Canadian Tax Principles 2015 / 2016 Solutions Manual – Chapters 11 to 21

Solutions Manual Table of Contents– Chapters 11 to 21

For a listing of the subjects covered and difficulty of each Assignment Problem, please refer to the .PDF version of the Solutions Manual that is available at the Instructor's Resource Centre on the online catalogue listing for this book, at

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The table of contents is hyperlinked to the beginning of each Problem Solution. To go to a Solution, hold down the Control key and click on the solution listing. Control + Home will bring you back to this table of contents from anywhere in the document.

CHAPTER ELEVEN SOLUTIONS............................5
Solution to Assignment Problem Eleven - 1 5
Solution to Assignment Problem Eleven - 2 9
Solution to Assignment Problem Eleven - 3 11
Solution to Assignment Problem Eleven - 4 13
Solution to Assignment Problem Eleven - 5 16
Solution to Assignment Problem Eleven - 6 18
Solution to Assignment Problem Eleven - 7 21
Solution to Assignment Problem Eleven - 8 25
Solution to Assignment Problem Eleven-9 30
Solution to Assignment Problem Eleven-10 34
Solution to Problem Tax Software Eleven - 1......................41
Solution to Problem Tax Software Eleven - 2......................44
Solution to Problem Tax Software Eleven - 3......................47

CHAPTER TWELVE SOLUTIONS 54
Solution to Assignment Problem Twelve - 1........................54
Solution to Assignment Problem Twelve - 2........................55
Solution to Assignment Problem Twelve - 3........................56
Solution to Assignment Problem Twelve - 4........................58
Solution to Assignment Problem Twelve - 5........................59
Solution to Assignment Problem Twelve - 6........................62
Solution to Assignment Problem Twelve - 7........................65
Solution to Assignment Problem Twelve - 8........................66
Solution to Assignment Problem Twelve - 9........................67
Solution to Assignment Problem Twelve - 10......................68

CHAPTER THIRTEEN SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Thirteen - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Thirteen - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Thirteen - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Thirteen - 4**Error! Bookmark not defined.**

Solution to Assignment Problem Thirteen - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Thirteen - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Thirteen - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Thirteen - 8**Error! Bookmark not defined.**

CHAPTER FOURTEEN SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Fourteen - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Fourteen - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Fourteen - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Fourteen - 4**Error! Bookmark not defined.**
Solution to Assignment Problem Fourteen - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Fourteen - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Fourteen - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Fourteen - 8**Error! Bookmark not defined.**
Solution to Problem For Tax Software Chapter 14**Error! Bookmark not defined.**

CHAPTER FIFTEEN SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Fifteen - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 4**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 8**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 9**Error! Bookmark not defined.**
Solution to Assignment Problem Fifteen - 10**Error! Bookmark not defined.**

CHAPTER SIXTEEN SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Sixteen - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 4**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 8**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 9**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 10**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 11**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 12**Error! Bookmark not defined.**
Solution to Assignment Problem Sixteen - 13**Error! Bookmark not defined.**

CHAPTER SEVENTEEN SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Seventeen - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Seventeen - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Seventeen - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Seventeen - 4**Error! Bookmark not defined.**
Solution to Assignment Problem Seventeen - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Seventeen - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Seventeen - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Seventeen - 8**Error! Bookmark not defined.**
Solution to Assignment Problem Seventeen - 9**Error! Bookmark not defined.**

CHAPTER EIGHTEEN SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Eighteen - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 4**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 8**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 9**Error! Bookmark not defined.**
Solution to Assignment Problem Eighteen - 10**Error! Bookmark not defined.**

CHAPTER NINETEEN SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Nineteen - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Nineteen - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Nineteen - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Nineteen - 4**Error! Bookmark not defined.**
Solution to Assignment Problem Nineteen - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Nineteen - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Nineteen - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Nineteen - 8**Error! Bookmark not defined.**
Solution to Assignment Problem Nineteen - 9**Error! Bookmark not defined.**

CHAPTER TWENTY SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Twenty - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 4**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 8**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 9**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 10**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 11**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 12**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 13**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 14**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty - 15**Error! Bookmark not defined.**

CHAPTER TWENTY-ONE SOLUTIONS Error! Bookmark not defined.
Solution to Assignment Problem Twenty-One - 1**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 2**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 3**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 4**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 5**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 6**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 7**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 8**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 9**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 10**Error! Bookmark not defined.**
Solution to Assignment Problem Twenty-One - 11**Error! Bookmark not defined.**

CHAPTER ELEVEN SOLUTIONS

Solution to Assignment Problem Eleven - 1

2012 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Business Income	$19,800	
Taxable Dividends [(138%)($1,870)]	2,581	$22,381
ITA 3(b)		
Taxable Capital Gains [(1/2)($1,320)]	$ 660	
Allowable Capital Losses [(1/2)($4,620)]	(2,310)	Nil
ITA 3(c)		$22,381
ITA 3(d)		
Farm Loss (See Note)		(6,750)
Net Income For Tax Purposes And Taxable Income		$15,631

Note Dale's farm losses are restricted as follows:

Total Farm Loss		$11,000
Deductible Amount:		
First $2,500	($2,500)	
One-Half Of $8,500 ($11,000 - $2,500)	(4,250)	(6,750)
Restricted Farm Loss Carry Forward		$ 4,250

As noted in the problem, none of the losses can be carried back before 2012. This would leave the following carry forward balances at the end of 2012:

- Restricted Farm Loss Carry Forward $4,250
- Net Capital Loss Carry Forward ($2,310 - $660) $1,650

2013 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Farm Income	$ 2,200	
Taxable Dividends [(138%)($2,351)]	3,244	$ 5,444
ITA 3(b)		
Taxable Capital Gains [(1/2)($2,200)]	$ 1,100	
Allowable Capital Losses	Nil	1,100
ITA 3(c)		$ 6,544
ITA 3(d)		
Business Loss		(15,400)
Net Income For Tax Purposes		Nil
2012 Net Capital Loss Carry Forward		($ 1,100)
Taxable Income (Loss)		Nil

Since there are taxable capital gains this year, and the problem states that Dale would like to deduct the maximum amount of his net capital loss carry forwards, the net capital loss carry forward of $1,100 is added to the balance of the non-capital loss.

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

Business Loss	$15,400
2012 Net Capital Loss Deducted	1,100
ITA 3(c) Income	(6,544)
Non-Capital Loss Carry Over For 2013	$ 9,956

The entire non-capital loss carry over could be carried back to 2012, but since Dale requires $15,400 in Taxable Income to fully utilize his tax credits, the maximum carry back to 2012 is $231, calculated as follows:

2012 Taxable Income (As Reported)	$15,631
Non-Capital Loss Carry Back From 2013	(231)
2012 Amended Taxable Income (Minimum)	$15,400

This carry back leaves Dale with his required $15,400 in Taxable Income. There would be the following carry forward balances at the end of 2013:

- Restricted Farm Loss Carry Forward (Unchanged) $4,250
- Net Capital Loss Carry Forward ($1,650 - $1,100)] $ 550
- Non-Capital Loss Carry Forward ($9,956 - $231) $9,725

2014 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Business Income	$33,000	
Farm Income	3,465	
Taxable Dividends [(138%)($3,160)]	4,361	$40,826
ITA 3(b)		
Taxable Capital Gains [(1/2)($4,400)]	$2,200	
Allowable Capital Losses	Nil	2,200
Net Income For Tax Purposes		$43,026
Restricted Farm Loss Carry Forward (Equal To Farm Income)		(3,465)
Net Capital Loss Carry Forward (Less Than $2,200)		(550)
Non-Capital Loss Carry Forward (All)		(9,725)
Taxable Income		$29,286

There would be the following carry forward balance at the end of 2014:

- Restricted Farm Loss Carry Forward ($4,250 - $3,465) $ 785

2015 Analysis

The required information can be calculated as follows:

ITA 3(a)		
Taxable Dividends [(138%)($5,140)]		$ 7,093
ITA 3(b)		
Taxable Capital Gains [(1/2)($4,950)]	$ 2,475	
Allowable Capital Losses [(1/2)($15,950)]	(7,975)	Nil
ITA 3(c)		$ 7,093
ITA 3(d)		
Business Loss	($20,900)	
Farm Loss	(2,200)	(23,100)
Net Income For Tax Purposes And Taxable Income		Nil

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

Business Loss	$20,900	
Farm Loss (Unrestricted)	2,200	$23,100
ITA 3(c) Income		(7,093)
Non-Capital Loss Carry Over For 2015		$16,007

Although technically, the farm loss is accounted for separately from the non-capital loss, since the farm loss is less than $2,500 it is treated as an unrestricted farm loss and can be applied against all types of income. ITA 31 states that any loss allowed under that provision is considered an unrestricted loss from a farming business for the year for the purposes of calculating the non-capital loss carryover. As a result, the preceding loss carry over of $16,007 is available for carry back to 2014 to be applied against any type of income.

With respect to the net capital loss of $5,500 ($7,975 - $2,475), there are $1,650 ($2,200 - $550) in taxable capital gains left in 2014 as the basis for a carry back. This means that $1,650 of the 2015 net capital loss can be carried back, leaving $3,850 ($5,500 - $1,650) to be carried forward as a net capital loss balance.

If both the $16,007 non-capital loss and the $1,650 net capital loss were carried back to 2014, the result would be a Taxable Income of $11,629 ($29,286 - $16,007 - $1,650), less than the $15,400 that is required to fully utilize Dale's available tax credits. As the net capital loss can only be deducted to the extent of taxable capital gains, it would be advisable to claim the full amount of this loss carry back. Based on this view, the non-capital loss deduction will be limited to $12,236 ($29,286 - $15,400 - $1,650), an amount that will provide for full use of Dale's 2014 tax credits:

2014 Taxable Income (As Reported)	$29,286
Non-Capital Loss Carry Back From 2015	(12,236)
Net Capital Loss Carry Back From 2015	(1,650)
2014 Amended Taxable Income	$15,400

These carry backs leave Dale with his required $15,400 in 2014 Taxable Income. There would be the following carry forward balances at the end of 2015:

- Restricted Farm Loss Carry Forward (Unchanged) $ 785
- Net Capital Loss Carry Forward ($5,500 - $1,650)] $3,850
- Non-Capital Loss Carry Forward (Nil + $16,007 - $12,236) $3,771

Solution to Assignment Problem Eleven - 2

Before consideration of any carry backs, Dotty would have 2014 Taxable Income as follows:

Net Taxable Capital Gains	$ 5,000
Net Rental Income	16,000
Interest Income	36,000
Net Income For Tax Purposes And Taxable Income	$57,000

The loss on Spec Inc. is a Business Investment Loss (BIL) of $300,000 ($425,000 - $125,000). However, because of her use of the lifetime capital gains deduction in 2013, $25,000 of this amount would be disallowed. Given this, the available Allowable Business Investment Loss (ABIL) would be calculated as follows:

Total Loss	$300,000
Disallowed By Lifetime Capital Gains Deduction Use	(25,000)
Balance	$275,000
Inclusion Rate	1/2
Allowable Business Investment Loss (ABIL)	$137,500

Given this, Dotty's 2015 Taxable Income is calculated as follows:

Income Under ITA 3(a)		
Net Rental Income	$14,000	
Interest Income	24,000	$ 38,000
Income Under ITA 3(b)		
Taxable Capital Gains	$6,000	
Allowable Capital Loss (Disallowed ABIL)		
[(1/2)($25,000)] (Note 1)	(12,500)	Nil
Balance Under ITA 3(c)		$ 38,000
Deduction Under ITA 3(d)		
ABIL (Note 2)		(137,500)
Net Income For Tax Purposes And Taxable Income		Nil

Note 1 As the $25,000 disallowed BIL becomes an ordinary capital loss, it must be deducted against the 2015 capital gain. This leaves a net capital loss carry over of $6,500 ($12,500 - $6,000) of which $5,000 can be carried back to 2014.

Note 2 As the ABIL was realized in 2015, it must be used to reduce that year's income to Nil. Note that, because of this rule, Dotty cannot deduct a smaller amount in order to have sufficient income to absorb her basic personal tax credit. After this deduction, a carry forward of $99,500 ($137,500 - $38,000) remains. For the next 10 years, this amount will be treated as a non-capital loss carry forward that can be deducted against other sources of income. If it has not been utilized within the 10 years, it then becomes a net capital loss carry forward, deductible for an unlimited number of future periods, but only against net taxable capital gains.

Using the carry over amounts, the 2014 tax return would be amended as follows:

Net Income For Tax Purposes (As Originally Calculated)	$57,000
Net Capital Loss Carried Back	(5,000)
Optimum Taxable Income = 2014 Basic Personal Amount	(11,138)
Non-Capital Loss Carried Back	($40,862)

As planned, these deductions leave a Taxable Income of $11,138 ($57,000 - $5,000 - $40,862). The taxes on this amount will be eliminated by Dotty's basic personal credit. Since 2013 Taxable Income was equal to her basic personal amount, there would be no carry back to that year. The following carry forwards remain after these carry back amounts are deducted:

Net Capital Loss Carry Forward ($6,500 - $5,000)	$1,500
Non-Capital Loss Carry Forward ($99,500 - $40,862)	$58,638

Solution to Assignment Problem Eleven - 3

To the extent that there has been use of the lifetime capital gains deduction in previous years, business investment losses (BILs) are disallowed. When they are disallowed, they become ordinary capital losses that must be deducted against the current year's taxable capital gains. Given this, the non-disallowed portion of the BIL would be calculated as follows:

2015 BIL Realized ($345,000 - $78,000)	$267,000
BIL Disallowed By Previous Use Of ITA 110.6 ($29,500 + $49,000)	(78,500)
Remaining Business Investment Loss	$188,500
Inclusion Rate	1/2
Allowable Business Investment Loss	$ 94,250

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

Net Employment Income		$142,000
Allowable Business Investment Loss		(94,250)
Net Taxable Capital Gains:		
Taxable Capital Gain [(1/2)($480,000 - $187,000 - $4,000)]	$144,500	
Allowable Capital Loss (Disallowed ABIL) [(1/2)($78,500)]	(39,250)	105,250
Net Income For Tax Purposes		$153,000

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

	Part A	Part B
Net Income For Tax Purposes	$153,000	$153,000
Net Capital Loss Carry Forward Deducted	(3,400)	Nil
Lifetime Capital Gains Deduction (Note)	(5,300)	(8,700)
Taxable Income	$144,300	$144,300

Note As the only capital gains during 2015 are on qualified property, the simplified formula for the annual gains limit can be used. Given this, the lifetime capital gains deduction is the cumulative gains limit for both Part A and B as it is the least of the following:

	Part A	Part B
Amount Available [(1/2)($813,600*)]	$406,800	$406,800
Amount Used [(1/2)($29,500 + $49,000)]	(39,250)	(39,250)
Amount Available	$367,550	$367,550

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

	Part A	Part B
Taxable Capital Gain On Qualified Property	$144,500	$144,500
ABIL Realized	(94,250)	(94,250)
Allowable Capital Loss Deducted (Disallowed ABIL)	(39,250)	(39,250)
Net Capital Loss Carry Forward Deducted	(3,400)	Nil
Annual Gains Limit	$ 7,600	$ 11,000

	Part A	Part B
Sum Of Annual Gains Limits		
($14,750 + $24,500 + $7,600)	$46,850	
($14,750 + $24,500 + $11,000)		$50,250
Amounts Deducted In Previous Years		
($14,750 + $24,500)	(39,250)	(39,250)
CNIL (Given)	(2,300)	(2,300)
Cumulative Gains Limit	$ 5,300	$ 8,700

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

Solution to Assignment Problem Eleven - 4

Part A

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

	Mr. Brock	Mrs. Brock
Registered Pension Plan Receipts	Nil	$62,000
RRIF Withdrawals	Nil	14,000
Interest	$ 600	4,200
Eligible Dividends Received	3,200	Nil
Gross Up On Dividends (38 Percent)	1,216	Nil
Old Age Security Benefits	6,800	6,800
Net Income Before Clawback	$11,816	$87,000
Social Benefits Repayment (Note 1)	Nil	(2,129)
Net Income For Tax Purposes And Taxable Income Before Any Transfer Of Dividends	$11,816	$84,871

Note 1 Mr. Brock would not have to repay any of his OAS benefits as his Net Income is well below the threshold income of $72,809. Mrs. Brock's social benefits repayment would be $2,129, the lesser of:

- $6,800, and
- [(15%)($87,000 - $72,809)] = $2,129.

