Instructor’s Solutions Manual

Chapter 11 – Solutions to Assignment Problems

Solution to AP 11-1

###### 2021 Analysis

The required information can be calculated as follows:

|  |  |  |
| --- | --- | --- |
| ITA 3(a) |  |  |
| Business Income | $18,000 |  |
| Taxable (Grossed Up) Dividends | 2,360 | $20,360 |
| ITA 3(b) |  |  |
| Taxable Capital Gains | $ 600 |  |
| Allowable Capital Losses | (2,100) | Nil |
| ITA 3(c) ITA 3(d)  Unrestricted Farm Loss (See Note) |  | $20,360  (6,250) |
| 2021 Net Income and Taxable Income |  | $14,110 |
| **Note** Ms. Breau’s farm losses are restricted as follows: | | |
| Total Farm Loss  Unrestricted Amount: First $2,500 |  | $10,000 |
| ($ 2,500) |  |
| One-Half of $7,500 ($10,000 – $2,500) | (3,750) | (6,250) |
| 2021 Restricted Farm Loss |  | $ 3,750 |

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

* 2021 Restricted Farm Loss $3,750
* 2021 Net Capital Loss [($2,100 (ITA 3(b)(ii)) – $600 (ITA 3)(b)(i))] $1,500

In this first year the taxable income is less than the required $15,705 to fully utilize available personal tax credits; however, there is no choice to limit any of the ITA 3 amounts to a smaller amount so as to achieve the $15,705 taxable income.

###### 2022 Analysis

The required information can be calculated as follows:

|  |  |  |
| --- | --- | --- |
| ITA 3(a) |  |  |
| Farm Income | $ 2,000 |  |
| Taxable (Grossed Up) Dividends | 2,950 | $4,950 |
| ITA 3(b)  Taxable Capital Gains  Allowable Capital Losses | $ 1,000  Nil | 1,000 |
| ITA 3(c) ITA 3(d)  Non-Farming Business Loss |  | $5,950  (14,000) |
| 2022 Net Income  2021 Net Capital Loss |  | Nil  ($1,000) |
| 2022 Taxable Income |  | Nil |

Since there are $1,000 of net taxable capital gains this year, and the problem states that Ms. Breau would like to deduct the maximum amount of net capital losses, the net capital loss of $1,000 is applied against the ITA 3(b) amount of $1,000, which effectively increases the 2022 non-capital loss.download all chpaters via https://r.24zhen.com/TUWCi

The 2022 non-capital loss is calculated as follows:

|  |  |  |
| --- | --- | --- |
| Business Loss | $14,000 | |
| Add: 2021 Net Capital Loss Deducted |  | 1,000 |
| ITA 3(c) Income |  | (5,950) |
| 2022 Non-Capital Loss | $ 9,050 | |

The entire 2022 non-capital loss could be carried back to 2021, but since Ms. Breau requires $15,705 in taxable income to fully utilize her personal tax credits, no carry back is contemplated.

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

* + 2021 Restricted Farm Loss (Unchanged) $3,750
  + 2021 Net Capital Loss ($1,500 – $1,000)] $ 500
  + 2022 Non-Capital Loss $9,050

###### 2023 Analysis

The required information can be calculated as follows:

ITA 3(a)

Non-Farming Business Income $30,000

Farm Income 3,150

Taxable (Grossed Up) Dividends 3,963 $37,113

ITA 3(b)

Taxable Capital Gains $ 2,000

Allowable Capital Losses Nil 2,000

2023 Net Income $39,113

2021 Restricted Farm Loss (Equal to Farm Income) (3,150)

2021 Net Capital Loss (Less than the $2,000 taxable capital gain) (500)

2022 Non-Capital Loss Carry Forward (All) ( 9,050)

2023 Taxable Income $26,413

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

* + 2021 Restricted Farm Loss ($3,750 – $3,150) $ 600

###### 2024 Analysis

The required information can be calculated as follows:

ITA 3(a)

Taxable (Grossed Up) Dividends $ 6,450

ITA 3(b)

|  |  |  |
| --- | --- | --- |
| Taxable Capital Gains | $ 2,250 |  |
| Allowable Capital Losses | (7,250) | Nil |
| ITA 3(c) ITA 3(d)  Non-Farming Business Loss |  | $ 6,450 |
| ($19,000) |  |
| Farm Loss | (2,000) | (21,000) |
| 2024 Net Income and Taxable Income |  | Nil |

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

|  |  |
| --- | --- |
| Business Loss | $19,000 |
| ITA 3(c) Income | (6,450) |
| Non-Capital Loss | $12,550 |
| Farm Loss (Unrestricted) | 2,000 |
| 2024 Non-capital loss | $14,550 |

The total loss carryover of $14,550 is available for carry back to any of the three preceding years.

The 2024 net capital loss would be equal to $5,000 [ITA 3)(b)(ii) $7,250 – ITA 3(b)(i) of $2,250)]. $1,500 of the 2024 net capital loss can be applied to the 2023 year as there is $1,500 ($2,000 – $500) in net taxable capital gains remaining in 2023 as the basis for a carry back. This leaves a balance of $3,500 ($5,000 – $1,500).

If both the $14,550 non-capital loss and the $1,500 net capital loss were carried back to 2023, the result would be a Taxable Income of $10,363, less than the $15,705 that is required to fully utilize Ms. Breau’s available personal tax credits. As the 2023 net capital loss can only be deducted to the extent of net taxable capital gains, it would be advisable to first claim the full amount of this loss. Based on this view, the deduction of the 2024 non-capital loss will be limited to $9,208 ($26,413 – $15,705 – $1,500), an amount that will provide for the full use of Ms. Breau’s 2023 personal tax credits: download all chpaters via https://r.24zhen.com/TUWCi

|  |  |
| --- | --- |
| 2023 Taxable Income (As Reported) | $26,413 |
| 2024 Net Capital Loss | ( 1,500) |
| 2024 Non-Capital Loss | ( 9,208) |
| 2023 Revised Taxable Income | $15,705 |

These loss applications leave Ms. Breau with her required $15,705 in 2023 taxable income. The following loss balances remain at the end of 2024:

* 2021 Restricted Farm Loss $ 600
* 2024 Net Capital Loss ($5,000 – $1,500)] $3,500
* 2024 Non-Capital Loss ($14,550 – $9,208) $5,342

Solution to AP 11-2

Before the consideration of any loss carryovers, Lucinda’s taxable income for 2023 would be as follows:

|  |  |
| --- | --- |
| Rental Income | $ 91,450 |
| Interest Income | 38,275 |
| Taxable Capital Gains | 17,300 |
| 2023 Net Income and Taxable Income | $147,025 |

The loss on the Recovery Inc. loan receivable in 2024 qualifies as a Business Investment Loss (BIL) because it is a transaction to which ITA 50(1) applies. However, because of her use of the capital gains deduction in 2022, $156,000 of this amount would be disallowed as a result of ITA 39(9). Given this, the ABIL would be calculated as follows:

|  |  |
| --- | --- |
| Total Capital Loss | $675,000 |
| Reduced by previous Capital Gains Deduction | (156,000) |
| BIL | $519,000 |
| Inclusion Rate | 1/2 |
| 2024 ABIL | $259,500 |

Once the ABIL amount is determined, Lucinda’s 2024 taxable income can be calculated as follows:

##### Income Under ITA 3(a)

Rental Income $86,300

Interest Income 27,438 $113,738

##### Income Under ITA 3(b)

Taxable Capital Gains $18,620

Allowable Capital Loss

[(1/2)($156,000)] (Note 1) (78,000) Nil

Balance Under ITA 3(c) $113,738

##### Deduction Under ITA 3(d)

ABIL (Note 2) (259,500)

2024 Net Income and Taxable Income Nil

**Note 1** The part of the capital loss of $675,000 that does not qualify as a BIL retains its character as a regular capital loss of $156,000. The allowable capital loss is therefore 50% of that amount or $78,000. As a result, there would be a 2024 net capital loss of $59,380 (ITA 3(b)(ii) $78,000 – ITA 3(b)(i)) $18,620). This 2024 net capital loss can be carried back to 2023 and applied to the extent of the net taxable capital gains of $17,300 in that year.

**Note 2** As the ABIL was realized in 2024, it must first be used to reduce net income for 2024. The 2024 non-capital loss would equal $145,762 (ITA 3(d) of $259,500 – ITA 3(c) of $113,738).

The amount that should be carried back to 2023 would be calculated as follows:

|  |  |
| --- | --- |
| 2023 Net Income (As Originally Calculated) | $147,025 |
| 2024 Net Capital Loss | (17,300) |
| 2024 Non-Capital Loss | (114,725) |
| 2023 Taxable income (equal to the 2023 BPA) | $ 15,000 |

As planned, these deductions would leave a 2023 taxable income of $15,000 ($147,025 – $17,300 − $114,725). The federal income tax on this amount will be eliminated by Lucinda’s 2023 BPA. Since there was no federal income tax payable prior to 2023, there would be no additional loss carry backs. The following loss balances remain after the loss carry back applications:

2024 Net Capital Loss Carry Forward ($59,380 – $17,300) $42,080

2024 Non-Capital Loss Carry Forward ($145,762 – $114,725) $31,037

For the next 10 years, the ABIL will be part of the 2024 non-capital loss. Any unused amount remaining after 10 years will be transferred from the 2024 non-capital loss to a net capital loss in year 11. As a net capital loss, it may then be carried forward indefinitely (until the year of death).

