***Canadian Tax Principles, 2020-2021 Edition* (Byrd/Chen)**

**Chapter 11 Taxable Income and Tax Payable for Individuals Revisited**

Essay Questions

1) ITA 110.2 provides for a deduction of "lump-sum payments", for example a court ordered termination benefit. What tax policy objective is served by this provision?

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

2) The carry forward periods for losses varies with the type of loss. Briefly describe the carry forward periods that the *Income Tax Act* provides for the types of losses that it identifies.

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

• Non-Capital Losses and Farm Losses: 20 years.

• Net Capital Loss: Unlimited.

• Listed Personal Property Losses: 7 years.

• Allowable Business Investment Losses: 10 years, then converted to net capital loss with unlimited carry forward.

• Foreign Tax Credits: 10 years.

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

3) When an enterprise has several types of loss carry forwards, why is it necessary to keep separate balances for each type?

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

4) Tax advisors will normally recommend that loss carry overs not be used to reduce Taxable Income to nil. What is the basis for this recommendation?

Answer: This recommendation reflects the fact that most tax credits are non-refundable and cannot be carried over to past or future years. This means that, unless a taxpayer has Taxable Income and Tax Payable, the value of these credits is simply lost. This, in effect, is what would happen if various types of loss carry overs were used to reduce Taxable Income to Nil.

5) Briefly describe the tax treatment of losses on listed personal property.

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

6) If a taxpayer has both net capital and non-capital loss carry overs and does not have sufficient income in the current and previous years to deduct all of these amounts, which type of loss should be deducted first?

Answer: There is no clear cut answer to this question. Net capital losses have an unlimited life but can only be carried over to the extent of net taxable capital gains in the carry over year.

This would suggest that, if net taxable capital gains are present in the current year, the use of net capital losses should receive priority. This would be particularly true if additional net taxable capital gains are not expected in future years. In contrast, non-capital losses can be deducted against any type of income. However, the downside here is that their carry forward period is limited to 20 years. While no firm conclusion is available, in most cases the lengthy carry forward period for non-capital losses, would suggest using net capital losses first. However, this tentative conclusion would be altered if the taxpayer commonly has net taxable capital gains.

7) John Broley has a $50,000 non-capital loss carry forward and a $50,000 net capital loss carry forward. During the current year, his only income is a $50,000 taxable capital gain.

He has asked your advice as to which of the two loss carry forwards he should deduct. What advice would you give him?

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

8) If an individual dies and has a net capital loss in that taxation year or unused net capital losses from previous years, these balances are subject to a different treatment than would be the case if the individual were still alive. Briefly describe how this treatment is different.

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

9) What is an Allowable Business Investment Loss? What special tax provisions are associated with this type of loss?

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

• It can be deducted against any type of income in the year in which it occurs.

• It can be carried back and applied against any type of income in the preceding 3 taxation years.

• If it cannot be used during the current or 3 preceding years, it becomes part of the non-capital loss carry forward balance and can be deducted against any type of income in the 10 subsequent years.

• If it is not used in the subsequent 10 years, it becomes part of the net capital loss balance and can be carried forward indefinitely, subject to the constraint that during these additional years, it can only be deducted against taxable capital gains.

• It is disallowed as an ABIL (i.e., it becomes a regular allowable capital loss), to the extent that the taxpayer has used the ITA 110.6 lifetime capital gains deduction.

• The realization of an ABIL reduces the annual gains limit that is used to determine the maximum deduction under ITA 110.6.

10) What is a Small Business Corporation as defined in the *Income Tax Act*?

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

11) With respect to the deductibility of their losses, farmers fall into three categories. What are these three categories and how are losses treated in each category?

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

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

**Part Time Farmer -** This is an individual for whom farming is subordinate to some other source of income. However, if there is a reasonable expectation of a profit, the farmer is allowed to deduct a portion of his farm losses. In each year, the portion of the farm loss that can be deducted against any source of income is limited to the first $2,500, plus one-half of the next $30,000, to a maximum amount of $17,500. Losses in excess of this deductible amount are referred to as restricted farm losses and, when they are carried over to earlier or later years, they can only be deducted to the extent of farm income in that year.

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

12) The lifetime capital gains deduction is available when the taxpayer has a gain on the disposition of shares in a "qualified small business corporation". What are the conditions that must be met for an enterprise to be a qualified small business corporation?

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

These are as follows:

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

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

13) An individual has a capital gain on qualified farm property. He has no other capital gains during the year. Explain how the annual gains limit would be calculated in determining his lifetime capital gains deduction for the year.

Answer: In these circumstances, the annual gains limit is equal to the taxable capital gain on the qualified farm property, less:

• Allowable capital losses realized during the current year.

• Net capital loss carry overs from previous deducted in the current year.

• Allowable Business Investment Losses realized during the current year.

14) In computing Net Income For Tax Purposes, ITA 3 requires that subdivision e deductions be subtracted prior to deducting business or property losses. Explain why this rule is usually beneficial to a taxpayer.

Answer: Most subdivision e deductions such as child care expenses cannot be carried forward to other taxation years. This means that, if they are not deducted during the current taxation year, they are lost forever. In contrast, business and property losses can be both carried back to previous taxation years and forward to subsequent taxation years. In contrast to subdivision e deductions, business and property losses are not lost if they are not deducted during the current taxation year. This means that, in situations where there is not sufficient income to deduct all available amounts, it will generally be desirable to deduct any subdivision e deductions first. This prevents a permanent loss of these deductions.

15) What types of current year losses are included in the definition of non-capital losses? What types of losses are not included?

Answer: Non-capital losses would include current year employment losses, most business losses, property losses, and allowable business investment losses. The definition excludes farm losses (a type of business loss) and current year capital losses, but does include net capital losses carried over from other years and deducted in the current year.

16) Describe the conditions under which the tax on split income (TOSI) can be applicable.

Answer: The TOSI may be applicable when a Specified Individual receives income from a related business. In general, a business is related when a person related to a Specified Individual is connected to the business. This latter individual is referred to as a Source Individual.

This connection occurs when the Source Individual:

• carries on the business as a proprietorship, or

• owns shares in a private corporation that is carrying on the business.

Note that such income is only subject to the TOSI if it is not one of the Excluded Amounts.

Where the business is a partnership, the Source Individual must have a direct or indirect interest in the partnership. If the business is carried on by a corporation, the business will be a related business if the Source Individual owns shares that represent 10 percent or more of the fair market value of all of the corporation's issued shares. As was the case with the definition of a Specified Individual, the definition of a Source Individual requires the individual to be a Canadian resident.

17) List two types of income that would not be subject to the tax on split income (TOSI).

Answer: The two items that are specifically mentioned in the text are employment income and compound income resulting from the re-investment of split income amounts. Other items (e.g., dividends from publicly traded shares), could also be mentioned if they do not fall within the definition of split income.

18) Under the TOSI legislation, what is the meaning of the term Excluded Business?

Answer: Amounts received from an Excluded Business are not considered to be Split Income and are not subject to the TOSI. An Excluded Business is one in which the taxpayer is actively engaged on a regular, continuous, and substantial basis. This active engagement must be in the current taxation year or in at least 5 prior taxation years. Note, however, the years do not have to be current or consecutive. That is, any 5 years of active engagement will satisfy this condition.

19) Under the TOSI legislation, what is the meaning of the term Excluded Shares?

Answer: For shares to be classified as Excluded Shares, the taxpayer must be aged 25 or older and must own, in terms of both fair market value and voting rights, at least 10 percent of the outstanding shares of the corporation. In addition, the corporation must meet the following conditions:

• It must not be a professional corporation.

• Less than 90 percent of its income in the previous year was from the provision of services.

• Less than 10 percent of its income in the previous year was from a related business.

20) Under the TOSI legislation, in determining whether an amount of income represents a reasonable return, the test for individuals age 25 or over is different than the test for individuals between 18 and 24. Describe this difference.

Answer: For taxpayers age 25 or older, the measurement of a Reasonable Return requires consideration of labour contributions, capital contributions, as well as the assumption of business risk. For individuals between the age of 18 and 24, the reasonableness test is more restrictive.

It does not take into consideration either active engagement in the business or business related risk assumed. It is based solely on capital contributions to the business.

21) Under what circumstances can dividends be transferred from a spouse or common-law partner to a taxpayer?

Answer: Dividends can be transferred from a spouse or common-law partner if they serve to create or increase the taxpayer's spousal tax credit.

22) Briefly describe the four major categories of charitable donations.

Answer: As presented in the text, the descriptions are as follows:

1. **Total Charitable Gifts** is defined to include all eligible amounts donated by an individual to a registered charity, a registered Canadian amateur athletic association, a Canadian municipality, the United Nations or an agency thereof, a university outside of Canada which normally enrolls Canadian students, and a charitable organization outside of Canada to which Her Majesty in right of Canada has made a gift in the year or in the immediately preceding year.

2. **Total Crown Gifts** is defined as the aggregate of eligible amounts donated to Her Majesty in right of Canada or a province.

3. **Total Cultural Gifts** is defined as the aggregate of all eligible gifts of objects that the Canadian Cultural Property Export Review Board has determined meet the criteria of the *Cultural Property And Import Act*.

4. **Total Ecological Gifts** is defined as all eligible gifts of land certified by the Minister of the Environment to be ecologically sensitive land, the conservation and protection of which is important to the preservation of Canada's environmental heritage. The beneficiary of the gift must be a Canadian municipality or a registered charity, the primary purpose of which is the conservation and protection of Canada's environmental heritage.

23) If a taxpayer is donating a non-depreciable capital asset with a fair market value that exceeds its adjusted cost base, a taxpayer can elect any amount between those two values as the amount of his contribution. Why is it generally appropriate to elect the higher fair market value?

Answer: Donations in excess of $200 provide the donor with a federal tax credit equal to either 29 percent or 33 percent of the amount of the donation (the rate depends on the Taxable Income of the taxpayer). If the donation involves a non-depreciable asset, electing the higher fair market value will result in a capital gain, only one-half of which will be taxed.

This means that the effective tax rate for a taxpayer in the highest tax bracket on the excess amount elected is only 16.5 percent [(1/2)(33%)]. This assures the taxpayer that the value of the federal credit resulting from the extra amount elected will usually be double the increase in federal tax on the resulting capital gain.

24) Capital gains resulting from donations of publicly traded shares are, in general, deemed to be nil. Why is an additional rule required to avoid taxing income resulting from gifts of publicly traded shares that have been acquired through stock options?

Answer: When there is a disposition of publicly traded shares that have been acquired through stock options, the difference between the fair market value at the time the shares were exercised and the option price at which they were acquired is treated as employment income, not as a capital gain.While the general rule under ITA 38(a.1) deems capital gains on such donations to be nil, a special rule is required to exempt the employment income which may arise on such dispositions. The solution takes the form of an additional deduction under ITA 110(1)(d.01).

25) Compare the tax treatment of foreign tax credits on foreign non-business income with the tax treatment of tax credits on foreign business income for individuals.

Answer: Both credits are based on the lesser of the amount withheld and an amount determined by the following formula:

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

The differences are as follows:

• For individuals, the figure used for the amount withheld for the non-business foreign credit is limited to 15 percent of the foreign non-business income. Any amount of withholding in excess of 15 percent becomes a deduction in the determination of Net Income For Tax Purposes. There is no such limit on the actual amount for the foreign business income credit.

• When the amount withheld on foreign business income exceeds the amount that can be deducted, the excess can be carried back 3 years and forward 10 years to apply against tax payable in those years. If the amount of foreign non-business taxes withheld exceeds the amount that can be deducted, the taxpayer can deduct such amounts in the determination of Net Income For Tax Purposes.

• The foreign business income credit is further limited by the amount of tax otherwise payable, reduced by any foreign non-business tax credit taken in the year. In effect, the credit is the least of the actual amount withheld, the amount determined by the formula, and tax otherwise payable reduced by any foreign non-business tax credit.

26) The alternative minimum tax is an attempt to deal with a tax policy issue. What is this issue and, in general terms, how does the alternative minimum tax deal with this issue?

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

True/False Questions

1) If an individual has no loss carry overs from other years, the current year Net Income For Tax Purposes will be equal to Taxable Income.

Answer: FALSE

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

Topic: Taxable Income

2) An individual has a non-capital loss. It can be carried back three years and forward indefinitely.

Answer: FALSE

Explanation: It can be carried back 3 years and forward 20 years.

Topic: Losses

3) An individual sells shares in a Canadian controlled private corporation that qualifies as a small business corporation to an arm's length party. The adjusted cost base of the shares is $50,000 and they are sold for $30,000. The $20,000 loss is an Allowable Business Investment Loss.

Answer: FALSE

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

Topic: Losses

4) A corporation sold a long-term investment in common shares with an adjusted cost base of $25,000, for $10,000 during the current year. It also sold a parcel of land that is considered capital property with an adjusted cost base of $8,000, for $12,000. Its net allowable capital loss for the year is $11,000.

Answer: FALSE

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

Topic: Losses

5) Net capital losses can be carried forward or back, but can only be deducted to the extent of net taxable capital gains in the carry back or carry forward year.

Answer: TRUE

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

Topic: Losses

6) Jennifer Nash is a plumber in Waterloo, Ontario, who spends all of her weekends and holidays operating a farm she purchased this year. She is confident that within two years her farm will be making a profit. In the current year, the farm had a loss of $18,000.

In the current year, she can deduct a maximum of $2,500 of the farm loss against other income.

Answer: FALSE

Explanation: In the current year, she can deduct a maximum of $10,250 [$2,500 + (1/2)($18,000 - $2,500)] of the farm loss against other income.

Topic: Losses

7) Jennifer Nash is a plumber in Waterloo, Ontario, who spends all of her weekends and holidays operating a farm she purchased this year. She is confident that within two years her farm will be making a profit. In the current year, the farm had a loss of $18,000.

In the current year, she can deduct a maximum of $2,500 of the farm loss against other income.

Answer: FALSE

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

Topic: Losses

8) Jennifer Nash is a plumber in Waterloo, Ontario, who spends all of her weekends and holidays operating a farm she purchased this year. She is confident that within two years her farm will be making a profit. In the current year, the farm had a loss of $18,000.

Any loss that is not deductible in the current year can only be applied to the extent of farm income in the carry over year.

Answer: TRUE

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

Topic: Losses

9) During 2020, an individual has taxable capital gains on the disposition of shares in a qualified small business corporation. The lifetime capital gains deduction can be used to eliminate up to $441,692 of the taxable capital gains on the disposition.

Answer: TRUE

Explanation: The $441,692 deduction can be used against gains arising on the disposition.

Topic: Lifetime Capital Gains Deduction

10) If a 10 year old child receives dividends from a private company owned by his mother, it will always be taxed as Split Income.

Answer: TRUE

Explanation: There are no Excluded Amounts in this type of situation.

Topic: Tax On Split Income

11) If a 22 year old Specified Individual receives dividends from a private company in which he owns 20 percent of the fair market value of the company shares and 20 percent of the voting shares, the dividends will not be subject to the Tax On Split Income.

Answer: FALSE

Explanation: For the shares to be Excluded Shares, the Specified Individual must be 25 years of age or older.

Topic: Tax On Split Income

12) Dividends received by the spouse of a taxpayer can be transferred to him and included in his Net Income For Tax Purposes and excluded from hers.

Answer: TRUE

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

Topic: Transfer Of Dividend Tax Credits

13) When an individual makes a gift of publicly traded securities to a registered charity, any capital gain that results from the disposition is deemed to be nil.

Answer: TRUE

Explanation: Any gain would be deemed to be nil.

Topic: Charitable Donations

14) The base for the charitable donations tax credit is always limited to 75 percent of the individual's Net Income For Tax Purposes.

Answer: FALSE

Explanation: The limit also includes 25 percent of any capital gains resulting from the donation and 25 percent of any recapture that results from the donation.

Topic: Charitable Donations

15) An individual is holding bonds issued in a foreign country. Tax of $2,000 is withheld in that country from the gross interest of $10,000. The foreign tax credit deductible from federal Tax Payable cannot exceed $1,500.

Answer: TRUE

Explanation: For individuals, the foreign tax credit deductible from federal Tax Payable cannot exceed 15 percent of the foreign investment income. In this case it is $1,500. The remaining $500 would be deductible under ITA 20(11).

Topic: Foreign Tax Credits

16) Individuals with Taxable Income in excess of $300,000 will always pay some amount of alternative minimum tax.

Answer: FALSE

Explanation: Regardless of their income level, individuals will only pay alternative minimum tax if they have some amount of what the legislation refers to as preference items (e.g., losses on tax shelters).

Topic: Alternative Minimum Tax

17) An excess of alternative minimum tax over regular Tax Payable can be carried forward for up to 7 years to be applied against any future excess of regular Tax Payable over the alternative minimum tax.

Answer: TRUE

Topic: Alternative Minimum Tax

Multiple Choice Questions

1) Martin is worried about how much tax he will have to pay this year and he is looking for anything that he might have missed that will decrease his Taxable Income. All of the following could decrease his Taxable Income, with the exception of:

A) a deduction for contributions to an RPP.

