Chapter One Test Item File Problems

TIF PROBLEM ONE - 1

Introduction - Essay Questions

1. The major source of federal revenues is the personal income tax. Indicate three other types of taxes that contribute to federal revenues.

2. What is the meaning of "person" when the term is used in the *Income Tax Act*?

3. Briefly describe the procedures used in calculating provincial income taxes for individuals in provinces other than Quebec.

4. The Canadian income tax system is often used to achieve various economic objectives. Give three examples that illustrate this point.

5. Provide an example of how taxation policy can be used to influence resource allocation.

6. The government pays a Canada Child Benefit to the parents of children who are under 18 years of age. The payments are reduced by a percentage of income in excess of a specified level. What objectives are achieved by this benefit system?

7. Indicate three disadvantages of a tax system that uses progressive rates.

8. A regressive tax is one that taxes high income individuals at lower effective rates. Explain why a sales tax levied at a flat rate of 8 percent can be regressive.

9. Distinguish between horizontal equity and vertical equity as these terms are used in describing tax systems.

10. What are some of the factors that have led to the entrenched use of tax expenditures as opposed to program spending?

11. While the Sections of the *Income Tax Act* are numbered 1 through 260, there are actually more than 260 Sections. Explain why this is the case.

12. What purposes are served by Canada's international tax treaties?

13. List four non-legislative sources of income tax information.

14. What is the meaning of "taxation year" as the phrase is used in the *Income Tax Act*?

15. Under what circumstances will a person who is not resident in Canada be required to pay Canadian income taxes?

16. What is the importance of residence in Canadian income taxation?

17. When an individual leaves Canada, the CRA may take the position that he has retained his residence status. What are the primary factors that the CRA will consider in determining whether such an individual has, in fact, ceased to be a Canadian resident?

18. List three factors that would be considered in the determination of whether or not an individual is a resident of Canada.

19. If an individual leaves Canada for a temporary absence, this raises the question of whether he was a Canadian resident during the period of absence, particularly if some residential ties have been retained. What are the major factors that are considered in determining whether an individual continues to be a Canadian resident during a temporary absence?

20. One of your friends is leaving Canada and would like to know when he will no longer be considered a Canadian resident. Briefly explain the rules related to terminating an individual's status as a Canadian resident.

21. For the current year, Jane Doe is deemed to a Canadian resident because she sojourned in Canada for 210 days. Also for the current year, Jack Fawn, a long-time resident of Manitoba, was considered a part year resident for the first 210 days, after which he permanently departed from Canada. Explain how these two individuals will be taxed in Canada.

22. It is possible that an individual could be considered resident in more than one country. In such situations, "tie-breaker" rules are used to avoid the individual being subject to taxation in both countries. List and describe three factors that would be considered in implementing the tie-breaker rules.

23. Are enterprises that are incorporated in Canada always considered to be resident in Canada? Explain your conclusion.

24. Limon Inc. was incorporated in the U.S. five years ago. However, all of the directors of the corporation are Canadian residents, holding all of their meetings in Montreal. How would Limon Inc. be taxed?

25. What are the components of Net Income For Tax Purposes?

26. ITA 3(b) states that a taxpayer should “determine the amount, if any”, by which taxable capital gains exceeds allowable capital losses. In this context, what is the meaning of the phrase “the amount, if any”?

27. What is the difference between tax avoidance and tax deferral?

28. What is income splitting? Under what circumstances will it provide tax benefits to an individual?

29. Contributions to a Registered Retirement Savings Plan can be deducted to reduce the taxes of an individual in the year that they are made. However, these contributions will be subject to tax when they are withdrawn from the plan. What type of tax planning is involved in this arrangement?

30. Your client, a government employee, would like to reduce his taxes. He is trying to decide whether he should contribute $5,000 to an RRSP this year. He has an RRSP as does his wife, a part time employee at a day care centre.

    Briefly describe the basic goals of tax planning. What advice would you give your client regarding his RRSP contribution? Explain your conclusion.

TIF PROBLEM ONE - 2
Introduction - True Or False

1. A value added tax is a tax levied on the increase in value of a commodity or service that has been created by the taxpayer's stage of the production or distribution cycle.

   True or False?

2. A partnership can be a taxable entity for income tax purposes.

   True or False?

3. A partnership can be a taxable entity for GST purposes.

   True or False?

4. In general, provincial income taxes for individuals are based on a specified percentage of federal tax payable.

   True or False?

5. The federal government does not collect personal or corporate taxes for Ontario or Quebec.

   True or False?

6. A sales tax is a regressive tax even when it is applied at a single rate on all transactions.

   True or False?

7. A major advantage of progressive tax rates is that their use encourages economic growth.

   True or False?

8. Tax expenditures are less costly to administer than direct funding programs.

   True or False?

9. Part I of the *Income Tax Act* is the largest and most important part.

   True or False?

10. The citation ITA 61(4)(b)(ii) would be read Paragraph 61, Subparagraph 4, Section b, Subsection ii.

    True or False?

11. Any taxpayer can choose the calendar year as their taxation year.

    True or False?

12. If there is a conflict between an international tax treaty and Canadian tax legislation, the Canadian tax legislation will prevail.

    True or False?

13. An income tax is payable for each taxation year on the Taxable Income of every person resident in Canada at any time in the year.

    True or False?

14. Canadian citizens are required to file a Canadian income tax return, without regard to where they currently live.

True or False?

15. When an individual is absent from Canada for some period of time, the length of their absence is an important factor in determining whether they continued to be a Canadian resident during the period of their absence.

True or False?

16. If an individual moves to Canada and is here less than 183 days prior to the end of the year, that individual will be subject to Part I tax on their worldwide income for the entire year.

True or False?

17. The residency of a trust depends on the country in which the central management and control of the trust takes place, not where the beneficiaries reside.

True or False?

18. If an individual leaves Canada, the three most significant factors in determining whether he has ceased to be a resident are:
    - Whether he continues to own a dwelling in Canada.
    - Whether he is accompanied by his spouse or common-law partner.
    - Whether he maintains social ties in Canada.

True or False?

19. If an individual returns to Canada after an absence of less than two years, S5-F1-C1 indicates that, in general, he will be considered to have retained Canadian residency during his absence.

True or False?

20. A part year resident for the current year is an individual who either establishes residency in Canada during the current year or, alternatively, terminates residency in Canada during the current year.

True or False?

21. A sojourner is any individual who has been present in Canada for 183 consecutive days in one year.

TIF PROBLEM ONE - 3
Introduction - Multiple Choice

Canadian Tax System

1. Which of the following types of taxes is not currently in use by the federal government of Canada?

   A. Excise Taxes
   B. Custom Duties
   C. Head Tax
   D. Transfer Tax

2. Which of the following is **NOT** a taxable entity for Canadian income tax purposes?

   A. Darklyn Ltd., a Canadian resident corporation.
   B. Ms. Sarah Bright, a Canadian resident.
   C. Walters and Walters, a group of CPAs operating as a partnership.
   D. The Martin family trust.

3. Which of the following could be required to file a GST return?

   A. Chan's Clothing Store (an unincorporated business)
   B. The Chan Foundation (a registered charity)
   C. Min Chan (an individual)
   D. All of the above could be required to file a GST return.

4. Which of the following forms of taxation provides the largest component of federal government taxation revenues?

   A. Personal income tax
   B. Corporate income tax
   C. Goods and services tax
   D. Employment insurance premiums

5. With respect to provincial income taxes, other than those assessed in Quebec, which of the following statements is **NOT** correct?

   A. Each province can apply different rates to as many brackets for individuals as it wishes.
   B. The federal government collects the provincial income tax for individuals for every province except Quebec.
   C. Each province can establish its own tax credits to apply against Tax Payable for individuals.
   D. Each province can establish rules for determining the Taxable Income of individuals.

6. Which of the following groups of entities are all subject to taxation on income?

   A. Individuals, proprietorships and corporations
   B. Proprietorships, corporations and trusts
   C. Individuals, trusts and corporations
   D. Individuals, partnerships and corporations

7. Income tax is calculated for which of the following groups of jurisdictions?

   A. Municipal, provincial, and federal
   B. Provincial, federal, and international
   C. Municipal, federal, and international
   D. Municipal, provincial, and international

Tax Policy Concepts

8. Which of the following statements with respect to Canadian tax policy is **NOT** correct?

   A. The economic burden of a particular tax may not fall on the same group that has the legal liability to pay the tax.
   B. Extremely high rates of tax will always encourage individuals to work harder so that they will have more after tax income.
   C. The inability to harmonize the GST in some provinces has increased the complexity of tax compliance.
   D. A progressive tax system is unfair to individuals with incomes that fluctuate significantly from year to year.

9. Which of the following goals is **NOT** a current economic policy objective of the Canadian tax system?

   A. Ensure the continued provision of public goods.
   B. Redistribute income and wealth among taxpayers.
   C. Ensure fairness in the allocation of resources to different levels of government.
   D. Economic stabilization such as stimulating the economy or creating jobs.

10. Which of the following can be considered an advantage of an income tax system based on progressive rates?

    A. A progressive rate system is simpler to administer.
    B. A progressive rate system provides greater stability in the context of changing economic conditions.
    C. A progressive system discourages tax evasion.
    D. A progressive system encourages greater effort on the part of individuals.

11. Which of the following statements accurately describes a regressive tax?

    A. A tax which results in higher effective tax rates for higher income taxpayers.
    B. A tax which results in lower effective tax rates for higher income taxpayers.
    C. A tax in which the same effective rate applies to all levels of income.
    D. A tax that is shifted to consumers through price increases on the goods purchased.

12. Which of the following statements with respect to using tax expenditures rather than program spending is **NOT** correct?

    A. It is more costly to administer tax expenditures as opposed to program spending.
    B. Tax expenditures reduce the visibility of government actions.
    C. Tax expenditures leave fewer decisions in the hands of the private sector, thereby providing for more efficient allocation of resources.
    D. Tax expenditures reduce the impact of progressive rates on higher income taxpayers.

13. Which of the following would **NOT** be considered a desirable characteristic of a tax system?

    A. Balance between sectors.
    B. Inelasticity.
    C. Neutrality.
    D. Flexibility.

14. Which of the following would be considered a desirable characteristic of an effective tax system?

    A. Inelasticity.
    B. Lack of international competitiveness.
    C. Simplicity.
    D. Ambiguity.

15. "We should not have a tax system which encourages investment in particular assets or in specific areas of the country." This statement reflects which of the following qualitative characteristics of an effective tax system?

    A. Neutrality.
    B. Horizontal equity.
    C. Simplicity.
    D. Elasticity.

16. "Taxpayers who earn $100,000 in dividends should pay the same amount of tax as taxpayers who earn $100,000 in capital gains." This statement reflects which of the following qualitative characteristics of an effective tax system?

    A. Vertical equity.
    B. Neutrality.
    C. Elasticity.
    D. Horizontal equity.

Income Tax Reference Materials

17. Which of the following statements with respect to tax reference materials is correct?

    A. Income Tax Folios are a legislative source of guidance.
    B. Income Tax Regulations are gradually being replaced by Income Tax Folios.
    C. Interpretation Bulletins are gradually being replaced by Information Circulars.
    D. The *Income Tax Act* is the most important source of information for dealing with matters related to the federal income tax.

18. With respect to the structure of the *Income Tax Act*, which of the following statements is correct?

    A. The major components of the *Income Tax Act* are called Divisions.
    B. The *Income Tax Act* has Parts numbered I through XVII, reflecting the fact that there are 17 Parts in the *Act*.
    C. All Parts of the *Income Tax Act* have Divisions.
    D. All Parts of the *Income Tax Act* contain at least one Section.

19. Of the following publications, indicate the one that is **NOT** a legislative source.

    A. *Income Tax Act*.
    B. Income Tax Folios.
    C. Income Tax Application Rules.
    D. International Tax Treaties.
    E. Income Tax Regulations.

20. Of the following publications, indicate the one that is **NOT** published by the CRA.

    A. Income Tax Folios.
    B. Information Circulars.
    C. Dominion Tax Cases.
    D. Income Tax Technical News.

21. There are a number of common areas of litigation involving the CRA. Indicate which type of transaction is least likely to be in dispute.

A. Arm's length versus non-arm's length transactions.
B. Capital versus income transactions.
C. Unreported revenues from business transactions.
D. Establishment of fair market value.
E. The deductibility of farm losses against other sources of income.

