***Canadian Tax Principles, 2023-2024* (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 subject to income tax rates higher than would have been the case 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 actually been received over several years. The objective of such provisions is fairness or equity.

Type: ES

Topic: Lump-sum payments - ITA 110.2

2) The carryover periods for losses varies with the type of loss. Briefly describe the carryover periods that the ITAprovides for the types of losses that it identifies.

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

• Non-Capital Losses and Farm Losses (including restricted farm losses): 20 years forward and 3 years back.

• Net Capital Loss: Unlimited forward and 3 years back

• Listed Personal Property Losses: 7 years forward and 3 years back.

• Allowable Business Investment Losses: 10 years, as a non-capital loss then converted to net capital loss with unlimited carry forward in year 11.

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.

Type: ES

Topic: Loss carry overs - general concepts

3) When a business has several types of loss carry overs, 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 carryover 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 net taxable capital gains).

Type: ES

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 personal tax credits are non-refundable and cannot be carried over to other years. This means that, unless an individual taxpayer has taxable income and federal 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. As a rule one should attempt to ensure that taxable income is sufficient to allow an individual to apply all available non-refundable personal tax credits.

Type: ES

Topic: Loss carry overs - individual

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

Answer: Losses on listed personal property can be deducted during the current year, but only against net gains on listed personal property for that year. If the loss cannot be used during the current year, it can be carried back three years and forward seven years.

Type: ES

Topic: Losses - listed personal property

6) If a taxpayer has both net capital losses and non-capital losses and does not have sufficient income in the current and previous years to claim these amounts, which type of loss should be claimed 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 period. 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 is that the 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.

Type: ES

Topic: Loss carry overs - general concepts

7) John Broley has a 2022 $50,000 non-capital loss and a $50,000 2022 net capital loss. In 2023 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 claim. 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 net taxable capital gains. If Mr. Broley is concerned about having sufficient income to use the non-capital loss in the time remaining until it expires, he should claim that loss. 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 claim the net capital loss. There is no clear answer to this question as it involves estimates about the future. As a rule losses that are restricted as to the type of income they can be applied against should be claimed before losses with no income restrictions.

Type: ES

Topic: Loss carry overs - general concepts

8) If an individual dies and has a net capital loss in the year of the death 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 capital loss balances to be applied against any type of income in the year of death, and in the immediately preceding year, as long as the capital gains deduction has not been claimed. If the capital gains deduction had been claimed in previous years then the net capital losses that can be claimed against any type of income will be reduced on a dollar for dollar basis.

Type: ES

Topic: Losses - net capital losses at death

9) What is an Allowable Business Investment Loss (ABIL)? 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 investments in 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.

• To the extent it cannot be fully used it becomes part of a non-capital loss for that year and can be carried over to other years as a non-capital loss for 10 years after which it becomes part of a net capital loss beginning with year 11.

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

• The realization of an ABIL reduces the annual gains limit that is used to determine the maximum capital gains deduction for the year.

Type: ES

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. The term "substantially all" generally means 90% or more, while "primarily" is generally interpreted to mean more than 50%.

Type: ES

Topic: Small business corporation - ITA 248(1)

11) With respect to the deductibility of losses, individuals carrying on a farming activity 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 carries on a farming activity on a part time basis as a hobby or as a way of enhancing his or her lifestyle. The operation has no reasonable expectation of a profit and therefore it is not a business and therefore not a source of income. As a result its losses are not recognized for income tax purposes.

**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 and therefore a business, the individual farmer is allowed to deduct a portion of their 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 income from any farming business in that year.

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

Type: ES

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" (QSBC shares). What are the conditions that must be met for the shares to qualify as QSBC shares?

Answer: In order to qualify as 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 also be met for the shares to qualify.

These are as follows:

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

• throughout that 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.

Type: ES

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 the individual's capital gains deduction for the year.

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

• Allowable capital losses realized during the current year.

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

• Allowable Business Investment Losses realized during the current year.

Type: ES

Topic: Capital gains deduction - annual gains limit

14) In computing net income, ITA 3 requires that subdivision e deductions be subtracted prior to deducting current year losses under ITA 3(d). 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 years. This means that, if they are not deducted in the current year, they are lost forever. In contrast, ITA 3(d) losses such as business, property, employment and ABILs can be carried back to other years as a non-capital loss or farm loss. ITA 4(2) acts to prevent subdivision e deductions from being expensed as part of a source of income. The overall effect is that subdivision e deductions reduce the ITA 3(c) amount which is the base for determining both non-capital losses and unrestricted farm losses. As a result the ITA gives priority to subdivision e deductions over current year losses.

Type: ES

Topic: Net income - ITA 3

15) What types of current year losses are included in the definition of a non-capital loss? 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 make an adjustment for net capital losses deducted in the current year if there is a positive ITA 3(b) amount (net taxable capital gains), a net capital loss deduction and current year losses that exceed current year income (the ITA 3(c) amount).

Type: ES

Topic: Losses - non-capital loss

16) Under what circumstances can dividends be transferred from a spouse or common-law partner to the other spouse or common-law partner?

Answer: Dividends can be transferred from a spouse or common-law partner to the other if the result is to create or increase the amount of the spousal tax credit.

Type: ES

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

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

Answer: As presented in the textbook, 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 (the Federal government) or to a province or territory.

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.

Type: ES

Topic: Charitable donations - general rules

18) 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 property donated. Why is it generally appropriate to elect the higher FMV amount?

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

Type: ES

Topic: Charitable donations - general rules

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

Answer: When there is a disposition of publicly listed shares that have been acquired through stock options, the difference between the FMV 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 one-half deduction under ITA 110(1)(d.01) which completely offsets the remaining 50% employment stock option benefit amount.

Type: ES

Topic: Charitable donations - general rules

20) Compare the income tax treatment of foreign tax credits on foreign non-business income with the income 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 amount used for the income tax 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 (ITA 20(11). There is no similar limit for the foreign business income tax credit.

• When the amount withheld on foreign business income exceeds (e.g. the foreign income tax) the amount that can be deducted, the excess foreign tax credit can be carried back 3 years and forward 10 years to apply against federal income tax payable in those years. The taxpayer may decide instead to claim any excess as a net income deduction (ITA 20(12)).

• The foreign business income credit is further limited by the amount of tax otherwise payable, reduced by any foreign non-business tax credit claimed 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.

Type: ES

Topic: Foreign tax credits - general rules

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

Answer: The income tax policy issue is the fact that some individuals, through the use of tax privileges and preferences (e.g., capital gains deduction, the non-taxable component of capital gains, or employee stock option deductions) can wind up paying little or no income tax, despite having significant income. The AMT deals with this by requiring an alternative calculation of income in which these tax privileges and preferences are neutralized by adding them back to income. After the deduction of a basic $40,000 exemption, the minimum income tax rate of 15% is applied to the balance. If the result is an income tax payable amount that exceeds the regular federal income tax calculation, then the AMT must be paid. Any excess of the AMT over the regular federal income tax payable can be carried forward for up to seven years to be applied against any future excess of regular federal income tax payable over the AMT for that carryover year.

Type: ES

Topic: Alternative minimum tax - general concepts

22) 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 taxable income deductions that can create a difference between net income and taxable income.

Type: TF

Topic: Taxable income

23) 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.

Type: TF

Topic: Losses - non-capital loss

24) An individual sells shares in a Canadian controlled private corporation that qualifies as a small business corporation to an arm's length person. 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. The individual never claimed the capital gains deduction.

Answer: FALSE

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

Type: TF

Topic: Allowable business investment losses

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

Answer: FALSE

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

Type: TF

Topic: Losses - net capital loss

26) 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.

Type: TF

Topic: Losses - net capital loss

27) Jennifer Nash is a busy 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. Assume that the farming activity is a business and not a hobby.

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.

Type: TF

Topic: Losses - restricted farm losses ITA 31

28) Jennifer Nash is a busy 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 $10,250 of the farm loss against other income but the remaining loss of $7,750 [$18,000 - $10,250] can only be carried forward for 7 years. Assume that the farming activity is a business and not a hobby.

Answer: FALSE

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

Type: TF

Topic: Losses - restricted farm losses ITA 31

29) Jennifer Nash is a busy 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. Assume that the farming activity is a business and not a hobby.

Answer: TRUE

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

Type: TF

Topic: Losses - restricted farm losses ITA 31

30) In 2023, an individual, who has never claimed the capital gains deduction, has taxable capital gains on the disposition of shares in a qualified small business corporation (QSBC shares). The capital gains deduction can be used to eliminate up to $ 485,595 of the taxable capital gains on the disposition.

Answer: TRUE

Explanation: The $ 485,595 (one-half of the 2023 available deduction of $971,190) deduction can be used towards taxable capital gains arising on the disposition.

Type: TF

Topic: Capital gains deduction - general rules

31) Taxable dividends received by the spouse or common-law partner of an individual can be transferred to that individual and included in their net income and excluded from the income of the spouse or common-law partner.

Answer: TRUE

Explanation: ITA 82(3) only allows such transfers when the spousal credit is either created or increased for the other spouse or common-law partner as a result of the taxable dividends transfer.

Type: TF

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

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

Answer: TRUE

Explanation: Any capital gain would be deemed to be nil.

Type: TF

Topic: Charitable donations - general rules

33) The base for the charitable donations tax credit is always limited to 75% of an individual's net income.

Answer: FALSE

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

Type: TF

Topic: Charitable donations - general rules

34) An individual owns bonds issued in a foreign country. Income tax of $2,000 is withheld in that country from the interest income of $10,000. The foreign tax credit cannot exceed $1,500.

