***Canadian Tax Principles, 2022-2023* (Byrd/Chen)**

**Chapter 13 Taxation of Corporate Investment Income**

13.1 Online Exercises

1) The concept of integration is central to the Canadian system of corporate income taxation. Briefly explain the basic objective of integration.

Answer: The basic objective of integration is to neutralize the effect of incorporating a source of income. That is, integration procedures attempt to ensure that, for a given income source, the after tax amount that will be received by an individual will be the same, whether the income is received directly or, alternatively, earned by a corporation. This would mean that the individual income taxes paid on income received directly would be equal to the combined corporate and individual income tax paid on income flowed through a corporation as a taxable dividend to the individual as a shareholder. Integration means that the income tax paid by an individual who earns a source of income directly equals the corporate income tax paid on that same income when earned by a corporation plus the additional income tax paid by the individual once all of the after-tax corporate income is paid to the individual as a taxable dividend.

In a somewhat broader sense, full integration would imply that the timing of the income tax payments would be the same under the two alternatives. That is, integration should serve to prevent a corporation from being used to defer payment of part of the total income tax obligation.

Type: ES

Topic: Integration - general concepts

2) Explain, without using examples, how the dividend gross up and tax credit procedures assist in achieving the goal of integration of taxing CCPCs and their shareholders. Assume any dividends paid are non-eligible.

Answer: The 15% gross up of dividends received is based on the assumption of a notional 13.04% income tax rate applied to the corporation. When this rate applies, the 15% gross up restores the taxable income of the individual to the pre-tax income earned by the corporation.

After the individual shareholder's income tax is calculated, a dividend tax credit is claimed. At the federal level, this credit equals 9/13 of the gross up. In those cases where the provincial tax credit is equal to 4/13 of the gross up, the result is a combined credit that is equal to the gross up. As the 15% gross up reflects the corporate income tax paid at a 13.04% rate, this combined credit will eliminate the effect of corporate income tax, thereby achieving the basic goal of integration, assuring that the same amount of income tax will be paid whether the income is received directly or channeled through a corporation.

Type: ES

Topic: Integration - general concepts

3) What are the components of "aggregate investment income" as described in ITA 129(4)?

Answer: As defined in ITA 129(4), aggregate investment income is made up of:

• Net taxable capital gains for the year, reduced by any net capital loss deducted in the year.

• Property income other than capital dividends and taxable dividends that are eligible for a taxable income deduction.

• minus Property losses.

Type: ES

Topic: Corporate tax - aggregate investment income

4) What are the major differences between aggregate investment income as described in ITA 129(4), and income from property as described in subdivision b of the ITA.

Answer: Aggregate investment income includes net taxable capital gains, reduced by any net capital losses deducted for the year. Property income does not include taxable capital gains. These items are covered in subdivision c of the *Income Tax Act*.

Property income includes dividends from Canadian corporations regardless of whether the dividends entitle a corporation to a taxable income deduction. Aggregate investment income does not include taxable dividends that entitle the corporation to a taxable income deduction.

Type: ES

Topic: Corporate tax - aggregate investment income

5) In the absence of the Part I refundable tax, the total personal and corporate income taxes payable on investment income earned by, and flowed through, a CCPC could approach an unreasonably high 70%. While the Part I refundable tax reduces this combined rate to a more reasonable level, the same result could have been achieved by lowering the income tax rate applicable to the investment income of a CCPC. Why did the government not adopt this less complex alternative?

Answer: When a corporation's income is distributed to its shareholders, the Part I refund lowers the effective corporate income tax rate to about 20%. However, until the income is distributed, the rate is generally over 50%, depending on the province or territory in which the corporation's income is taxed. As this rate is similar to that which is applicable on the direct receipt of investment income, it makes no economic sense to place investments in a corporation unless there is an intent to distribute most of the resulting income to shareholders. If, alternatively, the corporate income tax rate had been lowered to 20%, the corporation could be used to defer a significant portion of the personal income tax on investment income. While the total tax on the flow through of income to the individual would be at the appropriate rate, the portion that is to be paid by the individual shareholder would be deferred until taxable dividends were paid. The policy goal of using a refundable tax, as opposed to a lower corporate tax rate, is to prevent this deferral.

Type: ES

Topic: Integration - general concepts

6) What is the objective of the Additional Refundable Tax (ART)? Briefly explain your conclusion.

Answer: The objective is to discourage the use of a corporation to shelter income from property. This additional tax is assessed on the aggregate investment income of a CCPC in order to raise the combined federal/provincial/territorial income tax rate on investment income of such companies to a level that is as high or higher than the combined federal/provincial/territorial income tax rate that would be paid by an individual in the highest income tax bracket on direct receipt of the income. When this is accomplished, the individual has no tax incentive to channel this type of income into a CCPC. In the absence of this additional income tax, the corporate income tax rate could be lower than the individual income tax rate, resulting in a deferral of income tax until such time as the income is distributed as taxable dividends.

Type: ES

Topic: Corporate tax - additional refundable tax (ART)

7) What is the objective of the Part IV Tax on certain types of taxable dividends received by private and subject companies? Briefly explain your conclusion.

Answer: The problem is that inter-corporate taxable dividends are free of Part I tax because of the taxable income deduction of ITA 112(1). If the taxable dividends are portfolio dividends or dividends on which the payor corporation has received a dividend refund, the result will be a significant amount of tax deferral, relative to direct receipt of such dividends, through the use of a corporation. Imposing a Part IV tax on portfolio taxable dividends and taxable dividends received from a connected corporation, on which the payor received a refund (taxable dividends paid by a private corporation or a subject corporation out of investment income) corrects this imperfection in the integration system. By making the Part IV tax refundable, the goal of having the total corporate and personal income taxes approximate the income tax that would be imposed on an individual receiving the income directly is achieved.

Type: ES

Topic: Corporate tax - Part IV tax (basic rules)

8) With respect to Part IV tax, what is a "subject corporation"? How does the Part IV legislation classify such companies?

Answer: A subject corporation is defined in ITA 186(3) as follows:

**Subject Corporation** means a corporation (other than a private corporation) resident in Canada and controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts).

For purposes of Part IV tax, subject corporations are treated the same as private corporations, despite the fact that their shares are technically publicly traded.

Type: ES

Topic: Corporate tax - Part IV "Subject Corporation"

9) What is a connected corporation? Under what circumstances will Part IV tax apply to taxable dividends received from connected corporations?

Answer: A connected corporation is either:

• a controlled corporation, where control represents ownership of more than 50% of the voting shares by any combination of the other corporation and persons with whom it does not deal at arm's length, or

• a corporation in which the other corporation owns more than 10% of the voting shares, and more than 10% of the FMV of all of the issued shares of the corporation.

Taxable dividends from such corporations are subject to Part IV tax to the extent they are the basis for a dividend refund received by the dividend paying corporation.

Type: ES

Topic: Corporate tax - Part IV "Connected Corporation"

10) Described the types of taxable dividends to which Part IV tax applies.

Answer: As described in your text, the circumstances are as follows:

• A taxable dividend received from an unconnected company that is deductible in the calculation of the recipient corporation's taxable income. While the ITArefers to such dividends as "assessable dividends", it is a common practice to refer to such dividends as "portfolio dividends".

• The taxable dividend is received from a connected company, and the company paying the dividend received a dividend refund as a consequence of making the dividend payment.

Type: ES

Topic: Corporate tax - Part IV "Assessable Dividends"

11) A corporation can apply non-capital or farm losses to reduce the amount of Part IV tax. Would you recommend applying these losses to reduce Part IV tax?

Answer: In general, applying losses to reduce Part IV tax would not be advantageous. The reason being that, if this option is chosen, the corporation has effectively used a possible permanent reduction in future income taxes to acquire a reduction of Part IV tax that could otherwise ultimately be refunded. This would only make sense in situations where the losses were about to expire, or where the company did not expect to have sufficient taxable income in the carry forward period. With the non-capital loss carry forward period set at 20 years, this is unlikely to be a very useful strategy.

Type: ES

Topic: Corporate tax - Part IV loss carryovers ITA 186(1)(c) & (d)

12) The first component of the formula for determining the refundable portion of Part I tax, 30-2/3% of aggregate investment income, is reduced by the amount, if any, by which the foreign non-business income tax credit exceeds 8% of its foreign investment income for the year. What objective is achieved by subtracting this amount?

Answer: The 30-2/3% rate that is applied to aggregate investment income is based on the notional assumption that such income is taxed at a combined federal/provincial rate of 50-2/3%. Providing a 30-2/3% refund reduces the effective rate on this income to 20%. Note that this was not changed to reflect the fact that the rate that is inherent in the gross up and tax credit procedures for non-eligible dividends has been reduced from 20% to 13.04%.

The subtraction is based on the notional assumption that foreign non-business income is only taxed in Canada at a combined federal/provincial rate of 38-2/3 %. If the foreign tax credit is less than or equal to 8%, the result will reduce the rate on such income to 30-2/3%, the rate applicable to the refund. In these circumstances, no deduction is required.

However, if the foreign tax credit exceeds 8%, the rate of Canadian tax paid on foreign non-business income falls below the refund rate of 30-2/3%. Given this, the formula requires that the excess of the foreign non-business tax credit over 8% of the foreign investment income be deducted. If this were not the case, the dividend refund could exceed the amount of Canadian income taxes.

Type: ES

Topic: Corporate tax - refundable Part I tax on investment income

13) For a CCPC earning investment income, there may be a dividend refund of income taxes paid when the company pays taxable dividends. How is the amount of the dividend refund determined?

Answer: To the extent that some of the taxable dividends paid will be designated as eligible, the dividend refund will be the lesser of:

• 38-1/3% of the eligible dividends paid; and

• the balance in the Eligible RDTOH.

If non-eligible dividends are paid, the refund on these dividends will consist of two components. Component 1 will be the lesser of:

• 38-1/3% of the non-eligible dividends paid; and

• the balance in the Non-Eligible RDTOH

If 38-1/3% of the non-eligible dividends paid in the year exceeds the balance in the Non-Eligible RDTOH, there will be a component 2 to the refund. This component will be the lesser of:

• the amount of the excess; and

• any balance that remains in the Eligible RDTOH after subtracting the dividend refund on eligible dividends designated.

Type: ES

Topic: Corporate tax - dividend refund ITA 129

14) A CCPC can only designate dividends as eligible to the extent of the GRIP balance on the last day of the taxation year. Indicate the two most common sources of additions to the GRIP account.

Answer: The two most common additions to the GRIP account balance of a CCPC would be:

• 72% of the excess of taxable income over the sum of the amount of income that is eligible for the SBD plus the amount of AII where the AII is less than taxable income.

• The full amount of eligible dividends received from other corporations.

Type: ES

Topic: GRIP & eligible dividends

15) What would be one of the most common additions to a public corporation's LRIP account balance?

Answer: The most common addition would be non-eligible dividends received from a CCPC. The other possibility would be income retained by a CCPC before it became a public company.

Type: ES

Topic: LRIP & non-eligible dividends

16) Briefly describe the calculation of the Part III.1 tax on excessive eligible dividend designations (EEDD) for a CCPC.

Answer: For a CCPC, the EEDD (Part III.1) tax is equal to 20% of the excess of the eligible dividends designated during the year, over the end-of-year balance in the CCPC's GRIP account. If the CRA concludes that the EEDD was a deliberate attempt to manipulate the CCPC's GRIP account, the rate goes to 30%. Part III.1 also includes a mechanism to reverse the 20% penalty tax.

Type: ES

Topic: Corporate tax - Part III.1 excessive eligible dividend designation (EEDD)

17) Briefly describe the calculation of the Part III.1 tax on excessive eligible dividend designations (EEDD) for a public company.

Answer: For a public company, the EEDD (Part III.1) tax is equal to 20% of the lesser of the amount of the eligible dividends designated and the balance in the company's LRIP account at the time the eligible dividend was paid. If the CRA concludes that the EEDD was a deliberate attempt to manipulate the company's LRIP account, the rate goes to 30%. Part III.1 tax also includes a mechanism to reverse the 20% penalty tax.

Type: ES

Topic: Corporate tax - Part III.1 excessive eligible dividend designation (EEDD)

18) For taxable dividends received in a specific province, the after tax rates of return to individual investors are higher for eligible dividends received than for non-eligible dividends.

Answer: TRUE

Explanation: After tax rates of return are higher for eligible dividends because the underlying corporate income is subject to high corporate income tax rates which means that individual shareholders pay a smaller share of the integrated income tax.

Type: TF

Topic: Dividends - eligible & non-eligible

19) Taxable dividends paid by public companies will always be eligible dividends.

Answer: FALSE

Explanation: If public company has an LRIP balance, any dividend paid will be a non-eligible dividend.

Type: TF

Topic: Dividends - eligible & non-eligible

20) As defined in ITA 129(4), aggregate investment income (AII) is reduced by any net capital losses that are deducted for the year.

Answer: TRUE

Explanation: AII is reduced by any net capital losses that are deducted for the year.