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

Federal Tax Before Credits [(15%)($11,816)]		$1,772
Tax Credits		
Basic Personal	$11,327	
Other (Transferred To Mrs. Brock)	Nil	
Total Base	$11,327	
Rate	15%	(1,699)
Dividend Tax Credit [(6/11)($1,216)]		(663)
Federal Tax Payable		Nil

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

Credits Available For Transfer:		
Age		$ 7,033
Disability		7,899
Total Available		$14,932
Reduced By Excess Of:		
Mr. Brock's Net Income	($11,816)	
Over Basic Personal Credit Amount	11,327	(489)
Available For Transfer		$14,443

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

Tax On First $44,701	$ 6,705	
Tax On Next $40,170 ($84,871 - $44,701) At 22 Percent	8,837	$15,542
Tax Credits		
Basic Personal	($11,327)	
Spousal Including FCA ($13,420 - $11,816)	(1,604)	
Age {$7,033 - [(15%)($84,871 - $35,466)]}	Nil	
Pension	(2,000)	
Transfer From Spouse (Preceding Calculation)	(14,443)	
Credit Base	($29,374)	
Rate	15%	(4,406)
Charitable Donations [(15%)($200) + (29%)($725 + $1,175 - $200)] (Note 2)		(523)
Federal Tax Payable		$10,613
OAS Clawback		2,129
Amount Owing		$12,742

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

Part B - Eligibility For Transfer

Mrs. Brock's current base for the spousal credit is $1,604. If Mr. Brock's dividends are transferred, he would be left with Net Income For Tax Purposes of $7,400 ($11,816 - $3,200 - $1,216). This would leave a base for the spousal credit of $6,020 ($13,420 - $7,400). As this is an increase from the previous amount, the transfer is permitted.

Part C

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

	Mr. Brock	**Mrs. Brock**
Net Income Before Clawback As Per Part A	$11,816	$87,000
Dividend Transfer	(3,200)	3,200
Gross Up Transfer	(1,216)	1,216
Net Income After Dividend Transfer Before Clawback	$ 7,400	$91,416
Social Benefits Repayment (Note 3)	Nil	(2,791)
Net Income For Tax Purposes And Taxable Income	$ 7,400	$88,625

Note 3 Mr. Brock would not have to repay any of his OAS benefits as his Net Income is well below the threshold income of $72,809. Mrs. Brock's social benefits repayment would be the lesser of:

- $6,800, and
- [(15%)($91,416 - $72,809)] = $2,791.

As Mr. Brock's revised income figure is below the basic personal credit of $11,327, his Tax Payable would continue to be nil. The transfer to Mrs. Brock would be calculated as follows:

Credits Available For Transfer:		
Age		$ 7,033
Disability		7,899
Total Available		$14,932
Reduced By Excess Of:		
Mr. Brock's Net Income	($ 7,400)	
Over Basic Personal Credit Amount	11,327	(Nil)
Available For Transfer		$14,932

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

Tax On First $44,701	$6,705	
Tax On Next $43,924 ($88,625 - $44,701) At 22 Percent	9,663	$16,368
Tax Credits		
Basic Personal	($11,327)	
Spousal Including FCA ($13,420 - $7,400)	(6,020)	
Age {$7,033 - [(15%)($88,625 - $35,466)]}	Nil	
Pension	(2,000)	
Transfer From Spouse (Preceding Calculation)	(14,932)	
Credit Base	($34,279)	
Rate	15%	(5,142)
Charitable Donations [(15%)($200) + (29%)($725 + $1,175 - $200)]		(523)
Dividend Tax Credit [(6/11)($1,216)]		(663)
Federal Tax Payable		$10,040
OAS Clawback		2,791
Amount Owing		$12,831

The use of the ITA 82(3) dividend transfer has decreased Mrs. Brock's federal Tax Payable by $573, from $10,613 to $10,040. However, it has increased the OAS clawback by $662, from $2,129 to $2,791. Overall, the net effect is an increase in the amount owing of $89. Clearly, the transfer of dividends is not a desirable alternative.

Solution to Assignment Problem Eleven - 5

Case A

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

Net Business Income	$50,000
Eligible Dividends Received	55,000
Gross Up [(38%)($55,000)]	20,900
Loss On Tax Shelter Investment	(32,000)
RRSP Deduction	(28,000)
Net And Taxable Income	$65,900
Tax On First $44,701	$ 6,705
Tax On Next $21,199 ($65,900 - $44,701) At 22%	4,664
Tax Before Credits [(15%)($20,900)]	$11,369
Basic Personal Credit	(1,699)
Dividend Tax Credit [(6/11)($20,900)]	(11,400)
Regular Federal Tax Payable	Nil

The alternative minimum tax calculations are as follows:

Regular Taxable Income	$65,900
Loss On Tax Shelter Investment	32,000
Dividend Gross Up	(20,900)
Adjusted Taxable Income	$77,000
AMT Exemption	(40,000)
AMT Base	$37,000
Rate	15%
AMT Before Credit	$ 5,550
Basic Personal Credit	(1,699)
Federal AMT	$ 3,851

Since the regular federal Tax Payable is nil, the AMT is larger and must be paid. The excess AMT over regular tax payable for Tom of $3,851 can be carried forward for seven years and applied against any future excess of regular Tax Payable over the alternative minimum tax.

Case B

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

Net Taxable Capital Gains	$165,000
Employment Income	21,000
Net Income For Tax Purposes	$186,000
Lifetime Capital Gains Deduction	(162,000)
Taxable Income	$ 24,000
Federal Tax Before Credit [(15%)($24,000)]	$3,600
Basic Personal Credit	(1,699)
Regular Federal Tax Payable	$1,901

The alternative minimum tax calculations are as follows:

Regular Taxable Income	$ 24,000
30 Percent Of Capital Gains [(30%)(2)($165,000)]	99,000
Adjusted Taxable Income	$123,000
AMT Exemptions	(40,000)
AMT Base	$ 83,000
Rate	15%
Federal AMT Before Credit	$ 12,450
Basic Personal Credit	(1,699)
Federal AMT	$ 10,751

Since the MT is larger than the regular federal Tax Payable, it must be paid. The excess AMT over regular tax payable for Samantha of $8,850 ($10,751 - $1,901) can be carried forward for seven years and applied against any future excess of regular Tax Payable over the alternative minimum tax.

Solution to Assignment Problem Eleven - 6

Deemed Dispositions Immediately Before Death

Under ITA 70(5), there is a deemed disposition of all of the capital property of a deceased taxpayer (decedent) immediately before the moment of death. In general, the deemed proceeds of disposition will be the fair market value of the property.

There is, however, an exception to this rule provided by ITA 70(6). Under this provision, if the transfer is to a spouse, common-law partner, or a trust in favour of a spouse or common-law partner, the deemed proceeds of disposition will be the tax cost of the property, adjusted cost base for non-depreciable property and UCC for depreciable property.

With respect to this exception, the executor of the decedent's estate can elect out of ITA 70(6) and use the values that would apply in ITA 70(5). This will result in the use of deemed proceeds based on fair market value, thereby resulting in tax consequences which will be reported on the decedent's final tax return. As stated in the problem, Rachelle's will instructs the executor to opt out of the ITA 70(6) spousal rollover provisions.

Any property inherited by her daughter could not be exempt from the usual deemed disposition rules on death as there is no rollover that would be applicable to the assets she has inherited.

Net Business Income

Rachelle's net business income would be calculated as follows:

Net Business Income From Proprietorship	$69,400
Recapture On Sale Of Business Assets (Given)	5,900
Net Business Income	$75,300

Property Income

Rachelle's property income is calculated as follows:

Interest Attributed From Martin (Note 1)	$ 876
Net Rental Income ($46,300 - $31,400)	14,900
Recapture On Rental Property ($210,000 - $174,795)	35,205
Eligible Dividends	860
Gross Up On Eligible Dividends [(38%)($860)]	327
Non-Eligible Dividends	6,200
Gross Up On Non-Eligible Dividends [(18%)($6,200)]	1,116
Total Property Income	$59,484

Note 1 With respect to the interest received by Martin, it was earned on a guaranteed investment certificate given to him by Rachelle and, as a consequence, it would be attributed to her up until the day of her death. As she died 188 days into the year, the attributed amount would be $876 [(188/365)($1,700)]. As attribution from a spouse ceases when the transferor spouse dies, the remaining $824 ($1,700 - $876) would be included in Martin's income. When this is combined with his $2,100 salary, his total income for the year is $2,924. His income for the whole year, not just prior to Rachelle's death, will decrease the spousal credit available on Rachelle's final return.

Net Taxable Capital Gains

Rachelle's net taxable capital gains would be calculated as follows:

Rental Property - Land ($112,000 - $102,000)		$10,000
Rental Property - Building ($243,000 - $210,000)		33,000
RAF Ltd. Shares (Note 2)		Nil
Flax Fittings Inc. Shares ($104,000 - $72,000)		32,000
Principal Residence ($507,000 - $382,600)		124,400
Principal Residence Exemption (100%)		(124,400)
Listed Personal Property:		
Gain On Art ($57,000 - $23,400)	$33,600	
Loss On Jewelry ($32,000 - $8,300)	(23,700)	
Listed Personal Property Carry Forward (Note 3) [(2)($2,700)]	(5,400)	4,500
Taxable Capital Gains		$79,500
Inclusion Rate		1/2
Net Taxable Capital Gains		$39,750

Note 2 Donations of publicly traded securities benefit from special rules that make gifting these assets particularly attractive. While a donor can receive a donations tax credit based on the full fair market value of such assets, ITA 38(a.1) deems the capital gain on gifts of publicly traded securities to be nil.

Note 3 The listed personal property loss carry forward decreases the net gain on listed personal property in the calculation of Net Income For Tax Purposes. All of the carry forward amount can be claimed as it is less than the net taxable gains on listed personal property for the year.

Net Income For Tax Purposes

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

Net Business Income	$ 75,300
Property Income	59,484
Net Taxable Capital Gains	39,750
Other Income - RRSP (Tax Free Transfer To Spouse)	Nil
CPP Contribution (Maximum)	(2,480)
Net Income For Tax Purposes	$172,054

Taxable Income

Rachelle's Taxable Income would be calculated as follows:

Net Income For Tax Purposes	$172,054
Net Capital Loss Carry Forward (Note 4)	(89,400)
Taxable Income	$ 82,654

Note 4 In the year of death, capital loss carry forwards can be deducted against any type of income, not just capital gains (as long as the lifetime capital gains deduction has not been claimed). As a result, all of the available net loss carry forward can be deducted.

Tax Payable

Rachelle's minimum federal Tax Payable would be calculated as follows:

Tax On First $44,701		$ 6,705
Tax On Remaining $37,953 ($82,654 - $44,701) At 22 Percent		8,350
Federal Tax Before Credits		$15,055
Basic Personal Amount	($11,327)	
Spousal ($11,327 - $2,924) (See Note 1)	(8,403)	
CPP (Maximum)	(2,480)	
Credit Base	($22,210)	
Rate	15%	(3,332)
Eligible Dividend Tax Credit [(6/11)($327)]		(178)
Non-Eligible Dividend Tax Credit [(13/18)($1,116)]	(806)	
Charitable Donation [(15%)($200) + (29%)($28,600 - $200)]		(8,266)
Federal Tax Payable		$ 2,473

Solution to Assignment Problem Eleven - 7

Net And Taxable Income

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

Employment Income	$378,000
Employment Expenses - Home Office	
[(650/5,000)($3,200 + $4,000 + $3,800 + $6,700)]	(2,301)
Net Rental Income (Note One)	Nil
Taxable Capital Gains (Note Two)	4,418
Net Income For Tax Purposes	$380,117
Net Capital Loss Carry Forward From 2014 (Note Three)	(4,418)
Taxable Income	$375,699

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

Gross Rents		$ 16,000
Less Expenses:		
Property Taxes	$5,128	
Insurance	1,890	
Interest	3,175	
Maintenance And Repairs ($550 + $3,469)	4,019	(14,212)
Rental Income Before CCA		$ 1,788
CCA On Class 1 Building* (Maximum Allowed)		(1,788)
Net Rental Income		Nil

*As the deduction of CCA cannot be used to create or increase a net rental loss, maximum CCA cannot be taken. When the maximum CCA cannot be deducted, the CCA should usually be taken from the classes with the lowest rates. In this case, the Class 1 building at 4 percent is less than the 20 percent applicable to Class 8. Since the building was not a new building, the applicable rate is 4 percent, not 6 percent. While CCA of $4,298 [(4%)($107,441)] is available on Class 1, only $1,788 can be taken in 2015.