22. Where would an individual find the formula for determining the prescribed rate?

A. The Income Tax Act.
B. The Income Tax Regulations.
C. A CRA Income Tax Folio.
D. A CRA Information Circular.

23. Which of the following statements is **NOT** correct?

A. Most major income tax changes are introduced in the annual Federal Budget.
B. A federal election can prevent passage of draft legislation.
C. Proposed changes in tax law are usually introduced to parliament in the form of a Notice of Ways and Means Motion.
D. When there is a conflict between the Canadian *Income Tax Act* and an international agreement, the terms of the Canadian *Income Tax Act* prevail.

Liability For Tax

24. Of the following statements related to liability for Canadian income tax, which statement is **NOT** correct?

A. As used in the *Income Tax Act*, the term person refers to individuals, trusts, and corporations.
B. Corporations must use the calendar year as their taxation year.
C. The Canadian Part I tax is assessed on residents of Canada.
D. The Canadian Part I tax is assessed Canadian employment income earned by a non-resident.

25. An individual is liable for income tax in Canada if he:

A. is a resident in Canada.
B. is a citizen of Canada.
C. has lived in Canada at any time during the year.
D. All of the above are required.

26. Which of the following persons is **NOT** liable for Canadian income tax under Part I of the *Income Tax Act*?

A. Pheap Chom, an individual who has resided in Canada for the past 15 years.
B. Chom Incorporated, a Canadian resident corporation.
C. Phon Im, a resident of the United States who earns employment income in Canada.
D. Bunly Im, a resident of the United States who earns interest income in Canada.

27. Which of the following types of income earned by a non-resident is **NOT** subject to Canadian income tax under Part I of the *Income Tax Act*?

A. Employment income earned in Canada
B. Business income earned in Canada
C. Rental income earned in Canada
D. Income from the disposition of Canadian real estate

Residence

Residence Of Individuals

28. Which of the following is an essential factor in determining whether an individual has ceased to be a resident of Canada?

    A. The individual has closed his Canadian savings account.
    B. The individual has given up his membership in the Canuck Country Club.
    C. The individual has become a resident of another country.
    D. The individual has given up his Ontario driver's licence.

29. Ms. Floot has been out of Canada for several years. She is presumed to be a non-resident as long as certain tests are met. Indicate the condition that does **NOT** have to be met.

    A. She did not leave a spouse or other dependants in Canada.
    B. She does not return to Canada on a regular or frequent basis.
    C. She did not leave personal property or social ties in Canada.
    D. She did not leave taxable Canadian property in Canada.
    E. She did establish permanent residence in another jurisdiction.

30. All of the following statements are true, except:

    A. Canadian residents must report their worldwide income for tax purposes.
    B. If an individual is a resident of Canada for part of the calendar year, that individual only has to report his worldwide income during the period of residency for Canadian tax purposes.
    C. An individual who immigrates to Canada during the year is a resident of Canada for tax purposes for the full calendar year.
    D. An individual can be a resident of Canada for tax purposes, even if she is not a Canadian citizen.

31. Of the following individuals, who would be a resident or deemed resident of Canada for tax purposes this year?

    - Alex is a U.S. citizen who commutes each day to Canada for employment purposes.
    - Bob is a U.S. citizen who lives in Canada during the week for employment purposes, but returns to the U.S. on weekends to the house he shares with his wife and children.
    - Charles is a Canadian citizen who lived in Toronto until March of last year, at which time he left for a four year aid mission in Africa under an agreement with the Canadian International Development Agency.
    - Dick is a Canadian citizen who goes to school in the U.S. for eight months of each year but returns to Canada to live with his parents each summer.

    A. Alex, Bob and Charles.
    B. Bob, Charles and Dick.
    C. Bob and Charles.
    D. Alex and Dick.

32. With respect to the residency of an individual, which of the following statements is **NOT** correct?

    A. To be a resident for tax purposes, an individual must be a Canadian citizen.
    B. If an individual leaves or enters Canada during the current year, he will be considered a part-year resident for tax purposes.
    C. An individual is a Canadian resident for tax purposes if his principal residential ties are in Canada.
    D. An individual is considered to be a Canadian resident for tax purposes if he visits for more than 183 days in a calendar year.

33. Which of the following factors would **NOT** be relevant under the Canada/U.S. tax treaty tie-breaker rules for determining the residence of an individual?

    A. The country in which the individual earns business income.
    B. The country in which the individual is a citizen.
    C. The country in which the individual has a permanent home available to him.
    D. The country in which the individual has a habitual abode.

34. Jamal, his wife and two teenage children are all Canadian citizens. For the last 2 years he and his family have been living in Mexico while he works for the Mexican subsidiary of a Canadian company. Jamal still owns his house in Canada. His wife and children stay there for 2 months in the summer and he spends 4 weeks a year there. The rest of the time the house is empty as his wife visits family in Canada regularly. Jamal has no definite plans to return to Canada and loves living in Mexico. However, since his mother-in-law is very ill, it is possible that his wife will have to return to Canada for at least 6 months to nurse her mother. Which of the following statements is correct?

    A. Jamal is considered a part-time resident of Canada for the 4 weeks he spends in Canada.
    B. If Jamal's wife returns alone to Canada to care for her mother, Jamal is considered a part-time resident of Canada for the 6 months she is in Canada.
    C. Jamal is considered a non-resident of Canada.
    D. Since Jamal owns a house in Canada that is not rented out under a long-term lease he is considered a Canadian resident for income tax purposes.

35. Of the following individuals, who would be considered a part-year resident of Canada for the current taxation year?

    A. Ravi is a citizen of India, where he was born and lived until moving to Canada on March 1 of the current year with his wife and child. He was transferred by his employer to its Canadian head office.
    B. Helga had lived and worked in Canada for 10 years. She was transferred by her employer to its flagship hotel in Switzerland on March 1 of the current year for a 1 year training assignment. Her husband remained in Canada to complete his MBA.
    C. Marc is a French citizen who lives in Paris. On March 1 of the current year he begins work as a translator in Ottawa. It is a 1 year assignment.
    D. Billy Bob is a U.S. Marshall on loan to the RCMP detachment in Nunavut. It is a 9 month assignment.

36. Dominique, a Canadian citizen, lives in Buffalo, NY, USA. Throughout the current year she commutes to Fort Erie, Ontario, Canada, where she is the bartender at the Cross Border Bar. She normally works 7 pm to 3 am Tuesday through Saturday. Dominique is:

    A. A deemed resident (sojourner)
    B. A non-resident
    C. A full-time resident
    D. A part-year resident

37. Vanessa moves to Germany on July 15 of the current year. She is 35 and has lived in Canada all of her life. Which one of the following best indicates Vanessa's Canadian residency status for the current year?

    A. A deemed resident (sojourner)
    B. A non-resident
    C. A full-time resident
    D. A part-year resident

Residence Of Corporations

38. Which of the following corporations would **NOT** be considered a resident of Canada?

   A. Dram Inc. was incorporated in Alberta in 2005. While it has operations in both the U.S. and Canada, its management has always been located in New York.
   B. Craser Ltd. was incorporated in Ontario in 2010. All of its business activities are in Canada and its management is located in Toronto.
   C. Alor Inc. was incorporated in British Columbia in 2004. While most of its operations are in Canada, management is located in Seattle.
   D. Exeter Ltd. was incorporated in Alberta in 1956. However, it has never carried on business in Canada and its management has always been located in Montana.

Residence Of Individuals/Corporations

39. Of the persons described, which one would **NOT** be considered a Canadian resident?

   A. A person who lives in Leamington, Ontario and commutes to work each day in Detroit, Michigan.
   B. A corporation that was incorporated in North Dakota, but carries on all of its business in southern Manitoba.
   C. A member of the Canadian armed forces who has, for the last 3 years, been stationed in Germany.
   D. A corporation that was incorporated in Winnipeg, but carries on all of its business in North Dakota.

40. In which of the following situations is the person considered a non-resident of Canada, in 2019, for income tax purposes?

   A. James Arder, a recently qualified CPA, based in Montreal, accepted a transfer to an office in Sydney, Australia for the period May 1, 2019 to August 31, 2019. James is not married and had lived at his parent's house in Montreal.
   B. Karen Cotin, a computer programmer, had been employed by ABC Systems Ltd. in Toronto. In 2018, she accepted a minimum two-year contract with CS Services Inc. in London, England. Her position with CS Services Inc. started October 1, 2018. Before moving to England, where she will join her fiance, Karen terminated the lease on her apartment in Toronto and sold her car.
   C. N Limited was incorporated in Canada in 1996 and, until May 2018, its manufacturing plant was located in Mississauga, Ontario. In May 2018, it moved all of its operations, including the manufacturing plant, to North Carolina, U.S.A.
   D. B. Bath, a member of the Canadian Armed Forces, who was stationed in Lahr, Germany from September 1, 2017 to February 1, 2020.

Alternative Concepts of Income

41. Which of the following statements with respect to the relationship between accounting Net Income and Net Income For Tax Purposes is **NOT** correct?

   A. Both accounting Net Income and Net Income For Tax Purposes value many assets at their historical cost.
   B. Accounting Net Income requires that costs be matched with revenues.
   C. Net Income For Tax Purposes requires that costs be matched with revenues.
   D. Accounting Net Income is determined by applying Generally Accepted Accounting Principles.

42. Which of the following statements accurately describes the *Income Tax Act* view of income?

    A. Net income is determined by adding revenue based on recognition at the point of sale and deducting expenses which are determined based on generally accepted accounting principles.
    B. Net income is determined by adding together several different types of income based on an ordering rule.
    C. Net income is the amount paid to an employee after an employer deducts CPP, EI, income taxes and any other source deductions from employee pay.
    D. Net income is the total increase in a taxpayer's net worth for the year.

Calculation Of Net Income For Tax Purposes

43. With respect to the determination of Net Income For Tax Purposes, which of the following statements is correct?

    A. Property losses are deducted from business income before the deduction of RRSP contributions.
    B. Allowable capital losses can be deducted to the extent of other positive sources of income.
    C. If not used during the current period, all subdivision e deductions can be carried forward to subsequent periods.
    D. If a business loss exceeds all other positive sources of income, Net Income For Tax Purposes is equal to nil.

44. With respect to the calculation of Net Income For Tax Purposes, which of the following statements is **NOT** correct?

    A. Subdivision e deductions are subtracted from the total of all positive sources of income.
    B. Allowable capital losses for the year can only be deducted to the extent of taxable capital gains for the year.
    C. Business losses can be netted against employment income in determining the positive amounts to be included under ITA 3(a) and 3(b).
    D. Property losses can only be deducted after the subtraction of Subdivision e deductions.

45. Minjie Liu has the following sources of income and deductions:

Employment income	$35,000
Interest income	5,000
Taxable dividend income	7,000
Taxable capital gain	5,000
Allowable capital loss	12,000
Subdivision e deductions	2,000

    What is Minjie's Net Income for Tax Purposes?

    A. $47,000
    B. $40,000
    C. $45,000
    D. $49,000

46. Tanya Turek has the following sources of income and deductions:

Gross employment income	$35,000
Net employment income	34,000
Business loss	14,000
Taxable capital gain	4,000
Allowable capital loss	2,000

What is Tanya's Net Income for Tax Purposes?

A. $23,000
B. $22,000
C. $36,000
D. $24,000

47. Fadel Ghanem has the following sources of income and deductions:

Net employment income	34,000
Property income	6,000
Business loss	54,000
Taxable capital gain	4,000
Allowable capital loss	7,000

What is Fadel's Net Income or Loss for Tax Purposes?

A. $40,000 Income
B. Nil
C. $44,000 Income
D. $12,000 Loss

48. ITA 3(b) requires the taxpayer to "determine the amount, if any, by which taxable capital gains exceed allowable capital losses". The rule that is established by this phrase is:

A. That allowable capital losses in excess of taxable capital gains during a year are never deductible from income.
B. That the current year allowable capital losses can only be deducted to the extent that there are taxable capital gains during the current year.
C. That taxable capital gains are only included in income in a year when there are also allowable capital losses that can be used to reduce the effect on income.
D. That unused allowable capital losses are deductible against any type of income in one of the past 3 years or in a future year.

49. Fred Hopkins has employment income of $45,000, a business loss of $14,000, capital gains of $20,000, capital losses of $12,000, and subdivision e deductions of $3,000. Fred's Net Income For Tax Purposes is equal to:

A. $36,000
B. $50,000
C. $39,000
D. $32,000

Net Income to Taxable Income

50. Which of the following items would be deducted in converting Net Income For Tax Purposes to Taxable Income?

    A. A deduction for spousal support payments made during the year.
    B. A deduction for the extra costs related to living in prescribed areas of the Canadian north.
    C. Current year allowable capital losses in excess of current year taxable capital gains.
    D. Current year business losses in excess of other positive sources of income.