Solution to AP 11-3

Business Investment Losses (BIL) are capital losses that meet certain conditions such as investing in “small business corporations” by either purchasing shares or lending money. Even if all the requisite conditions are met, a BIL can be reduced or eliminated altogether depending upon whether the capital gains deduction was claimed in preceding years. The effect of this reduction is to split a BIL into two components – one representing the part of the BIL not reduced and the second representing the reduction. The first part is the BIL for the year and the second part a regular capital loss for the same year. The result is calculated as follows:

|  |  |
| --- | --- |
| 2024 Capital Loss [($82,000 + $200) – $21,000] | $ 61,200 |
| ITA 39(9) Reduction for previous years capital gains deduction  ($20,000 + $14,000) | (34,000) |
| BIL | $ 27,200 |
| Inclusion Rate | 1/2 |
| 2024 ABIL | $ 13,600 |

David’s 2024 net income would be calculated as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ITA 3(a) |  | | | |
| Business Income |  | | $110,000 |
| Non-eligible dividends | $ 8,000 |  | |
| Gross-up at 15% | 1,200 | 9,200 | |
| ITA 3(b) |  | |  |
| Taxable Capital Gain |  | |  |
| [(1/2)($167,000 – $33,000 – $2,000)] | $ 66,000 | |  |
| Regular Allowable Capital Loss |  | |  |
| [(1/2)($34,000)] | (17,000) | | 49,000 |
| ITA 3(c) |  | | $168,200 |
| ITA 3(d) |  | |  |
| ABIL |  | | (13,600) |
| 2024 Net Income |  | | $154,600 |

David’s 2024 taxable income under the two different assumptions would be determined as follows:

|  |  |  |
| --- | --- | --- |
|  | **Part A** | **Part B** |
| 2024 Net Income | $154,600 | $154,600 |
| 2020 Net Capital Loss | (5,500) | Nil |
| Capital Gains Deduction (Note) | (27,100) | (32,600) |
| 2024 Taxable Income | $122,000 | $122,000 |

**Note** As the only capital gains in 2024 are on QSBC shares, the simplified formula for the annual gains limit as described in the textbook 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:

**Amount Available** The amount available would be calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | **Part A** | **Part B** |
| Amount Available [(1/2)($1,016,836\*)] | $508,418 | $508,418 |
| Amount Used in 2015 [(1/2)($20,000)] | (10,000) | (10,000) |
| Amount Used in 2019 [(1/2)($14,000)] | (7,000) | (7,000) |
| Capital Gains Deduction Available | $491,418 | $491,418 |

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

**Annual Gains limit** The annual gains limit would be calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | **Part A** | **Part B** |
| ITA 3(b) amount | $49,000 | $49,000 |
| ABIL Realized | (13,600) | (13,600) |
| 2020 Net Capital Loss Deducted | (5,500) | Nil |
| 2024 Annual Gains Limit | $29,900 | $35,400 |

**Cumulative Gains Limit** The cumulative gains limit would be calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | **Part A** | **Part B** |
| Sum of Annual Gains Limits |  |  |
| ($10,000 + $7,000 + $29,900) | $46,900 |  |
| ($10,000 + $7,000 + $35,400) |  | $52,400 |
| Amounts Deducted in Prior Years |  |  |
| ($10,000 + $7,000) | (17,000) | (17,000) |
| CNIL ($12,000 – $9,200)\* | (2,800) | (2,800) |
| Cumulative Gains Limit | $27,100 | $32,600 |

\*The CNIL is reduced by investment income, which would include any grossed-up eligible or non-eligible dividends.

In Part B, David will retain his 2020 $5,500 net capital loss balance but will have $5,500 less of his capital gains deduction available for future years. Taxable income in both cases is the same.

Solution to AP 11-4

###### Part A – 2024 Taxable Income

Mr. and Mrs. Bahry’s 2024 taxable income would be calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | **Mr. Bahry** | **Mrs. Bahry** |
| OAS (See Note) | $ 8,500 | $ 8,500 |
| RPP | 12,340 | 820 |
| RRIF | N/A | 1,000 |
| CPP | 3,690 | 830 |
| Eligible Dividends Received | 1,600 | 336 |
| Gross Up on Dividends (38%) | 608 | 128 |
| Interest Income on Savings Accounts | 1,239 | 3,500 |
| Net Taxable Capital Gain | Nil | Nil |
| 2024 Net Income and Taxable Income | $27,977 | $15,114 |

**Note** Neither Mr. nor Mrs. Bahry would have to repay any OAS benefits as both of their net incomes are well below the 2024 threshold income of $90,997.

Mr. Bahry can elect to include Mrs. Bahry’s taxable dividends in his income under ITA 82(3) as the transfer would leave her with net income of $14,650 ($15,114 – $336 – $128). This would allow an increase in the spousal credit to $1,055 [$15,705 − $14,650], from $591 [$15,705 - $15,114] in the absence of an election. This would also allow Mr. Bahry to use the dividend tax credit that would have been available to Mrs. Bahry but which could not actually be used because her taxable income, and therefore her federal income tax payable, was not high enough.

###### Part A - Tax Credits

Mrs. Bahry excludes the $464 grossed-up taxable dividends as a result of the ITA 82(3) election. This increases the amount of personal tax credits she can transfer.

|  |  |  |
| --- | --- | --- |
| Credits Available for Transfer: |  |  |
| Age |  | $8,790 |
| Pension (On $820 + $1,000 only) |  | 1,820 |
| Total Available Reduced by Excess of:  Mrs. Bahry’s Net Income |  | $10,610 |
| ($14,650) |  |
| Over BPA | 15,705 | Nil |
| Credit Base Transferred to Spouse |  | $10,610 |

Mr. Bahry’s maximum personal tax credits would be as follows:

|  |  |
| --- | --- |
| BPA | $15,705 |
| Spousal Credit ($15,705 - $14,650) | 1,055 |
| Age (No Reduction Required) | 8,790 |
| Pension | 2,000 |
| Transfers from Mrs. Bahry (see preceding calculation) | 10,610 |
| Credit Base | $38,160 |
| Rate | 15% |
| Total | $ 5,724 |
| Dividend Tax Credit [(6/11)($608)] | 332 |
| Dividend Tax Credit [(6/11)($128)] | 70 |
| Charitable Donations (See Note)  [(15%)($200) + (29%)($1,210 + $300 – $200)] | 410 |
| Total Credits | $ 6,536 |

**Note** Charitable donations can be claimed by either spouse, as long as the total donations are less than 75% of the claiming spouse’s net income. As Mrs. Bahry has no federal income tax payable, Mr. Bahry will claim her charitable donations. It is usually advantageous for one spouse to claim all the charitable donations if they total more than $200 as the 15% low rate of credit is only applied once.

###### Part A - Loss Carryovers

Neither Mr. Bahry’s allowable capital loss of $1,988 [(1/2)($3,975)] nor Mrs. Bahry’s allowable capital loss of $160 [(1/2)($820 – $500)] can be deducted in 2024. As a result, they become 2024 net capital losses to each of them that can be carried back three years or carried forward indefinitely to be applied against net taxable capital gains (the ITA 3(b) amount) in those carryover years.

###### Part B - Pension Income Splitting

Since Mr. and Mrs. Bahry are both in the lowest federal income tax bracket of 15% and neither has any OAS clawback, the optimum use of pension income splitting would accomplish the following objectives:

* it would permit Mrs. Bahry to fully utilize her dividend tax credit, and
* it would permit Mrs. Bahry to fully utilize her pension income tax credit.

###### Based on the facts however Mrs. Bahry would not pay any federal income tax and neither would Mr. Bahry since, with the ITA 82(3) election, his 2024 taxable income would be $28,441 [$ 27,977 + $464]. At a tax rate of 15% the gross federal income tax payable would be $4,266 [(15%)( $28,441)] which is less than his total credits of $6,536. Pension splitting would not improve this result.

Solution to AP 11-5

###### Regular Part 1 2024 Federal Income Tax Payable

The minimum regular 2024 taxable income and 2024 federal income tax payable calculations would be as follows:

**MILANA**

**Regular Federal New  
 Income Tax AMT**

Business Income $ 120,000 $ 120,000

Taxable Capital Gain  
[(1/2)($280,000)] 140,000 280,000

Retiring Allowance 80,000 80,000

RRSP deduction ( 46,000) (46,000)

Non-Capital Loss (173,000) (86,500)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 121,000 $ 174,295  
  
Federal Income Tax/   
AMT at 20.5% $ 22,242 $ 35,730

BPA ( 2,356) ( 1,178)

Regular Federal Income  
Tax/AMT $ 19,886 $ 34,552

**ANALYSIS**The individual is liable for the greater of the regular federal income tax of $19,886 and the AMT of $34,552 which is the AMT of $34,552. Since the AMT exceeds the regular federal income tax payable there is an AMT carry forward for 2024 of $14,666. Note that 100% of the capital gain is included for AMT purposes and only 50% of the non-capital loss deducted is allowed for the AMT. Had the individual claimed a lesser amount of non-capital losses it would have increased regular income tax payable and eliminated the AMT carry forward amount.

**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%)($121,000 – $111,733) + $19,833]

**AMT Tax Payable** is 20.5% of $174,295.

**ALBERT**

**Regular Federal New  
 Income Tax AMT**

Employment Income $ 26,000 $ 26,000

Non-Eligible Dividends  
[(115%)($94,000)] 108,100 94,000

Taxable Capital Gain  
[(1/2)($360,000)] 180,000 360,000

RRSP deduction ( 3,960) ( 3,960)  
[(18%)($22,000)]

Capital Gains Deduction (100,000) (140,000)

Non-Capital Loss ( 60,000) ( 30,000)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 150,140 $ 132,835  
  
Federal Income Tax/   
AMT at 20.5% $ 29,819 $ 27,231

Dividend Tax Credit ( 9,762) N/A

BPA ( 2,356) ( 1,178)

Regular Federal Income  
Tax/AMT $ 17,701 $ 26,053

**ANALYSIS**The individual is liable for the greater of the regular federal income tax of $17,701 and the AMT of $26,053 which is the AMT of $26,053. Since the AMT exceeds the regular federal income tax payable there is an AMT carry forward for 2024 of $8,352. Note that 100% of the capital gain is included for AMT purposes and only 50% of the non-capital loss deducted is allowed for the AMT. Had the individual not claimed the non-capital losses it would have increased regular income tax payable and eliminated the AMT carry forward amount.