B) application of a net capital loss carryforward.

C) application of a non-capital loss carryforward.

D) a credit for a charitable donation.

Answer: D

Explanation: D) A credit for a charitable donation.

Topic: Taxable Income

2) Which of the following would reduce an individual's Taxable Income?

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

B) A charitable donation carried forward from a previous year.

C) Adoption expenses.

D) Medical expenses.

Answer: A

Explanation: A) A non-capital loss carried forward from a previous year.

Topic: Taxable Income

3) Shelly is seeking your advice on how she can claim various deductions and credits. Which of the following items would reduce the amount of her Taxable Income?

i. A net capital loss carried forward from a previous year.

ii. A charitable donation.

iii. Contributions to an RESP.

iv. Childcare costs paid during the year.

A) i, ii, and iv

B) ii and iv

C) i and iv

D) i, iii, and iv

Answer: C

Explanation: C) i and iv.

Topic: Taxable Income

4) Reuben Chechetto had to take his employer to court in 2020, to sue for wages owing to him over an 8 year period ending in 2020. In the 2020 taxation year, he receives a court settlement of $80,000, or $10,000 per year. In all years, Reuben had taxable income of $60,000. What will the tax consequences be with respect to the $80,000 in back wages received in 2020?

A) Mr. Chechetto will have to report the full $80,000 in additional wages in 2020.

B) As these funds were awarded through a court settlement, they are not taxable.

C) Mr. Chechetto can use a special relief mechanism in the *Income Tax Act* which will have the effect of spreading the lump-sum payment over a maximum period of 5 years.

D) Mr. Chechetto can use a special relief mechanism in the *Income Tax Act* which will have the effect of spreading the lump-sum payment over the 8 taxation years affected.

Answer: D

Explanation: D) Mr. Chechetto can use a special relief mechanism in the Income Tax Act which will have the effect of spreading the lump-sum payment over the 8 taxation years affected.

Topic: Lump-Sum Payments

5) Which of the following statements with respect to loss carry overs is **NOT** correct?

A) Losses on the disposition of listed personal property can be carried back 3 years and forward 7 years.

B) Restricted farm losses can only be carried over to years in which there is farm income.

C) Net capital loss carry overs cannot be deducted in years in which Net Income For Tax Purposes is nil, even if there are taxable capital gains in that year.

D) If an individual can deduct either a $10,000 non-capital loss carry over or a $10,000 net capital loss carry over, the effect on Taxable Income of deducting either is the same.

Answer: C

Explanation: C) Net capital loss carry overs cannot be deducted in years in which Net Income For Tax Purposes is nil, even if there are taxable capital gains in that year.

Topic: Treatment Of Losses

6) Which of the following statements is correct with respect to the disposition of a valuable coin collection?

A) If a loss occurs, it cannot be deducted against any source of income.

B) If a loss occurs, one-half of this amount can be applied against one-half of any capital gain.

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

D) If a gain occurs, it will not be taxed because this is personal use property.

Answer: C

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

Topic: Treatment Of Losses

7) As a part time employee, Derek earns $20,000 per year of employment income. He recently started up his own business as a sole proprietorship. For the current year, his business revenues were $12,000 and his business expenses were $28,000. Derek has some investments that resulted in taxable dividend income of $1,400 and incurred interest expense of $2,000. Assuming this accounts for all of Derek's sources of income, what is his non-capital loss carry forward for the year?

A) Nil.

B) $600.

C) $3,400.

D) $16,000.

Answer: A

Explanation: A) Nil.

Topic: Treatment Of Losses

8) With respect to net capital loss balances, which of the following statements is **NOT** correct?

A) In the year of death when such balances are deducted, the amount deducted will be based on the capital gains inclusion rate which applied in the year in which the loss was realized.

B) When such balances are carried back, they can be deducted only to the extent of taxable capital gains arising in the carry back period.

C) Such balances can be carried back three years.

D) Such balances can be carried forward for a maximum of 20 years.

Answer: D

Explanation: D) Such balances can be carried forward for 20 years.

Topic: Treatment Of Losses

9) Daria is a part time employee who recently started up her own business as a sole proprietorship. For the current year, she had the following sources of income and loss:

Part time employment income $15,000

Net business loss 18,000

Taxable (grossed up) dividend income 1,200

Interest expense on loan to purchase investments 2,000

Capital gain 12,000

Capital loss 16,000

What is her non-capital loss carry forward for the year?

A) $3,000.

B) $3,800.

C) $5,800.

D) $18,000.

Answer: B

Explanation: A) $3,000 [ $18,000 - $15,000]

B) $3,800. [$15,000 - $18,000 + ($1,200 - $2,000)]

C) $5,800. [deducts the full allowable capital loss of $8,000

D) $18,000.

Topic: Treatment Of Losses

10) For which of the following types of losses is it not necessary to segregate the loss by type in order to track the balance carried forward as a separate balance?

A) Net capital losses.

B) Allowable Business Investment Losses.

C) Restricted farm losses

D) Business losses.

Answer: D

Explanation: D) Business losses.

Topic: Treatment Of Losses

11) Under which set of circumstances would it be advisable to utilize a loss carry over to reduce taxable income to nil in the carry over year?

A) When the taxpayer is carrying a loss back to a prior year, taxable income can be reduced to nil without negative consequences.

B) When the taxpayer is carrying a loss forward, taxable income can be reduced to nil without negative consequences.

C) Net capital losses are the only type of loss that should be used to reduce taxable income to nil in the carry over year.

D) It is never advisable to use a loss carry over to reduce taxable income to nil in the carry over year.

Answer: D

Explanation: D) It is never advisable to use a loss carry over to reduce taxable income to nil in the carry over year.

Topic: Treatment Of Losses

12) Which of the following types of losses cannot be carried forward for at least 20 years?

A) Listed personal property losses.

B) Non-capital losses.

C) Net capital losses.

D) Restricted farm losses.

Answer: A

Explanation: A) Listed personal property losses.

Topic: Treatment Of Losses

13) Tabari has income from employment of $25,000 during the year. As well, he has a capital gain on Listed Personal Property of $8,000 on the sale of a stamp collection, and a capital gain from the sale of some shares of $6,000. Last year, he had a capital loss on Listed Personal Property of $10,000 that he was unable to use and carried forward to the current year. What is his net income for tax purposes for the year, assuming that this accounts for all of his income for the year?

A) $27,000.

B) $28,000.

C) $31,000.

D) $32,000.

Answer: B

Explanation: A) $27,000. [deducts full amount of LPP loss]

B) $28,000. [$25,000 + (1/2)($8,000) +(1/2)($6,000) - (1/2)($8,000) (LPP loss carry forward can only be used against LPP gains in calculation of Net Income For Tax Purposes )]

C) $31,000. [does not apply 50% inclusion rate to capital gain]

D) . $32,000. [does not deduct any of LPP loss, thinking it is deducted after NIFTP has been determined, or that LPP losses are not deductible.]

Topic: Treatment Of Losses

14) Zina Chaburi has a full time job as a nurse in her local hospital. In her spare time she has a goat farming operation. The goat farm began in 2019, and resulted in a loss of $10,000.

She deducted the maximum allowable amount against her 2019 income. In 2020, most of the problems had been worked out, and Zina had a profit from the farm operation of $5,000, as well as employment income of $90,000. Determine Ms. Chaburi's minimum taxable income for 2020.

A) $81,000.

B) $88,750.

C) $91,250.

D) $95,000.

Answer: C

Explanation: A) $81,000. [$90,000 + $5,000 - $14,000 deducts full amount of farm loss carry forward in 2020]

B) $88,750. [$90,000 + $5,000 - $6,250 (full amount of restricted farm loss carry forward deducted)]

C) $91,250. [$90,000 + $5,000 — carry forward of $3,750). Deducted $6,250 [$2,500 + (1/2)($10,000 - $2,500). This leave a carry forward of $3,750 ($10,000 - $6,250)

Topic: Treatment Of Losses

15) In 2017, Lorrie Meller use her lifetime capital gains deduction to eliminate a $10,000 taxable capital gain. During 2020, she had employment income of $50,000, a capital gain of $26,000, and a business investment loss of $30,000. What is the amount of Lorrie's Taxable Income for 2020?

A) $45,000

B) $58,000

C) $46,000

D) $48,000

Answer: D

Explanation: A) $45,000 ($50,000 - $5,000)

B) $58,000 ($50,000 + $13,000 - $5,000)

C) $46,000 ($50,000 + $26,000 - $20,000 - $10,000)

D) $48,000

Loss On Disposition $30,000

Disallowed By Use Of ITA 110.6 ( 20,000)

Business Investment Loss $10,000

Inclusion Rate 1/2

Allowable Business Investment Loss $5,000

Employment Income $50,000

Taxable Capital Gain [(1/2)($26,000)] $13,000

Disallowed Loss [(1/2)($20,000)] ( 10,000) 3,000

Allowable Business Investment Loss ( 5,000)

Net And Taxable Income $48,000

Topic: Allowable Business Investment Losses

16) Which of the following statements about Allowable Business Investment Losses is correct?

A) They are losses that result from the disposition of shares or debt in a Canadian controlled public corporation.

B) They can only be deducted against business income.

C) If they are not used during the current year, they are added to the net capital loss balance.

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

Answer: D

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

Topic: Allowable Business Investment Losses

17) With respect to an Allowable Business Investment Loss, which of the following statements is **NOT** correct?

A) An Allowable Business Investment loss can be deducted against any source of income.

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

C) An Allowable Business Investment Loss results from the disposition of shares of a small business corporation.

D) An Allowable Business Investment Loss is the deductible portion of a Business Investment Loss.

Answer: B

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

Topic: Allowable Business Investment Losses

18) Which of the following statements with respect to the lifetime capital gains deduction is correct?

A) For purposes of calculating this deduction, the annual gains limit is reduced by the amount of the individual's CNIL.

B) It is always preferable to deduct net capital loss carry overs prior to making any use of the lifetime capital gains deduction

C) For 2020, the maximum deduction for qualified small business corporations is different than the maximum deduction for qualified family farm corporations.

D) The cumulative gains limit includes the annual gains limits for all previous years, but not for the current year.

Answer: C

Explanation: C) For 2020, the maximum deduction for qualified small business corporations is different than the maximum deduction for qualified farm corporations.

Topic: Lifetime Capital Gains Deduction

19) Which of the following transactions could result in the taxpayer being able to make a lifetime capital gains deduction?

A) An individual sells 100 percent of the shares of a CCPC that uses 85 percent of its assets in the operation of an active business.

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

C) A CCPC sells 100 percent of the shares of another CCPC that uses 100 percent of its assets in the operation of an active business.

D) An individual sells 25 percent of the shares of a CCPC that uses 30 percent of its assets to produce property income.

Answer: B

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

Topic: Lifetime Capital Gains Deduction

20) With respect to the lifetime capital gains deduction, which of the following statements is **NOT** correct?

A) The deduction is only available to individuals.

B) The Cumulative Gains Limit is reduced by any CNIL balance at the end of the year.

C) The Annual Gains Limit is reduced by Allowable Business Investment Losses realized during the year.

D) The deduction is available on any disposition of shares or debt of a qualified small business corporation.

Answer: D

Explanation: D) The deduction is available on any disposition of shares or debt of a qualified small business corporation.

Topic: Lifetime Capital Gains Deduction

21) Which of the following is **NOT** a requirement for a business to qualify as a qualified small business corporation?

A) At the time the shares are sold, the corporation must use all or substantially all of its assets for active business purposes in Canada.

B) More than 50 percent of the fair market value of the assets of the business must have been used for active business in the past 24 months.

C) The shares must not have been owned by a related individual in the past 24 months.

D) The shares must not have been owned by a non-related individual in the past 24 months.

Answer: C

Explanation: C) The shares must not have been owned by a related individual in the past 24 months.

Topic: Lifetime Capital Gains Deduction

22) Under ITA 111.1, the order in which individuals must deduct Division C items is specifically listed. Assuming a taxpayer is eligible to deduct all of the following amounts in computing Taxable Income, which one would be deducted last?

A) Lifetime capital gains deduction.

B) Stock option deduction.

C) Loss carryovers.

D) Northern residents deduction.

Answer: D

Explanation: D) Northern residents deduction.

Topic: Ordering of Deductions and Losses

23) With respect to the use of loss carryovers, which of the following statements is correct?

A) Net-capital losses must always be used before any other type of loss.

B) Non-capital losses must be used last if a taxpayer has several different types of loss carryovers to choose from.

C) Within a particular type of loss, the oldest losses must be utilized first.

D) Claiming a non-capital loss carry forward will reduce the amount of the lifetime capital gains deduction available in the year.

Answer: C

Explanation: C) Within a particular type of loss, the oldest losses must be utilized first.

Topic: Ordering of Deductions and Losses

24) Elena is 12 years old. During 2020 she earns interest of $10,500 on funds she inherited when her maternal grandfather died, as well as non-eligible dividends of $15,300 received from a CCPC that is controlled by her father. Her only tax credits are the basic personal credit and the dividend tax credit. What is the amount of her federal Tax Payable for 2020?

A) $641.

B) $4,218.

C) $2,233.

D) $3,808.

Answer: B

Explanation: A) $641 {[15%][(115%)($15,300) + $10,500] — $1,984 — [9/13][15%][$15,300]}

B) $4,218 [(33%)(115%)($15,300) — (9/13)(15%)($15,300)]

C) $2,233 [(33%)(115%)($15,300) — $1,984 — (9/13)(15%)($15,300)]

D) $3,808 [(33%)(115%)($15,300) + (15%)($10,500) — $1,984 — (9/13)(15%)($15,300)]

Topic: Tax On Split Income

25) Katrina is 27 years old. During 2020 she receives a non-eligible dividend of $12,000 from a private company controlled by her mother. Because she has never been actively engaged in the business, has assumed no risk or contributed capital to the corporation, holds only non-voting shares, these dividends are classified as Split Income. In addition to the dividends, she has interest income of $6,000 on funds that she inherited when her grandmother passed away. Her only tax credits are the basic personal credit and the dividend tax credit. How much is her federal tax payable for the year?

A) Nil

B) $1,324.

C) $2,224.

D) $3,308.

Answer: D

Explanation: A) nil {[15%][(115%)($12,000) + $6,000] — $1,984 — [9/13][15%][$12,000]}

B) $1,324. [(33%)(115%)($12,000) — $1,984 — (9/13)(15%)($12,000)]

C) $2,224. [(33%)(115%)($12,000) + (15%)($6,000) — $1,984 — (9/13)(15%)($12,000)]

D) $3,308 [(33%)(115%)($12,000) — (9/13)(15%)($12,000)]

Topic: Tax On Split Income

26) Which of the following statements with respect to the Tax On Split Income (TOSI) is **NOT** correct?

A) For purposes of this tax, a Specified Individual is a resident of Canada, without regard to their age.

B) The federal tax is applied at a 33 percent rate to all of the income of a Specified Individual.

C) Split Income can include interest received from a private company.

D) The only tax credits that can be applied against the Tax On Split Income are dividend tax credits and foreign income tax credits that are related to the income.

Answer: B

Explanation: B) The federal tax is applied at a 33 percent rate to all of the income of a Specified Individual.

Topic: Tax On Split Income

27) Which of the following statements with respect to the Tax On Split Income (TOSI) is correct?

A) A Specified Individual's holding of private company shares will be classified as Excluded Shares if their fair market value is equal to or greater than 10 percent of the fair market value of all of the company's shares.

B) A Specified Individual can only claim that dividends are from an Excluded Business if they are actively engaged in the business during the current taxation year.

C) Specified Individuals under the age of 18 can never claim that income received is from an Excluded Business.

D) Potential Split Income received by any Specified Individual can be an Excluded Amount, provided it is reasonable in terms of the individual's labour, capital, or risk contribution to the source business.

Answer: C

Explanation: C) Specified Individuals under the age of 18 can never claim that income received is from an Excluded Business.

Topic: Tax On Split Income

28) Which of the following amounts are not considered "split income" of an individual under 18 years of age?

A) Employment income from a private corporation.

B) Shareholder benefits received from a private corporation.

C) Eligible dividends received from a private corporation.

D) Non-eligible dividends received from a private corporation.

Answer: A

Explanation: A) Employment income earned by a Specified Individual from a private corporation.

Topic: Tax On Split Income

29) Mrs. Perry's total income consisted of $10,000 in eligible dividends received from taxable Canadian corporations. Mrs. Perry's basic personal tax credit and dividend tax credits are sufficient to eliminate all of her Tax Payable. Because she receives these dividends, Mr. Perry is not able to claim a spousal tax credit. Mr. Perry's income is such that any additional income from the transfer would be taxed at the federal rate of 20.5 percent. By what amount would Mr. Perry's Tax Payable increase or decrease if Mrs. Perry's dividends were transferred to him?

A) A decrease of $1,228.

B) An increase of $756.

C) An Increase of $845.

D) A decrease of $1,319.

Answer: A

Explanation: A) A decrease of $1,054.