Type: TF

Topic: Corporate tax - aggregate investment income

21) The objective of the ART is to discourage individuals from using a CCPC to defer income tax on investment income.

Answer: TRUE

Explanation: The objective of the ART is to discourage individuals from using a CCPC to defer income tax on investment income.

Type: TF

Topic: Corporate tax - additional refundable tax (ART)

22) Part IV tax is assessed on all taxable dividends received from connected corporations.

Answer: FALSE

Explanation: It is only assessed when the connected company has received a dividend refund as a result of paying the dividend.

Type: TF

Topic: Corporate tax - Part IV tax (basic rules)

23) An investee company can be a connected company, even if the investor company does not have legal control (more than half of the voting shares).

Answer: TRUE

Explanation: The definition of a connected company includes a corporation in which the other corporation owns more than 10% of the voting shares, and more than 10% of the FMV of all of the issued shares of the corporation.

Type: TF

Topic: Corporate tax - Part IV "Connected Corporation"

24) The refundable portion of a corporation's Part I income tax for a taxation year will be added to its Eligible RDTOH.

Answer: FALSE

Explanation: It will be added to the Non-Eligible RDTOH.

Type: TF

Topic: Corporate tax - eligible & non-eligible RDTOH

25) The total dividend refund for a taxation year cannot exceed the combined balance of the Eligible RDTOH and the Non-Eligible RDTOH.

Answer: TRUE

Explanation: The total dividend refund for a taxation year cannot exceed the combined balance of the Eligible RDTOH and the Non-Eligible RDTOH.

Type: TF

Topic: Corporate tax - eligible & non-eligible RDTOH

26) If a CCPC has a GRIP balance, it must designate any dividend that is paid as eligible until that balance is eliminated.

Answer: FALSE

Explanation: Even if the CCPC has a GRIP balance, the designation of a dividend as eligible is discretionary. There is no required designation.

Type: TF

Topic: Dividends - eligible & non-eligible

27) A CCPC's GRIP balance is reduced by taxable dividends that were designated as eligible in the preceding taxation year.

Answer: TRUE

Explanation: A CCPC's GRIP account balance is reduced by dividends that were designated as eligible in the preceding taxation year.

Type: TF

Topic: GRIP & eligible dividends

28) The major goal of integration is to ensure that, if an individual has a given source of income, that the individual will retain the same after tax amount of cash from that source, without regard to whether the income is earned without a corporation or the income is routed through a corporation prior to his ultimate receipt of the after tax amount as a taxable dividend.

Answer: TRUE

Type: TF

Topic: Integration - general concepts

29) For integration to work properly for a CCPC whose income qualifies for the SBD, the combined federal/provincial/territorial corporate income tax rate must be equal to 13.04%, while the combined federal/provincial/territorial dividend tax credit must be equal to 9/13 of the gross up.

Answer: FALSE

Explanation: The combined federal/provincial/territorial dividend tax credit must be equal to 100% of the gross up.

Type: TF

Topic: Integration - general concepts

30) A corporation's dividend refund for a taxation year on eligible dividends will be the lesser of the balance in the Non-Eligible RDTOH account at the beginning of the year and 38-1/3% of the eligible dividends paid for the year.

Answer: FALSE

Explanation: It is the Eligible RDTOH balance at the end of the taxation year that is relevant.

Type: TF

Topic: Corporate tax - eligible & non-eligible RDTOH

31) A CCPC's GRIP account balance is increased by 72% of eligible dividends received during the taxation year.

Answer: FALSE

Explanation: GRIP is increased by 100% of eligible dividends received during the year.

Type: TF

Topic: GRIP & eligible dividends

32) Which of the following statements with respect to non-eligible dividends paid to individuals in 2022 is **NOT** correct?

A) Taxable dividends will be equal to 115% of dividends received.

B) Non-eligible dividends can be paid by both public corporations and CCPCs.

C) The combined federal/provincial/territorial dividend tax credit will always be equal to the gross up.

D) The federal dividend tax credit on such dividends is always equal to 9/13 of the gross up.

Answer: C

Explanation: C) The combined federal/provincial/territorial dividend tax credit will always be equal to the gross up.

Type: MC

Topic: Dividends - eligible & non-eligible

33) Which of the following statements with respect to eligible dividends paid to individuals in 2022 is **NOT** correct?

A) The recipient individual shareholder must gross them up by 38%.

B) They generate a federal tax credit equal to 6/11 of the gross up.

C) They can only be designated as eligible dividends by public companies.

D) They can be designated as eligible dividends by CCPCs with a positive GRIP account balance on the last day of the taxation year.

Answer: C

Explanation: C) They can only be designated as eligible dividends by public companies.

Type: MC

Topic: Dividends - eligible & non-eligible

34) Which of the following types of dividends paid to individuals would **not** be subject to a gross up and would not generate a dividend tax credit?

A) A stock dividend that is taxable.

B) A capital dividend.

C) A deemed dividend that is taxable.

D) A dividend in kind that is taxable.

Answer: B

Explanation: B) A capital dividend.

Type: MC

Topic: Dividends - general concepts

35) With respect to integration, which of the following statements is correct for 2022?

A) For integration to be effective in situations where non-eligible dividends are paid, the combined federal/provincial/territorial corporate income tax rate must be equal to 27.54%.

B) For integration to be effective in situations where non-eligible dividends are paid, the provincial/territorial individual income tax rate must be 14%.

C) For integration to be effective in situations where eligible dividends are paid, the provincial/territorial dividend tax credit must be equal to 9/13 of the dividend gross up.

D) For integration to be effective in situations where non-eligible dividends are paid, the combined federal/provincial/territorial corporate income tax rate must be equal to 13.04%.

Answer: D

Explanation: D) For integration to be effective in situations where non-eligible dividends are paid, the combined federal/provincial/territorial corporate tax rate must be equal to 13.04%.

Type: MC

Topic: Dividends - eligible & non-eligible

36) For integration to work perfectly, two conditions must be met. For 2022, these two conditions are:

A) the combined federal/provincial/territorial corporate tax rate must equal 13.04% for eligible dividends and 27.54% for non-eligible dividends, and the combined federal/provincial/territorial dividend tax credits must equal the gross up.

B) the federal/provincial/territorial income tax and dividend tax credit rates must be equal.

C) the combined federal/provincial/territorial corporate income tax rate must equal 13.04% for non-eligible dividends and 27.54% for eligible dividends, and the combined federal/provincial/territorial dividend tax credits must equal the gross up.

D) both the corporate federal income tax payable and the federal dividend tax credit must equal the gross up.

Answer: C

Explanation: C) The combined corporate federal/provincial/territorial corporate income tax rates must equal 13.04% for non-eligible dividends and 27.54% for eligible dividends, and the combined federal/provincial/territorial dividend tax credits must equal the gross up.

Type: MC

Topic: Dividends - eligible & non-eligible

37) It is necessary for corporations to designate dividends that they pay as eligible dividends which are eligible for the enhanced gross up and dividend tax credit procedure because:

A) some CCPCs have some portion of their income taxed at full rates while some non-CCPCs will pay taxable dividends out of income that has been taxed at lower income tax rates.

B) most CCPCs have all of their income taxed at low rates, and some non-CCPCs have only income that is taxed at lower rates.

C) all companies always have some portion of their income taxed at full rates.

D) some non-CCPCs have income taxed at lower rates.

Answer: A

Explanation: A) some CCPCs have some portion of their income taxed at full rates while some non-CCPCs will pay taxable dividends out of income that has been taxed at lower income tax rates.

Type: MC

Topic: Dividends - eligible & non-eligible

38) Integration works when the combined federal/provincial/territorial corporate income tax rate is at a certain benchmark level for corporations paying eligible dividends and a different benchmark level for corporations paying non-eligible dividends. Applicable rates vary from province to province and territory to territory which affects the effectiveness of integration. If you assume that the combined federal/provincial/territorial dividend tax credit is equal to 100% of the gross up, which of the following statements is correct with respect to combined federal/provincial/territorial income tax rates and the effectiveness of integration?

A) If the combined corporate income tax rate exceeds the benchmark rate, then the use of a corporation will result in lower income tax.

B) If the combined corporate income tax rate is equal to the benchmark rate, then the use of a corporation will result in the same amount of income tax.

C) If the combined corporate income tax rate is less than the benchmark rate, then the use of a corporation will result in additional income tax.

D) The combined corporate income tax rate for corporations paying non-eligible dividends must be greater than the combined corporate tax rate for corporations paying eligible dividends for integration to work for all taxable dividends.

Answer: B

Explanation: B) If the combined corporate income tax rate is equal to the benchmark rate, then the use of a corporation will result in the same amount of income tax.

Type: MC

Topic: Integration - general concepts

39) Integration works when the combined federal/provincial /territorial dividend tax credit rate is at a certain benchmark level. Applicable dividend tax credit rates vary from province to province and territory to territory which affects the effectiveness of integration. If you assume that the combined federal/provincial/territorial corporate income tax rate is at the benchmark rate for the type of taxable dividend under consideration, which of the following statements is correct with respect to combined federal/provincial/territorial dividend tax credit rates and the use of a corporation?

A) If the combined dividend tax credit rate is less than 100% of the gross up, then the use of a corporation will result in additional income tax.

B) If the combined dividend tax credit rate is greater than 100% of the gross up, then the use of a corporation will result in additional income tax.

C) The provincial/territorial dividend tax rate must be greater than the federal dividend tax rate for integration to work.

D) The combined dividend tax rate on non-eligible dividends must be greater than the combined dividend tax rate on eligible dividends for integration to work for all taxable dividends.

Answer: A

Explanation: A) If the combined dividend tax credit rate is less than 100% of the gross up, then the use of a corporation will result in additional income tax.

B) If the combined dividend tax credit rate is greater than 100%, then the use of a corporation will result in additional income tax.

C) The provincial/territorial dividend tax credit rate must be greater than the federal dividend tax rate for integration to work. [Federal DTC > 50%, so this must be wrong]

D) The combined dividend tax credit rate on non-eligible dividends must be greater than the combined dividend tax rate on eligible dividends for integration to work for all dividends. [DTC rate must equal to the gross up, so this must be wrong]

Type: MC

Topic: Integration - general concepts

40) As defined in ITA 129(4), aggregate investment income does **NOT** include:

A) foreign source property income.

B) net capital losses deducted in the taxation year.

C) net taxable capital gains.

D) Taxable dividends from taxable Canadian companies.

Answer: D

Explanation: D) Taxable dividends from taxable Canadian companies.

Type: MC

Topic: Corporate tax - aggregate investment income

41) During the 2022 taxation year, Makisha Fashions Inc has the following income:

Taxable capital gains $45,000

Allowable capital losses 42,000

Taxable Dividends 25,000

Foreign source property income 3,000

What is the total aggregate investment income?

A) $6,000

B) $31,000

C) $48,000

D) $73,000

Answer: A

Explanation: A) $6,000 [$45,000 - $42,000 + $3,000]

B) $31,000 [$45,000 - $42,000 + $25,000 + $3,000]

C) $48,000 [$45,000 + $3,000]

D) $73,000 [$45,000 + $25,000 + $3,000]

Type: MC

Topic: Corporate tax - aggregate investment income

42) A simple solution to the problem of high corporate income tax rates on investment income would be to apply a different, lower corporate income tax rate directly to this type of income. Instead, the Canadian tax system uses refundable income taxes to lower the effective income tax rate on investment income of CCPCs. Why?

A) Lower income tax rates would create a situation where the payment of taxable dividends to individual shareholders would result in double taxation.

B) Lower income tax rates would provide a significant deferral of income tax on investment income.

C) Refundable income taxes encourage early filing of corporate income tax returns.

D) Refundable income taxes provide a reason to retain funds in the corporation.

Answer: B

Explanation: B) Lower income tax rates would provide a significant deferral of income tax on investment income.

Type: MC

Topic: Integration - general concepts

43) With respect to the refundable Part I tax on investment income, which of the following statements is **NOT** correct?

A) It is always equal to 30-2/3% of aggregate investment income.

B) It is a designated portion of the regular Part I tax.

C) It is only applicable to CCPCs.

D) It only becomes refundable when taxable dividends are paid.

Answer: A

Explanation: A) It is always equal to 30-2/3% of aggregate investment income. This factor is only one component of the refundable Part I calculation. The refundable portion is equal to the least of three amounts.

Type: MC

Topic: Corporate tax - refundable Part I tax on investment income

44) In 2022, Norton Tools Ltd. has net taxable capital gains of $45,000, receives taxable dividends from taxable Canadian corporations of $34,000, and earns interest income of $21,000. Taxable Income for the year equals $280,000, of which $210,000 is eligible for the SBD. The Company's ART for 2022 is equal to:

A) $ 7,467.

B) $10,667.

C) $ 7,040.

D) $ 8,427.

