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

**Chapter 12 Taxable Income and Tax Payable for Corporations**

12.1 Online Exercises

1) List three items that would be added to accounting income as part of the reconciliation to determine net income for ITA purposes.

Answer: The required three items can be selected from the list presented in Figure 12-1 of the text.

These items are:

• Income tax expense

• Amortization, depreciation, and depletion of tangible and intangible assets

(accounting amounts)

• Recapture of CCA

• Tax reserves deducted in the prior year

• Losses on the disposition of capital assets (accounting amounts)

• Pension expense (accounting amounts)

• Scientific research expenditures (accounting amounts)

• Warranty expense (accounting amounts)

• Amortization of discount on long-term debt issued (see discussion in Chapter 7)

• Foreign income tax paid (accounting amounts)

• Excess of taxable capital gains over allowable capital losses

• Interest and penalties on income tax assessments

• Non-deductible automobile expenses

• 50% of business meals and entertainment expenses

• Club dues and cost of recreational facilities

• Non-deductible reserves (accounting amounts)

• Charitable donations

• Asset write-downs including impairment losses on intangibles

• Fines, penalties, and illegal payments

Type: ES

Topic: Net income - reconciliation from accounting income

2) Indicate three taxable income that are available to individuals but not available to corporations.

Answer: The required items can be selected from the following list:

• employee stock option deduction

• deduction for payments (social assistance and workers' compensation benefits)

• lump-sum payments

• capital gains deduction

• northern residents deduction

Type: ES

Topic: Taxable income

3) One of your more socially conscious friends has just learned that taxable dividends received by a Canadian corporation from other Canadian corporations are not subject to Part I income tax. In his view, this is additional evidence of how the government is allowing corporations to "rip-off" the Canadian public. Do you agree with the view being expressed by your friend? Explain your position.

Answer: A corporation does not get a tax deduction for dividends paid. As a consequence, dividends are paid out of the corporation's after tax income. When such dividends are received by an individual, they are subject to taxation (the gross up and tax credit procedures result in dividends being taxed at favourable rates).

However, if a corporation had to pay income tax on dividends received out of the after tax income of another corporation, it would involve double taxation of the same income. In fact, if the income passed through more than one corporation, the result could be triple or even higher multiples of taxation. This would clearly not be an equitable situation and, as a consequence, a corporation is generally not required to pay income tax on taxable dividends received from another taxable Canadian corporation.

Type: ES

Topic: Integration

4) What is the purpose of the stop loss rule applicable to shares that a corporation sells at a loss? When does this rule apply?

Answer: The stop loss rules reflect the fact that the value of shares usually falls when dividends are paid. Further, the payment of such dividends is, in general, fairly predictable. Given this, a corporation could purchase shares in anticipation of receiving a dividend payment. As dividend payments to corporations are, in general, not subject to tax, this dividend payment could be received tax free. Provided the value of the shares falls after the dividend payment, the corporation could then sell the shares at a loss. The net result would be the receipt of tax free income, combined with a deductible loss for a similar amount even though the full share investment would have been recovered through the sale plus the dividends received.

As this is not an appropriate result, the stop loss rules will disallow the loss if:

• the shares are held for less than one year; or

• if the corporation holding the shares, along with other non-arm's length persons, owns more than 5% of the class of shares on which the dividend was received.

Type: ES

Topic: Stop loss rules - ITA 112(3)

5) Compare the income tax treatment of charitable donations for corporations with the treatment of charitable donations for individuals.

Answer: For corporations, charitable donations are a taxable income deduction. In contrast, charitable donations made by an individual form the basis for a credit against federal income tax payable. Note, however, that the other rules associated with contributions are the same for corporations and individuals (e.g., they can only be used to the extent of 75% of net income and unused amounts can be carried forward for 5 years).

Type: ES

Topic: Charitable donations - individuals vs corporate tax treatment

6) Briefly explain why taxable dividends received are included in the definition of a Non-Capital Loss for a corporation.

Answer: For corporations, taxable dividends received are included in net income, but claimed as a taxable income deduction. A non-capital loss is defined as the difference between current year business losses and certain other amounts such as ABILs and property losses minus income as determined under ITA 3(c). Since income determined under ITA 3(c) includes taxable dividends and that those same taxable dividends do not make it through to taxable income because of ITA 112(1) it is important to neutralize the taxable dividend income that is included in ITA 3(c). The legislators could have opted to subtract the taxable dividends from the ITA 3(c) amount but chose instead to add that amount as part of the non-capital loss definition producing the same result.

Type: ES

Topic: Losses - non-capital loss

7) A corporation has non-capital and net capital losses. How does management decide which of these losses should be deducted first?

Answer: ITA 111(3) requires that losses within any single category must be deducted in chronological order. That is, if a corporation chooses to deduct a portion of its non-capital loss balance during the current year, the oldest losses of this type must be deducted first. However, there are no rules with respect to the order in which the individual types of loss carryovers must be deducted.

In deciding which loss should be deducted first, management must evaluate which type of loss is more likely to expire or can be used more quickly. Non-capital loss carry forwards have restrictions on the time for which they are available. If there are losses that are nearing the end of their expiration date (20 years) and there is uncertainty of whether there will be sufficient income in that period to be able to use the losses, these losses should be deducted first.

While there is no restriction on the period of availability for net capital losses, these amounts can only be used to the extent that there are net taxable capital gains (e.g. a positive ITA 3(b) amount for the year) during the period. For a corporation that experiences only limited or unpredictable capital gains, these restrictions may be a more important consideration than the period of time during which the loss will be available. Net capital losses have an indefinite carry forward period.

A decision will have to be made on the basis of considerations such as these.

Type: ES

Topic: Losses - applying the losses

8) How does a corporation determine the amount of taxable income that will be allocated to the various provinces and territories?

Answer: Provincial and territorial income taxes are paid in provinces where the corporation has permanent establishments (PEs). The amount allocated to each province is based on the simple average of two percentages – the percentage of gross revenue in the province or territory and the percentage of wages and salaries paid in the province or territory attributable to the PEs.

Type: ES

Topic: Corporate tax - federal abatement

9) The federal abatement will sometimes be less than 10% of taxable income. Explain this statement.

Answer: The 10% federal abatement is only fully available on income that is allocated to a Canadian province or territory. If, for example, only 80% of taxable income was allocated to a Canadian province or territory, the 10% abatement would only apply to 80% of that abatement or 8% of taxable income.

Type: ES

Topic: Corporate tax - federal abatement

10) The Canadian system of corporate taxation has goals other than raising revenue. Describe two of these other goals, including an example of a provision designed to achieve the goal described.

Answer: The required two goals and related examples can be selected from the ones in the text. These are as follows:

• **Incentives For Small Business -** While there are several features of the income tax system directed at encouraging incorporated small businesses, the major income tax incentive for these corporations is the small business deduction.

• **Incentives For Certain Business Activities -** The Canadian income tax system provides generous investment tax credits for scientific research as well as for the employment of apprentices. Support is also provided to the natural resource industries through a variety of tax incentive provisions.

• **Incentives For Certain Regions -** Certain regions of Canada are given assistance through investment tax credits and through other provisions.

• **Integration -** One of the goals of the Canadian income tax system is to keep the level of income taxes paid on income the same, regardless of whether or not a corporation is placed between the original source of the income and the ultimate recipient. The dividend gross up and tax credit procedures are in place to improve integration.

Type: ES

Topic: Corporate taxation - general concepts

11) What are the general conditions that are required to be eligible for the small business deduction?

Answer: The general conditions are as follows:

• The corporation must be a CCPC.

• The income must be active business income.

• The deduction is only available on the first $500,000 of active business income.

• The $500,000 limit must be shared amongst associated corporations.

Type: ES

Topic: Corporate tax - calculating the small business deduction (SBD)

12) What is a specified investment business? This definition represents a solution to an administrative problem that caused difficulties for the CRA for many years. What was this problem?

Answer: A specified investment business is a business carried on by a corporation, the principal purpose of which is to earn property income, but does not include a corporation that employs more than five full time employees in the business throughout the year.

The problem that was resolved by this definition was that, while the government did not want to make the small business deduction available to individuals attempting to simply shelter income earned by their investments, it did recognize that it was possible to have a business that was "actively" engaged in earning property income. The specified investment business definition provided a clear, though somewhat arbitrary, criteria for identifying such businesses.

Type: ES

Topic: Corporate tax - SBD specified investment business

13) Under what circumstances can interest income qualify as active business income for the purposes of the small business deduction?

Answer: Interest income will be considered to be active business income in the following circumstances:

• The interest results from the investment of temporary cash balances associated with fluctuations in producing active business income.

• The income is earned by a CCPC with more than five full time employees and its principal business is producing property income.

• The interest received has been deducted by another CCPC that is an associated corporation in its determination of active business income.

Type: ES

Topic: Corporate tax - SBD active business income

14) With respect to both the small business deduction and the M&P deduction, the available amount is limited by the corporation's taxable income for the year. Why is this limitation included in the calculation of these tax credits?

Answer: This limitation is included in order to ensure that these deductions are not given on amounts of income that have not been subject to income tax. Amounts of active business income and/or M&P profits that have been included in net income may be effectively offset by either charitable donations or non-capital losses, resulting in their not being included in taxable income and therefore not being subject to income tax.

Type: ES

Topic: Corporate taxation - general concepts

15) While charitable donations cannot be deducted by a corporation, they can be used as the basis for a tax credit.

Answer: FALSE

Explanation: Corporations deduct charitable donations as a taxable income deduction.

Type: TF

Topic: Charitable donations - individuals vs corporate tax treatment

16) Charitable contributions that are not used during the current year can be carried forward for five years, without regard to whether the taxpayer is an individual or a corporation.

Answer: TRUE

Explanation: The carry forward rules are the same for corporations and individuals.

Type: TF

Topic: Charitable donations - carry forward

17) When a corporation receives eligible dividends, they do not gross them up by 38% and include the grossed up amount in net income.

Answer: TRUE

Explanation: Only individuals and trusts use the dividend gross up and tax credit procedures.

Type: TF

Topic: Integration

18) For a corporation, dividends received from other taxable Canadian corporations are a component of the non-capital loss definition.

Answer: TRUE

Explanation: Such dividends are included in the E component of the non-capital loss calculations.

Type: TF

Topic: Losses - non-capital loss

19) Because they expire after 20 years, non-capital losses should always be deducted prior to deducting net capital losses which have an unlimited carry forward period.

Answer: FALSE

Explanation: The fact that net capital losses can only be applied against net taxable capital gains may make it more appropriate to deduct these losses first.

Type: TF

Topic: Losses - applying the losses

20) Non-capital losses must be deducted in the chronological order in which they were created, the oldest one first, followed by non-capital losses of subsequent years.

Answer: TRUE

Explanation: While there is no requirement that non-capital losses be deducted prior to other types of losses, ITA 111(3) requires that a given type be deducted in the order in which the losses were incurred - on a first-in-first-out (FIFO) basis.

Type: TF

Topic: Losses - applying the losses

21) Full rate taxable income does not include income that is eligible for the small business deduction, but it does include income that is eligible for the M&P deduction.

Answer: FALSE

Explanation: Full Rate Taxable Income does not include income that is eligible for the M&P deduction.

Type: TF

Topic: Corporate tax - general rate reduction - ITA 123.4(2)

22) In certain circumstances, rental income can be considered active business income.

Answer: TRUE

Explanation: If a corporation's ownership of rental units was so extensive as to constitute a business (e.g., a hotel chain with 1,000 rooms), the rental income would be considered active business income.

Type: TF

Topic: Corporate tax - SBD active business income

23) A Specified Investment Business is a business that primarily earns income from property and employs in the business, throughout the year, more than 5 full-time employees.

Answer: FALSE

Explanation: If a business earning income from property employs more than 5 full time individuals, it is not a Specified Investment Business.

Type: TF

Topic: Corporate tax - SBD specified investment business

24) If a corporation is classified as a Personal Services Business, the only deductions in the determination of its net income will be for salaries, wages, and other expenses that would normally be deductible against employment income.

Answer: TRUE

Explanation: Not only does the corporation lose access to the SBD and GRR, the deductions for the corporation are limited to salaries, wages, and other expenses that would normally be deductible against employment income.

Type: TF

Topic: Corporate tax - SBD personal service business

25) A Canadian controlled private company (CCPC) will never be able to use the General Rate Reduction.

Answer: FALSE

Explanation: CCPCs may have income that it not eligible for the small business deduction (e.g., active business income in excess of $500,000). Active business income that is not eligible for the small business deduction would be considered Full Rate Taxable Income and would be eligible for the General Rate Reduction provision.

Type: TF

Topic: Corporate tax - general rate reduction - ITA 123.4(2)

26) The base used for calculating the M&P deduction is reduced by the amount of the small business deduction.

Answer: FALSE

Explanation: The base used for calculating the M&P deduction is reduced by the amount that is eligible for the small business deduction, not by the amount of the actual small business deduction.

Type: TF

Topic: Corporate tax - M&P ITA 125.1

27) If amounts of income tax paid on foreign business income are not used as a tax credit during the current year, they can be carried back 3 taxation years and forward 10 taxation years.

Answer: TRUE

Explanation: Income tax paid on foreign business income not used during the current year can be carried back 3 taxation years and forward 10 taxation years.

Type: TF

Topic: Corporate tax - foreign tax credits

28) A corporation's non-business foreign income tax credit is limited to 15% of foreign non-business income earned.

Answer: FALSE

Explanation: This rule applies to individuals only and not to corporations.

Type: TF

Topic: Corporate tax - foreign tax credits

29) In its 2022 taxation year, a corporation sells Class 8 depreciable property with a capital cost of $130,000 for $140,000. The carrying value of the property for accounting purposes is $112,000. It was not the last property in Class 8 and, prior to the disposition, the UCC balance was $96,000. What are the reconciliation adjustments that will be required in the conversion of the corporation's accounting income to net income for purposes of the ITA?

A) A deduction of $28,000, an addition of $5,000, and an addition of $34,000.

B) An addition of $5,000 and an addition of $34,000.

C) An addition of $44,000.

D) A deduction of $28,000 and an addition of $5,000.

Answer: A

Explanation: A) A deduction of $28,000 [removes accounting gain of $28,000 ($130,000 - $112,000)], an addition of $5,000 [adds taxable capital gain of $5,000 (1/2)($140,000 - $130,000)], and an addition of $34,000 [adds recapture of $34,000 ($130,000 - $96,000)].

B) An addition of $5,000 [adds taxable capital gain of $5,000 (1/2)($140,000 - $130,000)], and an addition of $34,000 [adds recapture of $34,000 ($130,000 - $96,000)].

C) $44,000 = ($140,000 - $96,000)

D) A deduction of $28,000 [removes accounting gain of $28,000 ($130,000 - $112,000)] and an addition of $5,000 [adds taxable capital gain of $5,000 (1/2)($140,000 - $130,000)]

Type: MC

Topic: Net income - reconciliation from accounting income

30) In its 2022 taxation year, Brocko Ltd. has a business loss of $375,000, net taxable capital gains of $67,000, an Allowable Business Investment Loss of $23,000, and taxable dividends from taxable Canadian corporations of $53,000. What is the non-capital loss for 2022?

A) $384,000.

B) $398,000.

C) $322,000

D) $331,000.

Answer: D

Explanation: A) $384,000 ($451,000 - $67,000)

B) $398,000 ($451,000 - $53,000) or ($375,000 + $23,000)

C) $322,000 ($375,000 - $53,000)

D) The correct amount is calculated as follows:

Amount E

Business Loss $375,000

Allowable Business Investment Loss 23,000

Taxable Dividends 53,000 $451,000

Amount F

Net Taxable Capital Gains ( $67,000)

Taxable Dividends ( 53,000) ( 120,000)

2022 Non-Capital Loss $331,000

Type: MC

Topic: Losses - non-capital loss

31) When taxable dividends are paid by one taxable Canadian corporation to another taxable Canadian corporation, the taxable dividends will be include in:

A) both net and taxable income, but with an offsetting credit against income tax payable.