Increase In Tax Payable [(20.5%)(138%)($10,000)] $2,829

Increase In Spousal Tax Credit [(15%)($13,229)] ( 1,984)

Dividend Tax Credit [(38%)(6/11)($10,000)] ( 2,073)

Increase (Decrease) In Tax Payable ($1,228)

B) An increase of $756 ($2,829 - $2,073)

C) An increase of $845 ($2,829 - $1,984)

D) A decrease of $1,319 [(20.5%)(115%)($10,000)] - [(15%)(9/13)($10,000)]

Topic: Tax Credits Revisited

30) Which of the following statements with respect to charitable donations is **NOT** correct?

A) Amounts of eligible donations that are not used during the current year can be carried forward for up to 5 years.

B) When making a gift of non-depreciable capital property with a fair market value in excess of its capital cost, it is always advisable to elect the fair market value amount for the gift.

C) The basis for a charitable donations tax credit for the current year can never exceed 75 percent on the individual's Net Income For Tax Purposes.

D) Any capital gain arising on gifts of ecologically sensitive land are deemed to be nil.

Answer: C

Explanation: C) The basis for a charitable donations tax credit for the current year can never exceed 75 percent on the individual's Net Income For Tax Purposes.

Topic: Tax Credits Revisited

31) For the year ending December 31, 2020, Liane Stanfield has Net Income For Tax Purposes of $102,000. This includes foreign non-business income of $30,000. This amount was before the withholding of taxes by the foreign government of $6,000. In calculating her 2020 Taxable Income, she intends to deduct a net capital loss carry forward of $10,000 and a $30,000 non-capital loss carry forward. After applying her basic personal credit, the tax otherwise payable is $8,056. What is the amount of Liane's foreign non-business tax credit?

A) $6,000

B) $2,628

C) $4,500

D) $3,898

Answer: B

Explanation: A) $6,000

B) $2,627

Tax Otherwise Payable = $7,280 + (20.5%)$62,000 - $48,535) = $10,091 - $1,984 = $8,056

The credit would be the lesser of $4,500 [($30,000)(15%)] and an amount determined by the following formula: [$30,000 ÷ ($102,000 - $10,000)][$8,056] = $2,627

C) $4,500 [($30,000)(15%)]

D) $3,898 [$30,000 ÷ ($102,000 - $10,000 - $30,000)][$8,056]

Topic: Tax Credits Revisited

32) Mrs. Mantz receives eligible dividend income of $12,000 every year. Her spouse is unable to utilize the spousal credit because of the dividends received by Mrs. Mantz. She is considering transferring the dividends to her spouse which will then enable him to claim some or all of the spousal credit. Under what circumstances would this most likely be tax advantageous?

A) If Mrs. Mantz is receiving OAS.

B) If Mr. Mantz is in the 15 percent federal tax bracket.

C) If Mr. Mantz is in the 33 percent federal tax bracket.

D) If Mr. Mantz can claim the full spousal credit.

Answer: B

Explanation: B) If Mr. Mantz is in the 15 percent federal tax bracket.

Topic: Tax Credits Revisited

33) An individual has Net Income For Tax Purposes of $147,500. During the current year, the individual donates a depreciable capital asset with a fair market value of $300,000. The capital cost of this asset is $225,000 and it has a UCC $147,000. It is the only asset in its CCA class and no additions are made subsequent to the gift. If he elects to have the donation valued at its fair market value, what is the maximum amount that this individual can claim as the basis for his charitable donations tax credit for the current year?

A) $300,000

B) $110,625

C) $139,500

D) $148,875

Answer: C

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

Topic: Tax Credits Revisited

34) Which of the following amounts would **NOT** be considered to be a charitable donation for purposes of the charitable donations tax credit?

A) A donation to a charitable organization outside of Canada to which the taxpayer's province of residence has also made a donation.

B) A donation to her Majesty in right of Canada.

C) A gift of land to a Canadian municipality that has been certified by the Minister of the Environment to be ecologically sensitive land.

D) A gift to a registered Canadian athletic association.

Answer: A

Explanation: A) A donation to a charitable organization outside of Canada to which the taxpayer's province of residence has also made a donation.

Topic: Tax Credits Revisited

35) Assume that any foreign income is taxed in the foreign jurisdiction. Which one of the following types of foreign income generates foreign tax credits that may be applied to other taxation years?

A) Business income only.

B) Capital gains only.

C) Employment income only.

D) Investment income only.

Answer: A

Explanation: A) Business income only.

Topic: Tax Credits Revisited

36) Assuming that foreign income is taxed in the foreign jurisdiction, which of the following types of income results in foreign tax withholdings that could generate both a tax credit and a tax deduction for individuals?

A) Foreign business income.

B) Foreign employment income.

C) Foreign interest income.

D) All foreign income.

Answer: C

Explanation: C) Foreign interest income.

Topic: Tax Credits Revisited

37) With respect to the Foreign Non-Business Income Tax Credit and the Foreign Business Income Tax Credit for individuals, which of the following statements is correct?

A) The Foreign Business Income Tax Credit is limited to 15% of the foreign business income.

B) The Foreign Non-Business Income Tax Credit is limited to 15% of the foreign non-business income.

C) The Foreign Business Income Tax Credit cannot exceed tax otherwise payable for the year.

D) Any unused Foreign Non-Business Income Tax Credit can be carried forward for 10 years and carried back 3 years.

Answer: B

Explanation: B) The Foreign Non-Business Income Tax Credit is limited to 15% of the foreign non-business income.

Topic: Tax Credits Revisited

38) Djohn Django had all of the following income taxed in a foreign jurisdiction in the current year. Which type of foreign income can generate a foreign tax credit that can be carried forward and applied against Canadian income tax payable in other taxation years?

A) Employment income from a foreign employer.

B) Property income on dividends from foreign stocks.

C) Business income from a contract with a foreign entity.

D) Taxable capital gains on the sale of foreign stocks.

Answer: C

Explanation: C) Business income from a contract with a foreign entity

Topic: Tax Credits Revisited

39) In the calculation of Adjusted Taxable Income in the alternative minimum tax calculation, which of the following are not considered tax preference items?

A) Losses arising through the deduction of CCA on Certified Canadian Films.

B) Dividend tax credits.

C) Employee stock option deductions.

D) Limited partnership losses.

Answer: B

Explanation: B) Dividend tax credits.

Topic: Alternative Minimum Tax

40) Which one of the following would **NOT** affect the calculation of the alternative minimum tax?

A) Stock options not yet exercised.

B) The deduction of an Allowable Business Investment Loss.

C) A taxable capital gain resulting from the sale of a cottage.

D) Dividends received from a taxable Canadian corporation.

Answer: A

Explanation: A) Stock options not yet exercised.

Topic: Alternative Minimum Tax

Exam Exercises

1) During 2019, Ms. Jessica Michaels was unemployed and had no income of any kind. In order to survive, she sold a painting on December 1, 2019 for $78,000. This painting had been left to Ms. Michaels by her father and, at the time of his death, it had a fair market value of $102,000.

During 2020, Ms. Michaels finds a job and has employment income of $69,000. In addition, during June, she sells a second painting for $7,000. She had purchased this painting several years ago for $1,100. She has no other sources of income in 2020.

Determine Ms. Michaels' Net Income For Tax Purposes and Taxable Income for 2020. Indicate the amount and type of any losses available for carry forward at the end of the year.

Assume the December 1, 2019 sale had been of publicly traded shares instead of a painting. How would this change your solution?

Answer: Ms. Michaels will have a listed personal property loss carry forward from 2019 of $12,000 [(1/2)($78,000 - $102,000)]. This can be applied against the 2020 taxable capital gain on listed personal property of $2,950 [(1/2)($7,000 - $1,100)]. Based on this, her Net and Taxable Income would be calculated as follows:

Income Under ITA 3(a) $69,000

Income Under ITA 3(b) ($2,950 - $2,950) Nil

Net Income For Tax Purposes And Taxable Income $69,000

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

If the sale had been of shares, Ms. Michaels would have had a regular net capital loss carry forward of $12,000 from 2019. Her Net and Taxable Income would be calculated as follows:

Income Under ITA 3(a) $69,000

Income Under ITA 3(b) 2,950

Net Income For Tax Purposes $71,950

Loss Carry Forward (Limited To Taxable Capital Gains) ( 2,950)

Taxable Income $69,000

In this case, the net capital loss carry forward of $9,050 can be applied against any taxable capital gains. While the Taxable Income figure is not changed, Net Income For Tax Purposes is different.

Topic: Listed Personal Property Losses

2) During 2019, Jude Legal sold an important piece of jewelry for $120,000. He had paid $150,000 for this item several years ago. In 2020, he sells a block of publicly traded shares for $125,000. The adjusted cost base of these shares was $72,000. He has no other sources of income in either 2019 or 2020.

Determine Jude's Net Income For Tax Purposes and Taxable Income for 2020. Indicate the amount and type of any losses available for carry forward at the end of that year. If the 2019 sale had been of publicly traded shares instead of jewelry, how would the results for 2020 be changed?

Answer: At the beginning of 2020, Mr. Legal will have a carry forward of a listed personal property loss in the amount of $15,000 [(1/2)($150,000 - $120,000)]. For the year 2020, he will have a taxable capital gain of $26,500 [(1/2)($125,000 - $72,000)]. As the listed personal property loss carry forward cannot be deducted against this type of gain, Mr. Legal's Net Income For Tax Purposes and his Taxable Income will be $26,500. This will leave the $15,000 listed personal property loss carry forward balance unchanged.

If the 2019 loss had been on publicly traded securities, it would have been a regular capital loss and could be applied as follows:

2020 Net Income For Tax Purposes $26,500

Loss Carry Forward (Less Than Taxable Capital Gain) ( 15,000)

Taxable Income $11,500

There would be no remaining capital loss carry forward.

Topic: Listed Personal Property Losses

3) Mr. John Klaus has an unincorporated business with a December 31 year end. During 2019, its first year of operation, the business has net business income of $19,000 and a taxable capital gain of $3,000 [(1/2)($6,000)]. The following amounts relate to the year ending December 31, 2020:

Business Loss ($56,000)

Capital Gains 3,200

Capital Losses ( 9,800)

Mr. Klaus has no other source of income or deductions in either year. Assume that he wishes to minimize his net capital and non-capital loss carry overs at the end of 2020, without regard to his ability to claim his tax credits for the preceding year (2019). Calculate his Net Income For Tax Purposes and Taxable Income for 2019 and 2020 and any amended amounts for 2019.

Indicate the amount and type of any losses available for carry forward at the end of 2020.

Answer: The original 2019 result is as follows:

Business Income $19,000

Taxable Capital Gain 3,000

Net Income For Tax Purposes $22,000

Deductions Nil

Taxable Income $22,000

His 2020 Net Income For Tax Purposes and Taxable Income would be nil. After the maximum carry backs from 2020, the amended 2019 results would be as follows:

Business Income $19,000

Taxable Capital Gain 3,000

Net Income For Tax Purposes $22,000

Net Capital Loss Carry Back

(Limited To Taxable Capital Gain) ( 3,000)

Non-Capital Loss Carry Back

(Reduces Taxable Income To Nil) ( 19,000)

Amended Taxable Income Nil

At the end of 2020, the remaining loss carry forwards would be as follows:

• Net Capital Loss Carry Forward = [(1/2)($9,800 - $3,200) - $3,000] = $300

• Non-Capital Loss Carry Forward = ($56,000 - $19,000) = $37,000

Topic: Loss Carry Overs

4) Maria Shank operates an unincorporated business which, during the taxation year ending December 31, 2019 has net business income of $28,000 and a taxable capital gain of $6,500 [(1/2)($13,000)].

In 2020, her business has a net loss of $85,000. In addition to this loss, a capital asset disposition results in an allowable capital loss of $10,800.

Maria has no other sources of income or deductions in either year. Assume that she wishes to minimize her net capital and non-capital loss carry overs at the end of 2020, without regard to her ability to claim her tax credits for the preceding year (2019). Calculate her Net Income For Tax Purposes and Taxable Income for 2019 and 2020 and any amended amounts for 2019.

Indicate the amount and type of any losses available for carry forward at the end of 2020.

Answer: The original 2019 result is as follows:

Business Income $28,000

Taxable Capital Gain 6,500

Net Income For Tax Purposes $34,500

Deductions Nil

Taxable Income $34,500

Her 2020 Net Income For Tax Purposes and Taxable Income would be nil.

After maximum carry backs from 2020, the results would be as follows:

Business Income $28,000

Taxable Capital Gain 6,500

Net Income For Tax Purposes $34,500

Net Capital Loss Carry Back

(Limited To Taxable Capital Gain) ( 6,500)

Non-Capital Loss Carry Back

(Reduces Taxable Income To Nil) ( 28,000)

Amended Taxable Income Nil

At the end of 2020, the remaining loss carry forwards would be as follows:

• Net Capital Loss Carry Forward = ($10,800 - $6,500) = $4,300

• Non-Capital Loss Carry Forward = ($85,000 - $28,000) = $57,000

Topic: Loss Carry Overs

5) Ms. Jean Claus has an unincorporated business with a December 31 year end. During 2019, its first year of operation, the business has net business income of $45,000. The business also had an allowable capital loss during the year of $5,250 [(1/2)($10,500)], which could not be deducted. The following amounts relate to the year ending December 31, 2020:

Business Loss ($83,000)

Capital Gains 12,600

Capital Losses ( 6,300)

Ms. Claus has no other source of income or deductions in either year and does not anticipate realizing capital gains in the foreseeable future. Assume she wishes to minimize her net capital and non-capital loss carry overs at the end of 2020, without regard to her ability to claim her tax credits for the preceding year (2019). Calculate her Net Income For Tax Purposes and Taxable Income for 2019 and 2020 and any amended amounts for 2019. Indicate the amount and type of any losses available for carry forward at the end of 2020.

Answer: For 2019, Ms. Claus had Net Income For Tax Purposes and Taxable Income of $45,000. At the end of this year, she had a net capital loss carry forward of $5,250.

For 2020, she has a net taxable capital gain of $3,150 [(1/2)($12,600 - $6,300)], providing for a carry forward from 2019 of this amount as part of the non-capital loss balance. Based on this course of action, the 2020 non-capital loss would be calculated as follows:

Amount E ($83,000 + $3,150) $86,150

Income Under ITA 3(c) ( 3,150)

Non-Capital Loss $83,000

Of this amount, $45,000 can be carried back to 2019, resulting in an amended return for that year as follows:

Net Income for Tax Purposes $45,000

Non-Capital Loss Carry Back ( 45,000)

Amended Taxable Income Nil

At the end of 2020, the following loss carry forwards remain:

• Net Capital Loss Carry Forward = ($5,250 - $3,150) = $2,100

• Non-Capital Loss Carry Forward = ($83,000 - $45,000) = $38,000

Topic: Loss Carry Overs

6) Ms. Dora McLean operates an unincorporated business. During the taxation year ending December 31, 2019, the business had net business income of $95,000. Dora also had an allowable capital loss of $9,250 [(1/2)($18,500) that could not be deducted.

Unfortunately, in 2020, the business had a business loss of $123,000. Offsetting this was a net taxable capital gain of $7,200 [(1/2)($14,400)]. Dora has no other sources of income or deductions in either year. She does not anticipate realizing any additional capital gains in the foreseeable future.

Assume that Dora wishes to minimize her net capital and non-capital loss carry overs at the end of 2020, without regard to her ability to claim her tax credits for the preceding year (2019). Calculate her Net Income For Tax Purposes and Taxable Income for 2019 and 2020 and any amended amounts for 2019. Indicate the amount and type of any losses available for carry forward at the end of 2020.

Answer: For 2019, Dora had Net Income For Tax Purposes and Taxable Income of $95,000. At the end of this year, she had a net capital loss carry forward of $9,250.

For 2020, she has a net taxable capital gain of $7,200, providing for a carry forward from 2019 of this amount as part of the non-capital loss balance. Based on this course of action, the 2020 non-capital loss would be calculated as follows:

Amount E ($123,000 + $7,200) $130,200

Income Under ITA 3(c) ( 7,200)

Non-Capital Loss $123,000

Of this amount, $95,000 can be carried back to 2019, resulting in an amended return for that year as follows:

Net Income for Tax Purposes $95,000

Non-Capital Loss Carry Back ( 95,000)

Amended Taxable Income Nil

At the end of 2020, the following loss carry forwards remain:

• Net Capital Loss Carry Forward = ($9,250 - $7,200) = $2,050

• Non-Capital Loss Carry Forward = ($123,000 - $95,000) = $28,000

Topic: Loss Carry Overs

7) Ms. Tanya Forester dies during August, 2020. At the time of her death, she has a net capital loss carry forward of $21,800 [(1/2)($43,600)]. As the result of a deemed disposition at her death of her art collection, she has a taxable capital gain of $15,500. Ms. Forester has made no previous use of the lifetime capital gains deduction. Her 2020 employment income in the period prior to her death was $47,000. Describe the tax treatment of these items in her final tax return.