Answer: TRUE

Explanation: For individuals, the foreign tax credit cannot exceed 15% of the foreign investment income. In this case it is $1,500. The remaining $500 would qualify for a net income deduction under ITA 20(11).

Type: TF

Topic: Foreign tax credits - general rules

35) Individuals with taxable income in excess of $300,000 will always pay some amount of AMT.

Answer: FALSE

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

Type: TF

Topic: Alternative minimum tax - general concepts

36) An excess of AMT over regular federal income tax payable can be carried forward for up to 7 years to be applied against any future excess of regular federal income tax payable over the AMT determined for the carryover year.

Answer: TRUE

Type: TF

Topic: Alternative minimum tax - general concepts

37) Martin is worried about how much income 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.

Type: MC

Topic: Taxable income

38) Which of the following would generate a taxable income deduction to an individual?

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.

Type: MC

Topic: Taxable income

39) 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?

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.

Type: MC

Topic: Taxable income

40) Reuben Chechetto had to take his employer to court in 2023, to sue for wages owing to him over an 8 year period ending in 2023. In 2023, he receives a court settlement of $80,000, representing $10,000 for each of the eight years. In all years, Reuben had taxable income of $60,000. What are the income tax consequences with respect to the receipt of $80,000 in retroactive salary awarded him in 2023?

A) Mr. Chechetto will have to include the full $80,000 in additional employment income in taxable income for 2023. There are no choices.

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.

Type: MC

Topic: Lump-sum payments - ITA 110.2

41) Which of the following statements with respect to loss carry overs is **NOT** correct? Assume that any net capital loss deducted will not increase a non-capital loss for the same year.

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 claimed in a particular taxation year of the carryover period in which there is farm income.

C) Net capital losses 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 or a $10,000 net capital loss, the effect on taxable income of deducting either is the same.

Answer: C

Explanation: C) Net capital losses cannot be deducted in years in which net income is nil, even if there are taxable capital gains in that year.

Type: MC

Topic: Loss carry overs - general concepts

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

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

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

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

D) If a capital gain occurs, it will not be included in income because this is personal use property.

Answer: C

Explanation: C) If a capital gain occurs, one-half of this amount can be offset by allowable capital losses on the disposition of capital property that is listed personal property. The coin collection would be considered listed personal property.

Type: MC

Topic: Loss carry overs - general concepts

43) As a part time employee, Derek earns $20,000 per year of employment income. He recently started up his own business as a sole proprietor. 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. He also incurred interest expense of $2,000 on a loan used to purchase those investments. Assuming this accounts for all of Derek's income, what is his non-capital loss for the year?

A) Nil.

B) $600.

C) $3,400.

D) $16,000.

Answer: A

Explanation: A) Nil. [ITA 3(a) & (c) = $20,000. ITA 3(d) = $16,600 (business loss $16,000 + property loss from investments of $600 ($2,000 - $1,400). Net income = $3,400. ITA 3(d) does not exceed the ITA 3(c) amount.

Type: MC

Topic: Losses - non-capital loss

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

A) In the year of death when such losses 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 losses are carried back, they can be deducted only to the extent of net taxable capital gains arising in the carry back period.

C) Such losses can be carried back three years.

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

Answer: D

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

Type: MC

Topic: Losses - net capital loss

45) Daria is a part time employee who recently started up her own business as a sole proprietor. For the current year, she had the following types 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. [$18,000 + ($1,200 - $2,000)] - $15,000 (ITA 3(c) amount)

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

D) $18,000.

Type: MC

Topic: Losses - non-capital loss

46) 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.

Type: MC

Topic: Loss carry overs - general concepts

47) Under which set of circumstances would it be advisable for an individual 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. This is particularly the case for individuals who have personal tax credits that could offset the income tax on a certain amount of taxable income.

Type: MC

Topic: Loss carry overs - general concepts

48) 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.

Type: MC

Topic: Loss carry overs - general concepts

49) 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.]

Type: MC

Topic: Loss carry overs - general concepts

50) 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 2022, which resulted in a loss of $10,000.

She deducted the maximum allowable amount against her 2022 income. In 2023, most of the problems had been worked out, and Zina had realized 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 2023.

A) $85,000.

B) $88,750.

C) $91,250.

D) $95,000.

Answer: C

Explanation: A) $85,000. [$90,000 + $5,000 - $10,000 deducts full amount of farm loss carry forward in 2022]

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) in 2022. This leave a carry forward of $3,750 ($10,000 - $6,250)

D) $90,000 + $5,000

Type: MC

Topic: Losses - restricted farm losses ITA 31

51) In 2020, Lorrie Meller used the capital gains deduction to offset a $10,000 taxable capital gain. In 2023, she had employment income of $50,000, a capital gain of $26,000, and a capital loss of $30,000 that meets the qualification for treatment as a business investment loss. What is Lorrie's 2023 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)

2023 Net Income and Taxable Income $48,000

Type: MC

Topic: Allowable business investment losses

52) 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.

Type: MC

Topic: Allowable business investment losses

53) 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 type of income.

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

C) An ABIL results from an arm's length 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 ABIL can only be applied against net taxable capital gains in the carry over period.

Type: MC

Topic: Allowable business investment losses

54) 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) In 2023, the maximum deduction for QSBC shares is different than the maximum deduction for qualified farm and fishing property (QFP).

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

Answer: C

Explanation: C) In 2023, the maximum deduction for QSBC shares is different than the maximum deduction for qualified farm and fishing property (QFP).

Type: MC

Topic: Capital gains deduction - general rules

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

A) An individual realizes a capital gain on the sale of 100% of the shares of a CCPC that uses 85% of its assets in carrying on an active business in Canada.

B) An individual realizes a capital gain on the sale of 15% of the shares of a CCPC that uses 95% of its assets in carrying on an active business in Canada.

C) A CCPC realizes a capital gain on the sale of 100% of the shares of another CCPC that uses 100% of its assets in the carrying on of an active business.

D) An individual realizes a capital gain on the sale of 25% of the shares of a CCPC that uses 30% of its assets to earn income from property.

Answer: B

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

C) Corporations cannot claim the capital gains deduction.

Type: MC

Topic: Capital gains deduction - general rules

56) 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 QSBC shares but not debt.

Type: MC

Topic: Capital gains deduction - general rules

57) Which of the following is **NOT** a requirement for shares to qualify as QSBC shares?

A) At the time the shares are sold, the corporation must use all or substantially all of its assets in an active business primarily carried on in Canada.

B) More than 50% of the FMV of the assets of the business must have been used in an active business throughout the preceding 24 months.

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

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

Answer: C

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

Type: MC

Topic: Capital gains deduction - shares of a QSBC

58) 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 claimed 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 claimed first.

Type: MC

Topic: Loss carry overs - general concepts

59) Mrs. Perry's total income consisted of $10,000 in eligible dividends received from taxable Canadian corporations. Mrs. Perry's BPA and dividend tax credits are sufficient to offset all of her federal income tax payable. Because she receives these dividends, Mr. Perry is only able to claim a spousal tax credit of $1,200 [$15,000 - $13,800]. Mr. Perry's income is such that any additional income from the transfer would be subject to federal income tax at a rate of 20.5%. By what amount would Mr. Perry's federal income tax payable increase or decrease if Mrs. Perry's dividends were transferred to him?

A) A decrease of $1,314.

B) An increase of $756.

C) An Increase of $579.

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%)($13,800)] ( 2,070)

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

Increase (Decrease) in 2022 Federal Income Tax Payable ($1,314)

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

C) An increase of $579 ($2,829 - $2,250)

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

Type: MC

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

60) 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. This limit can be exceeded where there are capital gains and/or recapture as a result of the donation disposition.

Type: MC

Topic: Charitable donations - general rules

61) In 2023, Liane Stanfield has net income of $102,000. This includes foreign non-business income of $30,000. This amount was before the withholding of income tax by the foreign government of $6,000. In calculating her 2023 taxable income, she intends to deduct a 2021 net capital loss of $10,000 and a 2020 non-capital loss of $30,000. After applying her BPA of $15,000, the tax otherwise payable for foreign tax credit purposes is $7,790. What is the amount of Liane's foreign non-business tax credit?

A) $6,000

B) $2,454

C) $4,500

D) $3,769

Answer: B

Explanation: A) $6,000

B) $2,540

Tax Otherwise Payable = $8,004 + (20.5%)$62,000 - $53,359) = $9,775 - $2,250 = $7,525

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)][$7,525] = $2,454

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

D) $3,769 [$30,000 ÷ ($102,000 - $10,000 - $30,000)][$7,790]

Type: MC

Topic: Foreign tax credits - non-business

62) 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 dividend income 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 the dividends to Mr. Mantz would be subject to the 15% federal income tax bracket.

C) If the dividends to Mr. Mantz would be subject to the 33% federal income tax bracket.

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

Answer: B

Explanation: B) If the dividends to Mr. Mantz would be subject to the 15% federal income tax bracket.

Type: MC

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

63) 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 in the year and subsequent to the gift. If the individual elects to have the donation made at its FMV, what is the maximum amount that this individual can claim as the basis for their 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)]

Type: MC

Topic: Charitable donations - donations of depreciable property

64) 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 (Federal government).

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. Requires that the Federal government has made a donation not a province or territory by itself.

Type: MC

Topic: Charitable donations - general rules

65) 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.

Type: MC

Topic: Foreign tax credits - general rules

66) 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 capital gains.

B) Foreign employment income.

C) Foreign investment income that is interest.

D) All foreign income.

Answer: C

Explanation: C) Foreign investment income that is interest.

