Canadian Tax Principles 2014 / 2015  
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 on your Instructor’s CD-ROM.

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CHAPTER ELEVEN SOLUTIONS

Solution to Assignment Problem Eleven - 1

2011 Analysis

The required information can be calculated as follows:

ITA 3(a)

Property Income $27,600

Dividends Received 3,120

Gross Up 780 $31,500

ITA 3(b)

Taxable Capital Gains [(1/2)($1,800)] $ 900

Allowable Capital Losses [(1/2)($9,200)] ( 4,600) Nil

ITA 3(c) $31,500

ITA 3(d)

Farm Loss (See Note) ( 7,350)

Net Income For Tax Purposes And Taxable Income $24,150

**Note** Mr. Barkin’s farm losses are restricted as follows:

Total Farm Loss $12,200

Deductible Amount:

First $2,500 ($2,500)

One-Half Of $9,700 ($12,200 - $2,500) ( 4,850) ( 7,350)

Restricted Farm Loss Carry Forward $4,850

As noted in the problem, none of the losses can be carried back before 2011.  This would leave the following carry forward balances at the end of 2011:

* Restricted Farm Loss Carry Forward $4,850
* Net Capital Loss Carry Forward ($4,600 - $900) $3,700

2012 Analysis

The required information can be calculated as follows:

ITA 3(a)

Farm Income $ 2,320

Non-Eligible Dividends Received 4,120

Gross Up 1,030 $ 7,470

ITA 3(b)

Taxable Capital Gains [(1/2)($3,000)] $ 1,500

Allowable Capital Losses Nil 1,500

ITA 3(c) $ 8,970

ITA 3(d)

Property Loss ( 22,250)

Net Income For Tax Purposes Nil

2011 Net Capital Loss Carry Forward ($ 1,500)

Taxable Income (Loss) Nil

Since there are taxable capital gains this year, and the problem states that Mr. Barkin would like to deduct the maximum amount of his net capital loss carry forwards, the net capital loss carry forward of $1,500 is added to the balance of the non-capital loss.

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

Property Loss $22,250

2011 Net Capital Loss Deducted 1,500

ITA 3(c) Income ( 8,970)

Non-Capital Loss Carry Over For 2012 $14,780

The entire non-capital loss carry over could be carried back to 2011, but since Mr. Barkin requires $18,500 in Taxable Income to fully utilize his tax credits, the maximum carry back to 2011 is $5,650, calculated as follows:

2011 Taxable Income (As Reported) $24,150

Required 2011 Income For Tax Credits ( 18,500)

Maximum Carry Back $ 5,650

This carry back leaves Mr. Barkin with his required $18,500 in 2011 amended Taxable Income.

There would be the following carry forward balances at the end of 2012:

* Restricted Farm Loss Carry Forward (Unchanged) $4,850
* Net Capital Loss Carry Forward ($3,700 - $1,500)] $2,200
* Non-Capital Loss Carry Forward ($14,780 - $5,650) $9,130

2013 Analysis

The required information can be calculated as follows:

ITA 3(a)

Property Income $44,100

Farm Income 3,840

Non-Eligible Dividends Received 5,980

Gross Up 1,495 $55,415

ITA 3(b)

Taxable Capital Gains [(1/2)($6,000)] $3,000

Allowable Capital Losses Nil 3,000

Net Income For Tax Purposes $58,415

Restricted Farm Loss Carry Forward (Equal To Farm Income) ( 3,840)

Net Capital Loss Carry Forward (Less Than $3,000)        ( 2,200)

Non-Capital Loss Carry Forward (All) ( 9,130)

Taxable Income $43,245

There would be the following carry forward balances at the end of 2013:

* Restricted Farm Loss Carry Forward ($4,850 - $3,840) $1,010

2014 Analysis

The required information can be calculated as follows:

ITA 3(a)

Non-Eligible Dividends Received $ 8,720

Gross Up 2,180 $10,900

ITA 3(b)

Taxable Capital Gains  [(1/2)($6,700)] $ 3,350

Allowable Capital Losses [(1/2)($21,300)] ( 10,650) Nil

ITA 3(c) $10,900

ITA 3(d)

Property Loss ($30,800)

Farm Loss ( 2,400) ( 33,200)

Net Income For Tax Purposes And Taxable Income Nil

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

Property Loss $30,800

ITA 3(c) Income ( 10,900)

Non-Capital Loss Carry Over $19,900

Farm Loss (Unrestricted) 2,400

Total Loss Carry Over For 2014 $22,300

Although technically, the farm loss is accounted for separately from the non-capital loss, since the farm loss is less than $2,500 it is treated as an unrestricted farm loss and can be applied against all types of income.  Given the carry over rules are the same, we have treated this farm loss as part of the non-capital loss carry over.  The preceding loss carry over of $22,300 is available for carry back to 2013.

With respect to the net capital loss of $7,300 ($10,650 - $3,350), there are $800 ($3,000 - $2,200) in taxable capital gains left in 2013 as the basis for a carry back.  This means that $800 of this year’s allowable capital loss can be carried back, leaving $6,500 ($7,300 - $800) to be carried forward as a net capital loss balance.

If both the $22,300 available farm and non-capital loss, as well as the $800 net capital loss were carried back, the amended 2013 Taxable Income would be as follows:

2013 Taxable Income (As Reported) $43,245

Non-Capital Loss Carry Back From 2014 ( 22,300)

Net Capital Loss Carry Back From 2014 ( 800)

2013 Amended Taxable Income $20,145

This is more than the $18,500 of Taxable Income required to use the 2013 tax credits.

Given these carry backs, the remaining loss carry forwards would be as follows:

* Restricted Farm Loss Carry Forward (Unchanged) $1,010
* Net Capital Loss Carry Forward ($7,300 - $800) $6,500

Solution to Assignment Problem Eleven - 2

Before consideration of any carry backs, Dotty would have 2013 Taxable Income as follows:

Net Taxable Capital Gains $ 5,000

Net Rental Income 16,000

Interest Income 36,000

Net Income For Tax Purposes And Taxable Income $57,000

The loss on Spec Inc. is a Business Investment Loss (BIL) of $300,000 ($425,000 - $125,000).  However, because of her use of the lifetime capital gains deduction in 2012, $25,000 of this amount would be disallowed.  Given this, the available Allowable Business Investment Loss (ABIL) would be calculated as follows:

Total Loss $300,000

Disallowed By Lifetime Capital Gains Deduction Use ( 25,000)

Balance $275,000

Inclusion Rate 1/2

Allowable Business Investment Loss (ABIL) $137,500

Given this, Dotty’s 2014 Taxable Income is calculated as follows:

**Income Under ITA 3(a)**

Net Rental Income $14,000

Interest Income 24,000 $ 38,000

**Income Under ITA 3(b)**

Taxable Capital Gains $6,000

Allowable Capital Loss (Disallowed ABIL)

[(1/2)($25,000)] (Note 1) ( 12,500) Nil

Balance Under ITA 3(c) $ 38,000

**Deduction Under ITA 3(d)**

ABIL (Note 2) ( 137,500)

Net Income For Tax Purposes And Taxable Income Nil

**Note 1** As the $25,000 disallowed BIL becomes an ordinary capital loss, it must be deducted against the 2014 capital gain.  This leaves a net capital loss carry over of $6,500 ($12,500 - $6,000) of which $5,000 can be carried back to 2013.