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

Employment Income $47,000

Taxable Capital Gain 15,500

Net Capital Loss Applied Against Current

Taxable Capital Gain [(1/2)($31,000)] ( 15,500)

Net Capital Loss Applied Against Other

Income [(1/2)($43,600 - $31,000)] ( 6,300)

Net Inclusion $40,700

As it is Ms. Forester's year of death, the net capital loss can be deducted against any type of income.

Topic: Net Capital Losses At Death

8) Barton Foster dies during July, 2020. He has a net capital loss carry forward of $27,000 [(1/2)($54,000)] at his death.

His death results in a deemed disposition of his portfolio of public company shares which creates a capital gain of $32,000. Mr. Foster has made no previous use of the lifetime capital gains deduction. In addition, prior to his death, he has employment income of $61,000.

Describe the tax treatment of these items in his final return.

Answer: The net amount that would be included in Barton's final tax return as a result of these items would be calculated as follows:

Employment Income $61,000

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

Net Capital Loss Applied Against Current

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

Net Capital Loss Applied Against Other

Income [(1/2)($54,000 - $32,000)] ( 11,000)

Net Inclusion $50,000

As it is Barton's year of death, the net capital loss can be deducted against any type of income.

Topic: Net Capital Losses At Death

9) During 2019, Mrs. Lacinda Brown used her lifetime capital gains deduction to eliminate a taxable capital gain of $15,000 [(1/2)($30,000)]. During 2020, she has capital gains on publicly traded securities of $21,000, and a loss of $47,000 on the disposition of shares of a small business corporation. Her employment income for 2020 is over $250,000. Determine the amount of the Allowable Business Investment Loss that can be deducted in 2020, as well as the amount and type of any losses available for carry over at the end of the year.

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

Actual Loss On Disposition $47,000

Disallowed By Lifetime Capital Gains Deduction Use ( 30,000)

Business Investment Loss $17,000

Inclusion Rate 1/2

Allowable Business Investment Loss $ 8,500

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

Topic: ABILs

10) For many years, Jasmine Ho has had employment income in excess of $300,000. This will also be the case in 2020. During 2020, she has a $38,000 loss on the disposition of shares of a small business corporation. Also during this year, she has capital gains on publicly traded securities of $5,000. The only other year in which she experiences capital gains was 2012. In that year she had a capital gain of $8,000 on the sale of shares of a qualified farm property. She eliminated all of this gain with the lifetime capital gains deduction. Determine the amount of the Allowable Business Investment Loss that can be deducted in 2020, as well as the amount and type of any losses available for carry over at the end of the year.

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

Actual Loss On Disposition $38,000

Disallowed By Lifetime Capital Gains Deduction Use ( 8,000)

Business Investment Loss $30,000

Inclusion Rate 1/2

Allowable Business Investment Loss $15,000

The $15,000 can be deducted against Jasmine's employment income. With respect to the disallowed portion of the loss, it becomes a regular capital loss, of which $5,000 can be deducted against the current year capital gain. This will leave a net capital loss carry over of $1,500 [(1/2)($8,000 - $5,000)].

Topic: ABILs

11) Despite having a full time teaching position at a Canadian university, Bob Fife has considerable amounts of free time. Given this, he has started a farming operation on a tract of land near the university where he teaches. In 2019, he had a loss on the farming operation of $24,000. He deducted the maximum possible amount in that year.

In 2020, he has employment income of $105,000 and the farming operation produces additional income in the amount of $6,000. Determine Bob's minimum 2020 Net Income For Tax Purposes and Taxable Income. Also, determine the amount and type of any losses available for carry forward at the end of 2020.

Answer: It appears that Bob's farming activities are a subordinate source of income. Given this, the deduction of the 2019 loss would be limited to $13,250 [$2,500 + (1/2)($24,000 - $2,500)].

The remaining $10,750 ($24,000 - $13,250) is a restricted farm loss carry forward.

Bob's 2020 Net Income For Tax Purposes and Taxable Income would be as follows:

Employment Income $105,000

Farm Income 6,000

Net Income For Tax Purposes $111,000

Farm Loss (Limited To Farm Income) ( 6,000)

Taxable Income $105,000

This leaves a restricted farm loss carry forward to future years of $4,750 ($10,750 - $6,000).

Topic: Farm Losses

12) Prior to 2020, Ms. Henny Close has had two capital gains and one capital loss. In 2015, she had a capital gain of $18,000 and in 2017, she had a capital gain of $54,000. Both of these gains were on dispositions of shares in a qualified small business corporation. Given this, she used her ITA 110.6 lifetime capital gains deduction to eliminate the taxable amount of these gains. She has a net capital loss carry forward balance of $30,000. This resulted from a 2018 capital loss of $60,000. She intends to deduct this carry forward in 2020. She has never experienced a Business Investment Loss.

During 2020, she has a $748,000 capital gain on the sale of shares in a qualified small business corporation. Ms. Close has a CNIL balance on December 31, 2020 of $23,000. Determine Ms. Close's maximum lifetime capital gains deduction for 2020. Provide all of the calculations required to determine the maximum ITA 110.6 deduction.

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

**Available Deduction** - Her remaining deduction would be $369,692 [$441,692 - (1/2)($18,000 + $54,000)].

**Annual Gains Limit** - In the absence of capital gains on non-qualified property in any of the years under consideration, the simplified version of this calculation can be used. The annual gains limit for 2020 would be as follows:

Qualified Taxable Capital Gain [(1/2)($748,000)] $374,000

Net Capital Loss Deducted ( 30,000)

Annual Gains Limit $344,000

**Cumulative Gains Limit** - This amount would be calculated as follows:

Sum Of Annual Gains Limits ($9,000 + $27,000 + $344,000) $380,000

Previous Years' Capital Gains Deduction ($9,000 + $27,000) ( 36,000)

CNIL ( 23,000)

Cumulative Gains Limit $321,000

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

Topic: Lifetime Capital Gains Deduction

13) At the beginning of 2020, Joanne Chance had the following loss carry forwards available:

Restricted Farm Losses $ 7,200

Non-Capital Losses 41,000

Net Capital Losses [(1/2)($50,000)] 25,000

During 2020, she had the following amounts of income:

Taxable Capital Gains $ 10,500

Business Income 14,200

Employment Income 61,000

Farm Income 2,950

Determine Joanne's Net Income For Tax Purposes, as well as her minimum Taxable Income for 2020. Indicate the amount and type of any losses available for carry forward at the end of the year.

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

Income Under ITA 3(a):

Employment Income $61,000

Business Income 14,200

Farming Income 2,950 $78,150

Income Under ITA 3(b):

Taxable Capital Gains 10,500

Net Income For Tax Purposes $88,650

Joanne's Taxable Income is as follows:

Net Income For Tax Purposes $88,650

Loss Carry Forwards:

Restricted Farm Losses (Limited to farming income) ( 2,950)

Net Capital Losses (Limited to taxable capital gains) ( 10,500)

Non-Capital Losses (All) ( 41,000)

Taxable Income $34,200

**Loss Carry Forwards**

• Restricted farm loss carry forward ($7,200 - $2,950) $ 4,250

• Net capital loss carry forward ($25,000 - $10,500) 14,500

• Non-capital loss carry forward Nil

Topic: Ordering Of Losses

14) At the beginning of 2020, Cindy Burke had the following loss carry forwards available:

Non-Capital Losses $25,000

Restricted Farm Losses 4,000

Net Capital Losses [(1/2)($64,000)] 32,000

During the taxation year ending December 31, 2020, she recorded the following amounts of income:

Farm Income $ 2,500

Taxable Capital Gains 21,000

Business Income 74,000

Determine Cindy's Net Income For Tax Purposes, as well as her minimum Taxable Income for 2020. Indicate the amount and type of any losses available for carry forward at the end of the year.

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

Income Under ITA 3(a):

Business Income $74,000

Farming Income 2,500 $76,500

Income Under ITA 3(b):

Taxable Capital Gains 21,000

Net Income For Tax Purposes $97,500

Cindy's Taxable Income is as follows:

Net Income For Tax Purposes $97,500

Loss Carry Forwards:

Restricted Farm Losses (Limited to farming income) ( 2,500)

Net Capital Losses (Limited to taxable capital gains) ( 21,000)

Non-Capital Losses (All) ( 25,000)

Taxable Income $49,000

**Loss Carry Forwards**

• Restricted farm loss carry forward ($4,000 - $2,500) $ 1,500

• Net capital loss carry forward ($32,000 - $21,000) 11,000

• Non-capital loss carry forward Nil

Topic: Ordering Of Losses

15) During 2020, Harriet Humber, who is 15 years old, receives non-eligible dividends of $13,000 from a private corporation controlled by her father. In addition, she has income of $13,100 from her modeling contracts. Assume her only tax credits are the basic personal credit and the dividend tax credit. Determine Harriet's federal Tax Payable for 2020.

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

Taxable Non-Eligible Dividends [(115%)($13,000)] $14,950

Modeling Income 13,100

Deduction For Split Income - Non-Eligible Dividends ( 14,950)

Net Income For Tax Purposes = Taxable Income $13,100

Rate 15%

Tax Payable Before Credit $ 1,965

Basic Personal Credit [(15%)($13,229)] ( 1,984)

Regular Tax Payable $ Nil

Her tax on Split Income would be calculated as follows:

Split Income - Taxable Non-Eligible Dividends $14,950

Rate 33%

Tax Payable Before Dividend Tax Credit $ 4,934

Dividend Tax Credit [(9/13)(15%)($13,000)] ( 1,350)

Tax Payable On Split Income $ 3,584

Harriet's total tax payable would be $3,584 ($Nil + $3,584).

Topic: Tax On Split Income

16) Mrs. Mary Senton is 42 years old and has over $250,000 in 2020 Taxable Income. Her husband's only source of 2020 income is $9,000 (grossed up amount of $12,420) in eligible dividends received from taxable Canadian corporations. In terms of federal Tax Payable, would Mrs. Senton benefit from the use of the ITA 82(3) election to include the dividends received by her spouse in her Net Income For Tax Purposes? Justify your conclusion.

Answer: In the absence of the transfer, Mrs. Senton would have no spousal tax credit. In contrast, with the transfer, she would be eligible for the full $1,984 [(15%)($13,229)]. Given this, the analysis of her position at the federal level would be as follows:

Additional Tax On Dividends [($12,420)(33%)] $4,099

Spousal Tax Credit ( 1,984)

Dividend Tax Credit [(6/11)(38%)($9,000)] ( 1,865)

Tax Increase (Decrease) $ 250

As there is an increase in federal Tax Payable, the election would not be beneficial.

Topic: Transfer Of Dividends To A Spouse

17) Ms. Katrina Wave owns a painting that she purchased many years ago for $22,000. Its current fair market value is $132,500. During 2020, she gifts the painting to the Renfrew Art Gallery. As the Gallery is a registered Canadian charity, it provides Ms. Wave with a tax receipt for the fair market value of $132,500. Before consideration of any income resulting from this gift, Ms. Wave's only other income is investment income of $12,500. She has no tax credits other than her basic personal credit and the charitable donations credit resulting from the gift of the painting.

**Required:** Determine Ms. Wave's:

• 2020 Net Income For Tax Purposes;

• her maximum federal charitable donations tax credit for 2020;

• the amount of the donation she should claim in 2020 in order to reduce her federal Tax Payable to nil; and

• the amount of contributions that can be carried forward to subsequent years, assuming that she claims the amount of contributions that would reduce her Tax Payable to nil.

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

**Maximum Credit -** Note that, because Ms.Wave's Taxable Income is less than $214,368, the 33 percent tax rate is not relevant in calculating the charitable donations tax credit. The maximum base for the charitable donations tax credit is calculated as follows:

75% Of Net Income For Tax Purposes [(75%)($67,750)] $50,813

25% Of Taxable Capital Gain [(25%)($55,250)] 13,813

Charitable Donations Credit Base Limit $64,626

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

**Credit To Reduce Tax Payable To Nil -** The credit claim that will reduce Tax Payable to nil is calculated as follows:

Tax On First $48,535 $ 7,280

Tax On Next $19,215 ($67,750 - $48,535) At 20.5% 3,939

Tax Payable Before Credits $11,219

Basic Personal Credit ( 1,984)

Federal Tax Payable Before Donations Credit $ 9,235

In order to determine the donation that will produce a charitable donations credit of $9,235, the following equation must be solved:

$9,235 = [(15%)($200) + (29%)(X - $200)]

Solving this equation results in a value for X of $31,941. Using this amount of her credit base will result in the required $9,235 [(15%)($200) + (29%)($31,941 - $200)], thereby eliminating her federal Tax Payable.

**Carry Forward -** This will leave a carry forward of $100,559 ($132,500 - $31,941).

Topic: Donation Of Non-Depreciable Property

18) Lara Rand owns a tract of land that she had acquired many years ago for $18,000. During 2020, she gifts the land to a registered Canadian charity. At the time of the gift, the fair market value of the land is estimated to be $84,000, with the charity issuing a tax receipt for this amount. In addition to the capital gain resulting from this gift, Lara has 2020 rental income of $23,000. She has no tax credits other than her basic personal credit and the charitable donations credit resulting from the gift of the land.

**Required:** Determine Ms. Rand's:

• 2020 Net Income For Tax Purposes;

• her maximum federal charitable donations tax credit for 2020;

• the amount of the donation she should claim in 2020 in order to reduce her federal Tax Payable to nil; and

• the amount of contributions that can be carried forward to subsequent years, assuming that she claims the amount of contributions that would reduce her Tax Payable to nil.

Answer: **Net Income For Tax Purposes -** Lara's gift will result in a taxable capital gain of $33,000 [(1/2)($84,000 - $18,000)]. Given this, her 2020 Net Income For Tax Purposes equals $56,000 ($23,000 + $33,000).

**Maximum Credit -** Note that, because Lara's Taxable Income is less than $214,368, the 33 percent tax rate is not relevant in calculating the charitable donations tax credit. The maximum base for the charitable donations tax credit is calculated as follows:

75% Of Net Income For Tax Purposes [(75%)($56,000)] $42,000

25% Of Taxable Capital Gain [(25%)($33,000)] 8,250

Charitable Donations Credit Base Limit $50,250

This base results in a potential credit of $14,545 [(15%)($200) + (29%)($50,250 - $200)].

**Credit To Reduce Tax Payable To Nil -** The credit claim that will reduce Tax Payable to nil is calculated as follows:

Tax On First $4,8535 $7,280

Tax On Next $7,465 ($56,000 - $48,535) At 20.5% 1,530

Tax Payable Before Credits $8,810

Basic Personal Credit ( 1,984)

Federal Tax Payable Before Donations Credit $6,826

In order to determine the donation that will produce a charitable donations credit of $6,826, the following equation must be solved:

$6,826 = [(15%)($200) + (29%)(X - $200)]

Solving this equation gives a value for X of $23,634. The use of $23,634 of her donation will produce a credit of $6,826 [(15%)($200) + (29%)($23,634 - $200)], an amount sufficient to eliminate her federal Tax Payable.

**Carry Forward -** This will leave a carry forward of $60,366 ($84,000 - $23,634).

Topic: Donation Of Non-Depreciable Property

19) Mr. Gerald Deveau owns a rental property that, during 2020, he gave to a charity to house its continuing operations. The building had originally cost Mr. Deveau $172,000, of which $34,000 was allocated to the land and $138,000 was allocated to the building. At the time of the gift, the UCC of the building is $43,000, and the fair market value of the property is$346,000, including $86,000 for the land and $260,000 for the building. The charity issues a tax receipt for $346,000. Before consideration of any income resulting from this gift, Mr.Deveau's only other income is net rental income of $8,300. His only tax credits are his basic personal credit and the charitable donations credit resulting from the gift of the building.

**Required:** Determine Mr. Deveau's:

• 2020 Net Income For Tax Purposes;

• his maximum federal charitable donations tax credit for 2020;

• the amount of the donations he should claim in 2020 in order to reduce his federal Tax Payable to nil; and

• the amount of contributions that can be carried forward to subsequent years, assuming that he claims the amount of contributions that would reduce his Tax Payable to nil.

Answer:

**Net Income For Tax Purposes -** Mr. Deveau's Net Income For Tax Purposes can be calculated as follows:

Net Rental Income $ 8,300

Taxable Capital Gain - Land [(1/2)($86,000 - $34,000) 26,000

Taxable Capital Gain - Building

[(1/2)($260,000 - $138,000)] 61,000

Recapture ($138,000 - $43,000) 95,000

Net Income For Tax Purposes $190,300

**Maximum Credit -** Note that, because Mr. Deveau's Taxable Income is less than $214,368, the 33 percent tax rate is not relevant in calculating the charitable donations tax credit. The maximum base for the charitable donations tax credit is calculated as follows:

75% Of Net Income For Tax Purposes [(75%)($190,300)] $142,725

25% Of Taxable Capital Gain [(25%)($26,000 + $61,000)] 21,750

25% Of Recapture [(25%)($95,000)] 23,750

Charitable Donations Credit Base Limit $188,225

This base results in a maximum charitable donations tax credit of $54,557 [(15%)($200) + (29%)($188,225 - $200)].

