

### Federal Tax Rates

Taxable Income	Federal Tax	Tax Rate on Excess
\$41,544 or less		15%
More than \$41,544 but less than \$83,088	\$6,232	22%
More than \$83,088 but less than \$128,800	\$15,371	26%
More than \$128,800	\$27,256	29%

### Tax Credits

Basic Personal	\$10,527	
Spousal	\$10,527	
Eligible dependent	\$10,527	
Caregiver	\$4,282	Less NIFTP in excess of \$14,624
Infirm Dependent over 17	\$4,282	Less NIFTP in excess of \$6,076
Disability	\$7,341;	supplement for a disabled child under 18 is an additional \$4,282
Age	\$6,537	Less 15% of NIFTP > \$32,961
Pension Income	\$2,000	
Medical Expenses		Qualifying expenditures in excess of the lower of \$2,052 or 3% of NIFTP; expenses claimed for a dependent over 18 must be reduced by the lesser of 3% of the dependent's NIFTP or \$2,052 (to a max \$10,000)
Canada Pension Plan	\$2,218	
EI	\$787	
Tuition Fees		As incurred
Education		\$400/month full time attendance; \$120/month for part-time attendance
Textbook		\$65 per month of full-time; \$20 part-time
Interest on student loans		As incurred
Child Tax Credit	\$2,131	
Adoption		As incurred to a maximum of \$10,909
Canada Employment Credit	\$1,065	
Public Transit Credit		As incurred on or after July 1, 2006
Child Fitness Credit	\$500	
First Time Home Buyer's Credit		First \$5,000 of the cost of an eligible home

### Other Tax Credits

Charitable Donations	15% on first \$200; 29% on remainder
Political Donations	¼ of first \$400; ½ of next \$350; 1/3 of next \$525 to a maximum credit of \$650

**Question #1 (20 Marks – 2 Marks each)**

Question	Answer
What is the gross-up on a non-eligible dividend?	25% of the cash dividend
What is the carry-back period for a non-capital loss?	3 years
What is the carry-forward period for a capital loss?	Indefinitely
What is the amount of the lifetime capital gains exemption?	\$750,000
What is the maximum excess RRSP contribution you can make without being subject to penalty?	\$2,000
Is interest paid on a loan to finance an RRSP contribution deductible?	No
Mr. MacDonald is a tractor salesman and farmer. In 2009, his salary from John Deere was \$125,000 and he incurred farm losses of \$8,500. How much of his farm loss is deductible?	$\$2,500 + \frac{1}{2}(\$8,500 - \$2,500) = \$5,500$
After finally settling down and getting married in 2009, John Beckwith withdrew \$20,000 from his RRSP under the Home Buyer's Plan. What is his minimum repayment during 2011?	\$1,333
Not including the year of death, what is the due date for a tax balance owing for an individual?	April 30 of the following year.
Mr. MacDonald is a tractor salesman and farmer. In 2011, his salary from John Deere was \$125,000 and he incurred farm losses of \$8,500. How much of his farm loss is deductible?	$\$2,500 + \frac{1}{2}(\$8,500 - \$2,500) = \$5,500$

## Question #2 (50 Marks)

Lois has separated from her husband in November 2010 and moved to Ottawa in February 2011 to start a new life for her and her three children – Meg 18, Chris 15 and Stewie 4. The move coincided with Lois getting a job in the area at a large publicly traded brewery. Lois has also provided you with the following information with respect to her taxes:

Her income from employment in Ottawa was \$60,000. Her employer withheld the following amounts:

CPP	\$2,218
EI	\$787
RPP	\$3,000
Union Dues	\$320
Donations	\$500
Federal Tax	\$15,000

Prior to moving to Ottawa, Lois operated her own business as a piano teacher. Her 2010 revenues totalled \$2,500. She incurred the following expenses:

Snacks	\$400
Supplies	\$1,200

Upon moving to Ottawa, she decided to sell the only assets of the business - the piano and bench (both class 8 – 20%). The original cost of the assets was \$5,500. The UCC at January 1, 2011 was \$1,500. She was able to sell both for a total of \$2,000.

She incurred the following expenses associated with her move:

Unsuccessful house hunting trip (flight)	\$400
Meals on unsuccessful house hunting trip	\$50
Moving Company	\$3,425
Meals en route to Ottawa	\$200
Temporary accommodations (10 days)	\$1,500

In 2011, she received \$2,000 of non-eligible dividends from Pewterschimdt Steel a private company run by her father. She also received \$1,000 of eligible dividends from the Pewterschimdt Family Trust.

In November, Lois exercised stock options to acquire 500 shares of her new employer's stock. The option price was \$25 per share. The FMV at the time the options were issued in August was \$20 per share. The shares were trading for \$27 per share on the day she exercised and sold them. There were no broker fees associated with the sale.

Lois also had a GIC that matured in July. The interest paid in 2011 was \$100.

During the year Lois disposed of shares she had inherited from her Aunt Marguerite. Her aunt's ACB of the shares \$1,500. The Fair Market Value at the time of her death was \$1,750. Lois sold the shares for proceeds totalling \$3,000. She incurred broker fees of \$50 on the sale.

As per their separation agreement, Lois received \$2,000 per month in support payments. Of this amount \$1,500 was for child support and \$500 was for spousal support.

Throughout the year, Lois paid "Hugs and Kisses" Daycare a total of \$8,000 to look after Stewie while she was at work. Stewie also attended a one week overnight summer camp costing \$500.

Lois does receive the \$100/month Universal Child Care Benefit for her eligible children.

