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

**Chapter 4 Taxable Income and Tax Payable for Individuals**

4.1 Online Exercises

1) Tax legislation requires that amounts received under the workers' compensation program be included in the determination of net income, despite the fact that these same amounts will be deducted in the determination of taxable income. If the intent was not to subject these amounts to income tax, why didn't the legislation simply exclude these amounts from net income in the first place?

Answer: The reason for this is that "net income" is used as a measure to determine access to a number of financial incentives provided through the ITA. As a result it is important that the net income amount represent all of the income of a taxpayer (specifically individuals who benefit from the largest amount of incentives) regardless of whether there is an intention to subject the amounts to income tax. For example, the amount of the age tax credit is reduced by an individual's net income in excess of a specified amount ($39,826 for 2022).

Type: ES

Topic: Net income - ITA 3

2) Explain briefly the general rules for determining the province or territory in which an individual will be subject to provincial or territorial income tax. From the point of view of tax planning, is the province or territory in which an individual is subject to income tax an important issue?

Answer: An individual's income for the entire taxation (calendar) year, other than business income, is subject to tax in the province or territory in which the individual resides on December 31 of that year. Given that provincial and territorial income tax rates and personal tax credits vary considerably the province or territory in which an individual is subject to income tax is an important consideration. The distinction can influence where an individuals decides to live particularly where one's employment is situated close to a provincial or territorial border.

Type: ES

Topic: Residency - provincial or territorial residence of individuals

3) Briefly explain the difference between an income tax deduction and an income tax credit.

Answer: A "tax deduction" is generally an amount subtracted in the determination of net income. The reduction also causes an equal reduction in taxable income reducing income tax payable by the amount of the deduction, multiplied by the relevant income tax rate. For example an individual with salary of $40,000 who decides to make an RRSP contribution of $1,000 will have net income and taxable income of $39,000. The federal income tax savings would be 15% of $1,000 or $150. In contrast, an "income tax credit" provides a direct reduction in the amount of income tax payable. For example the BPA for 2022 is $14,398 which when multiplied by the tax credit percentage of 15%.results in a reduction in federal income tax of $2,159.70.

Type: ES

Topic: Tax credits vs tax deductions

4) Describe the relationships that are eligible for the Canada caregiver amount of $7,525 for 2022.

Answer: The $7,525 Canada caregiver credit is available for infirm dependants who are spouses or common-law partners, or parents, grandparents, brothers, sisters, aunts, uncles, nieces, nephews, and children of the claimant or of their spouse or common-law partner as long as the dependants are over 17 years of age at any time in the year.

Type: ES

Topic: Tax credits - Canada caregiver

5) ITA 118(1)(a) provides an income tax credit for an individual's and their "spouse or common-law partner". Briefly describe the meaning of a spouse or common-law partner for the purposes of claiming this income tax credit.

Answer: An individual's spouse is a person to whom that individual is legally married. A common-law partner is an individual who is not a spouse and who cohabits in a conjugal relationship with the taxpayer and (a) has so cohabited with the taxpayer for a continuous period of at least one year, or (b) is a parent of a child of whom the taxpayer is a parent. Spouses and common-law partners may be either the same sex or of the opposite sex.

Type: ES

Topic: Definition - "Spouse" and/or "Common-law partner"

6) Under what circumstances can an individual taxpayer deduct the ITA 118(1)(b) credit for an eligible dependant?

Answer: In order to claim this deduction, the individual must be a person who is unmarried, does not have a common-law partner, or is separated. The claim must be for an individual who is living with the dependant in a self-contained domestic establishment (e.g. a home). Further, the dependant has to be under 18 at any time during the year, the taxpayer's parent or grandparent, or mentally or physically infirm. The dependant must be related by blood, marriage, common-law partnership or adoption, and must be wholly dependent on the individual for support. Note that, except in the case of the taxpayer's child, the dependant must be a resident of Canada.

Type: ES

Topic: Tax credits - eligible dependant (ITA 118(1)(b))

7) An unmarried father is supporting a dependent child of 16 who is mentally infirm, but who does not qualify for the disability tax credit. What personal tax credits, if any, could be claimed with respect to that child?

Answer: Such a taxpayer could claim the eligible dependant credit, including the extra caregiver amount for an infirm eligible dependant. The BPA for 2022 would be $14,398 plus the caregiver amount of $2,350.

Type: ES

Topic: Tax credits - determining available credits

8) The Canada caregiver provisions treat infirm children over 17 differently than infirm children under 18. Describe the difference.

Answer: Infirm children over 17 are eligible for the Canada caregiver credit based on an amount of $7,525. The amount of this base is reduced by the child's net income in excess of $17,670. With respect to an infirm child under 18, the base for the credit is $2,350. This base is not reduced by the infirm child's net income.

Type: ES

Topic: Tax credits - Canada caregiver

9) When a taxpayer claims the spousal credit for an infirm spouse ($14,398 or less + $2,350 for 2022), an additional amount of the Canada caregiver amount may be available. Under what circumstances is this additional amount available and, when it is available, how is it calculated?

Answer: The base for the spousal credit and the Canada caregiver credit are different because they apply different threshholds. As a result the Canada caregiver credit can produce a tax credit that exceeds the spousal credit depending on the spouse or common-law partner's net income, When this occurs the tax system is designed to ensure that the larger credit apply. To achieve this result an additional credit is allowed for the difference. If, for example the spousal credit was $6,000 and the Canada caregiver credit would have been $7,525 then the available credit will be the spousal credit of $6,000 plus an additional credit of $1,525 which together matches the higher Canada caregiver credit. The additional amount will apply when the spouse or common-law partner's net income is between $9,224 and $25,194.

Type: ES

Topic: Tax credits - Canada caregiver tax credit - additional amount (ITA 118(1)(e))

10) For individuals 65 or over, several types of income qualify for the pension income tax credit. Indicate three types of pension income that would qualify and one type that would not qualify.

Answer: The three qualifying types could be selected from the following:

• periodic payments from a Registered Pension Plan (RPP);

• an annuity payment out of a Registered Retirement Savings Plan (RRSP);

• a payment out of a Registered Retirement Income Fund (RRIF);

• an annuity payment from a Deferred Profit Sharing Plan (DPSP); and

• the interest component of other annuities.

A non-qualifying type could be selected from the following:

• payments under the Old Age Security Act or Canada Pension Plan;

• payments under certain provincial pension plans;

• payments under salary deferral arrangements;

• payments under retirement compensation arrangements;

• payments under an employee benefit plan; and

• death benefits.

Type: ES

Topic: Tax credits - pension credit (ITA 118(3))

11) Most tax credits involve applying the minimum tax rate (currently 15%) to a specified amount which is generally indexed each year. In contrast, the charitable donations credit uses the rates of 15%, 29% and 33%. What is the reason for this different treatment?

Answer: The tax policy justification is to encourage high income taxpayers to contribute to registered charities.

Type: ES

Topic: Tax credits - charitable donations credit (ITA 118.1)

12) An individual may choose not to claim all of the donations made in that year. Explain why this may be a good idea.

Answer: Donations are eligible for a five year carry forward. There is the possibility that the amount claimed in the year of contribution could result in a tax credit that exceeds an individual's income tax payable in that year. Excess donations cannot result in a refund therefore the extra amount claimed would be wasted. It is therefore more appropriate to utilize the donation tax credit to reduce income tax to the extent possible and apply any remaining amounts in subsequent years.

Type: ES

Topic: Tax credits - charitable donations credit (ITA 118.1)

13) A medical expense tax credit, based on the total medical expenses for a family, can be claimed by either spouse. Does it make any difference which spouse makes the claim?

Answer: In general, the medical expense credit should be claimed by the lower income spouse. This is because the amount of medical expenses must be reduced by the lesser of $2,479 (for 2022) and 3% of the individual's net income. This threshold amount will be lower for the lower income spouse so the medical expense credit claim will be larger. Exceptions to this general rule are:

• If both spouses have net income of $82,633 or more then the lower amount for both will be equal to the $2,479 threshold since 3% of $82,633 equals $2,479.

• If the lower income spouse does not have sufficient income tax payable to use the medical expense tax credit, it should be claimed by the higher income spouse.

Type: ES

Topic: Tax credits - medical expense (ITA 118.2)

14) Under what circumstances can the disability tax credit be transferred to a supporting person?

Answer: It can be transferred provided the supporting person can claim the disabled person as a:

• a dependant under the eligible dependant provision [ITA 118(1)(b)];

• a dependant for purposes of the caregiver tax credit [ITA 118(1)(c.1)]; or

• a mentally or physically infirm dependant over 17 [ITA 118(1)(d)].

In addition, it can be claimed if the supporting person:

• could have claimed the eligible dependant credit, if neither the supporting person nor the disabled dependant were married; or

• could have claimed the disabled dependant over 17, or the caregiver credit, if the dependant had been 18 years of age or older and had no income.

Type: ES

Topic: Tax credits - disability credit (ITA 118.3)

15) Indicate the types of tuition fees that are eligible for the tuition fees tax credit.

Answer: The following types of fees are eligible for this credit:

• Tuition fees of at least $100 paid to a university, college, or other institution for post-secondary courses situated in Canada.

• Tuition fees paid to an institution certified by the Minister of Employment and Social Development for a course that developed or improved skills in an occupation (the individual must be 16 or older).

• Tuition fees paid to a university outside Canada for full-time attendance. To qualify the course must have a minimum duration of 3 weeks.

• For individuals who live near the U.S. border and commute, tuition fees paid to a U.S. college or university for part-time or full-time studies.

Type: ES

Topic: Tax credits - tuition credit (ITA 118.5)

16) Certain tax credits can be transferred to a spouse or common-law partner. Indicate which credits are eligible for this treatment. Include only credits that can be transferred, not credits that can be claimed by either spouse or common-law partner such as the medical expense or donations tax credit.

Answer: The credits that can be transferred to a spouse or common-law partner are the:

• age credit,

• disability credit,

• pension income credit, and

• tuition credit.

Type: ES

Topic: Tax credits - transfer to a spouse or common-law partner (ITA 118.8)

17) Some tax credits are referred to as "refundable". What does this mean?

Answer: Non-refundable tax credits can only be used to reduce income tax payable. If non-refundable credits exceed the income tax payable they difference cannot be refunded. Alternatively, if a tax credit is refundable, the government will refund the amount that exceeds the income tax payable. Refundable credits do not rely upon an individual having income.therefore and individual with no income will have no income tax payable but will be entitled to a refund of any refundable tax credits.

Type: ES

Topic: Tax credits - refundable credits

18) Worker's compensation payments received are not included in an individual's net income.

Answer: FALSE

Explanation: They are included in net income but deducted in the determination of taxable income.

Type: TF

Topic: Taxable income deductions (ITA 110(1)(f))

19) Provincial income taxes are calculated as a percent of federal income tax.

Answer: FALSE

Explanation: Provincial income taxes are calculated as a percent of taxable income.

Type: TF

Topic: Income tax payable - provincial income tax

20) All federal tax credits are calculated by multiplying the lowest federal income tax bracket rate of 15% by an indexed amount.

Answer: FALSE

Explanation: Not all tax credits are indexed not are all based solely on 15%.

Type: TF

Topic: Tax credits - spousal credit (ITA 118(1)(a))

21) An individual can claim the eligible dependant credit for a child even if the child is not resident in Canada.

Answer: TRUE

Explanation: While the credit is usually only available for a resident related dependant, an exception is made for the child of an individual.

Type: TF

Topic: Tax credits - eligible dependant (ITA 118(1)(b))

22) An individual cannot claim the pension income credit if their only income is from the Canada Pension Plan (CPP).

Answer: TRUE

Explanation: ITA 118(8) specifically excludes CPP payments from eligibility for this credit.

Type: TF

Topic: Tax credits - pension credit (ITA 118(3))

23) If both spouses have medical expenses, it will usually be to their advantage for one of the spouses to claim the credit on the basis of their combined medical expenses.

Answer: TRUE

Explanation: This will avoid double counting the 3% of income limit.

Type: TF

Topic: Tax credits - medical expense (ITA 118.2)

24) There is no limit on the amount of the tuition credit that can be transferred to a spouse.

Answer: FALSE

Explanation: The combined transfer is limited to $5,000 multiplied by the appropriate percentage of 15%.

Type: TF

Topic: Tax credits - transfer of tuition credit (ITA 118.8)

25) Sharon Jarvis contributed $500 to the Federal Liberal Party. She is eligible for a federal political contributions tax credit of $500.

Answer: FALSE

Explanation: She is eligible for a federal political contributions tax credit of $350 [(3/4)($400) + (1/2)($100)].

Type: TF

Topic: Tax credits - political contributions (ITA 127(3))

26) Federal political contributions are deductible in computing taxable income, but cannot create a loss.

Answer: FALSE

Explanation: Federal political contributions create a non-refundable tax credit that reduces federal income tax payable.

Type: TF

Topic: Tax credits - political contributions (ITA 127(3))

27) The refundable medical expense supplement is available to any individual who is 18 years of age or older.

Answer: FALSE

Explanation: In addition to the age requirement, there is a minimum income requirement.

Type: TF

Topic: Tax credits - refundable medical expense supplement (ITA 122.51)

28) The clawback of OAS payments will not affect an individual's net income.

Answer: FALSE

Explanation: The OAS clawback is achieved through two measures. The first provides a deduction from net income and the second an addition to income tax payable.

Type: TF

Topic: Net income deductions - OAS clawback (ITA 60(w)

29) Which of the following items is **NOT** a taxable income deduction for an individual?

A) Worker's compensation payments received as a result of injury.

B) A current year business loss.

C) A deduction for residing in a prescribed northern zone.

D) A net capital loss.

Answer: B

Explanation: B) A current year business loss.

Type: MC

Topic: Taxable income deductions

30) During the year, Ted Knight received worker's compensation payments totaling $10,000 as a result of an injury he suffered at work. His only other source of income for the year was employment income of $25,000. Which one of the following represents Ted's net and taxable income for the year?

A) Net Income $25,000, Taxable Income $25,000.