Note Two - Listed Personal Property The painting and coin collection are classified as listed personal property. The gain and loss calculations are as follows:

	Painting	Coin Collection
Proceeds Of Disposition (Minimum = $1,000)	$1,100	$ 1,000
Adjusted Cost Base (Minimum = $1,000)	(1,000)	(1,800)
Capital Gain (Loss)	$ 100	($ 800)
Inclusion Rate	1/2	1/2
Taxable Capital Gain (Allowable Loss)	$ 50	($ 400)

As losses on listed personal property can only be claimed against gains on such property, the unused loss of $350 ($400 - $50) cannot be applied in the current year. However, the listed personal property loss can be carried forward.

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

	Molson Inc.	Imperial Oil	Sailboat
Proceeds Of Disposition	$37,000	$ 9,600	$74,000
Adjusted Cost Base	(27,600)	(12,100)	(72,000)
Selling Costs	(35)	(29)	N/A
Capital Gain (Loss)	$ 9,365	($ 2,529)	$ 2,000
Inclusion Rate	1/2	1/2	1/2
Taxable Capital Gain	$ 4,683	($ 1,265)	$ 1,000

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

Note Three The $10,500 net capital loss carry forward from the 2014 sale of shares can be deducted in 2015 to the extent of the $4,418 in taxable capital gains realized in 2015. This leaves a net capital loss carry forward of $6,082 ($10,500 - $4,418).

Tax Payable

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

Federal Tax On First $138,586		$29,327
Federal Tax On Next $237,113 ($375,699 - $138,586) At 29 Percent		68,763
Gross Federal Tax		$98,090
Basic Personal Amount	($11,327)	
Spousal ($11,327 - $6,520)	(4,807)	
Family Caregiver Amount For Child	(2,093)	
Caregiver - Joan (Includes Family Caregiver Amount)	(6,701)	
Transfer - Valerie's Age Amount	(7,033)	
Transfer - Kevin's Disability	(7,899)	
Disability Supplement Less Childcare Costs Over Limit [$4,607 - ($3,500 - $2,699)]	(3,806)	
Child Fitness ($300 + $400 + $500 Supplement)	(1,200)	
Children's Arts ($250 + $500 Supplement)	(750)	
EI Premiums	(931)	
CPP Contributions	(2,480)	
Canada Employment	(1,146)	
Medical Expenses (Note Four)	(37,440)	
Credit Base	($87,613)	
Rate	15%	(13,142)
Charitable Donations [(15%)($200) + (29%)($400 + $1,000 + $3,000 - $200)]		(1,248)
Federal Tax Payable		$ 83,700
Provincial Tax Payable (Given)		57,696
Income Tax Withheld		(114,000)
Tax Payable		$ 27,396

Loss Carry Forwards

There are two loss carry forwards available:

Net Capital Loss Carry Forward	$6,082
Listed Personal Property Loss Carry Forward	350

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

George, Spouse, And Minor Child (Kevin) Medical Expenses		
($731 + $155 + $109 + $67 + $30,000 + $800)		$31,862
Threshold - Lesser Of: [(3%)($375,699)] And $2,208		(2,208)
Subtotal		$29,654
Martin's Medical Expenses	$6,000	
Lesser Of:		
• [(3%)($8,300)] = $249		
• 2015 Threshold Amount = $2,208	(249)	5,751
Joan's Medical Expenses	$2,050	
Lesser Of:		
• [(3%)($500)] = $15		
• 2015 Threshold Amount = $2,208	(15)	2,035
Allowable Medical Expenses		$37,440

Notes To George's Tax Return

- Since Valerie's father David is not a Canadian resident, he cannot be claimed as a dependant. In addition, his medical expense cannot be claimed.
- Valerie's age credit is transferred to George as her Net Income For Tax Purposes is less than the basic personal amount. George's income is too high to claim his own age credit.
- Both Kevin and Joan qualify for family caregiver amount given Kevin's blindness and the doctor's letter for Joan.
- Kevin's disability credit for all ages and his disability supplement credit for under 18 are transferred to George. The $3,500 in childcare costs will decrease the disability supplement available.
- The $700 child fitness amount and the $250 children's arts amount are both eligible for the $500 supplements for disabled children.
- Martin's education related credits can only be transferred to a spouse, parent, or grandparent. As a result, they cannot be transferred to George and must be carried forward by Martin for his own use.
- Although it will not affect George Pharmacy, Martin should file his tax return to receive the GST credit. Filing a tax return will also make his education related tax credits easier to keep track of for carry forward purposes.
- Joan Drugstore should file a tax return to receive the GST credit. She would need a Social Insurance Number before she can file a return.
- The reimbursement of George's employment expenses has no effect on his income taxes.
- The cost of a residential phone line, the internet connection, mortgage interest, and mortgage life insurance premiums cannot be deducted as workspace in the home costs.
- The new computer and software are capital assets and no part of their cost can be deducted as an employment expense.

Tax Planning Points

- George should immediately open a spousal RRSP and contribute as much as he can for as long as he can. Since Valerie is one year older than he is, George will be able to contribute to his own RRSP for one year more than he could to a spousal RRSP. The pension income splitting rules should benefit him when he begins to withdraw from his RRIF. Since he and Valerie are approaching 71 years of age, he does not have much time to contribute to RRSPs.

- Given his employment income and the fact it appears his employer does not have an RPP, he should have considerable RRSP deduction room. Since Kevin is blind, it is likely that he would be considered a financially dependent child. As a result, if Kevin is named beneficiary of the RRSP or RRIF on the death of George and Valerie, the tax burden to the estate could be considerably reduced.
- George should consider an RESP for Kevin. Since Kevin is blind, he can also be a beneficiary of an RDSP. If George makes any contributions to these plans, he should try to maximize the Canada Education Savings Grant and the Canada Disability Savings Grant that the government will contribute.
- George should consider TFSAs for himself and his wife. The decision as to whether he should contribute to a spousal RRSP, an RESP, an RDSP or TFSAs requires the consideration of many factors (see the text).

Solution to Assignment Problem Eleven - 8

Part A - Jihoon's Results

Net Income For Tax Purposes

Note, because Jihoon's income is subject to the tax on split income, the income attribution rules are not applicable. Given this, Jihoon Son's Net Income For Tax Purposes would be calculated as follows:

Dividends Received	$20,000
Gross Up [(18%)($20,000)]	3,600
ITA 20(1)(ww) Deduction For Split Income	(23,600)
Universal Child Care Benefits Received By Jimon	720
Net Income For Tax Purposes	$ 720

Taxable Income

As he has no Taxable Income deductions, Jihoon's Taxable Income would also be $720.

Tax Payable

As his Taxable Income is only $720, his personal credit would reduce his regular Tax Payable to nil. However, he would have a tax on his split income, calculated as follows:

Split Income	$23,600
Rate	29%
Tax Before Credit	$ 6,844
Dividend Tax Credit [(13/18)(18%)($20,000)]	(2,600)
Tax Payable On Split Income	$4,244

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

Part B - Jimon's Results

Net Income For Tax Purposes

Ms. Son's Net Income For Tax Purposes would be calculated as follows:

Net Employment Income (Salary - Musical Notes Inc.)	$150,000
Property Income (Note 1)	111,300
Net Taxable Capital Gains (Note 2)	386,900
Child Care Expenses (Note 6)	(3,500)
RRSP Deduction (Given)	(9,500)
Net Income For Tax Purposes	$635,200

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

Non-Eligible Dividend On Son Enterprises Shares	$ 60,000
Gross Up [(18%)($60,000)]	10,800
Interest Income From South Korean Bank Account (100%)	500
Royalties	40,000
Property Income	$111,300

Note 2 Ms. Son's net taxable capital gains would be calculated as follows:

Gain On Musical Notes Inc. Shares ($575,000 - $100)	$574,900
Listed Personal Property Gain On Painting ($50,000 Minus The Lesser Of $200 And $1,000 Floor)	49,000
Listed Personal Property Loss Carry Forward (Note 3)	(500)
Sale Of Vacant Land (Note 4)	150,000
Net Foreign Currency Gain ($700 - $100)	600
Foreign Currency Exemption For Individuals	(200)
Loss On Music Collection (Note 5)	Nil
Net Capital Gains	$773,800
Inclusion Rate	1/2
Net Taxable Capital Gain	$386,900

Note 3 Under ITA 41(2) the net gain on listed personal property is defined as the gains for the current year, reduced by the carry over amounts from the seven preceding years or the three subsequent years. Ms. Son had a listed personal property loss carry forward of $500, which is deducted against her listed personal property gain on the painting that was sold in 2015. Note that the listed property loss carry forward is deducted in the calculation of net taxable capital gains for inclusion in Net Income For Tax Purposes, not Taxable Income.

Note 4 Since Jimin had made a small profit annually on renting the land, the property taxes must have been deducted each year and would have no effect on the calculation of the capital gain. The gain would be $150,000 ($175,000 - $25,000).

Note 5 The fair market value of the music collection donated to the university is less than Jimin's adjusted cost base. However, since this is personal use property, the loss is not deductible.

Note 6 Child care expenses cannot be deducted for a child with net income in excess of the basic personal credit ($11,327 for 2015). However, since split income is deducted in the determination of Net Income For Tax Purposes, Jihoon's only Net Income For Tax Purposes is $720, significantly less than this threshold amount.

Taxable Income

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

Net Income For Tax Purposes	$635,200
Less: Lifetime Capital Gains Deduction (Note 7)	(267,450)
Less: Net Capital Loss Carry Forward	(2,000)
Taxable Income	$365,750

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

Capital Gains Deduction Available = $306,800

Maximum lifetime limit on shares [(1/2)($813,600)]	$406,800
Less: used in previous year [(1/2)($200,000)]	(100,000)
Capital Gains Deduction available	$306,800

Annual Gains Limit = $287,450
This limit is equal to A - B, where

A = $287,450
The lesser of the net taxable capital gains (see Note 2) on:

- All Capital Assets = $386,900
- Qualifying Property [(1/2)($574,900)] = $287,450

B = Nil
The total of:

- The amount, if any, by which net capital loss carry overs deducted for the year under ITA 111(1)(b), exceeds the excess of net taxable capital gains for the year [ITA 3(b)] over the amount determined in Part A of this formula. This amount is nil [$2,000 – ($386,900 - $287,450)]; and

- Allowable Business Investment Losses realized during the current year. This amount is also nil.

This provides an annual gains limit of $287,450 ($287,450 - Nil).

Cumulative Gains Limit = $267,450

Annual Gains Limit From Previous Years	$100,000
Current Year Annual Gains Limit	287,450
Less: Previous Lifetime Capital Gains Deduction	(100,000)
Less: CNIL (Given - See Note 8)	(20,000)
Cumulative Gains Limit	$ 267,450

Note 8 Note that if Ms. Son had paid herself sufficient dividends, rather than salary, she could have eliminated her CNIL and increased her lifetime capital gains deduction by $20,000.

Tax Payable

Ms. Son's regular Tax Payable would be determined as follows:

Tax On First $138,586		$29,327
Tax on Next $227,164 ($365,750 - $138,586) at 29%		65,878
Tax Before Credits		$95,205
Tax Credits:		
Basic Personal	($11,327)	
Eligible Dependant ($11,327 - $720)	(10,607)	
CPP	(2,480)	
Canada Employment Credit	(1,146)	
Children's Arts Credit ($500 Maximum)	(500)	
Child Fitness Credit	(200)	
Medical Expenses (Note 9)	(17,792)	
Total Credit Base	($44,052)	
Rate	15%	(6,608)
Charitable Donation Credit (Note 10)		(5,047)
Foreign Tax Credit (Note 11)		(50)
Non-Eligible Dividend Tax Credit [(13/18)($10,800)]		(7,800)
Federal Tax Payable		$75,700

Note 9 The base for Ms. Son's medical expense credit can be calculated as follows:

Eligible Medical Expenses – Jihoon Son	$20,000
Reduced By The Lesser Of:	
• [(3%)($635,200)] = $19,056	
• 2015 Threshold Amount = $2,208	(2,208)
Total Credit Base	$17,792

Note 10 The maximum charitable donation receipt she can receive is for $17,500, the fair market value of the collection donated to the university as it is less than Jimin's adjusted cost base. The credit is $5,047 [(15%)($200) + (29%)($17,500 - $200)]. The First-Time Donor's Super Credit (FDSC) is limited to cash donations, so non-cash donations that qualify for the regular charitable donations tax credit would not qualify for the FDSC.

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

Net Income For Tax Purposes	$635,200
Lifetime Capital Gains Deduction Taken	(267,450)
Capital Loss Carry Forward Deducted	(2,000)
Adjusted Division B Income (= Taxable Income)	$365,750

Her Tax Otherwise Payable would be calculated as follows:

Tax Before Credits	$95,205
Basic Personal Credits	(6,716)
Charitable Donation Credit	(5,047)
Tax Otherwise Payable	$83,442

Since the foreign non-business tax withheld is less than 15 percent of the foreign income, Ms. Son's credit for foreign tax paid would be the lesser of the foreign tax withheld of $50 and an amount determined by the following formula:

[(Foreign Non-Business Income ÷ Adjusted Division B Income)(Tax Otherwise Payable)]
= [($500 ÷ $365,750)($83,442)] = $114

As the amount withheld is the lesser of the two figures, her foreign tax credit is $50.

Alternative Minimum Tax Payable

Ms. Son's Adjusted Taxable Income for alternative minimum tax purposes would be calculated as follows:

Regular Taxable Income	$365,750
30 Percent Of Net Capital Gains [(30%)(2)($386,900)]	232,140
Dividend Gross Up [(18%)($60,000)]	(10,800)
Adjusted Taxable Income (For AMT)	$587,090

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

Adjusted Taxable Income	$587,090
Basic Exemption	(40,000)
Amount Subject To Tax	$547,090
Rate	15%
Minimum Tax Before Credits	$ 82,064
Basic Personal Tax Credits	(6,716)
Charitable Donation Credit	(5,047)
Alternative Minimum Tax Payable	$ 70,301

As the alternative minimum tax payable is less than the regular tax payable, the regular amount would be paid.

Part C

Ms. Son – RRSP, TFSA and cash flow considerations

Ms. Son has asked you to consider whether she should use her TFSA or her RRSP funds if she needs cash in the next few years as her jazz quartet develops a following and becomes a significant source of income for her.

If the condo Ms. Son is planning to buy will be her principal residence, she will be eligible to withdraw funds from her RRSP under the Home Buyers' Plan. Since the maximum withdrawal available under this Plan is $25,000, that may not prove adequate for all her cash needs.

It would be best for her to use her TFSA funds next should she need access to additional cash or if she does not qualify for the Home Buyers' Plan. Withdrawing money from her TFSA will not result in any additional tax cost to Jimin. In addition, she will be able to return funds to her TFSA in the future, which will not be possible if funds are withdrawn from her RRSP other than through the Home Buyers' Plan.

