

CHAPTER 4



How To Work Through Chapter 4

We recommend the following approach in dealing with the material in this chapter:

Note On Changes For 2017

- Read the Note explaining important changes effective for 2017.

Taxable Income Of Individuals

- Read the beginning of the Chapter to paragraph 4-12 (in the textbook).
- Do Exercise Four-1 (in the textbook) and check the solution in this Study Guide.
- Read paragraph 4-13.

Federal And Provincial Tax Payable Before Credits

- Read paragraph 4-14 to 4-26.
- Do Exercise Four-2 and check the solution in this Study Guide.
- Read paragraph 4-27 to 4-31.

Credits Against Tax Payable - Calculating The Amount

- Read paragraph 4-32 to 4-36.

Spousal, Eligible Dependant And Canada Caregiver For Child Tax Credits

- Read paragraph 4-37 to 4-42.
- Do Exercise Four-3 and check the solution in this Study Guide.
- Do Self Study Problem Four-1 which is available on the Companion Website and check the solution in this Study Guide.
- Read paragraph 4-43 to 4-52.

Basic Personal And Caregiver Tax Credits

- Read paragraph 4-53 to 4-63.
- Do Exercises Four-4 to Four-6 and check the solution in this Study Guide.
- Read paragraph 4-64 and 4-65.
- Do Exercise Four-7 and check the solution in this Study Guide.

Age, Pension, Canada Employment And Adoption Expenses Tax Credits

- Read paragraph 4-66 and 4-67.
- Do Exercise Four-8 and check the solution in this Study Guide.
- Read paragraph 4-68 to 4-79.
- Do Exercise Four-9 and check the solution in this Study Guide.

Public Transit Passes And Home Accessibility Tax Credits

- Read paragraph 4-81 to 4-96.
- Do Exercise Four-10 and check the solution in this Study Guide.

First Time Home Buyer's And Volunteer Firefighters And Search And Rescue Workers Tax Credits

- Read paragraph 4-97 to 4-103.

Charitable Donations Credit

- Read paragraph 4-104 to 4-111.
- Do Exercise Four-11 and check the solution in this Study Guide.
- Read paragraph 4-112 to 4-118.
- Do Exercise Four-12 and check the solution in this Study Guide.

Medical Expense Credit

- Read paragraph 4-119 to 4-129.
- Do Exercise Four-13 and check the solution in this Study Guide.

Disability Credit

- Read paragraph 4-130 to 4-137.
- Do Exercise Four-14 and check the solution in this Study Guide.
- Read paragraph 4-138 to 4-140.

Education Related Credits Including Carry Forwards And Transfers

- Read paragraph 4-141 to 4-148.
- Do Exercise Four-15 and check the solution in this Study Guide.
- Read paragraph 4-149 to 4-158.
- Do Exercise Four-16 and check the solutions in this Study Guide.

Employment Insurance And Canada Pension Plan Tax Credits

- Read paragraph 4-159 to 4-165.

Credit Transfers To A Spouse Or Common-Law Partner

- Read paragraph 4-166 to 4-168.
- Do Exercise Four-17 and check the solution in this Study Guide.
- Do Self Study Problems Four-2 and Four-3 and check the solutions in this Study Guide.

Political Contributions Credit

- Read paragraph 4-169 to 4-172.
- Do Exercise Four-18 and check the solution in this Study Guide.

Labour Sponsored Venture Capital Corporation (LSVCC) Credit

- Read paragraph 4-173 to 4-177.

Refundable Credits - GST And Refundable Medical Expense Supplement

- Read paragraph 4-178 to 4-189.
- Do Exercise Four-19 and check the solution in this Study Guide.

Refundable Credits - Working Income Tax Benefit And Teacher School Supply

- Read paragraph 4-190 to 4-196.

EI And OAS Repayment (Clawback)

- Read paragraph 4-197 to 4-207.
- Do Exercise Four-20 and check the solution in this Study Guide.

Comprehensive Example

- Read paragraph 4-208.
- Do Self Study Problems Four-6 to Four-8 and check the solutions in this Study Guide.

Sample Personal Tax Return For Chapter 4

- Read the Sample Personal Tax Return For Chapter 4 found in this Chapter of this Study Guide. The complete tax returns are available on the Companion Website in two formats, a T1 ProFile return file and a .PDF file.

Tax Software Self Study Problem

- Read the Suggestions For Working With ProFile Software found in this Chapter of this Study Guide.
- Do Tax Software Self Study Problem - Chapter 4 using the ProFile T1 Software. The Self Study Problem is found in this Chapter of this Study Guide. The complete tax return is available on the Companion Website.

To Complete This Chapter

- If you would like more practice in problem solving, do the Supplementary Self Study Problems for the chapter. These problems and solutions are available on the Companion Website.
- Review the Key Terms Used In This Chapter in the textbook at the end of Chapter 4. Consult the Glossary for the meaning of any key terms you do not know.
- Test yourself with the Chapter 4 Glossary Flashcards available on the Companion Website.
- Ensure you have achieved the Chapter 4 Learning Objectives listed in this Study Guide.
- As a review, we recommend you view the PowerPoint presentation for Chapter 4 that is on the Companion Website.

Practice Examination

- Write the Practice Examination for Chapter 4 that is on the Companion Website. Mark your examination using the Practice Examination Solution that is also on the Companion Website.

Sample Personal Tax Return For Chapter 4

The following example contains a T1 individual income tax returns completed using the ProFile T1 Personal Income Tax Program for 2016 tax returns from Intuit Canada. As software for 2017 is not yet available, this example contains 2016 rates and credits.

The updated 2017 filing version of the ProFile software will be available in January, 2018. Non-filing versions will be available prior to that date, but include a number of 2017 draft forms that have not yet been updated. On installation, the program defaults to check for updates, so non-filing versions may be installed automatically. In January, 2018, after the first 2017 filing version is released, the updated 2017 version of this sample return will be available on the Companion website at:

www.pearsoncanada.ca/byrdchen/ctp2018

This example is expanded in Chapter 11 to contain other components of Taxable Income and Tax Payable. In the following example, the relevant T1 schedule or ProFile form name is provided in square brackets to make it easier for users to find where the information is input.

Sample Files On Companion Website

To View The Tax Return Files

The complete sample tax returns are available on the Companion Website in two versions, a T1 ProFile return file and a .PDF file.

To view the ProFile return files (files with a .16T extension), you must have the ProFile program installed. For information on how to obtain the program for free, see the Companion Website.

To view the .PDF files, you must have the Adobe Reader program installed. This program can be installed for free from the Adobe website (www.adobe.com).

Tips To Increase The Benefits From Viewing The ProFile Files

When viewing the sample return ProFile file, we suggest the following:

- Press <F1> on any ProFile form or field to display related information in the help system. In ProFile dialog boxes, click the [?] symbol in the top right corner, then click any element for help on that item.
- By pressing <F4> you will open the Form Explorer. In the categories of forms appearing in the shaded box on the left, if you choose “A. Used” near the bottom of the column, all the forms that have calculations for the return will be shown. You can then double click on the form itself to view it.
- Right clicking on a number in a field shows a variety of options, including the form or schedule where the amount originated from.
- Clicking on “Show Auditor” under the “Audit” list will display any warnings or potential errors.

For students who would like more assistance in using the software, we have provided “Suggestions For Working With ProFile Software” in this Study Guide following this example.

Sample Problem Data

DISCLAIMER: All characters appearing in this example are fictitious. Any resemblance to real persons, living or dead, is purely coincidental.

George Pilot (SIN 527-000-145) is a married, semi-retired air force pilot living in Banff, Alberta. His wife, Deborah (SIN 130-692-544) was mauled by a grizzly bear while hiking 3 years ago. The attack left her blind and limited her mobility.

They have been your clients for many years. George was born on February 24, 1965 and Deborah was born on April 10, 1969. They are both Canadian citizens.

After some discussion with George and Deborah, you confirm that they have never owned any foreign property. They both authorize the CRA to provide information to Elections Canada and authorize you to e-file their returns. They are currently living at 69 BBB Street in Banff, Alberta T9Z 0C0. Their home phone number is (403) 111-1111.

George and Deborah have three children:

- Bryan (SIN 527-000-947) was born on March 12, 2009 and had no income during the year.
- Janice (SIN 527-000-269) was born on June 6, 2003 and is in high school. She had income from babysitting totalling \$400 during 2016.
- Willa (SIN 527-000-228) was born on January 22, 1997 and is attending university in Edmonton. Willa had Net Income of \$3,300 during 2016.

George loves flying and was hired in February to fly fire bombers June 1 to September 30 for the provincial forest service fire control squad located in Banff.

George informs you that on February 12, 2016, he received \$2 million from his mother's estate. Using some of these funds, George bought a house in Banff. The remainder of the funds were invested with his stockbroker, \$\$\$\$ Inc. In this Chapter 4 version of the example, assume there is no investment income from these funds.

