***Byrd and Chen's Canadian Tax Principles, 2024-2025* (Donell)**

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

11.1 Online Exercises

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

Answer: Such lump-sum payments often reflect compensation for services rendered over several years. The fact that it is received in a single year can result in significant portions of it being subject to income tax rates higher than would have been the case had it been received over the several years during which it was earned. The deduction of such amounts provides the basis for an alternative income tax payable calculation which attempts to adjust the amount paid to the amount that would have been paid if the amount had actually been received over several years. The objective of such provisions is fairness or equity by an attempt to overcome the inherent penalty built into the graduated rate system with respect to lump sum amounts that relate to numerous years.

Type: ES

Topic: Lump-sum payments - ITA 110.2

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

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

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

• Net Capital Loss: Unlimited forward and 3 years back

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

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

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

Type: ES

Topic: Loss carry overs - general concepts

3) When a business has several types of loss carryovers, why is it necessary to keep separate balances for each type?

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

Type: ES

Topic: Loss carry overs - general concepts

4) Tax advisors will normally recommend that loss carryovers not be used to reduce taxable income to nil for an individual. What is the basis for this recommendation?

Answer: This recommendation reflects the fact that most personal tax credits are non-refundable and cannot be carried over to other years. This means that, unless an individual taxpayer has sufficient taxable income and federal income tax payable, the value of these annual non-refundable credits is simply lost. This, in effect, is what would happen if various types of loss carryovers were used to reduce taxable income to nil. As a rule one should attempt to ensure that taxable income is sufficient to allow an individual to apply all available non-refundable personal tax credits.

Type: ES

Topic: Loss carry overs - individual

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

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

Type: ES

Topic: Losses - listed personal property

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

Answer: There is no clear cut answer to this question. Net capital losses have an unlimited life but can only be carried over to the extent of net taxable capital gains in the carryover period. This would suggest that, if net taxable capital gains are present in the current year, the use of net capital losses should receive priority. This would be particularly true if additional net taxable capital gains are not expected in future years. In contrast, non-capital losses can be deducted against any type of income. However, the downside is that the carry forward period is limited to 20 years. While no firm conclusion is available, in most cases the lengthy carry forward period for non-capital losses, would suggest using net capital losses first. However, this tentative conclusion would be altered if the taxpayer commonly has net taxable capital gains.

Type: ES

Topic: Loss carry overs - general concepts download all chapters via https://r.24zhen.com/eVZZD

7) John Broley has a 2023 $50,000 non-capital loss and a $50,000 2023 net capital loss. In 2024 his only income is a $50,000 taxable capital gain. He has asked your advice as to which of the two loss carryovers he should claim. What advice would you give him?

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

Type: ES

Topic: Loss carry overs - general concepts

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

Answer: ITA 111(2) contains a special provision with respect to both net capital losses from years prior to death and to net capital losses arising in the year of death. Essentially, this provision allows these capital loss balances to be applied against any type of income in the year of death, and in the immediately preceding year, as long as the capital gains deduction has not been claimed. If the capital gains deduction had been claimed in previous years then the net capital losses that can be claimed against any type of income will be reduced on a dollar for dollar basis.

Type: ES

Topic: Losses - net capital losses at death

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

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

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

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

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

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

Type: ES

Topic: Allowable business investment losses

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

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

Type: ES

Topic: Small business corporation - ITA 248(1) download all chapters via https://r.24zhen.com/eVZZD

11) With respect to the deductibility of losses, individuals carrying on a farming activity fall into three categories. What are these three categories and how are losses treated in each category?

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

**Hobby Farmer -** This is an individual who carries on a farming activity on a part time basis as a hobby. The operation has no reasonable expectation of a profit and therefore it is not a business and therefore not a source of income. As a result its losses are not recognized for income tax purposes.

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

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

Type: ES

Topic: Losses - farming

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

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

These are as follows:

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

• throughout that 24 month period, more than 50% of the FMV of the corporation's assets must be used in an active business carried on primarily in Canada.

Type: ES

Topic: Capital gains deduction - shares of a QSBC

13) An individual has a capital gain on qualified farm property (QFP). The individual has no other capital gains during the year. Explain how the annual gains limit would be calculated in determining the individual's capital gains deduction for the year.

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

• Allowable capital losses realized during the current year.

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

• Allowable Business Investment Losses realized during the current year.

Type: ES

Topic: Capital gains deduction - annual gains limit

14) In computing net income, ITA 3 requires that subdivision e deductions be subtracted prior to deducting current year losses under ITA 3(d). Explain why this rule is usually beneficial to a taxpayer.

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

Type: ES

Topic: Net income - ITA 3

15) What types of current year losses are included in the definition of a non-capital loss? What types of losses are **NOT** included?

Answer: Non-capital losses would include current year employment losses, most business losses (except losses from farming or fishing businesses), property losses, and allowable business investment losses. The definition excludes farm losses (a type of business loss which also includes fishing businesses) and current year capital losses, but does make an adjustment for net capital losses deducted in the current year if there is a positive ITA 3(b) amount (net taxable capital gains), a net capital loss deduction and current year losses that exceed current year income (the ITA 3(c) amount).

Type: ES

Topic: Losses - non-capital loss

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

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

This connection occurs when the Source Individual:

• carries on the business as a sole proprietor, or

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

Note that such income is only subject to the TOSI if it is not an Excluded Amount.

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

Type: ES

Topic: Tax on split income (TOSI)

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

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

Type: ES

Topic: Tax on split income (TOSI)

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

Answer: Amounts received from an Excluded Business are not considered to be Split Income and are not subject to the TOSI. An Excluded Business is one in which the individual taxpayer is actively engaged on a regular, continuous, and substantial basis. This active engagement must be in the current year or in at least 5 prior taxation years. Note, however, the years do not have to be current or consecutive. That is, any 5 years of active engagement will satisfy this condition. The TOSI rules add what is referred to as a "bright line test" that considers an individual to have met the level of involvement in the business if they work in the business at least 20 hours a week during the period in the year in which the business is carried on.

Type: ES

Topic: Tax on split income (TOSI)

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

Answer: For shares to be classified as Excluded Shares, the individual must be 25 years of age or older and must own, in terms of both FMV and voting rights, at least 10% of the outstanding shares of the corporation. In addition, the corporation must meet the following conditions:

• It must not be a professional corporation.

• Less than 90% of its income in the previous year was from providing services.

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

Type: ES

Topic: Tax on split income (TOSI)

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

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

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

Type: ES

Topic: Tax on split income (TOSI)

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

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

Type: ES

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

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

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

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

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

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

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

Type: ES

Topic: Charitable donations - general rules

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

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

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

Type: ES

Topic: Charitable donations - general rules

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

Answer: When there is a disposition of publicly listed shares that have been acquired through stock options, the difference between the FMV at the time the shares were exercised and the option price at which they were acquired is treated as employment income, not as a capital gain. While the general rule under ITA 38(a.1) deems capital gains on such donations to be nil, a special rule is required to exempt the employment income which may arise on such dispositions. The solution takes the form of an additional one-half deduction under ITA 110(1)(d.01) which completely offsets the remaining 50% employment stock option benefit amount. In other words while 100% of the stock option benefit is included in income there are two ITA 110(1) taxable income deductions for 50% each of that stock option benefit amount.

Type: ES

Topic: Charitable donations - general rules

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

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

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

The differences are as follows:

• For individuals, the amount used for the income tax withheld for the non-business foreign credit is limited to 15% of the foreign non-business income. Any amount of withholding in excess of 15% becomes a deduction in the determination of net income (ITA 20(11). There is no similar limit for the foreign business income tax credit.

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

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

Type: ES

Topic: Foreign tax credits - general rules

26) The 2024 alternative minimum tax (AMT) is an attempt to deal with an income tax policy issue. What is this issue and, in general terms, how does the AMT deal with this issue?

Answer: The income tax policy is to ensure that high income wealthy Canadian individuals, through the use of tax privileges and preferences (e.g., capital gains deduction, the non-taxable component of capital gains, employee stock option deductions and other amounts) can wind up paying little or no income tax, despite having significant income. The AMT deals with this by requiring an alternative calculation of income in which these tax privileges and preferences are reduced or neutralized by adding them back to taxable income calculation that parallel the rules for determining the regular federal income tax payable. After the deduction of a basic exemption for 2024 of $173,205 the minimum income tax rate of 20.5% is applied to the balance. If the result is an income tax payable amount that exceeds the regular federal income tax calculation, then the AMT must be paid. Any excess of the AMT over the regular federal income tax payable can be carried forward for up to seven years to be applied against any future excess of regular federal income tax payable over the AMT for that carryover year.

Type: ES

Topic: Alternative minimum tax - general concepts

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

Answer: FALSE

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

Type: TF

Topic: Taxable income

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

Answer: FALSE

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

Type: TF

Topic: Losses - non-capital loss

29) An individual sells shares in a Canadian controlled private corporation that qualifies as a small business corporation to an arm's length person. The ACB of the shares is $50,000 and they are sold for $30,000. The $20,000 loss is an Allowable Business Investment Loss. The individual never claimed the capital gains deduction.

Answer: FALSE

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

Type: TF

Topic: Allowable business investment losses

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

Answer: FALSE

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

Type: TF

Topic: Losses - net capital loss

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

Answer: TRUE

Explanation: Net capital losses can only be carried forward or back to be deducted against net taxable capital gains (e.g. the ITA 3(b) amount).

Type: TF

Topic: Losses - net capital loss

32) Jennifer Nash is a busy plumber in Waterloo, Ontario, who spends all of her weekends and holidays operating a farm she purchased this year. She is confident that within two years her farm will be making a profit. In the current year, the farm had a loss of $18,000. Assume that the farming activity is a business and not a hobby.

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

Answer: FALSE

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

Type: TF

Topic: Losses - restricted farm losses ITA 31

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

In the current year, she can deduct $10,250 of the farm loss against other income but the remaining loss of $7,750 [$18,000 - $10,250] can only be carried forward for 7 years. Assume that the farming activity is a business and not a hobby.

Answer: FALSE

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

Type: TF

Topic: Losses - restricted farm losses ITA 31

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

Any loss that is not deductible in the current year can only be applied to the extent of farm income in the carryover year. Assume that the farming activity is a business and not a hobby.

Answer: TRUE

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

Type: TF

Topic: Losses - restricted farm losses ITA 31

35) In 2024, an individual, who has never claimed the capital gains deduction, has taxable capital gains on the disposition of shares in a qualified small business corporation (QSBC shares). The capital gains deduction can be used to eliminate up to $ 508,418 of the taxable capital gains on the disposition.

Answer: TRUE

Explanation: The $508,418 (one-half of the 2021 available deduction of $1,016,836) deduction can be used towards taxable capital gains arising on the disposition.

Type: TF

Topic: Capital gains deduction - general rules

36) If a 10 year old child receives taxable dividends on non-voting shares of a private corporation all of the voting shares of which are owned by the mother, it will always be subject to the tax on split income (TOSI).

Answer: TRUE

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

Type: TF

Topic: Tax on split income (TOSI)

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

Answer: FALSE

Explanation: The answer would be True if the shares owned by the individual were "Excluded Shares." However in order for the shares to be Excluded Shares, the Specified Individual must be 25 years of age or older.

Type: TF

Topic: Tax on split income (TOSI)

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

Answer: TRUE

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

Type: TF

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

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

Answer: TRUE

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

Type: TF

Topic: Charitable donations - general rules

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

Answer: FALSE

Explanation: The limit also includes 25% of any capital gains resulting from the donation of capital property and 25% of any recapture that results from the donation of depreciable capital property. In addition the limit increases to 100% on death.

Type: TF

Topic: Charitable donations - general rules

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

Answer: TRUE

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

Type: TF

Topic: Foreign tax credits - general rules

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

Answer: FALSE

Explanation: Regardless of their income level, individuals will only pay the AMT if they have some amount of what the legislation refers to as preference items (e.g., losses on tax shelters, capital gains deduction etc.). The revised AMT that applies beginning in 2024 is designed to limit its application to high income Canadians.

Type: TF

Topic: Alternative minimum tax - general concepts

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

Answer: TRUE

Type: TF

Topic: Alternative minimum tax - general concepts

44) Martin is worried about how much income tax he will have to pay this year and he is looking for anything that he might have missed that will generate a taxable income deduction. All of the following could decrease his taxable income, with the exception of:

A) the capital gains deduction.

B) the deduction of a net capital loss.

C) the deduction of a non-capital loss.

D) a charitable donation.

Answer: D

Explanation:
D) A charitable donation by an individual does not affect taxable income. It provides a personal tax credit only.

Type: MC

Topic: Taxable income

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

A) A non-capital loss

B) A charitable donation carried forward from a previous year

C) Adoption expenses

D) Medical expenses

Answer: A

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

Type: MC

Topic: Taxable income

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

i. A net capital loss.

ii. A charitable donation.

iii. Contributions to an RESP.

iv. Stock option deduction.

A) i, ii, and iv

B) ii and iv

C) i and iv

D) i, iii, and iv

Answer: C

Explanation:
C) i and iv.

Type: MC

Topic: Taxable income

47) Reuben Chechetto had to take his employer to court in 2024, to sue for wages owing to him over an 8 year period ending in 2024. In 2024, he receives a court settlement of $80,000, representing $10,000 for each of the eight years. In all years, Reuben had taxable income of $60,000. What are the income tax consequences with respect to the receipt of $80,000 in retroactive salary awarded him in 2024?

A) Mr. Chechetto will have to include the full $80,000 in additional employment income in taxable income for 2024. There are no choices.

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

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

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

Answer: D

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

Type: MC

Topic: Lump-sum payments - ITA 110.2

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

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

B) Restricted farm losses can only be claimed in a particular taxation year of the carryover period in which there is farm income.

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

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

Answer: C

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

Type: MC

Topic: Loss carry overs - general concepts

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

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

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

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

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

Answer: C

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

Type: MC

Topic: Loss carry overs - general concepts

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

A) Nil

B) $600

C) $3,400

D) $16,000

Answer: A

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

Type: MC

Topic: Losses - non-capital loss

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

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

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

C) Such losses can be carried back three years.

