#### **INSTRUCTOR'S SOLUTIONS MANUAL**

# Byrd & Chen's Canadian Tax Principles 2016 - 2017 Edition

ISBN-013457141X and 978-0-13-457141-6 Copyright © 2016 Clarence Byrd Inc. All rights reserved.

This work is protected by Canadian copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning.

#### **Problem Concordance**

A concordance of the problems in the 2015/16 vs. 2016/17 editions is available to assist instructors who have previously used *Canadian Tax Principles*.

#### **Bookmarks In PDF File**

To assist you in navigating through the electronic version of this solutions manual, there are bookmarks on the first page of each Assignment Problem solution.

#### **Contact Information**

Comments and queries from instructors should be e-mailed to Ida Chen at:

idachen@sympatico.ca

If you have any further questions, please contact Claire Varley, Customer Experience Manager, Pearson Canada, at:

claire.varley@pearsoned.com

#### **Assignment Problems Listing and Description**

Next to each problem number you will find a general indication as to whether we think the problem is: Easy (E), Medium (M), or Difficult (D).

### Chapter 1 Introduction To Federal Taxation In Canada

Solution	Subject	Page
1-1 (E)	Application of general tax principles	1
1-2 (E)	Conflicting objectives	2
1-3 (E)	Qualitative characteristics of tax systems	3
1-4 (E)	Evaluation of head tax	5
1-5 (E)	Net income and taxable income	6
1-6 (E)	Alternative views of income	7
1-7 (E)	Net Income For Tax Purposes - Two Cases	8
1-8 (E)	Net Income For Tax Purposes - Four Cases	9
	Chapter 2	
	Procedures And Administration	
2-1 (E)	Individual tax instalments	11
2-2 (M)	Corporate tax instalments, interest and penalties	12
2-3 (E)	Individual tax instalments	13
2-4 (E)	Corporate tax instalments	15
2-5 (E)	Filing dates	17
2-6 (M)	Appeals	18
2-7 (M)	Third party civil penalties	19
	Chapter 3	
Ind	come Or Loss From An Office Or Employm	ent
3-1 (E)	Bonus arrangements	20
3-2 (E)	Employee vs. self-employed	21
3-3 (M)	Employer provided vs. employee owned car	23
3-4 (E)	Employee automobile benefits	25
3-5 (M)	Employee automobile benefits	26
3-6 (M)	Loans to employees	27
3-7 (M)	Loans to employees	28
3-8 (M)	Employee stock options	29
3-9 (M)	Employee stock options	31
3-10 (E)	Employment income	33
3-11 (D)	Employment income - commission income	34
3-12 (M)	Employment income	36
3-13 (D)	Alternative employment offers	37
3-14 (D)	Comprehensive employment income	39

78

79

81

# Chapter 4 Taxable Income And Tax Payable For Individuals

Solution	Subject	Page
4-1 (E)	Personal tax credits - 5 Cases	42
4-2 (M)	Personal tax payable - 7 Cases	44
4-3 (E)	Personal tax payable - 5 Cases	48
4-4 (M)	Calculation of individual taxable income and tax payable	51
4-5 (D)	Calculation of individual taxable income and tax payable	54
4-6 (D)	Calculation of individual taxable income and tax payable	57
4-7 (D)	Calculation of individual taxable income and tax payable	60
Tax Softwar	re Assignment Problems	
4-1 (M)	ProFile T1 software case for 2015	63
	(Extended in Tax Software Assignment Problem 11-1)	
4-2 (D)	ProFile T1 software case for 2015	65
	(Extended in Tax Software Assignment Problem 11-2)	
4-3 (M)	ProFile T1 software case for 2015)	66
	(Extended in Tax Software Assignment Problem 11-3)	
	Chapter 5	
	Capital Cost Allowances And Cumulative Eligible Capital	
5-1 (M)	CCA calculations for M&P assets	67
5-2 (M)	CCA calculations for various classes	68
5-3 (M)	CCA calculations over 4 years	71
5-4 (M)	CCA and CEC calculations over 3 years	73
,	· · · · · · · · · · · · · · · · · · ·	
5-5 (M)	CCA calculations over 3 years	76