Deborah had no income other than the Universal Child Care Benefit of \$720 during the year. [RC62 on George's return]

George brings you the following receipts and documents:

1. A T4 (included in this example).
2. A T2202A "Tuition And Education Amounts Certificate" for himself from Athabasca University. It showed he was a part time student for 6 months and paid \$591 in tuition for 2016. [T2202]
3. Two charitable donation receipts. One in George's name for \$1,000 from the Canadian Wildlife Federation dated April 10, 2016. He has donated regularly to this registered charity. A second receipt in Deborah's name for \$100 from the Canadian National Institute for the Blind (CNIB) dated December 3, 2016. This is her second donation to this registered charity. [Donations]
4. A statement from the Banff Dental Clinic that George paid a total of \$1,650 during 2016. This consisted of \$850 for himself on November 24, and \$200 each for Deborah, Bryan, Willa and Janice on December 15. [Medical]
5. An invoice from the CNIB in Deborah's name for \$375 dated December 26, 2016 for computer peripherals designed exclusively for a person who is blind to use a computer. She had obtained a prescription from her doctor specifying her need for this equipment. [Medical]
6. Twelve monthly bus passes that were purchased during 2016 by Janice for \$30 per month. [OtherCredits]
7. An agreement of purchase and sale for a house at 69 BBB St. in Banff. The purchase price was \$800,000 and the invoice for legal fees totalled \$1,200. The deal closed March 31, 2016 and George paid the purchase price of the house in cash. George and his family had been living in a rented townhouse for the last 5 years. Prior to that George had owned a house, but it went to his ex-wife in the divorce settlement. Deborah has never owned a principal residence. [OtherCredits for the Home Buyers' Credit.]
8. George spent \$14,700 during 2016 on various permanent modifications to the house. His goal for these changes was to allow Deborah to be more mobile inside and outside the house (ex., outside ramps and railings in the halls and stairways) and to reduce the risk of harm to her (a walk-in bathtub). George has detailed invoices for the renovations. Since Deborah's mobility impairment is not severe, these expenditures do not qualify as allowable medical expenses. [Schedule 12]
9. An instalment statement for 2016 that showed that George had paid the CRA instalments of \$1,500 on September 14 and December 14 (\$3,000 in total). These were the instalments requested by the CRA for the year due to his self-employed income in the previous year. [OtherCredits]

General Notes

- You must open Deborah's return (F5) to claim her disability tax credit on the info page even if she is not filing. If you don't, Deborah's disability tax credit can't be transferred to George.
- When the Universal Child Care Benefits are input on George's Form RC62, the amounts will be transferred to show on S2 as Deborah's income.
- Inheritances are not taxable.

Sample Personal Tax Return For Chapter 4

- Due to his low Net Income For Tax Purposes, George is eligible for the refundable medical expense supplement and the working income tax benefit.
- Although George could consider carrying forward his medical expenses because his non-refundable tax credits are greater than his tax payable, if he did so, he would not receive the refundable medical expense supplement.
- Since Willa is over 17 years of age, her medical expenses are reduced by 3 percent of her Net Income For Tax Purposes.
- Due to his nil Tax Payable, George's charitable donations and his education related credits are all carried forward.

Item Specific Notes

- (Item 3) Since George has donated regularly to a charity and Deborah has previously donated to the CNIB, he will not be eligible for the first-time donor's super credit on Schedule 9. For couples, the CRA's administrative practices permit either spouse to claim some or all of the donations made by the couple. This is not relevant in this version as the donations are carried forward.
- (Item 5) Both ITA 118.2 and Income Tax Folio S1-F1-C1 clearly state that medical expenses can only be deducted by the individual who paid for them. However, in the T1 Guide, this rule is contradicted for couples. According to this Guide, either spouse can claim the medical expense credit, without regard to who actually paid for the expenses. This administrative position is used in practice. As a result, George is claiming the amount Deborah paid for the computer peripherals.
- (Item 7) The Home Buyers' Tax Credit of \$750 [(15%)(5,000)] is available since George had been living in a rented town house for five years and neither he nor Deborah had another principal residence. However, since George's non-refundable tax credits already exceed his Tax Payable, he cannot take advantage of this credit and it cannot be carried forward.
- (Item 8) George's receipts for the expenses eligible for the Home Accessibility Credit total more than the \$10,000 maximum for the year on Schedule 12. As a result the maximum credit of \$1,500 [(15%)(10,000)] is available. However, since George's non-refundable tax credits already exceed his Tax Payable, he cannot take advantage of this credit either and it cannot be carried forward.

Tax Planning Points

- Willa should file a return in order to receive the GST credit and to help her keep track of her tuition credit carry forward.
- (Item 9) George has paid installments based on the CRA's Instalment Reminders. Given the amount of his refund, they were unnecessary. George should review his estimated net tax owing periodically in the future to determine whether instalments should be paid.

Completed Tax Returns

The complete sample tax returns are available on the Companion Website in two versions, a T1 ProFile return file and a .PDF file.

Suggestions For Working With ProFile Software

Before You Start

To get the maximum benefit from using the ProFile tax software program, we strongly advise that you do the tutorial "Getting Started" included within the program under the Training tab. The data in the sample tax returns can be used in the tutorial. Also on the Training tab is access to "Other Training Options" which include online training and many how-to videos.

Creating A New T1 Return

To provide some guidance on how to use ProFile to create a simple new personal tax return, we suggest the following approach.

1. Start the ProFile software. Open a new file. Ensure that you have chosen the new file in the correct software (T1) and year (2016 or 2017 if the updated data is available).
2. By default, ProFile will open on the form "Info". Fill in the highlighted cells and answer all questions that are applicable. If you do not fill in the highlighted areas, ProFile will generate an audit message. At a minimum, you will need the following information:
 - Taxpayer's Social Insurance Number (SIN)
 - Taxpayer's first and last name
 - Address, city, province, and postal code
 - Telephone number
 - Taxpayer's birth date

If applicable, you will also need to enter any relevant information for the spouse on the "Info" form. At a minimum, the following information will be necessary:

- Spouse's Social Insurance Number (SIN)
 - Spouse's first and last name
 - Address, city, province, and postal code
 - Telephone number
 - Spouse's birth date
3. Using the Form Explorer (F4), go to the Dependant form and enter all relevant information about any dependants. At a minimum, the following information will be necessary:
 - Dependant's Social Insurance Number (SIN) if there is one
 - Dependant's first and last name
 - Dependant's relationship to the taxpayer
 - Dependant's birth date
 - Dependant's Net Income
 - Address, city, province, and postal code

Note that if there are child care expenses, the information will flow here from T778. If the Dependant has tuition amounts and is not filing a tax return, the education related information should be entered on the Dependant form.

4. Using the Form Explorer (F4), open the relevant information slip form. Enter all relevant information in the appropriate forms. Some common information slip forms are:
 - T3 - Statement of Trust Income
 - T4 - Statement of Remuneration Paid
 - T5 - Statement of Investment Income
 - T2202 - Tuition and Education Amounts
 - T4AOAS - Statement of Old Age Security
5. Enter any other relevant income information on the appropriate forms. These forms may include the following:

Suggestions For Working With ProFile Software

- S3Details - Capital Gains Entry
(this form, not Schedule 3, must be used to input details on capital dispositions)
 - T2125 - Statement of Business Or Professional Activities
 - T2125Asset - T2125 Asset Details
 - T2125CCA - T2125 CCA Details
 - T776 - Statement of Real Estate Rentals
 - T776Asset - T776 Asset Details
 - T776CCA - T776 CCA Details
6. Enter any relevant deduction information on the appropriate forms. These forms may include the following:
- RRSP - RRSP Deduction
 - T777 - Statement of Employment Expenses (Use the jump link to T777Details in upper right hand corner of form if applicable)
 - T778 - Child Care Expense Deduction
 - Support - Support Payments
 - Auto - Motor Vehicle Expenses
 - S4 - Statement of Investment Income
(much of the information for this schedule will be carried forward from the T3, T5, and other information slips, but a few items such as carrying charges are entered directly on Schedule 4)
 - LossNetCap - Net Capital Losses (carry forward information)
 - LossNonCap - Non-Capital Losses (carry forward information)
7. Enter any relevant tax credit information on the appropriate forms. These forms may include the following:
- Donations - Charitable Donations
 - Medical - Medical Expenses
8. Enter any remaining relevant information in the appropriate schedule. These schedules may include the following:
- S2 - Federal Amounts Transferred From Your Spouse or Common-Law Partner
(primarily used if spouse or common-law partner is not filing a tax return)
 - T1032 - Joint Election To Split Pension Income
9. Use the function "Show Auditor" under the "Audit" list to check for warnings or potential errors.

