

Instructor's Solutions Manual

Chapter 1 – Solutions to Assignment Problems

Solution to AP 1-1

There is, of course, no one solution to this problem. Further, student answers will be limited as, at this point, their understanding of tax concepts and procedures is fairly limited. However, the problem should provide the basis of an interesting discussion. What we have provided here are some suggested comments related to the various qualitative characteristics.

Equity or Fairness The increase provides both horizontal and vertical equity. Individuals with the same income will receive the same treatment, while individuals with different income will be treated differently.

Neutrality The increase is not neutral. It targets high-income individuals and is likely to influence their economic decisions.

Adequacy While the increase was intended to create additional revenues, there is some evidence that the opposite has happened. This reflects the fact that individuals with high levels of income are sometimes in a position to move some, or all, of that income out of Canada (e.g., move their residence to the U.S.) and to engage in complex income splitting transactions.

Flexibility With respect to flexibility, the rate can be changed at any time. However, as a practical matter, such changes would need to be on an annual basis.

Simplicity and Ease of Compliance This change would not appear to present any compliance issues.

Certainty The increase makes it clear to individual taxpayers the amount of taxes that they will be required to pay.

Balance between Sectors Unfortunately, this change will increase the imbalance in the Canadian tax system between corporate and individual taxpayers. Before the change, individuals were already paying a disproportionate share of tax revenues. The intent of this change was to further increase this imbalance.

International Competitiveness This increase further widens the gap between Canadian and U.S. income tax rates, making Canada far less competitive with the U.S. However, Canadian income tax rates are not out of line with income tax rates in other industrialized countries.

Solution to AP 1-2

Instructor Note There is no definitive solution to this problem. What follows represents possible comments that could be made.

For the Canadian tax system to be more competitive with the U.S., both individual and corporate income tax rates would have to be lowered. The most obvious conflict that would arise would be with **ADEQUACY** of revenues. Tax rate reductions reduce revenues and would create additional problems with the large budget deficits that exist in Canada.

Another issue is **BALANCE BETWEEN SECTORS**. The Canadian system is heavily dependent on individual income tax as opposed to corporate income tax. Lowering corporate rates would further exacerbate this problem.

The question of **NEUTRALITY** could also be involved. Trying to match either U.S. individual or U.S. corporate income tax rates could have an impact on economic decisions.

Any change in income tax rates has an impact on **CERTAINTY**.

Depending on whether changes are made to corporate rates or, alternatively, individual rates, this could have an impact on **FAIRNESS** or **EQUITY**.

Trying to match rates in the U.S. reduces the **FLEXIBILITY** of the Canadian tax system.

Solution to AP 1-3

A. **Diamonds, South Africa** In a monopoly, the tax will likely be shifted to employees and/or consumers. The incidence shift will depend on competition in world markets and employment levels. If the international diamond market is price sensitive and there is high unemployment in South Africa, then the tax will be shifted almost entirely to employees.

The shifting assumptions affect evaluation of the tax using the characteristics of a "good" tax system. A tax that is entirely shifted to employees is similar to one on wages and is non-neutral, as it affects the decisions of employees to continue working. Some employees will work less and thus increase the excess burden resulting from the imposition of the tax.

B. **Diamonds, Sierra Leone** The taxing authorities will find it difficult to enforce the tax, due to their inability to track diamond movements. Records maintained by the mine will likely be inaccessible, and those presented will be incomplete. The tax will not be effective, and the tax revenue will be uncertain and inadequate.

C. **Principal Residences, Canada** This exemption is non-neutral because investment decisions are affected by the tax preference. Given the choice of investing in real estate to hold for resale or a principal residence, both of which are likely to increase in value, a taxpayer will invest in a principal residence so that the gain on disposition is tax exempt.

It is also vertically inequitable because it benefits high-income families who can invest in more expensive residences, which have the potential of earning greater returns.