**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%)($150,140 – $111,733) + $19,833]

**AMT Tax Payable** is 20.5% of $132,835.

**THERESE**

**Regular Federal New  
 Income Tax AMT**

Employment Income $ 60,000 $ 60,000

Eligible Dividends  
[(138%)($25,000)] 34,500 25,000

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

RRSP deduction ( 31,000) ( 31,000)  
[(18%)($22,000)]

ABIL (60,000) ( 60,000)

Capital Gains Deduction (440,000) (616,000)

AMT Basic Exemption N/A (173,205)

Taxable Income/ATI $ 63,500 $ 204,795  
  
Federal Income Tax/   
AMT at 20.5% $ 9,945 $ 41,983

Dividend Tax Credit ( 5,182) N/A  
[(6/11)($9,500)]

BPA ( 2,356) ( 1,178)

Regular Federal Income  
Tax/AMT $ 2,407 $ 40,805

**ANALYSIS**The individual is liable for the greater of the regular federal income tax of $2,407 and the AMT of $40,805 which is the AMT of $40,805. Since the AMT exceeds the regular federal income tax payable there is an AMT carry forward for 2024 of $38,398. Note that 100% of the capital gain is included for AMT which accounts for the AMT liability. Had the individual not claimed the non-capital losses it would have increased regular income tax payable and eliminated the AMT carry forward amount.

**RRSP Deduction:** The RRSP deduction is calculated as 2023 unused deduction room of $21,000 + $21,600 (18%)(earned income for 2023 of $120,000) – 2023 PA of $11,600.

**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%)($150,140 – $111,733) + $19,833]

**AMT Tax Payable** is 20.5% of $132,835.

**Bonus Question Solution:** There are a number of methods that can be used to reduce or eliminate an AMT liability altogether. It is important, however, to keep in mind that the AMT is recoverable over the subsequent seven years albeit without interest. If it is anticipated that Part 1 federal income tax will exceed any potential AMT liability over that period of time to recover the amount in full, then it may be preferable to wait it out. If, however, the AMT creates cash flow difficulties or it is unlikely that the AMT carry over could be recovered, then strategies should be explored to reduce or eliminate the AMT before it arises.

While there are many strategies, some of the more common include avoiding excess optional deductions such as RRSP deductions or non-capital loss claims, both of which reduce Part 1 federal income tax. Another common strategy is to claim capital gain reserves where possible, which reduces the impact of adding 100% of capital gains, particularly where those gains have not been subject to Part 1 tax because of the capital gains deduction. A further option where there is flexibility as to the type of income, such as between salary/bonuses and taxable dividends is to choose salary over dividends. While this latter strategy will not eliminate the total federal income tax, it will increase Part 1 tax with a corresponding reduction in the AMT.

**Milana – Analysis:** In Milana’s case she claimed all her non-capital losses of $173,000 and reduced her Part 1 tax significantly. This would have been fine had she not had to include an addition for the capital gain in determining her AMT. Milana could have avoided the AMT by claiming a smaller amount of non-capital losses. Note that the new AMT only allows 50% of non-capital losses which contributes to an AMT liability.

**Albert – Analysis:** Given the flexibility of being the sole shareholder of his own CCPC, Albert could have reduced his AMT by opting for a greater amount of salary instead of taxable dividends. Had he opted to take $120,000 in salary/bonus instead of taxable dividends he would have reduced his AMT, although his Part 1 tax would have increased by the same amount. The additional salary would have increased his ability to contribute and deduct a larger contribution to his RRSP. Albert could also have opted not to claim any non-capital losses. This strategy would also have shifted the AMT liability to Part 1 income tax. Finally, Albert could have structured the capital gain transaction to be in a position to be able to claim capital gain reserves. That particular strategy would have reduced his AMT and immediate Part 1 liability.

**Therese – Analysis:** Options available for Therese to reduce the additional tax of $38,398 created by the AMT are to (1) reduce her RRSP deduction, (2) claim a smaller amount for the capital gains deduction, and (3) structure the capital gain transaction to enable her to claim capital gains reserves. If Therese were eligible to spread the $500,000 taxable capital gain equally over five years and limit her capital gains deduction, her AMT liability would have been reduced to nil.

Solution to AP 11-6

###### Deemed Dispositions Immediately before Death

Under ITA 70(5), there is a deemed disposition of all the capital property of an individual immediately prior to the moment of death. In general, the deemed POD is the FMV of the property.

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

With respect to this exception, the executor of the estate can elect out of ITA 70(6) and use the values that would apply in ITA 70(5). This results in the use of deemed POD based on FMV, thereby resulting in income tax consequences that will be reported on the deceased individual’s final income tax return. As stated in the problem, Rachelle’s will instructs the executor to opt out of the ITA 70(6) spousal rollover.

Any property inherited by Rachelle’s daughter would not be exempt from the usual deemed disposition rules on death as there is no rollover that applies to properties she inherits.

###### Business Income

Rachelle’s Business Income is calculated as follows:

|  |  |
| --- | --- |
| Business Income | $69,400 |
| Recapture on sale of depreciable property (Given) | 5,900 |
| 2024 Business Income | $75,300 |

###### Property Income

Rachelle’s property income is calculated as follows:

|  |  |
| --- | --- |
| Interest Attributed from Martin (Note 1) | $ 876 |
| Rental Income ($46,300 – $31,400) | 14,900 |
| Recapture on Rental Property ($210,000 – $174,795) | 35,205 |
| Eligible Dividends | 860 |
| Gross Up on Eligible Dividends [(38%)($860)] | 327 |
| Non-Eligible Dividends | 6,200 |
| Gross Up on Non-Eligible Dividends [(15%)($6,200)] | 930 |
| 2024 Property Income | $59,298 |

**Note 1** The interest income received by Martin was earned on a guaranteed investment certificate given to him by Rachelle and, as a consequence, it would be attributed to her up until the day of her death. As she died 188 days into the year, the attributed amount is $876 [(188/365)($1,700)]. As attribution from a spouse ceases when the transferor spouse dies, the remaining $824 ($1,700 – $876) would be included in Martin’s income. When this is combined with his $2,100 salary, his total 2024 net income is $2,924. His income for the whole year, not just prior to Rachelle’s death, will decrease the spousal credit available on Rachelle’s final income tax return.

###### Net Taxable Capital Gains

Rachelle’s net taxable capital gains are calculated as follows:

|  |  |
| --- | --- |
| Rental Property - Land ($112,000 – $102,000) | $10,000 |
| Rental Property - Building ($243,000 – $210,000) | 33,000 |
| RAF Ltd. Shares (Note 2) | Nil |
| Flax Fittings Inc. Shares ($104,000 – $72,000) | 32,000 |
| Principal Residence ($507,000 – $382,600) | 124,400 |
| Principal Residence Exemption (100%) | (124,400) |
| Listed Personal Property:  Gain on Art ($57,000 – $23,400) $33,600  Loss on Jewelry ($32,000 – $8,300) (23,700)  2021 Listed Personal Property Loss  (Note 3) (5,400) | 4,500 |
| Taxable Capital Gains | $79,500 |
| Inclusion Rate | 1/2 |
| 2024 Net Taxable Capital Gains | $39,750 |

**Note 2** Donations of publicly listed securities benefit from special rules that make gifting these types of shares particularly attractive. While a donor is entitled to a donations tax credit based on the full FMV of such property, ITA 38(a.1) deems the capital gain on gifts of publicly listed securities to be nil.

**Note 3** The listed personal property loss decreases the net gain on listed personal property in the calculation of net income. All the carry forward amount can be claimed as it is less than the net capital gains on listed personal property for the year of $9,900 [$33,600 – $23,700].

###### 2024 Net Income

Rachelle’s 2024 net income would be calculated as follows:

|  |  |
| --- | --- |
| Business Income | $ 75,300 |
| Property Income | 59,298 |
| Net Taxable Capital Gains | 39,750 |
| Other Income - RRSP (Tax Free Transfer to Spouse) | Nil |
| Deductible CPP Contributions |  |
| [(2)($ 4,056) – $ 3,218] | (4,894) |
| 2024 Net Income | $169,454 |

###### 2024 Taxable Income

Rachelle’s 2024 taxable income would be calculated as follows:

|  |  |
| --- | --- |
| 2024 Net Income | $169,454 |
| 2022 Net Capital Loss (Note 4) | (89,400) |
| 2024 Taxable Income | $ 80,054 |

**Note 4** In the year of death, net capital losses can be deducted against any type of income, not just capital gains (as long as the capital gains deduction has not been claimed in previous years). As a result, all the available net capital loss balance can be deducted.