Tips For Using ProFile Software

- Press the F5 key or choose Spouse from the Form menu to display the return of the spouse.
- If you cannot determine where a specific slip or other information should be input, one way to search for the correct form is to open the Form Explorer (F4) and choose the "Key" mode icon in the top right corner of the menu. If you type a key word into the line above the listing of key words, the appropriate form may be found.
- Press the F4 key to view the Form Explorer. Choose the form "Summary" to see the tax data of both spouses on the same one page summary. (Second column will be blank for a single taxpayer.)
- If you want to print only the form you have on the screen, use the print icon identified with 1 in the tool bar. The other print icon opens the print selection screen for printing complete returns. If you want to print just one copy of the return, deselect the print sets you don't want on the print selection screen. Before you print the return, review the forms that have been selected in the print set to ensure that you will not be printing forms you do not require. If it is a coupled return, the print settings for the spouse should be reviewed before clicking on Print as both returns will be printed.

- Review marks can be used to flag information that should be reviewed. The cell with the review mark will be listed when the Show Auditor feature is turned on.
- A memo and/or a tape can be attached to a cell to provide backup information.
- If you are having problems with a specific issue, go to the Training tab, "Other Training Options", to access the online how-to videos which may help solve your problems.

Tax Software Self Study Problem - Chapter 4

Note The following problem contains 2016 (not 2017) information as software for 2017 is not yet available. If you have an updated 2017 version of ProFile installed on your computer, ensure that when you begin, you open a file for 2016, not 2017 as this data is for 2016. Shortly after the first filing version of the 2017 Intuit ProFile software is available in January, 2018, the updated 2017 version of this problem will be available on the textbook web site at:

www.pearsoncanada.ca/byrdchen/ctp2018

This Tax Software Self Study Problem is expanded in Chapter 11 to contain other components of Taxable Income and Tax Payable.

DISCLAIMER: All characters appearing in this problem are fictitious. Any resemblance to real persons, living or dead, is purely coincidental.

Ms. Eleanor Victoria's husband died two years ago. After her husband died, she moved from her house in Prince George, B.C., to a rented house in Victoria, B.C.

Ms. Victoria's widowed mother, Marjorie Vancouver lives with Ms. Victoria and takes care of the house, Ms. Victoria's younger daughter, Amy, and all of the household cooking. In addition to OAS benefits, Marjorie has a very small income from her deceased husband's life insurance policy. She has never filed a tax return and she is not infirm.

Diane Victoria, Eleanor's older daughter, is studying psychology at McGill University in Montreal. Her field is addiction research with a special emphasis on gambling. She does volunteer work at a gambling addiction treatment centre in Montreal in the summers. As Eleanor has paid for her tuition and living costs, Diane has agreed that the maximum education related amount should be transferred to her mother.

Diane has decided not to file a tax return this year as she knows she does not owe any taxes. Her income was earned driving for a client of the addiction treatment centre who had lost his licence after being charged with impaired driving.

Information concerning Ms. Victoria for 2016 is given on the following pages.

Required: With the objective of minimizing Ms. Victoria's Tax Payable, prepare the 2016 income tax return of Eleanor Victoria using the ProFile tax software program. List any assumptions you have made, and any notes and tax planning issues you feel should be discussed with Ms. Victoria. Ignore HST implications in your solution by assuming that Ms. Victoria does not qualify for the GST/HST rebate.

Tax Software Self Study Problem - Chapter 4

Personal Information	
Title	Ms.
First Name	Eleanor
Last Name	Victoria
SIN	527-000-087
Date of birth (Y/M/D)	1969-05-15
Marital Status	Widowed
Canadian citizen?	Yes
Provide information to Elections Canada?	Yes
Own foreign property of more than \$100,000 Canadian?	No

Taxpayer's Address
111 VVV Street Victoria, B.C. V4H 3W4
Phone number (250) 111-1111

Dependants	Child 1	Child 2	Mother
First Name	Diane	Amy	Marjorie
Last Name	Victoria	Victoria	Vancouver
SIN	527-000-293	None	527-000-483
Date of birth (Y/M/D)	1996-05-14	2004-10-11	1944-05-21
Net income	\$2,300	\$360	\$8,000
UCCB received (RC62)	N/A	\$360	N/A

T4	Box	Amount
Issuer - 1750 Canada Inc.		
Employment income	14	60,201.80
Employee's CPP contributions	16	2,544.30
Employee's EI premiums	18	955.04
RPP contributions	20	2,406.16
Pension adjustment	52	7,829.00
Income tax deducted	22	6,408.00
Employment commissions	42	0
Union dues	44	748.59
Charitable donations	46	175.00

Eleanor has a signed T2200 from her employer specifying her work requires her to have an office in the home. She meets the conditions required to deduct work space in the home expenses. Of the 1,800 square feet in the house, her office, waiting area and storage space totals 310 square feet.

During 2016 she paid the following:

Rent for the year (No GST charged)	\$30,000
Utilities (hydro and gas) for the year	2,500
Cleaning services (No GST charged)	1,200
Insurance for household effects (No GST charged)	400
Car insurance (No GST charged)	700

T2202A - (Diane)	Box	Amount
Tuition fees - for Diane Victoria (daughter)	A	7,000
Number of months in school - part-time	B	2
Number of months in school - full-time	C	8

Eleanor and her family had the following medical expenses, all of which Eleanor paid for:

Patient	(Y/M/D)	Medical Expenses	Description	Am't
Eleanor	2016-08-15	Grace Hospital	Ambulance charge	392
Eleanor	2016-08-18	Paramed Home Health	Nursing care	1,350
Marjorie	2016-05-20	Dr. Zhang (Optometrist)	Contact lenses	110
Marjorie	2016-07-06	Pharmacy	Prescription	75
Diane	2016-09-01	Dr. Glassman	Physiotherapist	100
Amy	2016-05-11	Walk Right Foot Clinic	Orthotics	450
Amy	2016-01-23	Dr. Tamo	Dental Fees	1,120

Because of donations in previous years, neither Diane nor Eleanor qualify for the first-time donor super credit.

Donor	Charitable Donation Receipts	Am't
Eleanor	Heart and Stroke	375
Eleanor	Terry Fox Foundation	50
Diane	Addiction Research Council of Canada	100

Solutions to Chapter Four Exercises

Exercise Four - 1 Solution

The net effect of this home relocation loan on Taxable Income would be as follows:

Taxable Benefit Under ITA 80.4(1)(a) - Lesser Of:	
• [(4%)(2/4)(\$82,000) + (5%)(2/4)(\$82,000)] = \$3,690	
• [(4%)(4/4)(\$82,000)] = \$3,280	\$3,280
Reduction For Payments Under ITA 80.4(1)(c) - [(2%)(82,000)]	(1,640)
Total ITA 80.4(1) Benefit	\$1,640
ITA 110(1)(j) Deduction - Lesser Of:	
• ITA 80.4(1) Benefit = \$1,640	
• [(4%)(25,000)(4/4)] = \$1,000	(1,000)
Net Addition To Taxable Income	\$ 640

Solutions to Chapter Four Exercises

Despite the fact that the prescribed rate has increased, the taxpayer can continue to use the rate in effect at the time the loan was made to calculate the taxable benefit. This can continue for a period of five years. Note that the ITA 110(1)(j) deduction is calculated as if the loan had been for \$25,000 rather than \$82,000. The ITA 110(1)(j) deduction is not available after 2017.

Exercise Four - 2 Solution

The required Tax Payable would be calculated as follows:

Tax Payable On First \$45,916 At 20.05 Percent (15.00% + 5.05%)	\$ 9,206
Tax Payable On Next \$10,784 (\$56,700 - \$45,916) At 29.65 Percent (20.5% + 9.15%)	3,197
Total Tax Payable Before Credits	\$12,403

Her average rate of tax is 21.9 percent ($\$12,403 \div \$56,700$).