- D. **Business Meals, Canada** This restriction adds complexity to accounting for deductible expenses, as all business meals have to be accounted for and accumulated separately from other promotion expenses. The tax could be shifted to consumers, employees, and/or shareholders. If it is shifted to consumers, it could be more advantageous to raise personal taxes so that incidence is more certain. If it is shifted to shareholders or employees, then it would be non-neutral as it could affect investment decisions and willingness to work.
- E. **Head Tax** A head tax is neutral as it does not affect economic choices. However, it is vertically inequitable, based on the ability to pay concept of equity, as all taxpayers, regardless of their income levels, are taxed the same. This tax serves the objectives of certainty, simplicity, and ease of compliance. It could promote stability in the economy.

Solution to AP 1-4

While there is not one "correct" solution to this problem, the following solution contains comments on each of the listed qualitative characteristics.

Equity or Fairness The toll is clearly regressive in nature in that it is assessed almost exclusively on lower-income individuals. In general, regressive taxes are viewed as being less fair. While the toll has horizontal equity (individuals with the same taxable income would pay the same amounts), it lacks vertical equity (the higher-income residents of the island would not normally be subject to the tolls).

Neutrality The concept of neutrality calls for a tax system that interferes as little as possible with decision making. The toll may influence employment decisions. If the non-residents have off-island employment opportunities, they may choose not to work on the island.

Adequacy It would be safe to assume that the toll was established at a level that would be adequate for the funding requirements related to the bridge.

Flexibility This refers to the ease with which the tax system can be adjusted to meet changing economic or social conditions. The tolls can be easily adjusted and therefore get high marks for this characteristic.

Simplicity and Ease of Compliance A good tax system is easy to comply with and does not present significant administrative problems for the people enforcing the system. The toll would be effective in this regard.

Certainty Individual taxpayers should know how much tax they have to pay, the basis for payments, and the due date. There is no uncertainty associated with a clearly posted toll rate.

Balance Between Sectors A good tax system should not be overly reliant on either corporate or individual taxation. The toll is totally reliant on the taxation of individuals.

International Competitiveness If a country's tax system has rates that are out of line with those in comparable countries, the result will be an outflow of both business and skilled individuals to those countries that have more favourable tax rates. Although international competitiveness would not appear to be an issue with the toll, it would affect the ability of the city to maintain and attract workers.

Solution to AP 1-5

Mr. Valmont would be considered a part year resident and would only be assessed for Canadian income tax on worldwide income during the portion of the year prior to his ceasing to be a resident of Canada.

Folio 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.

While Mr. Valmont departed Canada in May of 2022, he will be considered a Canadian resident until his family's departure on June 30, 2022, as a result of the CRA concession on residency. The fact that his family remained in Canada would support this conclusion, although since he had already established the requisite intention and taken active steps consistent with that intention, the earlier date would represent a true indication of when he severed residency. The fact that he did not sell his Canadian residence would not change the result, particularly where market forces beyond his control were the cause of the delayed sale.

His Canadian salary from January 1, 2022, to May 27, 2022, would be subject to Canadian income tax. In addition, his U.S. salary for the period May 28, 2022, through June 30, 2022, would be subject, first to U.S. income tax, and then subsequently to Canadian income tax. In calculating his Canadian income tax, he will be entitled to a foreign tax credit for the U.S. income tax that he has paid on this income. However, because Canadian tax rates at a given income level are usually higher than U.S. tax rates, it is likely that he will be required to pay some Canadian income tax in addition to the U.S. tax on that income should he decide to accept the CRA administrative position on residency.

Note to Instructors The preceding solution reflects the content of the text with respect to departures from Canada and students should be evaluated on that basis. However, Folio S5-F1-C1 qualifies the general departure rules as follows:

Paragraph 1.22 An exception to this will occur where the individual was resident in another country prior to entering Canada and is leaving to re-establish his or her residence in that country. In this case, the individual will generally become a non-resident on the date he or she leaves Canada, even if, for example, his or her spouse or common-law partner remains temporarily behind in Canada to dispose of their dwelling place in Canada or so that their dependants may complete a school year already in progress.

Paragraph 1.22 recognizes that severing residency does not depend on one's family and dependants joining the departing individual at the same time. Mr. Valmont could choose to ignore the CRA administrative concession and use his departure date of May 27, 2022. This would avoid the difficulty of the U.S. employment income earned in the period from May 28, 2022, to June 30, 2022.

