

Practice Examination Solution

Chapter 11 (Tax Payable For Individuals II)

Examination Summary

The marks you have received on each question can be added in the final column.

Question	Type Of Question Or Subject	Total Marks	Your Mark
1	Essay Question	10	
2 - 7	True Or False Questions	9	
8 - 14	Multiple Choice Questions	21	
15	Loss Carry Overs	20	
16	Lifetime Capital Gains Deduction and ABILs	20	
17	Alternative Minimum Tax	20	
Total		100	

Solution 1 (10 Marks)

The calculation begins by calculating item E of the definition found in Paragraph 11-36 in the textbook. Item E **adds** together the following types of losses:

- employment losses
- business losses
- property losses
- allowable business investment losses
- net capital loss carry overs deducted

(this amount is limited to net taxable capital gains for the current year)

From this total, the taxpayer **subtracts** Item F, the amount of income determined under ITA 3(c) which consists of:

- the **sum** of positive amounts of:
 - employment income
 - business income
 - property income
 - net taxable capital gains
- **less** any Division B, **subdivision e deductions** (such as RRSP deductions).

If the resulting balance is positive, the taxpayer's **farm loss** for the year (Item D) is subtracted.

The resulting non-capital loss balance can be **carried back 3 years** and **forward 20 years**.

1 grading point for each correct answer. Total 17

Your Mark = [(# of grading points ÷ 17)(10%)] = ____%

Solutions 2 Through 7 (9 Marks)

2. **True.** Farm losses can be carried back 3 years and forward for 20 years.
3. **False.** If loss carry overs are used to reduce Taxable Income to nil, the individual will not be able to use their tax credits and, because few credits have carry forward provisions, they will be lost.
4. **False.** A business investment loss arises on the disposition of shares or debt in a small business corporation. Not all CCPCs are small business corporations.
5. **True.** All of the split income of a specified individual will be taxed at the maximum federal rate of 29 percent.
6. **False.** The transfer can only be made if it creates or increases the taxpayer's spousal credit.
7. **False.** The base is limited to 75 percent of Net Income For Tax Purposes plus 25 percent of any taxable capital gain arising as the result of the gift, plus 25 percent of any recaptured CCA resulting from the gift.

1 grading point for each correct answer. Total 6

Your Mark = [(# of grading points ÷ 6)(9%)] = ____%

Solutions 8 Through 14 (21 Marks)

8. **B.** Losses on "listed" personal property can be deducted to the extent of losses on listed personal property.
9. **D.** They can be deducted against any type of income in the year of death or the immediately preceding year.
10. **C.** Dividends received on public company shares that were gifted to a specified individual by that individual's grandfather. While the income attribution rules might be applicable, these dividends would not be considered to be split income.
11. **C.** $\$162,750 [(75\%)(\$182,500) + (25\%)(1/2)(\$320,000 - \$217,000) + (25\%)(\$217,000 - \$165,000)]$
12. **A.** The limit on the base for charitable donations in the year of death and the immediately preceding year is 100 percent of Net Income For Tax Purposes.
13. **B.** The foreign tax credit for taxes withheld on foreign non-business income will be the lesser of of the amount withheld and an amount determined by a formula in which tax otherwise payable is multiplied by the ratio of foreign non-business income divided by adjusted Division B Income. This is not correct as the credit will not be equal to the amount withheld if it exceeds 15 percent of the foreign non-business income.
14. **C.** RRSP deductions.

1 grading point for each correct answer. Total 7

Your Mark = [(# of grading points ÷ 7)(21%)] = ____%

Solution 15 (20 Marks)**Net And Taxable Income**

For 2013, Mr. Li will have:

- Net Income For Tax Purposes of nil.
- Taxable Income of nil.

Net Capital Loss Carry Forward

Mr. Li has a net capital loss carry over from 2012 of \$9,000 [(1/2)(\$18,000)]. This can be deducted the extent of the net taxable capital gain in 2013, an amount of \$3,750 [(1/2)(\$15,700 - \$8,200)].

