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CHAPTER 3

Taxable Income And Tax Payable For Individuals

Introduction

3-1. As discussed in Chapter 1, Taxable Income is Net Income For Tax Purposes, less a group of deductions that are specified in Division C of Part I of the *Income Tax Act*. Also noted in the Chapter 1 material was the fact that Net Income For Tax Purposes is made up of several different income components. These components are employment income, business and property income, taxable capital gains, other sources, and other deductions.

3-2. Some tax texts defer any coverage of Taxable Income until all of the income components that make up Net Income For Tax Purposes have been given detailed consideration. Despite the fact that the only component of Taxable Income that we have covered to this point is employment income, we have decided to introduce material on Taxable Income and Tax Payable for individuals at this point in the text.

3-3. The major reason for this approach is that it allows us to introduce the tax credits that go into the calculation of Tax Payable at an earlier stage in the text. We believe that this will enhance the presentation of the material in subsequent Chapters on business income, property income, and taxable capital gains. For example, in our discussion of property income, we can deal with after tax rates of return, as well as provide a meaningful discussion of the economics of the dividend gross up/tax credit procedures.

3-4. Other reasons for this organization of the material are more pedagogical in nature. One factor here is the fact that leaving the coverage of tax credits until after the completion of the material on all of the components of Taxable Income places this complex subject in the last week of most one semester tax courses which can create significant difficulties for students. A further consideration is the fact that, by introducing Taxable Income and Tax Payable at this earlier stage in the text, instructors who wish to do so can make more extensive use of the tax software programs provided with the text.

3-5. Since a significant portion of the material on Taxable Income can be best understood after covering the other types of income that make up Net Income For Tax Purposes, we require a second Chapter dealing with the subject of Taxable Income and Tax Payable. In addition, a few of the credits that are available in the calculation of Tax Payable require an understanding of additional aspects of business income, property income, and taxable capital gains. Given this, Chapter 10 is devoted to completing the necessary coverage of Taxable

Income and Tax Payable for individuals. For corporations, these subjects are covered in Chapters 11 and 12.

Taxable Income Of Individuals

Available Deductions

3-6. The deductions that are available in calculating the Taxable Income of an individual can be found in Division C of Part I of the *Income Tax Act*. As indicated in the introduction to this Chapter, some of these deductions will be dealt with in this Chapter. However, coverage of the more complex items is deferred until Chapter 10. The available deductions, along with a description of their coverage in this text, are as follows:

ITA 110(1)(d), (d.01), and (d.1) - Employee Stock Options Our basic coverage of stock options and stock option deductions is included in Chapter 2. This coverage will not be repeated here. There are, however, some additional and more complex issues related to stock options. These include revoked elections, application of the identical property rules on dispositions, and stock options held at the time of emigration. These subjects are dealt with either in the Supplementary Readings on the Student CD-ROM or in Chapter 20, International Issues In Taxation.

ITA 110(1)(f) - Deductions For Payments This deduction, which is available for social assistance and workers' compensation received, is covered beginning in Paragraph 3-8.

ITA 110(1)(j) - Home Relocation Loan We refer to this deduction in Chapter 2 as it is related to a taxable benefit that is included in employment income. However, more detailed coverage is found in this Chapter beginning in Paragraph 3-11.

ITA 110.2 - Lump Sum Payments This Section provides a deduction for certain lump-sum payments (e.g., an amount received as a court-ordered termination benefit and included in employment income). It provides the basis for taxing this amount as though it were received over several periods (i.e., income averaging). Because of its limited applicability, no additional coverage is given to this provision.

ITA 110.6 - Lifetime Capital Gains Deduction The provisions related to this deduction are very complex and require a fairly complete understanding of capital gains. As a consequence, this deduction is covered in Chapter 10.

ITA 110.7 - Residing In Prescribed Zone (Northern Residents Deductions) These deductions, which are limited to individuals living in prescribed regions of northern Canada, are covered in Paragraph 3-15.

ITA 111 - Losses Deductible This is a group of deductions that is available for carrying over various types of losses from preceding or subsequent taxation years. The application of these provisions can be complex and requires a fairly complete understanding of business income, property income, and capital gains. Coverage of this material is deferred until Chapter 10.

Ordering Of Deductions

3-7. ITA 111.1 specifies, to some degree, the order in which individuals must subtract the various deductions that may be available in the calculation of Taxable Income. With respect to the deductions covered in this Chapter, the deductions for payments and home relocation loans can be made in any order. However, both of these deductions must be made prior to deducting the northern residents deductions. We will provide more complete coverage of the ordering of deductions in Chapter 10, after we have presented material on the other deductions available in calculating the Taxable Income of an individual.

Deductions For Payments - ITA 110(1)(f)

3-8. ITA 110(1)(f) provides for the deduction of certain amounts that have been included in

the calculation of Net Income For Tax Purposes. The items listed here are amounts that are exempt from tax in Canada by virtue of a provision in a tax treaty or agreement with another country, workers' compensation payments received as a result of injury or death, income from employment with a prescribed international organization, and social assistance payments made on the basis of a means, needs, or income test and included in the taxpayer's income.

3-9. At first glance, this seems to be a fairly inefficient way of not taxing these items. For example, if the government does not intend to tax social assistance payments, why go to the trouble of including them in Net Income For Tax Purposes, then deducting an equivalent amount in the calculation of Taxable Income?

3-10. There is, however, a reason for this. There are a number of items that influence an individual's tax obligation that are altered on the basis of the individual's Net Income For Tax Purposes. For example, we will find later in this Chapter that the amount of the age tax credit is reduced by the individual's Net Income For Tax Purposes in excess of a specified level. In order to ensure that income tests of this type are applied on an equitable basis, amounts are left in Net Income For Tax Purposes even in situations where the ultimate intent is not to assess tax on these amounts.

Home Relocation Loan - ITA 110(1)(j)

3-11. As discussed in Chapter 2, if an employer provides an employee with a loan on which interest is payable at a rate that is less than the prescribed rate, a taxable benefit must be included in the employee's income. Under ITA 80.4(1), the benefit will be measured as the difference between the interest that would have been paid on the loan at the prescribed rate and the amount of interest that was actually paid. This taxable benefit must be included in income, even in situations where the loan qualifies as a "home relocation loan".

3-12. A home relocation loan is defined in ITA 248(1) as a loan made by an employer to an employee in order to assist him in acquiring a dwelling. This acquisition must be related to employment at a new work location, and the new dwelling must be at least 40 kilometers closer to the new work location. As is discussed more completely in Chapter 8, the distance is the same 40 kilometer test that is used in determining whether or not an individual can deduct moving expenses.

3-13. ITA 110(1)(j) provides a deduction in the calculation of the individual's Taxable Income for home relocation loans equal to the lesser of:

- The taxable benefit that would be assessed under ITA 80.4(1). As covered in Chapter 2, in general, this benefit is calculated by applying the prescribed rate that is applicable to each quarter that the loan is outstanding [ITA 80.4(1)(a)]. However, in the case of the first five years of a housing loan, this amount cannot exceed the amount that results from applying the prescribed rate that was in effect when the loan was granted, to the loan for the entire period that it was outstanding during the year [ITA 80.4(4)]. The amount of the benefit is reduced by any payments made by the employee during the year or within 30 days of the end of the year [ITA 80.4(1)(c)] for the home relocation loan.

- The amount of interest, calculated at the prescribed rate, that would be applicable to a $25,000 home relocation loan. As is the case with the loan benefit, the rate used is the lesser of the rate that was in effect when the loan was granted and the current prescribed rate. This amount is not reduced for payments made by the employee.

3-14. This deduction is available for a period of up to five years. However, as the deduction is designed to offset a benefit that is included in employment income, the deduction will not be available after the loan has been paid off and there is no longer an employment income inclusion. While the calculation of the benefit and the deduction can be based on the number of days in each quarter, an example in IT-421R2 makes it clear that treating each calendar quarter as one-quarter of a year is an acceptable procedure.

Exercise Three - 1

Subject: Home Relocation Loan

On January 1 of the current year, in order to facilitate an employee's relocation, Lee Ltd. provides her with a five year, $82,000 loan. The employee pays 2 percent annual interest on the loan on December 31 of each year. Assume that at the time the loan is granted the prescribed rate is 4 percent. However, the rate is increased to 5 percent for the third and fourth quarters of the current year. What is the effect of this loan on the employee's Taxable Income for the current year?

End of Exercise. Solution available in Study Guide.

Northern Residents Deductions - ITA 110.7

3-15. Residents of Labrador, the Territories, as well as parts of some of the provinces, are eligible for deductions under ITA 110.7. To qualify for these deductions, the taxpayer must be resident in these prescribed regions for a continuous period of six months beginning or ending in the taxation year. The amount of the deductions involve fairly complex calculations that go beyond the scope of this text. The purpose of these deductions is to compensate individuals for the high costs that are associated with living in such prescribed northern zones.

Calculation Of Tax Payable

Federal Tax Payable Before Credits

3-16. The calculation of federal Tax Payable for individuals requires the application of a group of progressive rates to marginal amounts of Taxable Income. The rates are progressive, starting at a low rate of 15 percent and increasing to rates of 22 percent, 26 percent, and 29 percent as the individual's Taxable Income increases. In order to maintain fairness, the brackets (i.e., income segments) to which these rates apply are indexed to reflect changes in the Consumer Price Index. Without such indexation, taxpayers could find themselves subject to higher rates without having an increased level of real, inflation adjusted income.