B) both net and taxable income, with no offsetting credit against income tax payable.

C) neither net or taxable income.

D) net income, but not taxable income.

E) taxable income, but not net income.

Answer: D

Explanation: D) Included in net income, but not in taxable income as a result of ITA 112(1).

Type: MC

Topic: Net and taxable income for corporations

32) With respect to charitable donations made by a corporation, which of the following statements is correct?

A) They create a credit against income tax payable, based on the corporation's income tax rate prior to the deduction of the federal abatement.

B) If they cannot be used during the current year, they can be carried back three years.

C) They are a taxable income deduction and do not affect corporate net income.

D) The amount of contributions that can be deducted is limited by 100% of the corporation's net income.

Answer: C

Explanation: C) They are a taxable income deduction and do not affect corporate net income.

Type: MC

Topic: Net and taxable income for corporations

33) Which of the following amounts are a taxable income deduction to a corporation?

A) Taxable dividends from taxable Canadian corporations.

B) Charitable contributions.

C) The capital gains deduction.

D) Net capital losses.

Answer: C

Explanation: C) The capital gains deduction.

Type: MC

Topic: Net and taxable income for corporations

34) Ottawa Corporation has accounting income for the taxation year ended October 31, 2022 of $76,000. Included in this calculation are the following amounts:

Meals and entertainment expenses $38,000

Amortization and depreciation 69,000

Landscaping costs 32,000

Taxable Dividend from Canadian subsidiary 52,000

Charitable donations 2,500

You have correctly determined CCA to be $61,000. What is the corporate net income and taxable income?

A) Net Income - $105,500; Taxable Income - $51,000.

B) Net Income - $103,000; Taxable Income - $51,000.

C) Net Income - $73,500; Taxable Income - $19,000.

D) Net Income - $21,500; Taxable Income - $19,000.

Answer: A

Explanation: A) Net Income - $105,500; Taxable Income - $51,000.

Net Income = $76,000 + (1/2)($38,000) + $69,000 + $2,500 — $61,000 = $105,500;

Taxable Income = $105,500 - $2,500 - $52,000 = $51,000.

B) Net Income - $103,000 (no charitable contributions added back); Taxable Income - $51,000.

C) Net Income - $73,500 (landscaping deducted); Taxable Income - $19,000.

D) Net Income - $21,500 (landscaping and dividends deducted); Taxable Income - $19,000 (no taxable dividends deducted)

Type: MC

Topic: Net and taxable income for corporations

35) On November 23, 2021, Victoria Ltd. purchased 20% of the 15,000 issued shares of Vancouver Ltd. for $32.50 per share. On December 20, 2021, these shares paid a taxable dividend of $2.25 per share, and on August 15, 2022, Victoria sells the shares for $29 per share. What is the amount of the capital loss on the Vancouver Ltd. shares for Victoria Ltd. for the taxation year ended August 31, 2022?

A) Nil

B) $ 3,750

C) $ 10,500

D) $ 17,250

Answer: B

Explanation: B) $3,750 [(20%)(15,000)($29 - $32.50) - (20%)(15,000)($2.25)]. The stop loss rules apply as Victoria owns over 5% of the shares of Vancouver, and also because the shares were owned for less than one year.

C) $ 10,500 [(20%)(15,000)($29 - $32.50)]

D) $ 17,250 [(20%)(15,000)($29 - $32.50) + (20%)(15,000)($2.25)]

Type: MC

Topic: Stop loss rules - ITA 112(3)

36) CCC Inc. is a Canadian controlled private corporation (CCPC). In its 2022 taxation year, CCC Inc. made charitable donations of $13,000. It has unused charitable donation from 2021 of $2,000. CCC Inc.'s net income for 2022 consisted of $91,000 of active business income, $10,000 of taxable dividends from taxable Canadian corporations and a rental loss of $84,000. The maximum charitable donation deduction for CCC Inc. in the current year is:

A) $13,000.

B) $12,750.

C) $15,000.

D) $4,250.

Answer: B

Explanation: B) Net income = $91,000 + $10,000 - $84,000 = $17,000

$17,000 × 75% = $12,750

Type: MC

Topic: Net and taxable income for corporations

37) The two variables used to allocate income between permanent establishments (PEs) when a corporation has PEs in more than one province are:

A) gross salaries and net income of the PE.

B) gross revenue and salaries and wages attributable to the PE.

C) gross revenue and net income of the PE.

D) gross salaries and allocated revenue of the PE.

Answer: B

Explanation: B) Gross revenue and salaries and wages attributable to the PE.

Type: MC

Topic: Corporate tax - federal abatement

38) Calgary Corporation has PEs in Alberta, British Columbia and in the United States. Gross revenues, Net Income and salaries and wages for each PE are:

**Salaries**

**Gross Revenue Net Income and Wages**

Alberta $ 5,000,000 $500,000 $3,500,000

British Columbia 4,000,000 98,000 3,000,000

United States 4,500,000 325,000 2,000,000

Total $13,500,000 $923,000 $8,500,000

For the purposes of calculating the federal abatement, the percentage of income allocated to a Canadian province or territory would be:

A) 64.79%.

B) 65.72%.

C) 70.63%.

D) 71.57%.

Answer: D

Explanation: A) 64.79% [($500,000 + $98,000)/($923,000)]

B) 65.72% {100% - [ 1/2][($4,500,000/$13,500,000)(100) + ($325,000/$923,000)(100)]}

C) 70.63% {100% - [ 1/2][($325,000/$923,000)(100) + ($2,000,000/$8,500,000)(100)]}

D) 71.57% (100% - 28.43%)

Foreign percentage = {[1/2][($4,500,000/$13,500,000) + ($2,000,000/$8,500,000)]} = 28.43%

Type: MC

Topic: Corporate tax - federal abatement

39) With respect to corporate federal income tax payable, which of the following statements is **NOT** correct?

A) The effective federal income tax rate on the active business income of a Canadian public company is 15%.

B) The federal abatement is always equal to 10% of corporate federal income tax payable.

C) CCPCs may be eligible for the GRR on some part of their taxable income.

D) The M&P deduction will not reduce the overall income tax payable of a public company.

Answer: B

Explanation: B) The federal abatement is always equal to 10% of corporate federal income tax payable.

Type: MC

Topic: Corporate tax payable - general rules and basic concepts

40) With respect to the determination of income tax payable for a corporation, which of the following statements is **NOT** correct?

A) The federal abatement percentage is reduced when less than 100% of the corporation's income is allocated to a province or territory.

B) The basic federal tax rate applicable to corporations is 38%.

C) Provincial and territorial corporate income tax is based on a flat rate applied to taxable income.

D) Full rate taxable income includes any income that is not eligible for the SBD.

Answer: D

Explanation: D) Full rate taxable income includes any income that is not eligible for the SBD.

Type: MC

Topic: Corporate tax payable - general rules and basic concepts

41) Which of the following statements is correct?

A) Public and private corporations are eligible for the GRR.

B) All private corporations are eligible for the SBD.

C) Canadian controlled public and private corporations are eligible for the SBD.

D) If a corporation claims the SBD, it cannot claim the GRR.

Answer: A

Explanation: A) Public and private corporations are eligible for the GRR.

B) Only private corporations that are CCPCs.

Type: MC

Topic: Corporate tax payable - general rules and basic concepts

42) With respect to determining provincial or territorial corporate income tax payable, which of the following statements is correct?

A) The provincial and territorial systems use a graduated rate structure similar to that used federally for individuals, and, except for Alberta and Quebec, the calculation of taxable income is the same as that used federally for corporations.

B) The provincial and territorial systems use a rate structure similar to the federal system for corporations, however, except for Alberta and Quebec, the calculation of taxable income is different from that used federally.

C) The provincial and territorial systems use a rate structure similar to the federal system for corporations and, except for Alberta and Quebec, the calculation of taxable income is the same as that used federally.

D) The provincial and territorial systems use a graduated rate structure similar to that used federally for individuals, however, except for Alberta and Quebec, the calculation of taxable income is different from that used federally.

Answer: C

Explanation: C) The provincial and territorial systems use a rate structure similar to the federal system for corporations and, except for Alberta and Quebec, the calculation of taxable income is the same as that used federally.

Type: MC

Topic: Corporate tax payable - general rules and basic concepts

43) During the 2022 taxation year ending December 31, 2021, Oxdor Ltd., a CCPC had the following income:

Active Business Income earned in Canada $223,000

Active Business Income earned in the U.S.A. 126,000

Net Taxable Capital Gains 43,000

Rent Received on an unused portion

of the Company's Cdn Manufacturing Facility 8,000

Investment Income earned in Canada 16,000

2022 Net Income $416,000

Taxable Income $245,000

The Company paid no foreign income taxes on its foreign business income and it is not associated with any other corporation.

What is the maximum amount of income on which the Company can claim the SBD?

A) $223,000

B) $349,000

C) $231,000

D) $357,000

Answer: C

Explanation: C) $231,000 ($223,000 + $8,000)

Type: MC

Topic: Corporate tax - calculating the small business deduction (SBD)

44) Which of the following statements with respect to the SBD is correct?

A) If there are no associated companies, its annual business limit will always be $500,000.

B) A Specified Investment business of a CCPC means a business the primary purpose of which is earning income from property and that has less than 5 full-time employees.

C) As long as the controlling shareholders of a corporation are residents of Canada for at least part of a calendar year, the corporation will be considered a CCPC for all of that calendar year.

D) Interest or rents earned by a CCPC are not eligible for the SBD.

Answer: B

Explanation: A) If the TCEC or AAII grinds apply or there is a short taxation year the business limit for that year will be less than $500,000.

B) A Specified Investment business of a CCPC means a business the primary purpose of which is earning property income and that has less than 5 full-time employees.

Type: MC

Topic: Corporate tax - calculating the small business deduction (SBD)

45) The SBD is only available on:

A) income earned in Canada by a resident corporation.

B) the first $500,000 in M&P income earned by a CCPC.

C) the active business income of a private corporation with no more than five full-time employees devoted to earning income from property.

D) all of the income earned in Canada by a CCPC.

E) None of the above.

Answer: E

Explanation: E) None of the above.

Type: MC

Topic: Corporate tax - calculating the small business deduction (SBD)

46) Which of the following is an example of a CCPC?

A) A Canadian corporation in which 55% of the voting shares are owned by Canadian residents and the remaining 45% of the voting shares are owned by non-residents.

B) A wholly-owned Canadian subsidiary of a public company.

C) A Canadian corporation in which Canadian residents, Mr. Adams and Mr. Peters each own 50% of the shares.

D) Both B and C.

E) Both A and C.

Answer: E

Explanation: E) Both A and C.

Type: MC

Topic: Corporate tax - Canadian controlled private corporation (CCPC)

47) Village Concrete Inc. (Village) is a CCPC with a taxation year end of December 31, 2022. The controlling shareholder of Village also legally controls Bob's Roofing Inc. (Bob's), another CCPC with active business income for the taxation year ended December 31, 2022 of $116,500. The business limit will be allocated so as to ensure that all the active business income of the two CCPCs are subject to income tax at the small business rate.

Other than the income related items listed below, you may assume that Village's income is from an active business carried on in Canada.

Other information about Village:

1. Village had a taxable capital gain in the year of $2,000.

2. Charitable donations were $2,500.

3. Recaptured CCA from depreciable property used in the business was $1,000.

4. Net Income for the year is $185,000.

What is the small business deduction for Village?

A) $34,770.

B) $34,675.

C) $35,150.

D) $72,865.

Answer: B

Explanation: B) The small business deduction is calculated as the least of three amounts:

Net Income $185,000

Taxable Capital Gain ( 2,000)

Village's Active Business Income $ 183,000

Net Income $185,000

Charitable Donations ( 2,500)

Village's Taxable Income $182,500

Annual Business Limit $500,000

Allocation To Bob's ( 116,500)

Business Limit $383,500

Therefore, the SBD is $34,675 [($182,500)(19%)].

Type: MC

Topic: Corporate tax - calculating the small business deduction (SBD)

48) Which of the following is a specified investment business?

A) A business which principally derives its income from rental property and has less than 5 full-time employees.

B) A business which principally derives its income from rental property and has more than 5 full-time employees.

C) A business which partially derives its income from a rental property and has 5 or more full-time employees.

D) A business which partially derives its income from rental property and has more than 5 full-time employees.

Answer: A

Explanation: A) A business which principally derives its income from rental property and has less than 5 full-time employees.

Type: MC

Topic: Corporate tax - SBD specified investment business

49) In which of the following situations is a corporation earning incidental property income?

A) Regina Corporation has built up its cash reserves over several years, and its staff invests this surplus cash in a variety of publicly traded corporations, earning dividend income. This income is approximately 10% of corporate income on an annual basis.

B) A branch of Moose Jaw Corporation invests surplus cash for 2-3 months every year earning interest income which is less than 1% of corporate income.

C) Saskatoon Corporation has one rental property which is leased to a retail outlet. The rental income from this property is 5% of corporate income.

D) Lethbridge Limited sells its factory building resulting in a capital gain which represent 10% of corporate income.

Answer: B

Explanation: B) A branch of Moose Jaw Corporation invests surplus cash for 2-3 months every year earning interest income which is less than 1% of corporate income.

Type: MC

Topic: Corporate tax - SBD active business income

50) A CCPC has Taxable Capital Employed in Canada for the 2021 taxation year of $14 million, and $13.5 million for the 2022 taxation year. AAII is less than $50,000 in each of the 2021 and 2022 taxation years. The company has Canadian active business income of $535,000, taxable income of $435,000, and no foreign income. It is not associated with any other CCPC. What is the 2022 annual business limit reduction for this company?

A) $304,500.

B) $350,000.

C) $348,000.

D) $400,000.

Answer: D

Explanation: D) $400,000 [($500,000)(0.225%)($14,000,000 - $10,000,000) ÷ $11,250]

Type: MC

Topic: Corporate tax - SBD the annual business limit reductions

51) A CCPC has Taxable Capital Employed in Canada for the 2021 taxation year of $14 million, and $13 million for the 2022 taxation year. AAII is less than $50,000 in each of the 2021 and 2022 taxation years. The company has Canadian active business income of $420,000, taxable income of $385,000, and no foreign income. It is not associated with any other CCPC. What is the 2022 SBD for this company?

A) $14,630

B) $31,160.

C) $19,000.

D) $38,000.

Answer: C

Explanation: A) $14,630. {19%}{$385,000 - [($385,000)(0.225%)($14,000,000 - $10,000,000) ÷ $11,250]}

B) $31,160. {19%}{$500,000 - [($420,000)(0.225%)($14,000,000 - $10,000,000) ÷ $11,250]}

C) $19,000. {19%} {$500,000 - [($500,000)(0.225%)($14,000,000 - $10,000,000) ÷ $11,250]}

D) $38,000. {19%}{$500,000 - [($500,000)(0.225%)($13,000,000 - $10,000,000) ÷ $11,250]}

Type: MC

Topic: Corporate tax - SBD the annual business limit reductions

52) Ammar Dayani is a senior executive in a large oil producing company in Canada. He has heard that it would be beneficial from an income tax perspective if he resigned his position, established a company in which he would be the only shareholder and employee, and then have the new company sign a contract with his former employer to provide the same services he currently provides as an employee. If Ammar proceeds with this idea, what deductions would the company be able to take that he cannot take as an employee?

A) The company would be able to deduct all of the costs of operating the company, and would have the ability to pay a salary to Ammar and other family members to split income and reduce taxes.

B) The company would be able to deduct only the salary paid to Ammar.

C) The company would be able to deduct the salary paid to Ammar, any benefits paid on his behalf, and any other expenses that would qualify as employment expenses.

D) The company would not be able to deduct any expenses as this would be a personal services corporation.

Answer: C

Explanation: C) The company would be able to deduct the salary paid to Ammar, any benefits paid on his behalf, and any other expenses that would qualify as employment expenses. (This is a personal services business corporation, and these are the only expenses it will be permitted to deduct.)