Type: MC

Topic: Foreign tax credits - general rules

67) 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 can 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.

Type: MC

Topic: Foreign tax credits - general rules

68) 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 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 shares of a foreign corporation.

Answer: C

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

Type: MC

Topic: Foreign tax credits - general rules

69) In the calculation of Adjusted Taxable Income in the AMT 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.

Type: MC

Topic: Alternative minimum tax - general concepts

70) Which one of the following would **NOT** affect the calculation of the AMT?

A) Stock options not yet exercised.

B) The deduction of an Allowable Business Investment Loss (ABIL).

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

D) Taxable dividends received from a taxable Canadian corporation.

Answer: A

Explanation: A) Stock options not yet exercised.

Type: MC

Topic: Alternative minimum tax - general concepts

71) In 2022, Ms. Jessica Michaels was unemployed and had no income of any kind. In order to cover her living expenses, she sold a painting on December 1, 2022 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 2023, Ms. Michaels finds employment and has employment income of $69,000. In addition, in 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 2023.

Determine Ms. Michaels' 2023 net income and taxable income. Indicate the amount and type of any losses available for carry over to other years.

Assume the December 1, 2022 sale had been of publicly listed shares instead of a painting. How would this change your answer?

Answer: Ms. Michaels will have a 2022 listed personal property loss of $12,000 [(1/2)($78,000 - $102,000)]. This can be claimed against the 2023 taxable capital gain on listed personal property of $2,950 [(1/2)($7,000 - $1,100)]. Based on this, her 2023 net income and taxable income would be calculated as follows:

Income ITA 3(a) $69,000

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

2023 Net Income and Taxable Income $69,000

In this case, there is a 2022 listed personal property loss balance of $9,050 ($12,000 - $2,950) that can only be applied against net taxable capital gains on listed personal property.

If the sale had been of shares instead of a painting, Ms. Michaels would have had a 2022 net capital loss of $12,000. Her 2023 net income and taxable income would have been determined as follows:

Income ITA 3(a) $69,000

Income ITA 3(b) 2,950

2023 Net Income $71,950

2022 Net Capital Loss (Limited to the ITA 3(b) amount) ( 2,950)

2023 Taxable Income $69,000

In this case, the remaining balance of the 2022 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.

Type: ES

Topic: Losses - listed personal property

72) In 2022, Jude Legal sold an important piece of jewelry for $120,000. He had paid $150,000 for it several years earlier. In 2023, he sells a block of publicly listed shares for $125,000. The ACB of the shares was $72,000. He has no other types of income in either 2022 or 2023.

Determine Jude's 2023 net income and taxable income. Indicate the amount and type of any losses available for carry forward for 2023. If the 2022 sale had been of publicly listed shares instead of jewelry, how would the results for 2023 have changed?

Answer: Mr. Legal will have a 2022 listed personal property loss in the amount of $15,000 [(1/2)($150,000 - $120,000)]. In 2023 he will have a taxable capital gain of $26,500 [(1/2)($125,000 - $72,000)]. As the 2022 listed personal property loss cannot be claimed against this type of income or gain, Mr. Legal's 2023 net income and taxable income will both be $26,500. This will leave the 2022 listed personal property loss balance unchanged at $15,000.

If the 2022 loss had been on publicly listed shares, it would have been a regular capital loss and could be applied as follows:

2023 Net Income $26,500

2022 Net Capital Loss ( 15,000)

2023 Taxable Income $11,500

There would be no remaining net capital loss balance.

Type: ES

Topic: Losses - listed personal property

73) Mr. John Klaus carries on a business as a sole proprietor which uses a calendar based fiscal period (January 1 to December 31). In 2022, its first year of business, 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 2023 taxation year:

 Business Loss ($56,000)

 Taxable Capital Gains 1,600

 Allowable Capital Losses ( 4,900)

Mr. Klaus has no other income or deductions in either year. Assume that he wishes to minimize any net capital loss and non-capital losses, without regard to his ability to claim personal tax credits for 2022. Calculate his 2022 and 2023 net income and taxable income plus any revised amounts for 2022 as a result of loss carryovers.

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

Answer: The original 2022 result is as follows:

Business Income $19,000

Taxable Capital Gain 3,000

2022 Net Income $22,000

Taxable Income Deductions Nil

2022 Taxable Income $22,000

His 2023 net income and taxable income would both be nil. After the maximum carry backs from 2023, the revised 2022 results would be as follows:

Business Income $19,000

Taxable Capital Gain 3,000

2022 Net Income $22,000

2023 Net Capital Loss

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

2023 Non-Capital Loss

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

2022 Revised Taxable Income Nil

Subsequent to the carryback of the 2023 net capital loss and the 2023 non-capital loss the remaining losses would be as follows:

• 2023 Net Capital Loss = [($4,900 - $1,600) - $3,000] = $300

• 2023 Non-Capital Loss = ($56,000 - $19,000) = $37,000

Type: ES

Topic: Losses - applying the carryovers

74) Maria Shank carries on a business as a sole proprietor which, during the fiscal period January 1, 2022 to December 31, 2022, has business income of $28,000 and a taxable capital gain of $6,500 [(1/2)($13,000)].

In 2023, 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 loss and non-capital loss carry overs, without regard to her ability to claim any available personal tax credits for 2022. Calculate her 2022 and 2023 net income and taxable income and any revisions to 2022 as a result of loss carrybacks.

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

Answer: The original 2022 results were as follows:

Business Income $28,000

Taxable Capital Gain 6,500

2022 Net Income $34,500

Taxable Income Deductions Nil

2022 Taxable Income $34,500

Her 2023 net income and taxable income would both be nil.

After maximum carry backs from 2023 while ignoring the availability of personal tax credits, the revised 2022 results would be as follows:

Business Income $28,000

Taxable Capital Gain 6,500

2022 Net Income $34,500

2023 Net Capital Loss Carry Back

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

2023 Non-Capital Loss Carry Back

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

Revised 2022 Taxable Income Nil

Subsequent to the carryback of the 2022 net capital loss and 2022 non-capital loss the remaining loss balances would be as follows:

• 2023 Net Capital Loss Balance = ($10,800 - $6,500) = $4,300

• 2023 Non-Capital Loss Balance = ($85,000 - $28,000) = $57,000

Type: ES

Topic: Losses - applying the carryovers

75) Ms. Jean Claus carries on a business as a sole proprietor. The business uses a calendar-based fiscal period (January 1 to December 31). In 2022, the first year of business, there was 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 2023:

 Business Loss ($83,000)

 Taxable Capital Gains 6,300

 Allowable Capital Losses ( 3,150)

Ms. Claus has no other 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 2022 and 2023 net income and taxable income and any revisions to 2022 net income and taxable income. Indicate the amount and type of any losses available for carry forward to other years.

Answer: For 2022, Ms. Claus had net income and taxable income of $45,000. There would also be a 2022 net capital loss of $5,250.

In 2023, she has a net taxable capital gain of $3,150 [($6,300 - $3,150)], providing an opportunity to apply the 2022 net capital loss. Based on this course of action, the 2023 non-capital loss would be calculated as follows:

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

Income ITA 3(c) ( 3,150)

2023 Non-Capital Loss $83,000

Of this amount, $45,000 can be carried back to 2022, resulting in revised taxable income as follows:

2022 Net Income $45,000

Less: 2023 Non-Capital Loss Carry Back ( 45,000)

Revised 2022 Taxable Income Nil

Subsequent to the application of the 2022 net capital and 2023 non-capital loss the remaining loss balances would be as follows:

• 2022 Net Capital Loss Balance = ($5,250 - $3,150) = $2,100

• 2023 Non-Capital Loss Balance = ($83,000 - $45,000) = $38,000

Type: ES

Topic: Losses - applying the carryovers

76) Ms. Dora McLean carries on a business as a sole proprietor. The business uses a calendar-based fiscal period (January 1 to December 31). In the 2022 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 2023, 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 income or deductions in 2022 or 2023. 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 2022. Calculate her 2022 and 2023 net income and taxable income and any revised amounts for 2022. Indicate the amount and type of any losses available for carry forward after any loss applications to other years.

Answer: For 2022, Dora had net income and taxable income of $95,000 and a 2022 net capital loss of $9,250. This loss will be applied to the 2023 year to the extent of the $7,200 of net taxable capital gains in that year.

The 2023 non-capital loss would therefore be calculated as follows:

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

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

2023 Non-Capital Loss $123,000

Of this amount, $95,000 can be carried back to 2022, resulting in the following revisions:

2022 Net Income $95,000

2023 Non-Capital Loss ( 95,000)

Revised 2022 Taxable Income Nil

Subsequent to the application of the 2022 net capital loss and the 2023 non-capital loss the remaining loss balances would be as follows:

• 2022 Net Capital Loss Balance = ($9,250 - $7,200) = $2,050

• 2023 Non-Capital Loss Balance = ($123,000 - $95,000) = $28,000

Type: ES

Topic: Losses - applying the carryovers

77) Ms. Tanya Forester dies in August of 2023. At the time of her death, she has a 2020 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 capital gains deduction. Her 2023 employment income in the period prior to her death was $47,000. Describe the income tax treatment of these amounts in her final income tax return for 2023.

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

Employment Income $47,000

Taxable Capital Gain 15,500

2020 Net Capital Loss applied against

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

Net Capital Loss applied against other

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

2023 addition to Net Income $40,700

As it is Ms. Forester's year of death, the net capital loss can be deducted against any type of income except to the extent that the capital gains deduction had previously been claimed.

