CHAPTER EIGHT SOLUTIONS

Solution to Assignment Problem Eight - 1

Part A

The total cost of the 1,222 shares remaining on December 31, 2014 would be $17,077. This is calculated in the following table:

Acquisition Or Sale Date	Shares Purchased (Sold)	Cost Per Share	Total Cost	Average Cost/Share
March 2008	650	$11.00	$ 7,150	
September, 2009	922	13.00	11,986	
May, 2011	480	17.00	8,160	
Subtotal	2,052		$27,296	$13.30
November, 2011 Sale	(610)	$13.30	(8,113)	
July, 2014	240	18.00	4,320	
Subtotal	1,682		$23,503	$13.97
October, 2014	(460)	$13.97	(6,426)	
December 31, 2014 Balances	1,222		$17,077	

Part B

The average cost of the shares sold during July, 2014 would be calculated as follows:

April, 2013 Purchase [(2,200)($12)]	$26,400
December, 2013 Purchase [(1,450)($17)]	24,650
Total Cost	$51,050
Average Cost ($51,050 ÷ 3,650)	$13.99

Given this average cost, the taxable capital gain on the July, 2014 sale of shares would be calculated as follows:

Proceeds [(2,840)($22)]	$62,480.00
Cost [(2,840)($13.99)]	(39,731.60)
Capital Gain	$22,748.40
Inclusion Rate	1/2
Taxable Capital Gain	$11,374.20

Solution to Assignment Problem Eight - 2

Basic Alternatives

The basic issue here is whether the profit resulting from the sale is business income or, alternatively, a capital gain. The basic criteria in making this distinction is the intent of the taxpayer at the time the asset is acquired. Was it being acquired to produce income or, alternatively, was it being acquired for resale at a profit. Additional criteria (most of which are relevant to this solution) that can be used in determining intent are as follows:

- length of ownership period
- number and/or frequency of such transactions
- relationship to the taxpayer's business
- supplemental work on the property
- nature of the asset
- objectives stated in the articles of incorporation

Business Income Approach

CL did no work on the land, did not receive income from the land, and the length of the ownership period was relatively short. Casper also informed the property manager of the industrial park that he might be interested in selling some of the land.

This would suggest business income treatment. Also supporting this view is the fact that Casper believed, at the time of purchase, that the land could be resold at a profit. The addition to Net Income For Tax Purposes in 2014 resulting from business income treatment would be as follows:

Proceeds Of Disposition	$4,300,000
Cost [($11,800,000)(10 ÷ 40)]	(2,950,000)
Addition To Net Income For Tax Purposes	$1,350,000

The reserve available under ITA 20(1)(n) is only available on business income, i.e., property sold during the ordinary course of business. Since CL provides moving services and does not sell land as its business, the company would not be eligible for this reserve. Business income reserves are covered in Chapter 6.

Capital Gains Approach

The fact that the original intent was to move the company's operation to this site would suggest capital gains treatment. In addition, the offer was unsolicited, the land sale appears to be the only one that CL has made and CL's business is not land development or real estate.

It would appear that the arguments for capital gains treatment are stronger than those for business income treatment. However, this situation could change if CL sells more pieces of land in the near future as that would make this sale one of several and more indicative of business income.

The minimum addition to Net Income For Tax Purposes in 2014 resulting from capital gains treatment would be as follows:

Proceeds Of Disposition	$4,300,000
Adjusted Cost Base [($11,800,000)(10 ÷ 40)]	(2,950,000)
Total Capital Gain	$1,350,000
Less Reserve - Lesser Of:	
• [($1,350,000)($2,800,000 ÷ $4,300,000)] = $879,070	
• [($1,350,000)(20%)(4 - 0)] = $1,080,000	(879,070)
Capital Gain	$ 470,930
Inclusion Rate	1/2
Addition To Net Income For Tax Purposes	$ 235,465

While additional income would have to be recognized in 2015 to 2017 under this approach, the total amount would only be $675,000, one-half of the amount to be recognized under the business income approach. In addition, the capital gains approach provides significant tax deferral through the use of a capital gains reserve.

Solution to Assignment Problem Eight - 3

2014 Results

The only tax consequence in this year is the capital gain that occurs on the sale. The gain, along with the maximum deductible reserve, would be calculated as follows:

Proceeds Of Disposition	$6,680,000
Adjusted Cost Base	(2,160,000)
Capital Gain	$4,520,000
Reserve - Lesser Of:	
• [($4,520,000)($4,500,000 ÷ $6,680,000)] = $3,044,910	
• [($4,520,000)(20%)(4 - 0)] = $3,616,000	(3,044,910)
Capital Gain	$1,475,090
Inclusion Rate	1/2
Taxable Capital Gain	$ 737,545

As no provision can be made for the estimated cost of the warranty, the total Net Income For Tax Purposes inclusion for 2014 would be $737,545.

2015 Results

During this year, Lawrence will include $180,000 [(4%)($4,500,000)] of interest in his Net Income For Tax Purposes.

In addition, Lawrence will include the 2014 reserve in income and deduct a new reserve for 2015. The calculations are as follows:

2014 Reserve	$3,044,910
2015 Reserve - Lesser Of:	
• [($4,520,000)($3,000,000 ÷ $6,680,000)] = $2,029,940	
• [($4,520,000)(20%)(4 - 1)] = $2,712,000	(2,029,940)
Capital Gain	$1,014,970
Inclusion Rate	1/2
Taxable Capital Gain	$ 507,485

The total Net Income For Tax Purposes inclusion for 2015 would be $687,485 ($180,000 + $507,485).

2016 Results

During this year, Lawrence will include $120,000 [(4%)($3,000,000)] of interest in his Net Income For Tax Purposes.

He will have a capital gain consisting of the addition of the 2015 reserve in income and the deduction of a new reserve for 2016. He will also have a capital loss due to the $1,000,000 payment to the developer. As this payment is required by a warranty on a capital asset, it is a capital loss.

The calculations are as follows:

2015 Reserve	$2,029,940
2016 Reserve - Lesser Of:	
• [($4,520,000)($1,500,000 ÷ $6,680,000)] = $1,014,970	
• [($4,520,000)(20%)(4 - 2)] = $1,808,000	(1,014,970)
Capital Gain	$1,014,970
Inclusion Rate	1/2
Taxable Capital Gain	$ 507,485

Warranty Payment On Capital Asset = Capital Loss	($1,000,000)
Inclusion Rate	1/2
Allowable Capital Loss	($ 500,000)

The total Net Income For Tax Purposes inclusion for 2016 would be $127,485 ($120,000 + $507,485 - $500,000).