Exercise Four - 3 Solution

Assuming Johan's wife does not have a mental or physical infirmity, the required amount would be calculated as follows:

Basic Personal Amount (Johan)	\$ 11,635
Spousal Amount (\$11,635 - \$2,600)	9,035
Credit Base	\$20,670
Rate	15%
Personal Tax Credits - No Infirmity	\$ 3,101

If there was a mental or physical infirmity, the amount would be calculated as follows:

Basic Personal Amount (Johan)	\$ 11,635
Spousal Amount (\$11,635 + \$2,150 - \$2,600)	11,185
Credit Base	\$22,820
Rate	15%
Personal Tax Credits - With Infirmity	\$ 3,423

Exercise Four - 4 Solution

As her father is not infirm, Joan would not be entitled to a Canada caregiver credit for him. She is entitled to a Canada caregiver credit for her mother who is infirm. The credit would be:

$$[15\%][\$6,883 - (\$21,400 - \$16,163)] = \$247$$

Exercise Four - 5 Solution

Marcia will be entitled to the spousal tax credit, including the additional amount for an infirm spouse. In addition, she can claim the Canada caregiver credit for her infirm adult son. The total credits would be calculated as follows:

Spousal Including Infirm Amount (\$11,635 + \$2,150 - \$5,600)	\$ 8,185
Canada Caregiver (\$6,883 - Nil)	6,883
Total Base	\$15,068
Rate	15%
Marcia's Tax Credits Related To Spouse And Son	\$ 2,260

Exercise Four - 6 Solution

Darcy would claim the eligible dependant credit for Janice, including the additional amount for an infirm eligible dependant. Because of this, no additional claim for the Canada caregiver amount for a child can be made under ITA 118(1)(b.1). His credit would be as follows:

$$[(15\%)(\$11,635 + \$2,150)] = \$2,068$$

Exercise Four - 7 Solution

The base for Sandy's eligible dependant credit for her mother would be nil (\$11,635 + \$2,150 - \$18,000), resulting in an eligible dependant tax credit of nil. Her calculation of the regular Canada caregiver amount would result in a base of \$5,046 [\$6,883 - (\$18,000 - \$16,163)]. As the eligible dependant tax credit was nil, the additional amount is \$5,046 (\$5,046 - Nil), resulting in a credit of \$757 [(15%)(\$5,046)].

Exercise Four - 8 Solution

Mr. Smythe's age credit would be \$745 {[15%][(\$7,225 - (15%)(51,500 - 36,430))]}.

Exercise Four - 9 Solution

The adoption expenses tax credit would be calculated as follows:

Cost Of First China Trip (See Note)	\$ 4,250
Cost Of Second China Trip	6,420
Chinese Orphanage Fee	1,600
Canadian Adoption Agency Fee	3,200
Legal Fees	2,700
Medical Costs (Qualify For Medical Expense Credit)	Nil
Total Eligible Expenses	\$18,170

Since the \$5,000 employer reimbursement is a taxable benefit and included in employment income, it does not reduce the total eligible adoption expenses.

The adoption period begins at the time that an application is made for registration with an adoption agency licensed by a provincial government. This means that all of the expenses listed in the preceding table would be eligible expenses made during the adoption period. However, for 2017, there is an overall limit of \$15,670 and the maximum credit that can be claimed is \$2,351 [(15%)(15,670)].

Exercise Four - 10 Solution

The snow removal contract would not be a qualifying expenditure. The base for the home accessibility tax credit would be limited to the lesser of \$10,000 and the qualifying expenditures of \$8,500. This will result in a credit of \$1,275 [(15%)(8,500)].

Either spouse can claim the credit and it will be worth the same amount to either spouse. Since it is non-refundable, whoever claims the credit should have at least \$1,275 in federal Tax Payable. Alternatively, the \$8,500 base amount can be split between the two spouses.

Exercise Four - 11 Solution

With Net Income For Tax Purposes of \$350,000, the maximum base for Mr. Hoffman's credit is \$262,500 [(75%)(350,000)]. As his eligible charitable gifts are less than this, he can use the full amount as the base for his credit. Given this, the calculation of the credit is as follows:

Solutions to Chapter Four Exercises

$$[(15\%)(A)] + [(33\%)(B)] + [(29\%)(C)], \text{ where}$$

$$A = \$200$$

B = The Lesser Of:

- $\$225,000 - \$200 = \$224,800$
- $\$325,000 - \$202,800 = \$122,200$ (Note Taxable Income is used here)

$$C = \$102,600 [\$225,000 - (\$200 + \$122,200)]$$

The charitable donation credit would be equal to \$70,110, calculated as $[(15\%)(\$200)] + [(33\%)(\$122,200)] + [(29\%)(\$102,600)]$.

Exercise Four - 12 Solution

With Net Income For Tax Purposes of \$350,000, the maximum base for Mr. Hoffman's credit is \$262,500 $[(75\%)(\$350,000)]$. As his eligible gifts are less than this, he can use the full amount as the base for his credit. Given this, the calculation of the credit without the FDSC is as follows:

$$[(15\%)(A)] + [(33\%)(B)] + [(29\%)(C)], \text{ where}$$

$$A = \$200$$

B = The Lesser Of:

- $\$225,000 - \$200 = \$224,800$
- $\$250,000 - \$202,800 = \$47,200$ (Note Taxable Income is used here)

$$C = \$177,600 [\$225,000 - (\$200 + \$47,200)]$$

The first-time super donor credit is the maximum allowable and is equal to \$250 $[(25\%)(\$1,000)]$.

The charitable donation credit would be equal to \$67,360, calculated as $[(15\%)(\$200)] + [(33\%)(\$47,200)] + [(29\%)(\$177,600)] + \250 .

Exercise Four - 13 Solution

Amount B Qualifying Expenses (\$4,330 + \$4,600)		\$ 8,930
Amount C - Lesser Of:		
• $[(3\%)(\$150,000)] = \$4,500$		
• 2017 Threshold Amount = \$2,268		(2,268)
Subtotal		\$ 6,662
Amount D		
Max's Medical Expenses	\$8,425	
Reduced By The Lesser Of:		
• \$2,268		
• $[(3\%)(\$8,250)] = \248	(248)	8,177
Matt's Medical Expenses	\$ 120	
Reduced By The Lesser Of:		
• \$2,268		
• $[(3\%)(\$6,000)] = \180	(180)	Nil*
Allowable Amount Of Medical Expenses		\$14,839
Amount A The Appropriate Rate (Minimum Rate)		15%
Medical Expense Tax Credit		\$ 2,226

* As medical expenses can only be reduced to nil, the net result cannot be negative in this calculation.

Exercise Four - 14 Solution

As Keith has no income, his disability credit can be transferred to John. As Keith is over 17, the disability child supplement is not available. In addition to the disability credit, John will be able to take the caregiver credit, the base for which would include the family caregiver amount, as well as a credit for Keith's medical expenses. Since the caregiver credit is claimed, the infirm dependant over 17 credit is not available.

The total credits related to Keith would be as follows:

Transfer Of Keith's Disability Amount		\$ 8,113
Caregiver, Including FCA (\$4,732 + \$2,150))		6,882
Keith's Medical Expenses	\$16,240	
Reduced By The Lesser Of:		
• \$2,268		
• [(3%)(Nil)] = Nil	Nil	16,240
Total Credit Base		\$31,235
Rate		15%
Total Credits Related To Keith		\$ 4,685

Exercise Four - 15 Solution

Ms. Bright's education related tax credits would be calculated as follows:

Tuition Amount:		
Total (Including \$1,000 Prepayment)	\$3,200	
Ineligible Ancillary Fees (\$400 - \$250)	(150)	\$3,050
Interest On Student Loan		325
Total Credit Base		\$3,375
Rate		15%
Total Available Credits		\$ 506

Exercise Four - 16 Solution

The available tuition credit would be calculated as follows:

Tuition Amount (Maximum Transfer = \$5,000)	\$23,500
Rate	15%
Tuition Credit (Maximum Transfer = \$750)	\$ 3,525

Note that the transfer and carry forward amounts calculated in the following alternative approaches ignore his medical expense credit.

Income Tax Act Approach The \$750 maximum transfer of the tuition credit must be reduced by Jerry's Tax Payable, before deducting his medical expense credit, of \$92 [(15%)($\$12,250 - \$11,635$)]. This will leave a maximum transfer of \$658 ($\$750 - \92) and a carry forward credit of \$2,775 ($\$3,525 - \$92 - \658).

Tax Return Approach The \$5,000 maximum transfer of the tuition credit must be reduced by \$615 ($\$12,250 - \$11,635$), the excess of Jerry's Taxable Income over his basic personal amount. This results in a maximum transfer of \$4,385 ($\$5,000 - \615) and a carry forward amount of \$18,500 ($\$23,500 - \$615 - \$4,385$). Multiplying this by 15 percent gives the same \$2,775 that we calculated under the alternative approach.

Solutions to Chapter Four Exercises

Exercise Four - 17 Solution

His tax credits would be calculated as follows:

Basic Personal Amount	\$ 11,635
Spousal Amount Including FCA (\$11,635 + \$2,150 - Nil)	13,785
Age [$\$7,225 - (15\%)(\$42,000 - \$36,430)$]	6,390
Pension Income*	2,000
Transfer Of Spouse's Age	7,225
Transfer Of Spouse's Disability	8,113
Transfer Of Spouse's Tuition - Lesser Of:	
• Actual Tuition = \$2,200	
• Maximum Transfer = \$5,000	2,200
<hr/>	
Credit Base	\$51,348
Rate	15%
<hr/>	
Total Credits	<u>\$ 7,702</u>

* A payment from a life annuity purchased with funds in an RRSP is eligible pension income.