Answer: C

Explanation: A) $ 7,467 [(10-2/3%)($280,000 - $210,000)

B) $10,667 [(10-23%)($45,000 + $34,000 + $21,000)]

C) $7,040 [(10-2/3%)($45,000 + $21,000)]

D) $ 8,427 [(10-23%)($45,000 + $34,000)]

Type: MC

Topic: Corporate tax - additional refundable tax (ART)

45) In 2022, Makisha Fashions Inc has the following income:

Taxable capital gains $45,000

Allowable capital losses 42,000

Taxable dividends from taxable Canadian corporations 25,000

Foreign Source Property Income 3,000

The company has taxable income of $495,000, of which $200,000 was eligible for the SBD. What is the ART for 2022?

A) $ 640

B) $3,307

C) $5,120

D) $7,787

Answer: A

Explanation: A) $640 [(10-2/3%)($45,000 - $42,000 + $3,000)]

B) $3,307 [(10-2/3%)($45,000 - $42,000 + $25,000 + $3,000)]

C) $5,120 [(10-2/3%)($45,000 + $3,000)]

D) $7,787 [(10-2/3%)($45,000 + $25,000 + $3,000)]

Type: MC

Topic: Corporate tax - additional refundable tax (ART)

46) A Ltd. is a CCPC that operates a chain of fast-food restaurants. In its most recent taxation year, the Company reported the following:

Active business income eligible for the SBD $200,000

Taxable capital gains Nil

Foreign investment income 55,000

Investment income earned in Canada 45,000

Net Income $300,000

Taxable Income $250,000

The Company paid no foreign income tax on its foreign investment income. A Ltd. is not associated with any other corporations.

Which one of the following amounts represents the refundable portion of Part I tax?

A) $13,800.

B) $15,333.

C) $30,667.

D) $76,667.

Answer: B

Explanation: A) $13,800 [(30-2/3%)($45,000)]

B) [($250,000 - $200,000)(30-2/3%)] = $15,333. The addition is limited by Taxable Income, less the amount eligible for the SBD [ITA 129(4)(a)(ii)].

C) $30,667 [(30-2/3%)($55,000 + $45,000)]

D) $76,667 [(30-2/3%)($250,000)]

Type: MC

Topic: Corporate tax - refundable Part I tax on investment income

47) With respect to Part I refundable taxes, which of the following statements is correct?

A) It is an additional tax which must be paid on aggregate investment income.

B) It is always refundable at the rate of 38-1/3 % of taxable dividends paid.

C) It is designed to prevent the deferral of income tax on investment income that is retained by a public company.

D) It is designed to prevent the deferral of income tax on investment income that is retained by a CCPC.

Answer: D

Explanation: D) It is designed to prevent the deferral of income tax on investment income that is retained by a CCPC.

Type: MC

Topic: Corporate tax - refundable Part I tax on investment income

48) Part IV tax on taxable dividends received is required in order to:

A) prevent income tax deferral in situations where there are multiple levels of corporations in a corporate group.

B) avoid double taxation of taxable dividends paid to corporate shareholders.

C) ensure proper integration on investment income at the corporate level.

D) ensure that public companies pay out some taxable dividends in every year they are profitable.

Answer: A

Explanation: A) Prevent income tax deferral in situations where there are multiple levels of corporations in a corporate group.

Type: MC

Topic: Corporate tax - dividend refund ITA 129

49) A subject corporation for purposes of Part IV tax is defined as:

A) a resident private corporation that is controlled by an individual or for the benefit of an individual.

B) a resident public corporation that is controlled largely for the benefit of an individual or a related group of individuals.

C) a resident public corporation that is controlled, through trusts, largely for the benefit of the trust.

D) a non-resident private corporation that is controlled largely for the benefit of a resident individual or related group of individuals.

Answer: B

Explanation: B) A resident public corporation that is controlled largely for the benefit of an individual or a related group of individuals.

Type: MC

Topic: Corporate tax - Part IV "Subject Corporation"

50) Which of the following statements with respect to Part IV tax is **NOT** correct?

A) All taxable dividends from subject companies will be assessed Part IV tax.

B) All taxable dividends from portfolio investments will be assessed Part IV tax.

C) Taxable dividends received from a connected company will be assessed Part IV tax if the paying company was entitled to a dividend refund.

D) Part IV tax is assessed at a rate of 30-2/3%.

Answer: D

Explanation: D) Part IV tax is assessed at a rate of 30-2/3%.

Type: MC

Topic: Corporate tax - Part IV tax (basic rules)

51) Premier Investments Inc. (Premier) is a private corporation. Premier received $20,000 of taxable dividends from its investments in publicly traded Canadian shares during its 2022 taxation year ended December 31, 2022. Premier has loss carry forwards as follows: 2020 non-capital loss balance of $3,000, 2020 net capital loss balance of $5,000, and a 2020 farm loss balance of $7,000. All of these losses are deductible in Premier's 2022 taxation year but the company would prefer to reduce its Part IV liability. Assuming Premier has no other income, what is Premier's minimum 2022 Part IV Tax Payable?

A) Nil.

B) $1,917.

C) $3,834.

D) $7,667.

Answer: C

Explanation: C) The correct answer is as follows:

Taxable Dividends Received $20,000

Part IV Tax Rate 38-1/3% $7,667

Less: Losses Applied:

2020 Non-Capital Losses ($ 3,000)

2020 Farm Losses ( 7,000)

Subtotal ($10,000)

Rate 38-1/3% ( 3,833)

Minimum 2022 Part IV Tax $3,834

In general, reducing Part IV tax by applying non-capital and farm losses would only be advantageous if the losses were about to expire.

Type: MC

Topic: Corporate tax - Part IV loss carryovers ITA 186(1)(c) & (d)

52) Opus Limited is a CCPC. In its 2022 taxation year, the company received the following taxable dividends:

Dividends on Portfolio Investments $ 35,000

Dividends from Magnum Inc. [(100%)($55,000)] 55,000

Dividends from Masterpiece Ltd. [(40%)($100,000)] 40,000

Opus owns 100% of the shares of Magnum Inc. and 40% of the shares of Masterpiece Ltd. Masterpiece received a dividend refund of $10,000 on its dividend payment, while Magnum received a dividend refund of $15,000. Determine the amount of Part IV Tax payable by Opus Limited for the 2022 taxation year.

A) $29,417.

B) $32,417.

C) $38,417.

D) $49,833.

Answer: B

Explanation: A) $29,417 [(38-1/3%)($35,000) + $10,000 + (40%)($15,000)]

B) $ 32,417 [(38-1/3%)($35,000) + [(100%)($15,000)] + (40%)($10,000)]

C) $38,417 [(38-1/3%)($35,000) + $10,000 + $15,000]

D) $49,833 [(38-1/3%)($35,000 + $55,000 + $40,000)]

Type: MC

Topic: Corporate tax - Part IV calculating the tax

53) CCPC Inc., a Canadian controlled private corporation, received a $10,000 taxable dividend from a non-connected public corporation, Payor Inc. Which of the following statements is correct?

A) The dividends will be deductible by Payor Inc. from its Eligible RDTOH.

B) The dividend will be subject to a tax rate of 38-1/3%.

C) The dividend will be subject to Part I tax.

D) The dividend will be subject to Part IV tax if Payor Inc. received a dividend refund.

Answer: B

Explanation: B) The dividend will be subject to a tax of 38-1/3%.

Type: MC

Topic: Corporate tax - Part IV tax (basic rules)

54) Mr. Patel is the sole owner of a holding company which owns 100% of the shares of an operating company that earns only active business income. Which of the following statements is correct?

A) The holding company will pay Part IV tax on taxable dividends received from the operating company.

B) Mr. Patel will receive taxable dividends from the holding company tax free.

C) Mr. Patel will receive taxable dividends from the operating company tax free.

D) The holding company will receive taxable dividends from the operating company tax free.

Answer: D

Explanation: C) Mr. Patel is not a shareholder of the operating company and could not receive dividends from that company.

D) The holding company will receive dividends from the operating company tax free.

Type: MC

Topic: Corporate tax - the taxation of inter-corporate dividends

55) With respect to the Eligible RDTOH account, which of the following statements is correct?

A) The balance is reduced by any refund resulting from eligible dividends paid during the year.

B) The balance is increased by 38-1/3% of any portfolio eligible dividends received.

C) The total dividend refund for the current taxation year cannot exceed the balance in this account at year end.

D) The balance is increased by the amount of the refundable Part I tax for the year.

Answer: B

Explanation: B) The balance is increased by 38-1/3% of any portfolio eligible dividends received.

Type: MC

Topic: Corporate tax - eligible & non-eligible RDTOH

56) Schumann Inc. is a CCPC that has the following information for the current year:

Canadian active business income $140,000

Taxable dividend from a taxable Canadian corporation 15,000

Aggregate investment income 60,000

Taxable income 200,000

Income eligible for the SBD 140,000

Part I tax for the year 21,900

The refundable portion of Part I tax for the year is equal to:

A) $5,750.

B) $18,400.

C) $24,150.

D) $21,900.

Answer: B

Explanation: A) $5,750 [($15,000)(38-1/3%)]

B) $18,400 [($60,000)(30-2/3%)]

C) $24,150 [($60,000)(30-2/3%) + ($15,000)(38-1/3%)]

D) $ 21,900 [the amount of part 1 tax payable]

Type: MC

Topic: Corporate tax - refundable Part I tax on investment income

57) Which of the following statements best describes the purpose of the dividend refund?

A) The dividend refund allows corporations with a balance in their RDTOH accounts to reduce their Part I tax payable by paying taxable dividends.

B) The dividend refund allows corporations with a balance in their capital dividend account to reduce their Part I tax payable by paying taxable dividends.

C) The dividend refund reduces the effective income tax rate on dividend income earned by corporations.

D) The dividend refund reduces the effective income tax rate on dividend income earned by shareholders.

Answer: A

Explanation: A) The dividend refund allows corporations with a balance in their RDTOH accounts to reduce their Part I income tax payable by paying taxable dividends.

Type: MC

Topic: Corporate tax - dividend refund ITA 129

58) With respect to GRIP and LRIP account balances, which of the following statements is **NOT** correct?

A) A CCPC's GRIP account is reduced by the amount of eligible dividends designated in the preceding taxation year.

B) A CCPC's GRIP account is increased by the amount of eligible dividends received during the current taxation year.

C) A public company's LRIP account is increased by the amount of non-eligible dividends received in the taxation year.

D) A CCPC's GRIP account is increased by 72% of the company's current year taxable income.

Answer: D

Explanation: D) A CCPC's GRIP account is increased by 72% of the company's current year taxable income. Taxable income is adjusted for certain amounts such as income eligible for the SBD and AII.

Type: MC

Topic: GRIP & LRIP - basic concepts

59) At the end of 2021, Gomez Inc., a CCPC, has a GRIP account balance of $53,400. In 2022, the Company has taxable income of $143,000. This includes aggregate investment income (AII) of $19,000.

In addition, in 2022 the Company receives eligible dividends of $12,300. In calculating 2022 income tax, the Company has a SBD of $16,150. In 2021, the company paid taxable dividends of $42,000 with $13,700 of the dividends designated as eligible.

Taxable dividends paid in 2022 total $51,000, with $18,400 of this amount being designated as eligible. What is the Company's GRIP account balance at the end of the 2022 taxation year?

A) $80,080

B) $93,780

C) $67,780

D) $75,380

Answer: A

Explanation: A) The required amount would be calculated as follows:

Balance at end of 2021 $53,400

Taxable Income $143,000

Income Eligible For SBD

($16,150 ÷ 19%) ( 85,000)

Aggregate Investment Income ( 19,000)

Adjusted Taxable Income $ 39,000

Rate 72% 28,080

Eligible Dividends Received in 2022 12,300

Eligible Dividends Designated in 2021 ( 13,700)

GRIP at end of 2022 $80,080

B) $80,080 + $13,700

C) $80,080 - $12,300

D) $80,080 + $13,700 - $18,400

Type: MC

Topic: GRIP = calculations & balance

60) With respect to GRIP and LRIP balances, which of the following statements is correct?

A) The GRIP account is used to track balances that can be used by a CCPC as the basis for designating eligible dividends.

B) The GRIP account is used to track balances that have not been subject to full corporate income tax rates.

C) The LRIP account is used to track balances that can be used by any company as the basis for designating non-eligible dividends.

D) The LRIP account is used to track balances that can be used by non-CCPCs as the basis for designating eligible dividends.

Answer: A

Explanation: A) The GRIP account is used to track balances that can be used by a CCPC as the basis for designating eligible dividends.

Type: MC

Topic: GRIP & LRIP - basic concepts

61) A non-CCPC has an LRIP balance of $78,000 at the end of its 2021 taxation year. In 2022, the company wishes to pay a taxable dividend of $250,000. In 2022, prior to the payment of the taxable dividend, the company receives eligible dividends of $35,000 and non-eligible dividends of $85,000. How much of the $250,000 taxable dividend must be paid as a non-eligible dividend before an eligible dividend can be designated?