###### 2024 Federal Income Tax Payable

Rachelle’s minimum 2024 federal income tax payable would be calculated as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Tax on First $55,867 |  | $ 8,380 | |
| Tax on Remaining $24,187 ($80,054 - $55,867) at 20.5% |  | 4,958 | |
| Federal Tax before Credits |  | $ 13,338 | |
| BPA | ( $15,705) |  | |
| Spousal ( $15,705 − $2,924) (See Note 1) | ( 12,781) |  | |
| CPP | ( 3,218) |  | |
| Credit Base | ($ 31,704) |  | |
| Rate | 15% |  | ( 4,756) |
| Eligible Dividend Tax Credit [(6/11)(38%)($860)] |  |  | (178) |
| Non-Eligible Dividend Tax Credit [(9/13)(15%)($6,200)]  Charitable Donation (Note 5) |  |  | (644) |
| [(15%)($200) + (29%)($28,600 − $200)] |  | (8,266) |
| 2024 Federal Income Tax Payable |  | $ Nil | |

**Note 5** As none of her income is subject to the 33% income tax bracket, this rate will not be applicable to the calculation of the charitable donations tax credit. Note that the total non-refundable personal tax credits exceed federal income tax by $506. A number of strategies are available to reduce this to nil, including avoiding FMV dispositions to her spouse, Martin. Also note that there are no income tax consequences associated with the RRSP given that there is a spousal/common-law partner rollover. download all chpaters via https://r.24zhen.com/TUWCi

Solution to AP 11-7

### Part A

###### Lyla’s 2024 Federal Income Tax Payable

Lyla’s 2024 net income and taxable income would be calculated as follows:

|  |  |
| --- | --- |
| Salary | $270,000 |
| Group Disability Plan | Nil |
| RPP Contributions | (12,450) |
| Deductible CPP ($4,056 - $3,218) | ( 838) |
| 2024 Net Income and Taxable Income | $ 256,712 |

As Lyla has no other income and no taxable income deductions her 2024 net income is equal to her taxable income. Given this, her 2024 federal income tax payable would be calculated as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Tax on First $246,752 |  |  | $57,145 |
| Tax on Next $9,960 ($256,712 - $246,752) at 33% | | | 3,287 |
| Income Tax Payable (Before Credits) |  |  | $60,432 |
| BPA | ($14,156) | |  |
| Spousal (Income too High) | Nil | |  |
| EI Premiums | ( 1,049) | |  |
| CPP Contributions | ( 3,218) | |  |
| Canada Employment | ( 1,433) | |  |
| Medical Expenses (Note 1) | ( 78,241) | |  |
| Credit Base for Personal Tax Credits | ( $98,097) | |  |
| Rate | 15% | | ( 14,715) |
| Charitable Donations (Note 2) |  | | ( 51,121) |
| 2024 Federal Income Tax Payable  (Credits exceed federal income tax by $ 5,404) |  | | Nil |

**Note 1** The base for the medical expense tax credit, after taking into consideration the 100% coverage of Canadian medical expenses, would be calculated as follows:

|  |  |
| --- | --- |
| Total Expenses |  |
| ($70,200 + $10,800 + $4,800 – $4,800) | $81,000 |
| Lesser Of: |  |
| [(3%)( $256,712)] = $7,701 |  |
| 2024 Limit = $ 2,759 | ( 2,759) |
| Medical Expense Credit Base | $78,241 |

Because a doctor has indicated the required treatment was not available in a reasonable period of time, the travel expenses associated with the surgery would be included in the base for the medical expense tax credit. Since the medical expenses were incurred outside Canada, Lyla’s medical insurance does not cover the expenses related to the surgery in the United States.

**Note 2** The charitable donations tax credit would be calculated as follows:

|  |  |  |
| --- | --- | --- |
| 15% of $200  33% of the lesser of: | $ 30 |  |
| $175,000 – $200 = $174,800  $256,712 - $246,752 = $9,960 | 3,287 |  |
| 29% of $164,840 [$175,000 – ($200 + $9,960)] | 47,804 |  |
| Total Donation Credit | $ 51,121 |  |

Clark’s property income would be calculated as follows:

|  |  |
| --- | --- |
| Interest income | $ 28,600 |
| Eligible Dividends | 136,000 |
| Eligible Dividends Gross Up [(38%)($136,000)] | 51,680 |
| Net Taxable Capital Gains | 77,000 |
| Mortgage Interest expense\* | (12,000) |
| 2024 Net Income and Taxable Income | $281,280 |

\*As the direct use of the mortgage funds was for investments, the interest is deductible against the investment source of income.

As Clark has no other income and no taxable income deductions his property income and net taxable capital gains would be both his 2024 net income and his taxable income. Given this, his 2024 federal income tax payable would be calculated as follows:

|  |  |  |
| --- | --- | --- |
| Tax on First $246,752 | | $ 57,145 |
| Tax on Next $34,528 ($281,280 – $246,752) at 33% | | 11,394 |
| Gross Tax Payable  BPA ($14,156) Spousal (Income too High) Nil | | $ 68,539 |
| Credit Base for Personal Tax Credits | ($ 14,156) |  |
| Rate | 15% | ( 2,123) |
| Dividend Tax Credit [(6/11)(38%)($136,000)] |  | (28,189) |
| 2024 Federal Income Tax Payable |  | $ 38,227 |

###### Combined 2024 Federal Income Tax Payable

The couple’s combined 2024 federal income tax payable, assuming the Lyla claims all the medical expenses and charitable donations, would be as follows:

Lyla’s Federal Income Tax Payable Nil

Clark’s Federal Income Tax Payable $ 38,227

Combined 2024 Federal Income Tax Payable $ 38,227

### Part B

###### Lyla’s 2024 Federal Income Tax Payable

If Lyla did not claim the medical expenses and charitable donation amounts, her 2024 taxable income would be unchanged from Part A. Based on this, her federal income tax payable would be calculated as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Tax on First $246,752 |  |  | $ 57,145 |
| Tax on Next $ 9,960 ($ 256,712 – $ 246,752) at 33% | | | 3,287 |
| Income Tax Payable (Before Credits) |  |  | $ 60,432 |
| BPA ($ 14,156)  Spousal (Income too High) Nil | | | |
| EI Premiums |  | ( 1,049) |  |
| CPP Contributions |  | ( 3,218) |  |
| Canada Employment |  | ( 1,433) |  |
| Credit Base For Personal Credits | ($19,856) | |  |
| Rate |  | 15% | ( 2,978) |
| 2024 Federal Income Tax Payable |  |  | $ 57,454 |

If Clark claims the medical and charitable donations amounts, his taxable income would be unchanged from Part A. Based on this, his federal income tax payable would be calculated as follows:

|  |  |  |
| --- | --- | --- |
| Tax on First $246,752 | $ 57,145 | |
| Tax On Next $ 34,528 ($281,280 – $ 246,752) at 33% |  | 11,394 |
| Income Tax Payable (Before Credits)  BPA ($14,156) Spousal (Income too High) Nil Medical Expense Tax Credit (Note 3) (78,241) | $ 68,539 | |
| Credit Base For Personal Credits ($ 92,397)  Rate 15% |  | ( 13,860) |
| Dividend Tax Credit [(6/11)(38%)($136,000)] |  | (28,189) |
| Charitable Donations Tax Credit (Note 4) |  | ( 52,103) |
| 2024 Federal Income Tax Payable  (Credits exceed federal income tax by $25,613) |  | Nil |

**Note 3** The base for this credit would not be changed from Part A when Lyla claimed the expenses. The calculation is as follows:

|  |  |  |
| --- | --- | --- |
| Total Expenses ($70,200 + $10,800 + $4,800 – $4,800) |  | $81,000 |
| Lesser of: |  |  |
| [(3%)($281,280)] = $8,438 |  |  |
| 2024 Limit = $ 2,759 |  | ( 2,759) |
| Medical Expense Credit Base |  | $78,241 |

**Note 4** Clark’s charitable donations tax credit would be calculated as follows:

|  |  |
| --- | --- |
| 15% of $200 | $ 30 |
| 33% of the lesser of: |  |
| $175,000 – $200 = $174,800 |  |
| $281,280 – $ 246,752 = $ 34,528 | 11,394 |
| 29% of $ 140,272 [$175,000 – ($200 + $ 34,528)] | 40,679 |
| Total Donation Credit | $ 52,103 |

###### Combined 2024 Federal Income Tax Payable

The couple’s combined 2024 federal income tax payable, assuming that Clark claims all the medical expenses and charitable donations, would be as follows:

|  |  |
| --- | --- |
| Lyla’s Federal Income Tax Payable | $ 57,454 |
| Clark’s Federal Income Tax Payable | Nil |
| Combined 2024 Federal Income Tax Payable | $ 57,454 |

###### Part C

The combined net federal tax payable in Part B is $19,227 ($57,454 – $38,227) higher than in Part A. This is despite the fact that Clark’s charitable donation credit is $ 982 ($52,103 – $51,121) larger than Lyla’s.

The difference is due to unused personal tax credits. In Part A, $5,404 in credits available to Lyla are not used. In Part B, $25,613 in personal tax credits available to Clark are not used.

In looking to reduce combined 2024 federal income tax payable, three things should be noted:

* + While the value of the medical expense tax credit is the same without regard to who claims it, it would be better for Lyla to make the claim as it would not leave any unused credits for her since her net income is less than that of Clark.
  + With respect to the charitable donations credit, as Clark has the higher taxable income, a larger amount of the donation is eligible for a credit based on 33%.
  + When the entire donation is claimed by either individual, a significant part of the claim results in a credit based on the 29% rate, $164,840 when Lyla claims the entire amount, and $140,272 when Clark claims the entire amount.