Type: MC

Topic: Corporate tax - SBD personal service business

53) DDD Ltd. is a private corporation with a taxation year ending on December 31. The sole shareholder is Donald Darwin Dorsey who is a Canadian resident throughout 2022. In 2022, DDD Ltd. had the following:

Canadian Active Business Income $145,500

Net Income 183,700

Taxable Income 157,800

What is the maximum SBD for DDD Ltd. for 2022?

A) Nil

B) $27,645

C) $34,903

D) $29,982

Answer: B

Explanation: B) [(19%)($145,500)] = $27,645

Type: MC

Topic: Corporate tax - calculating the small business deduction (SBD)

54) DDD Ltd. is a private corporation with a taxation year ending on December 31. The sole shareholder is Donald Darwin Dorsey who was a Canadian resident until November 1, 2022. On November 1 he severed his Canadian residency and became a U.S. resident. Since the company lost its CCPC status on November 1, 2022 there is a deemed taxation year ending October 31, 2022. For the taxation year January 1, 2022 to October 31, 2022, DDD Ltd. had the following:

Canadian Active Business Income $145,500

Net Income 183,700

Taxable Income 157,800

What is the maximum SBD for DDD Ltd. for the taxation year ending October 31, 2022?

A) Nil

B) $23,025

C) $27,645

D) $29,982

Answer: B

Explanation: B) (19%)($145,500)(304/365)] = $23,025

Type: MC

Topic: Corporate tax - calculating the small business deduction (SBD)

55) Samson and Delilah are high fashion hair stylists who worked for Philistines Inc., a large chain of hair salons, for 6 years. They incorporated Haaiir Inc. 2 years ago and each own 50% of all of the one class of issued shares. They are the only employees of Haaiir Inc. and the corporation's only revenues are from work done for Philistines Inc. What type of income is Haaiir Inc. earning?

A) Income from a Specified investment business

B) Manufacturing and processing income

C) Income from a Personal services business

D) Active business income

Answer: C

Explanation: C) Income from a Personal services business

Type: MC

Topic: Corporate tax - SBD personal service business

56) Grande Ltd. is a CCPC that is not associated with any other corporation. In 2022, it has active business income of $723,000, of which $617,000 is M&P profits. In addition, it has taxable capital gains on the disposition of capital property used in the business of $65,000. This results in a net income of $788,000. This is also the Company's taxable income. What is the amount of Grande's M&P deduction for the year?

A) $80,210

B) $ 6,760

C) $15,210

D) $37,440

Answer: C

Explanation: A) $80,210 [(13%)($617,000)]

B) $6,760 [(13%)($$617,000 - $500,000 - $65,000)]

C) $15,210

The base for the SBD is limited to the annual business limit of $500,000. Given this, the M&P deduction would be equal to 13% of the lesser of:

M&P Profits $617,000

Amount Eligible for the SBD ( 500,000)

$117,000

Taxable Income $788,000

Amount Eligible for the SBD ( 500,000)

Aggregate Investment Income ( 65,000)

$223,000

The deduction would be $15,210 [(13%)($117,000)].

D) $37,440 [(13%)($788,000 - $500,000)]

Type: MC

Topic: Corporate tax - M&P ITA 125.1

57) With respect to the M&P deduction, which of the following statements is **NOT** correct?

A) The M&P deduction is available to any corporation that has any income from M&P.

B) At the federal level, there is no income tax advantage associated with the use of the M&P deduction.

C) The amount of M&P profits is determined by a formula that is found in the Income Tax Regulations.

D) The base for the M&P deduction cannot exceed M&P profits, reduced by the amount eligible for the SBD.

Answer: A

Explanation: A) The M&P deduction is available to any corporation that has any income from M&P. M&P has to be 10% or more of Canadian active business income.

Type: MC

Topic: Corporate tax - M&P ITA 125.1

58) In 2022, Fosfo Inc., a CCPC, has Taxable Income of $396,000. In calculating federal income tax payable, the company claimed a SBD of $38,950 and an M&P deduction of $6,500. What is the amount of Fosfo's GRR for 2022?

A) Nil.

B) $18,330.

C) $45,572.

D) $51,480.

Answer: B

Explanation: A) Nil

B) $18,330 [(13%)($396,000 - ($38,950 ÷ 19%) - ($6,500 ÷ 13%)]

C) $45,572 [(13%)($396,000 - $38,950 — $6,500)]

D) $51,480 [(13%)($396,000)]

Type: MC

Topic: Corporate tax - general rate reduction - ITA 123.4(2)

59) Which of the following statements with respect to the GRR for corporations is **NOT** correct?

A) The GRR is 13% of full rate taxable income.

B) Full rate taxable income for a public company is reduced by the income eligible for the M&P deduction.

C) The GRR is not available to CCPCs.

D) Full rate taxable income for a CCPC is reduced by the income eligible for the M&P deduction.

Answer: C

Explanation: C) The GRR is not available to CCPCs.

Type: MC

Topic: Corporate tax - general rate reduction - ITA 123.4(2)

60) St. John Corporation, a CCPC that has taxable income of $250,000 in 2022, 87% of which is earned in a Canadian province or territory. The company reported Canadian active business income of $235,000 for the year, and no foreign income taxes were paid. The corporation has no M&P activity. It is associated with one other company, which is allocated $200,000 of the annual business limit. What is the federal income tax payable for St. John Corporation for the 2022 taxation year?

A) $ Nil.

B) $23,400.

C) $26,650.

D) $29,975.

Answer: C

Explanation: A) Nil [(38%)($250,000) — (10%)(87%)($250,000) — (19%)($235,000) — (13%)($250,000)]

B) $23,400 [(38%)($250,000) — (10%)($250,000) — (19%)($235,000) — (13%)($250,000 - $235,000)]

C) $26,650 [(38%)($250,000) — ( 10%)(87%)($250,000) — ( 19%)($235,000) — (13%)($250,000 - $235,000)]

D) $29,975 [(38%)($250,000) — (10%)(87%)($250,000) — (19%)(87%)(250,000) — (13%)($250,000 - $235,000)]

Type: MC

Topic: Corporate tax payable - calculating the Part I tax

61) With respect to the following statements about foreign source income and related tax credits for corporations, which one is **NOT** correct?

A) If a credit related to foreign business income cannot be used during the current period, it can be carried back 3 years and carried forward 10 years.

B) Any amount of a corporation's foreign non-business tax credit in excess of 15% of foreign non-business income must be deducted in determining net income.

C) The foreign non-business tax credit may be less than the amount of foreign income tax paid.

D) The gross amount of foreign source income, without the deduction of amounts withheld, must be included in net income.

Answer: B

Explanation: B) Any amount of a corporation's foreign non-business tax credit in excess of 15% of foreign non-business income must be deducted in determining net income. This only applies to individuals not corporations.

Type: MC

Topic: Corporate tax - foreign tax credits

62) With respect to foreign business tax credits for corporations, which of the following statements is **NOT** correct?

A) If the credit cannot be used during the current period, it can be carried back three years and forward ten years.

B) In the formula that limits this credit, the Tax Otherwise Payable is reduced by the federal abatement.

C) In the formula that limits this credit, the Tax Otherwise Payable is reduced by the general rate reduction.

D) In the formula that limits this credit, the Adjusted Division B Income is reduced by taxable dividends that are deducted in the determination of Taxable Income.

Answer: B

Explanation: B) In the formula that limits this credit, the Tax Otherwise Payable is reduced by the federal abatement.

Type: MC

Topic: Corporate tax - foreign tax credits

63) Gander Limited is a CCPC. In the current taxation year, the company has taxable income calculated as follows:

Net Income $246,000

Taxable Dividends ( 30,000)

Non-capital losses deducted ( 45,000)

Net capital losses deducted ( 5,000)

Taxable Income $166,000

The company earned foreign non-business income of $25,000, from which tax of $2,500 was withheld as foreign income tax. What is the Adjusted Division B Income for Gander Limited for the current taxation year?

A) $166,000

B) $171,000

C) $191,000

D) $211,000

Answer: D

Explanation: A) $166,000 [$246,000 - $ 45,000 - $5,000 - $30,000]

B) $ 171,000 [$246,000 - $45,000 - $30,000]

C) $ 191,000 [$246,000 - $5,000 - $30,000 - $25,000]

D) $ 211,000 [$246,000 - $5,000 - $30,000]

Type: MC

Topic: Corporate tax - foreign tax credits

64) Fredericton Corp. earned $60,000 in foreign business income in the current fiscal year and foreign income tax of $7,500 was paid on this income. Fredericton Corp. has correctly calculated its federal income tax payable before the foreign business income tax credit as $15,250, calculated as follows:

Base Amount of tax $48,000

Federal Abatement ( 12,000)

SBD ( 19,250)

GRR ( 1,500)

Federal Income Tax before Foreign Business Tax Credit $15,250

What is the amount of Tax Otherwise Payable for purposes of the foreign business income tax credit calculation?

A) $27,250.

B) $34,500.

C) $46,500.

D) $48,000.

Answer: C

Explanation: A) $27,250 [$48,000 - $1,500 - $19,250]

B) $ 34,500 [$48,000 - $1,500 - $12,000]

C) $ 46,500 [$48,000 - $1,500]

D) $48,000

Type: MC

Topic: Corporate tax - foreign tax credits

65) You have been asked to prepare a reconciliation of accounting income and net income for purposes of the ITA for the taxation year ending December 31. Available information for the current year includes the following:

1. A depreciable property was sold near the end of the year for $93,000. The ACB was $89,300 and the carrying value for accounting purposes was $26,400. It was not the last property in its CCA class and the UCC was $263,000 before the disposition. There were no other additions or dispositions during the year.

2. The company has expensed estimated warranty costs of $22,000.

3. The Company purchased goodwill at a cost of $68,000. Since there was no impairment of the goodwill during the year, no write-down was required for accounting purposes.

4. Discount amortization on the company's bonds payable was $2,300.

**Required:** Determine the reconciliation adjustments required to convert accounting income to net income for ITA purposes with respect to the items described above.

Answer:

**Item 1**

You would deduct the accounting gain of $66,600 ($93,000 - $26,400). You would also add the taxable capital gain of $1,850 [(1/2)($93,000 - $89,300)], for a net deduction of $64,750.

**Item 2**

You would add the estimated warranty costs of $22,000.

**Item 3**

The $68,000 cost of the goodwill would be added to Class 14.1. As this Class is eligible for the AccII provisions and specifies maximum amortization at a rate of 5%, the resulting CCA of $5,100 [(5%)(1.5)($68,000)] would be deducted from accounting income.

**Item 4**

You would add the discount amortization of $2,300.

Type: ES

Topic: Net income - reconciliation from accounting income

66) The following four items may involve a reconciliation adjustment of a corporation's accounting income to net income for ITA purposes.

1. Premium amortization on the company's bonds payable was $5,600 for the current year.

2. The company incurred landscaping costs of $16,000 during the current year. For accounting purposes, these costs are being amortized at the rate of $1,600 per year.

3. The company sold a depreciable property for $145,000. The ACB of the property was $120,000 and the carrying value for accounting purposes was $85,000. It was not the last property in its CCA class and the UCC of this class was $105,000 before the disposition. There were no other additions or dispositions made during the year.

4. For accounting purposes, the company deducted $4,500 of interest charged on late income tax instalments.

**Required:** Describe the required adjustments, their amounts and whether they should be added or subtracted in the reconciliation process.

Answer:

**Item 1**

Deduct the premium amortization of $5,600.

**Item 2**

Add the accounting amortization of $1,600, and deduct the full cost of $16,000.

**Item 3**

Deduct the accounting gain of $60,000 ($145,000 - $85,000), add the taxable capital gain of $12,500 [(1/2)($145,000 - $120,000)], and add the recapture of CCA of $15,000 ($105,000 - $120,000).

**Item 4**

Add the $4,500 of interest charged on late income tax instalments.

Type: ES

Topic: Net income - reconciliation from accounting income

67) The FG Company had net income for the taxation year ending December 31, 2022 of $275,000. This amount included $13,720 in taxable capital gains, as well as $15,600 in taxable dividends received from taxable Canadian corporations. The Company also made donations to registered charities of $9,100 in 2022.

At the beginning of the year, the Company had available a 2020 non-capital loss balance of $74,000, as well as a 2020 net capital loss balance of $20,000 [(1/2)($40,000)].

Determine the Company's minimum taxable income for the 2022 taxation year and the amount and type of any carryover balances available to be claimed in other taxation years.

Answer:

2022 Net Income $275,000

Taxable Dividends ( 15,600)

Charitable Donations ( 9,100)

2020 Non-Capital Loss deducted (All) ( 74,000)

2020 Net Capital Loss deducted\* ( 13,720)

2022 Taxable Income $162,580

\*While there is a $20,000 net capital loss available, the actual deduction is limited to the current year's net taxable capital gains of $13,720. The remaining 2020 net capital loss balance is $6,280 ($20,000 - $13,720).

Type: ES

Topic: Corporate taxable income

68) For the taxation year ending December 31, 2022, Garba Inc. had net income of $472,000. This amount included $22,000 in taxable dividends received from taxable Canadian companies, as well as $12,400 in net taxable capital gains. The Company also made charitable donations of $14,500 in 2022.

At the beginning of 2022, the Company had a 2020 non-capital loss balance of $102,000, as well as a 2020 net capital loss balance of $56,000.

Determine the Company's minimum 2022 taxable income and the amount and type of any carryover balance available at the end of the year to be applied to other taxation years.

Answer:

2022 Net Income $472,000

Taxable Dividends ( 22,000)

Charitable Donations ( 14,500)

2020 Non-Capital Loss deducted (All) ( 102,000)

2020 Net Capital Loss deducted\* ( 12,400)

2022 Taxable Income $321,100

\*While there is a $56,000 net capital loss available, the actual deduction is limited to the current year's net taxable capital gains of $12,400. The remaining 2020 net capital loss balance is $43,600 ($56,000 - $12,400).

Type: ES

Topic: Corporate taxable income

69) On February 21, 2022, Markham Inc. purchases 1,000 shares of Darcy Ltd., a widely held public company, at a cost of $27.60 per share. on March 1, 2022, these shares pay a taxable dividend of $1.97 per share. Markham sells the shares on March 25, 2022 for $22.11 per share. Markham Inc. has taxable capital gains of $23,000 in the year.

What is Markham Inc.'s allowable capital loss from the sale of the Darcy Ltd. shares on March 25, 2022?

Answer: As Markham has not owned the shares for 365 days, this transaction would be subject to the stop loss rule of ITA 112(3). The allowable capital loss would be calculated as follows:

POD [($22.11)(1,000)] $22,110

ACB [($27.60)(1,000)] ( 27,600)

Total Loss ($ 5,490)

Disallowed Portion [($1.97)(1,000)] 1,970

Capital Loss ($ 3,520)

Inclusion Rate 1/2

Allowable Capital Loss ($ 1,760)

Type: ES

Topic: Stop loss rules - ITA 112(3)

70) In March of 2022, Invest Inc. purchased 5,000 shares of Glee Ltd., a widely held public company for $18.95 per share. In May of 2022, the directors of Glee declare and pay a taxable dividend of $1.50 per share. In September of 2022, Invest sells the 5,000 Glee shares for $16.75 per share. Invest Inc. has over $50,000 in 2022 taxable capital gains on other share transactions.

What is the allowable capital loss from the sale of the Glee Ltd. shares that occurred in September of 2022?

Answer: As Invest has not owned the Glee shares for 365 days, this transaction would be subject to the stop loss rule of ITA 112(3). Given this, the deductible loss would be calculated as follows:

POD [(5,000)($16.75)] $83,750

ACB [(5,000)($18.95)] ( 94,750)

Total Loss ($11,000)

Disallowed Portion [(5,000)($1.50)] 7,500

Capital Loss ($ 3,500)

Inclusion Rate 1/2

Allowable Capital Loss ($ 1,750)

Type: ES

Topic: Stop loss rules - ITA 112(3)

71) Badon Inc. is a Canadian public company. The following information pertains to its 2022 taxation year:

Taxable Capital Gains $102,000

Allowable Capital Losses 85,500

Allowable Business Investment Loss (ABIL) 10,450

Canadian Taxable Dividends 87,000

Canadian Interest Income 53,100

Business Loss 427,500

The Company also has a 2019 net capital loss balance of $37,400. It would like to deduct this loss in the current year.