**Credit To Reduce Tax Payable To Nil -** The credit claim that will reduce Tax Payable to nil is calculated as follows:

Tax On First $150,473 $31,115

Tax On Next $39,827 ($190,300 - $150,473) At 29% 11,550

Tax Payable Before Credits $42,665

Basic Personal Credit [(15%)($12,649\*)] ( 1,897)

Federal Tax Payable Before Donations Credit $40,768

\*$13,229 - [$931][($190,300 - $150,473) ÷ $63,895)]

In order to determine the donation that will produce a charitable donations credit of $40,768, the following equation must be solved:

$40,768 = [(15%)($200) + (29%)(X - $200)]

Solving this equation gives a value for X of $140,675. The use of $140,675 of his donation will produce a credit of $40,768 [(15%)($200) + (29%)($140,675 - $200)], an amount sufficient to eliminate his federal Tax Payable.

**Carry Forward -** This will leave a carry forward of $205,325 ($346,000 - $140,675).

Topic: Donation Of Depreciable Property

20) During 2020, Victor Flood donates a rental property to a registered Canadian charity. The property had a cost of $226,000, including a value for the land of $50,000 and a value for the building of $176,000. At the time of the gift, the estimated fair market value of the property is $396,000, with the value of the land unchanged at $50,000 and the value of the building at $346,000. The UCC of the building is $110,000 at the time of transfer. The charity issues a receipt for $396,000. Other than the income generated by the gift, Victor's only other 2020 income is net rental income of $16,000. His only 2020 tax credits are his basic personal credit and the charitable donations credit resulting from the gift.

**Required:** Determine Victor's:

• 2020 Net Income For Tax Purposes;

• his maximum federal charitable donations tax credit for 2020;

• the amount of the donations he should claim in 2020 in order to reduce his federal Tax Payable to nil; and

• the amount of contributions that can be carried forward to subsequent years, assuming that he claims the amount of contributions that would reduce his Tax Payable to nil.

Answer:

**Net Income For Tax Purposes -** Victor's Net Income For Tax Purposes can be calculated as follows:

Net Rental Income $16,000

Taxable Capital Gain - Land Nil

Taxable Capital Gain - Building

[(1/2)($346,000 - $176,000)] 85,000

Recapture ($176,000 - $110,000) 66,000

Net Income For Tax Purposes $167,000

**Maximum Credit -** Note that, because Victor's Taxable Income is less than $214,368, the 33 percent tax rate is not relevant in calculating the charitable donations tax credit. The maximum base for the charitable donations tax credit is calculated as follows:

75% Of Net Income For Tax Purposes [(75%)($167,000)] $125,250

25% Of Taxable Capital Gain [(25%)($85,000)] 21,250

25% Of Recapture [(25%)($66,000)] 16,500

Charitable Donations Credit Base Limit $163,000

This base results in a maximum charitable donations tax credit of $47,242 [(15%)($200) + (29%)($163,000 - $200)].

**Credit To Reduce Tax Payable To Nil -** The credit claim that will reduce Tax Payable to nil is calculated as follows:

Tax On First $150,473 $31,115

Tax On Next $16,527 ($167,000 - $150,473) At 29% 4,793

Tax Payable Before Credits $35,908

Basic Personal Credit [(15%)($12,988)] ( 1,948)

Federal Tax Payable Before Donations Credit $33,960

\*$13,229 - [$931][($167,000 - $150,473) ÷ $63,895)]

In order to determine the donation that will produce a charitable donations credit of $33,960, the following equation must be solved:

$33,960 = [(15%)($200) + (29%)(X - $200)]

Solving this equation for X gives a value of $117,200. The use of $117,200 of his donation will produce a credit of $33,960 [(15%)($200) + (29%)($117,200 - $200)], an amount sufficient to eliminate his Tax Payable.

**Carry Forward -** This will leave a carry forward of $278,800 ($396,000 - $117,200).

Topic: Donation Of Depreciable Property

21) During 2020, Kevin Fung has Net Income For Tax Purposes of $56,500, a figure that includes $3,900 of foreign non-business income. The foreign jurisdiction withheld 13 percent of this amount, resulting in a net receipt of $3,393. In calculating Taxable Income, he deducts a $5,000 non-capital loss carry forward and a $3,200 net capital loss carry forward, resulting in a figure of $48,300. His only tax credits are the basic personal credit and the credit for foreign tax paid. What is the amount of his foreign non-business income tax credit for 2020? A calculation of federal Tax Payable is NOT required.

Answer: Mr. Fung's Adjusted Division B Income would be calculated as follows:

Net Income For Tax Purposes $56,500

Net Capital Loss Deducted ( 3,200)

Adjusted Division B Income $53,300

Non-Capital Loss Carry Forward ( 5,000)

Taxable Income $48,300

His Tax Otherwise Payable would be calculated as follows:

Tax Before Credit [(15%)($48,300)] $7,245

Basic Personal Credit ( 1,984)

Tax Otherwise Payable $5,261

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

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

= [($3,900 ÷ $53,300)($5,261)] = $385

As the amount determined by the formula would be the lesser of the two figures, his foreign tax credit would be $385.

Topic: Foreign Tax Credits

22) During 2020, Andy Loon earned $4,500 in foreign non-business income. The foreign jurisdiction withheld 20 percent of this amount, resulting in a net receipt of $3,600. His only other source of income in 2020 is a taxable capital gain of $38,000. His only deduction in the determination of Taxable Income is a $26,000 net capital loss carry forward. His only tax credits are the basic personal credit and the credit for foreign tax paid. Determine Mr. Loon's 2020 Net Income For Tax Purposes, his 2020 Taxable Income, and his 2020 federal Tax Payable.

Answer: The total withholding is equal to $900 [(20%)($4,500)] However, because he is an individual, Andy's credit is limited to 15 percent of the non-business income or $675 [(15%)($4,500)]. The remaining $225 ($900 - $675) is available for deduction under ITA 20(11). Given this, Andy's Net Income For Tax Purposes and Taxable Income are calculated as follows:

Net Foreign Non-Business Income ($4,500 - $225) $ 4,275

Taxable Capital Gain 38,000

Net Income For Tax Purposes $42,275

Net Capital Loss Carry Forward ( 26,000)

Taxable Income = Adjusted Division B Income $16,275

His adjusted Division B Income is $16,275, the same amount as his Taxable Income.

His Tax Otherwise Payable would be calculated as follows:

Tax Before Credit [(15%)($16,275)] $2,441

Basic Personal Credit ( 1,984)

Tax Otherwise Payable $ 457

His credit against Tax Payable for foreign tax withheld would be the lesser of $675 [(15%)($4,500)] and an amount determined by the following formula:

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

= [($4,500 ÷ $16,275)($457)] = $126

As the amount determined by the formula would be the lesser of the two figures, his foreign tax credit would be $126. This would result in a final figure for Tax Payable of $331 ($457 - $126).

Topic: Foreign Tax Credits

23) During 2020, Mr. Glenn Leigh has Net Income For Tax Purposes of $144,288. This amount is made up of taxable capital gains of $120,000 and taxable eligible dividends of $24,288 [(138%)($17,600)]. As the taxable capital gain was on a disposition of shares in a qualified small business corporation, he reduced his Taxable Income to $24,288 through the use of the lifetime capital gains deduction. His only tax credits are the basic personal credit and the dividend tax credit. Determine whether Mr. Leigh would have a liability for the federal alternative minimum tax and, if so, the total amount of such tax.

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

$24,288 At 15 Percent $3,643

Basic Personal Credit ( 1,984)

Dividend Tax Credit [(6/11)(38%)($17,600)] ( 3,648)

Federal Tax Payable - Regular Nil

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

Regular Taxable Income $24,288

30 Percent Of Capital Gains [(30%)(2)($120,000)] 72,000

Dividend Gross Up [(38%)($17,600)] ( 6,688)

Adjusted Taxable Income $89,600

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

Adjusted Taxable Income $89,600

Basic Exemption ( 40,000)

Amount Subject To Tax $49,600

Rate 15%

Minimum Tax Before Credit $ 7,440

Basic Personal Credit ( 1,984)

Alternative Minimum Tax Payable $ 5,456

As the alternative minimum tax payable is higher than the regular tax payable, the alternative amount would have to be paid. The $5,456 excess over regular Tax Payable can be carried forward to be applied against any excess of regular tax payable over minimum tax payable in the next seven years.

Topic: Alternative Minimum Tax

24) During 2020, Shelly Large sold shares in a qualified small business corporation for $580,000 resulting in a taxable capital gain of $200,000. She intends to deduct the taxable amount of this gain under the provisions of the lifetime capital gains deduction legislation. Her only other source of income during the year was eligible dividends of $23,000 (taxable amount $31,740). Her only tax credits are the basic personal credit and the dividend tax credit. Determine whether Ms. Large would have a liability for the federal alternative minimum tax and, if so, the total amount of such tax.

Answer: Shelly's regular Tax Payable would be calculated as follows:

$31,740 At 15 Percent $4,761

Basic Personal Credit ( 1,984)

Dividend Tax Credit [(6/11)(38%)($23,000)] ( 4,767)

Federal Tax Payable - Regular Nil

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

Regular Taxable Income $31,740

30 Percent Of Capital Gains [(30%)(2)($200,000)] 120,000

Dividend Gross Up [(38%)($23,000)] ( 8,740)

Adjusted Taxable Income $143,000

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

Adjusted Taxable Income $143,000

Basic Exemption ( 40,000)

Amount Subject To Tax $103,000

Rate 15%

Minimum Tax Before Credit $ 15,450

Basic Personal Credit ( 1,984)

Alternative Minimum Tax Payable $ 13,466

As the alternative minimum tax payable is higher than the regular tax payable, the alternative amount would have to be paid. The $13,466 excess over regular Tax Payable can be carried forward to be applied against any excess of regular tax payable over minimum tax payable in the next seven years.

Topic: Alternative Minimum Tax

Key Term Matching - Easy

**For each of the key terms listed, indicate the BEST definition of that term, or that none of the definitions apply.**

A) A process of disposing of corporate assets that are not being used to produce active business income, so that the corporation meets the 90 percent of assets test required to qualify as a small business corporation.

B) The excess of allowable capital losses over taxable capital gains for the current year.

C) A corporation that is a Canadian controlled private corporation that uses all or substantially all (90 percent or more) of the fair market value of its assets in an active business that is carried on primarily (more than 50 percent) in Canada.

D) Taxable capital gains for the current year on qualified assets, less the sum of allowable capital losses and net capital loss carry overs deducted during the current year, plus allowable business investment losses realized during the current year.

E) Certain types of income received by a specified individual from non-arm's length sources that will be taxed at the maximum federal rate of 33 percent.

F) A small business corporation that, at the time of its disposition, has been owned by no one other than the taxpayer or a related party during the preceding 24 months, and during that 24 month period, more than 50 percent of the fair market value of its assets were used in an active business carried on primarily in Canada.

G) For individuals, the sum of employment losses, business losses, property losses and net capital losses deducted, less income as calculated under ITA 3(c).

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

I) A deduction in the calculation of the taxable income of an individual that permits the deduction of a cumulative lifetime amount of up to $883,384 in capital gains resulting from the disposition of shares of qualified small business corporation shares, or capital gains of up to $1,000,000 on dispositions of a qualified farm or qualified fishing property.

J) A loss resulting from the disposition of shares or debt of a small business corporation.

K) Taxable capital gains on qualified assets that have been realized since 1984, less the sum of allowable capital losses and net capital loss carry overs deducted after 1984, plus allowable business investment losses realized after 1984, capital gains deductions claimed in previous taxation years, and the cumulative net investment loss at the end of the year.

1) Annual Gains Limit

2) Business Investment Loss

3) Lifetime Capital Gains Deduction

4) Net Capital Loss

5) Purification Of A Small Business Corporation

6) Qualified Small Business Corporation

7) Small Business Corporation

8) Split Income

Answers: 1) D 2) J 3) I 4) B 5) A 6) F 7) C 8) E

Key Term Matching - Moderate

**For each of the key terms listed, indicate the BEST definition of that term, or that none of the definitions apply.**

A) For individuals, the sum of employment losses, business losses, property losses and net capital losses deducted, less income as calculated under ITA 3(c).

B) Certain types of income received by a specified individual from non-arm's length sources that will be taxed at the maximum federal rate of 33 percent.

C) Certain types of income received by children from their parents that will be taxed at the maximum federal rate of 33 percent.

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

E) A deduction in the calculation of the taxable income of an individual that permits the deduction of a cumulative lifetime amount of up to $883,384 in capital gains resulting from the disposition of shares of qualified small business corporation shares, or capital gains of up to $1,000,000 on dispositions of a qualified farm or qualified fishing property.

F) The excess of allowable capital losses over taxable capital gains for the current year.

G) The excess of allowable capital losses over capital gains for the current year.

H) A loss resulting from the disposition of shares or debt of a small business corporation.

I) A corporation that is a Canadian controlled private corporation that uses all or substantially all (90 percent or more) of the fair market value of its assets in an active business that is carried on primarily (more than 50 percent) in Canada.

J) A loss resulting from the disposition of shares or debt of a qualified small business corporation.

K) A small business corporation that, at the time of its disposition, has been owned by no one other than the taxpayer or a related party during the preceding 24 months, and during that 24 month period, more than 50 percent of the fair market value of its assets were used in an active business carried on primarily in Canada.

L) Taxable capital gains on qualified assets that have been realized since 1984, less the sum of allowable capital losses and net capital loss carry overs deducted after 1984, plus allowable business investment losses realized after 1984, capital gains deductions claimed in previous taxation years, and the cumulative net investment loss at the end of the year.

M) A process of disposing of corporate assets that are not being used to produce active business income, so that the corporation meets the 90 percent of assets test required to qualify as a small business corporation.

N) A corporation that, at the time of its disposition, has been owned by no one other than the taxpayer or a related party during the preceding 24 months, and during that 24 month period, more than 50 percent of the fair market value of its assets were used in an active business carried on primarily in Canada.

O) Taxable capital gains for the current year on qualified assets, less the sum of allowable capital losses and net capital loss carry overs deducted during the current year, plus allowable business investment losses realized during the current year.

1) Annual Gains Limit

2) Business Investment Loss

3) Lifetime Capital Gains Deduction

4) Net Capital Loss

5) Purification Of A Small Business Corporation

6) Qualified Small Business Corporation

7) Small Business Corporation

8) Split Income

Answers: 1) O 2) H 3) E 4) F 5) M 6) K 7) I 8) B

Problems

1) Martin Dornet opens a new retail business operation on January 1, 2017. Relevant information for 2017 and the subsequent three taxation years follows.

**Year Ending December 31, 2017**

During this first year of operations, Martin's net business income is $32,600. In addition to his new retail business, he begins a farming operation which loses $14,200 during its first year of operation. He has always been an active investor in the stock market and, during 2017, he has the following results:

Eligible Dividends $3,050

Taxable Capital Gains 1,150

Allowable Capital Losses 6,860

**Year Ending December 31, 2018**

The 2018 operations of his retail business result in a net business loss of $23,700. His farming operation produces a net income of $3,600. His investment results for 2018 are as follows:

Eligible Dividends $3,850

Taxable Capital Gains 3,470

**Year Ending December 31, 2019**

His retail operation produces net business income of $53,200 for 2019. The farming operation is also profitable, producing a net income of $5,480. His 2019 investment results are as follows:

Eligible Dividends $4,860

Taxable Capital Gains 3,870

**Year Ending December 31, 2020**

For 2020, his retail business experiences a net business loss of $32,670. In addition, he has a net farm loss of $2,460. Investment results are as follows:

Eligible Dividends $ 7,920

Taxable Capital Gains 23,360

Allowable Capital Losses 24,940

Because his farming activities are secondary to his business activities, his losses are restricted.

In each of the four years 2017 through 2020, Martin needs $23,618 in Taxable Income to absorb his personal tax credits.

When he has a choice, Martin would prefer to deduct maximum net capital loss carry overs. He will also carry back any current losses to the earliest possible year.

Prior to 2017, because of significant health issues,Martin had no amounts of Tax Payable. This means that it would not be useful to carry back any type of loss to years prior to 2017.

**Required:** Calculate Martin's minimum Net Income For Tax Purposes and Taxable Income for each of the four years. Indicate the amended figures for any years to which losses are carried back. Also indicate the amount and types of loss carry overs that would be available at the end of each year.

