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***Canadian Tax Principles, 2021-2022 Volume 2* (Byrd/Chen)**

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

11.1 Online Exercises

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 income 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.

Topic: Lump-sum payments - ITA 110.2

2) The carry forward periods for losses varies with the type of loss. Briefly describe the carry forward periods that the ITAprovides 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.

Topic: Loss carry overs - general concepts

3) When a business 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).

Topic: Loss carry overs - general concepts

4) Tax advisors will normally recommend that loss carry overs not be used to reduce taxable income to nil for an individual. 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 an individual taxpayer has taxable income and income 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.

Topic: Loss carry overs - individual

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.

Topic: Losses - listed personal property

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.

Topic: Loss carry overs - general concepts

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.

Topic: Loss carry overs - general concepts

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.

Topic: Losses - net capital losses at death

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.

Topic: Allowable business investment losses

10) What is a Small Business Corporation as defined in the ITA?

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 FMV of its assets are used in an active business carried on "primarily" in Canada. In tax work, the term "substantially all" generally means 90% or more, while "primarily" is generally interpreted to mean more than 50%.

Topic: Small business corporation - ITA 248(1)

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.

Topic: Losses - farming

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

Answer: In order to be shares of a QSBC for the purposes of the 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% or more) of the FMV of its assets must be used to produce active business income, primarily (more than 50%) in Canada. If the small business corporation test is met, two other conditions must be met for the shares to qualify.

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% of the FMV of the corporation's assets must be used in an active business carried on primarily in Canada.

Topic: Capital gains deduction - shares of a QSBC

13) An individual has a capital gain on qualified farm property (QFP). The individual 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.

Topic: Capital gains deduction - annual gains limit

14) In computing net income, 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.

Topic: Net income - ITA 3

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.

Topic: Losses - non-capital loss

16) Describe the conditions under which the tax on split income (TOSI) applies.

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 sole proprietor, or

• owns shares in a private corporation that carries 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 FMV 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.

Topic: Tax on split income (TOSI)

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.

Topic: Tax on split income (TOSI)

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.

Topic: Tax on split income (TOSI)

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.

Topic: Tax on split income (TOSI)

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.

Topic: Tax on split income (TOSI)

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.

Topic: Transfer of dividends to a spouse - ITA 82(3)

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.

Topic: Charitable donations - general rules

23) If a taxpayer is donating non-depreciable capital property with a FMV that exceeds its ACB, a taxpayer can elect any amount between the FMV and ACB amount of the donation. Why is it generally appropriate to elect the higher FMV?

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

This means that the effective tax rate for a taxpayer in the highest tax bracket on the excess amount elected is only 16.5% [(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.

Topic: Charitable donations - general rules

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).

Topic: Charitable donations - general rules

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% of the foreign non-business income. Any amount of withholding in excess of 15% 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.

• 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.

Topic: Foreign tax credits - general rules

26) The alternative minimum tax (AMT) 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., 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 AMT.

Topic: Alternative minimum tax - general concepts

27) If an individual has no loss carry overs from other years, the current year net income will be equal to taxable income.

Answer: FALSE

Explanation: There are other deductions that can create a difference between net income and taxable income.

Topic: Taxable income

28) 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 - non-capital loss

29) An individual sells shares in a Canadian controlled private corporation that qualifies as a small business corporation to an arm's length party. The ACB 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: Allowable business investment losses

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

31) 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 - net capital loss

32) 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 - restricted farm losses ITA 31

33) 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 - restricted farm losses ITA 31

34) 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 - restricted farm losses ITA 31

35) During 2021, an individual has taxable capital gains on the disposition of shares in a qualified small business corporation. The capital gains deduction can be used to eliminate up to $446,109 of the taxable capital gains on the disposition.

Answer: TRUE

Explanation: The $446,109 deduction can be used against gains arising on the disposition.

Topic: Capital gains deduction - general rules

36) If a 10 year old child receives dividends from a private company owned by the mother, it will always be subject to the tax on split income (TOSI).

Answer: TRUE

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

Topic: Tax on split income (TOSI)

37) If a 22 year old Specified Individual receives dividends from a private company in which he owns 20% of the FMV of the company shares and 20% of the voting shares, the dividends will not be subject to the Tax On Split Income (TOSI).

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 (TOSI)

38) Dividends received by the spouse of an individual can be transferred to that individual and included in net income and excluded from the income of the spouse.

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 dividends to a spouse - ITA 82(3)

39) When an individual makes a gift of publicly traded shares 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 - general rules

40) The base for the charitable donations tax credit is always limited to 75% of the individual's Net Income.

Answer: FALSE

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

Topic: Charitable donations - general rules

41) An individual owns 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 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 - general rules

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

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 - general concepts

43) 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 - general concepts

44) 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 generate a taxable income deduction. All of the following could decrease his taxable income, with the exception of:

A) the capital gains deduction.

B) the deduction of a net capital loss.

C) the deduction of a non-capital loss.

D) a credit for a charitable donation.

Answer: D

Explanation: D) A credit for a charitable donation.

Topic: Taxable income

45) Which of the following would generate a taxable income deduction and reduce an individual's Taxable Income?

A) A non-capital loss.

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

46) Shelly is seeking your advice on how she can claim various deductions and credits. Which of the following items would generate a taxable income deduction that would reduce Taxable Income?

i. A net capital loss.

ii. A charitable donation.

iii. Contributions to an RESP.

iv. Stock option deduction.

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

47) Reuben Chechetto had to take his employer to court in 2021, to sue for wages owing to him over an 8 year period ending in 2021. In the 2021 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 2021?

A) Mr. Chechetto will have to report the full $80,000 in additional wages in 2021.

B) As these funds were awarded through a court settlement, they are not required to be included in income.

C) Mr. Chechetto can use a special relief mechanism in the ITAwhich 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 ITAwhich 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 ITA which will have the effect of spreading the lump-sum payment over the 8 taxation years affected.

Topic: Lump-sum payments - ITA 110.2

48) 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 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 is nil, even if there are taxable capital gains in that year.

Topic: Loss carry overs - general concepts

49) 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 included in income 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: Loss carry overs - general concepts

50) 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: Losses - non-capital loss

51) 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: Losses - net capital loss

52) 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

 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: Losses - non-capital loss

53) 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) Limited Partnership Losses.

C) Restricted farm losses

D) Business losses.

Answer: D

Explanation: D) Business losses.

Topic: Loss carry overs - general concepts

54) 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: Loss carry overs - general concepts

55) 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: Loss carry overs - general concepts

56) 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 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)]

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 net income has been determined, or that LPP losses are not deductible.]

Topic: Loss carry overs - general concepts

57) 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 2020, and resulted in a loss of $10,000.

She deducted the maximum allowable amount against her 2020 income. In 2021, 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 2021.

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: Losses - restricted farm losses ITA 31

58) In 2018, Lorrie Meller used the capital gains deduction to offset a $10,000 taxable capital gain. During 2021, 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 2021 Taxable Income?

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)

2021 Net and Taxable Income $48,000

Topic: Allowable business investment losses

59) 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 become part of a net capital loss for the year.

D) If they are not used during the current year, they become part of the non-capital loss for the year.

Answer: D

Explanation: D) If they are not used during the current year, they become part of the non-capital loss for the year.

Topic: Allowable business investment losses

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

A) An ABIL can be deducted against any source of income.

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

C) An ABIL results from the disposition of shares of a small business corporation.

D) An ABIL 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

61) Which of the following statements with respect to the 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 capital gains deduction

C) For 2021, 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: Capital gains deduction - general rules

62) Which of the following transactions could result in an individual taxpayer being able to claim a capital gains deduction?

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

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

C) A CCPC sells 100% of the shares of another CCPC that uses 100% of its assets in the carrying on of an active business.

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

Answer: B

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

Topic: Capital gains deduction - general rules

63) With respect to the 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: Capital gains deduction - general rules

64) Which of the following is **NOT** a requirement for shares to qualify as shares of 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% of the FMV of the assets of the business must have been used in an 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: Capital gains deduction - shares of a QSBC

65) 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 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: Loss carry overs - general concepts

66) Elena is 12 years old. In 2021 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 amount and the dividend tax credit. What is the amount of her 2021 federal income tax payable?

A) $554.

B) $4,218.

C) $2,146.

D) $3,721.

Answer: B

Explanation: A) $554 {[15%][(115%)($15,300) + $10,500] — $2,071 — [9/13][15%][$15,300]}

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

C) $2,146 [(33%)(115%)($15,300) — $2,071 — (9/13)(15%)($15,300)]

D) $3,721 [(33%)(115%)($15,300) + (15%)($10,500) — $2,071 — (9/13)(15%)($15,300)]

Topic: Tax on split income (TOSI)

67) Katrina is 27 years old. In 2021 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 amount and the dividend tax credit. What is her 2021 federal income tax payable?

A) Nil

B) $1,237.

C) $2,137.

D) $3,308.

Answer: D

Explanation: A) nil {[15%][(115%)($12,000) + $6,000] — $2,071 — [9/13][15%][$12,000]}

B) $1,237. [(33%)(115%)($12,000) — $2,071 — (9/13)(15%)($12,000)]

C) $2,137. [(33%)(115%)($12,000) + (15%)($6,000) — $2,071 — (9/13)(15%)($12,000)]

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

Topic: Tax on split income (TOSI)

68) 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% 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 TOSI 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% rate to all of the income of a Specified Individual.