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

Answer: D

Explanation:
D) Such losses can be carried forward for 20 years. Carry forward to the year of death.

Type: MC

Topic: Losses - net capital loss

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

 Part time employment income $15,000

 Business loss 18,000

 Taxable (grossed up) dividend income 1,200

 Interest expense on loan to purchase dividend paying investments 2,000

 Capital gain 12,000

 Capital loss 16,000

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

A) $3,000

B) $3,800

C) $5,800

D) $18,000

Answer: B

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

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

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

D) $18,000.

Type: MC

Topic: Losses - non-capital loss

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

A) Net capital losses

B) Limited partnership losses

C) Restricted farm losses

D) Business losses

Answer: D

Explanation:
D) Business losses.

Type: MC

Topic: Loss carry overs - general concepts

54) Under which set of circumstances would it be advisable for an individual to utilize a loss carryover to reduce taxable income to nil in the carryover year?

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

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

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

D) It is never advisable for an individual to use a loss carryover to reduce taxable income to nil in the carryover year.

Answer: D

Explanation:
D) It is never advisable to use a loss carryover to reduce taxable income to nil in the carryover year. This is particularly the case for individuals who have personal tax credits that could offset the income tax on a certain amount of taxable income.

Type: MC

Topic: Loss carry overs - general concepts

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

A) Listed personal property losses

B) Non-capital losses

C) Net capital losses

D) Restricted farm losses

Answer: A

Explanation:
A) Listed personal property losses.

Type: MC

Topic: Loss carry overs - general concepts

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

A) $27,000

B) $28,000

C) $31,000

D) $32,000

Answer: B

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

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

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

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

Type: MC

Topic: Loss carry overs - general concepts

57) Zina Chaburi has a full time job as a nurse in her local hospital. In her spare time she has a goat farming operation. The goat farm began in 2023, which resulted in a loss of $10,000.

She deducted the maximum allowable amount against her 2023 income. In 2024, most of the problems had been worked out, and Zina had realized a profit from the farm operation of $5,000, as well as employment income of $90,000. Determine Ms. Chaburi's minimum taxable income for 2024.

A) $85,000

B) $88,750

C) $91,250

D) $95,000

Answer: C

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

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

C) $91,250. [$90,000 + $5,000 – carry forward of $3,750]. Deducted $6,250 [$2,500 + (1/2)($10,000 - $2,500)] in 2022. This leaves a carry forward of $3,750 ($10,000 - $6,250)

D) $90,000 + $5,000

Type: MC

Topic: Losses - restricted farm losses ITA 31

58) In 2021, Lorrie Meller used the capital gains deduction to offset a $10,000 taxable capital gain. In 2024, she had employment income of $50,000, a capital gain of $26,000, and a capital loss of $30,000 that meets the qualification for treatment as a business investment loss. What is Lorrie's 2024 taxable income?

A) $45,000

B) $58,000

C) $46,000

D) $48,000

Answer: D

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

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

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

D) $48,000

Loss on Disposition $30,000

Disallowed by use of ITA 110.6 ( 20,000)

Business Investment Loss $10,000

Inclusion Rate 1/2

Allowable Business Investment Loss $5,000

Employment Income $50,000

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

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

Allowable Business Investment Loss ( 5,000)

2024 Net Income and Taxable Income $48,000

Type: MC

Topic: Allowable business investment losses

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

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

B) They can only be deducted against business income.

C) If they are not used during the current year, they become part of a net capital loss for the year.

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

Answer: D

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

Type: MC

Topic: Allowable business investment losses

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

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

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

C) An ABIL results from an arm's length disposition of shares of a small business corporation.

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

Answer: B

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

Type: MC

Topic: Allowable business investment losses

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

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

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

C) In 2024, the maximum deduction for QSBC shares is the same as the maximum deduction for qualified farm and fishing property (QFP).

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

Answer: C

Explanation:
C) In 2024, the maximum deduction for QSBC shares is the same as the maximum deduction for qualified farm and fishing property (QFP).

Type: MC

Topic: Capital gains deduction - general rules

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

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

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

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

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

Answer: B

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

C) Corporations cannot claim the capital gains deduction.

Type: MC

Topic: Capital gains deduction - general rules

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

A) The deduction is only available to individuals.

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

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

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

Answer: D

Explanation:
D) The deduction is available on any disposition of QSBC shares but not debt.

Type: MC

Topic: Capital gains deduction - general rules

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

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

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

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

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

Answer: C

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

Type: MC

Topic: Capital gains deduction - shares of a QSBC

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

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

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

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

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

Answer: C

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

Type: MC

Topic: Loss carry overs - general concepts

66) Elena is 12 years old. In 2024 she earns interest income of $10,500 on funds she inherited when her maternal grandfather died, as well as non-eligible dividends of $15,300 received from a CCPC that is controlled by her father. Her only personal tax credits are the BPA of $15,705 and the dividend tax credit. What is the amount of her 2024 federal income tax payable?

A) $375

B) $4,218

C) $1,967

D) $3,542

Answer: B

Explanation:
A) $375 {[15%][(115%)($15,300) + $10,500] – $ 2,250 – [9/13][15%][$15,300]}

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

C) $1,967 [(33%)(115%)($15,300) – $2,250 – (9/13)(15%)($15,300)]

D) $3,542 [(33%)(115%)($15,300) + (15%)($10,500) – $2,250 – (9/13)(15%)($15,300)]

Type: MC

Topic: Tax on split income (TOSI)

67) Katrina is 27 years old. In 2024 she receives a non-eligible dividend of $12,000 from a private corporation controlled by her mother. Because she has never been actively engaged in the business, has assumed no risk, or contributed capital to the corporation and holds only non-voting shares, these dividends are classified as Split Income. In addition to the dividends, she has interest income of $6,000 on funds that she inherited when her grandmother passed away. Her only personal tax credits are the BPA of $15,705 and the dividend tax credit. What is her 2024 federal income tax payable?

A) Nil

B) $1,058

C) $1,958

D) $3,308

Answer: D

Explanation:
A) Nil. {[15%][(115%)($12,000) + $6,000] – $2,250 – [9/13][15%][$12,000]}

B) $1,058. [(33%)(115%)($12,000) – $2,250 – (9/13)(15%)($12,000)]

C) $1,958. [(33%)(115%)($12,000) + (15%)($6,000) – $2,250 – (9/13)(15%)($12,000)]

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

Type: MC

Topic: Tax on split income (TOSI)

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

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

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

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

D) The only personal tax credits that can be applied against the TOSI are the disability tax credit, the dividend tax credit, and foreign income tax credits that are related to the split income.

Answer: B

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

Type: MC

Topic: Tax on split income (TOSI)

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

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

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

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

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

Answer: C

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

Type: MC

Topic: Tax on split income (TOSI)

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

A) Employment income from a private corporation

B) Shareholder benefits received from a private corporation

C) Eligible dividends received from a private corporation

D) Non-eligible dividends received from a private corporation

Answer: A

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

Type: MC

Topic: Tax on split income (TOSI)

71) Mrs. Perry's total income consisted of $10,000 in eligible dividends received from taxable Canadian corporations. Mrs. Perry's BPA and dividend tax credits are sufficient to offset all of her federal income tax payable. Because she receives these dividends, Mr. Perry is only able to claim a spousal tax credit of $1,905 [$15,705 - $13,800]. Mr. Perry's income is such that any additional income from the transfer would be subject to federal income tax at a rate of 20.5%. By what amount would Mr. Perry's federal income tax payable increase or decrease if Mrs. Perry's eligible dividends were transferred to him?

A) A decrease of $1,314

B) An increase of $756

C) An Increase of $579

D) A decrease of $1,319

Answer: A

Explanation:
A) A decrease of $1,314.

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

Increase in Spousal Tax Credit [(15%)($13,800)] ( 2,070)

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

Increase (Decrease) in 2024 Federal Income Tax Payable ($1,314)

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

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

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

Type: MC

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

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

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

B) When making a gift of non-depreciable capital property with an FMV in excess of its ACB, it is always advisable to elect the FMV amount for the gift.

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

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

Answer: C

Explanation:
C) The basis for a charitable donations tax credit for the current year can never exceed 75% of the individual's net income. This limit can be exceeded where there are capital gains and/or recapture as a result of the donation disposition. The limit can also be exceeded on death.

Type: MC

Topic: Charitable donations - general rules

73) In 2024, Liane Stanfield has net income of $102,000. This includes foreign non-business income of $30,000. This amount was before the withholding of income tax by the foreign government of $6,000. In calculating her 2024 taxable income, she intends to deduct a 2022 net capital loss of $10,000 and a 2021 non-capital loss of $30,000. After applying her BPA of $15,705, the tax otherwise payable for foreign tax credit purposes is $7,790. What is the amount of Liane's foreign non-business tax credit?

A) $6,000

B) $3,523

C) $4,500

D) $4,663

Answer: B

Explanation:
A) $6,000

B) $2,540

Tax Otherwise Payable = $8,380 + (20.5%) $62,000 - $55,867 = $9,637 - $2,356 = $7,281

The credit would be the lesser of $4,500 [($30,000)(15%)] and an amount determined by the following formula: [$30,000 ÷ ($102,000 - $10,000)][$7,281] = $3,523

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

D) $4,663 [$30,000 ÷ ($102,000 - $10,000 - $30,000)][$9,637]

Type: MC

Topic: Foreign tax credits - non-business

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

A) If Mrs. Mantz is receiving OAS

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

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

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

Answer: B

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

Type: MC

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

75) An individual has net income of $147,500 for the current year. In the current year, the individual donates a depreciable property with an FMV of $300,000, a capital cost and ACB of $225,000 and a UCC $147,000. It is the only property in its CCA class and no additions are made in the year and subsequent to the gift. If the individual elects to have the donation made at its FMV, what is the maximum amount that this individual can claim as the basis for their charitable donations tax credit for the current year?

A) $300,000

B) $110,625

C) $139,500

D) $148,875

Answer: C

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

Type: MC

Topic: Charitable donations - donations of depreciable property

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

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

B) A donation to her Majesty in right of Canada (Federal government)

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

D) A gift to a registered Canadian athletic association

Answer: A

Explanation:
A) A donation to a charitable organization outside of Canada to which the taxpayer's province of residence has also made a donation. Requires that the Federal government has made a donation not a province or territory by itself.

Type: MC

Topic: Charitable donations - general rules

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

A) Business income only

B) Capital gains only

C) Employment income only

D) Investment income only

Answer: A

Explanation:
A) Business income only.

Type: MC

Topic: Foreign tax credits - general rules

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

A) Foreign capital gains

B) Foreign employment income

C) Foreign investment income that is interest

D) All foreign income

Answer: C

Explanation:
C) Foreign investment income that is interest.

Type: MC

Topic: Foreign tax credits - general rules

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

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

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

C) The Foreign Business Income Tax Credit can exceed tax otherwise payable for the year.

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

Answer: B

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

Type: MC

Topic: Foreign tax credits - general rules

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

A) Employment income from a foreign employer

B) Property income on dividends from foreign shares

C) Business income from a foreign source

D) Taxable capital gains on the sale of shares of a foreign corporation

Answer: C

Explanation:
C) Business income from a foreign source

Type: MC

Topic: Foreign tax credits - general rules

81) In the calculation of Adjusted Taxable Income in the AMT calculation, which of the following are **not** considered tax preference items?

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

B) Dividend tax credits

C) Employee stock option deductions

D) Limited partnership losses

Answer: B

Explanation:
B) Dividend tax credits.

Type: MC

Topic: Alternative minimum tax - general concepts

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

A) Stock options not yet exercised

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

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

D) Taxable dividends received from a taxable Canadian corporation

Answer: A

Explanation:
A) Stock options not yet exercised.

Type: MC

Topic: Alternative minimum tax - general concepts

83) In 2023, Ms. Jessica Michaels was unemployed and had no income of any kind. In order to cover her living expenses, she sold a painting on December 1, 2023 for $78,000. This painting had been left to Ms. Michaels by her father and, at the time of his death, it had an FMV of $102,000.

In 2024, Ms. Michaels finds employment and has employment income of $69,000. In addition, in June, she sells a second painting for $7,000. She had purchased this painting several years ago for $1,100. She has no other income in 2024.

Determine Ms. Michaels' 2024 net income and taxable income. Indicate the amount and type of any losses available for carry over to other years.

Assume the December 1, 2023 sale had been of publicly listed shares instead of a painting. How would this change your answer?

Answer: Ms. Michaels will have a 2023 listed personal property loss of $12,000 [(1/2)($78,000 - $102,000)]. This can be claimed against the 2024 taxable capital gain on listed personal property of $2,950 [(1/2)($7,000 - $1,100)]. Based on this, her 2024 net income and taxable income would be calculated as follows:

Income ITA 3(a) $69,000

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

2024 Net Income and Taxable Income $69,000

In this case, there is a 2023 listed personal property loss balance of $9,050 ($12,000 - $2,950) that can only be applied against net taxable capital gains on listed personal property.

If the sale had been of shares instead of a painting, Ms. Michaels would have had a 2023 net capital loss of $12,000. Her 2024 net income and taxable income would have been determined as follows:

Income ITA 3(a) $69,000

Income ITA 3(b) 2,950

2024 Net Income $71,950

2023 Net Capital Loss (Limited to the ITA 3(b) amount) ( 2,950)

2024 Taxable Income $69,000

In this case, the remaining balance of the 2023 net capital loss is $9,050 which can be claimed to the extent of the ITA 3(b) amount in carryover years. While the taxable income remained the same the net income was different for the two scenarios.

Type: ES

Topic: Losses - listed personal property

84) In 2023, Jude Legal sold personal jewelry for $120,000. He had paid $150,000 for it several years earlier. In 2024, he sells a block of publicly listed shares for $125,000. The ACB of the shares was $72,000. He has no other types of income in either 2023 or 2024.

Determine Jude's 2024 net income and taxable income. Indicate the amount and type of any losses available for carry forward for 2024. If the 2023 sale had been of publicly listed shares instead of jewelry, how would the results for 2024 have changed?