In an attempt to minimize her taxes, Lois plans to maximize her RRSP contribution during the year. A review of her 2010 tax return shows that she had unused RRSP Deduction room of \$1,000. She had earned income from modelling and a KISS video totalling \$125,000. There was a \$500 pension adjustment. She has no undeducted RRSP contributions.

A review of her 2010 Notice of Assessment indicates that she has an allowable capital loss carry-forward of \$3,000 resulting from a loss incurred in 2006. She also has a \$500 loss carry-forward on listed personal property.

**Required:** Answer the following questions related to Lois' situation.

**Show all your calculations to obtain full marks!**

**Solution to Question #2**

**Required:** Answer the following questions related to Lois' situation.

**Show all your calculations in order to obtain full marks!**

A) Calculate Lois' 2011 Net Employment Income, including **ALL** taxable benefits and allowances **(4 Marks)**

Salary	\$60,000 (1 Mark)
RPP	(\$3,000) (1 Mark)
Stock Option Benefit: 500 (\$27-\$25) <b>(1 Mark) (1 Mark)</b>	<u>\$1,000</u> (2 Marks Total)
	\$58,000

Deduct 1 Mark if they claim or include items that do not belong (ie. the stock option deduction, CPP or EI) (Max -1 Mark).

B) Calculate Lois' Net Business Income for 2011 **(6 Marks)**

Revenue	\$2,500 (1 Mark)
Snacks (50% of \$400)	(\$200) (2 Marks – 1 for claim 1 for 50%)
Supplies	(\$1,200) (1 Mark)
Recapture	<u>\$500</u> (2 Marks – 1 for add, 1 for correct \$)
	\$1,600

C) Calculate Lois' Income from Property **(3 Marks)**

Non-eligible dividend \$2,000 x 1.25	\$2,500 (1 Mark)
Eligible dividend \$1,000 x 1.41	\$1,410 (1 Mark)
Interest on GIC	<u>\$100</u> (1 Mark)
	\$4,010

D) Calculate Lois' eligible moving expenses **(3 Marks)**

Moving company	\$3,425 (1 Mark)
Meals en route	\$200 (1 Mark)
Temporary accommodations	<u>\$1,500</u> (1 Mark)
Total Eligible Moving Expenses	\$5,125

Note a maximum of 1 Mark should be deducted for including any of the house hunting expenses.

E) Calculate the maximum amount Lois can claim as a deduction for Child Care Expenses (10 Marks)

Child care deduction = lesser of:

Actual eligible costs		
Hugs and Kisses	\$8,000	(1 Mark)
Camp for Stewie restricted	<u>\$100</u>	(2 Marks – 1 for claim 1 for restriction)
	\$8,100	
Annual Child Care Expense Amounts		
\$4,000 (Meg) + \$7,000 (Stewie)	\$11,000	(2 Marks – 1 for each child)
2/3 of Earned Income:		
Employment income	\$60,000	(1 Mark)
Stock option benefit	\$1,000	(1 Mark)
Business Income (same as B)	<u>\$1,600</u>	(1 Mark)
	\$62,600	
	X2/3	
	\$41,733	(1 Mark)
Maximum Eligible Child Care Deduction	\$8,100	(1 Mark for right choice based on calcs)

F) Calculate the maximum RRSP deduction that Lois can claim on her 2011 tax return (5 Marks)

Unused Contribution Room	\$1,000	(1 Mark)
Current Year contribution lesser of:		
Annual Limit	\$22,450	(1 Mark)
18% of 2010 Earned Income		
\$125,000 x 18%	\$22,500	(1 Mark)
	\$22,450	(1 Mark for right choice)
Less Pension Adjustment	<u>(\$ 500)</u>	(1 Mark)
Maximum RRSP Deduction	\$22,950	

G) Calculate Lois' Net Income For Tax Purposes (NIFTP). Use the proper aggregating formula format. (14 Marks)

**Proper Aggregating Formula format**

**1 Mark**

**ITA 3(a) Income from all sources**

Employment Income (same as part A)	\$58,000	<b>(1 Mark)</b>
Business Income (same as part B)	\$1,600	<b>(1 Mark)</b>
Property Income (same as part C)	\$4,010	<b>(1 Mark)</b>
UCCB	\$1,200	<b>(1 Mark)</b>
Spousal Support (12 x \$500)	<u>\$6,000</u>	<b>(1 Mark)</b>
	\$70,810	

**ITA 3(b) Net Taxable Capital Gains**

Capital Gain on inherited shares ( $\$3,000 - \$1,750 - 50$ ) x 1/2	\$600	<b>(4 Marks Total)</b>
<b>(1 Mark) (1 Mark) (1 Mark) (1 Mark)</b>		

**ITA 3(c) Subdivision e Deductions**

Moving Expenses	\$5,125	<b>(1 Mark regardless of amount)</b>
Child Care Expenses	\$8,100	<b>(1 Mark regardless of amount)</b>
RRSP Contribution	<u>\$22,950</u>	<b>(1 Mark regardless of amount)</b>
	(\$36,175)	

**ITA 3(d) Current Year Losses** Nil **(1 Mark)**

**2011 Net Income for Tax Purposes** \$35,235

H) Calculate Lois' 2011 Taxable Income (5 Marks)

2011 NIFTP	\$35,235	
Division C Deductions		
Stock Option Deduction	\$500	<b>(1 Mark)</b>
Capital Loss Carry Over		
\$ 600 x 1/2	<u>\$300</u>	<b>(3 Marks- 1 for limiting to cap gain)</b>
<b>(1 Mark) (1 Mark)</b>		
	(\$800)	
Taxable Income	\$34,435	<b>(1 Mark)</b>