

TIF Solution Seven - 2

1. True. Corporations must use the full accrual approach.
2. False. When an issuer deliberately prices a bond issue to create a premium, IT-533 requires that this premium be amortized as a reduction in the deductible amount of interest.
3. True. IT-533 makes it clear that the indirect use of the money is not relevant to the question of deductibility.
4. False. IT-533 indicates that there is a presumption that common shares will pay dividends unless the securities have contractual terms that make such payments impossible.
5. False. He can claim a rental loss in the current year of \$800. The loss cannot be increased with CCA.
6. True. All of these calculations will produce the correct result.
7. False. The return of capital is subtracted from the adjusted cost base of the units.
8. True. While mutual funds are usually organized as trusts, they can also be organized as corporations.
9. True. Even though no assets are received, investors will have to pay taxes on stock dividends equal to the increase in the PUC of the shares issued on the stock dividend.
10. False. The full pre-tax amount must be included in the Net Income For Tax Purposes of the Canadian resident. The amount withheld will be treated as a credit against Tax Payable or a combination of credit and deduction.

TIF Solution Seven - 3

1. i. A. The accrual method.
 ii. D. The receivable method.
 iii. E. Not allowed method (interest would have to be accrued on the September 30, 2009 anniversary of the loan).
 iv. E. Not allowed method (interest would have to be accrued on the September 30, 2009 anniversary of the loan).
2. C. The corporation will be able to deduct interest of \$100,000 in each of the years 1 through 10 and will have a capital loss in year 10 of \$100,000, only one-half of which will be deductible.
3. D. The corporation will be able to deduct interest of \$100,000 in each of the years 1 through 10 and there will be no tax consequences at maturity.
4. C. It must be paid on a regular, periodic basis.
5. D. Jon will have to recognize nil in 2010 and \$12,000 in 2011.
6. B. \$16,000 (\$43,000 - \$27,000).
7. C. \$11,844.

Taxes on the grossed up eligible dividends	
[(144%)(\$16,000)(29% + 17.5%)]	\$10,714
Dividend tax credit [(\$7,200)(10/17 + 31%)]	(6,324)
Net Taxes	\$ 4,390

This gives after tax retention on \$16,000 of dividends received of \$11,610.

8. D. \$23,040 [(2%)(\$800,000)(144%)].
9. A. \$58.21 [(\$720,000 + \$60,000 - \$18,000) ÷ (12,000 + 1,090.91)]
10. B. \$6,275 [(29%)(\$50,000 - \$2,500) - \$7,500]. The credit is limited to \$7,500, 15 percent of the foreign non-business income. The remaining \$2,500 of the withholding is used as a deduction from Net Income For Tax Purposes.

TIF Solution Eight - 3

1. D. Amounts paid to PD Company on the sale of inventories.
2. B. CCA taken in previous years.
3. B. \$156,250 - The maximum reserve that can be claimed is the lesser of:
 - $[(\$400,000 - \$150,000)(\$250,000/\$400,000)] = \$156,250$
 - $[(\$400,000 - \$150,000)(20\%)(4 - 0)] = \$200,000$
4. B. \$78,125 - The maximum reserve that can be claimed is the lesser of:
 - $[(\$400,000 - \$150,000)(\$125,000/\$400,000)] = \$78,125$
 - $[(\$400,000 - \$150,000)(20\%)(4 - 1)] = \$150,000$
5. C. \$12,000 - The maximum reserve that can be claimed is the lesser of:
 - $[(\$300,000 - \$170,000 - \$10,000)(\$280,000/\$300,000)] = \$112,000$
 - $[(\$300,000 - \$170,000 - \$10,000)(20\%)(4 - 0)] = \$96,000$

Taxable capital gain = $[(1/2)(\$120,000 - \$96,000)] = \$12,000$
6. D. John will have a taxable capital gain of \$35,000 and the adjusted cost base of the land to his son will be \$250,000.
7. C. John will have a taxable capital gain of \$35,000 and the adjusted cost base of the land to his son will be \$320,000.
8. D. Nil
9. B. \$6,800 $\{[4\%][1/2][\$230,000 + (1/2)(\$450,000 - \$230,000)]\}$
10. B. Land and building that is being used as a rental property.
11. D. Susan can elect to defer the recognition of any capital gain until she disposes of the house.
12. B. When Ms. Boisvert moved, she filed an election not to be deemed to have disposed of her residence. As a result, she could claim no CCA on the property, but she is able to designate it her principal residence for years in which she did not reside there. This is limited to four years when the residence is vacated due to a transfer by one's employer and the house is not reoccupied after that employment ceases.

In the following formula, A is the number of years the property is designated a principal residence and B is the number of years the property was owned after 1971.

$$\begin{aligned} \text{Exempt portion of gain} &= \{[\text{Total capital gain}][(1 + A) \div B]\} \\ &= [\$72,000][(1 + 12 + 4) \div 24] = \$51,000 \end{aligned}$$

$$\text{Minimum capital gain} = (\$72,000 - \$51,000) = \$21,000$$

Note that the election could have been extended for more than four years if Ms. Boisvert had returned to live in the property, prior to leaving the employer who required her to move.

