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

**Chapter 9 Other Income and Deductions, and Other Issues**

9.1 Online Exercises

1) What is a retiring allowance and what are the income tax consequences associated with receiving a retiring allowance?

Answer: A retiring allowance is an amount received by an individual, either on, or after retirement in recognition of long service or, alternatively, an amount received in respect of a loss of employment. The full amount of such allowances must be included in income in the year that it is received. Within specified limits, all or part of the retiring allowance may be transferred to an RRSP and deducted in the calculation of net income.

Type: ES

Topic: Retiring allowance

2) What is a death benefit? Indicate any special income tax consequences associated with the receipt of a death benefit.

Answer: A death benefit is the total of all amounts received by an individual in a taxation year on or after the death of an employee in recognition of the employee's service in an office or employment. The first $10,000 of such amounts are not required to be included in income.

Type: ES

Topic: Death benefits

3) Briefly describe the treatment of amounts received as scholarships.

Answer: In general, there is 100% exemption of scholarships and prizes that are received in connection with:

• an education program in which the student is a "qualifying student". A qualifying student is generally a student taking a university or college course that is at least three weeks long and that requires at least 10 hours of effort per week; and

• an elementary or secondary school education program.

However, there are a number of exceptions to this exemption:

• At the post-secondary level, the exemption will only be available to the extent it relates to a college or CEGEP diploma, or a bachelor, masters or doctoral degree. This means it will not be available for most post-doctoral fellowships.

• Again, at the post-secondary level, the exemption will only be available in situations where it is reasonable to conclude that the scholarship was received to support the taxpayer's enrolment in a post-secondary program.

• With respect to scholarships received in connection with part-time enrollment, except in cases where the need to enroll on a part time basis is related to a physical or mental impairment, the exemption will be limited to the amount of tuition paid, plus costs of program-related materials.

Type: ES

Topic: Scholarships

4) Tax policy is not to impose income tax upon social assistance or worker's compensation payments. The ITA however requires that these amounts be added to net income but then allows a taxable income deduction for the same amount so that none of these amounts are included in taxable income. Why are these amounts included in net income at all? Wouldn't it be preferable to exempt them altogether?

Answer: The amounts are included in net income because net income is used in a number of situations that set threshold levels for some form of income tax assistance. For example, to get the full tax credit for an infirm dependant over 17, the dependant's income must be less than a threshold amount. Since the policy is to reduce this credit in proportion to the dependant's income in excess of that amount, it is important that all types of receipts be included in net income irrespective if the end goal is not to impose income tax on those amounts. To accomplish this goal, social assistance and workers' compensation payments are included in the calculation of net income and then deducted in the calculation of taxable income.

Type: ES

Topic: Social assistance & workman's compensation

5) List the situations in which an individual can deduct moving expenses.

Answer: Deductibility of moving expenses is available to three categories of taxpayers. They are as follows:

- Taxpayers who move to a new work location (a new work location may not involve a new employer), either as:

• employees,

• to carry on a business, or

• Individuals who move in order to commence full time attendance at a post-secondary institution and receive income from the educational institution that increases their net income such as non-exempt scholarships, bursaries. fellowships and research grants.

Type: ES

Topic: Moving expenses - general rules

6) Can an employer reimburse an employee for a loss on a home that was sold because the employee was required to move, without creating a taxable benefit for the employee? Explain your conclusion.

Answer: An employer can compensate an employee for a loss on the sale of a home that was sold because of a required move. However, the tax free amount of the reimbursement is limited to the first $15,000, plus one-half of any reimbursement in excess of $15,000. This means that one-half of any amount of compensation in excess of $15,000 will be treated as a taxable benefit to the employee. The unreimbursed portion of a housing loss does not qualify as a moving expense.

Type: ES

Topic: Eligible relocation - housing loss

7) For purposes of deducting child care expenses, what is an "eligible child"?

Answer: An eligible child is defined in ITA 63(3) as a child of an individual, their spouse or common-law partner, or a child who is dependent on the individual or their spouse or common-law partner and whose income does not exceed the BPA of $14,398 for 2022. In addition, the child must be under 16 years of age at some time during the year or dependent on the individual or their spouse or common-law partners by reason of a physical or mental infirmity.

Type: ES

Topic: Child care expenses - general rules ITA 63

8) What is the objective of providing a disability supports deduction. Cite two examples of costs that can be deducted using this provision.

Answer: The objective of providing the disability supports deduction is to assist individuals with the extra costs that a disabled person incurs when attending school, performing employment duties or carrying on of a business. Examples of such costs that are cited in the text are as follows:

• sign-language interpretation services, a teletypewriter or similar device;

• a Braille printer;

• an optical scanner, an electronic speech synthesizer;

• note-taking services, voice recognition software, tutoring services; and

• talking textbooks.

Type: ES

Topic: Disability supports deduction - ITA 64

9) Splitting pension income with a spouse or common-law partners may not always be a desirable income tax planning strategy. Explain this statement.

Answer: When there is a significant disparity in the incomes of a couple, pension income splitting is usually beneficial providing overall income tax savings. However, if the disparity is not very significant, pension income splitting may not be beneficial. Factors that have to be considered include loss of the transferee's age credit or a decrease in the medical expenses credit. The OAS clawback may also be involved in the analysis. Making a decision in this area requires a case-by-case analysis.

Type: ES

Topic: Pension income splitting - ITA 60.03

10) What are the conditions that must be met for spousal support payments to be deductible to the payor and required to be included in the income of the recipient?

Answer: The specific conditions that must be met are set out in IT Folio S1-F3-C3 as follows:

• the amount is paid as alimony or an allowance for the maintenance of the spouse or common-law partner, or former spouse or common-law partner;

• the spouses or common-law partners, or former spouses or common-law partners, are living separate and apart at the time the payment is made and throughout the remainder of the year, and were separated pursuant to a divorce, judicial separation, or written separation agreement;

• the amount is paid pursuant to a decree, order, or judgment of a competent tribunal or pursuant to a written agreement;

• the recipient has discretionary use of the amount; and

• the amount is payable on a periodic basis.

Type: ES

Topic: Support payments - spousal, common-law partner and child

11) John Withers is receiving an annuity payment of $500 per month. How will this payment be taxed?

Answer: The answer depends on how the annuity was acquired. If it was purchased with tax deferred funds (e.g., funds from an RRSP), the full amount of the annuity will be included in net income and there will be no offsetting deduction. Alternatively, if the annuity was not purchased within a tax deferred plan the full amount of the payment will still be included in income. However, there will be an offsetting deduction to reflect the fact that part of the payment is a return of capital. The amount of the deduction will be based on the cost of the annuity, divided by total payments to be received under the annuity, with this fraction multiplied by the individual annuity payment. The end result is that only the income component of the annuity payment in the latter case would be included in income.

Type: ES

Topic: Annuity payments

12) What are the income tax advantages and other benefits associated with making contributions to a Registered Education Savings Plan (RESP)?

Answer: The major advantages would include:

• The fact that making contributions results in additional contributions being made by the government in the form of Canada Education Savings Grants. (CESG)

• The fact that earnings on the invested contributions are not subject to income tax since the RESP is a trust exempt from income tax.

• The fact that these plans allow parents to effectively redirect income to their children without triggering the income attribution rules.

• While earnings distributed from an RESP are required to be included in income the payment of such amounts to an eligible student will result in little to no income tax given that the eligible student will likely be in the lowest income tax bracket.

Type: ES

Topic: Registered education savings plans (RESP)

13) What is the Canada Learning Bonds (CLB) program? Briefly describe the program.

Answer: In the CLB program, the government will make contributions to an RESP for a child whose family qualifies for the National Child Benefit supplement. The contributions will be made in each year that the child's family qualifies for the supplement, beginning with the year that the child is born and ending in the year that the child reaches age 15. The first payment will be for $500, plus an additional $25 to help defray the costs of establishing an RESP for the child. Subsequent payments will be for $100 in each year that the family qualifies. Unlike Canada Education Savings Grants, there is no requirement for contributions to be made to the RESP to receive the CLB contributions.

Type: ES

Topic: Canada learning bonds (CLB)

14) What are the major income tax advantages of Tax Free Savings Accounts (TFSAs)?

Answer: There are several major advantages to the use of TFSAs:

• Earnings in the plan accumulate on a tax free basis since the TFSA is a tax exempt trust.

• Withdrawals from the plan are not included in income.

• Amounts earned in the plan are not subject to the income attribution rules.

• Reductions in contribution room related to withdrawals can be reinstated in the year following the withdrawal.

Type: ES

Topic: Tax free savings account (TFSA)

15) How is the balance in a Tax Free Savings Account (TFSA) dealt with when the beneficiary of the plan dies?

Answer: If an individual's spouse or common-law partner is designated as a successor, their TFSA can be transferred to the beneficiary spouse or common-law partner. It can either be maintained by the individual as a separate TFSA or, alternatively, rolled over into their own TFSA without being treated as a contribution. Income earned in the bequeathed TFSA will continue to accumulate on a tax free basis. If the TFSA is transferred to any other individual beneficiary, that individual can withdraw the funds in the plan at the time of the transferor's death without income tax consequences. However, any amounts received in excess of the FMV of the property in the plan at the time of the transferor's death will be required to be included in income of that individual beneficiary.

Type: ES

Topic: Tax free savings account (TFSA)

16) ITA 69 deals with non-arm's length dispositions of property at amounts that are different from the FMV of the property. Why would an individual wish to dispose of a property to an adult child at an amount that is below the FMV of that property? Briefly explain your conclusion.

Answer: A disposition below FMV would result in reduction in income as compared to a disposition at FMV. In the absence of ITA 69, the transferee would have a reduced cost for the property, resulting in increased income to the transferee on a subsequent disposition assuming that the FMV did not decrease. The most logical reason for a disposition at less than FMV would be that the transferor is in a higher income tax bracket than the transferee. The transaction would effectively shift income on a disposition of the property from the high income earner to a low income earner.

Type: ES

Topic: Non-arm's length transactions - ITA 69

17) An individual wishes to transfer several properties to related persons, some of whom are in higher income tax brackets and some of whom are in lower income tax brackets. What advice would you give this individual with respect to the consideration received for the disposition of the property?

Answer: The consideration should either be equal to the FMV of the transferred property or nil (i.e., gift the property). If the transfer is made for consideration in excess of FMV, the transferee's cost will be limited to the FMV, resulting in the potential for excessive income tax of the difference between the FMV and the transfer price. If the transfer is made for consideration that is less than FMV, the transferor's proceeds will be deemed to be FMV, again resulting in the potential for excessive income tax of the difference between the transfer price and the FMV of the property.

Type: ES

Topic: Non-arm's length transactions - ITA 69

18) What are the normal income tax consequences when an individual disposes of capital property to a spouse or common-law partner? Is there an elective option that can be used to alter the results? If so, briefly describe the effect of the election.

Answer: A capital property disposed of to a spouse or common-law partner is deemed to occur on a rollover basis meaning that the POD is deemed to be equal to the transferor's ACB with respect to non-depreciable capital property and the recipient spouse or common law partner is deemed to have purchased that same property for that same ACB. For depreciable capital property the POD is equal to the proportional UCC of the property. The recipient spouse or common-law partner will retain the capital cost and any difference between that capital cost and the proportional UCC will be considered to be deemed CCA. As a result there are no income tax consequences for the transferor. The transferor can opt out of the rollover treatment by reporting the disposition as a disposition at FMV in their income tax return for the taxation year in which the transfer took place.

Type: ES

Topic: Transfer of capital property between spouses and common-law partners - ITA 73

19) When there is a non-arm's length disposition of depreciable property where the FMV of the property exceeds its capital cost, the capital cost to the transferee for UCC and recapture purposes will equal the transferor's capital cost, plus one-half of the difference between the FMV and the transferor's capital cost. What is the purpose of this rule?

Answer: From the point of view of the transferor, the excess of the FMV of the property over its capital cost is a capital gain, only one-half of which is required to be included in income. If the transferee was allowed to treat the full FMV as its capital cost, this excess would become fully deductible CCA when only half of that difference would have been subject to income tax. To prevent this from happening, the transferee is only allowed to include one-half of the excess in the capital cost, resulting in future increased CCA equal to the transferor's taxable capital gain. In other words the rule creates symmetry between the transferor and transferee.

Type: ES

Topic: Non-arm's length disposition of depreciable property

20) Briefly describe the general rules for the treatment of an individual's capital property on death.

Answer: There is a deemed disposition of all of an individual's capital property immediately before death. The results of these dispositions can be described as follows:

**Non-Depreciable Capital Property -** A deceased individual is deemed to have disposed of non-depreciable capital property at its FMV immediately before death. This ensures that the income tax consequences associated with a FMV disposition are included in the individual's final income tax return. The person inheriting the property is deemed to have acquired the property at that same time, at an amount equal to that FMV.

**Depreciable Capital Property -** The basic rules for depreciable property are the same. There is a deemed disposition of the property by the deceased individual immediately before death at FMV, and a deemed cost to the person inheriting the property at that same amount. When the capital cost of the property exceeds its FMV, the person is deemed to inherit the original capital cost, with the difference being treated as deemed CCA. This puts the person inheriting the property in the same position as the deceased individual with respect to tax values of the property.

Type: ES

Topic: Death of an individual taxpayer - general rules

21) The general rules dealing with the income tax treatment of the capital property of an individual at death requires a deemed disposition and a deemed acquisition by an inheriting person at FMV. There are however a few exceptions to this default FMV rule that provide rollover treatment in specific circumstances. Briefly describe two of these exceptions.

Answer: The two basic rollovers that are available when an individual dies are:

**Rollover to Spouse, Common-Law Partner, or Spousal or Common-law partner Trust -** This rollover allows the deceased's capital property to be transferred at the tax values of the underlying property (UCC or ACB). This rollover applies automatically unless the representatives of the deceased elect not to have the rollover apply which results in dispositions and acquisitions at FMV.

**Rollover of Farm or Fishing Property -** This rollover allows farming or fishing property to be transferred to a child or grandchild at tax values. This election also applies automatically unless the representatives of the deceased elect not to have the rollover apply in which case the disposition and acquisition take place at FMV.

Type: ES

Topic: Death of an individual taxpayer - general rules

22) When a disposition of property is made to a spouse or common-law partner, the attribution rules may apply. Briefly describe the conditions that would cause the attribution rules to apply.

Answer: When there is a transfer of a capital property to a spouse or common-law partner, attribution will apply in the following circumstances:

1. The income from the transferred property is income from property. Income attribution is not generally applicable to business income.

2. The transferor does not opt out of the spousal/common-law partner rollover of ITA 73(1). Failure to meet this condition would result in attribution regardless of the consideration paid by the transferee.

3. If the transferor opts out of ITA 73(1), attribution will still apply unless the transferee pays full FMV consideration for the property.

Type: ES

Topic: Attribution - general rules

23) A parent is considering gifting a portfolio of publicly traded shares to immediate family members. (e.g. spouses, common-law partners and minor children). On the basis of income tax considerations, provide advice to this individual as to whether the shares should be gifted to the parent's 12 year old child or, alternatively, to the individual's spouse. Assume that, if the gift is to the spouse, that the individual will not opt out of ITA 73(1).

Answer: If the individual gifts the shares to a spouse and does not elect out of ITA 73(1), the shares will be transferred on a rollover basis at their tax costs and, as a result, there will be no income tax consequences to the individual gifting the shares. However, any dividends or capital gain or capital losses resulting from a subsequent disposition by the spouse will be attributed back to the gifting individual. Alternatively, if the shares are gifted to a minor child, the transfer will take place at FMV, resulting in a capital gain or a capital loss at that time. Until the child becomes 18 years of age, any dividends paid on the shares will be attributed back to the gifting parent. However, if the daughter sells the shares, any resulting capital gain or capital loss will be included in the income of the child.

Type: ES

Topic: Attribution - general rules

24) One of your clients is a successful business person with a spouse and a minor child that have no income of their own. The individual would like to transfer some sources of their income to their spouse or child to reduce their income which is subject to income tax at a high tax rate. However, the individual is concerned about the attribution rules. Provide the individual with three acceptable income tax tips to avoid the attribution rules.

Answer: There are a number of acceptable potential ways to effectively split income with family members while avoiding the attribution rules:

• Contributing to an RESP for the child.

• Contributing to a spousal or common-law partner RRSP.

• Contributing to a TFSA for a spouse or common-law partner.

• Contributing to a TFSA for the child once the child becomes 18 years of age.

• If there is a source of business income, reasonable salaries can be paid to family members.

• If pension income is received, make use of pension income splitting.

• Gifting capital property with anticipated capital gains to the child rather than the spouse.

• Making loans to family members at the prescribed rate of interest to allow the family members to purchase investments with rates of return that are higher than the prescribed rate. Ensure that interest is actually paid within 30 days following the end of the year.

• Structuring family businesses that would allow family members to an equity interest in the business at minimal cost.

Type: ES

Topic: Attribution - general rules

25) The widow of Peter Toscan received a death benefit from his employer of $25,000. She must include the $25,000 in income for the year in which it is received.

Answer: FALSE

Explanation: She must include only $15,000 ($25,000 - $10,000) in income in the year of receipt.

Type: TF

Topic: Death benefits

26) The entire amount of a retiring allowance received must be included in income, even if some part of the allowance qualifies for an additional RRSP contribution.

Answer: TRUE

Explanation: While the entire amount must be included, a deduction is available for eligible amounts that are transferred to an RRSP. The retiring allowance is separately included in full and a separate deduction is claimed for the RRSP contribution.

Type: TF

Topic: Retiring allowance

27) Chris Shaffer is being transferred by his employer from Prince George, British Columbia to Red Deer, Alberta. His airfare from Prince George to Red Deer is a deductible moving expense.

Answer: TRUE

Explanation: His airfare from Prince George to Red Deer is a deductible moving expense.

Type: TF

Topic: Moving expenses - general rules

28) Chris Shaffer is being transferred by his employer from Prince George, British Columbia to Red Deer, Alberta. His wife spent $750 for gas, meals, and lodging while driving their car from Prince George to Red Deer. The $750 is a deductible moving expense.

Answer: TRUE

Explanation: The $750 is a deductible moving expense.

Type: TF

Topic: Moving expenses - general rules

29) Chris Shaffer is being transferred by his employer from Prince George, British Columbia to Red Deer, Alberta. The Shaffers paid $1,000 in legal fees to sell their Prince George home and $800 in legal fees to buy their new home in Red Deer. The total $1,800 in legal fees is a deductible moving expense.

Answer: TRUE

Explanation: The total $1,800 in legal fees is a deductible moving expense.

Type: TF

Topic: Moving expenses - general rules

30) Chris Shaffer is being transferred by his employer from Prince George, British Columbia to Red Deer, Alberta. Before moving into their new home, the Shaffers had to pay $2,000 to repair faulty wiring. The $2,000 is a deductible moving expense.

Answer: FALSE

Explanation: The $2,000 is not a deductible moving expense.

Type: TF

Topic: Moving expenses - general rules

31) Chris Shaffer is being transferred by his employer from Prince George, British Columbia to Red Deer, Alberta. The $5,000 in real estate fees paid to sell their Prince George house is a deductible moving expense.

Answer: TRUE

Explanation: The $5,000 in real estate fees paid to sell their Prince George house is a deductible moving expense.

Type: TF

Topic: Moving expenses - general rules

32) Chris Shaffer is being transferred by his employer from Prince George, British Columbia to Red Deer, Alberta. All moving expenses can only be deducted from income earned in Red Deer in the year of the move. There are no carry forward provisions for moving expenses.

Answer: FALSE

Explanation: There is an unlimited carry forward for unused moving expenses.

Type: TF

Topic: Moving expenses - general rules

33) Sarah and David Johnston paid $5,500 during the year for child care for their three children, aged 3, 5, and 7. Sarah's annual salary was $8,000 and David's annual salary was $30,000. Sarah can deduct the $5,500 paid in determining her net income.

Answer: FALSE

Explanation: Sarah can deduct a maximum of $5,333 [(2/3)($8,000)].

Type: TF

Topic: Child care expenses - determining the deduction ITA 63

34) For purposes of claiming child care expenses, an "eligible child" must be under 16 at some time during the year.

Answer: FALSE

Explanation: An eligible child does not have to be under 16 at some time during the year if the child is dependent on an individual or their spouse or common-law partner because of a physical or mental infirmity.

Type: TF

Topic: Child care expenses - general rules ITA 63

35) If the lower income spouse was in prison for the entire year, the higher income spouse would be able to claim child care expenses for that year.

Answer: TRUE

Explanation: Imprisonment of the lower income spouse is one of the situations in which the higher income spouse is permitted to claim child care expenses.

Type: TF

Topic: Child care expenses - general rules ITA 63

36) Jim and Shirley Noonan decide to separate after ten years of marriage. They have no children. To keep the separation amicable, they decide not to involve lawyers or the courts at this stage. They have a written separation agreement in which Shirley agrees to pay Jim $500 per month until he remarries. The payments will be included in Jim's net income and will be deductible to Shirley in determining her net income.

Answer: TRUE

Explanation: The payments will be included in Jim's net income and will be deductible to Shirley in determining her net income. As there are no children, the amounts paid are spousal support.

Type: TF

Topic: Support payments

37) The income tax treatment of amounts received under an annuity contract will depend on whether the annuity was purchased within a tax deferred plan such as an RRSP or outside such plans.

Answer: TRUE

Explanation: If an annuity is not purchased within a tax deferred plan, the capital element of the annuity payment can be deducted from the amount received so that only the income component is effectively added to income. Alternatively, if RRSP funds are used, the entire annuity payment will be included in income and therefore subject to income tax, with no offsetting deduction for a capital element.

Type: TF

Topic: Annuity payments

38) The total contributions that can be made to an RESP for one beneficiary are limited to $50,000.

Answer: TRUE

Type: TF

Topic: Registered education savings plans (RESP)

39) Earnings on amounts contributed to an RESP accumulate on a tax free basis.

Answer: TRUE

Explanation: While contributions are not deductible, earnings resulting from the investment of these contributions are not subject to income tax until the funds are withdrawn from the plan. An RESP is a tax exempt trust.

Type: TF

Topic: Registered education savings plans (RESP)

40) In 2022, contributions to a Tax Free Savings Account (TFSA) are limited to a maximum of $6,000 for the year.

Answer: FALSE

Explanation: There is no annual limit. While contribution room did increase by $6,000 in 2022 annual contributions are based on an individual's total contribution room.