2017 Results

With the bankruptcy of the developer, no interest will be collected in 2017 and the balance of the loan must be written off as a bad debt, resulting in a capital loss of $1,500,000 [(Nil - ($4,500,000 - $3,000,000)].

Lawrence will include the 2016 reserve of $1,014,970 in income. Since the loan was to be paid off in 2017, there would have been no new reserve to be deducted, regardless of the bankruptcy.

The capital loss can be deducted to the extent of the capital gain of $1,014,970. The remaining allowable capital loss of $242,515 [(1/2)($1,500,000 - $1,014,970)] can only be deducted in 2017 to the extent of taxable capital gains in that year. However, it can be carried back to be applied to the capital gains that were recognized in previous years.

Summary (Not Required)

The results can be summarized as follows:

Year	Interest	Taxable Gain (Allowable Loss)
2014	Nil	$737,545
2015	$180,000	507,485
2016	120,000	507,485
2016		(500,000)
2017	Nil	(242,515)
Totals	$300,000	$1,010,000

The amount of the taxable capital gain can be verified as follows:

Initial Capital Gain	$4,520,000
Warranty Payment	(1,000,000)
Bad Debt	(1,500,000)
Capital Gain	$2,020,000
Inclusion Rate	1/2
Taxable Capital Gain	$1,010,000

Solution to Assignment Problem Eight - 4

Capital Gain And Reserve Limits

The total amount of the taxable capital gain can be calculated as follows:

Proceeds Of Disposition	$1,730,000
Adjusted Cost Base	(430,000)
Total Capital Gain	$1,300,000
Inclusion Rate	1/2
Total Taxable Capital Gain	$ 650,000

Under ITA 40(1)(a)(iii), the amount that can be deducted as a capital gains reserve is equal to the lesser of:

- [(Capital Gain)(Proceeds Not Yet Due ÷ Total Proceeds)]
- [(Capital Gain)(20%)(4 - Number Of Preceding Years Ending After Disposition)]

The first of the limiting factors is based, as would be expected, on the pattern of collections. In contrast, the second factor serves to require that at least 20 percent of any gain be recognized in the year of disposition and each subsequent year, regardless of the pattern of cash collections.

The payment schedule for the sale required a 30 percent down payment ($519,000/$1,730,000), followed by annual payments of 5 percent ($86,500/$1,730,000) in the following years. Given this, the reserve percentages under the two components of the ITA 40(1)(a)(iii) schedule are as follows:

Year	Proceeds Not Yet Due	20 Percent Formula
2014	70%	80%
2015	65%	60%
2016	60%	40%
2017	55%	20%
2018	50%	Nil

2014

The maximum reserve for 2014 would be the lesser of:

- [($1,300,000)($1,211,000 ÷ $1,730,000)] = $910,000
- [($1,300,000)(20%)(4 - 0)] = $1,040,000

The lesser figure is $910,000, reflecting the fact that the down payment was greater than 20 percent. Given this, the taxable capital gain for 2014 would be calculated as follows:

Total Capital Gain	$1,300,000
New Reserve	(910,000)
Capital Gain	$ 390,000
Inclusion Rate	1/2
Taxable Capital Gain For 2014	$ 195,000

2015

The maximum reserve for 2015 would be the lesser of:

- [($1,300,000)($1,124,500 ÷ $1,730,000)] = $845,000
- [($1,300,000)(20%)(4 - 1)] = $780,000

The lesser figure is $780,000. This reflects the fact that the required recognition of 40 percent exceeds the percentage of the proceeds collected (35%). Given this, the taxable capital gain for 2015 would be calculated as follows:

Previous Year's Reserve	$910,000
New Reserve	(780,000)
Capital Gain	$130,000
Inclusion Rate	1/2
Taxable Capital Gain For 2015	$ 65,000

2016, 2017 And 2018

In these years, the 20 percent formula continues to provide the lower figure and the reserve would decline as follows:

- 2016 [($1,300,000)(20%)(4 Years - 2 Years)] = $520,000
- 2017 [($1,300,000)(20%)(4 Years - 3 Years)] = $260,000
- 2018 [($1,300,000)(20%)(4 Years - 4 Years)] = Nil

Based on this, taxable capital gain for these three years will be calculated as follows:

	2016	**2017**	**2018**
Previous Year's Reserve	$780,000	$520,000	$260,000
New Reserve	(520,000)	(260,000)	Nil
Capital Gain	$260,000	$260,000	$260,000
Inclusion Rate	1/2	1/2	1/2
Taxable Capital Gain	$130,000	$130,000	$130,000

At the end of 2018, the entire taxable capital gain of $650,000 will have been recognized:

2014	$195,000
2015	65,000
2016	130,000
2017	130,000
2018	130,000
Total	$650,000

Solution to Assignment Problem Eight - 5

Capital Gain

The taxable capital gain on the disposition would be calculated as follows:

Proceeds Of Disposition	$895,000
Adjusted Cost Base	(135,000)
Selling Costs [(4%)($895,000)]	(35,800)
Capital Gain	$724,200
Inclusion Rate	1/2
Taxable Capital Gain	$362,100

Reserve Limits

Under ITA 40(1)(a)(iii), the amount that can be deducted as a capital gains reserve is equal to the lesser of:

- [(Capital Gain)(Proceeds Not Yet Due ÷ Total Proceeds)]
- [(Capital Gain)(20%)(4 - Number Of Preceding Years Ending After Disposition)]

The second part of this formula serves to require that at least 20 percent of the gain be recognized in the year of disposition and each subsequent year, without regard to the pattern of cash collected.

Part A

The reserve percentage under the two components of ITA 40(1)(a)(iii) would be as follows:

Year	Proceeds Not Yet Due	20 Percent Formula
2014	90%	80%
2015	80%	60%
2016	70%	40%
2017	60%	20%
2018	50%	Nil

In this case, the formula calculation provides the lowest figure in each of the 5 years. Using this as the basis for the reserve will result in the recognition of $144,840 [(20%)($724,200)] of the gain in each of the five years. The taxable amount in each year will be $72,420, for a total of $362,100 over the five years 2014 through 2018.