**Note 2** As the ABIL was realized in 2014, it must be used to reduce that year’s income to Nil.  Note that, because of this rule, Dotty cannot deduct a smaller amount in order to have sufficient income to absorb her basic personal tax credit.  After this deduction, a carry forward of $99,500 ($137,500 - $38,000) remains.  For the next 10 years, this amount 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.

Using the carry over amounts, the 2013 tax return would be amended as follows:

Net Income For Tax Purposes (As Originally Calculated) $57,000

Net Capital Loss Carried Back ( 5,000)

Optimum Taxable Income = 2013 Basic Personal Amount ( 11,038)

Non-Capital Loss Carried Back ($40,962)

As planned, these deductions leave a Taxable Income of $11,038 ($57,000 - $5,000 - $40,962).  The taxes on this amount will be eliminated by Dotty’s basic personal credit.  Since 2012 Taxable Income was equal to her basic personal amount, there would be no carry back to that year.  The following carry forwards remain after these carry back amounts are deducted:

Net Capital Loss Carry Forward ($6,500 - $5,000) $1,500

Non-Capital Loss Carry Forward ($99,500 - $40,962) $58,538

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:

2014 BIL Realized ($78,000 - $345,000) $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

Using this analysis, Doug’s minimum Net Income For Tax Purposes and Taxable Income 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

Lifetime Capital Gains Deduction (Note 1) ( 4,200)

Net Capital Loss Carry Forward Deducted (Note 2) Nil

Taxable Income $148,800

**Note 1** As the only capital gains during 2014 are on qualified property, the simplified formula for the annual gains limit can be used.  Given this, the lifetime capital gains deduction is $4,200, the least of:

Amount Available [(1/2)($800,000)] $400,000

Amount Used [(1/2)($29,500 + $49,000)] ( 39,250)

Amount Available $360,750

Taxable Capital Gain On Qualified Property $144,500

ABIL Realized ( 94,250)

Allowable Capital Loss Deducted (Disallowed ABIL) ( 39,250)

Net Capital Loss Carry Forward Deducted Nil

Annual Gains Limit $ 11,000

Sum Of Annual Gains Limits ($14,750 + $24,500 + $11,000) $50,250

Amounts Deducted In Previous Years ($14,750 + $24,500) ( 39,250)

CNIL (Given) ( 6,800)

Cumulative Gains Limit $4,200

**Note 2**The problem specifies that Doug prefers to use his ITA 110.6 lifetime capital gains deduction rather than his net capital loss carry forward. This is not the best alternative for him. If he deducted his $18,400 net capital loss carry forward, his ITA 110.6 deduction would be nil instead of $4,200. As a result, his Taxable Income would be $134,600 instead of $148,800, a decrease of $14,200.

Solution to Assignment Problem Eleven - 4

Part A

Mr. and Mrs. Brock’s Taxable Income would be calculated as follows:

**Mr. Brock Mrs. Brock**

Registered Pension Plan Receipts Nil $62,000

RRIF Withdrawals Nil 14,000

Interest $ 600 4,200

Eligible Dividends Received 3,200 Nil

Gross Up On Dividends (38 Percent) 1,216 Nil

Old Age Security Benefits 6,600 6,600

Net Income Before Clawback $11,616 $86,800

Social Benefits Repayment (Note 1) Nil ( 2,281)

Net Income For Tax Purposes And Taxable Income   
 Before Any Transfer Of Dividends $11,616 $84,519

**Note 1** Mr. Brock would not have to repay any of his OAS benefits as his Net Income is well below the threshold income of $71,592.  Mrs. Brock’s social benefits repayment would be $2,281, the lesser of:

* $6,600, and
* [(15%)($86,800 - $71,592)] = $2,281.

Mr. Brock’s Tax Payable would be calculated as follows:

Federal Tax Before Credits [(15%)($11,616)] $1,742

Tax Credits

Basic Personal $11,138

Other (Transferred To Mrs. Brock) Nil

Total Base $11,138

Rate 15% ( 1,671)

Dividend Tax Credit [(6/11)($1,216)] ( 663)

Federal Tax Payable Nil

The transfer to Mrs. Brock would be calculated as follows:

Credits Available For Transfer:

Age $ 6,916

Disability 7,766

Total Available $14,682

Reduced By Excess Of:

Mrs. Brock’s Net Income ($11,616)

Over Basic Personal Credit Amount 11,138 ( 478)

Available For Transfer $14,204

The amount owing for Mrs. Brock would be calculated as follows:

Tax On First $43,953 $ 6,593

Tax On Next $40,566 ($84,519 - $43,953) At 22 Percent 8,925 $15,518

Tax Credits

Basic Personal ($11,138)

Spousal Including FCA ($13,196 - $11,616) ( 1,580)

Age {$6,916 - [(15%)($84,519 - $34,873)]} Nil

Pension ( 2,000)

Transfer From Spouse (Preceding Calculation) ( 14,204)

Credit Base ($28,922)

Rate 15% ( 4,338)

Charitable Donations  [(15%)($200) +

(29%)($725 + $1,175 - $200)] (Note 2) ( 523)

Federal Tax Payable $10,657

OAS Clawback 2,281

Amount Owing $12,938

**Note 2** Charitable donations can be claimed by either spouse, as long as the total donations are less than 75 percent of the claiming spouse’s Net Income For Tax Purposes.  As Mr. Brock has no Tax Payable, Mrs. Brock will claim his charitable donations.  It is usually advantageous for one spouse to claim all the charitable donations if they total more than $200, as the low rate of credit is only applied once.

Part B - Eligibility For Transfer

Mrs. Brock’s current spousal credit is $1,580.  If Mr. Brock’s dividends are transferred, he would be left with Net Income For Tax Purposes of $7,200 ($11,616 - $3,200 - $1,216).  This would leave a spousal credit of $5,996 ($13,196 - $7,200).  As this is an increase from the previous amount, the transfer is permitted.

Part C

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

**Mr. Brock Mrs. Brock**

Net Income Before Clawback As Per Part A $11,616 $86,800

Dividend Transfer ( 3,200) 3,200

Gross Up Transfer ( 1,216) 1,216

Net Income After Dividend Transfer Before Clawback $ 7,200 $91,216

Social Benefits Repayment (Note 3) Nil ( 2,944)

Net Income For Tax Purposes And Taxable Income $ 7,200 $88,272

**Note 3** Mr. Brock would not have to repay any of his OAS benefits as his Net Income is well below the threshold income of $71,592.  Mrs. Brock’s social benefits repayment would be $2,944, the lesser of:

* $6,600, and
* [(15%)($91,216 - $71,592)] = $2,944.