13. B. \$2,500 taxable capital gain on Home B.

Home B owned 4 years (2007 to 2010)

- 2007 and 2008 designated to Home A
- 2009 and 2010 can be used for Home B

In the following formula, A is the number of years the property is designated a principal residence and B is the number of years the property was owned after 1971.

Exempt portion of gain = $\{[\text{Total capital gain}][1 + A] \div B\}$

= $[\$200,000 - \$180,000][1 + 2] \div 4 = \$15,000$

Taxable capital gain = $[(1/2)(\$20,000 - \$15,000)] = \$2,500$

14. C. \$1,300 (\$1,500 - \$200)

The net capital gain on listed personal property consisted of a \$1,500 gain (\$2,500 - \$1,000) on the painting and a \$200 loss (\$1,000 - \$1,200) on the stamp collection. There is no net capital gain on the personal use property as the outboard motor gain is eliminated by the \$1,000 rule and the loss on the desk is not deductible.

15. C. An antique chair.

TIF Solution Nine - 3

1. C. While a deduction can be made for transfers to an RRSP, 100 percent of the retiring allowance has to be included in income.
2. C. He cannot claim the 50 percent of the cost that was reimbursed. Further, the claim can only be made against employment income earned at the new location.
3. 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.
4. A. \$8,500 ($\$102,000 \div 12$). The deduction is limited to the income earned at the new location.
5. B. \$16,300 ($\$1,200 + \$12,000 + \$100 + \$200 + \$2,800$).
6. C. John's claim is limited to \$5,950 [$(\$175)(2)(17)$].
7. E. None of the above.
8. D. \$2,200 [$(\$4,000 - \$1,800)$]. Deductible spousal support is limited to the \$4,000 amount paid, less the required \$1,800 for child support.
9. C. There is no limit on the amount of annual contributions that can be made. The limit is on the total amount that can be contributed for each beneficiary.
10. A. Contributions to the plan are deductible.
11. C. Earnings on assets in the plan will accumulate tax free.
12. D. Withdrawals of accumulated account earnings will be subject to tax.
13. C. \$240 (compound interest does not attribute).
14. 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.
15. D. William's Net Income For Tax Purposes is \$1,275.

Taxable Capital Gain On Disposition Of Global Inc.	
$[(\$2,500 - \$200)(1/2)]$	\$1,150
Allowable Capital Loss On Gift - TriStar Limited	Nil
Attribution Of Dividend	125
William's Net Income For Tax Purposes	\$1,275
16. D. Hans must elect out of the ITA 73 rollover, Olga must pay consideration equal to fair market value, and the loan must bear interest to be paid within 30 days of the end of each year. Although the loan must bear interest at the prescribed rate or greater, there is no requirement that the rate be adjusted in future years.
17. D. Carmen faces a tax liability of \$2,574 as a result of her capital gains.
18. C. The loan is interest free and made to Joan's 19 year old son.
19. A. The gift is to Sandy's long-time business partner.

TIF Solution Ten - 3

1. B. The employer promises each employee a retirement benefit that is based on a contractually specified formula.
2. D. The employee's ultimate pension benefit is not affected by rates of return on the pension plan assets.
3. C. Direct investments in rental properties.
- 4(i). C. $\$580 [(18\%)(\$40,000 - \$16,000 + \$7,000) - (\$2,000 + \$3,000)]$.
- 4(ii). E. $\$2,580 [(18\%)(\$40,000 - \$16,000 + \$7,000) - \$3,000]$.
- 4(iii). I. $\$5,580 [(18\%)(\$40,000 - \$16,000 + \$7,000)]$.
- 4(iv). F. $\$3,580 [(18\%)(\$40,000 - \$16,000 + \$7,000) - \$2,000]$.
5. D. $\$12,360$.

Unused RRSP Deduction Room carried forward from 2009:

Lesser Of:

- $(\$21,000 - \$6,000) = \$15,000$
- $[(18\%)(\$50,000) - \$6,000] = \$3,000$ \$ 3,000

Plus 2010 RRSP deduction room

Lesser Of:

- 2010 RRSP Dollar Limit = $\$22,000$
- $[(18\%)(\$52,000)] = \$9,360$ 9,360

RRSP Deduction Limit	\$12,360
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6. A. Scholarships, resource royalties, and CPP retirement benefits do not form part of the Earned Income calculation for RRSP purposes.
7. D. Contributions made during the current year can be deducted in any subsequent year.
8. A. All amounts withdrawn must be repaid within 10 years of the year of withdrawal.
9. A. Eileen can deduct her contribution from her Net Income For Tax Purposes and her employer's contribution is not considered a taxable benefit.
10. C. Earnings accumulate within the RRIF on a tax free basis.
11. C. Profit Sharing Plan to Deferred Profit Sharing Plan.
12. C. The amount of the retiring allowance which Mr. Smith can transfer to his RRSP in the year he retires is $\$59,500 [(20)(\$2,000) + (13)(\$1,500)]$. This is \$2,000 per year prior to 1996, plus \$1,500 per year prior to 1989 during which no employer contributions vested to a pension plan.