Determine the 2022 non-capital loss for Badon Inc. and any remaining 2019 net capital loss balance after claiming the maximum amount.

Answer: The 2022 non-capital loss would be calculated as follows:

Amount E

Business Loss $427,500

ABIL 10,450

Taxable Dividends Deducted under ITA 112(1) 87,000

2019 Net Capital Loss Deducted\* 16,500

Total For Amount E $541,450

Amount F - ITA 3(c) Income

Taxable Dividends ($87,000)

Interest ( 53,100)

Net Taxable Capital Gains

[($102,000 - $85,500)] ( 16,500) ( 156,600)

2022 Non-Capital Loss $384,850

\*While there is a net capital loss balance of $37,400 available, the deduction is limited to the net taxable capital gains of $16,500 [($102,000 - $85,500)]. This leaves a 2019 net capital loss balance of $20,900 ($37,400 - $16,500).

Type: ES

Topic: Losses - non-capital loss

72) For the taxation year ending December 31, 2022, Rude Ltd., has the following information:

Business Loss $286,000

Canadian Interest Income 42,000

Net Taxable Capital Gains 18,000

Taxable Dividends 34,000

Allowable Business Investment Loss (ABIL) 23,000

The Company also has a 2020 net capital loss balance of $24,000.

Determine the 2022 non-capital loss for Rude Ltd. and the balance of the 2020 net capital loss after claiming the maximum amount.

Answer: The 2022 non-capital loss is calculated as follows:

Amount E

Business Loss $286,000

ABIL 23,000

Taxable Dividends Deducted under ITA 112(1) 34,000

2020 Net Capital Loss Deducted\* 18,000

Total For Amount E $361,000

Amount F - ITA 3(c) Income:

Dividends ($34,000)

Interest ( 42,000)

Net Taxable Capital Gains ( 18,000) ( 94,000)

2022 Non-Capital Loss $267,000

\*While there is a net capital loss balance of $24,000 available, the deduction is limited to the net taxable capital gains of $18,000. This leaves a net capital loss balance of $6,000 ($24,000 - $18,000).

Type: ES

Topic: Losses - non-capital loss

73) In the taxation year ending December 31, 2021, Melanor Ltd. had accounting income before income taxes of $225,000. In the following 2022 taxation year the company had an accounting loss before income taxes of $372,000. Both of these accounting amounts were determined using ASPE. Included in the above income were the following amounts:

**2021 2022**

Donations to Registered Charities $ 7,100 $ 9,600

Gains (Losses) on the sale of shares 33,000 ( 17,000)

Canadian Taxable Dividends 23,000 37,000

The above accounting gains (losses) on the sale of shares are equal to the capital gains (losses) on the sale of the shares.

At the beginning of the 2021 taxation year, the Company had a 2019 non-capital loss balance of $12,000 and a 2019 net capital loss balance of $10,000. It is the policy of Melanor Ltd. to maximize the use of any non-capital losses.

**Required:** Calculate the minimum net income and taxable income for 2021 and 2022 and indicate the amount and type of any available carryovers that may be claimed in other taxation years.

Answer: The required calculations for 2021 would be as follows:

Accounting income $225,000

Adjustments:

Donations 7,100

Accounting Gain on sale of shares ( 33,000)

Taxable Capital Gain [(1/2)($33,000)] 16,500

**2021 Net Income $215,600**

Charitable Donations ( 7,100)

Taxable Dividends ( 23,000)

2019 Non-Capital Loss deducted (All) ( 12,000)

2019 Net Capital Loss deducted (All) ( 10,000)

**2021 Taxable Income $163,500**

There are no remaining loss carryovers.

The business loss for 2022 would be calculated as follows:

Accounting Loss ($372,000)

Charitable Donations 9,600

Accounting Loss on sale of shares 17,000

Taxable Dividends included in Accounting Income ( 37,000)

2022 Business Loss ($382,400)

The 2022 net income and taxable income would both be nil, calculated as follows:

Business Loss ($382,400)

Taxable Dividends 37,000

2022 Net Income and Taxable Income Nil

The 2022 non-capital loss is calculated as follows:

Amount E

Business Loss $382,400

Taxable Dividends 37,000 $419,400

Amount F (Income Under ITA 3(c) - Dividends) ( 37,000)

2022 Non-Capital Loss $382,400

Of the $382,400 loss, $163,500 can be carried back to 2021, leaving a 2022 non-capital loss balance of $218,900 ($382,400 - $163,500).

As the policy of the Company is to maximize the use of non-capital losses, none of the 2022 net capital loss can be carried back. This will leave a 2022 net capital loss balance of $8,500 [(1/2)($17,000)].

There is also a carry forward of unused 2022 charitable donations of $9,600.

Type: ES

Topic: Losses - applying the losses

74) In the 2021 taxation year, Durham Inc. had ASPE based accounting income before income tax of $427,000 and an accounting loss of $625,000 for the 2022 taxation year. Included in these figures were the following amounts:

**2021 2022**

Canadian Taxable Dividends $41,000 $58,000

Donations to Registered Charities 12,100 17,600

Gains (Losses) on the sale of shares 65,000 ( 31,000)

The above accounting gains (losses) on the sale of shares are equal to the capital gains (losses) on the sale of the shares.

Durham had a 2018 non-capital loss balance of $26,000 and a 2018 net capital loss balance of $19,000. It is the policy of Durham to maximize use of any non-capital losses.

**Required:** Calculate the minimum net income and taxable income for each of the 2021 and 2022 taxation years and indicate the amount and type of any carryover balances that may be claimed in other taxation years.

Answer: The 2021 net income and taxable income would be calculated as follows:

Accounting Income $427,000

Adjustments:

Donations 12,100

Accounting Gains ( 65,000)

Taxable Capital Gains [(1/2)($65,000)] 32,500

**2021 Net Income $406,600**

Donations ( 12,100)

Taxable Dividends ( 41,000)

2018 Non-Capital Loss deducted (All) ( 26,000)

2018 Net Capital Loss deducted (All) ( 19,000)

**2021 Taxable Income $308,500**

There are no remaining loss carryovers from 2018.

The 2022 business loss would be calculated as follows:

Accounting Loss ($625,000)

Donations 17,600

Accounting Loss on sale of shares 31,000

Taxable Dividends Included in Accounting Income ( 58,000)

2022 Business Loss ($634,400)

The 2022 net income and taxable income would both be nil, calculated as follows:

Business Loss ($634,400)

Dividends Received 58,000

2022 Net Income and Taxable Income Nil

The 2022 non-capital loss can be calculated as follows:

Amount E

Business Loss $634,400

Taxable Dividends Deducted 58,000 $692,400

Amount F - (Income Under ITA 3(c) - Dividends) ( 58,000)

2022 Non-Capital Loss $634,400

The 2022 non-capital loss can be carried back to 2021 to the extent of that year's taxable income of $308,500. This will leave a 2022 non-capital loss balance of $325,900 ($634,400 - $308,500).

As the Company's policy is to maximize use of non-capital losses, none of the share loss can be deducted. This leaves a 2022 net capital loss balance of $15,500 [(1/2)($31,000)]. There is also a $17,600 carryover of unused 2022 charitable donations.

Type: ES

Topic: Losses - applying the losses

75) Ramsden Inc., a Canadian public company, has taxable income for the 2021 taxation year of $242,000. It has Canadian permanent establishments (PE) in Saskatchewan and Alberta. The Company's gross revenues for the 2022 taxation year are $3,013,000, with $1,520,000 of this attributable to the PE in Saskatchewan, and $912,000 attributable to the PE in Alberta. Wages and salaries total $192,000 for the year. Of this total, $63,000 is attributable to the PE in Saskatchewan and $85,000 to the PE in Alberta. Ramsden has sales to the U.S. through a PE in the U.S.

Calculate 2022 federal income tax payable. Ignore any foreign income tax implications.

Answer: The percentage of taxable income earned in each province would be calculated as follows:

**Gross Revenues Wages And Salaries**

**Amount Percent Amount Percent**

Saskatchewan $1,520,000 50.4% $ 63,000 32.8%

Alberta 912,000 30.3% 85,000 44.3%

Not attributable to a Province 581,000 19.3% 44,000 22.9%

Total $3,013,000 100.0% $192,000 100.0%

The average of the two percentages applicable for income not attributable to a province or territory is 21.1%, leaving an average for income related to a province of 78.9%. Given this, federal income tax payable can be calculated as follows:

Base Amount [(38%)($242,000)] $91,960

Federal Abatement [(10%)(78.9%)($242,000)] ( 19,094)

GRR [(13%)($242,000)] ( 31,460)

2022 Corporate Federal Income Tax Payable $41,406

Type: ES

Topic: Corporate tax - geographical allocation of income

76) Marsden Inc., a Canadian public company, has taxable income for 2022 of $362,000. It has permanent establishments (PE) in Ontario, Manitoba and the U.S. Its 2022 gross revenues and 2022 wages and salaries at the three PEs are as follows:

**Gross Wages and**

**Revenues Salaries**

Ontario $ 840,000 $ 300,000

Manitoba 1,080,000 540,000

U.S. 480,000 360,000

Total $2,400,000 $1,200,000

Calculate federal income tax payable for the 2022. Ignore any foreign tax implications.

Answer: The percentage of taxable income earned in each province or territory would be calculated as follows:

**Gross Revenues Wages and Salaries**

**Amount Percent Amount Percent**

Ontario $ 840,000 35% $ 300,000 25%

Manitoba 1,080,000 45% 540,000 45%

U.S. 480,000 20% 360,000 30%

Total $2,400,000 100.0% $1,200,000 100.0%

The average of the two percentages applicable to the U.S. is 25%, leaving an average for income related to a province of 75%. Given this, federal income tax payable can be calculated as follows:

Base Amount [(38%)($362,000)] $137,560

Federal Abatement [(10%)(75%)($362,000)] ( 27,150)

GRR [(13%)($362,000)] ( 47,060)

2022 Federal Corporate Income Tax Payable $ 63,350

Type: ES

Topic: Corporate tax - geographical allocation of income

77) Meridian Inc. is a CCPC and is not associated with any other corporation. Meridian has 2022 net income of $422,000. This amount is made up of taxable dividends from taxable Canadian corporations of $22,000, active business income of $380,000, and foreign non-business income of $20,000. The foreign income was subject to a 13% income tax in the foreign jurisdiction. Meridian receives a foreign tax credit against federal income tax payable that is equal to the amount withheld. Meridian has a 2020 non-capital loss balance of $145,000 which it intends to claim in 2022. The TCEC was less than $10 million in 2021 and the AAII was less than $50,000 in 2021.

Determine Meridian's small business deduction (SBD) for the 2022 taxation year.

Answer: As a CCPC with no associated companies, Meridian is eligible for the full amount of the $500,000 annual business limit. The amount eligible for the SBD is the least of:

**Active Business Income $380,000**

**Adjusted Taxable Income** (See following calculation) **$245,714**

**Annual Business Limit $500,000**

2022 Net Income $422,000

Taxable Dividends ( 22,000)

2020 Non-Capital Loss deducted ( 145,000)

2022 Taxable Income $255,000

100/28 Times Foreign Non-Business Tax Credit

[(100/28)(13%)($20,000)] ( 9,286)

Adjusted Taxable Income $245,714

The SBD is equal to $46,686 [(19%)($245,714)].

Type: ES

Topic: Corporate tax - calculating the small business deduction (SBD)

78) Sardo Ltd. is a CCPC and is not associated with any other corporation. Its 2022 net income is $422,000 and is made up of the following components:

Active Business Income $375,000

Taxable Dividends 15,000

Foreign Non-Business Income (100%) 32,000

The foreign jurisdiction withheld $3,200 in profits tax from the foreign non-business income. The Company is entitled to a foreign tax credit equal to the amount withheld.

The TCEC was less than $10 million in 2021 and the AAII was less than $50,000 in 2021.

The Company has a 2019 non-capital loss balance of $96,000 that it intends to claim in 2022.

Determine Sardo's small business deduction (SBD) for the 2022 taxation year.

Answer: As a CCPC and with no associated companies, Sardo is eligible for the full amount of the $500,000 annual business limit. The amount eligible for the small business deduction is the least of:

**Active Business Income $375,000**

**Adjusted Taxable Income** (See following calculation) **$299,571**

**Annual Business Limit $500,000**

2022 Net Income $422,000

Taxable Dividends ( 15,000)

2019 Non-Capital Loss deducted ( 96,000)

2022 Taxable Income $311,000

100/28 Times Foreign Non-Business Tax Credit

[(100/28)($3,200)] ( 11,429)

Adjusted Taxable Income $299,571

The SBD is equal to $56,918 [(19%)($299,571)].

Type: ES

Topic: Corporate tax - calculating the small business deduction (SBD)

79) Teeny Ltd. is a CCPC. Its net income for 2022 is $652,000, all of which is active business income, except for $21,000 in foreign source non-business income. The foreign jurisdiction withheld 10% in income tax. The corporation is entitled to a foreign tax credit equal to the foreign taxes withheld. The corporation's only taxable income deduction is for a 2020 non-capital loss balance of $415,000. The corporation had Taxable Capital Employed in Canada (TCEC) of $12,950,000 for 2021, and $13,100,000 for 2022. The AAII in 2021 was $39,000 and increased to $42,000 in 2022. It is not associated with any other corporation.

Determine the amount of Teeny Ltd.'s 2022 small business deduction (SBD).

Answer: The B component of the ITA 125(5.1) reduction formula is $6,638 [(.00225)($12,950,000 - $10,000,000)]. Given this, the required reduction would be calculated as follows:

[($500,000)($6,638 ÷ $11,250)] = $295,022 **Reduction**

This reduction results in an annual business limit of $204,978 ($500,000 - $295,022).

The 2022 SBD for Teeny Ltd. is equal to 19% of the least of:

• Active Business Income ($652,000 - $21,000) $631,000

• Taxable Income ($652,000 - $415,000) $237,000

[(100/28)(10%)($21,000)] ( 7,500) $229,500

• Reduced Annual Business Limit $204,978

The small business deduction is equal to $38,946 [(19%)($204,978)].

Type: ES

Topic: Corporate tax - calculating the small business deduction (SBD)

80) Lax Inc. is a CCPC. For its 2022 taxation year, its net income and taxable income is made up of active business income of $285,000, plus Aggregate Investment Income of $95,000. For 2021, its AAII was $75,000. Its Taxable Capital Employed In Canada (TCEC) was $7 million for 2022 and $6 million for 2021. Because of its association with Slax Inc., it is only allocated a business limit of $200,000. Slax's TCEC was $1,000,000 for both 2021 and 2022. Its AAII is nil for both 2021 and 2022.

Determine the amount of the 2022 small business deduction (SBD) for Lax Inc.

Answer: The required reduction in the annual business limit would be calculated as follows:

[($200,000/$500,000)][(5)($75,000 - $50,000)] = $50,000 **Reduction**

This reduction would leave the company's annual business limit at $150,000 ($200,000 - $50,000).

The 2022 SBD for Lax Inc. would be 19% of the least of:

• Active Business Income $285,000

• Taxable Income $380,000

• Reduced Annual Business Limit $150,000

The SBD would therefore be equal to $28,500 [(19%)($150,000)] for 2022.

Type: ES

Topic: Corporate tax - calculating the small business deduction (SBD)

81) Limited Inc. is a CCPC. Its 2022 net income of $475,000 is made up of active business income of $360,000 and $115,000 of Aggregate Investment Income. In 2021, the company's Adjusted Aggregate Investment Income (AAII) was $84,000. Its only 2022 taxable income deduction is a 2020 non-capital loss balance of $75,000. Because of its association with another company, Limited's share of the annual business limit is $375,000. The associated company has no AAII for either of 2021 or 2022.