Topic: Tax on split income (TOSI)

69) 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 FMV is equal to or greater than 10% of the FMV 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 (TOSI)

70) 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 (TOSI)

71) Mrs. Perry's total income consisted of $10,000 in eligible dividends received from taxable Canadian corporations. Mrs. Perry's basic personal amount and dividend tax credits are sufficient to eliminate all of her income 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%. By what amount would Mr. Perry's income tax payable increase or decrease if Mrs. Perry's dividends were transferred to him?

A) A decrease of $1,315.

B) An increase of $756.

C) An Increase of $758.

D) A decrease of $1,319.

Answer: A

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

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

Increase in Spousal Tax Credit [(15%)($13,808)] ( 2,071)

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

Increase (Decrease) in Income Tax Payable ($1,315)

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

C) An increase of $758 ($2,829 - $2,071)

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

Topic: Transfer of dividends to a spouse - ITA 82(3)

72) 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 an FMV in excess of its ACB, it is always advisable to elect the FMV amount for the gift.

C) The basis for a charitable donations tax credit for the current year can never exceed 75% of the individual's net income.

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% of the individual's net income.

Topic: Charitable donations - general rules

73) For the 2021 year, Liane Stanfield has net income 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 2021 taxable income, she intends to deduct a 2019 net capital loss of $10,000 and a 2018 $30,000 non-capital loss. After applying her basic personal amount, the tax otherwise payable is $8,056. What is the amount of Liane's foreign non-business tax credit?

A) $6,000

B) $2,599

C) $4,500

D) $3,898

Answer: B

Explanation: A) $6,000

B) $2,599

Tax Otherwise Payable = $7,280 + (20.5%)$62,000 - $48,535) = $10,091 - $2,071 = $7,969

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)][$7,969] = $2,599

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

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

Topic: Foreign tax credits - non-business

74) 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 % federal income tax bracket.

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

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

Answer: B

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

Topic: Transfer of dividends to a spouse - ITA 82(3)

75) An individual has net income of $147,500 for the current year. In the current year, the individual donates a depreciable property with a FMV of $300,000, a capital cost and ACB of $225,000 and a UCC $147,000. It is the only property in its CCA class and no additions are made subsequent to the gift. If the individual elects to have the donation valued at its FMV, 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: Charitable donations - donations of depreciable property

76) 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: Charitable donations - general rules

77) Assume that any foreign income is subject to foreign income tax. 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: Foreign tax credits - general rules

78) Assuming that foreign income is subject to foreign income tax, 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: Foreign tax credits - general rules

79) 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: Foreign tax credits - general rules

80) Djohn Django had all of the following types of income subjected to foreign income tax 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 shares.

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

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

Answer: C

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

Topic: Foreign tax credits - general rules

81) 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 - general concepts

82) Which one of the following would **NOT** affect the calculation of the alternative minimum tax (AMT)?

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 - general concepts

83) In 2020, Ms. Jessica Michaels was unemployed and had no income of any kind. In order to cover her living costs, she sold a painting on December 1, 2020 for $78,000. This painting had been left to Ms. Michaels by her father and, at the time of his death, it had a FMV of $102,000.

In 2021, Ms. Michaels finds employment 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 income in 2021.

Determine Ms. Michaels' 2021 net income and taxable income. Indicate the amount and type of any losses available for carry forward at the end of the year.

Assume the December 1, 2020 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 2020 of $12,000 [(1/2)($78,000 - $102,000)]. This can be claimed against the 2021 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 ITA 3(a) $69,000

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

2021 Net 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 2020 net capital loss of $12,000. Her Net and Taxable Income would have been determined as follows:

Income ITA 3(a) $69,000

Income ITA 3(b) 2,950

2021 Net Income $71,950

2020 Net Capital Loss (Limited to the ITA 3(b) amount) ( 2,950)

2021 Taxable Income $69,000

In this case, the remaining balance of the 2020 net capital loss is $9,050 which can be claimed to the extent of the ITA 3(b) amount in carryover years. While the Taxable Income remained the same the net income was different for the two scenarios.

Topic: Losses - listed personal property

84) During 2020, Jude Legal sold an important piece of jewelry for $120,000. He had paid $150,000 for this item several years ago. In 2021, he sells a block of publicly traded shares for $125,000. The ACB of the shares was $72,000. He has no other types of income in either 2020 or 2021.

Determine Jude's 2021 net and taxable income. Indicate the amount and type of any losses available for carry forward for 2021. If the 2020 sale had been of publicly traded shares instead of jewelry, how would the results for 202a have changed?

Answer: Mr. Legal will have a 2020 listed personal property loss in the amount of $15,000 [(1/2)($150,000 - $120,000)]. In 2021 he will have a taxable capital gain of $26,500 [(1/2)($125,000 - $72,000)]. As the 2020 listed personal property loss cannot be claimed against this type of income or gain, Mr. Legal's 2021 net and taxable income will both be $26,500. This will leave the 2020 $15,000 listed personal property loss balance unchanged.

If the 2020 loss had been on publicly traded shares, it would have been a regular capital loss and could be applied as follows:

2021 Net Income $26,500

Loss 2020 Net Capital Loss ( 15,000)

2021 Taxable Income $11,500

There would be no remaining net capital loss balance.

Topic: Losses - listed personal property

85) Mr. John Klaus carries on a business as a sole proprietor which uses a December 31 fiscal period. In 2020, its first year of operation, there is $19,000 of business income and a taxable capital gain of $3,000 [(1/2)($6,000)]. The following amounts relate to the 2021 taxation year:

 Business Loss ($56,000)

 Taxable Capital Gains 1,600

 Allowable Capital Losses ( 4,900)

Mr. Klaus has no other types of income or deductions in either year. Assume that he wishes to minimize any net capital and non-capital losses, without regard to his ability to claim his tax credits for the preceding 2020 year. Calculate his 2020 and 2021 net and taxable income plus any amended amounts for 2020 as a result of loss carryovers.

Indicate the amount and type of any losses available for carry forward to other taxation years.

Answer: The original 2020 result is as follows:

Business Income $19,000

Taxable Capital Gain 3,000

2020 Net Income $22,000

Deductions Nil

2020 Taxable Income $22,000

His 2021 net and taxable income would both be nil. After the maximum carry backs from 2021, the revised 2020 results would be as follows:

Business Income $19,000

Taxable Capital Gain 3,000

2020 Net Income $22,000

2021 Net Capital Loss

 (Limited to Net Taxable Capital Gains) ( 3,000)

2021 Non-Capital Loss

 (Amount required to Reduce taxable income to nil) ( 19,000)

2020 Revised Taxable Income Nil

Subsequent to the carryback of the 2020 net capital loss and non-capital loss the remaining loss balances would be as follows:

• 2021 Net Capital Loss = [($4,900 - $1,600) - $3,000] = $300

• 2021 Non-Capital Loss = ($56,000 - $19,000) = $37,000

Topic: Losses - applying the carryovers

86) Maria Shank carries on a business as a sole proprietor which, during the taxation year ending December 31, 2020 has business income of $28,000 and a taxable capital gain of $6,500 [(1/2)($13,000)].

In 2021, the business experiences a business loss of $85,000. In addition to this loss, the disposition of capital property results in an allowable capital loss of $10,800. There are no taxable capital gains or any other types of income.

Assume that she wishes to minimize her net capital and non-capital loss carry overs, without regard to her ability to claim any available tax credits for 2020. Calculate her 2020 and 2021 net and taxable income and any revisions to 2020 as a result of loss carrybacks.

Indicate the amount and type of any losses available for carry forward to other taxation years.

Answer: The original 2020 results were as follows:

Business Income $28,000

Taxable Capital Gain 6,500

2020 Net Income $34,500

Deductions Nil

2020 Taxable Income $34,500

Her 2021 net and taxable income would both be nil.

After maximum carry backs from 2021, the revised 2020 results would be as follows:

Business Income $28,000

Taxable Capital Gain 6,500

2020 Net Income $34,500

2021 Net Capital Loss Carry Back

 (Limited to Net Taxable Capital Gain) ( 6,500)

2021 Non-Capital Loss Carry Back

 (Amount required to reduce Taxable Income to Nil) ( 28,000)

Revised 2020 Taxable Income Nil

Subsequent to the carryback of the 2020 net capital loss and non-capital loss the remaining loss balances would be as follows:

• 2021 Net Capital Loss Balance = ($10,800 - $6,500) = $4,300

• 2021 Non-Capital Loss Balance = ($85,000 - $28,000) = $57,000

Topic: Losses - applying the carryovers

87) Ms. Jean Claus carries on a business as a sole proprietor. The business uses a December 31 fiscal period. In 2020, its first year of operation, the business has business income of $45,000 and an allowable capital loss of $5,250 [(1/2)($10,500)], which could not be deducted because of the absence of any taxable capital gains. The following amounts relate to the 2021 taxation year:

 Business Loss ($83,000)

 Taxable Capital Gains 6,300

 Allowable Capital Losses ( 3,150)

Ms. Claus has no other types of income or deductions in either year and does not anticipate realizing capital gains in the foreseeable future. Assume she wishes to maximize the use of any loss carryovers to reduce taxable income in any carryover years, without regard to her ability to claim any personal tax credits. Calculate her 2020 and 2021 net and taxable income and any revisions to net and taxable income for 2020. Indicate the amount and type of any losses available for carry forward to other taxation years.