Solution to AP 1-6

Note to Instructors This problem is based on a Tax Court Of Canada case, *Hamel vs. The Queen* (2012 DTC 1004). The actual year in question is 2007, with the judgment being rendered in 2011. We have changed the dates in the problem. It is important to keep in mind that the determination of residency is based on the facts supporting an intention to permanently depart and therefore sever Canadian residency. In this case the Judge was convinced that the individual did intend to permanently depart which was consistent with the facts.

Background

The minister assessed Mr. Hamel on the basis of his not giving up Canadian residency on January 13, 2007 (the original date in the case). Mr. Hamel appealed to the Tax Court of Canada, which resulted in *Hamel vs. The Queen* (2012 DTC 1004).

The solution that follows is the judge's analysis and decision in the case. The judge's conclusion also contained a long section of references to other cases, which we have not included in this solution. The original dates in the solution have been changed to correspond to the dates in the problem.

Judge's Analysis and Decision

The respondent's main argument is that every person must have a residence. Presuming the appellant had not resided in Qatar, she found that he must necessarily have resided in Canada.

After arriving at this conclusion, she relied on the following facts:

- The appellant came to Canada a few times.
- The appellant had two bank accounts in Canada, which he used to make all his payments, in particular for his credit cards, which were also issued in Canada.
- The appellant had some money in an RRSP.
- The appellant had no postal address in Qatar.

As for the other elements, for example, not having a driver's licence, not having property such as furniture, clothing, accommodations, or vehicles, and not having a health insurance card, the respondent claims that they have no impact one way or the other.

The evidence clearly showed that the appellant's decision came after a lengthy period of reflection. It also showed that the appellant did not have any deep roots and did not hesitate to leave when his son, who was ill, let him go with no regrets.

His relationship with his wife was so tense that they tolerated one another only because of their shared concern about their son who was ill.

The appellant had a very good position. He did not want to run away from his responsibilities. He gave all his property and agreed to pay generous support payments

before leaving; he has always complied with these commitments. He did not apply for a new Canadian driver's licence when his was suspended, even though the evidence showed it was important for him to be able to use a car if he wanted an international driver's licence or even a driver's licence from the country in which he was living.

He specifically gave up his health card in 2022.

Regarding the beginning of the relevant period of the appeal, the beginning of 2021 (the original year), it must be considered that a reasonable person would be careful. The appellant stated he could only get a work permit if a medical exam showed he was in good health, otherwise he had to return to his country of origin. The same can be said for the position, the duration of which generally depends on the employer, not the employee. In other words, there is, normally, a reasonable delay before a permanent break. This explains the time between the beginning of the period in question and the time the appellant gave up his health insurance.

As for the argument that the appellant never had a residence in Qatar, I do not believe it is cogent, because the appellant was employed and had a residence. The appellant's strong interest in staying in Qatar was shown by the intensive courses he took to get a driver's licence, when he could have travelled with coworkers, even though he had cancelled his Canadian driver's licence. When his employment ended in Qatar, the appellant returned to the country to see the people with whom he had worked and the work he had done.

In particular, in view of the following facts, I find that, on the preponderance of the evidence, the appellant's position must be accepted:

- The family context was special and conducive to a permanent departure.
- The appellant left after disposing of all his own property.
- The appellant waived his right to obtain a new driver's licence a few months before leaving Canada.
- The appellant returned to Canada a few times for very short stays that were for the purpose of visiting his two sons, his mother, and friends.

After leaving Qatar upon the expiry of his work contract, the appellant returned to meet friends and business acquaintances, thereby showing he had been happy there.

The break came after a long period of thorough reflection.

The appellant has set out all the facts showing his intention to sever ties with this country permanently.

Although the relevance of prior facts is limited, they tend to confirm that the appellant severed his ties with Canada in mid-January 2021.

For these reasons, I conclude that the appellant ceased being a resident of Canada as of January 13, 2021. As a result, the appeal is allowed with costs in favour of the appellant.