Type: TF

Topic: Tax free savings account (TFSA)

41) While earnings on property in a Tax Free Savings Account (TFSA) will not be subject to income tax while the property remains in the plan, the accumulated income will be required to be included in income when withdrawn from the plan.

Answer: FALSE

Explanation: Withdrawals from a TFSA are not required to be included in income regardless of whether they represent the capital contributions or accumulated income.

Type: TF

Topic: Tax free savings account (TFSA)

42) A rollover is a term that is used to describe any transfer of property between non-arm's length persons.

Answer: FALSE

Explanation: The term rollover is used to describe transfers (e.g. dispositions) of property between persons whether or not they are non-arm's length.

Type: TF

Topic: Rollovers - general concepts

43) The term arm's length can apply to transactions involving trusts, corporations, and individuals.

Answer: TRUE

Explanation: The term arm's length can apply to transactions involving trusts, corporations, and individuals.

Type: TF

Topic: Arm's length - general concepts

44) Johan Deroi owns shares with an ACB of $1,000 and a FMV of $1,500. If he sells the shares to his brother for $2,000, he will have a capital gain of $1,000.

Answer: TRUE

Explanation: Johan's capital gain will be $1,000. However, his brother's ACB will be limited by ITA 69 to $1,500.

Type: TF

Topic: Non-arm's length transactions - ITA 69

45) Martha Stuart owns depreciable property with a UCC of $50,000, a capital cost of $80,000, and a FMV of $100,000. If she gifts this property to her spouse without making any election, she will realize a capital gain of $20,000.

Answer: FALSE

Explanation: There will be no capital gain. The property is deemed to have been disposed of at the UCC ensuring there are no income tax consequences to the transferor.

Type: TF

Topic: Non-arm's length disposition of depreciable property

46) When an individual dies, there is a deemed disposition of all of the capital property owned by that individual at FMV, without regard to the relationship between that individual and any beneficiaries.

Answer: FALSE

Explanation: If the beneficiary is a spouse or common-law partner, the disposition occur at the tax values of the capital property rather than FMV.

Type: TF

Topic: Death of an individual taxpayer - general rules

47) At the time of her death on August 1 of the current year, Nancy Mori owned shares with an ACB of $11,000 and a FMV of $20,000, and a term deposit of $30,000. She also owned a building that had a capital cost of $98,750, FMV of $110,000, and a UCC of $70,000. She bequeaths all of her properties to a spousal trust. No amount is added to her net income as a result of deemed dispositions occurring as a result of her death.

Answer: TRUE

Explanation: If she bequeaths all of her properties to a spousal trust, the deemed POD will equal the tax costs with the result that no amounts will be added to her net income for the year in which she died.

Type: TF

Topic: Death of an individual taxpayer - general rules

48) On her death on August 1 of the current year, Nancy Mori owned shares with an ACB of $11,000 and a FMV of $20,000, and a term deposit of $30,000. She also owned a building that had a capital cost of $98,750, a FMV of $110,000, and a UCC of $70,000. She bequeaths all of these properties to her daughter, Christine. $10,125 will be added to her net income on death as a result of deemed dispositions.

Answer: FALSE

Explanation: If she bequeaths all of the properties to her daughter, Christine, her net income at death arising from the dispositions totals $38,875. This is comprised of a taxable capital gain of $4,500 [(1/2)($20,000 - $11,000)] on the shares, a taxable capital gain on the building of $5,625 [(1/2)($110,000 - $98,750)], and recapture of $28,750 ($98,750 - $70,000) on the building.

Type: TF

Topic: Death of an individual taxpayer - general rules

49) On her death on August 1 of the current year, Nancy Mori owned shares with an ACB of $11,000 and a FMV of $20,000, and a term deposit of $30,000. She also owned a building that had a capital cost of $98,750, a FMV of $110,000, and a UCC of $70,000. She bequeaths all of these properties to her daughter, Christine, who sells the building before the end of the current year for $125,000. Christine will add $7,500 to her net income as a result of the sale of the building.

Answer: TRUE

Explanation: Christine will add a taxable capital gain of $7,500 [(1/2)($125,000 - $110,000)] to her net income as a result of the sale of the building. Christine's ACB of the building is $110,000 which is the FMV at the time of her mother's death and is deemed to be her cost.

Type: TF

Topic: Death of an individual taxpayer - general rules

50) A father gifts $10,000 in public company shares to his 19 year old daughter who is living at home. Any dividends declared on the shares will be attributed to the father.

Answer: FALSE

Explanation: Any dividends declared on the public company shares will not be attributed to the father because his daughter is 18 years of age or older.

Type: TF

Topic: Attribution - general rules

51) Brian Lawson gifts public company shares to his 15 year old son. If the shares are sold, in the following year, for more than their FMV at the time of the gift, the resulting capital gain will be included in Brian Lawson's net income.

Answer: FALSE

Explanation: There is no income attribution for capital gains that are realized on property that has been transferred to a related minor.

Type: TF

Topic: Attribution - general rules

52) Which of the following statements is **NOT** correct?

A) The $10,000 exemption from income for a death benefit is only available to a spouse or common-law partner.

B) Social assistance payments will increase the net income of an individual recipient but not their taxable income.

C) The minimum withdrawal amount from a RRIF must be included in income, even if it is not actually withdrawn.

D) Research grants are included in income net of unreimbursed expenses related to carrying on the research.

Answer: A

Explanation: A) The $10,000 exemption from income for a death benefit is only available to a spouse or common-law partner.

Type: MC

Topic: Other income - Subdivision d

53) Which of the following statements with respect to Subdivision d income is correct?

A) 100% of any death benefit received by a spouse or common-law partner must be included in income.

B) 100% of any scholarships received must be included in income.

C) 100% of any retiring allowance received must be included in income.

D) Social assistance payments are not required to be included in net income.

Answer: C

Explanation: C) While a deduction can be made for transfers to an RRSP it is a deduction separate from the retiring allowance all of which has to be included in net income.

Type: MC

Topic: Other income - Subdivision d

54) Which of the following receipts would **NOT** result in an increase in the taxable income of an individual?

A) Amounts that are withdrawn from an individual's RRSP.

B) A research grant received by a student in a university program.

C) Workers' compensation payments.

D) Spousal support payments.

Answer: C

Explanation: C) Workers' compensation payments. The amount is included in net income but deducted in determining taxable income.

Type: MC

Topic: Other income - Subdivision d

55) Dwayne Brooks carries on a business as a sole proprietor and is required to make a 2022 CPP contribution of $7,000 [(2)($3,500)]. How will this affect his 2022 net and taxable income?

A) Both his net and taxable income will be reduced by $7,000.

B) Both his net and taxable income will be reduced by $3,961.

C) Neither his net or taxable income will be affected.

D) Both his net and taxable income will be reduced by $1,050.

Answer: B

Explanation: B) Both his net and taxable income will be reduced by $3,456. ($7,000 - the maximum personal tax credit amount of $3,039).

D) Note that [(15%)($7,000)] = $1,050

Type: MC

Topic: CPP deduction - ITA 60(e) & (e.1)

56) Adhira carries on a business as a sole proprietor (e.g. self-employed) and has net and taxable income of $110,000 before any consideration of a CPP deduction. She is in the 26% federal income tax bracket. How much will her federal income tax payable decrease as a result of the maximum 2022 CPP contribution of $7,000?

A) $456

B) $1,486

C) $912

D) $1,580

Answer: B

Explanation: A) $456 [($3,039)(15%)]

B) $1,486 [($3,039)(15%) + ($3,961)(26%)]

C) $912 [(2)($3,039)(15%)]

D) $1,580 [(2)($3,039)(26%)

Type: MC

Topic: CPP deduction - ITA 60(e) & (e.1)

57) Which of the following statements related to the costs of an eligible relocation is correct?

A) If the employer provides an allowance for the moving expenses that is less than the actual moving expenses, the employee cannot claim any moving expenses.

B) All legal and other costs associated with acquiring a residence in the new work location are deductible.

C) The costs of visiting the new work location in order to find a new residence are deductible.

D) The costs of selling a residence where the individual lived prior to the relocation is always deductible.

Answer: D

Explanation: B) Only possible if the employee owned the previous home.

D) The costs of selling a residence where the individual lived prior to the relocation is always deductible.

Type: MC

Topic: Moving expenses - general rules

58) Stan Aiken changed employers in 2022 and, as a result of the change, moved 191 kilometers, from Windsor, Ontario to London, Ontario. His new employer was located in London and reimbursed 50% of Stan's eligible moving expenses. For 2022 Stan can:

A) claim none of his moving expenses.

B) claim 50% of his moving expenses to the extent of all of his 2022 employment income.

C) claim 50% of his moving expenses to the extent of income from his new employment.

D) claim 100% of his moving expenses to the extent of all of his 2022 employment income.

Answer: C

Explanation: C) The claim can only be made to the extent of employment income earned at the new location.

Type: MC

Topic: Moving expenses - determining the deduction

59) In 2022, Mr. Kumar moved from Saskatchewan to Prince Edward Island (PEI) to begin to carry on a new business. Business profits in 2022 exceeded $50,000. Mr. Kumar incurred the following moving expenses:

Transport of household effects $5,000

Travel - self, spouse, and three children 2,000

Legal fees - house purchase in PEI 900

Cancellation costs - lease in Saskatchewan 750

Temporary accommodation while waiting for

new house at $70 per day for 30 days 2,100

House-hunting trip (prior to move) 500

Which one of the following amounts represents the **maximum** amount that Mr. Kumar may claim for moving expenses for 2022?

A) $ 8,800.

B) $ 9,700.

C) $10,200.

D) $11,250.

Answer: A

Explanation: A) $8,800 [$5,000 + $2,000 + $750 + (15/30)($2,100)]. Legal fees are not deductible as Mr. Kumar did not own a house prior to moving; house hunting trips are not deductible; costs for temporary accommodation are limited to 15 days.

Type: MC

Topic: Moving expenses - determining the deduction

60) Jan Harding accepted an employment transfer from British Columbia to Ontario in 2022. She will begin her new employment on December 1, 2022. Her annual salary will be $102,000 or $8,500 monthly. Upon arriving, Jan spent 25 days staying in a hotel due to an unfortunate delay in moving into her new residence. Jan incurred expenses related to the move of $13,402. Included in this total was $1,125 for meals and $2,125 for hotel stays while waiting for her new residence to be ready. How much can she claim as moving expenses for 2022?

A) $ 8,500.

B) $12,102.

C) $12,952.

D) $13,402.

Answer: A

Explanation: A) $8,500 ($102,000 ÷ 12). The deduction is limited to the income earned at the new location. Any unclaimed amount can be carried forward indefinitely but can only be claimed to the extent of employment income at the same new location.

Type: MC

Topic: Moving expenses - determining the deduction

61) Maxine has lived and been employed in Alberta for many years. She recently accepted new employment in Ontario. The new job pays an annual salary of $105,600, or $8,800 monthly. She moved there with her family in October of 2022, so she could start her new job on November 1, 2022. While she had rented her accommodations in Alberta, she bought a new house in Ontario. She incurred the following expenses as a result of the move:

• canceling the lease on her rental apartment, $1,200.

• hiring movers to pack and move her household effects, $12,000.

• legal fees on the house purchase, $1,400.

• land transfer tax on the house purchase, $3,000.

• cost of disconnecting utilities in Alberta, $100.

• cost of connecting utilities in Ontario, $200.

• gas, food, and lodging while traveling from Alberta to Ontario, $2,800.

How much can she claim for moving expenses for the year of the move?

A) $16,000.

B) $16,300.

C) $17,700.

D) $20,700.

Answer: B

Explanation: B) $16,300 ($1,200 + $12,000 + $100 + $200 + $2,800).

Type: MC

Topic: Moving expenses - determining the deduction

62) Which of the following statements with respect to child care expenses is **NOT** correct?

A) In calculating earned income, business income is included, but business losses are excluded.

B) Amounts paid to a person under the age of 18 are never deductible.

C) The higher income spouse can deduct child care expenses if the lower income spouse is a person confined to a prison or similar institution throughout a period of not less than 2 weeks in the year.

D) There is no requirement that amounts be spent on specific children.

Answer: B

Explanation: B) Amounts paid to a person under the age of 18 are never deductible. Deduction is permitted provided the person is not related to the individual to whom child care services are provided.

Type: MC

Topic: Child care expenses - general rules ITA 63

63) John and Alexandria are married and they have two children, aged 2 and 5. They pay Alexandria's 22 year old sister $150 per week or $7,200 for the year to take care of their children for 48 weeks each year. John works full time and earns a salary of $90,000 per year. Alexandria works part time, earning an annual salary of $28,000. She also goes to college part time during the fall semester, for a total of 17 weeks, or 4 months, each year. Which of the following is correct with respect to John and Alexandria's ability to claim child care expenses?

A) Neither John nor Alexandria can claim child care expenses because they paid a relative to take care of their children.

B) Alexandria must claim all of the child care expenses because she is the supporting person with the lower net income.

C) John can claim child care expenses of $1,600 and Alexandria can claim the remaining $5,600.

D) John can claim child care expenses of $7,200.

Answer: C

Explanation: C) John's claim is limited to $1,600 [($200)(2)(4 months)]. Since Alexandria's attendance is part-time, the sum of the Periodic Amounts is multiplied by the number of months of part-time attendance, not weeks.

Type: MC

Topic: Child care expenses - determining the deduction ITA 63

64) Charam and Baka each have income of over $200,000. During the year, they paid a nanny $20,000 to care for their three children. Divya, age 5, has no income. Elina, age 10 is disabled and eligible for the disability tax credit. Hinda is 12 and has income of $25,000 which he earns from a TV acting job.

What is the maximum that can be claimed as child care expenses for the family?

A) $18,000

B) $19,000

C) $24,000

D) $22,000

Answer: B

Explanation: A) $18,000 [$8,000 + $5,000 + $5,000]

B) $19,000 [$8,000 + $11,000]. Hinda cannot be claimed as he is not an eligible child due to his income level.

C) $24,000 [$8,000 + $11,000 + $5,000

D) $22,000 [$11,000 + $11,000]

Type: MC

Topic: Child care expenses - determining the deduction ITA 63

65) Which of the following statements with respect to the disability supports deduction is correct?

A) To qualify for this deduction, the individual must be an employee.

B) The total amount of the deduction is limited to $15,000 per taxation year.

C) Some amounts can be claimed both as a disability supports deduction and for the medical expense tax credit.

D) This deduction is available to individuals who do not qualify for the disability tax credit.

Answer: D

Explanation: D) This deduction is available to individuals who do not qualify for the disability tax credit.

Type: MC

Topic: Disability supports deduction - ITA 64

66) Which of the following statements is **NOT** correct with respect to the Disability Supports Deduction?

A) The deduction is limited to individuals who qualify for the disability tax credit.

B) The deduction is available to disabled individuals who are carrying on research.

C) The deduction is available to disabled individuals who are attending a designated educational institution.

D) Many of the items that can be claimed under the disability supports deduction can also be claimed as medical expenses for the medical expense tax credit. A choice however must be made between the deduction and the credit.

Answer: A

Explanation: A) The deduction is limited to individuals who qualify for the disability tax credit.

Type: MC

Topic: Disability supports deduction - ITA 64

67) Katrina has early stages of cerebral palsy, but does not qualify for the disability tax credit. In 2022, she earned $75,000 employed at a facility for disabled children. In order to work, Katrina required full time attendant care that cost $25,000. Of this total, $10,000 was paid for by her employer, and $5,000 by her benefit plan. In addition, Katrina purchased equipment to increase her mobility at work costing $12,000. What is Katrina's maximum claim for the disability supports deduction?

A) $10,000

B) $12,000

C) $22,000

D) $32,000

Answer: C

Explanation: A) $10,000 [$25,000 - $10,000 - $5,000]

B) $12,000 [The amount paid for equipment

C) $22,000 [($25,000 - $10,000 - $5,000) + $12,000]

D) $32,000 [($25,000 - $5,000) + $12,000]

Type: MC

Topic: Disability supports deduction - ITA 64

68) Which of the following statements with respect to pension income splitting is **NOT** correct?

A) Neither income from OAS nor CPP are eligible for pension income splitting.

B) If an individual and their spouse are in different marginal income tax brackets, pension income splitting will always reduce their combined federal income tax payable.

C) An individual can allocate up to 50% of their qualifying pension income to a spouse or common-law partner.

D) Lump sum withdrawals from RRSPs are not eligible for pension income splitting.

Answer: B

Explanation: B) If an individual and their spouse are in different marginal income tax brackets, pension income splitting will always reduce their combined federal income tax payable.

Type: MC

Topic: Pension income splitting - ITA 60.03

69) Aaron, aged 65 and Abbie, aged 63 are married. Aaron received OAS of $4,000 and pension income of $65,000 from a plan that was sponsored by a former employer. If Aaron splits the maximum amount of pension income with Abbie, his net income will be?

A) $32,500.

B) $34,500.

C) $36,500.

D) $69,000.

Answer: C

Explanation: A) $32,500 [(1/2)($65,000)]

B) $34,500 [(1/2)($65,000 + $4,000)]

C) $36,500 [(1/2)($65,000) + $4,000]

D) $69,000

Type: MC

Topic: Pension income splitting - ITA 60.03

70) Elijah, aged 62 and Dara, aged 68 are married. Elijah collects CPP of $7,200 and has a $35,000 withdrawal from his RRSP. If Elijah splits the maximum amount of pension income with Dara, what will his net income be?

A) $17,500.

B) $21,100.

C) $24,700.

D) $42,200.

Answer: D

Explanation: A) $17,500 [(1/2)($35,000)]

B) $21,100 [(1/2)($7,200 + $35,000)]

C) $24,700 [(1/2)($35,000) + $7,200]

D) $42,200 ($35,000 + $7,200). Neither CPP received nor RRSP withdrawals whether annuity or lump-sum when under 65 can be split.

Type: MC

Topic: Pension income splitting - ITA 60.03

71) With respect to spousal and child support, which of the following statements is **NOT** correct?

A) Any amounts that are not specifically identified in the agreement as spousal support will be considered child support.

B) An amount qualifies as a support payment if it is payable or receivable as an allowance on a periodic basis.

C) The recipient of child support payments will not be able to claim the tax credit for an eligible dependant.

D) Deductible support payments reduce an individual's earned income for RRSP purposes.

Answer: C

Explanation: C) The recipient of child support payments will not be able to claim the tax credit for an eligible dependant. It is the payor who is subject to this restriction.

Type: MC

Topic: Spousal and child support payments

72) Which of the following is **NOT** a requirement for spousal support payments to be deductible?

A) The payments must be made on a periodic basis.

B) The payments must be made for a period of time that the spouses, or former spouses, are living separate and apart as a result of the breakdown of the marriage or common-law partnership.

C) The payments must be made pursuant to a separation agreement.

D) None of the above.

Answer: D

Explanation: D) None of the above.

Type: MC

Topic: Spousal and child support payments

73) Jack and his spouse, Sally, separated in 2019. The written separation agreement requires Jack to make periodic payments for the maintenance of Sally and their child. Payments were set at $250 a month for Sally and $150 a month for their child. In 2022 Jack made payments of $4,000. How much of the 2022 payments can Jack claim as a deduction?

A) $4,000.

B) $3,000.

C) $1,800.

D) $2,200.

Answer: D

Explanation: D) $2,200 [($4,000 - $1,800)]. Deductible spousal support is limited to the $4,000 amount paid, less the annual amount required of $1,800 for child support.

Type: MC

Topic: Spousal and child support payments

74) Which of the following statements about annuity payments received is correct?

A) Net income is increased by the amount of any annuity payment received.

B) If an individual uses funds from a savings account to purchase an annuity, the taxable amount of any payment is reduced by the capital element included in the payment.

C) To qualify as an annuity, the payments cannot extend beyond the life of the annuitant.

D) If the annuity was purchased inside an RRSP, none of the payments will be required to be included in net income.

Answer: B

Explanation: B) If an individual uses funds from a savings account to purchase an annuity, the taxable amount of any payment is reduced by the capital element included in the payment.

Type: MC

Topic: Annuity payments

75) Mr. Dayani purchases an annuity with funds from his savings account on January 1, 2022. The annuity has a 5 year term, and cost $25,000. Payments are made annually on December 31 in the amount of $5,772. The annuity provides an effective yield of 5%. How much of the annuity payment is required to be included in net income for 2022?

A) Nil

B) $772.

C) $1,250.

D) $5,000.

Answer: B

Explanation: A) Nil

B) $772 [$5,772 — ($25,000 ÷ $28,860)($5,772)]

C) $1,250 ($25,000 × 5%)

D) $5,000 [($25,000 ÷ $28,860)($5,772)]

Type: MC

Topic: Annuity payments

76) Arnold Ingram has $5,000 in funds that he does not currently need. He has a young son who he expects will pursue university education when he is older. Arnold is trying to decide whether the unneeded funds should be invested in a TFSA or an RESP. With respect to this decision, which of the following statements is **NOT** correct?

A) His current income tax payable will not be affected by the choice between the two types of plans.

B) Withdrawals from either plan will be tax free.

C) If he chooses the RESP, the plan will receive additional funds from the federal government in the form of Canada Education Savings Grants.

D) Contributions from either type of registered plan can be withdrawn tax free.

Answer: B

Explanation: B) Withdrawals from either plan will be tax free.

Type: MC

Topic: Registered savings plans - general concepts

77) With respect to the income tax rules for Registered Education Savings Plans (RESPs), which of the following statements is **NOT** correct?

A) The total contributions to one plan cannot exceed $50,000.

B) Earnings paid from the plan are required to be included in the income of the recipient.

C) The annual contributions made by any one individual cannot exceed $4,000.

D) Distributions can be made to a beneficiary of a plan when they commence full-time studies at a qualifying educational institution.

Answer: C

Explanation: C) There is no limit on the amount of annual contributions that can be made. It is only the overall contributions that are limited.

Type: MC

Topic: Registered education savings plans (RESP)

78) There are a number of income tax benefits and advantages associated with Registered Education Savings Plans (RESPs). Which of the following is **NOT** a benefit or advantage?

A) Contributions to the plans are deductible.

B) Earnings within the plan are not subject to income tax within the RESP.

C) The government makes contributions in the form of Canada Education Savings Grants (CESG) and Canada Learning Bonds (CLB).

D) Distributions from the plan may be received by no or low income recipients and as a result may result in little or no income tax.

Answer: A

Explanation: A) Contributions to the plan are deductible.