This would suggest that Lyla should claim all the medical expenses and $10,160 ($256,712 – $246,752 + $200) of the donations. Based on this, her 2024 federal income tax payable would be as follows:

|  |  |  |
| --- | --- | --- |
| Tax on First $246,752 |  | $ 57,145 |
| Tax on Next $ 9,960 ($ 256,712 – $ 246,752) at 33% |  | 3,287 |
| Income Tax Payable (Before Credits) |  | $ 60,432 |
| BPA | ($ 14,156) |  |
| Spousal (Income too High)  EI Premiums | Nil  ( 1,049) |  |
| CPP Contributions | ( 3,218) |  |
| Canada Employment | ( 1,433) |  |
| Medical Expenses (As in Part A and B) | ( 78,241) |  |
| Credit Base for Personal Credits | ($ 98,097) |  |
| Rate | 15% | ( 14,715) |
| Charitable Donations (Note 5) |  | ( 3,317) |
| 2024 Federal Income Tax Payable |  | $ 42,400 |

**Note 5** The charitable donations tax credit would be calculated as follows:

|  |  |
| --- | --- |
| 15% of $200 | $ 30 |
| 33% of the lesser of: |  |
| $ 10,160 – $200 = $9,960 |  |
| $ 256,712 – $ 246,752 = $9,960 | 3,287 |
| 29% of Nil [$ 10,160 – ($200 + $ 9,960)] | Nil |
| Total Donation Credit | $ 3,317 |

This would leave $164,840 ($175,000 – $10,160) of the donations to be claimed by Clark. Based on this, his 2024 federal income tax payable would be calculated as follows:

|  |  |  |
| --- | --- | --- |
| Tax on First $246,752 | | $ 57,145 |
| Tax on Next $34,528 ($281,280 – $246,752) at 33% | | 11,394 |
| Income Tax Payable (Before Credits)  BPA ($ 14,156)  Spousal (Income too High) Nil | | $ 68,539 |
| Credit Base for Personal Tax Credits | ($14,156) |  |
| Rate | 15% | ( 2,123) |
| Dividend Tax Credit [(6/11)(38%)($136,000)] |  | (28,189) |
| Charitable Donations Tax Credit (Note 6) |  | ( 49,156) |
| 2024 Federal Income Tax Payable  (Credits exceed federal income tax by $10,929) |  | $ Nil |

**Note 6** Clark’s charitable donations tax credit would be calculated as follows:

|  |  |
| --- | --- |
| 15% of $200  33% of the lesser of: | $ 30 |
| $164,840 – $200 = $164,640  $281,280 – $ 246,752 = $34,528 | 11,394 |
| 29% of $130,112 [$164,840 – ($200 + $34,528)] | 37,732 |
| Total Donation Credit | $ 49,156 |

###### Combined 2024 Federal Income Tax Payable

The couple’s combined 2024 federal income tax payable, for all three parts, would be as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Part A** | **Part B** | **Part C** |
| Lyla’s Federal Income Tax Payable | Nil | $57,454 | $42,400 |
| Clark’s Federal Income Tax Payable | $38,227 | Nil | Nil |
| Combined 2024 Federal Income Tax Payable | $38,227 | $57,454 | $42,400 |

The combined 2024 federal income tax payable in Part C is slightly more than that for Part A and a significant improvement over the combined federal income tax payable in Part B.

In Part C there are unused personal tax credits of $10,929 compared to $5,404 for Part A, a difference of $5,525, which partly explains the $4,173 difference in federal income tax payable (Part C $42,400 – Part A $38,227). In all three parts there is a considerable amount of donations that are only benefitting from the 29% rate ($164,840 for Part A, $140,272 for Part B, and $130,112 for Part C). The four percentage point difference between the 29% and 33% federal income tax rates represents additional income tax savings that are not being used to their best advantage.

If Lyla and Clark expect to have taxable income amounts in excess of the 33% threshold and they do not expect to make large donations in the future, any carry forward amount could result in a credit based on 33% rather than the 29%. It would be advisable for the couple to only claim donations to the extent they benefit from the 33% rate.

###### Tax Planning Notes

As an additional point, as a rule, donations are claimed by the higher income earner and medical expenses claimed by the lowest income earner. However, the tax planning goal of having a high-income earner claiming donations is to take advantage of the 33% rate. If there is sufficient income of both income earners to absorb all personal tax credits but neither has income subject to the 33% rate, then the general planning point is moot. Similarly, low-income individuals generally claim the medical expenses to minimize the threshold limit, which is the lesser of $2,759 and 3% of net income. However, if the low-income earner has income that is greater than $91,967 [$2,759 ÷ 0.03], then the tax planning point is irrelevant since both spouses or common-law partners would then be subject to the $2,759 limit.

Although it is not required by the problem, it could be tax advantageous for Clark to donate public corporation shares from his portfolio rather than cash. If he has public company shares the ACB of which is less than the FMV at the time of donation, he would be able to reduce his present and/or future income tax liability.

Solution to AP 11-8

###### 2024 Net Income and Taxable Income

Ms. Arsenault’s minimum 2024 net income and taxable income would be calculated as follows:

|  |  |  |
| --- | --- | --- |
| **Employment Income** |  |  |
| Gross Salary - Ottawa | $82,000 |  |
| RPP Contributions - Ottawa | (2,500) |  |
| Stock Option Benefit (Note One) | 10,000 |  |
| Gross Salary - Toronto | 13,000 |  |
| RPP Contributions - Toronto | (650) |  |
| Moving Allowance (Note Two) | 7,500 | $109,350 |
| **Business and Property Income** |  |  |
| Non-Eligible Dividends on Lintz Shares | $ 7,500 |  |
| Gross Up [(15%)($7,500)] | 1,125 |  |
| Non-Eligible Dividends on Gifted Shares | 10,000 |  |
| Gross Up [(15%)($10,000)] | 1,500 |  |
| Deduction for Split Income (Note Three) | (11,500) |  |
| Mail Order Business (Note Four) | 22,500 | 31,125 |
| Other Income (Subdivision d) |  |  |
| Child Support (Note Six) |  | Nil |
| Net Taxable Capital Gains |  |  |
| Lintz Shares [(1/2)($105,000 – $95,000 – $850)] | $ 4,575 |  |
| Employer’s Shares (Note Five) | (175) | 4,400 |
| Other Deductions (Subdivision e) |  |  |
| Moving Expenses (Note Two) | ($ 5,160) |  |
| Child Care Expenses (Note Seven) | (7,660) |  |
| RRSP Contributions (Note Eight) | (10,098) |  |
| Deductible CPP Contributions ($4,056 - $3,218) | ( 838) | ( 23,756) |
| 2024 Net Income |  | $ 121,119 |
| Stock Option Deduction (Note One) |  | (5,000) |
| 2024 Taxable Income |  | $ 116,119 |

**Note One** The required inclusion would be calculated as follows:

|  |  |
| --- | --- |
| FMV at Exercise [($20)(2,000 Shares)]  Cost of Shares [($15)(2,000 Shares)] | $40,000  (30,000) |
| Stock Option Benefit | $10,000 |

As the option price at the time the options were issued was greater than the FMV of the shares at that time, Ms. Arsenault is entitled to a deduction under ITA 110(1)(d), equal to one-half of the $10,000 employment income benefit. The new stock option deduction restrictions would not apply since the employer’s gross revenues are less than $500 million.

**Note Two** All allowances received from an employer, except for those that are specifically exempted, must be included in employment income. As there is no exemption for a moving expense allowance, the $7,500 received by Arlene must be added to income. However, she can then deduct the following moving expenses in the calculation of her net income for 2024:

Moving Company Charges $3,800

Airfare for Toronto Trip (Not Deductible) Nil

Meals and Lodging on Toronto Trip (Not Deductible) Nil

Gas for October 31 Move to Toronto 65

Lodging in Ottawa on October 30 110

Meals on October 30 and October 31 while Moving 250

Lease Cancellation Charges 935

Legal Fees on Acquisition of Toronto Home (Not Deductible) Nil

Total $5,160

From an income tax perspective, this situation should have been structured differently. By giving an allowance not based on actual expenses, the employer placed Arlene in the position of having to list her expenses. As a consequence, she was limited to those deductions specified in ITA 62(3). The result is a net inclusion in income of $2,340 ($7,500 – $5,160). As an alternative, the employer could have reimbursed her for all the expenses listed in the problem, without creating a taxable benefit for Arlene. This would have cost the employer less than $7,500 and, in addition, Arlene would have avoided the additional income of $2,340. The legal fees on the new home are not deductible because she did not own a home in the old location. Note also that Arlene may have been better off had she used the simplified method, which would have allowed $69 per day in meals for each individual and $0.59 (the Ontario rate) for each kilometre driven.

**Note Three (TOSI)** Arlene is a specified individual with respect to her father’s CCPC, which is a related business. As she has never been involved in her father’s business, with respect to her, it is not an excluded business. Further, her shares are non-voting and cannot be classified as excluded shares. Given this, the non-eligible dividends received are subject to the Tax on Split Income (TOSI).

**Note Four** The interest on the demand loan is a deductible business expense and does not require any adjustment. The $27,000 withdrawal would have no income tax consequences to an individual carrying on a business as a sole proprietor as it represents a return of capital.

**Note Five** For shares acquired through the exercise of stock options, the ACB is the FMV of the shares at the time of exercise. As a consequence, the allowable capital loss arising on the disposition of the employer’s shares is calculated as follows:

|  |  |  |
| --- | --- | --- |
| POD [($20)(2,000 Shares)] |  | $40,000 |
| Less: |  |  |
| ACB [($20)(2,000)] | ($40,000) |  |
| Selling Costs | (350) | (40,350) |
| Capital Loss |  | ($350) |
| Inclusion Rate |  | ½ |
| Allowable Capital Loss |  | ($175) |

**Note Six** Arlene cannot deduct the $2,500 in legal fees paid in connection with her separation agreement. However, as her husband will not be able to deduct the $25,000 lump sum payment, it does not have to be included in her income. The $48,000 [($4,000)(12 Months)] in child support will not be deductible to her husband and is not required to be included in her net income.