Solution to AP 1-7

Case A

In general the CRA administratively accepts that 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 Gary's family did not leave Canada until June 30, 2022, Gary would administratively be considered a Canadian resident until that date. Provided he has no intention of returning to Canada, he would be a Canadian resident for the period January 1, 2022, through June 30, 2022. He would be subject to Part I tax on his worldwide income during this period. He would not be subject to Part I tax on his rental income. Rather than accept the CRA administrative position, the individual would factually be considered to have become a non-resident on February 1, 2022. This would alleviate being subject to income tax in both Canada and Australia on the employment income earned in Australia between February 1, 2022, and June 30, 2022.

Note to Instructors As will be discussed in Chapter 20, the tax on the rental income would not be subject to Part I tax. It would be Part XIII tax.

Case B

As noted in Folio S5-F1-C1, "Determining an Individual's Residence Status", commuting from the U.S. for employment purposes does not make an individual a deemed resident under the sojourner rules. Therefore, Sarah would not be deemed to be a Canadian resident for income tax purposes. She would be a resident of the U.S. and a non-resident of Canada.

Sarah would be subject to Canadian Part I tax on her 2022 Canadian employment income. She would not be subject to Canadian income tax on the interest she earned in her U.S. savings account.

Case C

Byron's cruise 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 cruise is for a limited time and he will not be establishing residency in another country.

Byron's departure does not appear to be a true departure in that he has only taken a leave of absence from his job. In addition, he has retained some residential ties.

Given these facts, Byron will remain a Canadian resident during the cruise and will continue to be subject to Canadian income tax on his worldwide income for 2022.

Case D

As she is exempt from income tax in Germany because she is the spouse of a deemed Canadian resident, Hilda would be a deemed resident of Canada for income tax purposes for 2022 [(ITA 250(1)(g)].

Hilda would be subject to Canadian income tax on her worldwide income for 2022.

Case E

Because she has an employment contract that requires her to return to Canada in 2024, Jessica will be viewed as having retained Canadian residence status. Although she has severed some residential ties with Canada, the requirement to return would show that she does not intend to permanently leave Canada.

Jessica will be subject to Canadian income tax on her worldwide income for 2022.

Solution to AP 1-8

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 considers that the corporation will be a resident only of the country in which it is incorporated.

Case A

The mind and management (CMC) of Allor Company is in Canada and as a result the company is a factual resident of Canada. However, as Allor Company was incorporated in the U.S., it is also a resident of the U.S. Using the tie breaker rule, Allor Company will be considered a resident of the U.S. only and is deemed to be a non-resident of Canada (ITA 250(5)).

Case B

Kodar Ltd. was incorporated in Canada after April 26, 1965. This means that, under ITA 250(4)(a), Kodar Ltd. is a deemed resident of Canada. Because the CMC of the company is in the U.S., it is a factual resident of the U.S. Using the tie breaker rule, Kodar Ltd. will be considered a resident of Canada only as it was incorporated in Canada.

Case C

The Karlos Company was not incorporated in Canada and its CMC is not currently exercised in Canada meaning it is neither a factual or deemed resident of Canada. Therefore, Karlos is a non-resident of Canada.

Case D

Bradlee Inc. was incorporated in Canada prior to April 27, 1965. In addition it carried on business in Canada after that date and therefore it is a deemed resident as a result of ITA 250(4)(c).

As the CMC of the company is currently in the U.S., the company is a factual resident of the U.S. Under the tie breaker rule, Bradlee Inc. would be a resident of Canada only since it was incorporated in Canada.

Solution to AP 1-9

Part A

Brian would be considered a part year resident of Canada until July 31, 2022, the date of his departure, and would be subject to Canadian income tax on his worldwide income for the period January 1, 2022, to July 31, 2022. As his presence in Canada during the first part of

the year was on a permanent basis (e.g., not vacationing or other temporary stay), he would not be subject to deemed residency as a result of the sojourning rule.

Part B

Rachel is a deemed resident of Canada as a result of ITA 250(1)(b). As Gunter is exempt from German income tax because he is related to Rachel, he is also considered a deemed resident of Canada as a result of ITA 250(1)(g).

