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

**Chapter 10 Retirement Savings and Other Special Income Arrangements**

10.1 Online Exercises

1) What are the income tax advantages associated with making contributions to an RPP or an RRSP?

Answer: The major advantages can be described as follows:

• Eligible contributions are fully deductible and, as a result, provide an immediate reduction in income tax payable.

• While the contributions are invested in the plan, earnings on the investments accumulate without any income tax since both types of plans are trusts which are exempt from tax under Part I.

• When distributions are made, the individual may be in a lower income tax bracket than when the contributions were made. When this is the case, there is a permanent income tax savings equal to the difference in income tax between the contribution marginal tax rate and the tax rate in effect at the time of the withdrawal.

• The payments from an RPP and RRSP may be eligible for both the pension income tax credit and for pension income splitting.

• An additional advantage for RRSPs only is that funds can be temporarily withdrawn without the imposition of income tax where the withdrawals qualify for the home buyers plan or the lifelong learning plan.

Type: ES

Topic: Registered savings plans - RPPs vs RRSPs

2) In almost all cases, making contributions to an RRSP will provide for the deferral of income tax. In some cases, making such contributions may result in avoidance of tax. Explain these statements.

Answer: With respect to the first statement, making contributions to an RRSP results in deferral as the contributions reduce income when made, but will only be required to be included in income when withdrawn. As the withdrawal will usually be in a later taxation year, the payment of income taxes is effectively deferred from the year of contribution to the year of withdrawal.

In some cases, an individual may be subject to the same income tax rate in the year of withdrawal as the year of contribution. However, if the income tax rate is lower, either because of the individual's income level or because applicable rates have changed, the amount of income tax on withdrawal will be less than the income tax savings attributable to the contribution in the year in which it was made. This results in a permanent overall reduction in income tax which becomes actual acceptable income tax avoidance.

Type: ES

Topic: RRSPs - general concepts

3) Tax advisors generally recommend making RRSP contributions as early as possible in the year in which the deduction will be claimed. Why is that the case?

Answer: The reason tax advisors make these recommendations is to extend the period of tax free compounding within the RRSP. A contribution made on January 1 will benefit from a full extra year of tax free earnings, as compared to a contribution made on December 31 of that year.

Type: ES

Topic: RRSPs - general concepts

4) Describe the difference between a defined benefit pension plan and a defined contribution or money purchase pension plan.

Answer: In defined benefit plans, the plan sponsor (typically the employer) undertakes to provide a specified benefit, usually expressed as a percentage of earnings, for each year of qualifying service. In promising this benefit, the employer has effectively agreed to make whatever amount of contributions is required to ensure that these benefits can be provided.

In contrast, in a defined contribution or money purchase plan, the employer agrees to make specified contributions for each plan participant. In this case, the employer has no responsibility beyond making the required contributions. The benefit that will be received by the employee will depend upon the amounts accumulated within the plan and the investment return on those funds.

Type: ES

Topic: RPPs - general concepts

5) An individual owns shares that have declined in value since they were purchased several years ago. The individual is short of cash and would like to make a contribution to the individual's RRSP with the shares. As his tax advisor, would you approve of this decision?

Answer: Such a contribution would not be a good idea. ITA 40(2)(g)(iv) does not allow the recognition of a loss when an individual transfers property to an RRSP and the individual, their spouse or their common-law partner is an annuitant of the RRSP. This means that there would be no loss allowed to the individual. If the individual is short of cash, the better alternative would be to sell the shares, realize the loss and use the proceeds from the sale to make the RRSP contribution.

Type: ES

Topic: RRSP contributions - calculating the deduction

6) In many cases, investors typically have investments that they own personally as well as an interest in an RRSP which also owns various types of investments. When this is the case, tax advisors are inclined to suggest that share investments (equity securities) be owned personally while investments that earn interest (debt securities) be owned by the RRSP. What is the basis for this advice?

Answer: The income earned by equity securities generally consists of dividends and capital gains, both of which receive favourable income tax treatment with lower overall income tax rates to individuals. Debt securities however generally result in interest income which is taxed much more heavily. As a general rule since an RRSP is a Part I exempt trust it is preferable that it own investments which produce income that is subject to the same high rates of income tax that would apply to individuals.

Another reason for the advice is that if an RRSP realizes capital gains and dividend income the favourable income tax treatment that benefits individuals loses that status since 100% of amounts withdrawn from an RRSP are required to be included in the income of an individual annuitant. In other words the fact that the withdrawals technically include capital gains and taxable dividends would have no bearing on the fact that the individual must include all withdrawals in income.

Type: ES

Topic: RRSPs - general concepts

7) The RRSP Deduction Limit, as defined in ITA 146(1), is not a limit on contributions that can be made to an RRSP in a given year. Explain this statement.

Answer: The RRSP Deduction Limit, as the name implies, is a limit on the amount of contributions that can be deducted in a particular year. Contributions made in earlier years that were not deducted in those years, contributions made in the current year or contributions made in the first 60 days of the following year, can be deducted under the RRSP Deduction Limit for the current year within the limitations imposed by the RRSP deduction limit. In addition an individual may over-contribute to an RRSP but over-contributions in excess of $2,000 are subject to a penalty tax.

Type: ES

Topic: RRSP contributions - calculating the deduction

8) How is Earned Income defined for purposes of determining the RRSP Deduction Limit?

Answer: The components of Earned Income for purposes of determining the RRSP Deduction Limit are as follows:

• Add Employment income determined by excluding any deduction of RPP contributions.

• Add Royalties, provided the individual is the author, inventor, or composer.

• Add Spousal support received;

• Deduct: Spousal support paid;

• Add: Supplementary unemployment benefits (excluding EI);

• Add: Business income;

• Deduct: Business losses;

• Add: Business income allocated to an active partner of a partnership;

• Deduct: Business losses allocated to an active partner of a partnership.

• Add: Rental income:

• Deduct: Rental losses:

• Add: CPP and QPP disability benefits.

Type: ES

Topic: RRSP - earned income

9) In calculating an individual's Pension Adjustment (PA), it is necessary to have a mechanism for equating contributions in defined contribution plans with benefits earned in defined benefit plans. How does the RRSP legislation deal with this issue? Would you consider this approach to be fair to all taxpayers? Explain your conclusion.

Answer: In simplified terms, benefits earned in defined benefit plans are converted to a contribution-like number by multiplying the benefits earned by an individual by the number 9. The use of this approach does not take into consideration the fact that it would take a much larger contribution to provide $1 of benefits to a 64 year old individual who will retire in one year, than it would to provide $1 of benefits to a 20 year old individual who will not receive the benefit for 45 years. This would suggest that the approach used is systematically unfair to younger taxpayers.

Type: ES

Topic: Pension adjustments - PAs, PSPAs & PARs

10) An individual's RRSP deduction room is reduced by past service pension adjustments (PSPA). Describe two situations that would give rise to such adjustments.

**Answer:**

**•** A new RPP is implemented by an employer and benefits are extended retroactively for years of service prior to the plan initiation.

• The benefit formula is changed, increasing the percentage that is applied to pensionable earnings to determine benefits earned. A PSPA is created only if the increased benefits are extended retroactively to years of service prior to the plan amendment.

• An individual, either voluntarily or because of terms contained in the plan, works for a number of years without being a member of the plan. On joining the plan, the employee is credited for years of service prior to entry into the plan.

Type: ES

Topic: Pension adjustments - PAs, PSPAs & PARs

11) Describe the circumstances that give rise to pension adjustment reversals (PAR).

Answer: PARs arise whenever an employee terminates membership in an RPP or DPSP and receives less from the plan than the total of the PAs and PSPAs reported for the employee. If the non-vested benefits are lost, the employer must report a PAR to add the previously deducted PAs back to the individual's RRSP deduction room. Non-vested benefits are typically lost where employment is terminated before a stated employment period has been reached. If, for example, pension benefits related to employer contributions only vest after three years of employment then an employee who leaves at the end of the second year of employment would not be entitled to the employer contributions.

Type: ES

Topic: Pension adjustments - PAs, PSPAs & PARs

12) Many individuals do not have sufficient funds to maximize their contributions to both an RRSP and a TFSA. Briefly compare the income tax features of these two alternative plans.

Answer: **Contributions:** Contributions to an RRSP are deductible whereas contributions to a TFSA are not deductible.

**Plan Income:** Income earned within both plans are not subject to Part I tax.

**Withdrawals:** Withdrawals from an RRSP are required to be included in the income of the RRSP annuitant without regard to the type of income earned by the RRSP trust. In contrast, withdrawals from a TFSA are not required to be included in income.

**Contributions/Withdrawals:** In general, amounts withdrawn from an RRSP do not re-establish the contribution room if the amounts are returned to the RRSP. This means that withdrawals represent a permanent reduction in an individual's RRSP deduction room. In contrast, amounts withdrawn from a TFSA can be returned to the plan in the following year. Such returned amounts restore the contribution room that was removed by earlier withdrawals.

Type: ES

Topic: Registered savings plans - RRSPs vs TFSAs

13) If an individual wishes to terminate their RRSP, making a lump-sum withdrawal is generally not the best alternative. Describe three disadvantages of lump-sum RRSP withdrawals.

Answer:

• The withdrawals can be subject to a high marginal rate of income tax.

• The withdrawals are not eligible for the pension income tax credit.

• The withdrawals are not eligible for pension income splitting.

Type: ES

Topic: RRSPs - general concepts

14) Briefly describe the RRSP options available to individuals in the year the individual becomes 71 years of age. Also indicate the income tax consequences of each alternative.

Answer: When an individual reaches 71 years of age, the RRSP must be terminated. The basic alternatives for withdrawing the funds in the plan, along with the income tax consequences, are as follows:

• All of the property in the plan can simply be withdrawn. This alternative will result in the FMV of all of that property being included in the individual's income in the year of the withdrawal.

• The property in the plan can be converted to cash with the proceeds used to purchase an annuity. There will be no immediate income tax consequences of liquidating the plan property or the purchase of the annuity however annuity payments will be fully included in the individual's income in the year in which they are received.

• All of the property in the RRSP can be transferred to a RRIF. There are no income tax consequences associated with the transfer which is made on a rollover basis. However, the individual will be required to include a minimum amount from the RRIF in each year. If the individual withdraws amounts in excess of the minimum then the full amount of all withdrawal in a given taxation year will be required to be included in income.

Note that combinations can be used such as transferring half of the RRSP property to a RRIF, with the remaining half used to purchase an annuity).

Type: ES

Topic: Registered savings plans - RRSPs at 71 years of age

15) Under what circumstances would it be desirable for an individual to make contributions to an RRSP for their spouse or common-law partner (spousal plan)? What are the advantages of making such contributions?

Answer: Contributions to a spousal plan are desirable when the individual's spouse or common-law partner is currently in a lower income tax bracket and is expected to remain in that bracket. There are two advantages to making such contributions:

• Acceptable Income splitting. When the contributions are withdrawn they will be included in the income of the spouse or common-law partner and therefore subject to their low income tax rate.

• In situations where the spouse or common-law partner has no other source of pension income, withdrawals from the spousal plan could be eligible for the pension income tax credit.

**Note** that although these results could also be achieved through the use of the provisions which allow for the splitting of qualified pension income, a spousal RRSP provides the couple with more flexibility in planning retirement income.

Type: ES

Topic: RRSPs - spousal or common-law partner plans

16) Explain the income attribution rule that applies to spousal or common-law partner RRSPs.

Answer: If an individual has made any contribution to an RRSP where the spouse or common-law partner is the annuitant, it is a spousal RRSP. With respect to such plans, if a contribution is made, either in the year of a withdrawal or in either of the two preceding calendar years, that withdrawal must be included in the contributor's income to the extent of the spousal contributions made in the year of the withdrawal and in both the two preceding calendar years.

Type: ES

Topic: RRSPs - spousal or common-law partner plans

17) One of your clients is considering the withdrawal of a portion of their RRSP under the provisions of the Home Buyers' Plan (HBP). List and briefly explain any factors that should be considered as to whether the withdrawal should be made under the HBP.

Answer: The basic factors to consider would be as follows:

• Whether the required funds could be obtained through a conventional mortgage.

• The interest rate on conventional mortgage financing.

• The rate of return earned on RRSP property.

• The fact that the RRSP earnings lost while the funds are removed from the plan can never be put back into the plan, resulting in a permanent loss of some tax assisted savings.

Type: ES

Topic: RRSP - home buyers' plan

18) An individual is returning to university after several years of full time employment. The individual has a substantial RRSP account balance and is considering making a withdrawal under the lifelong learning plan (LLP). What factors should be considered in choosing this method of financing the individual's education?

Answer: The basic factors to consider would be as follows:

• Alternative sources of financing.

• The interest rate on alternative sources of financing.

• The investment rate of return on RRSP property.

• The fact that the earnings lost as a result of an RRSP withdrawal can not be replaced, resulting in a permanent loss of some tax assisted savings.

Type: ES

Topic: RRSP - lifelong learning plan

19) Describe the alternative income tax situations that may arise when an individual dies as the annuitant of an unmatured RRSP.

Answer: The general default rule is that the FMV of RRSP property will be included as income in the deceased annuitant's final income tax return. However, there are two exceptions to this rule:

• If the beneficiary of the RRSP is the deceased individual's spouse or common-law partner, there is a rollover provision that allows the transfer of the RRSP to a spouse or common-law partner without any immediate income tax consequences. In effect, the spouse or common-law partner becomes the new annuitant of the plan and there are no income tax consequences for the deceased annuitant.

• If the beneficiary of the RRSP is a financially dependent child or grandchild, the FMV of the RRSP property will be included in the income of that dependent. In addition, if the child or grandchild has a physical or mental infirmity, the dependant can avoid including any amount in income by transferring the RRSP property of the deceased to an RRSP, RRIF or RDSP for themselves or using the property to purchase an annuity.

Type: ES

Topic: RRSP - death of an annuitant

20) Describe the types of individuals that can be members of a pooled registered pension plan (PRPP).

Answer: There are two classes of potential members. One class would be employees of an employer that offers participation in a PRPP. The second class of members would include employees of an employer that does not offer a PRPP, as well as self-employed individuals.

Type: ES

Topic: Registered savings plans - pooled RPPs

21) Describe the basic differences between an RRSP and a RRIF.

Answer: The basic differences are as follows:

• RRIFs are only funded through a transfer from an RRSP or another RRIF. In contrast, the individual can make deductible contributions or transfer funds from another retirement savings plan (RRSP, RPP, DPSP) in order to get funds into an RRSP.

• There is no requirement to make minimum annual withdrawals from an RRSP. In contrast, an individual must make a minimum withdrawal each year from a RRIF.