Answer: For 2020, Ms. Claus had net and taxable income of $45,000. There would also be a 2020 Net Capital loss of $5,250.

For 2021, she has a net taxable capital gain of $3,150 [($6,300 - $3,150)], providing an opportunity to apply the 2020 net capital loss. Based on this course of action, the 2021 non-capital loss would be calculated as follows:

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

Income ITA 3(c) ( 3,150)

2021 Non-Capital Loss $83,000

Of this amount, $45,000 can be carried back to 2020, resulting in revised taxable income as follows:

2020 Net Income $45,000

Less: 2021 Non-Capital Loss Carry Back ( 45,000)

Revised 2020 Taxable Income Nil

Subsequent to the application of the net capital and non-capital losses the remaining loss balances would be as follows:

• 2020 Net Capital Loss Balance = ($5,250 - $3,150) = $2,100

• 2021 Non-Capital Loss Balance = ($83,000 - $45,000) = $38,000

Topic: Losses - applying the carryovers

88) Ms. Dora McLean carries on a business as a sole proprietor. The business uses a December 31 fiscal period. In the 2020 taxation year, there was business income of $95,000 and Dora also realized an allowable capital loss of $9,250 [(1/2)($18,500) that could not be deducted because of the absence of any taxable capital gains.

Unfortunately, in 2021, there was a business loss of $123,000 and there was a taxable capital gain of $7,200 [(1/2)($14,400)]. Dora has no other types of income or deductions in 2020 or 2021. She does not anticipate realizing any additional capital gains in the foreseeable future.

Assume that Dora wishes to maximize the use of any loss carryovers to minimize income tax in other years. without regard to her ability to claim any available personal tax credits for 2020. Calculate her 2020 and 2021 net and taxable income and any revised amounts for 2020. Indicate the amount and type of any losses available for carry forward after any loss applications to other years.

Answer: For 2020, Dora had net and taxable income of $95,000 and a 2020 net capital loss of $9,250. This loss will be applied to the 2021 year to the extent of the $7,200 of net taxable capital gains in that year.

The 2021 non-capital loss would therefore be calculated as follows:

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

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

2021 Non-Capital Loss $123,000

Of this amount, $95,000 can be carried back to 2020, resulting in the following revisions:

2020 Net Income $95,000

2021 Non-Capital Loss ( 95,000)

Revised 2020 Taxable Income Nil

Subsequent to the application of the net capital and non-capital losses the remaining loss balances would be as follows:

• 2020 Net Capital Loss Balance = ($9,250 - $7,200) = $2,050

• 2021 Non-Capital Loss Balance = ($123,000 - $95,000) = $28,000

Topic: Losses - applying the carryovers

89) Ms. Tanya Forester dies in August, 2021. At the time of her death, she has a 2018 net capital loss balance of $21,800 [(1/2)($43,600)]. As the result of a deemed disposition on her death of her art collection, there is a taxable capital gain of $15,500. Ms. Forester has made no previous use of the lifetime capital gains deduction. Her 2021 employment income in the period prior to her death was $47,000. Describe the tax treatment of these items in her final tax return for 2021.

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

2018 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)

2021 net addition to income $40,700

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

Topic: Losses - net capital losses at death

90) Barton Foster dies in July, 2021. He has a 2019 net capital loss balance of $27,000 [(1/2)($54,000)] at the time of his death.

His death results in a deemed disposition of his portfolio of public company shares which results in taxable capital gains of $16,000. Mr. Foster has made no previous use of the 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 income tax return for 2021.

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 16,000

2019 Net Capital Loss applied against Current

 Taxable Capital Gain ( 16,000)

Net Capital Loss applied against other

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

Net Inclusion for 2021 $50,000

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

Topic: Losses - net capital losses at death

91) In 2020, Mrs. Lacinda Brown used $15,000 [(1/2)($30,000)] of her capital gains deduction. In 2021, she has taxable capital gains on publicly traded shares of $10,500, and a capital loss of $47,000 on the disposition of shares of a small business corporation which would qualify for treatment as an allowable business investment loss (ABIL). Her 2021 employment income is over $250,000. Determine the amount of the ABIL that can be deducted in 2021, as well as the amount and type of any losses available for carry over for 2021.

Answer: The 2021 ABIL would be calculated as follows:

Actual Capital Loss $47,000

Disallowed by Capital Gains Deduction Use ( 30,000)

Business Investment Loss $17,000

Inclusion Rate 1/2

2021 ABIL $ 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 shares. This leaves a 2021 net capital loss of $4,500 [(1/2)($30,000 - $21,000)].

Topic: ABILs and the capital gains deduction

92) For many years, Jasmine Ho has had employment income in excess of $300,000. This will also be the case in 2021. During 2021, she has a $38,000 loss on the disposition of shares of a small business corporation that would qualify for treatment as a business investment loss. Also in 2021, she has taxable capital gains on publicly traded shares of $2,500. The only other year in which she realized taxable capital gains was in 2013. In that year she had a taxable capital gain of $4,000 on the sale of shares of a family farm corporation. She used her capital gains deduction to offset all of that gain. Determine her ABIL for 2021, as well as the amount and type of any 2021 losses available for carry over.

Answer: The 2021 ABIL would be calculated as follows:

Actual Loss on Disposition $38,000

Disallowed by Capital Gains Deduction Use ( 8,000)

Business Investment Loss $30,000

Inclusion Rate 1/2

2021 ABIL $15,000

The $15,000 can be deducted against Jasmine's employment income. With respect to the $8,000 disallowed portion of the capital loss, it becomes an allowable capital loss of $4,000 which can be applied to the extent of the taxable capital gain of $2,500. This will leave a 2021 net capital loss balance of $1,500 [($4,000 - $2,500)].

Topic: ABILs and the capital gains deduction

93) 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 business as a sole proprietor on a tract of land near the university where he teaches. In 2020, he had a farming loss of $24,000. He deducted the maximum possible amount in that year.

In 2021, he has employment income of $105,000 and farming income of $6,000. Determine Bob's minimum 2021 net and taxable income. Also, determine the amount and type of any loss carryovers for 2021.

Answer: It appears that Bob's farming activities are a subordinate source of income. Given this, the deduction of the 2020 farming 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 (RFL) for 2021.

Bob's 2021 net and taxable income would be as follows:

Employment Income $105,000

Farm Income 6,000

2021 Net Income $111,000

Less: 2021 RFL (Limited to Farm Income) ( 6,000)

2021 Taxable Income $105,000

This leaves a 2021 RFL of $4,750 ($10,750 - $6,000).

Topic: Losses - restricted farm losses ITA 31

94) Prior to 2021, Ms. Henny Close has had two capital gains and one capital loss. In 2016, she had a capital gain of $18,000 and in 2018, she had a capital gain of $54,000. Both of these gains were on dispositions of shares in a qualified small business corporation (QSBC). Given this, she used the capital gains deduction to eliminate the taxable amount of these gains. She also has a 2019 net capital loss balance of $30,000. This resulted from a 2019 capital loss of $60,000. She intends to deduct the 2019 net capital loss in 2021. She has never had an ABIL.

In 2021, she has a $748,000 capital gain on the sale of shares in a QSBC. Ms. Close has a CNIL balance on December 31, 2021 of $23,000. Determine Ms. Close's maximum capital gains deduction for 2021. Provide all of the calculations required to determine the maximum deduction.

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

**Available Deduction** - Her remaining deduction would be $410,109 [$446,109 - (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 2021 would be as follows:

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

Less: 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: Capital gains deduction - calculating the deduction

95) At the beginning of 2021, Joanne Chance had the following loss balances available:

2018 Restricted Farm Losses $ 7,200

2019 Non-Capital Losses 41,000

2017 Net Capital Losses [(1/2)($50,000)] 25,000

In 2021, 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 minimum 2021 net and taxable income. Indicate the amount and type of any loss balances available to be applied to other taxation years.

Answer: Joanne's 2021 net income 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

2021 Net Income $88,650

Joanne's 2021 Taxable Income is as follows:

2021 Net Income $88,650

Loss Carry Forwards:

 2018 Restricted Farm Losses (Limited to farming income) ( 2,950)

 2017 Net Capital Losses (Limited to taxable capital gains) ( 10,500)

 2019 Non-Capital Losses (All) ( 41,000)

2021 Taxable Income $34,200

**Loss Carry Forwards**

• 2018 Restricted farm loss carry forward ($7,200 - $2,950) $ 4,250

• 2017 Net capital loss carry forward ($25,000 - $10,500) 14,500

• 2019 Non-capital loss carry forward Nil

Topic: Losses - applying the carryovers

96) At the beginning of 2021, Cindy Burke had the following loss carryover balances:

2019 Non-Capital Losses $25,000

2018 Restricted Farm Losses 4,000

2017 Net Capital Losses [(1/2)($64,000)] 32,000

During the 2021 taxation year she has the following amounts of income:

Farm Income $ 2,500

Taxable Capital Gains 21,000

Business Income 74,000

Determine Cindy's 2021 net income as well as her minimum taxable income for 2021. Indicate the amount and type of any losses available for application to other taxation years.