As Mr. Brock’s revised income figure is below the basic personal credit of $11,138, his Tax Payable would continue to be nil.  The transfer to Mrs. Brock would be calculated as follows:

Credits Available For Transfer:

Age $ 6,916

Disability 7,766

Total Available $14,682

Reduced By Excess Of:

Mr. Brock’s Net Income ($ 7,200)

Over Basic Personal Credit Amount 11,138 ( Nil)

Available For Transfer $14,682

With respect to Mrs. Brock, her amount owing would be calculated as follows:

Tax On First $87,907 $16,263

Tax On Next $365 ($88,272 - $87,907) At 26 Percent 95 $16,358

Tax Credits

Basic Personal ($11,138)

Spousal Including FCA ($13,196 - $7,200) ( 5,996)

Age {$6,916 - [(15%)($88,272 - $34,873)]} Nil

Pension ( 2,000)

Transfer From Spouse (Preceding Calculation) ( 14,682)

Credit Base ($33,816)

Rate 15% ( 5,072)

Charitable Donations  [(15%)($200) +

(29%)($725 + $1,175 - $200)] ( 523)

Dividend Tax Credit [(6/11)($1,216)] ( 663)

Federal Tax Payable $10,100

OAS Clawback 2,944

Amount Owing $13,044

The use of the ITA 82(3) dividend transfer has decreased Mrs. Brock’s federal Tax Payable by $557, from $10,657 to $10,100.  However, it has increased the OAS clawback by $663, from $2,281 to $2,944.  Overall, the net effect is an increase in the amount owing of $106.  Clearly, the transfer of dividends is not a desirable alternative.

Solution to Assignment Problem Eleven - 5

Case One

The regular Tax Payable calculation for Tom Barlow would be as follows:

Net Business Income $50,000

Eligible Dividends Received 55,000

Gross Up [(38%)($55,000)] 20,900

Loss On Tax Shelter Investment ( 32,000)

RRSP Deduction ( 28,000)

Net And Taxable Income $65,900

Tax On First $43,953 $ 6,593

Tax On Next $21,947 ($65,900 - $43,953) At 22% 4,828

Tax Before Credits $11,421

Basic Personal Credit ( 1,671)

Dividend Tax Credit [(6/11)($20,900)] ( 11,400)

Regular Federal Tax Payable Nil

The alternative minimum tax calculations are as follows:

Regular Taxable Income $65,900

Loss On Tax Shelter Investment 32,000

Dividend Gross Up ( 20,900)

Adjusted Taxable Income $77,000

AMT Exemption ( 40,000)

AMT Base $37,000

Rate 15%

AMT Before Credit $ 5,550

Basic Personal Credit ( 1,671)

Federal AMT $ 3,879

Regular Tax Payable Nil

Additional Tax Required $ 3,879

Case Two

The regular Tax Payable calculation for Samantha Loft would be as follows:

Net Taxable Capital Gains $165,000

Employment Income 21,000

Net Income For Tax Purposes $186,000

Lifetime Capital Gains Deduction ( 162,000)

Taxable Income $ 24,000

Federal Tax Before Credit [(15%)($24,000)] $3,600

Basic Personal Credit ( 1,671)

Regular Federal Tax Payable $1,929

The alternative minimum tax calculations are as follows:

Regular Taxable Income $ 24,000

30 Percent Of Capital Gains [(30%)(2)($165,000)] 99,000

Adjusted Taxable Income $123,000

AMT Exemptions ( 40,000)

AMT Base $ 83,000

Rate 15%

AMT Before Credit $ 12,450

Basic Personal Credit ( 1,671)

Federal AMT $ 10,779

Regular Tax Payable ( 1,929)

Additional Tax Required $ 8,850

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

Solution to Assignment Problem Eleven - 6

Net Income For Tax Purposes And Taxable Income

Ms. Klaus’ minimum Net Income For Tax Purposes and Taxable Income would be calculated as follows:

**Net Employment Income**

Gross Salary - Ottawa $62,000

RPP Contributions - Ottawa ( 2,500)

Stock Option Benefit (Note One) 10,000

Gross Salary - Toronto 13,000

RPP Contributions - Toronto ( 650)

Moving Allowance (Note Two) 7,500 $ 89,350

**Business And Property Income**

Non-Eligible Dividends On Lintz Shares $ 7,500

Gross Up [(18%)($7,500)] 1,350

Mail Order Business (Note Three) 22,500 31,350

**Net Taxable Capital Gains**

Lintz Shares [(1/2)($105,000 - $95,000 - $1,050)] $ 4,475

Employer’s Shares (Note Four) ( 175) 4,300

**Other Sources Of Income (Subdivision d)**

Child Support (Note Five) $ -0-

Retiring Allowance (Note Six) 30,000 30,000

**Other Deductions From Income (Subdivision e)**

Moving Expenses (Note Two) ($ 5,160)

Child Care Costs (Note Seven) ( 7,560)

RRSP Contributions (Note Eight) ( 36,498) ( 49,218)

Net Income For Tax Purposes $105,782

Stock Option Deduction (Note One) ( 5,000)

Taxable Income $100,782

**Note One** The required inclusion would be calculated as follows:

Fair Market Value At Exercise [($20)(2,000 Shares)] $40,000

Cost Of Shares [($15)(2,000 Shares)] ( 30,000)

Stock Option Benefit $10,000

As the option price at the time the options were issued was greater than the fair market value of the shares at that time, Ms. Klaus is entitled to a deduction under ITA 110(1)(d), equal to one-half of the $10,000 employment income benefit.

**Note Two** All allowances received from an employer, except for those that are specifically exempted, must be included in employment income.  As there is no exemption for a moving expense allowance, the $7,500 received by Ms. Klaus must be added to income.  However, she can then deduct the following moving expenses in the calculation of Net Income For Tax Purposes:

Moving Company Charges $3,800

Airfare For Toronto Trip (Not Deductible) Nil

Meals And Lodging On Toronto Trip (Not Deductible) Nil

Gas For October 31 Move To Toronto 65

Lodging In Ottawa On October 30 110

Meals On October 30 And October 31 250

Lease Cancellation Charges 935

Legal Fees On Acquisition Of Toronto Home (Not Deductible) Nil

Total $5,160

You should note that this situation should have been structured differently.  By giving an allowance not based on actual expenses, the employer placed Ms. Klaus in the position of having to list her expenses.  As a consequence, she was limited to those deductions specified in ITA 62(3).  The result is a net inclusion in income of $2,340 ($7,500 - $5,160).  As an alternative, the employer could have reimbursed her for all of the expenses listed in the problem, without creating a taxable benefit for Ms. Klaus.  This would have cost the employer less than $7,500 and, in addition, Ms. Klaus would have avoided the additional taxes on the $2,340.  The legal fees on the new home are not deductible because she did own a home in the old location.

**Note Three** The interest on the demand loan is deductible and does not require adjustment.  The $27,000 withdrawal would have no effect on business income.

**Note Four** For shares acquired through the exercise of stock options, the adjusted cost base is the fair market value of the shares at the time of exercise.  As a consequence, the allowable capital loss arising on the disposition of the employer’s shares would be calculated as follows:

Proceeds Of Disposition [($20)(2,000 Shares)] $40,000

Less:

Adjusted Cost Base [($20)(2,000)] ($40,000)

Selling Costs ( 350) ( 40,350)

Capital Gain (Loss) ($ 350)

Inclusion Rate 1/2

Taxable Capital Gain (Allowable Capital Loss) ($ 175)

**Note Five** Ms. Klaus cannot deduct the $2,500 in legal fees paid in connection with her separation agreement.  However, as her husband will not be able to deduct the $25,000 lump sum payment, it does not have to be included in her income.  The $48,000 [($4,000)(12 Months)] in child support will not be deductible to her husband and will be excluded from her Net Income For Tax Purposes.