Determine Limited's 2022 small business deduction (SBD), assuming that the combined Taxable Capital Employed In Canada (TCEC) of Limited and its associated company was:

**Case 1 -** $11,000,000 for 2022 and $14,500,000 for 2021.

**Case 2 -** $13,500,000 for 2022 and $10,800,000 for 2021.

Answer:

**Case 1 -** The B component of the TCEC reduction formula is $10,125 [(.00225)($14,500,000 - $10,000,000)]. Given this, the required reduction would be calculated as follows:

[($375,000)($10,125 ÷ $11,250)] = $337,500 **Reduction**

The calculation of the AAII grind would be calculated as follows:

[($375,000/$500,000)][(5)($84,000 - $50,000)] = $127,500 **Reduction**

The greater of these reductions is the TCEC grind amount of $337,500. This leaves an annual business limit of $37,500 ($375,000 - $337,500). Using this, the 2022 SBD for Limited Inc. would be 19% of the least of:

• Active Business Income $360,000

• Taxable Income ($475,000 - $75,000) $400,000

• Reduced Annual Business Limit $ 37,500

The small business deduction in this Case 1 is equal to $7,125 [(19%)($37,500)].

**Case 2 -** The B component of the TCEC reduction formula is $1,800 [(.00225)($10,800,000 - $10,000,000)]. Given this, the required reduction would be calculated as follows:

[($375,000)($1,800 ÷ $11,250)] = $60,000 **Reduction**

The AAII reduction would be the same $127,500 that was determined in Case 1. Given this, the greater amount would be $127,500, resulting in an annual business limit of $247,500 ($375,000 - $127,500). Based on this, the 2022 SBD for Limited Inc. is equal to 19% of the least of:

• Active Business Income $360,000

• Taxable Income ($475,000 - $75,000) $400,000

• Reduced Annual Business Limit $247,500

The 2022 SBD in this Case 2 is equal to $47,025 [(19%)($247,500)].

Type: ES

Topic: Corporate tax - SBD the annual business limit reductions

82) Bartlett Operations Inc. is a CCPC. It has 2022 net income of $476,000, an amount that includes $424,000 in M&P profits (as per ITR 5200). The $476,000 also includes foreign source business income of $25,000 and taxable capital gains of $27,000. Because of income tax on the foreign source business income, the Company is entitled to a foreign tax credit of $3,700. The Company's only taxable income deduction is donations to registered Canadian charities in the amount of $201,000. Bartlett is not associated with any other company and anticipates large increases in taxable income in the next few years.

The 2021 TCEC of the company is $2,900,000 and the AAII is $17,000.

Determine the amount of Bartlett's 2022 SBD and M&P deduction, assuming that the Company deducts all of the charitable donations. Do you believe that deducting all of the donations is the best option for Bartlett? Explain your conclusion.

Answer: The 2022 SBD for Bartlett Operations Inc. is 19% of the least of:

• Canadian Active Business Income $424,000

• Taxable Income ($476,000 - $201,000) $275,000

Less 4 Times Business Income FTC of $3,700 ( 14,800) $260,200

• Annual Business Limit $500,000

Based on this, the 2022 SBD would be $49,438 [(19%)($260,200)].

The M&P deduction would be equal to 13% of the lesser of:

• M&P Profits $424,000

Less Amount Eligible for the SBD ( 260,200) $163,800

• Taxable Income $275,000

Less:

Amount Eligible for the SBD ( 260,200)

4 Times Business Income FTC of $3,700 ( 14,800)

Aggregate Investment Income (Taxable Capital Gain) ( 27,000) Nil

The M&P deduction would be nil.

It would have been possible to increase the amount eligible for the 2022 SBD to the $424,000 of active business income by increasing taxable income to $438,800 ($424,000 + $14,800). This could be accomplished by deducting only $37,200 ($476,000 - $438,800) of the charitable donations. The remaining unclaimed donations of $163,800 ($201,000 - $37,200) could be carried forward for up to five years.

Although this increases taxable income and the total 2022 federal income tax payable, there could still be an ultimate income tax savings with this approach, as the SBD cannot be carried to another taxation year while charitable donations can be carried forward. As the Exercise states that Bartlett expects large increases in taxable income in the future, this approach would be advantageous if Bartlett's expectations turn out to be correct.

Type: ES

Topic: Corporate tax payable - M&P and SBD

83) Lardon Inc. is a CCPC and is not associated with any other company. The Company has 2022 net income of $632,000, an amount that includes $553,000 in M&P profits (as per ITR 5200). The Company's net income also includes foreign source business income of $40,000 and net taxable capital gains of $39,000. The jurisdiction in which the foreign business income was carried on through a fixed place of business (PE) resulted in foreign income taxes that entitled the company to a foreign business tax credit of $6,000. The Company's only taxable income deduction is a donation to a registered charity of $187,000.

Due to rumours of illegal activities, just prior to the end of the 2022 taxation year, Lardon lost two major customers and many of its key employees.

Determine the amount of Lardon's 2022 SBD and M&P deduction, assuming that the Company deducts all of the $187,000 of charitable donations. Do you believe that deducting all of the donations is the best option for Lardon? Explain your conclusion.

Answer: The 2022 SBD for Lardon Inc. would be equal to 19% of the least of:

• Canadian Active Business Income $553,000

• Taxable Income ($632,000 - $187,000) $445,000

Less 4 Times Business Income FTC of $6,000 ( 24,000) $421,000

• Annual Business Limit $500,000

Based on this, the 2022 SBD would be $79,990 [(19%)($421,000)].

The M&P deduction would be equal to 13% of the least of:

• M&P Profits $553,000

Less Amount Eligible for the SBD ( 421,000) $132,000

• Taxable Income ($632,000 - $187,000) $445,000

Less:

Amount Eligible for the SBD ( 421,000)

4 Times Business Income FTC of $6,000 ( 24,000)

Aggregate Investment Income (Taxable Capital Gain) ( 39,000) Nil

The M&P deduction would be equal to nil.

It would have been possible to increase the amount eligible for the SBD to the $500,000 annual business limit by increasing taxable income to $524,000 ($500,000 + $24,000). This could be accomplished by deducting only $108,000 ($632,000 - $524,000) of the charitable donations. The remaining unclaimed donations of $79,000 ($187,000 - $108,000) could then be carried forward for up to five years.

Although this increases taxable income and the total 2022 federal income tax payable, there could still be an ultimate income tax savings with this approach, as the SBD cannot be carried forward, while charitable donations can be carried forward. On the other hand, Lardon's loss of customers and staff may result in substantially lower income in the future. If all income in the foreseeable future will benefit from the SBD, it would be advantageous to minimize taxable income by deducting all of the charitable donations in the current 2022 taxation year.

Type: ES

Topic: Corporate tax payable - M&P and SBD

84) For the 2022 taxation year, Tuleta Ltd., a Canadian public company, has taxable income of $296,000. Of this total, $165,000 qualifies for the M&P deduction. Calculate Tuleta Ltd.'s 2022 federal income tax payable. Include in your solution any M&P deduction available.

Answer: The 2022 federal income tax payable for Tuleta Ltd. would be calculated as follows:

Base Amount [(38%)($296,000)] $112,480

Federal Abatement [(10%)($296,000)] ( 29,600)

M&P Deduction [(13%)($165,000)] ( 21,450)

GRR [(13%)($296,000 - $165,000)] ( 17,030)

2022 Federal Income Tax Payable $ 44,400

Type: ES

Topic: Corporate tax payable - simple for a public company

85) During its current taxation year, Odaon Ltd., a Canadian public company, has taxable income of $625,000. Of this total $362,000 qualifies for the M&P deduction. Calculate Odaon's federal income tax payable for the current taxation year. Include in your solution any M&P deduction available.

Answer: The federal income tax payable for Odaon Ltd. would be calculated as follows:

Base Amount [(38%)($625,000)] $237,500

Federal Abatement [(10%)($625,000)] ( 62,500)

M&P Deduction [(13%)($362,000)] ( 47,060)

GRR [(13%)($625,000 - $362,000)] ( 34,190)

Federal Income Tax Payable $ 93,750

Type: ES

Topic: Corporate tax payable - simple for a public company

86) Danforth Inc. is a CCPC. The Company has 2022 taxable income of $262,000, all of which is active business income. Of this amount, $201,000 results from M&P activity. As it is associated with two other corporations, its share of the annual business limit is $117,000. Determine the Company's 2022 federal income tax payable. Include in your solution any M&P deduction available. Assume that the combined 2021 TCEC and AAII for all associated companies is below the threshholds for the SBD reductions.

Answer: The 2022 federal income tax payable for Danforth Inc. would be calculated as follows:

Base Amount [(38%)($262,000)] $99,560

Federal Abatement [(10%)($262,000)] ( 26,200)

SBD (Note One) ( 22,230)

M&P Deduction (Note Two) ( 10,920)

GRR (Note Three) ( 7,930)

2022 Federal Income Tax Payable $32,280

**Note One -** The 2022 SBD is equal to 19% of the least of active business income ($262,000), taxable income ($262,000), and the Company's business limit ($117,000). The deduction is therefore $22,230 [(19%)($117,000)].

**Note Two -** The M&P deduction is equal to 13% of the lesser of $84,000 (M&P profits of $201,000, reduced by the $117,000 that is eligible for the SBD), and $145,000 (taxable income, reduced by the $117,000 that is eligible for the SBD). The M&P deduction would therefore be $10,920 [(13%)($84,000)].

**Note Three -** The 2022 GRR would be calculated as follows:

Taxable Income $262,000

Amount Eligible for the SBD ( 117,000)

Amount Eligible for the M&P Deduction ( 84,000)

Full Rate Taxable Income $ 61,000

Rate 13%

GRR $ 7,930

Type: ES

Topic: Corporate tax payable - simple for a CCPC

87) For the 2022 taxation year, Brokton Inc. has taxable income of $472,000, all of which is active business income. Of this total, $305,000 results from M&P activity. The Company is a CCPC and is associated with three other CCPCs. The companies have agreed that Brokton's share of the annual business limit will be $140,000. Determine the Company's 2022 federal income tax payable. Include in your solution any M&P deduction available. Assume that the 2021 combined TCEC and AAII are below the threshholds for determining a reduction to the annual business limit.

Answer: The 2022 federal income tax payable for Brokton Inc. would be calculated as follows:

Base Amount [(38%)($472,000)] $179,360

Federal Abatement [(10%)($472,000)] ( 47,200)

SBD (Note 1) ( 26,600)

M&P Deduction (Note 2) ( 21,450)

GRR (Note 3) ( 21,710)

2022 Federal Income Tax Payable $ 62,400

**Note 1 -** The SBD is equal to 19% of the least of:

• Active Business Income $472,000

• Taxable Income $472,000

• Company's Business Limit $140,000

The amount would be $26,600 [(19%)($140,000)].

**Note 2 -** The M&P deduction is equal to 13% of the least of:

• $165,000 - M&P profits, less the amount eligible for the SBD ($305,000 - $140,000).

• $332,000 - Taxable income, less the amount eligible for the SBD ($472,000 - $140,000).

The amount would be $21,450 [(13%)($165,000)].

**Note 3 -** The GRR would be calculated as follows:

Taxable Income $472,000

Amount Eligible for the SBD ( 140,000)

Amount Eligible for the M&P Deduction ( 165,000)

Full Rate Taxable Income $167,000

Rate 13%

GRR $ 21,710

Type: ES

Topic: Corporate tax payable - simple for a CCPC

88) Tembina Ltd. is a Canadian public company. For its 2022 taxation year, it has net income of $135,000, including foreign business income of $27,000. Foreign income tax of $4,050 was paid on this income. None of the Company's income involves M&P and, based on the ITR 402(3) formula, 91% of the Company's income was allocated to a province or territory. The Company claims taxable income deductions of $23,000 in taxable dividends received from taxable Canadian corporations, a 2020 non-capital loss balance of $51,000, and a 2020 net capital loss balance of $19,000.

Determine the Company's 2022 federal income tax payable. Include in your answer any carryovers available to be used in other taxation years.

Answer: 2022 taxable income is $42,000 ($135,000 - $23,000 - $51,000 - $19,000).

Based on this amount, the required calculation of 2022 federal income tax payable would be as follows:

Base Amount [(38%)($42,000)] $15,960

Federal Abatement [(91%)(10%)($42,000)] ( 3,822)

GRR [(13%)($42,000)] ( 5,460)

Foreign Business Income Tax Credit (See Note) ( 3,048)

2022 Federal Income Tax Payable $ 3,630

**Note** - The foreign business income tax credit would be the least of:

• The income tax paid $ 4,050

• [$27,000 ÷ ($135,000 - $23,000 - $19,000)][$15,960 - $5,460] $ 3,048

• $15,960 - $5,460 $10,500

The unused foreign business tax amount of $1,002 ($4,050 - $3,048) can be carried back 3 years and forward for 10 years. In calculating the allowable tax credit for such carryovers, these unused amounts will be added to the foreign income tax paid factor in the calculation of the foreign business income tax credit.

Type: ES

Topic: Corporate tax payable - simple but including foreign tax credits

89) For the 2022 taxation year, Sundal Ltd. has net income of $235,000. Included in this amount is foreign business income of $48,000 of which the foreign income taxes of $7,200 were paid. Sundal is a Canadian public company and none of its income involves M&P activity. It has been determined that 89% of the Company's taxable income is allocated to a province or territory.

Taxable income deductions were made for taxable dividends of $11,000, a 2019 non-capital loss balance of $105,000, and a 2019 net capital loss balance of $36,000.

Determine the Company's 2022 federal income tax payable. Include in your answer any carryovers available to be applied to any other taxation years.

Answer: 2022 taxable income is $83,000 ($235,000 - $11,000 - $105,000 - $36,000).

Based on this figure, Sundal's 2022 federal income tax payable is calculated as follows:

Base Amount [(38%)($83,000)] $31,540

Federal Abatement [(89%)(10%)($83,000)] ( 7,387)

GRR [(13%)($83,000)] ( 10,790)

Foreign Business Income Tax Credit (See Note) ( 5,298)

2022 Federal Income Tax Payable $ 8,065

**Note** -The foreign business income tax credit would be the least of:

• The amount withheld $ 7,200

• [$48,000 ÷ ($235,000 - $11,000 - $36,000)][$31,540 - $10,790] $ 5,298

• $31,540 - $10,790 $20,750

The unused foreign business tax amount of $1,902 ($7,200 - $5,298) can be carried back 3 years and forward for 10 years. In calculating the allowable tax credit for carryover purposes, these unused amounts will be added to the foreign tax paid factor in the calculation of the foreign business income tax credit to the year in which the credit is to be applied.

Type: ES

Topic: Corporate tax payable - simple but including foreign tax credits

90) Jaxtor Inc. is a Canadian public company that uses a December 31 taxation year. As a public company it must provided financial statements based on IFRS. For the year ending December 31, 2022, these financial statements show accounting income of $543,267.

In order to assist in preparing the Company's 2022 corporate income tax return, the following additional information is available with respect to the 2022 taxation year.

1. The Company's financial statements disclosed interest on the Company's bonds payable of $12,460. This included discount amortization of $460.

2. The financial statements show a charge for amortization of $62,500. Maximum CCA which the Company intends to deduct, is $71,300. This does not include any CCA on Class 14.1 property.

3. As part of a business combination, the Company purchased goodwill of $189,000. The Company's accountant determined that the goodwill was not impaired in 2022.

4. The Company sold temporary investments for $13,450. The ACB of these investments was $9,980.

5. The Company donated a Class 10 depreciable property to a registered charity. A charitable donation receipt equal to the FMV of $132,000 was issued. The capital cost and ACB were both $117,000, the carrying value for accounting purposes was $105,300 and the UCC $94,670. There were other properties in Class 10 at year end.