With respect to withdrawing money from her RRSP other than through the Home Buyers' Plan, it is possible to do so, but not recommended. These withdrawals from an RRSP account will be taxed in the year of withdrawal. Also, this type of RRSP withdrawal does not result in an increase in the ability to make future contributions, so it would result in a permanent reduction in the amount of money that Ms. Son could save for her retirement in a tax deferred savings arrangement.

Solution to Assignment Problem Eleven-9

Part A

Mr. Kim's net employment income would be calculated as follows:

Salary	$71,500
RPP Contributions	(3,100)
Housing Benefit (12 Months At $2,500)	30,000
Less: Rents Paid	(18,000)
Director's Fees	1,300
Performance Award	3,600
Automobile Benefit:	
Standby Charge [(2%)(12)($42,000)(4,000 ÷ 20,004*)]2,016	
Operating Cost: Lesser Of:	
• [(1/2)($2,016)] = $1,008	
• [(0.27)(4,000)] = $1,080	1,008
Stock Option Benefits [(500)($9 - $5)]	2,000
Net Employment Income	$90,324

* [(12)(1,667)]

Part B

Since Mr. Kim's son is over 17 years of age, the eligible dividends are not attributed to Mr. Kim. Mr. Kim's income from property would be calculated as follows:

Royalties On Patent	$29,400
Interest On Bonds	960
Income From Property	$30,360

Part C

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

Listed Personal Property:			
Proceeds From Necklace	$1,100		
Deemed Cost ($1,000 Floor)	(1,000)	$ 100	
Proceeds From Painting	$3,800		
Cost	(5,100)	(1,300)	Nil
Personal Use Property:			
Graphic Novel Collection		Nil	
Proceeds From Assault Rifles		$8,000	
Cost		(6,200)	
Capital Gain		$1,800	
Inclusion Rate		1/2	$900
Net Taxable Capital Gains			$900

See Part G for Listed Personal Property loss carry forward. The loss on the graphic novel collection of $1,500 ($1,000 Floor - $2,500) is not deductible as it is personal use property.

Part D

The TFSA withdrawal and contribution have no effect on Net Income For Tax Purposes. Mr. Kim's Net Income For Tax Purposes would be calculated as follows:

Employment Income	$ 90,324
Income From Property	30,360
Taxable Capital Gain	900
Spousal RRSP Contribution (Actual - See Note)	(4,200)
Net Income For Tax Purposes	$117,384

Note As you are asked to assume that Mr. Kim's RRSP Earned Income for 2014 is equal to his Earned Income for 2015, this figure would be calculated as follows:

Net Employment Income	$90,324
RPP Deduction	3,100
2015 RRSP Earned Income	$93,424

Given this, his RRSP deduction room for 2015 would be calculated as follows:

January 1, 2015 Unused Deduction Room	Nil
2015 Addition - Lesser Of	
2015 Limit = $24,930	
[(18%)($93,424)] = $16,816	$16,816
2014 PA [(2)($3,100)]	(6,200)
Maximum 2015 Deduction Room	$10,616

While Mr. Kim's deduction room is $10,616, his actual deduction is limited by the fact that his spousal contribution during 2015 is only $4,200.

Part E

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

Net Income For Tax Purposes	$117,384
Stock Option Deduction [(1/2)($2,000)]	(1,000)
Taxable Income	$116,384

Part F

Mr. Kim's federal Tax Payable would be calculated as follows:

Federal Tax On First $89,401		$16,539
Federal Tax On Next $26,983 ($116,384 - $89,401) At 26 Percent		7,016
Gross Federal Tax		$23,555
Tax Credits:		
Basic Personal Amount	($11,327)	
Spousal ($11,327 - $3,400)	(7,927)	
CPP	(2,480)	
EI	(931)	
Canada Employment	(1,146)	
Transfer Of Son's Tuition, Education And Textbook - Lesser Of (See Note):		
• $5,000		
• [$4,500 + (4)($400) + (4)($65)] = $6,360	(5,000)	
Credit Base	($28,811)	
Rate	15%	(4,322)

Federal Tax Payable	$19,233

Note As his son's income of $6,336 [$3,300 + (138%)($2,200)] is below the basic personal amount, he will have no Tax Payable and he will be able to transfer the maximum $5,000 amount. Since his son is over 15, there is no child fitness credit available. There is no caregiver credit for Mr. Kim's father because he is not a resident of Canada.

Part G

Mr. Kim would have a listed personal property loss carry over of $1,200 [(1/2)($100 - $1,300)]. This unused loss can be carried back three years and forward for seven years, but it can only be deducted against net taxable capital gains on listed personal property.

Mr. Kim's son has unused education related amounts of $1,360 ($6,360 - $5,000). He can carry them forward and deduct them in any future year.

Part H

Since Mr. Kim's son is 19, in 2015 he can contribute up to $15,500 ($5,500 for 2014 + $10,000 for 2015) into a TFSA. As there is no information on his prior employment income, it is not possible to calculate his RRSP deduction room for 2015, but given his $3,300 employment income, he can contribute at least $594 in 2016.

Since he currently has a portfolio of public company shares, it would be advisable that he sell some of those shares to contribute the maximum each year to a TFSA and an RRSP where the earnings can accumulate tax free.

Although the shares could be transferred, with the low transaction costs available, transferring shares directly has minimal advantages and possible disadvantages since any gains are taxable and any losses are non-deductible.

He should not deduct the RRSP contributions unless doing so will enable him to transfer more of his education related credits to his father (if that is still the agreement) or he has tax payable.

Solution to Assignment Problem Eleven-10

Part A

Adam's Employment Income

Adam's net employment income would be calculated as follows:

Salary	$350,000
Additions:	
Travel Allowances (Note 1)	
Hotels And Food	Nil
Use Of Personal Automobile	15,600
Stock Option Benefit [(1,000)($28 - $25)]	3,000
Deductions:	
Hotels And Food (Note 1)	Nil
Automobile Costs (Note 2)	(14,805)
RPP Contributions	(12,300)
Net Employment Income	$341,495

Note 1 Given his actual costs, the allowance for hotels and food seems reasonable. This means it does not have to be included in income. However, this will prevent Adam from deducting his actual costs. With respect to the allowance for personal use of his automobile, it is not based on kilometers driven and this means it cannot be considered "reasonable". It must be included in income.

Note 2 His deductible automobile costs would be calculated as follows:

Operating Costs Paid	$11,300
CCA On Class 10.1 [(1/2)(30%)($30,000)]	4,500
Total Automobile Costs	$15,800
Employment Related Percentage (59,000 ÷ 63,000)	93.7%
Total Deductible Costs	$14,805

The luxury car rules limit the capital cost of the car to $30,000 for vehicles purchased during 2015.

Adam's Net And Taxable Income

Adam's Net Income For Tax Purposes and Taxable Income can be calculated as follows:

Net Employment Income	$ 341,495
Taxable Capital Gains On Donation (Note 3)	57,500
Recapture On Donation (Note 3)	30,141
Net Income For Tax Purposes	$429,136
Stock Option Deduction [(1/2)($3,000)]	(1,500)
Taxable Income - Adam	$427,636

Note 3 The taxable capital gains realized on Adam's donation to the Red Cross would be calculated as follows:

	Land	Building
Proceeds Of Disposition	$75,000	$250,000
Adjusted Cost Base/Capital Cost	(60,000)	(150,000)
Capital Gain	$15,000	$100,000
Inclusion Rate	1/2	1/2
Taxable Capital Gains	$ 7,500	$ 50,000

The recapture on this donation would be calculated as follows:

Capital Cost Of Building	$150,000
January 1, 2015 UCC	(119,859)
Recapture	$ 30,141

Adam's Base Tax Payable

Since Estelle's Net Income will be higher than the income threshold for medical expenses of $73,600 ($2,208 ÷ 3%), it makes no difference to the family's tax liability who claims the credits either spouse can claim. As a result, as stated in the problem, Adam will claim these credits. Adam's Base Tax Payable would be calculated as follows:

Tax On First $138,586		$ 29,327
Tax On Next $289,050 ($427,636 - $138,586) At 29 Percent		83,825
Tax Before Credits		$113,152
Personal Non-Refundable Credits:		
Basic Personal Amount	($11,327)	
Spousal (Income Too High)	Nil	
Volunteer Firefighters	(3,000)	
Children's Art - Lesser Of:		
Actual Costs = $2,400		
Annual Limit = $500	(500)	
Public Transit Pass (Given)	(2,400)	
Transfer Of Portia's Education Related Amounts (Note 4)	(5,000)	
Caregiver For Jack (Includes FCA)	(6,701)	
Medical Expenses (Note 5)	(4,653)	
EI Premiums	(931)	
CPP Contributions	(2,480)	
Canada Employment	(1,146)	
Credit Base For Personal Credits	($38,138)	
Rate	15%	(5,721)
Charitable Donations (Note 6)		(94,222)
Adam's Base Tax Payable		$ 13,209

Note 4 Portia's available education related amounts would be calculated as follows:

Tuition	$3,900
Education [(4)($400)]	1,600
Textbook [(4)($65)]	260
Total	$5,760

The amount of the transfer is the $5,000 maximum as it is less than the total amount available of $5,760.

Note 5 The base amount for medical expenses would be calculated as follows:

Adam, Estelle, And Portia ($1,350 + $360 + $820 + $500)		$3,030
Reduced By The Lesser Of:		
• [(3%)($429,136)] = $12,874		
• 2015 Threshold Amount = $2,208		(2,208)
Jack's Medical Expenses	$4,200	
Reduced By The Lesser Of:		
• [(3%)($12,300)] = $369		
• $2,208	(369)	3,831
Allowable Medical Costs		$4,653

The fees for teeth whitening and breast enhancement would be considered cosmetic and would not be allowable medical costs.

Note 6 The maximum charitable donation that Adam can use in the current year is calculated as follows:

Net Income [(75%)($429,136)]	$321,852
Taxable Capital Gains [(25%)($57,500)]	14,375
Recapture [(25%)($30,141)]	7,535
Limit	$343,762

Since the limit is greater than the amount of the tax receipt, the entire $325,000 can be used in 2015. This gives a credit of $94,222 [(15%)($200) + (29%)($325,000 - $200)].

Estelle's Net And Taxable Income

Estelle's Net Income For Tax Purposes and Taxable Income would be calculated as follows:

Universal Child Care Benefits		$ 720
Non-Eligible Dividends		32,000
Gross Up [(18%)($32,000)]		5,760
Taxable Capital Gain On GHI Shares [(1/2)($302,000)]	$151,000	
Allowable Capital Loss On JKL Shares (Note 7) [(1/2)($20,000)]	(10,000)	141,000
Net Income For Tax Purposes		$179,480
Net Capital Loss Carry Forward		(15,000)
Lifetime Capital Gains Deduction (Note 8)		(90,800)
Taxable Income - Estelle		$ 73,680

Note 7 Normally, the loss on the JKL shares would be classified as a business investment loss (BIL) and be deductible against any source of income. However, BILs are disallowed to the extent of previous use of the lifetime capital gains deduction. When disallowed, they become a regular capital loss that can only be deducted against capital gains.

Note 8 The lifetime capital gains deduction would be the least of the following three amounts:

Beginning Amount For 2015 [(1/2)($813,600*)]	$406,800
Amounts Used:	
[(1/2)($500,000 - $275,000)]	(112,500)
[(1/2)($623,000 - $216,000)]	(203,500)
Amount Available	$ 90,800

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

Lesser Of:	
• Net Taxable Capital Gains = $141,000	
• Net Taxable Capital Gains On Qualified Property = $151,000	$141,000
Net Capital Loss Carry Forward Deducted	(15,000)
Annual Gains Limit	$ 126,000

Sum Of Annual Gains Limits	
($112,500+ $203,500 + $126,000)	$442,000
Amounts Deducted In Previous Years	
($112,500 + $203,500)	(316,000)
Cumulative Gains Limit	$126,000

The least of these amounts is $90,800, the amount available.

Estelle's Base Tax Payable

Tax On First $44,701	$ 6,705
Tax On Next $28,979 ($73,680 - $44,701) At 22 Percent	6,375
Tax Before Credits	$13,080
Basic Personal Credit [(15%)($11,327)]	(1,699)
Dividend Tax Credit [(13/18)($5,760)]	(4,160)
Estelle's Regular Tax Payable	$ 7,221

Because of her extensive use of the lifetime capital gains deduction, it is necessary to calculate her alternative minimum tax:

Regular Taxable Income	$ 73,680
30 Percent Of Net Capital Gains [(30%)(2)($141,000)]	84,600
Dividend Gross Up	(5,760)
30 Percent Of Net Capital Loss Carry Forward	
[(30%)(2)($15,000)]	(9,000)
Adjusted Taxable Income	$143,520
AMT Exemptions	(40,000)
AMT Base	$103,520
Rate	15%
Federal AMT Before Credit	$ 15,528
Basic Personal Credit	(1,699)
Estelle's Federal AMT	$ 13,829

Estelle's Base Tax Payable would be the AMT amount of $13,829 as it is larger than her regular Tax Payable.

Combined Base Tax Payable

The combined Base Tax Payable for Adam and Estelle would be $27,038 ($13,209 + $13,829).

Part B

The Required Transfer

In calculating the combined Adjusted Base Tax Payable, the required transfer would be the lesser of $50,000 and $176,978 [($427,636 - $73,680) ÷ 2]. Transferring the lesser amount of $50,000 will leave the following:

Adjusted Taxable Income - Adam ($427,636 - $50,000) $377,636

Adjusted Taxable Income - Estelle ($73,680 + $50,000)$123,680

Estelle's Adjusted Base Tax Payable

Estelle's Adjusted Base Tax Payable would be calculated as follows:

Tax On First $89,401	$ 16,539
Tax On Next $34,279 ($123,680 - $89,401) At 26 Percent8,913	
Tax Before Credits	$25,452
Basic Personal Credit [(15%)($11,327)]	(1,699)
Dividend Tax Credit [(13/18)($5,760)]	(4,160)
Regular Tax Payable	$19,593

Regular Taxable Income	$123,680
30 Percent Of Capital Gains [(30%)(2)($151,000)]	84,600
Dividend Gross Up	(5,760)
30 Percent Of Net Capital Loss Carry Forward [(30%)(2)($15,000)]	(9,000)
Adjusted Taxable Income	$193,520
AMT Exemptions	(40,000)
AMT Base	$153,520
Rate	15%
Federal AMT Before Credit	$ 23,028
Basic Personal Credit	(1,699)
Federal AMT	$ 21,329

Estelle's Adjusted Base Tax Payable would be the AMT amount of $21,329.