A) $ 78,000

B) $ 113,000

C) $ 163,000

D) $ 250,000

Answer: C

Explanation: A) $78,000 [the opening balance in LRIP]

B) $113,000 [$78,000 + $35,000]

C) $163,000 [$78,000 + $85,000]

D) $250,000 [the full amount of the dividend]

Type: MC

Topic: Designation of eligible dividends

62) Patrick Innes has a business that he estimates will generate annual income of $130,000. If he incorporates the business in 2022, all of the income would be eligible for the SBD and all taxable dividends paid would be non-eligible. In the province where he lives, such corporate income is subject to a combined federal/provincial income tax rate of 14%. Mr. Innes has other personal income that place him in a combined federal/provincial income tax bracket of 42%. In his province, the provincial dividend tax credit for non-eligible dividends is equal to 20% of the gross up.

Would Mr. Innes save income tax if he was to incorporate the business income? Explain your result.

Answer: If he incorporates, the corporation will pay income taxes of $18,200 [(14%)($130,000)], leaving $111,800 to be distributed as taxable dividends. Personal income tax on the taxable dividends would be calculated as follows:

Taxable Dividends $111,800

Gross Up [(15%)($111,800)] 16,770

Grossed Up Dividends $128,570

Tax Rate 42%

Tax Before Credit $ 53,999

Dividend Tax Credit [(9/13 + 20%)($16,770)] ( 14,964)

Income Tax Payable on Taxable Dividends $ 39,035

The net after tax retention would be $72,765 ($111,800 - $39,035). This compares to $75,400 [($130,000)(1 - .42)] retained if the business is not incorporated which is $2,635 higher.

The use of a corporation is not desirable in terms of after tax returns, especially if the costs associated with maintaining a corporation are considered.

Type: ES

Topic: After tax retention - incorporating a business and non-eligible dividends

63) Nashwa has a business that she estimates will generate annual income of $100,000. She is planning to incorporate this business in 2022, and if she does, all of the income will be eligible for the SBD and all taxable dividends paid will be non-eligible. In the province where she resides, such corporate business income is subject to a combined federal/provincial income tax rate of 15%. Nashwa is subject to a personal combined federal/provincial income tax rate of 43%. The provincial dividend tax credit rate for non-eligible dividends is equal to 29% of the gross up.

Would Nashwa save any income tax if she were to incorporate the business? Explain your answer.

Answer: If Nashwa incorporates, the corporation will pay income tax of $15,000 [(15%)($100,000)], leaving $85,000 available for paying taxable dividends. Individual income tax on these dividends would be calculated as follows:

Taxable Dividends $85,000

Gross Up [(15%)($85,000)] 12,750

Taxable Dividends $97,750

Rate 43%

Tax Before Credit $42,033

Dividend Tax Credit [(9/13 + 29%)($12,750)] ( 12,524)

Income Tax Payable on Taxable Dividends $29,509

Taxable Dividends Received $85,000

Income Tax Payable ( 29,509)

After Tax Retention $55,491

Retention w/o a corporation [($100,000)(1 - 43%)] ( 57,000)

Savings (Loss) with the use of a corporation ($ 1,509)

The after tax retention with the use of a corporation is $55,491, $1,509 lower than the retention if the business was not incorporated. The use of a corporation is not desirable in terms of after tax returns, especially if the costs associated with maintaining a corporation are considered.

Type: ES

Topic: After tax retention - incorporating a business and non-eligible dividends

64) Janice Huber has a business that she estimates will generate annual income of $75,000. Because she controls another corporation that fully utilizes $500,000 of its SBD the incorporation of a second corporation would be an associated corporation. Therefore if she incorporates the business, none of the income will be eligible for the SBD and any taxable dividends paid would be designated eligible. In the province where she lives, such corporate income is subject to a combined federal/provincial income tax rate of 28%. Ms. Huber has other personal income that place her in a combined federal/provincial income tax bracket of 46%. In the province where she resides, the provincial dividend tax credit for eligible dividends is equal to 32% of the gross up.

Would Ms. Huber save any income tax if she were to incorporate the business? Explain your answer.

Answer: If she incorporates, the corporation will pay income tax of $21,000 [(28%)($75,000)], leaving $54,000 to be distributed as taxable eligible dividends. Her individual income tax payable on the eligible dividends would be calculated as follows:

Taxable Dividends $54,000

Gross Up [(38%)($54,000)] 20,520

Grossed Up Dividends $74,520

Personal Tax Rate 46%

Income Tax Before Credit $34,279

Dividend Tax Credit [(6/11 + 32%)($20,520)] ( 17,759)

Income Tax Payable on Taxable Dividends $16,520

The net after tax retention would be $37,480 ($54,000 - $16,520). This compares to $40,500 [($75,000)(1 - .46)] retained if the business is not incorporated. Clearly the use of a corporation is not desirable in this situation.

Type: ES

Topic: After tax retention - incorporating a business and eligible dividends

65) Florence has a business that she estimates will generate annual income of $100,000. She is planning to incorporate the business in 2022, and if she does, none of the income will be eligible for the SBD because she controls another corporation (an associated corporation) that fully utilizes the annual $500,000 small business limit. As a result, all taxable dividends paid will be designated eligible. In the province where she resides, such corporate income is subject to a combined federal/provincial income tax rate of 29%. Florence has other personal income that will result in any additional income being subject to income tax at a combined federal/provincial income tax rate of 43%. The provincial dividend tax credit rate on eligible dividends is equal to 29% of the gross up.

Would Florence save any income tax by incorporating the business? Explain your result.

Answer: By incorporating the business corporate income tax would be $29,000 [(29%)($100,000)], leaving $71,000 available to pay as eligible dividends. Personal income tax would be calculated as follows:

Taxable Dividends $71,000

Gross Up [(38%)($71,000)] 26,980

Grossed Up Dividends $97,980

Personal Tax Rate 43%

Tax Before Credit $42,131

Dividend Tax Credit [(6/11 + 29%)($26,980)] ( 22,541)

Income Tax Payable on Taxable Dividends $19,590

Taxable Dividends $71,000

Income Tax Payable ( 19,590)

After Tax Retention $51,410

Retention w/o a corporation [($100,000)(1 - 43%)] ( 57,000)

Savings (Loss) with the use of a corporation ($ 5,590)

Type: ES

Topic: After tax retention - incorporating a business and eligible dividends

66) Axco Inc. is a CCPC with a December 31 taxation year end. Axco is not associated with any other company. For the 2022 taxation year, its net income is $342,000. This is made up of active business income of $226,000, taxable dividends from taxable Canadian corporations of $31,000, taxable capital gains of $51,000 and interest income on long-term investments of $34,000. The Company has available a 2020 net capital loss balance of $32,000 and a 2020 non-capital loss balance of $29,000. The Company intends to deduct both of these losses in its 2022 taxation year.

In 2021, Axco's Taxable Capital Employed in Canada (TCEC) was less than $10 million, and its Adjusted Aggregate Investment Income (AAII) was less than $50,000.

Determine Axco's 2022 taxable income and its 2022 ART.

Answer: Axco's Taxable Income would be calculated as follows:

2022 Net Income $342,000

Taxable Dividends ( 31,000)

2020 Net Capital Loss ( 32,000)

2020 Non-Capital Loss ( 29,000)

2022 Taxable Income $250,000

Axco's amount eligible for the SBD of $226,000 is the least of active business income of $226,000, Taxable Income of $250,000, and the annual business limit of $500,000.

Given these calculations, Axco's ART would be calculated as the lesser of:

Aggregate Investment Income

Taxable Capital Gains $51,000

Net Capital Loss Deducted ( 32,000)

Interest Income 34,000 $53,000

Taxable Income $250,000

Amount Eligible for SBD ( 226,000) $24,000

The ART would be $2,560 [(10-2/3%)($24,000)].

Note that the Taxable Income limit is $29,000 ($53,000 - $24,000) less than the Aggregate Investment Income. This difference is the result of the deduction of the $29,000 2020 non-capital loss.

Type: ES

Topic: Corporate tax - additional refundable tax (ART)

67) Barnum Ltd. is a CCPC with a December 31 taxation year end. For the 2022 taxation year, the Company has net income of $436,000. This is made up of active business income of $256,000, taxable dividends from taxable Canadian corporations of $61,000, taxable capital gains of $85,000, and interest income on long-term investments of $34,000. The company will claim a 2020 non-capital loss balance of $163,000, and a 2020 net capital loss balance of $47,000. Barnum is associated with one other company and they have agreed to split the annual business limit on a 50/50 basis.

In 2021, Barnum's Taxable Capital Employed in Canada (TCEC) was less than $10 million, and its Adjusted Aggregate Investment Income (AAII) was less than $50,000. The TCEC and AAII amounts include the impact of the associated company.

Determine Barnum's 2022 taxable income and its 2022 ART.

Answer: Barnum's 2022 taxable income would be calculated as follows:

2022 Net Income $436,000

Taxable Dividends ( 61,000)

2020 Net Capital Loss ( 47,000)

2020 Non-Capital Loss ( 163,000)

2022 Taxable Income $165,000

Barnum's amount eligible for the SBD of $165,000 is the least of active business income of $256,000, taxable income of $165,000, and the annual business limit of $250,000 [(1/2)($500,000)].

Given these calculations, Barnum's ART is 10-2/3 % of the lesser of:

Aggregate Investment Income

Taxable Capital Gains $85,000

2020 Net Capital Loss Deducted ( 47,000)

Interest Income 34,000 $72,000

Taxable Income $165,000

Amount Eligible for the SBD ( 165,000) Nil

Based on these calculations, the ART would be nil.

Type: ES

Topic: Corporate tax - additional refundable tax (ART)

68) Mr. Marcus Fisher has investments that generate annual interest income of $94,000. Because of his employment income, he is in the top income tax bracket, with a combined federal/provincial income tax rate of 52% based on the province where he is resident. He is considering incorporating the investments on January 1, 2022, with a CCPC which will be subject to an income tax rate on investment income of 51%. The dividend tax credit in his province is equal to 30% of the gross up. Any dividends paid by the CCPC out of investment income will be non-eligible. Advise him as to whether there would be any income tax savings by incorporating the investments.

Answer: If Mr. Fisher does not incorporate the investments, he will retain $45,120 [($94,000)(1 - .52)]. Alternatively, if the investments are incorporated, the income tax results would be as follows:

Corporate Investment Income $94,000

Corporate income tax at 51% ( 47,940)

Income Before Dividends $46,060

Dividend Refund [($46,060 ÷ .61667) - $46,060] 28,632

Non-eligible Dividends paid to Mr. Fisher $74,692

Non-Eligible Dividends $74,692

Gross Up 15% 11,204

Personal increase in income $85,896

Personal Tax Rate 52%

Income Tax Payable before Dividend Tax Credit $44,666

Dividend Tax Credit [(9/13 + 30%)($11,204)] ( 11,118)

Personal Income Tax with the use of a Corporation $33,548

Non-Eligible Dividends $74,692

Personal Tax Payable ( 33,548)

After Tax Cash Retained with the use of a Corporation $41,144

The increase in the Non-Eligible RDTOH of $28,827 [(30-2/3%)($94,000)] would allow for a dividend refund of $28,632.

With the corporate income tax rate at 51%, only 1% below the personal income tax rate of 52% there would only be limited income tax deferral on income left in the corporation.

There would be $3,976 ($45,120 - $41,144) less after-tax cash with the use of a corporation.

Type: ES

Topic: After tax retention - incorporating investments and non-eligible dividends

69) Marion Fox has investments that generate annual interest income of $172,000. She also has annual employment income in excess of $250,000 which result in her being subject to personal income tax rates on the receipt of any additional income at a combined federal/territorial income tax rate of 53%.

She is considering incorporating her interest earning investments to a newly incorporated CCPC on January 1, 2022. Marion resides in the North West Territories (NWT) where her would also reside. In the NWT, the combined corporate federal/territorial income tax rate on the investment income of CCPCs is 50%. All of the corporation's after tax income would be paid out as non-eligible dividends. The territorial dividend tax credit rate on non-eligible dividends is 35% of the gross up.

Advise Marion as to whether there would be any income tax savings if she were to incorporate the investments.

Answer: If she chooses not to incorporate the investments the after tax retention would be as follows:

Interest Received $172,000

Personal Income Tax [(53%)($172,000)] ( 91,160)

After Tax Cash Retained without a Corporation $ 80,840

The alternative results if the investments are incorporated would be as follows:

Corporate Investment Income $172,000

Corporate Tax at 50% ( 86,000)

After Tax Income $ 86,000

Dividend Refund (Note) 52,747

Non-Eligible Dividend paid to Ms. Fox $138,747

**Note -** Based on the amount of after tax income available, the maximum possible taxable dividend would be $53,459 [($86,000 ÷ .61667) - $86,000]. However, the refund is limited by the balance in the Non-Eligible RDTOH account. As this is a new corporation, there would be no opening balance in this account and the addition would be $52,747 [(30-2/3%)($172,000)]. Given this, the refund is limited to $52,747.