51. Which of the following amounts is **NOT** deducted in converting Net Income for Tax Purposes to Taxable Income?

    A. Losses of other years.
    B. The lifetime capital gains deduction.
    C. An amount related to the exercise or sale of stock options.
    D. The excess of allowable capital losses over taxable capital gains for the year.

Tax Planning

52. Which of the following items does not result in tax avoidance?

    A. Use of the lifetime capital gains deduction.
    B. Employer contributions to group disability plans.
    C. Employer contributions to private health care plans.
    D. Accelerated depreciation (CCA) on rental properties.

53. Providing employees with private health care benefits involves what type of tax planning?

    A. Tax evasion.
    B. Tax deferral.
    C. Income splitting.
    D. Tax avoidance.

54. Making contributions to an RRSP always involves what type of tax planning?

    A. Tax avoidance and tax deferral.
    B. Tax deferral.
    C. Tax avoidance.
    D. Income splitting.

55. Which of the following will always result in tax avoidance?

    A. Making contributions to a registered retirement savings plan.
    B. Making contributions to an employer's registered pension plan.
    C. Making use of the lifetime capital gains deduction.
    D. Making maximum capital cost allowance deductions.

TIF PROBLEM ONE - 4
Introduction - Exam Exercises

Exam Exercise Subject Listing For Chapter 1

Number	Subject
1	Taxable Entities (Income Taxes)
2	Taxable Entities (GST/HST)
3	Federal And Provincial Tax Payable
4	Federal And Provincial Tax Payable
5	Regressive Taxes
6	Regressive Taxes
7	Non-Resident Liability For Tax
8	Non-Resident Liability For Tax
9	Residential Ties
10	Temporary Absences
11	Temporary Absences
12	Part Year Residence
13	Part Year Residence
14	Individual Residence
15	Individual Residence
16	Corporate Residency
17	Corporate Residency
18	Corporate Residency
19	Net Income For Tax Purposes
20	Net Income For Tax Purposes
21	Tax Planning
22	Tax Planning
23	Tax Planning
24	Tax Planning
25	Tax Planning
26	Tax Planning

Exam Exercise One - 1 (Taxable Entities For Income Tax Purposes)

Which of the following entities could be required to file an income tax return?

- Sally Forbes (an individual)
- Forbes Boutique (an unincorporated business)
- Forbes and Delaney (a partnership)
- The Forbes family trust (a trust)
- Forbes Enterprises Ltd. (a corporation)
- The Forbes Foundation (an unincorporated charity)

Exam Exercise One - 2 (Taxable Entities For GST Purposes)

Which of the following entities could be required to file a GST return?

- Sally Forbes (an individual)
- Forbes Boutique (an unincorporated business)
- Forbes and Delaney (a partnership)
- The Forbes family trust (a trust)
- Forbes Enterprises Ltd. (a corporation)
- The Forbes Foundation (an unincorporated charity)

Exam Exercise One - 3 (Federal And Provincial Taxes Payable)

Joan Smith has Taxable Income of $37,500. For the current year her federal tax rate is 15 percent, while the corresponding provincial rate is 8.2 percent. Determine Ms. Smith's combined federal and provincial tax payable, before consideration of any available credits against Tax Payable.

Exam Exercise One - 4 (Federal And Provincial Taxes Payable)

Karla Ho has Taxable Income of $26,700. For the current year her federal tax rate is 15 percent and the corresponding provincial rate is 10 percent. Determine Ms. Ho's combined federal and provincial Tax Payable, before consideration of any available credits against Tax Payable.

Exam Exercise One - 5 (Regressive Taxes)

Samantha Taylor has Taxable Income for the current year of $625,000, of which $216,000 is spent on goods and services that are subject to Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister, Martha Taylor, is a part-time student living in the same province and has Taxable Income of $12,000. During the current year, as a result of using some of her savings, she spends $21,400 on goods and services that are all subject to HST.

Determine the effective HST rate as a percentage of the income of the two sisters.

Exam Exercise One - 6 (Regressive Taxes)

Veronica Simms has Taxable Income for the current year of $843,000. Because of her modest life style, only $162,000 of this amount is spent on goods and services that are subject to the Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister is currently attending university on a full time basis and lives in the same city. Her Taxable Income for the current year is $8,000. Because she is able to use savings accumulated during several years of employment, she spends $36,000 on goods and services that are subject to HST at 13 percent.

Determine the effective HST rate as a percentage of the income of the two sisters.

Exam Exercise One - 7 (Non-Resident Liability For Tax)

Ms. Michelle Walker, a U.S. citizen, has Canadian employment income of $42,000 and U.S. employment income of $40,000 Canadian. She lives in Seattle, Washington and is a resident of the United States for the entire year. Ms. Walker does not believe that she is subject to taxation in Canada.

Is she correct? Explain your conclusion.

Exam Exercise One - 8 (Non-Resident Liability For Tax)

Daniel Bourne is a U.S. citizen who lives in Fargo, North Dakota. For many years, he has had a cottage on Manitoba's Lake Winnipeg. In recent years, however, he has made little use of this property and, given this, he has sold the property. While there was a gain of $50,000 on the sale, Daniel assumes that he will not pay Canadian taxes on this amount as he is a U.S. citizen.

Is he correct? Explain your conclusion.

Exam Exercise One - 9 (Residential Ties)

At the end of the current year, Michael Resner departed from Canada in order to take a permanent position in Mexico. He was accompanied by his common-law partner and their children, as well as what personal property he had not sold. Due to the intent of his neighbour to start a pig farm, he was unable to sell his residence at a satisfactory price. However, he was able to rent it for a period of two years. He also retained his membership in the CPA (Chartered Professional Accountants) Alberta. After his departure, would he still be considered a Canadian resident for tax purposes? Explain your conclusion.

Exam Exercise One - 10 (Temporary Absences)

Mary is a Canadian citizen who is employed by a corporation operating in Canada and the U.S. While she has worked for many years in the Canadian office of this organization, she agreed to transfer to the corporation's U.S. head office in New York City. Before leaving, she disposed of her residence and other personal property that she did not wish to move. She canceled her Saskatchewan driver's licence and health care card, and closed all of her Canadian banking and brokerage accounts.

Because her boyfriend remained in Regina, she found herself flying back to Canada at least once a month. After two years, she concluded that between the high cost of living in New York City and the travel required to maintain the relationship with her boyfriend, she would return to Canada. Would Mary be considered a Canadian resident during the two years that she was absent from Canada? Explain your conclusion.

Exam Exercise One - 11 (Temporary Absences)
John Acheever is employed by Research In Limbo. He has worked for a number of years in their office in Kitchener, Ontario. However, he has become convinced that he would have quicker advancement if he transferred to their office in New York City. He requests this transfer and moves to that location in September, 2019. Before leaving he cancels his apartment lease, sells all of the personal property that he does not wish to move, and cancels his Ontario driver's licence. However, he retains his Canadian banking and brokerage accounts and, because of concerns about the cost of U.S. health care, he does not cancel his Ontario health care card (he changes the address to that of his parents in Waterloo, Ontario). He has also left his dog, Bart with his parents.

After the move, he is shocked to realize how much he misses Bart. He finds himself flying back to Kitchener at least twice a month to spend the weekend caring for Bart. By February, 2021, after not being able to find a suitable dog-friendly apartment in New York City, John returns to his position in Kitchener. He has no plans to return to the U.S. Would John be considered a Canadian resident during the 18 months that he was absent from Canada? Explain your conclusion.

Exam Exercise One - 12 (Part Year Residence)
Melissa is a Canadian citizen who has been employed in Vancouver for the last five years. She has accepted a new position in the United States and, as of March 15 of the current year, flies to New Mexico to assume her responsibilities. She has been granted a green card to enable her to work in the U.S. Her husband remains behind with the children until July 1, after the end of their school year. On that date, they fly to New Mexico to join Melissa. Their residence is sold on August 1 of the current year, at which time a moving company picks up their furniture and other personal possessions. The moving company delivers these possessions to their new house in New Mexico on August 15. Explain how Melissa will be taxed in Canada during the current year.

Exam Exercise One - 13 (Part Year Residence)
Barton Vader is a Canadian citizen who has always lived in London, Ontario. He has a spouse and two school-aged children. As of May 2019, he accepts a new employment position in Akron, Ohio. On October 1, 2019, he moves to Akron to locate housing for his family. In order for his children to finish the school term, his family remains in London until January 1, 2020. When they move, John severs all residential ties with Canada other than the family residence. The residence is placed on the market in January, 2020. However, it has not been sold as of December 31, 2020.

While Barton was scheduled to begin working in the U.S. in early 2020, he is unable to obtain the required residency documents until July 1, 2020.

Explain Barton's Canadian tax status for the years 2019 and 2020.

Exam Exercise One - 14 (Individual Residency)
Mary Sothor is the Canadian ambassador to Tanzania. She was a resident of Canada immediately prior to her appointment as ambassador. Living with her in Tanzania's capital city are her husband and two children. Her husband was born in Canada and was a Canadian resident at the time of their marriage. He is exempt from Tanzanian taxation because he is the spouse of a foreign diplomat. Her 25 year old son was born in Canada and works for a Tanzanian company. His income exceeds $30,000 annually. Her 16 year old son was born in Kenya and is a full time student with no income of his own. Which of these individuals would be considered Canadian residents for tax purposes? Explain your conclusions.

Exam Exercise One - 15 (Individual Residency)

Ms. Sharon Washton was born 26 years ago in Bahn, Germany. She is the daughter of a Canadian High Commissioner serving in that country. Her father still holds this position. However, Ms. Washton is now working in Prague, Czechoslovakia. The only income that she earns in the year is from her Prague marketing job and is subject to taxes in Czechoslovakia. She has never visited Canada. Determine the residency status of Sharon Washton.

Exam Exercise One - 16 (Corporate Residency)

Nixon Inc. was incorporated as an Ontario corporation in 2011. However, since 2014, all of the Company's business has been carried on outside of Canada. Determine the residency status of Nixon Inc.

Exam Exercise One - 17 (Corporate Residency)

Wolfhowl Ltd. was incorporated in Banff, Alberta in 1961. Despite its Canadian charter, the Company has never carried on business in Canada. However, until 1971, all meetings of the Board of Directors were held in Banff. Since 1971, all board of directors meetings have been held in Wyoming. Determine the residency status of Wolfhowl Ltd.

Exam Exercise One - 18 (Corporate Residency)

Acton Enterprises was incorporated in Montana in 1964. Until 2015, all of the company's directors were residents of Bozeman, Montana, with all meetings held in that city. However, in 2015, all of the directors moved to Calgary, Alberta, with all subsequent meetings held in that city. Determine the residency status of Acton Enterprises for the taxation year ending December 31, 2019.

Exam Exercise One - 19 (Net Income For Tax Purposes)

Ms. Sonia Nexus is a computer specialist with net employment income of $66,000. During the current year she has:

- a taxable capital gain on the sale of land of $13,500,
- an allowable capital loss on the sale of shares of $24,000,
- interest income of $10,250,
- net rental losses of $6,750, and
- a loss from her unincorporated business of $28,000.

In addition, she makes spousal support payments of $14,000 and makes a deductible contribution to her RRSP of $3,000 (these are Subdivision e deductions). Determine her minimum Net Income For Tax Purposes for the current year and indicate the amount and type of any loss carry overs that are available at the end of the year. Show all of your calculations.

Exam Exercise One - 20 (Net Income For Tax Purposes)

Harvey Nicastro has current year net employment income of $45,000. In addition, he has the following additional sources of income, gains, and losses:

- A loss from an unincorporated business of $23,000.
- Interest income of $4,500.
- A taxable capital gain of $13,500.
- An allowable capital loss of $18,200.
- Spousal support paid of $24,000.
- A net rental loss of $14,500.

Determine Harvey's minimum Net Income For Tax Purposes for the current year and indicate the amount and type of any loss carry overs that are available at the end of the year. Show all of your calculations.

Exam Exercise One - 21 (Tax Planning)

Mr. Jack Bronson makes a $5,000 contribution to his Registered Retirement Savings Plan. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 22 (Tax Planning)

Ms. Sarah Bloom convinces her employer to provide her with a private drug plan in lieu of additional salary. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 23 (Tax Planning)

Mr. John Lenonovitz is an unemployed poet. As Mr. Lenonovitz has no known sources of income, his wife Natasha, a successful painter, has decided to make contributions to an RRSP in his name, rather than making contributions to her own plan. What type of tax planning is involved in this decision? Explain your conclusion.