• An individual can have a RRIF after the age of 71. They cannot have an RRSP after that age.

• RRIFs are not eligible for withdrawals under either the home buyers plan or the lifelong learning plan.

Type: ES

Topic: Registered savings plans - RRSPs vs RRIFs

22) Employee Profit Sharing Plans (EPSPs) are not as tax efficient as Deferred Profit Sharing Plans (DPSPs) in providing tax advantaged compensation to employees. Why is that the case?

Answer: DPSPs provide tax deferral in that employer contributions to these plans do not create a taxable benefit or any income to the employees until they are withdrawn from the plan. There is further deferral in the fact that amounts earned on the DPSP investments within the plan accumulate tax free, with these amounts also not being taxed until they are withdrawn from the plan. In contrast, employer contributions to a EPSP are treated as taxable benefits to employees. In addition, amounts earned within the EPSP and allocated to employees are included in the income of the employees but retains its character capital gains, dividends, interest etc. While there may be resource or motivational reasons for using EPSPs, the use of these plans does not provide the income tax advantages to employees provided by DPSPs.

Type: ES

Topic: Registered savings plans - DPSPs vs EPSPs

23) Describe the tax features associated with retirement compensation arrangements (RCA).

Answer: An employer's contributions to an RCA are fully deductible in computing net income. However, all contributions are subject to a Part XI.3 refundable tax at a rate of 50%. In addition, all of the earnings on property held within an RCA are also subject to the same 50% refundable tax. The Part XI.3 taxes that the employer pays or that the plan pays are refunded at a 50% rate when payments are made to the beneficiaries of the plan. The recipients are required to include payments made to them from the RCA in their income.

Type: ES

Topic: Retirement compensation arrangements (RCA)

24) What is a salary deferral arrangement (SDA)?

Answer: As defined in ITA 248(1), an SDA is a plan or arrangement, whether funded or not, under which any person has a right to receive an amount in a year subsequent to the year in which it was earned. The definition also requires that one of the main purposes of the arrangement is to defer income tax. The definition goes on to exclude such items as RPPs, sabbatical arrangements, and bonuses that are paid within three calendar years.

Type: ES

Topic: Salary deferral arrangements (SDA)

25) In terms of income tax planning, the use of RRSPs can provide for both tax deferral and tax avoidance.

Answer: TRUE

Explanation: In general, income tax deferral occurs where individuals can claim a current deduction for contributions made to an RRSP saving income tax immediately and are only required to include RRSP amounts in their income when received which is generally at their discretion. Income tax is only required when RRSP amounts are subsequently withdrawn. The difference between the tax savings and the tax rate in effect when the RRSP amounts are included in their income can also represent a permanent tax savings and therefore tax avoidance where the marginal tax rates in effect for the year of the deduction exceeds the marginal tax rate in effect when RRSP amounts are eventually included in income.

Type: TF

Topic: Registered savings plans - RRIFs

26) A pension plan that provides for a pension equal to 3% of an employee's average annual salary for each year of service is a defined benefit plan.

Answer: TRUE

Explanation: A pension plan that provides for a pension at a guaranteed amount would be a defined benefit plan.

Type: TF

Topic: Registered savings plans- RPPs (defined benefit vs defined contribution)

27) Earned income for RRSP purposes includes spousal support received, business losses, and rental income.

Answer: TRUE

Explanation: All of these amounts are components of earned income for RRSP purposes.

Type: TF

Topic: RRSP - earned income

28) All RRSP contributions that cannot be deducted in the current year will be subject to a penalty tax of 1% per month.

Answer: FALSE

Explanation: Only those undeductible contributions in excess of $2,000 are subject to the penalty tax.

Type: TF

Topic: RRSPs - penalty tax for excessive contributions

29) An RRSP is considered to be a spousal RRSP if a spouse or common-law partner has made any contributions to the plan at any time since its inception.

Answer: TRUE

Explanation: Once a spouse or common-law partner has made a contribution, the plan is permanently designated a spousal RRSP.

Type: TF

Topic: RRSPs - spousal or common-law partner plans

30) Amounts withdrawn from an RRSP under the provisions of the Home Buyers' Plan (HBP) must be repaid over a period of 15 years, beginning in the second calendar year after the year of the HBP withdrawal.

Answer: TRUE

Explanation: The amounts must be repaid over 15 years, beginning in the second calendar year after withdrawal.

Type: TF

Topic: RRSP - home buyers' plan

31) Eligible amounts withdrawn from an RRSP under the provisions of the Lifelong Learning Plan (LLP) require that the individual or their spouse or common-law partners must be enrolled as a full-time student in a qualifying educational program at a designated educational institution.

Answer: TRUE

Explanation: The tax free withdrawal is conditional on being enrolled in a qualified educational program at a designated educational institution.

Type: TF

Topic: RRSP - lifelong learning plan

32) A corporate employer with a December 31 taxation year contributes $25,000 to a Registered Pension Plan (RPP) on March 1, 2022. Each of the 15 employees in the plan has contributed $1,000 to the plan in 2022. The employer can deduct a maximum of $15,000 in contributions for the 2022 taxation year.

Answer: FALSE

Explanation: The employees' contributions have no effect on the deductibility of the employer's contributions. A maximum of $25,000 is deductible to the employer for 2022.

Type: TF

Topic: RPPs - general concepts

33) Employees are considered to have received a taxable benefit for all amounts that an employer contributes to a Deferred Profit Sharing Plan. (DPSP).

Answer: FALSE

Explanation: Employer contributions to DPSPs are not considered to be taxable benefits to employees.

Type: TF

Topic: Registered savings plans - DPSPs

34) Income tax legislation establishes both the minimum and maximum withdrawal that can be made from a Registered Retirement Income Fund (RRIF) in a particular year.

Answer: FALSE

Explanation: The ITA only sets out minimum withdrawal limits. There is no maximum amount that can be withdrawn.

Type: TF

Topic: Registered savings plans - RRIFs

35) Which of the following statements with respect to registered pension plans (RPP) is correct?

A) Pension adjustment reversals can only arise when the plan is a defined contribution plan.

B) If the pension adjustment is based on the employer and employee contributions, it is a defined benefit plan.

C) A plan in which the benefit is based on employer contributions is a defined benefit plan.

D) Past Service Pension Adjustments can only arise when the plan is a defined benefit plan.

Answer: D

Explanation: D) Past Service Pension Adjustments can only arise when the plan is a defined benefit plan.

Type: MC

Topic: Registered savings plans- RPPs (defined benefit vs defined contribution)

36) With respect to a defined benefit Registered Pension Plan (RPP), which of the following statements is correct?

A) The employer is required to make a fixed contribution to the plan each year.

B) The employer promises each employee a retirement benefit that is based on a contractually specified formula.

C) The Pension Adjustment that will be calculated for each employee is based on the amounts of contributions that have been made by the employer.

D) Employees cannot make contributions to this type of plan.

Answer: B

Explanation: B) The employer promises each employee a retirement benefit that is based on a contractually specified formula.

Type: MC

Topic: Registered savings plans- RPPs (defined benefit vs defined contribution)

37) With respect to a defined contribution Registered Pension Plan (RPP), which of the following statements is **NOT** correct?

A) The employer agrees to make a specified contribution for each year of service.

B) The Pension Adjustment that will be calculated for each employee is based on the amounts of contributions that have been made by the employee and employer.

C) Both the employee and employer can make contributions to such plans.

D) The employee's pension benefit is affected by the rate of return earned by the pension plan.

Answer: D

Explanation: D) The employee's pension benefit is affected by the rate of return earned by the pension plan.

Type: MC

Topic: Registered savings plans- RPPs (defined benefit vs defined contribution)

38) Which of the following statements with respect to RRSP terminations is **NOT** correct?

A) All RRSPs must be terminated in the year an individual turns 71 years of age.

B) A lump sum withdrawal from an RRSP is not eligible for pension income splitting.

C) If an individual has terminated their RRSP because they have reached 71 years of age, the individual can no longer make RRSP contributions, even if the individual has earned income.

D) If RRSP funds are used to purchase a life annuity, only the annuity payments would be included in income.

Answer: C

Explanation: C) If an individual has terminated an RRSP because the individual has reached 71 years of age, the individual can no longer make RRSP contributions, even if the individual has earned income. Such an individual can continue making contributions to a spousal or common-law partner RRSP provided that the spouse or common-law partner has not reached 71 years of age by December 31st of that year.

Type: MC

Topic: RRSPs - general concepts

39) With respect to self-administered RRSP, which of the following would **NOT** be a qualified investment?

A) Shares in a public corporation.

B) A mortgage on the principal residence of the plan beneficiary.

C) Direct investments in rental properties.

D) A five-year guaranteed investment certificate.

Answer: C

Explanation: C) Direct investments in rental properties.

Type: MC

Topic: RRSPs - general concepts

40) In 2021, Donna Collins has employment income before the deduction of any RPP contributions of $40,000, a rental loss of $16,000, interest income of $6,000, and income from royalties of $7,000. The royalties were on a book written by Ms. Collins in her undergraduate years at university. She has no unused RRSP deduction room from previous years.

Ms. Collins is a member of a money purchase RPP in which, during 2021, she has contributed $2,000 and her employer has contributed $3,000. Her maximum deductible RRSP contribution for 2022 is:

A) $2,580.

B) $580.

C) $3,580.

D) $1,660.

Answer: B

Explanation: A) $2,580 [(18%)($40,000 - $16,000 + $7,000) - $3,000)].

B) $580 [(18%)($40,000 - $16,000 + $7,000) - PA ($2,000 + $3,000)].

C) $3,580 [(18%)($40,000 - $16,000 + $7,000) - ($2,000)].

D) $1,660 [(18%)($40,000 - $16,000 + $7,000 + $6,000) - ($2,000 + $3,000)].

Type: MC

Topic: RRSP contributions - calculating the deduction

41) In 2021, Ramona Collins has employment income before the deduction of any RPP contributions of $40,000, a business loss of $16,000, interest income of $6,000, and income from royalties of $7,000. The royalties were on a book written by Ms. Collins in her undergraduate years at university. She has no unused RRSP deduction room from previous years.

She is a member of a DPSP in which, during 2021, her employer has contributed $3,000 per employee. Her maximum deductible RRSP contribution for 2022 is:

A) $3,660.

B) $1,320.

C) $5,580.

D) $2,580.

Answer: D

Explanation: A) $3,660 [(18%)($40,000 - $16,000 + $7,000 + $6,000) - $3,000.

B) $1,320 [(18%)($40,000 - $16,000) - $3,000].

C) $5,580 [(18%)($40,000 - $16,000 + $7,000)].

D) $2,580 [(18%)($40,000 - $16,000 + $7,000) - $3,000].

Type: MC

Topic: RRSP contributions - calculating the deduction

42) In 2021, Wilma Collins has employment income before the deduction of any RPP contributions of $40,000, a rental loss of $16,000, dividends from taxable Canadian corporations with a total grossed up amount of $6,000, and income from royalties of $7,000. The royalties were on a book written by Ms. Collins in her undergraduate years at university. She has no unused RRSP deduction room from previous years.

She is not a member of a RPP or a DPSP in 2021. Her maximum deductible 2022 RRSP contribution is:

A) $5,400.

B) $5,580.

C) $6,660.

D) $9,540.

Answer: B

Explanation: A) $5,400 [(18%)($40,000 - $16,000 + $6,000)].

B) $5,580 [(18%)($40,000 - $16,000 + $7,000)].

C) $6,660 [(18%)($40,000 - $16,000 + $7,000 + $6,000)].

D) $9,540 [(18%)($40,000 + $6,000 + $7,000)].

Type: MC

Topic: RRSP contributions - calculating the deduction

43) In 2021, Joyce Collins has employment income before the deduction of any RPP contributions of $40,000, a rental loss of $16,000, interest income of $6,000, and income from royalties of $7,000. The royalties were on a book written by Ms. Collins in her undergraduate years at university. She has no unused RRSP deduction room from previous years.

She is not a member of a RPP during 2021. She has contributed $2,000 to her spouse's RRSP in 2022. The maximum deductible 2022 RRSP contribution to her own plan is:

A) $3,580.

B) $5,580.

C) $4,660.

D) $6,660.

Answer: A

Explanation: A) $3,580 [(18%)($40,000 - $16,000 + $7,000) - $2,000].

B) $5,580 [(18%)($40,000 - $16,000 + $7,000)].

C) $4,660 [(18%)($40,000 - $16,000 + $6,000 + $7,000) - $2,000].

D) $6,660 [(18%)($40,000 - $16,000 + $6,000 + $7,000)].

Type: MC

Topic: RRSP contributions - calculating the deduction

44) Mrs. Jacks is employed by RME Industries Ltd. RME Industries Ltd. does not offer a RPP or a DPSP to its employees. She has no earned income prior to 2020. Given the following, what is the maximum RRSP contribution that Mrs. Jacks can deduct in 2022?

**2020 2021 2022**

Earned Income $50,000 $52,000 $53,000

RRSP Contributions Deducted Nil $ 6,000 ?

A) $9,000.

B) $9,360.

C) $12,000.

D) $12,360.

E) None of the above.

Answer: D

Explanation: D) $12,360.

Unused RRSP Deduction Room carried forward from 2021: Lesser of:

• ($27,230 - $6,000) = $21,230\*

• [(18%)($50,000) - $6,000] = $3,000 $ 3,000

Plus 2022 RRSP deduction room

Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• [(18%)($52,000)] = $9,360 9,360

RRSP Deduction Limit for 2022 $12,360

\* Previous year's RRSP dollar limit is not needed as $3,000 is the lesser amount.

Type: MC

Topic: RRSP contributions - calculating the deduction

45) Which one of the following lists includes amounts that are all included in the determination of earned income for RRSP purposes?

A) Author's royalties, rental income or losses, and spousal support received/paid.

B) Auto standby charge, salesperson's expenses, and resource royalties.

C) Business income or losses, CPP retirement benefits, and research grants.

D) Rental income or losses, salaries, and scholarships.

Answer: A

Explanation: A) Resource royalties, CPP retirement benefits and scholarships do not form part of the Earned Income calculation for RRSP purposes.

Type: MC

Topic: RRSP - earned income

46) With respect to RRSP contributions, which of the following statements is correct?

A) Contributions made during the current year and within 30 days of the end of the current year, must be deducted in the current year.

B) Contributions in excess of available deduction room cannot be deducted in the current year or in any subsequent year.

C) There is no penalty for making contributions that are in excess of available deduction room.

D) Contributions made during the current year can be deducted in any subsequent year.

Answer: D

Explanation: D) Contributions made during the current year can be deducted in any subsequent year.