Type: MC

Topic: Registered education savings plans (RESP)

79) With respect to Tax Free Savings Accounts (TFSAs), which of the following statements is **NOT** correct?

A) Contributions to the accounts are not deductible.

B) Contributions to the accounts can be withdrawn tax free at any time.

C) Earnings within the plan accumulate tax free.

D) Withdrawals of accumulated earnings will not be required to be included in income.

Answer: D

Explanation: D) Withdrawals of accumulated earnings will not be required to be included in income.

Type: MC

Topic: Tax free savings account (TFSA)

80) Ms. Eli has $10,000 in pre-tax income that she does not need in the current year, but will require in two years to purchase a condo. She is considering whether she should use this money to contribute to a Tax Free Savings Account (TFSA) or a Registered Retirement Savings Plan (RRSP). She expects her marginal income tax rate to increase in two years. She expects her invested funds will earn the same rate of return in either account. Which of the following statements is correct with respect to an investment decision?

A) Whether she invests in the RRSP or the TFSA, the effect on her net income will be the same.

B) Ms. Eli should invest in the RRSP.

C) Ms. Eli should invest in the TFSA.

D) Ms. Eli should not invest in the either the RRSP or the TFSA since she will need the money in two years.

Answer: C

Explanation: C) A TFSA withdrawal in two years avoids the increased income tax that is expected that would occur if the withdrawal was from an RRSP which would be required to be included in income.

Type: MC

Topic: Registered savings plans - general concepts

81) Which of the following statements regarding the Tax Free Savings Account (TFSA) is **NOT** correct?

A) Any Canadian resident individual over 17 years of age can establish a TFSA.

B) Any unused amounts not contributed in a year may be carried forward indefinitely to future years.

C) The contributions are deductible from net income up to a maximum of $6,000 for 2022.

D) Capital gains realized within TFSAs are not subject to income tax.

Answer: C

Explanation: C) The contributions are deductible from net income up to a maximum of $6,000 for 2022.

Type: MC

Topic: Tax free savings account (TFSA)

82) With respect to non-arm's length dispositions of capital property, which of the following statements is correct?

A) Gifting a non-depreciable capital property with an accrued capital gain to a non-arm's length individual can result in double taxation of some part of that gain.

B) When there is a non-arm's length disposition of depreciable property with a FMV that exceeds the capital cost to the transferor, the capital cost to the transferee will be the same as the capital cost to the transferor.

C) When there is a non-arm's length disposition of depreciable property with a FMV that is less than the transferor's capital cost, the transferee's new capital cost is deemed to be equal to the transferor's capital cost.

D) If there is a disposition of non-depreciable capital property at an amount that is less than its FMV, the ACB to the transferee will be the FMV of that property.

Answer: C

Explanation: C) When there is a non-arm's length disposition of depreciable property with a FMV that is less than the transferor's capital cost, the transferee's new capital cost is deemed to be equal to the transferor's capital cost.

Type: MC

Topic: Non-arm's length transactions - ITA 69

83) John Bartel owns land with an ACB of $250,000 and a FMV of $320,000. He sells the land to his son for $250,000. Which of the following statements is correct?

A) John will have a taxable capital gain of $70,000 and the ACB to his son will be $250,000.

B) John will have a taxable capital gain of $70,000 and the ACB to his son will be $320,000.

C) John will have a taxable capital gain of $35,000 and the ACB to his son will be $320,000.

D) John will have a taxable capital gain of $35,000 and the ACB to his son will be $250,000.

Answer: D

Explanation: D) John will have a taxable capital gain of $35,000 and the ACB to his son will be $250,000.

Type: MC

Topic: Non-arm's length transactions - ITA 69

84) John Bartel owns land with an ACB of $250,000 and a FMV of $320,000. He gifts the land to his son. Which of the following statements is correct?

A) John will have a taxable capital gain of $70,000 and the ACB to his son will be $250,000.

B) John will have a taxable capital gain of $70,000 and the ACB to his son will be $320,000.

C) John will have a taxable capital gain of $35,000 and the ACB to his son will be $320,000.

D) John will have a taxable capital gain of $35,000 and the ACB to his son will be $250,000.

Answer: C

Explanation: C) John will have a taxable capital gain of $35,000 and the ACB to his son will be $320,000.

Type: MC

Topic: Non-arm's length transactions - ITA 69

The questions below are based on the following information:

Jolinda Morris has a depreciable property with a capital cost of $225,000, a UCC of $175,000, and a FMV of $240,000. Because of his exceptional performance during the last year, she gifts this property to her common-law partner.

85) How much will her net income increase as a result of the gift if she does not opt out of the rollover of ITA 73(1)?

A) $57,500.

B) $65,000.

C) $7,500.

D) Nil.

Answer: D

Explanation: D) Nil. ITA 73(1) applies a rollover with the result that there are no immediate income tax consequences as a result of the gift.

Type: MC

Topic: Non-arm's length transactions - ITA 69

86) How much will her net income increase as a result of the gift if she does opt out of ITA 73(1)?

A) $57,500.

B) $65,000.

C) $7,500.

D) Nil.

Answer: A

Explanation: A) $57,500. Taxable capital gain = (POD $240,000 — ACB $225,000) × 50% = $7,500

Recapture = $175,000 — $225,000 = $50,000

$7,500 + 50,000 = $57,500

Type: MC

Topic: Non-arm's length transactions - ITA 69

87) What is the most likely motivation for Ms. Morris to opt out of the rollover of ITA 73(1)?

A) To avoid attribution.

B) She is in a higher tax bracket than her common-law partner.

C) She has some unused terminal losses.

D) She has unused current capital losses, a net capital loss carryover or a non-capital loss carryover.

Answer: D

Explanation: D) She has unused current capital losses, a net capital loss carryover or a non-capital loss carryover.

Type: MC

Topic: Non-arm's length transactions - ITA 69

88) Sonya owns 500 shares of Roxy Corp. that she bought in 2021 for $10 per share. On June 1, 2022 Sonya sold all of her shares to her sister for $15 per share and then later the same day her sister sold the shares for their FMV of $18 per share. The taxable capital gain for each sister is:

A) $2,000 for Sonya and $750 for her sister.

B) $1,250 for Sonya and $750 for her sister.

C) $750 for Sonya and $1,250 for her sister.

D) $1,000 for Sonya and $1,000 for her sister.

Answer: A

Explanation: A) $2,000 for Sonya and $750 for her sister. (POD $18 — ACB $10) × 500 × 50% =$2,000, (POD $18 — ACB $15) × 500 × 50% = $750

B) (POD $15 — ACB $10) × 500 × 50% = $1,250, (POD $18 — ACB $15) × 500 × 50% = $750

C) (POD $18 — ACB $15) × 500 × 50% = $750, $2,000 - 750 = $1,250

D) ($2,000 split between the two)

Type: MC

Topic: Non-arm's length transactions - ITA 69

89) Hugo owns a farm. Both Hugo and his son work on the farm raising sheep. On February 16, 2022 Hugo sold a shearing machine to his son for $5,000. The original cost of the machine was $10,000, the UCC is $8,000 and the FMV is $5,000. The machine was the last property in its CCA class. On September 1, 2022, his son took the machine to an auction in another province where an enthusiast bidder paid $6,000 for it.

The income tax consequences to Hugo and his son are:

A) Hugo has a terminal loss of $3,000 and his son has a taxable capital gain of $500.

B) Hugo has a terminal loss of $3,000 and his son has recapture of CCA of $1,000.

C) Hugo has a terminal loss of $2,000 and his son has no tax consequences.

D) Hugo has no income tax consequences and his son has a terminal loss of $2,000.

Answer: B

Explanation: B) Hugo has a terminal loss of $3,000 and his son has recapture of CCA of $1,000. Since it is a non-arms' length disposition at an amount that is less than Hugo's capital cost, ITA 13(7)(e) deems the son's new capital cost to be equal to Hugo's capital cost. In effect the son inherits the same tax costs of the depreciable property as his father (capital cost = $10,000; deemed CCA = $2,000 and UCC = $8,000).

Type: MC

Topic: Non-arm's length disposition of depreciable property

90) Lance Mann dies, leaving a depreciable property to his son, Paul Mann. The capital cost of the property is $150,000 and its FMV $120,000. It is the only property in its class with a UCC balance of $100,000. The income tax consequences of this bequest would be:

A) recapture of $20,000 for Lance and the capital cost of the property to Paul will be $150,000.

B) a taxable capital gain for Lance of $10,000 and a capital cost of the property to Paul of $150,000.

C) recapture of $20,000 for Lance and a capital cost of the property to Paul of $120,000.

D) recapture of $20,000 for Lance and a capital cost of the property to Paul of $100,000.

Answer: A

Explanation: A) Recapture of $20,000 for Lance and the capital cost of the property to Paul will be $150,000. ITA 13(7) does not apply to modify the capital cost in a non-arm's length disposition as a result of death.

Type: MC

Topic: Death of an individual taxpayer - general rules

91) Which of the following statements that relate to the death of an individual is **NOT** correct?

A) A farm property owned at the time of death can be transferred to a child on a tax free basis.

B) When an individual dies, there is a deemed disposition of all of their capital property.

C) When an individual dies all of their capital property is deemed to be disposed of at FMV.

D) When the capital cost of a property that was owned by an individual at the time of their death exceeds its FMV, the beneficiary is required to retain the original capital cost, with the difference being treated as deemed CCA.

Answer: C

Explanation: C) When an individual dies all of their capital property is deemed to be disposed of at FMV.

Type: MC

Topic: Death of an individual taxpayer - general rules

92) Erica Ho dies, leaving a depreciable property to her daughter that has a capital cost of $150,000, a FMV of $90,000, and a UCC of $65,000. Which of the following statements related to this event is **NOT** correct?

A) Erica will have no taxable capital gain.

B) Erica will have recapture of $25,000.

C) If her daughter later sells the property for $100,000, she will have a capital gain of $10,000.

D) The UCC for the daughter will be $90,000.

Answer: C

Explanation: C) If her daughter later sells the property for $100,000, she will have a capital gain of $10,000. As the daughter will retain Erica's original capital cost, the $10,000 will be recapture. In effect the daughter inherits the tax characteristics of the property.

Type: MC

Topic: Death of an individual taxpayer - general rules

93) Which of the following statements is correct on the death of an individual?

A) Capital property that is bequeathed to a spouse or common-law partner is transferred on a rollover basis.

B) Capital property that is bequeathed to a spousal or common-law partner trust is deemed to be disposed of for POD equal to FMV.

C) Capital property, whether bequeathed to a spouse, a common-law partner or any other person, is transferred on a rollover basis.

D) Capital property, whether bequeathed to a spouse, a common-law partner or to any other person, is deemed to be disposed of for POD equal to FMV.

Answer: A

Explanation: A) Capital property that is bequeathed to a spouse or common-law partners is transferred on a rollover basis.

Type: MC

Topic: Death of an individual taxpayer - general rules

94) When Alyssa Weinstein died, she left her estate to her spouse and daughter as shown below. Property she owned at the time of her death had the following tax costs and FMV:

**Property Beneficiary**

Jewelry - Cost = $10,000, FMV = $17,000 Spouse

Automobile - Cost = $55,000, FMV = $20,000 Daughter

Rental building - Cost = $100,000, UCC = $70,000, FMV = $220,000 Daughter

Common shares - Cost = $140,000, FMV = $500,000 Spouse

What is the minimum amount that must be included in Ms. Weinstein's income for her final income tax return in respect of these properties?

A) $60,000

B) $72,500

C) $90,000

D) $273,500

Answer: C

Explanation: A) [(1/2)($220,000 - $100,000)] = $60,000

B) $90,000 - [(1/2)($55,000 - $20,000) = $72,500

C) Any capital property transferred to the spouse on death are automatically rolled over with no income tax consequences. The automobile is personal use property therefore the loss cannot be claimed. The only property that will affect the final income tax return is the building. Recapture = $30,000, taxable capital gain = [(1/2)(POD $220,000 - ACB $100,000)] = $60,000. Total = $90,000.

D) $90,000 + [(1/2)($7,000 + $360,000) = $273,500

Type: MC

Topic: Death of an individual taxpayer - general rules

95) Which of the following situations will **NOT** result in the attribution of income to the transferor?

A) The disposition of capital property to a spouse or common-law partner for FMV consideration where the transferor does not opt out of the rollover of ITA 73(1).

B) The transfer of capital property to a spouse or common-law partner in return for a non-interest bearing promissory note. The transferor opts out of the rollover of ITA 73(1).

C) The transfer of a business to a spouse or common-law partner. The transferor does not elect out of ITA 73(1).

D) The transfer of capital property to a minor child of the transferor's sister.

Answer: C

Explanation: C) The transfer of an unincorporated business to a spouse. The transferor does not elect out of ITA 73(1).

Type: MC

Topic: Attribution - general rules

96) Mr. Johnson wants to help his daughter, Erin, save for her college education. To this end, in 2020, when she was 15 years old, he put $3,000 into a GIC in her name, for a one year term. The GIC renews on an annual basis. On its maturity in 2021, Erin moved the $3,000 into another GIC for another year and the interest earned during the first year into a second one-year GIC for $300. In 2022, the interest earned on the two GICs was $240 and $24 respectively.

How much of this interest, if any, is attributed to Mr. Johnson in 2022?

A) Nil.

B) $24.

C) $240.

D) $264.

E) None of the above.

Answer: C

Explanation: C) $240 (compound interest does not attribute). See paragraph 9-202 of the textbook.

Type: MC

Topic: Attribution rules - the attribution of income

97) Agatha Harkness wishes to gift mutual funds to her three grandchildren, all of whom are under the age of 6. She wants to minimize any income attribution.

Which one of the following mutual funds will best accomplish this goal?

A) An equity fund that invests in preferred shares of top Canadian corporations and earns primarily dividend income.

B) A bond fund that invests in long-term, interest-bearing Government of Canada bonds, earning interest income and capital gains.

C) A growth fund that invests in corporations with a history of paying minimal dividends and earns its income primarily in the form of capital gains.

D) A money-market fund that invests in short-term treasury bills and earns only interest income.

Answer: C

Explanation: C) A growth fund that invests in corporations with a history of paying minimal dividends and earns its income primarily in the form of capital gains. This is because capital gains to minors are not attributed back to the transferor.

Type: MC

Topic: Attribution rules - the attribution of income

98) William Choring owned shares in two publicly traded companies, as follows:

**FMV on date**

**of Disposition ACB**

TriStar Limited $1,000 $10,000

Global Inc. 2,500 200

William gifted the TriStar Limited shares to his spouse on July 1, 2022. His spouse kept the shares and received $138 of taxable dividends (grossed up amount) in September of 2022.

William sold the Global Inc. shares on the open market. Assuming William had no other income, did not opt out of the rollover of ITA 73(1), and that these are the only transactions that occurred in the year, what is William's net income for 2022?

A) Nil.

B) $1,150.

C) $1,250.

D) $1,288.

Answer: D

Explanation: D) William's 2022 net income is $1,288.

Taxable Capital Gain on Disposition of Global Inc.

[($2,500 - $200)(1/2)] $1,150

Allowable Capital Loss on Gift - TriStar Limited (Superficial loss) Nil

Attribution of Dividend 138

William's 2021 Net Income $1,288

Type: MC

Topic: Attribution rules - the attribution of income

99) Hans Myers wishes to transfer an investment to his spouse, Olga. However, Olga does not have sufficient cash to purchase the investment for at their current FMV. Hans would like to loan the funds to Olga to facilitate the purchase, as he wants the income on this investment to be included in her income and not his income. Olga will pay interest on the loan using the investment income she expects to receive.

Which one of the following is **NOT** a requirement to ensure that the income on this investment will be included in Olga's income and not attributed to Hans, in the future?

A) Hans must elect to realize any gains inherent in the property at the transfer date by opting out of the ITA 73(1) rollover.

B) Interest on the loan at the prescribed rate in effect at the time of the transfer must be paid by Olga to Hans each year and by January 30 of the following year.

C) Olga must pay consideration equal to the FMV of the investment.

D) The interest rate on the loan must be the FMV rate, even though that rate is greater than the prescribed interest rate.

Answer: D

Explanation: D) Hans must opt out of the ITA 73(1) rollover, Olga must pay consideration equal to FMV, and the loan must include interest at the prescribed rate at a minimum that must actually be paid within 30 days of the end of each year.

Type: MC

Topic: Attribution - general rules

100) Martin has a marginal income tax rate of 46%. His spouse, Carmen, has a marginal income tax rate of 26%. In order to provide Carmen with a supplemental source of income, he gifted her a portion of his investment portfolio. Carmen's new investment portfolio generated interest income of $6,800 and taxable capital gains of $9,900. Which of the following statements is **NOT** correct?

A) Martin faces additional income tax of $3,128 as a result of Carmen's interest income.

B) Martin faces additional income tax of $4,554 as a result of Carmen's taxable capital gains.

C) Carmen has no income tax liability as a result of the gifted investment portfolio.

D) Carmen faces an income tax liability of $2,574 as a result of the taxable capital gains.

Answer: D

Explanation: D) Carmen faces an income tax liability of $2,574 as a result of the taxable capital gains.

Type: MC

Topic: Attribution rules - the attribution of income

101) Sandy gifts $12,000 to each of the following people. Each of them used the money they received from Sandy to invest in shares of publicly listed corporations. In which situation will any resulting dividend income **NOT** be attributed back to Sandy?

A) The gift is to Sandy's long-time business partner.

B) The gift is to Sandy's spouse.

C) The gift is to Sandy's 14 year old nephew.

D) The gift is to Sandy's 10 year old daughter.

Answer: A

Explanation: A) The gift is to Sandy's long-time business partner.

Type: MC

Topic: Attribution rules - the attribution of income

102) Pere gifted shares in a public corporation with a FMV of $50,000 to his 12 year old son, Fils. After Fils received $1,000 in eligible dividends, the shares were sold for $53,000. What are the income tax consequences of the dividend and the sale?

A) Pere will include the grossed-up dividends of $1,380 in his income, be entitled to a dividend tax credit of $207 [(6/11)($380)] and Fils will include the taxable capital gain of $1,500 in his income.

B) Fils will include the grossed-up dividends of $1,380 in his income,m be entitled to a dividend tax credit of $207 and a taxable capital gain of $1,500 in his income.

C) Pere will include the grossed-up dividends of $1,380 in his income, be entitled to a dividend tax credit of $207 and a taxable capital gain of $1,500 in his income.

D) Fils will include the grossed-up dividends of $1,380 in his income, be entitled to a dividend tax credit of $207 and Pere will claim the taxable capital gain of $1,500 in his income.

Answer: A

Explanation: A) Pere will include the grossed-up dividends of $1,380 in his income, be entitled to a dividend tax credit of $207 [(6/11)($380)] and Fils will include the taxable capital gain of $1,500 in his income.

Type: MC

Topic: Attribution rules - the attribution of income

103) On November, 15, 2022, at the request of his employer, Mr. John Havlik moves from Halifax to Moncton (Moncton is 260 kilometers from Halifax). He lived in a rented apartment in Halifax, but has purchased a house in Moncton. Legal fees and other costs associated with the purchase of this house totaled $3,250. The total cost of the actual move, including the costs of moving his personal possessions, is $8,300. In addition, he spent $650 on a house hunting trip to Moncton, but he did not decide on a house until his return to Halifax. He also incurred a $1,200 penalty for breaking his lease in Halifax.

During the year, his salary totaled $53,000, of which $6,625 was earned at the new location from November 15, 2022 to December 31, 2022. His employer is prepared to pay up to $6,000 towards the cost of the move. Determine Mr. Havlik's maximum moving expense for 2022, as well as any carry forward available.

Answer:

Reimbursement from the employer $6,000

Acquisition cost of New House ( 3,250)

House Hunting Trip ( 650)

Balance $2,100

Moving expenses ( 8,300)

Lease penalty ( 1,200)

Available Deduction ($7,400)

Income at the new work location = Maximum Deduction 6,625

Carry Forward ($ 775)

Since he did not own a house in Halifax, he cannot deduct the $3,250 in costs associated with acquiring the new home in Moncton. Further, there is no provision for deducting the $650 cost of the house hunting trip to Moncton. However, these amounts can be paid for by his employer without creating a taxable benefit as long as it is clear that the reimbursement is specifically intended to pay these expenses.

The maximum moving expense deduction for 2022 is limited to the income at the new work location of $6,625. The remaining $775 can be carried forward and deducted against income earned at the new location in a subsequent year.

Type: ES

Topic: Moving expenses - determining the deduction

104) On November 1, 2022, Joan Hatch moves from Windsor to Toronto at the request of her employer. Prior to this date, she spent $950 on a house hunting trip to Toronto. However, she was not successful and, given this, she has signed a one-year lease for an apartment at her new work location. The legal fees and real estate commissions associated with the sale of her Windsor house were $7,200. The actual costs of the move, including amounts paid to a moving company, totaled $12,600. Her employer agreed to pay $7,000 of her moving expenses.

Ms. Hatch's salary for 2022 was $54,000. Determine Ms. Hatch's maximum moving expense deduction for 2022, as well as any carry forward that is available.

Answer:

Payment from Employer $ 7,000

House Hunting Trip ( 950)

Balance $ 6,050

Cost of Selling Windsor House ( 7,200)

Moving Costs ( 12,600)

Available Deduction ($13,750)

Income at New Work Location [(2)($54,000 ÷ 12)] 9,000

Carry Forward ($ 4,750)

There is no provision for deducting the $950 cost of the house hunting trip to Toronto. However, this amount can be paid for by her employer without creating a taxable benefit since the move is primarily for the benefit of the employer. It is important that the payment from the employer specify which costs are reimbursed.

The maximum deduction is limited to $9,000, the income earned at the new work location. The remaining $4,750 can be carried forward indefinitely but is limited to income earned at the new work location.

Type: ES

Topic: Moving expenses - determining the deduction

105) Mr. Renaud and Ms. Fortune have lived together for over 15 years and have three children. The ages of the children at the end of the current year are 3, 11, and 15. All three children are in good health and do not suffer from any infirmity. Mr. Renaud carries on a business as a sole proprietor and has business income for the year of $52,000. Ms. Fortune has business income of $62,000. The child care expenses for the current year total $11,200.

Determine the maximum child care expense deduction and identify the individual that can make the claim.

Answer: As Mr. Renaud is the low income spouse, he will claim the deduction. The deduction will be the least of the following amounts:

• The actual expenses of $11,200.