Part B

In this case, the reserve percentage components would be as follows:

Year	Proceeds Not Yet Due	20 Percent Formula
2014	50%	80%
2015	40%	60%
2016	30%	40%
2017	20%	20%
2018	10%	Nil

For the years 2014 through 2016, the proceeds not yet due calculation provides the lowest figure. Based on this, the gains to be recognized in these three years would be calculated as follows:

2014 Capital Gain	$724,200
2014 Reserve [($724,200)(50%)]	(362,100)
Capital Gain	$362,100
Inclusion Rate	1/2
Taxable Capital Gain For 2014	$181,050

2014 Reserve	$362,100
2015 Reserve [($724,200)(40%)]	(289,680)
Capital Gain	$ 72,420
Inclusion Rate	1/2
Taxable Capital Gain For 2015	$ 36,210

2015 Reserve	$289,680
2016 Reserve [($724,200)(30%)]	(217,260)
Capital Gain	$ 72,420
Inclusion Rate	1/2
Taxable Capital Gain For 2016	$ 36,210

For the year 2017, both components of the ITA 40(1)(a)(iii) have the same percentage.

2016 Reserve	$217,260
2017 Reserve [($724,200)(20%)]	(144,840)
Capital Gain	$ 72,420
Inclusion Rate	1/2
Taxable Capital Gain For 2017	$ 36,210

For the year 2018, the 20 percent formula provides the lower percentage.

2017 Reserve	$144,840
2018 Reserve [($724,200)(0%)]	Nil
Capital Gain	$144,840
Inclusion Rate	1/2
Taxable Capital Gain For 2018	$ 72,420

As shown in the following table, at this point the entire $362,100 taxable capital gain has been recognized:

Year	**Gain Recognized**
2014	$181,050
2015	36,210
2016	36,210
2017	36,210
2018	72,420
Total	$362,100

Solution to Assignment Problem Eight - 6

1. The described treatment is not correct. While Mr. Acker has not sold any property, a part of his building has undergone a change in use from a rental property to a personal use property. As a consequence, there will be a deemed disposition at fair market value for that portion of the building that he is occupying. Any resulting capital gain or loss will have to be reflected in his current tax return. If he had not taken CCA on the property, he could have filed an election to postpone the recognition of the capital gain until he sells the property.

2. This interpretation is not correct. No recognition can be given to the estimated cost of the warranty prior to the provision of the warranty services. As a consequence, a capital gain of $33,000 will have to be recognized. However, when the warranty services are provided, the costs of providing the services can be treated as capital losses.

3. The described treatment is correct. Losses on the sale of personal use property such as the table are not deductible. The gain on the painting is not taxable as both the adjusted cost base and the proceeds are less than $1,000.

4. The described treatment is the appropriate one.

Proceeds Of Disposition ($11,600 - $200)	$11,400
Adjusted Cost Base ($11,200 - $800)	(10,400)
Capital Gain	$ 1,000
Inclusion Rate	1/2
Taxable Capital Gain	$ 500

5. The described treatment is the appropriate one.

Solution to Assignment Problem Eight - 7

As the ownership period varies for the two properties, the total gains must be converted to annual amounts. The Kelowna home was owned for 20 years (1995 through 2014) and the Ottawa home was owned for 12 years (2003 through 2014).

Given this, the annual gains are as follows:

	Kelowna Home	Ottawa Home
Proceeds Of Disposition	$897,000	$534,000
Adjusted Cost Base	(623,000)	(426,000)
Total Capital Gain	$274,000	$108,000
Divided By Years Owned	20	12
Annual Gains	$ 13,700	$ 9,000

As the annual gain is larger on the Kelowna home, qualifying years should be designated to that property first. Because of the plus one in the exemption formula, it will only take 19 years to completely eliminate the gain on this property. This leaves 1 year to be designated to the Ottawa home.

The required calculations would be as follows:

	Kelowna Home	Ottawa Home
Total Capital Gain	$274,000	$108,000
Exemption:		
Kelowna Home (1995 to 2013) {[$274,000][(19 + 1) ÷ 20]}	(274,000)	
Ottawa Home (2014) {[$108,000][(1 + 1) ÷ 12]}		(18,000)
Capital Gain	Nil	$ 90,000
Inclusion Rate	N/A	1/2
Taxable Capital Gain	Nil	$ 45,000

This gives a total taxable capital gain on the two properties of $45,000.

Solution to Assignment Problem Eight - 8

Classification Of Property

All of the items sold are personal use property. However, if they can be classified as "listed personal property", their tax treatment will be different. Under ITA 54, listed personal property consists of the following items.

(i) print, etching, drawing, painting, sculpture, or other similar work of art,
(ii) jewelry,
(iii) rare folio, rare manuscript, or rare book,
(iv) stamp, or
(v) coin.

The Paul Borduas painting, as well as the Hemingway first edition clearly fall into the listed personal property classification. The Bentley and the Chris Craft clearly do not.

The classification of the fountain pen collection is not clear. The issue is whether a pen can be considered jewelry (and not a writing implement) as there are fountain pens that cost as much as $100,000 and are made from precious metals and stones.

The dictionary definition of jewel includes "a precious possession". However, the definition of jewelry is more narrow, referring to "ornaments for personal adornment". Whether something that is displayed on one's desk would be considered personal adornment would be debatable, but the fact that Mr. Howard always "wears" the pens prominently would favour the jewelry classification.

In the solution which follows, we have classified the pens as jewelry. However, we recognize that this classification could be subject to challenge.

Effect On Net Income For Tax Purposes

The overall amount to be included in Net Income For Tax Purposes can be calculated as follows:

Personal Use Property		
Gain On Antique Boat ($62,000 - $45,000)	$17,000	
Loss On Bentley (Note 1)	Nil	$17,000
Listed Personal Property		
Gain On First Edition ($31,000 - $12,000)	$19,000	
Gain On Painting ($132,000 - $128,000)	4,000	
Total Listed Personal Property Gains	$23,000	
Loss On Pens (Note 2)	(23,000)	Nil
Net Capital Gains		$17,000
Inclusion Rate		1/2
Addition To Net Income For Tax Purposes		$ 8,500

Note 1 Unless an item of personal use property can be classified as listed personal property, losses on its disposition cannot be deducted. However, gains on such property are taxable, without regard to the classification.

Note 2 The total loss on the pen collection is $29,000 ($13,000 - $42,000). However, the current year deduction is limited to the $23,000 in gains on listed personal property. The remaining $6,000 ($29,000 - $23,000) can be carried back 3 years and forward 7 years to be applied against gains on listed personal property that have occurred in previous years or may occur in subsequent years.

Solution to Assignment Problem Eight - 9

2012 Results

The purchase of shares with newly acquired Swiss Francs will have no effect on Net Income For Tax Purposes in this year.