B) Net Income $30,000, Taxable Income $30,000.

C) Net Income $35,000, Taxable Income $25,000.

D) Net Income $35,000, Taxable Income $35,000.

Answer: C

Explanation: C) Net Income $35,000, Taxable Income $25,000.

Type: MC

Topic: Taxable income deductions (ITA 110(1)(f))

31) Which of the following statements with respect to the calculation of an individual's income tax payable is correct?

A) Provincial income tax payable is calculated by applying progressive rates to federal income tax payable.

B) Income that is not subject to provincial income tax is subject to an additional tax at the federal level.

C) The provincial tax rate is based on the province in which the individual spends the most number of days in the taxation year.

D) The applicable rate varies both with the amount of Tax Payable and the type of income being taxed.

Answer: B

Explanation: B) Income that is not subject to provincial income tax is subject to an additional tax at the federal level. The additional tax is 48% of the federal income tax (ITA 120(1)).

Type: MC

Topic: Income tax payable - provincial income tax

32) Which of the following statements is correct?

A) Net income minus federal tax credits equals taxable income

B) Taxable income minus federal tax credits equals total federal income tax

C) Total federal income tax minus federal tax credits equals federal income tax payable

D) Net income minus federal tax credits equals federal tax payable

Answer: C

Explanation: C) Total federal income tax minus federal tax credits equals federal income tax payable

Type: MC

Topic: Income tax payable - federal income tax

33) Which of the following statements with respect to an individual's income tax payable is **NOT** correct?

A) Provincial income tax payable is calculated by applying the appropriate rate to taxable income.

B) The relevant provincial income tax rate is based on the province in which the individual resides on December 31 of the year.

C) Only federal income taxes apply with respect to individuals who are residents of Canada but who are not a resident in any province or territory.

D) All provinces and territories use the same income tax brackets.

Answer: D

Explanation: D) All provinces and territories use the same income tax brackets.

Type: MC

Topic: Income tax payable - provincial income tax

34) With respect to claiming income tax credits for one's child, which of the following statements is **NOT** correct?

A) To claim the eligible dependant credit for a child, the child must be under the age of 18 at some time during the year.

B) The Canada caregiver credit for a child under 18 cannot be claimed if the parent is claiming the eligible dependant credit for that child.

C) An individual cannot claim the eligible dependant credit if they are living with, supporting, or being supported by a spouse.

D) To claim the eligible dependant credit for a child, the child does not have to be a resident of Canada, provided they are living with the taxpayer.

Answer: A

Explanation: A) To claim the eligible dependant credit for a child, the child must be under the age of 18 at some time during the year. If the child is mentally or physically infirm, they do not have to be under 18.

Type: MC

Topic: Tax credits - eligible dependant (ITA 118(1)(b))

35) In 2022, Bart Bixley has net income and taxable income of $230,000. During the year, Bart makes a cash gift to a registered charity of $75,000. What is his maximum charitable donations tax credit for 2022?

A) $21,722

B) $24,714

C) $22,053

D) $24,742

Answer: C

Explanation: A) $21,722 [(29%)($75,000 - $200) + (15%)($200)]

B) $24,714 [(33%)($75,000 - $200) + (15%)($200)]

C) The required amount would be calculated as follows:

15% of $200 $ 30

33% of the lesser of:

• $74,800 ($75,000 - $200)

• $8,292 ($230,000 - $221,708)

= [(33%)($8,292)] 2,736

29 % of $66,508 [$75,000 - ($8,292 + $200)] 19,287

Total Donation Credit $22,053

D) $24,742 [(33%)($75,000 - $200) + (29%)($200)]

Type: MC

Topic: Tax credits - charitable donations credit (ITA 118.1)

36) Which of the following contains a list of federal income tax credits that reduce the income tax liability of an individual?

A) Canada caregiver, employment credit, medical expenses, disability

B) Medical expenses, standby charge, charitable donations, age

C) Tuition, adoption expenses, work space in home, pension

D) Age, home accessibility, Canada pension plan, moving expenses

Answer: A

Explanation: A) Canada caregiver, employment credit, medical expenses, disability

Type: MC

Topic: Tax credits - spousal credit (ITA 118(1)(a))

37) Which of the following tax credit bases is **NOT** subject to full indexation?

A) Amount for an eligible dependant.

B) Age amount.

C) Disability amount.

D) Pension income amount.

Answer: D

Explanation: D) Pension income amount.

Type: MC

Topic: Tax credits - spousal credit (ITA 118(1)(a))

38) Of the following statements about tax credits, which one is correct?

A) They are deducted from net income and as a result are not subject to income tax.

B) They reduce income tax by the same amount regardless of a taxpayer's marginal income tax rate.

C) They are deducted from taxable income and as a result are not subject to income tax.

D) Their impact is greater for taxpayers with a marginal tax rate in excess of 15%.

Answer: B

Explanation: B) They reduce tax by the same amount regardless of a taxpayer's marginal income tax rate.

Type: MC

Topic: Tax credits - spousal credit (ITA 118(1)(a))

39) Of the following statements about the spousal tax credit, which one is correct?

A) The claimant must be legally married to the relevant individual.

B) It can be claimed by either spouse depending upon the net income of.each individual.

C) If the individuals are married during the year, the base for the credit must be only reduced by the spouse's net income from the date of the marriage.

D) In the year of separation or divorce, an individual can claim both spousal support payments and the spousal tax credit.

Answer: B

Explanation: B) It can be claimed by either spouse depending upon the net income of each individual.

Type: MC

Topic: Tax credits - spousal credit (ITA 118(1)(a))

40) Jean Marchand is a single parent with a child. Which of the following conditions is **NOT** required for Jean to claim the ITA 118(1)(b) credit for an eligible dependant?

A) Jean must maintain a self-contained domestic establishment.

B) The child must be under 18 years of age, or mentally or physically infirm.

C) The child must be a resident of Canada.

D) The child must be wholly dependent for support on Jean.

Answer: C

Explanation: C) The child must be a resident of Canada.

Type: MC

Topic: Tax credits - eligible dependant (ITA 118(1)(b))

41) Jake Baxter donated $100,000 in cash to a Canadian registered charity. His net income and taxable income for the year is $120,000. Calculate Jake's maximum federal donation tax credit.

A) $13,500.

B) $15,000.

C) $26,072.

D) $28,972.

Answer: C

Explanation: C) A person may claim 75% of their net income in charitable donations for a single year ($90,000 in this case). As none of his taxable income is subject to the 33% tax rate then the 29% income tax rate will apply to donations in excess of $200. The donation credit is 15% of the first $200, plus 29% of the excess, for a total of $26,072.

Type: MC

Topic: Tax credits - charitable donations credit (ITA 118.1)

42) Of the following statements about medical expenses, which one is correct?

A) An individual can only claim their own medical expenses.

B) The claim must be made in the calendar year the expense was incurred.

C) Only expenses in excess of a specified amount are eligible for a tax credit.

D) The amount of the tax credit is always dependent on an individual's marginal income tax rate.

Answer: C

Explanation: C) Only expenses in excess of a specified amount are eligible for a tax credit.

Type: MC

Topic: Tax credits - medical expense (ITA 118.2)

43) For an individual who is over 65 years of age, which of the following types of pension income does **NOT** qualify for the ITA 118(3) pension income tax credit?

A) Payments from the CPP.

B) OAS payments.

C) Payments under certain provincial pension plan.

D) All of the above.

Answer: D

Explanation: D) All of the above.

Type: MC

Topic: Tax credits - pension credit (ITA 118(3))

44) Which of the following tax credits **CANNOT** be transferred to a spouse?

A) The age credit.

B) The disability credit.

C) The EI and CPP credits.

D) The pension income credit.

Answer: C

Explanation: C) The EI and CPP credits.

Type: MC

Topic: Tax credits - transfer to a spouse or common-law partner (ITA 118.8)

45) With respect to the federal political contributions tax credit, which of the following statements is correct?

A) Contributions made to any registered political party are eligible for the credit.

B) Contributions made to a candidate at the time of a federal general election are eligible.

C) The credit is equal to 29% of the eligible contributions made.

D) There is no upper limit to the amount of the credit that can be claimed, as long as the contributions are made within the legal limits governing campaign contributions.

Answer: B

Explanation: B) Contributions made to a candidate at the time of a federal general election are eligible.

Type: MC

Topic: Tax credits - political contributions (ITA 127(3))

46) Shamus provides support for the following dependants:

• His 42 year old spouse who has a physical infirmity.

• His 63 year old father who has a mental infirmity.

• His 67 year old mother who is in good health.

• His 12 year old son who has a physical infirmity.

He can claim the Canada caregiver credit (based on $7,525 for 2022) for:

A) his spouse and father only.

B) all of the listed dependants.

C) his mother only.

D) his spouse, his father, and his mother.

Answer: A

Explanation: A) His father only.

Type: MC

Topic: Tax credits - Canada caregiver

47) Which of the following relatives may **NOT** be used to claim the eligible dependant tax credit?

A) Healthy grandfather age 65.

B) Healthy daughter age 9.

C) Mentally infirm spouse age 65.

D) Mentally infirm brother age 19.

Answer: C

Explanation: C) Mentally infirm spouse age 65.

Type: MC

Topic: Tax credits - eligible dependant (ITA 118(1)(b))

48) Which of the following relatives may **NOT** be used to claim the Canada caregiver tax credit ($7,525 for 2022)?

A) A physically infirm 62 year old aunt.

B) A mentally infirm 21 year old child.

C) A healthy 67 year old grandfather.

D) A physically infirm 35 year old sister.

Answer: C

Explanation: C) A healthy 67 year old grandfather.

Type: MC

Topic: Tax credits - spousal credit (ITA 118(1)(a))

49) In 2022 Fred had the following amounts deducted from his pay:

CPP $3,500

EI 953

Union Dues 1,500

United Way Donation 2,000

All of the above amounts are eligible for federal tax credits except:

A) CPP.

B) EI.

C) Union Dues.

D) United Way Donation.

Answer: C

Explanation: C) Union Dues

Type: MC

Topic: Tax credits - determining available credits

50) Joe, who is single, supports his 80 year old blind mother who has no income and lives in a nursing home. Which of the following federal tax credits can he claim for his mother?

A) Disability tax credit only.

B) Disability tax credit and Canada caregiver tax credit only.

C) Disability tax credit and eligible dependant tax credit only.

D) Canada caregiver credit only.

Answer: B

Explanation: B) Disability tax credit and Canada caregiver tax credit only.

Type: MC

Topic: Tax credits - determining available credits

51) Hilda is a 67 year old widow. She lives in an apartment with her old 12 year old granddaughter, Sue. Sue does not suffer from any infirmity. Both of Sue's parents are on a two year expedition to remote areas of the Yukon. They provide all financial support for Sue and speak with her weekly via satellite.

Which of the following federal tax credits can Hilda claim regarding Sue?

A) Eligible dependant tax credit.

B) Canada caregiver tax credit for child under 18.

C) Canada caregiver tax credit for child 18 or over.

D) No tax credits available.

Answer: D

Explanation: D) No tax credits available. The grandmother is not supporting the child.

Type: MC

Topic: Tax credits - determining available credits

52) Jennifer is single with no dependants. During the year she had the following amounts deducted from her salary:

CPP $3,500

EI 953

Federal Income Tax 15,000

Based on this information, Jennifer's total federal tax credits for 2022 will be:

A) $668.

B) $861.

C) $2,952.

D) $2,828.

Answer: C

Explanation: A) $668 = (CPP + EI) × 15%

B) $861: $3,500 + $953 + Canada Employment $1,287 × 15%

C) ($14,398 + $3,039 + $953 + $1,287) × 15% = $2,952 Note that only $3,039 of the CPP amount is eligible for a tax credit. The remaining $461 is eligible for a deduction against net income (ITA 60(e.1)).

D) $2,828 = ($14,398 + CPP $3,500 + EI $953) × 15%

Type: MC

Topic: Tax credits - determining available credits

53) Mildred has $300 budgeted for donations. It will go either to the SPCA (a registered charity) or the Green Party (a registered federal political party). None of her taxable income is subject to the 33% income tax rate. If she gives the money to the Green Party, her tax credit will be:

A) the same amount that she would get from donating to the SPCA.

B) $180 more than she would get from donating to the SPCA.

C) $138 more than she would get from donating to the SPCA.

D) $166 more than she would get from donating to the SPCA.

Answer: D

Explanation: A) same amount

B) $180 more: $225 - ($300 × 15%)

C) $138 more: $225 - ($300 × 29%)

D) $166 [($300 × 3/4) — [($200 × 15%) + ($100 × 29%)]

Type: MC

Topic: Tax credits - determining available credits

54) Adam carries on a business as a sole proprietor. He might be eligible for all of the following federal tax credits except:

A) CPP tax credit.

B) EI tax credit.

C) Canada employment tax credit.

D) Canada Workers Benefit tax credit.

Answer: C

Explanation: C) Canada Employment tax credit (must have employment income)

Type: MC

Topic: Tax credits - determining available credits

55) Oscar is 73 years old. His 2022 net income from his RRIF and other investments is $120,000. He lives with his common-law partner, Felix who is 63 years old. Felix's only income for 2022 was investment income of $6,000. Oscar can claim all of the following federal tax credits except:

A) BPA.

B) age tax credit.

C) pension tax credit.

D) spousal tax credit.

Answer: B

Explanation: B) Age tax credit (net income is above the 2022 threshold of $92,479 when all of the credit would be eliminated)

Type: MC

Topic: Tax credits - determining available credits

56) With regards to the transfer of the tuition credit and interest on student loans, which of the following statements is **NOT** correct?

A) If the student is married, the tuition credit can be transferred to either the spouse, parent.or grandparent.

B) Any tuition amounts that are not transferred to another person can be carried forward and claimed by the student.

C) Credits related to tuition paid to a university outside of Canada cannot be transferred to another person.

D) Credits related to interest paid on a student loan cannot be transferred to another person.

Answer: C

Explanation: C) Credits related to tuition paid to a university outside of Canada cannot be transferred to another person.