Type: MC

Topic: RRSPs - general concepts

47) On April 1, 2021 Mrs. Wu contributed $1,000 to her RRSP. On October 1, 2021 Mr. Wu contributed $1,000 to Mrs. Wu's RRSP. On June 1, 2022 Mrs. Wu withdrew $1,600 from her RRSP. As a result of the withdrawal:

A) Mrs. Wu's 2022 net income increased by $1,600.

B) Mr. Wu's 2022 net income increased by $1,600.

C) Mrs. Wu's 2022 net income increased by $800 and Mr. Wu's increased by $800.

D) Mrs. Wu's 2022 net income increased by $600 and Mr. Wu's increased by $1,000.

Answer: D

Explanation: D) Mrs. Wu's 2022 net income increased by $600 and Mr. Wu's increased by $1,000.

Type: MC

Topic: RRSPs - spousal or common-law partner plans

48) Harleen, who is 70 years old, withdrew $10,000 from her RRSP on November 1, 2022. Which of the following statements is correct?

A) She will receive cash of $8,000 and her 2022 net income will increase by $10,000.

B) She will receive cash of $9,000 and her 2022 net income will increase by $9,000.

C) She will receive cash of $8,000 and her 2022 net income will increase by $8,000.

D) She will receive cash of $10,000 and her 2022 net income will increase by $10,000.

Answer: A

Explanation: A) She will receive cash of $8,000 and her 2022 net income will increase by $10,000. $10,000 less 20% withholding tax = $8,000.

Type: MC

Topic: RRSPs - general concepts

49) Mehrdad contributed $10,000 to an RRSP ten years ago when he was 39 years of age. On May 1, 2022 the FMV of the RRSP is $15,000 due solely to eligible dividends reinvested by the fund. On May 2, 2022 Mehrdad withdrew $2,000 from his RRSP. Which of the following statements is correct?

A) His income tax payable will be reduced by the dividend tax credit on $2,000 of eligible dividends.

B) His net income will be increased by the sum of the $2,000 received plus the gross up on $2,000 of eligible dividends.

C) His income tax payable will be reduced by the pension income credit on $2,000 of pension income.

D) His net income will be increased by $2,000.

Answer: D

Explanation: C) The pension credit would only be available for RRSPs to individuals who are 65 years of age and over if the RRSP payment is from an annuity.

D) His net income will be increased by $2,000.

Type: MC

Topic: RRSPs - general concepts

50) Yukie is not a member of an RPP. She has employment income of $35,000. During the year, she received spousal support payments of $8,000, child support payments for her 10 year old daughter of $12,000 and an inheritance consisting of a $50,000 term deposit that paid interest of $2,000 in the year. Her Earned Income for RRSP purposes for the current year is:

A) $35,000.

B) $43,000.

C) $45,000.

D) $55,000.

Answer: B

Explanation: B) $43,000 (Employment income of $35,000 + spousal support of $8,000)

Type: MC

Topic: RRSP - earned income

51) Which of the following statements about the Home Buyers' Plans (HBPs) is correct?

A) If a withdrawal is made under the plan, any contributions made 90 days prior to the withdrawal cannot be deducted.

B) Any RRSP contribution made in a particular year will count first towards the HBP repayment requirement for that year.

C) Repayments in excess of an annual requirement will reduce future annual requirements.

D) When an individual dies with an outstanding Home Buyers' Plan balance, this balance will not be required to be included in income.

Answer: C

Explanation: A) Some or all contributions may still be deductible depending upon whether RRSP contributions were made in prior years.

B) Amounts have to be designated by the individual as an HBP repayment.

C) Repayments in excess of an annual requirement will reduce future annual requirements. While the applicable fraction will not change, the balance to which the fraction will apply will be reduced.

Type: MC

Topic: RRSP - home buyers' plan

52) Which of the following statements with respect to the Home Buyers' Plan (HBP) is **NOT** correct?

A) All amounts withdrawn must be repaid within 10 years of the year of withdrawal.

B) Amounts withdrawn must be used to acquire a dwelling by October 1 of the year following withdrawal.

C) The maximum RRSP withdrawal is $35,000 per individual.

D) In the year an individual ceases to be a resident of Canada, any outstanding HBP balance must be repaid by the earlier of the due date for the filing of the income tax return for the year in which the individual became a non-resident or 60 days after becoming a non-resident.

Answer: A

Explanation: A) All amounts withdrawn must be repaid within 10 years of the year of withdrawal.

Type: MC

Topic: RRSP - home buyers' plan

53) Cecilia withdrew $24,000 from her RRSP under the Home Buyers' Plan in 2019 and used the funds for a down payment on a qualifying home. She made a repayment of $1,000 in 2021. Her minimum repayment for 2022 will be:

A) $1,493.33.

B) $1,533.33.

C) $1,600.00.

D) $1,642.86.

Answer: C

Explanation: A) $1,493.33 ($22,400 × 1/15)

B) $1,533.33 ($24,000 — 1,000) = $23,000 × 1/15

C) $1,600.00 ($24,000 — 1,000 payment — 600 included in 2021 net income) = $22,400 × 1/14 = $1,600. The minimum required annual repayment beginning in 2021 would be $1,600 with any shortfall required to be included in income.

D) $1,642.86 ($23,000 × 1/14)

Type: MC

Topic: RRSP - home buyers' plan

54) Parviz withdrew $15,000 from his RRSP under the Home Buyers' Plan in 2020 and used the funds for a down payment on a qualifying home. He made a repayment of $700 in 2022. Taking into consideration his repayment, his Home Buyers' Plan will have what effect on his net income for 2022?

A) An increase of $1,000.

B) An increase of $300.

C) A decrease of $700.

D) No effect.

Answer: B

Explanation: B) An increase of $300. (min. repayment of $1,000 — 700)

Type: MC

Topic: RRSP - home buyers' plan

55) Which of the following statements about Lifelong Learning Plans (LLPs) is **NOT** correct?

A) The maximum withdrawal is $10,000 in any single year, to a cumulative total of $20,000 over four years.

B) An individual can only participate in this program once during their life.

C) Repayments must begin no later than the fifth year after the year of the first Lifelong Learning Plan withdrawal (actually the sixth year if payments are made within 60 days of the end of the fifth year).

D) If an individual ceases to be a resident of Canada, any unpaid balance under the LLP must be repaid before the date the tax return for the year of departure should be filed, or 60 days after becoming a non-resident, whichever date is earlier.

Answer: B

Explanation: B) An individual can only participate in this program once during his life. There is no limit on the number of times, as long as all previous withdrawals have been repaid.

Type: MC

Topic: RRSP - lifelong learning plan

56) Which of the following statements is correct about the Lifelong Learning Plan?

A) The maximum tax-free withdrawal is $10,000 per year for up to four years.

B) A taxpayer cannot participate in a Home Buyers' Plan and a Lifelong Learning Plan in the same year.

C) Minimum repayments must be made over a period of ten years.

D) Tax-free withdrawals can be made by a part-time student as long as they are repaid within two years.

Answer: C

Explanation: C) Minimum repayments must be made over a period of ten years.

Type: MC

Topic: RRSP - lifelong learning plan

57) Jenelle was a full-time student in a four-year qualifying program from September 2018 to April 2022. She withdrew $5,000 from her RRSP each year on September 1 under the Lifelong Learning Plan to finance her education. Her first repayment is due on:

A) September 1, 2022.

B) March 1, 2023.

C) September 1, 2023.

D) March 1, 2024.

Answer: D

Explanation: D) March 1, 2024. Since 2023 is the fifth year after the first withdrawal, she has 60 days after the year end to make the repayment.

Type: MC

Topic: RRSP - lifelong learning plan

58) Which of the following statements with respect to Registered Pension Plans (RPPs) is **NOT** correct?

A) An employer can sponsor both an RPP and a DPSP.

B) Employee contributions provide the contributor with a personal tax credit rather than a deduction.

C) Employer contributions are not a taxable benefit to the employee.

D) Employee options at retirement are determined by the terms of the plan.

Answer: B

Explanation: B) Employee contributions provide the contributor with a personal tax credit rather than a deduction.

Type: MC

Topic: RPPs - general concepts

59) Eileen is a member of her employer's Registered Pension Plan (RPP) to which her employer contributed $3,500 and Eileen contributed $2,600 in the current year. Which of the following statements is correct?

A) Eileen can deduct her contribution from her employment income and her employer's contribution is not considered a taxable benefit.

B) Eileen cannot deduct her contribution from her employment income and her employer's contribution is not considered a taxable benefit.

C) Eileen can deduct her contribution from her employment income and she must include her employer's contribution in her employment income as a taxable benefit.

D) Eileen cannot deduct her contribution from her employment income and her employer's contribution is considered a taxable benefit.

Answer: A

Explanation: A) Eileen can deduct her contribution from her employment income and her employer's contribution is not considered a taxable benefit.

Type: MC

Topic: RPPs - general concepts

60) Which of the following statements about a RPP is **NOT** correct?

A) Contributions can be made only by employers.

B) Pension adjustments reflect the benefits earned under both money purchase and defined benefit RPPs.

C) Contributions made by an employer to an unregistered pension plan are not deductible.

D) An RPP from a previous employer may be transferred into the new employer's plan.

Answer: A

Explanation: A) Contributions can be made only by employers.

Type: MC

Topic: RPPs - general concepts

61) Which of the following statements with respect to Registered Retirement Income Funds (RRIFs) is **NOT** correct?

A) Withdrawals from a RRIF are not eligible for pension income splitting.

B) Withdrawals from a RRIF are eligible for the pension income tax credit.

C) An individual can have multiple RRIFs.

D) Registered Pension Plan balances can be transferred to a RRIF on a tax free basis.

Answer: A

Explanation: A) Withdrawals from a RIFF are not eligible for pension income splitting.

Type: MC

Topic: Registered savings plans - RRIFs

62) Which of the following statements with respect to Registered Retirement Income Funds (RRIFs) is correct?

A) An individual can make non-deductible contributions to a RRIF.

B) The minimum annual withdrawal from a RRIF is always determined by dividing the FMV of the property in the plan by 90, less the age of the beneficiary at the beginning of the year.

C) Earnings accumulate within the RRIF are not subject to Part I income tax.

D) A RRIF can only be established by individuals over the age of 71.

Answer: C

Explanation: C) Earnings accumulate within the RRIF on a tax free basis.

Type: MC

Topic: Registered savings plans - RRIFs

63) Mrs. Yus is 96 years old. She has a RRIF which was established in 1987. On January 1, 2022 the FMV of the property of the RRIF is $62,000. Her minimum withdrawal for 2022 is:

A) $12,400.

B) $10,333.

C) $10,000.

D) $8,333.

Answer: A

Explanation: A) $12,400 ($62,000 × 20%)

B) $10,333 ($62,000 / 6)

C) $10,000 ($50,000 × 20%)

D) $8,333 ($50,000 / 6)

Type: MC

Topic: Registered savings plans - RRIFs

64) Which of the following statements with respect to Deferred Profit Sharing Plans (DPSPs) is correct?

A) Both the employers and employees can make contributions to DPSPs.

B) Contributions to DPSPs are limited to one-half the money purchase limit for the year.

C) Employer contributions are treated as a taxable benefit to the employees.

D) Withdrawals from DPSPs are not required to be included in the income of the recipient.

Answer: B

Explanation: B) Contributions to DPSPs are limited to one-half the money purchase limit for the year.

Type: MC

Topic: Registered savings plans - DPSPs

65) On January 1, 2022 Mr. Yang celebrated his 65th birthday and transferred $85,000 from his RRSP into a RRIF. For what reason would he make this transfer?

A) He wants to pension split his RRIF withdrawal with his spouse.

B) He wants to decrease his net income by transferring his high income earning investments from his RRSP.

C) He can no longer maintain an RRSP because of his age.

D) He is terminally ill and a RRIF will have more tax advantages to his spouse on his death than his RRSP would have had.

Answer: A

Explanation: A) He wants to pension split his RRIF withdrawal with his spouse.

Type: MC

Topic: Registered savings plans - transfers between plans

66) There are a number of rollovers that allow certain registered savings plans to be transferred to other registered savings plans. Which of the transfers indicated is **NOT** eligible for this rollover treatment.

A) Registered Pension Plan to Registered Retirement Savings Plan.

B) Registered Retirement Savings Plan to Registered Retirement Income Fund.

C) Employee Profit Sharing Plan to Deferred Profit Sharing Plan.

D) Deferred Profit Sharing Plan to Registered Pension Plan.

E) Registered Pension Plan to different Registered Pension Plan.

Answer: C

Explanation: C) Employee Profit Sharing Plan to Deferred Profit Sharing Plan.

Type: MC

Topic: Registered savings plans - transfers between plans

67) The most common reason to transfer funds from an RRSP to a RRIF is:

A) the individual has officially retired.

B) the list of qualified investments is much broader for a RRIF.

C) the individual reaches 65 years of age.

D) the individual reaches 71 years of age.

Answer: D

Explanation: D) the individual reaches 71 years of age

Type: MC

Topic: Registered savings plans - transfers between plans

68) Which of the following statements with respect to Retirement Compensation Arrangements (RCAs) is **NOT** correct?

A) Contributions to RCAs are fully deductible to the employer.

B) Contributions to RCAs are subject to a 50 %, non-refundable tax.

C) Contributions can only be made by an employer, a former employer of a taxpayer, or by a person with whom the employer or former employer does not deal at arm's length.

D) Any taxes on contributions or earnings within the arrangement are refunded at the rate of 50%.

Answer: B

Explanation: B) Contributions to RCAs are subject to a 50%, non-refundable tax. The tax is refundable.

Type: MC

Topic: Retirement compensation arrangements (RCA)

69) Mr. Smith, the sole shareholder and employee of Smithco Ltd. since its incorporation in 1977, has decided to sell the shares of the corporation and retire in 2022. He has never belonged to a pension plan, and wishes to maximize his RRSP. Which one of the following amounts represents the **largest** retiring allowance from Smithco that Mr. Smith can transfer to his RRSP in the year he retires?

A) $40,000.

B) $59,500.

C) $56,000.

D) $70,000.

Answer: C

Explanation: C) The amount of the retiring allowance which Mr. Smith can transfer to his RRSP in the year he retires is $56,000 [(19)($2,000) + (12)($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.

Type: MC

Topic: RRSPs - transfer of retiring allowances

70) Which of the following would be eligible for the pension income tax credit to an individual who is 65 years of age or older?