• The annual limit of $18,000 [(1)($8,000) + (2)($5,000)].

• $34,667 [(2/3)($52,000)]

The least of these three amounts is $11,200.

Type: ES

Topic: Child care expenses - determining the deduction ITA 63

106) Mrs. and Mr. Anders have three children who, at the end of the current year, are 4, 12, and 18 years of age. The 18 year old child has a serious physical infirmity, but does not qualify for the disability tax credit. Mrs. Anders had earned income of $18,000, while Mr. Anders had earned income of $69,000. Payments for child care were $190 per week for 50 weeks.

During the current year, Mrs. Anders spent six weeks in jail as the result of a conviction for possession of an illegal substance. Following her release, Mr. Anders spent three weeks in the hospital because of a stress related disorder.

Determine the maximum deduction for child care expenses and identify the individual who can make the claim.

Answer: As the 18 year old child has a physical infirmity, he/she is an eligible child for purposes of deducting child care expenses. While child care expenses are normally deducted by the lower income spouse, the higher income spouse can claim a deduction for periods when the lower income spouse is in prison. The amount that can be deducted, however, is limited to $175 per week in the case of the four year old and $100 per week for the other children. Given this, Mr. Anders' deduction is limited as shown in the following calculation:

**Mr. Anders Mrs. Anders**

Actual Payments [(50)($190)] $ 9,500 $ 9,500

Annual Expense Limit [(1)($8,000) + (2)($5,000)] $18,000 $18,000

2/3 of Earned Income

[(2/3)($69,000)] $46,000

[(2/3)($18,000)] $12,000

Periodic Expense Limit [(6)($200)(1) + (6)($125)(2)] $ 2,700 N/A

The least of the amounts for Mr. Anders is $2,700. The least of the amounts for Mrs. Anders is $9,500. Mrs. Anders' deduction would be reduced by the $2,700 deducted by Mr. Anders, leaving her with a deduction of $6,800 ($9,500 - $2,700).

Type: ES

Topic: Child care expenses - determining the deduction ITA 63

107) Lara Craft has several disabilities, none of which are severe enough to allow a claim for the disability tax credit. Despite her disabilities, in 2022, she works full time as a financial consultant, earning employment income of $94,000.

Her need for full time attendant care has been certified by a medical practitioner and, in 2022, the cost of this care was $32,000. Additional costs related to her disabilities totaled $17,000. Her medical insurance reimbursed her for $8,000 of these costs. None of these costs will be used to claim a medical expense tax credit. Determine the amount of Lara's disability supports deduction for 2022.

Answer: As Lara is not eligible for the disability tax credit, she can deduct the cost of full time attendant care under ITA 64. When combined with the other disability support costs and the reimbursement, the qualifying costs total $41,000 ($32,000 + $17,000 - $8,000). As this is less than her income from employment, she will be able to deduct the full amount as her disability supports deduction.

Type: ES

Topic: Disability supports deduction - ITA 64

108) Jerry Mason lives with his spouse, Janice Sparks. Both Jerry and Janice are 66 years old and,in 2022, they each receive $7,700 in OAS payments. As the result of many years with his employer, Jerry receives $88,000 from a registered pension plan (RPP). Janice's only income is the OAS amounts she receives. Neither Jerry nor Janice have applied for CPP and they have no tax credits other than the BPA, the age credit, and pension income tax credit. Jerry has asked you to determine the federal income tax savings that would result from electing pension income splitting for 2022.

Answer: In the absence of pension income splitting, Janice would have no federal income tax payable [(15%)($7,700) - (15%)($14,398)]. Jerry's 2022 net income, before any OAS clawback, would be $95,700 ($88,000 + $7,700). There would be an OAS clawback of $2,091 [(15%)($95,700 - $81,761)], leaving Jerry with 2022 net and taxable income of $93,609 ($95,700 - $2,091). Based on this amount the federal income tax owing would be calculated as follows:

Tax on first $50,197 $ 7,530

Tax on next $43,412 ($93,609 - $50,197) at 20.5% 8,899

Total before Credits $16,429

Credits:

BPA ($14,398)

Spousal ($14,398 - $7,700) ( 6,698)

Age [$7,898 - (15%)($93,609 - $39,826) Nil

Pension ( 2,000)

Spouse's Age ( 7,898)

Total ($30,994)

Rate 15% ( 4,649)

2022 Federal Income Tax Payable $11,780

OAS Clawback 2,091

Total amount owing without pension splitting $13,871

If maximum pension splitting is used, it will give both Jerry and Janice net and taxable income of $51,700 [($88,000 ÷ 2) + $7,700]. Since this is below the OAS income threshold of $81,761,for 2022 there will be no clawback of OAS for either Jerry or Janice. Based on these revised amounts, the federal income tax owing for both Jerry or Janice would be the same and calculated as follows:

Tax on first $50,197 $7,530

Tax on next $1,503 ($51,700 - $50,197) at 20.5% 308

Tax Before Credits $7,838

Credits:

BPA ($14,398)

Age [$7,898 - (15%)($51,700 - $39,826) ( 6,117)

Pension ( 2,000)

Total ($22,515)

Rate 15% ( 3,377)

2022 Federal Income Tax Payable $ 4,461

OAS Clawback N/A

Total amount owing for each with pension splitting $ 4,461

With pension income splitting, the total amount owing by Jerry and Janice would be $8,922 [(2)($4,461)]. This is an improvement of $4,949 over the $13,871 that Jerry would have paid without income splitting. Additional savings would be available for provincial income taxes. Quebec however does not allow pension splitting for individuals who are under 65 years of age.

Type: ES

Topic: Pension income splitting - ITA 60.03

109) On May 1, 2022, Leon and Shannon Weiss sign a separation agreement that calls for Shannon to pay Leon $1,200 per month in child support (Leon will have custody of their three children) and $2,100 per month in spousal support beginning on June 1. By the end of 2022, Shannon's payments total only $9,500. How will these payments be treated to both Shannon and Leon in 2022?

Answer: The total required child support is $8,400 [(7 Months)($1,200)] and Shannon's payments will be deemed to have paid that child support first meaning that $8,400 is child support and the remaining $1,100 ($9,500 - $8,400) will be considered spousal support. Leon will include the $1,100 of spousal support in his 2022 net income and Shannon can deduct that same amount in determining her 2022 net income.

Type: ES

Topic: Spousal and child support payments

110) Under the terms of their divorce settlement, Barry Low must pay his former spouse, Mandy Brock, $1,000 a month in child support and $1,800 a month in spousal support. Prior to 2022 Barry has always paid the full amounts required by the settlement agreement. In 2022 however payments total only $14,000. How will the payments be treated to both Barry and Mandy for 2022?

Answer: The required payments for child support in 2022 were $12,000 [(12)($1,000)]. The ITA deems the first payments to be paid as child support with any remaining amounts actually paid to be spousal support. This means that, of the $14,000 in payments, $12,000 is considered child support and $2,000 spousal support. Mandy will include the $2,000 in spousal support in her net income for 2022 and Barry will be entitled to a deduction of $2,000 in determining his net income for 2022.

Type: ES

Topic: Spousal and child support payments

111) On January 1 of the current year, Ms. Lorraine Brock uses $10,000 of her savings to purchase a fixed term annuity. The term of the annuity is three years, the annual payments are $4,020, the payments are received on December 31 of each year, and the rate inherent in the annuity is 10%. What is the effect of the $4,020 annual annuity payment on Ms. Brock's net income.

Answer: A total of $12,060 [(3)($4,020)] in payments will be received during the life of the annuity. The $4,020 will be included in her income (ITA 56(1)(d)) and she will be entitled to a deduction equal to $3,333 [($10,000 ÷ $12,060)($4,020)] (ITA 60(a)). As a result, Ms. Brock's net income will increase by $687 ($4,020 - $3,333) in each of the three years.

Type: ES

Topic: Annuity payments

112) On January 1, 2022, Sal Miner uses $2,673 of his savings to purchase an annuity that will return $1,000 at the end of each year in 2022, 2023, and 2024. The effective rate of interest in this annuity is 6%. What is the effect of the $1,000 payment on Mr. Miner's 2022 net income?

Answer: Over the life of the annuity Sal will receive total payments of $3,000 [(3)($1,000)]. In 2022, the $1,000 payment received will be included in his net income (ITA 56(1)(d)) and he will be entitled to a deduction for the capital component of the payment of $891 [($1,000)($2,673 ÷ $3,000)] (ITA 60(a)). The net increase in net income for 2022 is therefore $109 ($1,000 - $891).

Type: ES

Topic: Annuity payments

113) Marco was born in 2021. As his mother is very keen on income tax planning, she establishes an RESP for him by contributing $1,000 to the plan in 2021. Marco's grandmother contributes an additional $400 to the plan on the same day.

In 2022, Marco's mother contributes $2,200 to the plan, while his grandmother contributes an additional $1,900. Marco's family has never had family income of more than $40,000. Determine the amount of the Canada Education Savings Grant (CESG) that would be added to Marco's RESP in 2021 and 2022.

Answer: The total 2021 contributions to Marco's RESP are $1,400 ($1,000 + $400). As this is within the $2,500 limit for contribution eligible for CESGs, the 2021 CESG would be $380 {[(40%)($500)] + [(20%)($1,400 - $500)]}.

For 2022, contributions to Marco's RESP total $4,100 ($2,200 + $1,900). However, at this point, the plan has accumulated only $5,000 [(2)($2,500)] in room for contributions eligible for CESGs. As $1,400 of this was used in 2021, only $3,600 remains for use in 2022. Given this, the 2022 CESG amount would be $820 {[(40%)($500)] + [(20%)($3,600 - $500)]}.

Type: ES

Topic: Canada education savings grants (CESG)

114) Ms. Veronica Lox owns shares with an ACB of $150,000 and a FMV of $175,000. She sells the shares to her father for $130,000. He immediately sells them to an arm's length person for $175,000. Determine the income tax consequences to Ms. Lox and her father.

Answer: Since the disposition is between non-arm's length persons and the transaction price is less than the FMV of the shares ITA 69 will apply a one-sided adjustment that will deem Veronica to have received FMV of $175,000. As a result she will include a taxable capital gain of $12,500 [(1/2)($175,000 - $150,000)] in her income for the year of the disposition. The price of $130,000 paid by her father is not adjusted by ITA 69 and remains the cost and ACB of the shares to him.

When her father sells the shares for $175,000, he will include a taxable capital gain of $22,500 [(1/2)($175,000 - $130,000) in his income for the year.

Type: ES

Topic: Non-arm's length transactions - ITA 69

115) Ms. Veronica Lox owns shares with an ACB of $150,000 and a FMV of $175,000. She sells the shares to her father for $210,000. He immediately sells them to an arm's length person for $175,000. Determine the income tax consequences to Ms. Lox and her father.

Answer: Since the disposition is between non-arm's length persons and the transaction price is greater than the FMV of the shares ITA 69 will apply a one-sided adjustment that will deem the father to have paid FMV of $175,000 for the shares which becomes his cost and ACB. Veronica is not affected by ITA 69 and she is considered to have sold the shares for the actual price of $210,000. As a result she will include a taxable capital gain of $30,000 [(1/2)($210,000 - $150,000)] in her income for the year of the disposition.

When the father sells the shares in an arm's length transaction for $175,000 there is no capital gain or capital loss $30,000 [(1/2)(POD $175,000 - ACB $175,000)].

Type: ES

Topic: Non-arm's length transactions - ITA 69

116) Marilyn Fox owns land that she purchased several years ago for $85,000. For several years, she has been using the property to carry on a business as a sole proprietor of providing a high security parking lot with around the clock surveillance. On January 1, 2022, she gifts the property to her common-law partner Ellen Degen. At this time, the FMV of the land is $170,000. Marilyn does not opt out of the rollover of ITA 73(1). In 2022, Ellen continues the parking lot business, which results in business income of $8,500. On January 1, 2023, Ellen sells the parking lot for $190,000.

What are the income tax consequences of these events for Marilyn and Ellen for the 2022 and 2023 taxation years? If there are no income tax consequences for either individual in a given year, clearly state this in your answer.

Answer: The income tax consequences for Marilyn and Ellen in each of the two years would be as follows:

**2022 for Marilyn —** There would be no income tax consequences for Marilyn as a result of the ITA 73(1) rollover between spouses and common-law partners.

**2023 for Marilyn —** When Ellen sells the land, the taxable capital gain of $52,500

[(1/2)($190,000 - $85,000)] would be attributed to Marilyn to be included in her net income.

**2022 for Ellen —** The $8,500 in income from the parking lot business would be included in Ellen's net income since business income is not subject to attribution.

**2023 for Ellen —** The taxable capital gain of $52,500 is included in Marilyn's net income and not that of Ellen.

Type: ES

Topic: Transfer of capital property between spouses and common-law partners - ITA 73

117) During the current year, Geoff Lionel sells depreciable property to his spouse. The FMV of the property at the time of the sale was $200,000. The capital cost is $160,000, and the UCC $107,000. It is the only property in its CCA class. His spouse pays $200,000 from funds that she received as an inheritance. Describe the income tax consequences to Mr. Lionel and the tax cost of the property to his spouse as a result of the sale assuming that he does not opt out of the rollover of ITA 73(1). How would the results change if Mr. Lionel opts out of ITA 73(1)?

Answer: **ITA 73(1) Applies —** If Mr. Lionel does not opt out of ITA 73(1), the property will be deemed to have been disposed of for POD equal to the UCC of $107,000. As a result there would be no income tax consequences as a result of the non-arm's length disposition. The spouse would inherit the tax characteristics of the property with a capital cost of $160,000, deemed CCA of $53,000 and a UCC of $107,000. The $200,000 paid as POD would not change this result.

**Opt out of ITA 73(1) —** Mr. Lionel can opt out of ITA 73(1) by including the taxable capital gain of $20,000 [(1/2)(POD $200,000 - ACB $160,000)], as well as recapture of $53,000 ($160,000 - $107,000) in his income for the year of the disposition.

For capital gains purposes, the ACB to the spouse would be $200,000. However, for CCA and recapture purposes ITA 13(7)(e) would deem the capital cost to be $180,000 [$160,000 + (1/2)($200,000 - $160,000)].

Type: ES

Topic: Transfer of capital property between spouses and common-law partners - ITA 73

118) Mr. Norman Low owns a depreciable property that is used in a business he carries on as a sole proprietor. The capital cost of the property is $145,000 and the FMV is $132,000. It is the only property in its CCA class and the UCC is $63,500. Mr. Low sells the property to his father for $132,000. Mr. Low's father sells the property late in the same year for $135,000. Determine the income tax consequences to Mr. Low and his father as a result of these transactions.

Answer: **Mr. Low —** When Mr. Low sells the depreciable property for $132,000, the only income tax consequence will be recapture of $68,500 (lesser of capital cost of $145,000 and POD of $132,000 - UCC of $63,500). Since the POD does not exceed the ACB (e.g. the capital cost) there is no capital gain. In addition there can never be a capital loss on depreciable property.

**Mr. Low's Father —** Since the sales price of $132,000 is less than Mr. Low's capital cost of $145,000, ITA 13(7)(e) applies to preserve the potential for future recapture. should the FMV of the property increase. As a result Mr. Low's capital cost will be deemed to be equal to $145,000, with the $13,000 excess over the price of $132,000, deemed to be CCA claimed in previous years with the result that the UCC is $132,000. This means that when Mr. Low's father sells the property for $135,000, he will subtract the lesser of the POD of $135,000 and the deemed capital cost of $145,000 from the UCC of $132,000. The result will be recapture of $3,000 ($132,000 - $135,000).

Type: ES

Topic: Non-arm's length disposition of depreciable property

119) John Travis owns a depreciable property with a FMV of $295,000. Its capital cost is $350,000, the UCC $245,000 and it is the only property in the CCA class. John sells the property to his brother for $295,000. Later in the same year his brother sells the property for $315,000.

Determine the income tax consequences for Mr. Travis and his brother as a result of these transactions.

Answer: **John Travis —**When John sells the property for $295,000, the only income tax consequence are a recapture of $50,000 (lesser of capital cost of $350,000 and POD of $295,000 -UCC of $245,000). Since the POD does not exceed the ACB (e.g. the capital cost) there is no capital gain. In addition there can never be a capital loss on depreciable property.

**John's Brother —** Since the sales price of $295,000 is less than John's capital cost ITA 13(7)(e) will apply to deem the capital cost to the brother to be equal to John's capital cost, with the $55,000 ($350,000 - $295,000) difference treated as deemed CCA. This means that, when the brother sells the property for $315,000, the lesser of the POD of $315,000 and the deemed capital cost of $350,000 will be deducted from the UCC of $295,000. This will result in recapture of $20,000 ($295,000 - $315,000).

Type: ES

Topic: Non-arm's length disposition of depreciable property

120) Mrs. Betty Wong owns farm property consisting of (1) land with an ACB of $271,000 and a FMV of $365,000, and (2) a barn with a UCC of $90,000, a capital cost of $120,000, and a FMV of $110,000. The property is transferred to her 67 year old son in return for a payment of $300,000 for the land. No payment is made for the barn.

Determine the income tax consequences of this transfer, for both Mrs. Wong and her son.

Answer: With respect to the land, the $300,000 paid is between the floor of $271,000 for the ACB and the ceiling of $365,000 for the FMV. Therefore, the POD would be deemed to be $300,000, resulting in a taxable capital gain for Mrs. Wong of $14,500 [(1/2)($300,000 - $271,000)]. The $300,000 would also represent the ACB to her son.

With respect to the barn and in the absence of any payment (e.g. consideration), the transfer would be deemed to take place at the UCC of $90,000. There would be no income tax consequences for Mrs.Wong. With respect to her son, he would inherit the tax characteristics of the barn to his mother. As a result his capital cost is deemed to be $120,000, there would be deemed CCA of $30,000 with a resulting UCC of $90,000.

Type: ES

Topic: Inter vivos transfer of farm property to a child - ITA 73(3.1) and (4.1)

121) Martin Ho owns the following farm properties:

**Land** — The ACB is $435,000 and the FMV $584,000.

**Barn** — The barn has a UCC of $140,000, a capital cost of $165,000, and a FMV of $175,000.

The property is transferred to his son. The son pays $470,000 for the land. No payment is made for the barn. Determine the income tax consequences of the property transfers for both Martin and his son.

Answer: The $470,000 that was paid for the land is between the $435,000 ACB floor and the $584,000 FMV ceiling. This means that the POD is acceptable at $470,000, resulting in a taxable capital gain for Martin of $17,500 [(1/2)($470,000 - $435,000)]. The ACB to the son would also be $470,000.

As no consideration was paid for the barn, the transfer would take place at the UCC floor of $140,000. For Martin, there would be no income tax consequences. With respect to her son, he would inherit the tax characteristics of the barn to his father. As a result his capital cost is deemed to be $165,000, there would be deemed CCA of $25,000 with a resulting UCC of $140,000.

Type: ES

Topic: Inter vivos transfer of farm property to a child - ITA 73(3.1) and (4.1)

122) Mr. Norm Norten dies in July of 2022. At the time of his death, he owned two backhoes that were used in his construction business. His will leaves one backhoe to his spouse, Linda, with the other backhoe going to his daughter, Mary. The backhoes cost $180,000 each and each had a FMV at the time of Mr. Norten's death of $122,000. The UCC balance for the class that contains the backhoes is $148,000. What are the income tax consequences resulting from Mr. Norten's death with respect to the two backhoes? Assume that his spouse and daughter will continue to carry on the construction business. Your answer should include the capital cost and UCC for the backhoes to Linda and Mary.

Answer: With respect to the transfer to his spouse Linda, the transfer would occur at the proportional UCC of $74,000 (1/2)($148,000)]. As a result there would be no income tax consequences to Mr. Norten's. Linda would inherit the tax characteristics of the property such that the deemed capital cost would be $180,000, deemed CCA would be $106,0000 and the UCC would be $74,000.

The transfer to his daughter, Mary, would take place at the FMV of $122,000. This means that the POD for the two backhoes would be $196,000 ($74,000 + $122,000). As a result there would be recapture of $48,000 (lesser of capital costs of $360,000 and POD of $196,000 - UCC of $148,000) which would be included in Mr. Norten's income on his final income tax return. Mary would also retain her father's original capital cost of $180,000, with deemed CCA of $58,000 for a UCC of $122,000.

Type: ES

Topic: Death of an individual taxpayer - general rules

123) At the time of her death, Nancy Stein owned two depreciable properties. Her will leaves one of the properties to her spouse Mark and the other to her son Nick. Each of the properties cost $125,000 and, at the time of Nancy's death, they each have a FMV of $86,000. They are the only properties in their CCA class. The UCC at the time is $104,000. What are the income tax consequences resulting from Ms. Stein's death with respect to the two depreciable properties? Assume that his spouse and son will continue to carry on the business in which the depreciable properties were used. Your answer should include the capital cost and UCC for the properties to Mark and Nick.

Answer: The transfer to Nancy's spouse Mark would take place on a rollover basis at the proportional UCC of $52,000 [(1/2)($104,000)]. As a result there would be no income tax consequences to Nancy. Mark would inherit the tax characteristics of the property such that the deemed capital cost would be $125,000, deemed CCA would be $73,000 and the UCC would be $52,000.

The transfer to Nick would take place at the FMV of $86,000. This means that the POD for the two properties would be $138,000 ($52,000 + $86,000). As a result there would be recapture of $34,000 (lesser of total capital costs of $250,000 and POD of $138,000 - UCC of $104,000) being included in Nancy's income on her final income tax return. Nick would retain Nancy's capital cost of $125,000, with deemed CCA of $39,000 for a UCC of $86,000.

Type: ES

Topic: Death of an individual taxpayer - general rules

124) On December 28, 2021, Mrs. Charlene Blue gives her spouse shares in a public company with an ACB of $42,000 and a FMV of $38,000. In 2022, the shares pay eligible dividends of $3,600. On December 1, 2022, Mr. Blue sells the shares for $53,000. Assume that Mrs. Blue does not opt out of the rollover of ITA 73(1). What are the income tax consequences for Mr. and Mrs. Blue in each of 2021 and 2022? If you conclude that there are no income tax consequences for either individual in a given year state this clearly in your answer.

Answer: ITA 73(1) provides for a tax free rollover of capital property between spouses and common-law partners. The income tax consequences for Mr. and Mrs. Blue for 2021 and 2022 are as follows:

• 2021 for Mr. Blue - none. Shares are deemed to have been disposed of for POD of $42,000.

