



BU357 Review Session

Coordinator and Tutor: March Chen

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'RAISING MARKS, RAISING MONEY, RAISING ROOFS'

Students Offering Support is a nationally recognized Canadian Charity.





The Trips

- We've Been to:
 - Belize (2007), Honduras (2008), Costa Rica (2009), Guatemala (2010), Nicaragua (2010, 2011)
- 2011 We're going to:
 - Belize: Building a community center/school
 - Costa Rica: Building a medical room/library, vegetable garden, and latrines



Why They're Important!

- These trips promote the value of education
- We impact the community, and let them impact us





Please Note

- Please follow any specific instructions from your professor if they differ from the review session content
- These slides are designed for your reference and represent my own opinion and personal knowledge regarding this course.
- Please complete the problems taught in class



Agenda

- General Overview: What we have learned in this course (5 minutes)
- Difficult concepts (20 minutes)
- Review of key concepts (40 minutes)
- 3 problem examples (around 2 hours)
- Questions

What we have learned

- Who is responsible for tax? (ch2)
- Employment income inclusion (ch3)
- Business income or Capital Receipts
- Business income inclusion (ch4)
- CCA calculation (ch5)
- Property income and attribution rule (ch6)
- Capital property, principal residency exemption (ch7)
- Reserve (ch8)
- Taxable income calculation and taxes payable calculation (ch9, 10)



Difficult Concepts (1)

- Income for tax purposes
- Taxable income
- Tax payable
- Capital gain (CG)
 - Net capital gain
- Capital Loss (CL)
 - Allowable capital loss (ACL)

What should we pay attention to here?



Difficult Concepts (2)

- LPP (Listed Personal Property). What are they? What is the tax consequence of this?
 - PUP (personal-use property). What is the tax consequence of this?
 - Business investment loss
 - Capital Loss (CL)
- What should we pay attention to here?



Key Concepts (1)

- **Division B**

- ❖ 3(a) income (GAINS) from non-capital sources --- sub a, b, d
- ❖ + 3(b) net taxable capital gain --- sub c
- ❖ - 3(c) Deductions --- sub e
- ❖ - 3(d) non-capital losses, **ABIL**

- **Division C (adjustments to Division B)**

Steaming/timing rules apply here

- ❖ Stock Options
- ❖ Current year deductions (WSIB, non-taxable social assistance payment)
- ❖ Loss carryovers

- **Division E (to get Tax Payable)**



Key Concepts (2)

- Inclusion rate to calculate ACL to be used
- Example: 1999 ACL (\$750), 2008 CL (\$2,000), 2010 CG \$5,000
- Calculation:

	CL	Inclusion Rate	ACL
1999	(1,000)	$\frac{3}{4}$	(750)
2008	(2,000)	$\frac{1}{2}$	(1,000)
TOTAL	(3,000)	$\frac{1}{2}$	NOT (1,750), (1,500)
2010	5,000	$\frac{1}{2}$	2,500
TOTAL	2,000		1,000

\$2,500 NCG will be added in Division B income under Paragraph 3(b)

\$(1,500) Carryforwarded ACL will be put in Division C deduction!!

Key Concepts (3)

- **Tax credits calculation:**
 - ❖ Only ONE \$10,382 amount for the dependents can be added
 - ❖ Watch for the \$5,000 tuition transfer limit
 - ❖ Donations, first 200 * 15% + 29% of the remaining ones
 - ❖ Dividends (gross up first and put as the property income, get credits deduction here)
 - ❖ Watch for the EI, CPP limit (cannot exceed the limit to be included)
 - ❖ Watch the progressive rate for federal and provincial tax

Key Concepts (4)

- **Stock Options**

Granted day-----	Exercised day-----	Sold day
(No tax effect)	(Employment income)	(Capital gain)
Market price \$12	Market price \$15	Market price \$25
Option price \$10		
1000 shares	$1000 \times (15-10)$	$1000 \times (25-15) \times 1/2$

However, by Division C, if Option price is \$13, greater than Market price on Granted day, there is a half deduction on Exercised day: $1000 \times (15-13) \times 1/2$ **(After March 4, 2010, Not eligible to defer the employment benefit to the sold day)**

- **If this is a CCPC, the taxpayer can defer the employment income to sold day.**
- On sold day, if the Option price is greater than the Market price at Granted day **OR** the stock has been kept more than 2 years, the employment income will be recognized only as half, plus the capital gain.

Steps for this question:

- Determine whether it is a CCPC (Canadian control private company)
- If it is, defer the employment income inclusion at the time of the disposition of the shares. Meanwhile, watch the *option price* on the Granted day, if it is *more than Market price*, the employment income will be half. **OR**, if the stock has been *kept more than two years* after exercise date, the same way applies.
- If it isn't, do not defer the employment income since it is after March 4, 2010. Then watch the Option price on the Granted day, if it is more than Market price, the employment income will be half.
- The total amount** will be put into the calculation for employment income, and deduct half if possible under Division C rather than Division B.

Key Concepts (5)

Moving Expenses

Eligible Relocation: Taxpayer must move to a new business/employment in Canada (eligible moving expense may be deducted against income of NEW location) Students move to a full-time, post-secondary institution in/out of Canada. (Deduct against student income)

Limitations:

- ❖ Move to 40 Km closer to new location
- ❖ Can be carried forward to next year
- ❖ Reimbursement/ Allowance included in income in order for expenses to be deducted, OR just deduct company reimbursement from moving expense, and do not put in the employment income.

CRA simplified method:

- Meal: \$17 a meal per person to a max of \$51 a day per person
- Vehicle expense: km driven × Standard Rate (\$0.54/km Ontario)

Consists of:

- Travel Expenses: Meals / Accommodations / Vehicle expenses
- Actual moving expenses, including household effects, storage fees, NO loss on sale of the house
- Temporary stay, cannot exceed 15 days: Meals / Accommodations
- Selling cost (commissions, legal fees)
- Purchasing cost (legal fees, land transfer tax, etc.), NOTE: the former residence has to be sold and therefore there must be a previous house existing, e.x. if you previously lived in an apartment, and then buy a new house, nothing is deducted
- Cost of changing address on legal documents
- Cost of maintaining vacant former residence (including mortgage interest and property tax, maximum **\$5000**)

Not Deducted: Loss of previous house sell / Cost of cleaning new house and painting and installing new items in new house / House hunting fees not deductible / Prepaid realty taxes



Problems

- problem 11 in chapter 9
- problem 3 in chapter 10
- Exercise 4 in chapter 10 (add that Dan has a business income of \$95,000 and has paid \$20,000 in tax installments. Change the required to "Calculate net taxes payable".)



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