Part C

As Sarah 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 deemed Canadian resident for income tax purposes for all of 2022. She is also a resident of the U.S. The tie-breaker rules in the Canada/U.S. income tax treaty, however, would break the tie in favour of the U.S. since, in 2022, the closer residential ties remain with the U.S. As a result, she would be deemed to be a non-resident of Canada.

Part D

Martha would be a Canadian resident for income tax purposes for 2022. An individual is not generally considered to have given up Canadian residency 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 Martha will not be establishing residency in another country, she will remain a Canadian resident during her trip. The fact that she is a U.S. citizen is irrelevant to her residency status.

Part E

ITA 250(4)(c) states that a corporation is resident in Canada if it was incorporated in Canada prior to April 27, 1965, and either carried on business in Canada after April 26, 1965, or was resident in Canada as a result of its CMC being in Canada in any taxation year ending after April 26, 1965. As a result, the company is a deemed resident of Canada. However, since the CMC of the company is currently in the U.S., it is a factual resident of the U.S. In cases of dual residency the Canada/U.S. tax treaty provides that the corporation will be deemed to be a resident only in the country in which it is incorporated. As a result Bronson Inc. would be a resident of Canada only.

Part F

The company is not a deemed resident of Canada since it was not incorporated in Canada. The company is also not a factual resident as the CMC of the company is currently not in Canada. Ubex Ltd. is therefore a non-resident of Canada.

Solution to AP 1-10

In cases of dual residency, the Canada/U.S. tax treaty has tie breaker rules. Under these rules, residence would be determined by applying criteria in the following order:

- **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 in which 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.

Case A

As Ty was temporarily in Canada for more than 183 days in total, he is a deemed resident as a result of the sojourner rule. This means that he is a dual resident of the U.S. and Canada. In such situations, the tie breaker rules would apply.

It does not appear that Ty has a permanent home, a centre of vital interests, or a habitual abode. Therefore, it would appear that the fact that Ty is a citizen of the U.S. would be the determining factor. This treaty result would override the sojourner rule, making Ty a non-resident of Canada (ITA 250(5)).

Case B

As he is in Canada for more than 183 days, Jordan would be a deemed Canadian resident under the sojourner rule. As a result, he is a resident of both the U.S. and Canada. Given this the tie breaker rules would apply. As Jordan appears to have a permanent home in Kalispell, these rules would make him a resident of the U.S. This treaty result would override the sojourner rule, making Jordan a deemed non-resident of Canada (ITA 250(5)).

Solution to AP 1-11

Step 1 – ITA 3(a)

The calculation begins by adding together all sources of income specifically from employment, business and property then adding other miscellaneous amounts specifically required to be included in income as described in subdivision d of the ITA.

Step 2 – ITA 3(b)

Determine the total amount of taxable capital gains then subtract the total of allowable capital losses (other than allowable business investment losses). If allowable capital losses exceed taxable capital gains then the ITA 3(b) amount would be nil as negative amounts are not recognized.

Step 3 – ITA 3(c)

Add the ITA 3(a) and (b) amounts then, subtract all subdivision e deductions. These include spousal support paid, moving expenses, child care expenses, and RRSP contributions.

Step 4 – ITA 3(d)

Starting with the ITA 3(c) amount subtract business losses, property losses, employment losses, and allowable business investment losses.

If ITA 3(d) shows a positive amount, then that will be the individual's net income for the year. If the ITA 3(d) amount is nil (or would be negative) then the individual's net income is nil for the year.

Solution to AP 1-12

Case A

The Case A solution would be calculated as follows:

Income under ITA 3(a):		
Employment Income	\$46,200	
Business Income	<u>13,500</u>	\$59,700
Income under ITA 3(b):		
Taxable Capital Gains	\$14,320	
Allowable Capital Losses	<u>(23,460)</u>	Nil
Balance from ITA 3(a) and (b)		\$59,700
Spousal Support Payments (See Note)		<u>(4,800)</u>
Balance from ITA 3(c)		\$54,900
Deduction under ITA 3(d):		
Rental Loss		<u>(2,350)</u>
<u>Net Income For Tax Purposes (Division B Income)</u>		<u>\$52,550</u>

Note As indicated in the text, spousal support payments are a Subdivision e deduction.