Answer: Mr. Legal will have a 2023 listed personal property loss in the amount of $15,000 [(1/2)($150,000 - $120,000)]. In 2024 he will have a taxable capital gain of $26,500 [(1/2)($125,000 - $72,000)]. As the 2023 listed personal property loss cannot be claimed against this type of income or gain, Mr. Legal's 2024 net income and taxable income will both be $26,500. This will leave the 2023 listed personal property loss balance unchanged at $15,000.

If the 2023 loss had been on publicly listed shares, it would have been a regular capital loss and could be applied as follows:

2024 Net Income $26,500

2023 Net Capital Loss ( 15,000)

2024 Taxable Income $11,500

There would be no remaining net capital loss balance.

Type: ES

Topic: Losses - listed personal property

85) Mr. John Klaus carries on a business as a sole proprietor which uses a calendar based fiscal period (January 1 to December 31). In 2023, its first year of business, there is $19,000 of business income and a taxable capital gain of $3,000 [(1/2)($6,000)]. The following amounts relate to the 2024 taxation year:

 Business Loss ($56,000)

 Taxable Capital Gains 1,600

 Allowable Capital Losses ( 4,900)

Mr. Klaus has no other income or deductions in either year. Assume that he wishes to minimize any net capital loss and non-capital losses, without regard to his ability to claim personal tax credits for 2023. Calculate his 2023 and 2024 net income and taxable income plus any revised loss carryover amounts for 2023.

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

Answer: The original 2023 result is as follows:

Business Income $19,000

Taxable Capital Gain 3,000

2023 Net Income $22,000

Taxable Income Deductions Nil

2023 Taxable Income $22,000

His 2024 net income and taxable income would both be nil. After the maximum carry backs from 2024, the revised 2023 results would be as follows:

Business Income $19,000

Taxable Capital Gain 3,000

2023 Net Income $22,000

2024 Net Capital Loss

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

2024 Non-Capital Loss

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

2023 Revised Taxable Income Nil

Subsequent to the carryback of the 2024 net capital loss and the 2024 non-capital loss the remaining losses would be as follows:

• 2024 Net Capital Loss = [($4,900 - $1,600) - $3,000] = $300

• 2024 Non-Capital Loss = ($56,000 - $19,000) = $37,000

Type: ES

Topic: Losses - applying the carryovers

86) Maria Shank carries on a business as a sole proprietor which, during the fiscal period January 1, 2023 to December 31, 2023, has business income of $28,000 and a taxable capital gain of $6,500 [(1/2)($13,000)].

In 2024, the business experiences a business loss of $85,000. In addition to this loss, the disposition of capital property results in an allowable capital loss of $10,800. There are no taxable capital gains or any other types of income.

Assume that she wishes to minimize her net capital loss and non-capital loss carryovers, without regard to her ability to claim any available personal tax credits for 2023. Calculate her 2023 and 2024 net income and taxable income and any revisions to 2023 as a result of loss carrybacks.

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

Answer: The original 2023 results were as follows:

Business Income $28,000

Taxable Capital Gain 6,500

2023 Net Income $34,500

Taxable Income Deductions Nil

2023 Taxable Income $34,500

Her 2024 net income and taxable income would both be nil.

After maximum carry backs from 2024 while ignoring the availability of personal tax credits, the revised 2023 results would be as follows:

Business Income $28,000

Taxable Capital Gain 6,500

2023 Net Income $34,500

2024 Net Capital Loss Carry Back

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

2024 Non-Capital Loss Carry Back

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

Revised 2023 Taxable Income Nil

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

• 2024 Net Capital Loss Balance = ($10,800 - $6,500) = $4,300

• 2024 Non-Capital Loss Balance = ($85,000 - $28,000) = $57,000

Type: ES

Topic: Losses - applying the carryovers

87) Ms. Jean Claus carries on a business as a sole proprietor. The business uses a calendar-based fiscal period (January 1 to December 31). In 2023, the first year of business, there was business income of $45,000 and an allowable capital loss of $5,250 [(1/2)($10,500)], which could not be deducted because of the absence of any taxable capital gains. The following amounts relate to 2024:

 Business Loss ($83,000)

 Taxable Capital Gains 7,300

 Allowable Capital Losses ( 3,150)

Ms. Claus has no other income or deductions in either year and does not anticipate realizing capital gains in the foreseeable future. Assume she wishes to maximize the use of any loss carryovers to reduce taxable income in any carryover years, without regard to her ability to claim any personal tax credits. Calculate her 2023 and 2024 net income and taxable income and any revisions to 2023 net income and taxable income. Indicate the amount and type of any losses available for carry forward to other years.

Answer: For 2023, Ms. Claus had net income and taxable income of $45,000. There would also be a 2023 net capital loss of $5,250.

In 2024, she has a net taxable capital gain of $4,150 [($7,300 - $3,150)], providing an opportunity to apply the 2023 net capital loss. Based on this course of action, the 2024 non-capital loss would be calculated as follows:

Amount E ($83,000 + $4,150) $87,150

Income ITA 3(c) ( 4,150)

2024 Non-Capital Loss $83,000

Of this amount, $45,000 can be carried back to 2023, resulting in revised taxable income as follows:

2023 Net Income $45,000

Less: 2024 Non-Capital Loss Carry Back ( 45,000)

Revised 2023 Taxable Income Nil

Subsequent to the application of the 2023 net capital and 2024 non-capital loss the remaining loss balances would be as follows:

• 2023 Net Capital Loss Balance = ($5,250 - $4,150) = $1,100

• 2024 Non-Capital Loss Balance = ($83,000 - $45,000) = $38,000

Type: ES

Topic: Losses - applying the carryovers

88) Ms. Dora McLean carries on a business as a sole proprietor. The business uses a calendar-based fiscal period (January 1 to December 31). In the 2023 taxation year, there was business income of $95,000 and Dora also realized an allowable capital loss of $9,250 [(1/2)($18,500)] that could not be deducted because of the absence of any taxable capital gains.

Unfortunately, in 2024, there was a business loss of $123,000 and there was a taxable capital gain of $7,200 [(1/2)($14,400)]. Dora has no other income or deductions in 2023 or 2024. She does not anticipate realizing any additional capital gains in the foreseeable future.

Assume that Dora wishes to maximize the use of any loss carryovers to minimize income tax in other years. without regard to her ability to claim any available personal tax credits for 2023. Calculate her 2023 and 2024 net income and taxable income and any revised amounts for 2023. Indicate the amount and type of any losses available for carry forward after any loss applications to other years.

Answer: For 2023, Dora had net income and taxable income of $95,000 and a 2023 net capital loss of $9,250. This loss will be applied to the 2024 year to the extent of the $7,200 of net taxable capital gains in that year.

The 2024 non-capital loss would therefore be calculated as follows:

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

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

2024 Non-Capital Loss $123,000

Of this amount, $95,000 can be carried back to 2023, resulting in the following revisions:

2023 Net Income $95,000

2024 Non-Capital Loss ( 95,000)

Revised 2023 Taxable Income Nil

Subsequent to the application of the 2023 net capital loss and the 2024 non-capital loss the remaining loss balances would be as follows:

• 2023 Net Capital Loss Balance = ($9,250 - $7,200) = $2,050

• 2024 Non-Capital Loss Balance = ($123,000 - $95,000) = $28,000

Type: ES

Topic: Losses - applying the carryovers

89) Ms. Tanya Forester dies in August of 2024. At the time of her death, she has a 2021 net capital loss balance of $21,800 [(1/2)($43,600)]. As the result of a deemed disposition on her death of her art collection, there is a taxable capital gain of $15,500. Ms. Forester has made no previous use of the capital gains deduction. Her 2024 employment income in the period prior to her death was $47,000. Describe the income tax treatment of these amounts in her final income tax return for 2024.

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

Employment Income $47,000

Taxable Capital Gain 15,500

2021 Net Capital Loss applied against

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

Net Capital Loss applied against other

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

2024 addition to Net Income $40,700

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

Type: ES

Topic: Losses - net capital losses at death

90) Barton Foster dies in July of 2024. He has a 2022 net capital loss balance of $27,000 [(1/2)($54,000)] at the time of his death.

His death results in a deemed disposition of his portfolio of public corporation shares which results in taxable capital gains of $16,000. Mr. Foster has made no previous use of the capital gains deduction. In addition, prior to his death, he has employment income of $61,000.

Describe the income tax treatment of these amounts in his final income tax return for 2024.

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

Employment Income $61,000

Taxable Capital Gain 16,000

2022 Net Capital Loss applied against Current

 Taxable Capital Gain ( 16,000)

Net Capital Loss applied against other

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

Increase to 2024 Net Income $50,000

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

Type: ES

Topic: Losses - net capital losses at death

91) In 2023, Mrs. Lacinda Brown used $15,000 [(1/2)($30,000)] of her capital gains deduction. In 2024, she has taxable capital gains on publicly listed shares of $10,500, and a capital loss of $47,000 on the disposition of shares of a small business corporation which would qualify for treatment as an allowable business investment loss (ABIL). Her 2024 employment income is over $250,000. Determine the amount of the ABIL in 2024, as well as the amount and type of any losses available for carryover for 2024.

Answer: The 2024 ABIL would be calculated as follows:

Actual Capital Loss $47,000

Disallowed for Capital Gains Deduction Use ( 30,000)

Business Investment Loss $17,000

Inclusion Rate 1/2

2024 ABIL $ 8,500

All of the $8,500 can be applied against Mrs. Brown's employment income. With respect to the disallowed $30,000, it becomes an ordinary allowable capital loss of $15,000 of which $10,500 can be applied against the current year's taxable capital gains on the publicly listed shares. This leaves a 2024 net capital loss of $4,500 [$15,000 - $10,500].

Type: ES

Topic: ABILs and the capital gains deduction

92) For many years, Jasmine Ho has had employment income in excess of $300,000. This will also be the case in 2024. In 2024, she has a $38,000 loss on the disposition of shares of a small business corporation that would qualify for treatment as a business investment loss. Also in 2024, she has taxable capital gains on publicly listed shares of $2,500. The only other year in which she realized taxable capital gains was in 2016. In that year she had a taxable capital gain of $4,000 on the sale of shares of a family farm corporation. She used her capital gains deduction to offset all of that gain. Determine her ABIL for 2024, as well as the amount and type of any 2024 loss available for carryover to other years.

Answer: The 2024 ABIL would be calculated as follows:

Actual Loss on Disposition $38,000

Disallowed for Capital Gains Deduction Use ( 8,000)

Business Investment Loss $30,000

Inclusion Rate 1/2

2024 ABIL $15,000

The $15,000 ABIL can be applied against Jasmine's employment income. With respect to the $8,000 disallowed portion of the capital loss, it becomes an allowable capital loss of $4,000 which can be applied to the extent of the taxable capital gain of $2,500. This will leave a 2024 net capital loss balance of $1,500 [($4,000 - $2,500)].

Type: ES

Topic: ABILs and the capital gains deduction

93) Despite having a full time teaching position at a Canadian university, Bob Fife has considerable amounts of free time. Given this, he has started a farming business as a sole proprietor on land situated near the university where he teaches. In 2023, he had a farming loss of $24,000. He deducted the maximum possible amount in that year. Bob expects the farming activity to become profitable in a few years. Assume that the farming activity is a business.

In 2024, he has employment income of $105,000 and farming income of $6,000. Determine Bob's minimum 2024 net income and taxable income. Also, determine the amount and type of any loss carryovers for 2024.

Answer: The farming business is a subordinate source of income to Bob meaning that the farm losses are subject to the restrictions set out in ITA 31. Given this, the unrestricted deduction of the 2023 farming loss would be limited to $13,250 [$2,500 + (1/2)($24,000 - $2,500)].

The remaining $10,750 ($24,000 - $13,250) is a restricted farm loss (RFL) for 2023.

Bob's 2024 net income and taxable income would be as follows:

Employment Income $105,000

Farm Income 6,000

2024 Net Income $111,000

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

2024 Taxable Income $105,000

This leaves a 2023 RFL of $4,750 ($10,750 - $6,000).

Type: ES

Topic: Losses - restricted farm losses ITA 31

94) Prior to 2024, Ms. Henny Close has had two capital gains and one capital loss. In 2019, she had a capital gain of $18,000 and in 2021, she had a capital gain of $54,000. Both of these gains were on dispositions of QSBC shares. Given this, she used the capital gains deduction to fully offset the taxable amount of these gains. She also has a 2022 net capital loss balance of $30,000. This resulted from a 2022 capital loss of $60,000. She intends to deduct the 2022 net capital loss in 2024. She has never had an ABIL.

In 2024, she has a $748,000 capital gain on the sale of QSBC shares. Ms. Close has a CNIL balance on December 31, 2024 of $23,000. Determine Ms. Close's maximum capital gains deduction for 2024. Provide all of the calculations required to determine the maximum deduction.

Answer: Ms. Close's maximum 2024 capital gains deduction is the least of the following three amounts:

**2024 Available Deduction** - Her remaining deduction would be $472,418 [$508,418 - (1/2)($18,000 + $54,000)].

**Annual Gains Limit** - In the absence of capital gains on non-qualified property in any of the years under consideration, the simplified version of this calculation can be used. The annual gains limit for 2024 would be as follows:

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

Less: 2022 Net Capital Loss Deducted ( 30,000)

2024 Annual Gains Limit $344,000

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

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

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

CNIL ( 23,000)

2024 Cumulative Gains Limit $321,000

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

Type: ES

Topic: Capital gains deduction - calculating the deduction

95) At the beginning of 2024, Joanne Chance had the following loss balances available:

2021 Restricted Farm Loss $ 7,200

2022 Non-Capital Loss 41,000

2020 Net Capital Loss [(1/2)($50,000)] 25,000

In 2024, she had the following amounts of income:

Taxable Capital Gains $ 10,500

Business Income 14,200

Employment Income 61,000

Farm Income 2,950

Determine Joanne's minimum 2024 net income and taxable income. Indicate the amount and type of any loss balances available to be applied to other years.