Type: ES

Topic: Losses - net capital losses at death

78) Barton Foster dies in July of 2023. He has a 2021 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 income tax treatment of these amounts in his final income tax return for 2023.

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

Employment Income $61,000

Taxable Capital Gain 16,000

2021 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)

Increase to 2023 Net Income $50,000

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

Type: ES

Topic: Losses - net capital losses at death

79) In 2022, Mrs. Lacinda Brown used $15,000 [(1/2)($30,000)] of her capital gains deduction. In 2023, she has taxable capital gains on publicly listed 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 2023 employment income is over $250,000. Determine the amount of the ABIL in 2023, as well as the amount and type of any losses available for carry over for 2023.

Answer: The 2023 ABIL would be calculated as follows:

Actual Capital Loss $47,000

Disallowed for Capital Gains Deduction Use ( 30,000)

Business Investment Loss $17,000

Inclusion Rate 1/2

2023 ABIL $ 8,500

All of the $8,500 can be applied against Mrs. Brown's employment income. With respect to the disallowed $30,000, it becomes an ordinary allowable capital loss of $15,000 of which $10,500 can be applied against the current year's taxable capital gains on the publicly listed shares. This leaves a 2023 net capital loss of $4,500 [$15,000 - $10,500].

Type: ES

Topic: ABILs and the capital gains deduction

80) For many years, Jasmine Ho has had employment income in excess of $300,000. This will also be the case in 2023. In 2023, 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 2023, she has taxable capital gains on publicly listed shares of $2,500. The only other year in which she realized taxable capital gains was in 2015. 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 2023, as well as the amount and type of any 2023 loss available for carry over to other years.

Answer: The 2023 ABIL would be calculated as follows:

Actual Loss on Disposition $38,000

Disallowed for Capital Gains Deduction Use ( 8,000)

Business Investment Loss $30,000

Inclusion Rate 1/2

2023 ABIL $15,000

The $15,000 ABIL can be applied 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 2023 net capital loss balance of $1,500 [($4,000 - $2,500)].

Type: ES

Topic: ABILs and the capital gains deduction

81) 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 land situated near the university where he teaches. In 2022, he had a farming loss of $24,000. He deducted the maximum possible amount in that year. Bob expects the farming activity to become profitable in a few years. Assume that the farming activity is a business.

In 2023, he has employment income of $105,000 and farming income of $6,000. Determine Bob's minimum 2023 net income and taxable income. Also, determine the amount and type of any loss carryovers for 2023.

Answer: but the farming business is a subordinate source of income to Bob meaning that the farm losses are subject to the restrictions set out in ITA 31. Given this, the unrestricted deduction of the 2022 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 2022.

Bob's 2023 net income and taxable income would be as follows:

Employment Income $105,000

Farm Income 6,000

2023 Net Income $111,000

Less: 2022 RFL (Limited to Farm Income) ( 6,000)

2023 Taxable Income $105,000

This leaves a 2022 RFL of $4,750 ($10,750 - $6,000).

Type: ES

Topic: Losses - restricted farm losses ITA 31

82) Prior to 2023, Ms. Henny Close has had two capital gains and one capital loss. In 2018, she had a capital gain of $18,000 and in 2020, she had a capital gain of $54,000. Both of these gains were on dispositions of QSBC shares. Given this, she used the capital gains deduction to offset the taxable amount of these gains. She also has a 2021 net capital loss balance of $30,000. This resulted from a 2021 capital loss of $60,000. She intends to deduct the 2021 net capital loss in 2023. She has never had an ABIL.

In 2023, she has a $748,000 capital gain on the sale of QSBC shares. Ms. Close has a CNIL balance on December 31, 2023 of $23,000. Determine Ms. Close's maximum capital gains deduction for 2023. Provide all of the calculations required to determine the maximum deduction.

Answer: Ms. Close's maximum 2023 capital gains deduction is the least of the following three amounts:

**Available Deduction** - Her remaining deduction would be $ 449,595 [$485,595 - (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 2023 would be as follows:

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

Less: 2021 Net Capital Loss Deducted ( 30,000)

2023 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)

2023 Cumulative Gains Limit $321,000

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

Type: ES

Topic: Capital gains deduction - calculating the deduction

83) At the beginning of 2023, Joanne Chance had the following loss balances available:

2020 Restricted Farm Loss $ 7,200

2021 Non-Capital Loss 41,000

2019 Net Capital Loss [(1/2)($50,000)] 25,000

In 2023, 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 2023 net income and taxable income. Indicate the amount and type of any loss balances available to be applied to other years.

Answer: Joanne's 2023 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

2023 Net Income $88,650

Joanne's 2023 Taxable Income is as follows:

2023 Net Income $88,650

Loss Carry Forwards:

 2020 Restricted Farm Loss (Limited to farming income) ( 2,950)

 2019 Net Capital Loss (Limited to taxable capital gains) ( 10,500)

 2021 Non-Capital Loss (All) ( 41,000)

2023 Taxable Income $34,200

**Loss Balances**

• 2020 Restricted farm loss ($7,200 - $2,950) $ 4,250

• 2019 Net capital loss ($25,000 - $10,500) 14,500

• 2021 Non-capital loss Nil

Type: ES

Topic: Losses - applying the carryovers

84) At the beginning of 2023, Cindy Burke had the following loss carryover balances:

2021 Non-Capital Loss $25,000

2019 Restricted Farm Loss 4,000

2019 Net Capital Loss [(1/2)($64,000)] 32,000

In 2023 she has the following amounts of income:

Farm Income $ 2,500

Taxable Capital Gains 21,000

Business Income 74,000

Determine Cindy's 2023 net income and minimum taxable income. Indicate the amount and type of any losses available for application to other years.

Answer: Cindy's 2023 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

2023 Net Income $97,500

Cindy's 2023 minimum Taxable Income is as follows:

2023 Net Income $97,500

Loss Carry Forwards:

 2020 Restricted Farm Loss (Limited to farming income) ( 2,500)

 2019 Net Capital Loss (Limited to net taxable capital gains) ( 21,000)

 2021 Non-Capital Loss (All) ( 25,000)

2023 Taxable Income $49,000

**Loss Balances**

• 2020 Restricted farm loss ($4,000 - $2,500) $ 1,500

• 2019 Net capital loss ($32,000 - $21,000) 11,000

• 2021 Non-capital loss Nil

Type: ES

Topic: Losses - applying the carryovers

85) Mrs. Mary Senton is 42 years old and has over $250,000 in taxable income in 2023. Her spouse's only income for 2023 is $9,000 (grossed up amount of $12,420) in eligible dividends. In terms of federal income tax payable, would Mrs. Senton benefit from the use of the ITA 82(3) election to include the taxable dividends received by her spouse in her net income? Explain your conclusion.

Answer: In the absence of the transfer, Mrs. Senton would a have a small BPA of $1,101 [$13,521 - $12,420]. In contrast, with the transfer, she would be eligible for the full spousal credit of $13,521 an increase of $12,420. As a result the ITA 82(3) election would be available since the effect of the transfer would be to increase the spousal credit. Given this, the analysis of her position at the federal level would be as follows:

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

Increase in the Spousal Tax Credit [(15%)($12,420)] ( 1,863)

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

Tax Increase (Decrease) $ 371

As there is an increase in 2023 federal income tax payable, the election would not be beneficial in this case.

Type: ES

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

86) Ms. Katrina Wave owns a painting that she purchased many years ago for $22,000. Its current FMV is $132,500. In 2023, she gifts the painting to the Renfrew Art Gallery. As the Gallery is a registered Canadian charity, it provides Ms. Wave with an income 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 the BPA of $15,000 and the charitable donations credit resulting from the gift of the painting.

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

• 2023 Net Income;

• her maximum federal charitable donations tax credit for 2023;

• the amount of the donation she should claim in 2023 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 donations that would reduce her federal income tax payable to nil.

Answer: **2023 Net Income -** Ms.Wave's gift will result in a taxable capital gain of $55,250 [(1/2)($132,500 - $22,000)]. Her 2023 net income will therefore be $67,750 ($12,500 + $55,250).

**Maximum Donation Credit -** Note that, because Ms. Wave's taxable income is less than $235,675 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 2023 net income [(75%)($67,750)] $50,813

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

2023 Charitable Donations Credit Base Limit $64,626

This base results in a potential maximum 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 2023 federal income tax payable to nil is calculated as follows:

Tax on first $53,359 $ 8,004

Tax on next $14,391 ($67,750 - $53,359) at 20.5% 2,950

Tax Payable Before Credits $10,954

BPA [(15%)($15,000)] ( 2,250)

2023 Federal Tax Payable before Donations Credit $ 8,704

In order to determine the donation that will produce a charitable donations credit of $8,704, the following equation must be solved:

 $8,704 = [(15%)($200) + (29%)(X - $200)]

Solving this equation results in a value for X of $30,110. Using this amount of her credit base will result in the required $8,968 [(15%)($200) + (29%)($30,110 - $200)], thereby reducing her 2023 federal income tax payable to nil.

**Carry Forward -** This will leave a carry forward balance of $102,390 ($132,500 - $30,110).

Type: ES

Topic: Charitable donations - non-depreciable capital property

87) Lara Rand owns land that she had purchased many years ago for $18,000. In 2023, 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 an income tax receipt for that amount. In addition to the capital gain resulting from this gift, Lara has 2023 rental income of $23,000. She has no personal tax credits other than the BPA of $15,000 and the charitable donations credit resulting from the gift of the land.

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

• 2023 Net Income;

• her maximum federal charitable donations tax credit for 2023;

• the amount of the donation she should claim in 2023 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 donations that would reduce her 2023 federal income tax payable to nil.