Exam Exercise One - 24 (Tax Planning)

Ms. Tricia Jones makes contributions to a Registered Pension Plan sponsored by her employer. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 25 (Tax Planning)

Mrs. Janice Theil gives $50,000 in Canada Savings Bonds to her 27 year old, unemployed daughter. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 26 (Tax Planning)

Mr. Norman Rock transfers some dividend paying shares to his 25 year son who is attending university on a full time basis. What type of tax planning is involved in this transaction? Explain your conclusion.

TIF PROBLEM ONE - 5A
Introduction - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms are listed at the end of Chapter 1, "Introduction To Federal Taxation In Canada":

A. Fiscal Period
B. Flat Tax System
C. Part Year Resident
D. Net Income For Tax Purposes
E. Person
F. Regressive Tax System
G. Sojourner
H. Dual Resident

The following list contains ten potential definitions for the preceding key terms.

1. A taxation year that does not exceed 53 weeks.
2. A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.
3. The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.
4. A CRA publication providing their interpretation of various technical issues related to income taxes.
5. A term used in the *Income Tax Act* to refer to taxable entities.
6. An individual who is deemed under ITA 250 to be a Canadian resident for the full taxation year as the result of having been temporarily present in Canada for 183 days or more.
7. A taxpayer who is considered to be a resident of two countries.
8. A tax on income that is applied at the same rate to all taxpayers, without regard to the level of their income.
9. An individual who either enters Canada during the year and becomes a resident or, alternatively, an individual who departs from Canada during the year and gives up their Resident status.
10. A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.
11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM ONE - 5B
Introduction - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms are listed at the end of Chapter 1, "Introduction To Federal Taxation In Canada":

A. Fiscal Period
B. Flat Tax System
C. Part Year Resident
D. Net Income For Tax Purposes
E. Person
F. Regressive Tax System
G. Sojourner
H. Dual Resident

The following list contains 14 potential definitions for the preceding key terms.

1. A taxation year that does not exceed 53 weeks.

2. An individual who has a residence in more than one country.

3. A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.

4. The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.

5. A CRA publication providing their interpretation of various technical issues related to income taxes.

6. A term used in the *Income Tax Act* to refer to taxable entities.

7. The total of all positive sources of income, including employment income, business and property income, net taxable capital gains, and other sources of income.

8. An individual who is deemed under ITA 250 to be a Canadian Resident for the full taxation year as the result of having been temporarily present in Canada for 183 days or more.

9. A taxpayer who is considered to be a resident of two countries.

10. A tax on income that is applied at the same rate to all taxpayers, without regard to the level of their income.

11. An individual human being.

12. A taxation year that is longer or shorter than 52 weeks.

13. An individual who either enters Canada during the year and becomes a resident or, alternatively, an individual who departs from Canada during the year and gives up their Resident status.

14. A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.

15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM ONE - 6
Qualitative Characteristics

Since it came into power in 2015, the Liberal government has made a number of changes in the Canadian tax system. A brief description of five of these changes follows.

Increase In Maximum Tax Rate For many years the maximum federal tax rate for individuals has been 29 percent. For 2016 and subsequent years, this maximum has been increased to 33 percent. This has resulted in a situation where the maximum combined federal/provincial rate on individuals is over 50 percent in most provinces. It reaches as high as 54 percent in one province.

Repeal Of The Family Tax Cut This provision provided a tax reduction based on a limited amount of income splitting. Specifically, a separate calculation of Tax Payable was based on the assumption that up to $50,000 of Taxable Income was transferred from a higher income spouse to a lower income spouse. It was only available to couples with a child under the age of 18. It was repealed for 2016 and subsequent years.

Reduction To Tax Free Savings Account (TFSA) Contributions Limit The TFSA provision allows non-deductible contributions to be made to a registered account where earnings accumulate on a tax free basis. Withdrawals from these accounts are not taxed. For 2016 and subsequent years, the maximum annual contribution has been reduced from $10,000 to $5,500.

Small Business Tax Rate For many years, the federal tax rate on active business income earned by Canadian Controlled Private Corporations was 11 percent, 4 percentage points less than the rate applicable to most other corporate income. In 2015, the Conservative government announced that the rate would gradually be reduced to 9 percent. The rate was reduced to 10.5 percent for 2016 but the further planned reductions were cancelled. However, in 2017, the planned reductions were re-instated, with the rate going to 10 percent for 2018 and 9 percent for 2019

Early Child Educator School Supply Tax Credit The new Liberal government has introduced a new tax credit equal to 15 percent of eligible expenditures for supplies (e.g., paper, glue, paint for art projects, etc.). The maximum base for the credit will be $1,000 of eligible supplies in each year. To qualify, the taxpayer must have a certificate or diploma in early childhood education.

Required: Analyze each of the described changes using two of the qualitative characteristics of tax systems that are listed in your text. For your convenience, the list of qualitative characteristics presented in the text is as follows:

- equity or fairness
- neutrality
- adequacy
- elasticity
- flexibility
- simplicity and ease of compliance
- certainty
- balance between sectors
- international competitiveness

TIF PROBLEM ONE - 7
Evaluation Of Head Tax

Concerned with her inability to control the deficit, the Minister of Finance has indicated that she is considering the introduction of a head tax. This would be a tax of $200 per year, assessed on every living Canadian resident who, on December 31 of each year, has a head. In order to enforce the tax, all Canadian residents would be required to have a Head Administration Tax identification number (HAT, for short) tattooed in an inconspicuous location on their scalp. A newly formed special division of the RCMP, the Head Enforcement Administration Division (HEAD, for short), would run spot checks throughout the country in order to ensure that everyone has registered and received their HAT.

The Minister is very enthusiastic about the plan, anticipating that it will produce additional revenues of $5 billion per year. It is also expected to spur economic growth through increased sales of Canadian made toques.

As the Minister's senior policy advisor, you have been asked to prepare a memorandum evaluating this proposed new head tax.

Required: Prepare the memorandum.

TIF PROBLEM ONE - 8
Residency After Departure From Canada

Mr. Desmond Morris has spent his entire working life with his current employer, the Alcorn Manufacturing Company. In his first years with the Company, he was located in Winnipeg, Manitoba as a production supervisor. More recently, he was transferred to the Company's Calgary based subsidiary, where he has served as a manufacturing vice president until the current year.

Early in the current year, Mr. Morris was asked to move to the United States by April 1 to oversee the construction of a new manufacturing operation in Sarasota, Florida. It is expected that when the facility is completed, Mr. Morris will remain as the senior vice president in charge of all of the Florida operations. He does not have any intention of returning to live in Canada during the foreseeable future.

On April 1, Mr. Morris left Canada. In preparation for his departure, he had taken care to sell his residence, dispose of most of his personal property, and resign from all memberships in social and professional clubs. However, because Mr. Morris and his wife had three school age dependent children, it was decided that they would remain in Canada until the end of the current school year. As a consequence, Mrs. Morris and the children did not leave Canada until June 30. Until their departure, they resided in a small furnished apartment, rented on a month to month basis.

Required For purposes of assessing Canadian income taxes, determine when Mr. Morris ceased to be a Canadian resident and the portion of his annual income which would be assessed for Canadian taxes. Explain your conclusions.

TIF PROBLEM ONE - 9
Residency Of Individuals - Five Cases

For each of the following persons, indicate how they would be taxed in Canada for the year ending December 31, 2019. Your answer should explain whether the person is a Canadian resident, what parts of their income would be subject to Canadian taxation, and the basis for your conclusions.

Case A John is a citizen of the U.K. who has landed immigrant status in Canada. He has been employed in Canada for over 15 years. In 2018, he won $1.5 million in a lottery. He has decided to use these funds to spend two years touring Europe and Asia. His wife and children will remain at the family home in New Brunswick. He was not present in Canada during any part of 2019.

Case B In 2018, Jane's Canadian employer asked her to spend three years working in their Hong Kong office. Her employment contract requires her to return to Canada in 2021. Jane severs all of her residential ties with Canada and moves to Hong Kong in November, 2018. She is not present in Canada during any part of 2019.

Case C Laura is married to a member of the Canadian armed forces who is serving in Ghana. She is a citizen of Ghana and has never visited Canada. During 2019, because her husband is a member of the Canadian armed forces, she is not subject to taxation in Ghana.

Case D Martha Mendoza is a U.S. citizen who lives in Buffalo, New York. During 2019 she is employed 5 days per week in Fort Erie, Ontario. Her 2019 salary is $52,000. In addition, she has $2,000 (Canadian) of interest on a savings account with a Buffalo bank.

Case E Barry Long is a Canadian citizen who has lived and worked in Canada all of his life. When he is offered a significant increase in salary if he accepts a position in Spain, he accepts this position and on March 1, 2019, he moves to Spain. While he immediately establishes residency in Spain, he is not joined by his wife and children until July 1, 2019. As they are unable to sell their Canadian home at an acceptable price, the property is rented under a long-term residential lease.

TIF PROBLEM ONE - 10
Residency Of Corporations - Four Cases

Indicate which of the corporations described in the following Cases would be considered residents of Canada for the current year. Explain the basis for your conclusion.

Case A Bonix Ltd. was incorporated in Canada in 1981. While it operated in Canada for a number of years, all of its operations, management and directors relocated to the United States in 2008.

Case B Dorad Inc. was incorporated in Ohio in 2003. For several years, all of its directors were residents of Canada, with board meetings being held in Windsor, Ontario. However, in 2008, all of the directors moved to Toledo, Ohio. All Board Of Directors meetings are now held in that city.

Case C Upton Inc. was incorporated in Delaware in 2008. However, the head office of the corporation is in Halifax, Nova Scotia. All of the directors of the corporation are Canadian residents and all meetings of the board of directors are held in Halifax.

Case D Carlin Inc. was incorporated in Canada in 2005. However, its directors have always been residents of the United States, with all of the company's Board Of Directors meetings held in that country.

TIF PROBLEM ONE - 11
Residence - Individuals And Corporations

For each of the following persons, indicate how they would be taxed in Canada for the current year. Your answer should explain whether the person is a Canadian resident, what parts of their income would be subject to Canadian taxation, and the basis for your conclusions.

A. Molly London was born in Salmon Arm, British Columbia. On October 31, after a very serious dispute with her fiancé, she quit her job, left Salmon Arm and moved all her belongings to San Diego, California. She has vowed to never set foot in Canada again.

B. Daryl Bennett is a Canadian citizen living and working in Sault Ste. Marie, Michigan. He has a summer cottage in Sault Ste. Marie, Ontario, where he spent July and August. As his only sister lives in Sault Ste. Marie, Ontario, he spent a total of 27 days during the year staying with her in her home.

C. Tweeks Inc. was incorporated in Vermont in 1980 by two U.S. citizens who were residents of Quebec. All of the directors are residents of Quebec and all meetings of the Board of Directors have been held in Montreal since incorporation.

D. Bordot Industries Ltd. was incorporated in British Columbia on September 29, 1973. However, the directors of the corporation have always lived in Blaine, Washington. All of their meetings have been held at a large waterfront property just south of Blaine.

TIF PROBLEM ONE - 12
Residence - Individuals And Corporations - Six Cases

Pertinent facts are given for a different individual or corporation in each of the Parts of this problem. For each Part, indicate whether or not this individual or corporation would be considered a Canadian resident for income tax purposes during the current year. Briefly explain your conclusion.

Part A Dorothy is married to Jack, who is a member of the Canadian armed forces serving in Indonesia. Other than a brief visit to Jack's parents' home in Halifax, she has never been to Canada in her life. Because Jack is a member of the Canadian armed forces, neither he nor his wife is subject to taxation in Indonesia.

Part B Alice is a U.S. citizen living in Seattle, Washington. While she leaves many of her belongings at her parent's home in that city, she spends at least four days every week living with her boyfriend in Burnaby, British Columbia. They plan to be married at some future date.

Part C Last year, John transferred to the Cayman Islands office at the request of his Canadian employer. His three year employment contract calls for him to return to work in Canada after its completion. On his departure from Canada, he severed all residential ties with Canada.

Part D Millicent is a U.S. citizen who, until last year, had lived and worked in Canada as a landed immigrant for over 20 years. Last year, after winning $2 million in an Ontario lottery, she left Canada on a two year pleasure trip that will take her to virtually every country in the world. Her husband and children, all Canadian citizens, continue to live at the family home in Port Hope, Ontario.

Part E Berkly Management Inc. was incorporated in Alberta in 1963. Until 1986, its only director resided in that province. In that year, the director was replaced by an individual resident in Fresno, California.