In this case, Christina has a net capital loss carry over of \$9,140 (\$23,460 – \$14,320). The roulette winnings would not be included in income and the related expenses would not be deductible since gambling is not source of income.

Case B

The Case B solution would be calculated as follows:

Income under ITA 3(a):		
Employment Income	\$64,000	
Interest Income	2,600	
Rental Income	<u>4,560</u>	\$71,160
Income under ITA 3(b):		
Taxable Capital Gains	\$32,420	
Allowable Capital Losses	<u>(29,375)</u>	3,045
Balance from ITA 3(a) and (b)		\$74,205
Deductible RRSP Contribution		<u>(12,480)</u>
Balance from ITA 3(c)		\$61,725

Deduction under ITA 3(d):	
Partnership Business Loss	
[(50%) (\$144,940)]	(72,470)
Net Income	Nil

Note As indicated in the text, deductible RRSP contributions are a Subdivision e deduction.

In this case, Christina has a non-capital loss carry over for the year of \$10,745 (\$72,470 – \$61,725).

Solution to AP 1-13

Case A

The Case A solution would be calculated as follows:

Income under ITA 3(a):		
Employment Income	\$58,200	
Rental Income	<u>5,400</u>	\$63,600
Income under ITA 3(b):		
Taxable Capital Gains	\$31,600	
Allowable Capital Losses	(12,400)	19,200
Balance from ITA 3(a) and (b)		<u>\$82,800</u>
Subdivision e Deductions		(4,100)
Balance from ITA 3(c)		<u>\$78,700</u>
Deduction under ITA 3(d):		
Business Loss		(12,300)
Net Income		<u>\$66,400</u>

In this Case, Mr. Denham has no loss carry overs for the year.

Case B

The Case B solution would be calculated as follows:

Income under ITA 3(a):		
Employment Income	\$82,600	
Rental Income	<u>12,200</u>	\$94,800
Income under ITA 3(b):		
Taxable Capital Gains	\$15,600	
Allowable Capital Losses	(23,400)	Nil
Balance from ITA 3(a) and (b)		<u>\$94,800</u>
Subdivision e Deductions		(5,400)
Balance from ITA 3(c)		<u>\$89,400</u>
Deduction under ITA 3(d):		
Business Loss		(8,400)
Net Income		<u>\$81,000</u>

In this Case, Mr. Denham has a current-year net capital loss of \$7,800 (\$23,400 – \$15,600).

Case C

The Case C solution would be calculated as follows:

Income under ITA 3(a):		
Employment Income	\$46,700	
Rental Income	<u>2,600</u>	\$49,300
Income under ITA 3(b):		
Taxable Capital Gains	\$11,600	
Allowable Capital Losses	<u>(10,700)</u>	900
Balance from ITA 3(a) and (b)		\$50,200
Subdivision e Deductions		<u>(11,600)</u>
Balance from ITA 3(c)		\$38,600
Deduction under ITA 3(d):		
Business Loss		<u>(62,300)</u>
Net Income		Nil

In this Case, Mr. Denham would have a current-year non-capital loss carry over of \$23,700 (\$62,300 – \$38,600).

Case D

The Case D solution would be calculated as follows:

Income under ITA 3(a):		
Employment Income		\$33,400
Income under ITA 3(b):		
Taxable Capital Gains	\$23,100	
Allowable Capital Losses	<u>(24,700)</u>	Nil
Balance from ITA 3(a) and (b)		\$33,400
Subdivision e Deductions		<u>(5,600)</u>
Balance from ITA 3(c)		\$27,800
Deduction under ITA 3(d):		
Business Loss	(46,200)	
Rental Loss	<u>(18,300)</u>	(64,500)
Net Income		Nil

Mr. Denham would have a current year non-capital loss carry over in the amount of \$36,700 ((\$46,200 + \$18,300) – \$27,800) and a current year net capital loss in the amount of \$1,600 (\$24,700 – \$23,100).