal To Taxes Withheld)	(16,200)
Small Business Deduction (Note Two)	(26,487)
General Rate Reduction (Note Three)	(74,314)
Part I Tax Payable	$ 96,284

Note One The federal tax abatement must be reduced because of the foreign business income. The percentage would be calculated as follows:

Canadian Gross Revenues As A Percentage Of Total [($1,450,000 - $261,000) ÷ $1,450,000]	82%
Canadian Wages And Salaries As Percentage Of Total [($453,000 - $54,360) ÷ $453,000]	88%

Using these figures, the average percent would be 85 percent [(82% + 88%) ÷ 2].

Note Two Since Webb's Taxable Capital Employed In Canada for the 2015 taxation year was greater than $10 million, its small business deduction is reduced. The B component of the ITA 125(5.1) reduction formula is $4,439 [(.00225)($11,973,000 - $10,000,000)]. In addition, because of Webb's association with other companies, the A component of the formula would be reduced to $250,000 [($500,000)(50%)]. Given these considerations, the reduction would be calculated as follows:

[($250,000)($4,439 ÷ $11,250)] = $98,644 Reduction

Using this information, Webb's small business deduction is equal to 17.5 percent of the least of:

Canadian Active Business Income (Given)		$642,000
Taxable Income	$723,000	
Less: Foreign Business Tax Credit Adjusted [(4)($16,200)]	(64,800)	$658,200
Reduced Annual Business Limit ($250,000 - $98,644)		$151,356

The small business deduction would be $26,487 [(17.5%)($151,356)].

Note Three The general rate reduction would be calculated as follows:

Taxable Income	$723,000
Amount Eligible For Small Business Deduction	(151,356)
Full Rate Taxable Income	$571,644
Rate	13%
General Rate Reduction	$ 74,314

Solution to Assignment Problem Twelve - 9

Part A

The minimum Taxable Income for Devza Ltd. would be calculated as follows:

Net Income For Tax Purposes		$1,092,400
Deductions:		
Dividends	($346,100)	
Charitable Donations	(102,600)	
Non-Capital Loss Carry Forward	(123,450)	(572,150)
Taxable Income		$ 520,250

Based on this, the Company's Tax Payable would be calculated as follows:

Base Amount Of Part I Tax [(38%)($520,250)]	$197,695
Federal Tax Abatement [(10%)($520,250)]	(52,025)
Small Business Deduction (Note 1)	(35,000)
M&P Deduction (Note 2)	(41,633)
General Rate Reduction (Note 3)	Nil
Part I Federal Tax Payable	$ 69,037

Note 1 The small business deduction is based on the least of the following:

Canadian Active Business Income	$746,300
Taxable Income (no foreign tax credit adjustment needed)	520,250
Annual Business Limit	200,000

The small business deduction is equal to $35,000 [(17.5%)($200,000)].

Note 2 The base for the Manufacturing And Processing deduction would be the lesser of:

M&P Profits (Given)	$584,600	
Amount Eligible For The SBD	(200,000)	$384,600
Taxable Income	$520,250	
Amount Eligible For The SBD	(200,000)	
Aggregate Investment Income	Nil	$320,250

Based on these figures, the deduction would be equal to $41,633 [(13%)($320,250)].

Note 3 The General Rate Reduction would be calculated as follows:

Taxable Income	$520,250
Amount Eligible For The SBD	(200,000)
Amount Eligible For The M&P Deduction	(320,250)
Base	Nil

Part B

While the M&P deduction would be eliminated, the general rate reduction would be calculated as follows:

Taxable Income	$520,250
Amount Eligible For The SBD	(200,000)
Base	$320,250
Rate	13%
General Rate Reduction	$ 41,633

Using these change figures, the final Tax Payable would be unchanged from Part A. This is shown in the following table:

Base Amount Of Part I Tax [(38%)($520,250)]	$197,695
Federal Tax Abatement [(10%)($520,250)]	(52,025)
Small Business Deduction (Note 1)	(35,000)
M&P Deduction	Nil
General Rate Reduction	(41,633)
Part I Federal Tax Payable	$ 69,037

Solution to Assignment Problem Twelve - 10

Note to Instructor As the ART is not covered until Chapter 13, this problem does not require the calculation of the ART. However, given the capital loss carry forward applied during the year, it would be nil.

Part A - Net Income For Tax Purposes

The calculation of Mamora's Net Income For Tax Purposes would be as follows:

	Accounting Net Income Before Taxes		$ 914,000
	Additions, Including Relevant Problem Part:		
1	Amortization Expense	$405,000	
2	Taxable Capital Gain On Building (Note 1)	25,000	
2	Taxable Capital Gain On Building Land (Note 1)	12,500	
3	Taxable Capital Gain On Vacant Land (Note 2)	15,918	
2	Recapture On Building (Note 3)	250,000	
2	Accounting Loss On Vehicles (Given)	63,000	
6	Foreign Tax Withheld	2,700	
8	Articles Of Incorporation Amendment Costs	21,000	
9	Bond Discount Amortization	4,600	
9	Donations To Registered Charities	12,500	
9	Interest On Late Income Tax Instalments	1,400	
9	Interest On Late Municipal Taxes	Nil	
10	Non-Deductible Meals And Entertainment (50% of $42,000)	21,000	
10	Golf Club Membership Fees	23,000	857,618
			$1,771,618
	Deductions:		
2	Accounting Gain On Building (Given)	($175,000)	
2	Capital Cost Allowance (Note 3)	(427,000)	
2	Terminal Loss (Note 3)	(20,000)	
3	Accounting Gain On Vacant Land (Given)	(75,000)	
4	Landscaping	(23,000)	
7+8	Write-Off Of CEC (Note 4)	(7,938)	(727,938)
	Net Income For Tax Purposes		$1,043,680