• 2021 for Mrs. Blue - none. Shares are deemed to have been acquired for $42,000.

• 2022 for Mr. Blue - none. Dividends received and capital gains realized with respect to these shares are not required to be included in Mr. Blue's income.

• 2022 for Mrs. Blue - Total income of $10,468. She would include in her income taxable dividends of $4,968 (138%)($3,600)] and a taxable capital gain of $5,500 [(1/2)(POD $53,000 - ACB $42,000)] both of which are attributed to her.

Type: ES

Topic: Attribution rules - the attribution of income

125) On December 31, 2021, Mr. Tom London gifts shares with an ACB of $21,500 and a FMV of $35,200 to his spouse, Barbara. On February 24, 2022, the shares pay eligible dividends of $2,060 and, on August 31, 2022, Barbara sells the shares for $39,800. Assume that Mr. London does not opt out of the rollover of ITA 73(1). What are the income tax consequences for Mr. and Mrs. London in each of 2021 and 2022? If you conclude that there are no income tax consequences for either individual in a given year state this clearly in your answer.

Answer: ITA 73(1) provides for a tax free rollover of capital property between spouses and common-law partners. The income tax consequences for Mr. and Mrs. London for 2021 and 2022 are as follows:

• 2021 for Mrs. London - none. Shares are deemed to have been disposed of for POD of $21,500.

• 2021 for Mr. London - none. Shares are deemed to have been acquired for $21,500.

• 2022 for Mrs. London - none. Dividends received and capital gains realized with respect to these shares are not required to be included in Barbara's income.

• 2022 for Mr. London - total income of $11,993. He would include in his income taxable dividends of $2,843 (138%)($2,060)] and a taxable capital gain of $9,150 [(1/2)(POD $39,800 - ACB 21,5000)] both of which are attributed to him.

Type: ES

Topic: Attribution rules - the attribution of income

126) In 2021, Charlotte Ramp gifts shares to her spouse Michael Ramp. The ACB of the shares is $23,000 and the FMV $35,000. Charlotte opts out of the rollover of ITA 73(1) in her income tax return for the year of the gift.

In 2022, the shares pay eligible dividends of $1,800. In late 2022, Michael sells the shares for $42,000. What are the income tax consequences to Charlotte and Michael in each of 2021 and 2022? If you conclude that there are no income tax consequences for either individual in a given year state this clearly in your answer.

Answer: The income tax consequences for Charlotte and Michael for each of 2021 and 2022 are as follows:

• 2021 for Charlotte - Opting out of ITA 73(1) causes the transaction to occur at FMV and as a result Charlotte will realize a taxable capital gain of $6,000 [(1/2)(POD $35,000 - ACB $23,000)].

• 2021 for Michael. Michael is deemed to have a cost of the shares equal to the FMV of $35,000.

• 2022 for Charlotte - Since Michael did not provide FMV consideration taxable dividends of $2,484 [(138%)($1,800)] will be attributed to Charlotte and required to be included in her income. In addition, the taxable capital gain of $3,500 [(1/2)(POD $42,000 - ACB $35,000)] will also be attributed to her.

• 2022 for Michael - none. The dividends and taxable capital gains are not included in his income.

Type: ES

Topic: Attribution rules - the attribution of income

127) On December 31, 2021, Mr. Tom London gifts shares to his 10 year old son Patrick. The shares have an ACB of $21,500 and a FMV of $35,200. On February 24, 2022, the shares pay eligible dividends of $2,060 and, on August 31, 2022, Patrick sells the shares for $39,800. What are the income tax consequences for Mr. London and Patrick in each of 2021 and 2022? If you conclude that there are no income tax consequences for either individual in a given year state this clearly in your answer.

Answer: There is no rollover provision with respect to a transfer of shares to a child. The income tax consequences for Tom and Patrick are as follows:

• 2021 for Patrick. He is deemed to have acquired the shares for their FMV of $35,200.

• 2021 for Tom - a taxable capital gain of $6,850 [(1/2)($35,200 - $21,500)].

• 2022 for Patrick - a taxable capital gain of $2,300 [(1/2)($39,800 - $35,200)].

• 2022 for Tom - taxable dividends of $2,843 [(138%)($2,060)] attributed to him.

Type: ES

Topic: Attribution rules - the attribution of income

128) In 2021, Charlotte Ramp gifts shares to her 12 year old daughter Vanessa. The shares have an ACB of $23,000 and, at the time of the gift, the FMV is $35,000.

In 2022, the shares pay eligible dividends of $1,800. Late in 2022, Vanessa sells the shares for $42,000. What are the income tax consequences to Charlotte and Vanessa for 2021 and 2022? If you conclude that there are no income tax consequences for either individual in a given year state this clearly in your answer.

Answer: There is no rollover provision with respect to a transfer of shares to a child. Given this, the income tax consequences for Charlotte and Vanessa for 2021 and 2022 are as follows:

• 2021 for Charlotte - a taxable capital gain of $6,000 [(1/2)($35,000 - $23,000)].

• 2022 for Vanessa. She is deemed to have acquired the shares for their FMV of $35,000.

• 2022 for Charlotte - Taxable dividends of $2,484 [(138%)($1,800)] will be attributed to Charlotte and included in her income.

• 2022 for Vanessa - a taxable capital gain of $3,500 [(1/2)($42,000 - $35,000)].

Type: ES

Topic: Attribution rules - the attribution of income

129) Mr. Randy Cleroux owns 1,000 shares of Lyton Industries Ltd. The ACB of the shares is $105 per share and the FMV $156 per share. Randy gifts 400 of the shares to his 12 year old son and the remaining 600 shares to his spouse.

The shares pay eligible dividends of $4.50 per share in 2022. On December 31, 2022, both his son and his spouse sell all of their gifted shares for $142 each. Assume that Mr. Cleroux does not opt out of the rollover of ITA 73(1). What are the income tax consequences of these transactions to Mr. Cleroux, his son, and his spouse, in each of 2021 and 2022. If you conclude that there are no income tax consequences for either individual in a given year state this clearly in your answer.

Answer: The income tax consequences are as follows:

**2021**

• Mr. Cleroux has a taxable capital gain of $10,200 [(1/2)(400)($156 - $105)] with respect to the shares gifted to his son and no capital gain or capital loss for the shares gifted to his spouse $ Nil [(1/2)(600)($105 - $105)].

• His son has no income tax consequences other than that he is considered to have acquired the shares for $156 each.

• His wife has no income tax consequences other than that she is considered to have acquired the shares for $105 each.

**2022**

• Mr. Cleroux has taxable dividends of $6,210 [(400 + 600)($4.50)(138%)] attributed to him from both his son and spouse.

• Mr. Cleroux has a taxable capital gain of $11,100 [(1/2)(600)($142 - $105)] attributed to him from his spouse.

• His son has an allowable capital loss of $2,800 [(1/2)(400)($142 - $156)].

• His wife has no income tax consequences.

Type: ES

Topic: Attribution rules - the attribution of income

130) On December 31, 2021, Mrs. Danielle Lafarge gifts corporate bonds to her spouse in exchange for a promissory note for $131,000. The ACB of the corporate bonds is $119,000 and their FMV is $131,000. The promissory note from her spouse is interest free and is on a demand basis (e.g. has no specific maturity date but can be called by the holder at any time). Mrs. Lafarge does not opt out of the ITA 73(1) rollover and therefore does not include any capital gain in her income for 2021 as a result of the gift.

The bonds pay interest to Mr. Lafarge in the amount of $5,600 in 2022. On October 1, 2022, immediately after an interest payment, Mr. Lafarge sells the bonds for $134,000. He uses $131,000 of the proceeds to pay off the promissory not owing to his spouse. What are the income tax consequences for Mr. and Mrs. Lafarge in each of 2021 and 2022?

Answer: Since Mrs. Lafarge does not elect out of ITA 73(1) there will be no income tax consequences for either Mr. or Mrs. Lafarge in 2021 other than that Mrs. Lafarge has disposed of capital property for POD equal to the ACB resulting in no capital gain or capital loss. In addition Mr. Lafarge will be deemed to have acquired the bonds for $119,000.

As the promissory note was interest free, all of the 2022 interest income on the bonds will be attributed to Mrs. Lafarge and included in her income. In addition to the interest of $5,600, there would also be a taxable capital gain of $7,500 [(1/2)($134,000 - $119,000)], which would also be attributed to Mrs. Lafarge to be included in her income. The total addition to Mrs. Lafarge's income for 2022 is $13,100 ($5,600 + $7,500). There will be no income tax consequences to Mr. Lafarge in 2022.

Type: ES

Topic: Attribution rules - use of loans and indebtedness

131) In December of 2021, John Barton gifts corporate bonds to his spouse Julie Barton, in exchange for a non-interest bearing promissory note for $210,000. The ACB of the bonds is $205,000 and their FMV is $210,000. John elects out of the rollover under ITA 73(1). One of the conditions of the promissory note is that the note must be repaid when the bonds are sold.

The bonds pay interest of $11,000 in 2022. Immediately after receiving the interest payment, Julie sells the bonds for $216,000. What are the income tax consequences for John and Julie in each of 2021 and 2022? If you conclude that there are no income tax consequences for either individual in a given year state this clearly in your answer.

Answer: The income tax consequences for John and Julie in 2021 and 2022 are as follows:

• 2021 for John - John will realize a taxable capital gain of $2,500 [(1/2)($210,000 - $205,000)].

• 2021 for Julie. She is deemed to have acquired the bonds for $210,000.

• 2022 for John - The $11,000 of interest income will be attributed to John and included in his income. In addition, he will have a taxable capital gain of $3,000 [(1/2)($216,000 - $210,000)] which is also attributed to him. While Julie provided John with FMV consideration, the fact that it was interest free meant that the attribution rules applied.

• 2022 for Julie - None.

Type: ES

Topic: Attribution rules - use of loans and indebtedness

132) On December 15, 2022, Jasmine Li dies in a motorcycle accident. She was 52 years old at the time of her death. She is survived only by her 23 year old son, Mark Li.

Jasmine had been a full time employee of Arbor Landscapers for many years. In recognition of her long time service, the employer pays a death benefit of $12,000. It will be paid in three annual instalments of $4,000, beginning on December 31, 2022. The payments will be made to her son, Mark.

**Required:** What effect will this death benefit have on the Mark's 2021, 2022 and 2023 net income?

Answer: ITA 56(1)(a)(iii) requires receipts of death benefits to be included in income in the year received. However, ITA 248 defines "death benefits" as excluding the first $10,000 from being included in income when paid to a surviving spouse, common-law partner or other persons. The $10,000 exclusion is given first to spouses and common-law partners before any other persons but in this case since there are no surviving spouse or common-law partner Mark can utilize the exclusion.

The payments will result in the following inclusions in Mark's net income:

• 2022 = Nil $4,000 received which is less than the $10,000 exclusion

• 2023 = Nil $8,000 received which is again less than the $10,000 exclusion

• 2024 = $2,000 ($4,000 + $4,000 + $4,000 - $10,000)

After the first $10,000 in death benefits is reached any subsequent death benefits received will represent a death benefit that will be required to be included in income.

The death benefit will have no effect on the final return of income for of Ms. Li.

Type: ES

Topic: Death benefits

133) Ms. Latricia Mode has worked for a small company in Edmonton for several years but realized that there were few advancement opportunities. As a result she resigned as of May 1, 2022 and began negotiations with a prospective employer in Winnipeg, She accepted the position at a starting salary of $4,000 per month to begin November 1, 2022.

After accepting the job, Latricia listed her Edmonton house for sale and flew to Winnipeg in order to find a new home. After 3 days she purchased a suitable house that would be available on October 28, 2022. In order to acquire furnishings, she remained in Winnipeg an additional 4 days after the purchase. Her expenses for this 7 day trip were as follows:

Air Fare (Edmonton - Winnipeg, Return) $ 586

Car Rental (7 Days at $45) 315

Hotel (7 Nights at $122) 854

Food (7 Days - Total) 455

Her house in Edmonton proved difficult to sell since there were many homes in her neighbourhood that were for sale. The one offer she received wanted possession at the end of the day on October 1, 2022. Reluctantly, she accepted the offer.

On October 1, 2022 Latricia supervised the packing and moving of her property. She then spent 2 days in an Edmonton hotel while she finalized arrangements for her departure. Expenses during these 2 days were as follows:

Hotel (2 Nights at $115) $230

Food (2 Days - Total) 26

On October 3, she leaves Edmonton by automobile, arriving in Winnipeg on October 7. The trip is 1,304 kilometers. As her new residence is not yet available, she lives in a hotel in Winnipeg until October 28. Her expenses for the period October 3 through 28 are as follows:

Gasoline during the travel to Winnipeg $ 297

Hotel (4 Nights en route+21 nights in Winnipeg at $135) 3,375

Food (25 Days - Total) 1,820

She received the following statements from her attorney:

Real estate commission - Edmonton Home $ 16,800

Legal Fees - Edmonton Home 1,800

Unpaid Property Taxes on Edmonton home to date of sale 1,350

Legal Fees - Winnipeg Home 1,950

On moving into the new residence, Latricia is required to pay the moving company a total of $2,850. This fee includes $725 for the 23 days of storage required because the Winnipeg home was not available when the furnishings arrived.

Latricia's only income for 2022 was employment income as follows:

Old employment (4 Months) $14,000

New employment (2 Months) 8,000

2022 Employment Income $22,000

Latricia's new employer did not provide any reimbursement for moving expenses. Latricia will use the simplified method of determining vehicle and food costs in calculating her moving expenses. Assume that the relevant flat rate for automobile kilometres is $0.55 and the flat rate for meals is $69 a day.

**Required:** Calculate the maximum allowable moving expenses that Latricia can deduct for 2022 and any amount that can be carried forward to a subsequent year.

Answer: Costs for food and lodging at or near an old or new residence are limited to a maximum period of 15 days. Only the cost of meals and lodging that were incurred in the 4 days after the purchase of the new residence would be eligible. The airfare, the cost of car rentals, and the cost of meals and lodging prior to the purchase of the new residence would not be deductible.

Latricia has a total of 27 eligible days: 4 days on her first trip to Winnipeg, the 2 days in Edmonton and 21 days during which she lived in a hotel on arriving in Winnipeg. Note that the 4 days spent travelling to Winnipeg are not included in the 15 day total.

As the hotel in Winnipeg in October is the most expensive, she will claim all 15 days using a $135 per night rate.

The allowable moving expenses are the following:

First Trip Hotel and Food N/A

Selling Costs of Edmonton home ($16,800 + $1,800) $18,600

Legal Fees for Winnipeg Home 1,950

Edmonton Hotel and Food N/A

Expenses of Travel to Winnipeg:

Alberta Vehicle Rate [(1,304 @ $0.55) $717

Hotel (4 Nights at $135) 540

Food (4 Days at $69 Flat Rate) 276 1,533

Moving Company Fees 2,850

Hotel and Food in Winnipeg

[15 Days/Nights at $204 ($135 + $69)] 3,060

Total Allowable Moving Expenses for 2022 $27,993

Employment Income In New Location ( 8,000)

Carry Forward of Moving Expenses $19,993

Notes:

1. The vehicle flat rate used is the one for the province from which the move began.

2. The property taxes on the Edmonton home would not be an allowable moving expense.

3. The storage costs are allowable moving expenses.

4. The unused moving expense balance of $19,993 can be carried forward to subsequent years to be claimed to the extent of income at the new work location.

Type: ES

Topic: Moving expenses - determining the deduction

134) Mr. Lawrence Harvey has been employed in Halifax for many years. In 2022 he decides on a change of location and asks his employer for a transfer to another location. Lawrence and his employer agree on a move to the company's main office in Ottawa. Lawrence will begin in the Otawa office at the beginning of December, 2022. Lawrence's salary is $8,000 per month.

Lawrence sells the home he owned in Halifax in October of 2022 for $435,000. As he was anxious to sell quickly, he realizes a loss on the sale of $52,000. Costs associated with the sale of his Halifax residence are as follows:

Real Estate Commissions $21,000

Legal Fees 800

Unpaid Property Taxes to date of sale 1,500

Cost of cleaning and minor repairs prior to sale 3,800

In October of 2022, Lawrence flies to Ottawa to find a new home. As he lives alone, he decides to lease a condominium. After 2 days, he finds a suitable property which he leases for $2,500 a month, beginning November 1. He remains in Ottawa for an additional 4 days in order to purchase furniture, appliances and other household effects. The expenses associated with the house hunting trip to Ottawa are:

Air Fare - Return $1,250

Rental Car Costs (6 Days) 420

Hotel (6 Nights at $200) 1,200

Food (6 Days - Total) 510

His employer has agreed to the following assistance towards the move:

• An $18,000 allowance to cover his general moving expenses.

• Compensation, to the extent of $30,000, for the loss on the sale of his house in Halifax.

All of these amounts will be paid by the Ottawa office in December of 2022.

On November 7, 2022 Lawrence leaves for Ottawa by air. Because the acquired furnishings and appliances have not been delivered yet, he has to live in an Ottawa hotel until November 25.

His expenses for the period November 7 through November 25, 2022 are as follows:

Air Fare - One Way $ 600

Hotel Room with kitchenette (19 Nights at $160) 3,040

Food (19 Days – Total including groceries for

cooking in Hotel) 660

He also hires a specialty moving company to transport his car to Ottawa which is delivered November 8. The cost for this service is $1,100.

A moving company takes care of moving Lawrence's personal belongings to Ottawa. The invoice for this service is $3,500. In addition, there is a $1,200 charge for storing these belongings until the Ottawa condominium becomes available.

Lawrence begins working in Ottawa on December 1, 2022. He would like to claim the maximum moving expense possible for 2022.

Lawrence will use the simplified method of determining food costs in calculating his moving expenses. Assume that the flat rate for meals is $69 per day.

**Required:** Determine the amount of Lawrence's maximum 2022 moving expenses. In addition, indicate the amount of any carry forward that is available for years subsequent to 2022.

Answer:

***Income at New Work Location***

As both the general moving allowance and the compensation for the housing loss were paid for by the Ottawa office, these would be considered employment income at the new work location. As a result, Lawrence's employment income at the new work is determined as follows:

General Moving Allowance $18,000

Compensation for Housing Loss on Halifax Home (Note 1) 7,500

Salary at New Work Location (1 Month at $8,000) 8,000

2022 Employment Income at New Work Location $33,500

**Note 1 -** Under ITA 6(20), one-half of any housing loss reimbursement in excess of $15,000 must be included in income. As the total reimbursement was $30,000, the inclusion would be $7,500 [(1/2)($30,000 - $15,000)].

***Deductible Moving Expenses***

Deductible moving expenses can be calculated as follows:

Real Estate Commission - Halifax Home $21,000

Legal Fees - Halifax Home 800

Other Halifax Home Costs (Not Deductible) Nil

Fee for transporting the car 1,100

Moving Company Costs ($3,500 + $1,200) 4,700

Costs of Lodging (Note 2):

House Hunting Trip (4 Nights at $200) 800

In Ottawa (11 Nights at $160) 1,760

Food - Maximum (15 Days at $69 Flat Rate) 1,035

Costs of Airfare on move to Ottawa 600

Moving Expense Claim for 2022 $31,795

**Note 2 -** As soon as the lease is signed (assuming that the person doesn't back out before the lease actually begins) the premises is a new residence. Costs of food and lodging at or near the old or new residence are limited to a maximum period of 15 days.

Lawrence has a total of 23 eligible days, 4 days after he signs a lease at $200 per day and 19 days at $160 per day prior to the delivery of his furnishings and appliances. Lawrence can claim the lodging costs of $800 [(4)($200)] for the 4 days after the lease is signed. The costs for the remaining 11 days total $1,760 [(11)($160)].

***Actual Deduction***

As the deductible costs are less than the income at the new location, they can be claimed in full reducing his 2022 net and taxable income. There would be no carry forward moving expenses.

Type: ES

Topic: Moving expenses - determining the deduction

135) Andrew Brock carries on a business as a sole proprietor which, in most years, has been very profitable, producing more than $200,000 if business income annually. However, in 2022, his gross sales decline to only $125,000 resulting in business income of $24,000. Andrew has no other income in 2022.

During a slow period, Andrew enrolled in an organizational behaviour course at a local university. The course lasted 7 weeks and required a minimum of 12 hours of work each week.

His spouse, Andrea Brock is an accountant for a large public company. In 2022, the details of her taxable income are as follows:

Gross Salary $ 92,300

RPP Contributions ( 4,000)

Fees for preparing income tax returns for friends and family 12,700

Taxable Capital Gains 8,500

Interest Income 7,200

Taxable Income $116,700

In January of 2022, as the result of a serious snowboarding accident, Andrea was hospitalized for a period of one week. Subsequent to her release, she was in a wheel chair for an additional 6 weeks. A doctor has certified that, during this 7 week period, Andrea was not capable of caring for her children.

In 2022, the couple paid child care expenses of $350 per week for 50 weeks.

**Required:** Determine the maximum amount that can be claimed by Mr. and Mrs. Brock for 2022 for child care expenses under the following assumptions:

A. They have two children, neither of whom qualify for the disability tax credit. The children are 2 and 12 years of age.

B. They have three children. The children are 2, 4, and 12 years of age. The 2 year old is sufficiently disabled that the child qualifies for the disability tax credit.

Answer:

***Andrea Brock***

Generally, the spouse with the lower income must claim the deduction for child care expenses. However, under certain circumstances, for example if this spouse is a full time student, the spouse with the higher income can claim the deduction for the period the spouse is a student. Under this provision, Andrea can claim the least of the following:

**Case A Case B**

Actual Payments [($350)(50)] $17,500 $17,500

2/3 of Earned Income [(2/3)($105,000)]\* $70,000 $70,000

Annual Expense Limit:

Case A ($5,000 + $8,000) $13,000

Case B ($5,000 + $8,000 + $11,000) $24,000

Periodic Expense Limit:

Case A [($125 + $200)(7)] $ 2,275

Case B [($125 + $200 + $275)(7)] $ 4,200

\*Andrea's Earned Income would be calculated as follows:

Gross Salary (No RPP Deduction) $ 92,300

Tax Preparation Fees (Business income) 12,700

Earned Income $105,000

In Case A, the least of these amounts is $2,275, the Periodic Expense Limit.

In Case B, the least of the amounts is $4,200, also the Periodic Expense Limit.