6. The Company had a liability for estimated warranties of $6,240. During the year, warranty costs were incurred in the amount of $5,650 and, at the end of the year, the remaining warranty liability was estimated to be $4,890.

7. The Company disposed of Class 8 property for $71,000. The property had a capital cost and ACB of $79,000 and a carrying value of $68,000 for accounting purposes. At the beginning of the current year, the UCC balance was $66,720. There were no property in the class at year end.

**Required:** Make the necessary reconciliation adjustments to convert accounting income of $543,267 to net income for ITA purposes. Indicate the amount of the adjustment together with a description (accounting gain. recapture etc) and whether the adjustment is to be add or subtracted in the reconciliation process.

Answer: The required adjustments would be as follows:

1. Add the $460 bond discount.

2. Two adjustments would be required:

• The $62,500 amortization charge would be added.

• The $71,300 of maximum CCA would be deducted.

3. The goodwill will be added to Class 14.1. The CCA would be $14,175 [(1.5)(5%)($189,000)] and would be deducted. As there was no accounting charge for goodwill impairment no further goodwill adjustments are required,

4. Two adjustments would be required:

• The accounting gain of $3,470 ($13,450 - $9,980) would be deducted.

• The taxable capital gain of $1,735 [(1/2)($13,450 - $9,980)] would be added.

5. Several adjustments are required:

• The $132,000 deduction for the donation would be added back.

• The accounting gain of $26,700 ($132,000 - $105,300) would be deducted.

• The taxable capital gain of $7,500 [(1/2)($132,000 - $117,000)] would be added.

• The recapture of $22,330 ($117,000 - $94,670) would be added.

6. The decrease in the warranty liability of $1,350 ($6,240 - $4,890) would be deducted.

7. Two adjustments are required:

• The accounting gain of $3,000 ($71,000 - $68,000) would be deducted

• The recapture of $4,280 ($71,000 - $66,720) would be added

• There would be no capital loss to be adjusted

Type: ES

Topic: Net income - reconciliation from accounting income

91) The following information on Dunway Ltd., a Canadian public company, applies to its 2022 taxation year ending June 30, 2022:

Business Revenues $825,000

Business Expenses 533,000

Canadian Taxable Dividends from Controlled Subsidiary 17,500

Canadian Dividends from Non-Controlled Public Companies 15,000

Capital Gain on Investment Sale 22,000

Taxable Dividends Paid 182,000

Donation to Canadian Government 26,000

Donations to Registered Canadian Charities 141,000

The Company has a 2019 net capital loss balance of $18,000 and a 2019 non-capital balance of $137,000. Dunway Ltd. does not anticipate any capital gains in the foreseeable future. The accounting business income is equal to the business income for income tax purposes therefore there are no reconciliation adjustments required.

**Required:** Calculate the minimum 2022 net income and taxable income. Indicate the amount and type of any carryovers that will be available to apply to other taxation years.

Answer: The Taxable income of Dunway Ltd. would be determined as follows:

Business Income ($825,000 - $533,000) $292,000

Taxable Dividends ($17,500 + $15,000) 32,500

Taxable Capital Gain [(1/2)($22,000)] 11,000

**2022 Net Income $335,500**

Taxable Income Deductions:

Taxable Dividends ($ 32,500)

Donation to Government (Note 1) ( 26,000)

Donations to Registered Charities (Note 1) ( 141,000)

2019 Net Capital Loss (Note 2) ( 11,000) ( 210,500)

Taxable Income before Non-Capital Loss $125,000

2019 Non-Capital Loss (Note 3) ( 125,000)

**2022 Taxable Income Nil**

**Note 1** - There is no addition to net income with respect to the donations as this calculation does not start with accounting income. In other words, a reconciliation is not required. The donations to registered Canadian charities total less than 75% of net income and are therefore entitled to a taxable income deduction.

**Note 2** - The 2019 net capital loss can only be deducted to the extent of the $11,000 of the net taxable capital gain.

**Note 3** - The 2019 non-capital loss has only been claimed to the extent of the amount required to reduce taxable income to nil. It would have been possible to carry forward the donations instead, but the non-capital loss carry forward period is 20 years compared to only 5 years for donations. In this case there are 17 years remaining on the life of the 2019 non-capital loss.

**Loss Carryover balances**

• 2019 net capital loss balance is $7,000 ($18,000 - $11,000).

• 2019 non-capital loss balance is $12,000 ($137,000 - $125,000).

Type: ES

Topic: Net and taxable income for corporations

92) While for many years, Sweat Ltd. used a December 31 taxation year end, a 2022 change in the nature of its business resulted in the Company requesting a change in their taxation year end to August 31 to coincide with an anticipated annual slow point in the business. Based on the information provided, the CRA accepted this change.

The change will be implemented in 2022. The income statement for the period January 1, 2022 to August 31, 2022, prepared by the accountants is as follows:

**Sweat Ltd.**

**Income Statement**

**8 Month Period Ending August 31, 2022**

Sales (All Within Canada) $916,000

Cost of goods sold ( 485,000)

Gross Margin $431,000

Other Expenses (Excluding Income Taxes):

Wages and Salaries ($153,400)

Amortization ( 49,300)

Rent ( 56,700)

Interest Expense ( 5,500)

Foreign Exchange Loss ( 4,200)

Travel and Promotion ( 44,300)

Bad Debt Expense ( 5,400)

Warranty Expense ( 5,800)

Charitable Donations ( 3,100)

Other Business Expenses ( 19,800) ( 347,500)

Business Income $ 83,500

Gain on sale of investments 3,900

2022 Accounting Income before income taxes $ 87,400

**Other Information relevant to the new 2022 taxation year:**

1. In determining the cost of goods sold, the Company deducted a $17,800 reserve for inventory obsolescence.

2. Wages and salaries includes a $35,000 bonus to Sweat Ltd.'s CEO. Because the CEO anticipates retiring in December of 2022, the bonus will not be paid until January of 2024.

3. Amortization is on the furniture and fixtures and delivery vehicles. The capital cost of the furniture and fixtures is $147,000 and, at January 1, 2022, the Class 8 UCC balance is $79,800. New furniture was purchased at a cost of $20,500 in the new 2022 taxation year and old furniture with a capital cost of $14,200 was sold for $9,500 in the same period.

On January 1, 2022, the Class 10 UCC balance was $103,400. There were no additions or disposals in this Class during the 8 month period ending August 31, 2022.

4. The interest expense relates to a line of credit that was used to finance seasonal fluctuations in inventory.

5. The foreign exchange loss resulted from financing costs related to the purchase of inventory in the United Kingdom.

6. The travel and promotion expense consisted of the following items:

Business Meals and Entertainment $15,200

Hotels and Airfare 21,400

Golf Club Memberships 7,700

Total Travel and Promotion Expense $44,300

7. For accounting purposes, the Company establishes a warranty reserve based on estimated costs. On The reserve established December 31, 2021 was $5,400 and a new reserve of $6,200 was established August 31, 2022.

8. The accounting gain on the sale of investments is equal to the capital gain for income tax purposes.

9. During the period January 1, 2022 to August 31, 2022, the Company declared and paid taxable dividends of $27,600.

10. The Company has a 2020 non-capital loss balance of $18,700 and a 2020 net capital loss balance of $6,250.

**Required:** Reconcile the accounting income to net income for ITA purposes and determine the taxable income for Sweat Ltd. for the 8 month period ending August 31, 2022. Indicate the amount and type of any carryovers that are available to be applied to other taxation years.

Answer: The reconciliation of accounting income to net income and the determination of taxable income of Sweat Ltd. for the 8 month period ending August 31, 2022 is as follows:

Accounting Income before Income Taxes $ 87,400

Add:

Reserve for Inventory Obsolescence

(Included in Cost of goods sold) $17,800

Bonus (Note 1) 35,000

Amortization 49,300

Non-Deductible Meals and Entertainment

[(1/2)($15,200)] 7,600

Golf Club Memberships 7,700

Increase in Warranty Reserve ($6,200 - $5,400) 800

Charitable Donations 3,100

Taxable Capital Gain on Investments [(1/2)($3,900)] 1,950 123,250

Deduct:

Accounting Gain on Sale of Investments ($ 3,900)

CCA (Note 2) ( 33,474) ( 37,374)

**2022 Net Income $173,276**

Deduct:

Charitable Donations ($ 3,100)

2020 Net Capital Loss (Note 3) ( 1,950)

2020 Non-Capital Loss (All) ( 18,700) ( 23,750)

**2022 Taxable Income $149,526**

**Note 1 -** As the bonus is not paid until more than 180 days from the end of the taxation year ending August 31, 2022 and it is less than 3 years after the Company's 2022 taxation year end, it cannot be deducted until it is actually paid.

**Note 2 -** The CCA for the 8 month period ending August 31, 2022 (243 days), can be calculated as follows:

Class 8 Opening UCC $79,800

Additions $20,500

Disposals - Lesser of:

• Capital Cost = $14,200

• POD = $9,500 ( 9,500) 11,000

AccII Adjustment [(1/2)($11,000)] 5,500

CCA Base $96,300

Rate (Class 8) 20%

Full Year Amount $19,260

Proration for Short Taxation Year 243/365

Class 8 CCA $12,822

The total CCA for the 8 month period ending August 31, 2022 would be as follows:

Class 8 CCA (Preceding Calculation) $12,822

Class 10 CCA [(30%)($103,400)(243/365)] 20,652

Total CCA $33,474

**Note 3 -** The 2020 net capital loss deduction is limited to the net taxable capital gain of $1,950. This deduction will leave a 2020 net capital loss balance of $4,300 ($6,250 - $1,950).

The following additional points are also relevant to the solution:

• Taxable dividends declared and paid are not deductible in the calculation of either net income or taxable income.

• The interest expense is fully deductible.

• Where a foreign exchange loss arises in the normal course of business, it is fully deductible.

Type: ES

Topic: Net and taxable income for corporations including reconciliation

93) Maxitech is a Canadian public company. It has always used a December 31 taxation year end.

On January 1, 2022, the Company had the following carryover balances:

• 2019 Net Capital Losses $75,600

• 2020 Non-Capital Losses 51,400

• 2021 Charitable Donations 4,600

In the 2022 taxation year, Maxitech has the following results for income tax purposes:

Business Loss $142,000

Taxable Capital Gains 21,400

Allowable Capital Losses 6,500

Charitable Donations 3,200

Dividends received from taxable Canadian corporations 30,400

**Required:** Calculate the corporation's 2022 minimum net income and taxable income. Indicate any carryover that are available to apply to other taxation years under each of the two following assumptions:

A. It is the policy of the Company to maximize the use of net capital losses before using any other carryover balances.

B. It is the policy of the Company to maximize the use of non-capital losses before using any other carry over balances.

Answer:

***Part A***

The required calculation of 2022 net income and taxable income is as follows:

ITA 3(a) Dividends $ 30,400

ITA 3(b) Taxable Capital Gains $21,400

Allowable Capital Losses ( 6,500) 14,900

ITA 3(c) $ 45,300

ITA 3(d) Business Loss ( 142,000)

2022 Net Income Nil

Taxable Dividends ITA 112(1) ($ 30,400)

2019 Net Capital Loss (Limited to ITA 3(b) amount)) ( 14,900)

Charitable Donations Nil

2022 Taxable Income Nil

The carry forward balances are as follows:

**2019 Net Capital Loss**

Opening Balance $75,600

Claimed in 2022 ( 14,900)

2019 Net Capital Loss Balance $60,700

**Total Unused Charitable Donations**

2021 Balance $4,600

2022 addition 3,200

Claimed in 2022 Nil

Unused Charitable Donations $7,800

**2022 Non-Capital Loss**

Balance Component E

Business Loss $142,000

Taxable Dividends 30,400

2019 Net Capital Loss Deducted 14,900

Subtotal $187,300

Balance Component F - ITA 3(c) ( 45,300)

2022 Non-Capital Loss $142,000

**Total Non-Capital Losses**

2020 non-capital loss balance $ 51,400

2022 non-capital loss balance 142,000

Claimed in 2022 Nil

Total Non-Capital Losses $193,400

As per the policy stated in Part A, this solution maximizes the use of net capital losses.

***Part B***

The required calculation of 2022 net income and taxable income is as follows:

ITA 3(a) Dividends $ 30,400

ITA 3(b) Taxable Capital Gains $21,400

Allowable Capital Losses ( 6,500) 14,900

ITA 3(c) $ 45,300

ITA 3(d) Business Loss ( 142,000)

2022 Net Income Nil

Taxable Dividends ($ 30,400)

2019 Net Capital Loss Nil

Charitable Donations Nil

2022 Taxable Income Nil

The carry forward balances available at the end of the year are as follows:

**2019 Net Capital Loss**

Opening Balance $75,600

Claimed in 2022 Nil

2019 Net Capital Loss Balance $75,600

**Unused Charitable Donations**

2021 Balance $4,600

2022 Balance 3,200

Claimed in 2022 Nil

Total Unused Charitable Donations $7,800

**2022 Non-Capital Loss**

Balance Component E

Business Loss $142,000

Dividends 30,400

2019 Net Capital Loss Deducted Nil

Subtotal $172,400

Balance Component F - ITA 3(c) ( 45,300)

2022 Non-Capital Loss $127,100

**Total Non-Capital Losses**

2020 non-capital loss balance $ 51,400

2022 non-capital loss balance 127,100

Claimed in 2022 Nil

Total Non-Capital Losses $ 178,500

Note that, in contrast to Part A, the non-capital loss carryforward is $14,900 lower ($193,400 - $178,500), reflecting the fact that in this Part we were asked to maximize the use of non-capital losses, as opposed to claiming net capital losses first. As you would expect, the net capital loss balance is $14,900 higher ($75,600 - $60,700).

***Comparison (Not Required)***

A comparison of the carryover balances under the two alternatives are as follows:

**Part A Part B**

Net Capital Losses $ 60,700 $ 75,600

Non-Capital Losses 193,400 178,500

Unused Charitable Donations 7,800 7,800

Total Carryovers $261,900 $261,900

Type: ES

Topic: Net and taxable income for corporations with carryovers

94) In 2022, Lyric Ltd. has a 2020 net capital loss balance of $78,250, a 2020 non-capital loss balance of $61,400 and 2020 unused charitable contributions of $6,400. It is the policy of the Company to maximize the use of any net capital losses before using any other carryover balances.

In 2022, the Company business was unsuccessful, resulting in a business loss of $225,000. Offsetting this were $51,500 in taxable dividends received from taxable Canadian corporations and taxable capital gains of $20,750 However, the taxable capital gains were offset in part by allowable capital losses of $3,650.

Despite the business loss, the Company made charitable donations of $6,300 in 2022.

**Required:** Calculate the corporation's 2022 minimum net income and taxable income. Indicate any carryover balances available to be applied to other taxation years.

Answer: The required calculation of 2022 net income and taxable is as follows:

ITA 3(a) Dividends $ 51,500

ITA 3(b)

Taxable Capital Gains $20,750

Allowable Capital Losses ( 3,650) 17,100

ITA 3(c) $ 68,600

ITA 3(d) Business Loss ( 225,000)

**2022 Net Income Nil**

Taxable Dividends ITA 112(1) ($ 51,500)

2020 Net Capital Loss (Limited to the ITA 3(b) amount) ( 17,100)

Charitable Donations Nil

**2022 Taxable Income Nil**

The carry forward balances available to be applied to other taxation years are as follows:

**2020 Net Capital Loss**

Opening Balance $78,250

Less: Claimed in 2022 ( 17,100)

2020 Net Capital Loss Balance $61,150

**Charitable Donations**

2020 Balance $ 6,400

2022 addition 6,300

Less: Claimed in 2022 Nil

Total Charitable Donation Balances $12,700

**2022 Non-Capital Loss**

Balance Component E

Taxable Dividends Deducted $ 51,500

Business Loss 225,000

2020 Net Capital Loss Deducted 17,100

Subtotal $293,600

Balance Component F - ITA 3(c) ( 68,600)

2022 Non-Capital Loss $225,000

**Non-Capital Losses**

2020 Balance $ 61,400

2022 Balance 225,000

Less: Claimed in 2022 N/A

Total Non-Capital Loss Balances $286,400

As per the policy of the Company, this solution maximizes the use of the net capital losses.