Answer: Joanne's 2024 net income would be calculated as follows:

Income Under ITA 3(a):

 Employment Income $61,000

 Business Income 14,200

 Farming Income 2,950 $78,150

Income Under ITA 3(b):

 Taxable Capital Gains 10,500

2024 Net Income $88,650

Joanne's 2024 Taxable Income is as follows:

2024 Net Income $88,650

Loss Carry Forwards:

 2021 Restricted Farm Loss (Limited to farming income) ( 2,950)

 2020 Net Capital Loss (Limited to taxable capital gains) ( 10,500)

 2022 Non-Capital Loss (All) ( 41,000)

2024 Taxable Income $34,200

**Loss Balances**

• 2021 Restricted farm loss ($7,200 - $2,950) $ 4,250

• 2020 Net capital loss ($25,000 - $10,500) 14,500

• 2022 Non-capital loss Nil

Type: ES

Topic: Losses - applying the carryovers

96) At the beginning of 2024, Cindy Burke had the following loss carryover balances:

2022 Non-Capital Loss $25,000

2020 Restricted Farm Loss 4,000

2020 Net Capital Loss [(1/2)($64,000)] 32,000

In 2024 she has the following amounts of income:

Farm Income $ 2,500

Taxable Capital Gains 21,000

Business Income 74,000

Determine Cindy's 2024 net income and minimum taxable income. Indicate the amount and type of any losses available for application to other years.

Answer: Cindy's 2024 net income would be calculated as follows:

Income Under ITA 3(a):

 Business Income $74,000

 Farming Income 2,500 $76,500

Income Under ITA 3(b):

 Taxable Capital Gains 21,000

2024 Net Income $97,500

Cindy's 2024 minimum Taxable Income is as follows:

2024 Net Income $97,500

Loss Carry Forwards:

 2021 Restricted Farm Loss (Limited to farming income) ( 2,500)

 2020 Net Capital Loss (Limited to net taxable capital gains) ( 21,000)

 2022 Non-Capital Loss (All) ( 25,000)

2024 Taxable Income $49,000

**Loss Balances**

• 2021 Restricted farm loss ($4,000 - $2,500) $ 1,500

• 2020 Net capital loss ($32,000 - $21,000) 11,000

• 2022 Non-capital loss Nil

Type: ES

Topic: Losses - applying the carryovers

97) In 2024, Harriet Humber, who is 15 years old, receives non-eligible dividends of $13,000 from a private corporation controlled by her father. In addition, she has income of $13,100 from her modeling contracts. Assume her only available personal tax credits are the BPA of $15,705 and the dividend tax credit. Determine Harriet's 2024 federal income tax payable.

Answer: Harriet's regular 2024 federal income tax payable would be calculated as follows:

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

Modeling Income 13,100

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

2024 Net Income = Taxable Income $13,100

Rate 15%

Tax Payable before Credit $ 1,965

Tax on Split Income [(33%)($14,950)] 4,934

Federal Tax Payable before tax credits $ 6,899

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

BPA [(15%)($15,705)] ( 2,356)

2024 Regular Federal Income Tax Payable $ 3,193

Her income tax on Split Income would be calculated as follows:

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

Rate 33%

Tax Payable before Dividend Tax Credit $ 4,934

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

2024 Income Tax Payable on Split Income $ 3,584

Harriet's total 2024 federal income tax payable would be $3,584 — the greater of $3,193 and $3,584.

Type: ES

Topic: Tax on split income (TOSI)

98) Mrs. Mary Senton is 42 years old and has over $250,000 in taxable income in 2024. Her spouse's only income for 2024 is $9,000 (grossed up amount of $12,420) in eligible dividends. In terms of federal income tax payable, would Mrs. Senton benefit from the use of the ITA 82(3) election to include the taxable dividends received by her spouse in her net income? Explain your conclusion.

Answer: In the absence of the transfer, Mrs. Senton would a have a small BPA of $1,736 [$14,156 - $12,420]. In contrast, with the transfer, she would be eligible for the full spousal credit of $14,156 an increase of $12,420. As a result the ITA 82(3) election would be available since the effect of the transfer would be to increase the spousal credit. Given this, the analysis of her position at the federal level would be as follows:

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

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

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

Tax Increase (Decrease) $ 371

As there is an increase in 2024 federal income tax payable, the election would not be beneficial in this case because the additional income is subject to the highest federal income tax rate of 33%.

Type: ES

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

99) Ms. Katrina Wave owns a painting that she purchased many years ago for $22,000. Its current FMV is $132,500. In 2024, she gifts the painting to the Renfrew Art Gallery. As the Gallery is a registered Canadian charity, it provides Ms. Wave with an income tax receipt for the full value of $132,500. Before consideration of any income resulting from this gift, Ms. Wave's only other income is investment income of $12,500. She has no personal tax credits other than the BPA of $15,705 and the charitable donations credit resulting from the gift of the painting.

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

• 2024 Net Income;

• her maximum federal charitable donations tax credit for 2024;

• the amount of the donation she should claim in 2024 in order to reduce her federal income tax payable to nil; and

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

Answer: **2024 Net Income -** Ms. Wave's gift will result in a taxable capital gain of $55,250 [(1/2)($132,500 - $22,000)]. Her 2024 net income will therefore be $67,750 ($12,500 + $55,250).

**Maximum Donation Credit -** Note that, because Ms. Wave's taxable income is less than $246,752 the 33% income tax rate is not relevant to the calculation of the charitable donations tax credit. The maximum base for the charitable donations is calculated as follows:

75% of 2024 net income [(75%)($67,750)] $50,813

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

2024 Charitable Donations Credit Base Limit $64,626

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

**Donation Credit required to reduce federal income tax payable to Nil -** The credit claim that will reduce 2024 federal income tax payable to nil is calculated as follows:

Tax on first $55,867 $ 8,380

Tax on next $11,883 ($67,750 - $55,867) at 20.5% 2,436

Tax Payable Before Credits $10,816

BPA [(15%)($15,705)] ( 2,356)

2024 Federal Tax Payable before Donations Credit $ 8,460

In order to determine the donation that will produce a charitable donations credit of $8,460, the following equation must be solved:

 $8,460 = [(15%)($200) + (29%)(X - $200)]

Solving this equation results in a value for X of $29,269. Using this amount of her credit base will result in the required $8,460 [(15%)($200) + (29%)($29,269 - $200)], thereby reducing her 2024 federal income tax payable to nil.

**Carry Forward -** This will leave a carry forward balance of $103,231 ($132,500 - $29,269).

Type: ES

Topic: Charitable donations - non-depreciable capital property

100) Lara Rand owns land that she had purchased as an investment many years ago for $18,000. In 2024, she gifts the land to a registered Canadian charity. At the time of the gift, the FMV of the land is $84,000, with the charity issuing an income tax receipt for that amount. In addition to the capital gain resulting from this gift, Lara has 2024 rental income of $23,000. She has no personal tax credits other than the BPA of $15,705 and the charitable donations credit resulting from the gift of the land.

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

• 2024 Net Income;

• her maximum federal charitable donations tax credit for 2024;

• the amount of the donation she should claim in 2024 in order to reduce her federal income tax payable to nil; and

• the amount of donations that can be carried forward to subsequent years, assuming that she claims the amount of donations that would reduce her 2024 federal income tax payable to nil after considering available personal tax credits.

Answer: **2024 Net Income -** Lara's gift will result in a taxable capital gain of $33,000 [(1/2)($84,000 - $18,000)]. Given this, her 2024 net income is $56,000 ($23,000 + $33,000).

**Maximum Credit -** Note that, because Lara's taxable income is less than $246,752, the 33% income tax rate is not relevant in calculating the charitable donations tax credit. The maximum base for the charitable donations tax credit is calculated as follows:

75% of Net Income [(75%)($56,000)] $42,000

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

2024 Charitable Donations Credit Base Limit $50,250

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

**Donation Credit required to reduce federal income tax payable to Nil -** The credit claim that will reduce 2024 federal income tax payable to nil is calculated as follows:

Tax on first $55,867 $8,380

Tax on next $133 ($56,000 - $55,867) at 20.5% 27

Tax Payable Before Credits $8,407

BPA [(15%)($15,705)] ( 2,356)

2024 Federal Tax Payable before Donations Credit $6,051

In order to determine the donation that will produce a charitable donations credit of $6,051, the following equation must be solved:

 $6,051 = [(15%)($200) + (29%)(X - $200)]

Solving this equation gives a value for X of $20,962. The use of $20,962 of her donation will generate a credit of $6,051 [(15%)($200) + (29%)($20,962 - $200)], an amount sufficient to reduce her 2024 federal income tax payable to nil.

**Carry Forward -** This will leave a carry forward balance of $63,038 ($84,000 - $20,962).

Type: ES

Topic: Charitable donations - non-depreciable capital property

101) Mr. Gerald Deveau owns a rental property that, in 2024, he gifted to a registered charity to house its continuing operations. The building had originally cost Mr. Deveau $172,000, of which $34,000 was allocated to the land and $138,000 was allocated to the building. At the time of the gift, the UCC of the building is $43,000, and the FMV of the property is $346,000, including $86,000 for the land and $260,000 for the building. The charity issues an income tax receipt for $346,000. Before consideration of any income resulting from this gift, Mr. Deveau's only other income is rental income of $8,300. His only personal tax credits are his BPA and the charitable donations credit resulting from the gift of the land and building.

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

• 2024 Net Income;

• his maximum federal charitable donations tax credit for 2024;

• the amount of the donations he should claim in 2024 in order to reduce his federal income tax payable to nil after the consideration of available personal tax credits; and

• the amount of donations that can be carried forward to subsequent years, assuming that he claims the amount of donations that would reduce his 2024 federal income tax payable to nil.

Answer: **2024 Net Income -** Mr. Deveau's 2024 net income is calculated as follows:

Rental Income $8,300

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

Taxable Capital Gain - Building

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

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

2024 Net Income $190,300

**Maximum Credit -** Note that, because Mr. Deveau's taxable income is less than $246,752, the 33% income tax rate is not relevant in calculating the charitable donations tax credit. The maximum base for the charitable donations tax credit is calculated as follows:

75% of Net Income [(75%)($190,300)] $142,725

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

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

Charitable Donations Credit Base Limit for 2024 $188,225

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

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

Tax on first $173,205 $35,816

Tax on next $17,095 ($190,300 - $173,205) at 29% 4,958

Tax Payable before Credits $40,774

BPA [(15%)($15,345\*)] ( 2,302)

2024 Federal Income Tax Payable before Donations Credit $38,472

\*$15,705 - [$1,549][($190,300 - $173,205) ÷ 73,547)] = $15,345

In order to determine the donation that will produce a charitable donations credit of $38,472, the following equation must be solved:

 $38,472 = [(15%)($200) + (29%)(X - $200)]

Solving this equation gives a value for X of $132,759. The use of $132,759 of his donation will produce a credit of $38,472 [(15%)($200) + (29%)($132,759 - $200)], an amount sufficient to reduce his 2024 federal income tax payable to nil.

**Carry Forward -** This will leave a carry forward of $213,241 ($346,000 - $132,759).

Type: ES

Topic: Charitable donations - donations of depreciable property

102) In 2024, Victor Flood donates a rental property to a registered Canadian charity. The property had a cost of $226,000, including a value for the land of $50,000 and a value for the building of $176,000. At the time of the gift, the estimated FMV of the property is $396,000, with the value of the land unchanged at $50,000 and the value of the building at $346,000. The UCC of the building is $110,000 at the time of the donation. The charity issues an income tax receipt for $396,000. Other than the income generated by the gift, Victor's only other 2024 income is rental income of $16,000. His only 2024 personal tax credits are his BPA and the charitable donations credit resulting from the gift.

**Required:** Determine Victor's:

• 2024 Net Income;

• his maximum federal charitable donations tax credit for 2024;

• the amount of the donations he should claim in 2024 in order to reduce his federal income tax payable to nil; and

• the amount of donations that can be carried forward to subsequent years, assuming that he claims the amount of donations that would reduce his 2024 federal income tax payable to nil.

Answer: **2024 Net Income -** Victor's 2024 net income is calculated as follows:

Rental Income $16,000

Taxable Capital Gain - Land Nil

Taxable Capital Gain - Building

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

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

2024 Net Income $167,000

**Maximum Donation Credit -** Note that, because Victor's taxable income is less than $246,752, the 33% income tax rate is not relevant in calculating the charitable donations tax credit. The maximum base for the charitable donations tax credit for 2024 is calculated as follows:

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

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

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

2024 Charitable Donations Credit Base Limit $163,000

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

**Donation Credit required to reduce 2024 federal income tax payable to Nil -** The credit claim that will reduce federal income tax payable to nil is calculated as follows:

Tax on first $111,733 $19,833

Tax on next $55,267 ($167,000 - $111,733) at 26% 14,369

Tax Payable before Credits $34,202

BPA [(15%)($15,705)] ( 2,356)

2024 Federal Income Tax Payable before Donations Credit $31,846

In order to determine the donation that will produce a charitable donations credit of $31,846, the following equation must be solved:

 $31,846 = [(15%)($200) + (29%)(X - $200)]

Solving this equation for X gives a value of $109,910. The use of $109,910 of his donation will produce a credit of $31,846 [(15%)($200) + (29%)($109,910 - $200)], an amount sufficient to reduce his 2024 federal income tax payable to nil.

**Carry Forward -** This will leave a carry forward of $286,090 ($396,000 - $109,910).

Type: ES

Topic: Charitable donations - donations of depreciable property

103) In 2024, Kevin Fung has net income of $56,500, an amount that includes $3,900 of foreign non-business income. The foreign jurisdiction withheld 13% of this amount, resulting in a net receipt of $3,393. In calculating taxable income, he deducts a 2022 non-capital loss of $5,000 and a 2021 net capital loss of $3,200, resulting in taxable income of $48,300. His only personal tax credits are the BPA and the non-business foreign tax credit. What is the amount of his foreign non-business income tax credit for 2024? A calculation of federal income tax payable is **NOT** required.

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

2024 Net Income $56,500

2021 Net Capital Loss Deducted ( 3,200)

Adjusted Division B Income $53,300

2022 Non-Capital Loss Carry Forward ( 5,000)

2024 Taxable Income $48,300

His Tax Otherwise Payable would be calculated as follows:

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

BPA [(15%)($15,705)] ( 2,356)

2024 Tax Otherwise Payable $4,889

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

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

= [($3,900 ÷ $53,300)($4,889)] = $358

As the amount determined by the formula would be the lesser of the two amounts, his foreign tax credit would be $358.