Type: MC

Topic: Tax credits - determining available credits

57) In 2022, Canadian resident Mark Forbes has calculated his taxable income to be $53,175. Calculate his 2022 federal income tax payable before the consideration of any tax credits.

Answer: The required income tax payable would be calculated as follows:

Federal Tax Payable:

On First $50,197 $7,530

On Next $2,978 ($53,175 - $50,197) at 20.5% 610

Federal Income Tax Payable before Credits $8,140

Type: ES

Topic: Income tax payable - federal income tax before tax credits

58) Canadian resident Zack Bronson has 2022 taxable income of $102,485. Calculate his 2022 federal income tax payable before the consideration of any tax credits.

Answer: The required income tax payable would be calculated as follows:

Federal Income Tax Payable:

On First $100,392 $17,820

On Next $2,093 ($102,485 - $100,392) at 26% 544

Federal Income Tax Payable Before Credits $18,364

Type: ES

Topic: Income tax payable - federal income tax before tax credits

59) Mr. Don Deloran has 2022 net income of $26,100. His spouse is dependent on him because of a physical infirmity. The infirmity is not sufficient to qualify for the disability tax credit. She has 2022 net income of $5,800. Mr. Deloran has no tax credits other than the basic personal credits for his spouse and himself. Determine Mr. Deloran's federal tax credits for 2022.

Answer: The required amount would be calculated as follows:

BPA $ 14,398

Spousal Including Infirm Amount

($14,398 + $2,350 - $5,800) 10,948

Credit Base $25,346

Rate 15%

Total Credits $ 3,802

Type: ES

Topic: Tax credits - determining available credits

60) Nadel Lyon has 2022 net income of $32,400. His common-law partner has net income of $8,420. Nadel has no tax credits other than the basic personal credits for his common-law partner and himself. Determine Nadel's federal tax credits for 2022.

Answer: The required amount would be calculated as follows:

BPA $ 14,398

Spousal ($14,398 - $8,420) 5,978

Credit Base $20,376

Rate 15%

Total Credits $ 3,056

Type: ES

Topic: Tax credits - determining available credits

61) Gerrard Bensen lives with his wife and their two children. His wife's income is less than the basic personal tax credit amount. Two years ago, his mother who is 72 years old and extremely healthy, moved in with him. Her net income for 2022 is $18,400. Determine the amount of Gerrard's Canada caregiver tax credit, if any, for 2022.

Answer: As his mother is not suffer from a mental or physically infirmity, Gerrard would not be entitled to the Canada caregiver credit.

Type: ES

Topic: Tax credits - Canada caregiver

62) Elaine Markham lives with her husband and 11 year old daughter. Her husband's income is less than the BPA. Her 81 year old mother also lives with the family. While her mother has 2022 investment income of $10,000, she has a physical infirmity that makes her dependent on Elaine. Determine the amount of Elaine's Canada caregiver tax credit, if any, for 2022.

Answer: As she has a physical infirmity, Elaine's mother would qualify for the Canada caregiver credit. The amount would be $1,129 [(15%)($7,525)].

Type: ES

Topic: Tax credits - Canada caregiver

63) Margo Riche is married to John Riche. John has a mental infirmity. They have a 22 year old daughter who has a physical infirmity. Neither infirmity is severe enough to qualify for the disability tax credit. John has 2022 net income of $6,600. Their daughter has no 2022 net income. Determine the amount of any 2022 tax credits that Margo will have with respect to her spouse and daughter.

Answer: Margo will be entitled to the spousal tax credit, including the additional amount for an infirm spouse. In addition, she can claim the Canada caregiver credit for her 22 year old infirm daughter. The total credits would be calculated as follows:

Spousal Including Infirm Amount

($14,398 + $2,350 - $6,600) $10,148

Canada Caregiver ($7,525 - Nil) 7,525

Total Base $17,673

Rate 15%

Margo's Tax Credits for Spouse and Daughter $ 2,651

Type: ES

Topic: Tax credits - determining available credits

64) Farah Delorme is married to Frank Delorme. Frank has a mental infirmity. They have a 26 year old son who is dependant because of a physical infirmity. Neither infirmity is severe enough to qualify for the disability tax credit. Frank has 2022 net income of $4,600. Their son has no 2022 net income. Determine the amount of any 2022 tax credits that Farah will have with respect to her spouse and son.

Answer: Farah will be entitled to the spousal tax credit, including the additional amount for an infirm spouse. In addition, she can claim the Canada caregiver credit for her 26 year old infirm son. The total credits would be calculated as follows:

Spousal Including Infirm Amount

($14,398 + $2,350 - $4,600) $ 12,148

Canada Caregiver ($7,525 - Nil) 7,525

Total Base $19,673

Rate 15%

Farah's Tax Credits for Spouse and Son $ 2,951

Type: ES

Topic: Tax credits - determining available credits

65) Sheila Cox is a single mother who takes care of her 14 year old daughter, Susan. Susan has a physical infirmity. The infirmity is not severe enough to qualify for the disability tax credit. Susan has 2022 net income of $3,400. Determine the amount of any 2022 tax credits that Sheila will have with respect to her daughter.

Answer: Sheila would claim the Canada caregiver amount for a child under ITA 118(1)(b.1). She would also claim the eligible dependant credit for Susan. Because she claims the Canada caregiver amount for a child, she cannot claim the additional amount for an infirm eligible dependant.

Her total credits would be as follows:

[(15%)($2,350) + (15%)($14,398 + Nil - $3,400)] = $2,002

Type: ES

Topic: Tax credits - determining available credits

66) Gloria Mason is a single mother who takes care of her 10 year old son, Mark. Mark has a physical infirmity. The infirmity is not severe enough to qualify for the disability tax credit. MarK has no net income. Determine the amount of any 2022 tax credits that Gloria will have with respect to her son.

Answer: Gloria would claim the Canada caregiver amount for a child under ITA 118(1)(b.1). She would also claim the eligible dependant credit for Mark. Because she claims the Canada caregiver amount for a child, she cannot claim the additional amount for an infirm eligible dependant. Her total credits would be as follows:

[(15%)($2,350) + (15%)($14,398 + Nil)] = $2,512

Type: ES

Topic: Tax credits - determining available credits

67) Toshiro Mifune is single and lives with his 62 year old mother, Anna Mifune. Anna has a physical infirmity which makes her dependent on Toshiro. It is not, however, severe enough to qualify for the disability tax credit. Anna has 2022 net income of $18,300. Determine the amount of the 2022 tax credits that Toshiro will have with respect to his mother.

Answer: The base for Toshiro's eligible dependant credit for his infirm mother is nil ($14,398 + $2,350 - $18,300), resulting in an eligible dependant tax credit of nil. The calculation of the Canada caregiver amount would result in a base of $6,895 [$7,525 - ($18,300 - $17,670)]. As the eligible dependant tax credit was nil, the additional amount is $6,895 ($6,895 - Nil), resulting in a credit of $1,034 [(15%)($6,895)].

Type: ES

Topic: Tax credits - determining available credits

68) Mr. John Foret is 42 years old and divorced from his wife. His net income consists entirely of rental income. He has retained the family home and both of the children of the marriage live with him. His daughter is 23 years old and has a physical infirmity that makes her wholly dependent on him for support. However, she does not qualify for the disability tax credit. His son is 14 years old and in good health. His daughter has no net income in 2022,while his son has net income of $2,100. Determine Mr. Foret's maximum federal tax credits for 2022.

Answer: The daughter and son both qualify for the eligible dependant credit and the daughter qualifies for the Canada caregiver tax credit. If John claims the eligible dependant credit for the daughter, the Canada caregiver credit cannot be claimed. Given this, the eligible dependant credit should be claimed for the son. The fact that this claim can only be made for one dependant means that the daughter is no longer eligible for this credit. Based on this approach, John's 2022 tax credits are as follows:

BPA $14,398

Eligible Dependant - Son ($14,398 - $2,100) 12,298

Canada Caregiver - Daughter 7,525

Credit Base $34,221

Rate 15%

Total Tax Credits $ 5,133

Type: ES

Topic: Tax credits - determining available credits

69) Ingrid Tower is a 45 year old widow. Her net income consists entirely of rental income. She maintains a home for herself and her two children. Her 19 year old son has a physical infirmity that makes him wholly dependent on Ingrid for support. However, he does not qualify for the disability tax credit. He has no net income. Her daughter is 13 year sold, is in good health, and has 2022 net income is $1,230. Determine Ms. Tower's maximum federal tax credits for 2022.

Answer: The son and daughter both qualify for the eligible dependant credit and the son qualifies for the Canada caregiver tax credit. If Ingrid claims the eligible dependant credit for the son, the Canada caregiver credit cannot be claimed for him. Given this, the eligible dependant credit should be claimed for the daughter. Based on this approach, Ingrid's 2022 tax credits are as follows:

BPA $14,398

Eligible Dependant - Daughter ($14,398 - $1,230) 13,168

Canada Caregiver - Son 7,525

Credit Base $35,091

Rate 15%

Total Tax Credits $ 5,264

Type: ES

Topic: Tax credits - determining available credits

70) Ms. Marlene Burns is 69 years old and has 2022 net income of $46,642. Determine Ms. Burns' age credit for 2022.

Answer: Ms. Burns' age credit would be $1,031 {[15%][$7,898 - (15%)($46,642 - $39,826)]}.

Type: ES

Topic: Tax credits - age credit (ITA 118(2))

71) Harry Rose is 71 years of age and has 2022 net income of $62,485. Determine Harry's age credit for 2022.

Answer: Mr. Rose's age credit would be $675 {[15%][$7,898 - (15%)($62,485 - $39,826)]}.

Type: ES

Topic: Tax credits - age credit (ITA 118(2))

72) Claude Lafleur and his spouse have adopted an infant French orphan. The adoption process began on January 2, 2022 when they applied to an adoption agency licensed by the provincial government. Later that month they traveled to France to discuss the adoption. The cost of this trip was $3,850. Their provincial government opens the adoption file on March 15, 2022, and the adoption order is issued on September 29, 2022. In October, the couple returns to France to pick up their newly adopted daughter. The happy family returns to Canada on October 20, 2022. The cost of this trip is $6,280.

Additional expenses paid during the first week of October, 2022 were $1,759 paid to the French orphanage and $5,600 paid to a Canadian adoption agency. Legal fees incurred during the adoption period were $3,250. After arrival in Canada, an additional $3,200 in medical expenses were incurred for the child prior to the end of 2022. Mr. Lafleur's employer has a policy of providing reimbursement for up to $4,500 in adoption expenses eligible for the adoption expenses tax credit. This amount is received in October, 2022 and will be considered a taxable benefit to Mr. Lafleur. What is the maximum adoption expenses tax credit that can be claimed by the couple? Show your calculations.

Answer: The adoption expenses tax credit would be calculated as follows:

Cost of first trip to France $ 3,850

Cost of second trip to France 6,280

French Orphanage Fee 1,759

Canadian Adoption Agency Fee 5,600

Legal Fees 3,250

Medical Costs (Qualify for the Medical Expense Credit) Nil

Total Eligible Expenses $20,739

Since the $4,500 employer reimbursement is a taxable benefit and included in employment income, it does not reduce the total eligible adoption expenses.

The adoption period begins at the time that an application is made for registration with an adoption agency licensed by a provincial government. This means that all of the expenses listed in the preceding table would be eligible expenses made during the adoption period. However, for 2022, there is an overall limit of $17,131. Given this, the maximum credit that can be claimed is $2,570 [(15%)($17,131)].

Type: ES

Topic: Tax credits - adoption expenses credit (ITA 118.01)

73) Mauricio Saidi is a single parent. He and his 10 year old son, who was born with a severe disability live in the house he owns. His son qualifies for the disability tax credit. In 2022, Mauricio spends $8,600 putting in a more accessible wheel-in shower in the child's bathroom and $2,500 for a mechanical lift on his truck for his son's wheelchair. What is the maximum amount that Mauricio can claim in 2022 as a home accessibility tax credit?

Answer: The addition to the truck is not a qualifying expenditure. The base for the home accessibility tax credit is the lesser of:

• The actual qualifying home accessibility costs.

• $10,000.

The lesser of these two figures is the actual costs of $8,600, resulting in a tax credit of $1,290 [(15%)($8,600)].

Type: ES

Topic: Tax credits - home accessibility credit (ITA 118.041)

74) Leon Fiero has 2022 net and taxable of $70,400. Each week, without fail, he plays a nation-wide lottery. While over the years he has not had any winnings of consequence, his fortunes have changed and, in 2022, he wins over $320,000. As he had hoped to do for many years, he donates $120,000 of these winnings to the Canadian Cancer Society in 2022. He chooses to claim $15,000 of the donations in 2022. In 2023, his net and taxable income remains the same at $70,400 and he makes no further donations.

Determine Mr. Fiero's charitable donations tax credit for 2022, as well as the maximum amount of the donation that he can use in 2023. Until what year can he claim any unused portions of his 2022 donation?

Answer: The credit base for 2022 would be limited to $52,800 [(75%)($70,400)]. However, he chooses to claim only $15,000, leaving a carry forward of $105,000 ($120,000 - $15,000). Note that, because Leon's Taxable Income is below the $221,708 threshold at which the 33% rate applies, the 33% rate is not relevant in the following calculation. The resulting credit would be:

$200 at 15% $ 30

$14,800 ($15,000 - $200) at 29% 4,292

Total Donation Credit for 2022 $4,322

As his income for 2023 is unchanged from 2022, the limit would be the same $52,800 [(75%)($70,400)]. In general, charitable donations can be carried forward for up to 5 years. As a result, the final year to claim any unused portion of his 2022 donation would be 2027.

Type: ES

Topic: Tax credits - charitable donations credit (ITA 118.1)

75) Leon Fiero has 2022 net income and taxable income of $70,400. Each week, without fail, he plays a nation-wide lottery. While over the years he has not had any winnings of consequence, his fortunes changed in 2021, when he won over $320,000. As he had hoped to do for many years, he donated $120,000 of these winnings to the Canadian Cancer Society in 2021 but chose to claim only $15,000 of these donations in 2021 for income tax purposes.