Answer:

***2017 Analysis***

The required information can be calculated as follows:

ITA 3(a)

Business Income $32,600

Taxable Dividends [(138%)($3,050)] 4,209 $36,809

ITA 3(b)

Taxable Capital Gains $ 1,150

Allowable Capital Losses ( 6,860) Nil

ITA 3(c) $36,809

ITA 3(d)

Farm Loss (See Note) ( 8,350)

Net Income For Tax Purposes And Taxable Income $28,459

**Note -** Martin's farm losses are restricted as follows:

Total Farm Loss $14,200

Deductible Amount:

First $2,500 ($2,500)

One-Half Of $11,700 ($14,200 - $2,500) ( 5,850) ( 8,350)

Restricted Farm Loss Carry Forward $ 5,850

As noted in the problem, none of the losses can be carried back before 2017. This would leave the following carry forward balances at the end of 2017:

• Restricted Farm Loss Carry Forward $5,850

• Net Capital Loss Carry Forward ($6,860 - $1,150) $5,710

***2018 Analysis***

The required information can be calculated as follows:

ITA 3(a)

Farm Income $ 3,600

Taxable Dividends [(138%)($3,850)] 5,313 $ 8,913

ITA 3(b)

Taxable Capital Gains $ 3,470

Allowable Capital Losses Nil 3,470

ITA 3(c) $12,383

ITA 3(d)

Business Loss ( 23,700)

Net Income For Tax Purposes Nil

2017 Net Capital Loss Carry Forward ($ 3,470)

Taxable Income (Loss) Nil

Since there are taxable capital gains this year, and the problem states that Martin would like to deduct the maximum amount of his net capital loss carry forwards, the net capital loss carry forward of $3,470 is added to the balance of the non-capital loss.

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

Business Loss $23,700

2017 Net Capital Loss Deducted 3,470

ITA 3(c) Income ( 12,383)

Non-Capital Loss Carry Over For 2018 $14,787

The entire non-capital loss carry over could be carried back to 2017, but since Martin requires $23,618 in Taxable Income to fully utilize his tax credits, the maximum carry back to 2017 is $4,841 calculated as follows:

2017 Taxable Income (As Reported) $28,459

Non-Capital Loss Carry Back From 2018 ( 4,841)

2017 Amended Taxable Income (Minimum) $23,618

This carry back leaves Martin with his required $23,618 in Taxable Income. There would be the following carry forward balances at the end of 2018:

• Restricted Farm Loss Carry Forward (Unchanged) $5,850

• Net Capital Loss Carry Forward ($5,710 - $3,470)] 2,240

• Non-Capital Loss Carry Forward ($14,787 - $4,841) 9,946

***2019 Analysis***

The required information can be calculated as follows:

ITA 3(a)

Business Income $53,200

Farm Income 5,480

Taxable Dividends [(138%)($4,860)] 6,707 $65,387

ITA 3(b)

Taxable Capital Gains $3,870

Allowable Capital Losses Nil 3,870

Net Income For Tax Purposes $69,257

Restricted Farm Loss Carry Forward (Equal To Farm Income) ( 5,480)

Net Capital Loss Carry Forward (Less Than $3,870) ( 2,240)

Non-Capital Loss Carry Forward (All) ( 9,946)

Taxable Income $51,591

There would be the following carry forward balance at the end of 2019:

• Restricted Farm Loss Carry Forward ($5,850 - $5,480) $ 370

***2020 Analysis***

The required information can be calculated as follows:

ITA 3(a)

Taxable Dividends [(138%)($7,920)] $10,930

ITA 3(b)

Taxable Capital Gains $23,360

Allowable Capital Losses ( 24,940) Nil

ITA 3(c) $10,930

ITA 3(d)

Business Loss ($32,670)

Farm Loss ( 2,460) ( 35,130)

Net Income For Tax Purposes And Taxable Income Nil

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

Business Loss $32,670

Farm Loss (Unrestricted) 2,460 $35,130

ITA 3(c) Income ( 10,930)

Non-Capital Loss For 2020 $24,200

Although technically, the farm loss is accounted for separately from the non-capital loss, since the farm loss is less than $2,500 it is treated as an unrestricted farm loss and can be applied against all types of income. ITA 31 states that any loss allowed under that provision is considered an unrestricted loss from a farming business for the year for the purposes of calculating the non-capital loss carry over. As a result, the preceding loss carry over of $24,200 is available for carry back to 2019 to be applied against any type of income.

With respect to the net capital loss of $1,580 ($24,940 - $23,360), there are $1,630 ($3,870 - $2,240) in taxable capital gains left in 2019 as the basis for a carry back. This means that all of the 2020 net capital loss can be carried back.

If, in addition to the net capital loss carry back, all of the non-capital loss is carried back, Martin's amended Taxable Income would be as follows:

2019 Taxable Income (As Reported) $51,591

Non-Capital Loss Carry Back From 2020 ( 24,200)

Net Capital Loss Carry Back From 2020 ( 1,580)

2019 Amended Taxable Income $25,811

These carry backs leave Martin with his required $23,618 in 2019 Taxable Income. With these carry backs being deducted, there would be the following carry forward balances at the end of 2020:

• Restricted Farm Loss Carry Forward (Unchanged) $ 370

• Net Capital Loss Carry Forward ($1,580 - $1,580)] Nil

• Non-Capital Loss Carry Forward ($24,200 - $24,200) Nil

Topic: Loss Carry Overs - Individual

Problems

1) During 2017, Mr. Larry Atkins invested $275,000 to acquire 100 percent of the common shares of a corporation involved in the production of plastic containers. The company was a Canadian controlled private corporation with a fiscal year ending on January 31. All of its assets were used to produce active business income in Canada.

In 2017 and 2018, the company operated successfully, but did not pay any dividends. In 2019, it began to experience serious financial difficulties. In 2020, the company shut down and all of the assets were sold. After the claims of the creditors were settled, Mr. Atkins' shares were canceled and he received a final payment of $65,000.

Other financial data for Mr. Atkins for the years ending December 31, 2019 and December 31, 2020, is as follows:

**2019 2020**

Net rental income $36,870 $41,200

Interest Income 5,250 5,650

Basic personal tax credit amount 12,069 13,229

The only tax credit available to Mr. Atkins in either year is the basic personal credit. Mr. Atkins had no income for 2017 and 2018. At the beginning of 2018, he did not have any loss carry forwards from previous years.

Mr. Atkins has never utilized his lifetime capital gains deduction.

**Required:** Determine Mr. Atkins' optimum Taxable Income for the years ending December 31, 2019 and December 31, 2020. In your solution, consider the effect of the basic personal credit. Indicate any loss carry over that is present at the end of either year, and the rules applicable to claiming the loss carry over.

Answer: The calculation of Mr. Atkins' Taxable Income for 2019 would be as follows:

Net Rental Income $36,870

Interest Income 5,250

Net Income For Tax Purposes And Taxable Income $42,120

In 2020, there is a loss of $210,000 ($275,000 - $65,000) on the common shares. As these were shares in a Canadian controlled private company that used all of its assets to produce active business income, this would be a business investment loss (BIL).

The allowable portion (ABIL) would be $105,000 [(1/2)($210,000)]. In contrast to other types of capital losses, ABILs can be deducted against any source of income.

Based on this analysis, Mr. Atkins' Taxable Income for 2020 would be calculated as follows:

Net Rental Income $41,200

Interest Income 5,650 $46,850

Allowable Business Investment Loss ( 105,000)

Net Income For Tax Purposes And Taxable Income Nil

As the ABIL was recognized in 2020, it must first be used to reduce that year's income to nil. Note that, because of this rule, Mr. Atkins cannot deduct a smaller amount in order to have sufficient income to absorb his basic personal tax credit. This will use up $46,850 of the $105,000 total and leave a balance of $58,150 to be carried over to other years.

In carrying this amount back to 2019, the optimum solution would leave $12,069 of Taxable Income so that Mr. Atkins can take advantage of his basic personal tax credit. Note that the calculation of the optimum carry back uses the basic personal amount of the carry back year, not the current year.

This means that Larry will need a loss carry back deduction of $30,051 ($42,120 - $12,069) in 2019. This deduction will leave a Taxable Income of $12,069. As planned, the taxes on this amount will be eliminated by Larry's basic personal credit.

A carry back of $30,051 in 2019 leaves a carry forward balance of $28,099 ($58,150 - $30,051) to be used in future years.

For the next 10 years, the undeducted Allowable Business Investment Loss 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.

Topic: Allowable Business Investment Losses

Problems

1) The following information is for Doug Santiago for the year ending December 31, 2020:

• Doug sold shares of Flop Inc., a small business corporation that did not qualify for the lifetime capital gains deduction. The shares had cost $345,000. The net proceeds of disposition were $78,000.

• Doug sold shares of Flip Inc., a qualified small business corporation, for $480,000. The adjusted cost base of these shares was $187,000. Selling costs were $4,000.

• Doug had net employment income of $142,000.

• At the end of 2020, Doug had a Cumulative Net Investment Loss of $2,300.

• On January 1, 2020, Doug had a net capital loss carry forward of $3,400 [(1/2)($6,800)]. Doug has used the ITA 110.6 lifetime capital gains deduction to eliminate a 2012 capital gain of $29,500, as well as a 2015 capital gain of $49,000. Doug has not deducted any other amounts under ITA 110.6 in the years prior to 2020.

**Required:** Calculate Doug's minimum Net Income For Tax Purposes and Taxable Income for 2020. Provide all of the calculations required to determine the maximum ITA 110.6 deduction assuming:

A. Doug would prefer to make the maximum deduction of his net capital loss carry forward, prior to making any use of the lifetime capital gains deduction.

B. Doug would prefer to make the maximum use of the lifetime capital gains deduction.

Answer: 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:

2020 BIL Realized ($345,000 - $78,000) $267,000

BIL Disallowed By Previous Use Of ITA 110.6 ($29,500 + $49,000) ( 78,500)

Remaining Business Investment Loss $188,500

Inclusion Rate 1/2

Allowable Business Investment Loss $ 94,250

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

Net Employment Income $142,000

Allowable Business Investment Loss ( 94,250)

Net Taxable Capital Gains:

Taxable Capital Gain

[(1/2)($480,000 - $187,000 - $4,000)] $144,500

Allowable Capital Loss (Disallowed ABIL)

[(1/2)($78,500)] ( 39,250) 105,250

Net Income For Tax Purposes $153,000

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

**Part A Part B**

Net Income For Tax Purposes $153,000 $153,000

Net Capital Loss Carry Forward Deducted ( 3,400) Nil

Lifetime Capital Gains Deduction (Note) ( 5,300) ( 8,700)

Taxable Income $144,300 $144,300

**Note:** As the only capital gains during 2020 are on qualified property, the simplified formula for the annual gains limit can be used. Given this, the lifetime capital gains deduction is the cumulative gains limit for both Part A and B as it is the least of the following:

**Part A Part B**

Amount Available [(1/2)($883,384\*)] $441,692 $441,692

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

Amount Available $402,442 $402,442

\*This is the 2020 limit for gains on dispositions of shares of a qualified small business corporation. For gains on qualified farm or fishing property, the 2020 limit would be $1,000,000.

**Part A Part B**

Taxable Capital Gain On Qualified Property $144,500 $144,500

ABIL Realized ( 94,250) ( 94,250)

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

Net Capital Loss Carry Forward Deducted ( 3,400) Nil

Annual Gains Limit $ 7,600 $ 11,000

**Part A Part B**

Sum Of Annual Gains Limits

($14,750 + $24,500 + $7,600) $46,850

($14,750 + $24,500 + $11,000) $50,250

Amounts Deducted In Previous Years

($14,750 + $24,500) ( 39,250) ( 39,250)

CNIL (Given) ( 2,300) ( 2,300)

Cumulative Gains Limit $ 5,300 $ 8,700

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

Topic: ABILs and Lifetime Capital Gains Deduction

Problems

1) In the following three cases, one or more taxpayers receive dividends from a private company. For each taxpayer, determine whether the dividends received will be classified as Split Income. Explain your conclusion.

**Case A**

Jane owns 70 percent of Jahil Inc., a Canadian private corporation involved in manufacturing. Her common-law partner Jill owns the remaining 30 percent of the shares. All of the shares have the same market value and voting rights. Both Jane and Jill are in their mid-40s. Since the inception of the business in 2017, Jane has devoted all of her working time to the business, averaging more than 50 hours per week. Jill has a thriving accounting practice and has never worked in Jahil's operations.

During 2020, Jahil pays a total dividend of $150,000, with $105,000 going to Jane and $45,000 going to Jill.

**Case B**

Justor is a Canadian private corporation that has operated a manufacturing business since 2012. During the period 2012 through 2019, all of the shares were owned by George Sessions. Also during this period, George's son Gary worked full time in the business, receiving a salary that was sufficient for him and his family to live comfortably. In late 2019, George concludes that the business would benefit from his son having an MBA.

In keeping with this view, in January 2020, Gary enrolls in an executive MBA program that will require two years to complete. In order to provide income for his son now that he is no longer working in the business, George has Justor issue to Gary a new class of shares that do not vote. During 2020, these shares pay dividends to Gary totaling $150,000.

**Case C**

Tom and Trisha Braxton were married in 2010. Trisha has been the family's primary bread winner, a role she satisfied by operating Braxton Industries, a Canadian private company involved in an active business. Trisha was the sole shareholder of this company and worked full time in its operations. In late 2019, citing irreconcilable differences, the couple was divorced.

As part of the settlement agreement, Trisha was required to have Braxton Industries issue a second class of shares to Tom. These shares do not have voting rights. During 2020, as required by the divorce decree, these shares pay dividends to Tom in the amount of $50,000.

Answer:

***Case A***

As Jane is actively engaged in the business on a regular, continuous, and substantial basis, the corporation is an Excluded Business. Given this, Jane's dividends will not be classified as Split Income.

As Jill has never been actively involved in Jahil, it is not an Excluded Business from her point of view. However, Jill owns more than 10 percent of the number of voting rights and market value of the Jahil shares. In addition, Jahil is not a professional corporation, less than 90 percent of its business involves performing services, and substantially all of its income is not derived from a related business. Given this, Jill's shares would be Excluded Shares and the dividends she received would not be classified as Split Income.

***Case B***

While Gary is no longer actively involved with Justor's business in 2020, he was actively engaged in a continuous and substantial manner for more than five years (2012 through 2019). Given this, Justor would be an Excluded Business from his perspective and the dividends that he received in 2020 would not be classified as Split Income.

While this is not required in dealing with the case, you should note that Gary's shares, because they are non-voting would not be classified as Excluded Shares.

***Case C***

The dividends received by Tom originated from property that was transferred to him pursuant to a marriage separation agreement. Given this they would be an Excluded Amount and would not be classified as Split Income.

While this is not required in dealing with the case, you should note that Tom's shares, because they are non-voting would not be classified as Excluded Shares.

Topic: Tax On Split Income

Problems

1) Despite being 75 years old, Mr. Igor Resso has retained a full time position with a Canadian university. His salary for 2020 is $95,000. While the university continues to deduct maximum EI contributions ($856 for 2020), he is collecting CPP payments of $9,500 per year and no longer makes contributions to the plan. Because of the continuing high level of his income, he has never applied for or received Old Age Security (OAS) benefits.

When Mr. Resso turned 69, he could no longer make contributions to the university's pension plan and had to begin receiving pension payments from the plan. For 2020, these payments totaled $31,000. In addition to his other sources of income Mr. Resso was required to withdraw $18,000 from his RRIF in 2020.

In 2019, while visiting family in Russia, Mr. Resso met Ivana and they were married later in that year. Unfortunately, as the result of a stroke suffered during their whirlwind honeymoon in 2019, Ivana was disabled to such a degree that she qualified for the disability tax credit after she moved to Canada.

In the 2018 divorce from her Russian husband, Ivana received a substantial settlement. After her marriage, she invested much of it in blue chip Canadian public companies. During 2020, she receives eligible dividends from Canadian companies in the amount $14,000. While Ivana is 68 years old, she does not meet the residency requirements for receiving Old Age Security (OAS payments).

Beyond personal credits and employment related credits, the only other 2020 credit available to the couple is based on qualifying medical expenses of $16,000.

Assume that Mr. and Mrs. Resso do not elect to use the pension income splitting provisions.

**Required:**

A. Calculate Mr. and Mrs. Resso's 2020 minimum federal Tax Payable and any social benefits repayment assuming that no transfer of dividends is made under ITA 82(3).

B. Determine whether a transfer of dividends under ITA 82(3) would be permitted.

C. Calculate Mr. and Mrs. Resso's 2020 minimum federal Tax Payable and any social benefits repayment assuming that all of Mrs. Resso's dividends are transferred to Mr. Resso under ITA 82(3). Comment on whether the dividend transfer should be done.

Answer:

***Part A***

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

**Mrs. Resso Mr. Resso**

Employment Income Nil $95,000

CPP Receipts Nil 9,500

Registered Pension Plan Receipts Nil 31,000

RRIF Withdrawals Nil 18,000

Eligible Dividends Received $14,000 Nil

Gross Up On Dividends (38 Percent) 5,320 Nil

Net Income For Tax Purposes And Taxable Income

Before Any Transfer Of Dividends $19,320 $153,500

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

Federal Tax Before Credits [(15%)($19,320)] $2,898

Tax Credits

Basic Personal $13,229

Age And Disability (Transferred To Mr. Resso) Nil

Medical Expenses (Note 1) Nil

Total Base $13,229

Rate 15% ( 1984)

Dividend Tax Credit [(6/11)($5,320)] ( 2,902)

Federal Tax Payable - Mrs. Resso Nil

**Note 1 -** Without regard to who pays for them, medical expenses can be claimed by either spouse. As they must be reduced by the lesser of $2,397 and 3 percent of the taxpayer's Net Income For Tax Purposes, in some circumstances, it is better for the expenses to be claimed by the lower income spouse. However, after the application of the basic personal and dividend tax credits, Mrs. Resso has no Tax Payable, resulting in a situation where she cannot make any use of the medical expense credit. Given this, Mr. Resso should claim the medical expenses, despite the fact that they will be reduced by a larger figure than would have been the case if Mrs. Resso claimed them.