Part F Lorris Ltd. was incorporated in Wisconsin in 1983. Until 1992, all of the directors of the corporation lived in Kenora, Ontario. During this period, the Board of Directors meetings were held in that city. Beginning in 1992, all of the directors have been residents of Green Bay, Wisconsin and all of the Board of Directors meetings have been held in Green Bay.

TIF PROBLEM ONE - 13
Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amount of income and deductions of Ms. Leslie Burke for the current taxation year:

> **Case A** Ms. Burke had employment income of $17,000 and net rental income of $8,500. Her unincorporated business lost $12,300 during this period. As the result of dispositions of capital property, she had taxable capital gains of $17,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year totalled $6,300. Fortunately for Ms. Burke, she won $1,000,000 in a lottery on March 3.

> **Case B** Ms. Burke had employment income of $42,100, interest income of $8,200, and a loss from her unincorporated business of $51,000. As the result of dispositions of capital property, she had taxable capital gains of $22,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year amounted to $4,200.

Required: For both Cases, calculate Ms. Burke's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

TIF PROBLEM ONE - 14
Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions that are available to Carl Suzak, a Canadian resident, for the current year.

Case A Carl had employment income of $126,100, as well as income from an unincorporated business of $14,100. A rental property owned by Carl experienced a net loss of $4,600. Dispositions of capital property during the current year had the following results:

Capital Gains	$56,400
Capital Losses	72,300

In compliance with the terms of his divorce agreement, Carl paid deductible spousal support of $600 per month for the entire year. In addition to the preceding items, Carl had a winning lottery ticket which resulted in his receiving a prize of $562,000.

Case B Carl had employment income of $89,000, interest income of $3,100, and net rental income of $8,600. Carl also operated an unincorporated business. Unfortunately, during the current year, it experienced a net loss of $187,400. Dispositions of capital property during the current year had the following results:

Capital Gains	$46,200
Capital Losses	26,300

Also during the current year, Carl made deductible contributions of $8,600 to his RRSP.

Required: For each Case, calculate Carl's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year.

TIF PROBLEM ONE - 15
Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions of Miss Nora Bain for the current taxation year:

	Case A	Case B
Employment Income	$34,000	$18,500
Income (Loss) From Business	(36,000)	(28,200)
Income From Property	21,000	12,000
Taxable Capital Gains	42,000	9,000
Allowable Capital Losses	(57,000)	(12,000)
Subdivision e Deductions (Spousal Support)	(5,500)	(10,500)

Required For both Cases, calculate Miss Bain's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

TIF PROBLEM ONE - 16
Net Income For Tax Purposes

The following four Cases make different assumptions with respect to the amounts of income and deductions of Kirsten for the current year:

	Case A	Case B	Case C	Case D
Employment Income	$75,660	$107,380	$60,710	$43,420
Income (Loss) From Business	(15,990)	(10,920)	(80,990)	(60,060)
Rental Income (Loss)	7,020	15,860	3,380	(23,790)
Taxable Capital Gains	41,080	20,280	15,080	30,030
Allowable Capital Losses	(16,120)	(30,420)	(13,910)	(32,110)
Subdivision e Deductions	(5,330)	(7,020)	(15,080)	(7,280)

Required For each Case, calculate Kirsten's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

Chapter One Test Item File Solutions

TIF Solution One - 1

1. The other sources of federal revenues that are shown in Figure 1-1 of the text are:
    - Corporate income taxes.
    - Non-resident income taxes.
    - GST.
    - Customs and import duties.
    - Other excise taxes.
    - EI premiums.

2. In the *Income Tax Act*, the term "person" can refer to an individual, a corporation, or a trust.

3. Provincial income taxes on individuals are calculated by applying a provincial rate schedule to the same Taxable Income figure that is used to calculate the federal income tax for individuals. Provincial credits are then applied to the resulting figure. The provincial brackets may differ from the federal brackets. In addition, provincial credits may be different than the federal credits.

4. There are many examples that could be used here. The text divides them into resource allocation (e.g., public health care), distribution effects (e.g., federal GST credit), stabilization effects (e.g., deficit reduction), and fiscal federalism (e.g., allocations to various levels of government).

5. Examples provided in the text are as follows:
    - Tax revenues are used to provide public goods and services.
    - Excise taxes are used to discourage the consumption of alcohol and tobacco products.

    There are, of course, many other examples that could be cited.

6. The Canada Child Benefit system is designed to assist families with children. It would appear that the government is encouraging people to have children. The fact that the benefits are reduced as income increases suggests that it is also designed to assist lower income families care for these children.

7. There are a number of possibilities here. They include:
    - Progressive rates increase the complexity of the system.
    - Progressive rates are unfair to individuals with highly variable income streams.
    - Progressive rates are unfair to single income family units.
    - Progressive rates lead to pressure for various types of tax concessions.
    - Progressive rates discourage high income individuals from making additional efforts.
    - Progressive rates encourage tax evasion.

8. While the sales tax rate is the same for all individuals without regard to their income level, lower income individuals normally spend a higher percentage of their total income. Since the sales tax is levied on the amounts spent, this means that the sales tax paid by lower income individuals represents a larger percentage of their income. As a consequence, they are generally considered to be regressive in nature.

9. Horizontal equity is achieved when taxpayers in similar economic circumstances are subject to similar levels of taxation. Vertical equity is achieved when taxpayers in different economic circumstances are subject to taxes in a different manner.

10. The reasons that are listed in the text are as follows:

    - It is less costly to administer tax expenditures than it is to administer government funding programs.
    - More decisions are left to the private sector so that funds may be allocated more efficiently.
    - Tax expenditures reduce the visibility of certain government actions. This is particularly beneficial if some social stigma is attached to the programs. For example, a child tax benefit system is more acceptable than increasing social assistance payments.
    - Tax expenditures reduce the progressivity of the tax system. As many of the tax expenditures, such as tax shelters, are more available to higher income taxpayers, they serve to reduce effective tax rates in the higher rate brackets.

11. This situation reflects the fact that when a new Section is added, it has been more convenient to attach a decimal designation to the new Section, as opposed to renumbering all of the Sections that follow the new Section. As an example, over several years, the Department of Finance has added six new Sections after Section 12. They have been numbered Section 12.1 through Section 12.6. If they had used whole numbers for these new Sections, it would have been necessary to renumber all of the remaining Sections in the *Act* each time a new Section was added.

12. The purposes of these treaties are as follows:

    - They attempt to avoid double taxation of taxpayers who may have reason to pay taxes in more than one jurisdiction.
    - They try to prevent international evasion of taxes.

13. The required four items can be selected from the following:

    - CRA Web Site
    - Interpretation Bulletins
    - Income Tax Folios
    - Information Circulars
    - Income Tax Technical News
    - CRA News Releases, Tax Tips, and Fact Sheets
    - CRA Guides
    - CRA Pamphlets
    - Advance Income Tax Rulings
    - Technical Interpretations

14. For individuals and inter vivos trusts, the taxation year is equal to the calendar year. In contrast, corporations can always use a fiscal period. A fiscal period can end on any date, with the only constraint being that it cannot exceed 53 weeks for a corporation. With respect to testamentary trusts, prior to 2016, like corporations, they could always use a non-calendar fiscal year. In 2016 and subsequent years, their use of non-calendar fiscal periods is significantly restricted (see Chapter 19).

15. The circumstances that would result in a non-resident person having to pay income taxes in Canada are as follows:

    - The non-resident person earns employment income in Canada.
    - The non-resident person carried on a business in Canada.
    - The non-resident person has a gain on the disposal of a taxable Canadian property.

16. As stated in the text, residence is the cornerstone of Canadian income taxation. If a person is considered a resident of Canada in a given year, that person will be subject to Canadian income tax for that year on all sources of income. Alternatively, if the person is a non-resident, Canadian Part I tax will only apply to Canadian employment income, Canadian business income, and gains on the disposition of Taxable Canadian Property.

17. As stated in S5-F1-C1, the primary factors that will be considered by the CRA are as follows:

    - Whether the individual is continuing to maintain a dwelling in Canada.
    - Whether the spouse or common-law partner of the individual remains in Canada.
    - Whether the individual has dependants who remain in Canada.

18. The main factors here would be:

    - Does the individual have a dwelling in Canada?
    - Does the individual's spouse or common-law partner live in Canada?
    - Do the dependants of the individual live in Canada?

    Other factors that could be mentioned include:

    - Owning personal property in Canada (such as furniture, clothing, automobiles, and recreational vehicles).
    - Social ties with Canada (such as memberships in Canadian recreational and religious organizations).
    - Economic ties with Canada (such as employment with a Canadian employer and active involvement in a Canadian business, and Canadian bank accounts, retirement savings plans, credit cards, and securities accounts).
    - Hospitalization and medical insurance coverage from a province or territory of Canada.
    - A driver's license from a province or territory of Canada.
    - A vehicle registered in a province or territory of Canada.
    - A seasonal dwelling place in Canada or a leased dwelling place.
    - Holding a Canadian passport.
    - Membership in Canadian unions or professional organizations.

19. As noted in the text, S5-F1-C1 identifies the following factors:

    Intent The issue here is whether the individual intended to permanently sever residential ties with Canada. If, for example, the individual has a contract for employment, if and when he returns to Canada, this could be viewed as evidence that he did not intend to permanently depart. Another factor would be whether the individual complied with the rules related to permanent departures (i.e., as noted in Chapter 8, there is a deemed disposition of an individual’s property at the time of departure from Canada, resulting in the need to pay taxes on any gains).

    Frequency Of Visits If the individual continues to visit Canada on a regular and continuing basis, particularly if other secondary residential ties are present, this would suggest that he did not intend to permanently depart from Canada.

    Residential Ties Outside Of Canada A further consideration is whether or not the individual establishes residential ties in another country. If someone leaves Canada and travels for an extensive period of time without settling in any one location, it will be considered as evidence that he has not permanently departed from Canada.

20. A Canadian resident normally becomes a non-resident on the latest of the following days:
    - on leaving Canada,
    - when a spouse and/or dependants leave Canada, and
    - on becoming a resident of another country.

21. As a sojourner, Jane would be assessed Canadian income taxes on her world wide income for the entire year. As she would not be considered a resident of a province, she would be assessed an additional federal income tax of 48 percent of her basic federal tax otherwise payable.

    In contrast, Jack would only be assessed Canadian income taxes on his world wide income for the 210 day period prior to his departure from Canada. In addition, he would be assessed provincial income tax in the province of Manitoba for this 210 day period.

22. The required three items could be selected from the following:

    Permanent Home If the individual has a permanent home available in only one country, the individual will be considered a resident of that country. A permanent home means a dwelling, rented or purchased, that is continuously available at all times. For this purpose, a home that would only be used for a short duration would not be considered a permanent home.

    Centre of Vital Interests If the individual has permanent homes in both countries, or in neither, then this test looks to the country in which the individual's personal and economic relations are greatest. Such relations are virtually identical to the ties that are examined when determining factual residence for individuals.

    Habitual Abode If the first two tests do not yield a determination, then the country where the individual spends more time will be considered the country of residence.

    Citizenship If the tie-breaker rules still fail to resolve the issue, then the individual will be considered a resident of the country where the individual is a citizen.

    Competent Authority If none of the preceding tests resolve the question of residency then, as a last resort, the so-called "competent authority procedures" are used. Without describing them in detail, these procedures are aimed at opening a dialogue between the two countries for the purpose of resolving the conflict.

23. If an enterprise is incorporated in Canada after April 26, 1965, it will always be considered resident in Canada. However, if it is incorporated in Canada prior to April 27, 1965, it will only be considered resident in Canada in those situations where it either:
    - carried on business in Canada at any time after that date; or
    - was resident in Canada at any time after that date (as measured by the location of the mind and management of the corporation).

24. Limon Inc. is a U.S. resident because it was incorporated in that country. It is also a Canadian resident under the mind and management test. In such dual residency cases, the tie-breaker rule in the Canada/U.S. tax treaty indicates that the taxes will be assessed in the country of incorporation. That means that Limon Inc. would be subject to U.S. income taxes.

25. The components of Net Income For Tax Purposes are employment income, business and property income, net taxable capital gains, other sources of income, and other deductions from income.

26. The phrase "the amount, if any" is used throughout the *Income Tax Act* to indicate that only positive amounts should be considered. In the context of ITA 3(b), the requirement that negative amounts be ignored, in effect, prevents the deduction of current year allowable capital losses in excess of current year taxable capital gains in the determination of Net Income For Tax Purposes.