Determine Mr. Fiero's maximum charitable donations tax credit for 2022. Until what year can he claim any unused portions of his 2021 donation?

Answer: The credit base for 2022 would be limited to $52,800 [(75%)($70,400)]. Note that, because Leon's taxable income is below the $221,708 threshold at which the 33% rate applies, this rate is not relevant in the following calculation. The resulting credit would be:

$200 at 15% $ 30

$52,600 ($52,800 - $200) at 29% 15,254

Maximum 2022 Donation Credit $15,284

In general, charitable donations can be carried forward for up to 5 years. As a result, the final year to claim any unused portion of his 2021 donation would be 2026.

Type: ES

Topic: Tax credits - charitable donations credit (ITA 118.1)

76) Jack Banino has net and taxable Income of $83,000 in both 2022 and 2023. Because of a recent run of good luck in Las Vegas, he is able to make a 2022 donation of $120,000 to a registered Canadian charity. He plans to use $30,000 of the donation as the base for a charitable donations tax credit in 2022. He plans to carry the balance of $90,000 forward to subsequent years.

Determine Jack's charitable donations tax credit for 2022. In addition, determine the maximum amount of the donation that he can use in 2023. Until what year can he claim any unused portions of his 2022 donation?

Answer: The credit base for 2022 would be limited to $62,250 [(75%)($83,000)]. However, he chooses to claim only $30,000. Note that, because Jack's taxable income is below the $221,708 threshold at which the 33 % rate applies, this rate is not relevant in the following calculation. The resulting credit would be:

$200 at 15% $ 30

$29,800 ($30,000 - $200) at 29% 8,642

Total 2022 Donation Credit $8,672

As his income for 2023 is unchanged from 2022, the limit would be the same $62,250 [(75%)($83,000)]. In general, charitable donations can be carried forward for up to 5 years. As a result, the final year to claim any unused portion of his 2022 donation would be 2027.

Type: ES

Topic: Tax credits - charitable donations credit (ITA 118.1)

77) Mr. Samuel Silverstein has a spouse and a 19 year old dependent son. Mr. Silverstein's 2022 net income is $125,000. For 2022, Mr. Silverstein's spouse has no net income and his son has net income of $8,675. During 2022, Mr. Silverstein and his spouse have medical expenses of $2,042. His son has medical expenses of $7,780 which Mr. Silverstein paid. Determine Mr. Silverstein's medical expense credit for 2022.

Answer: The required calculation is as follows:

**Amount B** Expenses for Samuel and Spouse $2,042

**Amount C**

Lesser of:

• [(3%)($125,000)] = $3,750

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

Subtotal Nil

**Amount D**

Son's Medical Expenses $7,780

Reduced by the lesser of:

• $2,479

• [(3%)($8,675)] = $260 ( 260) 7,520

Allowable Amount of Medical Expenses $7,520

**Amount A** The Appropriate Rate 15%

2022 Medical Expense Tax Credit $1,128

Type: ES

Topic: Tax credits - medical expense (ITA 118.2)

78) Saul Lawson has a spouse, a 20 year old dependent son, and a 12 year old daughter. His 2022 net income is $70,000. Medical expenses for Saul, his spouse, and his 12 year old daughter total $4,500. He also pays medical expenses for his son of $6,200. His spouse has net income of $10,000 and his son has net income of $9,200. Determine Sauls' medical expense tax credit for 2022.

Answer: The required calculation is as follows:

**Amount B** Expenses for Saul, spouse and daughter $4,500

**Amount C**

Lesser of:

• [(3%)($70,000)] = $2,100

• 2022 Threshold Amount = $2,479 ( 2,100)

Subtotal $2,400

**Amount D**

Son's Medical Expenses $6,200

Reduced by the lesser of:

• $2,479

• [(3%)($9,200)] = $276 ( 276) 5,924

Allowable amount of Medical Expenses $8,324

**Amount A** The Appropriate Rate 15%

2022 Medical Expense Tax Credit $1,249

Type: ES

Topic: Tax credits - medical expense (ITA 118.2)

79) Lorraine tamer lives with her husband and 20 year old paraplegic daughter, Marie, who qualifies for the disability tax credit. In 2022, Lorraine paid medical expenses of $9,850 for Marie, none of which involved attendant care expenses. Marie has no net income. Lorraine's net and taxable income for 2022 was $108,600. Determine the total amount of tax credits in respect to Marie that will be available to Lorraine.

Answer: As Marie has no net income, her disability credit can be transferred to Lorraine. As Marie is over 17, the disability child supplement is not available.

In addition to the disability credit, Lorraine will be able to claim the Canada caregiver credit, as well as a credit for all of Marie's medical expenses.

The total credits related to Marie would be as follows:

Transfer of Marie's Disability amount $ 8,870

Canada Caregiver 7,525

Marie's Medical Expenses $9,850

Reduced by the lesser of:

• $2,479

• [(3%)(Nil)] Nil 9,850

Total Credit Base $26,245

Rate 15%

Total 2022 Tax Credits with respect to Marie $ 3,937

Type: ES

Topic: Tax credits - determining available credits

80) Larry Osborne has a wife and a 16 year disabled daughter, Suzanne, who qualifies for the disability tax credit. Larry's net income is $186,000 and he and his wife have medical expenses of $3,560. In 2022, Larry paid medical expenses for Suzanne of $12,400, none of which involved payments for attendant care. Suzanne has a 2022 net income of $5,650. Determine the total amount of tax credits in respect of Suzanne that will be available to Larry.

Answer: Given that Suzanne's income is less than the base for the basic personal tax credit, the disability tax credit can be transferred to her father. In addition, because she is under 18, she is eligible for the disability supplement. As none of her medical expenses were for attendant care, the full amount of the supplement is available.

He will also be able to claim the Canada caregiver credit for a child under 18.

As Larry and his wife have medical expenses that exceed the income threshold, and Suzanne's income is not a factor since she is under 18, he can claim all of Suzanne's medical expenses.

The total credits related to Suzanne would be calculated as follows:

Transfer of Suzanne's Disability $ 8,870

Disability Supplement 5,174

Canada Caregiver for a child under 18 2,350

Suzanne's Medical Expenses [($12,400) - (3%)($5,650)] 12,230

Total Credit Base $28,624

Rate 15%

Total 2022 Tax Credits with respect to Suzanne $ 4,294

Type: ES

Topic: Tax credits - determining available credits

81) In 2022, Frank Balmer attends university for 5 months. His total tuition for the year, including all ancillary fees, is $4,100, of which he prepaid $1,400 in 2021. The amount paid in 2022 includes $415 in fees that are only charged to students in his biology program. Interest paid for the year on his student loan was $417. Determine the total amount of education related tax credits that would be available for Mr. Balmer for 2022 assuming that he claims a refund of $750 for the Canada Training Credit.

Answer: Mr. Balmer's education related tax credits would be calculated as follows:

Tuition Amount:

Total ($4,100 - $750 Canada Training) $3,350

Ineligible Ancillary Fees ($415 - $250) ( 165) $3,185

Interest on Student Loan 417

Total Credit Base $3,602

Rate 15%

Total 2022 available Tax Credits $540

Type: ES

Topic: Tax credits - education related credits

82) During the first 6 months of 2022, Grace Bucknell attends university on a full time basis. For the last 6 months of the year, her studies continue, but only on a part time basis. The tuition fees for the year total $10,400, including $350 of special fees that are only charged to students in her program. As she has taken out a student loan to pay for these studies, she has 2022 interest payments on this loan of $623. Determine the total amount of education related tax credits that would be available for Grace for 2022 assuming that she claims a Canada Training Credit refund of $750.

Answer: Ms. Bucknell's education related tax credits would be calculated as follows:

Tuition Amount:

Total ($10,400 - $750 Canada Training) $9,650

Ineligible Ancillary Fees ($350 - $250) ( 100) $9,550

Interest on Student Loan 623

Total Credit Base $10,173

Rate 15%

Total Available 2022 Tax Credits $ 1,526

Type: ES

Topic: Tax credits - education related credits

83) At the beginning of 2022, Karl Schmidt has a carry forward of a tuition tax credit from 2021 of $525 [(15%)($3,500)]. In 2022, he is in full time attendance at a Canadian university. His tuition fees total $5,650 for the year. His taxable income for 2022 is $34,650. Other than his tuition credit, his only current tax credit is his BPA. Determine Karl's total tuition tax credit and any available carry forward. Assume that his Canada Training amount is $750 which he has never claimed.

Answer: The available tuition credit for the year could be calculated as follows:

Tuition Amount ($5,650 - $750 Canada Training) $4,900

Rate 15%

Tuition Credit for the current year $ 735

Carry Forward Tuition Credit 525

Total Available Tuition Credits $1,260

The alternative calculation approach that is used in the tax return would be as follows:

Tuition Amount for the current year (Same as above) $4,900

Carry Forward Amount 3,500

Total Available Tuition Amounts $8,400

Rate 15%

Total Available Tuition Credit $1,260

Karl's income tax payable before deducting the tuition credit would be $3,038 [(15%)($34,650 - $14,398)]. This is more than sufficient to absorb the available tuition credit and, as a consequence, there would be no carry forward.

Type: ES

Topic: Tax credits - education related credits

84) Betty Masters has 2022 taxable income of $15,123. She attends university in London, England during 2022, paying a total amount for tuition of $26,800 (Canadian dollars). Her only tax credit, other than the tuition credit, is her BPA. Determine Betty's tuition credit and indicate how much of this total could be transferred to a supporting parent and how much would be carried forward. Assume that she will claim the $750 Canada Training Credit for the first time in 2022.

Answer: The tuition credit for the year would be calculated as follows:

Tuition Amount ($26,800 - $750) $26,050

Rate 15%

Available Tuition Credit (Maximum Transfer = $750) $ 3,908

**Income Tax Act Approach** — The $750 maximum transfer of the tuition credit must be reduced by Betty's income tax payable of $109 [(15%)($15,123 - $14,398)]. This will leave a maximum transfer of $641 ($750 - $109) and a carry forward credit of $3,158 ($3,908 - $109 -$ 641).

**Tax Return Approach** — The $5,000 maximum transfer of the tuition amount must be reduced by $725 ($15,123 - $14,398), the excess of Betty's Taxable Income over her BPA. This results in a maximum transfer of $4,275 ($5,000 - $725) and would leave a carry forward of $21,050 ($26,050 - $725 - $4,275). This would give the same $3,158 [(15%)($21,050)] credit as under the alternative calculation.

Type: ES

Topic: Tax credits - transfer of tuition credit (ITA 118.8)

85) Carl Bond is a student at the University of Michigan in the U.S. on a full time basis in 2022. Carl is thirty-two years of age and qualifies for the Canada Training credit. His tuition fees total $31,400 (Canadian dollars). In 2022, he has taxable income of $16,000. Other than his tuition credit, his only tax credit is the BPA. Determine Carl's tuition credit and indicate how much of this total could be transferred to a supporting parent and how much would be carried forward. Assume that he will claim the $750 Canada Training Credit limit in 2022 for the first time.

Answer: The available tuition credit for the year would be calculated as follows:

Tuition Amount ($31,400 - $750 Canada Training) $30,650

Rate 15%

Available Tuition Credit (Maximum Transfer = $750) $ 4,598

**Income Tax Act** — Approach The $750 maximum transfer of the tuition credit must be reduced by Carl's income tax payable of $240 [(15%)($16,000 - $14,398)]. This will leave a maximum transfer of $510 ($750 - $240) and a carry forward credit of $3,848 ($4,598 - $240 -$510).

**Tax Return Approach** — The $5,000 maximum transfer of tuition amount must be reduced by $1,602 ($16,000 - $14,398), the excess of Carl's taxable income over his BPA. This results in a maximum transfer of $3,398 ($5,000 - $1,602) and would leave a carry forward of $25,650 ($30,650 - $1,602 - $3,398). This would give the same $3,848 [(15%)($25,650)] credit as under the alternative calculation.

Type: ES

Topic: Tax credits - transfer of tuition credit (ITA 118.8)

86) Mrs. Rhonda Lee is 65 years old and has net income of $53,500. Of this total, $30,600 was from a life annuity that she purchased with funds in her RRSP. Her spouse is 68 years old and has no net income as he is ineligible for OAS, and is attending university on a full time basis. His tuition fees for the year were $3,450 and he was in attendance for 3 months of 2022. Determine Mrs. Lee's maximum tax credits for 2022. Ignore the possibility of splitting her pension income with her spouse.

Answer: The Canada Training credit would not apply since the spouse is over 65 years of age. Her tax credits would be calculated as follows:

BPA $14,398

Spousal Amount 14,398

Age [$7,898 - (15%)($53,500 - $39,826)] 5,847

Pension Income 2,000

Spousal Age Transfer 7,898

Spousal Tuition Amount - Lesser of:

• $5,000

• $3,450 3,450

Credit Base $47,991

Rate 15%

Total Tax Credits $ 7,199

Type: ES

Topic: Tax credits - determining available credits (comprehensive)

87) John Trask is 67 years old and his spouse is 66 years old. He has net income of $63,200, largely from various pension funds. His spouse has no net income as she is not eligible for OAS payments. In 2022, his spouse attended university on a full time basis. Her tuition fees for the attendance were $8,200 and, in addition, she spent $800 on textbooks. Determine John's maximum tax credits for 2022. Ignore the possibility of splitting his pension income with his spouse.

Answer: The Canada Training credit would not apply since the spouse is over 65 years of age. John's tax credits would be calculated as follows:

BPA $14,398

Spousal Amount 14,398

Age [$7,898 - (15%)($63,200 - $39,826)] 4,392

Pension Income 2,000

Spousal Age Transfer 7,898

Spousal Tuition Amount - Lesser of:

• $5,000

• $8,200 5,000

Credit Base $48,086

Rate 15%

Total Tax Credits $ 7,213

Type: ES

Topic: Tax credits - determining available credits (comprehensive)

88) Mr. Allen Dion contributes $826 to the Canadian Political Alliance, a registered federal political party. Determine the amount of his federal political contributions tax credit.