CCA and tax planning

CCA and CEC calculations

CEC - including disposal election

5-6 (M)

5-7 (M)

5-8 (M)

### Chapter 6 Income Or Loss From A Business

Solution	Subject	Page
6-1 (E)	Reserves	83
6-2 (E)	Deductible automobile costs and taxable benefits	84
6-3 (M)	Employer owned vs. employee owned cars	86
6-4 (E)	Valuation of business inventories	88
6-5 (D)	Reverse business income calculation - proprietorship	89
6-6 (M)	Partnership - business income, employee vs. self-employed	91
6-7 (M)	Proprietorship - business income with CCA	92
6-8 (M)	Work space in home costs and CCA	94
6-9 (D)	Corporation - business income with CCA and CEC	96
6-10 (D)	Proprietorship - deductibility of business expenses and CCA	100
6-11 (E)	ITA 22 election on Accounts Receivable	102
6-12 (D)	Comprehensive case (with coverage of preceding chapters)	104
6-13 (D)	Comprehensive case (with coverage of preceding chapters)	107
	Chapter 7	
	Income From Property	
7-1 (E)	Interest deductibility	111
7-2 (M)	Rental income including CCA	112
7-3 (M)	Rental income including CCA	114
7-4 (E)	Property income - alternative investments	116
7-5 (E)	Property income - alternative investments	117
7-6 (E)	Business income and income trusts	119
7-7 (M)	Foreign property income, income trusts and mutual funds	120
7-8 (D)	Comprehensive case (with coverage of preceding chapters)	122
7-9 (D)	Comprehensive case (with coverage of preceding chapters)	125

### **Chapter 8 Capital Gains And Capital Losses**

Solution	Subject	Page
8-1 (E)	Identical properties	129
8-2 (M)	Identification of capital gains and reserves	131
8-3 (E)	Reserves, warranties and bad debts on capital assets	133
8-4 (M)	Capital gains reserves	135
8-5 (M)	Capital gains reserves	138
8-6 (E)	Short cases on capital gains	142
8-7 (E)	Principal residences	143
8-8 (E)	Personal use property	144
8-9 (E)	Capital gains on foreign securities	146
8-10 (M)	Changes in use - depreciable property	148
8-11 (E)	Departure from Canada	151
8-12 (M)	Deferral on small business investments	152
8-13 (D)	Voluntary dispositions	154
8-14 (M)	Involuntary dispositions	158
8-15 (D)	Comprehensive case (with coverage of preceding chapters)	160
8-16 (D)	Comprehensive case (with coverage of preceding chapters)	165

#### **Tax Software Assignment Problem 11-3**

Tax Software Assignment Problem 11-3 in Chapter 11 identifies separately the information related to Chapter 8. Separate Chapter 8 ProFile and .PDF solutions are available on the website.

### **Solution** Chapter 9 **Other Income, Other Deductions, Income Attribution**

9-1 (E)	Death benefits	169
9-2 (E)	Moving expenses	170
9-3 (E)	Child care expenses	171
9-4 (M)	Pension income splitting	172
9-5 (M)	Other income and deductions, including RESP	174
9-6 (M)	Non-arm's length transfer of land	175
9-7 (E)	Non-arm's length transfer of depreciable property - 3 cases	177
9-8 (E)	Deemed disposition at death and emigration	179
9-9 (M)	Transfers to a spouse - income attribution	181
9-10 (E)	Income attribution	184
9-11 (D)	Gifts and income attribution	186
9-12 (D)	Comprehensive case (with coverage of preceding chapters)	190
9-13 (D)	Comprehensive case (with coverage of preceding chapters)	196