Answer: **2023 Net Income -** Lara's gift will result in a taxable capital gain of $33,000 [(1/2)($84,000 - $18,000)]. Given this, her 2023 net income is $56,000 ($23,000 + $33,000).

**Maximum Credit -** Note that, because Lara's taxable income is less than $235,675, 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

2023 Charitable Donations Credit Base Limit $50,250

This base results in a maximum 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 2023 federal income tax payable to nil is calculated as follows:

Tax on first $53,359 $8,004

Tax on next $2,641 ($56,000 - $53,359) at 20.5% 541

Tax Payable Before Credits $ 8,545

BPA [(15%)($15,000)] ( 2,250)

2023 Federal Tax Payable before Donations Credit $6,295

In order to determine the donation that will produce a charitable donations credit of $6,295, the following equation must be solved:

 $6,560 = [(15%)($200) + (29%)(X - $200)]

Solving this equation gives a value for X of $21,803. The use of $21,803 of her donation will generate a credit of $6,295 [(15%)($200) + (29%)($21,803 - $200)], an amount sufficient to reduce her 2023 federal income tax payable to nil.

**Carry Forward -** This will leave a carry forward balance of $62,197 ($84,000 - $21,803).

Type: ES

Topic: Charitable donations - non-depreciable capital property

88) Mr. Gerald Deveau owns a rental property that, in 2023, 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 an income 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 BPA and the charitable donations credit resulting from the gift of the land and building.

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

• 2023 Net Income;

• his maximum federal charitable donations tax credit for 2023;

• the amount of the donations he should claim in 2023 in order to reduce his federal income tax payable to nil; and

• the amount of donations that can be carried forward to subsequent years, assuming that he claims the amount of donations that would reduce his 2023 federal income tax payable to nil.

Answer:

**2023 Net Income -** Mr. Deveau's 2023 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

2023 Net Income $190,300

**Maximum Credit -** Note that, because Mr. Deveau's taxable income is less than $235,675, 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 for 2023 $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 $165,430 $34,207

Tax on next $24,870 ($190,300 - $165,430) at 29% 7,212

Tax Payable before Credits $41,419

BPA [(15%)($14,476\*)] ( 2,171)

2023 Federal Income Tax Payable before Donations Credit $39,248

\*$15,000 - [$1,479][($190,300 - $165,430) ÷ 70,245)] = $14,476

In order to determine the donation that will produce a charitable donations credit of $39,248, the following equation must be solved:

 $39,248 = [(15%)($200) + (29%)(X - $200)]

Solving this equation gives a value for X of $135,434. The use of $135,434 of his donation will produce a credit of $39,248 [(15%)($200) + (29%)($135,434 - $200)], an amount sufficient to reduce his 2023 federal income tax payable to nil.

**Carry Forward -** This will leave a carry forward of $210,566 ($346,000 - $135,434).

Type: ES

Topic: Charitable donations - donations of depreciable property

89) In 2023, 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 the donation. The charity issues an income tax receipt for $396,000. Other than the income generated by the gift, Victor's only other 2023 income is rental income of $16,000. His only 2023 personal tax credits are his BPA and the charitable donations credit resulting from the gift.

**Required:** Determine Victor's:

• 2023 Net Income;

• his maximum federal charitable donations tax credit for 2023;

• the amount of the donations he should claim in 2023 in order to reduce his federal income tax payable to nil; and

• the amount of donations that can be carried forward to subsequent years, assuming that he claims the amount of donations that would reduce his 2023 federal income tax payable to nil.

Answer:

**2023 Net Income -** Victor's 2023 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

2023 Net Income $167,000

**Maximum Donation Credit -** Note that, because Victor's taxable income is less than $235,675, the 33% income tax rate is not relevant in calculating the charitable donations tax credit. The maximum base for the charitable donations tax credit for 2023 is calculated as follows:

75% of Net Income [(75%)($167,000)] $125,250

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

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

2023 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 2023 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 $165,430 $34,207

Tax on next $1,570 ($167,000 - $165,430) at 29% 455

Tax Payable before Credits $34,662

BPA [(15%)($14,967)] ( 2,245)

2023 Federal Income Tax Payable before Donations Credit $32,417

\*$15,000 - [$1,479][($167,000 - $165,430) ÷ $70,245)] = $14,967

In order to determine the donation that will produce a charitable donations credit of $32,417, the following equation must be solved:

 $32,417 = [(15%)($200) + (29%)(X - $200)]

Solving this equation for X gives a value of $111,879. The use of $111,879 of his donation will produce a credit of $32,417 [(15%)($200) + (29%)($111,879 - $200)], an amount sufficient to reduce his 2023 federal income tax payable to nil.

**Carry Forward -** This will leave a carry forward of $284,121 ($396,000 - $111,879).

Type: ES

Topic: Charitable donations - donations of depreciable property

90) In 2023, 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 2021 non-capital loss of $5,000 and a 2020 net capital loss of $3,200, resulting in taxable income of $48,300. His only personal tax credits are the BPA and the non-business foreign tax credit. What is the amount of his foreign non-business income tax credit for 2023? A calculation of federal income tax payable is **NOT** required.

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

2023 Net Income $56,500

2020 Net Capital Loss Deducted ( 3,200)

Adjusted Division B Income $53,300

2021 Non-Capital Loss Carry Forward ( 5,000)

2023 Taxable Income $48,300

His Tax Otherwise Payable would be calculated as follows:

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

BPA [(15%)($15,000)] ( 2,250)

2023 Tax Otherwise Payable $4,995

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)($4,995)] = $365

As the amount determined by the formula would be the lesser of the two amounts, his foreign tax credit would be $365.

Type: ES

Topic: Foreign tax credits - non-business

91) In 2023, 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 2023 is a taxable capital gain of $38,000. His only taxable income deduction for 2023 is a 2018 net capital loss of $26,000. His only personal tax credits are the BPA and the non-business foreign tax credit. Determine Mr. Loon's 2023 net income, his 2023 taxable income, and his 2023 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 a net income deductible under ITA 20(11). Given this, Andy's 2023 net income and taxable income are calculated as follows:

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

Taxable Capital Gain 38,000

2023 Net Income $42,275

Less: 2018 Net Capital Loss ( 26,000)

2023 Taxable Income = Adjusted Division B Income $16,275

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

His Tax Otherwise Payable for foreign tax credit purposes would be calculated as follows:

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

BPA [(15%)($15,000)] ( 2,250)

Tax Otherwise Payable $ 191

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)($191)] = $53

As the amount determined by the formula would be the lesser of the two amounts, his foreign tax credit would be $53. This would result in a final 2023 federal income tax payable of $138 ($191 - $53).

Type: ES

Topic: Foreign tax credits - non-business

92) In 2023, 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 QSBC shares, he reduced his taxable income to $24,288 through the use of the capital gains deduction. His only personal tax credits are the BPA and the dividend tax credit. Determine whether Mr. Leigh would have a liability for the federal AMT and, if so, the amount of the tax.

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

$24,288 at 15% $3,643

BPA [(15%)($15,000)] ( 2,250)

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

2023 Federal Income Tax Payable — Regular

(Unused credits = $2,255) Nil

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

Regular Taxable Income $24,288

60% of Capital Gains of $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

BPA ( 2,250)

2023 AMT $ 5,190

As the AMT exceeds the regular federal income tax payable, the AMT would have to be paid. The $5,190 excess over regular federal income tax payable can be carried forward to be applied against any excess of regular federal income tax payable over AMT over the next seven years.

Type: ES

Topic: Alternative minimum tax - calculating the tax

93) In 2023, Shelly Large sold QSBC shares 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 BPA and the dividend tax credit. Determine whether Ms. Large would be liable for the federal AMT and, if so, the total amount of the liability.

Answer: Shelly's regular 2023 federal income tax payable would be calculated as follows:

$31,740 at 15% $4,761

BPA [(15%)($15,000)] ( 2,250)

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

2023 Federal Income Tax Payable - Regular Nil

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

Regular Taxable Income $31,740

60% of Taxable Capital Gain of $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

BPA [(15%)($15,000)] ( 2,250)

2023 AMT $ 13,200

As the AMT exceeds the regular income tax payable, the AMT of $13,200 would have to be paid. The $13,200 excess can be carried forward to be applied against any excess of regular federal income tax payable over AMT in the next seven years.

Type: ES

Topic: Alternative minimum tax - calculating the tax

94) Martin Dornet commences a new retail business on January 1, 2020 that he carries on as a sole proprietor. The fiscal period of the business is January 1 to December 31. Relevant information for 2020 and the three subsequent taxation years (2021, 2022 and 2023) follows.

**2020 Taxation Year**

During this first year of operations, Martin's business income is $32,600. In addition to his new retail business, he begins a farming business with losses of $14,200 during its first year. He has always been an active investor in the stock market and, in 2020, he has the following income tax results:

Eligible Dividends $3,050

Taxable Capital Gains 1,150

Allowable Capital Losses 6,860

**2021 Taxation Year**

The 2021 the retail business has a business loss of $23,700. His farming business generates income of $3,600. His investment results for 2021 are as follows:

Eligible Dividends $3,850

Taxable Capital Gains 3,470

**2022 Taxation Year**

His retail business has business income of $53,200 and the farming business income of $5,480. His 2022 investment results are as follows:

Eligible Dividends $4,860

Taxable Capital Gains 3,870

**2023 Taxation Year**

The retail business experiences a business loss of $32,670 and the farming business a 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 by ITA 31.