Non-Eligible Dividends $138,747

Gross Up 15% 20,812

Taxable Dividends $159,559

Personal Tax Rate 53%

Tax Payable before Dividend Tax Credit $ 84,566

Dividend Tax Credit [(9/13 + 35%)($20,812)] ( 21,693)

Personal Income Tax with the use of a Corporation $ 62,873

Non-Eligible Dividends $138,747

Personal Income Tax ( 62,873)

After Tax Cash Retained with the use of a Corporation $ 75,874

With the high personal income tax rate in this example, the use of the corporation would result in some tax deferral:

Income taxes w/o a corporation $91,160

Income Taxes with the use of a Corporation ( 86,000)

Deferral $ 5,160

Overall, the use of a corporation would reduce after tax cash as follows:

After Tax Retention - w/o a Corporation $80,840

After Tax Retention - with a Corporation ( 75,874)

Reduction in after tax retention $ 4,966

Type: ES

Topic: After tax retention - incorporating investments and non-eligible dividends

70) Overton Ltd. is a CCPC. In 2022, the Company received the following dividends:

Taxable Dividends on Portfolio Investments $21,300

Taxable Dividends from Saston Inc. [(100%)($62,300)] 62,300

Taxable Dividends from Raston Inc. [(40%)($90,000)] 36,000

Overton Ltd. owns 100%of the voting shares of Saston Inc. and 40% of the voting shares of Raston Inc. The FMV of the Raston Inc. shares equals 40% of the FMV of all Raston Inc. shares. As a result of paying the $90,000 dividend, Raston Inc. received a dividend refund of $25,000. Saston Inc. received no dividend refund for 2022.

Determine the amount of Overton Ltd.'s Part IV tax as a result of receiving the taxable dividends.

Answer: The 2022 Part IV tax would be calculated as follows:

Tax on Portfolio Investments [(38-1/3%)($21,300)] $ 8,165

Tax on Saston Inc. Dividends Nil

Tax on Raston Inc. Dividends [(40%)($25,000)] 10,000

2022 Part IV Tax $18,165

Type: ES

Topic: Corporate tax - Part IV calculating the tax

71) Blackwood Inc. is a CCPC. It has two subsidiaries. Information related to these subsidiaries is as follows:

**Whitewood Ltd. -** Blackwood owns 65% of Whitewood Ltd. In 2022, Whitewood paid taxable dividends of $100,000. Whitewood received a dividend refund for the 2022 taxation year of $20,000.

**Redwood Inc. -** Blackwood owns 100% of Redwood Inc. In 2022, Redwood paid total taxable dividends of $72,000. Blackwood was not entitled to a dividend refund for 2022.

In addition to the taxable dividends received from subsidiaries, Blackwood received $35,000 in dividends from portfolio investments. Determine Blackwood's 2022 Part IV Tax.

Answer: The amount of 2022 Part IV Tax would be calculated as follows:

Tax on Whitewood Ltd. Dividends [(65%)($20,000)] $13,000

Tax on Redwood Inc. Dividends Nil

Tax on Portfolio Investments [(38-1/3%)($35,000)] 13,417

2022 Part IV Tax $26,417

Type: ES

Topic: Corporate tax - Part IV calculating the tax

72) Simard Ltd., a CCPC, had a GRIP balance for its taxation year ending December 31, 2021 of $37,000. In 2022, the Company received eligible dividends of $17,000. In 2021 the company designated $23,000 of its taxable dividends paid as eligible.

In 2022, Simard has taxable income of $476,000. This amount includes taxable capital gains of $14,000, interest income on long-term bonds of $7,000, and a 2019 net capital loss balance of $14,000 which it will deduct to the maximum extent possible in 2022. In determining its 2022 federal income tax payable, the Company has a SBD of $76,000. In 2022, Simard Ltd. pays taxable dividends of $25,000, with $18,000 of this amount being designated as eligible.

Determine the Company's GRIP balance at the end of 2022.

Answer: Since taxable income is greater than Aggregate Investment Income (AII), the 2022 ending GRIP account balance will be calculated as follows:

GRIP Balance at end of 2021 $37,000

Taxable Income $476,000

Income Eligible for SBD ($76,000 ÷ 19%) ( 400,000)

Aggregate Investment Income

($14,000 + $7,000 - $14,000) ( 7,000)

Adjusted Taxable Income $ 69,000

Rate 72% 49,680

Eligible Dividends Received in 2022 17,000

Eligible Dividends Designated in 2021 ( 23,000)

GRIP at end of 2022 $80,680

The eligible dividends paid in 2022 will reduce the GRIP account balance in 2023.

Type: ES

Topic: GRIP = calculations & balance

73) Saxon Company is a CCPC that began carrying on business on January 1, 2020. The company uses a calendar-based taxation year.

In 2021, the Company received eligible dividends of $45,000 and designated $40,000 of the dividends it paid as eligible. On December 31, 2021, the balance in the Company's GRIP account was $45,000.

In 2022, Saxon's taxable income is $726,000 which includes $18,000 of interest income, taxable capital gains of $22,000, and the deduction of a 2019 net capital loss balance of $18,000. In addition the Company received eligible dividends of $36,000. In determining the 2022 federal income tax payable, the Company has a SBD of $66,500. In 2022, Saxon pays taxable dividends of $48,000, with $21,000 of this amount being designated as eligible.

Determine the Company's GRIP balance at the end of 2022.

Answer: Since taxable income is greater than Aggregate Investment Income (AII), the 2022 ending balance in GRIP will be calculated as follows:

GRIP Balance at end of 2021 $ 45,000

Taxable Income $726,000

Income Eligible for the SBD ($66,500 ÷ 19%) ( 350,000)

Aggregate Investment Income

($18,000 + $22,000 - $18,000) ( 22,000)

Adjusted Taxable Income $354,000

Rate 72% 254,880

Eligible Dividends Received in 2022 36,000

Eligible Dividends Designated in 2021 ( 40,000)

GRIP at end of 2022 $295,880

The eligible dividends paid in 2022 will reduce the GRIP account in 2023.

Type: ES

Topic: GRIP = calculations & balance

74) Starfare Ltd. is a CCPC that earned the following amounts of property income and capital gains for its taxation year ending December 31, 2022:

Rental Income $17,600

Capital Gains 91,500

Taxable Dividends from Portfolio Investments 41,300

Interest income on Long-Term Investments 17,450

Foreign Non-Business Income -

Net of 8% foreign income tax 18,400

The Company's 2022 net income is $232,350. The Company deducts a 2018 net capital loss balance of $24,000. A $14,250 SBD and a foreign non-business tax credit of $1,600 served to reduce 2022 federal income tax payable. Assume that the Company's 2022 Part I tax has been correctly determined to be $37,133. Determine the refundable amount of Part I tax for the 2022 taxation year.

Answer: The refundable portion of Starfare Ltd.'s Part I tax would be the least of the following three amounts:

Rental Income $17,600

Taxable Capital Gains [(1/2)($91,500)] 45,750

Interest Income 17,450

Foreign Non-Business Income 20,000

2018 Net Capital Loss Deducted ( 24,000)

Aggregate Investment Income - ITA 129(4) $76,800

Rate 30-2/3%

Amount before Foreign Income Adjustment $23,552

Less The excess of:

Foreign Non-Business Tax Credit ($1,600)

Over 8% of $20,000 1,600 Nil

ITA 129(4)(a)(i) Amount $23,552

Taxable Income ($232,350 - $41,300 - $24,000) $167,050

Less:

Amount Eligible for the SBD ($14,250 ÷ 19%) ( 75,000)

[(100 ÷ 38-2/3)($1,600)] Foreign Non-Business Tax Credit ( 4,138)

Adjusted Taxable Income $ 87,912

Rate 30-2/3%

ITA 129(4)(a)(ii) Amount $ 26,960

ITA 129(4)(a)(iii) Amount - Part I Tax Payable $37,133

The least of these three amounts is $23,552, and this would be the refundable portion of Part I tax for 2022 which would be added to the company's non-eligible RDTOH.

Type: ES

Topic: Corporate tax - refundable Part I tax on investment income

75) Elm Inc. is a CCPC with a 2022 taxation year ending December 31, 2022. The Company has the following capital gains and property income:

Interest income on Long Term Investments $33,000

Taxable Capital Gains 88,000

Taxable Dividends from Portfolio Investments 83,000

Rental Income 26,000

Foreign Non-Business Income

(Before 10% Foreign income tax withheld) 40,000

The Company's 2022 net income is $458,000. In calculating taxable income, the Company deducted a $45,000 net capital loss balance from 2019.

In calculating Part I income tax, the Company claimed a SBD of $23,750 and a foreign non-business tax credit of $4,000. The Part I income tax for 2022 has been correctly determined to be $71,607.

Determine the refundable amount of Part I tax for 2022.

Answer: The refundable amount of Elm's Part I tax would be calculated as follows:

Interest income on Long Term Investments $33,000

Taxable Capital Gains 88,000

Rental Income 26,000

Foreign Non-Business Income 40,000

2019 Net Capital Loss Deducted ( 45,000)

Aggregate Investment Income $142,000

Rate 30-2/3%

Amount before Foreign Income Adjustment $ 43,547

Less The excess of:

Foreign Non-Business Tax Credit ($4,000)

Over 8% of $40,000 3,200 ( 800)

ITA 129(4)(a)(i) Amount $ 42,747

Taxable Income ($458,000 - $83,000 - $45,000) $330,000

Amount Eligible for the SBD ($23,750 ÷ 19%) ( 125,000)

[(100 ÷ 38-2/3)($4,000)] Foreign Non-Business Tax Credit ( 10,345)

Adjusted Taxable Income $194,655

Rate 30-2/3%

ITA 129(4)(a)(ii) Amount $ 59,694

ITA 129(4)(a)(iii) Amount - Part I Income Tax Payable $ 71,607

The least of the three amounts is $42,747, and this would be the refundable portion of Part I tax for 2022 that would be added to the company's non-eligible RDTOH.

Type: ES

Topic: Corporate tax - refundable Part I tax on investment income

76) Ho Ltd. is a CCPC with a December 31 taxation year end. On December 31, 2022 the balance in the Eligible RDTOH account is $80,500, the balance in the Non-Eligible RDTOH account is $57,500 and the balance in the GRIP account is $210,000.

In 2022, there were no additions to either RDTOH account. In 2022, the company paid taxable dividends of $360,000 of which $120,000 were designated as eligible with the remaining $240,000 non-eligible. The company did have a capital dividend account (CDA) balance but did not make any capital dividend election.

Determine the amount of the dividend refund on the payment of (1) the eligible dividends and (2) the non-eligible dividends.

Answer: **Dividend Refund on Eligible Dividends** - The refund on eligible dividends would be $46,000, the lesser of:

• $46,000 (38-1/3% of the $120,000 of eligible dividends paid in 2022)

• $80,500 (the balance in the Eligible RDTOH on December 31, 2022)

While the Exercise does not require this information, the corporation would start 2023 with a $90,000 ($210,000 - $120,000) balance in its GRIP.

**Dividend Refund on Non-Eligible Dividends -** Component 1 of the refund on non-eligible dividends would be $57,500, the lesser of:

• $92,000 (38-1/3% of the $240,000 of non-eligible dividends paid in 2022)

• $57,500 (the balance in the Non-Eligible RDTOH on December 31, 2022)

With respect to Component 2, 38-1/3% of the $240,000 of non-eligible dividends paid during 2022 exceeds the balance in the Non-Eligible RDTOH by $34,500 ($92,000 - $57,500).

Given this, Component 2 would be equal to the lesser of:

• the excess of $34,500; and

• $34,500 ($80,500 - $46,000), the balance left in the Eligible RDTOH after the refund on eligible dividends paid.

The total refund resulting from the payment of non-eligible dividends is $92,000 ($57,500 + $34,500). Note that $92,000 is equal to 38-1/3% of the $240,000 in non-eligible dividends paid.

You should also be aware that the combined refund of $138,000 ($46,000 + $92,000) is equal to the combined balances ($80,500 + $57,500) in the two RDTOH accounts.

Type: ES

Topic: Corporate tax - dividend refund ITA 129

77) Assume the following with respect to the shareholder of a CCPC who is an individual.

• The corporation's business income for the year is $80,000.

• Any taxable dividends paid are designated non-eligible dividends.

• The individual's marginal federal/provincial/territorial income tax rate is 34%.

• The provincial/territorial dividend tax credit on non-eligible dividends is 20% of the gross up.

• The combined federal/provincial/territorial corporate income tax rate on business income is 13%.

**Required**: Indicate, using these assumptions, whether integration is working perfectly. If your answer is no, briefly explain why this is the case.