**Note Seven** The deductible child care expenses of $7,660 is the least of:

* + - Actual Child care Expense Plus Deductible Camp Fees

[$7,160 + ($125 Limit)(4 Weeks)] $ 7,660

* + - Annual Limit ($11,000 for Janine + $5,000 for Jerry) 16,000
    - Two-Thirds of Earned Income

[(2/3)($82,000 + $10,000 + $13,000 + $7,500 + $22,500)] 90,000

**Note Eight** Arlene’s maximum deductible RRSP contribution is calculated as follows:

|  |  |
| --- | --- |
| Unused Deduction Room - End of 2023 | Nil |
| Lesser of: |  |
| * 2024 RRSP Dollar Limit = $ 31,560 |  |
| * 18% of 2023 Earned Income of $81,100 = $14,598 | $14,598 |
| Less 2023 PA | (4,500) |
| Maximum Deductible RRSP Contribution for 2024 | $10,098 |

###### 2024 Federal Income Tax Payable

The TOSI payable is calculated as follows:

|  |  |
| --- | --- |
| Split Income – Taxable Non–Eligible Dividends (Note Three) | $11,500 |
| Tax Rate | 33% |
| Federal TOSI Payable before Dividend Tax Credit | $ 3,795 |
| Non-Eligible Dividend Tax Credit [(9/13)(15%)($10,000)] | (1,038) |
| 2024 TOSI Payable | $ 2,757 |

The amount owing is calculated as follows:

|  |  |  |
| --- | --- | --- |
| Tax on First $ 111,733 |  | $ 19,833 |
| Tax on Next $4,386 ($116,119 - $111,733) at 26% |  | 1,140 |
| Federal Income Tax before Credits |  | $ 20,973 |
| BPA | ($ 15,705) |  |
| Eligible Dependant – Jerry (Note Nine) | ( 15,705) |  |
| Canada Caregiver – Janine (Note Ten) | ( 8,375) |  |
| CPP | ( 3,218) |  |
| EI | ( 1,049) |  |
| Canada Employment | ( 1,433) |  |
| Transfer of Janine’s Disability | ( 9,872) |  |
| Medical Expenses (Note Eleven) | ( 14,911) |  |
| First Time Home Buyers’ Plan | (10,000) |  |
| Credit Base | ($ 80,268) |  |
| Rate | 15% | ( 12,040) |
| Non-Eligible Dividend Tax Credit [(9/13)($1,125)]  Charitable Donations  [(15%)($200) + (29%)($1,500 – $200)] |  | (779)  (407) |
| Political Contributions Tax Credit |  |  |
| [(3/4)($400) + (1/2)($350) + (1/3)($150)] | (525) | |
| 2024 Federal Income Tax Payable | $ 7,222 | |
| 2024 TOSI Payable (See Previous Calculation) | 2,757 | |
| CPP Overpayment ($ 4,056 + $500 – $ 4,056) | (500) | |
| EI Overpayment ($1,049 + $390 – $1,049) | (390) | |
| Amount Owing to the CRA | $ 9,089 | |

**Note Nine** Although Arlene can claim either Jerry or Janine as an eligible dependant, she should pick Jerry because he has no net income in 2024. This allows for the maximum eligible dependant credit.

**Note Ten** Because Janine is disabled and her income is below the income threshold for the Canada caregiver credit of $19,666, Arlene can claim the full amount of the Canada caregiver credit for her.

**Note Eleven** Because Janine is over 18, the medical expense credit for her needs to be calculated separately from Arlene and Jerry. Arlene can still claim a credit for Janine because she is a disabled dependant.

|  |  |  |
| --- | --- | --- |
| Ms. Arsenault and Jerry’s Medical Expenses ($9,700 + $900)  Threshold - Lesser of: | | $10,600 |
| * [(3%)($ 121,119)] = $ 3,634 * 2024 Limit = $ 2,759 |  | ( 2,759) |
| Subtotal  Janine’s Medical Expense Reduced by the Lesser of: | $7,250 | $ 7,841 |
| * [(3%)($6,000)] = $180 |  |  |
| * 2024 Limit = $ 2,759 | (180) | 7,070 |
| Allowable Medical Expenses |  | $ 14,911 |

**Solution to AP 11-9**

**Part A - Bert’s Results**

###### 2024 Net Income

**Note:** If both the TOSI and attribution rules would apply to the same amount a rule in ITA 74.5(13) ensures that only the TOSI will apply. However, since the shares were owned by Bert and purchased with his own funds the attribution rules would not apply. In most situations, the receipt of dividends from a private corporation by a minor (under 18 years of age) are “split income” and therefore subject to the TOSI. Given this, Bert’s regular 2024 net income is nil, calculated as follows:

|  |  |
| --- | --- |
| Non-eligible Dividends Received from PS World | $34,000 |
| Gross Up [(15%)($34,000)] | 5,100 |
| ITA 20(1)(ww) Deduction for Split Income | (39,100) |
| 2024 Net Income | Nil |

###### 2024 Taxable Income

Since there are no taxable income deductions available to Bert, his 2024 net income and taxable income are both nil.

###### 2024 Federal Income Tax Payable

While the 2024 federal income tax payable on his regular income is nil, Bert will have an addition to 2024 federal income tax payable on his split income as follows:

|  |  |
| --- | --- |
| Split Income | $39,100 |
| Rate | 33% |
| Income Tax before Credit | $12,903 |
| Dividend Tax Credit [(9/13) ($5,100)] | (3,531) |
| 2024 TOSI (Tax on Split Income) | $ 9,372 |

Since Bert is under 18 years of age, Jody is jointly liable for his TOSI (ITA 160(1.2)).

### Part B - Jody’s Results

###### 2024 Net Income

Jody’s 2024 net income is calculated as follows:

|  |  |
| --- | --- |
| ITA 3(a)  Employment Income (Salary – PS World Inc.) (Note 1) | $128,000 |
| Property Income (Note 2)  Spousal Support | 159,587  25,000 |
| ITA 3(a) total  ITA 3(b) | $312,587 |
| Net Taxable Capital Gains (Note 4) | 100,194 |
| Total of 3(a) + 3(b)  ITA 3(c) – Subdivision e deductions | $412,781 |
| Child Care Expenses (annual limit is $5,000) | (5,000) |
| CPP Enhanced Deduction ($4,056 - $3,218) | ( 838) |
| RRSP Deduction (Given) | (11,300) |
| 2024 Net Income | $ 395,643 |

**Note 1** [($1,500)(52 weeks) + $50,000 bonus received in 2024]. The $60,000 bonus declared at the end of 2024 will be included in Jody’s income when it is received in 2025.

**Note 2** Jody’s property income is calculated as follows:

|  |  |
| --- | --- |
| Non-Eligible Dividend on Pickers Ltd Shares (Note 3) | $ 40,000 |
| Gross Up [(15%)($40,000)] | 6,000 |
| Non-Eligible Dividend on PS World Inc Shares | 84,000 |
| Gross Up [(15%)($84,000)] | 12,600 |
| Interest on share indebtedness [(5%)($200,000)(5/12)] | 4,167 |
| Dividends from U.S. Public Company [($10,000)(1.282)] | 12,820 |
| 2024 Property Income | $159,587 |

**Note 3** The dividend from Jody’s parents’ company, Pickers Ltd., is not subject to the TOSI. The basic analysis looks first to the type of income, which includes taxable dividends from non-public corporations (i.e., private). The next step is to determine whether the business of Pickers Ltd is a “related business”, which generally means a business in which someone related to Jody is actively involved. Clearly the business that generated the taxable dividends is a related business. The next step is to determine whether the business is an “excluded business” because of Jody’s participation currently and in past years. If she participated in that business, then the TOSI would not apply. Since she made no contributions or participated in any manner, the business is not an excluded business. Finally, the last possible exception is whether the shares she owns in Pickers Ltd are “excluded shares”. If they are then the TOSI will not apply. The shares are excluded shares because all of the conditions are met: (i) less than 90% of the company’s gross revenue is from providing services, (ii) the company is not a “professional corporation”, (iii) less than 10% of its business income is as a result of doing business with other related businesses, and (iv) the individual owns shares that represent more than 10% of the value of the company and shares that give the owner more than 10% of the votes. Since the shares are “excluded shares”, the taxable dividends Jody received are not subject to the TOSI.

**Note 4** Jody’s 2024 net taxable capital gains is calculated as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Capital Gain on sale of PS World Inc shares (Note 5)  Listed Personal Property | |  | | $197,988 | |
| Gain on Painting ($8,700 – $1,700) | $7,000 | |  | |
| Gain on Stamp Collection ($11,000 – $9,500) | 1,500 | |  | |
| Gain on Rare Book ($5,000 – $1,000) (Note 6) | 4,000 | |  | |
| Loss on Coin Collection ($11,000 – $19,000) | (8,000) | |  | |
| 2022 Listed Personal Property Loss | (1,200) | | 3,300 | | |
| Net Foreign Currency Exchange Loss [($20,000)(1.25) – $26,100)] | |  | | (1,100) | |
| Foreign Currency Exemption for Individuals\* | |  | | 200 | |
| Net Capital Gains | |  | | $200,388 | |
| Inclusion Rate | |  | | 1/2 | |
| 2024 Net Taxable Capital Gain | |  | | $100,194 | |

\*The foreign currency exemption reduces the first $200 of a capital gain or capital loss.