3-17. For 2009, the brackets to which these four rates apply are as follows:

Taxable Income In Excess Of	Federal Tax	Marginal Rate On Excess
$ -0-	$ -0-	15%
40,726*	$ 6,109	22%
81,452*	15,069	26%
126,264	26,720	29%

*If these first two brackets had been only subject to indexation, the 2009 amounts would have been $38,832 and $77,664. However, the January, 2009 federal budget provided for a further increase which resulted in the amounts shown in this table.

3-18. Note that the average rate for someone just entering the highest 29 percent bracket is 21.2 percent ($26,720 ÷ $126,264). This illustrates the importance of keeping an annual income level below this bracket. To this point, the average rate is 21.7 percent. For all income that exceeds this level, the federal rate goes to 29 percent.

3-19. There is a common misconception that once Taxable Income reaches the next tax bracket, all income is taxed at a higher rate. This is not the case as each rate is a marginal rate. For example, if Taxable Income is $126,265, only $1 is taxed at 29 percent.

3-20. The preceding table suggests that individuals are taxed on their first dollar of income. While the 15 percent rate is, in fact, applied to all of the first $40,726 of Taxable Income, a

portion of this amount is not really subject to taxes. As will be discussed later in this Chapter, every individual resident in Canada is entitled to a personal tax credit. For 2009, this tax credit is $1,548 [(15%)($10,320]. In effect, this means that no taxes will be paid on at least the first $10,320 of an individual's Taxable Income. The amount that could be earned tax free would be even higher for individuals with additional tax credits (e.g., the age credit).

3-21. As an example of the calculation of federal Tax Payable before credits, consider an individual with Taxable Income of $92,300. The calculation would be as follows:

Tax On First $81,452	$15,069
Tax On Next $10,848 ($92,300 - $81,452) At 26%	2,820
Federal Tax Payable Before Credits	$17,889

3-22. A surtax is an additional tax calculated on the basis of the regular Tax Payable calculation. While such additional taxes are no longer assessed at the federal level, they are still used in several provinces, most notably in Ontario. For 2009, Ontario has a surtax of 56 percent on amounts of Ontario Tax Payable in excess of $5,370. This significantly increases the highest rate in Ontario from the stated 11.16 percent to 17.41 percent.

Provincial Tax Payable Before Credits

Provincial Rates

3-23. As is the case at the federal level, provincial Tax Payable is calculated by multiplying Taxable Income by either a single tax rate or a group of progressive rates. In general, the provinces other than Quebec use the same Taxable Income figure that is used at the federal level.

3-24. With respect to rates, Alberta uses a single flat rate of 10 percent applied to all levels of income. All of the other provinces use either 3, 4, or 5 different rates which are applied in tax brackets that are similar to those established at the federal level. In addition, three of the provinces (Ontario, Nova Scotia and P.E.I.) apply surtaxes when the provincial Tax Payable figure reaches a certain level.

3-25. To give you some idea of the range of provincial rates, the 2008 minimum and maximum rates for provinces other than Quebec are as found in the following table. The maximum rates include surtaxes where applicable:

Province	Minimum Tax Rate	Maximum Tax Rate
Alberta	10.00%	10.00%
British Columbia	5.06%	14.70%
Manitoba	10.90%	17.40%
New Brunswick	10.12%	17.95%
Newfoundland and Labrador	8.20%	16.00%
Nova Scotia (including surtax)	8.79%	19.25%
Ontario (including surtax)	6.05%	17.41%
Prince Edward Island (including surtax)	9.80%	18.37%
Saskatchewan	11.00%	15.00%

3-26. You should note the significant differences in rates between the provinces. The maximum rate in Nova Scotia is nearly double the corresponding rate in Alberta. This amounts to extra taxes of nearly $10,000 per year on each additional $100,000 of income. This can make provincial tax differences a major consideration when an individual decides where he should establish provincial residency.

3-27. When these provincial rates are combined with the federal rate schedule, the minimum combined rate varies from a low of 20.06 percent in British Columbia (15 percent federal, plus 5.06 percent provincial), to a high of 26 percent in Saskatchewan (15 percent federal, plus 11 percent provincial).

3-28. Maximum combined rates are lowest in Alberta where the rate is 39 percent (29 percent federal, plus 10 percent provincial). They are highest in Nova Scotia where the

combined rate is 48.25 percent (29 percent federal, plus 19.25 percent provincial, including the surtax). Because the calculations are completely different, we have not included Quebec in this list of rates. We would note however, the overall rate in Quebec ranges from a low of 28.53 percent to a high of 48.22 percent.

Exercise Three - 2

Subject: Calculation Of Tax Payable Before Credits

During 2009, Joan Matel is a resident of Ontario and has calculated her Taxable Income to be $46,700. Assume that Ontario's rates are 6.05 percent on Taxable Income up to $40,726, 9.15 percent on the next $40,726, and 11.50 percent on the excess. Calculate her 2009 federal and provincial Tax Payable before consideration of credits and her average rate of tax.

End of Exercise. Solution available in Study Guide.

Provincial Residence

3-29. Given the significant differences in provincial tax rates on individuals, it is somewhat surprising that the rules related to where an individual will pay provincial taxes are fairly simple. With respect to an individual's income other than business income, it is deemed to have been earned in the province in which he resides on the last day of the taxation year. This means that, if an individual moves to Ontario from Nova Scotia on December 30 of the current year, any income for the year, other than business income, will be deemed to have been earned in Ontario.

Types Of Income

3-30. In terms of the effective tax rates, the income accruing to Canadian individuals can be divided into three categories:

Ordinary Income This would include employment income, business income, property income other than dividends, and other sources of income. In general, the effective tax rates on this category are those presented in the preceding tables. For example, the marginal rate for an individual living in Alberta and earning more than $126,264, would be 39 percent (29 percent federal, plus 10 percent provincial).

Capital Gains As will be discussed in detail in Chapter 7, capital gains arise on the disposition of capital assets. Only one-half of such gains are included in Net Income For Tax Purposes and Taxable Income. This means that the effective tax rate on this category of income is only one-half of the rates presented in the preceding tables. Returning to our Alberta resident who is earning more than $126,264, his effective marginal rate on capital gains would be 19.5 percent [(1/2)(29% + 10%)].

Dividends As will be explained in Chapter 6, dividends from taxable Canadian companies are subject to a gross up and tax credit procedure which reduces the effective tax rate on this type of income. Also in that Chapter, we explain the difference between eligible dividends and non-eligible dividends. For eligible dividends, the maximum rate tends to be similar to the rates on capital gains (one-half the rate on ordinary income). For non-eligible dividends, the rate tends to be about three-quarters the rate on ordinary income. For example, in 2008, the maximum combined rates on these three types of income for Ontario were as follows:

Ordinary Income	46.4%
Eligible Dividends	24.0%
Non-Eligible Dividends	31.3%

3-31. A more complete discussion of the different effective tax rates mentioned here is provided in Chapter 6 (dividends) and Chapter 7 (capital gains).

Taxes On Income Not Earned In A Province

3-32. As will be discussed in Chapter 20, it is possible for an individual to be considered a resident of Canada for tax purposes, without being a resident of a particular province or territory. This would be the case, for example, for members of the Canadian Armed Forces who are stationed outside of Canada. It is also possible for non-residents to earn income in Canada that is not taxed in a particular province (e.g. Canadian employment income).

3-33. Income that is not subject to provincial or territorial tax is subject to additional taxation at the federal level. In addition to the regular federal Tax Payable, there is also a federal surtax equal to 48 percent of basic federal Tax Payable under ITA 120(1). This is paid instead of a provincial or territorial tax.

Calculating Tax Credits

Federal Amounts

3-34. The most direct way of applying a tax credit system is to simply specify the amount of each tax credit available. In 2009, for example, the basic personal tax credit could have been specified to be $1,548. However, the Canadian tax system is based on a less direct approach. Rather than specifying the amount of each credit, a base amount is provided, to which the minimum federal tax rate (15 percent for 2009) is applied. This means that, for 2009, the basic personal tax credit is calculated by taking 15 percent of $10,320 (we will refer to this number as the tax credit base), resulting in a credit against Tax Payable in the amount of $1,548.

3-35. Note that the legislation is such that, when the minimum federal tax rate of 15 percent is changed, the new rate will be used in determining individual tax credits. In our tax credit examples and problems, we will generally use the tax credit base in our calculations and apply the 15 percent rate to the subtotals and totals. This approach makes the relationships between the various credits easier to see and reduces calculation errors.

3-36. As was the case with the tax rate brackets, in order to avoid having these credits decline in value in terms of real dollars, the base for the tax credits needs to be adjusted for changing prices. In general, the adjustment is based on the same CPI rate that is applied to the tax brackets. However, federal budget provisions can further adjust the base for individual tax credits. For example, in 2009, the indexed amount for the basic personal credit would have been $10,100. However, the provisions of the January, 2009 federal budget adjusted this amount upwards to $10,320.