Answer: Mr. Dion's $500 credit would be calculated as follows:

Contributions Credit Rate Tax Credit

First $400 3/4 $300

Next 350 1/2 175

Remaining 76 1/3 25

Maximum Tax Credit $826 $500

Type: ES

Topic: Tax credits - political contributions (ITA 127(3))

89) In 2022, Mr. Chris Mackey has net and taxable income of $28,248. Mr. Mackey and his common-law partner, Emily, have total medical expenses of $10,325. Emily has no net income. Determine Mr. Mackey's minimum 2022 federal income tax payable.

Answer: The regular medical expense credit would be calculated as follows:

Medical Expenses $10,325

Lesser of:

• [(3%)($28,248)] = $847

• 2022 Threshold Amount = $2,479 ( 847)

Allowable Amount of Medical Expenses $ 9,478

Rate 15%

Total Medical Expense Tax Credits $ 1,422

The refundable supplement would be calculated as follows:

Lesser of:

• $1,316 (2022 Maximum)

• [(25/15)($1,422)] = $2,370 $1,316

Reduction [(5%)($28,248 - $29,129)] Nil

Refundable Medical Expense Supplement $1,316

Mr. Mackey's total federal income tax payable (Refund) would be calculated as follows:

Income tax payable before credits [(15%)($28,248)] $4,237

Non-Refundable Credits:

BPA $14,398

Common-Law Partner 14,398

Allowable Medical Expenses 9,478

Total $38,274

Rate 15% ( 5,741)

Tax before Refundable Supplement Nil\*

Refundable Supplement ( 1,316)

Income tax Refund ($1,316)

\* Income tax payable before the refundable supplement can only be reduced to nil, the net result cannot be negative for this subtotal.

Type: ES

Topic: Tax credits - determining available credits (comprehensive)

90) For 2022, Mr. Oliver Clemens has employment income of $70,200, receives EI payments of $9,460, and receives $7,700 in OAS. No amount was withheld from the OAS payments because he had very low income in the previous two years due to large business losses. Determine Mr. Clemens' 2022 net income.

Answer: Mr. Clemens' income before deducting either the EI or OAS repayment would be calculated as follows:

Employment Income $70,200

EI Benefits 9,460

OAS Benefits 7,700

Income before Deductions $87,360

Dealing first with the EI repayment, Mr. Clemens would have to repay the lesser of:

• $2,838 [(30%)($9,460)]

• $3,596 [(30%)($87,360 - $75,375)]

Using this deduction, the clawback of the OAS payments would be the lesser of:

• $7,700

• $414 [(15%)($87,360 - $2,838 - $81,761)]

As a result, Oliver's 2022 net income would be as follows:

Income before deductions $87,360

ITA 60(v.1) Deduction (EI) ( 2,838)

ITA 60(w) Deduction (OAS) ( 414)

2022 Net Income $84,108

Type: ES

Topic: Net income deductions - EI and OAS clawbacks

91) Agnes is 66 years old. In 2022, she received OAS payments of $7,700, CPP payments of $10,000 and investment income of $65,000. No federal income tax was withheld at source. Her total federal tax credits for 2022 (including charitable donations) are $2,500. Taking the OAS clawback into consideration, what is her federal income tax balance owing?

Answer: Before the deduction of any OAS repayment, Agnes had income as follows:

OAS $ 7,700

CPP 10,000

Investment Income 65,000

Income before Deduction $82,700

The OAS clawback would be the lesser of:

• $7,700

• $141 [(15%)($82,700 - $81,761)]

This results in net and taxable income of $82,559 ($82,700 - $141). Federal income tax payable would be calculated as follows:

Tax on first $50,197 $ 7,530

Tax on remaining $32,362 ($82,559 - $50,197) at 20.5% 6,634

Tax Before Credits $14,164

Tax Credits (Given) ( 2,500)

Tax Payable Before Clawback $11,664

Plus: OAS Clawback 141

Total Federal income tax owing $11,805

Type: ES

Topic: Income tax payable - with OAS clawback

92) In each of the following independent Cases, determine the maximum amount of 2022 personal tax credits, including transfers from a spouse or dependant, that can be applied against federal income tax payable. Ignore, where relevant, the possibility of pension income splitting.

A calculation of federal income tax payable is **NOT** required, only the applicable income tax credits.

1. Sarah Partridge is 72 years old and has net income of $61,300. This total is made up of OAS payments and pension income from her former employer. Her husband is 58 years old and has net income of $4,725.

2. Martin Brody was divorced from his wife several years ago. He has custody of their four children, ages 7, 9, 12, and 15. His net income consists of spousal support payments totaling $54,000 per year. The children are all in good health. The oldest child has net income of $11,200 during the year.

3. Marion Lassiter has net income of $132,450, all of which is rental income. Her husband has net income of $1,600. They have three children, ages 14, 16, and 19. All of these children are in good health and continue to live at home. The 19 year old child has net income of $8,460. During the current year, Ms. Lassiter pays the following medical expenses:

Marion $ 4,240

Her Spouse 3,450

14 Year Old Child 1,860

16 Year Old Child 2,450

19 Year Old Child 6,720

Total $18,720

4. Janice Archer has net income of $92,100, none of which is employment income or income from carrying on a business. Her spouse has net income of $7,240. Their daughter is 15 years old, lives with them, and has net income of $2,150. Their son is 22 years old and, because of a physical infirmity, continues to live at home. He has no net income. His disability is not severe enough to qualify for the disability tax credit.

5. Joan Baxter has net income of $85,000, all of which is employment income. Her employer withholds maximum CPP contributions and EI premiums. She is married to John Brown whose net income is $4,230. They have three children aged 7, 9, and 11. All of the children are in good health and none of them have net income.

Answer: The amount of the personal income tax credits would be as follows:

1. **Ms. Partridge** will qualify for the following tax credits:

BPA $14,398

Spousal ($14,398 - $4,725) 9,673

Age [$7,898 - (15%)($61,300 - $39,826)] 4,677

Pension Income 2,000

Total Credit Base $30,748

Rate 15%

Total Federal income tax credits $ 4,612

Note that, because her net income is below the 2022 $81,761 income threshold, there will be no clawback of any of Ms. Partridge's OAS.

2. **Mr. Brody** will qualify for the following credits:

BPA $14,398

Eligible Dependant (See Note) 14,398

Total Credit Base $28,796

Rate 15%

Total Federal income tax credits $ 4,319

**Note** — The eligible dependant credit can be taken for any child. However, it should not be claimed for the 15 year old as the amount of the credit would be reduced by the child's net income.

3. **Ms. Lassiter** will qualify for the following tax credits:

BPA $14,398

Spousal ($13,808 - $1,600) 12,798

Medical Expenses (See Note) 15,987

Total Credit Base $43,183

Rate 15%

Total Federal income tax credits $ 6,477

**Note** — The claim for medical expenses is determined as follows:

Expenses for Marion, her Spouse, and Children under 18 years of age

($4,240 + $3,450 + $1,860 + $2,450) $12,000

Reduced by the lesser of:

• [(3%)($132,450)] = $3,974

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

19 Year Old's Medical Expenses $6,720

Reduced by the lesser of:

• [(3%)($8,460)] = $254

• $2,479 ( 254) 6,466

Allowable Medical Expenses $15,987

4. **Ms. Archer** will qualify for the following credits:

BPA $14,398

Spousal ($14,398 - $7,240) 7,158

Canada Caregiver - 22 year old son 7,525

Total Credit Base $29,081

Rate 15%

Total Federal income tax credits $ 4,362

5. **Ms. Baxter** will qualify for the following credits:

BPA $14,398

Spousal ($14,398 - $4,230) 10,168

EI (Maximum) 953

CPP (Maximum) 3,039

Canada Employment 1,287

Total Credit Base $29,845

Rate 15%

Total Federal income tax credits $ 4,477

Type: ES

Topic: Tax credits - determining available credits (multiple mini-cases)

93) There are seven independent cases which follow. Each case involves various assumptions as to the amount and type of income earned by John Moss in 2022, as well as to other information that is relevant to the determination of his 2022 Federal income tax payable. John's net income and taxable income are the same in all cases.

In those cases where we have assumed that the income was from employment, assume that the employer withheld the maximum EI premium and CPP contribution. Also assume that the CPP deduction of $461 has been taken into consideration in the determination of both net income and taxable income.

**Case 1** — John is 58 years old and has employment income of $87,600. His common-law partner is 48 years old and has net income of $8,260. They have an adopted child who is 19 years old and lives at home. John and his partner have medical expenses of $4,600. Medical expenses for the son total $10,300. The son has net income of $4,300.

**Case 2** —John is 46 years old and has net income of $160,000 all of which is employment income. His wife Mary is 41 years old and has net income of $6,100. They have a 20 year old son who lives at home. He is dependent because of a physical infirmity, but it is not severe enough to qualify him for the disability tax credit. However, he is able to attend university on a full time basis for 8 months during 2022. John pays his tuition fees of $9,400, as well as $720 for the textbooks that he requires in his program. The son has net income of $8,350. The son agrees to transfer the maximum education credits possible to John.

**Case 3** —John and his wife Beverly are both 67 years of age. Beverly qualifies for the disability tax credit. The components of net income for both John and Beverly are as follows:

**John Beverly**

Interest $ 1,300 $ 720

CPP Benefits 11,400 Nil

OAS Benefits 7,700 7,700

Income from RPP 36,200 840

Net Income $56,600 $9,260

**Case 4** —John is 45 years old and has net income of $97,100 all of which is from employment. His wife Marcia is 37 years old and has net income of $8,600. They have no children. However, they provide in home care for Marcia's father who is 61 years old, dependent because of a physical infirmity, and has no income of his own. His infirmity is not severe enough to qualify for the disability tax credit. Also living with them is John's 67 year old father and 63 year old mother. They are both in good physical and mental health. John's father has net income of $23,200 and his mother has net income of $11,700.

**Case 5** —John is 31 years old, has net income of $83,000 all of which is from employment, and makes contributions of $3,000 to registered charities. He is not married or living common-law and has no dependants.

**Case 6** —John is 58 years old and has net income of $114,000 all of which is rental income. He is divorced and has been awarded custody of his 21 year old disabled son. The son qualifies for the disability tax credit and has net income of $8,430.

**Case 7** —John is 43 years old and has net income of $97,300 all of which is rental income His wife died last year and he is a single parent of two children. Mack is 16 and is physically infirm, but does not qualify for the disability tax credit. He has net income of $8,400 from part time work as a student counselor. His daughter Serena, has no income and is 10 years old and is in good health.

**Required:** In each Case, calculate the minimum Federal income tax payable for 2022 for John Moss. Indicate any carry forwards available to him and his dependants and the carry forward provisions. Ignore any amounts John might have had withheld for Federal income taxes paid, any instalments that may have been paid and the possibility of pension income splitting.

Answer:

***Case 1***

The solution for this Case is as follows:

Tax on first $50,197 $ 7,530

Tax on next $37,403 ($87,600 - $50,197) at 20.5% 7,668

Federal Tax before Credits $15,198

BPA ($14,398)

Spousal ($14,398 - $8,260) ( 6,138)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Medical Expenses (See Note) ( 12,292)

Credit Base ($38,107)

Rate 15% ( 5,716)

Federal Income Tax Payable $9,482

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

John and his Common-law partner $ 4,600

Reduced by the lesser of:

• [(3%)($87,600)] = $2,628

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

Son's Medical Expenses $10,300

Reduced by the lesser of:

• [(3%)($4,300)] = $129

• $2,479 ( 129) 10,171

Total Credit Base $12,292

***Case 2***

The solution for this Case can be completed as follows:

Tax on first $155,625 $32,181

Tax on next $4,375 ($160,000 - $155,625) at 29% 1,269

Federal Tax before Credits $33,450

BPA ($14,287)

Spousal ($14,287\* - $6,100) ( 8,187)

Canada Caregiver For Son ( 7,525)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Tuition Transfer from son (Note) ( 5,000)

Credit Base ($40,278)

Rate 15% ( 6,042)

Federal Income Tax Payable $27,408

$14,398 - [($1,679][($160,000 - $155,625) ÷ $66,083] = $14,287

**Note** — As the son's income is completely eliminated by his BPA of $14,398, he cannot use his tuition tax credit. This means the transfer is the lesser of the absolute limit of $5,000 and the actual tuition of $9,400.

This will leave the son with an indefinite carry forward for subsequent taxation years of $4,400 ($9,400 - $5,000).

***Case 3***

The solution for this Case is as follows:

Tax on first $50,197 $7,530

Tax on next $6,403 ($56,600 - $50,197) at 20.5% 1,313

Federal Tax before Credits $8,843

BPA ($14,398)

Spousal Including Infirm Amount

($14,398 + $2,350 - $9,260) ( 7,488)

Additional Canada Caregiver Amount (Note) ( 37)

Age [$7,898 - (15%)($56,600 - $39,826)] ( 5,382)

Pension ( 2,000)

Spouse’s Age ( 7,898)

Spouse’s Disability ( 8,870)

Spouse’s Pension (Limited to RPP) ( 840)

Credit Base ($46,913)

Rate 15% ( 7,037)

Federal Income Tax Payable $1,806

**Note** — As the income adjusted spousal amount is less than the Canada caregiver amount, there is an additional amount of $37 ($7,525 - $7,488).

***Case 4***

The solution for this Case can be completed as follows:

Tax on first $50,197 $7,530

Tax on next $46,903 ($97,100 - $50,197) at 20.5% 9,615

Federal Tax before Credits $17,145

BPA ($14,398)

Spousal ($14,398 - $8,600) ( 5,798)

Canada Caregiver - Marcia's Father (Note) ( 7,525)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Credit Base $33,000

Rate 15% ( 4,950)

Federal Income Tax Payable $12,195

**Note** — Marcia's father, because he is infirm, is eligible for the Canada caregiver amount. John's father and mother are not eligible as neither parent is mentally or physically infirm.