Adam's Adjusted Base Tax Payable

Adam's Adjusted Base Tax Payable would be calculated as follows:

Tax On First $138,586		$29,327	
Tax On Next $239,050 ($377,636 - $138,586) At 29 Percent		69,325	
Tax Before Credits		$98,652	
Personal Non-Refundable Credits:			
Basic Personal Amount	($11,327)		
Spousal (Income Too High)	Nil		
Volunteer Firefighters	(3,000)		
Children's Art - Lesser Of:			
Actual Costs = $2,400			
Annual Limit = $500	(500)		
Public Transit Pass (Given)	(2,400)		
Transfer Of Portia's Education Related Amounts (Note 4)	(5,000)		
Caregiver For Jack (Includes FCA)	(6,701)		
Medical Expenses (Note 5)	(4,653)		
EI Premiums	(931)		
CPP Contributions	(2,480)		
Canada Employment	(1,146)		
Spousal Adjustment	Nil		
Credit Base For Personal Credits	($38,138)		
Rate	15%	(5,721)	
Charitable Donations (See Previous Calculation)		(94,222)	
Adam's Adjusted Base Tax Payable (Note 9)		Nil	

Note 9 Adam's charitable donation credit is larger than needed to eliminate his Adjusted Base Tax Payable. However, it cannot be changed in this calculation as it is all needed to minimize his Base Tax Payable.

Combined Adjusted Base Tax Payable

The combined Adjusted Base Tax Payable would total $21,329 ($21,329 + Nil).

Part C

The Family Tax Cut for Adam and Estelle would the lesser of $2,000 and $5,709 ($27,038 - $21,329. The lesser figure is $2,000.

Part D

The combined Tax Payable for Adam and Estelle, after the application of the Family Tax Cut would be calculated as follows:

Adam's Tax Payable Before The Family Tax Cut (Same As Base Tax Payable)	$13,209
Family Tax Cut Claimed By Adam (Maximum)	(2,000)
Estelle's Tax Payable (Same As Base Tax Payable)	13,829
Combined Tax Payable After The Family Tax Cut	$25,038

Part E

Portia would have an education related amount of $760 to carry forward for her own use.

Estelle would have an excess of AMT over regular Tax Payable claimed of $6,608 ($13,829 - $7,221). This excess can be carried forward for up to seven years to be applied against any future excess of regular Tax Payable over the alternative minimum tax. Note that with the amount of the ITA 110.6 deduction claimed in the past, it is probable that Estelle already has an AMT amount carry forward, but no information on this is provided in the problem.

Solution to Problem Tax Software Eleven - 1

This problem and solution contain 2014 (not 2015) information as software for 2015 is not yet available. Shortly after the first filing version of the 2015 Intuit ProFile software is available in January, 2016, the updated 2015 version of this problem will be available on the textbook web site at:

www.pearsoncanada.ca/byrdchen/ctp2016

The complete tax return is available in both ProFile and PDF format at the Instructor's Resource Centre on the online catalogue listing for this book, at:

catalogue.pearsoned.ca

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

Notes To Tax Return

- Mr. Musician claims the maximum Family Tax Cut of $2,000 as you would expect.
- When the Universal Child Care Benefits are input on Buddy's Form RC62, the amounts will be transferred to show on S2 as Natasha's income.
- Mr. Musician can claim the caregiver tax credit for both his father and mother. He can claim the full amount because neither has income in excess of the threshold. Eunice's caregiver tax credit includes the family caregiver amount. Earl's caregiver tax credit does not as he is not disabled.
- The ITA 118(1)(d) infirm dependant over 17 tax credit is only available for dependants who have attained the age of 18 by the end of the year and are dependent because of mental or physical infirmity. The only dependant of Mr. Musician who satisfies these criteria is his mother. However, since he is claiming the caregiver tax credit for her, he cannot claim this credit for her.
- Mr. Musician's mother's unused disability tax credit can be transferred to him. If she filed a tax return, her age credit would eliminate any Tax Payable.
- The medical expense rules require that the medical expense payments be paid in respect of medical services provided to persons who are dependants of Buddy within the meaning of ITA 118(6). ITA 118(6) requires that the persons be dependent on Buddy at some point during the year for support and that they are his children. Since it is stated in the problem that the children of Ms. Nurse and Mr. Musician are not dependent on him for support, Megan's medical expenses cannot be claimed by him.
- An individual can claim a tax credit based on the medical expenses of a spouse and any other individual who meets the ITA 118(6) definition of a dependant. The medical expenses of Lori Musician ($300) and Dolly Nurse ($675) would not be eligible as neither woman is his spouse or common-law partner.
- Although the spousal support can be deducted, the child support payments cannot be deducted.
- The transfer of education related amounts is limited to $5,000 per child. For Richard, the total of $4,860 [$3,000 + (4)($400) + (4)($65)] is within this limit. Sarah has available amounts of $15,180 [$9,600 + (12)($400) + (12)($65)], well over the limit. Given this, the maximum transfer for Sarah is $5,000. However, the $10,180 excess can be carried forward indefinitely to be used against her future Tax Payable.

- Mr. Musician's age credit is nil as his Net Income For Tax Purposes is higher than the income threshold.

- Mr. Musician is not eligible for the refundable medical expense supplement or the working income tax benefit as his Net Income For Tax Purposes is too high.

- The Industry Code must be chosen from the list near the top right corner of the T2125. The appropriate choice is 711130, "Musical Groups and Artists".

- The royalties are received from Buddy's work as a composer. As a result they are entered as professional income on the T2125. His rent of $1,400 (2 months) and CCA on his piano are deducted on the T 2125. Although he would have to be a GST registrant given his level of self-employed income, the problem states that GST/HST implications should be ignored.

- There is no tax effect from the TFSA contribution or the growth in value in his TFSA account.

- There is no CPP payable on Mr. Musician's self-employed income as he has elected to stop contributing to the CPP on Schedule 8. The election to stop CPP contributions on his employment income must be filed with his employer.

Tax Planning Points

- Richard, Sarah, Eunice, and Earl should all file tax returns in order to receive the GST credit. Filing a tax return will also make the unused education related tax credits of Richard and Sarah easier to keep track of for carry forward purposes. Sarah, Eunice, and Earl will need to have a Social Insurance Number to file returns.

- Buddy has paid the dental expenses for Ms. Nurse and Megan Nurse, but cannot claim them as Ms. Nurse is not a spouse and Megan is not a dependant of Buddy's. Ms. Nurse cannot claim the dental expenses as she has not paid for them. If there is an agreement between Buddy and Ms. Nurse that requires him to pay her and their children's dental and medical expenses, or he chooses to pay these costs for other reasons, it would be better from a tax point of view if Buddy gave Ms. Nurse the funds to pay the medical expenses rather than pay them personally. That way Ms. Nurse could claim the expenses that he cannot.

- Since Buddy cannot deduct Lori Musician's medical expenses either, it would be better from a tax point of view if he gave Lori the funds to pay her own expenses so that she can claim them.

- Pension income splitting could be advantageous for Mr. Musician if he had eligible pension income. However it is available on annuity payments out of an RRSP, but not on non-annuity withdrawals such as he made. If he thinks he will require funds from his RRSP on a regular basis before he turns 71, he could set up an annuity in his RRSP in order to take advantage of the pension income tax credit and pension income splitting. Alternatively, he could transfer some or all of his RRSP funds into a RRIF. Any withdrawals from the RRIF would be eligible for both the pension income credit and pension splitting. Note that if he chooses to pension income split, he would no longer be eligible for the Family Tax Cut.

- Mr. Musician could apply to split his CPP pension income with his wife.

- Mr. Musician should analyze whether any future funds needed should be withdrawn tax free from his TFSA or on a taxable basis from his RRSP (as he has already done this year). Since he can replace funds withdrawn from a TFSA in the following year, tax free TFSA withdrawals would appear to be the more advantageous alternative.

- Mr. Musician should consider contributing to a spousal RRSP in the future. Although he will not be able to contribute to his own RRSP after he turns 71, he can contribute to an RRSP in the name of his wife until she is 71 (should he live so long).

- Mr. Musician should also consider RESPs for his minor children and TFSAs for his wife and Sarah. The decision as to whether he should contribute to a spousal RRSP, RESPs or TFSAs requires the consideration of many factors (see the text).

Solution to Problem Tax Software Eleven - 2

This problem and solution contain 2014 (not 2015) information as software for 2015 is not yet available. Shortly after the first filing version of the 2015 Intuit ProFile software is available in January, 2016, the updated 2015 version of this problem will be available on the textbook web site at:

www.pearsoncanada.ca/byrdchen/ctp2016

The complete tax return is available in both ProFile and PDF format at the Instructor's Resource Centre on the online catalogue listing for this book, at:

catalogue.pearsoned.ca

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

Notes To Tax Return

- Mr. Pharmacy claims the maximum Family Tax Cut of $2,000 as you would expect.
- Since Valerie's father David is not a Canadian resident, he cannot be claimed as a dependant. His medical expense cannot be claimed either.
- Valerie's age credit is transferred to George as her Net Income For Tax Purposes is less than the basic personal amount.
- On the Dependants form, for Kevin and Joan the question "Qualify for family caregiver amount?" must be answered yes. Given the doctor's letter, Joan would qualify.
- Kevin's disability credit for all ages and his disability supplement credit for under 18 are transferred to George. The $3,500 in childcare costs will decrease the disability supplement available and is entered on the Dependants form.
- On the Dependants form for Kevin, the $700 child fitness amount and the $250 children's arts amount should be input. The program will automatically add the $500 supplements for disabled children on Schedule 1.
- Martin's education related credits can only be transferred to a spouse, parent, or grandparent. As a result, they cannot be transferred to George and must be carried forward by Martin for his own use.
- Although it will not affect George Pharmacy, Martin should file his tax return to receive the GST credit. Filing a tax return will also make his education related tax credits easier to keep track of for carry forward purposes.
- Joan Drugstore should file a tax return to receive the GST credit. She would need a Social Insurance Number before she can file a return.
- The reimbursement of George's employment expenses has no effect on his income taxes.
- The cost of a residential phone line, the internet connection, mortgage interest, and mortgage life insurance premiums cannot be deducted as work space in the home costs. George's work space in the home expenses are input on form T777Details. George lives in Ontario, so his expenses would normally include HST. Since we are ignoring HST implications, this means that we are ignoring the GST/HST rebate. At the top of the T777Details form "Do you qualify for the GST/HST Rebate?" is answered "No". With that box ticked, it does not make a difference to the calculations what column the expenses are put into.

- The new computer and software are capital assets and no part of their cost can be deducted as an employment expense.

- As the deduction of CCA cannot be used to create or increase a net rental loss, maximum CCA cannot be taken. When the maximum CCA cannot be deducted, the CCA should usually be taken from the classes with the lowest rates. In this case, the Class 1 building at 4 percent is less than the 20 percent applicable to Class 8. Since the building was not a new building, the applicable rate is 4 percent, not 6 percent. While CCA of $4,297 [(4%)($107,441)] is available on Class 1, only $1,788 can be taken.

- The motorcycle and sailboat would be classified as personal use property. Therefore, the loss realized on the motorcycle cannot be recognized. The taxable capital gain on the disposition of the Molson Inc. shares, the Imperial Oil shares, and the sailboat is calculated as follows:

	Molson Inc.	**Imperial Oil**	**Sailboat**
Proceeds Of Disposition	$37,000	$ 9,600	$74,000
Adjusted Cost Base	(27,600)	(12,100)	(72,000)
Selling Costs	(35)	(29)	N/A
Capital Gain (Loss)	$ 9,365	($ 2,529)	$ 2,000
Inclusion Rate	1/2	1/2	1/2
Taxable Capital Gain	$ 4,683	($ 1,265)	$ 1,000

- The net taxable capital gain is $4,418 ($4,683 - $1,265 + $1,000).

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

- The painting and coin collection are classified as listed personal property. The gain and loss calculations are as follows:

	Painting	**Coin Collection**
Proceeds Of Disposition (Minimum = $1,000)	$1,100	$ 1,000
Adjusted Cost Base (Minimum = $1,000)	(1,000)	(1,800)
Capital Gain (Loss)	$ 100	($ 800)
Inclusion Rate	1/2	1/2
Taxable Capital Gain (Allowable Loss)	$ 50	($ 400)

- As losses on listed personal property can only be claimed against gains on such property, the unused loss of $350 ($400 - $50) cannot be applied in the current year. However, the loss can be carried forward for 7 years.

Tax Planning Points

- George should immediately open a spousal RRSP and contribute as much as he can for as long as he can. Since Valerie is one year older than he is, George will be able to contribute to his own RRSP for one year more than he could to a spousal RRSP. The pension income splitting rules should benefit him when he begins to withdraw from his RRIF. Since he and Valerie are approaching 71 years of age, he does not have much time to contribute to RRSPs.

- Given his employment income and the fact it appears his employer does not have an RPP, he should have considerable RRSP deduction room. Since Kevin is blind, it is likely that he would be considered a financially dependent child. As a result, if Kevin is named the beneficiary of the RRSP or RRIF on the death of George and Valerie, the tax burden to the estate could be considerably reduced.

- George should consider an RESP for Kevin. Since Kevin blind, he can also be a beneficiary of an RDSP. If George makes any contributions to these plans, he should try to maximize the Canada Education Savings Grant and the Canada Disability Savings Grant that the government will contribute.

- George should consider TFSAs for himself and his wife. The decision as to whether he should contribute to a spousal RRSP, an RESP, an RDSP or TFSAs requires the consideration of many factors (see the text).

Solution to Problem Tax Software Eleven - 3

Solution For Tax Software Assignment Problem 11-3 Contains Chapter 8 Interim Solution

Tax Software Assignment Problem Eleven-3 is a very comprehensive problem. The material related to each chapter is clearly identified to help users determine where the relevant coverage is in the textbook.

For instructors wishing to assign a tax software problem after Chapter 4, but before Chapter 11, an interim solution is available for the material up to and including Chapter 8 (capital gains).

> This problem and solution contain 2014 (not 2015) information as software for 2015 is not yet available. Shortly after the first filing version of the 2015 Intuit ProFile software is available in January, 2016, the updated 2015 version of this problem will be available on the textbook web site at:
>
> **www.pearsoncanada.ca/byrdchen/ctp2016**
>
> The complete tax returns for Chapter 8 and Chapter 11 are available in both ProFile and PDF format at the Instructor's Resource Centre on the online catalogue listing for this book, at:
>
> **catalogue.pearsoned.ca**
>
> For more information on how to use the ProFile tax program, please refer to the sample tax returns in the Study Guide.

Notes Related To Chapter 4 Material

Either spouse can claim the charitable donations made by the couple, including donations shown on Mary's T4. As we are assuming Seymour has no income at this point, they have been claimed by Mary.