Answer: Cindy's 2021 net income 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

2021 Net Income $97,500

Cindy's 2021 Taxable Income is as follows:

2021 Net Income $97,500

Loss Carry Forwards:

 2018 Restricted Farm Losses (Limited to farming income) ( 2,500)

 2017 Net Capital Losses (Limited to taxable capital gains) ( 21,000)

 2019 Non-Capital Losses (All) ( 25,000)

Taxable Income $49,000

**Loss Carry Forwards**

• 2018 Restricted farm loss balance ($4,000 - $2,500) $ 1,500

• 2017 Net capital loss balance ($32,000 - $21,000) 11,000

• 2019 Non-capital loss balance Nil

Topic: Losses - applying the carryovers

97) In 2021, 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 available personal tax credits are the basic personal amount and the dividend tax credit. Determine Harriet's 2021 federal income tax payable.

Answer: Harriet's regular federal income 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)

2021 Net Income = Taxable Income $13,100

Rate 15%

Tax Payable Before Credit $ 1,965

Basic Personal Amount [(15%)($13,808)] ( 2,071)

2021 Regular Federal Income Tax Payable $ Nil

Her income 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)

Income Tax Payable on Split Income $ 3,584

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

Topic: Tax on split income (TOSI)

98) Mrs. Mary Senton is 42 years old and has over $250,000 in taxable income in 2021. Her spouse's only income for 2021 is $9,000 (grossed up amount of $12,420) in eligible dividends received from taxable Canadian corporations. In terms of federal income 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? Explain your conclusion.

Answer: In the absence of the transfer, Mrs. Senton would a have no real spousal tax credit [$12,421 - $12,420]. In contrast, with the transfer, she would be eligible for the full $1,863 [(15%)($12,421)]. 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 ( 1,863)

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

Tax Increase (Decrease) $ 371

As there is an increase in federal income tax payable, the election would not be beneficial in this case.

Topic: Transfer of dividends to a spouse - ITA 82(3)

99) Ms. Katrina Wave owns a painting that she purchased many years ago for $22,000. Its current FMV is $132,500. In 2021, 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 full 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 personal tax credits other than her basic personal amount and the charitable donations credit resulting from the gift of the painting.

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

• 2021 Net Income;

• her maximum federal charitable donations tax credit for 2021;

• the amount of the donation she should claim in 2021 in order to reduce her federal income tax payable to nil; and

• the amount of donations that can be carried forward to subsequent years, assuming that she claims the amount of contributions that would reduce her federal income tax payable to nil.

Answer: **2021 Net Income -** Ms.Wave's gift will result in a taxable capital gain of $55,250 [(1/2)($132,500 - $22,000)]. Her 2021 net income will therefore be $67,750 ($12,500 + $55,250).

**Maximum Credit -** Note that, because Ms.Wave's taxable income is less than $216,511, the 33% income tax rate is not relevant to the calculation of the charitable donations tax credit. The maximum base for the charitable donations is calculated as follows:

75% of 2021 net income [(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)].

**Donation Credit required to reduce federal income tax payable to Nil -** The credit claim that will reduce federal income tax payable to nil is calculated as follows:

Tax on first $49,020 $ 7,353

Tax on next $18,730 ($67,750 - $49,020) at 20.5% 3,840

Tax Payable Before Credits $11,193

Basic Personal Amount ( 2,071)

Federal Tax Payable before Donations Credit $ 9,122

In order to determine the donation that will produce a charitable donations credit of $9,122, the following equation must be solved:

 $9,122 = [(15%)($200) + (29%)(X - $200)]

Solving this equation results in a value for X of $31,552. Using this amount of her credit base will result in the required $9,122 [(15%)($200) + (29%)($31,552 - $200)], thereby eliminating her federal income tax payable for 2021.

**Carry Forward -** This will leave a carry forward of $100,948 ($132,500 - $31,552).

Topic: Charitable donations - non-depreciable capital property

100) Lara Rand owns a tract of land that she had acquired many years ago for $18,000. In 2021, she gifts the land to a registered Canadian charity. At the time of the gift, the FMV of the land is $84,000, with the charity issuing a tax receipt for that amount. In addition to the capital gain resulting from this gift, Lara has 2021 rental income of $23,000. She has no tax credits other than her basic personal amount and the charitable donations credit resulting from the gift of the land.

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

• 2021 Net Income;

• her maximum federal charitable donations tax credit for 2021;

• the amount of the donation she should claim in 2021 in order to reduce her federal income 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 federal income tax payable to nil.

Answer: **2021 Net Income -** Lara's gift will result in a taxable capital gain of $33,000 [(1/2)($84,000 - $18,000)]. Given this, her 2021 net income is $56,000 ($23,000 + $33,000).

**Maximum Credit -** Note that, because Lara's taxable income is less than $216,511, the 33% income 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 [(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)].

**Donation Credit required to reduce federal income tax payable to Nil -** The credit claim that will reduce federal income tax payable to nil is calculated as follows:

Tax on first $49,020 $7,353

Tax on next $6,980 ($56,000 - $49,020) at 20.5% 1,431

Tax Payable Before Credits $8,784

Basic Personal Amount ( 2,071)

Federal Tax Payable before Donations Credit $6,713

In order to determine the donation that will produce a charitable donations credit of $6,713, the following equation must be solved:

 $6,713 = [(15%)($200) + (29%)(X - $200)]

Solving this equation gives a value for X of $23,245. The use of $23,245 of her donation will produce a credit of $6,713 [(15%)($200) + (29%)($23,245 - $200)], an amount sufficient to eliminate her federal income tax payable.

**Carry Forward -** This will leave a carry forward of $60,755 ($84,000 - $23,245).

Topic: Charitable donations - non-depreciable capital property

101) Mr. Gerald Deveau owns a rental property that, in 2021, he gifted to a registered 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 FMV 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 rental income of $8,300. His only personal tax credits are his basic personal amount and the charitable donations credit resulting from the gift of the land and building.

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

• 2021 Net Income;

• his maximum federal charitable donations tax credit for 2021;

• the amount of the donations he should claim in 2021 in order to reduce his federal income 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 federal income tax payable to nil.

Answer: **2021 Net Income -** Mr. Deveau's 2021 net income is calculated as follows:

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

2021 Net Income $190,300

**Maximum Credit -** Note that, because Mr. Deveau's taxable income is less than $216,511, the 33% income 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 [(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)].

**Donation Credit required to reduce federal income tax payable to Nil -** The credit claim that will reduce federal income tax payable to nil is calculated as follows:

Tax on first $151,978 $31,426

Tax on next $38,322 ($190,300 - $151,978) at 29% 11,113

Tax Payable Before Credits $42,539

Basic Personal Amount [(15%)($12,985\*)] ( 1,948)

2021 Federal Income Tax Payable Before Donations Credit $40,591

\*$13,808 - [$1,387][($190,300 - $151,978) ÷ $64,553)]= $12,985

In order to determine the donation that will produce a charitable donations credit of $40,591, the following equation must be solved:

 $40,591 = [(15%)($200) + (29%)(X - $200)]

Solving this equation gives a value for X of $140,066. The use of $140,066 of his donation will produce a credit of $40,591 [(15%)($200) + (29%)($140,066 - $200)], an amount sufficient to eliminate his federal income tax payable.

**Carry Forward -** This will leave a carry forward of $205,934 ($346,000 - $140,066).

Topic: Charitable donations - donations of depreciable property

102) In 2021, 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 FMV 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 2021 income is rental income of $16,000. His only 2021 personal tax credits are his basic personal amount and the charitable donations credit resulting from the gift.

**Required:** Determine Victor's:

• 2021 Net Income;

• his maximum federal charitable donations tax credit for 2021;

• the amount of the donations he should claim in 2021 in order to reduce his federal income 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 federal income tax payable to nil.

Answer: **2021 Net Income -** Victor's 2021 net income is calculated as follows:

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

2021 Net Income $167,000

**Maximum Credit -** Note that, because Victor's Taxable Income is less than $216,511, the 33% income 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)].

**Donation Credit required to reduce federal income tax payable to Nil -** The credit claim that will reduce federal income tax payable to nil is calculated as follows:

Tax on first $151,978 $31,426

Tax on next $15,022 ($167,000 - $151,978) at 29% 4,356

Tax Payable Before Credits $35,782

Basic Personal Amount [(15%)($13,485)] ( 2,021)

Federal Income Tax Payable Before Donations Credit $33,761

\*$13,808 - [$1,387][($167,000 - $151,978) ÷ $64,533)]= $13,485

In order to determine the donation that will produce a charitable donations credit of $33,761, the following equation must be solved:

 $33,761 = [(15%)($200) + (29%)(X - $200)]

Solving this equation for X gives a value of $116,514. The use of $116,514 of his donation will produce a credit of $33,761 [(15%)($200) + (29%)($116,514 - $200)], an amount sufficient to eliminate his federal income tax payable.

**Carry Forward -** This will leave a carry forward of $279,486 ($396,000 - $116,514).

Topic: Charitable donations - donations of depreciable property

103) In 2021, Kevin Fung has net income of $56,500, an amount that includes $3,900 of foreign non-business income. The foreign jurisdiction withheld 13% of this amount, resulting in a net receipt of $3,393. In calculating taxable income, he deducts a $5,000 non-capital loss from 2020 and a $3,200 net capital loss from 2018, resulting in taxable income of $48,300. His only personal tax credits are the basic personal amount and the credit for foreign tax paid. What is the amount of his foreign non-business income tax credit for 2021? A calculation of federal income tax payable is **NOT** required.