***Case 5***

The solution for this Case would be as follows:

Tax on first $50,197 $7,530

Tax on next $32,803 ($83,000 - $50,197) at 20.5% 6.725

Federal Tax before Credits $14,255

BPA ($14,398)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Credit Base ($19,677)

Rate 15% ( 2,952)

Charitable Donations

[(15%)($200) + (29%)($3,000 - $200)] ( 842)

Federal Income Tax Payable $10,461

As none of his taxable income is taxed at 33%, only the 29% rate will apply to donations in excess of $200,

***Case 6***

The solution for this Case can be completed as follows:

Tax on first $100,392 $17,820

Tax on next $13,608 ($114,000 - $100,392) at 26% 3,538

Federal Tax before Credits $21,358

BPA ($14,398)

Eligible Dependant Including Infirm Amount

($14,398 + $2,350 - $8,430) ( 8,318)

Additional Canada Caregiver Amount (Note) Nil

Transfer of Son's Disability ( 8,870)

Credit Base ($31,586)

Rate 15% ( 4,738)

Federal Income Tax Payable $16,620

**Note** — As the eligible dependant amount of $8,318 is greater than the maximum Canada caregiver amount of $7,525 there is no additional caregiver amount.

**Case 7**

The solution for this Case is as follows:

Tax on first $50,197 $7,530

Tax on next $47,103 ($97,300 - $50,197) at 20.5% 9,656

Federal Tax before Credits $17,186

BPA ($14,398)

Eligible Dependant - Serena ( 14,398)

Canada Caregiver Amount for a child under 18 ( 2,350)

Credit Base ($31,146)

Rate 15% ( 4,672)

Federal Income Tax Payable $12,514

Type: ES

Topic: Tax credits - determining available credits (multiple mini-cases)

94) In each of the following independent Cases, determine the maximum amount of 2022 personal tax credits, including transfers from a spouse or dependant, that care available to the individual taxpayer.

A calculation of income tax payable is **NOT** required, only the applicable income tax credits.

1. Mr. Hanson has net income of $40,000, all of which is investment income. He is single and provides support for his mother. His mother is a widow who resides in England, and has income of $700 per year.

2. Mr. Johnson has net income of $250,000, all of which is employment income. His employer has withheld and remitted the required EI and CPP amounts. Mr. Johnson was married on December 1, 2022. His wife, an accounting student, had salary of $27,500 for the period from January 1 to November 30, 2022 and $2,500 for the month of December, 2022.

3. Mr. Massey has net income of $60,000, all of which is rental income. He lives with his common-law wife and her two children from a previous marriage. The two children are 8 and 10 years of age, are in good health and have no net income for the year. His wife has net income of $1,500.

4. Mr. Jones is married and has net income of $70,000, none of which is employment income or income from carrying on a business. His 19 year old dependent son attends university. His wife has net income of $1,200, and his son has net income of $2,900. His son does not wish to transfer any of his tuition credit to his father.

5. Ms. Morrison is divorced and maintains a residence far from her former spouse. She has custody of the two children from the marriage. They are aged 7 and 10 and in good health. Her net income is $50,000, all of which is spousal support payments. Neither child had any net income for the year.

6. Mr. Bagley is 68 years old and has net income of $27,100, which is comprised of OAS benefits and pension income paid out of his Registered Retirement Income Fund (RRIF). His wife is 52 years old and is blind. She has no net income. Ignore the possibility that Mr. Bagley would split his pension income with his wife.

Answer: The amount of the personal tax credits would be as follows:

1. **Mr. Hanson** will qualify for the following credit:

BPA $14,398

Total Credit Base $14,398

Rate 15%

Total Tax Credits $ 2,160

The mother would be required to be resident in Canada to qualify her as an eligible dependant.

2. **Mr. Johnson** will qualify for the following credit:

BPA $14,398

Spousal Nil

EI (Maximum) 953

CPP (Maximum) 3,039

Canada Employment 1,287

Total Credit Base $19,677

Rate 15%

Total Tax Credits $ 2,952

His wife's income will have to be considered for the entire year and not just from the date of the marriage. Since her net income of $30,000 exceeds the potentially available spousal credit of $14,398 the credit is not available in this year.

3. **Mr. Massey** will qualify for the following credits:

BPA $14,398

Spousal ($14,398 - $1,500) 12,898

Total Credit Base $27,296

Rate 15%

Total Tax Credits $ 4,094

4. **Mr. Jones** will qualify for the following credits:

BPA $14,398

Spousal ($14,398 - $1,200) 13,198

Total Credit Base $27,596

Rate 15%

Total Tax Credits $ 4,139

There is no personal tax credit available for his son.

5. **Ms. Morrison** will qualify for the following credits:

BPA $14,398

Eligible Dependant (See Note) 14,398

Total Credit Base $28,796

Rate 15%

Total Tax Credits $ 4,319

**Note** — The eligible dependant credit can be claimed for either child.

6. **Mr. Bagley** will qualify for the following credits:

BPA $14,398

Spousal Including Infirm Amount

($14,398 + $2,350) 16,748

Age 7,898

Pension 2,000

Spouse's Disability 8,870

Total Credit Base $49,914

Rate 15%

Total Tax Credits $ 7,487

As Mr. Bagley's net income is less than the 2022 income threshold of $39,826 there will be no reduction in his age credit. In a similar fashion there will be no clawback of his OAS since the threshold for 2022 is $81,761.

Type: ES

Topic: Tax credits - determining available credits (multiple mini-cases)

95) Mr. Wallace Burns is a very successful executive with a Canadian public company. In 2022, he had net and taxable income of $96,000, all of which was employment income.

The following five independent Cases make assumptions with respect to Wallace's marital status and number of dependants, as well as provides other information that is relevant to the determination of his 2022 Federal income tax payable. In all cases, his employer withholds the required EI premiums and CPP contributions. Assume that part of the CPP contribution of $461 has been properly considered in the determination of net and taxable income.

**Case A** — Wallace is married to Sharon Burns. Sharon has net income of $6,750. Their 20 year old son Kenneth attends university on a full time basis during 11 months of the year. Wallace pays all of his son's costs including $9,850 for tuition and $1,350 for textbooks. Through part time jobs, Kenneth has net income of $4,620. Kenneth has agreed to transfer the maximum tuition amount to his father.

**Case B** — While Wallace has never been married, he obtained custody of his 8 year daughter Sheila, when her mother, his high school girl friend, was killed in a car accident. Although he graduated several years ago, Wallace still has a Canada Student Loan outstanding of $35,000. During the year, interest paid on this loan totalled $1,750 and he paid down $5,000 of the principal.

**Case C** — Wallace is married to Sharon Burns. Sharon has net income of $4,580. Wallace's 82 year old father, Wilbur and Sharon's 63 year old mother, Samantha live with Wallace and Sharon. Wilbur had net income of $18,450, while Samantha had net income of $8,750. Both Wilbur and Samantha are in good health.

**Case D** — Wallace is married to Sharon Burns. Sharon has net income of $5,785. Wallace and Sharon have two children who are both in good health, Sonia is 10 years old and Zack is 8 years old. Neither child has any net income. The family's eligible medical expenses were as follows:

Wallace $ 800

Sharon 1,200

Sonia 4,600

Zack 3,700

Total $10,300

**Case E** — Wallace has never been married and has no dependants. He is being treated by a psychologist for post traumatic stress disorder, but it is not severe enough to obtain a doctor's certificate for the disability tax credit. During the year he won $100,000 in the provincial lottery. He donates the entire amount to Planned Parenthood, a registered Canadian charity. For 2022, he claims only $45,000 of the total donation. Wallace also makes contributions to a federal political party in the amount of $1,200.

**Required:** In each Case, calculate Wallace's minimum 2022 Federal income tax payable. Indicate any carry forwards available to him and his dependants and the carry forward provisions. Ignore any tax amounts that Wallace might have had withheld or that might have been paid by instalments.

Answer: The federal income tax before Credits is the same in all five of the cases in this problem. It is calculated as follows:

Tax on first $50,197 $ 7,530

Tax on next $45,803 ($96,000 - $50,197) at 20.5% 9,390

Income Tax Before Credits $16,920

***Case A***

The solution to this Case can be completed as follows:

Income Tax before Credits $16,920

BPA ($14,398)

Spousal ($14,398 - $6,750) ( 7,648)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Tuition transfer from son (Note) ( 5,000)

Credit Base ($32,325)

Rate 15% ( 4,849)

Federal Income Tax Payable $12,071

**Note**: The transfer from the son is as follows:

Tuition Fees $ 9,850

Maximum Transfer ( 5,000)

Indefinite carry forward (For son only) $ 4,850

Kenneth's income tax payable would be completely eliminated by his BPA of $14,398. He can transfer a maximum of $5,000 of his tuition amount to his father. The remaining $4,850 can be carried forward indefinitely, but must be used by Kenneth.

***Case B***

The solution to this Case can be completed as follows:

Income Tax before Credits $16,920

BPA ($14,398)

Eligible Dependant ( 14,398)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Interest On Student Loan ( 1,750)

Credit Base ($35,825)

Rate 15% ( 5,374)

Federal Income Tax Payable $11,546

***Case C***

The solution to this Case can be completed as follows:

Income Tax before Credits $16,920

BPA ($14,398)

Spousal ($14,398 - $4,580) ( 9,818)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Canada Caregiver (Note) Nil

Credit Base ($29,495)

Rate 15% ( 4,424)

Federal Income Tax Payable $12,496

**Note:** As neither parent is mentally or physically infirm, they are not eligible for the Canada caregiver credit.

***Case D***

The solution to this Case can be completed as follows:

Income Tax before Credits $16,920

BPA ($14,398)

Spousal ($14,398 - $5,785) ( 8,613)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Medical Expenses ($10,300)

Reduced by the lesser of:

• [(3%)($96,000)] = $2,880

• 2022 Threshold = $2,479 2,479 ( 7,821)

Credit Base ($36,111)

Rate 15% ( 5,417)

Federal Income Tax Payable $11,503

***Case E***

The solution to this Case can be completed as follows:

Income Tax before Credits $16,920

BPA ($14,398)

EI ( 953)

CPP ( 3,039)

Canada Employment ( 1,287)

Credit Base ($19,677)

Rate 15% ( 2,952)

Political Contributions Tax Credit

[(3/4)($400) + (1/2)($350) + (1/3)($450)] ( 625)

Charitable Donations [(15%)($200) + (29%)($45,000 - $200)] ( 13,022)

Federal Income Tax Payable $ 321

Since none of his taxable income is subject to a tax rate of 33% any donations claimed in excess of $200 are subject to the 29% rate.

Unused charitable donations can be carried forward for up to 5 years. The remaining $55,000 of unclaimed donations of $55,000 ($100,000 - $45,000) can be carried forward for 5 years to 2027.

The annual donation limitation of 75% of net income would have given Wallace a maximum claim of $72,000 [(75%)($96,000)].

Regardless of whether Wallace might be considered mentally infirm or not, the Canada caregiver credit is not available as it can only be claimed for a dependant.

Type: ES

Topic: Tax credits - determining available credits (multiple mini-cases)

96) For the past 5 years, Mr. Brooks has been employed as a financial analyst by a large Canadian public firm located in Winnipeg. In 2022, his basic gross salary amounts to $63,000. In addition, he was awarded an $11,000 bonus based on the performance of his division. Of the total bonus, $6,500 was paid in 2022 and the remainder is to be paid on January 15, 2023

In 2022, Mr. Brooks' employer withheld the following amounts from his gross wages:

Federal Income Tax $3,000

EI Premiums 953

CPP Contributions 3,500

RPP Contributions 2,800

Donations to a registered charity 480

Union dues 240

Payments for personal use of company car 1,000

**Other Information:**

1. Due to an airplane accident while flying back from Thunder Bay on business, Mr. Brooks was seriously injured and confined to a hospital for two full months of 2022. As his employer provides complete group disability insurance coverage, he received a total of $4,200 in payments during this period. All of the premiums for this insurance plan are paid by the employer. The plan provides periodic benefits that compensate for loss of employment income.

2. Mr. Brooks is provided with a car that the company leases at a rate of $678 per month, including both GST and PST. The company pays for all of the operating costs of the car and these amounted to $3,500 for 2022. Mr. Brooks drove the car a total of 35,000 kilometers in 2022, 30,000 kilometers of which were carefully documented as use for employment purposes and 5,000 for personal use. While he was in the hospital (see Item 1), his employer required that the car be returned to company premises.

3. On January 15, 2021, Mr. Brooks received options to buy 200 shares of his employer's common shares at a price of $23 per share. At this time, the shares were trading at $20 per share. Mr. Brooks exercised these options on July 6, 2022, when the shares were trading at $28 per share. He does not plan to sell the shares for at least a year.

4. In order to assist Mr. Brooks in acquiring a home in Winnipeg, his employer granted him a five year, interest free loan of $125,000. The loan was granted on October 1, 2022 and, at this point in time, the interest rate on open five year mortgages was 5%. Assume the prescribed interest on employee loans was 2% on this date and remained unchanged during the year. Mr. Brooks purchases a house for $435,000 on October 2, 2022. He has not owned a home during any of the preceding four years.

5. Other disbursements made by Mr. Brooks include the following:

Advanced financial accounting course tuition fees $1,200

Music history course tuition fees

(University of Manitoba one week intensive course) 600

Fees paid to financial planner 300

Payment of premiums on life insurance 642

Mr. Brooks' employer reimbursed him for the tuition fees for the accounting course, but not the music course. The reimbursement was not included as a taxable benefit on his T4.

6. Mr. Brooks is a widower. His wife was killed in a car accident 2 years ago that injured his 8 year old son, Harold, so badly that he qualifies for the disability tax credit. Harold has no net income for the year.

7. Mr. Brooks' mother, Grace, lives with Mr. Brooks and cares for Harold. Grace is 67 years old and her net income is $7,500. Grace refused to take any payments for caring for Harold as she received a large inheritance in the previous year. As a result, Mr. Brooks did not pay any child care or attendant costs for Harold.