27. Tax avoidance is a form of tax planning in which the taxpayer, through means that are within the boundaries of tax legislation, arranges his affairs in a manner that allows him to receive benefits without the payment of taxes. Tax planning to achieve tax deferral involves either the delayed recognition of income, or the accelerated recognition of deductions. The payment of tax is delayed, as opposed to permanently avoided.

28. Income splitting involves efforts to share the total income accruing to an individual with family members or other related parties. It will only benefit a taxpayer who is in a high tax bracket in those circumstances where there are family members or other related parties who are in lower tax brackets.

29. The basic type of tax planning that is involved in Registered Retirement Savings Plans is tax deferral — a tax savings results from making contributions that will have to be paid back at a later point in time. There may also be an element of avoidance in that, after retirement, an individual may be in a lower tax bracket than he was during his working years. If this is the case, there will be an absolute reduction in taxes. (This assumes that the basic rate structure is unchanged.)

30. The basic goals of tax planning can be summarized as follows:

    - Tax avoidance - To permanently avoid the payment of some amount of tax.
    - Tax deferral - To delay the recognition of certain types of income or accelerate the timing of certain deductions.
    - Income splitting - To have a family or other related group's aggregate taxable income allocated as evenly as possible among the members of the group.

    He should contribute the $5,000 to the spousal RRSP. By contributing to an RRSP he will be deferring taxes. By contributing to a spousal RRSP he is also income splitting and there may be possible tax avoidance if his spouse is taxed at a lower rate when the funds become taxable to her.

TIF Solution One - 2

1. True. A value added tax is a tax levied on the increase in value of a commodity or service that has been created by the taxpayer's stage of the production or distribution cycle.

2. False. Only individuals, corporations, and trusts are taxable entities for income tax purposes.

3. True. Partnerships engaged in commercial activity are taxable entities for GST purposes.

4. False. In general, provincial taxes are based on a specified percentage of federal taxable income.

5. False. The federal government collects taxes for Ontario.

6. True. Even if the rate is the same on all transactions, it will be a higher rate on the taxable income of lower income individuals because they spend a larger percentage of their income.

7. False. Progressive rates discourage both employment and investment, thereby limiting economic growth.

8. True. Tax expenditures are less costly to administer than direct funding programs.

9. True. Part I of the *Income Tax Act* is the largest and the most important part.

10. False. The citation ITA 61(4)(b)(ii) would be read Section 61, Subsection 4, Paragraph b, Subparagraph ii.

11. True. While individuals and inter vivos and most testamentary trusts must use a calendar taxation year, other taxpayers, corporations and testamentary trusts that have been designated as graduated rate estates, can choose to use this period as their taxation year.

12. False. The provisions of the international treaty will prevail.

13. True. An income tax is payable for each taxation year on the Taxable Income of every person resident in Canada at any time in the year.

14. False. Canadian income taxes are assessed on residents of Canada.

15. False. S5-F1-C1 makes it clear that the length of the period of time during which the individual is absent from Canada is not a determining factor with respect to residency.

16. False. Such part year residents will only be taxed on their worldwide income for the portion of the year subsequent to their moving to Canada.

17. True.

18. False. Whether the individual continues to maintain social ties is not one of the three most significant factors.

19. False. The length of the period of absence from Canada is not considered a factor in determining residency retention.

20. True. A part year resident for the current year is an individual who either establishes residency in Canada during the current year or, alternatively, terminates residency in Canada during the current year.

21. False. The 183 days do not have to be consecutive.

TIF Solution One - 3

Canadian Tax System

1. C. Head Tax

2. C. Walters and Walters, a group of CPAs operating as a partnership.

3. D. All of the above could be required to file a GST return.

4. A. Personal income tax

5. D. Each province can establish rules for determining the Taxable Income of individuals.

6. C. Individuals, trusts and corporations

7. B. Provincial, federal, and international

Tax Policy Concepts

8. B. Extremely high rates of tax will always encourage individuals to work harder so that they will have more after tax income.

9. C. Ensure fairness in the allocation of resources to different levels of government.

10. B. A progressive rate system provides greater stability in the context of changing economic conditions.

11. B. A regressive tax is one which results in lower effective tax rates for higher income taxpayers.

12. A. It is more costly to administer tax expenditures as opposed to program spending.

13. B. Inelasticity.

14. C. Simplicity.

15. A. Neutrality.

16. D. Horizontal equity.

Income Tax Reference Materials

17. D. The *Income Tax Act* is the most important source of information for dealing with matters related to the federal income tax.

18. D. All Parts of the *Income Tax Act* contain at least one Section.

19. B. Income Tax Folios.

20. C. Dominion Tax Cases.

21. C. Unreported revenues from business transactions.

22. B. The Income Tax Regulations.

23. D. When there is a conflict between the Canadian *Income Tax Act* and an international agreement, the terms of the Canadian *Income Tax Act* prevail.

Liability For Tax

24. B. Corporations must use the calendar year as their taxation year.

25. A. is a resident of Canada.

26. D. Bunly Im, a resident of the United States who earns interest income in Canada.

27. C. Rental income earned in Canada

Residence

Residence Of Individuals

28. C. The individual has become a resident of another country.

29. D. She did not leave taxable Canadian property in Canada.

30. C. An individual who immigrates to Canada during the year is a resident of Canada for tax purposes for the full calendar year.

31. B. Bob, Charles, and Dick.

32. A. To be a resident for tax purposes, an individual must be a Canadian citizen.

33. A. The country in which the individual earns business income.

34. C. Jamal is considered a non-resident of Canada.

35. A. Ravi is a citizen of India, where he was born and lived until moving to Canada on March 1 of the current year. He was transferred by his employer to its Canadian head office.

36. B. A non-resident

37. D. A part-year resident

Residence Of Corporations

38. D. Exeter Ltd. was incorporated in Alberta in 1956. However, it has never carried on business in Canada and its management has always been located in Montana.

Residence Of Corporations And Individuals

39. B. A corporation that was incorporated in North Dakota but carries on all of its business in southern Manitoba.

40. B. Karen Cotin, a computer programmer, had been employed by ABC Systems Ltd. in Toronto. In 2018, she accepted a minimum two-year contract with CS Services Inc. in London, England. Her position with CS Services Inc. started October 1, 2018. Before moving to England, where she will join her fiance, Karen terminated the lease on her apartment in Toronto and sold her car. It appears Karen has severed all ties with Canada.

Alternative Concepts Of Income

41. C. Net Income For Tax Purposes requires that costs be matched with revenues.

42. B. Net income is determined by adding together several different types of income which are added together based on an ordering rule.

Calculation Of Net Income For Tax Purposes

43. D. If a business loss exceeds all other positive sources of income, Net Income For Tax Purposes is equal to nil.

44. C. Business losses can be netted against employment income in determining the positive amounts to be included under ITA 3(a) and 3(b).

45. C. $45,000

46. B. $ 22,000 ($34,000 + $4,000 - $2,000 - $14,000)

47. B. Nil, with a business loss that can be used in either the previous 3 years or in the next 20 future years of $12,000 (34,000 + 6,000 + 4,000 – 2,000 – 54,000)

48. B. That the current year allowable capital losses can only be deducted to the extent that there are taxable capital gains during the current year.

49. D. \$32,000 [\$45,000 + (1/2)(\$20,000 - \$12,000) - \$3,000 - \$14,000]

Net Income To Taxable Income

50. B. A deduction for the extra costs related to living in prescribed areas of the Canadian north.

51. D. The excess of allowable capital losses over taxable capital gains for the year.

Tax Planning

52. D. Accelerated depreciation (CCA) on rental properties.

53. D. Tax avoidance.

54. B. Tax deferral.

55. C. Making use of the lifetime capital gains deduction.

TIF Solution One - 4

Exam Exercise One - 1 Solution (Taxable Entities For Income Tax Purposes)

Sally Forbes, the Forbes family trust, and Forbes Enterprises Ltd. could be required to file income tax returns. Forbes Boutique, Forbes and Delaney, and the Forbes Foundation are not taxable entities for income tax purposes.

Exam Exercise One - 2 Solution (Taxable Entities For GST Purposes)

Under the GST legislation, all of the listed entities could be required to file a GST return. Where only individuals, corporations and trusts can be required to file an income tax return, the definition of a person (i.e., taxable entity) is much broader for GST purposes. As is explained in detail in Chapter 21, whether an entity is required to file a GST return is dependent on the level of commercial activity.

Exam Exercise One - 3 Solution (Federal And Provincial Taxes Payable)

Federal Tax Payable [(15%)($37,500)]	$5,625
Provincial Tax Payable [(8.2%)($37,500)]	3,075
Total Tax Payable [(15% + 8.2%)($37,500)]	$8,700

Exam Exercise One - 4 Solution (Federal And Provincial Taxes Payable)

Federal Tax Payable [(15%)($26,700)]	$4,005
Provincial Tax Payable [(10%)($26,700)]	2,670
Total Tax Payable [(15% + 10%)($26,700)]	$6,675

Exam Exercise One - 5 Solution (Regressive Taxes)

Samantha's HST paid totals $28,080 [(13%)($216,000)]. Based on her Taxable Income of $625,000, this would represent an effective rate of 4.5 percent ($28,080 ÷ $625,000).

Martha's HST paid totals $2,782 [(13%)($21,400)]. On her Taxable Income of $12,000, this would be an effective rate of 23.2 percent ($2,782 ÷ $12,000).

Exam Exercise One - 6 Solution (Regressive Taxes)

Veronica's HST paid totals $21,060 [(13%)($162,000)]. Based on her Taxable Income of $843,000, this would represent an effective rate of 2.5 percent ($21,060 ÷ $843,000).

Her sister's HST paid totals $4,680 [(13%)($36,000)]. On her Taxable Income of $8,000, this would be an effective rate of 58.5 percent ($4,680 ÷ $8,000).

Exam Exercise Solution One - 7 (Non-Resident Liability For Tax)

She is not correct. Under ITA 2(3) she would be subject to Canadian taxes on employment income earned in Canada, but not on her U.S. employment income.

Exam Exercise Solution One - 8 (Non-Resident Liability For Tax)

He is not correct. Under ITA 2(3) he would be subject to Canadian taxes on the gain resulting from a disposition of Taxable Canadian Property.

Exam Exercise Solution One - 9 (Residential Ties)

While the situation is not completely clear, it is likely that the CRA would conclude that Mr. Resner is no longer a Canadian resident. By retaining his residence, he has maintained one of the primary residential ties. However, the fact that he was not able to sell the property, accompanied by the long-term lease to a third party, would probably be sufficient evidence that this is not a significant residential tie. The retention of his membership in the Chartered Professional Accountants Association Of Alberta would be viewed as a secondary residential tie. However, it is unlikely that this tie would be sufficient to cause Mr. Resner to be viewed as a Canadian resident.

Exam Exercise Solution One - 10 (Temporary Absences)

Mary did, in fact, sever most of her residential ties with Canada. This would suggest that she would not be considered a Canadian resident during the two years she worked in New York City. However, the fact that she returned frequently to visit her boyfriend might lead the CRA to assess her on the basis of being a Canadian resident during this period, but it is not clear that such an assessment would be successful.

Exam Exercise Solution One - 11 (Temporary Absences)

While John severed the great majority of his residential ties with Canada, two factors would suggest that the CRA would likely view him as a Canadian resident during the 18 months that he is absent from the country:

- His frequent visits to spend time with his dog.
- Perhaps more importantly, the fact that he claimed a Canadian address to maintain access to the Ontario health care system would be viewed as a very significant factor.

While the answer is not clear cut, our opinion would be that these factors would lead to the conclusion he maintained his Canadian residency. Given the fact that he appears to be defrauding the Ontario health care system, he might be wise to avoid disputing his continued residency.

Exam Exercise Solution One - 12 (Part Year Residence)

Melissa would be taxed on her worldwide income for the part of the year that she was resident in Canada. This would be the period January 1 through July 1, the date that her husband and children fly to the U.S. July 1 would be the latest of: the date that Melissa leaves Canada (March 15), the date that Melissa establishes U.S. residency (March 15), and the date that her husband and children depart Canada (July 1). It is unlikely that the fact that her house was not sold until a later date would influence her residence status.

Exam Exercise Solution One - 13 (Part Year Residence)

For residency purposes, an individual is considered to have ceased being a resident of Canada at the latest of three dates:

1. The date the individual leaves Canada.
2. The date the individual's family leaves Canada.
3. The date the individual establishes residency in another country.

In Barton's case the latest of the dates would be July 1, 2020, the date on which he receives the required residency documents. Given this, Barton would be considered a Canadian resident for the entire 2019 taxation year. In addition, he would be a part year resident for the period January 1, 2020 through June 30, 2020.