Exercise Four - 18 Solution

Ms. Unger's \$487 credit would be calculated as follows:

	Contributions	Credit Rate	Tax Credit
First	\$400	3/4	\$300
Next	350	1/2	175
Remaining	35	1/3	12
<hr/>			
Maximum Credit	\$785		\$487

Exercise Four - 19 Solution

The regular medical expense credit would be calculated as follows:

Medical Expenses	\$6,250
Lesser Of:	
• $[(3\%)(\$27,400)] = \822	
• 2017 Threshold Amount = \$2,268	(822)
<hr/>	
Allowable Amount Of Medical Expenses	<u>\$5,428</u>

The refundable supplement would be calculated as follows:

Lesser Of:	
• \$1,203 (2017 Maximum)	
• $[(25\%)(\$5,428)] = \$1,357$	\$1,203
Reduction $[(5\%)(\$27,400 - \$26,644)]$	(38)
<hr/>	
Refundable Medical Expense Supplement	<u>\$1,165</u>

Ms. Brunt's total Tax Payable (Refund) would be calculated as follows:

Tax Payable Before Credits [(15%)(\\$27,400)]		\$4,110
Non-Refundable Credits:		
Basic	\$ 11,635	
Common-Law Partner	11,635	
Allowable Medical Expenses	5,428	
Total	\$28,698	
Rate	15%	(4,305)
Tax Before Refundable Supplement		\$ Nil*
Refundable Medical Expense Supplement		(1,165)
Tax Payable (Refund)		(\$1,165)

* As Tax Before Refundable Supplement can only be reduced to nil, the net result cannot be negative for this subtotal.

Exercise Four - 20 Solution

Ms. Jacobi's income before deducting either the EI or OAS repayments would be as follows:

Net Employment Income	\$65,000
EI Benefits	10,000
OAS Benefits	7,000
Income Before Deductions	\$82,000

Dealing first with the EI repayment, Ms. Jacobi would have to repay \$3,000, the lesser of:

- \$3,000 [(30%)(\\$10,000)]
- \$5,363 [(30%)(\\$82,000 - \$64,125)]

Using this deduction, the clawback of her OAS payments would be the lesser of:

- \$7,000, the OAS payments included in income, and
- \$632 [(15%)(\\$82,000 - \$3,000 - \$74,788)].

As a result, her Net Income For Tax Purposes would be as follows:

Income Before Deductions	\$82,000
ITA 60(v.1) Deduction (EI)	(3,000)
ITA 60(w) Deduction (OAS)	(632)
Net Income For Tax Purposes	\$78,368

Self Study Solution Four - 1

Case One

In this Case One, the combined Tax Payable would be calculated as follows:

Barbra's Tax Payable		
Federal Tax Before Credits [(15%)(\\$42,000)]	\$ 6,300	
Basic Personal Credit [(\\$11,635)(15%)]	(1,745)	\$ 4,555
Sally's Tax Payable		
Tax On First \$142,353	\$29,436	
Tax On Next \$37,647 (\$180,000 - \$142,353) At 29%	10,918	
Federal Tax Before Credits	\$40,354	
Basic Personal Credit [(\\$11,635)(15%)]	(1,745)	38,609
Combined Tax Payable		\$43,164

Self Study Solution Four - 2

Case Two

In this Case Two, the Tax Payable for each individual would be the same and the combined Tax Payable would be calculated as follows:

Barbra's Tax Payable		
Tax On First \$91,831	\$16,300	
Tax On Next \$19,169 (\$111,000 - \$91,831) At 26%	4,984	
<hr/>		
Federal Tax Before Credits	\$21,284	
Basic Personal Credit [(\$11,635)(15%)]	(1,745)	\$19,539
<hr/>		
Sally's Tax Payable		
Tax On First \$91,831	\$16,300	
Tax On Next \$19,169 (\$111,000 - \$91,831) At 26%	4,984	
<hr/>		
Federal Tax Before Credits	\$21,284	
Basic Personal Credit [(\$11,635)(15%)]	(1,745)	19,539
<hr/>		
Combined Tax Payable		\$39,078
<hr/>		

Case Three

In this Case Three, only Barbra would have Tax Payable which would be calculated as follows:

Tax On First \$202,800	\$46,966	
Tax On Next \$19,200 (\$222,000 - \$202,800) At 33%	6,336	
<hr/>		
Federal Tax Before Credits	\$53,302	
Basic Personal Credit [(\$11,635)(15%)]	(1,745)	
Common-Law Partner Credit [(\$11,635)(15%)]	(1,745)	
<hr/>		
Barbra's Tax Payable		\$49,812
<hr/>		

Self Study Solution Four - 2

Case 1

Leonard Wilkins will qualify for the following credits:

Basic Personal Amount	\$11,635
Spousal (\$11,635 - \$8,720)	2,915
Canada Caregiver	6,883
<hr/>	
Total Credit Base	\$21,433
Rate	15%
<hr/>	
Total Credits	\$ 3,215
<hr/>	

Case 2

Pete Webb will qualify for the following credits:

Basic Personal Amount	\$11,635
Spousal (\$11,635 - \$3,920)	7,715
EI (Maximum)	836
CPP (Maximum)	2,564
Canada Employment	1,178
<hr/>	
Total Credit Base	\$23,928
Rate	15%
<hr/>	
Total Credits	\$ 3,589
<hr/>	

Case 3

Candace Hall will qualify for the following tax credits:

Basic Personal Amount	\$11,635
Spousal (\$11,635 - \$5,130)	6,505
Age [$[\$7,225 - (15\%)(\$69,420 - \$36,430)]$]	2,277
Pension Income	2,000
Total Credit Base	\$22,417
Rate	15%
Total Credits	\$ 3,363

Note that, because her income is below the \$74,788 income threshold, there will be no clawback of Ms. Hall's OAS receipts.

Case 4

Gladys Crawford will qualify for the following tax credits:

Basic Personal Amount	\$11,635
Spousal (\$11,635 - \$2,600)	9,035
Medical Expenses (See Note)	20,948
Total Credit Base	\$41,618
Rate	15%
Total Credits	\$ 6,243

Note The claim for medical expenses is determined as follows:

Expenses For Gladys, Her Spouse, And Under 18 Children ($\$5,150 + \$4,240 + \$2,040 + \$3,220$)	\$14,650
Reduced By The Lesser Of:	
• $[(3\%)(\$126,470)] = \$3,794$	
• 2017 Threshold Amount = \$2,268	(2,268)
20 Year Old's Medical Expenses	\$8,840
Reduced By The Lesser Of:	
• $[(3\%)(\$9,130)] = \274	
• \$2,268	(274)
Allowable Medical Expenses	\$20,948

Case 5

Austin Schneider will qualify for the following credits:

Basic Personal Amount	\$11,635
Eligible Dependant (See Note)	11,635
Total Credit Base	\$23,270
Rate	15%
Total Credits	\$ 3,491

Note The eligible dependant credit can be taken for any child. It should not be claimed for the 14 year old as the amount of the credit would be reduced due to his income.

Self Study Solution Four - 3

Federal Tax Before Credits

For all of the following Cases, the Federal Tax Before Credits would be calculated as follows:

Tax On First \$45,916	\$ 6,887
Tax On Next \$32,084 (\$78,000 - \$45,916) At 20.5 Percent	6,577
Federal Tax Before Credits	\$13,464

Case A

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$13,464
Basic Personal Amount	(\$11,635)	
Eligible Dependant	(11,635)	
Tuition	(5,640)	
Credit Base	(\$28,910)	
Rate	15%	(4,337)
Federal Tax Payable		\$ 9,127

Case B

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$13,464
Basic Personal Amount	(\$11,635)	
EI	(836)	
CPP	(2,564)	
Canada Employment	(1,178)	
Credit Base	(\$16,213)	
Rate	15%	(2,432)
Charitable Donations (See Note)		
[(15%)(200) + (29%)(35,000 - 200)]		(10,122)
Federal Tax Payable		\$ 910

Note With a Net Income For Tax Purposes of \$78,000, Ms. Sykes' maximum claim for charitable donations is \$58,500 [(75%)(78,000)]. However, if this amount was claimed, the resulting credit would exceed her Tax Payable. By claiming \$35,000, the unused donation of \$115,000 (\$150,000 - \$35,000) can be carried forward for up to 5 years. As none of her income is taxed at 33 percent, this rate will not be applicable to the calculation of the charitable donations tax credit.

The \$2,000,000 that she won in the lottery is not included in her Net Income For Tax Purposes.

Case C

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$13,464
Basic Personal Amount	(\$11,635)	
Spousal (\$11,635 - \$7,600)	(4,035)	
Caregiver Amount For A Child - Martin	(2,150)	
Transfer Of Martin's Disability	(8,113)	
Disability Supplement (No Child Care Costs)	(4,773)	
Credit Base	(\$30,706)	
Rate	15%	(4,606)
Federal Tax Payable		\$ 8,858

As Harry is not mentally or physically infirm, no Canada caregiver amount is available for him.