**Note Six** All of the retiring allowance must be included in income under ITA 56(1)(a)(ii).  Subject to a limit of $2,000 per year of service prior to 1996, amounts transferred to an RRSP can be deducted under ITA 60(j.1).   Ms. Klaus had 20 years of service prior to 1996.  As a result, her maximum transfer would be $40,000 [(20)($2,000)].  Given this, she can transfer to her RRSP, and deduct, the entire $30,000 retiring allowance.

**Note Seven** The deductible child care costs of $7,560 would be the least of:

Actual Child Care Expense Plus Deductible Camp Fees

[$7,160 + ($100 Limit)(4 Weeks)] $ 7,560

Annual Limit ($10,000 For Louise + $4,000 For Martin) 14,000

Two-Thirds Of Earned Income

[(2/3)($89,350 + $2,500 + $650 + $22,500)] 76,667

**Note Eight** Ms. Klaus’ maximum deductible RRSP contribution of $36,498, which includes her retiring allowance, is calculated as follows:

Unused Deduction Room - End Of 2013 Nil

Lesser Of:

* 2014 RRSP Dollar Limit = $24,270
* 18% Of 2013 Earned Income Of $61,100 = $10,998 $10,998

Less 2013 PA ( 4,500)

RRSP Deduction Limit $ 6,498

Retiring Allowance 30,000

Maximum Deductible RRSP Contribution For 2014 $36,498

Tax Payable

The Tax Payable would be calculated as follows:

Tax on First $87,907 $16,263

Tax on Next $12,875 ($100,782 - $87,907) At 26 Percent 3,348

Total Before Credits $19,611

Basic Personal Amount ($11,138)

Eligible Dependant - Martin (Note 9) ( 11,138)

Caregiver Including FCA - Louise (Note 9) ( 6,588)

Child ( 2,255)

CPP ( 2,426)

EI ( 914)

Canada Employment ( 1,127)

Transfer Of Louise’s Disability ( 7,766)

Medical Expenses (Note Ten) ( 15,499)

First Time Home Buyer’s ( 5,000)

Credit Base ($63,851)

Rate 15% ( 9,578)

Non-Eligible Dividend Tax Credit [(13/18)($1,350)] ( 975)

Charitable Donations

[(15%)($200) + (29%)($1,500 - $200)] ( 407)

Political Contributions Tax Credit

[(3/4)($400) + (1/2)($350) + (1/3)($150)] ( 525)

Net Federal Tax $ 8,126

CPP Overpayment ($2,426 + $500 - $2,426) ( 500)

EI Overpayment ($914 + $390 - $914) ( 390)

Amount Owing To The CRA $ 7,236

**Note Nine** As the eligible dependant credit can only be claimed for one individual, claiming it for Martin means that Louise does not qualify for this credit.  As she does not qualify for this credit, she would be eligible for both the infirm dependant over 17 and the caregiver tax credits.  In these circumstances, ITA 118(4)(d) deems Louise not to be a dependant, in effect requiring the caregiver credit to be claimed.  Because Louise is disabled, and her income is below the threshold for the caregiver credit, Ms. Klaus can claim the full amount of the caregiver credit, as well as the family caregiver amount.

**Note Ten**

Marcia And Martin’s Medical Expenses ($9,700 + $900) $10,600

Threshold - Lesser Of:  [(3%)($105,782)] and $2,171 ( 2,171)

Subtotal $ 8,429

Louise’s Medical Expense $7,250

Reduced By The Lesser Of:

* [(3%)($6,000)] = $180
* 2014 Limit = $2,171 ( 180) 7,070

Allowable Medical Expenses $15,499

Solution to Assignment Problem Eleven - 7

Net And Taxable Income

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

Employment Income $378,000

Employment Expenses - Home Office

[(650/5,000)($3,200 + $4,000 + $3,800 + $6,700)] ( 2,301)

Net Rental Income (Note One) Nil

Taxable Capital Gains (Note Two) 4,418

Net Income For Tax Purposes $380,117

Net Capital Loss Carry Forward From 2013 (Note Three) (     4,418)

Taxable Income $375,699

**Note One** Mr. Pharmacy’s net rental income can be calculated as follows:

Gross Rents $ 16,000

Less Expenses:

Property Taxes $5,128

Insurance 1,890

Interest 3,175

Maintenance And Repairs ($550 + $3,469) 4,019 ( 14,212)

Rental Income Before CCA $   1,788

CCA On Class 1 Building\* (Maximum Allowed) (    1,788)

Net Rental Income  Nil

\*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 $4,298 [(4%)($107,441)] is available on Class 1, only $1,788 can be taken in 2014.

**Note Two - Listed Personal Property** 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 listed personal property loss can be carried forward.

**Note Two - Other Capital Property** The motorcycle and sailboat would be classified as personal use property.  Therefore, the loss realized on the motorcycle cannot be recognized.  However, the gain on the sailboat must be recognized, along with the Molson shares and the loss on the Imperial Oil shares.  The required calculations are 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

**Net Taxable Capital Gain** The net taxable capital gain is $4,418 ($4,683 - $1,265 + $1,000).

**Note Three** The $10,500 net capital loss carry forward from the 2013 sale of shares can be deducted in 2014 to the extent of the $4,418 in taxable capital gains realized in 2014.  This leaves a net capital loss carry forward of $6,082 ($10,500 - $4,418).

Tax Payable

Mr. Pharmacy’s federal Tax Payable would be calculated as follows:

Federal Tax On First $136,270 $28,837

Federal Tax On Next $239,429 ($375,699 - $136,270) At 29 Percent      69,434

Gross Federal Tax $98,271

Basic Personal Amount ($11,138)

Spousal ($11,138 - $5,800) ( 5,338)

Child (Includes Family Caregiver Amount) ( 4,313)

Caregiver - Joan (Includes Family Caregiver Amount) ( 6,588)

Transfer - Valerie’s Age Amount ( 6,916)

Transfer - Kevin’s Disability ( 7,766)

Disability Supplement Less Childcare Costs Over Limit

[$4,530 - ($3,500 - $2,654)] ( 3,684)

Child Fitness ($500 Maximum + $500 Supplement) ( 1,000)

Children’s Arts ($250 + $500 Supplement) ( 750)

EI Premiums ( 914)

CPP Contributions ( 2,426)

Canada Employment ( 1,127)

Medical Expenses (Note Four) ( 37,477)

Credit Base ($89,437)

Rate 15% ( 13,416)

Charitable Donations

[(15%)($200) + (29%)($400 + $1,000 + $3,000 - $200)] ( 1,248)

Federal Tax Payable $  83,607

Provincial Tax Payable (Given) 52,000

Income Tax Withheld ( 114,000)

Tax Payable $ 21,607

Loss Carry Forwards

There are two loss carry forwards available:

Net Capital Loss Carry Forward $6,082

Listed Personal Property Loss Carry Forward 350

**Note Four** The allowable medical expenses can be calculated as follows:

George, Spouse, And Minor Child (Kevin) Medical Expenses

($731 + $155 + $109 + $67 + $30,000 + $800) $31,862

Threshold - Lesser Of:  [(3%)($375,699)] And $2,171 (    2,171)

Subtotal $29,691

Martin’s Medical Expenses $6,000

Lesser Of:

* [(3%)($8,300)] = $249
* 2014 Threshold Amount = $2,171 ( 249) 5,751

Joan’s Medical Expenses $2,050

Lesser Of:

* [(3%)($500)] = $15
* 2014 Threshold Amount = $2,171 ( 15) 2,035

Allowable Medical Expenses $37,477

Notes To George’s Tax Return

* Since Valerie’s father David is not a Canadian resident, he cannot be claimed as a dependant.  In addition, his medical expense cannot be claimed.
* Valerie’s age credit is transferred to George as her Net Income For Tax Purposes is less than the basic personal amount.  George’s income is too high to claim his own age credit.
* Both Kevin and Joan qualify for family caregiver amount given Kevin’s blindness and the doctor’s letter for Joan.
* 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.
* The $500 maximum child fitness amount and the $250 children’s arts amount are both eligible for the $500 supplements for disabled children.
* 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 workspace in the home costs.
* The new computer and software are capital assets and no part of their cost can be deducted as an employment expense.

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 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 is 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 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 [(18%)($20,000)] 3,600

ITA 20(1)(ww) Deduction For Split Income ( 23,600)

Net Income For Tax Purposes Nil

Taxable Income

As his Net Income For Tax Purposes is nil, Jihoon Son’s Taxable Income would also be nil.

Tax Payable

As his Taxable Income is nil, Jihoon Son’s regular federal Tax Payable would also be nil.  However, he would have a tax on his split income, calculated as follows:

Split Income $23,600

Rate 29%

Tax Before Credit $ 6,844

Dividend Tax Credit [(13/18)(18%)($20,000)] ( 2,600)

Tax Payable On Split Income $4,244

As his regular Tax Payable is nil, his total Tax Payable would be $4,244.

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) 111,300

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 $635,200

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

Non-Eligible Dividend On Son Enterprises Shares $ 60,000

Gross Up [(18%)($60,000)] 10,800

Interest Income From South Korean Bank Account (100%) 500

Royalties 40,000

Property Income $111,300

**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 seven preceding years or the three 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 in 2014.  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 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 ($11,138 for 2014).  However, since split income is deducted in the determination of Net Income For Tax Purposes and Jihoon has no income other than split income, his Net Income For Tax Purposes is nil.

Taxable Income

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

Net Income For Tax Purposes $635,200

Less: Lifetime Capital Gains Deduction (Note 7) ( 267,450)

Less: Net Capital Loss Carry Forward ( 2,000)

Taxable Income $365,750

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

**Capital Gains Deduction Available = $300,000**

Maximum lifetime limit [(1/2)($800,000)] $400,000

Less: used in previous year [(1/2)($200,000)] (  100,000)

Capital Gains Deduction available $300,000

**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 $136,270 $28,837

Tax on Next $229,480 ($365,750 - $136,270) at 29% 66,549

Tax Before Credits $95,386

Tax Credits:

Basic Personal ($11,138)

Eligible Dependant ( 11,138)

Child Credit ( 2,255)

CPP (   2,426)

Canada Employment Credit ( 1,127)

Children’s Arts Credit ($500 Maximum) ( 500)

Child Fitness Credit ( 200)

Medical Expenses (Note 9) ( 17,829)

Total Credit Base ($46,613)

Rate   15% ( 6,992)

Charitable Donation Credit (Note 10) ( 5,047)

Foreign Tax Credit (Note 11) ( 50)

Non-Eligible Dividend Tax Credit [(13/18)($10,800)] ( 7,800)

Federal Tax Payable $75,497

**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%)($635,200)] = $19,056
* 2014 Threshold Amount = $2,171 ( 2,171)

Total Credit Base $17,829

**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 credit is $5,047 [(15%)($200) + (29%)($17,500 - $200)].  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.

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

Net Income For Tax Purposes $635,200

Lifetime Capital Gains Deduction Taken ( 267,450)

Capital Loss Carry Forward Deducted ( 2,000)

Adjusted Division B Income (= Taxable Income) $365,750

Her Tax Otherwise Payable would be calculated as follows:

Tax Before Credits $95,386

Basic Personal Credits ( 6,992)

Charitable Donation Credit ( 5,047)

Tax Otherwise Payable $83,347

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 ÷ $365,750)($83,347)] = $114

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 $365,750

30 Percent Of Net Capital Gains [(30%)(2)($386,900)] 232,140

Dividend Gross Up [(18%)($60,000)] (   10,800)

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

Basic Personal Tax Credits ( 6,992)

Charitable Donation Credit ( 5,047)

Alternative Minimum Tax Payable $ 70,025

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
* [(0.27)(4,000)] = $1,080 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 2013 is equal to his Earned Income for 2014, this figure would be calculated as follows:

Net Employment Income $90,324

RPP Deduction 3,100

2014 RRSP Earned Income $93,424

Given this, his RRSP deduction room for 2014 would be calculated as follows:

January 1, 2014 Unused Deduction Room Nil

2014 Addition - Lesser Of

2014 Limit = $24,270

[(18%)($93,424)] = $16,816 $16,816

2013 PA [(2)($3,100)] ( 6,200)

Maximum 2014 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 2014 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 $87,907 $16,263

Federal Tax On Next $28,477 ($116,384 - $87,907) At 26 Percent 7,404

Gross Federal Tax $23,667

Tax Credits:

Basic Personal Amount ($11,138)

Spousal ($11,138 - $3,400) ( 7,738)

CPP ( 2,426)

EI ( 914)

Canada Employment ( 1,127)

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 ($28,343)

Rate 15% ( 4,251)

Federal Tax Payable $19,416

**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, he can contribute up to $11,000 [($5,500)(2 years)] into a TFSA.  As there is no information on his prior employment income, it is not possible to calculate his RRSP deduction room, but given his $3,300 employment income, he can contribute at least $594 in 2015.

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 Problem Tax Software Eleven - 1

This problem and solution contain 2013 (not 2014) information as software for 2014 is not yet available.  Shortly after the first filing version of the 2014 Intuit ProFile software is available in January, 2015, the updated 2014 version of this problem will be available on the textbook web site at:

**www.pearsoncanada.ca/byrdchen/ctp2015**

The complete tax return is available on the Instructor’s Resource CD-ROM under the heading “Tax Software Assignment Problems” in two forms, a ProFile version and a .PDF version.

To view the .PDF file that contains the complete tax return, select the file “PDF Software Problem 11-1” from the PDF Format drop-down list.

To view the ProFile file of the complete tax return, select the file “Software Problem 11-1” from the ProFile Format drop-down list.