3-37. A technical problem in calculating credits will arise in the year a person becomes a Canadian resident, or ceases to be a Canadian resident. As discussed in Chapter 20, such individuals will only be subject to Canadian taxation for a part of the year. Given this, it would not be appropriate for them to receive the same credits as an individual who is subject to Canadian taxation for the full year. This view is reflected in ITA 118.91, which requires a pro rata calculation for personal tax credits, the disability tax credit and tax credits transferred from a spouse or a person supported by the taxpayer. Other tax credits, for example the tax credits for charitable donations and adoption expenses, are not reduced because of part year residence. This is because these credits reflect actual amounts paid or costs incurred during the period of Canadian residency.

Provincial Amounts

3-38. In determining provincial tax credits, the provinces use the same approach as that used at the federal level. That is, the minimum provincial rate is applied to a base that is indexed each year. In most cases, the base used is different from the base used at the federal level. For 2009, the basic personal tax credit at the federal level is $1,548 [(15%)($10,320)]. Comparative 2009 figures for selected provinces are as follows:

Province	Base	Rate	Credit
Alberta	$16,775	10.00%	$1,677
British Columbia	9,373	5.06%	474
Newfoundland And Labrador	7,778	7.70%	599
Ontario	8,881	6.05%	537

Personal Tax Credits - ITA 118(1)

Individuals With A Spouse Or Common-Law Partner - ITA 118(1)(a)

Married Persons

3-39. For individuals with a spouse or common-law partner filing tax returns in 2009, ITA 118(1)(a) provides for two tax credits — one for the individual (sometimes referred to as the basic personal credit) and one for his or her spouse or common-law partner (sometimes referred to as the spousal credit). Each of these credits is calculated as follows:

[(15%($10,320)] = $1,548

Spousal Amount

3-40. While the spousal credit uses the same base, this base must be reduced by the spouse or common-law partner's Net Income For Tax Purposes. The calculation is as follows:

[(15%)($10,320 - Spouse Or Common-Law Partner's Net Income)]

3-41. As an example, if an individual had a spouse with Net Income For Tax Purposes of $5,200, the total personal credits under ITA 118(1)(a) would be equal to:

[15%][$10,320 + ($10,320 - $5,200)] = $2,316

3-42. There are several other points to be made with respect to the credits for an individual with a spouse or common-law partner:

Spouse Or Common-Law Partner's Income The income figure that is used for limiting the spousal amount is Net Income For Tax Purposes, with no adjustments of any sort.

Applicability To Either Spouse Or Common-Law Partner The ITA 118(1)(a) provision is applicable to both spouses and, while each is eligible to claim the basic amount of $10,320, IT-513R specifies that only one spouse or common-law partner may claim the additional spousal amount. IT-513R indicates that the spouse making the claim should be the one that supports the other, a fairly vague concept.

Eligibility The additional credit can be claimed for either a spouse or a common-law partner. There is no definition of spouse in the *Income Tax Act*, so it would appear that the usual dictionary definition would apply. That is, a spouse is one of a pair of persons who are legally married. With respect to common-law partner, ITA 248(1) defines such an individual as a person who cohabits with the taxpayer in a conjugal relationship for a continuous period of at least one year, or is the parent of a child of whom the taxpayer is also a parent. There is no requirement in the income tax legislation that either a spouse or a common-law partner be a person of the opposite sex. One can, however, assume that they must be of the same species.

Multiple Relationships Based on these definitions, it would be possible for an individual to have both a spouse and a common-law partner. ITA 118(4)(a) makes it clear that, if this is the case, a credit can only be claimed for one of these individuals.

Year Of Separation Or Divorce In general, ITA 118(5) does not allow a tax credit based on the spousal amount in situations where the individual is making a deduction

for the support of a spouse or common-law partner (spousal support is covered in Chapter 8). However, IT-513R indicates that, in the year of separation or divorce, an individual can either deduct amounts paid for spousal support, or claim the additional tax credit for a spouse.

Exercise Three - 3

Subject: Spousal Tax Credit

Mr. Johan Sprinkle is married and has 2009 Net Income For Tax Purposes of $35,450. His spouse has 2009 Net Income For Tax Purposes of $2,600. Determine Mr. Sprinkle's personal tax credits for 2009.

End of Exercise. Solution available in Study Guide.

Individuals Supporting An Eligible Dependant - ITA 118(1)(b)

Eligibility And Amount

3-43. The ITA 118(1)(b) credit is available to an individual who supports an eligible dependent in a self-contained domestic establishment. To qualify for this credit, the individual must be:

- unmarried;
- not living in a common-law partnership; or
- a person who is married or has a common-law partner but neither supports nor lives with that spouse or common-law partner.

3-44. In this situation, the available credit is calculated as follows:

[15%][$10,320 + ($10,320 - Eligible Dependant's Net Income)]

3-45. If we assume that an unmarried person was supporting an eligible dependant who had Net Income For Tax Purposes of $3,450, the ITA 118(1)(b) tax credit would be calculated as follows:

[15%][$10,320 + ($10,320 - $3,450)] = $2,579

3-46. You should note that this credit, in effect, provides for the same total credit that would be available to an individual with a spouse who had Net Income For Tax Purposes of $3,450. For this reason, it is sometimes referred to as the equivalent to married tax credit.

Dependant Defined

3-47. For purposes of this credit, as well as the credit for an infirm dependant over 17 [ITA 118(1)(d)], the *Income Tax Act* defines dependant as follows:

> **ITA 118(6)** Definition of "dependant" — ..."dependant" of an individual for a taxation year means a person who at any time in the year is dependent on the individual for support and is
>
> (a) the child or grandchild of the individual or of the individual's spouse or common-law partner; or
>
> (b) the parent, grandparent, brother, sister, uncle, aunt, niece or nephew, if resident in Canada at any time in the year, of the individual or of the individual's spouse or common-law partner.

3-48. In view of today's less stable family arrangements, the question of exactly who is considered a child for tax purposes requires some elaboration. As explained in IT-513R, the credit may be taken for natural children, children who have been formally adopted, as well as for natural and adopted children of a spouse or common-law partner.

Application

3-49. This credit is most commonly claimed by single parents who are supporting a minor child. More generally, this credit is available to individuals who are single, widowed, divorced, or separated, and supporting a dependant who is:

- related to the individual by blood, marriage, adoption or common-law relationship;
- under 18 at any time during the year, or the individual's parent or grandparent, or mentally or physically infirm;
- living with the individual in a home that the individual maintains (this would not disqualify a child who moves away during the school year to attend an educational institution as long as the home remains the child's home); and
- residing in Canada (this requirement is not applicable to an individual's child as long as they are living with the individual).

3-50. In terms of limitations on this credit, the eligible dependant credit cannot be claimed by an individual:

- for more than one person;
- if the dependant's Net Income exceeds $10,320;
- if the individual is claiming the spousal credit;
- if the individual is living with, supporting, or being supported by a spouse (the claim is only available for individuals who are either single, or living separately from their spouse);
- if someone other than the individual is making this claim for the same individual; or
- for the individual's child, if the individual is making child support payments to another individual, for that child. As is noted in Chapter 8, when child support is being paid, only the recipient of such payments can claim this tax credit. This is the case without regard to whether or not the individual making the child support payments is able to deduct the payments in determining Net Income For Tax Purposes.

Child Tax Credit - ITA 118(1)(b.1)

3-51. An individual is eligible for a tax credit for each child who is under 18 years of age at the end of the taxation year. The credit has a 2009 value of $313 per child [(15%)($2,089)]. Somewhat surprisingly, it is not reduced by the child's income or family income. Also surprising is the fact that this credit can be claimed for a particular child, even when the ITA 118(1)(b) eligible dependant credit is being claimed for that same child. Other relevant points are as follows:

- Provided the child resides with both parents throughout the year, it can be claimed by either parent. The phrase "throughout the year" applies to the fraction of the year subsequent to the birth or adoption of the child and the fraction of the year prior to the death of a child.

- If the parents are living separately, this credit can only be claimed by the parent who claims the eligible dependant credit for the child, or who would have been able to the eligible dependant credit for the child if not for the one person restriction. However, unlike the eligible dependant credit, the child tax credit can be claimed for more than one child.

Single Persons - ITA 118(1)(c)

3-52. Individuals living with a spouse, common-law partner or eligible dependant receive a credit for themselves and their spouse or common-law partner under ITA 118(1)(a), or themselves and their eligible dependant under ITA 118(1)(b). For individuals who do not have a spouse, common-law partner or eligible dependant, a basic personal tax credit is received under ITA 118(1)(c). As noted in Paragraph 3-39, for 2009, this credit is equal to $1,548 [(15%)($10,320)].

Caregiver Tax Credit - ITA 118(1)(c.1)

3-53. ITA 118(1)(c.1) allows for a caregiver tax credit to an individual who provides in home

care for a related adult (18 years or older). To be eligible for this credit, the individual has to maintain a dwelling in which the individual and the relative ordinarily reside, and the relative has to be the child, grandchild, parent, grandparent, brother, sister, aunt, uncle, nephew, or niece of the individual, the individual's spouse, or the individual's common-law partner.