Type: ES

Topic: Net and taxable income for corporations with carryovers

95) Lisgar Ltd. is a CCPC that was incorporated on January 1, 2019.

For the first four years, the Company had accounting income, charitable donations, capital gains (losses) and taxable dividends received as follows:

**Accounting Charitable Capital Gains Dividends**

**Income (Loss) Donations (Losses) (Note 1) (Note 2)**

2019 $165,000 $4,100 $26,000 $17,100

2020 ( 263,000) 7,800 ( 13,500) 28,900

2021 127,000 5,600 18,400 27,600

2022 ( 62,100) 3,400 3,700 15,100

**Note 1 -** All of the gains and losses were as a result of the sale of investments. The accounting gains and losses are equal to the capital gains and capital losses for income tax purposes.

**Note 2 -** All of the taxable dividends are received from taxable Canadian corporations.

It is the policy of the Company to first deduct charitable donations, then non-capital losses and finally net capital losses to the extent possible to minimize taxable income. Assume that the company deducted charitable donations in determining its accounting income or loss.

**Required:** For each of the four taxation years 2019 through 2022, provide the following

information:

• The minimum net income and taxable income. Indicate the amount and type of any current year losses that are available to be applied against taxable income of other taxation years.

• The revised results for any taxation years to which loss carryovers are applied.

• An analysis of the amount and type of carryovers that would be available to be applied against taxable income of other taxation years.

Answer:

**2019 Analysis**

***Net Income and Taxable Income***

The required calculations for net income and taxable income are as follows:

Accounting Income $165,000

Charitable Donations 4,100

Accounting Gain on Disposition of investments ( 26,000)

Taxable Capital Gains [(1/2)($26,000)] 13,000

**2019 Net Income $156,100**

Charitable Donations ( 4,100)

Taxable Dividends ITA 112(1) ( 17,100)

**2019 Taxable Income $134,900**

***Carryover Balances***

There are no loss or donation carryover amounts for 2019.

**2020 Analysis**

Net income and taxable income are determined as follows:

Accounting Loss ($263,000)

Charitable Donations 7,800

Accounting Loss on Disposition of investments 13,500

**2020 Net Income Nil**

Taxable Dividends ITA 112(1) ( 28,900)

**2020 Taxable Income Nil**

The allowable capital loss is equal to $6,750 [(1/2)($13,500)] which becomes a 2020 net capital loss of $6,750.

The accounting loss of $263,000 includes taxable dividends received of $28,900, an accounting loss on the sale of shares of $13,500, and a deduction for charitable donations of $7,800. Given this, the business loss must be $270,600 ($263,000 + $28,900 - $13,500 - $7,800). This can be verified by the following schedule:

Business Income (Loss) ($270,600)

Taxable Dividends 28,900

Accounting Loss on Disposition of investments ( 13,500)

Charitable Donations ( 7,800)

2020 Accounting Loss ($263,000)

Using this information, the 2020 non-capital loss would be calculated as follows:

Component E ($270,600 + $28,900) $299,500

Income ITA 3(c) - Dividends ( 28,900)

2020 Non-Capital Loss $270,600

***Loss Carry Back and revision to 2019***

As the Company's policy is to deduct non-capital losses prior to deducting net capital losses, there is a $134,900 carry back of the 2020 non-capital loss to 2019. The revised 2019 taxable income is as follows:

2019 Taxable Income as Originally Assessed $134,900

Less: 2020 Non-Capital Loss ( 134,900)

Revised 2019 Taxable Income Nil

***2020 Carryovers***

The following 2020 carryovers are available to be applied to other taxation years:

**2020 Charitable Donations = $7,800 -** All of the charitable donations of $7,800 will be carried forward. Note that donation carryovers cannot be carry back.

**2020 Net Capital Loss = $6,750 -** As the non-capital loss carry back eliminated all of the 2019 taxable income, the 2020 net capital loss is $6,750.

**2020 Non-Capital Loss = $135,700 -** The 2020 non-capita loss is equal to $135,700 ($270,600 - $134,900).

**2021 Analysis**

***2021 Net Income and Taxable Income***

The required calculations are as follows:

Accounting Income $127,000

Charitable Donations 5,600

Accounting Gain on Disposition of investments ( 18,400)

Taxable Capital Gain [(1/2)($18,400)] 9,200

**2021 Net Income $123,400**

Charitable Donations ( 5,600)

Taxable Dividends - ITA 112(1) ( 27,600)

2021 Taxable Income before Carryovers $90,200

2020 Charitable Donations (All) ( 7,800)

2020 Non-Capital Loss (Note) ( 82,400)

**2021 Taxable Income Nil**

**Note** The amount of the 2020 non-capital loss carryover that was deducted was the amount required to reduce the 2021 taxable income to nil.

***Carryovers***

The following carryover amounts are available to be applied to other taxation years.

**Charitable Donations = Nil -** All of the 2020 and 2021 charitable donations were deducted.

**2020 Net Capital Loss = $6,750 -** The 2020 net capital loss balance remains available to applied to other taxation years.

**2020 Non-Capital Loss = $53,300 -** The 2020 non-capital loss balance is calculated as follows:

Opening balance $135,700

Less: Claimed in 2024 ( 82,400)

2020 Non-capital loss balance $ 53,300

**2022 Analysis**

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

The required calculations for 2022 net income and taxable income are as follows:

Accounting Loss ($62,100)

Charitable Donations 3,400

Accounting Gain on Disposition of investments ( 3,700)

Taxable Capital Gain [(1/2)($3,700)] 1,850

**2022 Net Income Nil**

Taxable Dividends - ITA 112(1) ( 15,100)

**2022 Taxable Income Nil**

The accounting loss of $62,100 includes taxable dividends of $15,100, the accounting gain on the sale of shares of $3,700, and a deduction for charitable donations of $3,400. Given this, the business loss must be $77,500 ($62,100 + $15,100 + $3,700 - $3,400). This can be verified by the following schedule:

Business Loss ($77,500)

Taxable Dividends 15,100

Accounting Gain on Disposition of investments 3,700

Charitable Donations ( 3,400)

2022 Accounting Loss ($62,100)

Based on this, the 2022 non-capital loss would be calculated as follows:

Component E ($77,500 + $15,100) $92,600

Income ITA 3(c) [$15,100 + (1/2)($3,700)] ( 16,950)

2022 Non-Capital Loss $75,650

As the 2021 taxable income was reduced to nil, none of the 2022 non-capital loss can be applied to that year.

***Carryovers***

The following carryover amounts are available to be applied to other taxation years.

**2022 Charitable Donations = $3,400 -** There is a $3,400 carry forward of charitable donations.

**2020 Net Capital Loss = $6,750 -** Since the corporate policy is to claim non-capital losses before net capital losses the existence of taxable capital gains in 2021 and 2022 has no impact on the application of the 2020 net capital loss since the non-capital loss is used against those taxable capital gains. As a result the 2020 net capital loss remains unchanged.

**Non-Capital Losses -** The non-capital losses available to be applied to other taxation years are determined as follows:

2020 non-capital loss balance $ 53,300

2022 non-capital loss balance 75,650

Total non-capital losses available $128,950

Type: ES

Topic: Net and taxable income for corporations with multi-year carryovers

96) Geotech Inc. has permanent establishments (PEs) in British Columbia, Alberta, Saskatchewan, and the United States. During the current year, the company had total wages and salaries of $1,472,000 and gross revenues of $4,620,000. These were distributed among the provinces where the Company has PEs in the following manner:

**Province Wages & Salaries Gross Revenues**

British Columbia $ 309,120 $1,155,000

Alberta 559,360 1,570,800

Saskatchewan 220,800 877,800

United States (USA) 382,720 1,016,400

Total $1,472,000 $4,620,000

For the current taxation year, the Company's Taxable Income totaled $1,127,000.

**Required:** Calculate the amount of the Geotech Inc.'s taxable income for the current taxation year that would be allocated to each province and the USA. Any percentages used in your calculations should be rounded to one decimal place. Ignore any foreign income tax implications.

Answer: The allocation to each of these provinces and the USA are based on the following calculations:

**Salaries & Wages Gross Revenues**

**Province Amount Percent Amount Percent**

British Columbia $ 309,120 21% $1,155,000 25%

Alberta 559,360 38% 1,570,800 34%

Saskatchewan 220,800 15% 877,800 19%

United States 382,720 26% 1,016,400 22%

Total $1,472,000 100% $4,620,000 100%

The province by province average of the two percentages, calculated above, would be used to allocate the total taxable income of $1,127,000 as follows:

**Taxable**

**Province Wages Revenues Average Income**

British Columbia 21% 25% 23% $ 259,210

Alberta 38% 34% 36% 405,720

Saskatchewan 15% 19% 17% 191,590

United States 26% 22% 24% 270,480

Total 100% 100% 100% $1,127,000

Type: ES

Topic: Corporate tax - geographical allocation of income

97) Wankana Ltd. is a CCPC that uses a December 31 taxation year end. Information relevant to the Company's 2022 taxation year is as follows.

1. Taxable Income is $1,235,000. This was made up of Canadian active business income of $1,172,000, along with foreign business income of $63,000. The jurisdiction in which the foreign business income was earned withheld $12,600 in foreign income tax.

2. Gross revenues were $3,450,000, with $621,000 of this total earned through a PE outside of Canada. Total salaries and wages amounted to $561,000, with $67,320 of this total paid to employees reporting to the PE outside of Canada.

3. Wankana is associated with four companies. Wankana is allocated $100,000 of the annual business limit. The Taxable Capital Employed in Canada (TCEC) for Wankana and the associated companies is $13,477,000 for 2022 and $12,417,000 in 2021.

4. The Adjusted Aggregate Investment Income (AAII) for Wankana and its associated companies is nil for both the 2021 and 2022 taxation year.

**Required:** Calculate Wankana's minimum 2022 federal income tax payable. Assume that Wankana's foreign tax credit is equal to the amount of foreign income taxes paid.

Answer: Wankana's 2022 federal income tax payable would be calculated as follows:

Base Amount [(38%)($1,235,000)] $469,300

Federal Abatement [(10%)(85%)($1,235,000)] (Note One) ( 104,975)

Foreign Business Tax Credit

(Assumed equal to the foreign income tax paid) ( 12,600)

SBD (Note Two) ( 9,816)

GRR (Note Three) ( 153,834)

2022 Federal Income Tax Payable $188,075

**Note One -** The federal abatement must be reduced because of the foreign business income earned through a PE. The percentage would be calculated as follows:

Canadian Gross Revenues as a percentage of total

[($3,450,000 - $621,000) ÷ $3,450,000] 82%

Canadian Wages and Salaries as a percentage of total

[($561,000 - $67,320) ÷ $561,000] 88%

Using these figures, the average is 85% [(82% + 88%) ÷ 2].

**Note Two -** Since Wankana and its associated companies have combined TCEC for 2021 that was greater than $10 million, its SBD is reduced. The B component of the ITA 125(5.1) reduction formula is $5,438 [(.00225)($12,417,000 - $10,000,000)]. In addition, because of Wankana's association with other companies, the A component of the formula would be reduced to $100,000 [($500,000)(20%)]. Given these considerations, the reduction would be calculated as follows:

[($100,000)($5,438 ÷ $11,250)] = $48,338 Reduction

Using this information, Wankana's SBD is equal to 19% of the least of:

Canadian Active Business Income (Given) $1,172,000

Taxable Income $1,235,000

Less: Foreign Business Tax Credit

Adjustment [(4)($12,600)] ( 50,400) $1,184,600

Reduced Annual Business Limit ($100,000 - $48,338) $51,662

The small business deduction would be $9,816 [(19%)($51,662)].

**Note Three -** The GRR would be calculated as follows:

Taxable Income $1,235,000

Amount Eligible for the SBD ( 51,662)

Full Rate Taxable Income $1,183,338

Rate 13%

GRR $ 153,834

Type: ES

Topic: Corporate tax payable - calculating the Part I tax

98) For the 2022 taxation year, Devza Ltd. has a net income of $792,400. This consists of $746,300 of Canadian active business income, and $46,100 of taxable dividends received from various Canadian public companies. Based on the formula that is included in the *Income Tax Regulations,* $584,600 of the active business income qualifies as M&P profits.

Devza also has a 2020 non-capital loss balance of $123,450. Management intends to deduct the maximum amount of the 2020 non-capital loss in its 2022 taxation year.

The Company makes contributions to registered charities $102,600 in 2022.

Devza Ltd. is a CCPC that uses a December 31 taxation year end. It is associated with one other company and the two companies have agreed that Devza will be allocated $200,000 of the annual business limit.

The combined Taxable Capital Employed In Canada (TCEC) for Devza and its associated company is less than $10 million in both 2021 and 2022. The combined Adjusted Aggregate Investment Income (AAII) of the two companies is $44,000 in 2021.

**Required:**

A. Determine the minimum 2022 taxable income and federal income tax payable for Devza Ltd. Show all calculations, whether or not they are necessary to the final solution. As the corporation carries on business in a province that has a reduced provincial income tax rate for M&P activity, a separate calculation of the federal M&P deduction is required.

B. Assume that none of the active business income was related to M&P. How would your answer change in these circumstances?

Answer:

***Part A***

The minimum 2022 taxable income for Devza Ltd. would be calculated as follows:

2022 Net Income $792,400

Taxable Income Deductions:

Taxable Dividends - ITA 112(1) ($ 46,100)

Charitable Donations ( 102,600)

2020 Non-Capital Loss ( 123,450) ( 272,150)

2022 Taxable Income $520,250

Based on this, the Company's 2022 Federal Income Tax Payable would be calculated as follows:

Base Amount [(38%)($520,250)] $197,695

Federal Abatement [(10%)($520,250)] ( 52,025)

SBD (Note 1) ( 38,000)

M&P Deduction (Note 2) ( 41,633)

GRR (Note 3) Nil

2022 Federal Income Tax Payable $ 66,037

**Note 1 -** The SBD is based on the least of the following:

Canadian Active Business Income $746,300

Taxable Income (no foreign tax credit adjustment needed) 520,250

Annual Business Limit 200,000

The SBD is equal to $38,000 [(19%)($200,000)].

**Note 2 -** The base for the M&P deduction would be the lesser of:

M&P Profits (Given) $584,600

Amount Eligible for the SBD ( 200,000) $384,600

Taxable Income $520,250

Amount Eligible for the SBD ( 200,000)

Aggregate Investment Income Nil $320,250

Based on these amounts, the deduction would be equal to $41,633 [(13%)($320,250)].

**Note 3 -** The GRR would be calculated as follows:

Taxable Income $520,250

Amount Eligible for the SBD ( 200,000)

Amount Eligible for the M&P Deduction ( 320,250)

Base Nil

***Part B***

While the M&P deduction would be eliminated, the GRR would be calculated as follows:

Taxable Income $520,250

Amount Eligible for the SBD ( 200,000)

Base $320,250

Rate 13%

GRR $ 41,633

Using these revised amounts, the final 2022 Federal Income Tax Payable would be unchanged from Part A. This is shown in the following table:

Base Amount [(38%)($520,250)] $197,695

Federal Abatement [(10%)($520,250)] ( 52,025)

SBD (Note 1) ( 38,000)

M&P Deduction Nil

GRR ( 41,633)

2022 Federal Income Tax Payable $ 66,037

Type: ES

Topic: Corporate tax payable - calculating the Part I tax

99) Worldwide Enterprises is a CCPC that was incorporated 15 years ago. Its head office is situated in Vancouver and it has branches (permanent establishments (PEs)) in both Seattle, Washington and Portland, Oregon. Its taxation year end is December 31. All of the Company's Canadian income is active business income.