## Chapter 10 Retirement Savings

Solution	Subject	Page
10-1 (E)	Pension Adjustments, Past Service Pension Adjustments	
	and Pension Adjustment Reversals	202
10-2 (E)	Excess RRSP contributions vs. TFSA	203
10-3 (M)	Net Income With RRSP contributions	204
10-4 (E)	RRSPs, TFSAs and tax planning	206
10-5 (E)	RRSP contributions	207
10-6 (M)	Net Income With RRSP contributions	208
10-7 (E)	Retiring allowance	210
10-8 (D)	Comprehensive case (with coverage of preceding chapters)	211
10-9 (D)	Comprehensive case (with coverage of preceding chapters)	216
	Chapter 11	
	Taxable Income And Tax Payable For Individuals Revisited	
11-1 (M)	Loss carry overs	225
11-2 (M)	Allowable business investment losses	228
11-3 (M)	ABIL and lifetime capital gains deduction	230
11-4 (M)	Comprehensive tax credits with dividend transfer	232
11-5 (M)	Alternative minimum tax	235
11-6 (D)	Death of a taxpayer	237
11-7 (D)	Comprehensive personal tax payable	240
11-8 (D)	Comprehensive personal tax payable (2 returns)	245
11-9 (M)	Personal tax payable, TFSA and RRSP advice	251
11-10 (D)	Comprehensive case (with coverage of preceding chapters)	254
Tax Software	e Assignment Problems	
11-1 (D)	ProFile T1 software case for 2015  (Extension of Tax Software Assignment Problem 4.1)	259
	(Extension of Tax Software Assignment Problem 4-1)	
11-2 (D)	ProFile T1 software case for 2015	261
	(Extension of Tax Software Assignment Problem 4-2)	
11-3 (D)	ProFile T1 software case for 2015	263
	(Extension of Tax Software Assignment Problem 4-3)	

345

# Chapter 12 Taxable Income And Tax Payable For Corporations

	For Corporations	
Solution 12-1 (E) 12-2 (E) 12-3 (M) 12-4 (M) 12-5 (D) 12-6 (D) 12-7 (E) 12-8 (E) 12-9 (E) 12-10 (M)	Subject Schedule 1 adjustments Corporate taxable income Corporate taxable income Treatment of losses (1 year) Treatment of losses (4 years) Treatment of losses (4 years) Geographical allocation of income Corporate tax payable, reduced small business deduction Corporate taxes payable Comprehensive corporate taxes payable	Page 272 273 274 276 279 282 285 286 287 289
	Chapter 13 Taxation Of Corporate Investment Income	
13-1 (E) 13-2 (E) 13-3 (E) 13-4 (M)	Integration example Part I and IV refundable taxes Part I and IV refundable taxes and GRIP Tax payable - SBD, ART, GRR and GRIP	293 294 295 298
13-5 (M) 13-6 (M) 13-7 (D) 13-8 (D)	Tax payable - SBD, ART, M&P, FTC, GRR and GRIP Tax payable - SBD, ART, M&P, FTC, GRR and GRIP Tax payable - SBD, ART, M&P, FTC, GRR and GRIP Tax payable - SBD, ART, M&P, FTC, GRR and GRIP	303 306 312 317
	Chapter 14 Other Issues In Corporate Taxation	
14-1 (M) 14-2 (M) 14-3 (M) 14-4 (M) 14-5 (M)	Acquisition of control rules for losses Acquisition of control rules for losses Determination of associated companies Determination of associated companies Investment tax credits	325 327 330 331 332
14-6 (E) 14-7 (M) 14-8 (D)	Capital dividend account - sale of capital properties Corporate surplus distributions Comprehensive corporate tax payable - associated companies and investment tax credits	334 335 337
Tax Softwar	e Assignment Problem	

Corporate tax return preparation

14-1(D)