3-54. Except where the relative is the individual's child or grandchild, the relative must be resident in Canada. Also, except where the relative is the individual's parent or grandparent who is over 64 years of age, the relative must be dependent on the individual because of the relative's mental or physical infirmity. A credit may be claimed for each individual who qualifies.

3-55. For 2009, the credit has a value of $630 [(15%)($4,198)]. The base for the credit is reduced by the amount of the dependant's Net Income in excess of $14,336. This means that this tax credit is not available once the dependant's Net Income is more than $18,534 ($14,336 + $4,198).

Exercise Three - 4

Subject: Caregiver Tax Credit

Joan Barton lives with her husband. Two years ago her father, who is 69 years old and very active, moved in with her. His Net Income For Tax Purposes for 2009 is $15,600. Determine the amount of Joan's caregiver tax credit, if any, for 2009.

End of Exercise. Solution available in Study Guide.

Infirm Dependant Over 17 Tax Credit - ITA 118(1)(d)

3-56. ITA 118(1)(d) specifies a credit for dependants who are age 18 or older prior to the end of the year, provided they are dependent by reason of mental or physical infirmity. For 2009, the credit has a value of $630 [(15%)($4,198)]. The base for the credit is reduced by the amount of the dependant's Net Income in excess of $5,956. This means that this tax credit is not available once the dependant's Net Income is more than $10,154 ($5,956 + $4,198).

3-57. The ITA 118(1)(d) infirm dependant over 17 credit should not be confused with the mental and physical impairment credit (a.k.a., disability tax credit) that is available to disabled individuals under ITA 118.3 (see Paragraph 3-119). The credit under ITA 118(1)(d) is for an individual with sufficient infirmity that they cannot be self-supporting and, as a result, that individual is dependent on the supporting person who is eligible to claim the credit.

3-58. For example, a supporting mother would be eligible for this credit if her adult son suffered from a physical handicap severe enough to prevent him from working at a full time job. A doctor's certification of this type of mental or physical infirmity is not required.

3-59. In contrast, the disability tax credit under ITA 118.3 requires a doctor to certify that there is a prolonged impairment that severely restricts basic living activities. Note, however, because this latter credit can be transferred to a supporting person, one individual may be able to claim both of these credits for the same dependant.

Exercise Three - 5

Subject: Infirm Dependant Over 17 Tax Credit

Harold Reed is married and has a 25 year old daughter who lives in a group home. The daughter is dependent on Harold because of a physical infirmity. Her Net Income For Tax Purposes for 2009 is $7,600. Determine the amount of Harold's caregiver and infirm dependant over 17 tax credit for 2009.

End of Exercise. Solution available in Study Guide.

Interaction: Eligible Dependant Vs. Caregiver Or Infirm Dependant Over 17

3-60. In reading through the material related to these three tax credits, it may have occurred to you that a taxpayer could have a dependant who was eligible for both the ITA 118(1)(b) eligible dependant credit and either the caregiver credit or infirm dependant over 17 credit. This did not happen in either Exercise Three-4 or Three-5 because both Joan Barton and Harold Reed were living with their spouses, making them ineligible to take the eligible dependant credit.

3-61. In contrast, assume a single individual has a disabled child over 17 years of age. In the absence of some restriction, this individual could claim both the eligible dependant credit and the infirm dependant over 17 credit. ITA 118(4)(c) provides such a restriction. This paragraph indicates that, if a taxpayer is eligible for the ITA 118(1)(b) eligible dependant credit for a particular individual, they cannot claim either the caregiver credit or the infirm dependant over 17 credit for that individual. Note that ITA 118(4)(c) refers to "entitled to", without regard to whether the credit is actually taken.

3-62. Because the eligible dependant base has no income threshold, it is reduced if the dependant has any Net Income For Tax Purposes. It is completely eliminated when the dependant's Net Income For Tax Purposes is greater than $10,320. In contrast, both the caregiver and infirm dependant credits are only reduced by the dependant's Net Income For Tax Purposes in excess of a threshold amount. Given this difference, the ITA 118(4)(c) restriction could result in a reduced amount of tax credits.

3-63. ITA 118(1)(e) provides a solution to this problem. This provision allows an additional credit to be taken based on the excess of what the caregiver or infirm dependant over 17 credit would have been, over the amount available under the eligible dependant credit.

Exercise Three - 6

Subject: Eligible Dependant Vs. Caregiver Tax Credits

Barry Litvak is a single individual with a 67 year old mother. While his mother is not mentally or physically infirm, she lives with Barry. She has Net Income For Tax Purposes for 2009 of $7,500. Calculate the tax credits that will be available to Barry as a result of his mother living with him.

End of Exercise. Solution available in Study Guide.

Interaction: Caregiver Vs. Infirm Dependant Over 17

3-64. It is likely that you have noted that a single individual may qualify for both the caregiver and infirm dependant over 17 tax credits. In terms of qualifying individuals, there are two differences:

- In general, both credits require the qualifying individual to be mentally or physically infirm. However, the caregiver credit makes an exception for parents and grandparents who are over 64. These individuals qualify for the caregiver credit, but not the infirm dependant over 17 credit.
- The caregiver credit requires that the qualifying individual live with the taxpayer. The infirm dependant over 17 credit does not have this requirement.

3-65. Despite these differences, it is clear that in many cases, an individual who qualifies for the caregiver credit would also qualify for the infirm dependant over 17 credit. This means that, in the absence of some type of restrictive provision, both credits could be claimed for the same individual.

3-66. ITA 118(4)(d) provides such a restriction. This paragraph indicates that, if a taxpayer is entitled to the caregiver credit for a particular individual, that individual is deemed not to be a dependant and, therefore, not eligible for the infirm dependant over 17 credit. This prevents the taxpayer from claiming both credits for the same individual and, in effect, requires the use of the caregiver credit in situations where a single individual is eligible for both credits.

3-67. As both credits have a 2009 maximum value of $630, the choice between the two credits does not affect the ultimate Tax Payable. There is, however, a difference in the income thresholds, with the caregiver amount being significantly higher, $14,336 vs. $5,956. Because of this, the caregiver credit will be more desirable. This means that, in effect, ITA 118(4)(d) forces the taxpayer to make the correct decision on this issue.

Exercise Three - 7

Subject: Caregiver Vs. Infirm Dependant Over 17 Tax Credits

Suki Leonard is married, lives with her husband, and has a 28 year old son. He lives with her and is dependant because of a physical infirmity. For 2009, the son has investment income of $8,250. Suki would like to know whether she should take the caregiver tax credit for her son or, alternatively, the infirm dependant over 17 tax credit.

Exercise Three - 8

Subject: Multiple Credits For Dependants

Ms. Jane Forest is 48 years old and divorced from her husband. Her Net Income For Tax Purposes for 2009 is $43,000. She has retained the family home and both of the children of the marriage live with her. Her son is 20 years old and suffers from Down Syndrome. He does not qualify for the disability tax credit. Her daughter is 16 years old and in good health. Her son has no income during 2009, while her daughter has Net Income For Tax Purposes of $1,800. Determine Ms. Forest's maximum federal tax credits for 2009.

End of Exercises. Solutions available in Study Guide.

Other Tax Credits For Individuals

Age Tax Credit - ITA 118(2)

3-68. For individuals who attain the age of 65 prior to the end of the year, ITA 118(2) provides an additional tax credit of $961 [(15%)($6,408)]. However, the base for this credit is reduced by 15 percent of the individual's Net Income For Tax Purposes in excess of $32,312. This means that, at an income level of $75,032 [($6,408 ÷ 15%) + $32,312], the reduction will be equal to $6,408 and the individual will not receive an age credit. As an example, a 67 year old individual with 2009 Net Income of $35,000 will have an age credit of $901 {[15%][$6,408 - (15%)($35,000 - $32,312)]}.

3-69. As we shall see when we consider the transfer of credits to a spouse, if an individual does not have sufficient Tax Payable to use this credit, it can be transferred to a spouse.

Exercise Three - 9

Subject: Age Tax Credit

Joshua Smythe is 72 years old and has 2009 Net Income For Tax Purposes of $51,500. Determine Mr. Smythe's age credit for 2009.

End Of Exercise. Solution available in Study Guide.

Pension Income Tax Credit - ITA 118(3)

3-70. The pension income credit is equal to $300 [(15%)($2,000 of eligible pension income)]. As noted previously, the base for this credit is not indexed for inflation.

3-71. The credit is only available with respect to eligible pension income. ITA 118(8) specifically excludes from this definition:

- 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 arrangement;
- payment under an employee benefit plan; and
- death benefits.

3-72. For individuals who have reached age 65 before the end of the year, this credit is available on "pension income" as defined in ITA 118(7). This includes pension payments that are:

- a life annuity out of, or under, a pension plan;
- 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.

3-73. Like the age credit, if an individual does not have sufficient Tax Payable to use this credit, it can be transferred to a spouse.

3-74. For an individual who has not reached age 65 before the end of the year, the credit is based on "qualified pension income", also defined in ITA 118(7). In general, this includes the life annuities out of, or under, a regular pension plan. However, in situations where such amounts are received as a consequence of the death of a spouse or common-law partner, the other types of pension income described in Paragraph 3-72 are also qualified.