***Andrew Brock***

The calculations for Andrew are as follows:

**Case A Case B**

Actual Payments [($350)(50)] $17,500 $17,500

2/3 of Earned Income [(2/3)($24,000)]\* $16,000 $16,000

Annual Expense Limit:

Case A ($5,000 + $8,000) $13,000

Case B ($5,000 + $8,000 + $11,000) $24,000

\* It is business income of $24,000 and not gross revenues that is used to calculate earned income.

The least of the amounts in Case A is $13,000, the annual expense limit. Deducting from this the amount claimed by Andrea leaves a deduction for Andrew of $10,725 ($13,000 - $2,275).

In Case B, the least of the amounts is $16,000. Deducting from this the amount claimed by Andrea leaves a deduction for Andrew of $11,800 ($16,000 - $4,200).

As Andrea is the higher income spouse, the number of weeks she is unable to care for the children has no effect on the child care expense calculations.

***No Carry Forward***

In both Cases, the total deductible child care expenses is less than the actual amount paid. Any amounts paid in the year that are not deductible are lost and cannot be carried forward.

Type: ES

Topic: Child care expenses - determining the deduction ITA 63

136) Marco and Valentina Parker have been married 17 years. Unfortunately, during the first five months of 2022, Marco was unemployed. After much searching, he found employment as of June 1, 2022. His gross employment income for the remaining seven months of 2022 was $42,000. In addition, he also had interest income of $4,000 and received eligible dividends from public companies of $56,000 in 2022.

Valentina was employed throughout 2022, earning gross employment income of $81,000. RPP contributions of $3,800 were withheld by her employer. She had no other income in 2022.

In an effort to improve her management skills, Valentina attended a human resources course at a local university. The course lasted 14 weeks and required her to spend about 22 hours per week in classes and preparing assignments.

As both Marco and Valentina had busy schedules, the couple paid child care expenses of $17,500 ($350 a week for 50 weeks).

**Required:** Determine the maximum amount that can be claimed by each of Mr. and Mrs. Parker in 2022 for child care expenses under the following assumptions:

A. They have three children, none of whom qualify for the disability tax credit.

The children are 1, 3, and 4 years of age.

B. They have four children, none of whom qualify for the disability tax credit.

The children are 3, 5, 9, and 12 years of age.

Answer:

***Marco***

Child care expenses are normally claimed by the spouse with the lower income. While only Marco's employment income is considered earned income for purposes of determining the allowable child care expenses, his overall income is higher than Valentina's, making her the lower income spouse. However, during the 14 week period when Valentina is attending the human resources course, Marco is eligible to claim some of the child care expenses. The maximum deduction would be calculated as follows:

**Case A Case B**

Actual Payments [($350)(50)] $17,500 $17,500

2/3 of Earned Income\* [(2/3)($42,000)] $28,000 $28,000

Annual Expense Limit:

Case A [(3)($8,000)] $24,000

Case B [(2)($8,000) + (2)($5,000)] $26,000

Periodic Expense Limit:

Case A [(3)($200)(14 weeks)] $ 8,400

Case B {[(2)($200)(14 weeks)] + [(2)($125)(14 weeks)]} $ 9,100

\*Only Marco's employment income is relevant to this calculation.

In both Case A and Case B, the Periodic Expense Limit is the least of the four amounts. This provides for a deduction of $8,400 for Case A and $9,100 for Case B.

***Valentina***

The calculations for Valentina are as follows:

**Case A Case B**

Actual Payments [($350)(50) $17,500 $17,500

2/3 of Earned Income [(2/3)($81,000)]\* $54,000 $54,000

Annual Expense Limit:

Case A [(3)($8,000)] $24,000

Case B [(2)($8,000) + (2)($5,000)] $26,000

\*Earned Income is based on gross employment income, before the deduction of the RPP contributions.

The lowest amount in both Case A and Case B is the $17,500 of actual child care expenses. Given this, Valentina's deduction is $9,100 ($17,500 - $8,400) in Case A and $8,400 ($17,500 - $9,100) in Case B.

Type: ES

Topic: Child care expenses - determining the deduction ITA 63

137) Alex Barrett is 68 years old and his wife of many years, Laura Barrett, is 70 years old. They are both retired and they are both in good health.

They have no taxable income deductions and their respective incomes for 2022 are as follows:

**Alex Laura**

OAS Income $ 7,700 $ 7,700

CPP Income 11,000 3,000

RPP Income 52,000 Nil

Interest 2,000 500

2022 Net and Taxable Income $72,700 $11,200

The only tax credits that are available to Alex and Laura are the following:

• BPA

• spousal

• age

• pension income

**Required:** Determine the savings in federal income tax that would occur if Alex and Laura made maximum use of pension income splitting. Describe the factors that created the difference in the combined federal income tax payable.

Answer:

***2022 Federal Income Tax Payable - Without Pension Income Splitting***

**Laura**

Laura's federal income tax payable would be:

Income tax before credits [(15%)($11,200)] $1,680

BPA [(15%)($14,398) ( 2,160)

Age - Transferred to Alex Nil

Pension - No Qualifying Pension Income Nil

2022 Federal income tax payable - Laura Nil

**Alex**

Alex's federal income tax payable would be:

Tax on first $50,197 $ 7,530

Tax on next $22,503 ($72,700 - $50,197) at 20.5% 4,613

Total before credits $12,143

Credits:

BPA ($14,398)

Spousal ($14,398 - $11,200) ( 3,198)

Age [$7,898 - (15%)($72,700 - $39,826)] ( 2,967)

Transfer of Age from Laura ( 7,898)

Pension ( 2,000)

Total ($30,461)

Rate 15% ( 4,569)

Federal Income Tax Payable $ 7,574

OAS Clawback N/A

2021 Federal Income Tax Payable - Alex $ 7,574

As Alex's net income of $72,700 is less than the 2022 OAS clawback threshold of $81,761, there is no OAS clawback.

***2022 Federal Income Tax Payable - With Pension Income Splitting***

**Revised Taxable Incomes** — Neither income from OAS or CPP are eligible for pension income splitting. Given this, only Alex's $52,000 in income from an RPP can be split between the spouses.

With this $26,000 [(1/2)($52,000)] reallocation, Alex's net and taxable income will be $46,700 ($72,400 - $26,000) and Laura net and taxable income will be $37,200 ($11,200 + $26,000).

**Laura** — With pension income splitting, Laura's 2022 federal income tax payable would be:

Federal income tax before credits [(15%)($37,200)] $5,580

Credits:

BPA ($14,398)

Age [$7,898 - (15%)($37,200- $39,826) ( 7,898)

Pension ( 2,000)

Total ($24,296)

Rate 15% ( 3,644)

Federal Income Tax Payable $1,936

OAS Clawback N/A

2022 Federal Income Tax Payable - Laura $1,936

**Alex** — With pension income splitting, Alex's 2022 federal income tax payable would be:

Federal income tax before credits [(15%)($46,700)] $7,005

Credits:

BPA ($14,398)

Spousal ($14,398 - $37,200) N/A

Age [$7,898 - (15%)($46,700 - $39,826) ( 6,867)

Pension ( 2,000)

Total ($23,265)

Rate 15% ( 3,490)

Federal Income Tax Payable $3,515

OAS Clawback N/A

2022 Federal Income Tax Payable - Alex $3,515

***Comparison***

The results, with and without pension income splitting can be compared as follows:

Federal Tax Payable - No Pension Income Splitting $7,574

Federal Tax Payable - With Pension Income Splitting

($1,936 + $3,515) ( 5,451)

Savings resulting from Pension Income Splitting $2,123

***Factors Creating Federal Income Tax Payable Difference***

• Income tax savings since all of Alex's income is now taxed at 15% instead of partial ly taxed at 20.5%.

• Income tax savings from an increase in the value of Alex's age credit, while not eroding Laura's age credit.

• Income tax savings since Laura can now claim a pension income credit of $2,000.

• Increased combined federal income tax payable to a modest degree from the elimination of the small spousal credit.

Note that it might be possible to request that Alex's CPP benefits be split, especially as they have been married many years. The portion paid separately to Laura would be included in her income as if it was earned by her. The ability to split CPP is not part of the pension splitting rules of the ITA but is part of the CPP legislation.

Type: ES

Topic: Pension income splitting - ITA 60.03

138) Felipe and Martina Gomez are both 66 years of age. They are both in good health and have been married for over 30 years.

Over the years, Martina has accumulated a portfolio of investments in shares that pay regular dividends. In 2022, the investment paid eligible dividends of $35,000. Her only other income in 2022 was from OAS totaling $7,700.

In 2022 Felipe had rental income of $25,000, a withdrawal from his Registered Retirement Income Fund (RRIF) of $84,000 and income from OAS of $7,700.

Felipe and Martina are considering splitting Felipe's pension income from the RRIF withdrawal and have come to you for advice. To assist in deciding whether or not the pension income splitting joint election should be made they have asked you to provide information under each of two alternatives:

**Alternative 1** — No election is made for pension income splitting and Felipe does not apply for OAS since the amounts would be clawed back because of his high level of income.

**Alternative 2** — A joint election is made to split pension income with $42,000 of the RRIF pension to each spouse. Assume that Felipe had previously applied for OAS and received OAS income of $7,700 in 2022.

Neither Felipe or Martina have any taxable income deductions. The couple also has available medical expenses of $18,700 for 2022 that will be claimed by Felipe under each of the two alternatives. Neither Felipe nor Martina are eligible for any personal tax credits other than the:

• BPA

• age credit

• dividend tax credit

• pension income credit, and

• medical expenses tax credit.

**Required:**

A. Calculate the amount of net and taxable income for both Felipe and Martina under each of the two alternatives.

B. Based on the amounts determined in Part A, calculate the federal income tax payable or refund for both Felipe and Martina under each of the two alternatives. Provide a comparison of the amounts owing under the two alternatives.

C. Comment on the advantage/disadvantage of having the lower income spouse claim the medical expenses in both alternatives.

Answer:

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

**Felipe's Income Alternative 1 Alternative 2**

Rental Income $ 25,000 $ 25,000

Pension Income (RRIF Withdrawal) 84,000 84,000

Pension Income Split to Martina N/A ( 42,000)

OAS N/A 7,700

Net Income before OAS Clawback $109,000 $ 74,700

OAS Clawback (Notes 1 and 2) N/A N/A

2022 Net and Taxable Income $109,000 $ 74,700

**Martina's Income Alternative 1 Alternative 2**

OAS $ 7,700 $ 7,700

Eligible Dividends Received 35,000 35,000

Gross Up [(38%)($35,000)] 13,300 13,300

Pension Income from Felipe N/A 42,000

Net Income before OAS Clawback $56,000 $98,000

OAS Clawback (Note 3) Nil ( 2,436)

2022 Net and Taxable Income $56,000 $95,564

**Note 1 -** As Felipe did not apply for OAS in Alternative 1, there can be no clawback. Martina's income is below the 2022 OAS clawback threshold of $81,761 and therefore she is not subject to the clawback. In alternative 1 Felipe could have applied for OAS with the result that only part of the OAS payments would have been clawed back. The clawback would have been the lesser of $7,700 and $4,086 [(15%)($109,000 - $81,761)].

**Note 2 -** In Alternative 2, Felipe's net income is less than the 2022 OAS clawback income threshold of $81,761 so there is no clawback.

**Note 3 -** With pension income splitting, the 2022 OAS clawback for Martina would be the lesser of $7,700 and $2,436 [(15%)($98,000 - $81,761)].

***Part B - Alternative 1***

Without pension income splitting, Felipe's 2022 federal income tax payable would have been:

Tax on first $100,392 $17,820

Tax on next $8,608 ($109,000 - $100,392) at 26% 2,238

Total before Credits $20,058

Credits:

BPA ($14,398)

Age [$7,898 - (15%)($109,000 - $39,826)] Nil

Pension ( 2,000)

Medical Expenses\* ( 16,221)

Total ($32,619)

Rate 15% ( 4,893)

Federal Income Tax Payable $15,165

OAS Clawback N/A

2022 Federal income tax payable - Felipe $15,165

\*The credit for medical expenses would be calculated as follows:

Total $18,700

Lesser of:

• [(3%)($109,000)] = $3,270

• 2022 Threshold Amount = $2,479 ( 2,479)

Credit Base $16,221

Without pension income splitting ,Martina's 2022 federal income tax payable or refund would be:

Tax on first $50,197 $7,530

Tax on next $5,803 ($56,000 - $50,197) at 20.5% 1,190

Total before Credits $8,720

Credits:

BPA ($14,398)

Age [$7,898 - (15%)($56,000 - $39,826)] ( 5,337)

Total ($19,735)

Rate 15% ( 2,960)

Dividend Tax Credit [(6/11)($13,300)] ( 7,255)

2022 Federal income tax payable - No Clawback - Martina Nil

***Part B - Alternative 2***

With pension income splitting and the OAS payments, Felipe's 2022 federal income tax payable or refund would be:

Tax on first $50,197 $ 7,530

Tax on next $24,503 ($74,700 - $50,197) at 20.5% 5,023

Tax before Credits $12,553

Credits:

BPA ($14,398)

Age [$7,898 - (15%)($74,700 - $39,826)] ( 2,667)

Pension ( 2,000)

Medical Expenses\* ( 16,459)

Total ($35,524)

Rate 15% ( 5,329)

2022 Federal income tax payable - No Clawback - Felipe $ 7,224

\*The credit for medical expenses would be calculated as follows:

Total $18,700

Lesser of:

• [(3%)($74,700)] = $2,241

• 2022 Threshold Amount = $2,479 ( 2,241)

Credit Base $16,459

With pension income splitting , Martina's Amount Owing would be calculated as follows:

Tax on first $50,197 $ 7,530

Tax on next $45,367 ($95,564 - $50,197) at 20.5% 9,300

Tax before Credits $16,830

Credits:

BPA ($14,398)

Age [$7,898 - (15%)($95,564 - $39,826)] Nil

Pension ( 2,000)

Total ($16,398)

Rate 15% ( 2,460)

Dividend Tax Credit [(6/11)($13,300)] ( 7,255)

Federal Tax Payable $ 7,115

OAS Clawback 2,436

2022 Federal income tax payable - Martina $ 9,551

***Part B - Comparison of After Tax Cash***

This amount would be calculated as follows:

Amount Owing - Alternative 1 $15,165

Amount Owing - Alternative 2 ($7,224 + $9,551) ($16,775)

OAS Benefits Received - Alternative 2 7,700 ( 9,075)

Cash Advantage (Disadvantage) - Alternative 2 $ 6,090

In this situation, pension income splitting has resulted in a significant increase in the couple's combined cash retained. The most important factor in this improvement was the fact that Felipe was able to retain his OAS payments of $7,700.

We would note, however, that Alternative 2 may not be the best solution. Finding the optimum solution is not an intuitive process and would require the proper use of income tax software such as Intuit Profile.

***Part C - Medical Expenses Claimed by lower income spouse***

Martina is the lower income spouse under Alternative 1. While her low income would result in a larger base for the credit, her claim would be wasted since her other personal tax credits are sufficient to reduce her 2022 federal income tax payable to nil without the use of the medical expense credit.

Under Alternative 2, Felipe is the lower income spouse, so there would be no change in the solution.

Type: ES

Topic: Pension income splitting - ITA 60.03

139) Katrina Watts is 42 years old and has custody of her two children from a previous marriage. The son is 11 years old and the daughter is 9 years old. They are both in good health. She is currently married to very successful electrician who earns an annual income in excess of $300,000.

As her children are now in school most of the year, she has decided to pursue a career in environmental design. To this end, she has enrolled, on a full time basis, at the University of Calgary. Her studies began on January 1, 2022.

As she was very successful in her first term of studies, she was able to obtain summer employment as an assistant in an environment study in Cold Lake, Alberta. As this location was over 600 kilometres from Calgary, she and her children moved to a rented cottage in Cold Lake for the three month period of June 1, 2022 to September 1, 2022. As this was a temporary move, it was accomplished using a rented van at a total cost of $685.

During her summer in Cold Lake, Ms.Watts required someone to take care of her two children while she was at work. For this service, she paid a local retired teacher $125 per week for a period of 12 weeks.

She returned to Calgary on September 1, 2022 in order to resume her studies at the University of Calgary. Once again, the move was accomplished using a rented van. The total cost was $826. During the fall term, she found a part time job working in a Calgary architectural firm.

On January 1, 2022, Ms. Watts did not have a Tax Free Savings Account (TFSA). In October, 2022, she opened a TFSA and deposited $4,500. Her spouse also made a contribution to her TFSA of $5,000.

In 2022, Ms. Watts received the following amounts:

Employment income at Cold Lake 9,600

Employment income in Calgary (Part-time) 600

Scholarship Granted by University for September 2022 Semester 4,000

Eligible Dividends 3,500

Child Support 10,500

Inheritance from Aunt 30,000

TFSA Withdrawal 8,000

In November, 2022 Ms.Watts establishes RESPs for each of her two children. She contributes $1,000 to each of the plans.

**Required:**

A. Determine Ms. Watts minimum 2022 net income. Provide reasons for omitting any amounts that you have not included as part of the net income calculations. Also, indicate any amounts that can be carried forward to future years.

B. Provide any advice that would assist her in future planning with respect to the RESPs that have been established for her children.

Answer:

***Part A - Net Income***

The minimum 2022 net income is calculated as follows:

Employment from Cold Lake $9,600

Moving expenses to Cold Lake (Note 1) ( 685) 8,915

Scholarship received $4,000

Exempt Portion of Scholarship (100%) ( 4,000) Nil

Child Care Expenses (Note 2) ( 1,500)

Employment income in Calgary $600

Moving expenses to Calgary (Note 1) ( 600) Nil

Eligible Dividends 3,500

Gross Up [(38%)($3,500)] 1,330

Child Support (Note 3) Nil

Inheritance (Not income) Nil

TFSA Contributions (Note 4) Nil

TFSA Withdrawal (Note 4) Nil

RESP Contributions (Note 5) Nil

2022 Net Income $12,245

Note 1 - The cost of the move to Cold Lake is deductible to the extent of the employment earned at Cold Lake given that it is more than 40 km from Calgary. The moving expenses related to the move back to Calgary can be claimed to the extent of her employment income at that location. The remaining $226 ($826 - $600) can be carried forward to apply against any eligible income that is earned in Calgary in years subsequent to 2022.

**Note 2 -** As she is the lower income spouse, Ms. Watts will deduct child care expenses. The deduction is the least of the following amounts:

• The amount paid = $1,500 [(12)($125)].

• The annual child care expense amount = $10,000 [(2)($5,000)].

• Two-thirds of earned income = $6,800 [(2/3)($9,600 + $600)].

**Note 3 -** Child support payments are not deductible to the payor and are not included in the income of the recipient.

**Note 4 -** There are no income tax consequences of making contributions to and withdrawals from TFSAs. In addition the attribution rules do not apply to TFSA contribution made by a spouse or common-law partner to the TFSA of the other spouse or common-law partner.

**Note 5 -** Contributions to RESPs are not deductible.

***Part B - Registered Education Savings Plan***

While contributions to RESPs are not deductible, earnings within the RESP trust accumulate on a tax free basis since an RESP trust is exempt from income tax under Part I. Further, when the earnings are withdrawn for qualifying education they are likely to be included in the income of plan beneficiaries who are in the lowest income tax bracket. This arrangement can involve a considerable savings in income tax.

In addition, for contributions of up to $2,500 per year, the federal government will make additional contributions under the Canada Education Savings Grants (CESG) program. These contributions will add a minimum of $500 to the first $2,500 of annual contributions. Note, however, that given her spouse's level of income, the family will not be eligible for the Canada Learning Bonds program which is directed at low income families.

Given the potential income tax savings, as well as the federal government contributions under the CESG program, Ms. Watts and her spouse should consider contributing at least $2,500 per year to each of the children's RESPs.

Since her children have not had RESPs before, they have CESG contribution room carried forward. Ms. Watts should determine the contribution schedule required to maximize the CESGs for both children so that she can plan to take advantage of the CESG contribution room if there are sufficient funds available.

Type: ES

Topic: Other income and other deductions including RESP

140) Erik Gladstone owns 10,000 shares of Publix Inc., a Canadian public corporation. The shares were purchased at a cost, including brokerage fees, of $125,000. The current FMV of the shares is $175,000.

Erik plans on disposing of the shares. The following four Cases make different assumptions as to the identity of the purchaser or recipient of a gift of the shares, the circumstances of the sale or gift, and the POD. In each Case, assume that the purchaser or recipient of a gift immediately resells the shares for their FMV of $175,000.

**Case 1 -** Erik needs cash to purchase a condominium and he sells the shares to an arm's length person for $175,000.

**Case 2 -** Erik gifts the shares to his 16 year old daughter. She sells the shares and uses the proceeds to finance her continued education abroad.

**Case 3 -** Erik sells the shares to his impoverished sister for $100,000 to create a loss as he has realized significant capital gains in the current year. Since his sister has no income, she will be subject to federal income tax on the taxable capital gain from the resale at the minimum federal income tax rate of 15%.

**Case 4 - Erik's** mother has realized a large amount of capital gains during the current year. To help his mother (and because he could really use the cash), Erik sells the shares to her for $250,000. She plans to use the loss on the immediate resale to offset her capital gains.

**Required:** For each of the four Cases, advise Erik of the income tax consequences to him of the sale of all of the shares and indicate the income tax consequences to the purchaser of the shares when they are resold. In addition, in Cases 3 and 4, indicate whether the stated income tax planning objective was successful.

Answer:

***Case 1 - An arm's length Sale***

The result for Erik would be as follows:

POD $175,000

ACB ( 125,000)

Capital Gain $ 50,000

Inclusion Rate 1/2

Taxable Capital Gain $ 25,000

The income tax consequences to the arm's length purchaser on an immediate resale would be:

POD $175,000

ACB ( 175,000)

Capital Gain Nil

***Case 2 - Gift to Daughter***

The result for Erik would be as follows:

Deemed POD - ITA 69(1)(b) $175,000

ACB ( 125,000)

Capital Gain $ 50,000

Inclusion Rate 1/2

Taxable Capital Gain - Erik $ 25,000

With respect to the subsequent sale by Erik's daughter, the results for her would be as follows:

POD $175,000

ACB (Deemed cost as a result of the gift) ( 175,000)

Capital Gain - Daughter Nil

The fact that his daughter is younger than 18 years of age does not alter the result.