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

2021 Net Income $56,500

2018 Net Capital Loss Deducted ( 3,200)

Adjusted Division B Income $53,300

2020 Non-Capital Loss Carry Forward ( 5,000)

2021 Taxable Income $48,300

His Income Tax Otherwise Payable would be calculated as follows:

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

Basic Personal Amount ( 2,071)

2021 Income Tax Otherwise Payable $5,174

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)($5,174)] = $379

As the amount determined by the formula would be the lesser of the two amounts, his foreign tax credit would be $379.

Topic: Foreign tax credits - non-business

104) In 2021, Andy Loon earned $4,500 in foreign non-business income. The foreign jurisdiction withheld 20% of this amount, resulting in a net receipt of $3,600. His only other income in 2021 is a taxable capital gain of $38,000. His only deduction in the determination of taxable income is a $26,000 net capital loss from 2016. His only personal tax credits are the basic personal amount and the credit for foreign taxes paid. Determine Mr. Loon's 2021 net income, his 2021 taxable income, and his 2021 federal income tax payable.

Answer: The total foreign tax withheld is $900 [(20%)($4,500)] However, because he is an individual, Andy's credit is limited to 15% 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 2021 net and taxable income are calculated as follows:

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

Taxable Capital Gain 38,000

2021 Net Income $42,275

Less: 2016 Net Capital Loss ( 26,000)

2021 Taxable Income = Adjusted Division B Income $16,275

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

His Income Tax Otherwise Payable would be calculated as follows:

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

Basic Personal Amount ( 2,071)

Income Tax Otherwise Payable $ 370

His credit against federal income 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)($370)] = $102

As the amount determined by the formula would be the lesser of the two amounts, his foreign tax credit would be $102. This would result in a final federal income tax payable of $268 ($370 - $102).

Topic: Foreign tax credits - non-business

105) In 2021, Mr. Glenn Leigh has net income 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 (QSBC), he reduced his taxable income to $24,288 through the use of the capital gains deduction. His only personal tax credits are the basic personal amount and the dividend tax credit. Determine whether Mr. Leigh would have a liability for the federal alternative minimum tax (AMT) and, if so, the total amount of the tax.

Answer: Mr. Leigh's regular federal income tax payable would be calculated as follows:

$24,288 at 15% $3,643

Basic Personal Amount ( 2,071)

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

Federal Income Tax Payable - Regular Nil

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

Regular Taxable Income $24,288

30% 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 AMT would be as follows:

Adjusted Taxable Income $89,600

Basic Exemption ( 40,000)

Amount Subject to the AMT $49,600

Rate 15%

Minimum Tax Before Credit $ 7,440

Basic Personal Amount ( 2,071)

2021 AMT $ 5,369

As the AMT exceeds the regular income tax payable, the AMT would have to be paid. The $5,369 excess over regular income tax payable can be carried forward to be applied against any excess of regular tax payable over AMT over the next seven years.

Topic: Alternative minimum tax - calculating the tax

106) In 2021, Shelly Large sold shares of a qualified small business corporation (QSBC) for $580,000 resulting in a taxable capital gain of $200,000. She intends to deduct the taxable amount of this gain as a capital gains deduction. Her only other income in the year was eligible dividends of $23,000 (taxable amount $31,740). Her only personal tax credits are the basic personal amount and the dividend tax credit. Determine whether Ms. Large would be liable for the federal alternative minimum tax (AMT)and, if so, the total amount of the liability.

Answer: Shelly's regular federal income tax payable would be calculated as follows:

$31,740 at 15% $4,761

Basic Personal Amount ( 2,071)

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

2021 Federal Income Tax Payable - Regular Nil

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

Regular Taxable Income $31,740

30% 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 AMT 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 ( 2,071)

Alternative Minimum Tax Payable $ 13,379

As the AMT exceeds the regular income tax payable, the AMT would have to be paid. The $13,379 excess can be carried forward to be applied against any excess of regular tax payable over AMT in the next seven years.

Topic: Alternative minimum tax - calculating the tax

107) Martin Dornet commences a new retail business on January 1, 2018 that he carries on as a sole proprietor. Relevant information for 2018 and the subsequent three taxation years follows.

**Year Ending December 31, 2018**

During this first year of operations, Martin's 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, in 2018, he has the following results:

Eligible Dividends $3,050

Taxable Capital Gains 1,150

Allowable Capital Losses 6,860

**Year Ending December 31, 2019**

The 2019 operations of his retail business result in a business loss of $23,700. His farming business results in income of $3,600. His investment results for 2019 are as follows:

Eligible Dividends $3,850

Taxable Capital Gains 3,470

**Year Ending December 31, 2020**

His retail business has business income of $53,200 and the farming business income of $5,480. His 2020 investment results are as follows:

Eligible Dividends $4,860

Taxable Capital Gains 3,870

**Year Ending December 31, 2021**

The retail business experiences a business loss of $32,670 and a 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, any farm losses are restricted.

In each of the four years 2018 through 2021, 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 losses. He will also carry back any current loss carryovers to the earliest possible taxation year.

Prior to 2018, because of significant health issues,Martin had no income tax payable. This means that it would not be useful to carry back any type of loss to years prior to 2018.

**Required:** Calculate Martin's minimum net and taxable income for each of the four years. Indicate the revised amounts 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:

***2018 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)

2018 Net 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)

2018 Restricted Farm Loss $ 5,850

As noted in the problem, none of the losses can be carried back before 2018. This would leave the following carry forward balances at the end of 2018:

• 2018 Restricted Farm Loss $5,850

• 2018 Net Capital Loss ($6,860 - $1,150) $5,710

***2019 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)

2019 Net Income Nil

2018 Net Capital Loss ($ 3,470)

2019 Taxable Income Nil

Since there are net 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 2019 non-capital loss is calculated as follows:

Business Loss $23,700

2018 Net Capital Loss Deducted 3,470

ITA 3(c) Income ( 12,383)

2019 Non-Capital Loss $14,787

The entire non-capital loss carry over could be carried back to 2018, but since Martin requires $23,618 in Taxable Income to fully utilize his tax credits, the maximum carry back to 2018 is $4,841 calculated as follows:

2018 Taxable Income (As Reported) $28,459

2019 Non-Capital Loss deducted ( 4,841)

2018 Revised 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 2019:

• 2018 Restricted Farm Loss Carry Forward (Unchanged) $5,850

• 2018 Net Capital Loss Carry Forward ($5,710 - $3,470)] 2,240

• 2019 Non-Capital Loss Carry Forward ($14,787 - $4,841) 9,946

***2020 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

2020 Net Income $69,257

2018 Restricted Farm Loss Carry Forward (Equal To Farm Income) ( 5,480)

2018 Net Capital Loss Carry Forward (Less Than $3,870) ( 2,240)

2019 Non-Capital Loss Carry Forward (All) ( 9,946)

2020 Taxable Income $51,591

There would be the following carry forward balance at the end of 2020:

• 2018 Restricted Farm Loss ($5,850 - $5,480) $ 370

***2021 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)

2021 Net and Taxable Income Nil

The available 2021 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)

2021 Non-Capital Loss $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 2020 to be applied against any type of income.

With respect to the 2021 net capital loss of $1,580 ($24,940 - $23,360), there are $1,630 ($3,870 - $2,240) in taxable capital gains left in 2020 as the basis for a carry back. This means that all of the 2021 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 revised 2020 taxable income would be as follows:

2020 Taxable Income (As Reported) $51,591

2021 Non-Capital Loss ( 24,200)

2021 Net Capital Loss ( 1,580)

2020 Revised Taxable Income $25,811

These carry backs leave Martin with his required $23,618 in 2020 taxable income. With these carry backs being deducted, there would be the following carry forward balances at the end of 2021:

• 2018 Restricted Farm Loss Balance (Unchanged) $ 370

• 2021 Net Capital Loss Balance ($1,580 - $1,580)] Nil

• 2021 Non-Capital Loss Balance ($24,200 - $24,200) Nil

Topic: Losses - applying the carryovers

108) In 2018, Mr. Larry Atkins invested $275,000 to acquire 100% of the common shares of a corporation involved in the manufacture of plastic containers. The company was a Canadian controlled private corporation (CCPC) with a fiscal period of January 31. All of its property of the business were used in an active business carried on in Canada.

In 2018 and 2019, the company operated successfully, but did not pay any dividends. In 2020, it began to experience serious financial difficulties. In 2021, the company shut down and all of the business properties 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 2020 and 2021 taxation years is as follows:

 **2020 2021**

Rental income $36,870 $41,200

Interest Income 5,250 5,650

Basic personal amount 13,229 13,808

The only tax credit available to Mr. Atkins in either year is the basic personal amount. Mr. Atkins had no income in 2018 and 2019. At the beginning of 2019, he did not have any loss carry forwards from previous years.

Mr. Atkins has never utilized his capital gains deduction.

**Required:** Determine Mr. Atkins' optimum taxable income for 2020 and 2021. In your solution, consider the effect of the basic personal amount. Indicate any loss carry over that is available, and the rules applicable to claiming the loss carry over.