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

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 would definitely be advantageous for Mr. Musician.  However it is available on annuity payments out of an RRSP, but not non-annuity withdrawals.  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 2013 (not 2014) information as software for 2014 is not yet available.  Shortly after the first filing version of the 2014 Intuit ProFile software is available in January, 2015, the updated 2014 version of this problem will be available on the textbook web site at:

**www.pearsoncanada.ca/byrdchen/ctp2015**

The complete tax return is available on the Instructor’s Resource CD-ROM under the heading “Tax Software Assignment Problems” in two forms, a ProFile version and a .PDF version.

To view the .PDF file that contains the complete tax return, select the file “PDF Software Problem 11-2” from the PDF Format drop-down list.

To view the ProFile file of the complete tax return, select the file “Software Problem 11-2” from the ProFile Format drop-down list.

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

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 $500 maximum child 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 2012 sale of shares can be deducted in 2013 to the extent of the $4,418 in taxable capital gains realized in 2013.  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

Problem Redesigned For 2013

The Mary and Seymour Career problem has been redesigned to offer instructors a great deal more flexibility.  Tax Software Assignment Problem Four-3 is still a self-contained problem, but the other versions of the problem have been revised.

The information that was available in chapters 4 through 11 has been consolidated into Tax Software Assignment Problem Eleven-3.  However, the material related to each chapter is clearly identified and a separate solution for each chapter’s material is available.

For example, it is now possible to assign the problem after covering Chapter 4, Chapter 8 and Chapter 11 by specifying up to what chapter in the problem your students should include in their work.

You can then refer to the separate solutions for Chapters 4, 8 and 11.

You also have the option of assigning the complete problem after covering Chapter 11 and all of the information for the problem for students and instructors is in one place.

Solution For Tax Software Assignment Problem 11-3 Contains Interim Solutions

The solution for Tax Software Assignment Problem 11-3 includes the instructor notes for each chapter’s material, labeled separately.   Included on this web page (in this zipped file) are three files related to each chapter’s material in Tax Software Assignment Problem 11-3:

the complete tax returns in two separate PDF files named   
“**PDF Software Problem Chap # Mary** or **Seymour**.pdf” , and

the complete coupled T1 ProFile tax return file named   
“**Software Problem Chap #.13T**”

This solution includes the combined Tax Summary from the ProFile T1 returns for chapters 6 to 11.  Note that the program can only be used to calculate 2013 (not 2014) tax returns and the problem and solution reflect this fact.

The complete tax returns for each chapter are available on the Instructor’s Resource CD-ROM under the heading “Tax Software Assignment Problems” in two forms, a ProFile version and a .PDF version.

To view the .PDF file that contains the complete tax returns for Seymour or Mary, select the file “**PDF Software Problem Chap # Mary** or **Seymour**.pdf” from the PDF Format drop-down list.

To view the the complete coupled T1 ProFile tax return file, select the file “**Software Problem Chap #**.13T” from the ProFile Format drop-down list.

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 no income at this point, they have been claimed by Mary.

Notes Related To Chapter 6 Material

* 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, 2010, 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.
* Either spouse can claim the child tax credit, the children’s arts credit and charitable donations made by the couple, including donations on T4s.  Since Mary would be getting  a refund and Seymour would have a larger balance owing without the transfer, these should all be claimed by Seymour to reduce his tax liability.

**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 for 2013.  With the information on Seymour’s income available in the Chapter 6 material of the problem, the child tax credit and charitable donations should be transferred to Seymour.

* To transfer the child tax credit, go to the form, Dependants on Mary’s return.  Answer No to the question near the top of the form “Claim child amount?”. Seymour’s return will automatically show Yes to this question.
* 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.

Forms Used Or Revised For Chapter 6 Material

* Seymour’s return is created
* If Chapter 4 problem was previously completed, the donations and child tax credit 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 2012 RRSP contribution $162.15

Interest on late payment of 2012 income tax 233.72

Interest on insufficient tax instalments for 2012 52.81

Interest on late GST/HST payments 212.82

Penalty for late filing of 2012 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.
* 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 2011, 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 2011.  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.
* 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 2013, he should be strongly advised to pay his instalments for 2014 on time to prevent more non-deductible interest.

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

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:

**Shares Cost Average**

**Acquisition Date Purchased (Sold) Per Share Total Cost Cost/Share**

April 1, 2011 1,500 $ 2.00 $ 3,000

October 1, 2011 2,000 12.00 24,000

Subtotal 3,500 $27,000 $ 7.71

April 1, 2012 (1,000) ( 7.71) ( 7,710)

June 1, 2012 400 25.00 10,000

Subtotal 2,900 $29,290 $10.10

January 6, 2013 ( 800) ( 10.10) ( 8,080)

February 1, 2013 800 20.00 16,000

Subtotal 2,900 $37,210 $12.83

March 14, 2013 ( 600) ( 12.83) ( 7,698)

December 31, 2013 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 2000 until 2011 and he would designate the house as his principal residence for these 12 years.  Assuming the property is transferred to his daughter in 2013 (in reality, given the date of his death, this would be almost impossible), he would have owned the property for an additional two years, for a total of 14 years.
* Seymour has been living in Mary’s house since his marriage to her in 2011.  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 2011.
* 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 2013, 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.
* Although the 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 2013 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 2014 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
* For Seymour:

Claim support on Support

Claim the children’s arts credit on Dependents

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, Mary must deduct the $3,100 in child care expenses 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 2013, no RRSP contributions based on that income can be made in 2014.

As calculated on the form RRSP, Seymour’s maximum deductible contribution for 2013 is as follows:

Unused RRSP Deduction Room At The End Of 2012 (Given) $19,762

Plus The Lesser Of:

* $23,820 (2013 Maximum)
* [(18%)($45,000)] = $8,100 8,100

RRSP Deduction Limit $27,862

Mary’s RRSP calculations for 2013 (Form RRSP) and 2014 (Form RRSPLimit) are as follows:

Unused RRSP Deduction Room At The End Of 2012 (Given) $14,091

Plus The Lesser Of:

* $23,820 (2013 Maximum)
* [(18%)($180,000)] = $32,400 23,820

RRSP Deduction Limit For 2013 $37,911

Contributions Made For 2013 Prior To February, 2014 ( 22,200)

Unused RRSP Deduction Room At The End Of 2013 $15,711

Plus The Lesser Of:

* $24,270 (2014 Maximum)
* [(18%)($152,866)] = $27,515 24,270

Additional Deductible RRSP Contribution For 2013 and 2014   $39,981

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 2014 is found on RRSPLimit

Notes Related To Chapter 11 Material

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.  When Seymour’s date of death is 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 $39,981 as calculated for the Chapter 10 information in this problem.  By contributing this, it will give her the maximum deduction for 2013 and leave a carry forward of undeducted RRSP contributions equal to the maximum limit for 2014.

Mary should ensure that Seymour’s 2013 taxes are paid by June 30, 2014 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 2012 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.