Chapter 15			
Corporate	<b>Tax And</b>	Management	<b>Decisions</b>

Solution	Subject	Page
15-1 (M)	Advantages of incorporation	346
15-2 (D)	Example of integration	347
15-3 (E)	Flow through of interest income	349
15-4 (E)	Flow through of dividend income	350
15-5 (M)	Incorporation of investment income	352
15-6 (D)	Partnership vs. Corporation	354
15-7 (M)	Shareholder Loans	357
15-8 (M)	Bonusing down	359
15-9 (M)	Salaries vs. dividend decisions - required amount	361
15-10 (D)	Salaries vs. dividend decisions - optimum mix	362
	Chapter 16	
	Rollovers Under Section 85	
16-1 (E)	Transfer of building to a corporation vs direct sale	364
16-2 (M)	Section 85 Rollovers - Short Cases	365
16-3 (M)	Adjusted cost base of consideration and PUC	367
16-4 (M)	Transfer of depreciable asset	369
16-5 (M)	Short cases with gift and taxable benefit	371
16-6 (M)	ITA 85 Transfer with sale/redemption of shares	374
16-7 (D)	Transfers to a corporation and sale/redemption of shares	376
16-8 (D)	Transfers to a corporation and redemption of shares	378
16-9 (M)	Gift to related party - Section 85	381
16-10 (M)	Excess consideration	383
16-11 (D)	Dividend stripping	386
16-12 (D)	Dividend stripping	389
16-13 (M)	Capital gains strips	391
	Chapter 17 Other Rollovers And	
	Sale Of A Business	
17-1 (M)	Section 85.1 share for share exchange after ITA 85 rollover	392
17-1 (M) 17-2 (M)	ITA 85 rollover and ITA 86 share exchange	394
17-3 (M)	Section 86 reorganization with gift	396
17-4 (D)	ITA 86(1) and ITA 86(2)	399
17-5 (M)	Section 87 vs. Section 88(1)	403
17-6 (E)	Section 88(1) winding up	404
17-7 (M)	Winding up of a corporation	405
17-8 (D)	Sale of assets vs. shares	407
17-9 (D)	Sale of assets vs. shares	410

### Chapter 18 Partnerships

Solution	Subject	Page
18-1 (E)	Existence of partnership	414
18-2 (M)	Existence of partnership	415
18-3 (M)	Partnership vs. joint venture	416
18-4 (E)	Partnership income allocation	418
18-5 (M)	Partnership income and ACB	420
18-6 (M)	Partnership income and sale of partnership interest	421
18-7 (M)	Withdrawal of a partner	423
18-8 (M)	Limited partnership	424
18-9 (M)	Partnership winding up and transfer to a corporation	426
18-10 (M)	Additional business income	427
	Chapter 19	
	Trusts And Estate Planning	
19-1 (E)	Property transfer to and from a trust	428
19-2 (M)	Inter vivos trusts - income attribution	430
19-3 (M)	Trusts and income splitting	431
19-4 (D)	Graduated rate estates - tax minimization	432
19-5 (M)	Inter vivos trust - tax payable	434
19-6 (M)	Graduated rate estates - transfers and tax payable	435
19-7 (E)	Graduated rate estate - transfer and tax payable	437
19-8 (M)	Estate freeze	439
19-9 (M)	Estate planning	440
	Chapter 20	
	Issues In International Taxation	
20-1 (E)	Residency after departure from Canada	442
20-2 (E)	Residency after departure from Canada	443
20-3 (M)	Residency of individuals - 5 cases	445
20-4 (M)	Residency of corporations - 4 cases	446
20-5 (M)	Residency/dual residency - individuals	447
20-6 (M)	Part I tax on non-residents	448
20-7 (M)	Permanent establishments	449
20-8 (M)	Part XIII tax on non-residents	450
20-9 (M)	Emigration - Tax Planning	451
20-10 (D)	Comprehensive review problem - residency of individuals	453
	(continued)	

#### **Chapter 20, continued**

Problem	Subject	Page
20-11 (E)	Foreign investment reporting rules	455
20-12 (M)	Foreign source investment income and T1135	456
20-13 (M)	Foreign source dividends received by individuals	457
20-14 (D)	Taxation of foreign affiliates	459
20-15 (M)	Canadian source income - Short cases	462

## Chapter 21 Goods and Services Tax

21-1 (M)	Turnover tax vs. single stage consumer tax	464
21-2 (E)	Registration requirements	465
21-3 (M)	Registration requirements and GST collectible	466
21-4 (E)	Regular GST return	467
21-5 (M)	Regular HST return	469
21-6 (M)	Quick method	470
21-7 (M)	Regular and quick method GST returns	472
21-8 (M)	Regular and quick method GST returns	473
21-9 (M)	Employee HST rebate including CCA	474
21-10 (E)	Regular and streamlined HST returns	475
21-11 (M)	New housing GST rebate	476