A) A lump sum withdrawal from an RRSP

B) A lump sum withdrawal from a RRIF

C) A lump sum withdrawal from a spousal RRSP

D) All of the above

Answer: B

Explanation: B) a lump sum withdrawal from a RRIF

Type: MC

Topic: Personal tax credits - pension income credit ITA 118(3)

71) Barry Notting has just received an inheritance of $50,000 in cash. As he is a very successful professional, he does not need the funds currently. Given this, he intends to invest the funds in preferred shares which pay an annual eligible dividend of 5.5%. He intends to purchase a new home in five years and will liquidate the investment at the end of that period. He is considering two alternatives:

**Alternative 1** - Purchase the $50,000 of preferred shares personally.

**Alternative 2** - Contribute the $50,000 to his RRSP (he has sufficient unused deduction room) and claim the RRSP deduction. The income tax savings resulting from the RRSP deduction would be personally invested in the same preferred shares that pays annual eligible dividends of 5.5%. In addition the RRSP can also purchase the same preferred shares.

Barry's marginal income tax rate is 43% on ordinary income and is 26% on eligible dividends. The 26% rate represents the income tax on a grossed-up eligible dividend minus the dividend tax credit. Ignoring the effect of any reinvestment of the dividends received, determine which alternative will provide Barry with the largest amount of funds towards the purchase of a home.

Answer:

**Alternative 1** - The $50,000 inheritance is not included in income and is therefore not subject to income tax allowing for the full amount to be invested or contributed to an RRSP. Given this, the results over the five year period are as follows:

Dividends Received [(5.5%)($50,000)(5)] $13,750

Taxes [(26%)($13,750)] ( 3,575)

After Tax Income $10,175

Principal Amount 50,000

Available Funds for the Home Purchase $60,175

**Alternative 2** - When the inheritance is contributed to an RRSP there will be income tax savings of $21,500 [([(43%)($50,000)], as a result of the RRSP deduction. Assuming that he invests these savings directly in the preferred shares, he would have the following amount available for his home purchase after 5 years:

Dividends Received [(5.5%)($21,500)(5)] $ 5,913

Taxes [(26%)(5,913)] ( 1,537)

After Tax Income $ 4,376

Principal Amount 21,500

Available Personal Funds for Home Purchase $25,876

In addition the RRSP would have received eligible dividends that are not subject to Part I tax by the RRSP trust. As a result Barry would be able to withdraw the RRSP balance at the end of year 5 but would be required to include that full amount in his income at that time. The net amount available would be determined as follows:

Dividends Received by the RRSP [(5.5%)($50,000)(5)] $13,750

Contribution Withdrawn 50,000

Total Withdrawal $63,750

Taxes [(43%)($63,750)] ( 27,413)

Available RRSP Funds for Home Purchase $36,337

When this $36,337 amount is combined with the $25,876, the total is $62,213. This is an improvement of $2,038 over the $60,175 that was available in the first alternative.

Type: ES

Topic: RRSPs - direct personal investments vs investments through an RRSP

72) Mr. Marco Marconi has employment income of $78,300 which includes an RPP deduction of $2,400. In addition, he has a business loss of $6,750, taxable dividends of $5,640, and pays $12,400 of spousal support to his former spouse. What is Mr. Marconi's earned income for RRSP purposes for the year?

Answer: His earned income for RRSP purposes is $61,550 ($78,300 + $2,400 - $6,750 - $12,400).

Type: ES

Topic: RRSP - earned income

73) Susan Copley has employment income of $56,200 which includes an RPP deduction of $1,800. In addition she has taxable capital gains of $4,500, a rental loss of $2,300, spousal support payments received of $12,000, and eligible dividends received of $1,500. What is her earned income for RRSP purposes for the year?

Answer: Her earned income for RRSP purposes is $67,700 ($56,200 + $1,800 - $2,300 + $12,000).

Type: ES

Topic: RRSP - earned income

74) Ms. Calvin's employer sponsors both a money purchase RPP and a DPSP. During the current year, her employer contributes $2,600 to the RPP and $1,700 to the DPSP on behalf of Ms. Calvin. Ms. Calvin contributes $2,600 to the RPP. Calculate the amount of her Pension Adjustment for the current year.

Answer: The Pension Adjustment will be $6,900 ($2,600 + $1,700 + $2,600).

Type: ES

Topic: Pension adjustments - PAs, PSPAs & PARs

75) John Darby's employer sponsors both a money purchase RPP and a DPSP. During the current year, the employer contributes $2,500 to the RPP and $1,250 to the DPSP on behalf of Mr. Darby. Mr. Darby contributes $2,500 to the RPP. Calculate the amount of his Pension Adjustment for the current year.

Answer: The Pension Adjustment is $6,250 ($2,500 + $1,250 + $2,500).

Type: ES

Topic: Pension adjustments - PAs, PSPAs & PARs

76) Mrs. Alison Lair has 2021 earned income for RRSP purposes of $43,500. She is not a member of an RPP or a DPSP. At the end of 2021, her unused RRSP deduction room was $5,100 and she has no undeducted contributions. In 2022, she contributes $7,000 to her RRSP and claims akes an RRSP deduction of $5,200. What is the amount of Mrs. Lair's unused RRSP deduction room and undeducted RRSP contributions at the end of 2022?

Answer: The required calculation would be as follows:

Unused Deduction Room - End of 2021 $5,100

Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of 2021 Earned Income of $43,500 = $7,830 7,830

Less 2022 RRSP Deduction ( 5,200)

Unused RRSP Deduction Room - End of 2022 $7,730

Mrs. Lair has undeducted contributions of $1,800 ($7,000 - $5,200) that can be carried forward and deducted in any subsequent year as there is sufficient RRSP deduction room.

Type: ES

Topic: RRSPs - unused deduction room

77) For 2021, Andrew Flack has earned income for RRSP purposes of $96,000. He is not a member of an RPP or a DPSP. While he had no undeducted contributions at the end of 2021, he had unused RRSP deduction room of $6,500. In 2022, he contributes $9,000 to his RRSP and claims an RRSP deduction of $8,500. What is the amount of Mr. Flack's unused RRSP deduction room and undeducted RRSP contributions at the end of 2022?

Answer: The required calculation would be as follows:

Unused Deduction Room - End of 2021 $6,500

Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of 2021 Earned Income of $96,000 = $17,280 17,280

Less 2022 RRSP Deduction ( 8,500)

Unused RRSP Deduction Room - End of 2022 $15,280

Mr. Flack has undeducted contributions of $500 ($9,000 - $8,500) that can be carried forward and deducted in any subsequent year as there is sufficient RRSP deduction room.

Type: ES

Topic: RRSPs - unused deduction room

78) In 2021, Mrs. White has taxable capital gains of $21,750, rental income of $5,720, pays spousal support of $15,000, and has employment income of $80,200 after claiming an RRP deduction of $3,000. Based on her RPP contributions of $3,000 and the matching contributions made by her employer, her employer reports a 2021 PA of $6,000. At the end of 2021, Mrs. White has unused RRSP deduction room of $11,120. In addition at the end of 2021 she has undeducted RRSP contributions of $6,275. In 2022, she makes additional contributions to her RRSP of $13,000.

Determine Mrs. White's maximum RRSP deduction for 2022. Assuming she deducts the maximum, determine the amount of her unused RRSP deduction room at the end of 2022, and indicate the amount of any undeducted contributions remaining at the end of 2022.

Answer: The required calculations would be as follows:

Employment Income $80,200

RPP Contributions 3,000

Rental Income 5,720

Spousal Support Deducted ( 15,000)

2021 Earned Income $73,920

Unused Deduction Room - End of 2021 $11,120

Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of 2021 Earned Income of $73,920 = $13,306 13,306

Less 2021 PA ( 6,000)

2022 RRSP Deduction Limit $18,426

RRSP Deduction is lesser of:

• RRSP Deduction Limit = $18,426

• Available Contributions = $19,275 ($6,275 + $13,000) ( 18,426)

Unused RRSP Deduction Room - End of 2022 Nil

Mrs. White has undeducted contributions of $849 ($19,275 - $18,426) that can be carried forward and deducted in a subsequent year in which there is sufficient RRSP deduction room.

Type: ES

Topic: RRSP contributions - calculating the deduction

79) For the 2021 taxation year, Marion Blue has employment income of $45,000 which includes an RPP deduction of $1,800, spousal support received of $18,000, a business loss of $3,500, and interest income of $1,600.

She is a member of her employer's RPP to which she contributes $1,800. Her employer makes a matching contribution and reports a 2021 PA of $3,600. At the end of 2021, she has unused RRSP deduction room of $4,800 and undeducted RRSP contributions of $3,800. In early 2022, she contributes $9,400 to her RRSP.

Determine Marion's maximum RRSP deduction for 2022. Assuming she deducts the maximum, determine the amount of any unused RRSP deduction room that she will have available at the end of 2022, and indicate the amount of any undeducted contributions remaining at the end of 2022.

Answer: The required calculations would be as follows:

Employment Income $45,000

RPP Contributions 1,800

Spousal Support Received 18,000

Business Loss ( 3,500)

2021 Earned Income $61,300

Unused Deduction Room - End of 2021 $ 4,800

Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of 2021 Earned Income of $61,300 = $11,034 11,034

Less 2021 PA ( 3,600)

2022 RRSP Deduction Limit $12,234

RRSP Deduction is lesser of:

• RRSP Deduction Limit = $12,234

• Available Contributions = $13,200 ($3,800 + $9,400) ( 12,234)

Unused RRSP Deduction Room - End of 2022 Nil

Ms. Blue has undeducted contributions of $966 ($13,200 - $12,234) that can be carried forward and deducted in a subsequent year in which there is sufficient RRSP deduction room.

Type: ES

Topic: RRSP contributions - calculating the deduction

80) Mr. Jack Parnell is not a member of an RPP or a DPSP. At the beginning of 2021, Mr. Parnell has no unused RRSP deduction room. His earned income for each of 2020 and 2021 is $75,000. On July 1, 2021, he makes a $13,500 RRSP contribution, but does not claim any deduction for the year. In 2022, he has earned income of $60,000, makes a $16,000 contribution on May 1, but still does not claim a deduction for the year. Determine any penalty tax that will be charged to Mr. Parnell for excess contributions during either 2021 and 2022.

Answer: The required calculations are as follows:

2021 Contribution $13,500

2022 Addition to Deduction Room [(18%)($75,000)] ( 13,500)

Excess Contribution Nil

2022 Contribution $16,000

$2,000 Cushion ( 2,000)

2022 Addition to Deduction Room [(18%)($75,000)] ( 13,500)

Excess Contribution subject to penalty tax $ 500

As the $16,000 contribution was made on May 1, 2022, there will be a 2022 penalty of $40 [(1%)($500)(8 months)]. Whether an RRSP deduction is claimed is irrelevant since the purpose of the penalty is to prevent excess contributions which can then earn income without Part I tax.

Type: ES

Topic: RRSPs - penalty tax for excessive contributions

81) At the beginning of 2021, Bob Pilon has no unused RRSP deduction room. His earned income for each of 2020 and 2021 is $105,000. On August 1, 2021, he makes an $18,900 contribution to his RRSP. On April 1, 2022, he makes an additional contribution of $22,000. He does not claim an RRSP deduction in either 2021 or 2022. He is not a member of an RPP or a DPSP. Determine any penalty that will be assessed to Mr. Pilon for excess contributions during either 2021 or 2022.

Answer: The required calculations are as follows:

2021 Contribution $18,900

2021 Addition to Deduction Room [(18%)($105,000)] ( 18,900)

Excess Contributions Nil

2022 Contribution $22,000

$2,000 Cushion ( 2,000)

2022 Addition to Deduction Room [(18%)($105,000)] ( 18,900)

Excess Contribution subject to penalty tax $ 1,100

As the $22,000 contribution was made on April 1, 2022, there will be a 2022 penalty of $99 [(1%)($1,100)(9 months)]. The fact that there no RRSP deduction was claimed is irrelevant to the application of the penalty.

Type: ES

Topic: RRSPs - penalty tax for excessive contributions

82) In 2020, Austin Peters makes a $1,500 contribution to an RRSP in which his spouse is the annuitant. His spouse also makes a $2,800 contribution to her RRSP in 2020. In 2021, Austin makes a $2,000 contribution to the spousal RRSP. In 2022, Austin's spouse withdraws $4,300 from her RRSP. How will the withdrawal be treated?

Answer: The spouse's RRSP is a spousal plan as contributions to the plan have been made by Mr. Peters. Given this, when the 2022 withdrawal is made, any contributions made by Mr. Peters in 2022, or the two preceding calendar years (2020 and 2021) are attributed to him. This means that $3,500 ($1,500 + $2,000) of the 2022 withdrawal will be included in his income with the remaining $800 ($4,300 - $3,500)included in the 2022 income of his spouse.

Type: ES

Topic: RRSPs - spousal or common-law partner plans

83) Cody Bryant's spouse has had an RRSP for several years. For the first time, in 2020, Cody makes a contribution to his spouse's RRSP in the amount of $4,500 and in 2021 an additional contribution of $5,500. Cody claims a deduction for both of the spousal contributions.

At the beginning of 2022, his spouse's RRSP has a balance of $226,000. In 2022 she withdraws $11,000 from her RRSP. How will this withdrawal be treated?

Answer: The wife's plan is a spousal plan as contributions to the plan have been made by a spouse or common-law partner. Any withdrawal from the spousal plan in 2022 will be attributed to the extent of contributions made by the spouse in the year and the two immediately preceding calendar years. This means that $10,000 ($4,500 + $5,500) of the 2022 withdrawal will be included in his 2022 net income with the remaining $1,000 ($11,000 - $10,000) included in the 2022 net income of his spouse.

Type: ES

Topic: RRSPs - spousal or common-law partner plans

84) Mr. John Debon withdrew $15,000 from his RRSP in 2019, using the provisions of the Home Buyers' Plan (HBP). In 2020 he repaid $8,500 of the HBP balance. What is the minimum repayment that must be paid in 2021? If he makes no payment for 2021, what will be the minimum payment that must be made in 2022?

Answer: Mr. Debon's minimum payment for 2021 would be $433 [(1/15)($15,000 - $8,500)]. Note that the voluntary payment that was made in 2020 did not reduce the fraction of the remaining balance that must be repaid in 2021. If he does not make this payment, then that amount will be added to his 2021 net income and subtracted from his HBP balance owing. Without regard to whether or not he makes this $433 payment, his minimum payment for 2022 would again be $433 [(1/14)($15,000 - $8,500 - $433)].

Type: ES

Topic: RRSP - home buyers' plan

85) In early 2019, Jason Borshiov withdrew $21,000 from his RRSP under the provisions of the Home Buyers' Plan (HBP). Because of a large bonus received from his employer, he repays $7,000 of the HBP in 2020. What is the minimum required payment for 2021? If he makes no payment in 2021, what will be the minimum required payment in 2022?