In each of the four years 2020 to and including 2023, Martin needs $23,618 in taxable income to offset 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 2020, 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 2020.

**Required:** Calculate Martin's minimum net income 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:

***2020 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)

2020 Net Income 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)

2020 Restricted Farm Loss $ 5,850

As noted in the problem, none of the losses can be carried back before 2020. This would leave the following 2020 loss balances:

• 2020 Restricted Farm Loss $5,850

• 2020 Net Capital Loss ($6,860 - $1,150) $5,710

***2021 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)

2021 Net Income Nil

2020 Net Capital Loss ($ 3,470)

2021 Taxable Income Nil

Since there are net taxable capital gains in 2021, and the problem states that Martin would like to deduct the maximum amount of net capital losses, the 2020 net capital loss carry forward of $3,470 is added to the balance of the non-capital loss.

The 2021 non-capital loss is calculated as follows:

Business Loss $23,700

2020 Net Capital Loss Deducted 3,470

ITA 3(c) ( 12,383)

2021 Non-Capital Loss $14,787

The entire 2021 non-capital loss carry over could be carried back to 2020, but since Martin requires $23,618 in taxable income to fully utilize his personal tax credits, the maximum carry back to 2020 is only $4,841 calculated as follows:

2020 Taxable Income (As Initially Reported) $28,459

2021 Non-Capital Loss deducted ( 4,841)

2020 Revised Taxable Income (Minimum) $23,618

This carry back leaves Martin with his required $23,618 in taxable income. There would be the following loss balances at the end of 2021:

• 2020 Restricted Farm Loss Carry Forward (Unchanged) $5,850

• 2020 Net Capital Loss Carry Forward ($5,710 - $3,470)] 2,240

• 2021 Non-Capital Loss Carry Forward ($14,787 - $4,841) 9,946

***2022 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

2022 Net Income $69,257

2020 Restricted Farm Loss (Equal to Farm income) ( 5,480)

2020 Net Capital Loss (Less than $3,870) ( 2,240)

2021 Non-Capital Loss (All) ( 9,946)

2022 Taxable Income $51,591

There would be the following loss balances at the end of 2022:

• 2020 Restricted Farm Loss ($5,850 - $5,480) $ 370

***2023 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)

2023 Net Income and Taxable Income Nil

The available 2023 non-capital loss can be calculated as follows:

Business Loss $32,670

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

ITA 3(c) ( 10,930)

2023 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 any loss carry over. As a result, the preceding loss carry over of $24,200 is available for carry back to 2022 and can be applied against any type of income.

With respect to the 2023 net capital loss of $1,580 ($24,940 - $23,360), there are $1,630 ($3,870 - $2,240) in taxable capital gains left in 2022 as the basis for a carry back. This means that all of the 2023 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 2022 taxable income would be as follows:

2022 Taxable Income (As Initially Reported) $51,591

2023 Non-Capital Loss ( 24,200)

2023 Net Capital Loss ( 1,580)

2022 Revised Taxable Income $25,811

With these carry backs being deducted, there would be the following loss balances at the end of 2023:

• 2020 Restricted Farm Loss Balance (Unchanged) $ 370

• 2023 Net Capital Loss Balance ($1,580 - $1,580)] Nil

• 2023 Non-Capital Loss Balance ($24,200 - $24,200) Nil

Type: ES

Topic: Losses - applying the carryovers

95) In 2020, Mr. Larry Atkins invested $275,000 to purchase 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 taxation year ending January 31. All of its properties were used in an active business carried on in Canada.

In 2020 and 2021, the company operated successfully, but did not pay any dividends. In 2022, it began to experience serious financial difficulties. In 2023, the company shut down and all of the business properties were sold. After the priority 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 2022 and 2023 taxation years is as follows:

 **2022 2023**

Rental income $36,870 $41,200

Interest Income 5,250 5,650

BPA 14,398 15,000

The only personal tax credit available to Mr. Atkins in either year is the BPA. Mr. Atkins had no income in 2020 and 2021. There were no loss carry overs prior to 2022.

Mr. Atkins has never claimed the capital gains deduction.

**Required:** Determine Mr. Atkins' optimum taxable income for 2022 and 2023. In your solution, consider the effect of the BPA. Indicate any loss carry over that is available, and the rules applicable to claiming the loss carry over.

Answer: The calculation of Mr. Atkins' 2022 taxable income would be as follows:

Rental Income $36,870

Interest Income 5,250

2022 Net Income and Taxable Income $42,120

In 2023, there is a capital loss of $210,000 ($275,000 - $65,000) on an arm's length sale of the common shares. As these were shares in a CCPC that used all of its properties in an active business primarily 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' 2023 taxable income would be calculated as follows:

Rental Income $41,200

Interest Income 5,650 $46,850

ABIL ( 105,000)

2023 Net Income and Taxable Income Nil

As the ABIL was realized in 2023, it must first be used to reduce that year's net 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 BPA for that year. 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 2023 non-capital loss [ABIL $105,000 - ITA 3(c) amount of $46,850].

In carrying the 2023 non-capital loss back to 2022, the optimum solution would leave $14,398 of taxable income so that Mr. Atkins can take advantage of his BPA for that year. Note that the calculation of the optimum carry back uses the BPA of the year to which the loss is applied, not the current year.

This means that Larry will need a loss carry back deduction of $27,722 ($42,120 - $14,398) in 2022. This deduction will leave taxable income of $14,398. As planned, the income tax on this amount will be offset by Larry's BPA of $14,398.

A carry back of $27,722 in 2022 leaves a 2023 non-capital loss balance of $30,428 ($58,150 - $27,722) to be used in other years.

For the next 10 years, the undeducted ABIL will be treated as a non-capital loss 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 taxation years, but only against net taxable capital gains. in the carryover year.

Type: ES

Topic: Allowable business investment losses

96) The following information is for Doug Santiago for the 2023 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 QSBC shares, 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 2023, Doug had a CNIL balance of $2,300.

• Doug has a 2021 net capital loss balance of $3,400 [(1/2)($6,800)]. Doug claimed the capital gains deduction to eliminate a 2015 capital gain of $29,500, as well as a 2018 capital gain of $49,000. Doug has not claimed any other amounts as a capital gains deduction prior to 2023.

**Required:** Calculate Doug's minimum 2023 net income 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 2021 net capital loss balance, before claiming the capital gains deduction.

B. Doug would prefer to make the maximum use of the capital gains deduction before deducting any losses.

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 to the extent of net taxable capital gains. Given this, the ABIL would be calculated as follows:

2023 BIL Realized ($345,000 - $78,000) $267,000

Less: Previous capital gains deductions ($29,500 + $49,000) ( 78,500)

Remaining BIL $188,500

Inclusion Rate 1/2

2023 ABIL $ 94,250

Doug's 2023 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

2023 Net Income $153,000

Doug's 2021 taxable income under the two different assumptions would be calculated as follows:

 **Part A Part B**

2023 Net Income $153,000 $153,000

2021 Net Capital Loss Deducted ( 3,400) Nil

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

2023 Taxable Income $144,300 $144,300

**Note:** As the only capital gains during 2023 are on property that qualifies for the capital gains deduction, 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)($971,190\*)] $485,595 $485,595

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

Capital Gains Deduction Available in 2023 $446,345 $446,345

\*This is the 2023 limit for gains on dispositions of QSBC shares. For gains on QFP, the 2023 limit would be $1,000,000 resulting in an addition capital gains deduction of $28,810 [$1,000,000 - $971,190].

 **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)

2021 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

Capital Gains ddeuction in Previous Years

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

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

Cumulative Gains Limit $ 5,300 $ 8,700

In Part B, Doug will still have his $3,400 2021 net capital loss balance, but will have used $3,400 more of his capital gains deduction. His 2023 taxable income in both cases is the same.

Type: ES

Topic: ABILs and the capital gains deduction

97) Despite being 75 years old, Mr. Igor Resso has retained a full time position with a Canadian university. His salary in 2023 is $95,000. While the university continues to deduct maximum EI contributions ($1,002 for 2023), 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 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 2023, these payments totaled $31,000. In addition to his other income Mr. Resso was required to withdraw $18,000 from his RRIF in 2023.

In 2022, 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 2022, Ivana was disabled to such a degree that she qualified for the disability tax credit after she moved to Canada.

In the 2021 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 2023, 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 OAS benefits.

Beyond personal credits and employment related credits, the only other 2023 credit available to the couple is based on qualifying medical expenses of $16,000.

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

**Required:**

A. Calculate Mr. and Mrs. Resso's 2023 minimum federal income tax payable assuming that no transfer of taxable 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 2023 minimum federal income tax payable assuming that all of Mrs. Resso's taxable 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 2023 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

2023 Net Income and Taxable Income

 before any Transfer of Dividends $19,320 $153,500

Mrs. Resso's 2023 federal income tax payable would be calculated as follows:

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

Tax Credits

 BPA $15,000

 Age and Disability (Transferred to Mr. Resso) Nil

 Medical Expenses (Note 1) Nil

Total Base $15,000

Rate 15% ( 2,250)

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

2023 Federal Income Tax Payable - Mrs. Resso (Excess credits $2,254) 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 $2,635 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 BPA 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 had Mrs. Resso claimed them.