Case D

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$13,464
Basic Personal Amount	(\$11,635)	
Spousal (\$11,635 - \$2,540)	(9,095)	
EI	(836)	
CPP	(2,564)	
Canada Employment	(1,178)	
Medical Expenses (See Note)	(8,283)	
Credit Base	(\$33,591)	
Rate	15%	(5,039)
Federal Tax Payable		\$ 8,425

Note The claim for medical expenses is determined as follows:

Wanda, Buff, And Janice (\$2,100 + \$360 + \$3,645)		\$6,105
Reduced By The Lesser Of:		
• [(3%)(\$78,000)] = \$2,340		
• 2017 Threshold Amount = \$2,268		(2,268)
Mark's Medical Expenses	\$4,520	
Reduced By The Lesser Of:		
• [(3%)(\$2,460)] = \$74		
• \$2,268	(74)	4,446
Total Medical Expense Claim		\$8,283

Self Study Solution Four - 4

Case E

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$13,464
Basic Personal Amount	(\$11,635)	
Spousal Including Infirm Amount ($\$11,635 + \$2,150 - \$9,600$)	(4,185)	
EI	(836)	
CPP	(2,564)	
Canada Employment	(1,178)	
Transfer Of Buff's Disability Amount	(8,113)	
Transfer Of Buff's Age Amount	(7,225)	
Transfer Of Buff's Pension Amount	(2,000)	
Transfer Of Tuition Amounts (See Note)	(5,000)	
Credit Base	(\$42,736)	
Rate	15%	(6,410)
Federal Tax Payable		\$ 7,054

Note While the base for Buff's tuition credit is \$8,450, the transfer is limited to \$5,000. The unused amount of \$3,450 ($\$8,450 - \$5,000$) can be carried forward indefinitely, but can only be claimed by Buff.

Self Study Solution Four - 4

Mr. Lane's federal tax payable (refund) would be calculated as follows:

Net Income For Tax Purposes And Taxable Income		\$70,000
Tax On First \$45,916		\$ 6,887
Tax On Next \$24,084 ($\$70,000 - \$45,916$) At 20.5 Percent		4,937
Federal Tax Before Credits		\$11,824
Basic Personal Amount	(\$11,635)	
Eligible Dependant (Note 1)	(11,635)	
EI	(836)	
CPP (maximum)	(2,564)	
Canada Employment	(1,178)	
Medical Expenses (Note 2)	(2,300)	
Credit Base	(\$30,148)	
Rate	15%	(4,522)
Federal Political Tax Credit [$(3/4)(\$400) + (1/2)(\$50)$]		(325)
Federal Tax Payable		\$ 6,977
CPP Overpayment ($\$2,599 - \$2,564$)		(35)
Federal Tax Withheld (Given)		(10,100)
Federal Tax Payable (Refund)		(\$ 3,158)

Note 1 The eligible dependant amount can be claimed for either his 10 or 12 year old child. His 15 year old son would not be selected as he has Net Income For Tax Purposes of \$8,200.

Note 2 Allowable medical expenses are as follows:

Minor Child's Medical Expenses	\$4,400
Reduced By The Lesser Of:	
• [(3%)(\$70,000)] = \$2,100	
• 2017 Threshold Amount = \$2,268	(2,100)
Allowable Medical Expenses	\$2,300

Since his 15 year old son is under 18 years of age, his allowable medical expenses are not affected by his Net Income For Tax Purposes. If he was 18 or older, they would be.

Self Study Solution Four - 5

Part A

The Tax Payable calculation for Marg is as follows:

Taxable Income	\$15,300
Basic Personal Amount	(11,635)
EI	(249)
CPP	(584)
Canada Employment	(1,178)
Subtotal	\$ 1,654
Tuition Amount Claimed (Note 1)	(1,654)
Subtotal	Nil
Rate	15%
Federal Tax Payable (Refund)	Nil

Note 1 Marg has a tuition amount available of \$6,300. Of this total, she will use \$1,654 to reduce her current Tax Payable to nil. This leaves an unused amount of \$4,646 (\$6,300 - \$1,654). Of this amount, \$3,346 (\$5,000 - \$1,654) can be transferred to her father. This will leave her with a carry forward amount of \$1,300 (\$6,300 - \$1,654 - \$3,346).

Since Marg's medical expenses were paid for by her father, she cannot claim them herself and they must be claimed by her father. Even if she had paid for them herself and claimed them, she would not increase the transfer to her father as the medical expense tax credit is not taken into consideration in determining the tuition amount that can be transferred.

Part B

Mr. Barth's minimum Net Income For Tax Purposes for the year would be calculated as follows:

Gross Salary	\$ 82,500
Additions:	
Bonus (Note 2)	20,000
Automobile Benefit (Note 3)	7,400
Counseling Benefit (Note 4)	1,500
Imputed Interest Benefit (Note 5)	375
Stock Option Benefit [(\$18 - \$15)(1,000)] (Note 6)	3,000
Deductions:	
Registered Pension Plan Contributions	(3,200)
Professional Dues	(1,800)
Net Income For Tax Purposes	\$109,775

Self Study Solution Four - 5

Note 2 As the bonus is not payable until more than 3 years after the end of the employer's taxation year, it is a salary deferral arrangement and must be included in income under ITA 6(11).

Note 3 Since Mr. Barth's employment related usage is not more than 50 percent, there is no reduction of the full standby charge. In addition, he cannot use the alternative calculation of the operating cost benefit. Given this, the automobile benefit is calculated as follows:

Standby Charge [(2%)($\$47,500$)(10)]	\$9,500
Operating Cost Benefit [(6,000)($\$0.25$)]	1,500
Payments Withheld	(3,600)
Taxable Benefit	\$7,400

Note 4 Counseling services, with the exception of those items specified under ITA 6(1), are considered taxable benefits. The items specified under ITA 6(1)(a)(iv) are counseling with respect to mental or physical health or with respect to re-employment or retirement. As a consequence, the counseling on personal finances is a taxable benefit.

Note 5 The imputed interest benefit is calculated as follows:

Taxable Benefit [(\$150,000)(2%)(3/12)]	\$750
Reduction For Interest Paid	(375)
Net Addition To Employment Income	\$375

Note 6 As the option price was greater than the market price at the time the options were issued, one-half of this amount can be deducted in the determination of Taxable Income. The adjusted cost base of the stock option shares is equal to their fair market value at the exercise date (\$18 per share). Since they were sold for \$18 per share, there is no capital gain or loss.

Taxable Income

The loan to purchase a ski chalet would not be a home relocation loan and there would be no deduction from Taxable Income related to the interest benefit. Mr. Barth's Taxable Income would be calculated as follows:

Net Income For Tax Purposes = Net Employment Income	\$109,775
Stock Option Deduction [(1/2)($\$3,000$)] (Note 6)	(1,500)
Taxable Income	\$108,275

Tax Payable

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

Tax On First \$91,831		\$16,300
Tax On Next \$16,444 (\$108,275 - \$91,831) At 26 Percent		4,275
<hr/>		
Federal Tax Before Credits		\$20,575
Basic Personal Amount	(\$11,635)	
Spousal Including Infirm Amount		
(\$11,635 + \$2,150 - \$1,250)	(12,535)	
Spouse's Disability	(8,113)	
EI	(836)	
CPP	(2,564)	
Canada Employment	(1,178)	
Medical Expenses (Note 7)	(1,743)	
Marg's Tuition Transfer (See Part A)	(3,346)	
Credit Base	<u>(\$41,950)</u>	
Rate	15%	(6,293)
Charitable Donations (Note 8)		
[(15%)(\$200) + (29%)(\$2,000 - \$200)]		(552)
<hr/>		
Net Federal Tax		\$13,730
Federal Income Tax Withheld During Year		(16,000)
<hr/>		
Federal Tax Payable (Refund)		<u>(\$ 2,270)</u>

Note 7 Allowable medical expenses are as follows:

John And Spouse Medical Expenses (\$200 + \$3,550)		\$3,750
Reduced By The Lesser Of:		
• [(3%)(\$109,775)] = \$3,293		
• 2017 Threshold Amount = \$2,268		(2,268)
Marg's Medical Expenses	\$720	
Reduced By The Lesser Of:		
• [(3%)(\$15,300)] = \$459		
• \$2,268	(459)	261
<hr/>		
Allowable Medical Expenses		<u>\$1,743</u>

Note 8 As none of his income is taxed at 33 percent, this rate will not be applicable to the calculation of the charitable donations tax credit.**Self Study Solution Four - 6**

Mr. Kern's minimum Net Income For Tax Purposes for the year would be calculated as follows:

Gross Salary		\$67,600
Additions:		
Automobile Benefit (Note 1)		857
Disability Insurance Benefit (Note 2)		1,300
Stock Option Benefit [(\$83 - \$75)(200)]		1,600
Deductions:		
Registered Pension Plan Contributions	(1,800)	
Contributions To Group Disability Plan	Nil	
Professional Dues	(1,233)	
<hr/>		
Net Income For Tax Purposes		<u>\$68,324</u>

Self Study Solution Four - 6

Note 1 Based on the fact that Mr. Kern's employment related usage is more than 50 percent of total usage, the automobile benefit is calculated as follows:

Standby Charge $[(2/3)(9)(\$815 - \$89)(3,000/15,003^*)]$	\$ 871
Operating Cost Benefit - Lesser Of:	
• $[(3,000)(\$0.25)] = \750	
• $[(1/2)(\$871)] = \436	436
<hr/>	
Total Before Payments	\$1,307
Payments For Personal Use $[(\$50)(9)]$	(450)
<hr/>	
Taxable Benefit	\$ 857
<hr/>	

* $[(9)(1,667)]$

As Mr. Kern's employment related usage is more than 50 percent, he can elect to use one-half the standby charge as the operating cost benefit.