Answer: The required calculations would be as follows:

**Corporate Income Tax**

Business Income $80,000

Corporate Taxes (13%) ( 10,400)

Income Available for Taxable Dividends $69,600

**Personal Income Tax on Dividends**

Dividend Income $69,600

Gross Up (15%) 10,440

Taxable Dividends $80,040

Tax Payable before Dividend Tax Credit

[(34%)($80,040)] $27,214

Dividend Tax Credit [(9/13 + 20%)($10,440)] ( 9,316)

Individual Income Tax $17,898

**Total Income Tax (Individual + Corporate)**

Corporate Income Tax $10,400

Individual Income Tax 17,898

Total Income Tax $28,298

**Total Individual Income Tax w/o a Corporation**

Business Income $80,000

Combined Federal/Provincial Income Tax 34%

Individual Income Tax $27,200

The combined corporate and personal income taxes are $1,098 ($28,298 - $27,200) higher than the income taxes that would have been paid without the use of a corporation. This result reflects a corporate combined income tax rate of 13% which is just below the rate required for perfect integration of 13.04%. More than offsetting this is a low provincial dividend tax credit (perfect integration requires a 4/13 or 30.8% credit).

Type: ES

Topic: After tax retention - incorporating a business and non-eligible dividends

78) Medtech Inc. is a CCPC that uses a calendar-based taxation year. On January 1, 2022, the balance in the Company's Non-Eligible RDTOH is $17,445 and the balance in its Eligible RDTOH and GRIP accounts are both nil.

Medtech's 2022 taxable income is $456,250. and its 2022 Part I tax payable is $82,506. The company has no foreign income in 2022 and no loss carryovers claimed in determining its taxable income.

The Company's 2022 net income includes the following amounts of taxable capital gains and income from property:

Taxable Capital Gains $43,730

Eligible Dividends from Canadian Public Companies 26,560

Rental Income from Residential Properties 14,760

Non-eligible dividends - Connected Company (See Note) 77,700

**Note -** The non-eligible dividends, were received from Medcare, another CCPC in which Medtech owns 42% of the voting shares. The voting shares of Medcare owned by Medtech represent 27% of the value of all of the corporation's shares. Medcare received a dividend refund of $20,386 for its 2022 taxation year.

Medtech is associated with four other companies. The annual business limit for the SBD is shared equally by Medtech and these four other companies. The $100,000 allocation is significantly less than the Company's active business income in 2022.

Medtech Inc. paid taxable dividends of $66,560 in 2022. It is the policy of the corporation to designate dividends as eligible only to the extent that they are entitled to a dividend refund.

In 2021, Medtech and its associated companies had combined Adjusted Aggregate Investment Income (AAII) of $32,400 and the combined Taxable Capital Employed in Canada (TCEC) was $2,300,000.

**Required:**

A. Determine the refundable portion of Medtech's Part I Tax for 2022.

B. Determine Medtech's 2022 Part IV Tax.

C. Determine the December 31, 2022 balances in Medtech's Eligible and non-eligible RDTOH accounts.

D. Determine Medtech's 2022 dividend refund, providing separate amounts for refunds on eligible dividends and non-eligible dividends.

Answer:

***Part A - Refundable Part I Tax***

The refundable portion of the 2022 Part I tax would be the least of the following amounts:

Taxable Capital Gain $43,730

Rental Income 14,760

Aggregate Investment Income (AII) $58,490

Rate 30-2/3%

**ITA 129(4)(a)(i)** $17,937

Taxable Income $456,250

Amount Eligible for the SBD (See Note) ( 100,000)

Total $356,250

Rate 30-2/3%

**ITA 129(4)(a)(ii)** $109,250

**ITA 129(4)(a)(iii)** Part I Income Tax - Given $ 82,506

**Note -** The problem states that Medtech's $100,000 share of the annual business limit is less than its active business income. In addition, it is less than the Company's taxable income. These facts establish that the amount eligible for the SBD is Medtech's share of the annual business limit.

The refundable portion of Part I tax is equal to $17,937, which is the least of the three amounts.

***Part B - Part IV Tax***

The 2022 Part IV Tax for Medtech Inc. would be calculated as follows:

Dividend Refund received by Medcare $20,386

Medtech's percentage of share ownership 42%

Part IV Tax on Non-Eligible Medcare Dividends $ 8,562

Part IV Tax on Eligible Portfolio Investment

Dividends [(38-1/3%)($26,560)] 10,181

2022 Part IV Tax $18,743

***Part C - RDTOH Balances***

The December 31, 2022 balance in the Eligible RDTOH account would be as follows:

Opening Balance $ Nil

Part IV Tax on Eligible Dividends 10,181

Eligible RDTOH - December 31, 2022 $10,181

The December 31, 2022 balance in the Non-Eligible RDTOH would be as follows:

Opening $17,445

Part I Refundable Tax 17,937

Part IV Tax on Non-Eligible Medcare Dividends 8,562

Non-Eligible RDTOH - December 31, 2022 $43,944

***Part E - Dividend Refunds***

The maximum amount of taxable dividends that can be designated as eligible is limited by Medtech's GRIP account balance on December 31, 2022. We know that the initial 2022 balance was nil and that the $26,560 of eligible dividends received from Canadian public companies would be added. There is also the possibility that there would a further amount added as a result of some of the corporation's income not being eligible for the SBD. (This amount cannot be determined based on the information in the problem.)

However, given Medtech's policy of designating dividends as eligible only when a dividend refund is available, a further addition to the GRIP account would not be relevant in this problem. This is because a dividend refund will only be available for the balance in the Eligible RDTOH, an amount of $10,181. Based on this, the eligible dividend designation will be for $26,560, the amount of the eligible dividends received. The refund on these dividends will be $10,181 [($26,560)(38-1/3%)].

The remaining $40,000 ($66,560 - $26,560) will be non-eligible.

The refund on these non-eligible dividends would be $15,333, the lesser of:

• $15,333 [(38-1/3%)($40,000)]; and

• $43,944, the balance in the Non-Eligible RDTOH.

The total dividend refund would be as follows:

Dividend Refund on Eligible Dividends $10,181

Dividend Refund on Non-Eligible Dividends 15,333

Total Dividend Refund for 2022 $25,514

Type: ES

Topic: Corporate tax - Part I & Part IV with dividend refund

79) Epic Inc. is a CCPC with a calendar-based taxation year. The following information relates to the 2022 taxation year.

1. The Company had Canadian source active business income of $237,000. Of this total, it was determined that $126,000 qualified as M&P profits under ITR 5200.

2. The Company received $25,500 in foreign investment income. This was net of $4,500 foreign income tax withheld.

3. Net income for 2022 is $277,000. This is made up of the $237,000 in active business income, the $30,000 in foreign investment income, and $10,000 in taxable capital gains.

4. Because of a $50,000 2020 non-capital loss balance that was claimed taxable income is $227,000.

5. The Company shares the annual business limit for the SBD with two other companies. Epic's allocated share of the business limit is $200,000.

6. Assume that the foreign tax credit for foreign investment income is equal to the amount withheld.

7. For the 2021 taxation year, the combined Adjusted Aggregate Investment Income (AAII) of Epic and its associated companies is $44,250 and the combined Taxable Capital Employed in Canada TCEC is $2,440,000.

**Required:** Calculate the Part I income tax payable for the 2022 taxation year. As the corporation operates in a territory that has a reduced income tax rate for M&P activity, a separate calculation of the federal M&P deduction is required. Show all of the calculations used to provide the required information, including those for which the result is nil.

Answer: The required calculation of 2022 Part I income tax would be as follows:

Taxable Income (Given) $227,000

Base Amount of Part I Tax [(38%)($227,000)] $86,260

Federal Abatement [(10%)($227,000)] ( 22,700)

SBD (Note One) ( 38,000)

ART (Note Two) 2,880

M&P Deduction (Note Three) Nil

GRR (Note Four) Nil

Foreign Non-Business Income Tax Credit (Equal To Withholding) ( 4,500)

2022 Part I Income Tax $23,940

**Note One -** There is a circular calculation involved in the calculation of foreign tax credits, the SBD, and the ART. This adds considerable complexity to the calculation of federal income tax payable and, in most situations, the additional calculations do not influence the outcome (that would, in fact, be the case in this problem). To avoid these additional calculations, we have stated that the foreign tax credit is equal to the amount withheld.

Given the preceding assumption with respect to the foreign tax credit, the SBD would be equal to 19% of the least of:

1. Active Business Income (Given) $237,000

2. Taxable Income $227,000

Deduct:

[(100/28)($4,500)] Foreign

Non-Business Tax Credit ( 16,071) $210,929

3. Allocated Annual Business Limit (Given) $200,000

The least of the three amounts is $200,000, resulting in a SBD of $38,000 [(19%)($200,000)].

**Note Two** - The aggregate investment income (AII) is equal to the gross foreign investment income plus the taxable capital gain. The ART is 10-2/3% of the lesser of:

1. AII ($30,000 + $10,000) $40,000

2. Taxable Income $227,000

Deduct: Amount Eligible for the SBD ( 200,000) $27,000

The ART is $2,880 [(10-2/3%)($27,000)].

**Note Three -** The M&P deduction would be 13% of the lesser of:

1. Canadian M & P Profits (Given) $126,000

Deduct: Amount Eligible for the SBD ( 200,000) Nil

2. Taxable Income $227,000

Deduct:

Amount Eligible for the SBD ( 200,000)

AII (Note Two) ( 40,000) Nil

Given these calculations, the M&P deduction would be nil.

**Note Four -** The GRR is nil, calculated as follows:

Taxable Income $227,000

Amount Eligible for the SBD ( 200,000)

Amount Eligible for the M&P Deduction Nil

AII (Note Two) ( 40,000)

Full Rate Taxable Income Nil

Rate 13%

GRR Nil

Type: ES

Topic: Corporate tax payable - simple with ART

80) Fracto Inc. is a CCPC that uses a calendar-based taxation year. For the 2022 taxation year the company's net income was made up of the following components:

Active Business Income (Note 1) $ 514,400

Taxable Dividends from Canadian Corporations:

Wholly-Owned Subsidiary (Note 2) 297,400

Portfolio Investments (All Eligible Dividends) 89,600

Canadian Interest Income 44,300

Taxable Capital Gains 93,100

2022 Net Income $1,038,800

**Note 1 -** As determined under ITR 5200, $326,000 of this total qualified as M&P profits. As these amounts are allocated to a territory which has a special rate for M&P profits, the company calculates the federal M&P deduction.

**Note 2 -** The subsidiary was entitled to a dividend refund of $52,800 in 2022 as a result of paying these taxable dividends. None of the dividends were designated as eligible.

**Other Information Relevant to the 2022 taxation year:**

1. Fracto Inc. is part of a group of associated companies. It has been agreed that Fracto Inc. will be allocated $100,000 of the group's annual business limit for purposes of determining the SBD.

2. At January 1, 2022, Fracto Inc. had an Eligible RDTOH account balance of $12,000 and a nil balance in its Non-Eligible RDTOH account.

3. At December 31, 2021, Fracto Inc. had a GRIP account balance of $126,700.

4. In the 2021 taxation year, Fracto and its associated corporations had Adjusted Aggregate Investment Income (AAII) of $47,650 and the combined Taxable Capital Employed In Canada (TCEC) was $4,652,000.

5. On July 1, 2022, Fracto Inc. paid taxable dividends to its shareholders in the amount of $132,400. It is the policy of the corporation to maximize the amount of dividends designated as eligible.

6. The Company has a 2020 net capital loss balance of $12,000 and a 2020 non-capital loss balance of $163,400. It plans to claim both of these loss carryovers for its 2022 taxation year.

**Required:** For Fracto Inc.'s 2022 taxation year, calculate the following:

A. Part I Income Tax.

B. The refundable portion of Part I Tax.

C. Part IV Tax.

D. The balance in the GRIP account on December 31, 2022.

E. The balances two RDTOH accounts on December 31, 2022.

F. The dividend refund, if any, showing separately the amount related to eligible dividends and the amount related to non-eligible dividends.

G. Total federal income tax payable (net of any dividend refund).

Answer:

***Part A - Part I Income Tax***

The required calculations to determine 2022 Part I income tax are as follows:

2022 Net Income $1,038,800

Taxable Dividends ($297,400 + $89,600) - ITA 112(1) ( 387,000)

2020 Net Capital Loss ( 12,000)

2020 Non-Capital Loss ( 163,400)

2022 Taxable Income $ 476,400

Base Amount of Part I Tax [(38%)($476,400)] $181,032

Federal Abatement [(10%)($476,400)] ( 47,640)

SBD (Note One) ( 19,000)

ART (Note Two) 13,376

M&P Deduction (Note Three) ( 29,380)

GRR (Note Four) ( 3,250)

2022 Part I Income Tax Payable $ 95,138

Note One - The SBD is 19% of the least of the following three amounts:

1. Active Business Income $514,400

2. Taxable Income (no adjustments) $476,400

3. Allocated Annual Business Limit $100,000

The lowest of the three amounts is the Company's $100,000 share of the annual business limit.

This results in a SBD of $19,000 [(19%)($100,000)].

**Note Two -** The aggregate investment income (AII) of $125,400 is calculated as follows:

Taxable Capital Gains $ 93,100

2020 Net Capital Loss Deducted ( 12,000)

Canadian Interest Income 44,300

2022 AII $125,400

The ART is 10-2/3% of the lesser of:

1. AII $125,400

2. Taxable Income $476,400

Deduct: Amount Eligible for the SBD ( 100,000) $376,400

The ART is $13,376 [(10-2/3%)($125,400)].