Canada Employment Tax Credit - ITA 118(10)

3-75. This credit is available to all individuals who have Canadian employment income. From a conceptual point of view, it is designed to provide limited recognition of the fact that there are costs associated with earning employment income. As only limited deductions are available against employment income, this would appear to be an appropriate form of relief.

3-76. For 2009, the amount of the credit is equal to 15 percent of the lesser of:

- $1,044; and
- the individual's Net Employment Income, calculated without the deduction of any employment related expenses.

3-77. For most employed individuals, this will produce a credit of $157 [(15%)($1,044)].

Adoption Expenses Credit - ITA 118.01

3-78. The adoption expenses tax credit is available to a taxpayer who adopts an eligible child, defined in ITA 118.01(1) as follows:

> **"eligible child"** of an individual, means a child who has not attained the age of 18 years at the time that an adoption order is issued or recognized by a government in Canada in respect of the adoption of that child by that individual.

3-79. The 2009 credit is based on up to $10,909 in eligible adoption expenses, resulting in a maximum of $1,636 [(15%)($10,909)]. The expenses can only be claimed in the year in which the adoption is finalized. In addition, the amount of these expenses is reduced by any reimbursement of expenses or other form of assistance that is received by the taxpayer. If an employer reimburses an employee for adoption expenses, it would likely be considered a taxable benefit and included in employment income.

3-80. Eligible adoption expenses are defined as follows:

> **"eligible adoption expense"**, in respect of an eligible child of an individual, means an amount paid for expenses incurred during the adoption period in respect of the adoption of that child, including
>
> (a) fees paid to an adoption agency licensed by a provincial government;
> (b) court costs and legal and administrative expenses related to an adoption order in respect of that child;
> (c) reasonable and necessary travel and living expenses of the child and the adoptive parents;
> (d) document translation fees;
> (e) mandatory fees paid to a foreign institution;
> (f) mandatory expenses paid in respect of the immigration of the child; and
> (g) any other reasonable expenses related to the adoption required by a provincial government or an adoption agency licensed by a provincial government.

3-81. The preceding definition makes reference to the adoption period. This period is defined in ITA 118.01(1) as follows:

> **"adoption period"**, in respect of an eligible child of an individual, means the period that
>
> (a) begins at the earlier of the time that the eligible child's adoption file is opened with a provincial ministry responsible for adoption (or with an adoption agency licensed by a provincial government) and the time, if any, that an application related to the adoption is made to a Canadian court; and
>
> (b) ends at the later of the time an adoption order is issued by, or recognized by, a government in Canada in respect of that child, and the time that the child first begins to reside permanently with the individual.

3-82. In the usual situation, a child will be adopted by a couple, either legally married or co-habiting on a common-law basis. The legislation points out that, while both parties are eligible for this credit, the eligible expenses and the $10,909 limit must be shared. The claim can be made by either party or shared. If the individuals cannot agree as to what portion of the amount each can deduct, the Minister may fix the portions.

Exercise Three - 10

Subject: Adoption Expenses Tax Credit

Ary Kapit and his spouse have adopted an infant Chinese orphan. The adoption process began in June, 2008 when they traveled to China to discuss the adoption and view available children. The cost of this trip was $4,250. Their provincial government opens the adoption file on February 13, 2009, and the adoption order is issued on August 27, 2009. In September, the couple returns to China to pick up their new daughter. The happy family returns to Canada on September 18, 2009. The cost of this trip is $6,420.

Additional expenses paid during the first week of September, 2009 were $1,600 paid to the Chinese orphanage and $3,200 paid to a Canadian adoption agency. Legal fees incurred during the adoption period were $2,700. After arrival in Canada, an additional $2,500 in medical expenses were incurred for the child prior to the end of 2009. Mr. Kapit's employer has a policy of providing reimbursement for up to $5,000 in adoption expenses eligible for the adoption expenses tax credit. This amount is received in September, 2009. What is the maximum adoption expenses tax credit that can be claimed by Mr. Kapit or his spouse?

End of Exercise. Solution available in Study Guide.

Public Transit Passes Credit - ITA 118.02

3-83. This credit is equal to 15 percent of the cost of eligible public transit passes attributable to the use of an individual, his spouse or common-law partner, and his children who have not attained the age of 19 during the year.

3-84. Eligible public transit passes are defined as follows:

- Passes that provide for unlimited travel for an uninterrupted period of at least 28 days (monthly passes).
- Passes that provide for unlimited travel for an uninterrupted period of at least 5 days, provided a sufficient number of such passes are acquired that at least 20 days will be covered in a period of 28 days (a group of weekly passes).

3-85. The credit is also available with respect to the costs of "eligible electronic payment cards". These must provide for at least 32 one-way trips during an uninterrupted period that does not exceed 31 days.

3-86. The passes must be for use on public commuter transit services which are defined as follows:

> **Public commuter transit services** means services offered to the general public, ordinarily for a period of at least five days per week, of transporting individuals, from a place in Canada to another place in Canada, by means of bus, ferry, subway, train or tram, and in respect of which it can reasonably be expected that those individuals would return daily to the place of their departure.

3-87. The costs that are eligible for the credit must be reduced by any amounts that are reimbursed (e.g., an employer pays one-half of the cost of the pass). If the pass can be used by more than one individual, for purposes of this tax credit, the cost must be apportioned between them.

Child Fitness Credit - ITA 118.03

3-88. A credit is available for costs incurred in providing fitness programs for an individual's children. For 2009, it is equal to 15 percent of up to $500 of such costs or a maximum of $75 [(15%)($500)]. There is an additional credit of $75 [(15%)($500)] if the child is eligible for the

disability tax credit. (This credit that will be discussed later in this Chapter.) The eligible costs must be reduced by any amounts that have been reimbursed.

3-89. To qualify for this credit, the costs must be related to a child who is under 16 years of age at the beginning of the year (under 18 if the child qualifies for the disability tax credit).

3-90. As described in ITR 9400, the eligible costs must be for a program that involves significant physical activity and:

- is ongoing (either a minimum of 8 weeks duration with a minimum of one session per week or, in the case of children's camps, five consecutive days);
- is supervised; and
- is suitable for children.

3-91. The eligible costs do not include the cost of accommodation, travel, food, or any amounts that would be deductible as child care costs (see Chapter 8, Other Income and Other Deductions). The eligible costs must be reduced by any reimbursements received unless the reimbursed amount is included in the taxpayer's income.

Home Renovations Tax Credit (ITA Reference Not Available)

3-92. To stimulate economic growth and encourage Canadians to invest in improvements to their homes, the January, 2009 Federal Budget introduced a temporary Home Renovation Tax Credit (HRTC). Individuals will be able to claim a 15 percent non-refundable tax credit for eligible expenditures made in respect of eligible dwellings. The credit will apply to expenditures in excess of $1,000, but not more than $10,000, resulting in a maximum credit of $1,350 [($10,000 - $1,000)(15%)].

Eligibility Period The credit is available on expenditures for work performed after January 27, 2009 and before February 1, 2010.

Eligible Individuals Eligibility for the HRTC will be family-based. For this purpose, a family will generally be considered to consist of an individual, and where applicable, the individual's spouse or common-law partner, and their children who were, throughout 2009, under the age of 18 years.

Eligible Dwellings Individuals will be able to claim the HRTC on eligible expenditures made in respect of dwellings that are eligible to be their principal residence. In general, a housing unit is considered to be eligible to be an individual's principal residence where it is owned by the individual and ordinarily inhabited by the individual, the individual's spouse or common-law partner, or their children.

Eligible Expenditures Expenditures will qualify for the HRTC if they are incurred in relation to a renovation or alteration of an eligible dwelling (including land that forms part of the eligible dwelling) provided that the renovation or alteration is of an enduring nature and is integral to the eligible dwelling. Such expenditures would include the cost of labour and professional services, building materials, fixtures, equipment rentals, and permits. The following expenditures will not be eligible for the credit:

- The cost of routine repairs and maintenance normally performed on an annual or more frequent basis.
- Expenditures for appliances and audio-visual electronics.
- Financing costs associated with a renovation (e.g. mortgage interest costs).

Alterations or other items, such as furniture or draperies, and other indirect expenditures for items that retain a value independent of the renovation, such as the purchase of construction equipment (e.g. tools) will not be considered integral to the dwelling and therefore will not qualify for the credit.

First Time Home Buyer's Tax Credit (ITA Reference Not Available)

3-93. The January, 2009 Federal Budget has introduced a new non-refundable tax credit for first-time home buyers who acquire a qualifying home after January 27, 2009 (i.e. the closing is after that date). The credit will be equal to 15 percent of the first $5,000 of the cost of an eligible home, resulting in a maximum credit of $750.

3-94. An individual will be considered a first-time home buyer if neither the individual nor the individual's spouse or common-law partner, owned and lived in another home in the calendar year of the home purchase or in any of the four preceding calendar years.

3-95. The credit may be claimed by the individual who acquires the home or by that individual's spouse or common-law partner. For the purpose of this credit, a home is considered to be acquired by an individual only if the individual's interest in the home is registered in accordance with the applicable land registration system.