Answer: The calculation of Mr. Atkins' 2020 taxable income would be as follows:

Rental Income $36,870

Interest Income 5,250

2020 Net and Taxable Income $42,120

In 2021, there is a capital loss of $210,000 ($275,000 - $65,000) on the common shares. As these were shares in a CCPC that used all of its properties in an active business carried on in Canada the loss would qualify as 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 type of income.

Based on this analysis, Mr. Atkins' 2021 taxable income would be calculated as follows:

Rental Income $41,200

Interest Income 5,650 $46,850

ABIL ( 105,000)

2021 Net and Taxable Income Nil

As the ABIL was recognized in 2021, 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 amount. 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 as a 2021 non-capital loss.

In carrying this amount back to 2020, the optimum solution would leave $13,229 of taxable income so that Mr. Atkins can take advantage of his basic personal amount. 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 $28,891 ($42,120 - $13,229) in 2020. This deduction will leave taxable income of $13,229. As planned, the income taxes on this amount will be offset by Larry's basic personal amount of $13,299.

A carry back of $28,891 in 2020 leaves a 2021 non-capital loss balance of $29,259 ($58,150 - $28,891) to be used in future years.

For the next 10 years, the undeducted ABIL will be treated as a non-capital loss carry forward that can be deducted against any type of income. If it has not been utilized within the 10 years, it then converts to a net capital loss in year 11, deductible for an unlimited number of future periods, but only against net taxable capital gains.

Topic: Allowable business investment losses

109) The following information is for Doug Santiago for the 2021 taxation year:

• Doug sold shares of Flop Inc., a small business corporation the shares of which do not qualify for the capital gains deduction. The shares had cost $345,000 and the POD were $78,000.

• Doug sold shares of a qualified small business corporation (QSBC), for $480,000. The ACB of the shares was $187,000. and selling costs were $4,000.

• Doug had employment income of $142,000.

• At the end of 2021, Doug had a Cumulative Net Investment Loss (CNIL) of $2,300.

• Doug has a 2019 net capital loss balance of $3,400 [(1/2)($6,800)]. Doug claimed the capital gains deduction to eliminate a 2013 capital gain of $29,500, as well as a 2016 capital gain of $49,000. Doug has not claimed any other amounts as a capital gains deduction before 2021.

**Required:** Calculate Doug's minimum 2021 net and taxable income. Provide all of the calculations required to determine the maximum capital gains deduction assuming:

A. Doug would prefer to make the maximum deduction of his 2019 net capital loss balance, before claiming the capital gains deduction.

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

Answer: To the extent that the capital gains deduction has been claimed in previous years, business investment losses (BILs) are reduced. When they are reduced, the reduction become an ordinary capital loss that must be deducted first in the current year's to the extent of net taxable capital gains. Given this, the non-disallowed portion of the BIL would be calculated as follows:

2021 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

2021 Allowable Business Investment Loss (ABIL) $ 94,250

Doug's 2021 net income would be calculated as follows:

Employment Income $142,000

ABIL ( 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

2021 Net Income $153,000

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

 **Part A Part B**

2021 Net Income $153,000 $153,000

2019 Net Capital Loss Deducted ( 3,400) Nil

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

2021 Taxable Income $144,300 $144,300

**Note:** As the only capital gains during 2021 are on qualified property, the simplified formula for the annual gains limit can be used. Given this, the 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)($892,218\*)] $446,109 $446,109

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

Amount Available $406,859 $406,859

\*This is the 2021 limit for gains on dispositions of shares of a qualified small business corporation. For gains on qualified farm or fishing property, the 2021 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)

2019 Net Capital Loss 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 2019 net capital loss carry forward, but will have used $3,400 more of his capital gains deduction. His Taxable Income in both cases is the same.

Topic: ABILs and the capital gains deduction

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

**Case A**

Jane owns 70% of Jahil Inc., a Canadian private corporation involved in manufacturing. Her common-law partner Jill owns the remaining 30% 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 2018, 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 2021, 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 2013. During the period 2013 through 2020, 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 2020, George concludes that the business would benefit from his son having an MBA.

In keeping with this view, in January 2021, 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 non-voting shares. In 2021, these shares pay dividends to Gary of $150,000.

**Case C**

Tom and Trisha Braxton were married in 2011. Trisha has been the family's income earner, 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 2020, 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 are non-voting. In 2021, as required by the divorce settlement, 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 considered 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% of the number of voting rights and market value of the Jahil shares. In addition, Jahil is not a professional corporation, less than 90% 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 considered Split Income.

***Case B***

While Gary is no longer actively involved with Justor's business in 2021, he was actively engaged in a continuous and substantial manner for more than five years (2013 through 2020). Given this, Justor would be an Excluded Business from his perspective and the dividends that he received in 2021 would not be considered 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 considered 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 considered 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 considered Excluded Shares.

Topic: Tax on split income (TOSI)

111) Despite being 75 years old, Mr. Igor Resso has retained a full time position with a Canadian university. His salary for 2021 is $95,000. While the university continues to deduct maximum EI contributions ($890 for 2021), 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. In 2021, these payments totaled $31,000. In addition to his other income Mr. Resso was required to withdraw $18,000 from his RRIF in 2021.

In 2020, 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 2020, Ivana was disabled to such a degree that she qualified for the disability tax credit after she moved to Canada.

In the 2019 divorce from her Russian husband, Ivana received a substantial settlement. After her marriage, she invested much of it in blue chip shares of Canadian public companies. In 2021, 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 2021 credit available to the couple is based on qualifying medical expenses of $16,000.

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

**Required:**

A. Calculate Mr. and Mrs. Resso's 2021 minimum federal income 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 2021 minimum federal income 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 2021 Taxable Income would be calculated as follows:

 **Mrs. Resso Mr. Resso**

Employment Income Nil $95,000

CPP Income Nil 9,500

RPP Income Nil 31,000

RRIF Withdrawals Nil 18,000

Eligible Dividends Received $14,000 Nil

Gross Up (38 %) 5,320 Nil

2021 Net and Taxable Income

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

Mrs. Resso's federal income tax payable would be calculated as follows:

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

Tax Credits

 Basic Personal Amount $13,808

 Age and Disability (Transferred to Mr. Resso) Nil

 Medical Expenses (Note 1) Nil

Total Base $13,808

Rate 15% ( 2,071)

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

2021 Federal Income 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 $2,421 and 3% of the individual's net income, 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 amount and dividend tax credits, Mrs. Resso has no federal income 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 amount 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 $ 7,713

 Disability 8,662

Total Available $16,375

Reduced by excess of:

 Mrs. Resso's net income ($19,320)

 Over Basic Personal Amount 13,808 ( 5,512)

Available for Transfer to Mr. Resso $ 11,223

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

Tax on first $151,978 $ 31,426

Tax on next $1,522

 ($153,500 - $151,978) at 29% 441 $31,867

Tax Credits (Note 1)

Basic Personal Amount ($13,775)

Spousal Including Infirm Amount

 (Income Too High) Nil

Additional Caregiver Amount (Note 2) ( 2,064)

EI ( 890)

Canada Employment ( 1,257)

Age {$7,713 - [(15%)($153,500 - $38,893)]} Nil

Pension ( 2,000)

Medical Expenses (Note 3) ( 13,579)

Transfer from Spouse (Preceding Calculation) ( 11,223)

Credit Base ($44,788)

Rate 15% ( 6,718)

2021 Federal Income Tax Payable - Mr. Resso $25,149

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

$13,808 - [$1,387][($153,500 - $151,978) ÷ $64,533] = $ 13,775

**Note 2 -** Mrs. Resso's income is above the Canada caregiver income threshold of $17,256. Given this, the additional Canada caregiver amount would be $2,064 ($19,320 - $17,256).

**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

• 2021 Threshold Amount = $2,421 ( 2,421)

Allowable Medical Expenses $13,579

***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 of nil, resulting in Mr. Resso being eligible for the full spousal tax credit of $13,775. 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 amounts 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

2021 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 $ 7,713

 Disability 8,662

Total Available $16,375

Reduced by excess of:

 Mrs. Resso’s Net Income Nil

 Over Basic Personal Amount 13,360 ( Nil)

Available for Transfer to Mr. Resso $16,375

With respect to Mr. Resso, his 2021 federal income tax payable would be calculated as follows:

Tax on first $151,978 $31,426

Tax on next $20,842

 ($172,820 - $151,978) at 29% 6,044 $37,470

Tax Credits

 Basic Personal (Note 4) ($13,360)

 Spousal Including Infirm Amount

 ($13,360 + $2,295) ( 15,655)

 Additional Caregiver Amount (Note 4) ( Nil)

 EI ( 890)

 Canada Employment ( 1,257)

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

 Pension ( 2,000)

 Medical Expenses (Note 3) ( 13,579)

 Transfer From Spouse (Preceding Calculation) ( 16,375)

Credit Base ($63,116)

Rate 15% ( 9,467)

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

2021 Federal Income Tax Payable - Mr. Resso $25,101

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

$13,808 - [$1,387][($172,820 - $151,978) ÷$64,533] = $13,360

**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 income tax payable by $48, from $25,149 to $25,101. The dividend transfer should be done.

Topic: Comprehensive tax credits with dividend transfer

112) The following two independent cases involve individual taxpayers who might be subject to the alternative minimum tax (AMT) in the 2021 taxation year.