Exam Exercise Solution One - 14 (Individual Residency)

Under ITA 250(1)(c)(i), Mrs. Sothor would be a deemed Canadian resident because of her position as a Canadian ambassador and the fact that she was a Canadian resident at the time she was appointed to this post. As her husband is exempt from Tanzanian taxation due to his relationship to a deemed resident, he is a deemed resident of Canada under ITA 250(1)(g). Of her two children, the younger son would be a deemed resident under ITA 250(1)(f) as he is a Canadian ambassador's dependent child. However, the older son would not be a deemed resident because his income exceeds the base for the basic personal tax credit for 2019 of $12,069 and he would therefore not be considered a dependant.

Exam Exercise Solution One - 15 (Individual Residency)

While Ms. Washton is the child of a Canadian High Commissioner, it appears that she is no longer a dependant of this individual. It would also appear that she has income in excess of the base for the basic personal tax credit for 2019 of $12,069. As a consequence, she would not be considered a deemed resident under ITA 250(1).

Exam Exercise Solution One - 16 (Corporate Residency)

As the Company was incorporated in Canada after April 26, 1965, it would be deemed to be a Canadian resident under ITA 250(4). While the problem does not provide enough information to determine this, it is possible that the Company has dual residency with the country or countries where it does business. This could result in the application of one or more international tax treaties. Note that, in general, where a corporation does business is not relevant to the residency decision.

Exam Exercise Solution One - 17 (Corporate Residency)

As Wolfhowl Ltd. was incorporated in Canada prior to April 27, 1965, it will only be considered to be a Canadian resident if it has carried on business in Canada or become a Canadian resident subsequent to April 26, 1965. As the director's meetings were held in Canada until 1971, this would suggest that the "mind and management" of the Company was in Canada during this period. This would make the Company a Canadian resident subsequent to April 26, 1965. However, as the mind and management of the corporation is in the United States, it would also be considered a resident of that country. In such dual residency situations, the Canada/U.S. tax treaty tie breaker rules indicate the Company will be considered a resident of the country of incorporation, which in this case would be Canada.

Exam Exercise Solution One - 18 (Corporate Residency)

While Acton Enterprises was not incorporated in Canada, it would appear that the "mind and management" of the Company is now located in Canada. This means that the Company would be considered a Canadian resident for the 2019 taxation year. However, as it was incorporated in the U.S., it would also be considered a resident of that country. In such dual residency situations, the tie breaker rules indicate the residence would be based on the country of incorporation. This would mean that Acton Enterprises would not be a Canadian resident during 2019.

Exam Exercise Solution One - 19 (Net Income For Tax Purposes)

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

Income Under ITA 3(a):		
Net Employment Income	$66,000	
Interest Income	10,250	$76,250
Income Under ITA 3(b):		
Taxable Capital Gains	$13,500	
Allowable Capital Loss	(24,000)	Nil
Balance From ITA 3(a) And (b)		$76,250
ITA 3(c) Deductions:		
Spousal Support		(14,000)
RRSP Contributions		(3,000)
Balance From ITA 3(c)		$59,250
Deductions Under ITA 3(d):		
Net Rental Losses		(6,750)
Business Loss		(28,000)
Net Income For Tax Purposes		$24,500

She has an unused allowable capital loss carry over of $10,500 ($24,000 - $13,500).

Exam Exercise Solution One - 20 (Net Income For Tax Purposes)

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

Income Under ITA 3(a):		
Net Employment Income	$45,000	
Interest Income	4,500	$49,500
Income Under ITA 3(b):		
Taxable Capital Gains	$13,500	
Allowable Capital Loss	(18,200)	Nil
Balance From ITA 3(a) And (b)		$49,500
ITA 3(c) Deductions:		
Spousal Support		(24,000)
Balance From ITA 3(c)		$25,500
Deductions Under ITA 3(d):		
Business Loss		(23,000)
Net Rental Loss		(14,500)
Net Income For Tax Purposes		Nil

At the end of this year, Mr. Nicastro would have an unused allowable capital loss carry over of $4,700 ($13,500 - $18,200). In addition, he would have a non-capital loss carry over of $12,000 ($25,500 - $23,000 - $14,500).

Exam Exercise Solution One - 21 (Tax Planning)

This transaction clearly involves tax deferral, in that the contribution will be deductible and the earnings on the contribution will accumulate on a tax free basis. However, all of these amounts will be taxable when they are withdrawn from the plan. There may also be tax avoidance. This will happen if Mr. Bronson is taxed at a lower rate when the funds become taxable.

Exam Exercise Solution One - 22 (Tax Planning)

This transaction involves tax avoidance. Ms. Bloom can receive this benefit from her employer without being assessed a taxable benefit. Extra salary would be taxable.

Exam Exercise Solution One - 23 (Tax Planning)

Natasha is involved in income splitting, tax deferral, and possibly tax avoidance. She is getting the deduction from Taxable Income now and her spouse will be taxed on the income in the future. The tax deferral occurs as the contribution is currently deductible and the earnings on the contribution will accumulate on a tax free basis. However, all of these amounts will be taxable when they are withdrawn from the plan. Tax avoidance will occur if John is taxed at a lower rate than is currently applicable to Natasha when the funds become taxable to him.

Exam Exercise Solution One - 24 (Tax Planning)

Contributions to a registered pension are deductible in the year in which they are made. They are not taxed until retirement benefits are received under the terms of the plan. This involves tax deferral and, if Ms. Jones is taxed at a lower rate after she retires, tax avoidance has also been accomplished.

Exam Exercise Solution One - 25 (Tax Planning)

This transaction involves income splitting. It would appear that her daughter is in a lower tax bracket than Mrs. Theil. This means that the income on the Canada Savings Bonds will be taxed at a lower rate than would be the case if the bonds remained in Mrs. Theil's hands.

Exam Exercise Solution One - 26 (Tax Planning)

This transaction involves income splitting. As Norman's son is over 18 years of age, the dividends will be taxed in his name and not attributed back to his father. Provided he is in a lower tax bracket than Norman, this will reduce the family's overall tax burden.

TIF Solution One - 5A

The correct definitions for each of the listed key terms are as follows:

A. 1

B. 8

C. 9

D. 3

E. 5

F. 2

G. 6

H. 7

The two unused definitions are as follows:

Income Tax Folios = 4

Progressive Tax System = 10

TIF Solution One - 5B

For some terms there is both a 100 percent correct answer and an answer that is close. We have indicated the "close answer" in brackets.

The correct definitions for each of the listed key terms are as follows:

A. 1 (not 12)

B. 10

C. 13

D. 4 (not 7)

E. 6 (not 11)

F. 3 (not 14 which is also an unused definition)

G. 8

H. 9 (not 2)

The two unused definitions are as follows:

Income Tax Folios = 5

Progressive Tax System = 14

TIF Solution One - 6

Note The descriptions of these tax measures are significantly simplified. The objective of this problem is to present the basic ideas so they can be understood by students at this introductory level, while still providing a basis for discussion. It is obvious that there is no definitive solution to this problem. The analysis provided below is intended to be no more than suggestive of possible points that could be made. There are, of course, many alternative solutions.

Increase In The Maximum Tax Rate

Possible comments here would be as follows:

Adequacy As this increase was accompanied by a reduction in the second tax bracket from 22.0 percent to 20.5 percent, as well as a number of new spending initiatives, the government felt that this increase was necessary in order to provide compensating revenues.

International Competitiveness The fact that, in most provinces, the maximum tax rate on individuals is over 50 percent makes Canada less competitive with many other jurisdictions. In particular, in the United States, maximum tax rates on individuals are generally much lower.

Repeal Of The Family Tax Cut

Possible comments here would be as follows:

Simplicity And Ease Of Compliance This was an extremely complex provision that few individuals, other than those working as tax professionals really understood. Elimination of the provision reduces the complexity of the Canadian tax system.

Equity Or Fairness The family tax cut was widely criticized for providing most of its benefits to middle and upper income Canadians. Lower income individuals rarely benefitted from its provisions. It can be argued that the elimination of the family tax cut improves the fairness of the system.

Reduction In Contributions To Tax Free Savings Accounts

Possible comments here would be as follows:

Adequacy The reduction in the 22 percent tax bracket to 20.5 percent and several new and expensive programs have increased the government's need for additional revenues. Reducing this limit on the amount of investment income that can be earned tax free will increase revenues.

Balance Between Sectors As this provision is only available to individuals, the ability to earn tax free investment income reduces taxes for this group of taxpayers. A reduction in the maximum contribution has the effect of increasing taxes for the group. This serves to increase the already heavy tax burden on this group of taxpayers.

Small Business Tax Rate

Possible comments here would be as follows:

Certainty The fact that the reductions were scheduled, cancelled, and then re-instated has reduced certainty

Neutrality As changes in the small business rate affect specific taxpayers, the reductions in this rate are not neutral. They favour the shareholders of the corporations that qualify for this rate.

Early Child Educator School Supply Tax Credit

Possible comments here would be as follows:

Simplicity And Ease Of Compliance The large number of existing tax credits and the fact that new ones are added nearly every year, has greatly increased the complexity of the Canadian tax system. Another addition will exacerbate this problem. Additional complexity is also created by issues such as defining eligible supplies and determining who qualifies for the credit.

Neutrality This credit results in a benefit related to the costs associated with being a particular type of employee. It is not neutral in that it does not provide similar benefits for the costs associated with other types of employment (e.g., construction workers cannot deduct the cost of protective clothing).

TIF Solution One - 7

There are a large number of possible responses to a question such as this. Some possibilities would include the following:

- **Simplicity And Ease Of Compliance** A very good feature of this tax is that it is very simple and presents the taxpayer with no compliance problems. Anyone with a head is taxed and no provisions have been made for any modifications in applicability or amounts to be paid.

- **Fairness And Equity** In one sense this is a fair tax in that it applies to every Canadian resident and the amount to be collected from each individual is the same. This could be described as horizontal equity. However, the tax could also be considered unfair in that it gives no consideration to the individual's ability to pay the tax, either in terms of accumulated wealth or income.

- **Regressiveness** Related to fairness is the fact that the tax is regressive. That is, the tax will take a higher percentage of income from low income individuals than it will from high income individuals.

- **Flexibility And Elasticity** Being a very simple tax, it will be very easy to change the rate at which it is assessed. However, as it is a flat tax based simply on the existence of the individual, it will not respond to changing economic conditions.

- **Enforcement And Dependability Of Revenues** Given the presence of a physically visible audit trail (the HAT), there should be no enforcement problems. Further, demographic statistics are reasonably predictable, making it relatively easy for the government to anticipate the expected levels of revenue.

- **Neutrality** Other than decisions related to whether to remain a Canadian resident, the tax appears to be neutral with respect to economic conditions.

- **International Competitiveness** It seems unlikely that a $200 tax would be sufficient to influence a decision to either leave Canada or move to Canada. Therefore, the tax could be thought of as being internationally competitive.

- **Balance Between Sectors** The tax might be criticized as an additional burden on Canadian individuals as opposed to Canadian businesses.

There are, of course, other factors that could be considered.

TIF Solution One - 8

Mr. Morris would fall under the part year resident rules and would only be assessed for Canadian taxes on worldwide income during the portion of the year prior to his ceasing to be a resident of Canada.

By selling his house, disposing of other personal property, and resigning from various social and professional clubs, Mr. Morris appears to have done most of the things that would be required to establish that he had made a clean break from Canada as of April 1. However, S5-F1-C1 indicates that, in general, the CRA will view an individual as becoming a non-resident on the latest of three dates:

- The date the individual leaves Canada.
- The date the individual's spouse or common-law partner and dependants leave Canada.
- The date the individual becomes a resident of another country.

Because of the continued presence in Canada of the spouse and dependent children of Mr. Morris, he would be considered a resident of Canada until June 30, the latest of the relevant dates.

In terms of tax consequences, he would be subject to Canadian taxes on his salary until March 31. He would then be subject to U.S. taxes on income earned in that country after March 31. However, he would also be liable for Canadian taxes during the period April 1 through June 30. While he would be eligible for a tax credit for U.S. taxes paid on this income, the fact that Canadian taxes are generally higher than those in the U.S. would probably result in a liability for Canadian taxes during this period until his family departs from Canada.

TIF Solution One - 9

Case A

John's 2 year tour would be considered a temporary absence from Canada. Given the facts, it appears his intent is not to permanently sever residential ties with Canada. This position is evidenced by the fact his tour is for a limited time and he will not be establishing residency in another country.