Note 1 While the accounting gain on the building of $175,000 is calculated on the combined value of the land and building, separate tax figures are required for each asset. The taxable capital gains on the building and land are calculated as follows:

Proceeds Of Disposition ($1,725,000 - $375,000)	$1,350,000
Capital Cost ($1,650,000 - $350,000)	(1,300,000)
Capital Gain	$ 50,000
Inclusion Rate	1/2
Taxable Capital Gain - Building	$ 25,000

Proceeds Of Disposition	$375,000
Capital Cost	(350,000)
Capital Gain	$ 25,000
Inclusion Rate	1/2
Taxable Capital Gain - Land	$ 12,500

Note 2 There is a capital gain and accounting gain on the vacant land of $75,000 ($695,000 - $620,000). However, as not all of the proceeds of disposition were received in 2016, a reserve can be deducted for tax purposes. The reserve will be the lesser of the following two amounts:

- [($75,000)($400,000 ÷ $695,000)] = $43,165
- [($75,000)(20%)(4 - 0)] = $60,000

Deducting the lesser amount leaves a capital gain of $31,835 ($75,000 - $43,165), and a taxable capital gain of $15,918 [(1/2)($31,835)].

Note 3 Maximum CCA and other related inclusions and deductions are found in the tables which follow. Note that the new building was added to a separate Class in order to qualify for the enhanced CCA rate of 10 percent for M&P buildings. This resulted in recapture on the old building that was disposed of.

Class 1 - Old Building

January 1, 2016 Class 1 Balance	$1,050,000
Disposition - Lesser Of:	
• Proceeds = $1,350,000 ($1,725,000 - $375,000)	
• Capital Cost = $1,300,000 ($1,650,000 - $350,000)	(1,300,000)
Negative Ending UCC Balance	($250,000)
Recapture	250,000
January 1, 2017 UCC Balance	Nil

Class 1 - New Building

New Class 1 Addition ($2,100,000 - $400,000)	$1,700,000
One-Half Net Additions	(850,000)
Balance	$ 850,000
CCA [(10%)($850,000)]	(85,000)
One-Half Net Additions	850,000
January 1, 2017 UCC Balance	$1,615,000

Class 8

January 1, 2016 Class 8 Balance	$1,460,000
Additions	150,000
One-Half Net Additions	(75,000)
CCA Base	$1,535,000
CCA [(20%)($1,535,000)]	(307,000)
One-Half Net Additions	75,000
January 1, 2017 UCC Balance	$1,303,000

Class 10

January 1, 2016 Class 10 Balance	$142,000
Disposition - Lesser Of:	
• Proceeds = $122,000	
• Capital Cost = $285,000	(122,000)
Positive Ending Balance With No Assets Left In Class	$ 20,000
Terminal Loss	(20,000)
January 1, 2017 UCC Balance	Nil

Class 13

January 1, 2016 Class 13 Balance	$175,000
2016 CCA:	
2011 Expenditures ($250,000 ÷ 10 Years)	(25,000)
2015 Expenditures ($60,000 ÷ 6 Years)	(10,000)
January 1, 2017 UCC Balance	$140,000

Summary Of CCA And UCC Results

Class	Maximum CCA	UCC
Class 1 - Old (Recapture = $250,000)	Nil	Nil
Class 1 - New	$ 85,000	$1,615,000
Class 8	307,000	1,303,000
Class 10 (Terminal Loss = $20,000)	Nil	Nil
Class 13 ($25,000 + $10,000)	35,000	140,000
Total	$427,000	

Note 4 The 2016 amortization and the January 1, 2017 balance of the cumulative eligible capital account can be calculated as follows:

2015 Addition [(3/4)($140,000)]	$105,000
2015 CEC Amount At 7 Percent	(7,350)
Opening Balance, 2016	$ 97,650
2016 Addition Of Legal Fees [(3/4)($21,000)]	15,750
2016 Base	$113,400
2016 CEC Amount At 7 Percent	(7,938)
January 1, 2017 CEC Balance	$105,462

Part B - Taxable Income

Mamora's Taxable Income would be calculated as follows:

	Net Income For Tax Purposes	$1,043,680
14	Dividends From Taxable Canadian Corporations	(52,000)
9	Contributions To Registered Charities	(12,500)
12	Net Capital Loss Carry Forward (Note 5)	(53,418)
12	Non-Capital Loss Carry Forward (All)	(95,000)
	Taxable Income	$ 830,762

Note 5 Mamora's Net Income For Tax Purposes contained net taxable capital gains calculated as follows:

Taxable Capital Gain On Building (Note 1)	$25,000
Taxable Capital Gain On Building Land (Note 1)	12,500
Taxable Capital Gain On Vacant Land (Note 2)	15,918
Total Taxable Capital Gains	$53,418

While there is a net capital loss carry forward of $210,000, the amount to be used is limited to the $53,418 in net taxable capital gains for the year.