**Note Three -** The M&P deduction would be 13% of the lesser of:

1. Canadian M & P Profits (Given) $326,000

Deduct: Amount Eligible for the SBD ( 100,000) $226,000

2. Taxable Income $476,400

Deduct:

Amount Eligible for the SBD ( 100,000)

AII (Note Two) ( 125,400) $251,000

The M&P deduction would be equal to $29,380 [(13%)($226,000)].

**Note Four -** The GRR would be calculated as follows:

Taxable Income $476,400

Amount Eligible for the SBD ( 100,000)

Amount Eligible for the M&P Deduction ( 226,000)

AII (Note Two) ( 125,400)

Full Rate Taxable Income $ 25,000

Rate 13%

GRR $ 3,250

***Part B - Refundable Part I Tax***

The amount of refundable Part I tax is $38,456, the least of three amounts, calculated as follows:

• Amount under ITA 129(4)(a)(i) [(30-2/3%)($125,400)] $ 38,456

• Amount under ITA 129(4)(a)(ii) [(30-2/3%)($476,400 - $100,000)] $115,429

• Amount under ITA 129(4)(a)(iii) Part I Tax Payable (Part A) $ 95,138

***Part C - Part IV Tax***

The required calculation of the 2022 Part IV Tax is as follows:

Part IV Tax on Eligible Dividends [($89,600)(38-1/3%)] $34,347

Part IV Tax on Non-Eligible Dividends from Subsidiary (100%) 52,800

2022 Part IV Tax $87,147

***Part D - GRIP Balance***

The December 31, 2022 GRIP balance would be calculated as follows:

GRIP Balance at beginning of 2022 $126,700

Taxable Income $476,400

Income Eligible for the SBD ( 100,000)

Lesser of:

• Taxable Income = $476,400

• AII = $125,400 ( 125,400)

Adjusted Taxable Income $251,000

Rate 72% 180,720

Eligible Dividends Received in 2022 89,600

Eligible Dividends Designated in 2021 Nil

GRIP Balance - December 31, 2022 $397,020

The eligible dividends paid in 2022 will reduce the GRIP account balance in 2023.

***Part E - RDTOH Balances***

December 31, 2022 RDTOH balances are as follows:

Opening Balance $12,000

Part IV Tax on Eligible Dividends [($89,600)(38-1/3%)] 34,347

Eligible RDTOH - December 31, 2022 $46,347

Opening Balance $ Nil

Part I Refundable Tax 38,456

Part IV Tax on Non-Eligible Dividends from Subsidiary (100%) 52,800

Non-Eligible RDTOH - December 31, 2022 $91,256

***Part F - Dividend Refund***

Given the GRIP balance of $397,020, all of the $132,400 of taxable dividends paid by Fracto can be designated as eligible. With this designation, the dividend refund on eligible dividends would be the lesser of:

• $46,347, the balance in the Eligible RDTOH; and

• $50,753 [(38-1/3%)($132,400)].

As no non-eligible dividends were paid, this is the total refund for the year. You should note that this is less than the $50,753 that would have been available if the eligible dividend designation had been limited to the amount on which a dividend refund was available.

***Part G - Total 2022 Federal Income Tax Payable***

The required calculation to determine the 2022 federal income tax payable is as follows:

Part I Tax (See Part A) $ 95,138

Part IV Tax (See Part C) 87,147

Dividend Refund (See Part F) ( 46,347)

2022 Federal Income Tax Payable $135,938

Type: ES

Topic: Corporate tax payable - Part I & IV with refundable taxes & GRIP

81) Conrod Holdings Ltd. is a CCPC that uses a calendar-based taxation year end and that sells farm supplies. It owns 70% of all of the outstanding shares of Morsal Inc. On November 1, 2022, Morsal Inc. declared and paid a non-eligible dividend of $21,000, of which Conrod Holdings Ltd. received $14,700 (70%). As a result of paying the taxable dividend, Morsal Inc. was entitled to a dividend refund in the amount of $8,050.

Other income that was reported by Conrod Holdings consisted of the following amounts:

Taxable Capital Gain $4,600

Eligible Dividends from Imperial Oil Common Shares 500

Interest Income 450

The taxable capital gain was on the sale of land that was formerly used as a storage area for inventory. Improved inventory control procedures eliminated the need for the land.

The interest income was earned on deposits of temporary cash balances set aside for the purchase of inventory.

On January 1, 2022, Conrod had a Non-Eligible RDTOH account balance of $4,950. There was no balance in the Eligible RDTOH account. The GRIP account balance on December 31, 2021 was nil.

At the end of 2021, the Company's RDTOH balance was $8,950. The 2021 dividend refund was $4,000. There was no December 31, 2021 balance in the corporation's GRIP account.

The Company's taxable income for the 2022 taxation year is $44,000. There was no foreign income in 2022. Assume the 2022 Part I income tax was correctly calculated as $9,250.

Because of its association with Morsal Inc., its share of the annual business limit on income eligible for the SBD is $10,000. As Conrod's active business income is greater than $10,000, the amount of income that is eligible for the SBD is $10,000.

Conrod Holdings paid taxable dividends of $10,000 in 2022. The corporation's policy is to designate dividends as eligible only to the extent that the company is entitled to a dividend refund.

For 2021, Conrod and Morsal had combined Adjusted Aggregate Investment Income (AAII) of $32,485. and Taxable Capital Employed In Canada (TCEC) of $6,426,000.

**Required:** Show all of the calculations used to provide the required information, including those for which the result is nil. For the 2022 taxation year, calculate the following for Conrod Holdings:

A. Refundable Part I Tax on investment income.

B. Part IV Tax.

C. The December 31, 2022 GRIP account balance.

D. The balance in the Eligible and non-eligible RDTOH accounts on December 31, 2022.

E. The dividend refund, showing separately refunds on eligible and non-eligible dividends.

Answer:

***Part A - Part I Refundable Tax***

As the interest income received relates to temporary balances resulting from the Company's normal business it would be characterized as active business income.

The refundable portion of Part I tax on investment income is the least of the following amounts:

Aggregate Investment Income (AII) $ 4,600

Rate 30-2/3%

**ITA 129(4)(a)(i)** $ 1,411

Taxable Income $44,000

Amount Eligible for the SBD (Given) ( 10,000)

Total $34,000

Rate 30-2/3%

**ITA 129(4)(a)(ii)** $10,427

**ITA 129(4)(a)(iii)** Part I Income Tax - Given $ 9,250

The refundable portion of Part I tax is therefore $1,411.

***Part B - Part IV Tax***

The 2022 Part IV Tax for Conrod Holdings Ltd. would be calculated as follows:

Dividend refund to Morsal Inc. $8,050

Conrod's Percentage of share ownership 70%

Part IV Tax on Morsal Inc.

Non-Eligible Dividends $5,635

Part IV Tax on Imperial Oil Eligible Dividends

[(38-1/3%)($500)] 192

2022 Part IV Tax $5,827

***Part C - GRIP Balance***

The December 31, 2022 GRIP account balance would be determined as follows:

GRIP Balance at December 31, 2021 $ Nil

Taxable Income $44,000

Income Eligible for the SBD ( 10,000)

Lesser Of:

• Taxable Income = $44,000

• AII = $4,600 ( 4,600)

Adjusted Taxable Income $29,400

Rate 72% 21,168

Eligible Dividends Received in 2022 500

Eligible Dividends Designated in 2021 Nil

GRIP Balance - December 31, 2022 $21,668

The eligible dividends paid during 2022 will reduce the GRIP account balance in 2023.

***Part D - RDTOH Balances***

The required December 31, 2022 balances would be as follows:

Opening Balance $ Nil

Part IV Tax on Eligible Dividends [(38-1/3%)($500)] 192

Eligible RDTOH - December 31, 2022 $192

Opening Balance $ 4,950

Part I Refundable Tax 1,411

Part IV on Morsal Inc. Non-Eligible Dividends 5,635

Non-Eligible RDTOH - December 31, 2022 $11,996

***Part E - Dividend Refund***

With a GRIP account balance of $21,668, all of the $10,000 in taxable dividends paid could be designated as eligible. However, any dividend refund is limited to the Eligible RDTOH of $192. This means that, under the corporation's policy, the eligible designation would be limited to $500 ($192 ÷ 38-1/3% with a $1 rounding error), the amount of the eligible dividends received. The remaining dividends of $9,500 ($10,000 - $500) would be non-eligible.

Based on this the total dividend refund would be as follows:

Eligible Dividend Refund [(38-1/3%)($500)] $ 192

Non-Eligible Dividend Refund [(38-1/3%)($9,500)] 3,642

Total 2022 Dividend Refund $3,834

Type: ES

Topic: Corporate tax - Part I & Part IV with dividend refund

82) The following data is for Masterson Ltd., a CCPC, for the 2022 taxation year ending December 31, 2022:

Canadian Source Active Business Income

(Includes $99,000 of M&P Profits) $133,000

Foreign Investment Income (Net of $1,200 foreign income tax) 6,800

Net Income 141,000

Taxable Income 95,000

No loss carryovers were claimed for the 2022 taxation year.

For 2021, the Adjusted Aggregate Investment Income (AAII) of Masterson was $17,150 and its Taxable Capital Employed In Canada (TCEC) was $3,350,000. There are no associated corporations.

Assume that the foreign tax credit on foreign investment income is equal to the $1,200 in for income tax withheld.

**Required:** Calculate the Part I income tax for the 2022 taxation year. Show all supporting calculations including those for which the result is nil. Because Masterson operates in a territory that has a special rate for M&P profits, a separate calculation of the M&P deduction is required.

Answer: The required calculation of 2022 Part I Income Tax would be as follows:

Taxable Income (Given) $95,000

Base Amount of Part I Tax [(38%)($95,000)] $36,100

Federal Abatement [(10%)($95,000)] ( 9,500)

SBD (Note One) ( 17,236)

ART (Note Two) 457

Foreign Tax Credit on Non-Business Income (Equal to withholding) ( 1,200)

M&P Deduction (Note Three) Nil

GRR (Note Four) Nil

2022 Part I Income Tax Payable $ 8,621

**Note One** - There is a circular calculation involved in the calculation of foreign tax credits, the SBD, and the ART. This adds considerable complexity to the calculation of Part I income tax payable and, in most situations, the additional calculations do not influence the outcome (that would, in fact, be the case in this problem). To avoid these additional calculations, we have stated that the foreign tax credit is equal to the foreign income taxes of $1,200.

Given the preceding assumption with respect to the foreign tax credit, the SBD would be equal to 19% of the least of:

1. Active Business Income $133,000

2. Taxable Income $95,000

Deduct:

[(100/28)($1,200)] Foreign Tax Credit Non-Business ( 4,286) $ 90,714

3. Annual Business Limit $500,000

The least of the three amounts is $90,714, resulting in a SBD of $17,236 [(19%)($90,714)].

**Note Two** - The aggregate investment income (AII) is equal to the pre-tax foreign investment income of $8,000. The ART is 10-2/3 % of the lesser of:

1. AII $8,000

2. Taxable Income $95,000

Deduct: Amount eligible for the SBD ( 90,714) $4,286

The ART is $457 [(10-2/3%)($4,286)].

**Note Three -** The M&P deduction is 13% percent of the lesser of:

1. Canadian M & P Profits (Given) $99,000

Deduct: Amount eligible for the SBD ( 90,714) $8,286

2. Taxable Income $95,000

Deduct:

Amount eligible for the SBD ( 90,714)

AII (Note Two) ( 8,000) Nil

Given these calculations, the M& P deduction is nil.

**Note Four -** The GRR is nil, calculated as follows:

Taxable Income $95,000

Amount Eligible for the SBD ( 90,714)

Amount Eligible for the M&P Deduction Nil

AII (Note Two) ( 8,000)

Full Rate Taxable Income Nil

Rate 13%

GRR Nil

Type: ES

Topic: Corporate tax payable - simple Part I with SBD, ART, FTC, M&P & GRR

83) Landor Ltd. is a CCPC with a calendar-based taxation year. The company's 2022 net income is $223,500 the component of which are as follows:

Canadian Active Business Income (Note One) $183,450

Taxable Capital Gains 11,250

Foreign Business Income (Note Two) 28,800

2022 Net Income $223,500

**Note One -** This includes $146,700 of M&P profits, determined using the formula in the ITRs. As these amounts are allocated to a territory which has a special rate for M&P profits, the company is required to calculate the federal M&P deduction.

**Note Two -** This amount is before foreign income tax of 10%.

**Other Information Relevant to the 2022 Taxation Year:**

1. In 2022, Landor Ltd. declares and pays taxable dividends of $46,000. It is the policy of the corporation to only designate dividends as eligible to the extent that they generate a dividend refund.

2. It is estimated that 88% of Landor's wages and 92% of Landor's gross sales relate to permanent establishments situated in a Canadian province or territory.