**Note 5**

POD $400,000

ACB [(25 shares)($1/each)] & Selling Costs $4,000 (4,025)

Total Gain $395,975

Less Reserve - Lesser of:

* [($395,975)($200,000 ÷ $400,000)] = $197,987
* [($395,975)(20%)(4 – 0)] = $316,780 (197,987)

Capital Gain $197,988

**Note 6** Even though the cost or ACB would be $250, the $1,000 rule deems the ACB to be the greater of $1,000 and its actual cost of $250. ITA 46(1)

###### 2024 Taxable Income download all chpaters via https://r.24zhen.com/TUWCi

Jody’s 2024 taxable income would be calculated as follows:

|  |  |
| --- | --- |
| 2024 Net Income | $ 395,643 |
| Capital Gains Deduction (Note 8) | (76,694) |
| 2020, 2021, and 2022 Non-capital Losses | (60,800) |
| 2021 Net Capital Loss | (4,500) |
| 2024 Taxable Income | $ 253,649 |

**Note 8** The maximum capital gains deduction is $76,494, calculated as the least of the following three amounts:

##### Capital Gains Deduction Available = $428,418

|  |  |
| --- | --- |
| Maximum Limit On Shares [(1/2)($ 1,016,836\*)] | $ 508,418 |
| Less: Used In Previous Years [(1/2)($160,000)] | (80,000) |
| Capital Gains Deduction Available in 2024 | $ 428,418 |

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

##### Annual Gains Limit = $95,694

This limit is equal to A - B, where

A = $98,994 [(1/2)($197,988)]

The lesser of the net taxable capital gains (see Note 4) on:

All Capital Property = $100,194

Qualifying Property [(1/2)($197,988)] = $98,994

B = $3,300

The total of:

The amount, if any, by which net capital loss carryovers deducted for the year under ITA 111(1)(b) exceeds the excess of net taxable capital gains for the year [ITA 3(b)] over the amount determined in Part A of this formula. This amount is $3,300 [$4,500 – ($100,194 – $98,994)]; and

Allowable Business Investment Losses realized during the current year. This amount is nil. This provides an annual gains limit of $95,694 ($98,994 – $3,300).

##### Cumulative Gains Limit = $76,694

|  |  |
| --- | --- |
| Annual Gains Limit from Previous Years | $160,000 |
| Current Year Annual Gains Limit | 95,694 |
| Less: Previous Capital Gains Deduction | (160,000) |
| Less: CNIL (Given - See Note 9) | (19,000) |
| Cumulative Gains Limit | $ 76,694 |

**Note 9** Note that if Jody had paid herself an additional $16,522 in non-eligible dividends it would have equaled $19,000 with the gross-up of 15% and would have reduced the CNIL account to nil, allowing an additional $19,000 in capital gains deduction to be claimed.

###### 

###### 2024 Federal Income Tax Payable

Jody’s regular 2024 federal income tax payable would be determined as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Tax on First $ 246,752 |  | $ 57,145 |  |
| Tax on Next $6,897 ($253,649 - $246,752) at 33% |  | 2,276 |  |
| 2024 Federal Income Tax Payable (Before Credits) |  | $ 59,421 |  |
| Tax Credits: |  |  |  |
| BPA | ($ 14,156) |  |  |
| Eligible Dependant (Note 10) | Nil |  |  |
| CPP | ( 3,218) |  |  |
| Canada Employment Credit | ( 1,433) |  |  |
| Medical Expenses (Note 11) | ( 8,841) |  |  |
| Total Credit Base | ($ 27,648) |  |  |
| Rate | 15% | ( 4,147) |  |
| Charitable Donation Credit (Note 12) |  | (4,018) |  |
| Foreign Tax Credit (Note 13) |  | (1,923) |  |
| Non-Eligible Dividend Tax Credit [(9/13)($6,000 + $12,600)] |  | (12,877) |  |
| 2024 Federal Income Tax Payable – Regular |  | $ 36,456 |  |

**Note 10** Since Jody’s income exceeds $246,752 she is not entitled to the full BPA of $15,705. Bert’s net income would otherwise be nil since split income is subtracted in its determination. However, for the personal tax credit purposes the split income deduction is ignored (ITA 118(4)(a.2)), which means that Bert’s income is $39,100, which exceeds the eligible dependant threshold [($14,156 – $39,100)].

**Note 11** Jody’s medical expenses are $23,000 – $13,800 (60% of expenses reimbursed by the insurer) + $2,400 in medical insurance premiums = $11,600.

The base for Jody’s medical expense credit can be calculated as follows:

Eligible Medical Expenses $11,600

Reduced by the Lesser of:

* [(3%)($ 395,643)] = $ 11,869
* 2024 Threshold Amount = 2,759 ( 2,759)

Total Credit Base $ 8,841

**Note 12** Jody’s donations total $13,000: $1,000 for Plan Canada + $1,000 for the Humane Society + the FMV of the coin collection of $11,000. Using this as the base, Jody’s charitable donations tax credit would be calculated as follows:

|  |  |
| --- | --- |
| 15% of $200  33% of the lesser of: | $ 30 |
| $13,000 – $200 = $12,800 |  |
| $ 253,649 – $ 246,752 = $ 6,897 | 2,276 |
| 29% of $5,903 [$13,000 – ($200 + $6,897)] | 1,712 |
| Total Credit | $ 4,018 |

**Note 13** Jody’s Adjusted Division B Income would be calculated as follows:

|  |  |
| --- | --- |
| Net Income | $ 395,643 |
| Capital Gains Deduction | (76,694) |
| 2021 Net Capital Loss | (4,500) |
| Adjusted Division B Income | $ 314,449 |

Her tax otherwise payable would be calculated as follows:

|  |  |
| --- | --- |
| Tax before Credits | $ 59,421 |
| Personal Tax Credits | ( 4,147) |
| Charitable Donation Credit | (4,018) |
| Tax otherwise payable | $ 51,256 |

Since the foreign non-business income tax withheld is not greater than 15% of the foreign income, Jody’s credit for foreign income tax paid would be the lesser of the foreign income tax withheld of $1,923 [(1.282)($1,500 US)] and an amount determined by the following formula:

[(Foreign Non-Business Income ÷ Adjusted Division B Income)(Tax Otherwise Payable)] = [($12,820 ÷ $ 314,449)($ 51,256)] = $ 2,090

As the amount withheld is the lesser of the two amounts, her non-business foreign tax credit is $1,923.

###### 2024 Alternative Minimum Tax (AMT) Payable

Jody’s 2024 adjusted taxable income (ATI) for alternative minimum tax purposes would be re-calculated using the facts in the problem however rather than recreate the lengthy calculations we have created a reconciliation from regular taxable income that adjusts the items that are different under the AMT:

Regular taxable income $ 253,649  
**Add:**Capital gains to reflect 100% $ 100,194  
Childcare Expenses 50% 2,500  
CPP Deduction 50% 419  
Non-Capital Loss 50% 30,400 133,513  
  
**Subtract:**  
Gross-up on Non-eligible  
dividends ($6,000 + $12,600) $ 18,600  
Capital gains Deduction  
[(7/5)($76,694) – $76,694] 30,678 ( 49,278)

Adjusted Taxable Income (ATI) $ 337,884

**Less:** Basic Exemption 173,205

AMT Base subject to tax $ 164,679

AMT Tax @ 20.5% $ 33,759

**Less:**50% of Non-refundable Tax Credits  
[(15%)(50%)($27,648)] ( 2,074)

80% of Donation credit of $4,018 ( 3,214)  
  
Foreign Tax Credits (Assume the same) ( 1,923)

AMT $ 26,548

**AMT Conclusion:** As the AMT payable of $ 26,548 is less than the regular federal income tax of $ 36,456, Jody would not be liable for any AMT in 2024.

### Part C

###### Jody – RRSP, TFSA, and Cash Flow Considerations

Jody has asked you to consider whether she should use her TFSA or her RRSP funds if she needs additional cash to acquire the home she is currently renting. Given that the home would be her principal residence, she would be eligible to withdraw funds from her RRSP under the Home Buyers’ Plan (HBP). To qualify, an individual must not have occupied a home that the individual, their spouse, or common-law partner owned within the four years preceding the withdrawal; however, this rule is generally waived in the cases of legal separation or divorce. Since the maximum withdrawal amount available under the HBP is only $35,000, that may not be adequate to meet all of Jody’s additional cash needs.

If she must choose between the two alternatives, it would be better for her to use her TFSA funds if she needs access to additional cash. Withdrawals from her TFSA would be tax free. In addition, she will be able to return funds to her TFSA in the future, which will not be possible if funds are withdrawn from her RRSP other than through the HBP (or other qualifying programs such as the Lifelong Learning Plan).

As Jody expects her income to remain high for years to come, she would potentially be subject to the highest income tax rates. Unlike a TFSA, withdrawals from an RRSP would need to be included in her taxable income and would permanently reduce her contribution room without an ability to reinstate that room. This would mean smaller amounts of RRSP-based retirement income in the future.

If she were not planning to immediately purchase a home, she could also consider the tax- free First Home Savings Account (see Chapter 10), which allows an individual who would qualify for the HBP to make an annual contribution up to a maximum of $8,000 beginning in 2024. The amount contributed would be fully deductible and the withdrawal would be tax free, resulting in an income-tax-based home purchase assistance program that includes features of both an RRSP and a TFSA. While there is a lifetime contribution limit of $40,000 per individual, given the impending decision to purchase the rental home the use of this program would provide little assistance in this case.

Solution to AP 11-10

### Part A - Adam’s 2024 Federal Income Tax Payable

###### Adam’s 2024 Employment Income

Adam’s 2024 employment income would be calculated as follows:

Salary $350,000

Additions:

Travel Allowances (Note 1)

Hotels and Meals Nil

Use of Personal Automobile 15,600

Stock Option Benefit [(1,000)($28 – $25)] 3,000

Deductions:

Hotels and Meals (Note 1) Nil

Automobile Expenses (Note 2) ( 20,978)

RPP Contributions (12,300)

2024 Employment Income $335,322

**Note 1** Given his actual expenses, the allowance for hotels and meals seems reasonable. This means it does not have to be included in income. However, this will prevent Adam from deducting his actual expenses. While a comparison of actual expenses to the allowance received suggests that the allowance was reasonable it is not determinative. An assessment of the reasonableness of an allowance is dependent upon how it is determined in respect of the actual anticipated travel to a specific region. With respect to the allowance for personal use of his automobile, it is not based on kilometres driven and, as a result ITA 6(1)(b)(x) deems the allowance not to be reasonable requiring it to be included in employment income.