2013 Results

The total dividend received is SF5,500 [(5,000)(SF1.10)]. This amount will be converted to $6,325 [(SF5,500)($1.15)] and included in Mr. Franklin's 2013 Net Income For Tax Purposes. Since Matterhorn is not a taxable Canadian corporation, its dividends are not eligible for the gross up and tax credit procedures.

2014 Results

The taxable capital gain on the sale of securities would be calculated as follows:

	SF Amount	Rate	Translated
Proceeds Of Disposition [(5,000)(SF23)]	SF115,000	$1.17	$134,550
Adjusted Cost Base [(5,000)(SF25)]	(SF125,000)	$1.14	(142,500)
Capital Gain (Loss) On Sale Of Securities	(SF 10,000)		($ 7,950)
Inclusion Rate			1/2
Allowable Capital Loss			($ 3,975)

At the time of conversion, Mr. Franklin will have SF5,500 from the 2013 dividend, plus SF115,000 from the sale of shares, a total of SF120,500. A capital loss will result from their conversion, calculated as follows:

Proceeds Of Conversion [(SF120,500)($1.16)]		$139,780
Adjusted Cost Base		
Dividend Proceeds [(SF5,500)($1.15)]	$ 6,325	
Share Proceeds [(SF115,000)($1.17)]	134,550	(140,875)
Capital Gain (Loss) On Foreign Exchange		($ 1,095)
ITA 39(1.1) Reduction Of Capital Loss		200
Net Capital Loss		($ 895)
Inclusion Rate		1/2
Allowable Capital Loss		($ 448)

The total allowable capital loss of $4,423 ($3,975 + $448) can only be deducted in 2014 to the extent that Mr. Franklin has taxable capital gains in that year. If all or part of it cannot be currently used, the unused portion can be carried back 3 years and forward without limit, to be applied against taxable capital gains in those years.

Note that because Mr. Franklin is an individual, the ITA 39(1.1) deduction of $200 reduces the capital loss on the foreign exchange conversion.

Solution to Assignment Problem Eight - 10

2012 Results

During 2012, 100 percent of the property was used for income producing purposes. The CCA for the year would be calculated as follows:

Capital Cost ($645,000 - $120,000)	$525,000
One-Half Net Additions	(262,500)
CCA Base	$262,500
Maximum CCA [(4%)($262,500)]	(10,500)
One-Half Net Additions	262,500
UCC - January 1, 2013	$514,500

There are no additional tax consequences during this year.

2013 Results

On January 1, 2013, there would be a deemed disposition/acquisition of 25 percent of the depreciable property. The transaction would be measured using the building's fair market value of $460,000 ($560,000 - $100,000). Given this, the maximum CCA on the remaining 75 percent would be calculated as follows:

Opening UCC	$514,500
Deemed Disposition - Lesser Of:	
• Capital Cost [(25%)($525,000)] = $131,250	
• Deemed Proceeds [(25%)($460,000)] = $115,000	(115,000)
CCA Base	$399,500
Maximum CCA [(4%)($399,500)]	(15,980)
UCC - January 1, 2014	$383,520

While the value of the building has declined from $525,000 ($645,000 - $120,000) to $460,000 ($560,000 - $100,000), no loss can be recognized. As there is still an asset in the Class, a terminal loss cannot be recognized. In addition, we would remind you that you cannot have a capital loss on a depreciable asset disposition.

The allowable capital loss on the land of $2,500 [(25%)(1/2)($120,000 - $100,000)] can be deducted against the taxable capital gains on dispositions from her portfolio. Since her income from other sources is so high, she will deduct maximum CCA regardless of how the business is doing.

The cost to Laci of the 25 percent of the property that is being used for personal purposes would be $115,000 [(25%)($460,000)] allocated to the building and $25,000 [(25%)($100,000)] allocated to the land.

2014 Results

On January 1, 2014, there would be a deemed acquisition of 25 percent of the depreciable property. The capital cost of the building acquisition would be $140,000 [(25%)($690,000 - $130,000)]. However, as the change is from personal use to business use and the fair market value of the building is greater than its cost, the UCC will be limited to her cost plus one-half of the difference between fair market value and cost or $127,500 [$115,000 + (1/2)($140,000 - $115,000)].

Maximum CCA for would be calculated as follows:

Opening UCC	$383,520
Deemed Acquisition	
[$115,000 + (1/2)($140,000 - $115,000)]	127,500
Deduct: One-Half Net Additions [(1/2)($127,500)]	(63,750)
CCA Base	$447,270
Maximum CCA [(4%)($447,270)]	(17,891)
Add: One-Half Net Additions	63,750
UCC - January 1, 2015	$493,129

As a result of the deemed disposition, Laci would have a taxable capital gain on both the land and the building. They would be calculated as follows:

	Land	**Building**
Proceeds Of Disposition		
[(25%)($130,000)]	$32,500	
[(25%)($560,000)]		$140,000
Adjusted Cost Base [(25%)($100,000)]	(25,000)	
Capital Cost [(25%)($460,000)]		(115,000)
Capital Gains	$ 7,500	$ 25,000
Inclusion Rate	1/2	1/2
Taxable Capital Gains	$ 3,750	$ 12,500

Even though Laci has a home other than the apartment, she could eliminate these gains by making use of the +1 year in the principal residence exemption formula. Assuming she did that, she would have to allow for the designated year in the exemption formula when she sells her home.

Solution to Assignment Problem Eight - 11

Ms. Doan's taxable capital gain on deemed dispositions resulting from her departure from Canada would be calculated as follows:

ABC Ltd. Shares ($86,000 - $42,000)	$44,000
Vacant Land (Note 1)	N/A
Power Corporation Shares ($72,000 - $38,000)	34,000
TD Bank Shares ($72,000 - $84,000)	(12,000)
Sailboat (Note 2)	N/A
Oil Painting ($11,000 - $5,000)	6,000
Stamp Collection (Note 3)	(6,000)
Capital Gain	$66,000
Inclusion Rate	1/2
Taxable Capital Gain On Departure	$33,000

Note 1 Real property is exempted from the ITA 128.1(4)(b) deemed disposition requirement. However, as it is taxable Canadian property, a later sale of this land will attract Canadian income taxes, even though Ms. Doan is no longer a Canadian resident.

Note 2 Losses on personal use property are not deductible.

Note 3 Both the oil painting and the stamp collection are listed personal property. While there is a $9,000 ($12,000 - $3,000) loss on the stamp collection, it can only be deducted to the extent of the $6,000 gain on the oil painting. However, the remaining $3,000 ($9,000 - $6,000) can be carried back three years and carried forward for up to seven years to be applied against any gains on listed personal property that might occur in those years.