Answer: Mr. Borshiov's minimum payment for 2021 would be $933 [(1/15)($21,000 - $7,000)]. Note that the voluntary payment made in 2020 did not reduce the fraction of the remaining balance that must be repaid in 2021. If no payment is made in 2021, the $933 will be added to his 2021 net income and subtracted from his HBP balance owing. Whether or not he makes the 2021 payment, the minimum payment for 2022 would again be $933 [(1/14)($21,000 - $7,000 - $933)].

Type: ES

Topic: RRSP - home buyers' plan

86) Mr. Jules Forsyth enrolls full time in a four year university program running from September, 2017, through to April, 2021. In order to finance this program under the provisions of the Lifelong Learning Plan (LLP), he withdraws $10,000 from his RRSP in September, 2017, a further $5,000 in September, 2018, and an additional $5,000 in September, 2019. The university course is completed successfully.

Designated repayments of $2,900 is made in June, 2022, and a second of $1,500 in November, 2023.

Explain the income tax consequences of the withdrawals and repayments.

Answer: As the withdrawals are within the annual limit of $10,000 and the overall limit of $20,000, there will be no income tax consequences associated with the withdrawals from Mr. Forsyth's RRSP. In other words no amounts are required to be included in income as a result of these LLP withdrawals.

The repayment period will begin in 2022, as this is the fifth year (the maximum delay) of LLP participation. It did not begin earlier because he was enrolled in a qualifying education program in the years 2017 through 2021.

There are no income tax consequences in 2022, as his designated repayment of $2,900 exceeds the required amount of $2,000 ($20,000 ÷ 10).

The required repayment for 2023 is $1,900 [($20,000 - $2,900) ÷ 9]. The shortfall in his payment of $400 ($1,900 - $1,500) will be included in his net income for 2023. This illustrates the fact that excess payments in some years cannot be applied against shortfalls in subsequent years.

Type: ES

Topic: RRSP - lifelong learning plan

87) Charles Botterill enrolls full time in a three year university program which runs from September, 2017 through to May, 2020. To assist with financing this program, Charles uses the provisions of the Lifelong Learning Plan (LLP) to withdraw $6,000 from his RRSP in each of the three years 2017, 2018, and 2019. He is successful in completing the university program and receives his degree in April, 2020.

In 2022, he makes a designated repayment of $2,200. This is followed by a designated repayment of $1,200 in 2023.

Explain the income tax consequences of the withdrawals and repayments.

Answer: As the withdrawals are within the annual limit of $10,000 and the overall limit of $20,000, there will be no income tax consequences associated with the $18,000 [(3)($6,000)] of withdrawals from Mr. Botterill's RRSP.

The required repayment period begins in 2022, the fifth year of his participation in the LLP. This is the maximum delay for repayment.

There are no income tax consequences for 2022 as Mr. Botterill's designated payment of $2,200 exceeds the required minimum of $1,800 ($18,000 ÷ 10).

The required payment in 2023 is $1,756 [($18,000 - $2,200) ÷ 9]. The shortfall of $556 ($1,756 - $1,200) will be included in his net income for 2023.

Type: ES

Topic: RRSP - lifelong learning plan

88) On January 1, 2022, Ms. Sheila Salon transfers the balance of her RRSP to a RRIF. At this time, Ms. Salon is 67 years of age. On January 1, 2022, the FMV of the fund property is $1,450,000. The corresponding balance on January 1, 2023 is $1,350,000. What is the minimum withdrawal that Ms. Salon must make from the RRIF in 2022 and 2023?

Answer: There is no required withdrawal from a RRIF in the year it is created. As a result there is no minimum withdrawal in 2022. In 2023, the minimum withdrawal is $61,364 [$1,350,000 ÷ (90 - 68)].

Type: ES

Topic: RRIF - minimum withdrawal

89) In 2022, Saul Bronson transfers his entire RRSP balance to a RRIF. At this time, Mr. Bronson is 69 years of age. On January 1, 2022, the FMV of the fund is $2,400,000 and on January 1, 2023 it is $2,600,000. What is the minimum withdrawal that Mr. Bronson must make from the RRIF in 2022 and 2023?

Answer: There is no required withdrawal from a RRIF in the year it is created. As a result there is no minimum withdrawal in 2022. In 2023, the minimum would be $130,000 [$2,600,000 ÷ (90 - 70)].

Type: ES

Topic: RRIF - minimum withdrawal

90) As of December 31, 2022, Mrs. Mary Barth has worked for her current employer for 37 years. On this date she retires and, in recognition of her devoted service, her employer pays her a retiring allowance of $85,000. Her employer has never sponsored an RPP or DPSP. What is the maximum deductible contribution that Mrs. Barth can make to her RRSP as a result of receiving this retiring allowance?

Answer: If Mrs. Barth has worked for 37 years as of 2022, she must have started in 1986. Given this, she can rollover a total of $24,500 [($2,000)(10 Years before 1996) + ($1,500)(3 Years Before 1989)]. The remaining $60,500 ($85,000 - $24,500) will be included in her taxable income and will be subject to income tax in 2022.

Type: ES

Topic: RRSPs - transfer of retiring allowances

91) As of the end of 2022, Merideth Jones has worked for her current employer for 39 years. She retires at the end of December of 2022 and, under the terms of the applicable collective agreement, she receives a retiring allowance of $62,000. Her employer has never sponsored an RPP or DPSP. What is the maximum deductible contribution that Ms. Jones can make to her RRSP as a result of receiving this retiring allowance?

Answer: If Ms. Jones has worked for 39 years as of 2022, she must have started in 1984. Given this, she can rollover a total of $31,500 [($2,000)(12 Years before 1996) + ($1,500)(5 Years before 1989)]. The remaining $30,500 ($62,000 - $31,500) will be included in her taxable income and will be subject to income tax in 2022.

Type: ES

Topic: RRSPs - transfer of retiring allowances

92) The Canadian retirement savings system makes an effort to treat all taxpayers equally, without regard to the type of retirement savings plan they have access to. In order to implement this objective, it is necessary to have Pension Adjustments (PAs), Past Service Pension Adjustments (PSPAs), and Pension Adjustment Reversals (PARs) to ensure that a certain level of benefits is generally available to all. The following **independent** Cases serve to illustrate the calculations that are required for these pension adjustments.

**Lorina Heyman**

Ms. Heyman began working for Unafase Ltd. in 2019. The Company sponsors a defined contribution pension plan which requires 5 years of service prior to pension benefits becoming vested. For the 3 years 2019 through 2021, a total of $16,000 in PAs were reported for Ms. Heyman by the employer.

In January 2022, Ms. Heyman decided to quit. As a result she lost the pension benefits that had not yet become vested.

**Required:** Calculate Ms. Heyman's PAR for 2022.

**Reyes Club**

Mr. Club has worked for Konlane Inc. since January 1, 2020. On January 1, 2022, the Company implements a defined benefit pension plan. The pension agreement requires the Company to retroactively extend benefits for all years of service prior to 2022.

The plan provides a benefit of 1.2% of pensionable earnings for year of service. Mr. Club's pensionable earnings for his years of service are as follows:

2020 $72,000

2021 76,000

2022 82,000

**Required:** Calculate Mr. Club's 2022 PSPA, as well as his 2022 PA.

**Carrie Salisbury**

Ms. Salisbury's employer sponsors both a defined contribution RPP and a DPSP. In 2022, the employer contributed $4,600 to the RPP and $2,100 to the DPSP. Ms. Salisbury was required to make a matching contribution of $4,600 to the RPP.

**Required:** Calculate Ms. Salisbury's 2022 PA.

**Pablo Godley**

Mr. Godley's employer sponsors a defined benefit RPP. In 2022, Mr. Godley's employer contributes $4,500 to the RPP on his behalf. In addition, Pablo is required to make a matching contribution of $4,500. The plan provides a benefit of 1.35% of pensionable earnings for each year of service. For 2022, Mr. Godley has pensionable earnings of $103,000.

**Required:** Calculate Mr. Godley's 2022 Pension Adjustment (PA).

**Willis Hack**

Mr. Hack has worked for his current employer since 2020. He earns vested benefits under a defined benefit RPP that is sponsored by his employer. Mr. Hack and his employer contribute the same amount to the plan each year. Mr. Hack's total RPP contributions to the plan (employer and employee) and pensionable earnings for these years were as follows:

**Year Total RPP Contributions Earnings**

2020 $4,200 $71,000

2021 $4,400 73,000

2022 $4,800 69,000

Prior to 2022, the plan provided a benefit of 1.1% of pensionable earnings for each year of service. As of 2022 the benefit percentage was increased to 1.2%. This change will be applied retroactively to all prior years of service.

**Required:** Calculate Mr. Hack's 2022 PSPA and his 2022 PA.

Answer:  ***Lorina Heyman***

The required PAR would be $16,000. This is simply the total of the PAs to Lorina for the 2019 through 2021 years.

***Reyes Club***

The required PSPA would be calculated as follows:

2020 Amount [(1.2%)(9)($72,000)] $ 7,776

2021 Amount [(1.2%)(9)($76,000)] 8,208

2022 PSPA $15,984

In addition to the PSPA calculated above, there would be a 2022 PA calculated as follows:

[(1.2%)(9)($82,000)] = $8,856

***Carrie Salisbury***

The required PA would be calculated as follows:

Employer's Contribution to DPSP $ 2,100

Employer's Contribution to RPP 4,600

Carrie's Contribution to RPP 4,600

2022 PA $11,300

***Pablo Godley***

The required 2022 PA would be calculated as follows:

[(1.35%)(9)($103,000)] = $12,514.50

**Note** that the actual contributions made during the year have no influence on the PA for a defined benefit RPP.

***Willis Hack***

The required PSPA would be calculated as follows:

2020 Amount [(1.2% - 1.1%)(9)($71,000)] $ 639

2021 Amount [(1.2% - 1.1%)(9)($73,000)] 657

2022 PSPA $1,296

In addition to the 2022 PSPA calculated above, there would be a 2022 PA calculated as follows:

[(1.2%)(9)($69,000)] = $7,452

**Note** that actual contributions made have no impact on the PSPA or PA for a defined benefit RPP.

Type: ES

Topic: Pension adjustments - PAs, PSPAs & PARs

93) On January 1, 2020, Kerri Kmatz had unused RRSP deduction room of $18,500. In addition, because she was unemployed in the two previous years, she had undeducted contributions of $14,700. She had no earned income for RRSP purposes in either 2018 or 2019. While she manages to live on accumulated savings during the year, she also has no 2020 earned income.

In 2021 she has several periods of part time employment and has earned income of $17,300. In addition, as the result of an incredible lucky streak at the blackjack tables in the Montreal Casino, she has accumulated winnings of over $100,000. In her excitement, she immediately makes a $20,000 contribution to her RRSP, on October 1, 2021. Without deducting any RRSP contributions for 2021, she has no income tax payable for the year.

In 2022, she finally finds full time employment, resulting in 2022 earned income of $45,000. She makes no further contributions in the year and claims her maximum RRSP deduction for 2022.

**Required:**

A. Determine Kerri's maximum RRSP deduction for 2022.

B. Determine any penalty tax that will be charged for 2022 for excessive RRSP contributions.

C. Determine the amount of contributions that Kerri would have to withdraw from her RRSP on January 2, 2023 to avoid further penalty tax. What advice would you give to Kerri regarding her retirement savings?

Answer:

***Part A - Maximum RRSP Deduction***

Kerri's maximum 2022 RRSP deduction would be calculated as follows:

Unused Deduction Room - January 1, 2020 $18,500

2020 Addition (Based on 2019 Earned Income of Nil) Nil

2021 Addition (Based on 2020 Earned Income of Nil) Nil

2022 Addition - Lesser of:

RRSP Dollar Limit - $29,210

18% of 2021 Earned Income

[(18%)($17,300)] = $3,114 3,114

Maximum 2022 RRSP Deduction $21,614

***Part B - Penalty for Excess RRSP Contributions***

Kerri would have been charged the penalty tax for excess RRSP contributions for 2021. However, the problem only requires the calculation for 2022.

The 2022 penalty tax for excess RRSP contributions would be calculated as follows:

Undeducted Contributions

January 1, 2021 Balance $14,700

2021 Addition 20,000

2022 Deduction ( 21,614) $13,086

Unused Deduction Room

January 1, 2021 $18,500

2022 Addition 3,114

2022 Deduction ( 21,614) Nil

Permitted Cushion ( 2,000)

Excess Subject to Penalty Tax $11,086

Penalty Rate 1%

Monthly Penalty $ 111

Months January to December 12

Penalty Tax for 2022 $ 1,332

Part C - Recommended Withdrawal and Advice

Kerri's Earned Income for 2022 is $45,000. This will result in a 2023 addition to her deduction room of $8,100 [(18%)($45,000)]. Provided she wishes to leave the permitted cushion of $2,000 in her RRSP, she should immediately withdraw $2,986 ($11,086 - $8,100) from her RRSP in order to avoid additional penalties in 2023.

Although she would not be able to deduct the $2,000 cushion, the RRSP would enjoy the benefit of earning income on that $2,000 amount without income tax under PArt I. An over contribution to her RRSP would be deductible in a future year as long as there is sufficient RRSP deduction room.

As she obviously does not need the funds, they should be contributed to a TFSA. As long as the withdrawal is made prior to the end of 2023 (the year after the assessment for 2022 was made), an offsetting RRSP deduction is available.

In the future, Kerri should verify her RRSP deduction room prior to contributing to her RRSP as she should not be paying any penalty tax for excess RRSP contributions.

Type: ES

Topic: RRSP - comprehensive problem

94) Hazel Swilling had married shortly after graduating from college at the age of 22 and had no earned income prior to 2021. The marriage ended with a divorce in 2021 and she immediately began to look for full-time employment. In November of 2021 she found employment with an annual salary of $36,000. Her gross employment income for November and December of 2021 was $6,000.

Hazel's new employer sponsors a defined benefit RPP. In 2021, $400 was withheld from Hazel's salary as an RPP contribution with the employer making a matching contribution.

On August 31, 2021, as part of the divorce settlement, ownership of a rental property that had been owned by her former spouse prior to the marriage was transferred to her. The rental property had been purchased for $423,000 with $100,000 for the land and $323,000 for the building. Information on this property is as follows:

FMV on receipt in 2021

Land $120,000

Building 375,000

January 1, 2021 UCC of Building 280,054

Rental Loss (Before CCA)

For September 1 to December 31, 2021 2,600

Hazel also received a lump-sum payment of $98,000 on September 1, 2021, plus $2,500 as monthly spousal support beginning September 1, 2021 as part of the divorce settlement. The $98,000 was deposited in a savings account and, for the period September 1 through December 31, 2021 Hazel received interest income of $653. All spousal support payments were made on time.