Charitable Donations Credit - ITA 118.1

Extent Of Coverage In This Chapter

3-96. For tax purposes, donations, even in the form of cash, are segregated into categories, each with a different set of rules. Additional complications arise when non-cash donations are made. To be able to deal with gifts of depreciable capital property, a full understanding of capital gains and CCA procedures is required. Given these complications, a comprehensive treatment of charitable gifts is deferred until we revisit Taxable Income and Tax Payable in Chapter 10. However, limited coverage of charitable donations is included in this Chapter.

Eligible Gifts

3-97. In our coverage of donations in this Chapter, we will deal only with gifts of cash or monetary assets. Donations of other types of property are covered in Chapter 10.

3-98. In this Chapter, our coverage will be limited to what is referred to in ITA 118.1 as total charitable gifts. These include all amounts donated by an individual to a registered charity, a registered Canadian amateur athletic association, a housing corporation resident in Canada that is exempt from tax under ITA 149(1)(i), a Canadian municipality, the United Nations or an agency thereof, a university outside of Canada which normally enrolls Canadian students, and a charitable organization outside of Canada to which Her Majesty in right of Canada has made a gift in the current or preceding taxation year.

Limits On Amount Claimed

3-99. It is the policy of the government to limit charitable donations that are eligible for the tax credit to a portion of a taxpayer's Net Income For Tax Purposes. Note that, while corporations deduct their donations from Taxable Income as opposed to receiving a credit against Tax Payable, the limits on the amount of eligible donations are the same for corporations as they are for individuals.

3-100. The general limit on eligible amounts of charitable gifts is 75 percent of Net Income For Tax Purposes. For individuals, this limit is increased to 100 percent of Net Income For Tax Purposes in the year of death and the preceding year.

Carry Forward Of Charitable Donations

3-101. With the limit set at 75 percent of Net Income, individuals will normally be able to claim all of the donations that they make in a year. However, if their donations exceed the 75 percent limit, or they choose not to claim all of the donations that year, any unused amounts can be carried forward and used in the subsequent five year period.

3-102. A further point here is that this limit is based on Net Income For Tax Purposes. This means that an individual could have eligible donations in excess of Taxable Income. This could occur, for example, if the individual deducted a large loss carry forward from a previous

year. In situations such as this, it is important to recognize that the charitable donations tax credit is non-refundable. Given this, only the amount of donations required to reduce Tax Payable to nil should be claimed. Any additional amounts should be carried forward to future periods. Any claim that does not serve to reduce Tax Payable will simply be lost.

Calculating The Credit

3-103. Once the contribution base is established, the credit is equal to 15 percent of the first $200, and 29 percent of any additional donations. The charitable donations credit is the only credit that features two rates for determining the allowable credit. The reason for this approach was concern that, because charitable donations are voluntary, an overall credit at the lowest bracket rate of 15 percent would have resulted in a decline in donations from individual with high incomes. The 29 percent credit on larger donations was added in order to mitigate this result.

3-104. While the same level of total giving could probably have been achieved with a compromise rate somewhere between 15 and 29 percent, this would have changed the composition of sources for donations. Such a compromise rate would have been an incentive for low income donors and would have increased donations to organizations such as churches that rely on this sector of the population. In contrast, high income donors would have less incentive to contribute, and this would have reduced donations to such beneficiaries as educational institutions. The government did not view this as a desirable result and, as a consequence, we have a two rate system for charitable donations.

3-105. The following example illustrates the calculation of the charitable donations tax credit, including the determination of eligible amounts:

Example Nancy Hart has 2009 Net Income For Tax Purposes of $100,000 and Taxable Income of $40,000. On the receipt of a large inheritance, she makes a charitable donation of $15,000. She chooses to claim only $2,000 in donations in 2009.

Analysis The total for all eligible gifts is limited to 75 percent of her Net Income For Tax Purposes, or $75,000. As her gift is less than$75,000, she could have claimed all of it. However, since she has chosen to claim $2,000, $13,000 ($15,000 - $2,000) in donations are carried forward and her tax credit would be calculated as follows:

15 Percent Of $200	$ 30
29 Percent Of $1,800 ($2,000 - $200)	522
Total Credit	$552

3-106. For couples, the CRA's administrative practices permit either spouse or common-law partner to claim all of the donations made by both spouses or common-law partners. Given the dual rates on the credit, there is a small advantage in combining the donations. In addition, this may be an important consideration when one spouse has a sufficiently low income that it is limiting the use of his or her donations.

Exercise Three - 11

Subject: Charitable Donations Tax Credit

Marion Scalpal has 2009 Net Income For Tax Purposes of $65,000. Although she is not a compulsive gambler, she enjoys the ambiance of casino environments and usually spends at least one evening per week at the blackjack tables. While over the years she has generally experienced small losses, an improvement in her luck resulted in 2009 winnings of over $200,000. As she had promised in her prayers, at the end of 2009 she donates $100,000 of these winnings to her church. She chooses to claim $10,000 of her donations in 2009. In 2010, her income remains at $65,000 and she makes no further donations. Determine her charitable donations tax credit for 2009, as well as the base for the maximum allowable charitable donations tax credit for

2010. Until what year can she claim any unused portions of her 2009 donation?

End of Exercise. Solution available in Study Guide.

Medical Expense Credit - ITA 118.2

Qualifying Medical Expenses

3-107. Medical expenses which qualify for the credit are described in ITA 118.2(2) and IT-519R2. They include amounts paid to doctors and dentists, to full time home attendants, for full time nursing home care, to institutions for the disabled, for ambulance transportation, for reasonable travel expenses for medical care, for artificial limbs, for prescription eyeglasses or contact lenses, for oxygen, for seeing eye dogs, for any device prescribed by a medical practitioner, for drugs or medicine, for laboratory work, and for premiums paid for private health services plans.

3-108 This list of qualifying expenses has been repeatedly extended in various budgets. Additions in the last few years include:

- the costs of arranging a bone marrow or organ transplant,
- the costs of home modifications for those with severe mobility restrictions, and to allow individuals confined to a wheelchair to be mobile within their home,
- costs of up to $10,000 in a year for a part time attendant to help a person with a severe and prolonged mental or physical impairment,
- the costs for a specially trained animal to help persons with restricted use of arms and legs,
- products for the incontinent,
- the cost of rehabilitative therapy to adjust for speech or hearing loss,
- real-time captioning for individuals with a speech or hearing impairment,
- note-taking services for individuals with a physical or mental impairment,
- voice recognition software for individuals with a physical impairment, and
- the incremental cost of acquiring gluten-free foods for individuals with celiac disease.

Determining The Credit

3-109. The amount of the medical expense tax credit is determined by the following formula:

$$A [(B - C) + D]$$

Where:

A is the appropriate percentage for the taxation year (15 percent).

B is the total of an individual's medical expenses for himself, his spouse or common-law partner, and any of his children who have not reached 18 years of age at the end of the year.

C is the lesser of 3 percent of the individual's Net Income For Tax Purposes and $2,011 (2009 figure).

D is the total of all amounts each of which is, in respect of a dependant of the individual (other than a child of the individual who has not attained the age of 18 years before the end of the taxation year), the lesser of $10,000 and the amount determined by the formula:

$$E - F$$

Where:

E is the total of the dependant's medical expenses

F is the lesser of 3 percent of the dependant's Net Income For Tax Purposes and $2,011 (2009 figure).

3-110. If the taxpayer has no dependants who are 18 years of age or older, components D, E and F in the formula are not relevant. In this case, the credit base is equal to the total of the qualifying medical expenses of the individual taxpayer, his spouse or common-law partner, and his minor children. This balance is reduced by the lesser of 3 percent of the taxpayer's income and an indexed figure which for 2009 is equal to $2,011. This latter figure will be the limiting factor once an individual's 2009 Net Income For Tax Purposes reaches $67,033 ($2,011 ÷ 3%).

3-111. If the taxpayer has dependants who are 18 years of age or older, a separate credit base calculation is required for each of these dependants. This credit base is equal to the dependant's qualifying medical expenses, reduced by the lesser of 3 percent of the dependant's Net Income For Tax Purposes and $2,011 (E and F in the formula). The maximum credit base that can be claimed by the taxpayer for each dependant is subject to a limit of $10,000. The taxpayer adds the total of these credit bases (to a maximum of $10,000 per dependant) to the credit base calculated for the taxpayer, his spouse or common-law partner and his minor children.

3-112. A further point here relates to who actually pays for medical expenses. The credit is only available to the individual who actually pays the eligible amounts. For an individual to claim the medical expenses of a child or other dependant, he must pay for them. When the individual does make the actual payments, the child or dependant cannot make the claim for the credit.

Twelve Month Period

3-113. Medical expenses can be claimed for any period of 12 months that ends in the taxation year. This provision is extended to 24 in the year of death. The ability to claim expenses for a 12 month period ending in the year is advantageous for individuals with large expenses in a 12 month period other than a calendar year.

> **Example** Alex Lau has Net Income For Tax Purposes of $60,000 in both 2008 and 2009. For 2008, his $10,000 in medical expenses were paid for between July and December, 2008. In 2009, his medical expenses of $12,000 were paid between January and June, 2009.
>
> **Analysis** The 2008 claim could be deferred and the $22,000 total could be claimed in full in the 2009 taxation year. The advantage of doing this is that the threshold amount reduction would be applied only once in 2009. If medical expenses had to be claimed in the year in which they were incurred, this individual would have to apply the threshold reduction of $1,800 [(3%)($60,000)] in both years. If the full amount is claimed in 2009, federal tax savings would total $270 [(15%)($1,800)].