Solution to Assignment Problem Eight - 12

First Sale

Since Ms. Tosh has held the Tech Ltd. common shares for more than 185 days, it is a qualifying disposition. Since the Small Oil common shares were purchased immediately, they can be designated as replacement shares.

Preferred shares cannot be designated as replacement shares. As a result, the Small Bank Inc. shares do not qualify as replacement shares.

The capital gain on the Tech Ltd. disposition is $700,000 ($4,200,000 - $3,500,000). As the cost of replacement shares is only $3,800,000, the permitted deferral is limited as per the following calculation:

[($700,000)($3,800,000 ÷ $4,200,000)] = $633,333 Deferral

Given this, the adjusted cost base of the Small Oil shares would be calculated as follows:

Unadjusted Cost	$3,800,000
Deferral Amount	(633,333)
Adjusted Cost Base Of Small Oil Shares	$3,166,667

Second Sale

Since Ms. Tosh has held the Future Inc. common shares for more than 185 days, it is a qualifying disposition. Since the eligible small business corporation common shares were purchased in the current year, they can be designated as replacement shares.

The capital gain on the disposition of Future Inc. shares is $1,800,000 ($5,600,000 - $3,800,000). Of the $5,600,000 in proceeds, only $5,200,000 ($2,400,000 + $2,800,000) was invested in replacement shares. This means that the permitted deferral will be limited as per the following calculation:

[($1,800,000)($5,200,000 ÷ $5,600,000)] = $1,671,429 Deferral

Using this information, the adjusted cost base of the newly acquired shares would be calculated as follows:

	Sombra Shares	**Ziff Shares**
Purchase Price	$2,400,000	$2,800,000
Deferral:		
[($1,671,429)($2,400,000 ÷ $5,200,000)]	(771,429)	
[($1,671,429)($2,800,000 ÷ $5,200,000)]		(900,000)
Adjusted Cost Base	$1,628,571	$1,900,000

Net Taxable Capital Gain

If Ms. Tosh does not purchase any other replacements shares within 120 days of December 31, 2014, the two sales would result in a taxable capital gain, calculated as follows:

	Total Gain	**Deferral**	**Net Gain**
Tech Ltd. Shares	$ 700,000	$ 633,333	$ 66,667
Future Inc. Shares	1,800,000	1,671,429	128,571
Totals	$2,500,000	$2,304,762	$195,238
Inclusion Rate			1/2
Net Taxable Capital Gain			$ 97,619

Advice

If Ms. Tosh invests in any eligible small business corporation common shares, including her brother's company's, within 120 days of December 31, 2014, she can designate up to $800,000 as replacement shares. She would then be able to defer more or all of the capital gain on the two sales of shares.

If she wants to invest in her brother's company after the 120 days has passed, she should review her other investments to determine if she can use the deferral provisions on small business investments to her advantage to obtain the $1,000,000.

There is the question of whether Ms. Tosh should invest in her brother's new company, but that would involve an analysis that goes beyond the scope of the material in the text.

Solution to Assignment Problem Eight - 13

Part A

The 2014 tax consequences would be as follows:

Land The Company would have a taxable capital gain on the Land calculated as follows:

Proceeds Of Disposition	$1,100,000
Adjusted Cost Base	(350,000)
Capital Gain	$ 750,000
Inclusion Rate	1/2
Taxable Capital Gain	$ 375,000

Building The Company would have a taxable capital gain and recapture calculated as follows:

Proceeds Of Disposition	$2,300,000
Capital Cost	(2,100,000)
Capital Gain	$ 200,000
Inclusion Rate	1/2
Taxable Capital Gain	$ 100,000

Opening UCC	$ 850,000
Deduct Disposition - Lesser Of:	
Capital Cost = $2,100,000	
Proceeds Of Disposition = $2,300,000	(2,100,000)
Negative Closing UCC Balance = Recapture	($1,250,000)
Recapture (Included In Income)	1,250,000
UCC - January 1, 2015	Nil

Equipment The Company would have recapture calculated as follows:

Opening UCC	$165,000
Deduct Disposition - Lesser Of:	
Capital Cost = $450,000	
Proceeds Of Disposition = $320,000	(320,000)
Negative Closing UCC Balance = Recapture	($155,000)
Recapture (Included In Income)	155,000
UCC - January 1, 2015	Nil

Part B

Land With respect to the Land, the capital gain resulting from the use of the ITA 44(1) election would be the lesser of:

- $750,000 (regular capital gain); and
- $500,000 (the excess of the $1,100,000 proceeds of disposition for the old land over the $600,000 cost of the replacement land).

The taxable amount would be $250,000 [(1/2)($500,000)] and this would be included in the revised 2014 Net Income For Tax Purposes.

If the ITA 44(1) election is used in 2015, the deemed adjusted cost base of the replacement land would be calculated as follows:

Actual Cost	$600,000
Capital Gain Reversed By Election ($750,000 - $500,000)	(250,000)
Deemed Adjusted Cost Base Of Replacement Land	$350,000

Note that the deemed adjusted cost base of the replacement land has been reduced to the adjusted cost base of the old land.

Building If the ITA 44(1) election is used in 2015, the amended 2014 capital gain would be nil, the lesser of:

- $200,000 (regular capital gain); and
- Nil (reflecting the fact that there was no excess of the $2,300,000 proceeds of disposition for the old building over the $2,500,000 cost of the replacement building).

Using this election will reduce the deemed capital cost for the building as follows:

Actual Cost	$2,500,000
Capital Gain Reversed By Election	(200,000)
Deemed Capital Cost Of Replacement Building	$2,300,000

If the ITA 13(4) election is used in 2015, the amended 2014 recapture would be calculated as follows:

January 1, 2014 UCC Balance		$850,000
Deduction:		
Lesser Of:		
• Proceeds Of Disposition = $2,300,000		
• Capital Cost = $2,100,000	($2,100,000)	
Reduced By The Lesser Of:		
• Normal Recapture = $1,250,000		
• Replacement Cost = $2,500,000	1,250,000	(850,000)
Recapture Of 2014 CCA (Amended)		Nil

If both elections are used in 2015, the UCC of the replacement building is calculated as follows:

Deemed Capital Cost	$2,300,000
Recapture Reversed By Election	(1,250,000)
UCC - Replacement Building	$1,050,000

Note that the $1,050,000 UCC for the new building is equal to the UCC of the old building ($850,000), plus the additional $200,000 ($2,500,000 - $2,300,000) in funds required for its acquisition.