Notes Related To Chapter 6 Material

If The Separate Chapter 4 Version Was Completed In the separate Chapter 4 version of this problem, it was assumed that Seymour had no income for 2014. With the information on Seymour's income available in the Chapter 6 material of the problem, the child tax credit and charitable donations should be transferred to Seymour (see last bullet for this Chapter).

- To transfer the child tax credit, go to the form, Dependants on Mary's return. Answer No to the question near the top of the form "Claim child amount?". Seymour's return will automatically show Yes to this question.
- To transfer the donations in the program, open the form Donations on Mary's return. On your mouse, click the right button (i.e. alternate click) and select "Transfer all donations". All donations, including the "Reported on slips" line containing $1,000, will be transferred to Seymour's return.
- Since the course at Dalhousie did not have any relevance to Seymour's work, he does not have the option of deducting the course fees or travel to the University as a business expense.
- When inputting the T4A for Seymour, the payment entered into box 48 (Professional) will be carried forward to the T2125.
- The Industry Code must be chosen from the list near the top right corner of the T2125. The appropriate choice is 711513, "Independent Writers and Authors".
- The installation of the new gas furnace is not deductible as a house cost. It should be capitalized and will increase the capital cost of the house. The life insurance premiums on the mortgage are not deductible as house costs as the mortgagee does not require life insurance. The payments on principal are not deductible.
- The interest on the late property taxes is included in the deductible home office costs as part of the property taxes paid.

- To enter the interest paid on the car loan, the commencement and termination dates for the interest must be input. The loan has been outstanding since the car was purchased on February 15, 2011, and will be paid back after four years. The deductible auto interest costs limit of $10 per day is not relevant as the loan was outstanding for the year. As a result, all of the interest paid is included in the calculation of deductible interest.
- The CCA on the car of $1,116.23 [(30%)($15,470)(8,412 km ÷ 34,975 km)] is deducted as part of the total CCA on line 9936 of the T2125. Note that the CCA for Class 10.1 on the T2125 CCA Summary is only the deductible portion of $1,116.23. The maximum CCA of $4,641 [(30%)($15,470 UCC)] has been adjusted by the portion of business usage from the T2125CCA form for the car.
- Either spouse can claim the child tax credit, the children's arts credit, the Family Tax Cut and charitable donations made by the couple, including donations on T4s. Since Mary would be getting a refund and Seymour has insufficient instalments (see Chapter 7 material), these should all be claimed by Seymour to reduce his tax liability.

Forms Used Or Revised For Chapter 6 Material

- Seymour's return is created
- If Chapter 4 problem was previously completed, the donations, Family Tax Cut and child tax credit previously claimed by Mary are transferred to Seymour

Notes Related To Chapter 7 Material

- The "Other income - interest" on Mary's T3 appears on Line 130 on the T1, not on Schedule 4.
- Of the amounts listed for interest and penalties paid by Seymour, the following are deductible on his Statement Of Business or Professional Income (T2125):

Interest on credit cards for business expenses	$627.27
Interest on laptop and software loan	104.24
Interest deductible from professional income	$731.51

- The interest of $1,372.52 on the loan to purchase XXX Art Films securities is deductible from investment income on Schedule 4. Although he no longer holds the securities in the Company, ITA 20.1 permits the interest on the borrowed funds to be deducted (disappearing source rules).
- The following interest and penalties paid are not deductible:

Interest on loan to make 2013 RRSP contribution	$162.15
Interest on late payment of 2013 income tax	233.72
Interest on insufficient tax instalments for 2013	52.81
Interest on late GST/HST payments	212.82
Penalty for late filing of 2013 tax return	303.92

- Note that while penalties for late tax returns and interest on late payment of income taxes and GST/HST, and insufficient instalments are not deductible, interest paid due to late payment of property taxes is deductible. The interest on the late property taxes was deducted as part of the property taxes in his home office costs.
- Since Seymour filed late last year, his penalty for late filing this year will be doubled. He should not file late (June 15 deadline) and he should attempt to pay his taxes by April 30.
- As Seymour appears to have made no instalments for 2014, he should be strongly advised to pay his instalments for 2015 on time to prevent more non-deductible interest.

- As mentioned in the Chapter 6 Notes, Seymour should claim all the family tax credits possible as Mary does not need to pay instalments for 2014 and Seymour should have. He will be charged interest on his insufficient instalments and it is advisable to decrease his tax liability.
- As the deduction of CCA cannot be used to create or increase a net rental loss, maximum CCA cannot be taken. When the maximum CCA cannot be deducted, the CCA should usually be taken from the classes with the lowest rates. However, in this case, since the rental income before CCA is only $180.04, it is advisable to take the CCA on the appliances (20 percent) rather than the house (4 percent).

  Since Seymour has been living in Mary's house since 2012, and only one taxpayer in a family unit can designate a property as a principal residence for a particular year, it is improbable that he will designate the Moncton property as a principal residence after 2012. As a result, the fact that it is more likely the appliances will decrease in value is the key factor for the decision to take CCA on them. The CCA on the building would be recaptured on a subsequent sale if the proceeds were greater than the UCC.

Forms Used Or Revised For Chapter 7 Material

- Schedule 4 for both Seymour and Mary is filed
- The rental statement for Seymour is created
- Seymour's T2125 is revised for interest paid of $731.51

Notes Related To Chapter 8 Material

The adjusted cost base of the Extreme Wi-Fi Technologies shares are calculated using the average cost as follows:

Acquisition Date	Shares Purchased (Sold)	Cost Per Share	Total Cost	Average Cost/Share
April 1, 2012	1,500	$ 2.00	$ 3,000	
October 1, 2012	2,000	12.00	24,000	
Subtotal	3,500		$27,000	$ 7.71
April 1, 2013	(1,000)	(7.71)	(7,710)	
June 1, 2013	400	25.00	10,000	
Subtotal	2,900		$29,290	$10.10
January 6, 2014	(800)	(10.10)	(8,080)	
February 1, 2014	800	20.00	16,000	
Subtotal	2,900		$37,210	$12.83
March 14, 2014	(600)	(12.83)	(7,698)	
December 31, 2014 Balances	2,300		$29,512	$12.83

The superficial loss rules are not applicable to the January 6 sale as there were no losses.

The taxable capital gains and losses on the securities are as follows:

	Disposition 1	Disposition 2	Disposition 3
Proceeds Of Dispositions	$11,806	$13,465	$2,982
Adjusted Cost Base	(8,080)	(7,698)	(5,300)
Selling Costs	(29)	(29)	N/A
Capital Gain (Loss)	$ 3,697	$ 5,738	($2,318)
Inclusion Rate	1/2	1/2	1/2
Taxable Capital Gain	$ 1,849	$ 2,869	($1,159)

The jewelry is classified as listed personal property. The dining room set and chandelier are classified as personal use property. As a result, the loss realized on the dining room set cannot be recognized. For the capital gain and loss calculations for both listed personal property and personal use property, a minimum value of $1,000 applies to both the proceeds of disposition and the adjusted cost base. Since the gold ring has proceeds of disposition and an adjusted cost base of less than $1,000, there is no gain or loss on the sale of the ring. The gain and loss calculations are as follows:

	Diamond Pendant	**Pearl Brooch**	**Chandelier**
Proceeds Of Disposition (Minimum = $1,000)	$4,000	$1,300	$ 1,500
Adjusted Cost Base (Minimum = $1,000)	(5,800)	(1,000)	(1,000)
Capital Gain (Loss)	($1,800)	$ 300	$ 500
Inclusion Rate	1/2	1/2	1/2
Taxable Capital Gain (Allowable Loss)	($ 900)	$ 150	$ 250

As losses on listed personal property can only be claimed against gains on such property, the unused allowable capital loss of $750 ($900 - $150) cannot be applied in the current year. However, the loss will be available for carry overs to other years. As covered in Chapter 11, the loss can be carried back three years and forward seven years.

The total taxable capital gain is $3,809 ($1,849 + $2,869 - $1,159 + $250).

Forms Used Or Revised For Chapter 8 Material

- Schedule 3 is created for Mary (S3Details)

Notes Related To Chapter 9 Material - Moncton Property

- Seymour lived in the Moncton house from 2001 until 2012 and he would designate the house as his principal residence for these 12 years. Assuming the property is transferred to his daughter in 2014 (in reality, given the date of his death, this would be almost impossible), he would have owned the property for an additional two years, for a total of 14 years.

- Seymour has been living in Mary's house since his marriage to her in 2012. Since only one taxpayer in a family unit can designate a property as a principal residence for a particular year, he would not designate the Moncton property as a principal residence after 2012.

- The total capital gain would be $45,000 ($240,000 - $195,000). The gain reduction formula would calculate his capital gain as $3,214 [$45,000 - ($45,000)(12 + 1) ÷ 14].

- The ACB of the land is input as a Class 90 asset that has been disposed of for its ACB. The capital gain on the building and land is accounted for on the T2091 (Principal residence designation).

- Since the disposition of the rental property occurs before the end of 2014, the Statement of Real Estate Rentals would show the disposition of the building and appliances. The proceeds of disposition of the building, for CCA purposes, would equal its capital cost and UCC of $150,000.

- The disposition of the appliances would create a terminal loss. Note that on the second line of the form T776 CCA, the question "Terminal loss?" must be answered "Yes" to have a terminal loss calculated. The UCC at the beginning of the year was $1,350. The deemed proceeds of disposition is the fair market value at his death of $700. This creates a terminal loss of $650 ($1,350 - $700). When combined with the rental income before CCA of $180.04, this leaves a net rental loss of $469.96. Since the loss was created by a terminal loss, it is not limited and is deductible.

- Since all of his other assets have been willed to Mary, any other deemed dispositions would take place at his tax values unless Mary, as his executor, elects out of the ITA 70(6) rollover.

Notes Related To Other Chapter 9 Material

- The amount paid for spousal support of $2,400 is deductible, while the child support of $3,000 is not deductible.
- The Canada Savings Bond interest of $120 should be attributed back to Seymour's mother under the income attribution rules. It should not be claimed in William's name. It should be suggested to Seymour's mother that she contribute to William's RESP instead.
- The art classes took place on the weekend and the primary goal of the lessons was to provide an education in art, not provide child care. As a result, the art classes are not a child care expense, but are eligible for the children's arts credit as Mary has been issued the appropriate receipt. The maximum amount of $500 is claimed by Seymour as he has the higher tax liability, although it makes no difference in tax savings.
- Since Seymour is the lower income spouse, he would normally deduct child care expenses. However, since he was a full time student for 12 weeks, Mary will be able to deduct $1,200 (12 weeks @ $100) of the child care expenses. As she is in a higher tax bracket, this is advantageous. As a result, both Mary and Seymour should file the T778, Child Care Expenses Deduction form.
- Although the software suggests that Mary claim the eligible dependant amount for William, she is not eligible for the credit. Because she was married during the year, she claims her personal credits for 2014 under ITA 118(1)(a) "Married person". She would have been eligible for the spousal credit had Seymour's income been below the income threshold, but it was not.
- The eligible dependant credit only applies to taxpayers who are not claiming an amount under ITA 118(1)(a) for the year and Mary does not qualify. She will be able to claim the eligible dependant credit for William in 2015 if she is still single.

Forms Used Or Revised For Chapter 9 Material

- On both Mary and Seymour's T1, the date of death/change in status is revised
- Both Mary and Seymour file the T778
- For Seymour:
    - Claim support on Support
    - Claim the children's arts credit on Dependents
    - Revise the rental statement for deemed dispositions
    - Revise both T2125 and rental statement to be last year of business/rental operation
    - File T2091

Notes Related To Chapter 10 Material

With the increase in Seymour's income due to the RRSP withdrawal, the program will deduct the $3,100 in child care expenses from Mary as the lower income spouse.

Although no contributions can be made to a deceased individual's RRSP after the date of death, ITA 146(5.1) permits the deceased individual's legal representative to make contributions to the surviving spouse's RRSP in the year of death or during the first 60 days after the end of that year. Contributions made to a spouse's RRSP can be claimed on the deceased individual's return. However, such payments are subject to limits based on the deceased taxpayer's Earned Income in the year prior to death, plus any Unused RRSP Deduction Room available from previous years. As a result, even though Seymour has Earned Income in 2014, no RRSP contributions based on that income can be made in 2015.

As calculated on the form RRSP, Seymour's maximum deductible contribution for 2014 is as follows:

Unused RRSP Deduction Room At The End Of 2013 (Given)	$19,762
Plus The Lesser Of:	
• $24,270 (2014 Maximum)	
• [(18%)($45,000)] = $8,100	8,100
RRSP Deduction Limit	$27,862

Mary's RRSP calculations for 2014 (Form RRSP) and 2015 (Form RRSPLimit) are as follows:

Unused RRSP Deduction Room At The End Of 2013 (Given)	$14,091
Plus The Lesser Of:	
• $24,270 (2014 Maximum)	
• [(18%)($180,000)] = $32,400	24,270
RRSP Deduction Limit For 2014	$38,361
Contributions Made For 2014 Prior To February, 2015 (Given)	(22,200)
Unused RRSP Deduction Room At The End Of 2014	$16,161
Plus The Lesser Of:	
• $24,930 (2015 Maximum)	
• [(18%)($152,866)] = $27,515	24,930
Additional Deductible RRSP Contribution For 2014 and 2015	$41,091

Forms Used Or Revised For Chapter 10 Material

- All of the child care expenses must be claimed by Mary on T778
- For both Mary and Seymour, the RRSP form must be filed.
- Mary's deductible RRSP contribution that can be made for 2015 is found on RRSPLimit

Notes Related To Chapter 11 Material

Since both spouses have substantial amounts of income taxed at the highest tax bracket, the Family Tax Cut is nil.

Mary has a listed personal property loss carry forward of $1,500 (100%). This loss carry forward can only be claimed against gains on listed personal property.

In the year of death, any unclaimed capital losses from years prior to death can generally be deducted against any type of income in the year of death. For Seymour, this means that his $17,500 net capital loss carry forward can be fully deducted, despite having only $1,607 in taxable capital gains. With Seymour's date of death input, ProFile will automatically deduct all of the net capital loss.

Forms Used Or Revised For Chapter 11 Material

- LossNetCap for Seymour's $17,500 loss carry forward
- Mary's T4 is revised

Notes On Tax Planning

You advised Mary to make additional RRSP contributions of $41,091 as calculated for the Chapter 10 information in this problem. By contributing this, it will give her the maximum deduction for 2014 and leave a carry forward of undeducted RRSP contributions equal to the maximum limit for 2015.