Note 2 As his employer contributed to the plan and the contributions did not create a taxable benefit, the \$1,650 in benefits received during the year must be included in employment income. However, this benefit is reduced by the \$350 (\$200 + \$150) in total contributions that he has made in 2016 and 2017.

Taxable Income

Taxable Income would be calculated as follows:

Net Income For Tax Purposes	\$68,324
Stock Option Deduction $[(1/2)(\$1,600)]$	(800)
<hr/>	
Taxable Income	\$67,524
<hr/>	

Tax Payable

Tax Payable would be calculated as follows:

Tax On First \$45,916	\$ 6,887
Tax On Next \$21,608 $(\$67,524 - \$45,916)$ At 20.5 Percent	4,430
<hr/>	
Federal Tax Before Credits	\$11,317
Basic Personal Amount	(\$11,635)
Spousal $(\$11,635 - \$3,660)$	(7,975)
EI	(836)
CPP	(2,564)
Canada Employment	(1,178)
Medical Expenses (Note 3)	(3,907)
David's Transfer Of Tuition (Note 4)	(5,000)
<hr/>	
Credit Base	(\$33,095)
Rate	15%
	(4,964)
<hr/>	
Charitable Donations Carried Forward (Note 5)	
$[(15%)(\$200) + (29%)(\$500 - \$200)]$	(117)
<hr/>	
Net Federal Tax	\$ 6,236
Federal Amounts Withheld During Year (Given)	(7,200)
<hr/>	
Federal Tax Payable (Refund)	(\$ 964)
<hr/>	

Note 3 The allowable medical expenses would be calculated as follows:

Samuel And Spouse Medical Expenses (\$2,100 + \$770)		\$2,870
Reduced By The Lesser Of:		
• [(3%)(\$68,324)] = \$2,050		
• 2017 Threshold Amount = \$2,268		(2,050)
David's Medical Expenses	\$3,260	
Reduced By The Lesser Of:		
• \$2,268		
• [(3%)(\$5,780)] = \$173	(173)	3,087
Allowable Medical Expenses		<u>\$3,907</u>

Note 4 The transfer from David is as follows:

Tuition Fees	\$ 6,700
Maximum Transfer	(5,000)
Carry Forward (For David's Use Only)	<u>\$ 1,700</u>

David's Tax Payable is completely eliminated by his basic personal credit. He can transfer a maximum of \$5,000 of his tuition amount to his father. The remaining \$1,700 can be carried forward indefinitely, but must be used by David.

Note 5 As none of his income is taxed at 33 percent, this rate will not be applicable to the calculation of the charitable donations tax credit.

Self Study Solution Four - 7

Part A

Mr. Strong's minimum Net Income For Tax Purposes would be calculated as follows:

Salary	\$72,000
Additions:	
Employer's Disability Contribution (Not A Taxable Benefit)	Nil
Automobile Benefit (Note 1)	7,750
Tuition For Chants Course (Note 2)	600
Travel Costs (Note 3)	Nil
Home Relocation Loan Benefit (Note 4)	1,500
Deductions:	
RPP Contributions	(4,200)
Cost Of Tools - Maximum (Note 5)	(500)
Net Income For Tax Purposes	<u>\$77,150</u>

Note 1 The automobile benefit would be calculated as follows:

Standby Charge [(2/3)(10)(\$565 - \$40)]	\$3,500
Operating Cost Benefit [(\$0.25)(17,000)]	4,250
Total Benefits	<u>\$7,750</u>

As Mr. Strong's employment related use was less than 50 percent, there is no reduction in the standby charge and he cannot use the alternative calculation of the operating cost benefit.

Self Study Solution Four - 7

Note 2 Employer paid tuition is a taxable benefit unless it is for the benefit of that employer. While the spoken French course appears to be for the benefit of the employer, it would be difficult to argue that the employer would benefit from a course in 16th century liturgical chants.

Note 3 As the travel costs were reimbursed, there is no deduction. As long as the costs were reasonable, there would be no benefit from the reimbursement.

Note 4 The ITA 80.4(1) loan benefit would be \$1,500, the lesser of:

- $[(\$150,000)(2\% - \text{Nil})(1/4) + (\$150,000)(1\% - \text{Nil})(2/4)]$ \$1,500
- $[(\$150,000)(2\% - \text{Nil})(3/4)]$ \$2,250

Note 5 Mr. Strong can deduct the cost of tradesperson's tools that cost more than \$1,178. However, the overall limit for this deduction is \$500 per year.

Part B

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

Net Income For Tax Purposes	\$77,150
Home Relocation Loan Deduction (Note 6)	(250)
Taxable Income	\$76,900

Note 6 The deduction would be \$250, the lesser of:

- ITA 80.4(1) Benefit \$1,500
- $[(\$25,000)(2\% - \text{Nil})(1/4) + (\$25,000)(1\% - \text{Nil})(2/4)]$ \$ 250

Part C

Based on the Taxable Income calculated in Part B, Mr. Strong's Tax Payable would be calculated as follows:

Tax On First \$45,916	\$ 6,887
Tax On Next \$30,984 (\$76,900 - \$45,916) At 20.5 Percent	6,352
Tax Before Credits	\$13,239
Credits:	
Basic Personal Amount	(\$11,635)
Spousal (\$11,635 - \$5,600)	(6,035)
Caregiver (Note 7)	Nil
EI Premiums	(836)
CPP Contributions	(2,564)
Canada Employment	(1,178)
Monthly Transit Passes $[(\$60)(2)(10)]$	(1,200)
Tuition (Note 8)	(600)
Medical Expenses (Note 9)	(3,837)
Credit Base	(\$27,885)
Rate	15%
	(4,183)
Charitable Donations (Note 10)	
$[(15\%)(\$200) + (29\%)(\$1,200 - \$200)]$	(320)
Federal Tax Payable	\$ 8,736

Note 7 Because his mother is not mentally or physically infirm, Lance cannot claim the Canada caregiver credit.

Note 8 When an employer reimburses tuition costs, the tuition credit can be claimed if the reimbursement is included in the employee's income.

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

Mr. Strong, His Spouse, And Minor Children (\$1,250 + \$2,300 + \$850)		\$4,400
Reduced By The Lesser Of:		
• [(3%)(\$77,150)] = \$2,315		
• 2017 Threshold Amount = \$2,268	(2,268)	
Mother's Medical Expenses	\$1,960	
Reduced By The Lesser Of:		
• \$2,268		
• [(3%)(\$8,500)] = \$255	(255)	1,705
Allowable Medical Costs		<u>\$3,837</u>

Note 10 Mr. Strong cannot claim a credit for the \$1,500 of donated services. As none of his income is taxed at 33 percent, this rate will not be applicable to the calculation of the charitable donations tax credit.

Note 11 Mr. Strong cannot claim the First-Time Home Buyers' Credit as he owned a house within 4 years of purchasing the heritage home.

Self Study Solution Four - 8

Part A

Mr. Bosworth's minimum Net Income For Tax Purposes would be calculated as follows:

Salary	\$180,000
Additions:	
Commissions	11,500
Bonus (Note 1)	Nil
Life Insurance Premiums (Employer's Contribution)	460
Automobile Benefit (Note 2)	6,800
Stock Option Benefit (Note 3)	13,000
Gift (\$2,500, Less \$500 Limit On Gifts)	2,000
Deductions:	
RPP Contributions	(5,200)
Employment Expenses (Note 4)	(20,371)
Net Income For Tax Purposes	<u>\$188,189</u>

Note 1 As none of the bonus was paid during the year, none of it will be included in Net Income For Tax Purposes.

Note 2 The standby charge would be calculated as follows:

$$[(2/3)(12)(\$925 - \$75)(20,004 \div 20,004)] = \$6,800$$

As Mr. Bosworth's personal mileage exceeds 20,004 kilometers, there is no reduction in the standby charge. There would be no operating cost benefit as Mr. Bosworth paid for all of the operating costs.