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

Credits Available For Transfer:

Age $ 7,637

Disability 8,576

Total Available $16,213

Reduced By Excess Of:

Mrs. Resso's Net Income ($19,320)

Over Basic Personal Credit Amount 13,229 ( 6,091)

Available For Transfer To Mr. Resso $ 10,122

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

Tax On First $150,473 $ 31,115

Tax On Next $3,027

($153,500 - $150,473) At 29 Percent 878 $31,993

Tax Credits (Note 1)

Basic Personal ($13,185)

Spousal Including Infirm Amount

(Income Too High) Nil

Additional Caregiver Amount (Note 2) ( 2,235)

EI ( 856)

Canada Employment ( 1,245)

Age {$7,637 - [(15%)($153,500 - $38,508)]} Nil

Pension ( 2,000)

Medical Expenses (Note 3) ( 13,603)

Transfer From Spouse (Preceding Calculation) ( 10,122)

Credit Base ($43,246)

Rate 15% ( 6,487)

Federal Tax Payable - Mr. Resso $25,506

**Note 1 -** Mr. Russo's Basic Personal Amount would be calculated as follows:

$13,229 - [$931][($153,500 - $150,473) ÷ $63,895] = $13,185

**Note 2 -** Mrs. Resso's income is above the Canada caregiver income threshold of $17,085. Given this, the additional Canada caregiver amount would be $2,235 ($19,320 - $17,085).

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

Medical Expenses $16,000

Reduced By The Lesser Of:

• [(3%)($153,500)] = $4,605

• 2020 Threshold Amount = $2,397 ( 2,397)

Allowable Medical Expenses $13,603

***Part B - Eligibility For Transfer***

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

***Part C***

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

**Mrs. Resso Mr. Resso**

Net Income Before Clawback As Per Part A $19,320 $153,500

Dividend Transfer ( 14,000) 14,000

Gross Up Transfer ( 5,320) 5,320

Net And Taxable Income After Dividend Transfer Nil $172,820

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

Credits Available For Transfer:

Age $ 7,637

Disability 8,576

Total Available $16,213

Reduced By Excess Of:

Mrs. Resso’s Net Income Nil

Over Basic Personal Credit Amount 13,229 ( Nil)

Available For Transfer To Mr. Resso $16,213

With respect to Mr. Resso, his federal Tax Payable would be calculated as follows:

Tax On First $150,473 $31,115

Tax On Next $22,347

($172,820 - $150,473) At 29 Percent 6,481 $37,596

Tax Credits

Basic Personal (Note 4) ($12,903)

Spousal Including Infirm Amount

($12,903 + $2,273) ( 15,176)

Additional Caregiver Amount (Note 4) ( Nil)

EI ( 856)

Canada Employment ( 1,245)

Age {$7,637 - [(15%)($153,500 - $38,508)]} Nil

Pension ( 2,000)

Medical Expenses (Note 3) ( 13,603)

Transfer From Spouse (Preceding Calculation) ( 16,213)

Credit Base ($61,996)

Rate 15% ( 9,299)

Dividend Tax Credit [(6/11)($5,320)] ( 2,902)

Federal Tax Payable - Mr. Resso $25,395

**Note 4 -** Mr. Russo's Basic Personal Amount would be calculated as follows:

$13,229 - [$931][($172,820 - $150,473) ÷ $63,895] = $12,903

**Note 5 -** The spousal credit for Mrs. Resso is larger than the $7,140 Canada caregiver amount. Given this, the additional Canada caregiver amount would be nil.

***Conclusion***

The use of the ITA 82(3) dividend transfer has decreased Mr. Resso’s federal Tax Payable by $111, from $25,506 to $25,395. The dividend transfer should be done.

Topic: Comprehensive Tax Credits With Dividend Transfer

Problems

1) The following two independent cases involve taxpayers who might be subject to the alternative minimum tax in the 2020 taxation year.

**Case One**

Serge Lawson has made the following estimates of the various types of income and deductions that he anticipates for the year ending December 31, 2020.

Net Rental Income $73,100

Eligible Dividends Received 14,000

RRSP Contributions 22,000

Prior to 2020, Serge has never managed to have enough funds to make any RRSP contributions, leaving him with nearly $100,000 in unused deduction room. However, in 2020, his gambling habit finally pays off, providing sufficient winnings to make a $22,000 contribution. He plans to deduct the full amount in 2020.

**Case Two**

Sarah Bonito has made the following estimates of the various types of income and deductions that she anticipates for the year ending December 31, 2020.

Eligible Dividends Received $ 26,000

Net Taxable Capital Gains 263,000

Lifetime Capital Gains Deduction Claimed 260,000

In both Cases, assume the only tax credits available are the basic personal tax credit and the dividend tax credit related to any dividends received.

**Required:** For both Cases, determine whether there is a liability for alternative minimum tax and, if so, the total amount of such tax. In addition, calculate any related carry forwards available.

Answer:

***Case One***

The regular Tax Payable calculation for Serge Lawson would be as follows:

Net Rental Income $73,100

Eligible Dividends Received 14,000

Gross Up [(38%)($14,000)] 5,320

RRSP Deduction ( 22,000)

Net And Taxable Income $70,420

Tax On First $48,535 $ 7,280

Tax On $21,885 ($70,420 - $48,535) At 20.5 Percent 4,486

Tax Before Credits $11,766

Basic Personal Credit ( 1,984)

Dividend Tax Credit [(6/11)($5,320)] ( 2,902)

Regular Federal Tax Payable $ 6,880

The alternative minimum tax calculations are as follows:

Regular Taxable Income $70,420

Dividend Gross Up ( 5,320)

Adjusted Taxable Income $65,100

AMT Exemption ( 40,000)

AMT Base $25,100

Rate 15%

Federal AMT Before Credit $ 3,765

Basic Personal Credit ( 1,984)

Federal AMT $ 1,781

Since the regular federal Tax Payable is greater than the federal AMT, there is no liability for AMT and no related carry forward.

***Case Two***

The regular Tax Payable calculation for Sarah Bonito would be as follows:

Eligible Dividends $ 26,000

Gross Up [(38%)($26,000)] 9,880

Net Taxable Capital Gains 263,000

Net Income For Tax Purposes $298,880

Lifetime Capital Gains Deduction ( 260,000)

Taxable Income $ 38,880

Federal Tax Before Credit [(15%)($38,880)] $ 5,832

Basic Personal Credit ( 1,984)

Dividend Tax Credit [(6/11)($9,880)] ( 5,389)

Regular Federal Tax Payable Nil

The alternative minimum tax calculations are as follows:

Regular Taxable Income $ 38,880

30 Percent Of Capital Gains [(30%)(2)($263,000)] 157,800

Dividend Gross Up ( 9,880)

Adjusted Taxable Income $ 186,800

AMT Exemptions ( 40,000)

AMT Base $146,800

Rate 15%

Federal AMT Before Credit $ 22,020

Basic Personal Credit ( 1,984)

Federal AMT $ 20,036

Since the regular federal Tax Payable is nil, the AMT is larger and must be paid. The excess AMT over regular tax payable for Sarah of $20,036 can be carried forward for 7 years and applied against any future excess of regular Tax Payable over the alternative minimum tax.

Topic: Alternative Minimum Tax

Problems

1) The two cases which follow are designed to illustrate the basic features of the alternative minimum tax procedures. In both cases, you are given information about an individual taxpayer's income and deductions for the 2020 taxation year. The two cases are independent of each other.

**Case One**

Marita Ulman provides the following estimates of her various types of income and deductions for the year ending December 31, 2020:

Net Employment Income $ 32,000

Net Taxable Capital Gains 206,000

Lifetime Capital Gains Deduction Claimed 206,000

**Case Two**

Fiona Acevedo provides the following estimates of her various types of income and deductions for the year ending December 31, 2020:

Net Employment Income $149,000

Taxable Capital Gains 12,000

Eligible Dividends Received 41,000

Net Rental Loss (Note) 17,000

Stock Option Deduction [(1/2)($63,000)] 31,500

RRSP Deduction (Due To A Good Night At The Casino) 32,000

**Note -** The net rental loss consisted of gross rental income of $18,000, interest paid of $15,000 and other rental expenses of $20,000. No CCA was taken on the property. In both Cases, assume the only tax credits available are the basic personal tax credit and the dividend tax credit related to any dividends received.

**Required:** For both Cases, determine whether there is a liability for alternative minimum tax and, if so, the total amount of such tax. In addition, calculate any related carry forwards available.

Answer:

***Case One***

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

Net Employment Income $ 32,000

Net Taxable Capital Gains 206,000

Net Income For Tax Purposes $238,000

Lifetime Capital Gains Deduction ( 206,000)

Taxable Income $ 32,000

Federal Tax Before Credit [(15%)($32,000)] $4,800

Basic Personal Credit ( 1,984)

Regular Federal Tax Payable $2,816

The alternative minimum tax calculations are as follows:

Regular Taxable Income $ 31,500

30 Percent Of Capital Gains [(30%)(2)($206,000)] 123,600

Adjusted Taxable Income $155,100

AMT Exemptions ( 40,000)

AMT Base $115,100

Rate 15%

Federal AMT Before Credit $ 17,265

Basic Personal Credit ( 1,984)

Federal AMT $ 15,281

Since the AMT is larger than the regular federal Tax Payable, it must be paid. The excess AMT over regular tax payable for Marita of $12,465 ($15,281 - $2,816) can be carried forward for 7 years and applied against any future excess of regular Tax Payable over the alternative minimum tax.

***Case Two***

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

Net Employment Income $149,000

Eligible Dividends Received 41,000

Gross Up [(38%)($41,000)] 15,580

Taxable Capital Gains 12,000

Net Rental Loss ( 17,000)

RRSP Deduction ( 32,000)

Net Income For Tax Purposes $168,580

Stock Option Deduction ( 31,500)

Taxable Income $137,080

Tax On First $97,069 $17,230

Tax On Next $40,011 ($137,080 - $97,069) At 26% 10,403

Tax Before Credits $27,633

Basic Personal Credit ( 1,984)

Dividend Tax Credit [(6/11)($15,580)] ( 8,498)

Regular Federal Tax Payable $17,151

The alternative minimum tax calculations are as follows:

Regular Taxable Income $137,080

Excess Of Interest Charges Deducted Over

Net Rental Loss Of $2,000 ($18,000 - $20,000) 15,000

Stock Option Deduction [(3/5)($31,500)] 18,900

30 Percent Of Capital Gains [(2)($12,000)(30%)] 7,200

Dividend Gross Up ( 15,580)

Adjusted Taxable Income $162,600

AMT Exemption ( 40,000)

AMT Base $122,600

Rate 15%

Federal AMT Before Credit $ 18,390

Basic Personal Credit ( 1,984)

Federal AMT $ 16,406

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

Topic: Alternative Minimum Tax

Problems

1) Mr.Wally Bronson is 67 years old and has been retired for several years. His spouse,Melissa, is 62 and has been blind for the last ten years. They live in Ottawa. Mr. Bronson receives pension income of $83,000 in 2020 from his employer's registered pension plan. Due to his high income in the last few years, Mr. Bronson has not applied for OAS benefits. However, he has applied for Canada Pension Plan payments and received $10,680 in CPP benefits in 2020.

Melissa has no income and none of the family's investments are in her name.

Wally and Melissa have two children. Their son, Jerome, is 42 years old and their daughter, Jerri, is 38 years old. Neither child is dependent on Mr. Bronson. While Jerome has no children, Jerri has a 12 year old daughter, Brenda.

In December, 2019, Mr. Bronson is diagnosed with terminal cancer, with the doctor indicating that he probably has about 12 months to live. To this point,Mr. Bronson had not dealt with the prospect of death and, beyond the preparation of a fairly simple will which left all of his assets to Melissa, had done little in the way of estate planning. Given his current state of health, he has decided to undertake a number of transactions in order to minimize the tax consequences of his death.

He is particularly concerned with the fact that, in the province in which he lives, probate fees equal to 1.5 percent of the fair market value of almost all of the assets that are transferred in his will. Given this, he intends to transfer a significant amount of his assets into the hands of others prior to his death. At this time he also revises his will, leaving some property to his two children with the remainder going to his wife.

Mr. Bronson owns two tracts of vacant land. Plot A has a cost of $125,000 and a fair market value of $150,000. Plot B has a cost of $175,000 and a fair market value of $210,000. While he had intended to develop rental properties on these sites, he has decided that this is no longer feasible and the properties should be sold. Because his younger brother, Phil, is in a low tax bracket, during 2020, he sells Plot A to him, with the only consideration being a note for $50,000 which is paid on December 1, 2020. In contrast, his older brother, Gary, is very wealthy and is in the highest tax bracket. In gratitude for Wally's help during a family crisis, Gary offers to buy Plot B for $250,000 in cash. Wally accepts the offer, thinking of Melissa.

On January 1, 2020, Mr. Bronson acquires units in the YP Real Estate Income Trust at a cost of $300,000. These units distribute $800 per month on the 25th of each month. This distribution represents only rental income and does not include dividends, capital gains, or a return of capital. On February 1, 2020, after receiving the January payment of $800, Mr. Bronson gifts all of these units to his granddaughter, Brenda. At this time, the units have a fair market value of $310,000.

Mr. Bronson owns a large block of Baron Inc. shares. He acquired 4,000 shares of this widely held public company at $50 per share and acquired an additional 8,000 shares at $65 per share. On March 1, 2020, he gifts 1,500 shares to both of his children and an additional 1,500 shares to his wife. At this time, the shares are trading at $68 per share. On July 1, 2020, Baron Inc. pays an eligible dividend of $1.50 per share.

Mr. Bronson owns three identical units in a condominium building. Each unit cost $300,000 nine years ago and, on January 1, 2020, each had a separate class UCC of $205,000. The value of the land is nil as the building is on land leased from the National Capital Commission for 100 years. During 2020, these units produced net rental income, before consideration of CCA, of $93,750.

On December 31, 2020, Mr. Bronson dies peacefully in his home. On this date he has the following assets:

**Baron Inc. Shares —** The 7,500 shares that remain in Mr. Baron’s name on this date are trading at $70 per share. Mr. Bronson’s will leaves all of these shares to his spouse, Melissa.

**Condominium Units —** In his will, Mr. Baron has left one of these units to each of his two children, with the remaining unit going to his spouse. On the date of Mr. Bronson’s death, each of these units has a fair market value of $420,000.

**Principal Residence —** Mr. Bronson and his wife have lived in the same home for 20 years. The house is owned by Mr. Bronson. It cost $145,000 and has a current market value of $562,000. Mr. Bronson’s will leaves this property to his spouse.

During 2020, medical expenses for Mr. Bronson totaled $45,000, while those of his spouse totaled $12,000. At his death, Mr. Bronson had a net capital loss carry forward of $30,000 [(1/2)($60,000)].

**Required:** Ignore GST and PST considerations.

A. Assume Mr. Bronson’s accountant does not split his pension income with his spouse. Calculate Mr. Bronson’s minimum 2020 Net Income For Tax Purposes, his 2020 minimum Taxable Income, and his minimum 2020 federal Tax Payable without consideration of any instalment payments he may have made.

B. Assume Mr. Bronson’s accountant splits his pension income with his spouse and allocates $41,500 in pension income to her. Calculate the overall federal tax savings due to the pension splitting.

Answer: The various components of Mr. Bronson's Net Income For Tax Purposes would be calculated as follows:

**Pension Income**

RPP Receipts $83,000

Canada Pension Plan Receipts 10,680

Pension Income $93,680

**Land Sales (Note 1)**

Capital Gain On Plot A ($150,000 - $125,000) $ 25,000

Capital Gain On Plot B ($250,000 - $175,000) 75,000

Total Capital Gain $100,000

Inclusion Rate 1/2

Taxable Capital Gain $ 50,000

**Note 1 -** As these are non-arm's length sales, ITA 69 is applicable. Plot A was sold below fair market value and, because of this, the proceeds would be deemed to be the fair market value of $150,000. Note that Phil's adjusted cost base would be limited to the $50,000 that was paid. Since the note was paid during 2020, there is no capital gains reserve available. Plot B was sold at a value in excess of fair market value and, in this case, ITA 69 indicates that the sale price will be the proceeds of disposition. Note that Gary's adjusted cost base would be the $210,000 fair market value.

**YP Real Estate Income Trust Units (Note 2)**

Income Distribution [(1)($800) + (11)($800)] $ 9,600

Capital Gain ($310,000 - $300,000) $10,000

Inclusion Rate 1/2

Taxable Capital Gain $ 5,000

**Note 2 -** As Brenda is under 18 years of age, all of the income on the trust units that is paid to her ($8,800) would be attributed back to Mr. Bronson. The income attribution will stop when Mr. Bronson dies. As there is no rollover provision with respect to transfers to a minor, Mr. Bronson must transfer the units at fair market value and will have to pay taxes on the taxable capital gain resulting from the gift to Brenda. If Brenda had sold the units while he was alive, there would have been no attribution of capital gains.