***Case 3 - Non-arm's length Sale to Sister (less than FMV)***

The income tax consequences to Erik would be as follows:

Deemed POD - ITA 69(1)(b) $175,000

ACB ( 125,000)

Capital Gain $ 50,000

Inclusion Rate 1/2

Taxable Capital Gain - Erik $ 25,000

With respect to the subsequent sale by Erik's sister, the results for her would be as follows:

POD (Actual) $175,000

ACB - Amount Paid ( 100,000)

Capital Gain $ 75,000

Inclusion Rate 1/2

Taxable Capital Gain - Sister $ 37,500

With respect to the income tax planning objective of creating a loss, this goal has not been successful because ITA 69(1) adjusted the POD to Erik in an amount equal to the FMV of the shares without adjusting the cost to his sister. The shares have appreciated in value by $50,000 since Erik purchased them but the total gain included in income is $125,000. In effect there has been excessive income tax as a result of the way in which this transaction was structured.

***Case 4 - Non-arm's length Sale to Mother (greater than FMV)***

The result for Erik would be as follows:

POD (Actual) $250,000

ACB ( 125,000)

Capital Gain $125,000

Inclusion Rate 1/2

Taxable Capital Gain - Erik $ 62,500

With respect to the subsequent sale by Erik's mother, the results for her would be:

POD (Actual) $175,000

ACB - ITA 69(1)(a) limited to FMV ( 175,000)

Capital gain/Loss Nil

The income tax planning objective was not successful since ITA 69(1) adjusts only the excessive cost of $250,000 of the mother to FMV of $175,000. As a result the $50,000 appreciation in value that would have been included in income in an arm's length transaction set at $175,000 is penalized in such a manner that Erik is deemed to realize a gain of $125,000 and his mother realizes no capital loss.

Type: ES

Topic: Non-arm's length transactions - ITA 69

141) In 2022, Joey Zieman sells three depreciable properties. In each case, the property sold is the last one in its class.

**Depreciable Property A -** The capital cost of this property is $123,400 and, at January 1, 2022, the UCC is $87,323. The property is sold to Joey's father for its FMV of $53,200.

**Depreciable Property B -** The capital cost of this property is $87,600 and, at January 1, 2022, the UCC is $62,246. The property is sold to Joey's mother for its FMV of $92,500.

**Depreciable Property C -** The capital cost of this property is $163,400 and, at January 1, 2022, the UCC is $93,472. The property is sold to Joey's sister for its FMV of $110,000.

**Required:** For each of the three properties, determine the income tax consequences of a sale by Joey to his family members. In addition, identify the income tax characteristics of each property to the family members (e.g. capital cost, UCC and deemed CCA if any).

Answer:

***Depreciable Property A***

**Note To Instructor:** The terminal loss on depreciable property A would be disallowed under ITA 13(21.2). This provision is discussed in Chapter 16, Rollovers Under Section 85. At this point in the textbook, a student should not be expected to be aware of the disallowed terminal loss.

The results of the non-arm's length disposition for Joey can be calculated as follows:

UCC $87,323

Deduct lesser of:

POD = $53,200

Capital Cost = $123,400 ( 53,200)

Positive UCC Balance No property = Terminal Loss $34,123

As there is a positive balance in the UCC class and no property remaining in the class, the $34,123 is a terminal loss that is subtracted in the determination of either 2022 business or 2022 property income depending upon the source of income to which it relates.

In this case, because it is a non-arm's length transaction and the FMV of the property is less than its capital cost, ITA 13(7)(e) deems the purchaser's capital cost to be equal to the seller's capital cost of $123,400. This capital cost will be used for purposes of determining any subsequent recapture on a future disposition. For Joey's father, the UCC balance will equal the sale price of $53,200 with the $70,200 ($123,400 - $53,200) difference between his deemed capital cost and the transfer price of $53,200 considered to be deemed CCA.

***Depreciable Property B***

The results of the non-arm's length disposition for Joey can be calculated as follows:

UCC $62,246

Deduct lesser of:

POD = $92,500

Capital Cost = $87,600 ( 87,600)

Negative UCC Balance = Recapture ($25,354)

POD $92,500

ACB ( 87,600)

Capital Gain $ 4,900

Inclusion Rate 1/2

Taxable Capital Gain $ 2,450

Joey's 2022 net income will increase by $27,804 ($25,354 + $2,450).

For his mother, her ACB will be the transfer price of $92,500. However, because it is a non-arm's length transaction and the FMV of the property of $92,500 exceeded its original capital cost of $87,600, ITA 13(7)(e) will limit the capital cost for CCA and recapture purposes to:

[$87,600 + (1/2)($92,500 - $87,600)] = $90,050

***Depreciable Property C***

The results of the non-arm's length disposition for Joey can be calculated as follows:

UCC $93,472

Deduct lesser of:

POD = $110,000

Capital Cost = $163,400 ( 110,000)

Negative UCC Balance = Recapture ($ 16,528)

Joey's 2022 net income will increase by $16,528.

In this case, because it is a non-arm's length transaction and the FMV of the property is less than its capital cost, ITA 13(7)(e) deems the purchaser's capital cost to be $163,400 which is equal to the seller's capital cost. This capital cost will be used for purposes of determining any subsequent recapture.

The $53,400 ($163,400 - $110,000) difference between the deemed capital cost and the transfer price will be considered deemed CCA. The resulting UCC balance of $110,000 will be used by Joey's sister for purposes of calculating future CCA.

Type: ES

Topic: Non-arm's length disposition of depreciable property

142) Kacy Conner is 67 years old and has been married to Jason Conner for over 30 years. They have one son, Karson who is a very successful organic farmer.

On January 1, 2022, Kacy owns the following properties:

**Farm Land** — Kacy owns farm land with a cost of $340,000 and a current FMV of $525,000. The land is farmed by Kacy's son Karson.

**Conner Ltd.** — Conner Ltd. is a Canadian controlled private company (CCPC). Kacy started this Company several years ago with an investment of $210,000. She owns all of the voting shares. The FMV of these shares are $450,000. Any capital gains on the shares would not be eligible for the capital gains deduction.

**Sololex Inc.** — Kacy owns 4,000 shares of Sololex Inc., a Canadian public company. These shares were purchased for $8.00 each and are currently trading at $8.50 each.

**Rental Property** — Kacy owns a rental property that was purchased for $850,000 with $150,000 paid for the land and $700,000 for the building. The rental property has been appraised at a FMV of $975,000, with $175,000 attributable to the land and $800,000 to the building. The UCC of the building is $632,218.

**Required:** Assuming that no special elections are filed and that the normal disposition rules apply, explain the income tax consequences to Kacy or her estate in each of the following three Cases:

A. Kacy dies on January 4, 2022, leaving all of her property to her adult son Karson.

B. Kacy dies on January 4, 2022, leaving all of her property to her spouse Jason.

C. Kacy severs her Canadian residency and emigrates from Canada on January 4, 2022.

Answer:

***Case A - Non-arm's length disposition to Adult Child***

With the exception of the farm property, the transfers to Karson would be treated as deemed dispositions at FMV. There is, however, a rollover provision for the transfer of a farm property to a child. The income tax consequences of these transfers to Kacy would be as follows:

**Farm Land** — In the case of farm land that is being used by the individual taxpayer or a member of their family, ITA 70(9.01) permits a income tax free disposition to a child. The deemed POD would be equal to Kacy's ACB of $340,000, resulting in no income tax consequences to the estate. Karson, would be deemed to have purchased the land for the same $340,000.

**Shares** — For both the shares of Conner Ltd. and Sololex Inc., there would again be a deemed disposition at FMV. The income tax consequences to Kacy would be as follows:

**Conner Ltd. Sololex Inc.**

Deemed POD $450,000 $34,000

ACB ( 210,000) ( 32,000)

Capital Gain $240,000 $ 2,000

Inclusion Rate 1/2 1/2

Taxable Capital Gain $120,000 $ 1,000

**Rental Property** — The rental property would be deemed to be disposed of at FMV resulting in the following income tax consequences to Kacy:

UCC $632,218

Deduct Disposition - lesser of:

• Capital Cost = $700,000

• Deemed POD = $800,000 ( 700,000)

Negative Closing UCC = Recapture ($ 67,782)

**Land Building**

Deemed POD $175,000 $800,000

ACBV ( 150,000) ( 700,000)

Capital Gain $ 25,000 $100,000

Inclusion Rate 1/2 1/2

Taxable Capital Gain $ 12,500 $ 50,000

In this case the total amount to be added to Kacy's 2022 income would be $251,282 ($120,000 + $1,000 + $67,782 + $12,500 + $50,000).

***Case B - Non-arm's length disposition to Spouse***

While the transfers to Jason would be considered deemed dispositions immediately prior to death, ITA 70(6) provides that the deemed POD will be equal to the ACB of non-depreciable capital property and the UCC of depreciable property. This means that there would be no immediate income tax consequences associated with the transfers to Kacy's spouse Jason. Note, however, that on a subsequent disposition by Jason, the tax attributes of the inherited properties would be the same as those of Kacy at the time of her death.

***Case C - Emigration from Canada***

With respect to the emigration from Canada, ITA 128.1(4)(b) indicates that when a taxpayer ceases to be a resident of Canada, they are deemed to have disposed of all of their property except real property, property of a business carried on in Canada by an individual, and excluded personal property [a variety of items specified in ITA 128.1(9)]. This means that, of the property owned by Kacy, the rental property and the farm land (real property) would be exempt.

Given this, there would be a deemed disposition of both the Conner Ltd. shares and the Sololex Inc. shares for POD equal to their FMV at the time that residency was severed (e.g. at emigration). The results would be as follows:

**Conner Ltd. Sololex Inc.**

Deemed POD $450,000 $34,000

ACB ( 210,000) ( 32,000)

Capital Gain $240,000 $ 2,000

Inclusion Rate 1/2 1/2

Taxable Capital Gain $120,000 $ 1,000

The total increase in Kacy's 2022 net income would be $121,000 ($120,000 + $1,000).

Type: ES

Topic: Death - deemed dispositions and emigration

143) Mr. Cheever is 66 years of age and his spouse, Doreen, is 56. They have one daughter, Mary, who is 32 years of age. On July 1 of the current year, Mr. Cheever owns the following properties:

**Rental Property** — Mr. Cheever owns a rental property that was purchased for $550,000 ($100,000 of this amount represents the estimated value of the Land on which the building is situated and $450,000 is for the building). On July 1 of the current year, its UCC is $270,000 and the FMV is $970,000 (the estimated value of the land is unchanged at $100,000 and the building valued at $870,000).

**Brazeway Dynamics** — Mr. Cheever owns 2,500 shares of Brazeway Dynamics, a Canadian public company. These shares have a cost of $275,000 and a current FMV of $425,000. Mr. Cheever has never owned more than a fraction of the outstanding shares of the Company.

**Farm Land** — Mr. Cheever owns farm land with a cost of $525,000 and a current FMV of $750,000. The land is farmed on a full time basis by Mr. Cheever's daughter, Mary.

**Cheever Inc.** — Mr. Cheever owns all of the voting shares of Cheever Inc., a Canadian controlled private corporation (CCPC). The Company was established with an investment of $155,000 and the current FMV is $227,000. Any capital gain on the disposition of the Cheever Inc. shares would not be eligible for the capital gains deduction.

**Required:** Assuming that no special elections are filed and that the normal disposition rules apply, explain the income tax consequences to Mr. Cheever for the current year, in each of the following Cases:

A. Mr. Cheever dies on July 1 of the current year, leaving all of his property to his spouse, Doreen.

B. Mr. Cheever dies on July 1 of the current year, leaving all of his property to his daughter, Mary.

C. Mr. Cheever severs his Canadian residency and emigrates from Canada on July 1 of the current year.

Answer:

***Case A - Non-arm's length disposition to Spouse***

When an individual dies, there is a deemed disposition of all of their property immediately prior to the time of death. If the deemed disposition is to a spouse, the deemed POD is set at the ACB of non-depreciable capital property and at the proportional UCC of depreciable property. This would mean that there would be no immediate income tax consequences associated with Mr. Cheever's death in this Case, since all of the property is transferred to the spouse. Note, however, that on a subsequent disposition by Doreen, the tax attributes of the inherited properties would be the same as those of Mr. Cheever at the time of his death.

***Case B - Non-arm's length disposition to Adult Child***

This Case is more complex and would follow the general rules of deemed dispositions that would apply to transfers made at death to anyone other than a spouse or common-law partner. Such transfers, unless they involve farm property, will be deemed to have been disposed of for POD equal to the FMV at the time of death.

**Farm Land** — In the case of farm land that is being used by the individual or a member of their family, ITA 70(9.01) permits a a disposition on a rollover basis of such property to a child. The deemed POD would be set at the ACB to Mr. Cheever at the time of his death, resulting in no income tax consequences. Mr. Cheever's daughter, Mary, would be considered to have purchased the land for an amount equal to the same ACB to Mr. Cheever.

**Rental Property** — In the case of the rental property, the income tax consequences to Mr. Cheever would be as follows:

**Land Building**

Deemed POD $100,000 $870,000

ACB ( 100,000) ( 450,000)

Capital Gain Nil $420,000

Inclusion Rate N/A 1/2

Taxable Capital Gain Nil $210,000

UCC $270,000

Deduct Disposition - lesser of:

• Capital Cost = $450,000

• Deemed POD= $870,000 ( 450,000)

Negative UCC Balance = Recapture ($180,000)

**Shares** - In the case of the Brazeway Dynamics shares and the shares of Cheever Inc., the deemed POD would equal the FMV at the time of death and the income tax consequences to Mr. Cheever would be:

**Brazeway Dynamics Cheever Inc.**

Deemed POD $425,000 $227,000

ACB ( 275,000) ( 155,000)

Capital Gain $150,000 $ 72,000

Inclusion Rate 1/2 1/2

Taxable Capital Gain $ 75,000 $ 36,000

Mr. Cheever's net income will increase by $501,000 ($210,000 + $180,000 + $75,000 + $36,000).

***Case C - Emigration from Canada***

With respect to the emigration from Canada in which residency is severed, ITA 128.1(4)(b) indicates that an individual is deemed to have disposed of all property except real property, property of a business carried on in Canada, and excluded personal property [a variety of items specified in ITA 128.1(9)]. As the farm land and the rental property are real property, there would be no deemed disposition of these properties.

There would, however, be a deemed disposition of both the Brazeway Dynamics shares and the Cheever Inc. shares. The results would be as follows:

**Brazeway Dynamics Cheever Inc.**

Deemed POD $425,000 $227,000

ACB ( 275,000) ( 155,000)

Capital Gain $150,000 $ 72,000

Inclusion Rate 1/2 1/2

Taxable Capital Gain $ 75,000 $ 36,000

The result is an increase in net income of $111,000 ($75,000 + 36,000).

Type: ES

Topic: Death - deemed dispositions and emigration

144) Valerie Nixon is a partner in a national CPA firm. Her annual income normally exceeds $350,000. She is married to Betty Blake. Valerie and Betty have two adopted children. Their son, Richard is 14 years old while their daughter, Patricia is 19 years old. To this point in time, Valerie has not gifted or sold property to any of the members of her immediate family.

With her high level of income, Valerie has accumulated a significant amount of investments. Her current portfolio includes the following:

• Shares in a Canadian controlled private company (CCPC), **Nixon Distributors**. Valerie incorporated the company many years ago capitalizing it with an equity investment of $823,000 in which she received all of the voting shares. Valerie is the sole shareholder. It is estimated that the shares are currently worth $1,800,000. Any capital gain on a disposition of these shares would not be eligible for the capital gains deduction.

• Shares of **Royal Bank**. The 15,000 shares that she owns have a FMV of $1,230,000 and an ACB of $1,050,000.

• As she grew up in rural Ontario, Valerie has always had a love of farming. This is reflected in ownership of **Farm Land** that she purchased several years ago for $650,000. The current FMV of this land is $960,000. Betty operates the farm on a full time basis to grow organic vegetables.

• A 10 unit residential **Rental Property** that she purchased for $1,300,000. At the time of the purchase, the value of the land was estimated to be $400,000 and the building $900,000. At January 1 of the current year, the UCC of the property was $749,124. A recent appraisal indicates that the FMV of the land has increased to $600,000 and the building to $1,300,000.

Valerie has been diagnosed with an incurable disease, with her doctor indicating that she has less than two years to live. Given this, she would like to begin gifting her properties to Betty, Richard, and Patricia. In the case of gifts to Betty, she will not opt out of the spousal rollover of ITA 73(1). Assume that the recipient of the gift sells the property prior to Valerie's death.

**Required:** Valerie will gift the investments to her immediate family members. Determine the income tax consequences to Valerie if all of the properties are gifted to each family member at the exclusion of other family members. Your answer should include the different results related to the three possible gift recipients.

1. The income tax consequences to Valerie at the time of the gift.

2. The tax cost of the properties to the recipient of the gift.

3. The tax treatment of any income on the property subsequent to the gift and before the property is sold.

4. The income tax consequences that would result from a subsequent sale of the gifted property, (prior to Valerie's death), at a price that is $100,000 more than the FMV at the time of the gift. In the case of the rental property, assume that the extra $100,000 is allocated to the building, with no change in the value of the land. Also in the case of the rental property, assume that the recipient of the gift does not claim any CCA prior to a sale.

Answer:

***Part 1 - Income Tax Consequences to Valerie of gifting the properties***

The income tax consequences associated with gifting each property would be as follows:

**Nixon Distributors Shares** — If this property is gifted to Betty and Valerie does not elect out of ITA 73(1), there would be no income tax consequences at the time of the gift since the POD to Valerie and the cost to Betty will equal the tax cost of property gifted resulting in no immediate income tax consequences.

If this property is gifted to either of her children, there would be a taxable capital gain calculated as follows:

POD $1,800,000

ACB ( 823,000)

Capital Gain $ 977,000

Inclusion Rate 1/2

Taxable Capital Gain $ 488,500

**Royal Bank Shares** — If these shares are gifted to Betty and Valerie does not elect out of ITA 73(1), the results are the same as those for the Nixon Distributors shares.

If this property is gifted to either of her children, there would be a taxable capital gain calculated as follows:

POD $1,230,000

ACB ( 1,050,000)

Capital Gain $ 180,000

Inclusion Rate 1/2

Taxable Capital Gain $ 90,000

**Farm Land** — If this property is gifted to Betty and Valerie does not elect out of ITA 73(1), the results will be the same as the Nixon Distributors shares.

In addition, ITA 73(3) permits the transfer of farm property used by the individual or her family to be transferred to a child on a rollover basis. This means that would be no immediate income tax consequences for Valerie at the time of the gift to either child.

**Rental Property** — If this property is gifted to Betty and Valerie does not elect out of ITA 73(1), there would be no immediate income tax consequences at the time of the gift. The results are the same as those for the Nixon Distributors shares.

If this property is gifted to either of her children, there would be a disposition at FMV resulting in the following income tax consequences to Valerie:

**Land Building**

POD $600,000 $1,300,000

ACB ( 400,000) ( 900,000)

Capital Gain $200,000 $ 400,000

Inclusion Rate 1/2 1/2

Taxable Capital Gain $100,000 $ 200,000

Capital Cost of Building $900,000

UCC ( 749,124)

Recapture $150,876

***Part 2 - Tax Cost of gifted property to the Recipient***

The tax costs for each property would be as follows:

**Nixon Distributors Shares** — As Valerie did not elect out of ITA 73(1), the tax cost of these shares to Betty would be Valerie's tax cost (ACB) of $823,000. For either child, the tax cost (ACB) would be the $1,800,000 FMV at the time of the gift.

**Royal Bank Shares** — As Valerie did not elect out of ITA 73(1), the tax cost of these shares to Betty would be Valerie's tax cost (ACB) of $1,050,000. For either child, the tax cost (ACB) would be the $1,230,000 FMV at the time of the gift.

**Farm Land** — With the use of ITA 73(1) and ITA 73(3), no gain would be recognized if the land was gifted to any of the three possible recipients. As a result each recipient's tax cost (ACB) would be equal to Valerie's ACB of $650,000.

**Rental Property** — As Valerie did not elect out of ITA 73(1), the tax costs to Betty would be Valerie's tax costs. This means $400,000 ACB for the land and $900,000 ACB for the building. The building's UCC for Betty is equal to Valerie's UCC of $749,124.

For either child, the ACB of the land would be $600,000 and the capital cost of the building would be $1,300,000. However, for CCA purposes, ITA 13(7)(e) would limit the UCC to $1,100,000, calculated as follows:

Valerie's capital cost of the Building $ 900,000

FMV when gifted $1,300,000

Valerie's capital cost ( 900,000)

Excess $ 400,000

Fraction 1/2 200,000

Deemed Capital Cost for CCA purposes $1,100,000

***Part 3 - Income earned subsequent to the Gift***

The required information for each property would be as follows:

**Nixon Distributors Shares** — If the shares are gifted to Betty, any dividend income she receives would be attributed to Valerie and not included in her income. This would also be the situation if she gifts the shares to her 14 year old son, Richard. However, as her daughter Patricia is over 18, income would not be attributed to her if she is the recipient of the shares. Depending on the circumstances the TOSI may apply to dividends received by the adult child.

**Royal Bank Shares** — The results are identical to the results of the Nixon Distributor shares with the exception that the TOSI would not apply to a gift of these shares to the adult child.

**Farm Land** — Farm income is generally considered business income rather than property income. As there is no attribution of business income, any farm income that is earned subsequent to the gift will not be attributed to Valerie nor will the TOSI rules apply.

**Rental Property** — If the gift is to either Betty or Richard, any rental income earned subsequent to the gift will be attributed back to Valerie. If the gift is to her 19 year old daughter Patricia, any rental income earned subsequent to the gift would not be attributed back to Valerie nor would the TOSI rules apply.

***Part 4 - Income Tax Consequences of a Subsequent Sale by the recipient***

The required income tax consequences are determined as follows:

**Nixon Distributors Shares** — If Betty is the recipient of the gift, the ACB of the shares would be $823,000. Based on this, the subsequent sale would have the following income tax consequence:

POD ($1,800,000 + $100,000) $1,900,000

ACB ( 823,000)

Capital Gain $1,077,000

Inclusion Rate 1/2

Taxable Capital Gain $ 538,500

This gain would be attributed back to Valerie. If either child is the recipient of the gift, their ACB would be $1,800,000. Based on this, the subsequent sale would have the following income tax consequences:

POD ($1,800,000 + $100,000) $1,900,000

ACB ( 1,800,000)

Capital Gain $ 100,000

Inclusion Rate 1/2

Taxable Capital Gain $ 50,000

This gain would be included in the income of the recipient child and would not be attributed back to Valerie.