Part B

If Mary’s instructions had been followed and the shares donated in 2013, 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 2013 charitable donation receipt would have reduced her (or Seymour’s) 2013 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 Dunway Ltd. would be calculated as follows:

Operating Income ($725,000 - $533,000) $192,000

Dividends Received ($37,500 + $15,000) 52,500

Taxable Capital Gain [(1/2)($222,000)] 111,000

**Net Income For Tax Purposes $355,500**

Deductions:

Dividends Received ($ 52,500)

Donation To Government (Note 1) ( 26,000)

Donations To Registered Charities (Note 1) ( 141,000)

Net Capital Loss Carry Forward (Note 2) ( 111,000) ( 330,500)

Taxable Income Before Non-Capital Loss Carry Forward $ 25,000

Non-Capital Loss Carry Forward (Note 3)  (  25,000)

**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.  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 $111,000 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, Dunway will have:

* a net capital loss balance of $69,000 ($180,000 - $111,000).   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 $112,000 ($137,000 - $25,000).

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, 2014 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 , 2014 (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, 2014 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

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

ITA 3(a) Dividends $ 51,500

ITA 3(b)

Taxable Capital Gains [(1/2)($41,500)] $20,750

Allowable Capital Losses [(1/2)($7,300)] ( 3,650) 17,100

ITA 3(c) $ 68,600

ITA 3(d) Business Loss ( 225,000)

**Net Income For Tax Purposes Nil**

Dividends Received ($ 51,500)

Net Capital Loss Carry Forward

(Limited To Net Taxable Capital Gains) ( 17,100)

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 $78,250

Used During Year ( 17,100)

Net Capital Loss Carry Forward $61,150

**Charitable Donations Carry Forward**

Beginning Balance $ 6,400

Added During Year 6,300

Used During Year Nil

Unused Charitable Donations $12,700

**2014 Non-Capital Loss**

Balance Under E

Dividends Received And Deducted $ 51,500

Business Loss 225,000

Net Capital Loss Carry Forward Deducted 17,100

Subtotal $293,600

Balance Under F - Income Under ITA 3(c) ( 68,600)

2014 Non-Capital Loss $225,000

**Non-Capital Loss Carry Forward**

Balance From Previous Years $ 61,400

Added During Year 225,000

Used During Year Nil

Non-Capital Loss Carry Forward $286,400

As per the policy of the Company, this solution minimizes the net capital loss carry forward.  In the absence of this policy, alternative solutions could minimize the charitable donations carry forward or the non-capital loss balance.

Solution to Assignment Problem Twelve - 5

2011 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 2011.

2012 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 2011 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 2011.  The amended Taxable Income is as follows:

Taxable Income As Reported $134,900

Non-Capital Loss Carry Back from 2012 ( 134,900)

Amended 2011 Taxable Income Nil

2012 Carry Forwards

The following carry forward amounts are available at the end of 2012:

**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 2011 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).

2013 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 2013 Taxable Income to nil.

2013 Carry Forwards

The following carry forward amounts are available at the end of 2013.

**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 2012 remains at the end of 2013.

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

Carry Forward From 2012 $135,700

Used In 2013 ( 82,400)

Balance At December 31, 2013 $ 53,300

2014 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 ($62,100 + $15,100) $77,200

Income Under ITA 3(c) [$15,100 + (1/2)($3,700)] ( 16,950)

Non-Capital Loss $60,250

As the 2013 Taxable Income was reduced to nil, none of this 2014 loss can be carried back to that year.

2014 Carry Forwards

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

**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 2014, the non-capital loss carry forward eliminated all of that year’s income. Given this, the $6,750 net capital loss balance from 2012 remains at the end of 2014.

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

Carry Forward From 2013 $ 53,300

2014 Addition 60,250

Balance At December 31, 2014 $113,550

Solution to Assignment Problem Twelve - 6

2011 Analysis

Net And Taxable Income

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

Net Business Income $123,000

Dividends 6,000

**Net Income For Tax Purposes $129,000**

Dividends ( 6,000)

Charitable Donations ( 1,500)

**Taxable Income $121,500**

There is an allowable capital loss of $6,000 [(1/2)($12,000)] that can only be deducted against taxable capital gains.

2011 Carry Forwards

The following carry forward amount is available at the end of 2011:

* Net Capital Loss $6,000

2012 Analysis

Net And Taxable Income

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

Net Business Income $18,000

Taxable Capital Gain [(1/2)($32,000)] 16,000

Dividends 7,000

**Net Income For Tax Purposes $41,000**

Dividends ( 7,000)

Charitable Donations ( 8,500)

Net Capital Loss Carry Forward (All) ( 6,000)

**Taxable Income $19,500**

2012 Carry Forwards

As the Company was able to deduct all of the net capital loss from 2011, no carry forward amounts remain.

2013 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) $ 6,000

Business Loss [ITA 3(d)] ( 85,000)

**Net Income For Tax PurposesAnd Taxable Income** Nil

Net Capital Loss Carry Back And Amended 2012 Return

In 2013, there is a net capital loss of $12,500 [(1/2)($25,000)].  While there was a $16,000 taxable capital gain in 2012, $6,000 of this amount was used by the net capital loss carry forward from 2011.  This means that only $10,000 of the $12,500 can be carried back to 2012.  Given this, the 2012 amended return would be as follows:

Taxable Income As Reported $19,500

Net Capital Loss Carry Back From 2013 ( 10,000)

Amended 2012 Taxable Income $ 9,500

Non-Capital Loss Carry Back And Amended 2011 Return

The 2013 non-capital loss would be calculated as follows:

Business Loss $85,000

Dividends Received And Deducted 6,000

Amount E $91,000

Income Under ITA 3(c) ( 6,000)

2013 Non-Capital Loss $85,000

As the 2011 Taxable Income was $121,500, all of this loss can be carried back to that year.  Given this, the amended return for 2011 would be as follows:

Taxable Income As Reported In 2011 $121,500

Non-Capital Loss Carry Back from 2013 ( 85,000)

Amended 2011 Taxable Income $ 36,500

2013 Carry Forwards

The following carry forward amounts are available at the end of 2013:

* Net Capital Loss ($12,500 - $10,000) $2,500
* Charitable Donations 4,200
* Non-Capital Loss Nil

2014 Analysis

Net And Taxable Income

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

Net Business Income $32,000

Taxable Capital Gains 8,000

Dividends 9,000

**Net Income For Tax Purposes $49,000**

Dividends ( 9,000)

Current Charitable Donations ( 1,800)

Charitable Donations Carry Forward ( 4,200)

Net Capital Loss Carry Forward (All) ( 2,500)

**Taxable Income $31,500**

2014 Carry Forwards

At the end of 2014, there are no carry forward balances.