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

Credits Available For Transfer:

 Age $ 8,396

 Disability 9,428

Total Available $17,824

Reduced by excess of:

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

 Over BPA 15,000 ( 4,320)

Available for Transfer to Mr. Resso $ 13,504

Since Mr. Resso has not applied for OAS, there can be no OAS clawback. The 2023 federal income tax payable for Mr. Resso would be calculated as follows:

Tax on first $106,717 $ 18,942

Tax on next $46,783

 ($153,500 - $106,717) at 26% 12,164 $31,106

Tax Credits

BPA ($15,000)

Spousal Including Infirm Amount

 (Income Too High) Nil

Additional Caregiver Amount (Note 1) ( 537)

EI ( 1,002)

Canada Employment ( 1,368)

Age {$8,396 - [(15%)($153,500 - $42,335)]} Nil

Pension ( 2,000)

Medical Expenses (Note 2) ( 13,365)

Transfer from Spouse (Preceding Calculation) ( 13,504)

Credit Base ($46,776)

Rate 15% ( 7,016)

2023 Federal Income Tax Payable - Mr. Resso $24,090

**Note 1 -** Mrs. Resso's income is above the Canada caregiver income threshold of $18,783. Given this, the additional Canada caregiver amount would be $537 ($19,320 - $18,783).

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

Medical Expenses $16,000

Reduced by the lesser of:

• [(3%)($153,500)] = $4,605

• 2023 Threshold Amount = $2,635 ( 2,635)

Allowable Medical Expenses $13,365

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

Mr. Resso's current base for the spousal credit is nil. If Mrs. Resso's taxable 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 $15,000. As this is an increase from the previous amount, the transfer is permitted.

***Part C***

If Mrs. Resso’s taxable dividends are transferred to Mr. Resso, their new taxable income amounts would be calculated as follows:

 **Mrs. Resso Mr. Resso**

Net Income $19,320 $153,500

Dividend Transfer ( 14,000) 14,000

Gross Up Transfer ( 5,320) 5,320

2023 Net Income and Taxable Income after ITA 82(3) Nil $172,820

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

Credits Available For Transfer:

 Age $ 8,396

 Disability 9,428

Total Available $17,824

Reduced by excess of:

 Mrs. Resso’s Net Income Nil

 Over BPA 15,000 ( Nil)

Available for Transfer to Mr. Resso $17,824

With respect to Mr. Resso, his 2023 federal income tax payable would be calculated as follows:

Tax on first $165,430 $34,207

Tax on next $7,390

 ($172,820 - $165,430) at 29% 2,143 $36,350

Tax Credits

 BPA (Note 3) ($14,844)

 Spousal Including Infirm Amount

 ($14,844 + $2,499) ( 17,343)

 Additional Caregiver Amount (Note 4) ( Nil)

 EI ( 1,002)

 Canada Employment ( 1,368)

 Age {$8,396 - [(15%)($172,820 - $42,335)]} Nil

 Pension ( 2,000)

 Medical Expenses (Note 5) ( 13,365)

 Transfer From Spouse (Preceding Calculation) ( 17,824)

Credit Base ($67,746)

Rate 15% ( 10,162)

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

2023 Federal Income Tax Payable - Mr. Resso $23,286

**Note 3 -** Mr. Russo's BPA would be calculated as follows:

$15,000 - [$1,479][($172,820 - $165,430) ÷ 70,245] = $14,844

**Note 4 -** The spousal credit for Mrs. Resso is larger than the $7,999 Canada caregiver amount. Given this, the additional Canada caregiver amount would be nil.

**Note 5 -** The allowable medical expenses would be calculated as follows:

Medical Expenses $16,000

Reduced by the lesser of:

• [(3%)($172,820)] = $5,185

• 2023 Threshold Amount = $2,635 ( 2,635)

Allowable Medical Expenses $13,365

***Conclusion***

The use of the ITA 82(3) dividend transfer has decreased Mr. Resso’s federal income tax payable by $804, from $24,090 to $23,286. The dividend transfer should therefore be done.

Type: ES

Topic: Comprehensive tax credits with dividend transfer

98) The following two independent cases involve individual taxpayers who might be subject to the AMT in 2023.

**Case One**

Serge Lawson has made the following estimates of the various types of income and deductions that he anticipates in 2023.

Rental Income $73,100

Eligible Dividends Received 14,000

RRSP Contributions 22,000

Prior to 2023, 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 2023, his gambling habit finally pays off, providing sufficient winnings to make a $22,000 contribution. He plans to deduct the full amount in 2023.

**Case Two**

Sarah Bonito has made the following estimates of the various types of income and deductions that she anticipates in 2023.

Eligible Dividends Received $ 26,000

Net Taxable Capital Gains 263,000

Capital Gains Deduction Claimed 260,000

In both Cases, assume the only personal tax credits available are the BPA and the dividend tax credit related to any taxable 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 2023 federal 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)

2023 Net Income and Taxable Income $70,420

Tax on first $53,359 $ 8,004

Tax on next $17,061 ($70,420 - $53,359) at 20.5% 3,498

Tax Before Credits $11,502

BPA [(15%)($15,000)] ( 2,250)

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

2023 Regular Federal Income Tax Payable $ 6,350

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

BPA [(15%)($15,000)] ( 2,250)

2023 AMT $ 1,515

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

***Case Two***

The 2023 regular federal 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

2023 Net Income $298,880

Less: Capital Gains Deduction ( 260,000)

2023 Taxable Income $ 38,880

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

BPA [(15%)($15,000)] ( 2,250)

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

2023 Regular Federal Income Tax Payable Nil

The AMT calculations are as follows:

Regular Taxable Income $ 38,880

60% of Taxable Capital Gains of $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

BPA [(15%)($15,000)] ( 2,250)

2023 AMT $ 19,770

Since the regular federal income tax payable is nil, the AMT must be paid. The excess AMT over regular income tax payable for Sarah of $19,770 can be carried forward for 7 years and applied against any future excess of regular income tax payable over the AMT for that year.

Type: ES

Topic: Alternative minimum tax - calculating the tax

99) The two cases which follow are designed to illustrate the basic features of the AMT. In both cases, you are given information about an individual's income and deductions for 2023. 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 2023:

 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 2023:

 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 expenses of $15,000 and other rental expenses of $20,000. No CCA was claimed on the rental property. In both Cases, assume the only tax credits available are the BPA and the dividend tax credit related to any taxable 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 2023 federal income tax payable calculation for Marita Ulman would be as follows:

Employment Income $ 32,000

Net Taxable Capital Gains 206,000

2023 Net Income $238,000

Less: Capital Gains Deduction ( 206,000)

2023 Taxable Income $ 32,000

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

BPA [(15%)($15,000)] ( 2,250)

2023 Regular Federal Income Tax Payable $2,550

The AMT calculations are as follows:

Regular Taxable Income $ 31,500

60% of Taxable Capital Gains of $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

BPA [(15%)($15,000)] ( 2,250)

2023 AMT $ 15,015

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 ($15,015 - $2,550) can be carried forward for 7 years and applied against any future excess of regular federal income tax payable over the AMT.

***Case Two***

The 2023 regular federal 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)

2023 Net Income $168,580

Less: Stock Option Deduction ( 31,500)

2023 Taxable Income $137,080

Tax on first $106,717 $18,942

Tax on next $30,363 ($137,080 - $106,717) at 26% 7,894

Tax Before Credits $26,836

BPA [(15%)($15,000)] ( 2,250)

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

2023 Regular Federal Income Tax Payable $16,088

The AMT calculations are as follows:

Regular Taxable Income $137,080

Excess of Interest Expenses of $17,000 Deducted over

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

Stock Option Deduction [(60%)($31,500)] 18,900

60% of Taxable Capital Gains of $12,000 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

BPA [(15%)($15,000)] ( 2,250)

2023 AMT $ 16,140

Since the AMT is the larger amount ($16,140 versus $16,088) the AMT is required to be paid. The AMT carryover is only $52 [$16,140 - $16,088] which can be claimed in the next seven taxation years to the extent that the federal income tax payable exceeds the AMT calculated for the carryover year.

Type: ES

Topic: Alternative minimum tax - calculating the tax

100) 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 2022 from his employer's RPP. Due to his high income in the last few years, Mr. Bronson has not applied for OAS benefits. However, he has applied for the CPP and received $10,680 in CPP benefits in 2023.

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 of 2022, 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% are charged on the FMV of almost 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 pieces 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 build 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, in 2023, he sells Plot A to him, with the only consideration being a promissory note for $50,000 which is paid in full on December 1, 2023. 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, 2023, Mr. Bronson purchases units in the YP Mutual Trust Fund at a cost of $300,000. These units make monthly distributions of $800 on the 25th of each month. This distribution represents only rental income and does not include taxable dividends, capital gains, or a return of capital. On February 1, 2023, after receiving the January payment of $800, Mr. Bronson gifts all of the mutual fund 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 purchased 4,000 shares of this widely held public company at $50 each and subsequently purchased an additional 8,000 shares at $65 each. On March 1, 2023, 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, 2022, Baron Inc. pays an eligible dividend of $1.50 per share.

Mr. Bronson owns three identical units in a condominium building to be used as rental properties. Each unit cost $300,000 nine years ago and, on January 1, 2023, 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 2023, these units generated rental income, before consideration of CCA, of $93,750.

On December 31, 2023, Mr. Bronson dies peacefully in his home. On this date he owns 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 2023, medical expenses for Mr. Bronson totaled $45,000, while those of his spouse totaled $12,000. At his death, Mr. Bronson had a 2021 net capital loss balance of $30,000 [(1/2)($60,000)].

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

A. Assume Mr. Bronson’s accountant does not split his pension income with his spouse. Calculate Mr. Bronson’s minimum 2023 net income, taxable income and his minimum 2023 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 2023 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 applies. 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 he paid. Since the note was paid in 2023, 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 Mutual Trust Fund 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 income tax 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 any 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 2023 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

**Taxable 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 taxable 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, 2023 the taxable 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 cost of $300,000, with the difference treated as deemed CCA.