John's departure does not appear to be a true departure in that he has not severed any of the primary ties (dwelling, spouse and dependants) the CRA looks to. As a result, examining those ties would not be relevant since they are typically used when there is an intention to sever residential ties, but they are not all severed at the same time.

John will remain a Canadian resident during his tour and would be subject to Canadian tax on his worldwide income during 2019.

Case B

Because she has an employment contract that requires her to return to Canada in three years, she will be viewed as having retained Canadian residence status. Although she has severed her ties with Canada, the requirement to return would show that she does not intend to permanently leave Canada.

Jane will be subject to Canadian tax on her worldwide income during 2019.

Case C

As she is exempt from taxation in Ghana because she is the spouse of a deemed Canadian resident, Laura would be a deemed resident of Canada for income tax purposes during 2019 [(ITA 250(1)(g)].

Laura would be subject to Canadian tax on her worldwide income during 2019.

Case D

As noted in S5-F1-C1, commuting from the U.S. for employment purposes does not make an individual a deemed resident under the sojourner rules. Therefore, Martha would not be considered a Canadian resident for income tax purposes.

She would be exempted by the Canada/U.S. tax treaty under ITA 2(3) if the amount of employment income was less than $10,000, or if she was physically present in Canada for less than 183 days. Her employment income was more than $10,000 and, because she was working 5 days a week, it appears that she was physically present in Canada for more than 183 days. Given these facts, she would not be exempted from Canadian taxation because of the Canada/U.S. tax treaty.

Martha would be subject to Canadian tax on her 2019 Canadian employment income. She would not be subject to Canadian tax on her U.S. savings account interest.

Case E

Residency terminates at the latest of:

- the date the individual leaves Canada;
- the date the individual's family leaves Canada; and
- the date that individual establishes residency elsewhere.

As Barry's family did not leave Canada until July 1, 2019, Barry would be considered a Canadian resident until that date. Provided he has no intention of returning to Canada, he would be subject to Canadian taxes on his worldwide income for the period January 1, 2019 through July 1, 2019. In addition, he would be subject to Canadian tax on his 2019 rental income. As will be discussed in Chapter 20, the tax on the rental income would not be Part I tax. It would be Part XIII tax.

TIF Solution One - 10

Canada/U.S. Tax Treaty Tie Breaker Rule

In cases of dual residency for corporations, where a corporation could be considered a resident of both countries, the Canada/U.S. tax treaty indicates that the corporation will be deemed to be a resident only in the country in which it is incorporated.

Case A

While Bonix is no longer operating in Canada, it was incorporated here and it is deemed a Canadian resident. However, as the mind and management of the Company are currently in the United States, the Company is also a resident of the U.S. Using the tie breaker rule, Bonix will be considered a resident of Canada.

Case B

Dorad Inc. was not incorporated in Canada and its mind and management are not currently located here. Therefore, Dorad would not be considered a resident of Canada.

Case C

The mind and management of Upton Inc. are in Canada and this suggests that the Company is a resident of Canada. However, as Upton Inc. was incorporated in the U.S., it is also a resident of the U.S. Using the tie breaker rule, the Upton Inc. will be considered a resident of the U.S. and a non-resident of Canada.

Case D

Carlin Inc. was incorporated in Canada which means Carlin is a deemed resident of Canada. However, because the mind and management of the Company are in the United States, it is also a resident of the U.S. Using the tie breaker rule, Carlin Inc. will be considered a resident of Canada.

TIF Solution One - 11

A. Molly London would be considered a part year resident of Canada until October 31, the date of her departure and would be taxed on her worldwide income for this period. As her presence in Canada during the first part of the year was on a full time basis, she would not fall under the sojourning rules.

B. Daryl Bennett would not be considered a Canadian resident. As a result, none of his income would be subject to Canadian taxes. He sojourned in Canada for less than 183 days. He would therefore not be considered a deemed resident by the sojourner rule. As his residential ties appear to be in the U.S., he would be a U.S. resident. His Canadian citizenship would not affect his residency status.

C. Under the mind and management rule, Tweeks Inc. would be considered resident in Canada for the full year and would be taxed on its worldwide income for the year. While Tweeks Inc. was not incorporated in Canada, it would appear that its mind and management are located in Quebec. This would result in Tweeks Inc. being treated as a Canadian resident.

   However, as Tweeks was incorporated in the U.S., it would also be considered a resident of that country. Given this dual residency, the tie-breaker rules in the Canada/U.S. Tax Treaty would resolve the situation by making the Company a resident of its country of incorporation. This would result in Tweeks being considered a resident of the U.S., and a non-resident of Canada. Its income would be taxed in the U.S.

D. Bordot Industries would be deemed a Canadian resident because it was incorporated in Canada subsequent to April 26, 1965 [ITA 250(4)(a)].

   However, because the mind and management of the Company is in the U.S., it would also be considered a resident of that country. Given this dual residency, the tie-breaker rules in the Canada/U.S. Tax Treaty would resolve the situation by making the Company a resident of its country of incorporation. This would make Bardot Industries a resident of Canada, with its worldwide income taxed in Canada.

TIF Solution One - 12

Part A

As she is exempt from taxation in Indonesia because she is related to a deemed resident, Dorothy would be a deemed resident of Canada for income tax purposes during the current year under ITA 250(1)(g).

Part B

As she is present in Canada on a temporary basis for more than 183 days per year, she would be considered a sojourner. Under ITA 250(1)(a), this would make her a Canadian resident for income tax purposes for all of the current year.

Part C

Because he has an employment contract that requires him to return to Canada, he will be a Canadian resident for income tax purposes during the current year. Although he has severed his ties with Canada, the requirement to return would show that he does not intend to permanently leave Canada.

Part D

Millicent would be a Canadian resident for income tax purposes during the current year. An individual is not considered to have departed from Canada until the latest of the departure date, the date of departure for their spouse and children, and the date on which residence is established in a different country. As her family is staying in Canada and Millicent will not be establishing residency in another country, she will remain a Canadian resident during her trip.

Part E

ITA 250(4)(c) indicates that a corporation is resident in Canada if it was incorporated in Canada prior to April 27, 1965 and carried on business, or was resident in Canada, in any year ending after April 26, 1965. However, as the mind and the management of the company is in the U.S., it is also a resident of that country. In cases of dual residency for corporations, where a corporation could be considered a resident of both countries, the Canada/U.S. tax treaty indicates that the corporation will be deemed to be a resident only in the country in which it is incorporated. Given this, Berkley Management would be a resident of Canada.

Part F

The company was not incorporated in Canada and the mind and management of the company is not in Canada. Lorris Ltd. is not a resident of Canada.

TIF Solution One - 13

Case A

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$17,000	
Net Rental Income	8,500	$25,500
Income Under ITA 3(b):		
Taxable Capital Gains	$17,400	
Allowable Capital Losses	(19,200)	Nil
Balance From ITA 3(a) And (b)		$25,500
Subdivision e Deductions		(6,300)
Balance From ITA 3(c)		$19,200
Deduction Under ITA 3(d):		
Business Loss		(12,300)
Net Income For Tax Purposes (Division B Income)		$ 6,900

In this Case, Ms. Burke has an unused allowable capital loss carryover of $1,800 ($17,400 - $19,200). The lottery winnings are not subject to tax.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$42,100	
Interest Income	8,200	$50,300
Income Under ITA 3(b):		
Taxable Capital Gains	$22,400	
Allowable Capital Losses	(19,200)	3,200
Balance From ITA 3(a) And (b)		$53,500
Subdivision e Deductions		(4,200)
Balance From ITA 3(c)		$49,300
Deduction Under ITA 3(d):		
Unincorporated Business Loss		(51,000)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Ms. Burke's Net Income For Tax Purposes (Division B income) is nil. There would be an unused business loss carry over of $1,700 ($49,300 - $51,000).

TIF Solution One - 14

Case A

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$126,100	
Business Income	14,100	$140,200
Income Under ITA 3(b):		
Taxable Capital Gains [(1/2)($56,400)]	$28,200	
Allowable Capital Losses [(1/2)($72,300)]	(36,150)	Nil
Balance From ITA 3(a) And (b)		$140,200
Spousal Support Payments [(12)($600)]		(7,200)
Balance From ITA 3(c)		$133,000
Deduction Under ITA 3(d):		
Net Rental Loss		(4,600)
Net Income For Tax Purposes (Division B Income)		$128,400

In this Case, Carl has an unused allowable capital loss carry over of $7,950 ($28,200 - $36,150). The lottery winnings would not be included in income.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$89,000	
Interest Income	3,100	
Net Rental Income	8,600	$100,700
Income Under ITA 3(b):		
Taxable Capital Gains [(1/2)($46,200)]	$23,100	
Allowable Capital Losses [(1/2)($26,300)]	(13,150)	9,950
Balance From ITA 3(a) And (b)		$110,650
Deductible RRSP Contribution		(8,600)
Balance From ITA 3(c)		$102,050
Deduction Under ITA 3(d):		
Unincorporated Business Loss		(187,400)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Carl has an unused business loss carry over of $85,350 ($102,050 - $187,400).

TIF Solution One - 15

Case A

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$34,000	
Income From Property	21,000	$55,000
Income Under ITA 3(b):		
Taxable Capital Gains	$42,000	
Allowable Capital Losses	(57,000)	Nil
Balance From ITA 3(a) and (b)		$55,000
Subdivision e Deductions		(5,500)
Balance From ITA 3(c)		$49,500
Deduction Under ITA 3(d):		
Business Loss		(36,000)
Net Income For Tax Purposes (Division B Income)		$13,500

Miss Bain would have a carry over of unused allowable capital losses in the amount of $15,000 ($57,000 - $42,000).

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$18,500	
Income From Property	12,000	$30,500
Income Under ITA 3(b):		
Taxable Capital Gains	$ 9,000	
Allowable Capital Losses	(12,000)	Nil
Balance From ITA 3(a) and (b)		$30,500
Subdivision e Deductions		(10,500)
Balance From ITA 3(c)		$20,000
Deduction Under ITA 3(d):		
Business Loss		(28,200)
Net Income For Tax Purposes (Division B Income)		Nil

As Miss Bain's business loss exceeds the balance from ITA 3(c), her Net Income For Tax Purposes (Division B income) is nil. This means there would be a carry over of unused business losses in the amount of $8,200 ($28,200 - $20,000) and of unused allowable capital losses in the amount of $3,000 ($12,000 - $9,000).

TIF Solution One - 16

Case A

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$75,660	
Rental Income	7,020	$ 82,680
Income Under ITA 3(b):		
Taxable Capital Gains	$41,080	
Allowable Capital Losses	(16,120)	24,960
Balance From ITA 3(a) And (b)		$107,640
Subdivision e Deductions		(5,330)
Balance From ITA 3(c)		$102,310
Deduction Under ITA 3(d):		
Business Loss		(15,990)
Net Income For Tax Purposes (Division B Income)		$ 86,320

In this Case, Kirsten has no loss carry overs at the end of the year.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$107,380	
Rental Income	15,860	$123,240
Income Under ITA 3(b):		
Taxable Capital Gains	$20,280	
Allowable Capital Losses	(30,420)	Nil
Balance From ITA 3(a) And (b)		$123,240
Subdivision e Deductions		(7,020)
Balance From ITA 3(c)		$116,220
Deduction Under ITA 3(d):		
Business Loss		(10,920)
Net Income For Tax Purposes (Division B Income)		$105,300

In this Case, Kirsten has an allowable capital loss carry over of $10,140 ($20,280 - $30,420).

Case C

The Case C solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$60,710	
Rental Income	3,380	$64,090
Income Under ITA 3(b):		
Taxable Capital Gains	$15,080	
Allowable Capital Losses	(13,910)	1,170
Balance From ITA 3(a) and (b)		$65,260
Subdivision e Deductions		(15,080)
Balance From ITA 3(c)		$50,180
Deduction Under ITA 3(d):		
Business Loss		(80,990)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Kirsten would have a business loss carry over in the amount of $30,810 ($50,180 - $80,990).

Case D

The Case D solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income		$43,420
Income Under ITA 3(b):		
Taxable Capital Gains	$30,030	
Allowable Capital Losses	(32,110)	Nil
Balance From ITA 3(a) And (b)		$43,420
Subdivision e Deductions		(7,280)
Balance From ITA 3(c)		$36,140
Deduction Under ITA 3(d):		
Business Loss		(60,060)
Rental Loss		(23,790)
Net Income For Tax Purposes (Division B Income)		Nil

Kirsten would have a carry over of business and rental losses in the amount of $47,710 ($36,140 - $60,060 - $23,790) and of allowable capital losses in the amount of $2,080 ($30,030 - $32,110).