In 2021 Hazel also received the following amounts:

• An inheritance from her mother's estate of $62,000.

• Eligible dividends from Canadian public companies of $1,800.

For both 2021 and 2022, Hazel does not anticipate that her income will exceed the limit for the lowest federal income tax bracket of 15%. However, she anticipates that for the 2023 taxation year, her income will put her in the 26% federal income tax bracket.

**Required:**

A. Calculate Hazel's 2021 employment income.

B. Determine Hazel's maximum deductible RRSP contribution for 2022.

C. As Hazel's personal financial consultant, what advice would you give her regarding TFSA and RRSP contributions and deductions for 2022?

Answer:

***Part A***

Hazel's 2021 employment income is $5,600, her gross salary of $6,000 minus a deduction for her RPP contributions of $400.

***Part B***

The annual addition for 2022 would be the lesser of the 2022 dollar limit of $29,210 and 18% of earned income which would be calculated as follows:

Employment Income (Part A) $ 5,600

Add Back RPP deduction 400

Spousal Support Received [(4)($2,500)] 10,000

Rental Loss ( 2,600)

2021 Earned Income $13,400

Percent 18%

2022 Addition (Less than $29,210) $ 2,412

Hazel's maximum deductible RRSP contribution for 2022 would be calculated as follows:

Opening Unused Deduction Room Nil

2022 Addition $2,412

Less 2021 PA ($400 + $400) ( 800)

Maximum 2022 Deductible RRSP Contribution $1,612

Part C

As Hazel has made no RRSP contributions prior to 2022, she has no undeducted contributions. In addition, she has interest income and dividends that are subject to income tax. Given this, as well as the fact that her lump-sum payment of $98,000 and $62,000 inheritance, both of which are not required to be included in her income, leaves her with cash in excess of her needs, she should contribute the maximum deductible RRSP contribution of $1,612 for 2022.

While she could deduct the $1,612 in 2022, it would be advantageous to defer this deduction until 2023 when she expects to be in a higher income tax bracket. At the federal level, the income tax savings will be $177 [(26% - 15%)($1,612)] larger if the RRSP deduction is claimed in 2023 instead of 2022.

Given her available funds, Hazel should be advised to consider contributing the maximum allowable amount to a TFSA, as well as over contributing up to $2,000 to her RRSP.

Although she would not be able to deduct the $2,000 cushion, the RRSP would enjoy the benefit of earning income on that $2,000 amount without income tax under Part I. An over contribution to her RRSP would be deductible in a future year as long as there is sufficient RRSP deduction room.

All of these contributions should be made as soon as possible in order to maximize the amount of time in which the earnings are exempt from income tax under Part I while the funds are within a RRSP or TFSA.

Type: ES

Topic: RRSPs - calculating the deduction, TFSAs and some tax planning

95) After being unemployed for two years, Donald Parker found employment with a large, public corporation in early 2021. In 2021 his salary was $40,000 plus commissions of $20,000 and in 2022 his salary was $53,000 plus commissions of $32,000. Deductible employment expenses were $3,000 in 2021 and $4,000 in 2022.

Donald's employer withheld the following amounts:

**2022 2021**

Federal and Provincial Income Tax $19,000 $11,000

CPP Contributions 3,500 3,166

EI Premiums 953 890

Disability Insurance Premiums 250 250

RPP Contributions 1,500 1,400

The RPP is a money purchase plan in which the employer makes contributions equal to that of the employees. In addition the employer also disability insurance premiums in an amount equal to the premiums paid by employees. The employer also provided Donald with a low interest loan at a rate below what the employee could negotiate with a bank. The taxable interest benefit on the loan was $2,750 in 2021 and $2,500 in 2022.

Other information for the years 2021 and 2022 is as follows:

**2022 2021**

Rental Income (Loss) $1,400 ($2,500)

Spousal Support received 2,600 2,400

Spousal Support paid ( 3,600) ( 3,500)

Capital Gains (Losses) ( 2,200) 1,750

Royalties\* 875 920

Interest Income 273 496

\*The royalties are on a song written by Donald's mother in 1962.

In 2018, just prior to losing his job, Donald contributed $7,500 to an RRSP. As he realized he would be in the minimum income tax bracket until he found other employment, Donald did not claim a deduction for this RRSP contribution prior to 2022. His Unused RRSP Deduction Room at the end of 2021 is $25,000.

In November, 2022, Donald wins $200,000 in a lottery. He would like to put as much of this amount as possible into his RRSP before the end of 2022.

**Required:**

A. Determine Donald's 2022 RRSP Deduction Limit.

B. Calculate the amount you would recommend that Donald contribute to his RRSP in 2022.

Answer:

***Part A***

Donald's maximum 2022 RRSP deduction will include the lesser of $29,210 and 18% of his 2021 earned income which is is calculated as follows:

Salary $40,000

Commissions 20,000

Employment expenses ( 3,000)

Taxable Benefit on Loan 2,750

Rental Loss ( 2,500)

Spousal Support Received 2,400

Spousal Support Paid ( 3,500)

Royalties (Note) Nil

2021 Earned Income $56,150

Percent 18%

2022 Addition (Less than $29,210) $10,107

**Note -** Royalties received due to someone else's work are not part of earned income for RRSP purposes.

Donald's maximum 2022 RRSP deduction is calculated as follows:

Opening Unused RRSP Deduction Room $25,000

2022 Addition 10,107

2021 Pension Adjustment (PA) [(2)($1,400)] ( 2,800)

RRSP Deduction Limit for 2022 $32,307

The PA is equal to the sum of the employee and employer contributions to the RPP.

***Part B***

Since Donald wants to contribute the maximum allowable to his RRSP, the appropriate advice would be to contribute enough to make the maximum 2022 deduction, plus the allowed over contribution of $2,000. This amount would be calculated as follows:

RRSP Deduction Limit for 2022 $32,307

Allowable Excess Amount 2,000

Non-Penalty Contribution Limit $34,307

Undeducted Contributions from previous years ( 7,500)

Maximum Contribution for 2022 $26,807

Given his available funds, Donald should be advised to also consider contributing the maximum allowable amount to a TFSA.

Type: ES

Topic: RRSP contributions - calculating the deduction

96) Henry Plate's earned income for RRSP purposes for 2020 was $52,000. In 2021 Mr. Plate and his employer each contributed $2,500 to the employer sponsored money purchase RPP. At the end of 2021 there was no unused RRSP deduction room or undeducted RRSP contributions.

Mr. Plate's 2022 earned income was $65,000. In 2022 Mr. Plate and his employer each contributed $2,800 to the employer sponsored money purchase RPP.

Mr. Plate made a $5,000 contribution to his RRSP on April 30, 2022.

**Required:**  Indicate which of the RRSP and RPP contributions that have been made by Mr. Plate can be deducted for 2022. In addition, if he makes the maximum RRSP deduction in 2022, indicate any carry forwards available for subsequent years.

Answer: ***Registered Pension Plan***

His 2022 RPP contribution of $2,800 will be deductible against employment income in 2022.

***Registered Retirement Savings Plan***

Mr. Plate's maximum 2022 RRSP deduction would be calculated as follows:

Opening Unused Deduction Room Nil

Annual Addition - Lesser of:

• 2022 RRSP Deduction Limit = $29,210

• [(18%)($52,000)] = $9,360 $9,360

2021 Pension Adjustment ($2,500 + $2,500) ( 5,000)

2022 RRSP Deduction Limit $4,360

If he deducts the $4,360 limit for the year, he will have an unused contribution of $640

($5,000 - $4,360) that can be carried forward for deduction in subsequent years.

Type: ES

Topic: RRSP contributions - calculating the deduction

97) Ms. Suzanne Sharp established an RRSP in 2014. As of January 1, 2021, Suzanne had no unused RRSP deduction room and no undeducted RRSP contributions. Her 2020 earned income was sufficient for her to make the maximum 2021 contribution of $27,830. However, as she acquired a new home in 2021, she made no contributions to her RRSP for that year.

With the new home and furnishing purchases behind her and the receipt of a sizable inheritance from her mother's estate, she has sufficient funds to maximize her RRSP contribution in 2022. She would like you to advise her as to the maximum contribution that she can make in 2022 without incurring any penalty tax for excess RRSP contributions.

The following information relates to the 2021 taxation year:

**Employment Income**

Salary $225,000

RPP Contributions (Note 1) 7,600

CPP Withheld 3,166

EI Withheld 890

Donations to Registered Charities Withheld 1,500

Stock Option Benefit 3,400

Deductible Employment Expenses 4,800

Interest Free Loan Benefit 2,600

**Other Information**

Business Income (Note 2) 21,400

Spousal Support Paid 18,000

Interest Income 2,500

Eligible Dividends Received 10,300

Net Taxable Capital Gains 7,400

Royalty Income (Note 3) 6,200

**Note 1 -** Suzanne's employer makes a matching contribution of $7,600.

**Note 2 -** The business income is from a mail order business that Suzanne carries on as a sole proprietor from her home.

**Note 3 -** The royalty income is from a university textbook that her mother wrote prior to her death.

**Required:** Show the details of all the required calculations and ignore all GST/HST & PST considerations.

A. Calculate Suzanne's 2021 Employment Income.

B. Calculate Suzanne's 2021 Earned Income.

C. Calculate the maximum 2022 RRSP contribution that Suzanne can make without incurring the penalty tax for excess RRSP contributions.

Answer:

***Part A***

Suzanne's 2021 Employment Income would be calculated as follows:

Salary $225,000

RPP Contributions ( 7,600)

CPP Withheld ($2,876 available for a tax credit) N/A

EI Withheld (Available for a tax credit) N/A

United Way Contributions Withheld (same as EI) N/A

Stock Option Benefit 3,400

Deductible Employment Expenses ( 4,800)

Interest Free Loan Benefit 2,600

2021 Employment Income $218,600

***Part B***

Suzanne's 2021 Earned Income would be calculated as follows:

Employment Income $218,600

Add Back RPP Contributions 7,600

Business Income 21,400

Spousal Support Paid ( 18,000)

Interest Income N/A

Eligible Dividends Received N/A

Net Taxable Capital Gains N/A

Royalty Income\* N/A

2021 Earned Income $229,600

\*As Suzanne was not the author of the textbook on which the royalties were paid, they are not included in 2021 Earned Income.

***Part C***

The calculation of Suzanne's maximum deductible RRSP contribution for 2022 is:

Opening Unused Deduction Room

2021 RRSP Dollar Limit $27,830

Annual Addition - Lesser of:

2022 RRSP Dollar Limit = $29,210

18% of 2021 Earned Income

[(18%)($229,600)] = $41,328 29,210

2021 PA [(2)(7,600)] ( 15,200)

Maximum Deductible RRSP Contribution for 2022 $41,840

Permitted Additional Contribution 2,000

Maximum Penalty Free RRSP Contribution for 2022 $40,860

Type: ES

Topic: RRSP contributions - calculating the deduction

98) At the end of 2021, Mr. Jonathan Detwiller had unused RRSP deduction room of $10,000 and undeducted contributions of $4,500.

Mr. Detwiller's various types of income and deductions for 2021 are as follows:

Employment income $56,000

Eligible dividends received 7,800

Gross up [(38%)($7,800)] 2,964

Subdivision e deductions (child care expenses) ( 2,500)

Taxable capital gains 5,400

Allowable capital losses ( 8,200)

Rental loss ( 9,000)

**Required:**

A. Calculate Mr. Detwiller's 2021 net income without considering an RRSP deduction. In addition identify any carry over amounts.

B. For each of the following **independent** cases, calculate:

• the maximum RRSP contribution that Mr. Detwiller can make for 2022 without incurring the penalty tax for excess RRSP contributions;

• Mr. Detwiller's maximum RRSP deduction for 2022, assuming that he makes the maximum contribution that you have calculated.

**Case 1 -** In 2021, he is a member of a money purchase RPP in which he has contributed $1,500 and his employer has contributed $3,000. He is also a member of a DPSP to which his employer has contributed $1,000.

**Case 2 -** In 2021, he is a member of a DPSP in which his employer contributed $4,500 per employee. His employer does not sponsor a RPP.

**Case 3 -** In 2021, he is not a member of a RPP or DPSP. Assume that in addition to the preceding information, he also has business income of $220,000.

Answer:

***Part A***

Mr. Detwiller's 2021 Net Income would be determined as follows:

Income ITA 3(a):

Employment Income $56,000

Eligible Dividends 7,800

Gross Up [(38%)($7,800)] 2,964 $66,764

Income ITA 3(b):

Taxable Capital Gains $ 5,400

Allowable Capital Losses ( 8,200) Nil

Balance of ITA 3(a) + 3(b) $66,764

Less: subdivision e deductions ( 2,500)

ITA 3(c) $64,264

Deductions under ITA 3(d):

Rental Loss ( 9,000)

2021 Net Income $55,264

Mr. Detwiller's 2021 net income is $55,264 and there is also a 2021 net capital loss of $2,800 ($5,400 - $8,200).

***Part B - Case 1***

Mr. Detwiller's 2021 earned income would be calculated as follows:

Employment Income $56,000

Add Back RPP Contributions 1,500

Rental Loss ( 9,000)

2021 Earned Income $48,500

Given this, his maximum 2022 RRSP contribution would be calculated as follows:

Unused Deduction Room - End of 2021 $10,000

Annual Addition - Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of 2021 Earned Income of $48,500 = $8,730 8,730

Less 2021 PA ($1,500 + $3,000 + $1,000) ( 5,500)

2022 RRSP Deduction Limit $13,230

Allowable Excess Amount 2,000

Non-Penalty Contribution Limit $15,230

Undeducted Contributions from previous years ( 4,500)

Maximum 2022 RRSP Contribution $10,730

If Mr. Detwiller makes a contribution of $10,730, his 2022 RRSP deduction will be $13,230 and he will carry forward undeducted RRSP contributions of $2,000 ($4,500 + $10,730 - $13,230).

***Part B - Case 2***

Mr. Detwiller's 2021 Earned Income would be calculated as follows:

Employment Income $56,000

Rental Loss ( 9,000)

2021 Earned Income $47,000

The maximum 2022 RRSP that would avoid any penalty tax would be:

Unused Deduction Room - End of 2021 $10,000

Annual Addition - Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of 2021 Earned Income of $47,000 = $8,460 8,460

Less 2021 PA ( 4,500)

2022 RRSP Deduction Limit $13,960

Allowable Excess Amount 2,000

Non-Penalty Contribution Limit $15,960

Undeducted Contributions from previous years ( 4,500)

Maximum 2022 RRSP Contribution $11,460

If Mr. Detwiller makes a contribution of $11,460, his 2022 RRSP deduction will be $13,960 and he will carry forward undeducted RRSP contributions of $2,000 ($4,500 + $11,460 - $13,960).