**Royal Bank Shares** — If Betty is the recipient of the gift, the ACB of the shares would be $1,050,000. Based on this, the subsequent sale would have the following income tax consequence:

POD ($1,230,000 + $100,000) $1,330,000

ACB ( 1,050,000)

Capital Gain $ 280,000

Inclusion Rate 1/2

Taxable Capital Gain $ 140,000

This gain would be attributed back to Valerie. If either child is the recipient of the gift, their ACB would be $1,230,000. Based on this, the subsequent sale would have the following tax consequence:

POD ($1,230,000 + $100,000) $1,330,000

ACB ( 1,230,000)

Capital Gain $ 100,000

Inclusion Rate 1/2

Taxable Capital Gain $ 50,000

This gain would be included in the income of the recipient child and would not be attributed back to Valerie.

**Farm Land** — The ACB for each of the 3 potential recipients would be $650,000. Based on this, the sale of the farm land would result in a taxable capital gain calculated as follows:

POD ($960,000 + $100,000) $1,060,000

ACB ( 650,000)

Capital Gain $ 410,000

Inclusion Rate 1/2

Taxable Capital Gain $ 205,000

If the gift was to Valerie's 19 year old daughter Patricia, the gain would be included in her income and not attributed to Valerie. Alternatively, if the gift was to either Betty or Richard, the gain would be attributed back to Valerie. While there is usually no attribution of capital gains related to transfers to minors, there is an exception to this when farm property is transferred on a rollover basis.

**Rental Property** — If Betty is the recipient of the gift, the ACB for the land would be $400,000, the capital cost and ACB of the building would be $900,000, deemed CCA would be $150,876 and UCC would be $749,124. Based on this, the sale would have the following income tax consequences:

**Land Building**

POD $600,000

($1,300,000 + $100,000) $1,400,000

ACB ( 400,000) ( 900,000)

Capital Gain $200,000 $ 500,000

Inclusion Rate 1/2 1/2

Taxable Capital Gain $100,000 $ 250,000

Capital Cost of Building $900,000

UCC ( 749,124)

Recapture $150,876

Both the taxable capital gain and the recapture would be attributed to Valerie. The capital cost for either child for capital gains purposes would be $600,000 for the land and $1,300,000 for the building.

Based on this, there would be no taxable capital gain on the sale of the land. However, there would be a taxable capital gain on the building as follows:

POD $1,400,000

ACB ( 1,300,000)

Capital Gain $ 100,000

Inclusion Rate 1/2

Taxable Capital Gain $ 50,000

The taxable capital gain would be included in the income of the gift recipient child. It would not be attributed to Valerie.

While the capital cost for determining capital gains is $1,300,000, for recapture and CCA purposes, the building’s capital cost would be limited to $1,100,000. (See Part 2 of this solution.)

Given this, there would be recapture determined as follows:

UCC $1,100,000

Lesser of:

POD = $1,400,000

Capital Cost = $1,300,000 ( 1,300,000)

Recapture ($ 200,000)

If the gift was to Valerie's 19 year old daughter Patricia, the recapture would be included in her income and not attributed to Valerie. Alternatively, if the gift was to Richard, the recapture would be attributed to Valerie.

Type: ES

Topic: Non-arm's length gifts and income attribution

145) For several years, Ms. Tiffani Langston has owned 21,000 shares of Modal Inc., a Canadian public company. These shares were acquired at a cost of $10 each.

On January 12, 2022, Tiffani gifts 7,000 of these shares to her spouse Hugh Langston. She does not opt out of the spousal rollover of ITA 73(1). On the same date, Tiffani gifts the remaining 14,000 shares to her 9 year old son, Mark. On this date, the shares are trading at $11 each.

On August 2, 2022, the shares pay an eligible dividend of $0.50 per share.

On December 15, 2022, both her spouse, Hugh and her son,Mark sell all of their shares for $13 each.

**Required:** (1) Determine the impact on the 2022 net income for Tiffani, her spouse Hugh, and her son Mark, as a result of the share transactions. (2) Assume Tiffani dies on November 11, 2022. Would your answer change as a result?

Answer:

**Tiffani**

***At the time of the gift***

As Tiffani did not opt out of the ITA 73(1) spousal rollover, there will be no recognition of any capital gain or capital loss as a result of the gift to her spouse Hugh since the POD and ACB will be the same. However, there is no rollover for the transfer of public company shares to an individual who is not a spouse or common-law partner. This means there will be a taxable capital gain on the gift of 14,000 shares to her son as follows:

Deemed POD [($11)(14,000)] $154,000

ACB [($10)(14,000)] ( 140,000)

Capital Gain $ 14,000

Inclusion Rate 1/2

Taxable Capital Gain $ 7,000

***Dividends***

As all of the shares were gifted to a spouse and a related minor, all of the dividend income would be attributed to Tiffani increasing her 2022 net income by $14,490 [(21,000)(138%)($0.50)].

***Subsequent Sale of Shares***

As there is no attribution of capital gains when shares are disposed of to a related minor, the sale of shares by Tiffani's son would have no effect on her 2022 net income. However, the capital gain on the sale of shares by her spouse would be attributed to her. The amount is calculated as follows:

POD [($13)(7,000)] $91,000

AACB [($10)(7,000)] ( 70,000)

Capital Gain $21,000

Inclusion Rate 1/2

Taxable Capital Gain $10,500

**Hugh (Spouse)**

None of these transactions would have any effect on Hugh's 2022 net income since all amounts are included in Tiffani's income and excluded from his net income.

**Mark (minor child)**

When Mark sells the shares, he will have a taxable capital gain calculated as follows:

POD [($13)(14,000)] $182,000

ACB [($11)(14,000)] ( 154,000)

Capital Gain $ 28,000

Inclusion Rate 1/2

Taxable Capital Gain $ 14,000

**If Tiffani Dies**

Since Tiffani dies after the dividends are paid, but before Hugh sells the shares, the dividends will still be attributed back to Tiffani, but the taxable capital gain on the sale of Hugh's shares of $10,500 will be included in Hugh's 2022 net income.

The taxable capital gain on the sale of Mark's shares is already being included in Mark's income, so there would be no change in income tax consequences for Mark if Tiffani were to die.

Type: ES

Topic: Attribution rules - the attribution of income

146) On January 1, 2022, Ms. Fawn Halpern owned 9,500 shares of Zunit Inc., a Canadian public company. These shares were purchased several years ago at a cost of $23.50 per share, a total investment of $223,250.

The following transactions took place in 2022:

• On February 1, she gifts 3,500 of the shares to her common-law partner Melvin Young. The shares are trading at $25.00 per share at that time. Fawn does not opt out of the spousal/common-law partner rollover of ITA 73(1).

• On March 1, she gifts the remaining 6,000 shares to her 15 year old daughter Clare. The FMV of the shares have declined to $22.50 at that time.

• On July 1 and September 1, the Zunit Inc. shares pay an eligible dividend of $0.80 per share.

• On December 1, both Melvin and Clare sell all of their shares for $26.25 each.

**Required:**

A. Determine the impact on the 2022 net income for each of Fawn, her common-law partner Melvin, and her daughter Clare, as a result of the preceding share transactions.

B. How would your answer change if Fawn died on July 15, 2022?

Answer:

**Part A - Fawn**

***February 1, 2022***

As Fawn did not opt out of the ITA 73(1) rollover, there will be no immediate income tax consequences as a result of disposing of the 3,500 shares by way of a gift to her common-law partner Melvin (e.g.the POD and ACB would both be the same).

***March 1, 2022***

There is no rollover provision for the disposition of publicly traded shares by way of a gift to a related minor. ITA 69(1) treats a gift as a disposition at FMV with the following results to her daughter Clare:

Deemed POD [(6,000)($22.50)] $135,000

Deemed ACB [(6,000)($23.50)] ( 141,000)

Capital Gain ($ 6,000)

Inclusion Rate 1/2

Allowable Capital Loss ($ 3,000)

***July 1 and September 1, 2022***

All of the dividends, both those received by Melvin and those received by Clare, would be attributed to Fawn. The result would be an increase in her 2022 net income of $20,976 [(138%)(2)($0.80)(3,500 + 6,000 Shares)].

***December 1, 2022***

There would be no attribution of the capital gain on the shares sold by Fawn's daughter Clare. However, the capital gain on the disposition of Melvin's shares would have to be included in Fawn's income. The amount would be calculated as follows:

POD [(3,500)($26.25)] $91,875

ACB - Clare's Original [(3,500)($23.50)] ( 82,250)

Capital Gain $ 9,625

Inclusion Rate 1/2

Taxable Capital Gain $ 4,813

***Fawn's Additional 2022 net income***

The total addition to Fawn's 2022 net income would be:

Taxable Dividends $20,976

Taxable Capital Gain 4,813

Allowable Capital Loss\* ( 3,000)

Total $22,789

\*The allowable capital loss can be claimed as it is less than the taxable capital gain.

**Part A - Melvin (Common-law partner)**

None of the transactions affect Melvin's 2022 net income. All the dividends that he received, as well as the December 1 capital gain, were all included in Fawn's 2022 net income.

**Part A - Clare (Minor Child)**

While the dividends that were received by Clare were attributed to Fawn, this would not be the case with the December 1 taxable capital gain which would increase Clare's 2022 net income as follows:

POD [(6,000)($26.25)] $157,500

ACB [(6,000)($22.50)] ( 135,000)

Capital Gain $ 22,500

Inclusion Rate 1/2

Taxable Capital Gain $ 11,250

**Part B**

Income attribution ceases on the death of the transferor. As the July 1 dividends were paid prior to Fawn's death on July 15, 2022, they would be attributed to her and included in her final income tax return. However, the September 1 dividends and the sale of the shares occurred after her death. As a result, this income would not be attributed to her.

***Fawn***

If Fawn died on July 15, 2022, the only addition to Fawn's 2022 net income would be $10,488 [(138%)(1)($0.80)(3,500 + 6,000 Shares)] due to the attribution of the July 1 dividend.

***Melvin (Common-law partner)***

The $4,813 taxable capital gain on Melvin's shares would not be attributed to Fawn, but would be included in Melvin's 2022 net income. Similarly, his September 1 taxable dividends of $3,864 [(138%)(1)($0.80)(3,500)] would be also be included in his 2022 net income. The total increase in 2022 net income would therefore be $8,677.

***Clare (Minor Child)***

Clare's September 1 taxable dividends of $6,624 [(138%)(1)($0.80)(6,000)] would not be attributed to Fawn, but would be included in Clare's 2022 net income.

Type: ES

Topic: Attribution rules - the attribution of income

147) Ms. Peta Jansan is 37 years old and divorced from her former spouse. She has two children from the marriage, Lotte, aged 5 and Bram, aged 9. Neither of these children have any income in 2022.

The divorce agreement, which was issued in 2020, requires her former spouse to pay $3,000 per month in child support and an additional $1,000 per month in spousal support. While all of the payments for previous years have been made, in 2022, her former spouse has experienced financial difficulties and has paid only $40,000 of the required amounts of $48,000.

Ms. Jansan also provides care for her 85 year old grandfather who lives with her and her children. While her grandfather is not mentally or physically infirm, his 2022 net income is only $7,950 which makes him partly dependant on Ms. Jansan.

Ms. Jansan is employed by Dutch Foods Ltd., a large public company. In 2022, she has a annual base salary of $75,000. In 2021, she was awarded a bonus of $19,500, all of which was paid in January of 2022.

The corporate employer provides her with an automobile which the company leases for $560 a month. Ms. Jansan is required to pay all of the operating and maintenance costs of the automobile. In 2022, these costs totaled $6,300. The automobile was available for her use for 11 months during 2022 and was driven a total of 43,360 kilometers, 35,120 of which were driven for employment use and 8,240 for personal use.

Her employer made the following payroll withholdings in 2022:

RPP Contributions $3,400

EI Premiums 953

CPP Contributions 3,500

Life Insurance Premium 250

Her employer pays her Alberta provincial health care premium of $582 ($44 monthly).

In 2022, Ms. Jansan is transferred by Dutch Foods Ltd. from their Edmonton office to their Calgary office. The Company has agreed to fully compensate her for any loss on the sale of her Edmonton house, but will not compensate her for the legal fees associated with the sale. In addition the employer will provide her with a one time payment of $15,000 when she purchases a home in Calgary to compensate her for the higher cost of housing in Calgary.

Dutch Foods Ltd. is also providing her with a $200,000 interest free housing loan to help finance her new house in Calgary. This loan is received on April 1, 2022 and must be repaid in full on March 31, 2027. In addition to these other amounts, the employer also provides a $10,000 allowance to cover any additional moving expenses.

On January 3, 2022, Ms. Jansan flies to Calgary at a cost of $325 on a house hunting trip. During the three days that she is in Calgary, her food and lodging costs total $575. Both the air fare and the food and lodging costs are reimbursed by Dutch Foods Ltd. After considering the properties that she has seen, she makes an offer on a property on January 10, 2022. The offer is accepted that same day.

Later that month she sells her Edmonton home which she purchased for $265,000 in 2020. The house is sold for $257,800. While Ms. Jansan managed to sell the house without using a real estate agent, legal fees associated with the sale total $950.

Ms. Jansan and her family leave Edmonton on March 15 and arrive in Calgary that same day. She uses the employer provided automobile. This milage is included in the 43,360 kilometer total and is viewed as being employment related. As the family brought a picnic lunch for the trip, she ignores food costs for the day.

Unfortunately, her new Calgary home is not available until April 3 and, as a consequence, she, her children and her grandfather stay in a Calgary suite hotel from March 15 through April 3 (19 days). The rate for a two room suite is $325 per day, but Ms. Jansan has a discount voucher that provides her with a daily rate of $200 per day for a one week period (7 nights).

Assume that the 2022 allowable daily rate for meals is $69 a person.

The cost for moving her household effects and leaving them in storage until her Calgary home was ready totaled $3,640. Her legal fees associated with purchasing the Calgary home are $600.

Ms. Jansan has belonged to her employer’s stock purchase plan since 2020. In that year she purchased 360 shares at $5.00 each. In 2021, she acquired an additional 500 shares at $5.25 each. On February 1, 2022, she acquired 400 more shares at $6.00 each. On July 1, 2022, her shares paid an eligible dividend of $0.30 per share. In order to help finance some of the costs of the move, she sold 900 of these shares in December of 2022 for $6.10 per share.

On January 1, 2022, Ms. Jansan purchases an annuity for $28,733. The annuity was purchased with after-tax funds outside of a tax deferred income plan and will provide a payment of $5,000 at the end of each year for eight years. Given its price, the effective yield on the annuity is 8%.

In 2022, Ms. Jansan contributes $6,000 to her TFSA and $5,500 to a TFSA that she opens for her grandfather.

Before moving to Calgary, child care expenses in Edmonton were $200 per week for 11 weeks. In Calgary, the weekly cost increased to $250 per week and was paid for a total of 36 weeks. In the summer, both children spent four weeks at an exclusive summer camp. The weekly fees at this camp were $500 for each child.

The 2022 medical expenses for Ms. Jansan and her dependants, which were all paid for by Ms. Jansan, are as follows:

Ms. Jansan $ 465

Lotte 493

Bram 245

Grandfather 12,473

Total Medical Expenses $13,676

Assume a prescribed rate of 2% applied throughout 2022 on employee loans.

**Required:** Calculate Ms. Jansan's:

• minimum 2022 net income,

• minimum 2022 taxable income, and

• minimum 2022 federal income tax payable.

Ignore GST/HST & PST considerations, as well as any amounts of income tax that would have been withheld by Ms. Jansan's employer.

Answer:

***2022 Employment Income***

Ms. Jansan's 2022 employment income would be calculated as follows:

Base Salary $ 75,000

Bonus (Received in 2022) 19,500

Standby Charge on Automobile (Note 1) 1,845

Automobile Operating expenses (Note 2) ( 5,103)

RPP Contributions ( 3,400)

Provincial Health Care Premium [(12)($44)] 528

Life Insurance Premiums (Note 3) Nil

Housing Compensation (Note 4) 15,000

Housing Loan Benefit [(2%)($200,000)(9/12)] 3,000

Moving Allowance (Note 5) 10,000

2022 Employment Income $116,370

**Note 1 -** The reduced standby charge would be calculated as follows:

[(2/3)($560)(11)][8,240 ÷ 18,337] = $1,845

**Note 2 -** As Ms. Jansan pays her own operating expenses, she can deduct the portion that relates to employment use. This amount would be $5,103 [($6,300)(35,120 ÷ 43,360)]. **Note** that since the employer does not pay any part of the automobile operating expenses that would relate to the personal use of the automobile there is no operating cost benefit.

**Note 3 -** An employee's payments for life insurance premiums are not deductible. **Note** that if the employer had made a contribution towards Peta's life insurance, the amount paid by the employer would have been a taxable benefit.

**Note 4 -** As Ms. Jansan is being relocated, the loss on her Edmonton home is an ITA 6(22) eligible housing loss. Under ITA 6(20), only one-half of amounts in excess of $15,000 of such compensation have to be included in income. As the compensation here was only $7,200 ($257,800 - $265,000), none of this amount is included in her employment income. However, there is no similar provision which allows tax free treatment of amounts paid for higher costs in the new location. As a consequence, the full $15,000 of the compensation for higher housing costs in Calgary would have to be included in employment income. This is further supported by ITA 6(23).

**Note 5 -** As the moving allowance is general in nature, it will have to be included in income.

***2022 Property Income***

Ms. Jansan's only property income would be the dividends on the Dutch Foods Ltd. shares.

Dividends Received [(1,260)($0.30)] $378

Gross Up [($378)(38%)] 144

2022 Taxable Dividends $522

***2022 Taxable Capital Gain***

Ms. Jansan's only capital gain would be on the sale of the Dutch Foods Ltd. shares. It would be calculated as follows:

POD [(900)($6.10)] $5,490

ACB (Note 6) ( 4,878)

Capital Gain $ 612

Inclusion Rate 1/2

2022 Taxable Capital Gain $ 306

**Note 6 -** The average per share cost of the Dutch Foods shares is $5.42 {[(360)($5.00) + (500)($5.25) + (400)($6.00)] ÷ 1,260}. The ACB of the shares sold is therefore $4,878 [(900)($5.42)].

***2022 Other Income and Other Deductions***

Mr. Jansan’s other income and other deductions would be calculated as follows:

Spousal Support (Note 7) $ 4,000

Annuity Income (Note 8) 1,408

Moving Expenses (Note 9) ( 13,830)

Child Care Expenses (Note 10) ( 12,500)

Deductible CPP ($3,500 - $3,039) ( 461)

Total 2021 Other Income and Other Deductions ($21,383)

**Note 7 -** When incomplete support payments are made, the ITA deems the payments to be made first as child support than as spousal support. As a result the deemed spousal support is $4,000 [$40,000 - (12)($3,000)].

**Note 8 -** The net inclusion of annuity income would be calculated as follows:

Payment - ITA 56(1)(d) $5,000

Return of Capital - ITA 60(a)

[($5,000)($28,733 ÷ $40,000)] ( 3,592)

Annuity Income $1,408

**Note 9 -** The deductible amount of moving expenses would be determined as follows:

Calgary Lodging [(12)($325) + (3)($200)] $ 4,500

Calgary Food [(15)($69)(4)] 4,140

Moving and Storing Household Effects 3,640

Legal Costs of Selling Edmonton Home 950

Legal Costs of Calgary Home 600

Total 2022 allowable moving expenses $13,830

The cost of the house hunting trip to Calgary to find a new home was reimbursed and is not a taxable benefit. With respect to the costs of staying in a hotel in Calgary, ITA 62(3)(c) allows only 15 days of such costs as a deduction and the cost of the remaining 4 days is not deductible. Moving costs are maximized if Ms. Jansan deducts 12 nights at the higher rate. You should note that if the employer had paid directly for the costs of these 4 days, it would not have created a taxable benefit. Unfortunately, they chose to pay a general allowance, all of which has to be included in Ms. Jansan’s income.

**Note 10 -** The child care expenses would be $12,500, the least of the following three amounts:

• Actual Costs and Deductible Camp Costs $12,500

• Annual Limit ($8,000 + $5,000) $13,000

• Income Limit [(2/3)($124,873)] $83,249

Actual costs are limited to $200 per week for Lotte and $125 per week for Bram during the four week period the children are at camp. When combined with the other costs, the total is as follows:

Edmonton - 11 Weeks at $200 Per Week $ 2,200

Calgary - 36 Weeks at $250 Per Week 9,000

Camp - 4 Weeks at $325 ($200 + $125) Per Week 1,300

Total $12,500

The **income limit** is based on gross employment income, without consideration of the car operating costs deduction or RPP contributions. This figure is $83,249 [(2/3)($116,370 + $5,103 + $3,400)].

***2022 Net Income and Taxable Income***

Ms. Jansan’s 2021 Net and Taxable Income would be:

Employment Income $116,370

Property Income 522

Taxable Capital Gain 306

Other Income and Other Deductions ( 21,383)

2022 Net and Taxable Income $ 95,815

Note that the contributions to the TFSAs are not eligible for a deduction and therefore have no impact on net income.

***2022 Federal Income Tax Payable***

Tax on first $50,197 $ 7,530

Tax on next $45,618 ($95,815 - $50,197) at 20.5% 9,352

Tax before Credits $16,882

Tax Credits:

BPA ($14,398)

Eligible Dependant (Either Child) ( 14,398)

Canada Caregiver

(Grandfather is not Infirm) N/A

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Medical Expenses (Note 11) ( 12,234)

Total Credit Base ($46,309)

Rate 15% ( 6,946)

Dividend Tax Credit [(6/11)($144)] ( 79)

2022 Federal Income Tax Payable $ 9,857

**Note 11 -** The medical expenses eligible for the credit are:

Medical Expenses of Ms. Jansan and her children

($465 + $493 + $245) $ 1,203

Lesser of:

• [(3%)($95,815)] = $2,874

• 2022 Threshold Amount = $2,479 ( 2,479)

Balance Before Dependants 18 and over Nil

Grandfather’s Medical Expenses $12,473

Reduced by the lesser of:

• $2,479

• [(3%)($7,950)] = $239 ( 239) 12,234

2022 Allowable Medical Expenses $12,234

Type: ES

Topic: Comprehensive case covering chapters 1 to 9