Mary should ensure that Seymour's 2014 taxes are paid by June 30, 2015 to avoid any interest. Since Seymour died in December, the usual April 30 due date for payment is extended to six months after his date of death. She should pay any unpaid 2013 taxes as soon as possible to avoid further interest.

If Mary wishes to make charitable donations, she should consider exercising her remaining stock options and/or donating any publicly traded common stock that she owns with large unrealized capital gains. This could be advantageous due to the favourable tax treatment for this type of donation.

Given the funds she has received, she should discuss William's RESP with her parents and Seymour's mother to ensure the maximum contributions are made, without contributing more than the limit. With only $300 per year being contributed to William's RESP, he is not taking full advantage of the Canada Education Savings Grant program. Mary should determine the amount of contributions needed to take full advantage of William's accumulated CESG contribution room. Mary can contribute to the same RESP for William as her parents or a different RESP.

Mary should maximize her contributions to a TFSA and if she has additional funds to invest, she can overcontribute up to $2,000 into her RRSP.

If Mary Was The Higher Income Spouse

Although not relevant in the final version of this case, where Mary has the lower Net Income, if Mary had been the spouse with the higher Net Income, even by $1, she would have had the option of splitting the child care expenses deduction. If the Net Incomes of both Mary and Seymour are in the top tax bracket, the marginal tax rate will be the same. As a result, the deduction of child care expenses will result in the same tax savings, regardless of who claims them.

As mentioned in the Chapter 7 Notes, Seymour should claim all the family tax credits possible as Mary does not need to pay instalments for 2014 and Seymour should have. He will be charged interest on his insufficient instalments and it is advisable to decrease his tax liability.

If Seymour was still alive, it would be even more advantageous to have Seymour reduce his tax liability as much as possible. He would be decreasing his 2015 instalment base, as well as decreasing the non-deductible interest that would be charged on insufficient instalments.

Part B

If Mary's instructions had been followed and the shares donated in 2014, she would have been eligible for an additional deduction under ITA 110(1)(d.01) equal to 50 percent of the $16,600 employment benefit, or $8,300. The effect on her Net Income could be calculated as follows:

Employment Income [(200)($125 - $42)]	$16,600
Deduction Under ITA 110(1)(d) [(1/2)($16,600)]	(8,300)
Deduction Under ITA 110(1)(d.01) [(1/2)($16,600)]	(8,300)
Increase In Taxable Income	Nil

The adjusted cost base of the shares would equal $25,000 [(200)($42 + $83)], which would have also been the fair market value of the shares on that date. There would have been no capital gain or loss as the proceeds of disposition for the donation (the fair market value) would have equaled the adjusted cost base.

The 2014 charitable donation receipt would have reduced her (or Seymour's) 2014 federal Tax Payable by $7,250 [($25,000)(29%)].

CHAPTER TWELVE SOLUTIONS

Solution to Assignment Problem Twelve - 1

1. The adjustments here would be as follows:

- Add the donation of $45,000.
- Deduct the accounting gain of $7,000 ($45,000 - $38,000).
- Add the taxable capital gain of $1,500 [(1/2)($45,000 - $42,000)].
- Add the recapture of $5,500 ($42,000 - $36,500).

2. The adjustments here would be as follows:

- Add the amortization expense of $32,450.
- Deduct the CCA of $27,650.

3. The adjustment here would be as follows:

- Add the increase in the warranty liability of $2,010 ($10,470 - $8,460).

4. Since item 1 created a taxable capital gain of $1,500, the adjustments here would be as follows:

- Add the accounting loss of $550 ($12,870 - $12,320).
- Deduct the allowable capital loss of $275 [(1/2)($12,870 - $12,320)].

5. The adjustment here would be as follows:

- Add the $2,600 in bond discount amortization.

6. The adjustments here would be as follows:

- Add the accounting loss of $14,810 ($107,000 - $92,190).
- Deduct the terminal loss of $9,580 ($92,190 - $101,770).

Solution to Assignment Problem Twelve - 2

The Taxable Income of Dunway Ltd. would be calculated as follows:

Operating Income ($725,000 - $533,000)		$192,000
Dividends Received ($37,500 + $15,000)		52,500
Taxable Capital Gain [(1/2)($222,000)]		111,000
Net Income For Tax Purposes		**$355,500**
Deductions:		
Dividends Received	($ 52,500)	
Donation To Government (Note 1)	(26,000)	
Donations To Registered Charities (Note 1)	(141,000)	
Net Capital Loss Carry Forward (Note 2)	(111,000)	(330,500)
Taxable Income Before Non-Capital Loss Carry Forward		$ 25,000
Non-Capital Loss Carry Forward (Note 3)		(25,000)
Taxable Income		**Nil**

Note 1 There is no addition to Net Income For Tax Purposes with respect to the donations as this calculation does not start with accounting Net Income. The donations to registered Canadian charities total less than 75 percent of Net Income For Tax Purposes and are therefore fully deductible in the calculation of Taxable Income.

Note 2 The net capital loss carry forward can only be deducted to the extent of the $111,000 taxable capital gain.

Note 3 The non-capital loss carry forward has only been deducted to the extent of the amount required to reduce Taxable Income to nil. It would have been possible to carry forward the donations instead, but the non-capital loss carry forward period is greater than the five year donation carry forward.

Loss Carry Forwards

At the end of the current year, Dunway will have:

- a net capital loss balance of $69,000 ($180,000 - $111,000). Since the problem states that no future capital gains are anticipated, the maximum amount of the net capital loss carry forward was claimed first.
- a non-capital loss carry forward of $112,000 ($137,000 - $25,000).

Solution to Assignment Problem Twelve - 3

The Net Income For Tax Purposes and Taxable Income of Sweat Ltd. for the 8 month period ending August 31, 2015 is as follows:

Accounting Income Before Taxes		$ 87,400
Add:		
Reserve For Inventory Obsolescence (Included In Cost Of Sales)	$17,800	
Bonus (Note 1)	35,000	
Amortization	49,300	
Non-Deductible Meals And Entertainment [(1/2)($15,200)]	7,600	
Golf Club Memberships	7,700	
Increase In Warranty Reserve ($6,200 - $5,400)	800	
Charitable Donations	3,100	
Taxable Capital Gain On Investments [(1/2)($3,900)]	1,950	123,250
Deduct:		
Accounting Gain On Sale Of Investments	($ 3,900)	
CCA (Note 2)	(32,010)	(35,910)
Net Income For Tax Purposes		**$174,740**
Deduct:		
Charitable Donations	($ 3,100)	
Net Capital Loss Carry Forward (Note 3)	(1,950)	
Non-Capital Loss Carry Forward (All)	(18,700)	(23,750)
Taxable Income		**$ 150,990**

Note 1 As the bonus is not paid until more than 180 days, but less than 3 years after the Company's fiscal year end, it cannot be deducted until it is paid.

Note 2 The CCA for the 8 month period ending August 31 , 2015 (243 days), can be calculated as follows:

Class 8 Opening UCC		$79,800
Additions	$20,500	
Disposals - Lesser Of:		
• Capital Cost = $14,200		
• Proceeds Of Disposition = $9,500	(9,500)	11,000
One-Half Net Additions [(1/2)($11,000)]		(5,500)
CCA Base		$85,300
Rate (Class 8)		20%
Full Year Amount		$17,060
Proration For Short Fiscal Year		243/365
Class 8 CCA		$11,358

The total CCA for the 8 month period ending August 31, 2015 would be as follows:

Class 8 CCA (Preceding Calculation)	$11,358
Class 10 CCA [(30%)($103,400)(243/365)]	20,652
Total CCA	$32,010

Note 3 The net capital loss carry forward deducted is limited to the taxable capital gain of $1,950. This deduction will leave a net capital loss balance of $4,300 ($6,250 - $1,950).

The following additional points are relevant to the solution:

- Dividends declared are not deducted in the calculation of either accounting Net Income or Taxable Income.
- The interest expense is fully deductible.
- Where a foreign exchange loss arises in the normal course of business operations, it is fully deductible.

Solution to Assignment Problem Twelve - 4

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

ITA 3(a) Dividends		$ 51,500
ITA 3(b)		
Taxable Capital Gains [(1/2)($41,500)]	$20,750	
Allowable Capital Losses [(1/2)($7,300)]	(3,650)	17,100
ITA 3(c)		$ 68,600
ITA 3(d) Business Loss		(225,000)
Net Income For Tax Purposes		**Nil**
Dividends Received		($ 51,500)
Net Capital Loss Carry Forward		
(Limited To Net Taxable Capital Gains)		(17,100)
Charitable Donations		Nil
Taxable Income		**Nil**

The carry forward balances available at the end of the year are as follows:

Net Capital Loss Carry Forward

Beginning Balance	$78,250
Used During Year	(17,100)
Net Capital Loss Carry Forward	$61,150

Charitable Donations Carry Forward

Beginning Balance	$ 6,400
Added During Year	6,300
Used During Year	Nil
Unused Charitable Donations	$12,700

2015 Non-Capital Loss

Balance Under E	
Dividends Received And Deducted	$ 51,500
Business Loss	225,000
Net Capital Loss Carry Forward Deducted	17,100
Subtotal	$293,600
Balance Under F - Income Under ITA 3(c)	(68,600)
2015 Non-Capital Loss	$225,000

Non-Capital Loss Carry Forward

Balance From Previous Years	$ 61,400
Added During Year	225,000
Used During Year	Nil
Non-Capital Loss Carry Forward	$286,400

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

Solution to Assignment Problem Twelve - 5

2012 Analysis

Net And Taxable Income

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

Accounting Income	$165,000
Charitable Donations	4,100
Accounting Gain On Disposition Of Shares	(26,000)
Taxable Capital Gains [(1/2)($26,000)]	13,000
Net Income For Tax Purposes	**$156,100**
Charitable Donations	(4,100)
Dividends Received	(17,100)
Taxable Income	**$134,900**

Carry Forwards

There are no amounts carried forward at the end of 2012.

2013 Analysis

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

Accounting Loss	($263,000)
Charitable Donations	7,800
Accounting Loss On Disposition Of Shares	13,500
Net Income For Tax Purposes	**Nil**
Dividends Received	(28,900)
Taxable Income	**Nil**

The allowable capital loss is equal to $6,750 [(1/2)($13,500)].

The accounting loss of $263,000 includes dividends received of $28,900, an accounting loss on the sale of shares of $13,500, and a deduction for charitable donations of $7,800. Given this, the business loss must be $270,600 ($263,000 + $28,900 - $13,500 - $7,800). This can be verified by the following schedule:

Business Income (Loss)	($270,600)
Dividends	28,900
Accounting Loss On Disposition Of Shares	(13,500)
Charitable Donations	(7,800)
Accounting Income (Loss)	($263,000)

Using this information, the non-capital loss would be calculated as follows:

Amount E ($270,600 + $28,900)	$299,500
Income Under ITA 3(c) - Dividends	(28,900)
Non-Capital Loss	$270,600

Loss Carry Back And 2012 Amended Return

As the Company's policy is to deduct non-capital losses prior to deducting net capital losses, there is a $134,900 carry back of the non-capital loss to 2012. The amended Taxable Income is as follows:

Taxable Income As Reported	$134,900
Non-Capital Loss Carry Back from 2013	(134,900)
Amended 2012 Taxable Income	Nil

2013 Carry Forwards

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

Charitable Donations All of the charitable donations of $7,800 will be carried forward. Note there is no provision for a carry back of such donations.

Net Capital Losses As the non-capital loss carry back eliminated all of the 2012 Taxable Income, all of the $6,750 net capital loss will have to be carried forward.

Non-Capital Losses The non-capital loss carry forward, after the carry back, is equal to $135,700 ($270,600 - $134,900).

2014 Analysis

Net And Taxable Income

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

Accounting Income	$127,000
Charitable Donations	5,600
Accounting Gain On Disposition Of Shares	(18,400)
Taxable Capital Gain [(1/2)($18,400)]	9,200
Net Income For Tax Purposes	**$123,400**
Charitable Donations	(5,600)
Dividends Received	(27,600)
Taxable Income Before Carry Forwards	$90,200
Charitable Donations Carry Forward (All)	(7,800)
Non-Capital Loss Carry Forward (Note)	(82,400)
Taxable Income	**Nil**

Note The amount of the non-capital loss carry forward that was deducted was the amount required to reduce the 2014 Taxable Income to nil.

2014 Carry Forwards

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

Charitable Donations All of the current and previous years' charitable donations were deducted. There is no carry forward balance.

Net Capital Loss Carry Forward The $6,750 net capital loss balance from 2013 remains at the end of 2014.

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

Carry Forward From 2013	$135,700
Used In 2014	(82,400)
Balance At December 31, 2014	$ 53,300

2015 Analysis

Net And Taxable Income

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

Accounting Loss	($62,100)
Charitable Donations	3,400
Accounting Gain On Disposition Of Shares	(3,700)
Taxable Capital Gain [(1/2)($3,700)]	1,850
Net Income For Tax Purposes	**Nil**
Dividends Received	(15,100)
Taxable Income	**Nil**

The accounting loss of $62,100 includes dividends received of $15,100, the accounting gain on the sale of shares of $3,700, and a deduction for charitable donations of $3,400. Given this, the business loss must be $77,500 ($62,100 + $15,100 + $3,700 - $3,400). This can be verified by the following schedule:

Business Income (Loss)	($77,500)
Dividends Received	15,100
Accounting Gain On Disposition Of Shares	3,700
Charitable Donations	(3,400)
Accounting Income (Loss)	($62,100)

Based on this, the non-capital loss would be calculated as follows:

Amount E ($77,500 + $15,100)	$92,600
Income Under ITA 3(c) [$15,100 + (1/2)($3,700)]	(16,950)
Non-Capital Loss	$75,650

As the 2014 Taxable Income was reduced to nil, none of this 2015 loss can be carried back to that year.

2015 Carry Forwards

The following carry forward amounts are available at the end of 2015.

Charitable Donations There is a $3,400 carry forward of charitable donations.

Net Capital Loss Carry Forward While there was a capital gain available in 2015, the non-capital loss carry forward eliminated all of that year's income. Given this, the $6,750 net capital loss balance from 2013 remains at the end of 2015.

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

Carry Forward From 2014	$ 53,300
2015 Addition	75,650
Balance At December 31, 2015	$128,950

Solution to Assignment Problem Twelve - 6

2012 Analysis

Net And Taxable Income

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

Net Business Income	$123,000
Dividends	6,000
Net Income For Tax Purposes	**$129,000**
Dividends	(6,000)
Charitable Donations	(1,500)
Taxable Income	**$121,500**

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

2012 Carry Forwards

The following carry forward amount is available at the end of 2012:

- Net Capital Loss $6,000

2013 Analysis

Net And Taxable Income

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

Net Business Income	$18,000
Taxable Capital Gain [(1/2)($32,000)]	16,000
Dividends	7,000
Net Income For Tax Purposes	**$41,000**
Dividends	(7,000)
Charitable Donations	(8,500)
Net Capital Loss Carry Forward (All)	(6,000)
Taxable Income	**$19,500**

2013 Carry Forwards

As the Company was able to deduct all of the net capital loss from 2012, no carry forward amounts remain.