**Note 2** His deductible automobile expenses for 2024 are calculated as follows:

|  |  |
| --- | --- |
| Operating Expenses | $11,300 |
| CCA on Class 10.1 [(1.0)(30%)($ 37,000)] | 11,100 |
| Total Automobile Costs | $ 22,400 |
| Employment Related Percentage (59,000 ÷ 63,000) | 93.65% |
| Total Deductible Expenses | $ 20,978 |

The luxury automobile rules limit the capital cost of the automobile to $ 37,000 for automobiles purchased on or after January 1, 2024, whether new or used, and that meet the definition of a “passenger vehicle.” Passenger vehicles are “automobiles” as defined in ITA 248(1). The automobile definition contains several exceptions such as certain vans, pick-ups and other vehicles that are used in certain businesses. The BMW that Adam uses would not meet any of these exceptions and is therefore a passenger vehicle.

###### Adam’s 2024 Net Income and Taxable Income

Adam’s 2024 net income and taxable income can be calculated as follows:

|  |  |
| --- | --- |
| Employment Income | $ 335,322 |
| Taxable Capital Gains on Donation (Note 3) | 57,500 |
| Recapture on Donation (Note 3) | 30,141 |
| Deductible CPP ($4,056 - $3,218) | ( 838) |
| 2023 Net Income | $ 422,125 |
| Stock Option Deduction [(1/2)($3,000)] | (1,500) |
| 2024 Taxable Income – Adam | $ 420,625 |

**Note 3** The taxable capital gains realized on Adam’s donation to the Canadian Red Cross is calculated as follows:

|  |  |  |
| --- | --- | --- |
|  | **Land** | **Building** |
| POD | $75,000 | $250,000 |
| ACB | (60,000) | (150,000) |
| Capital Gain | $15,000 | $100,000 |
| Inclusion Rates | 1/2 | 1/2 |
| Taxable Capital Gains | $ 7,500 | $ 50,000 |

The recapture on this donation is calculated as follows:

|  |  |  |
| --- | --- | --- |
| lesser of cost of $150,000 and POD of $250,000 |  | $150,000 |
| UCC Balance |  | (119,859) |
| Recapture |  | $ 30,141 |

###### 

###### Adam’s 2024 Federal Income Tax Payable

Adam’s 2024 federal income tax payable would be calculated as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Tax on First $ 246,752 |  |  | $ 57,145 |
| Tax on Next $173,873 ($420,625 - $246,752) at 33% | | | 57,378 |
| Federal Tax Payable (Before Credits) |  |  | $ 114,523 |
| Tax Credits:  BPA | | ($ 14,156) |  |
| Spousal (Income too high) | | Nil |  |
| Volunteer Firefighter  Transfer of Portia’s Tuition – Lesser of: |  | (3,000) |  |
| * Absolute Limit = $5,000 * Actual Tuition = $5,400 |  | (5,000) |  |
| Canada Caregiver for Jack |  | ( 8,375) |  |
| EI Premiums |  | ( 1,049) |  |
| CPP Contributions |  | ( 3,218) |  |
| Canada Employment |  | ( 1,433) |  |
| Credit Base | ($ 36,231) | |  |
| Rate | 15% | | ( 5,435) |
| Charitable Donations (Note 4) |  | | ( 101,177) |
| 2024 Federal Income Tax Payable – Adam |  | | $ 7,911 |

**Note 4** The maximum charitable donation that Adam can use in the current year is calculated as follows:

|  |  |
| --- | --- |
| Net Income [(75%)($ 422,125)] | $ 316,594 |
| Taxable Capital Gains [(25%)($57,500)] | 14,375 |
| Recapture [(25%)($30,141)] | 7,535 |
| Donation Credit Limit | $ 338,504 |

Since the limit is greater than the amount of the income tax receipt, the entire $325,000 can be used in the following calculation:

15% of $200 $ 30

33% of the lesser of:

$325,000 – $200 = $324,800

$ $420,625 - $246,752 = $ 173,873 57,378

29% of $ 150,927

[$325,000 – ($200 + $ 173,873)] 43,769

Charitable Donation Credit $ 101,177

Adam might consider carrying forward $ 150,927 of the charitable donation that is subject to the 29% donation rate if he is confident that he will have taxable income that will be subject to the 33% tax rate in the next five years. The credit would be 4% points larger [33% – 29%] resulting in income tax savings of $6,037 [(4%)($150,927)].. However, he would pay more income tax in the current year in order to do this.

### Part B - Estelle’s 2024 Federal Income Tax Payable

###### Estelle’s 2024 Net Income and Taxable Income

Estelle’s 2024 net income and taxable income would be calculated as follows:

|  |  |  |
| --- | --- | --- |
| Non-Eligible Dividends |  | $ 32,000 |
| Gross Up [(15%)($32,000)]  Taxable Capital Gain on GHI Shares [(1/2)($302,000)] |  | 4,800 |
| $151,000 |  |
| Allowable Capital Loss on JKL Shares |  |  |
| (Note 5) [(1/2)($20,000)] | (10,000) | 141,000 |
| 2024 Net Income |  | $177,800 |
| 2018 Net Capital Loss |  | (15,000) |
| Capital Gains Deduction (Note 6) |  | (126,000) |
| 2024 Taxable Income – Estelle |  | $ 36,800 |

**Note 5** Normally, the loss on the JKL shares would be classified as a business investment loss (BIL) and would be deductible against any type of income. However, potential BILs are reduced to the extent of the previous cumulative use of the capital gains deduction. The reduction to a potential BIL leaves the loss as a regular capital loss.

**Note 6** The capital gains deduction would be the least of the following three amounts:

**Capital Gains Deduction Available**

|  |  |
| --- | --- |
| Beginning Amount for 2024 [(1/2)($ 1,016,836\*)]  Amounts Used: | $ 508,418 |
| [(1/2)($500,000 – $275,000)] | (112,500) |
| [(1/2)($623,000 – $216,000)] | (203,500) |
| **Capital Gains Deduction Available for 2024** | $ 192,418 |

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

##### Annual Gains Limit

Lesser of:

* + Net Taxable Capital Gains = $141,000
  + Net Taxable Capital Gains on QSBC shares only

|  |  |
| --- | --- |
| = $ 141,000 | $141,000 |
| 2018 Net Capital Loss Deducted | (15,000) |
| **Annual Gains Limit** | $126,000 |

##### 

##### Cumulative Gains Limit

|  |  |
| --- | --- |
| Sum of Annual Gains Limits |  |
| ($112,500+ $203,500 + $126,000) | $442,000 |
| Amounts Deducted in Previous Years |  |
| ($112,500 + $203,500) | (316,000) |
| **Cumulative Gains Limit** | $126,000 |

The least of these amounts is $126,000.

###### Estelle’s 2024 Federal Income Tax Payable

|  |  |  |
| --- | --- | --- |
| Tax on $36,800 at 15% |  | $5,520 |
| Federal Tax  Tax Credits  BPA |  | $5,520 |
| ($ 15,705) |  |
| Medical Expenses (Note 7) | ( 4,102) |  |
| Total | ($ 19,807) |  |
| Rate | 15% | ( 2,971) |
| Non-Eligible Dividends Tax Credit [(9/13) ($4,800)] | | (3,323) |
| 2024 Federal Income Tax Payable – Estelle (Excess credits = $774) |  | $ Nil |

**Note 7** The base amount for medical expenses would be calculated as follows:

|  |  |  |
| --- | --- | --- |
| Adam, Estelle, and Portia ($1,350 + $360 + $820 + $500) |  | $3,030 |
| Reduced by the Lesser of: |  |  |
| * [(3%)($177,800)] = $5,334 |  |  |
| * 2024 Threshold Amount = $ 2,759 |  | ( 2,759) |
| Jack’s Medical Expenses | $4,200 |  |
| Reduced by the Lesser of: |  |  |
| * [(3%)($12,300)] = $369 |  |  |
| * 2024 Threshold amount = $2,759 | (369) | 3,831 |
| Allowable Medical Expenses |  | $ 4,102 |

The fees for teeth whitening and cosmetic surgery would not be allowable medical expenses.

###### 2024 Alternative Minimum Tax (AMT) Payable

Estelle’s 2024 adjusted taxable income (ATI) for alternative minimum tax purposes would be re-calculated using the facts in the problem however rather than recreate the lengthy calculations we have created a reconciliation from regular taxable income that adjusts the items that are different under the AMT:

Regular taxable income $ 36 800  
**Add:**Capital gains to reflect 100% 141,000  
  
**Subtract:**  
Gross-up on Non-eligible  
dividends $ 4,800  
Capital gains Deduction  
[(7/5)($126,000) – $126,000] 50,400 ( 55,200)

Adjusted Taxable Income (ATI) $ 122,600

**Less:** Basic Exemption 173,205

AMT Base subject to tax $ Nil

AMT Tax @ 20.5% $ Nil

**Less:**50% of Non-refundable Tax Credits  
[(15%)(50%)($19,807)] ( 1,486)

AMT $ Nil

**AMT Conclusion:** As both the AMT payable and regular federal income tax payable are nil Estelle would not be liable for any AMT in 2024.

###### Canada Caregiver Credit - No Difference

ITA 127.531 specifies the personal tax credits, as calculated for the determination of regular federal income tax payable, which can be applied against the AMT. The credits specified include the following: download all chpaters via https://r.24zhen.com/TUWCi

* Personal credits under ITA 118(1)
* Charitable donations credit under ITA 118.1
* Medical expense credit under ITA 118.2

Estelle could claim the Canada caregiver credit for Jack, but there would be no decrease of federal income tax payable for the family unit. It would decrease her AMT by the same amount as it would increase Adam’s 2024 federal income tax payable; therefore, there is no advantage to Estelle claiming the Canada caregiver credit for Jack.