The Company's 2022 net income and taxable income is $219,000. This amount includes $32,000 (Canadian) in active business income that was earned by the two PEs in the United States. U.S. income taxes of $9,600 were paid with respect to the $32,000 earned in the U.S.

For purposes of calculating the federal abatement, assume that 90% of the Company's taxable income is allocated to a province or territory.

Worldwide's Taxable Capital Employed In Canada (TCEC) was $8 million in both 2021 and 2022. Adjusted Aggregate Investment Income (AAII) was nil in both 2021 and 2022.

**Required:**

A. Calculate Worldwide Enterprises' 2022 federal income tax payable. Assume the foreign business income tax credit is equal to the foreign income tax paid.

B. Using the amounts determined in Part A, calculate the actual foreign tax credit.

Show all calculations, whether or not they are necessary to the final solution.

Answer:

***Part A - 2022 Federal Income Tax Payable***

The calculation of the 2022 Federal Income Tax Payable would be as follows:

Canadian Active Business Income $187,000

Foreign Income (U.S. PEs) 32,000

2022 Net Income and Taxable Income $219,000

Base Amount [(38%)($219,000)] $ 83,220

Federal Abatement [(10%)(90%)($219,000)]

- Note One ( 19,710)

SBD - Note Two ( 34,314)

GRR - Note Three ( 4,992)

Foreign Business Income Tax Credit — Given ( 9,600)

2022 Federal Income Tax Payable $ 14,604

**Note One -** Since only 90% of the Company's 2021 taxable income is allocated to Canadian provinces or territories, the abatement is limited to 90% of the allowable amount.

**Note Two -** The SBD would be equal to 19% of the least of:

1. Canadian Active Business Income $187,000

2. Taxable Income $219,000

Less [(4)($9,600)] ( 38,400) $180,600

3. Annual Business Limit $500,000

The least of the three amounts is $180,600, and 19% of this amount is $34,314.

**Note Three -** The GRR would be calculated as follows:

Taxable Income $219,000

Less: Amount Eligible for the SBD ( 180,600)

Full Rate Taxable Income $ 38,400

Rate 13%

GRR $ 4,992

***Part B - Foreign Tax Credit***

The foreign business income tax credit is $9,600, the least of the following three amounts:

1. Actual Foreign Income Tax Paid $9,600

2. An amount calculated as follows:

[Foreign Business Income ÷ Adjusted Net Income][Tax Otherwise Payable]

= [($32,000 ÷ $219,000)($83,220 - $4,992)] $11,431

3. Tax Otherwise Payable, Less Non-Business Foreign Tax Credit Deducted

[($83,220 - $4,992) - Nil] $78,228

Note that the tests of the foreign tax credit amounts include the effect of the GRR.

Type: ES

Topic: Corporate tax payable - calculating the Part I tax

100) Zenox Ltd. is a CCPC with all of its business located in Saskatchewan. Sharon Zenox is the sole shareholder of the company. The Company has a 2019 non-capital loss balance of $54,000 which it intends to claim in 2022.

Zenox's 2022 net income is $545,000. This is made up of $523,000 in active business income and $22,000 in taxable dividends from various Canadian public companies. It has been determined that $416,000 of the active business income is from M&P activity.

The Company also donated $46,000 to a registered Canadian charity in 2022.

Zenox Ltd. is associated with one other CCPC. The two companies have agreed that each company will be allocated half of the annual business limit. The combined Taxable Capital Employed In Canada (TCEC) of the two companies is less than $10 million in both 2021 and 2022. The combined Adjusted Aggregate Investment Income (AAII) of the two companies was $36,000 in 2021.

**Required:** Determine the minimum 2022 taxable income and federal income tax payable. Show all calculations, whether or not they are necessary to the final solution. As the corporation carries on M&P activity in a province with a reduced provincial income tax rate for M&P activity, a separate calculation of the federal M&P deduction is required.

Answer: The minimum 2022 taxable income for Zenox Ltd. would be calculated as follows:

2022 Net Income $545,000

Taxable Income Deductions:

Taxable Dividends - ITA 112(1) ($22,000)

Charitable Donations ( 46,000)

2019 Non-Capital Loss ( 54,000) ( 122,000)

2022 Taxable Income $423,000

Based on this, the Company's 2022 Federal Income Tax Payable would be calculated as follows:

Base Amount [(38%)($423,000)] $160,740

Federal Abatement [(10%)($423,000)] ( 42,300)

SBD (Note 1) ( 47,500)

M&P Deduction (Note 2) ( 21,580)

GRR (Note 3) ( 910)

2022 Federal Income Tax Payable $ 48,450

**Note 1 -** The SBD is based on 19% of the least of the following:

Active Business Income $523,000

Taxable Income (no foreign tax credit adjustment needed) 423,000

Annual Business Limit [(1/2)($500,000)] 250,000

The SBD is equal to $47,500 [(19%)($250,000)].

**Note 2 -** The base for the M&P Deduction would be the lesser of:

M&P Profits (Given) $416,000

Amount Eligible for the SBD ( 250,000) $166,000

Taxable Income $423,000

Amount Eligible for the SBD ( 250,000) $173,000

Based on these amounts, the deduction is equal to $21,580 [(13%)($166,000)].

**Note 3 -** The GRR would be calculated as follows:

Taxable Income $423,000

Amount Eligible for the SBD ( 250,000)

Amount Eligible for the M&P Deduction ( 166,000)

Full Rate Taxable Income $ 7,000

Rate 13%

GRR $ 910

Type: ES

Topic: Corporate tax payable - calculating the Part I tax

101) For the taxation year ending December 31, 2022, the income statement of Morland Industries Ltd. (MIL), a CCPC, prepared in accordance with ASPE, is as follows:

Business Revenues $1,870,100

Business Expenses:

Cost of Goods Sold ($456,000)

Selling and Administrative Expenses ( 270,000)

Amortization Expense ( 285,000)

Other Expenses ( 246,000) ( 1,257,000)

Business Income $ 613,100

Other Income and Losses

Foreign Business Income

(Net of $2,400 in foreign income tax) $ 9,400

Taxable Dividends 37,000

Gain on sale of Building 75,000

Gain on sale of Vacant Land 51,000

Loss on sale of Vehicles ( 40,000) 132,400

2022 Accounting Income before Income Tax $ 745,500

**Other Information relevant to the 2022 taxation year:**

1. On January 1, 2022, MIL had the following UCC balances:

Class 1 $819,354

Class 8 985,261

Class 10 96,417

Class 13 187,000

The Class 1 balance relates to a single building purchased at a cost of $1,145,000 - the cost of the land was $200,000 and the building $945,000. On February 1, 2022, this building was sold for $1,185,000, which included $225,000 for the land and $960,000 for the building. For accounting purposes, the carrying value of land was $200,000 and $910,000 for the building.

The old building is replaced on February 15, 2022 with a new building acquired at a cost of $1,425,000, of which $260,000 is for the land and $1,165,000 for the building. The building is used 95% for M&P activity and an election is made to include the building in a separate Class 1.

There are no dispositions of Class 8 property during the year but there are purchases totaling $98,000.

As the Company has decided to lease all of its vehicles in the future, all of the Class 10 properties are sold during the year. The capital cost of these properties was $193,000 and the POD was $77,000. The carrying value of the Class 10 properties for accounting purposes was $117,000.

The Class 13 balance relates to a single lease that began on January 1, 2020. The lease has an initial term of 7 years, with two successive options to renew, for 3 years each. Capital expenditures on the lease were $180,000 in 2020 and $36,000 in 2021. There were no capital expenditures made in 2022. The write-off of these expenditures for accounting purposes is included in Amortization Expense.

It is the policy of MIL to deduct maximum CCA in each year.

2. Some years ago, MIL acquired land for $572,000. Until recently, they had intended to construct a new building for their business on this site. However, with the 2022 purchase of a new building, their plans changed and the company sold the land for $623,000. The buyer provided a $50,000 cash down payment, and MIL provided a mortgage for the balance of $573,000. The balance will be paid in 10 equal annual instalments beginning in 2023.

3. Selling and Administrative expenses include $32,000 in business meals and entertainment and $14,600 for membership fees that were paid for several employees in a local golf and country club. This club is used for entertaining business clients.

4. Other Expenses also includes the following:

Bond discount amortization $3,500

Donations to registered charities 16,900

Interest on late income tax instalments 900

Interest on late municipal tax payments 475

5. The Company spent $15,000 during the year on landscaping for its new building. For accounting purposes this was treated as an asset. MIL will not amortize this balance for accounting purposes as it believes the work has an unlimited life.

6. MIL has a 2020 net capital loss balance of $128,000 and a 2020 non-capital loss balance of $46,800.

7. MIL has active business income in Canada of $613,168, none of which results from M&P activity.

8. 93% of MIL's taxable income is earned in a province or territory.

9. MIL is associated with several other CCPCs. MIL's share of the group's annual business limit for 2022 is $150,000. The combined Taxable Capital Employed In Canada (TCEC) of the group of associated companies is less than $10 million in both 2021 and 2022.

10. The combined Adjusted Aggregate Investment Income (AAII) of the group of associated companies is equal to $48,500 for 2021.

**Required:**

A. Calculate the minimum 2022 net income for Morland Industries Ltd. In addition, calculate the UCC for each class of property as of January 1, 2023.

B. Calculate the minimum 2022 taxable income for Morland Industries Ltd. for 2022. Indicate the amount, and type, of any carryovers that are available to be applied to other taxation years.

C. Calculate the minimum 2022 federal income tax payable for Morland Industries Ltd. Assume that the foreign business tax credit is equal to the foreign income taxes paid.

Answer:

**Note to Instructor** - As the ART is not covered until Chapter 13, this problem does not require the calculation of the ART which would be nil due to the deduction of the 2020 net capital loss.

***Part A - 2022 Net Income***

The calculation of MIL's 2022 Net Income would be as follows:

Accounting Income before Income Tax $ 745,500

Additions:

Amortization Expense (Income Statement) $285,000

Taxable Capital Gain on Building (Note 1) 7,500

Taxable Capital Gain on Land (Note 1) 12,500

Taxable Capital Gain on Vacant Land (Note 2) 5,100

Recapture on Building (Note 3) 125,646

Accounting Loss on Vehicles (Income Statement) 40,000

Non-Deductible Meals and Entertainment

(50% of $32,000) 16,000

Golf Club Membership Fees 14,600

Bond Discount Amortization 3,500

Donations to Registered Charities 16,900

Interest on Late Income Tax Instalments 900

Foreign Income Tax Paid 2,400 530,046

$1,275,546

Deductions:

Accounting Gain on Building (Income Statement) ($ 75,000)

Accounting Gain on Vacant Land

(Income Statement) ( 51,000)

Landscaping ( 15,000)

CCA (Note 3) ( 423,202)

Terminal Loss (Note 3) ( 19,417) ( 583,619)

2021 Net Income $ 691,927

**Note 1 -** While the accounting gain on the building is calculated on the combined value of the land and building, separate income tax calculations are required for each property. The taxable capital gain on the building is calculated as follows:

POD $960,000

ACB ( 945,000)

Capital Gain $15,000

Inclusion Rate 1/2

Taxable Capital Gain $ 7,500

In addition to the taxable capital gain on the building, there will be a taxable capital gain on the land of $12,500 [(1/2)($225,000 - $200,000)]

**Note 2 -** There is a capital gain on the vacant land of $51,000 ($623,000 - $572,000).

However, as part of the POD are only receivable after the end of 2022, a capital gains reserve can be claimed. The reserve will be the lesser of the following two amounts:

• [($51,000)($573,000 ÷ $623,000)] = $46,907

• [($51,000)(20%)(4 - 0] = $40,800

Deducting the lesser amount results in a capital gain of $10,200 ($51,000 - $40,800), and a taxable capital gain of $5,100 [(1/2)($10,200)].

**Note 3 -** Maximum CCA and other related amounts are found in the tables which follow. Note that the new building was added to a separate Class in order to qualify for the enhanced CCA rate of 10%. This resulted in recapture on the disposition of the old building.

**Class 1 - Old Building**

January 1, 2022 UCC Balance $819,354

Disposition - Lesser of:

• POD = $960,000

• Capital Cost = $945,000 ( 945,000)

Negative ending UCC Balance ($125,646)

Recapture 125,646

January 1, 2023 UCC Balance Nil

**Class 1 - New Building**

New Class 1 Addition $1,165,000

AccII Adjustment 582,500

Balance $1,747,500

CCA [(10%)($1,747,500)] ( 174,750)

AccII Adjustment Reversal ( 582,500)

January 1, 2023 UCC Balance $ 990,250

**Class 8**

January 1, 2022 UCC Balance $ 985,261

Additions 98,000

AccII Adjustment 49,000

CCA Base $1,132,261

CCA [(20%)($1,132,261)] ( 226,452)

AccII Adjustment Reversal ( 49,000)

January 1, 2023 UCC Balance $ 856,809

**Class 10**

January 1, 2022 UCC Balance $96,417

Disposition - Lesser of:

• POD = $77,000

• Capital Cost = $193,000 ( 77,000)

Positive Balance with no property remaining $ 19,417

Terminal Loss ( 19,417)

January 1, 2023 UCC Balance Nil

**Class 13**

January 1, 2022 UCC Balance $187,000

2022 CCA:

2020 Expenditures ($180,000 ÷ 10 Years) ( 18,000)

2021 Expenditures ($36,000 ÷ 9 Years) ( 4,000)

January 1, 2023 UCC Balance $165,000

**Summary of CCA and UCC Results**

**Class Maximum CCA UCC**

Class 1 - Old (Recapture = $125,646) Nil Nil

Class 1 — New $174,750 $990,250

Class 8 226,452 856,809

Class 10 (Terminal Loss = $19,417) Nil Nil

Class 13 ($18,000 + $4,000) 22,000 165,000

Total $423,202

***Part B - 2022 Taxable Income***

MIL's 2022 taxable income would be calculated as follows:

2022 Net Income $691,927

Taxable Dividends - ITA 112(1) ( 37,000)

Contributions to Registered Charities ( 16,900)

2020 Net Capital Loss (Note 4) ( 25,100)

2020 Non-Capital Loss (All) ( 46,800)

2022 Taxable Income $566,127

**Note 4 -** MIL's 2022 net taxable capital gains are calculated as follows:

Taxable Capital Gain on Building $ 7,500

Taxable Capital Gain on Building Land 12,500

Taxable Capital Gain on Vacant Land 5,100

2022 Net Taxable Capital Gains $25,100

While there is a 2020 net capital loss balance of $128,000, the amount that can be claimed is limited to the $25,100 in net taxable capital gains for the year.

***Part B - Loss Carryovers that can be applied to other taxation years***

The 2020 net capital loss balance is $102,900 ($128,000 - $25,100). The 2020 non-capital balance is nil after claiming the full remaining balance in 2022.

***Part C - 2022 Federal Income Tax Payable***

MIL's 2022 Federal Income Tax Payable would be calculated as follows:

Base Amount [(38%)($566,127)] $215,128

Federal Abatement [(10%)(93%)($566,127)] ( 52,650)

SBD (Note 5) ( 28,500)

GRR (Note 6) ( 54,097)

Foreign Business Tax Credit (Given) ( 2,400)

2022 Federal Income Tax Payable $ 77,481

**Note 5 -** The amount eligible for the SBD would be the least of the following amounts:

**Canadian Source Active Business Income** (Given) **$613,168**

Taxable Income $566,127

Less: 4 Times the Foreign Business Tax Credit [(4)($2,400)] ( 9,600)

**Adjusted Taxable Income $556,527**

**Annual Business Limit** (Given)  **$150,000**

The least of these amounts is $150,000, resulting in a SBD of $28,500 [(19%)($150,000)].

**Note 6 -** The GRR would be calculated as follows:

Taxable Income $566,127

Amount Eligible for the SBD ( 150,000)

Full Rate Taxable Income $416,127

Rate 13%

GRR $ 54,097

Type: ES

Topic: Comprehensive corporate Part I income tax payable