2014 Analysis

Net And Taxable Income

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

Dividends = Income Under ITA 3(c)	$ 6,000
Business Loss [ITA 3(d)]	(85,000)
Net Income For Tax PurposesAnd Taxable Income	Nil

Net Capital Loss Carry Back And Amended 2013 Return

In 2014, there is a net capital loss of $12,500 [(1/2)($25,000)]. While there was a $16,000 taxable capital gain in 2013, $6,000 of this amount was used by the net capital loss carry forward from 2012. This means that only $10,000 of the $12,500 can be carried back to 2013. Given this, the 2013 amended return would be as follows:

Taxable Income As Reported	$19,500
Net Capital Loss Carry Back From 2014	(10,000)
Amended 2013 Taxable Income	$ 9,500

Non-Capital Loss Carry Back And Amended 2012 Return

The 2014 non-capital loss would be calculated as follows:

Business Loss	$85,000
Dividends Received And Deducted	6,000
Amount E	$91,000
Income Under ITA 3(c)	(6,000)
2014 Non-Capital Loss	$85,000

As the 2012 Taxable Income was $121,500, all of this loss can be carried back to that year. Given this, the amended return for 2012 would be as follows:

Taxable Income As Reported In 2012	$121,500
Non-Capital Loss Carry Back from 2014	(85,000)
Amended 2012 Taxable Income	$ 36,500

2014 Carry Forwards

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

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

2015 Analysis

Net And Taxable Income

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

Net Business Income	$32,000
Taxable Capital Gains	8,000
Dividends	9,000
Net Income For Tax Purposes	**$49,000**
Dividends	(9,000)
Current Charitable Donations	(1,800)
Charitable Donations Carry Forward	(4,200)
Net Capital Loss Carry Forward (All)	(2,500)
Taxable Income	**$31,500**

2015 Carry Forwards

At the end of 2015, there are no carry forward balances.

Solution to Assignment Problem Twelve - 7

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

	Salaries And Wages		Gross Revenues	
Province	**Amount**	**Percent**	**Amount**	**Percent**
Manitoba	$ 369,750	15%	$1,252,000	20%
Ontario	616,250	25%	1,565,000	25%
Quebec	986,000	40%	2,191,000	35%
United States	493,000	20%	1,252,000	20%
Total	$2,465,000	100%	$6,260,000	100%

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

Province	**Wages**	**Revenues**	**Average**	**Taxable Income**
Manitoba	15%	20%	17.5%	$ 256,725
Ontario	25%	25%	25.0%	366,750
Quebec	40%	35%	37.5%	550,125
United States	20%	20%	20.0%	293,400
Total	100%	100%	100.0%	$1,467,000

Solution to Assignment Problem Twelve - 8

Webb's Part I tax payable for the year would be calculated as follows:

Base Amount Of Part I Tax [(38%)($723,000)]	$274,740
Federal Tax Abatement [(10%)(85%)($723,000)] (Note One)	(61,455)
Foreign Business Tax Credit	
(Assumed To Be Equal To Taxes Withheld)	(16,200)
Small Business Deduction (Note Two)	(25,731)
General Rate Reduction (Note Three)	(74,314)
Part I Tax Payable	$97,040

Note One The federal tax abatement must be reduced because of the foreign business income. The percentage would be calculated as follows:

Canadian Gross Revenues As A Percentage Of Total [($1,450,000 - $261,000) ÷ $1,450,000]	82%
Canadian Wages And Salaries As Percentage Of Total [($453,000 - $54,360) ÷ $453,000]	88%

Using these figures, the average percent would be 85 percent [(82% + 88%) ÷ 2].

Note Two Since Webb's Taxable Capital Employed In Canada for the fiscal 2014 taxation year was greater than $10 million, its small business deduction is reduced. The B component of the ITA 125(5.1) reduction formula is $4,439 [(.00225)($11,973,000 - $10,000,000)]. In addition, because of Webb's association with other companies, the A component of the formula would be reduced to $250,000 [($500,000)(50%)]. Given these considerations, the reduction would be calculated as follows:

[($250,000)($4,439 ÷ $11,250)] = $98,644 Reduction

Using this information, Webb's small business deduction is equal to 17 percent of the least of:

Canadian Active Business Income (Given)		$642,000
Taxable Income	$723,000	
Less: Foreign Business Tax Credit Adjusted [(4)($16,200)]	(64,800)	$658,200
Reduced Annual Business Limit ($250,000 - $98,644)		$151,356

The small business deduction would be $25,731 [(17%)($151,356)].

Note Three The general rate reduction would be calculated as follows:

Taxable Income	$723,000
Amount Eligible For Small Business Deduction	(151,356)
Full Rate Taxable Income	$571,644
Rate	13%
General Rate Reduction	$ 74,314

Solution to Assignment Problem Twelve - 9

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

Net Income For Tax Purposes		$624,300
Deductions:		
Dividends	($198,000)	
Charitable Donations	(64,700)	
Non-Capital Loss Carry Forward	(72,400)	(335,100)
Taxable Income		$289,200

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

Base Amount Of Part I Tax [(38%)($289,200)]	$109,896
Federal Tax Abatement [(10%)($289,200)]	(28,920)
Small Business Deduction (Note 1)	(17,000)
M&P Deduction (Note 2)	(24,596)
General Rate Reduction (Note 3)	Nil
Part I Federal Tax Payable	$ 39,380

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

Canadian Active Business Income	$426,300
Taxable Income (no foreign tax credit adjustment needed)	289,200
Annual Business Limit [(20%)($500,000)]	100,000

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

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

M&P Profits (Given)	$334,000	
Amount Eligible For The SBD	(100,000)	$234,000
Taxable Income	$289,200	
Amount Eligible For The SBD	(100,000)	$189,200

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

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

Taxable Income	$289,200
Amount Eligible For The SBD	(100,000)
Amount Eligible For The M&P Deduction	(189,200)
Base	$ Nil

Solution to Assignment Problem Twelve - 10

Note to Instructor As the ART is not covered until Chapter 13, this problem does not require the calculation of the ART. However, given the capital loss carry forward applied during the year, it would be nil.

Part A - Net Income For Tax Purposes

The calculation of Mamora's Net Income For Tax Purposes would be as follows:

Accounting Net Income Before Taxes			$ 914,000
Additions, Including Relevant Problem Part:			
1	Amortization Expense	$405,000	
2	Taxable Capital Gain On Building (Note 1)	25,000	
2	Taxable Capital Gain On Building Land (Note 1)	12,500	
3	Taxable Capital Gain On Vacant Land (Note 2)	15,918	
2	Recapture On Building (Note 3)	250,000	
2	Accounting Loss On Vehicles (Given)	63,000	
6	Foreign Tax Withheld	2,700	
8	Articles Of Incorporation Amendment Costs	21,000	
9	Bond Discount Amortization	4,600	
9	Donations To Registered Charities	12,500	
9	Interest On Late Income Tax Instalments	1,400	
9	Interest On Late Municipal Taxes	Nil	
10	Non-Deductible Meals And Entertainment (50% of $42,000)	21,000	
10	Golf Club Membership Fees	23,000	857,618
			$1,771,618
Deductions:			
2	Accounting Gain On Building (Given)	($175,000)	
2	Capital Cost Allowance (Note 3)	(427,000)	
2	Terminal Loss (Note 3)	(20,000)	
3	Accounting Gain On Vacant Land (Given)	(75,000)	
4	Landscaping	(23,000)	
7+8	Write-Off Of CEC (Note 4)	(7,938)	(727,938)
Net Income For Tax Purposes			$1,043,680

Note 1 While the accounting gain on the building of $175,000 is calculated on the combined value of the land and building, separate tax figures are required for each asset. The taxable capital gains on the building and land are calculated as follows:

Proceeds Of Disposition ($1,725,000 - $375,000)	$1,350,000
Capital Cost ($1,650,000 - $350,000)	(1,300,000)
Capital Gain	$ 50,000
Inclusion Rate	1/2
Taxable Capital Gain - Building	$ 25,000

Proceeds Of Disposition	$375,000
Capital Cost	(350,000)
Capital Gain	$ 25,000
Inclusion Rate	1/2
Taxable Capital Gain - Land	$ 12,500

Note 2 There is a capital gain and accounting gain on the vacant land of $75,000 ($695,000 - $620,000). However, as not all of the proceeds of disposition were received in 2015, a reserve can be deducted for tax purposes. The reserve will be the lesser of the following two amounts:

- [($75,000)($400,000 ÷ $695,000)] = $43,165
- [($75,000)(20%)(4 - 0)] = $60,000

Deducting the lesser amount leaves a capital gain of $31,835 ($75,000 - $43,165), and a taxable capital gain of $15,918 [(1/2)($31,835)].

Note 3 Maximum CCA and other related inclusions and deductions are found in the tables which follow. Note that the new building was added to a separate Class in order to qualify for the enhanced CCA rate of 10 percent for M&P buildings. This resulted in recapture on the old building that was disposed of.

Class 1 - Old Building

January 1, 2015 Class 1 Balance	$1,050,000
Disposition - Lesser Of:	
• Proceeds = $1,350,000 ($1,725,000 - $375,000)	
• Capital Cost = $1,300,000 ($1,650,000 - $350,000)	(1,300,000)
Negative Ending UCC Balance	($250,000)
Recapture	250,000
January 1, 2016 UCC Balance	Nil

Class 1 - New Building

New Class 1 Addition ($2,100,000 - $400,000)	$1,700,000
One-Half Net Additions	(850,000)
Balance	$ 850,000
CCA [(10%)($850,000)]	(85,000)
One-Half Net Additions	850,000
January 1, 2016 UCC Balance	$1,615,000

Class 8

January 1, 2015 Class 8 Balance	$1,460,000
Additions	150,000
One-Half Net Additions	(75,000)
CCA Base	$1,535,000
CCA [(20%)($1,535,000)]	(307,000)
One-Half Net Additions	75,000
January 1, 2016 UCC Balance	$1,303,000

Class 10

January 1, 2015 Class 10 Balance	$142,000
Disposition - Lesser Of:	
• Proceeds = $122,000	
• Capital Cost = $285,000	(122,000)
Positive Ending Balance With No Assets Left In Class	$ 20,000
Terminal Loss	(20,000)
January 1, 2016 UCC Balance	Nil

Class 13

January 1, 2015 Class 13 Balance	$175,000
2015 CCA:	
2010 Expenditures ($250,000 ÷ 10 Years)	(25,000)
2014 Expenditures ($60,000 ÷ 6 Years)	(10,000)
January 1, 2016 UCC Balance	$140,000

Summary Of CCA And UCC Results

Class	Maximum CCA	UCC
Class 1 - Old (Recapture = $250,000)	Nil	Nil
Class 1 - New	$ 85,000	$1,615,000
Class 8	307,000	1,303,000
Class 10 (Terminal Loss = $20,000)	Nil	Nil
Class 13 ($25,000 + $10,000)	35,000	140,000
Total	$427,000	

Note 4 The 2015 amortization and the January 1, 2016 balance of the cumulative eligible capital account can be calculated as follows:

2014 Addition [(3/4)($140,000)]	$105,000
2014 CEC Amount At 7 Percent	(7,350)
Opening Balance, 2015	$ 97,650
2015 Addition Of Legal Fees [(3/4)($21,000)]	15,750
2015 Base	$113,400
2015 CEC Amount At 7 Percent	(7,938)
January 1, 2016 CEC Balance	$105,462

Part B - Taxable Income

Mamora's Taxable Income would be calculated as follows:

Net Income For Tax Purposes	$1,043,680
14 Dividends From Taxable Canadian Corporations	(52,000)
9 Contributions To Registered Charities	(12,500)
12 Net Capital Loss Carry Forward (Note 5)	(53,418)
12 Non-Capital Loss Carry Forward (All)	(95,000)
Taxable Income	$ 830,762

Note 5 Mamora's Net Income For Tax Purposes contained net taxable capital gains calculated as follows:

Taxable Capital Gain On Building (Note 1)	$25,000
Taxable Capital Gain On Building Land (Note 1)	12,500
Taxable Capital Gain On Vacant Land (Note 2)	15,918
Total Taxable Capital Gains	$53,418

While there is a net capital loss carry forward of $210,000, the amount to be used is limited to the $53,418 in net taxable capital gains for the year.

Part B - Loss Carry Forwards

At the end of 2015, there would be a net capital loss carry forward of $156,582 ($210,000 - $53,418). There is no remaining non-capital loss carry forward.

Part C - Federal Tax Payable

Mamora's federal Tax Payable would be calculated as follows:

Base Amount Of Part I Tax [(38%)($830,762)]	$315,690
Federal Tax Abatement [(10%)(88%)($830,762)]	(73,107)
Small Business Deduction (Note 6)	(29,750)
M&P Deduction (Note 7)	(32,500)
General Rate Reduction (Note 8)	(52,749)
Foreign Business Tax Credit (Given)	(2,700)
Part I Tax Payable	$ 124,884

Note 6 The amount eligible for the small business deduction would be the least of the following amounts:

Canadian Source Active Business Income (Given)	**$425,000**
Taxable Income	$830,762
Less: 4 Times The Foreign Business Tax Credit [(4)($2,700)]	(10,800)
Adjusted Taxable Income	**$819,962**
Annual Business Limit (Given)	**$175,000**

The least of these figures is $175,000, resulting in a small business deduction of $29,750 [(17%)($175,000)].

Note 7 The base for the M&P deduction would be the lesser of:

M & P Profits (Given)	$425,000
Less: Amount Eligible For The Small Business Deduction	(175,000)
Balance	$250,000
Taxable Income	$830,762
Less:	
Amount Eligible For The Small Business Deduction	(175,000)
4 Times The Foreign Business Tax Credit [(4)($2,700)]	(10,800)
Adjusted Taxable Income	$644,962

The lesser of these two figures is $250,000, resulting in an M&P deduction of $32,500 [(13%)($250,000)].

Note 8 The general rate reduction would be calculated as follows:

Taxable Income	$830,762
Amount Eligible For The Small Business Deduction	(175,000)
Amount Eligible For The M&P Deduction	(250,000)
Full Rate Taxable Income	$405,762
Rate	13%
General Rate Reduction	$ 52,749