8. Mr. Brooks paid the following eligible medical costs:

For Himself $ 9,300

For Harold 2,450

For Grace 1,265

Total $13,015

**Required:** Calculate, Mr. Brooks' 2022 employment income, net income, taxable income and federal income tax payable or refund.

Answer: Mr. Brooks' minimum employment income, net income, taxable income and federal income tax payable or refund for 2022 would be calculated as follows:

Gross Salary $63,000

Additions:

Bonus (Amount received only) $6,500

Disability Insurance Receipts (Note 1) 4,200

Automobile Benefit (Note 2) 1,034

Stock Option Benefit [($28 - $23)(200)] 1,000

Housing Loan Benefit [($125,000)(2% - Nil)(3/12)] 625

Deductions:

RPP Contributions ( 2,800)

Union Dues ( 240)

2022 Employment Income $73,319

**Note 1** - As all of the premiums were paid by the employer and were not considered to be a taxable benefit, benefits received under this coverage must be included in employment income.

**Note 2 -** The personal benefit on the company car, taking into consideration the two months he was in the hospital and unable to make use of the car, would be as follows:

Standby Charge [(2/3)(10)($678)(5,000/16,670)\*] $1,356

Operating Cost Benefit - Lesser of:

• [(5,000)($0.29)] = $1,450

• [(1/2)($1,356)] = $678 678

Less: Payments to the employer ( 1,000)

Taxable Benefit $1,034

\*[(10)(1,667)]

***Taxable Income***

Mr. Brooks' Taxable Income would be calculated as follows:

Employment Income $73,319

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

Net Income 72,858

Stock Option Deduction [(1/2)($1,000)] ( 500)

Taxable Income $72,358

***Federal Income Tax Payable***

Mr. Brooks' federal income tax payable or refund would be calculated as follows:

Tax on first $50,197 $ 7,530

Tax on next $22,161 ($72,358 - $50,197) at 20.5% 4,543

Federal Income Tax before Credits $12,073

BPA ($14,398)

Eligible Dependant Including Infirm Amount

($14,398 + $2,350) (Note 4) ( 16,748)

Transfer of Harold's Disability ( 8,870)

Harold's Disability Supplement ( 5,174)

Canada Caregiver - Mother (Note 5) Nil

EI Premiums ( 953)

CPP Contributions ( 3,039)

Canada Employment ( 1,287)

Medical Expenses (Note 6) ( 10,599)

Tuition Fee - Unreimbursed Music Course (Note 7) ( 600)

First Time Home Buyer's ( 5,000)

Credit Base ($66,668)

Rate 15% (10,000)

Charitable Donations (Note 8)

[(15%)($200) + (29%)($480 - $200)] ( 111)

Net Federal Tax $ 1,962

Federal Income Tax Withheld ( 3,000)

Federal Income Tax Refund ($1,038)

**Note 4 -** The eligible dependant credit can be claimed for Harold, including the extra amount for an infirm dependant.

**Note 5 -** As she is not mentally or physically infirm, the Canada caregiver credit cannot be claimed for Mr. Brooks' mother. No claim can be made for the eligible dependant credit for his mother, since the facts indicate that she inherited a significant amount meaning she would not be wholly dependant upon Mr. Brooks. The fact that she also appears to have taken on caring for the infirm child also supports the fact that she is not dependent upon anyone at this time.

**Note 6 -** Allowable medical expenses are as follows:

Mr. Brooks' and minor child (Harold) Medical Expenses

($9,300 + $2,450) $11,750

Reduced by the lesser of:

• [(3%)($73,029)] = $2,191

• 2022 Threshold Amount = $2,479 ( 2,191)

Grace's Medical Expenses $1,265

Reduced by the lesser of:

• $2,479

• [(3%)($7,500)] = $225 ( 225) 1,040

Allowable Medical Expenses $10,599

**Note 7** - As the accounting course tuition fees were reimbursed by his employer and not included in his employment income, there is no tuition credit for that course.

**Note 8** - As none of his taxable income is subject to the 33% income tax rate all donations in excess of $200 are eligible for a credit at a rate of 29%.

Type: ES

Topic: Tax credits - employment income, tax payable (comprehensive)

97) Marvin Combs is 43 years old and is employed by a Canadian public company. His annual salary is $112,468, none of which is commissions. Because of his outstanding work during 2022, he has been awarded a $20,000 bonus. The bonus will be paid in 2026 and 2027 at the rate of $10,000 each year to help ensure he stays with the Company. As Marvin expects to remain at the Company for the rest of his working life, he accepts the delayed payment.

In 2022, his employer withheld EI premiums of $953 and CPP contributions of $3,500. The employer also withheld professional association dues of $3,400 and contributions to a registered charity of $2,500.

Also withheld were RPP contributions of $6,800. On his behalf, the employer also made a contribution to the pension plan of $4,600.

Marvin's spouse, Leslie Combs, 46 years old and is legally blind. Her net income is $8,460.

The Combs have three children. Information on these children is as follows:

**Sharon** is 17 years old, in good health, and has net income from part time employment of $7,625.

**Suzanne** is 19 years old and suffers from a physical infirmity that prevent her from working on a full time basis. She lives with Marvin and Leslie and has net income from part time employment of $7,250.

**Samantha** is 23 years old and attends university on a full time basis for 11 months of the year. Marvin pays the tuition fees of $10,300, along with textbook costs of $1,100. She lives with Marvin and Leslie and is in good health. She has net income of $12,800 all of which is from investments. The investments were purchased with income saved from part-time employment during her high school years.

Other Information:

1. Marvin is provided with an automobile by his employer. The automobile is used largely for employment purposes. Total kilometers driven in 2022 was 62,000 kilometers, with 58,000 for employment purposes and 4,000 for personal use. The automobile is leased by the employer for $456 per month which includes $43 for insurance. The automobile is available to Marvin for 10 months in 2022.

2. In 2019, Marvin was granted stock options to purchase 300 shares of his employer's common shares at a price of $72 per share. At the time the options were granted, the FMV of the shares were $70 per share. In January, 2022, when the shares are trading at $85 per share, Marvin exercises all of the options. He still owns the shares at December 31, 2022.

3. During 2022, Marvin receives several gifts from his employer:

• As a reward for winning the company's Employee of the Month Award, he receives an expense paid weekend in a local hotel. The regular price for this package was $1,200.

• As is the case for all of the company's employees, Marvin received a $600 gift certificate for merchandise at a local department store.

• At Christmas, the company provides each employee with a basket of gourmet food. The value of this basket is $450.

4. In 2022, Marvin spent $8,400 on meals and entertainment with clients of his employer. His employer reimbursed all but $1,000 of these costs.

5. In 2022, Marvin and Leslie decide to purchase their first family home (they have rented for the last 15 years). After considerable searching, they identify the perfect property one block from their rented apartment and purchase it for $462,000. Consistent with company policy he requests and receives an interest free loan of $200,000 to assist with this purchase. The loan was received on April 1, 2022. Assume that the prescribed interest rate on employee loans is 2% throughout all of 2022.

6. In 2022, both Sharon and Samantha had surgery. Marvin paid $2,800 for emergency services after Sharon's nose suffered serious trauma during a martial arts class. He also paid $13,500 for cosmetic surgery for Samantha.These amounts are included in the following medical expenses of the family, all of which were paid by Marvin:

Marvin And Leslie $ 2,200

Sharon 3,100

Suzanne 12,300

Samantha 16,000

**Required:**

A. Determine Marvin’s minimum employment income and net income for 2022.

B. Determine Marvin’s minimum taxable income for 2022.

C. Based on your answer in Part B, determine Marvin’s federal income tax payable for 2022.

Answer:

***Part A - Employment income and net income***

Marvin's minimum employment and net income would be calculated as follows:

Salary $112,468

Additions:

Bonus (Amounts Received after 2025

- Salary Deferral Arrangement) 20,000

Automobile Benefit (Note 1) 991

Stock Options (Note 2) 3,900

Gifts (Note 3) 1,800

Client Meals and Entertainment (Note 4) Nil

Interest Free Loan Benefit (Note 5) 3,000

Deductions:

RPP Contributions ( 6,800)

Professional Association Dues ( 3,400)

2022 Employment Income $131,959

**Note 1 -** The automobile benefit would be calculated as follows:

Standby Charge [(2/3)(10)($456 - $43)(4,000 ÷ 16,670\*)] $661

Operating Cost Benefit - Lesser Of:

• [(1/2)($661)] = $330

• [($0.29)(4,000)] = $1,160 330

Total Automobile Benefit $991

\*[(10)(1,667)]

As Marvin's employment related use was more than 50%, the reduced standby charge is available. In addition, he can use the alternative calculation of the operating cost benefit.

**Note 2** - The stock option benefit would be calculated as follows:

[(300)($85 - $72)] = $3,900

**Note 3 -** The $1,200 employee of the month award is performance based and therefore would not be eligible for CRA administrative concessions. In addition the $600 gift certificate is also not eligible for the CRA concessions since it is a near cash gift. The Christmas basket is under the $500 concession limit and would therefore not be considered a taxable benefit. The total taxable benefit would be $1,800 ($1,200 + $600).

**Note 4 -** Marvin's meal and entertainment costs exceed his employer's reimbursement by the $1,000 that were not reimbursed. However, as he has no commission income, he cannot deduct these out-of-pocket costs. In addition since the meals are entertainment were incurred on behalf of the employer no part of the amounts paid by the employer would be considered a taxable benefit.

**Note 5 -** The taxable benefit on the loan is calculated as follows:

[(2%)($200,000)(9/12)] = $3,000

***Part B - Taxable Income***

Marvin's taxable income would be calculated as follows:

Employment Income $131,959

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

Net Income $131,498

Stock Option Deduction [(1/2)($3,900)] ( 1,950)

Taxable Income $129,548

***Part C - Federal Income Tax Payable***

Based on the taxable income calculated in Part B,Marvin's Federal income tax payable would be calculated as follows:

Tax on first $100,392 $17,820

Tax on next $29,156 ($129,548 - $100,392) at 26% 7,581

Federal Tax before Credits $25,401

BPA ($14,398)

Spousal Including Infirm Amount

($14,398 + $2,350 - $8,460) ( 8,288)

Canada Caregiver - Suzanne ( 7,525)

Transfer of Leslie's Disability ( 8,870)

Transfer of Samantha's Tuition (Note 6) ( 5,000)

First-Time Home Buyers' ( 5,000)

EI Premiums ( 953)

CPP Contributions ( 3,039)

Canada Employment ( 1,287)

Medical Expenses (Note 7) ( 17,019)

Credit Base ($71,379)

Rate 15% ( 10,707)

Charitable Donations (Note 8)

[(15%)($200) + (29%)($2,500 - $200)] ( 697)

Marvin's 2022 Federal Income Tax Payable $13,997

**Note 6 -** As Samantha's net income is less than the BPA of $14,398, she cannot claim any tuition credit. Given this and the fact that her total tuition exceeds the maximum transfer of $5,000, the transfer amount will be limited to $5,000.

**Note 7 -** Samantha's cosmetic surgery would not be an eligible medical expense. The base for Marvin's medical expense credit can be calculated as follows:

Marvin, Leslie, And Sharon

($2,200 + $3,100) $ 5,300

Reduced by the lesser of:

• [(3%)($131,498)] = $3,945

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

Suzanne's Medical Expenses $12,300

Reduced by the lesser of:

• $2,479

• [(3%)($7,250)] = $218 ( 218) 12,082

Samantha's Allowable Medical Expenses

($16,000 - $13,500) $2,500

Reduced by the lesser pf:

• $2,479

• [(3%)($12,800)] = $384 ( 384) 2,116

Allowable Medical Expenses $17,019

**Note 8 -** As none of his taxable income is subject to the 33% income tax rate all donations in excess of $200 are eligible for a credit at a rate of 29%.

Type: ES

Topic: Tax credits - employment income, tax payable (comprehensive)

98) Martin Dorne is 53 years old and employed by a large public construction company. His annual salary is $98,500, none of which is commissions. The company was very successful in 2022 and Martin has been provided with a $15,000 bonus. that will be paid in equal amounts ($3,000) over the five year period period 2022 through 2026.

Martin's employer withheld maximum EI premiums and CPP contributions, along with $18,000 in federal income taxes. Other amounts withheld by his employer are as follows:

RPP Contributions $4,300

Union Dues 450

Martin's common-law partner is Brian Lassiter. Brian is 48 years old and is legally blind. Brian has net income of $9,400 in 2021 all of which is from investments.

Martin and Brian adopted three orphaned brothers 8 years ago. Information on these brothers is as follows:

**David** is 15 years old, in good health, and has net income from part time employment of $10,500.

**Devon** is 20 years old and suffers from a physical infirmity that prevent him from working on a full time basis. He lives with Martin and Brian and has net income from part time employment of $5,150.

**Derek** is 22 years old and attends university on a full time basis for 8 months of the year. Martin pays his tuition fees of $14,300, along with textbook costs of $1,200. He lives with Martin and Brian and is in good health. He has net income of $14,000 all of which is from a business he carries on as a sole proprietor. Assume he pays no CPP contributions on this income.

**Other Information:**

1. In 2022, Martin spent $12,300 on meals and entertainment with clients of his employer. His employer only reimbursed $7,300 of these costs.

2. In 2022, Martin makes his regular annual contribution of $2,000 to a registered charity,

3. The family's 2022 medical expenses, all of which were paid by Martin, were as follows:

Martin and Brian $ 2,200

David 1,700

Devon 10,600

Derek 4,500

4. Martin received options to purchase 500 shares of his employer at a price of $45 per share 2 years ago. At the time the options were granted, the market price of the shares was $50 per share. In July, 2022, when the shares are trading at $70 per share, Martin exercises all of the options. He continues to own the shares on December 31, 2022.

5. As interest rates continue to be very favourable, Martin and Brian purchase a home near the rented residence that they have lived in for the last 15 years. The cost of the new home is $480,000 and, to assist with the purchase, Martin's employer provides a $280,000 interest free loan. The loan was received on July 1, 2022 and will have to be repaid by July 1, 2026. Assume the prescribed interest rate on employee loans is 1% throughout all of 2022.