Solution to Assignment Problem Twelve - 7

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

**Salaries And Wages Gross Revenues**

**Province Amount Percent Amount Percent**

Manitoba $ 369,750 15% $1,252,000 20%

Ontario 616,250 25% 1,565,000 25%

Quebec 986,000 40% 2,191,000 35%

United States 493,000 20% 1,252,000 20%

Total $2,465,000 100% $6,260,000 100%

The province by province average of the two percentages, calculated above, would be used to allocate the total Taxable Income of $1,467,000 as follows:

**Taxable**

**Province Wages Revenues Average Income**

Manitoba 15% 20% 17.5% $ 256,725

Ontario 25% 25% 25.0% 366,750

Quebec 40% 35% 37.5% 550,125

United States 20% 20% 20.0% 293,400

Total 100% 100% 100.0% $1,467,000

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) ( 25,731)

General Rate Reduction (Note Three) ( 74,314)

Part I Tax Payable $97,040

**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 2013 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 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 $25,731 [(17%)($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

The minimum Taxable Income for Blackman Inc. would be calculated as follows:

Net Income For Tax Purposes $624,300

Deductions:

Dividends ($198,000)

Charitable Donations ( 64,700)

Non-Capital Loss Carry Forward ( 72,400) ( 335,100)

Taxable Income $289,200

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

Base Amount Of Part I Tax [(38%)($289,200)] $109,896

Federal Tax Abatement [(10%)($289,200)] ( 28,920)

Small Business Deduction (Note 1) ( 17,000)

M&P Deduction (Note 2) ( 24,596)

General Rate Reduction (Note 3) Nil

Part I Federal Tax Payable $ 39,380

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

Canadian Active Business Income $426,300

Taxable Income (no foreign tax credit adjustment needed) 289,200

Annual Business Limit [(20%)($500,000)] 100,000

The small business deduction is equal to $17,000 [(17%)($100,000)].

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

M&P Profits (Given) $334,000

Amount Eligible For The SBD ( 100,000) $234,000

Taxable Income $289,200

Amount Eligible For The SBD ( 100,000) $189,200

Based on these figures, the deduction would be equal to $24,596 [(13%)($189,200)].

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

Taxable Income $289,200

Amount Eligible For The SBD ( 100,000)

Amount Eligible For The M&P Deduction ( 189,200)

Base $ Nil

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 which would be nil due to the capital loss carry forward applied.

Part A - Net Income For Tax Purposes

The calculation of MIL’s Net Income For Tax Purposes would be as follows:

Accounting Net Income Before Taxes $ 609,400

Additions:

Amortization Expense (Income Statement) $285,000

Taxable Capital Gain On Building (Note 1) 7,500

Taxable Capital Gain On Land (Note 1) 12,500

Taxable Capital Gain On Vacant Land (Note 2) 5,100

Recapture On Building (Note 3) 125,646

Accounting Loss On Vehicles  (Income Statement) 40,000

Non-Deductible Meals And Entertainment

(50% of $32,000) 16,000

Golf Club Membership Fees 14,600

Articles Of Incorporation Amendment Costs 13,500

Bond Discount Amortization 3,500

Donations To Registered Charities 3,400

Interest On Late Income Tax Instalments 900

Foreign Tax Withheld 2,400 530,046

$1,139,446

Deductions:

Accounting Gain On Building (Income Statement) ($ 75,000)

Accounting Gain On Vacant Land

(Income Statement) ( 51,000)

Landscaping ( 15,000)

Capital Cost Allowance (Note 3) ( 287,102)

Terminal Loss (Note 3) ( 19,417)

Write-Off Of CEC (Note 4) ( 4,859) ( 452,378)

Net Income For Tax Purposes $ 687,068

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

Proceeds Of Disposition ($1,185,000 - $225,000) $960,000

Capital Cost ($1,145,000 - $200,000) ( 945,000)

Capital Gain $15,000

Inclusion Rate 1/2

Taxable Capital Gain $ 7,500

In addition to the taxable capital gain on the building, there will be a taxable capital gain on the land of $12,500 [(1/2)($225,000 - $200,000)]

**Note 2** There is a capital gain on the vacant land of $51,000 ($623,000 - $572,000).  However, as not all of the proceeds of disposition were received in 2014, a reserve can be deducted.  The reserve will be the lesser of the following two amounts:

[($51,000)($573,000  $623,000)] = $46,907

[($51,000)(20%)(4 - 0] = $40,800

Deducting the lesser amount leaves a capital gain of $10,200 ($51,000 - $40,800), and a taxable capital gain of $5,100 [(1/2)($10,200)].

**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.  This resulted in recapture on the old building that was disposed of.

**Class 1 - Old Building**

January 1, 2014 Class 1 Balance $819,354

Disposition - Lesser Of:

* Proceeds = $960,000 ($1,185,000 - $225,000)
* Capital Cost = $945,000 ($1,145,000 - $200,000) ( 945,000)

Negative Ending UCC Balance ($125,646)

Recapture 125,646

January 1, 2015 UCC Balance Nil

**Class 1 - New Building**

New Class 1 Addition ($1,425,000 - $260,000) $1,165,000

One-Half Net Additions ( 582,500)

Balance $ 582,500

CCA [(10%)($582,500)] ( 58,250)

One-Half Net Additions 582,500

January 1, 2015 UCC Balance $1,106,750

**Class 8**

January 1, 2014 Class 8 Balance $ 985,261

Additions 98,000

One-Half Net Additions ( 49,000)

CCA Base $1,034,261

CCA [(20%)($1,034,261)] ( 206,852)

One-Half Net Additions 49,000

January 1, 2015 UCC Balance $ 876,409

**Class 10**

January 1, 2014 Class 10 Balance $96,417

Disposition - Lesser Of:

* Proceeds = $77,000
* Capital Cost = $193,000 ( 77,000)

Positive Ending Balance With No Assets Left In Class $ 19,417

Terminal Loss ( 19,417)

January 1, 2015 UCC Balance Nil

**Class 13**

January 1, 2014 Class 13 Balance $187,000

2014 CCA:

2012 Expenditures ($180,000  10 Years) ( 18,000)

2013 Expenditures ($36,000  9 Years) ( 4,000)

January 1, 2015 UCC Balance $165,000

**Summary Of CCA And UCC Results**

**Class Maximum CCA UCC**

Class 1 - Old (Recapture = $125,646) Nil Nil

Class 1 - New $ 58,250 $1,106,750

Class 8 206,852 876,409

Class 10 (Terminal Loss = $19,417) Nil Nil

Class 13 ($18,000 + $4,000) 22,000 165,000

Total $287,102

**Note 4** The 2014 amortization and the January 1, 2015 balance of the cumulative eligible capital account can be calculated as follows:

2013 Addition [(3/4)($85,000)] $63,750

2013 CEC Amount At 7 Percent ( 4,463)

Opening Balance, 2014 $59,287

2014 Addition Of Legal Fees [(3/4)($13,500)] 10,125

2014 Base $69,412

2014 CEC Amount At 7 Percent ( 4,859)

January 1, 2015 CEC Balance $64,553

Part B - Taxable Income

MIL’s Taxable Income would be calculated as follows:

Net Income For Tax Purposes $687,068

Dividends From Taxable Canadian Corporations ( 37,000)

Contributions To Registered Charities ( 3,400)

Net Capital Loss Carry Over (Note 5) ( 25,100)

Non-Capital Loss Carry Over (All) ( 60,300)

Taxable Income $561,268

**Note 5** MIL’s Net Income For Tax Purposes contained net taxable capital gains calculated as follows:

Taxable Capital Gain On Building $ 7,500

Taxable Capital Gain On Building Land 12,500

Taxable Capital Gain On Vacant Land 5,100

Total Taxable Capital Gains $25,100

While there is a net capital loss of $128,000, the amount to be used is limited to the $25,100 in net taxable capital gains for the year.

Part B - Loss Carry Forwards

At the end of 2014, there would be a net capital loss carry forward of $102,900 ($128,000 - $25,100).  There is no remaining non-capital loss carry forward.