This will leave a carry forward of \$5,250 (\$9,000 - \$3,750).

Non-Capital Loss Carry Forward

The 2013 non-capital loss and related carry back is calculated as follows:

Business Loss	\$123,000
Net Capital Loss Carry Forward Deducted	3,750
Income Under ITA 3(c)	(3,750)
Non-Capital Loss	\$123,000
Carry Back (Ignoring Tax Credits In Previous Year)	(62,000)
Non-Capital Loss Carry Forward	\$ 61,000

Amended Figures For Previous Year

The amended figures for 2012 are as follows:

2012 Net Income For Tax Purposes	\$62,000
Non-Capital Loss Carry Back	(62,000)
2012 Taxable Income (Amended)	Nil

1 grading point for each highlighted item. Total 20

Your Mark = [(# of grading points ÷ 20)(20%)] = ____%

Solution 16 (20 Marks)

Since Mr. Lindon had claimed the lifetime capital gains deduction in a previous year for an amount greater than \$3,000, his business investment loss is disallowed and is equal to nil. The \$3,000 loss is treated as an ordinary capital loss.

Mr. Lindon's minimum Net Income For Tax Purposes and Taxable Income would be calculated as follows:

Net Employment Income		\$21,300
Taxable Capital Gain	\$18,300	
Allowable Capital Loss On Share Sale	(4,800)	
Allowable Capital Loss On Loan (Disallowed ABIL) [(1/2)(\$3,000)]	(1,500)	12,000
Net Income For Tax Purposes		\$33,300
Non-Capital Loss Carry Forward	(3,500)	
Net Capital Loss Carry Forward		Nil
Lifetime Capital Gains Deduction (See Note)	(10,800)	
Taxable Income		\$19,000

Note The lifetime capital gains deduction is the **least** of:

Capital Gains Deduction Available (\$375,000 - \$50,000)	\$325,000
Annual Gains Limit = Net Taxable Capital Gains	\$12,000
Sum Of Annual Gains Limit (\$50,000 + \$12,000)	\$72,000
Lifetime Capital Gains Deduction In Previous Year	(50,000)
CNIL Balance	(1,200)
Cumulative Gains Limit	\$10,800

While it would have been possible for Mr. Lindon to deduct the \$10,250 net capital loss carry forward instead of \$10,250 of the available lifetime capital gains deduction, the problem states that he prefers to use the lifetime capital gains deduction first. This likely reflects the fact that there is **no time limit on using the net capital loss carry forward** and, more importantly, it **can be used against any type of taxable capital gain**. In contrast, the lifetime capital gains deduction can only be used for **certain types of capital gains** that are not common.

1 grading point for each highlighted item. Total 26

Your Mark = [(# of grading points ÷ 26)(20%)] = ____%

Solution 17 (20 Marks)

Ms. Morganstern's regular Tax Payable would be calculated as follows:

\$38,088 At 15 Percent	\$5,713
Basic Personal Credit [(15%)(11,038)]	(1,656)
Dividend Tax Credit [(6/11)(38%)(27,600)]	(5,720)
Federal Tax Payable - Regular	Nil

Her Adjusted Taxable Income for alternative minimum tax purposes would be as follows:

Regular Taxable Income	\$ 38,088
30 Percent Of Capital Gains [(30%)(2)(180,000)]	108,000
Dividend Gross Up [(38%)(27,600)]	(10,488)
Adjusted Taxable Income	\$135,600

The calculation of the alternative minimum tax would be as follows:

Adjusted Taxable Income	\$135,600
Basic Exemption	(40,000)
Amount Subject To Tax	\$ 95,600
Rate	15%
Minimum Tax Before Credit	\$ 14,340
Basic Personal Credit	(1,656)
Alternative Minimum Tax Payable	\$ 12,684

As the alternative minimum tax payable is **higher than the regular tax payable**, the **alternative amount would have to be paid**.

1 grading point for each highlighted item. Total 22

Your Mark = [(# of grading points ÷ 22)(20%)] = ____%