Equipment As this is a voluntary disposition, the ITA 13(4) and 44(1) elections can only be used on real property (land and buildings). They cannot be used on the equipment and, as a consequence, the $155,000 in recapture will not be altered in the amended return. As the elections cannot be used, both the capital cost and the UCC of the new equipment will be $520,000.

Part C

The Election The ITA 44(6) election applies when there is a disposition involving a combination of part land and part building. If, for either of the assets, the proceeds of disposition exceed the adjusted cost base, the election allows the transfer of all or part of that excess to the other asset.

As will be demonstrated in this problem, this can provide some relief when ITA 44(1) and ITA 13(4) fail to eliminate all of the capital gains arising on one part of the disposition of the old property. ITA 44(1) fully eliminated the capital gain on the building. However, a $500,000 capital gain remained on the land. This would suggest that it could be advantageous to transfer some of the proceeds of disposition from the land to the building.

The excess of the proceeds of disposition of the old land over the cost of the replacement land was $500,000 ($1,100,000 - $600,000). This is the maximum available transfer from the land to the building. However, the excess of the cost of the replacement building over the old building's proceeds of disposition is only $200,000 ($2,500,000 - $2,300,000). If a transfer in excess of this amount is made, any reduction in the capital gain on the land will be matched by an increased capital gain on the building.

Applying ITA 44(6) in an optimal manner will result in the following adjusted proceeds of disposition:

	Land	Building
Actual Proceeds Of Disposition	$1,100,000	$2,300,000
Optimal Transfer Land To Building	(200,000)	200,000
Adjusted Proceeds Of Disposition	$ 900,000	$2,500,000

Application To Land If both ITA 44(1) and ITA 44(6) are applied, the resulting capital gain on the land will be calculated as follows:

- $550,000 ($900,000 - $350,000); and
- $300,000 (the excess of the $900,000 adjusted proceeds of disposition for the old land over the $600,000 cost of the replacement land).

This is a reduction of $200,000 ($500,000 - $300,000) from the amount that was calculated when only ITA 44(1) was applied. However, the adjusted cost base of the land would be unchanged by the use of ITA 44(6):

Actual Cost	$600,000
Capital Gain Deferred ($550,000 - $300,000)	(250,000)
Deemed Adjusted Cost Base Of Replacement Land	$350,000

Application To Building With the proceeds of disposition transfer limited to $200,000, the capital gain on the building is still nil. Specifically, the gain will be the lesser of:

- $400,000 ($2,500,000 - $2,100,000); and
- Nil (reflecting the fact that there was no excess of the $2,500,000 proceeds of disposition for the old building over the $2,500,000 cost of the replacement building).

However, the capital cost and UCC of the building will be reduced by the application of ITA 44(6):

Actual Cost	$2,500,000
Capital Gain Deferred By The Two Elections	(400,000)
Deemed Capital Cost	$2,100,000
Recapture Reversed By ITA 13(4)	(1,250,000)
UCC - Replacement Building	$ 850,000

Comparison The table which follows compares the results of using only ITA 44(1) and ITA 13(4) with the results that arise then the ITA 44(6) election is also used.

	No ITA 44(6)	With ITA 44(6)
Capital Gains		
Land	$500,000	$300,000
Building	Nil	Nil
Replacement Property		
Adjusted Cost Base Of Land	$ 350,000	$ 350,000
Adjusted Cost Base Of Building	2,300,000	2,100,000
UCC	1,050,000	850,000

As you can see in the table, the use of ITA 44(6) has reduced the capital gain on the land by $200,000. However, it has done so at the cost of reducing the capital cost and UCC of the replacement building. There is a tax cost associated with this trade off in that only one-half of the capital gain would have been taxed in the current year, whereas the future CCA that has been lost would be fully deductible.

Solution to Assignment Problem Eight - 14

Part A

The 2014 tax consequences of the involuntary disposition would include both taxable capital gains and recapture. The amounts would be calculated as follows:

	Land	Building
Proceeds Of Disposition:		
Sale Price Of Land	$250,000	
Insurance Proceeds For Building		$1,250,000
Adjusted Cost Base/Capital Cost	(140,000)	(750,000)
Capital Gain	$110,000	$ 500,000
Inclusion Rate	1/2	1/2
Taxable Capital Gain	$ 55,000	$ 250,000

July 1, 2013 UCC Balance	$ 599,298
Lesser Of:	
• Cost = $750,000	
• Proceeds Of Disposition = $1,250,000	(750,000)
June 30 UCC Balance	($ 150,702)
Recapture	150,702
July 1, 2014 UCC	Nil

For the fiscal year ending June 30, 2014, there is no CCA claim. Instead, there is $150,702 in recaptured CCA that must be taken into income.

As a result of this involuntary disposition, Wilson will have an addition to 2014 Net Income For Tax Purposes of $455,702 ($55,000 + $250,000 + $150,702).

Part B

After the land and building are replaced in the fiscal year ending June 30, 2015, an election can be made under ITA 44(1), and an amended return can be filed for 2014. In the amended return, the capital gains will be nil, the lesser of the amounts calculated in Part A and the following:

	Land	Building
Proceeds Of Disposition	$250,000	$1,250,000
Less: Cost Of Replacement Property	(300,000)	(1,300,000)
Excess, If Any	Nil	Nil

The reversed amounts will have to be removed from the capital costs of the new assets, resulting in the following revised capital cost values:

	New Land	New Building
Cost	$300,000	$1,300,000
Capital Gain Reversed By Election	(110,000)	(500,000)
Deemed Cost	$190,000	$ 800,000

These values can also be calculated by taking the old capital costs of $140,000 and $750,000, and adding the additional funds required to replace the old assets ($50,000 for the land and $50,000 for the building).

An election can also be made under ITA 13(4) to amend the 2014 recapture to nil. The calculation would be as follows:

July 1, 2013 UCC Balance		$599,298
Deduction:		
Lesser Of:		
• Proceeds Of Disposition = $1,250,000		
• Capital Cost = $750,000	$750,000	
Reduced By The Lesser Of:		
• Normal Recapture = $150,702		
• Replacement Cost = $1,300,000	(150,702)	(599,298)
Recapture Of 2014 CCA (Amended)		Nil

The UCC of the new building will be adjusted for this change as follows:

Deemed Capital Cost Of Building (See Preceding Calculation)	$ 800,000
Recapture Reversed - ITA 13(4) Election	(150,702)
UCC	$ 649,298

This $649,298 can also be calculated as the old UCC of $599,298, plus the $50,000 ($1,300,000 - $1,250,000) in funds invested by Wilson in excess of the insurance proceeds.