Type: ES

Topic: Foreign tax credits - non-business

104) In 2024, Andy Loon earned $4,500 in foreign non-business income. The foreign jurisdiction withheld 20% of this amount, resulting in a net receipt of $3,600. His only other income in 2024 is a taxable capital gain of $38,000. His only taxable income deduction for 2024 is a 2019 net capital loss of $26,000. His only personal tax credits are the BPA and the non-business foreign tax credit. Determine Mr. Loon's 2024 net income, his 2024 taxable income, and his 2024 federal income tax payable.

Answer: The total foreign tax withheld is $900 [(20%)($4,500)]. However, because he is an individual, Andy's credit is limited to 15% of the non-business income or $675 [(15%)($4,500)]. The remaining $225 ($900 - $675) is a net income deductible under ITA 20(11). Given this, Andy's 2024 net income and taxable income are calculated as follows:

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

Taxable Capital Gain 38,000

2024 Net Income $42,275

Less: 2019 Net Capital Loss ( 26,000)

2024 Taxable Income = Adjusted Division B Income $16,275

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

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

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

BPA [(15%)($15,705)] ( 2,356)

Tax Otherwise Payable $ 85

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

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

= [($4,500 ÷ $16,275)($85)] = $24

As the amount determined by the formula would be the lesser of the two amounts, his foreign tax credit would be $53. This would result in a final 2024 federal income tax payable of $61 ($85 - $24).

Type: ES

Topic: Foreign tax credits - non-business

105) In 2024, Mr. Glenn Leigh has net income of $335,400. This amount is made up of taxable capital gains of $225,000 and taxable eligible dividends of $110,400 [(138%)($80,000)]. As the taxable capital gain was on a disposition of QSBC shares, Mr. Leigh reduced his taxable income to $110,400 through the use of the capital gains deduction. His only personal tax credits are the BPA and the dividend tax credit. Determine whether Mr. Leigh would have a liability for the federal AMT and, if so, the amount of the tax.

Answer:

 **Regular Federal New**

 **Income Tax AMT**

Taxable Capital Gain

[(1/2)($450,000)] $ 225,000 $ 450,000

Eligible Dividends

[(138%)($80,000)] 110,400 80,000

Capital Gains Deduction (225,000) (315,000)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 110,400 $ 41,795

Federal Income Tax/

AMT at 20.5% $ 19,559 $ 8,568

Dividend Tax Credit

[(6/11)(gross-up $30,400)] (16,582) N/A

BPA ( 2,124) ( 1,062)

Regular Federal Income

Tax/AMT $ 853 $ 7,506

**ANALYSIS**

The individual is liable for the greater of the regular federal income tax of $853 and the AMT of $7,506 which is the AMT of $7,506. Since the AMT exceeds the regular federal income tax payable there is an AMT carry forward for 2024 of $6,653. Note that 100% of the capital gain is included for AMT purposes, the eligible dividend is added without the gross-up, and the capital gains deduction of $225,000 is multiplied by 7/5 resulting in an amount of $315,000.

**BPA** = $2,124 [(15%)($14,156)] for regular federal income tax purposes and only 50% of that amount or $1,062 for AMT purposes.

**Federal Income Tax Payable** is calculated as [(20.5%)($110,400 — $55,867) + $8,380]

**AMT Tax Payable** is 20.5% of $41,795.

Type: ES

Topic: Alternative minimum tax - calculating the tax

106) In 2024, Shelly Large sold QSBC shares for $580,000 resulting in a taxable capital gain of $200,000. She intends to deduct the taxable amount of this gain as a capital gains deduction. Her only other income in the year was eligible dividends of $83,000 (taxable amount $114,540). Her only personal tax credits are the BPA and the dividend tax credit. Determine whether Ms. Large would be liable for the federal AMT and, if so, the total amount of the liability.

Answer: Shelly's regular 2024 federal income tax payable would be calculated as follows:

 **Regular Federal New**

 **Income Tax AMT**

Taxable Capital Gain

[(1/2)($400,000)] $ 200,000 $ 400,000

Eligible Dividends

[(138%)($83,000)] 114,540 83,000

Capital Gains Deduction (200,000) (280,000)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 114,540 $ 29,795

Federal Income Tax/

AMT at 20.5% $ 20,563 $ 6,108

Dividend Tax Credit

[(6/11)(gross-up $31,540)] (17,204) N/A

BPA ( 2,356) ( 1,178)

Regular Federal Income

Tax/AMT $ 1,003 $ 4,930

**ANALYSIS**

The individual is liable for the greater of the regular federal income tax of $1,003 and the AMT of $4,930 which is the AMT of $4,930. Since the AMT exceeds the regular federal income tax payable there is an AMT carry forward for 2024 of $3,927. Note that 100% of the capital gain is included for AMT purposes, the eligible dividend is added without the gross-up, and the capital gains deduction of $200,000 is multiplied by 7/5 resulting in an amount of $280,000.

**BPA** = $2,356 [(15%)($15,705)] for regular federal income tax purposes and only 50% of that amount or $1,178 for AMT purposes.

**Federal Income Tax Payable** is calculated as [(26%)($114,540 - $111,733) + $19,833]

**AMT Tax Payable** is 20.5% of $29,795.

Type: ES

Topic: Alternative minimum tax - calculating the tax

107) Martin Dornet commences a new retail business on January 1, 2021 that he carries on as a sole proprietor. The fiscal period of the business is January 1 to December 31. Relevant information for 2021 and the three subsequent taxation years (2022, 2023 and 2024) follows.

**2021 Taxation Year**

During this first year of operations, Martin's business income is $32,600. In addition to his new retail business, he begins a farming business with losses of $14,200 during its first year. He has always been an active investor in the stock market and, in 2021, he has the following income tax results:

Eligible Dividends $3,050

Taxable Capital Gains 1,150

Allowable Capital Losses 6,860

**2022 Taxation Year**

The 2022 the retail business has a business loss of $23,700. His farming business generates income of $3,600. His investment results for 2022 are as follows:

Eligible Dividends $3,850

Taxable Capital Gains 3,470

**2023 Taxation Year**

His retail business has business income of $53,200 and the farming business income of $5,480. His 2023 investment results are as follows:

Eligible Dividends $4,860

Taxable Capital Gains 3,870

**2024 Taxation Year**

The retail business experiences a business loss of $32,670 and the farming business a loss of $2,460. Investment results are as follows:

Eligible Dividends $ 7,920

Taxable Capital Gains 23,360

Allowable Capital Losses 24,940

Because his farming activities are secondary to his business activities, any farm losses are restricted by ITA 31.

In each of the four years 2021 to and including 2024, Martin needs $23,618 in taxable income to offset his personal tax credits.

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

Prior to 2021, because of significant health issues, Martin had no income tax payable. This means that it would not be useful to carry back any type of loss to years prior to 2021.

**Required:** Calculate Martin's minimum net income and taxable income for each of the four years. Indicate the revised amounts for any years to which losses are carried back. Also indicate the amount and types of loss carryovers that would be available at the end of each year.

Answer: ***2020 Analysis***

The required information can be calculated as follows:

ITA 3(a)

 Business Income $32,600

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

ITA 3(b)

 Taxable Capital Gains $ 1,150

 Allowable Capital Losses ( 6,860) Nil

ITA 3(c) $36,809

ITA 3(d)

 Farm Loss (See Note) ( 8,350)

2021 Net Income and Taxable Income $28,459

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

Total Farm Loss $14,200

Deductible Unrestricted Amount:

 First $2,500 ($2,500)

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

2021 Restricted Farm Loss $ 5,850

As noted in the problem, none of the losses can be carried back before 2021. This would leave the following 2021 loss balances:

• 2021 Restricted Farm Loss $5,850

• 2021 Net Capital Loss ($6,860 - $1,150) $5,710

***2022 Analysis***

The required information can be calculated as follows:

ITA 3(a)

 Farm Income $ 3,600

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

ITA 3(b)

 Taxable Capital Gains $ 3,470

 Allowable Capital Losses Nil 3,470

ITA 3(c) $12,383

ITA 3(d)

 Business Loss ( 23,700)

2022 Net Income Nil

2021 Net Capital Loss ($ 3,470)

2022 Taxable Income Nil

Since there are net taxable capital gains in 2022, and the problem states that Martin would like to deduct the maximum amount of net capital losses, the 2021 net capital loss carry forward of $3,470 is added to the balance of the non-capital loss.

The 2022 non-capital loss is calculated as follows:

Business Loss $23,700

2021 Net Capital Loss Deducted 3,470

ITA 3(c) ( 12,383)

2022 Non-Capital Loss $14,787

The entire 2022 non-capital loss carryover could be carried back to 2021, but since Martin requires $23,618 in taxable income to fully utilize his personal tax credits, the maximum carry back to 2021 is only $4,841 calculated as follows:

2021 Taxable Income (As Initially Reported) $28,459

2022 Non-Capital Loss deducted ( 4,841)

2021 Revised Taxable Income (Minimum) $23,618

This carry back leaves Martin with his required $23,618 in taxable income. There would be the following loss balances at the end of 2022:

• 2021 Restricted Farm Loss Carry Forward (Unchanged) $5,850

• 2021 Net Capital Loss Carry Forward ($5,710 - $3,470)] 2,240

• 2022 Non-Capital Loss Carry Forward ($14,787 - $4,841) 9,946

***2023 Analysis***

The required information can be calculated as follows:

ITA 3(a)

Business Income $53,200

 Farm Income 5,480

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

ITA 3(b)

 Taxable Capital Gains $3,870

 Allowable Capital Losses Nil 3,870

2023 Net Income $69,257

2021 Restricted Farm Loss (Equal to Farm income) ( 5,480)

2021 Net Capital Loss (Less than $3,870) ( 2,240)

2022 Non-Capital Loss (All) ( 9,946)

2023 Taxable Income $51,591

There would be the following loss balances at the end of 2023:

• 2021 Restricted Farm Loss ($5,850 - $5,480) $ 370

***2024 Analysis***

The required information can be calculated as follows:

ITA 3(a)

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

ITA 3(b)

 Taxable Capital Gains $23,360

 Allowable Capital Losses ( 24,940) Nil

ITA 3(c) $10,930

ITA 3(d)

 Business Loss ($32,670)

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

2024 Net Income and Taxable Income Nil

The available 2024 non-capital loss can be calculated as follows:

Business Loss $32,670

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

ITA 3(c) ( 10,930)

2024 Non-Capital Loss $24,200

Although technically, the farm loss is accounted for separately from the non-capital loss, since the farm loss is less than $2,500 it is treated as an unrestricted farm loss and can be applied against all types of income. ITA 31 states that any loss allowed under that provision is considered an unrestricted loss from a farming business for the year for the purposes of calculating any loss carryover. As a result, the preceding loss carryover of $24,200 is available for carry back to 2023 and can be applied against any type of income.

With respect to the 2024 net capital loss of $1,580 ($24,940 - $23,360), there are $1,630 ($3,870 - $2,240) in taxable capital gains left in 2023 as the basis for a carry back. This means that all of the 2024 net capital loss can be carried back.

If, in addition to the net capital loss carry back, all of the non-capital loss is carried back, Martin's revised 2023 taxable income would be as follows:

2023 Taxable Income (As Initially Reported) $51,591

2024 Non-Capital Loss ( 24,200)

2024 Net Capital Loss ( 1,580)

2023 Revised Taxable Income $25,811

With these carry backs being deducted, there would be the following loss balances at the end of 2024:

• 2021 Restricted Farm Loss Balance (Unchanged) $ 370

• 2024 Net Capital Loss Balance ($1,580 - $1,580)] Nil

• 2024 Non-Capital Loss Balance ($24,200 - $24,200) Nil

Type: ES

Topic: Losses - applying the carryovers

108) In 2021, Mr. Larry Atkins invested $275,000 to purchase 100% of the common shares of a corporation involved in the manufacture of plastic containers. The company was a Canadian controlled private corporation (CCPC) with a taxation year ending January 31. All of its properties were used in an active business carried on in Canada.

In 2021 and 2022, the company operated successfully, but did not pay any dividends. In 2023, it began to experience serious financial difficulties. In 2024, the company shut down and all of the business properties were sold. After the priority claims of the creditors were settled, Mr. Atkins' shares were canceled and he received a final payment of $65,000.

Other financial data for Mr. Atkins for the 2023 and 2024 taxation years is as follows:

 **2023 2024**

Rental income $36,870 $41,200

Interest Income 5,250 5,650

BPA 15,000 15,705

The only personal tax credit available to Mr. Atkins in either year is the BPA. Mr. Atkins had no income in 2021 and 2022. There was no loss carryovers prior to 2023.

Mr. Atkins has never claimed the capital gains deduction.

**Required:** Determine Mr. Atkins' optimum taxable income for 2023 and 2024. In your solution, consider the effect of the BPA. Indicate any loss carryover that is available, and the rules applicable to claiming the loss carryover.

Answer: The calculation of Mr. Atkins' 2023 taxable income would be as follows:

Rental Income $36,870

Interest Income 5,250

2023 Net Income and Taxable Income $42,120

In 2024, there is a capital loss of $210,000 ($275,000 - $65,000) on an arm's length sale of the common shares. As these were shares in a CCPC that used all of its properties in an active business primarily carried on in Canada the loss would qualify as a business investment loss (BIL).

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

Based on this analysis, Mr. Atkins' 2024 taxable income would be calculated as follows:

Rental Income $41,200

Interest Income 5,650 $46,850

ABIL ( 105,000)

2024 Net Income and Taxable Income Nil

As the ABIL was realized in 2024, it must first be used to reduce that year's net income to nil. Note that, because of this rule, Mr. Atkins cannot deduct a smaller amount in order to have sufficient income to absorb his BPA for that year. This will use up $46,850 of the $105,000 total and leave a balance of $58,150 to be carried over to other years as a 2024 non-capital loss [ABIL $105,000 - ITA 3(c) amount of $46,850].