***Part B - Case 3***

Mr. Detwiller's 2021 Earned Income would be calculated as follows:

Employment Income $ 56,000

Rental Loss ( 9,000)

Business Income 220,000

2021 Earned Income $267,000

The maximum 2022 RRSP contribution that would avoid any penalty tax would be:

Unused Deduction Room - End of 2021 $10,000

Annual Addition - Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of 2021 Earned Income of $267,000 = $48,060 29,210

Less 2020 PA Nil

2021 RRSP Deduction Limit $39,210

Allowable Excess Amount 2,000

Non-Penalty Contribution Limit $41,210

Undeducted Contributions from previous years ( 4,500)

Maximum 2022 RRSP Contribution $36,710

If Mr. Detwiller makes a contribution of $36,710, his 2022 RRSP deduction will be $39,210 and he will carry forward undeducted RRSP contributions of $2,000 ($4,500 + $36,710 - $39,210).

Type: ES

Topic: RRSPs - calculating the deduction plus net income

99) Stefanie Heiner provides you with the following information for 2022:

1. Her savings account earned interest of $875.

2. She realized taxable capital gains of $16,090.

3. She realized allowable capital losses on the sale of shares of $3,625.

4. She received eligible dividends of $4,620.

5. She paid periodic spousal support of $12,000.

6. She received royalties of $8,600 for a textbook that she wrote for the elementary school market.

In addition she carried on a business as a sole proprietor with a December 31 fiscal period. Business income for accounting purposes is $156,470. Other business related information for the year is as follows:

• Amortization in the amount of $23,400 was deducted in the determination of accounting business income. Maximum CCA, which Stefanie intends to claim, is $31,460.

• As a result of meetings with various clients and suppliers, Stefanie incurred meal and entertainment expenses of $8,560. This amount was deducted in determining the accounting business income.

• In 2022 depreciable property used in the business was sold for $26,500. The carrying value for accounting purposes was $15,900. The capital cost of the depreciable property sold was $31,000, and the UCC in the class on January 1, 2022 was $12,349. There were no additions to the class in the year.

At the beginning of 2022, Stefanie had unused RRSP deduction room of $7,300. She also had undeducted contributions of $3,200.

**Required:**

A. Calculate Stefanie's minimum 2022 net income before any RRSP deduction. Ignore CPP contributions in your calculations.

B. Calculate Stefanie's maximum 2022 RRSP deduction. Assume that Stefanie's 2021 earned income is equal to her 2022 earned income. In addition determine the amount of additional contributions that she would have to make in order to maximize her 2022 RRSP deduction.

Answer:

***Part A***

Minimum 2022 Net Income would be calculated as follows:

Business Income

Accounting Business Income $156,470

Additions:

Accounting Amortization 23,400

Recapture (Note 1) 14,151

Meals and Entertainment (Note 2) 4,280

Deductions:

Maximum CCA (Given) ( 31,460)

Accounting Gain on sale of property ($26,500 - $15,900) ( 10,600)

Business Income $156,241

Property Income

Interest 875

Eligible Dividends 4,620

Gross Up [(38%)($4,620)] 1,756

Royalties 8,600

Taxable Capital Gains

Taxable Capital Gain 16,090

Allowable Capital Loss ( 3,625)

Spousal Support Paid ( 12,000)

2022 Net Income before RRSP Deduction $172,557

**Note 1 -** Recapture of CCA would be calculated as follows:

UCC - January 1, 2022 $12,349

Reduced by the lesser of:

Capital Cost = $31,000

POD = $26,500 ( 26,500)

Negative Ending UCC = Recapture ($14,151)

**Note 2 -** Only one-half of the $8,560 in business meals and entertainment tare deductible for income tax purposes therefore $4,280 [(1/2)($8,560)] must be added back since the accounting business income deducted the full amount.

***Part B***

The calculation of 2021 earned income which is considered to be the same as 2022 earned income is as follows:

Business Income $156,241

Royalties (Individual was the Author) 8,600

Spousal Support Paid ( 12,000)

2021 Earned Income $152,841

Using this information, the maximum 2022 RRSP deduction would be:

Unused Deduction Room - January 1, 2022 $ 7,300

Lesser of:

2022 RRSP Limit = $29,210

[(18%)($152,841)] = $27,511 27,511

PA N/A

Maximum 2022 RRSP Deduction $34,811

The required amount of additional contributions would be calculated as follows:

Maximum 2022 Deduction $34,811

Undeducted Contributions ( 3,200)

Required Additional Contributions for 2022 $31,611

Type: ES

Topic: RRSPs - calculating the deduction plus net income

100) Mr. Allen Arnold lives in Burlington, Ontario. He is 38 years old. His spouse Brenda is 32 years old and has 2022 net income of $8,500. They have two children both of whom are in perfect health. Their daughter Sarah is 12 and has net income from part time jobs of $300. Their son Derek is 10 and has no income of his own.

Mr. Arnold works for a large public company and, in 2022, his basic salary is $103,000 and he earns commission income of $26,140. In 2022, his employer makes the following payroll withholdings:

RPP Contributions $4,200

CPP Contributions 3,500

EI Premiums 953

Donations to Registered Charities 1,200

Union Dues 260

Payments for personal use of company automobile 600

Premiums to company's disability insurance plan 1,200

**Other Information:**

1. Mr. Arnold's employer makes a matching $4,200 contribution to the company's RPP on behalf of Mr. Arnold.

2. Mr. Arnold's employer makes a matching $1,200 contribution to the company's disability insurance plan on behalf of Mr. Arnold. The comprehensive disability insurance plan provides periodic benefits during any period of disability to compensate for lost employment income. Due to a two month sick leave, Mr. Arnold receives disability insurance benefits of $10,950. Mr. Arnold has been making a $1,200 contribution each year since 2019. He has had no disability insurance claims in any of the years 2019 to 2021.

3. Mr. Arnold's employer provides him with an automobile that was purchased in 2019 for $38,000. His employer pays all of the operating expenses which, in 2022 totalled $9,800. In 2022, Mr. Arnold drove the automobile a total of 48,000 kilometers, 42,000 of which were for employment use with 6,000 for personal use. The automobile was only available to Mr. Arnold's for 10 months of the year.

4. Medical expenses for Mr. Arnold's family are as follows:

Allen $3,650

Brenda 2,600

Sarah 1,300

Derek 6,200

5. Mr. Arnold is required to maintain an office in his home without reimbursement from his employer. His employer provides the required T2200 form. He uses 20% of the home's usable floor space for his office which includes a component for common areas. The home office expenses are:

Utilities and Maintenance $ 5,000

Insurance 4,500

Property Taxes 7,600

Mortgage Interest 9,600

6. Mr. Arnold receives an annual travel allowance of $4,800 to cover hotel expenses while travelling for employment purposes. His actual hotel expenses for 2022 were $5,100. In addition, he spent $6,300 on client meals and entertainment. His employer does not reimburse any of these expenses.

7. As with all of the other employees, Mr. Arnold received a $750 gift certificate for use at a local department store. He also received a $300 cash reward for sales performance in 2022.

8. In addition to his employment income, Mr. Arnold has taxable capital gains from stock market trading of $4,500, a rental loss of $6,000 from a residential rental property, and $8,600 of profits from a business he carries on as a sole proprietor.

9. Mr. Arnold supports the church that he attends with monthly donations of $200 throughout 2022.

10. Mr. Arnold's 2021 net income was $98,000. This was composed of employment income of $93,000 (after the deduction of $4,000 for RPP contributions), interest income of $3,000, a rental loss of $7,000, and business income of $9,000.

11. At the end of 2021, Mr. Arnold's unused RRSP deduction room was $6,200 and he had no undeducted RRSP contributions. His employer reported a 2021 PA of $8,000.

**Required**: Ignore GST/HST & PST considerations.

A. Calculate Mr. Arnold's maximum deductible RRSP contribution for 2022.

B. Assume that Mr. Arnold contributes the amount calculated in Part A to his RRSP. Calculate Mr. Arnold's minimum 2022:

• Net Income,

• Taxable Income, and

• Federal Income Tax Payable ignoring any income tax that may have been withheld by the employer or paid by instalments.

Answer:

**Part A - RRSP Contribution**

In order to determine his maximum 2022 RRSP deduction, we need to calculate Mr. Arnold's 2021 earned income which is calculated as follows:

Employment Income $93,000

Add back RPP Contributions 4,000

Rental Loss ( 7,000)

Business Income 9,000

2021 Earned Income $99,000

His maximum deductible 2022 RRSP contribution is determined as follows:

Unused Deduction Room - End of 2021 $ 6,200

Annual Addition - Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of 2021 Earned Income of $99,000 = $17,820 17,820

Less 2021 PA ( 8,000)

Maximum Deductible RRSP Contribution for 2022 $16,020

**Part B**

***Employment Income***

Mr. Arnold's 2022 employment income would be calculated as follows:

Gross Salary $103,000

Additions:

Commission Income 26,140

Automobile Benefit (Note One) 3,503

Disability Benefit (Note Two) 6,150

Hotel Allowance (Note Three) Nil

Gift Certificate (Note Four) 750

Award (Note Four) 300

Deductions:

RPP Contributions ( 4,200)

Union Dues ( 260)

Employment Expenses (Note Five) ( 6,570)

2022 Employment Income $128,813

**Note One -** The taxable automobile benefit would be calculated as follows:

Standby Charge [(2%)($38,000)(10)(6,000 / 16,670)] $2,735

Operating Cost Benefit - Lesser of:

• [(6,000)($0.29)] = $1,740

• [(1/2)($2,735)] = $1,368 1,368

Total Benefit before payments for Personal Use $4,103

Payments for Personal Use ( 600)

2022 Taxable Automobile Benefit $3,503

As Mr. Arnold's employment related driving is more than 50% of the total, he is eligible for the reduced standby charge calculation. This also means that he is eligible to use the alternative operating cost benefit calculation based on one-half the standby charge and this option produces the lower operating cost benefit.

**Note Two -** As Mr. Arnold's employer contributes to the disability plan, the $10,950 benefit must be included in income. However, the amount can be reduced by the $4,800 [($1,200)(4 Years)] contributions that he made in 2018 through 2021. The net increase is therefore $6,150 ($10,950 - $4,800).

**Note Three -** As the $4,800 hotel allowance appears to be reasonable, it will not be included in Mr. Arnold's income. As it is not included in his income, he cannot deduct the actual expenses of $5,100. **Note:** The fact that the allowance is close to the amount of actual expenses is not determinative when determining reasonableness.

**Note Four -** The department store gift certificate would be viewed as a near cash award and would not be eligible for the $500 annual gift exemption granted by CRA as an administrative concession. Performance awards must always be included in income and are not eligible for the CRA administrative concession.

**Note Five -** As Mr. Arnold has commission income, he can deduct a pro rata share of insurance and property taxes in addition to a pro rata share of utilities and maintenance with respect to the home office. However, as an employee, he cannot deduct the mortgage interest or claim CCA on his home. In addition because he earns commission income he is entitled to claim 50% of unreimbursed meal and entertainment expenses. The result is the following allowable employment expense for 2022:

Utilities and Maintenance $ 5,000

Insurance 4,500

Property Taxes 7,600

Total Home Office Expenses $17,100

Workspace Use 20%

Deductible Home Workspace Expenses $ 3,420

Business Meals and Entertainment [(50%)($6,300)] 3,150

2022 Employment Expense $ 6,570

As this total is less than Mr. Arnold's commission income, he does not need to consider any alternative calculation of deductible employment expenses.

***2022 Net Income and Taxable Income***

As Mr. Arnold has no taxable income deductions, his 2022 taxable income is equal to his 2022 net income. These amounts are determined as follows:

Employment Income (See Preceding Calculations) $128,813

Taxable Capital Gains (Given) 4,500

Rental Loss (Given) ( 6,000)

Business Income (Given) 8,600

RRSP Deduction (Part A) ( 16,020)

Deductible CPP ($3,500) - $3,039) ( 461)

2022 Net Income and Taxable Income $119,432

***2022 Federal Income Tax Payable***

The required calculations here are as follows:

Tax on first $100,392 $17,820

Tax on next $19,040 ($119,432 - $100,392) at 26% 4,950

Tax Before Credits $22,770

Tax Credits:

BPA ($14,398)

Spousal ($14,398 - $8,500) ( 5,898)

Employment Insurance ( 953)

Canada Pension Plan ( 3,039)

Canada Employment ( 1,287)

Medical Expenses (Note Six) ( 11,271)

Total Credit Base ($36,846)

Rate 15% ( 5,527)

Charitable Donations (Note Seven)

[(15%)($200) + (29%)($1,200 + $2,400 - $200)] ( 1,016)

2022 Federal Income Tax Payable $16,227

**Note six -** The base for Mr. Arnold's medical expense credit would be calculated as follows:

Allen $ 3,650

Brenda 2,600

Sarah 1,300

Derek 6,200

Total $13,750

Lesser of:

• [(3%)($119,432)] = $3,583

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

Tax Credit Base $11,271

**Note seven -** As none of his taxable income is subject to the income tax rate of 33 %, this rate will not be used in the calculation of the charitable donations tax credit.

Type: ES

Topic: Comprehensive case covering chapters 1 to 10

101) ***Family Information***

Aldo Broome is 39 years old and has been married to Cynthia Broome for 17 years. They have a 13 year old son Martin, and an 8 year old daughter Ruth, both of whom are in good health. Martin has income from part time jobs of $1,400, while Ruth has no income of her own.

Other family information for 2022 is as follows:

• Aldo worked 212 hours as a search and rescue volunteer. He received no compensation for this work.

• The family's medical expenses, all of which were paid for by Aldo, were as follows:

Hair Replacement Fees for Aldo $4,300

Prescription Contact Lenses for Cynthia 850

Teeth Whitening Fees for Cynthia 950

Prescription Glasses for Martin 350

Psychologist Counselling Fees for Martin 1,500

Physiotherapy Fees for Ruth 725

Total 2022 Medical Expenses $8,675

***Aldo's Business Income***

Aldo is an accountant who carries on his professional practice as a sole proprietor. His business uses a December 31 fiscal period.

When he began his practice in 2017, he purchased an office building for $750,000, of which $180,000 was for the land and $570,000 for the building. It was a new building and had been allocated to a separate Class 1. Aldo uses all of the building for his practice. On January 1, 2022, the UCC of the was $431,676.

In an attempt to attract a wealthier clientele, Aldo upgrades his office in March, 2022. He spent $204,000 on new furniture and fixtures. The capital cost of the old furniture and fixtures was $93,000 and were sold for $31,000. The UCC of the class containing the furniture and fixtures was $34,284 at the time.