3. Landor Ltd. is associated with one company. Landor's share of the annual business limit is $110,000.

4. On January 1, 2022, there was no balance in either of Landor's RDTOH accounts. On December 31, 2021 the Company's GRIP account balance was nil.

5. In 2021, the Adjusted Aggregate Investment Income (AAII) of Landor and its associated company is $27,350 and the combined Taxable Capital Employed In Canada (TCEC) is $950,000.

6. Landor has a 2019 net capital loss balance of $5,250 which it intends to claim in 2022 to the maximum extent possible.

7. Assume that the foreign tax credit on foreign business income is equal to the foreign income tax.

**Required:** Show all of the calculations used to provide the required information, including those for which the result is nil. Calculate the following amounts for Landor:

A. 2022 Part I Income Tax.

B. 2022 refundable portion of Part I tax.

C. 2022 Part IV Tax.

D. GRIP account balance on December 31, 2022.

E. Eligible and Non-eligible RDTOH balances on December 31, 2022.

F. 2022 dividend refund, showing separately refunds related to eligible and non-eligible dividends.

Answer:

***Part A - 2022 Part I Income Tax***

Landor Ltd.'s 2022 Taxable Income would be calculated as follows:

2022 Net Income $223,500

Less: 2019 Net Capital Loss ( 5,250)

2022 Taxable Income $218,250

Landor Ltd.'s 2022 Part I Income Tax would be calculated as follows:

Base Amount of Part I Tax [(38%)($218,250)] $82,935

Federal Abatement (Note One) ( 19,643)

SBD (Note Two) ( 20,900)

ART (Note Three) 640

M&P Deduction (Note Four) ( 4,771)

GRR (Note Five) ( 8,522)

Foreign Tax Credit on Business Income [(10%)($28,800)] ( 2,880)

2022 Part I Income Tax $26,859

**Note One** - The abatement is based on 90% [(88% + 92%) ÷ 2] of Landor's income being allocated to a province. This results in an amount of $19,643 [(90%)(10%)($218,250)].

**Note Two** - The SBD is 19% of the least of the following three amounts:

1. Canadian Active Business Income (Given) $183,450

2. Taxable Income $218,250

Deduct: [(4)($2,880)] Business FTC ( 11,520) $206,730

3. Allocated Annual Business Limit (Given) $110,000

The least of the amounts is the Company's $110,000 share of the annual business limit, resulting in a SBD of $20,900 [(19%)($110,000)].

**Note Three** - The Aggregate Investment Income (AII) of $6,000 is calculated as follows:

Taxable Capital Gains $11,250

Less: 2018 Net Capital Loss Deducted ( 5,250)

2022 AII $ 6,000

The ART is 10-2/3% of the lesser of:

1. AII $ 6,000

2. Taxable Income $218,250

Deduct: Amount eligible for the SBD ( 110,000) $108,250

The ART is therefore $640 [(10-2/3%)($6,000)].

**Note Four -** The M&P deduction is 13% of the lesser of:

1. M & P Profits (Given) $146,700

Deduct: Amount eligible for the SBD ( 110,000) $36,700

2. Taxable Income $218,250

Deduct:

Amount eligible for the SBD ( 110,000)

[(4)($2,880)] Foreign Business Tax Credit ( 11,520)

AII (Note Three) ( 6,000) $90,730

The least of the two amounts is $36,700, resulting in a M&P deduction of $4,771 [(13%)($36,700)].

**Note Five -** The GRR is calculated as follows:

Taxable Income $218,250

Amount eligible for the SBD ( 110,000)

Amount eligible for the M&P Deduction ( 36,700)

AII (Note Three) ( 6,000)

Full Rate Taxable Income $ 65,550

Rate 13%

General Rate Reduction $ 8,522

***Part B - 2022 Refundable Part I Tax***

The refundable portion of Part I tax would be the least of three amounts:

AII (Note Three) $6,000

Rate 30-2/3%

Amount under ITA 129(4)(a)(i) $1,840

Taxable Income $218,250

Deduct:

Amount Eligible for the SBD ( 110,000)

[(4)($2,880)] Foreign Business Tax Credit ( 11,520)

Balance $ 96,730

Rate 30-2/3%

Amount under ITA 129(4)(a)(ii) $ 29,664

Amount under ITA 129(4)(a)(iii) Part I Tax Payable $26,859

The least of these three amounts would be $1,840.

***Part C - 2022 Part IV Tax***

Landor has no Part IV Tax in 2022.

***Part D - GRIP Balance***

As there would be no additions made to the account in 2022, the balance remains at nil on December 31, 2022.

***Part E - RDTOH Balances***

The beginning balance in both RDTOH accounts was nil. As there were no additions to the Eligible RDTOH during 2022, the balance in this account would remain at nil. There was an addition of $1,840 of Part I refundable tax to the Non-Eligible RDTOH in 2022. This amount would be the balance on December 31, 2022 in this account.

***Part F - 2022 Dividend Refund***

As the GRIP balance is nil, none of the dividends paid can be designated as eligible. This means that all of the $46,000 in taxable dividends paid would be non-eligible. The dividend refund on these taxable dividends would be the lesser of:

• $17,633, 38-1/3% of the $46,000 in non-eligible dividends paid; and

• $1,840, the Non-Eligible RDTOH balance on December 31, 2022.

Type: ES

Topic: Corporate tax payable - simple Part I with SBD, ART, FTC, M&P & GRR

84) Gardner Distributing Company is a CCPC that uses a calendar-based taxation year. Gardner was incorporated ten years ago by Mr. Hugh Gardner, its sole shareholder to carry on a business of distributing specialty gardening products to Canadian retailers. The Company's accountant prepared the following Income Statement:

Sales $1,916,400

Cost of Goods Sold ( 940,000)

Gross Profit $ 976,400

Operating Expenses:

Selling and Administration ($315,000)

Amortization Expense ( 47,000)

Charitable Donations ( 15,000) ( 377,000)

Business Income $ 599,400

Other Income and Losses:

Eligible Dividends Received $ 27,000

Loss on sale of a Truck ( 19,000)

Gain on sale of Investments 7,000 15,000

Pre-Tax Accounting Income $ 614,400

**Other information:**

1. The Company had depreciable property with the following UCC balances on January 1, 2022:

**UCC**

Class 3 (5%) $726,000

Class 8 (20%) 472,000

Class 10 (30%) 22,000

The UCC balance in Class 10 reflects a single truck that was used for deliveries. It had a capital cost of $38,000 and a carrying value for accounting purposes of $29,000. It was sold in 2022 for $10,000, and replaced with a leased truck.

The only other 2022 transaction involving depreciable property was the purchase of additional Class 8 property for $82,000.

2. On January 1, 2022, the Company had an Eligible RDTOH account balance of $14,000 and a Non-Eligible RDTOH account balance of nil.

3. On December 31, 2021, Gardner has a GRIP account balance of $132,500. In 2021, the Company designated $9,600 of taxable dividends that it paid as eligible.

4. In 2021, Gardner had Adjusted Aggregate Investment Income (AAII) of $24,680 and Taxable Capital Employed In Canada (TCEC) of $4,672,000.

5. In 2022, the Company paid $17,000 in taxable dividends to Mr. Gardner. It is the policy of the corporation to only designate dividends as eligible to the extent it will generate a dividend refund.

6. Investments with an ACB of $93,000 were sold in 2022 for $100,000.

**Required**: Show all supporting calculations used to provide the information requested, including those for which the result is nil. Specifically determine the following for the company:

A. The minimum 2022 Net Income and Taxable Income.

B. The 2022 Part I Tax.

C. The 2022 refundable portion of Part I income tax.

D. 2022 Part IV Tax.

E. GRIP account balance on December 31, 2022.

F. The Eligible and Non-Eligible RDTOH account balances on December 31, 2022.

G. The 2022 eligible and non-eligible dividend refunds.

H. The 2022 Federal Income Tax Payable. This should include any Part I IV Tax and net of any dividend refund.

Answer:

***Part A - 2022 Net Income and Taxable Income***

The 2022 net income and taxable income would be determined as follows:

Pre-Tax Accounting Income $614,400

Reconciliation Adjustments:

Amortization Expense $ 47,000

Charitable Donations 15,000

Accounting Loss on sale of Truck 19,000

Taxable Capital Gain (Note One) 3,500 84,500

$698,900

Reconciliation Deductions:

Accounting Gain on Investment Sale ($ 7,000)

CCA (Note Two) ( 155,300)

Terminal Loss (Note Three) ( 12,000) ( 174,300)

**2022 Net Income $524,600**

Charitable Donations ( 15,000)

Eligible Dividends Received - ITA 112(1) ( 27,000)

**2022 Taxable Income $482,600**

**Note One -** The taxable capital gain on the investment would be calculated as follows:

POD $100,000

ACB ( 93,000)

Capital Gain $ 7,000

Inclusion Rate 1/2

Taxable Capital Gain $ 3,500

**Note Two -** The CCA can be calculated as follows:

**Class 3**

Class 3 [(5%)($726,000)] $ 36,300

**Class 8**

Opening Balance $472,000

Additions 82,000

AccII Adjustment 41,000

Balance For CCA $595,000

Rate 20%

CCA $119,000

The total CCA for 2022 is $155,300 ($36,300 + $119,000).

**Note Three -** The only remaining property in Class 10 was sold for $10,000. As this was $12,000 less than the UCC balance ($22,000 - $10,000), this amount is deductible as a terminal loss.

***Part B - 2022 Part I Income Tax***

The 2022 Part I income tax is determined as follows:

Base Amount of Part I tax [(38%)($482,600)] $183,388

Federal Abatement [(10%)($482,600)] ( 48,260)

SBD (Note Four) ( 91,694)

ART (Note Five) Nil

GRR (Note Six) Nil

2022 Part I Income Tax $ 43,434

**Note Four -** The SBD would be equal to 19% of the least of:

1. Active Business Income ($524,600 - $3,500 - $27,000) $494,100

2. Taxable Income $482,600

3. Annual Business Limit $500,000

The least of the three amounts is $482,600 and 19% of this amount is $91,694.

**Note Five** - The aggregate investment income (AII) is equal to the taxable capital gain of $3,500. The ART is 10-2/3% of the lesser of:

1. AII $ 3,500

2. Taxable Income $482,600

Deduct: Amount eligible for the SBD ( 482,600) $ Nil

The lesser of these amounts is Nil and 10-2/3% of this amount is also Nil.

**Note Six -** The GRR is calculated as follows:

Taxable Income $482,600

Amount eligible for the SBD ( 482,600)

AII (Note Five) ( 3,500)

Full Rate Taxable Income Nil

Rate 13%

GRR Nil

***Part C - 2022 Refundable Part I Tax***

Using amounts calculated in Part B, the amount of 2022 refundable Part I tax is Nil, the least of three

amounts, calculated as follows:

• Amount under ITA 129(4)(a)(i) [(30-2/3%)($3,500)] $ 1,073

• Amount under ITA 129(4)(a)(ii) [(30-2/3%)($482,600 - $482,600)] Nil

• Amount under ITA 129(4)(a)(iii) Part I Income Tax $43,434

***Part D - 2022 Part IV Tax***

The 2022 Part IV tax would be payable on the eligible dividends received of $27,000. The amount

is $10,350 [(38-1/3%)($27,000)].

***Part E - GRIP Balance***

The December 31, 2022 GRIP account balance can be calculated as follows:

GRIP Balance at December 31, 2021 $132,500

Taxable Income $482,600

Income eligible for the SBD ( 482,600)

Lesser of:

• Taxable Income = $482,600

• AII = $3,500 ( 3,500)

Adjusted Taxable Income Nil

Rate 72% Nil

Eligible Dividends Received in 2022 27,000

Eligible Dividends Designated in 2021 ( 9,600)

GRIP Balance - December 31, 2022 $149,900

The eligible dividends paid in 2022 will reduce the GRIP in 2023.

***Part F - RDTOH Balances***

The December 31, 2022 RDTOH balances would be as follows:

Opening - Eligible RDTOH $14,000

Part IV Tax on Eligible Dividends Received 10,350

Eligible RDTOH - December 31, 2022 $24,350

Opening Balance - Non-Eligible RDTOH Nil

Refundable Part I Tax on Investment Income Nil

Non-Eligible RDTOH - December 31, 2022 Nil

***Part G - 2022 Dividend Refund***

With the GRIP account balance at $149,900, all of the $17,000 of taxable dividends paid can be designated as eligible. The dividend refund on the eligible dividends would be $6,517, the lesser of:

• $6,517 [(38-1/3%)($17,000)]; and

• $24,350, the balance in the Eligible RDTOH.

As no non-eligible dividends were paid in 2022, there would be no further refund.

***Part H - 2022 Federal Income Tax Payable***

The minimum 2022 Federal Income Tax Payable can be calculated as follows:

Part I Tax (Part B) $43,434

Part IV Tax (Part D) 10,350

Dividend Refund (Part G) ( 6,517)

2022 Federal Income Tax Payable $47,267

Type: ES

Topic: Corporate tax payable - with SBD, ART, GRR & GRIP