Example Of Medical Expense Tax Credit Calculation

3-114. The following example will serve to illustrate the application of the medical expense tax credit formula:

> **Example** Sam Jonas and his dependent family members had the following Net Income For Tax Purposes and medical expenses for 2009:

Individual	Net Income	Medical Expenses
Sam Jonas	$100,000	$ 5,000
Kelly (Sam's Wife)	12,000	4,400
Sue (Sam's 16 Year Old Daughter)	8,500	4,100
Sharon (Sam's 69 Year Old Mother)	6,000	16,500
Martin (Sam's 70 Year Old Blind Father)	12,000	4,000
Total Medical Expenses		$34,000

> **Analysis** Sam's 2009 medical expense tax credit, using the formula in Paragraph 3-109, would be calculated as follows:

Amount B Qualifying Expenses ($5,000 + $4,400 + $4,100)		$13,500
Amount C		
Lesser of:		
• [(3%)($100,000)] = $3,000		
• 2009 Threshold Amount = $2,011		(2,011)
Subtotal		$11,489
Amount D		
Sharon - Lesser Of:		
• [$16,500 - (3%)($6,000)]* = $16,320		
• Absolute limit = $10,000	$10,000	
Martin - Lesser Of:		
• [$4,000 - (3%)($12,000)]* = $3,640		
• Absolute Limit = $10,000	3,640	13,640
Allowable Amount Of Medical Expenses		$25,129
Amount A The Appropriate Rate (Minimum Rate)		15%
Medical Expense Tax Credit		$ 3,769

*Note that in both cases, 3 percent of Net Income is less than $2,011.

Exercise Three - 12

Subject: Medical Expense Tax Credit

Ms. Maxine Davies and her spouse, Lance Davies, have 2009 medical expenses which total $4,330. While Ms. Davies has 2009 Net Income For Tax Purposes in excess of $150,000, Lance has no income during the year. They have two children. Their 12 year old daughter, Mandy, has 2009 medical expenses of $4,600 and no Net Income For Tax Purposes. Their 21 year old son, Max, has 2009 medical expenses of $8,425 and Net Income For Tax Purposes of $8,250. Ms. Davies pays the medical expenses for both children. Determine Ms. Davies' medical expense tax credit for 2009.

End of Exercise. Solution available in Study Guide.

Refundable Medical Expense Supplement - ITA 122.51

3-115. The tax credits that we have discussed to this point are referred to as non-refundable. This means that, if the individual does not have sufficient Tax Payable to use the credit, it is of no benefit to the taxpayer. In contrast, there are a limited number of refundable credits. In the case of these credits, if the individual does not have sufficient Tax Payable to use the credit, the government will issue a cheque for the unused amount. The ITA 122.51 refundable medical expense supplement is this type of credit.

3-116. To be eligible for the 2009 medical expense supplement, the individual must be 18 or over at the end of the year, and must have earned income (employment or business) of at least $3,116. The credit is the lesser of $1,067 and 25/15 of the medical expense tax credit that can be claimed for the year. This can also be described as 25 percent of the expenses eligible for the medical expense tax credit.

3-117. The lesser amount is reduced by 5 percent of family Net Income For Tax Purposes in excess of an indexed threshold amount. For 2009, the amount is $23,633. The credit is completely eliminated when family Net Income For Tax Purposes reaches $44,973. A simple example will serve to illustrate this provision:

> **Example** For 2009, Mr. Larry Futon and his spouse have medical expenses that total $4,650. His Net Income For Tax Purposes is $26,900, all of which qualifies as earned income. His spouse has Net Income For Tax Purposes of $500. Mr. Futon is also

eligible for the full caregiver tax credit for his mother.

Analysis Mr. Futon's allowable medical expenses for tax credit purposes would be $3,843 [$4,650 - (3%)($26,900)], resulting in a tax credit of $576 [(15%)($3,843)]. Given this, 25/15 of the credit, or alternatively, 25 percent of the allowable medical expenses, would equal $961. His refundable credit would be based on the lesser of this $961 and the maximum of $1,067, less a reduction of $188 [(5%)($26,900 + $500 - $23,633)], leaving a balance of $773 ($961 - $188).

3-118. The receipt of this refundable credit does not affect an individual's ability to claim a tax credit for the same medical expenses that are used to calculate the refundable credit. Assuming he has no tax credits other than the basic personal, spousal, caregiver, and medical expense, his federal Tax Payable would be reduced to nil [(15%)($26,900 - $10,320 - $9,820 - $4,198 - $3,843)]. This means that he will be able to claim the entire $773 as a refund.

Exercise Three - 13

Subject: Refundable Medical Expense Supplement

During 2009, Ms. Lara Brunt and her common-law partner, Sara, have medical expenses that total $6,250. Her Net Income For Tax Purposes is $25,400, all of which qualifies as earned income. Sara has no income of her own. Determine Lara's minimum Tax Payable for 2009.

End of Exercise. Solution available in Study Guide.

Disability Credit - ITA 118.3

Calculation

3-119. The disability credit is available under ITA 118.3 and, for 2009, it is equal to $1,079 [(15%)($7,196)]. In addition, there is a supplement to this amount for a disabled child who is under the age of 18 at the end of the year. For 2009, the base for the supplement is $4,198, providing a total credit for a disabled minor of $1,709 [(15%)($7,196 + $4,198)]. Note, however, that the supplement amount of $4,198 is reduced by child care and attendant care costs in excess of $2,459. This means that once such costs reach $6,657 for the year, the supplement is completely eliminated.

3-120. To qualify for this credit, the requirement has been that the impairment must be such that there is a "marked" restriction of the activities of daily living. In addition, it must have lasted, or be expected to last, for at least 12 months. This has been amended to include situations where there is a "significant" restriction in more than one activity (while both terms are undefined, it appears that significant is less severe than marked).

3-121. In general, a medical doctor, or optometrist, must certify on Form T2201 that a severe physical or mental impairment exists. In the case of restrictions on the ability to walk, recent amendments allow a physiotherapist to make the required certification.

3-122. ITA 118.4(1) tries to make the conditions for qualifying for this credit as clear as possible. This Subsection points out that an individual clearly qualifies if they are blind. They also qualify if 90 percent of the time they cannot perform, or take an inordinate amount of time to perform, a basic activity of daily living. The following are listed as basic activities:

- mental functions necessary for everyday life;
- feeding oneself or dressing oneself;
- speaking such that the individual can be understood in a quiet setting by someone familiar with the individual;
- hearing such that the individual can, in a quiet setting, understand someone familiar with the individual;
- bowel or bladder functions; or
- walking.

3-123. There have been several attempts to provide improved guidance in this area. However, many practitioners feel that the CRA is, perhaps, overly aggressive in its interpretation of the terms "markedly restricted" and an "inordinate amount of time" (e.g., the credit was denied for an individual with cerebral palsy because he was able to walk with braces).

Disability Credit Transfer To A Supporting Person

3-124. In many cases, an individual who is sufficiently infirm to qualify for the disability credit will not have sufficient Tax Payable to use it. In these situations, all or part of the credit may be transferred to a spouse or a supporting person who claimed the disabled individual as:

- 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 disabled dependant over 17 [ITA 118(1)(d)]

3-125. In order to make the disability credit transfer available in situations where there is a disabled dependant who does not qualify for one of these credits, the transfer is extended by a somewhat awkward measure to situations in which the supporting person:

- could have claimed the eligible dependant credit, if neither the supporting person nor the disabled dependant were married; and
- 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.

3-126. The amount that can be transferred is the same $1,079 (or $1,709 if the under 18 supplement is available) that could be claimed by the disabled individual. However, if the disabled individual has Tax Payable in excess of his ITA 118 (see preceding items) and 118.7 (CPP and EI credits), the credit must first be applied to reduce the disabled individual's Tax Payable to nil. If a balance remains after all Tax Payable has been eliminated, it can be transferred to the supporting person.

Exercise Three - 14

Subject: Disability Tax Credit

John Leslie lives with his wife and 21 year old blind son, Keith, who qualifies for the disability tax credit. Keith has no income of his own. During 2009, John paid medical expenses of $16,240 for Keith. None of these expenses involve attendant care. John has medical expenses of his own of more than $3,000. His Taxable Income for 2009 was $100,000. Determine the total amount of tax credits related to Keith that will be available to John.

End of Exercise. Solution available in Study Guide.

Other Credits, Deductions And Savings Plans Related To Disabilities

3-127. Disabled individuals, or a supporting person, may have medical expenses that are eligible for tax credits, including attendant care and nursing home care. However, the availability of these credits is limited by the following considerations:

- Neither the individual, nor a supporting person, can claim the disability credit if a medical expense credit is claimed for a full time attendant, or for full time care in a nursing home. However, the individual or supporting person can claim either of the two amounts.
- The disability credit can be claimed if a medical expense credit is claimed for a part time attendant. Part time is defined as expenses of less than $10,000 for the year ($20,000 in the year of death). Note that part-time attendant care can only be claimed as a medical expense credit if no part of that care is claimed as child care costs or for attendant care required to produce income.