Other purchases of capital property in 2022 included the following:

New Computer $ 1,200

Applications Software 2,044

Client List from retiring accountant 41,000

As many of his clients are elderly or disabled, his business requires an automobile to be used to provide in-home services. On January 1, 2022 he purchased a new non-zero-emission automobile at a cost of $42,000. In 2022, it was driven a total of 32,000 kilometers, of which 29,000 related to providing in-home services for his clients and 3,000 kilometers were for personal use. Operating expenses for the year totaled $4,800.

Other business expenses for 2022, determined on an accrual basis, are as follows:

Building Operating Expenses $24,300

Payments to employees 42,000

Miscellaneous Office expenses 17,500

Meals with clients 15,300

In 2022, Aldo's total billed and unbilled work in process totaled $354,800.

***Cynthia's Employment Income***

Cynthia works for a large Canadian public company. Her 2022 salary is $62,000, none of which includes commissions. Her employer withholds the following amounts during the year:

RPP Contributions\* $2,500

EI Premiums 953

CPP Contributions 3,500

\*Cynthia's employer makes a matching RPP contribution of $2,500.

In order to deal with her employer's out-of-town customers, Cynthia is required to travel on occasion. She uses her own non-zero-emission automobile for the travel which she purchased on January 1, 2022 at a cost of $38,000. In 2022, she drove 36,000 kilometers, of which 31,500 were employment related and 4,500 were for personal use. Her operating expenses for the year totaled $3,465.

In addition to automobile costs, Cynthia has other travel expenses as follows:

Hotels $3,200

Food on out of town trips 1,300

Cynthia's employer provides her with the following travel allowances, in addition to her salary:

Hotels and Food $4,400

Use of personal automobile ($100 Per Week) $5,200

***Investment Information***

Through careful spending for himself and his family, Aldo has been able to accumulate an investment portfolio of over $500,000. All of these funds have been invested in Mutual trust funds and, in 2022, trust fund distributions totaled $36,960. The breakdown of these distributions is as follows:

Capital Gains $22,960

Eligible Dividends 8,500

Interest Income 5,500

Total $36,960

All of these investments are owned by Aldo. Cynthia has no property income or capital gains or capital losses in 2022.

***RRSP Information***

Both Aldo and Cynthia have invested regularly in RRSPs. Information for these plans is as follows:

**Aldo's Plan —** At the beginning of 2022, there was $11,000 in unused deduction room in Aldo's RRSP. There were also $13,000 in undeducted contributions in the plan. In 2022, he contributes $22,000 to his plan. He plans to take the maximum deduction available on the basis of this information.

In December, 2019, Aldo withdrew $25,000 from his RRSP under the provisions of the Home Buyers' Plan (HBP). In January, 2020, he used these funds, along with funds from his savings account, to purchase a new home. Because he purchased the home for a lower price than anticipated, he repaid $10,000 of the HBP balance in 2020. He did not make any repayment in 2021 or 2022.

Aldo's Earned Income for 2021 was $123,000. There was no 2021 pension adjustment (PA).

**Cynthia's Plan —** At the beginning of 2022, there was unused deduction room in Cynthia's plan of $7,000. She had no undeducted contributions.

In February, 2020, Aldo made a contribution to Cynthia's plan of $5,000 and deducted it in his 2019 income tax return. Since then he has learned of the attribution rules associated with spousal plans and has made no further contributions to Cynthia's plan.

In December, 2022, Cynthia withdraws $7,000 from her RRSP to loan to her brother. In February, 2023, her brother, after a successful trip to Las Vegas, pays her back the $7,000, along with a gift of $5,000 for being such a great sister. Cynthia immediately contributes the $7,000 to her RRSP. She plans to take the maximum deduction available for 2022 based on this information.

At the beginning of 2022, Cynthia's employer agrees to increase the benefit formula for the RPP. In prior years the benefit was based on 1.5% of pensionable earnings for each year of service. The new agreement calls for a benefit based on 1.75% of pensionable earnings for each year of service. This change will be applied retroactively. Cynthia has been a member of the plan since 2019. Her pensionable earnings during those years are as follows:

**Year Pensionable Earnings**

2019 $40,000

2020 45,000

2021 48,000

Cynthia's 2021 earned income was $51,000. Her employer reported a 2021 PA of $4,800.

Aldo and Cynthia will allocate tax credits between them to minimize the family's total income tax liability. Where either spouse can claim the credit and it makes no difference in the combined income tax payable, Aldo will claim the credit.

**Required:** Ignore GST/HST & PST considerations in your solution.

A. Determine Cynthia's 2022 Net Income and Taxable Income.

B. Determine Aldo's 2022 Net Income and Taxable Income.

C. Determine Cynthia's 2022 federal income tax payable.

D. Determine Aldo's 2022 federal income tax payable.

Answer:

**Part A - Cynthia's 2022 Net Income and Taxable Income**

***Cynthia's Employment Income***

Cynthia's employment income would be determined as follows:

Salary $62,000

Additions:

Travel Allowances (Note 1)

Hotels and Food Nil

Use of personal automobile 5,200

Deductions:

Hotels and Food (Note 1) Nil

Automobile Expenses (Note 2) ( 16,419)

RPP Contributions ( 2,500)

2022 Employment Income $48,281

**Note 1 -** Given her actual expenses, the allowance for hotels and food seems reasonable. This means it does not have to be included in income. However, this will prevent Cynthia from deducting her actual expenses which total to more than the allowance. With respect to the allowance for personal use of her automobile, it is not based on kilometers driven and therefore is deemed to be unreasonable requiring the allowance to be included in income.

**Note 2 -** Her deductible automobile expenses would be calculated as follows:

Operating expenses $ 3,465

CCA on Class 10.1 [(150%)(30%)($34,000)]\* 15,300

Total Automobile expenses $18,765

Personal use [($18,765)(4,500 ÷ 36,000)] ( 2,346)

Total Deductible automobile expenses $16,419

\*The luxury automobile rules for Class 10.1 limit the capital cost of the automobile to $34,000 for automobiles purchased on or after January 1, 2022 and whether new or used.

***Cynthia's 2022 Net Income and Taxable Income***

As Cynthia has no taxable income deductions, her taxable income and net income will be the same. Cynthia's 2022 net income would be calculated as follows:

Employment Income $48,281

RRSP Withdrawal ($7,000, minus $5,000 Attributed

to Aldo) (Note 3) 2,000

RRSP Deduction (Note 4) ( 7,000)

Gift from brother (Not a source of income) Nil

Deductible CPP ($3,500) - $3,039) ( 461)

2022 Net Income and Taxable Income $42,820

**Note 3 -** As Aldo's contribution to Cynthia's plan occurred in one of the two calendar years prior to her withdrawal of $7,000, the $5,000 amount of his contribution will be included in his net income. The fact that he deducted the contribution in 2019 does not change the result.

**Note 4 -** Cynthia's maximum 2022 RRSP deduction is calculated as follows:

Unused Deduction Room at January 1, 2022 $7,000

Addition - Lesser of:

• 2022 RRSP Dollar Limit = $29,210

• 18% of $51,000 Earned Income for 2021 = $9,180 9,180

2021 PA ( 4,800)

2022 PSPA (Note 5) ( 2,993)

2022 Available Deduction Room $8,387

Maximum Deduction (Limited to Contribution) ( 7,000)

Unused Deduction Room - December 31, 2022 $1,387

**Note 5 -** In the 3 years prior to 2022 that Cynthia was a member of her employer's RPP, her pensionable earnings totaled $133,000 ($40,000 + $45,000 + $48,000). Given this, the Past Service Pension Adjustment (PSPA) resulting from the increased benefit formula would be calculated as follows: [(1.75% - 1.5%)(9)($133,000)] = $2,993

**Part B - Aldo's 2022 Net Income and Taxable Income**

***Aldo's Business Income***

Aldo’s minimum 2022 business income can be calculated as follows:

**Aldo Broome**

**Statement of Business Income**

**For Year Ending December 31, 2022**

Total Revenue $354,800

Vehicle Operating expenses [($4,800)(29,000 ÷ 32,000)] $ 4,350

Building Operating Expenses 24,300

Payments to employees 42,000

Miscellaneous Office expenses 17,500

Business Meals [(50%)($15,300)] 7,650

CCA (Note 6) 103,611

Total Expenses $199,411

2022 Business Income $155,389

**Note 6 -** The total CCA deductible would be as follows:

Class 1 (Calculation Follows) $25,901

Class 8 (Calculation Follows) 58,757

Class 50 (Calculation Follows) 990

Class 12 (Calculation Follows) 1,022

Class 10.1 (Calculation Follows) 13,866

Class 14.1 (Calculation Follows) 3,075

Total CCA $103,611

**Class 1 -** As the building is used 100% for non-residential purposes, it is eligible for the enhanced rate of 6%. The maximum CCA would be:

Class 1 [($431,676)(6%)] $25,901

**Class 8 -** The required calculations are as follows:

Opening Balance $ 34,284

Additions $204,000

Disposal - Lesser of:

• POD = $31,000

• Capital Cost = $93,000 ( 31,000) 173,000

AccII Adjustment [(150%)($173,000)] 86,500

CCA Base $293,784

Rate 20%

Class 8 CCA $ 58,757

**Class 50 -** The CCA on the new computer would be calculated as follows:

Class 50 [(150%)(55%)($1,200)] $990

**Class 12 -** The CCA on the applications software would be calculated as follows:

Class 12 [(1/2)(100%)($2,044)] $1,022

**Class 10.1 -** As the automobile cost more than $34,000, it must be put into a separate Class 10.1. The addition is limited to $34,000. The deductible CCA is reduced by the personal use of the car and would be calculated as follows:

Maximum Class 10.1 CCA [(150%)(30%)($34,000)] $15,300

Personal Use [(3,000/32,000)($15,300)] ( 1,434)

Deductible Class 10.1 CCA $13,866

**Class 14.1 -** The CCA on the client list would be calculated as follows:

Class 14.1 [(150%)(5%)($41,000)] $3,075

***Aldo's Income from Property & Net Taxable Capital Gains***

Aldo's income from investment would be calculated as follows:

Taxable Capital Gains [(1/2)($22,960)] $11,480

Eligible Dividends 8,500

Gross Up [(38%)($8,500)] 3,230

Interest Income 5,500

Total Income from Property & Net Taxable Capital Gains $28,710

***Aldo's 2022 Net Income and Taxable Income***

As Aldo has no taxable income deductions and therefore his taxable income and net income will be the same. Aldo's 2022 net income and taxable income would be calculated as follows:

Business Income $155,389

Income from Property & Net Taxable Capital Gains 28,710

Spousal RRSP Attribution (Note 3) 5,000

Home Buyers' Plan Inclusion (Note 7) 1,000

RRSP Deduction (Note 8) ( 33,140)

Deductible CPP Contributions

[(2)($3,500) - $3,039] (Note 9) ( 3,961)

2022 Net Income and Taxable Income $152,998

**Note 7 -** Aldo's 2019 Home Buyers' Plan withdrawal was $25,000. While no repayment was required until 2020, he made a voluntary repayment of $10,000 in 2020, reducing the outstanding balance to $15,000. Based on this, he should have made a repayment in 2021 of $1,000 ($15,000 ÷ 15).

As he didn't make a payment, this $1,000 was added to his 2021 net income and deducted from the required HBP balance. The required payment for 2022 would also be $1,000 [($15,000 - $1,000) ÷ 14]. As he again failed to make the payment, it will be added to his 2022 net income .

**Note 8 -** Aldo's maximum RRSP deduction for 2022 would be calculated as follows:

Unused Deduction Room at January 1, 2022 $11,000

Addition - Lesser of:

2022 RRSP Dollar Limit = $29,210

18% of $123,000 Earned Income for 2021 = $22,140 22,140

2022 Deduction Room $33,140

Aldo has available contributions of $35,000 ($13,000 + $22,000). Given this he can deduct the full $33,140 of available room. This means that there will be no unused deduction room at the end of the year. However, there will be $1,860 ($35,000 - $33,140) of undeducted contributions for 2022.

**Note 9 -** Given his business income, Aldo must pay the maximum CPP contributions for self employed individuals of$7,000 for 2022. Since CPP contributions are deducted under ITA 60(e) of subdivision e, they will not affect the calculation of business income, which, in turn, means that they will not affect earned income for RRSP purposes.

**Part C - Cynthia's 2022 Federal Income Tax Payable**

Cynthia's 2022 federal income tax payable will be calculated as follows:

Tax Before Credits [(15%)(42,820)] $6,423

Tax Credits:

BPA ($14,398)

EI Premiums ( 953)

CPP Contributions ( 3,039)

Canada Employment ( 1,287)

Medical Expenses - (Note 10) ( 2,140)

Total Credit Base ($21,817)

Rate 15% ( 3,273)

Cynthia's 2022 Federal Income Tax Payable $3,150

**Note 10 -** Cynthia claims the medical expenses as she will have a higher medical expense credit base since her net income is lower than Aldo's and 3% of her net income is less than the income threshold. Although Aldo paid the expenses, as stated in Chapter 4:

"Both ITA 118.2 and Income Tax Folio S1-F1-C1, state that medical expenses can only be deducted by the individual who paid for them. However, in the T1 Guide, this rule is administratively modified for couples. According to this Guide, either spouse can claim the medical expense credit, without regard to who actually paid for the expenses."

The $4,300 cost of hair replacement and the $950 paid for teeth whitening would be considered cosmetic and cannot be included in the base for the medical expense tax credit. Given this, the base for the medical expense tax credit would be calculated as follows:

Eligible Expenses ($8,675 - $4,300 - $950) $3,425

Reduced by the lesser of:

[(3%)($42,820)] = $1,285

2022 Threshold Amount = $2,479 ( 1,285)

2022 Base for Medical Expenses Credit $2,140

**Part D - Aldo's 2022 Federal Income Tax Payable**

Aldo's 2022 federal income tax payable will be calculated as follows:

Tax on First $100,392 $17,820

Tax on Next $52,606 ($152,998 - $100,392) at 26% 13,678

Tax Before Credits $31,498

Credits:

BPA ($14,398)

Spousal (Income too high) Nil

Volunteer Search and Rescue ( 3,000)

CPP (Maximum) ( 3,039)

Medical Expenses - Claimed by spouse Nil

Credit Base for Personal Credits ($20,437)

Rate 15% ( 3,066)

Dividend Tax Credit [(6/11)($3,230)] ( 1,762)

Aldo's 2022 Federal Income Tax Payable $26,670

Type: ES

Topic: Comprehensive case covering chapters 1 to 10