**Case One**

Serge Lawson has made the following estimates of the various types of income and deductions that he anticipates for the 2021 taxation year.

Rental Income $73,100

Eligible Dividends Received 14,000

RRSP Contributions 22,000

Prior to 2021, 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 2021, his gambling habit finally pays off, providing sufficient winnings to make a $22,000 contribution. He plans to deduct the full amount in 2021.

**Case Two**

Sarah Bonito has made the following estimates of the various types of income and deductions that she anticipates for the 2021 taxation year.

Eligible Dividends Received $ 26,000

Net Taxable Capital Gains 263,000

Capital Gains Deduction Claimed 260,000

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

**Required:** For both Cases, determine whether there is an AMT liability and, if so, the amount of that liability. In addition, calculate any related carry forwards available.

Answer:

***Case One***

The regular income tax payable calculation for Serge Lawson would be as follows:

Rental Income $73,100

Eligible Dividends Received 14,000

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

RRSP Deduction ( 22,000)

2021 Net And Taxable Income $70,420

Tax on first $49,020 $ 7,353

Tax on next $21,400 ($70,420 - $49,020) at 20.5% 4,387

Tax Before Credits $11,740

Basic Personal Credit ( 2,071)

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

2021 Regular Federal Income Tax Payable $ 6,767

The AMT 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 Amount ( 2,071)

2021 Federal AMT $ 1,694

Since the regular federal income tax payable is greater than the federal AMT, there is no AMT liability and no related carry forward.

***Case Two***

The 2021 regular income 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

2021 Net Income $298,880

Less: Capital Gains Deduction ( 260,000)

2021 Taxable Income $ 38,880

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

Basic Personal Amount ( 2,071)

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

2021 Regular Federal Income Tax Payable Nil

The AMT calculations are as follows:

Regular Taxable Income $ 38,880

30% 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 Amount ( 2,071)

2021 Federal AMT $ 19,949

Since the regular federal income tax payable is nil, the AMT is larger and must be paid. The excess AMT over regular income tax payable for Sarah of $19,949 can be carried forward for 7 years and applied against any future excess of regular income tax payable over the AMT.

Topic: Alternative minimum tax - calculating the tax

113) The two cases which follow are designed to illustrate the basic features of the alternative minimum tax (AMT). In both cases, you are given information about an individual taxpayer's income and deductions for the 2021 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 2021 taxation year:

 Employment Income $ 32,000

 Net Taxable Capital Gains 206,000

 Capital Gains Deduction Claimed 206,000

**Case Two**

Fiona Acevedo provides the following estimates of her various types of income and deductions for the 2021 taxation year:

 Employment Income $149,000

 Taxable Capital Gains 12,000

 Eligible Dividends Received 41,000

 Rental Loss (Note) 17,000

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

 RRSP Deduction 32,000

**Note -** The 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 amount and the dividend tax credit related to any dividends received.

**Required:** For both Cases, determine whether there is an AMT liability and, if so, the total amount of that liability. In addition, calculate any related carry forwards available.

Answer:

***Case One***

The regular income tax payable calculation for Marita Ulman would be as follows:

Employment Income $ 32,000

Net Taxable Capital Gains 206,000

2021 Net Income $238,000

Less: Capital Gains Deduction ( 206,000)

2021 Taxable Income $ 32,000

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

Basic Personal Amount ( 2,071)

2021 Regular Federal Income Tax Payable $2,729

The AMT calculations are as follows:

Regular Taxable Income $ 31,500

30% 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 Amount ( 2,071)

2021 Federal AMT $ 15,194

Since the AMT is larger than the regular federal income tax payable, it must be paid. The excess AMT over regular income tax payable for Marita of $12,465 ($15,194 - $2,729) can be carried forward for 7 years and applied against any future excess of regular income tax payable over the AMT.

***Case Two***

The 2021 regular income tax payable calculation for Fiona Acevedo would be as follows:

Employment Income $149,000

Eligible Dividends Received 41,000

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

Taxable Capital Gains 12,000

Rental Loss ( 17,000)

RRSP Deduction ( 32,000)

2021 Net Income $168,580

Less: Stock Option Deduction ( 31,500)

2021 Taxable Income $137,080

Tax on first $98,040 $17,402

Tax on next $39,040 ($137,080 - $98,040) at 26% 10,150

Tax Before Credits $27,552

Basic Personal Amount ( 2,071)

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

2021 Regular Federal Income Tax Payable $16,983

The AMT calculations are as follows:

Regular Taxable Income $137,080

Excess of Interest Charges Deducted Over

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

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

30% 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 Amount ( 2,071)

Federal AMT $ 16,319

Since the AMT is less than the regular income tax payable, the regular income tax payable is the amount that will be paid and not the AMT.

Topic: Alternative minimum tax - calculating the tax

114) 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 2021.

Melissa has no income and none of the family's investments are owned by her.

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, 2020, Mr. Bronson is diagnosed with a terminal illness, with the doctor indicating that he probably has about a year 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 income tax consequences of his death.

He is particularly concerned with the fact that, in the province in which he lives, probate fees of 1.5% of the FMV of almost are charged on all of the assets that are transferred in his will. Given this, he intends to transfer a significant amount of his assets 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 spouse.

Mr. Bronson owns two tracts of vacant land. Plot A cost $125,000 and has a FMV of $150,000. Plot B cost $175,000 and has a FMV 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 income tax bracket, during 2021, he sells Plot A to him, with the only consideration being a promissory note for $50,000 which is paid on December 1, 2021. In contrast, his older brother, Gary, is very wealthy and is in the highest income 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, 2021, Mr. Bronson acquires units in the YP Mutual Trust Fund 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, 2021, after receiving the January payment of $800, Mr. Bronson gifts all of these units to his granddaughter, Brenda. At this time, the FMV of the units is $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 each and purchased an additional 8,000 shares at $65 each. On March 1, 2021, he gifts 1,500 shares to both of his children and an additional 1,500 shares to his spouse. At this time, the shares are trading at $68 per share. On July 1, 2021, 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, 2021, each unit was in a separate class with a UCC for each of $205,000. The land is leased from the National Capital Commission for 100 years. In 2021, these units generated rental income, before consideration of CCA, of $93,750.

On December 31, 2021, Mr. Bronson dies peacefully in his home. On this date he has the following property:

**Baron Inc. Shares —** The 7,500 shares that remain 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 FMV 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 FMV of $562,000. Mr. Bronson’s will leaves the residence to his spouse.

In 2021, medical expenses for Mr. Bronson totaled $45,000, while those of his spouse totaled $12,000. At his death, Mr. Bronson had a 2019 net capital loss balance of $30,000 [(1/2)($60,000)].

**Required:** Ignore GST/HST & PST considerations.

A. Assume Mr. Bronson’s accountant does not split his pension income with his spouse. Calculate Mr. Bronson’s minimum 2021 net and taxable income and his minimum 2021 federal income 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 income tax savings as a result of the pension splitting.

Answer: The various components of Mr. Bronson's 2021 net income would be calculated as follows:

**Pension Income**

RPP Income $83,000

CPP Income 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 FMV and, because of this, the POD are deemed to equal the FMV of $150,000. Note that Phil's ACB would be limited to the $50,000 that was paid. Since the note was paid during 2021, there is no capital gains reserve available. Plot B was sold at an amount in excess of FMV and, in this case, ITA 69 treats the sale price as the POD. Note that Gary's ACB would equal the FMV of $210,000.

**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 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 for POD equal to FMV 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**

POD (Note 3) $294,000

ACB [(4,500)($60)] ( 270,000)

Capital Gain $ 24,000

Inclusion Rate 1/2

Taxable Capital Gain $ 12,000

**Note 3 -** The ACB 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 2021 net income, Mr. Bronson will not elect out of the ITA 73(1) rollover. As a result, the 1,500 shares gifted to his spouse will be transferred at their ACB. In contrast, the POD for the shares gifted to his children would be at their FMV of $68 per share. Given this, the POD would be calculated as follows:

1,500 Shares @ $60 $ 90,000

3,000 Shares @ $68 204,000

Total POD $294,000

**Dividends on Baron Inc. Shares**

Dividends Received and Attributed (Note 4) $13,500

Gross Up of 38% 5,130

Taxable Dividends $18,630

**Note 4 -** The dividends on the 1,500 shares gifted to Melissa would be attributed to Mr. Bronson. The dividends on the shares gifted to his (adult) children will be included in their income. Since he owns 7,500 shares on July 1, the dividends will be included in his income which 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 POD 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 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 FMV of . That will result in following income tax consequences for Mr. Bronson:

POD [(2)($420,000)] $840,000

ACB [(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 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 2021 income 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 FMV and use the principal residence gain reduction formula to eliminate the $417,000 capital gain. In either case, there are no income tax consequences for Mr. Bronson.