In carrying the 2024 non-capital loss back to 2023, the optimum solution would leave $15,000 of taxable income so that Mr. Atkins can take advantage of his BPA for that year. Note that the calculation of the optimum carry back uses the BPA of the year to which the loss is applied, not the current year.

This means that Larry will need a loss carry back deduction of $27,120 ($42,120 - $15,000) in 2023. This deduction will leave taxable income of $15,000. As planned, the income tax on this amount will be offset by Larry's BPA of $15,000.

A carry back of $27,120 in 2023 leaves a 2024 non-capital loss balance of $31,030 ($58,150 - $27,120) to be used in other years.

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

Type: ES

Topic: Allowable business investment losses

109) The following information is for Doug Santiago for the 2024 taxation year:

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

• Doug sold QSBC shares, for $480,000. The ACB of the shares was $187,000. and selling costs were $4,000.

• Doug had employment income of $142,000.

• At the end of 2024, Doug had a CNIL balance of $2,300.

• Doug has a 2022 net capital loss balance of $3,400 [(1/2)($6,800)]. Doug claimed the capital gains deduction to eliminate a 2016 capital gain of $29,500, as well as a 2019 capital gain of $49,000. Doug has not claimed any other amounts as a capital gains deduction prior to 2024.

**Required:** Calculate Doug's minimum 2024 net income and taxable income. Provide all of the calculations required to determine the maximum capital gains deduction assuming:

A. Doug would prefer to make the maximum deduction of his 2022 net capital loss balance, before claiming the capital gains deduction.

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

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

2024 BIL Realized ($345,000 - $78,000) $267,000

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

Remaining BIL $188,500

Inclusion Rate 1/2

2024 ABIL $ 94,250

Doug's 2024 net income would be calculated as follows:

Employment Income $142,000

ABIL ( 94,250)

Net Taxable Capital Gains:

 Taxable Capital Gain

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

 Allowable Capital Loss (Disallowed ABIL)

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

2024 Net Income $153,000

Doug's 2022 taxable income under the two different assumptions would be calculated as follows:

 **Part A Part B**

2024 Net Income $153,000 $153,000

2022 Net Capital Loss Deducted ( 3,400) Nil

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

2024 Taxable Income $144,300 $144,300

**Note:** As the only capital gains during 2024 are on property that qualifies for the capital gains deduction, the simplified formula for the annual gains limit can be used. Given this, the capital gains deduction is the cumulative gains limit for both Part A and B as it is the least of the following:

 **Part A Part B**

Amount Available [(1/2)($1,016,836\*)] $508,418 $508,418

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

Capital Gains Deduction Available in 2023 $469,168 $469,168

\*This is the 2024 limit for gains on dispositions of QSBC shares and QFP in 2024.

 **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)

2022 Net Capital Loss Deducted ( 3,400) Nil

Annual Gains Limit $ 7,600 $ 11,000

 **Part A Part B**

Sum of Annual Gains Limits

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

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

Capital Gains deduction in Previous Years

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

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

Cumulative Gains Limit $ 5,300 $ 8,700

In Part B, Doug will still have his $3,400 2022 net capital loss balance, but will have used $3,400 more of his capital gains deduction. His 2024 taxable income in both cases is the same.

Type: ES

Topic: ABILs and the capital gains deduction download all chapters via https://r.24zhen.com/eVZZD

110) In the following three cases, one or more individuals receive taxable dividends from a private corporation. For each individual, determine whether the taxable dividends received will be considered Split Income subject to the TOSI. Explain your conclusion.

**Case A**

Jane owns 70% of Jahil Inc., a Canadian controlled private corporation (CCPC) involved in manufacturing. Her common-law partner Jill owns the remaining 30% of the shares. All of the shares have the same market value and voting rights. Both Jane and Jill are in their mid-40s. Since the inception of the business in 2021, Jane has devoted all of her working time to the business, averaging more than 50 hours per week. Jill has a thriving accounting practice and has never worked in Jahil's business.

In 2024, Jahil pays a total taxable dividend of $150,000, with $105,000 paid to Jane and $45,000 paid to Jill.

**Case B**

Justor is a Canadian controlled private corporation (CCPC) that has carried on a manufacturing business since 2016. During the period 2016 to and including 2023, all of the shares were owned by George Sessions. During this period of time George's son Gary, who is 29 years of age, worked full time in the business, receiving a salary that was sufficient for him and his family to live comfortably. In late 2023, George concludes that the business would benefit from his son having an MBA.

In keeping with this view, in January of 2024, Gary enrolls in an executive MBA program that will require two years to complete. In order to provide income for his son now that he is no longer working in the business, George has Justor issue to Gary a new class of non-voting shares. In 2024, these shares pay taxable dividends to Gary of $150,000.

**Case C**

Tom and Trisha Braxton were married in 2014. Trisha has been the family's income earner, a role she satisfied by operating Braxton Industries, a Canadian controlled private corporation (CCPC) involved in an active business. Trisha was the sole shareholder of this company and worked full time in its business. In late 2023, citing irreconcilable differences, the couple was divorced.

As part of the settlement agreement, Trisha was required to have Braxton Industries issue a second class of shares to Tom. These shares are non-voting. In 2024, as required by the divorce settlement, these shares pay taxable dividends to Tom in the amount of $50,000. Tom and Trisha are both 30 years of age in 2024.

Answer: ***Case A***

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

As Jill has never been actively involved in Jahil, it is not an Excluded Business to her. However, Jill owns shares of Jahil that represent more than 10% of the voting rights and FMV of the company. In addition, Jahil is not a professional corporation, less than 90% of its business involves performing services, and substantially all of its income is not derived from a related business. Given this, Jill's shares would be Excluded Shares and the taxable dividends she received would not be considered Split Income.

***Case B***

While Gary is no longer actively involved with Justor's business in 2024, he was actively engaged on a continuous and substantial basis for more than five years (2016 to and including 2023). Given this, Justor would be an Excluded Business to him and the taxable dividends that he received in 2024 would not be considered Split Income.

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

***Case C***

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

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

Type: ES

Topic: Tax on split income (TOSI)

111) Despite being 75 years old, Mr. Igor Resso has retained a full time position with a Canadian university. His salary in 2024 is $95,000. While the university continues to deduct maximum EI contributions ($1,049 for 2024), he is collecting CPP payments of $9,500 per year and no longer makes contributions to the plan. Because of the continuing high level of his income, he has never applied for or received OAS benefits.

When Mr. Resso turned 69, he could no longer make contributions to the university's pension plan and had to begin receiving pension payments from the plan. In 2024, these payments totaled $31,000. In addition to his other income Mr. Resso was required to withdraw $18,000 from his RRIF in 2024.

In 2023, while visiting family in Russia, Mr. Resso met Ivana and they were married later in that year. Unfortunately, as the result of a stroke suffered during their whirlwind honeymoon in 2023, Ivana was disabled to such a degree that she qualified for the disability tax credit after she moved to Canada.

In the 2022 divorce from her Russian husband, Ivana received a substantial settlement. After her marriage, she invested much of it in blue chip shares of Canadian public corporations. In 2024, she receives eligible dividends from Canadian corporations in the amount $14,000. While Ivana is 68 years old, she does not meet the residency requirements for receiving OAS benefits.

Beyond personal credits and employment related credits, the only other 2024 credit available to the couple is based on qualifying medical expenses of $16,000.

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

**Required:**

A. Calculate Mr. and Mrs. Resso's 2024 minimum federal income tax payable assuming that no transfer of taxable dividends is made under ITA 82(3).

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

C. Calculate Mr. and Mrs. Resso's 2024 minimum federal income tax payable assuming that all of Mrs. Resso's taxable dividends are transferred to Mr. Resso under ITA 82(3). Comment on whether the dividend transfer should be done.

Answer: ***Part A***

Mr. and Mrs. Resso's 2024 Taxable Income would be calculated as follows:

 **Mrs. Resso Mr. Resso**

Employment Income Nil $95,000

CPP Income Nil 9,500

RPP Income Nil 31,000

RRIF Withdrawals Nil 18,000

Eligible Dividends Received $14,000 Nil

Gross Up (38 %) 5,320 Nil

2024 Net Income and Taxable Income

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

Mrs. Resso's 2024 federal income tax payable would be calculated as follows:

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

Tax Credits

 BPA $15,705

 Age and Disability (Transferred to Mr. Resso) Nil

 Medical Expenses (Note 1) Nil

Total Base $15,705

Rate 15% ( 2,356)

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

2023 Federal Income Tax Payable - Mrs. Resso (Excess credits $2,360) Nil

**Note 1 -** Without regard to who pays for them, medical expenses can be claimed by either spouse. As they must be reduced by the lesser of $2,759 and 3% of the individual's net income, in some circumstances, it is better for the expenses to be claimed by the lower income spouse. However, after the application of the BPA and dividend tax credits, Mrs. Resso has no federal income tax payable, resulting in a situation where she cannot make any use of the medical expense credit. Given this, Mr. Resso should claim the medical expenses, despite the fact that they will be reduced by a larger amount than would have been the case had Mrs. Resso claimed them.

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

Credits Available For Transfer:

 Age $ 8,790

 Disability 9,872

Total Available $18,662

Reduced by excess of:

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

 Over BPA 15,705 ( 3,615)

Available for Transfer to Mr. Resso $ 15,047

Since Mr. Resso has not applied for OAS, there can be no OAS clawback. The 2024 federal income tax payable for Mr. Resso would be calculated as follows:

Tax on first $111,733 $ 19,833

Tax on next $41,767

 ($153,500 - $111,733) at 26% 10,859 $30,692

Tax Credits

BPA ($15,705)

Spousal Including Infirm Amount

 (Income Too High) Nil

Additional Caregiver Amount (Note 1) ( 8,375)

EI ( 1,049)

Canada Employment ( 1,433)

Age {$8,790 - [(15%)($153,500 - $44,325)]} Nil

Pension ( 2,000)

Medical Expenses (Note 2) ( 13,241)

Transfer from Spouse (Preceding Calculation) ( 15,047)

Credit Base ($56,850)

Rate 15% ( 8,528)

2024 Federal Income Tax Payable - Mr. Resso $22,164

**Note 1 -** The spousal credit would have been nil calculated as $15,705 + $2,616 - $19,320. The caregiver credit would have been $8,375 - ($19,320 - $19,666) = $8,375. As a result the additional credit is $8,375 - Nil for the actual spousal credit.

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

Medical Expenses $16,000

Reduced by the lesser of:

• [(3%)($153,500)] = $4,605

• 2024 Threshold Amount = $2,759 ( 2,759)

Allowable Medical Expenses $13,241

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

Mr. Resso's current base for the spousal credit is nil. If Mrs. Resso's taxable dividends are transferred, she would be left with net income of nil, resulting in Mr. Resso being eligible for the full spousal tax credit of $15,705 plus $2,616. As this is an increase from the previous amount, the transfer is permitted.

***Part C***

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

 **Mrs. Resso Mr. Resso**

Net Income $19,320 $153,500

Dividend Transfer ( 14,000) 14,000

Gross Up Transfer ( 5,320) 5,320

2024 Net Income and Taxable Income after ITA 82(3) Nil $172,820

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

Credits Available For Transfer:

 Age $ 8,790

 Disability 9,872

Total Available $18,662

Reduced by excess of:

 Mrs. Resso's Net Income Nil

 Over BPA 15,705 ( Nil)

Available for Transfer to Mr. Resso $18,662

With respect to Mr. Resso, his 2024 federal income tax payable would be calculated as follows:

Tax on first $111,733 $19,833

Tax on next $61,087

 ($172,820 - $111,733) at 26% 15,883 $35,716

Tax Credits

 BPA ($15,705)

 Spousal Including Infirm Amount

 ($15,705 + $2,616) ( 18,321)

 Additional Caregiver Amount (Note 3) ( Nil)

 EI ( 1,049)

 Canada Employment ( 1,433)

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

 Pension ( 2,000)

 Medical Expenses (Note 5) ( 13,241)

 Transfer From Spouse (Preceding Calculation) ( 18,662)

Credit Base ($70,411)

Rate 15% ( 10,562)

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

2024 Federal Income Tax Payable - Mr. Resso $22,252

**Note 3 -** The spousal credit for Mrs. Resso is larger than the $8,375 Canada caregiver amount. Given this, the additional Canada caregiver amount would be nil.

**Note 4 -** The allowable medical expenses would be calculated as follows:

Medical Expenses $16,000

Reduced by the lesser of:

• [(3%)($172,820)] = $5,185

• 2024 Threshold Amount = $2,759 ( 2,759)

Allowable Medical Expenses $13,241

***Conclusion***

The use of the ITA 82(3) dividend transfer has increased Mr. Resso's federal income tax payable by $88, from $22,164 to $22,252. The dividend transfer should therefore not be done.

Type: ES

Topic: Comprehensive tax credits with dividend transfer

112) The following two independent cases involve individual taxpayers who might be subject to the AMT in 2024.

**Case One**

Serge Lawson has made the following estimates of the various types of income and deductions that he anticipates in 2024.

Rental Income $73,100

Eligible Dividends Received 14,000

RRSP Contributions 22,000

Prior to 2024, Serge has never managed to have enough funds to make any RRSP contributions, leaving him with nearly $100,000 in unused deduction room. However, in 2024, his gambling habit finally pays off, providing sufficient winnings to make a $22,000 contribution. He plans to deduct the full amount in 2024.

**Case Two**

Sarah Bonito has made the following estimates of the various types of income and deductions that she anticipates in 2024.

Eligible Dividends Received $ 26,000

Net Taxable Capital Gains 363,000

Capital Gains Deduction Claimed 263,000

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

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

Answer: The following two independent cases involve individual taxpayers who might be subject to the AMT in 2024.