6. Martin is provided with an automobile by his employer. The automobile was purchased at a cost of $45,200, including HST at 13%. In 2022, the automobile is driven 48,000 kilometers, of which 37,000 were for employment purposes and 11,000 for personal use. The automobile is available to Martin for 11 months during 2022.

7. In 2022, Martin receives several gifts from his employer:

• As is the case for all of the company's employees,Martin receives a $250 gift certificate that can be used for merchandise at a local department store.

• In recognition of his 10 years of service, Martin receives an engraved wrist watch. The retail value of this watch is $800.

• At Christmas, all of the company's employees receive a gift box of vintage wines. The retail value of these wines is $400.

**Required:**

A. Determine Martin's 2022 employment income and net income.

B. Determine Martin's 2022 taxable income.

C. Based on your answer in Part B, determine Martin's 2022 Federal income tax payable or refund.

Answer:

***Part A***

Martin's 2022 employment income would be calculated as follows:

Salary $ 98,500

Additions:

Bonus (2022 Receipt) 3,000

Bonus (Amounts after 2025 - Salary Deferral) 3,000

Client Meals and Entertainment (Note 1) Nil

Stock Options (Note 2) 12,500

Interest Free Loan Benefit (Note 3) 1,400

Automobile Benefit (Note 4) 8,948

Gifts (Note 5) 550

Deductions:

RPP Contributions ( 4,300)

Union Dues ( 450)

2022 Employment Income $123,148

**Note 1 -** Martin's meal and entertainment expenses exceed his employer's reimbursement by $5,000 ($12,300 - $7,300). However, as he has no commission income, he cannot deduct these out-of-pocket costs. In addition since the expenses were incurred on behalf of his employer no part of the amounts reimbursed create a taxable benefit.

**Note 2 -** The stock option benefit would be calculated as follows:

[(500)($70 - $45)] = $12,500

Note that, because the option price was less than the FMV of the shares at the time the options were granted, there is no stock option deduction allowed.

**Note 3 -** The taxable benefit on the loan is calculated as follows:

[(1%)($280,000)(6/12)] = $1,400

**Note 4 -** The automobile benefit would be calculated as follows:

Standby Charge [(2%)(11)($45,200)(11,000 ÷ 18,337\*)] $5,965

Operating Cost Benefit - Lesser of:

• [(1/2)($5,965)] = $2,983

• [($0.29)(11,000)] = $3,190 2,983

Total Automobile Benefit $8,948

\*[(11)(1,667)]

As Martin's employment related use was more than 50%, the reduced standby charge is available. In addition, he could use the alternative calculation of the operating cost benefit.

**Note 5 -** The gift certificate for $250 is not eligible for the CRA concessions therefore it is a taxable because it is a near-cash gift. The first $500 of the long-service award will not be a taxable benefit. However, the excess of $300 ($800 - $500) will be a taxable benefit. As the value of the Christmas gift basket is under $500, it will not create a taxable benefit. The total taxable benefit for gifts is $550 ($250 + $300).

***Part B***

Martin’s net and taxable income would be calculated as follows:

Employment Income $123,148

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

2022 Net and Taxable Income $122,687

***Part C***

Martin’s Federal income tax payable would be calculated as follows:

Tax on first $100,392 $17,820

Tax on next $22,295 ($122,687 - $100,392) at 26% 5,797

Federal Tax before Credits $23,617

BPA ($14,398)

Spousal Including Infirm Amount

($14,398 + $2,350 - $9,400) ( 7,348)

Canada Caregiver - Additional Amount

(Note 6) ( 177)

Canada Caregiver - Devon ( 7,525)

Transfer of Brian’s Disability ( 8,870)

Transfer of Derek’s Tuition (Note 7) ( 5,000)

First Time Home Buyers (Maximum) ( 5,000)

EI Premiums ( 953)

CPP Contributions ( 3,039)

Canada Employment ( 1,287)

Medical Expenses (Note 8) ( 15,946)

Credit Base ($69,543)

Rate 15% ( 10,431)

Charitable Donations [(15%)($200)

+ (29%)($2,000 - $200)] (Note 9) ( 552)

Federal Income Tax Payable $12,634

Federal Income Tax Withheld ( 18,000)

Federal Income Tax Refund ($ 5,366)

**Note 6 -** The base for the spousal credit of $7,348 is less than the Canada caregiver base of $7,525. As his spouse's net income is less than the income threshold for the Canada caregiver credit of $17,670, he would qualify for the full amount of the Canada caregiver credit. Given this, there is an additional amount of $177 ($7,525 - $7,348) added to the credit base.

**Note 7 -** Derek will have to reduce his own federal income tax payable to nil before transferring any tuition amount. Since his BPA of $14,398 exceeds his net income of $14,000 he will not need any of his tuition credits to reduce his income tax payable. This means that he can transfer the maximum amount of $5,000. He will have a carry forward of $9,300 ($14,300 - $5,000).

The reason for the assumption of no CPP contributions is that business income is not covered until Chapter 6. Derek's self-employed income would be reduced by half of the CPP paid and his tax payable would be reduced by the other half.

**Note 8 -** The base for Martin's medical expense credit can be calculated as follows:

Martin, Brian, And David

($2,200 + $1,700) $ 3,900

Reduced by the lesser of:

• [(3%)($122,687)] = $3,681

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

Devon’s Medical Expenses $10,600

Reduced by the lesser of:

• $2,479

• [(3%)($5,150)] = $155 ( 155) 10,445

Derek’s Medical Expenses $4,500

Reduced by the lesser of:

• $2,479

• [(3%)($14,000)] = $420 ( 420) 4,080

Allowable Medical Costs $15,946

**Note 9 -** As none of his taxable income is subject to the 33% income tax rate all donations in excess of $200 are eligible for a credit at a rate of 29%.

Type: ES

Topic: Tax credits - employment income, tax payable (comprehensive)

99) Phil Cousteau is an accountant. Phil is 47 years old and is married to Claire who is 45 years old and blind. She has 2022 net income of $9,000, all of which is interest on investments she inherited from her mother.

Phil and Claire have two children, a 15 year old daughter, Haley, and a 19 year old son, Manny. Both Haley and Manny live at home. Haley had 2022 net income of $800 from baby-sitting. Manny has a physical infirmity that is not severe enough to qualify for the disability tax credit.

Manny has 2022 net income of $15,000 attributable to interest income on investments inherited from his grandmother.

Phil's brother, Cameron, who is in good health, lives in the basement of Phil's Toronto home. Cameron is 50 years old and has net income of $3,000 all of which is from EI benefits. Phil also supports his 85 year old father, Jay, who is physically infirm and lives in a retirement home. Jay's 2022 net income is $9,000 which consists of OAS, investment income and payments from a RPP of $1,000.

Phil works for ModFam Company and was paid a salary of $70,000 in 2022. He also earned a bonus of $5,000 in 2022, with one-fifth of the bonus to be paid each year from 2022 to 2026.

In 2022 he received a briefcase worth $800 as an award for being the "employee of the year" and a Christmas basket from the company worth $600. All of the Company's employees received a similar basket.

ModFam transferred Phil from their Toronto office to their Vancouver office in 2022. On April 1, 2022 Phil moved his family out of the house they had rented in Toronto for the last 10 years and into a brand new house in Vancouver that cost $800,000. Although Jay was to stay at the retirement home in Toronto, Cameron moved with the family to Vancouver. Phil was reimbursed by his employer for all of his moving costs. As a consequence, he has no deductible moving expenses.

To help finance the new house, ModFam Company lent Phil $500,000 on April 1 at 1% interest. Phil would have paid 5% interest on a similar loan from the bank.

ModFam provides Phil with a company car. While he was at the Toronto office, he had a Toyota Highlander that the company leased for $875 per month ($50 of which was for insurance). The company paid $1,600 for the Highlander's other operating costs from January 1, 2022 to March 31, 2022. During that period, Phil drove the car 9,000 kilometers of which 6,000 kilometers were for employment purposes and 3,000 for personal use.

On April 1, 2022 the Vancouver office gave Phil the keys to a Toyota Camry Hybrid that was purchased for $31,300. The company paid $4,500 for the Camry's operating costs from April 1, 2022 to December 31, 2022. During that period, Phil drove the car 24,000 kilometers of which 10,000 kilometers were for employment purposes and 14,000 for personal use.

In 2022, the following payroll amounts were withheld by the employer :

Federal Income Tax $8,500

CPP 3,500

EI 953

Group Life Insurance Premiums 600

RPP contributions 1,200

Donations to a registered charity 1,500

The company matched the life insurance and RPP amounts.

In 2022, Phil paid the following eligible medical expenses:

Himself $ 650

Claire 1,940

Haley 860

Manny 1,250

Cameron 480

Jay 990

Phil also paid $900 for his 2022 professional association dues.

Claire made a $500 donation to their church during 2022.

Assume that the prescribed interest rates for 2022 on employee loans were 2% for the first and fourth quarter and 3% second and third quarter.

**Required:** For the 2022 taxation year, calculate Mr. Cousteau's:

1. Employment income and Net Income,

2. Taxable Income,

3. Federal Income Tax Payable or Refund.

In determining these amounts, ignore GST/HST & PST considerations.

Answer:

***Part 1 - Employment Income***

The required amounts would be calculated as follows:

Salary $70,000

Additions

Bonus ($5,000 ÷ 5) 1,000

Salary Deferral Benefit (Bonus Past 2025) 1,000

Performance Award (Briefcase) 800

Christmas Basket ($600 - $500) 100

Loan Benefit (Note 1) 6,250

Automobile Benefit (Note 2) 11,179

Employer Paid Premium on Life Insurance 600

Deductions

RPP Contributions ( 1,200)

Professional Dues ( 900)

2022 Employment Income $88,829

**Note 1 -** The loan benefit would be calculated as follows:

Taxable Benefit under ITA 80.4(1)(a) - Lesser of:

• [(3%)(2/4)($500,000) + (2%)(1/4)($500,000)] = $10,000

• [(3%)(3/4)($500,000)] = $11,250

Reduction For Payments Under ITA 80.4(1)(c) [(1%)($500,000)(3/4)] ( 3,750)

Total ITA 80.4(1) Interest Benefit $ 6,250

Mr. Couteau can continue to use the rate in effect at the time the loan was made to calculate the taxable benefit for up to 5 years. However, since the rate has decreased, it is more advantageous for him to use the current rate instead.

**Note 2** - On the Vancouver automobile employment use was less than 50%. This means the reduced standby charge and the alternative operating cost benefit calculation are not available. The automobile benefit would be calculated as follows:

Toronto Standby Charge [(2/3)($875 - $50)(3)(3,000/5,001\*)] $ 990

Toronto Operating Cost Benefit - Lesser of:

• [($0.29)(3,000)] = $870

• [(1/2)($990)] = $495 495

Vancouver Standby Charge [(2%)($31,300)(9)] 5,634

Vancouver Operating Cost Benefit [($0.29)(14,000)] 4,060

Total Automobile Benefit $11,179

\*[(3)(1,667)]

Other Notes:

• A bonus that is payable more than 3 years after the end of the year in which an employee provides services is a salary deferral arrangement and must be included in income in the year in which the employment services were provided.

• Performance awards are not eligible for the CRA concessions and are therefore taxable benefits.

• The exempt portion of non-cash gifts is limited to $500 as a result of the CRA concessions.

• While employer payments for life insurance premiums are a taxable benefit, employer contributions to RPPs are not a benefit.

***Part 2 - Net and Taxable Income***

Mr. Cousteau’s Net and Taxable Income amounts are calculated as follows:

Employment Income $88,829

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

2022 Net and Taxable Income $88,368

***Part 3 - Federal Income Tax Payable or Refund***

Mr. Cousteau’s Federal income tax payable or refund would be calculated as follows:

Tax on first $50,197 $ 7,530

Tax on next $38,171 ($88,368 - $50,197) at 20.5% 7,825

Federal Tax before Credits $15,355

BPA ($14,398)

Spousal Including Infirm Amount

($14,398 + $2,350 - $9,000) ( 7,748)

Additional Caregiver Amount (Note 3) Nil

Disability Transfer from Spouse ( 8,870)

Canada Caregiver (Note 4)

Manny And Jay [(2)($7,525)] ( 15,050)

First-Time Home Buyers' ( 5,000)

CPP ( 3,039)

EI ( 953)

Canada Employment ( 1,287)

Medical Expenses (Note 5) ( 2,881)

($59,226)

Rate 15% ( 8,884)

Charitable Donations (Note 6)

[(15%)($200) + (29%)($1,500 + $500 - $200)] ( 552)

Federal Income Tax Payable before Withholding $ 5,919

Federal Income Tax Withheld ( 8,500)

Federal Income Tax Refund ($ 2,581)

**Note 3** - Since the spousal amount of $7,748 is not less than the Canada caregiver amount of $7,525, there is no additional amount.

**Note 4 -** Both Manny and Jay qualify for the Canada caregiver credit because they are infirm. As neither has income in excess of the Canada caregiver income threshold of $17,256, the full Canada caregiver amount is available for each.

**Note 5** - The base for the medical expense tax credit can be calculated as follows:

Phil, Claire, and Haley ($650 + $1,940 + $860) $3,450

Reduced by the lesser of:

• [(3%)($88,368)] = $2,651

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

Manny $1,250

Reduced by the lesser of:

• [(3%)($15,000)] = $450

• $2,479 ( 450) 800

Cameron $480

Reduced by the lesser of:

• [(3%)($3,000)] = $90

• $2,479 ( 90) 390

Jay $990

Reduced by the lesser of:

• [(3%)($9,000)] = $270

• $2,479 ( 270) 720

Total $2,881

**Note 6 -** As none of his taxable income is subject to the 33% income tax rate all donations in excess of $200 are eligible for a credit at a rate of 29%.

Type: ES

Topic: Tax credits - employment income, tax payable (comprehensive)