Part C

The CCA claim for the fiscal year ending June 30, 2015 would be calculated as follows:

Opening UCC Balance	Nil
Addition of New Building UCC	$649,298
One-Half Net Additions	(324,649)
CCA Base	$324,649
Enhanced Rate For New Class 1 Non-Residential Buildings	6%
CCA For 2015	$ 19,479

Solution to Assignment Problem Eight - 15

Net Business Income

Mr. Bosch's Net Business Income would be calculated as follows:

Accounting Income Before Taxes	$196,000
Additions:	
Accounting Amortization	29,000
Charitable Donations	5,500
Political Contributions	700
Meals And Entertainment [(1/2)($27,600)]	13,800
Deductions:	
CCA (Note 1)	(39,475)
Landscaping Costs (Note 2)	(30,000)
Warranty Costs (Note 3)	(4,500)
Net Business Income	$171,025

Note 1 The relevant CCA calculations are as follows:

Opening UCC - Class 8	$ 83,000
Additions	63,250
Dispositions - Lesser Of:	
Cost = $46,000	
Proceeds Of Disposition = $28,500	(28,500)
One-Half Net Additions [(1/2)($63,250 - $28,500)]	(17,375)
CCA Base	$100,375
Rate	20%
Class 8 CCA	$ 20,075
Class 1 CCA [(4%)($275,000)]	11,000
Class 10 CCA [(30%)($28,000)]	8,400
Total	$ 39,475

Note 2 Landscaping costs can be deducted under ITA 20(1)(aa) when paid. As $3,000 ($30,000 ÷ 10) was charged to accounting income as amortization, but was added back in the calculation of net business income, the adjustment is for the total amount of $30,000.

Note 3 Since the liability for warranty costs decreased during the year, the actual expenditures for warranty costs must have been greater than the amount expensed for accounting purposes. As a result, there is a deduction from net business income for the $4,500 ($22,000 - $17,500) difference between the opening and ending liability. Stated alternatively, the opening balance of $22,000 can be deducted for tax purposes, while the closing balance of $17,500 cannot be deducted. To adjust accounting income, we require a net deduction of $4,500.

Property Income

Mr. Bosch's only property income is from the rental of the cottage. The required calculations are as follows:

Rent Revenues	$12,000
Rent Expenses Other Than CCA	(3,200)
CCA (See Following Calculation)	(2,950)
Net Rental Income	$ 5,850

Cost Of Building ($25,000 - $5,000)	$ 20,000
Bump Up [(1/2)($375,000 - $100,000 - $20,000)]	127,500
Cost For UCC And CCA Purposes	$147,500
One-Half Net Additions [(1/2)($147,500)]	(73,750)
CCA Base	$ 73,750
Rate For Class 1	4%
CCA	$ 2,950

Net Taxable Capital Gains

Mr. Bosch's Net Taxable Capital Gains are as follows:

Gain On Vacant Land (Note 4)	$ 21,412
Gain On Rental Property (Note 5)	194,444
Loss On Shares (Note 6)	(20,686)
Net Capital Gains	$195,170
Inclusion Rate	1/2
Net Taxable Capital Gains	$ 97,585

Note 4 The capital gain on the vacant land would be calculated as follows:

Proceeds Of Disposition	$85,000
Adjusted Cost Base	(33,000)
Capital Gain	$52,000
Reserve - Lesser Of:	
[($52,000)($50,000 ÷ $85,000)] = $30,588	
[($52,000)(20%)(4 - 0)] = $41,600	(30,588)
Capital Gain	$21,412

Note 5 The capital gain on the change in use is as calculated as follows:

	Land	**Building**
Deemed Proceeds Of Disposition	$100,000	$275,000
Adjusted Cost Base	(5,000)	(20,000)
Capital Gain	$ 95,000	$255,000

This gives a total gain on the deemed disposition of $350,000 ($95,000 + $255,000). Mr. Bosch can designate the property as his principal residence for the years 2006 through 2008. Given this and the fact that he has owned the cottage for 9 years (2006 through 2014), his exemption is equal to $155,556 {[($350,000)(3 + 1)] ÷ 9}. Also note that, because he intends to deduct CCA, he cannot make the ITA 45(2) election not to have a change in use. This leaves a capital gain of $194,444 ($350,000 - $155,556).

Note 6 The capital loss on Low Tech Ltd. shares would be calculated as follows:

Proceeds Of Disposition [(275)($5)]	$ 1,375
Adjusted Cost Base (See Following Calculation)	(22,061)
Capital Loss	($20,686)

The average cost of the shares held would be $80.22 per share {[(150)($55) + (125)($75) + (300)($95)] ÷ 575}. Based on this value, the adjusted cost base of the shares sold would be $22,061 [(275)($80.22)].

Net Income For Tax Purposes

Mr. Bosch's Net Income For Tax Purposes would be calculated as follows:

Net Business Income	$171,025
Net Property Income	5,850
Net Taxable Capital Gains	97,585
Subdivision e Deduction - CPP Payments (Note 7)	(2,426)
Net Income For Tax Purposes	$272,034

Note 7 One-half of the CPP payments, or $2,426 [(1/2)($4,852)] is deductible under Subdivision e. Although Subdivision e deductions are not specifically covered until Chapter 9, Chapter 4 specifies that a self-employed individual will have a tax credit equal to one-half of his CPP contributions for self-employed income, and a deduction for the remaining one-half.

Taxable Income

As there are no Taxable Income deductions available, Mr. Bosch's Taxable Income is equal to his Net Income For Tax Purposes.

Balance Owing

The required calculations here would be as follows:

Tax On First $136,270		$28,837
Tax On Next $135,764 ($272,034 - $136,270) At 29 Percent		39,372
Tax Before Credits		$68,209
Tax Credits:		
Basic Personal Amount	($11,138)	
Common-Law Partner	(11,138)	
Child - Martin	(2,255)	
Child Including FCA - Chris	(4,313)	
CPP [(1/2)($4,712)]	(2,426)	
Transfer Of Chris' Disability	(7,766)	
Chris' Disability Supplement	(4,530)	
Medical Expenses (Note 8)	(19,074)	
Total Credit Base	($62,640)	
Rate	15%	(9,396)
Subtotal		$58,813
Charitable Donations Credit [(15%)($200) + (29%)($5,500 - $200)]		(1,567)
Political Donations [(3/4)($400) + (1/2)($300)]		(450)
CPP Payable		4,852
Balance Owing (Federal)		$61,648

Note 8 The base for the medical expense tax credit would be as follows:

Total Medical Expenses	$21,245
Lesser Of:	
• [(3%)($272,034)] = $8,161	
• 2014 Threshold Amount = $2,171	(2,171)
Medical Expense Tax Credit Base	$19,074

Solution to Assignment Problem Eight - 16

Employment Income

Anita's commission income of $36,000 is large enough not to limit the deduction of her employment related expenses. The required calculations here would be as follows:

Salary	$142,000
Additions	
Bonus (Note 1)	Nil
Commissions	36,000
Taxable Benefit - Employer Paid Life Insurance Premium	1,100
Expense Allowance [(12)($2,500)]	30,000
Stock Option Benefit [(1,500)($41 - $32)]	13,500
Disability Insurance Benefits (Note 2)	5,500
Deductions:	
RPP Contributions	(5,900)
Professional Association Dues	(1,500)
Home Office Expenses (Note 3)	(2,040)
Automobile Costs	
CCA (Note 4)	(5,814)
Operating Costs [(80%)($5,400)]	(4,320)
Hotel Costs	(6,300)
Airline And Other Transportation	(12,300)
Business Meals And Entertainment [(1/2)($8,400)]	(4,200)
Net Employment Income	$185,726

Note 1 As the bonus is paid more than 180 days after the employer's year end, the employer will not be able to deduct the accrual in 2014. This, however, does not change Anita's tax position. She will not have to include the bonus in income until 2015.

Note 2 While Anita must include the $6,000 [(3)($2,000)] in benefits received, she can deducted the $500 ($240 + $260) in premiums that she has paid for the plan.

Note 3 As Anita has commission income, she can deduct 20 percent of all of the costs except the mortgage interest. This will provide a deduction of $2,040 [(20%)($1,800 + $7,200 + $1,200)].

Note 4 The 2014 CCA would be based on a UCC calculated as though 100 percent of the available CCA had been taken in 2013. The 100 percent CCA for 2013 would be $4,275 [(1/2)(30%)($28,500)]. Using this figure, the deductible 2014 CCA would be $5,814 [(80%)(30%)($28,500 - $4,275)].

Property Income

The required calculations here would be as follows:

Eligible Dividends	$ 2,200
Gross Up On Eligible Dividends [(38%)($2,200)]	836
Income Trust Distribution [(1,500)($2)]	3,000
Net Rental Income (Note 5)	22,875
Net Property Income	$28,911

Note 5 As the change in use is from personal to business, the base for calculating CCA would be as follows:

Cost Of Sailboat		$123,000
Fair Market Value At Change In Use	$147,000	
Cost	(123,000)	
Increase In Value (Bump Up)	$ 24,000	
Inclusion Factor	1/2	12,000
Cost For UCC And CCA Purposes		$135,000
One-Half Net Additions		(67,500)
CCA Base		$ 67,500
Rate For Class 7		15%
CCA (No Part Year Proration)		$ 10,125

Using this CCA figure, net rental income would be $22,875 ($46,000 - $13,000 - $10,125). Note that if Anita were to offer substantial services besides the boat rental, such as providing meals and a crew for the sailboat, this would be considered business, not property income. In that case, the CCA would be prorated for the short fiscal year.

Net Taxable Capital Gains

The required calculations here would be as follows:

Land Sale ($220,000 - $85,000)	$135,000	
Reserve For Land Sale (Note 6)	(104,318)	$30,682
Sailboat Change In Use ($147,000 - $123,000)		24,000
Capital Income Trust (Note 7)		6,240
Antique Clock ($5,000 - $1,000 Floor) (Note 8)		4,000
Total Capital Gains		$64,922
Capital Loss On Stock Option Shares [(1,500)($41 - $31)]		(15,000)
Net Taxable Capital Gains		$49,922
Inclusion Rate		1/2
Net Taxable Capital Gains		$24,961

Note 6 The total proceeds of disposition for the land would be $220,000 [$50,000 + (10)($17,000)]. Given this, the gain on the land would be $135,000 ($220,000 - $85,000). The maximum reserve would be $104,318, the lesser of:

- $104,318 [($135,000)($170,000 ÷ $220,000)]
- $108,000 [($135,000)(20%)(4 - 0)]

Note 7 The $3,000 income trust distribution was used to acquire 120 additional units ($3,000 ÷ $25). Using this figure, the capital gain calculation would be as follows:

Proceeds Of Disposition [(1,500 + 120)($27)]	$43,740
Adjusted Cost Base [(1,500)($23) + $3,000]	(37,500)
Capital Gain	$ 6,240

Note 8 Since the clock had an adjusted cost base of $300, its deemed adjusted cost base is $1,000.

Net And Taxable Income

The required calculations here would be as follows:

Net Employment Income	$185,726
Net Property Income	28,911
Net Taxable Capital Gains	24,961
Net Income For Tax Purposes	$239,598
Stock Option Deduction (Note 9)	Nil
Taxable Income	$239,598

Note 9 As the option price was less than fair market value when the options were granted, no ITA 110(1)(d) deduction is available.

Federal Tax Payable

The required calculations here would be as follows:

Tax On First $136,270		$28,837
Tax On Next $103,328 ($239,598 - $136,270) At 29 Percent		29,965
Tax Before Credits		$58,802
Tax Credits:		
Basic Personal Amount	($11,138)	
Common-Law Partner (Note 10)	(5,138)	
Child - Nancy	(2,255)	
Child Including FCA - Lex	(4,313)	
Transfer Of Lex's Disability	(7,766)	
Disability Supplement	(4,530)	
Transfer Of Education Credits (Note 11)	(5,000)	
Medical Expenses (Note 12)	(17,429)	
EI	(914)	
CPP	(2,426)	
Canada Employment Credit	(1,127)	
Total Credit Base	($62,036)	
Rate	15%	(9,305)
Subtotal		$49,497
Charitable Donations Credit [(15%)($200) + (29%)($3,600 - $200)]		(1,016)
Dividend Tax Credit [(6/11)($836)]		(456)
Federal Tax Payable		$48,025

Note 10 Only the taxable spousal support payments of $6,000 [(12)($500)] are included in Peaches' income. This gives a credit base of $5,138 ($11,138 - $6,000).

Note 11 The transfer of Peaches' tuition, education and textbook credits would be $5,000, the lesser of:

- $5,000
- [$9,400 + (7)($400) + (7)($65)] = $12,655

Note 12 The base for the medical expense tax credit would be calculated as follows:

Total Medical Expenses	$19,600
Lesser Of:	
• [(3%)($239,598)] = $7,188	
• 2014 Threshold Amount = $2,171	(2,171)
Medical Expense Tax Credit Base	$17,429