**Case One**

 **Regular Federal New**

 **Income Tax AMT**

Rental Income $ 73,100 $ 73,100

Eligible Dividends

[(138%)($14,000)] 19,320 14,000

RRSP Deduction ( 22,000) ( 22,000)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 70,420 $ Nil

Federal Income Tax/

AMT at 20.5% $ 11,363 $ Nil

Dividend Tax Credit

[(6/11)(gross-up $5,320)] ( 2,902) N/A

BPA ( 2,356) ( 1,178)

Regular Federal Income

Tax/AMT $ 6,105 $ Nil

**ANALYSIS**

The individual is liable for the greater of the regular federal income tax of $6,105 and the AMT which is nil therefore the federal income tax is $6,105. Since the AMT does not exceed the regular federal income tax payable there is no AMT carry forward for 2024. Note that the eligible dividend is added without the gross-up and there is no AMT adjustment for the RRSP deduction or the rental income.

**BPA** = $2,356 [(15%)($15,705)] for regular federal income tax purposes and only 50% of that amount or $1,178 for AMT purposes.

**Federal Income Tax Payable** is calculated as [(20.5%)($70,420 — $55,867) + $8,380]

**AMT Tax Payable** is 20.5% of Nil.

**Case Two**

 **Regular Federal New**

 **Income Tax AMT**

Taxable Capital Gain

[(1/2)($726,000)] $ 363,000 $ 726,000

Eligible Dividends

[(138%)($26,000)] 35,880 26,000

Capital Gains Deduction (263,000) (368,200)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 135,880 $ 210,595

Federal Income Tax/

AMT at 20.5% $ 26,111 $ 43,172

Dividend Tax Credit

[(6/11)(gross-up $31,540)] ( 5,389) N/A

BPA ( 2,356) ( 1,178)

Regular Federal Income

Tax/AMT $ 18,366 $ 41,994

**ANALYSIS**

The individual is liable for the greater of the regular federal income tax of $18,366 and the AMT of $41,994 therefore the federal income tax is the AMT determined amount of $41,994. Since the AMT exceeds the regular federal income tax payable there is an AMT carry forward for 2024 of $23,268. Note that the eligible dividend is added without the gross-up, the full amount of the capital gain is included and the capital gains deduction is multiplied by 7/5.

**BPA** = $2,356 [(15%)($15,705)] for regular federal income tax purposes and only 50% of that amount or $1,178 for AMT purposes.

**Federal Income Tax Payable** is calculated as [(26%)($135,880 — $111,733) + $19,833]

**AMT Tax Payable** is 20.5% of $210,595.

Type: ES

Topic: Alternative minimum tax - calculating the tax

113) The two cases which follow are designed to illustrate the basic features of the AMT. In both cases, you are given information about an individual's income and deductions for 2024. The two cases are independent of each other.

**Case One**

Marita Ulman provides the following estimates of her various types of income and deductions for 2024:

 Employment Income $132,000

 Net Taxable Capital Gains 206,000

 Capital Gains Deduction Claimed 206,000

**Case Two**

Fiona Acevedo provides the following estimates of her various types of income and deductions for 2024:

 Employment Income (Salary) $149,000

 Employee Stock Option Benefit 163,000

 Taxable Capital Gains 112,000

 Eligible Dividends Received 141,000

 Rental Loss (Note) 47,000

 Stock Option Deduction [(1/2)($163,000)] 81,500

 RRSP Deduction 32,000

 Interest expenses on loan to acquire shares 38,000

 2022 Non-Capital Loss deducted 100,000

**Note (Rental Loss) -** The rental loss consisted of gross rental income of $48,000, interest expenses of $45,000 and other rental expenses of $50,000. No CCA was claimed on the rental property. In both Cases, assume the only tax credits available are the BPA and the dividend tax credit related to any taxable dividends received.

**Note (Interest Expense $38,000) —** The interest expense relates to borrowing to purchase the shares that paid eligible dividends of $141,000.

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

Answer: **Case One**

 **Regular Federal New**

 **Income Tax AMT**

Taxable Capital Gain

[(1/2)($412,000)] $ 206,000 $ 412,000

Employment Income (Salary) 132,000 132,000

Capital Gains Deduction (206,000) (288,400)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 132,000 $ 82,395

Federal Income Tax/

AMT at 20.5% $ 25,102 $ 16,891

BPA ( 2,356) ( 1,178)

Regular Federal Income

Tax/AMT $ 22,746 $ 15,713

**ANALYSIS**

The individual is liable for the greater of the regular federal income tax of $22,746 and the AMT of $15,713 therefore the federal income tax is $22,746. Since the AMT does not exceed the regular federal income tax payable there is no AMT carry forward for 2024. Note that the full amount of the capital gain is included and the capital gains deduction is multiplied by 7/5 which together results in a net addition to the ATI of 30% or $123,600 [(30%)($412,000)] in this case.

**BPA** = $2,356 [(15%)($15,705)] for regular federal income tax purposes and only 50% of that amount or $1,178 for AMT purposes.

**Federal Income Tax Payable** is calculated as [(26%)($132,000 — $111,733) + $19,833]

**AMT Tax Payable** is 20.5% of $82,395.

**Case Two**

 **Regular Federal New**

 **Income Tax AMT**

Gross Salary $ 149,000 $ 149,000

Stock Option Benefit 163,000 163,000

Taxable Capital Gain

[(1/2)($224,000)] 112,000 224,000

Eligible Dividends

[(138%)($141,000)] 194,580 141,000

RRSP Deduction ( 32,000) ( 32,000)

Rental Loss ( 47,000) ( 2,000)

Stock Deduction ITA 110(1)(d)

[(50%)($163,000)] ( 81,500) Nil

Interest expense on loan

to purchase shares ( 38,000) ( 19,000)

2022 Non-Capital Loss ( 100,000) ( 50,000)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 320,080 $ 400,795

Federal Income Tax/

AMT at 20.5% $ 81,343 $ 82,163

Dividend Tax Credit

[(6/11)(gross-up $53,580)] ( 29,225) N/A

BPA ( 2,124) ( 1,062)

Regular Federal Income

Tax/AMT $ 49,994 $ 81,101

**ANALYSIS**

The individual is liable for the greater of the regular federal income tax of $49,994 and the AMT of $81,101 therefore the federal income tax is the AMT determined amount of $81,101. Since the AMT exceeds the regular federal income tax payable there is an AMT carry forward for 2024 of $31,107. Note that the eligible dividend is added without the gross-up, the full amount of the capital gain is included, no amount can be claimed for the stock option deduction, only 50% of the interest expense to earn eligible dividends is deductible for AMT purposes and the amount of the rental loss created with interest expense is not allowed for AMT purposes.

**BPA** = $2,124 [(15%)($14,156)] for regular federal income tax purposes and only 50% of that amount or $1,062 for AMT purposes.

**Federal Income Tax Payable** is calculated as [(33%)($320,080 - $246,752) + $57,145]

**AMT Tax Payable** is 20.5% of $400,795.

Type: ES

Topic: Alternative minimum tax - calculating the tax

114) Mr. Wally Bronson is 67 years old and has been retired for several years. His spouse, Melissa, is 62 and has been blind for the last ten years. They live in Ottawa. Mr. Bronson receives pension income of $83,000 in 2024 from his employer's RPP. Due to his high income in the last few years, Mr. Bronson has not applied for OAS benefits. However, he has applied for the CPP and received $10,680 in CPP benefits in 2024.

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

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

In December of 2023, Mr. Bronson is diagnosed with a terminal illness, with the doctor indicating that he probably has about a year to live. To this point, Mr. Bronson had not dealt with the prospect of death and, beyond the preparation of a fairly simple will which left all of his assets to Melissa, had done little in the way of estate planning. Given his current state of health, he has decided to undertake a number of transactions in order to minimize the income tax consequences of his death.

He is particularly concerned with the fact that, in the province in which he lives, probate fees of 1.5% are charged on the FMV of almost all of the assets that are transferred in his will. Given this, he intends to transfer a significant amount of his assets prior to his death. At this time he also revises his will, leaving some property to his two children with the remainder going to his spouse.

Mr. Bronson owns two pieces of vacant land. Plot A cost $125,000 and has an FMV of $150,000. Plot B cost $175,000 and has an FMV of $210,000. While he had intended to build rental properties on these sites, he has decided that this is no longer feasible and the properties should be sold. Because his younger brother, Phil, is in a low income tax bracket, in 2024, he sells Plot A to him, with the only consideration being a promissory note for $50,000 which is paid in full on December 1, 2024. In contrast, his older brother, Gary, is very wealthy and is in the highest income tax bracket. In gratitude for Wally's help during a family crisis, Gary offers to buy Plot B for $250,000 in cash. Wally accepts the offer, thinking of Melissa.

On January 1, 2024, Mr. Bronson purchases units in the YP Mutual Trust Fund at a cost of $300,000. These units make monthly distributions of $800 on the 25th of each month. This distribution represents only rental income and does not include taxable dividends, capital gains, or a return of capital. On February 1, 2024, after receiving the January payment of $800, Mr. Bronson gifts all of the mutual fund units to his granddaughter, Brenda. At this time, the FMV of the units is $310,000.

Mr. Bronson owns a large block of Baron Inc. shares. He purchased 4,000 shares of this widely held public corporation at $50 each and subsequently purchased an additional 8,000 shares at $65 each. On March 1, 2024, he gifts 1,500 shares to both of his children and an additional 1,500 shares to his spouse. At this time, the shares are trading at $68 per share. On July 1, 2024, Baron Inc. pays an eligible dividend of $1.50 per share.

Mr. Bronson owns three identical units in a condominium building to be used as rental properties. Each unit cost $300,000 nine years ago and, on January 1, 2024, each unit was in a separate class with a UCC for each of $205,000. The land has been leased from the National Capital Commission for 100 years. In 2024, these units generated rental income, before consideration of CCA, of $93,750.

On December 31, 2024, Mr. Bronson dies peacefully in his home. On this date he owns the following property:

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

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

**Principal Residence –** Mr. Bronson and his wife have lived in the same home for 20 years. The house is owned by Mr. Bronson. It cost $145,000 and has a current FMV of $562,000. Mr. Bronson's will leaves the residence to his spouse.

In 2024, medical expenses for Mr. Bronson totaled $45,000, while those of his spouse totaled $12,000. At his death, Mr. Bronson had a 2022 net capital loss balance of $30,000 [(1/2)($60,000)].

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

A. Assume Mr. Bronson's accountant does not split his pension income with his spouse. Calculate Mr. Bronson's minimum 2024 net income, taxable income and his minimum 2024 federal income tax payable without consideration of any instalment payments he may have made.

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

Answer: The various components of Mr. Bronson's 2024 net income would be calculated as follows:

**Pension Income**

RPP Income $83,000

CPP Income 10,680

Pension Income $93,680

**Land Sales (Note 1)**

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

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

Total Capital Gain $100,000

Inclusion Rate 1/2

Taxable Capital Gain $ 50,000

**Note 1 -** As these are non-arm's length sales, ITA 69 applies. Plot A was sold below FMV and, because of this, the POD are deemed to equal the FMV of $150,000. Note that Phil's ACB would be limited to the $50,000 that he paid. Since the note was paid in 2024, there is no capital gains reserve available. Plot B was sold at an amount in excess of FMV and, in this case, ITA 69 treats the sale price as the POD. Note that Gary's ACB would equal the FMV of $210,000.

**YP Mutual Trust Fund Units (Note 2)**

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

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

Inclusion Rate 1/2

Taxable Capital Gain $ 5,000

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

**Gift of Baron Inc. Shares**

POD (Note 3) $294,000

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

Capital Gain $ 24,000

Inclusion Rate 1/2

Taxable Capital Gain $ 12,000

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

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

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

Total Cost $720,000

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

Since the problem requires the minimum 2024 net income, Mr. Bronson will not elect out of the ITA 73(1) rollover. As a result, the 1,500 shares gifted to his spouse will be transferred at their ACB. In contrast, the POD for the shares gifted to his children would be at their FMV of $68 per share. Given this, the POD would be calculated as follows:

1,500 Shares @ $60 $ 90,000

3,000 Shares @ $68 204,000

Total POD $294,000

**Taxable Dividends on Baron Inc. Shares**

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

Gross Up of 38% 5,130

Taxable Dividends $18,630

**Note 4 -** The taxable dividends on the 1,500 shares gifted to Melissa would be attributed to Mr. Bronson. The dividends on the shares gifted to his (adult) children will be included in their income. Since he owns 7,500 shares on July 1, 2024 the taxable dividends will be included in his income which total $13,500 [(1,500 + 7,500)($1.50)].

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

For the transfers to the children, the transfer will be deemed to take place at FMV. That will result in following income tax consequences for Mr. Bronson:

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

ACB [(2)($300,000)] 600,000

Capital Gain $240,000

Inclusion Rate 1/2

Taxable Capital Gain $120,000

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

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

Recapture $190,000

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

**Other Properties at Death**

**Baron Inc. Shares –** At the time of his death, Mr. Baron owns the 7,500 remaining shares of Baron Inc. As these are transferred to his spouse, the deemed POD will be equal to the tax cost of the shares and there will be no 2024 income tax consequences.

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

***Part A - 2024 Net Income and Taxable Income***

Mr. Bronson's minimum 2024 net income and taxable income would be calculated as follows:

Pension Income $ 93,680

Mutual Trust Fund Distribution 9,600

Taxable Dividends 18,630

Rental Income 93,750

Recapture 190,000

Taxable Capital Gains:

 Land $ 50,000

 Trust Units 5,000

 Gift of Baron Inc. Shares 12,000

 Condominium Units 120,000 187,000

2024 Net Income $592,660

Less: 2022 Net Capital Loss ( 30,000)

2024 Taxable Income $562,660

***Part A - 2024 Federal Income Tax Payable***

Mr. Bronson's minimum 2024 federal income tax payable would be calculated as follows:

Tax on first $246,752 $ 57,145

Tax on next $315,908 ($562,660 - $246,752) at 33% 104,250

Income Tax before Credits $161,395

Tax Credits:

 BPA ($14,156)

 Spousal Including Infirm Amount

 ($14,156 + $2,616) ( 16,772)

 Age (Income Too High) Nil

 Pension Income ( 2,000)

 Spouse's Disability ( 9,872)

 Medical Expenses (Note 5) ( 54,241)

Total Credit Base ($97,041)

Rate 15% ( 14,556)

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

2024 Federal Income Tax Payable $144,041

**Note 5 -** The base for the medical expenses tax credit would be the total medical expenses of $57,000 ($45,000 + $12,000), reduced by the lesser of $17,780 [(3%)($592,660)] and $2,759.