For the transfers to the children, the transfer will be deemed to take place at FMV. 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 POD will be equal to the tax cost of the shares and there will be no 2023 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 - 2023 Net Income and Taxable Income***

Mr. Bronson’s minimum 2023 net income 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

2023 Net Income $592,660

Less: 2021 Net Capital Loss ( 30,000)

2023 Taxable Income $562,660

***Part A - 2023 Federal Income Tax Payable***

Mr. Bronson’s minimum 2023 federal income tax payable would be calculated as follows:

Tax on first $235,675 $ 54,578

Tax on next $326,985 ($562,660 - $235,675) at 33% 107,905

Income Tax before Credits $162,483

Tax Credits:

 BPA ($13,521)

 Spousal Including Infirm Amount

 ($13,521 + $2,499) ( 16,020)

 Age (Income Too High) Nil

 Pension Income ( 2,000)

 Spouse’s Disability ( 9,428)

 Medical Expenses (Note 5) ( 54,365)

Total Credit Base ($95,334)

Rate 15% ( 14,300)

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

2023 Federal Income Tax Payable $145,385

**Note 5 -** The base for the medical expenses tax credit would be the total medical expenses of $57,000 ($45,000 + $12,000), reduced by the lesser of $17,780 [(3%)($592,660)] and $2,635.

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

If the pension income splitting of Mr. Bronson’s RPP payments is for $41,500, it will increase Melissa’s income by $41,500 [(50%)($83,000)] and decrease Wally ’s by the same amount. Melissa’s 2023 federal income tax payable and Wally ’s net income tax savings will be as follows:

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

BPA ($15,000)

Disability ( 9,428)

Pension (Not Previously Available) ( 2,000)

Total Credit Base ($26,428)

Rate 15% ( 3,964)

Melissa’s 2023 Federal Income Tax Payable $2,261

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

Spousal Credit Including ($2,499 + $13,521) ($16,020)

Disability Credit Taken By Melissa ( 9,428)

Total Credits Lost ($25,448)

Rate 15% ( 3,817)

Wally’s 2023 Income Tax Savings $9,878

With pension income splitting , the total federal income tax savings amount to $7,617 ($9,878 - $2,261). Further income tax savings would be available at the provincial or territorial 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.

Type: ES

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

101) Mr. Jack Leonard has asked you to assist him in preparing his 2023 income tax return. To this end, he provides you with the following information.

Mr. Leonard's employer is a large, publicly traded corporation with gross revenues of $175 million. In 2023, 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 2022 Pension Adjustment (PA) amount is nil. His employer withheld the 2023 maximum for CPP contributions and EI premiums.

On August 1, 2023, 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, 2023, the market price of the shares had increased to $16 a share. On that date, Mr. Leonard exercises his option and purchases the 100 shares. He continues to own the shares on December 31, 2023.

Mr. Leonard provides the following list of receipts and disbursements for 2023:

**Receipts**

Director's Fees $ 1,300

Royalty income on Patent Purchased in 2015 24,070

Bond Interest income 430

**Disbursements**

RRSP Contribution on July 6, 2023 $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 2023 net income of $2,990.

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 2023 calendar year amounted to $4,860, and were paid by Mr. Leonard. The son's only other income was $700 in interest income on bonds received from his father as a birthday gift in 2013. He will transfer the maximum tuition credit to his father.

Assume Mr. Leonard's 2022 earned income for RRSP purposes was equal to his 2023 earned income. At the beginning of 2023, Mr. Leonard has no unused deduction room or undeducted RRSP contributions.

**Required:** For 2023, 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 - $1,000 paid) 24,000

Award 2,100

Director's Fees 1,300

Stock Option Benefits [(100)($16 - $7)] 900

2023 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

2023 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

2023 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 2023 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 ($$3,754 - $3,123) ( 631)

2023 Net Income $94,935

**Note -** Mr. Leonard's RRSP Deduction Limit for 2023 is the lesser of $30,780 and 18% of his 2022 earned income. His earned income for 2022 is assumed to be equal to his 2023 earned income. The only amount in his 2023 earned income is his employment income of $86,300, 18% of which is $15,534, less than the $30,780 RRSP deduction limit for 2023. 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 2023 Taxable Income would be calculated as follows:

2023 Net Income $94,935

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

2023 Taxable Income $94,485

***Part F***

Mr. Leonard's 2023 federal income tax payable would be calculated as follows:

Federal Tax on first $53,359 $8,004

Federal Tax on next $41,126 ($94,485 - $53,359) at 20.5% 8,431

Federal Income Tax before Credits $16,435

Tax Credits:

 BPA ($15,000)

 Spousal ($15,000 - $2,990) ( 12,010)

 CPP ( 3,123)

 EI ( 1,002)

 Canada Employment ( 1,368)

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 ($37,363)

Rate 15% ( 5,604)

2023 Federal Income Tax Payable $10,831

**Note -** As his son's income is $3,700 [(12)$250) + $700], he will have no federal income tax payable and Mr. Leonard will be able to claim the full tuition credit. There is no credit for his aunt because she is not a resident of Canada.

Type: ES

Topic: Comprehensive personal federal income tax payable

102) Mr. Wilson Kim is married and has a 19 year old son. Mr. Kim's spouse had 2023 net income of $3,400.

The son lives at home and, during the summer of 2023, 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 2023, were paid for by his father. The son's only other 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 the maximum tuition credit to Mr. Kim.

Mr. Kim has asked you to assist him in preparing his 2023 income tax return. To this end, he provides you with the following list of receipts and disbursements for 2023:

**Receipts**

Director's Fees $ 1,372

Royalty income on Patent Purchased in 2015 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 with gross revenues of $110 million. His basic salary for 2023 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 an award of $3,600 in recognition of his outstanding performance.

• His employer sponsors a money purchase RPP. For 2023, Mr. Kim and his employer each contributed $3,100 to this plan. These contributions are the same as those made in 2022.

• His employer withheld the maximum CPP contributions and EI premiums for 2023.

• On September 1, 2023, 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, 2023, 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, 2023.

• His employer provides him with an automobile to use for his employment duties. The automobile cost $41,000 in 2022. The UCC of the automobile at January 1, 2023 is $18,700. The Company pays all of the operating expenses which totaled $12,300 for 2023. Mr. Kim drives the automobile 42,000 kilometers during 2023, of which 38,000 were for employment purposes and 4,000 for personal use. The automobile was available to Mr. Kim throughout all of 2023.

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

Antique weapons Collection 8,000 6,200

Assume Mr. Kim's 2022 earned income for RRSP purposes was equal to his 2023 earned income. At the end of 2022, Mr. Kim had no unused deduction room and no undeducted RRSP contributions.

**Required:** For Parts A to F, compute the required amounts for Mr. Kim for 2023. 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 2023 employment income would be calculated as follows:

Salary $71,500

RPP Contributions ( 3,100)

Housing Benefit (12 Months at $2,500 - $1,500 paid) 12,000

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

 • [(0.33)(4,000)] = $1,320 984

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

2023 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:

Royalty income on Patent $29,400

Interest income on Bonds 960

2023 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 N/A

 POD from Antiques weapons collection $8,000

 ACB ( 6,200)

 Capital Gain $1,800

 Inclusion Rate 1/2 $900

2023 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 TFSA contribution have no effect on net income. Mr. Kim's 2023 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 ($3,754 - $3,123) ( 631)

2023 Net Income $116,753

**Note -** As you are asked to assume that Mr. Kim's RRSP earned income for 2022 is equal to his earned income for 2023, then earned income would be:

Employment Income $90,324

RPP Deduction 3,100

2023 RRSP Earned Income $93,424

Given this, his RRSP deduction room for 2023 would be calculated as follows:

January 1, 2023 Unused Deduction Room Nil

2023 Addition - Lesser of

 2023 Limit = $30,780

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

2022 PA [(2)($3,100)] ( 6,200)

Maximum 2023 Deduction Room $10,616

While Mr. Kim's deduction room is $10,616, his actual deduction is limited to the only RRSP contribution he made for 2023 which was to his spouse’s RRSP in the amount of $4,200.

***Part E***

Mr. Kim’s 2023 taxable income would be calculated as follows:

2023 Net Income $116,753

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

2023 Taxable Income $115,753

***Part F***

Mr. Kim’s 2023 federal income tax payable would be calculated as follows:

Federal Tax on first $106,717 $18,942

Federal Tax on next $9,036 ($115,753 - $106,717) at 26%t 2,349

Federal Income Tax before Credits $21,291

Tax Credits:

BPA ($15,000)

Spousal ($15,000 - $3,400) ( 11,600)

CPP ( 3,123)

EI ( 1,002)

Canada Employment ( 1,368)

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

 • Absolute Limit of $5,000

 • Actual Tuition of $6,500 ( 5,000)

Credit Base ($37,093)

Rate 15% ( 5,564)

2023 Federal Income Tax Payable $15,727

Note - As his son’s income of $6,336 [$3,300 + (138%)($2,200)] is below his BPA of $15,000, he will have no federal income tax payable and he will be able to transfer the maximum $5,000 tuition credit 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 2023 he can contribute up to $12,500 ($6,000 for 2022 + $6,500 for 2023) into a TFSA. As there is no information on his prior employment income, it is not possible to calculate his RRSP deduction room for 2023, but given his $3,300 employment income, he can contribute at least $594 [(18%)($3,300)] in 2024.

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.

Type: ES

Topic: Personal federal income tax payable, TFSA and RRSP