**Gift Of Baron Inc. Shares**

Proceeds Of Disposition (Note 3) $294,000

Adjusted Cost Base [(4,500)($60)] ( 270,000)

Capital Gain $ 24,000

Inclusion Rate 1/2

Taxable Capital Gain $ 12,000

**Note 3 -** The adjusted cost base of the Baron Inc. shares would be their average cost, determined as follows:

1st Purchase (4,000 Shares @ $50) $200,000

2nd Purchase (8,000 Shares @ $65) 520,000

Total Cost $720,000

Based on this cost, the average cost of the shares is $60 ($720,000 ÷ 12,000) per share.

Since the problem requires the minimum Net Income For Tax Purposes, Mr. Bronson will not elect out of the ITA 73(1) rollover. As a result, the 1,500 shares given to his spouse will be transferred at their adjusted cost base. In contrast, the proceeds of disposition for the shares gifted to his children would be their fair market value of $68 per share. Given this, the proceeds of disposition would be calculated as follows:

1,500 Shares @ $60 $ 90,000

3,000 Shares @ $68 204,000

Total Proceeds Of Disposition $294,000

**Dividends On Baron Inc. Shares**

Dividends Received And Attributed Back (Note 4) $13,500

Gross Up Of 38 Percent 5,130

Taxable Dividends $18,630

**Note 4 -** The dividends on the 1,500 shares gifted to Melissa would be attributed back to Mr. Bronson. The dividends on the shares gifted to his (adult) children will be taxed in their hands. Since he is holding 7,500 shares on July 1, the dividends he will be taxed on for the year total $13,500 [(1,500 + 7,500)($1.50)].

**Condominium Units -** Immediately before the time of Mr. Bronson’s death, there is a deemed disposition of all of his capital property. If the beneficiary is a spouse, the deemed proceeds of disposition are equal to the tax cost of the property (UCC in this case). This means that the unit transferred to Melissa will be transferred at its tax cost of $205,000. She will, however, retain the original capital cost of $300,000, with the difference being deemed CCA.

For the transfers to the children, the transfer will be deemed to take place at the $420,000 fair market value figure. That will result in following tax consequences for Mr. Bronson:

Proceeds Of Disposition [(2)($420,000)] $840,000

Capital Cost [(2)($300,000)] 600,000

Capital Gain $240,000

Inclusion Rate 1/2

Taxable Capital Gain $120,000

Capital Cost [(2)($300,000)] $600,000

UCC [(2)($205,000)] ( 410,000)

Recapture $190,000

In addition to the taxable capital gain and recapture, the properties earned $93,750 of net rental income prior to Mr. Bronson's death.

**Other Properties At Death**

**Baron Inc. Shares —** At the time of his death, Mr. Baron owns the 7,500 remaining shares of Baron Inc. As these are transferred to his spouse, the deemed proceeds will be equal to the tax cost of the shares and there will be no 2020 tax consequences.

**Principal Residence —** As with the Baron Inc. shares, the property can be transferred to Melissa at its tax value. Alternatively, the executor could elect to transfer it at fair market value and use the principal residence gain reduction formula to eliminate the $417,000 capital gain. In either case, there are no tax consequences for Mr. Bronson.

***Part A - Net Income For Tax Purposes And Taxable Income***

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

Pension Income $ 93,680

Income Trust Distribution 9,600

Taxable Dividends 18,630

Net Rental Income 93,750

Recapture 190,000

Taxable Capital Gains:

On Land $ 50,000

On Trust Units 5,000

On Gift Of Baron Inc. Shares 12,000

On Condominium Units 120,000 187,000

Net Income For Tax Purposes $592,660

Net Capital Loss Carry Forward ( 30,000)

Taxable Income $562,660

***Part A - Tax Payable***

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

Tax On First $214,368 $ 49,645

Tax On Next $348,292 ($562,660 - $214,368) At 33 Percent 114,936

Tax Before Credits $164,581

Tax Credits:

Basic Personal ($12,298)

Spousal Including Infirm Amount

($12,298 + $2,273) ( 14,571)

Age (Income Too High) Nil

Pension Income ( 2,000)

Spouse’s Disability ( 8,576)

Medical Expenses (Note 5) ( 54,603)

Total Credit Base ($92,048)

Rate 15% ( 13,807)

Dividend Tax Credit [(6/11)($5,130)] ( 2,798)

Federal Tax Payable $147,976

**Note 5 -** The base for the medical expenses tax credit would be the total medical costs of $57,000 ($45,000 + $12,000), reduced by the lesser of $17,780 [(3%)($592,660)] and $2,397.

***Part B - Pension Splitting Tax Savings***

If the pension splitting of Mr. Bronson’s RPP payments is for $41,500, it will increase Melissa’s income by $41,500 and decrease Wally ’s by the same amount. Melissa’s federal Tax Payable and Wally ’s net tax savings will be as follows:

Tax Before Credits [(15%)($41,500)] $6,225

Basic Personal ($12,298)

Disability ( 8,576)

Pension (Not Previously Available) ( 2,000)

Total Credit Base ($22,874)

Rate 15% ( 3,431)

Melissa’s Federal Tax Payable $2,794

Wally’s Tax Saving [(33%)($41,500)] $13,695

Spousal Credit Including $2,273 ($14,571)

Disability Credit Taken By Melissa ( 8,576)

Total Credits Lost ($23,147)

Rate 15% ( 3,472)

Wally’s Net Tax Savings $10,223

With pension income splitting , the total federal tax savings amount to $7,429 ($10,223 - $2,794). Further savings would be available at the provincial level.

Note that the total medical expenses are much greater than Melissa’s income. As a result, although Melissa could claim a larger medical expense credit given her lower Net Income, she could not fully utilize that credit, so it remains on Wally ’s return.

Topic: Comprehensive Personal Tax Payable Including Death And Pension Income Splitting

Problems

1) Mr. Jack Leonard has asked you to assist him in preparing his 2020 tax return. To this end, he provides you with the following information.

Mr. Leonard's employer is a large, publicly traded corporation. During 2020, Mr. Leonard received a gross annual salary of $58,000, living accommodations having a fair market value of $3,000 per month, and an award of $2,100 in recognition of outstanding job performance. The accommodations that were provided were not located in a remote region or prescribed zone. Awards for performance are paid instead of investing in employee benefits, so there is no pension plan and Mr. Leonard's 2019 Pension Adjustment amount is nil. His employer withheld the maximum for CPP contributions and EI premiums.

On August 1, 2020, his employer granted him an option to purchase 100 of its shares at a price of $7 per share. The market price of the shares at that time was $7 per share. On December 1, 2020, the market price of the shares had increased to $16 per share. On that date, Mr. Leonard exercises his option and purchases the 100 shares. He is still holding the shares on December 31, 2020.

Mr. Leonard provides the following list of receipts and disbursements for the 2020 taxation year:

**Receipts**

Director's Fees $ 1,300

Royalties On Patent Purchased In 2012 24,070

Bond Interest 430

**Disbursements**

RRSP Contribution On July 6, 2020 $16,000

Rent Paid To Employer For Living Accommodation 12,000

Financial Support Of His Aunt 7,100

You ascertain that his aunt is physically infirm, is wholly dependent upon Jack Leonard for support, had income of $3,000 during the year, and lives in Florida for health reasons.

Mr. Leonard provides you with the following information on his dispositions of property during the year:

**Proceeds Cost**

Diamond Ring $1,200 $ 950

Painting 1,100 1,800

Pistol Collection 2,000 1,400

On further enquiry, you learn that he is married and has one 19 year old son. Mr. Leonard's wife had income of $2,990 during the year.

His son lives at home and was employed during twelve weeks of the summer at a golf course as a greens keeper, at a salary of $250 per week. In September, he left his employment to commence full time studies at university. Tuition fees paid for the 2020 calendar year amounted to $4,860, and were paid by Mr. Leonard. The son's only other source of income was $700 in interest on bonds received from his father as a birthday gift in 2010. He will transfer any unused tuition credit to his father.

Assume Mr. Leonard's 2019 Earned Income for RRSP purposes was equal to his 2020 Earned Income. At the beginning of 2020, Mr. Leonard has no unused deduction room or undeducted contributions.

**Required:** For 2020, compute the following amounts for Mr. Leonard:

A. Net employment income.

B. Income from property.

C. Net taxable capital gains.

D. Net Income For Tax Purposes.

E. Taxable Income.

F. Federal Tax Payable.

Show all required calculations, including those necessary to determine the maximum RRSP deduction for the year. In addition, indicate any available loss carry over amounts and the applicable loss carry over provisions.

Answer:

***Part A***

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

Salary $58,000

Housing Benefit (12 Months At $3,000) 36,000

Less: Rents Paid ( 12,000)

Award 2,100

Director's Fees 1,300

Stock Option Benefits [(100)($16 - $7)] 900

Net Employment Income $86,300

***Part B***

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

Royalties On Patent $24,070

Interest On Bonds 430

Income From Property $24,500

***Part C***

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

Listed Personal Property:

Proceeds From Ring $1,200

Deemed Cost ( 1,000) $ 200

Proceeds From Painting $1,100

Cost ( 1,800) ( 700) Nil

Personal Use Property:

Proceeds From Pistols $2,000

Cost ( 1,400)

Capital Gain $ 600

Inclusion Rate 1/2 $300

Net Taxable Capital Gains $300

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

***Part D***

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

Employment Income $ 86,300

Income From Property 24,500

Taxable Capital Gain 300

RRSP Contribution (See Note) ( 15,534)

Deductible CPP ($2,898 - $2,732) ( 166)

Net Income For Tax Purposes $95,400

**Note -** Mr. Leonard's RRSP Deduction Limit for 2020 is the lesser of $27,230 and 18 percent of his 2019 Earned Income. His Earned Income for 2019 is assumed to be equal to his 2020 Earned Income. The only item in his 2020 Earned Income is his Net Employment Income of $86,300. Eighteen percent of this amount is $15,534, less than the $27,230 RRSP deduction limit for the year. As there is no PA to take into consideration and he has contributed $16,000, his maximum deduction will be $15,534.

***Part E***

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

Net Income For Tax Purposes $95,400

Stock Option Deduction [(1/2)($900)] ( 450)

Taxable Income $94,950

***Part F***

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

Federal Tax On First $48,535 $7,280

Federal Tax On Next $46,415 ($94,950 - $48,535) At 20.5 Percent 9,515

Gross Federal Tax $16,795

Tax Credits:

Basic Personal Amount ($13,229)

Spousal ($13,229 - $2,990) ( 10,239)

CPP ( 2,732)

EI ( 856)

Canada Employment ( 1,245)

Transfer Of Son's Tuition Credit - Lesser Of (See Note)

• The Absolute Limit of $5,000

• The Actual Tuition Of $4,860 ( 4,860)

Credit Base ($33,161)

Rate 15% ( 4,974)

Federal Tax Payable $11,821

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

Topic: Comprehensive Personal Tax Payable

Problems

1) Mr.Wilson Kim is married and has a 19 year old son. Mr. Kim's wife had 2020 Net Income For Tax Purposes of $3,400.

The son lives at home and, during the summer of 2020, he earned employment income of $3,300. At the end of the summer, he began full time studies at a university. His tuition fees, which totaled $6,500 for 2020, were paid for by his father. The son's only other source of income was $2,200 of eligible dividends on a $40,000 portfolio of public company shares that were given to him by his father on his 16th birthday. The son has agreed to transfer any unused tuition credit to Mr. Kim.

Mr. Kim has asked you to assist him in preparing his 2020 tax return. To this end, he provides you with the following list of receipts and disbursements for the 2020 taxation year:

**Receipts**

Director's Fees $ 1,372

Royalties On Patent Purchased In 2012 29,400

TFSA Withdrawal In January 10,000

Bond Interest 960

**Disbursements**

Spousal RRSP Contribution In July $ 4,200

TFSA Contribution In December (Less Than Contribution Limit) 4,000

Rent Paid To Employer For Living Accommodation 18,000

Financial Support Of His Father\* 17,100

\*You ascertain that his father is physically infirm, is wholly dependent on Mr. Kim for support, had income of $4,200 during the year, and lives in Arizona for health reasons.

Mr. Kim is employed by a large publicly traded corporation. His basic salary for 2020 is $71,500. Other information related to his employment is as follows:

• As part of his compensation package, his employer provides living accommodations that have a fair market value of $2,500 per month.

• Mr. Kim is provided with a performance award of $3,600 in recognition of his outstanding performance.

• His employer sponsors a defined contribution RPP. For 2020, Mr. Kim and his employer each contributed $3,100 to this plan. These contributions are the same as those made in 2019.

• His employer withheld the maximum for CPP contributions and EI premiums for 2020.

• On September 1, 2020, Mr. Kim's employer granted him an option to purchase 500 of its shares at a price of $5 per share. The market price of the shares at that time was $4 per share. On December 1, 2020, the market price of the shares had increased to $9 per share. On that date, Mr. Kim exercises his option and purchases the 500 shares. He is still holding the shares on December 31, 2020.

• His employer provides him with a vehicle to use in his employment duties. The vehicle cost $41,000 in 2019. In the company's tax records it has a January 1, 2020 UCC of $25,500. The Company pays all of the operating costs which totaled $12,300 for 2020. Mr. Kim drives the vehicle 42,000 kilometers during 2020, of which 38,000 related to his employer's business. The car was available to Mr. Kim throughout 2020.

Mr. Kim provides you with the following information on his dispositions of property during the year:

**Proceeds Cost**

Diamond Necklace $1,100 $ 750

Oil Painting 3,800 5,100

Graphic Novel Collection 800 2,500

Assault Rifle Collection 8,000 6,200

Assume Mr. Kim's 2019 Earned Income for RRSP purposes was equal to his 2020 Earned Income. At January 1, 2020, Mr. Kim had no unused deduction room and no undeducted contributions in his RRSP account.

**Required:** For Parts A to F, compute the required amounts for Mr. Kim for 2020. Show all calculations, including all those necessary to determine the maximum RRSP deduction for the year.

A. Net employment income.

B. Income from property.

C. Net taxable capital gains.

D. Net Income For Tax Purposes.

E. Taxable Income.

F. Federal Tax Payable.

G. Indicate any available carry over amounts for Mr. Kim and his son and the applicable carry over provisions.

H. Mr. Kim's son would like some advice on whether he should contribute to a TFSA and/or an RRSP. What would you suggest he do and why?

Answer:

***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 1,372

Performance Award 3,600

Automobile Benefit:

Standby Charge [(2%)(12)($41,000)(4,000 ÷ 20,004\*)] 1,968

Operating Cost: Lesser Of:

• [(1/2)($1,968)] = $984

• [(0.28)(4,000)] = $1,120 984

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)

Deductible CPP ($2,898 - $2,732) ( 166)

Net Income For Tax Purposes $117,218

**Note -** As you are asked to assume that Mr. Kim's RRSP Earned Income for 2019 is equal to his Earned Income for 2020, this figure would be calculated as follows:

Net Employment Income $90,324

RPP Deduction 3,100

2020 RRSP Earned Income $93,424

Given this, his RRSP deduction room for 2020 would be calculated as follows:

January 1, 2020 Unused Deduction Room Nil

2020 Addition - Lesser Of

2020 Limit = $27,230

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

2019 PA [(2)($3,100)] ( 6,200)

Maximum 2020 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 2020 is only $4,200.

***Part E***

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

Net Income For Tax Purposes $117,218

Stock Option Deduction [(1/2)($2,000)] ( 1,000)

Taxable Income $116,218

**Part F**

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

Federal Tax On First $97,069 $17,230

Federal Tax On Next $19,149 ($116,218 - $97,069) At 26 Percent 4,979

Gross Federal Tax $22,209

Tax Credits:

Basic Personal Amount ($13,229)

Spousal ($13,229 - $3,400) ( 9,829)

CPP ( 2,732)

EI ( 856)

Canada Employment ( 1,245)

Transfer Of Son’s Tuition - Lesser Of: (See Note)

• Absolute Limit Of $5,000

• Actual Tuition Of $6,500 ( 5,000)

Credit Base ($32,891)

Rate 15% ( 4,934)

Federal Tax Payable $17,275

**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. There is no Canada 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 an unused tuition amount of $1,500 ($6,500 - $5,000). He can carry it forward and deduct it in any future year.

***Part H***

Since Mr. Kim's son is 19, in 2020 he can contribute up to $12,000 ($6,000 for 2019 + $6,000 for 2020) into a TFSA. As there is no information on his prior employment income, it is not possible to calculate his RRSP deduction room for 2020, but given his $3,300 employment income, he can contribute at least $594 [(18%)($3,300)] in 2020.

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 tuition to his father (if that is still the agreement) or he has tax payable.

Topic: Personal Tax Payable, TFSA and RRSP