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

If the pension income splitting of Mr. Bronson's RPP payments is for $41,500, it will increase Melissa's income by $41,500 [(50%)($83,000)] and decrease Wally 's by the same amount. Melissa's 2024 federal income tax payable and Wally 's net income tax savings will be as follows:

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

BPA ($15,705)

Disability ( 9,872)

Pension (Not Previously Available) ( 2,000)

Total Credit Base ($27,577)

Rate 15% ( 4,137)

Melissa's 2024 Federal Income Tax Payable $2,088

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

Spousal Credit Including ($2,616 + $14,156) ($16,772)

Disability Credit Taken By Melissa ( 9,872)

Total Credits Lost ($26,644)

Rate 15% ( 3,997)

Wally's 2024 Income Tax Savings $9,698

With pension income splitting , the total federal income tax savings amount to $7,610 ($9,698 - $2,088). Further income tax savings would be available at the provincial or territorial level.

Note that the total medical expenses are much greater than Melissa's income. As a result, although Melissa could claim a larger medical expense credit given her lower net income, she could not fully utilize that credit, so it remains to be claimed by Wally.

Type: ES

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

115) Mr. Jack Leonard has asked you to assist him in preparing his 2024 income tax return. To this end, he provides you with the following information.

Mr. Leonard's employer is a large, publicly traded corporation with gross revenues of $175 million. In 2024, Mr. Leonard received a gross annual salary of $58,000, living accommodations having an FMV of $3,000 per month, and an award of $2,100 in recognition of outstanding job performance. The accommodation provided were not located in a remote region or prescribed zone. Awards for performance are paid instead of investing in employee benefits, so there is no pension plan and Mr. Leonard's 2023 Pension Adjustment (PA) amount is nil. His employer withheld the 2024 maximum for CPP contributions and EI premiums.

On August 1, 2024, his employer granted him an option to purchase 100 of its shares at a price of $7 per share. The market price of the shares at that time was $7 per share. On December 1, 2024, the market price of the shares had increased to $16 a share. On that date, Mr. Leonard exercises his option and purchases the 100 shares. He continues to own the shares on December 31, 2024.

Mr. Leonard provides the following list of receipts and disbursements for 2024:

**Receipts**

Director's Fees $ 1,300

Royalty income on Patent Purchased in 2016 24,070

Bond Interest income 430

**Disbursements**

RRSP Contribution on July 6, 2024 $16,000

Rent Paid to Employer for Living Accommodation 12,000

Financial Support of his Aunt 7,100

You ascertain that his aunt is physically infirm, is wholly dependent upon Jack Leonard for support, had income of $3,000 during the year, and lives in Florida for health reasons.

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

 **POD ACB**

Diamond Ring $1,200 $ 950

Painting 1,100 1,800

Pistol Collection 2,000 1,400

On further enquiry, you learn that he is married and has one 19 year old son. Mr. Leonard's wife had 2024 net income of $2,990.

His son lives at home and was employed during twelve weeks of the summer at a golf course as a greens keeper, at a weekly salary of $250. In September, he left his employment to commence full time studies at university. Tuition fees paid for the 2024 calendar year amounted to $4,860, and were paid by Mr. Leonard. The son's only other income was $700 in interest income on bonds received from his father as a birthday gift in 2014. He will transfer the maximum tuition credit to his father.

Assume Mr. Leonard's 2023 earned income for RRSP purposes was equal to his 2024 earned income. At the beginning of 2024, Mr. Leonard has no unused deduction room or undeducted RRSP contributions.

**Required:** For 2024, compute the following amounts for Mr. Leonard:

A. Employment income.

B. Income from property.

C. Net taxable capital gains.

D. Net Income.

E. Taxable Income.

F. Federal Income Tax Payable.

Show all required calculations, including those necessary to determine the maximum RRSP deduction for the year. In addition, indicate any available loss carryover amounts and the applicable loss carryover provisions.

Answer: ***Part A***

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

Salary $58,000

Housing Benefit (12 Months at $3,000 - $1,000 paid) 24,000

Award 2,100

Director's Fees 1,300

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

2024 Employment Income $86,300

***Part B***

Since Mr. Leonard's son is over 17 years of age, the interest on the bonds is not attributed to Mr. Leonard. Mr. Leonard's income from property would be calculated as follows:

Royalties on Patent $24,070

Interest income on Bonds 430

2024 Income from Property $24,500

***Part C***

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

Listed Personal Property:

 POD from Ring $1,200

 Deemed ACB ( 1,000) $ 200

 POD from Painting $1,100

 ACB ( 1,800) ( 700) Nil

Personal Use Property:

 POD from Pistols $2,000

 ACB ( 1,400)

 Capital Gain $ 600

 Inclusion Rate 1/2 $300

2024 Net Taxable Capital Gains $300

The preceding calculations indicate that Mr. Leonard would be left with a listed personal property loss of $250 [(1/2)($200 - $700)]. This unused loss can be carried back three years and forward for seven years, but it can only be deducted against net taxable capital gains on listed personal property.

***Part D***

Mr. Leonard's 2024 net income would be calculated as follows:

Employment Income $ 86,300

Income From Property 24,500

Taxable Capital Gain 300

RRSP Contribution (See Note) ( 15,534)

Deductible CPP ($$4,056 - $3,218) ( 838)

2024 Net Income $94,728

**Note -** Mr. Leonard's RRSP Deduction Limit for 2024 is the lesser of $31,560 and 18% of his 2023 earned income. His earned income for 2023 is assumed to be equal to his 2024 earned income. The only amount in his 2024 earned income is his employment income of $86,300, 18% of which is $15,534, less than the $31,560 RRSP deduction limit for 2024. As there is no PA to take into consideration and he has contributed $16,000, his maximum deduction will be $15,534.

***Part E***

Mr. Leonard's 2024 Taxable Income would be calculated as follows:

2024 Net Income $94,728

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

2024 Taxable Income $94,278

***Part F***

Mr. Leonard's 2024 federal income tax payable would be calculated as follows:

Federal Tax on first $55,867 $8,380

Federal Tax on next $38,411 ($94,278 - $55,867) at 20.5% 7,874

Federal Income Tax before Credits $16,254

Tax Credits:

 BPA ($15,705)

 Spousal ($15,705 - $2,990) ( 12,715)

 CPP ( 3,218)

 EI ( 1,049)

 Canada Employment ( 1,433)

Transfer of Son's Tuition Credit - Lesser of (See Note)

 • The Absolute Limit of $5,000

 • The Actual Tuition of $4,860 ( 4,860)

Credit Base ($38,980)

Rate 15% ( 5,847)

2024 Federal Income Tax Payable $10,407

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

Type: ES

Topic: Comprehensive personal federal income tax payable

116) Mr. Wilson Kim is married and has a 19 year old son. Mr. Kim's spouse had 2024 net income of $3,400.

The son lives at home and, during the summer of 2024, he earned employment income of $3,300. At the end of the summer, he began full time studies at a university. His tuition fees, which totaled $6,500 for 2024, were paid for by his father. The son's only other income was $2,200 of eligible dividends on a $40,000 portfolio of public corporation shares that were given to him by his father on his 16th birthday. The son has agreed to transfer the maximum tuition credit to Mr. Kim.

Mr. Kim has asked you to assist him in preparing his 2024 income tax return. To this end, he provides you with the following list of receipts and disbursements for 2024:

**Receipts**

Director's Fees $ 1,372

Royalty income on Patent Purchased in 2016 29,400

TFSA Withdrawal in January 10,000

Bond Interest income 960

**Disbursements**

Spousal RRSP Contribution in July $ 4,200

TFSA Contribution in December (Less than the Contribution Limit) 4,000

Rent Paid to Employer for Living Accommodation 18,000

Financial Support of his father\* 17,100

\*You ascertain that his father is physically infirm, is wholly dependent on Mr. Kim for support, had income of $4,200 during the year, and lives in Arizona for health reasons.

Mr. Kim is employed by a large public corporation with gross revenues of $110 million. His basic salary for 2024 is $71,500. Other information related to his employment is as follows:

• As part of his compensation package, his employer provides living accommodations that has an FMV $2,500 per month.

• Mr. Kim is provided with an award of $3,600 in recognition of his outstanding performance.

• His employer sponsors a money purchase RPP. For 2024, Mr. Kim and his employer each contributed $3,100 to this plan. These contributions are the same as those made in 2023.

• His employer withheld the maximum CPP contributions and EI premiums for 2024.

• On September 1, 2024, Mr. Kim's employer granted him an option to purchase 500 of its shares at a price of $5 per share. The market price of the shares at that time was $4 per share. On December 1, 2024, the market price of the shares had increased to $9 per share. On that date, Mr. Kim exercises his option and purchases the 500 shares. He still owns the shares on December 31, 2024.

• His employer provides him with an automobile to use for his employment duties. The automobile cost $41,000 in 2023. The UCC of the automobile on January 1, 2024 is $18,700. The Company pays all of the operating expenses which total $12,300 for 2024. Mr. Kim drives the automobile 42,000 kilometers during 2024, of which 38,000 were for employment purposes and 4,000 for personal use. The automobile was available to Mr. Kim throughout all of 2024.

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

 **POD ACB**

Diamond Necklace $1,100 $ 750

Oil Painting 3,800 5,100

Graphic Novel Collection 800 2,500

Antique weapons Collection 8,000 6,200

Assume Mr. Kim's 2023 earned income for RRSP purposes was equal to his 2024 earned income. At the end of 2023, Mr. Kim had no unused deduction room and no undeducted RRSP contributions.

**Required:** For Parts A to F, compute the required amounts for Mr. Kim for 2024. Show all calculations, including all those necessary to determine the maximum RRSP deduction for the year.

A. Employment income.

B. Income from property.

C. Net taxable capital gains.

D. Net Income.

E. Taxable Income.

F. Federal Income Tax Payable.

G. Indicate any available carryover amounts for Mr. Kim and his son and the applicable carryover provisions.

H. Mr. Kim's son would like some advice on whether he should contribute to a TFSA and/or an RRSP. What would you suggest he do and why?

Answer: ***Part A***

Mr. Kim's 2024 employment income would be calculated as follows:

Salary $71,500

RPP Contributions ( 3,100)

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

Director's Fees 1,372

Performance Award 3,600

Automobile Benefit:

 Standby Charge [(2%)(12)($41,000)(4,000 ÷ 20,004\*)] 1,968

 Operating Cost: Lesser of:

 • [(1/2)($1,968)] = $984

 • [(0.33)(4,000)] = $1,320 984

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

2024 Employment Income $90,324

\* [(12)(1,667)]

***Part B***

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

Royalty income on Patent $29,400

Interest income on Bonds 960

2024 Income from Property $30,360

***Part C***

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

**Listed Personal Property:**

 POD from Necklace $1,100

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

 POD from Painting $3,800

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

**Personal Use Property:**

 Graphic Novel Collection N/A

 POD from Antiques weapons collection $8,000

 ACB ( 6,200)

 Capital Gain $1,800

 Inclusion Rate 1/2 $900

2024 Net Taxable Capital Gains $900

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

***Part D***

The TFSA withdrawal and TFSA contribution have no effect on net income. Mr. Kim's 2024 net income would be calculated as follows:

Employment Income $ 90,324

Income from Property 30,360

Taxable Capital Gain 900

Spousal RRSP Contribution (Actual - See Note) ( 4,200)

Deductible CPP ($4,056 - $3,218) ( 838)

2024 Net Income $116,546

**Note -** As you are asked to assume that Mr. Kim's RRSP earned income for 2023 is equal to his earned income for 2024, then earned income would be:

Employment Income $90,324

RPP Deduction 3,100

2024 RRSP Earned Income $93,424

Given this, his RRSP deduction room for 2024 would be calculated as follows:

January 1, 2024 Unused Deduction Room Nil

2024 Addition - Lesser of

 2024 Limit = $31,560

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

2023 PA [(2)($3,100)] ( 6,200)

Maximum 2024 Deduction Room $10,616

While Mr. Kim's deduction room is $10,616, his actual deduction is limited to the only RRSP contribution he made for 2024 which was to his spouse's RRSP in the amount of $4,200. download all chapters via https://r.24zhen.com/eVZZD

***Part E***

Mr. Kim's 2024 taxable income would be calculated as follows:

2024 Net Income $116,546

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

2024 Taxable Income $115,546

***Part F***

Mr. Kim's 2024 federal income tax payable would be calculated as follows:

Federal Tax on first $111,733 $19,833

Federal Tax on next $3,813 ($115,546 - $111,733) at 26%t 991

Federal Income Tax before Credits $20,824

Tax Credits:

BPA ($15,705)

Spousal ($15,705 - $3,400) ( 12,305)

CPP ( 3,218)

EI ( 1,049)

Canada Employment ( 1,433)

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

 • Absolute Limit of $5,000

 • Actual Tuition of $6,500 ( 5,000)

Credit Base ($38,710)

Rate 15% ( 5,807)

2024 Federal Income Tax Payable $15,017

Note - As his son's income of $6,336 [$3,300 + (138%)($2,200)] is below his BPA of $15,705, he will have no federal income tax payable and he will be able to transfer the maximum $5,000 tuition credit amount. There is no Canada caregiver credit for Mr. Kim's father because he is not a resident of Canada.

***Part G***

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

Mr. Kim's son has an unused tuition amount of $1,500 ($6,500 - $5,000). He can carry it forward and deduct it in any future year.

***Part H***

Since Mr. Kim's son is 19, in 2024 he can contribute up to $13,500 ($6,500 for 2023 + $7,000 for 2024) into a TFSA. As there is no information on his prior employment income, it is not possible to calculate his RRSP deduction room for 2024, but given his $3,300 employment income, he can contribute at least $594 [(18%)($3,300)] in 2025. download all chapters via https://r.24zhen.com/eVZZD

Since he currently has a portfolio of public corporation 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 enables him to transfer more of his tuition to his father (if that is still the agreement) or he has an income tax liability.

Type: ES

Topic: Personal federal income tax payable, TFSA and RRSP