Note 3 The total employment income inclusion would be \$13,000 [(5,000)(\\$12.35 - \$9.75)]. As the option price was equal to the market price at the time the options

Self Study Solution Four - 8

were issued, \$6,500 [(1/2)(\$13,000)] can be deducted in the determination of Taxable Income.

Note 4 Potentially deductible expenses are as follows:

Car Operating Costs [(41,000 ÷ 62,000)(\$10,300)]	\$ 6,811
Meals [(50%)(\$6,420)]	3,210
Hotels	10,350
Subtotal for ITA 8(1)(h) and (h.1)	\$20,371
Advertising	12,400
Entertainment [(50%)(\$6,500)]	3,250
Total for ITA 8(1)(f) - Limited To Commissions	\$36,021

All of these costs can be deducted under ITA 8(1)(f). However, the total deduction is limited to commission income which is only \$11,500. Alternatively, the car operating costs, meals, and hotels, can be deducted under ITA 8(1)(h) and (h.1). As shown in the preceding table, this total would be \$20,371. As Mr. Bosworth cannot simultaneously use ITA 8(1)(f) and the combination of ITA 8(1)(h) and (h.1), he will minimize his Net Income For Tax Purposes by deducting under the latter provisions.

Part B

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

Net Income For Tax Purposes	\$188,189
Stock Option Deduction [(1/2)(\$13,000)]	(6,500)
Taxable Income	\$181,689

Part C

Based on the Taxable Income calculated in Part B, Mr. Bosworth's federal Tax Payable would be calculated as follows:

Tax On First \$142,353	\$29,436
Tax On Next \$39,336 (\$181,689 - \$142,353) At 29 Percent	11,407
Tax Before Credits	\$40,843
Credits:	
Basic Personal Amount	(\$11,635)
Spouse (\$11,635 - \$6,450)	(5,185)
Canada Caregiver Amount For Child	(2,150)
Transfer Of Daughter's Disability	(8,113)
Disability Supplement (Note 5)	Nil
EI Premiums	(836)
CPP Contributions	(2,564)
Canada Employment	(1,178)
Tuition - Andrew	(1,670)
Transfer Of Son's Tuition (Note 6)	(4,185)
Medical Expenses (Note 7)	(14,398)
Credit Base	(\$51,914)
Rate	15%
	(7,787)
Charitable Donations (Note 8)	
[(15%)(\$200) + (29%)(\$2,400 - \$200)]	(668)
Federal Tax Payable	\$32,388

Note 5 Since the daughter's \$9,000 attendant care costs that are included in the medical expenses total more than \$7,504 (\$4,732 + \$2,772), the disability supplement is reduced to nil.

Note 6 As the son has Net Income For Tax Purposes of \$12,450, he must use \$815 (\$12,450 - \$11,635) of this total. This means that the maximum transfer to his father will be \$4,185 (\$5,000 - \$815). This will leave the son with the following carry forward:

Tuition Amount Including Ancillary Fees (\$7,650 + \$560)	\$8,210
Used By Son In 2017	(815)
Transferred To His Father	(4,185)
<u>Carry Forward (For Son's Use Only)</u>	<u>\$3,210</u>

The carry forward amount \$3,210 can be carried forward indefinitely, but must be used by the son.

Note 7 The base for Mr. Bosworth's medical expense credit can be calculated as follows:

Eligible Medical Expenses		
Andrew, His Spouse And Minor Child		
(\$1,200 + \$2,250 + \$11,250)		\$14,700
Reduced By The Lesser Of:		
• [(3%)(\$188,189)] = \$5,646		
• 2017 Threshold Amount = \$2,268		(2,268)
Son's Medical Expenses	\$2,340	
Reduced By The Lesser Of:		
• \$2,268		
• [(3%)(\$12,450)] = \$374	(374)	1,966
<u>Allowable Medical Expenses</u>		<u>\$14,398</u>

Note 8 As none of his income is taxed at 33 percent, this rate will not be applicable to the calculation of the charitable donations tax credit.

Solution to Tax Software Self Study Problem - Chapter 4

The complete tax return is available on the Companion Website in two versions, a T1 ProFile return file and a .PDF file.. Note that prior to late January, 2018, the returns will be for 2016, not 2017 as the 2017 filing version will not yet be available.

For more information on how to use the ProFile tax program, refer to the Chapter 4 sample tax return in this Study Guide.

Notes To Tax Return

- Diane transfers the \$5,000 maximum education related credits to Eleanor and carries forward the remaining \$6,000 [$\$7,000 + (8)(\$400) + (8)(\$65) + (2)(\$120) + (2)(\$20) - \$5,000$]. The carry forward can only be used by Diane.
- Eleanor cannot claim the charitable donation made by Diane, but Diane can carry it forward for up to five years.
- Since Amy is under 18 and wholly dependent, Eleanor claimed the eligible dependant credit for Amy.
- Eleanor elected to include the UCCB in Amy's income as this will reduce Eleanor's tax liability.
- Eleanor claimed the full caregiver credit for Marjorie as her income is well below the income threshold. Note that, because Marjorie is not infirm, the family caregiver amount is not added to this credit.
- Since Diane and Marjorie are over 17 years of age, their medical expenses are reduced by 3 percent of their Net Income For Tax Purposes. This means that none of Marjorie's medical expenses can be claimed by Eleanor.
- In calculating work space in the home costs, the household insurance is not deductible as the T4 information shows she has no commission income. The car insurance is not relevant as there is no information that Eleanor uses her car for employment related purposes.

Tax Planning Points

- Although she is not required to file, Marjorie should file a tax return, otherwise she will not be eligible for the GST credit.
- Although she is not required to file, Diane should file a tax return, otherwise she will not be eligible for the GST credit and she will not benefit from the RRSP deduction room created during the year. Filing a tax return will also make her education related tax credits and charitable donation tax credit easier to keep track of for carry forward purposes.

Chapter 4 Learning Objectives

Note Regarding Rates And Credits

A schedule of rates, brackets, credit amounts and other data is available at the beginning of both Volumes of this textbook, (but not this Study Guide) and on the Companion Website. We expect you to refer to this information when calculating the credits covered in this chapter (i.e., you are not expected to memorize the rates, brackets and credit bases).

After completing Chapter 4, you should be able to:

1. Calculate Taxable Income when an individual has basic deductions against Net Income For Tax Purposes. (paragraph [P hereafter] 4-1 to 4-13).
 2. Calculate federal and provincial Tax Payable before the consideration of any tax credits (P 4-14 to 4-31).
 3. Calculate the personal tax credits described in ITA 118(1) which include the:
 - spousal,
 - eligible dependant,
 - Canada caregiver for a child,
 - basic,
 - Canada caregiver (P 4-32 to 4-65).
 4. Calculate the age tax credit (P 4-66 and 67).
 5. Calculate the pension income tax credit (P 4-68 to 4-72).
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6. Calculate the Canada employment tax credit (P 4-73 to 4-75).
 7. Calculate the adoption expenses tax credit (P 4-76 to 4-80).
 8. Calculate the public transit passes tax credit (P 4-81 to 4-85).
 9. Calculate the home accessibility tax credit (P 4-86 to 4-96).
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10. Calculate the first time home buyer's tax credit (P 4-97 to 4-99).
 11. Calculate the volunteer firefighters and search and rescue workers tax credit (P 4-100 to 4-103).
 12. Calculate the charitable donations tax credit, including the first-time donor's super tax credit, when the donation is in the form of cash (P 4-104 to 4-118).
 13. Calculate the medical expense tax credit (P 4-119 to 4-129).
 14. Calculate the disability tax credit (P 4-130 to 4-140).
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15. Calculate the tax credits related to tuition fees, examination fees, ancillary fees, and student loan interest. (P 4-141 to 4-148).
 16. Calculate the amount of education related tax credits that can be carried forward or transferred to another individual (P 4-149 to 4-158).
 17. Calculate the Employment Insurance and Canada Pension Plan credits (P 4-159 to 4-165).
 18. List the types and amounts of tax credits that can be transferred to a spouse or common-law partner (P 4-166 to 4-168).
 19. Calculate the political contributions tax credit (P 4-169 to 4-172).
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20. Calculate the labour sponsored venture capital corporation tax credit (P 4-173 to 4-177).
 21. Explain the basic provisions of the refundable GST credit (P 4-178 to 4-185).
 22. Calculate the refundable medical expense supplement (P 4-186 to 4-189).
 23. Calculate the working income tax benefit and WITB disability supplement (P 4-190 to 4-193).
 24. Calculate the refundable teacher and early childhood educator school supply tax credit (P 4-194 to 4-196).
 25. Calculate the OAS and EI clawbacks (P 4-197 to 4-207).
 26. Complete a simple personal tax return using the ProFile T1 tax preparation software program.