***Part A - 2021 Net and Taxable Income***

Mr. Bronson’s minimum 2021 net and taxable income would be calculated as follows:

Pension Income $ 93,680

Mutual Trust Fund Distribution 9,600

Taxable Dividends 18,630

Rental Income 93,750

Recapture 190,000

Taxable Capital Gains:

 Land $ 50,000

 Trust Units 5,000

 Gift of Baron Inc. Shares 12,000

 Condominium Units 120,000 187,000

2021 Net Income $592,660

Less: 2019 Net Capital Loss ( 30,000)

2021 Taxable Income $562,660

***Part A - Tax Payable***

Mr. Bronson’s minimum 2021 federal income tax payable would be calculated as follows:

Tax on first $216,511 $ 50,141

Tax on next $346,149 ($562,660 - $216,511) at 33% 114,229

Tax Before Credits $164,370

Tax Credits:

 Basic Personal Amount ($12,421)

 Spousal Including Infirm Amount

 ($12,421 + $2,295) ( 14,716)

 Age (Income Too High) Nil

 Pension Income ( 2,000)

 Spouse’s Disability ( 8,662)

 Medical Expenses (Note 5) ( 54,579)

Total Credit Base ($92,378)

Rate 15% ( 13,857)

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

2021 Federal Income Tax Payable $147,715

**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 $2,421.

***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 2021 federal income tax payable and Wally’s net income tax savings will be as follows:

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

Basic Personal Amount ($13,808)

Disability ( 8,662)

Pension (Not Previously Available) ( 2,000)

Total Credit Base ($24,470)

Rate 15% ( 3,671)

Melissa’s 2021 Federal Income Tax Payable $2,554

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

Spousal Credit Including ($2,295 + $12,421) ($14,716)

Disability Credit Taken By Melissa ( 8,662)

Total Credits Lost ($23,378)

Rate 15% ( 3,507)

Wally’s 2021 Net Income Tax Savings $10,188

With pension income splitting , the total federal tax savings amount to $7,634 ($10,188 - $2,554). Further income tax 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 to be claimed by Wally.

Topic: Comprehensive personal tax payable including death and pension income splitting

115) Mr. Jack Leonard has asked you to assist him in preparing his 2021 income tax return. To this end, he provides you with the following information.

Mr. Leonard's employer is a large, publicly traded corporation. In 2021, Mr. Leonard received a gross annual salary of $58,000, living accommodations having a FMV 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 2020 Pension Adjustment (PA) amount is nil. His employer withheld the maximum for CPP contributions and EI premiums.

On August 1, 2021, 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, 2021, 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 continues to own the shares on December 31, 2021.

Mr. Leonard provides the following list of receipts and disbursements for the 2021 taxation year:

**Receipts**

Director's Fees $ 1,300

Royalties on Patent Purchased in 2013 24,070

Bond Interest 430

**Disbursements**

RRSP Contribution on July 6, 2021 $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:

 **POD ACB**

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 weekly salary of $250. In September, he left his employment to commence full time studies at university. Tuition fees paid for the 2021 calendar year amounted to $4,860, and were paid by Mr. Leonard. The son's only other source of income was $700 in interest income on bonds received from his father as a birthday gift in 2011. He will transfer the maximum tuition credit to his father.

Assume Mr. Leonard's 2020 Earned Income for RRSP purposes was equal to his 2021 Earned Income. At the beginning of 2021, Mr. Leonard has no unused deduction room or undeducted contributions.

**Required:** For 2021, compute the following amounts for Mr. Leonard:

A. Employment income.

B. Income from property.

C. Net taxable capital gains.

D. Net Income.

E. Taxable Income.

F. Federal Income 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 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

2021 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 income on Bonds 430

2021 Income from Property $24,500

***Part C***

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

Listed Personal Property:

 POD From Ring $1,200

 Deemed ACB ( 1,000) $ 200

 POD From Painting $1,100

 ACB ( 1,800) ( 700) Nil

Personal Use Property:

 POD from Pistols $2,000

 ACB ( 1,400)

 Capital Gain $ 600

 Inclusion Rate 1/2 $300

2021 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 net taxable capital gains on listed personal property.

***Part D***

Mr. Leonard's 2021 net income 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 ($3,166 - $2,876) ( 290)

2021 Net Income $95,276

**Note -** Mr. Leonard's RRSP Deduction Limit for 2021 is the lesser of $27,830 and 18% of his 2019 Earned Income. His Earned Income for 2020 is assumed to be equal to his 2021 Earned Income. The only amount in his 2021 Earned Income is his Employment Income of $86,300. Eighteen percent of this amount is $15,534, less than the $27,830 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 2021 Taxable Income would be calculated as follows:

2021 Net Income $95,276

Less: Stock Option Deduction [(1/2)($900)] ( 450)

2021 Taxable Income $94,826

***Part F***

Mr. Leonard's 2021 federal income tax payable would be calculated as follows:

Federal Tax on first $49,020 $7,353

Federal Tax on next $45,806 ($94,826 - $49,020) at 20.5% 9,390

Gross Federal Tax $16,743

Tax Credits:

 Basic Personal Amount ($13,808)

 Spousal ($13,808 - $2,990) ( 10,818)

 CPP ( 2,876)

 EI ( 890)

 Canada Employment ( 1,257)

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 ($34,509)

Rate 15% ( 5,176)

2021 Federal Income Tax Payable $11,567

**Note -** As his son's income is $3,700 [(12)$250) + $700], he will have no income 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 federal income tax payable

116) 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 2021, 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 2021, 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 2021 income tax return. To this end, he provides you with the following list of receipts and disbursements for the 2021 taxation year:

**Receipts**

Director's Fees $ 1,372

Royalties on Patent Purchased In 2013 29,400

TFSA Withdrawal in January 10,000

Bond Interest income 960

**Disbursements**

Spousal RRSP Contribution in July $ 4,200

TFSA Contribution in December (Less than the 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 public corporation. His basic salary for 2021 is $71,500. Other information related to his employment is as follows:

• As part of his compensation package, his employer provides living accommodations that has a FMV $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 2021, Mr. Kim and his employer each contributed $3,100 to this plan. These contributions are the same as those made in 2020.

• His employer withheld the maximum for CPP contributions and EI premiums for 2021.

• On September 1, 2021, 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, 2021, 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 still owns the shares on December 31, 2021.

• His employer provides him with an automobile to use for his employment duties. The automobile cost $41,000 in 2020. The UCC of the automobile at January 1, 2021 is $25,500. The Company pays all of the operating expenses which totaled $12,300 for 2021. Mr. Kim drives the vehicle 42,000 kilometers during 2021, of which 38,000 were for employment purposes and 4,000 for personal use. The automobile was available to Mr. Kim throughout all of 2021.

Mr. Kim provides you with the following information on his dispositions of property during the year:

 **POD ACB**

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 2020 Earned Income for RRSP purposes was equal to his 2021 Earned Income. At January 1, 2021, 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 2021. Show all calculations, including all those necessary to determine the maximum RRSP deduction for the year.

A. Employment income.

B. Income from property.

C. Net taxable capital gains.

D. Net Income.

E. Taxable Income.

F. Federal Income 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 2021 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

 • [(0.27)(4,000)] = $1,080 984

Stock Option Benefits [(500)($9 - $5)] 2,000

2021 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 income on Bonds 960

2021 Income from Property $30,360

***Part C***

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

**Listed Personal Property:**

 POD from Necklace $1,100

 Deemed ACB ($1,000 Floor) ( 1,000) $ 100

 POD from Painting $3,800

 ACB ( 5,100) ( 1,300) Nil

**Personal Use Property:**

 Graphic Novel Collection Nil

 POD from Assault Rifles $8,000

 ACB ( 6,200)

 Capital Gain $1,800

 Inclusion Rate 1/2 $900

2021 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. Mr. Kim's 2021 net income 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 ($3,166 - $2,876) ( 290)

Net Income For Tax Purposes $117,094

**Note -** As you are asked to assume that Mr. Kim's RRSP Earned Income for 2020 is equal to his Earned Income for 2021, then earned income would be:

Employment Income $90,324

RPP Deduction 3,100

2021 RRSP Earned Income $93,424

Given this, his RRSP deduction room for 2021 would be calculated as follows:

January 1, 2021 Unused Deduction Room Nil

2020 Addition - Lesser of

 2021 Limit = $27,830

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

2020 PA [(2)($3,100)] ( 6,200)

Maximum 2021 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 2021 is only $4,200.

***Part E***

Mr. Kim’s 2021 Taxable Income would be calculated as follows:

2021 Net Income $117,094

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

2021 Taxable Income $116,094

**Part F**

Mr. Kim’s 2021 federal income tax payable would be calculated as follows:

Federal Tax on first $98,040 $17,402

Federal Tax on next $18,054 ($116,094 - $98,040) at 26%t 4,694

Gross Federal Tax $22,096

Tax Credits:

Basic Personal Amount ($13,808)

Spousal ($13,808 - $3,400) ( 10,408)

CPP ( 2,876)

EI ( 890)

Canada Employment ( 1,257)

Transfer Of Son’s Tuition - Lesser of: (See Note)

 • Absolute Limit of $5,000

 • Actual Tuition of $6,500 ( 5,000)

Credit Base ($34,239)

Rate 15% ( 5,136)

2021 Federal Income Tax Payable $16,960

Note - As his son’s income of $6,336 [$3,300 + (138%)($2,200)] is below the basic personal amount, he will have no federal income 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 2021 he can contribute up to $12,000 ($6,000 for 2020 + $6,000 for 2021) into a TFSA. As there is no information on his prior employment income, it is not possible to calculate his RRSP deduction room for 2021, but given his $3,300 employment income, he can contribute at least $594 [(18%)($3,300)] in 2021.

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 an income tax liability.

Topic: Personal federal income tax payable, TFSA and RRSP