3-128. For disabled individuals who earn employment or business income, the "working

income tax benefit supplement" provides an additional amount for individuals who qualify for the disability tax credit. This benefit is covered in this Chapter beginning at Paragraph 3-159.

3-129. For disabled individuals who work, or who attend a designated educational institution or secondary school, the disability supports deduction provides tax relief for a number of medical expenses, including attendant care, that would assist a disabled person to work or go to school. (See Chapter 8, Other Income, Other Deductions And Income Attribution for a detailed discussion of this deduction from Net Income For Tax Purposes.)

3-130. Registered disability savings plans (RDSPs) allow funds to be set aside for the future benefit of individuals who qualify for the disability tax credit. As is the case with registered education savings plans (RESPs), earnings on funds contributed to such plans are allowed to accrue on a tax free basis. The details of these plans will also be covered in Chapter 8.

Education Related Credits

Tuition Credit - ITA 118.5

3-131. Under ITA 118.5, individuals receive a credit against Tax Payable equal to 15 percent of qualifying tuition fees paid with respect to the calendar year, regardless of the year in which they are actually paid. The fees must total at least $100, but there is no upper limit on this credit. To qualify, the fees must be paid to:

- a university, college, or other institution for post-secondary courses located in Canada;
- an institution certified by the Minister of Human Resources and Skills Development for a course that developed or improved skills in an occupation (the individual must be 16 or older);
- a university outside Canada, if enrolled full time in a course that was at least 13 consecutive weeks long; or
- for individuals who live near the U.S. border and commute, a U.S. college or university for part-time studies.

3-132. It has been noted that universities are relying more heavily on ancillary fees for such items as health services, athletics, and various other services. As a reflection of this situation, ITA 118.5(3) extends the tuition tax credit to cover all mandatory ancillary fees that are imposed by universities on all of their full time, or all of their part-time students. In addition, ITA 118.5(3)(d) allows up to $250 in such ancillary fees to be added to the total, even if they do not meet the condition of being required for all full or part-time students.

Education Credit - ITA 118.6(2)

3-133. Under ITA 118.6(2), there is a credit for 2009 equal to $60 [(15%)($400)] per month of full time attendance at a designated educational institution or enrollment in a "qualifying educational program". For this purpose, designated educational institutions include universities, colleges, and institutions certified by the Minister of Human Resource And Skills Development for a course that develops or improves skills in an occupation.

3-134. Enrollment in a qualifying educational program is described in IT-515R2 as a program that must run for at least three consecutive weeks, and must require instruction or work in the program of at least 10 hours a week throughout its duration. Both of these descriptions can be thought of as full time pursuit of educational activities.

3-135. An alternative education credit of $18 [(15%)($120)] per month is available for attendance in a "specified educational program". In general terms, this is defined as a program that, were it not for the10 hours per week requirement, would be a qualifying educational program. This means that, while a specified educational program must run for at least three consecutive weeks, there is no minimum hours of work required to comply with the definition.

3-136. A further modification of the general rules for the education credit is available to individuals who either qualify for the disability tax credit or, because of a mental or physical

disability, cannot pursue educational activities on a full time basis. The full education credit of $60 per month is available to such individuals, without regard to whether their attendance is full or part-time.

Textbook Credit - ITA 118.6(2.1)

3-137. While this credit is described as a "textbook" tax credit, it is not based on an actual purchase of such books. Rather, it is simply an addition to the education credit. This "textbook" credit is equal to $10 [(15%)($65)] for each month in which the student is entitled to claim the education credit as a full-time student, or $3 [(15%)($20)] for each month in which the student is entitled to claim the education credit as a part-time student.

3-138. This credit is added to the tuition and education credits as part of the amount that is eligible for a carry forward by the student (see Paragraph 3-140). It is also added to these credits in determining the amount that can be transferred to a spouse, parent or grandparent (see Paragraph 3-144). As was the case with the education credit, students who qualify for the disability tax credit or, because of mental or physical disability, cannot pursue full time education activities, will receive the full $10 per month textbook credit.

Interest On Student Loans Credit - ITA 118.62

3-139. If a student or a related person has paid interest on student loans, ITA 118.62 permits the deduction of 15 percent of amounts paid in the year, or in any of the five preceding years. The interest paid must be on a loan under the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, or a provincial statute governing the granting of financial assistance to students at the post-secondary school level.

Exercise Three - 15

Subject: Education Related Tax Credits

During 2009, Sarah Bright attends university for four months of full time study and two months of part-time study. Her total tuition for the year, including all ancillary fees, is $3,200 of which she paid $1,000 in 2008. The amount paid in 2009 includes $400 in fees that are only charged to students in her geology program. Interest for the year on her student loan was $325. Determine the total amount of education related tax credits that would be available for Ms. Bright for 2009.

End of Exercise. Solution available in Study Guide.

Carry Forward Of Tuition, Education, And Textbook Credits - ITA 118.61

3-140. There are situations in which a student does not have sufficient Tax Payable to use their tuition, education, and textbook credits and, in addition, has not transferred them to a spouse, parent, or grandparent (see Paragraph 3-144). To deal with this type of situation, ITA 118.61 allows a carry forward of unused tuition, education, and textbook credits. In addition, ITA 118.62 provides for a five year carry forward of unused interest on student loans.

3-141. Unfortunately, the calculation of the amount that is carried forward can be complex. Although the *Income Tax Act* uses Tax Payable and credit amounts to calculate carry forwards and transfers, Schedule 11 in the personal tax return uses Taxable Income and credit base amounts in its calculations. We will explain the *Income Tax Act* approach in the text, but illustrate both approaches in the example in Paragraph 3-148.

3-142. To carry amounts forward, the total available credits must be reduced by the student's Tax Payable, calculated using only the credits available under ITA 118 (various personal), 118.01 (adoption expenses), 118.02 (public transit pass), 118.03 (child fitness), 118.3 (disability), and 118.7 (CPP and EI). Of the credits we have previously covered in this chapter, the excluded credits include ITA 118.1 (charitable donations), 118.2 (medical

expenses) and 122.51 (refundable medical expense supplement). The carry forward amount is further reduced by any transfer to another individual.

3-143. The resulting balance can be carried forward and is available for the student's personal use in any subsequent year. However, once it is carried forward, it cannot be transferred to another individual.

Transfer Of Tuition, Education, And Textbook Credits - ITA 118.9

3-144. ITA 118.9 provides for a transfer of these tax credits to a parent or grandparent. ITA 118.8 provides for a transfer of these credits (plus several others), to a spouse or common-law partner. ITA 118.81 limits the total amount of tuition, education, and textbook credits that can be transferred under either of these provisions. The transfer is at the discretion of the student and the legislation states that he must indicate in writing the amount that he is willing to transfer.

3-145. The maximum transfer for an individual student is the lesser of the available credits and $5,000 multiplied by the tax rate for the minimum tax bracket (referred to as the "appropriate percentage"). For 2009, this amount is $750 [(15%)($5,000)].

3-146. This $750 maximum amount must be reduced by the student's Tax Payable calculated after the same credits used to calculate the carry forward of education related credits. As described in Paragraph 3-142, these are the credits available under ITA 118, 118.01, 118.02, 118.03, 118.3 and 118.7. Added to the list for this purpose are any education related credits carried forward from a previous year under ITA 118.61. If these credits reduce the student's Tax Payable to nil, the full $750 is available for transfer.

3-147. The $750 limit is on a per student basis. A parent or grandparent could have $750 transfers from any number of children or grandchildren. For obvious reasons, transfers from more than one spouse would not be acceptable for tax purposes (tax considerations might be the least of such an individual's problems). If the student is married, the supporting parent or grandparent can make the claim only if the student's spouse did not claim the spousal credit, or any unused credits transferred by the student.

3-148. An example will serve to illustrate both the ITA 118.9 transfer, as well as the ITA 118.81 limits on this transfer.

> **Example** Megan Doxy has 2009 Taxable Income of $11,000 (none of this is employment income). She attends university full time for 8 months of the year, paying a total amount for tuition of $8,000. This gives her a tuition amount of $8,000, an education amount of $3,200 [(8)($400)], and a textbook amount of $520 [(8)($65)], a total of $11,720. Her only other tax credit is her personal amount of $1,548 [(15%)($10,320)]. She would like to transfer the maximum credits to her father.
>
> **Analysis - Income Tax Act Approach** Megan's education related credits total $1,758 [(15%)($11,720)], well in excess of the maximum transfer of $750. However, this maximum of $750 would have to be reduced by Megan's Tax Payable after the deduction of her personal amount. This amount would be $102 [(15%)($11,000 - $10,320)], leaving a maximum transfer of $648 ($750 - $102). This would leave Megan with remaining unused credits of $1,008 ($1,758 - $102 - $648) which can be carried forward to future years, for her own use. These calculations are the result of using the approach presented in the *Income Tax Act*.
>
> **Analysis - Tax Return Approach** The alternative calculation approach that is used in the tax return would begin with the total education related amount of $11,720. The maximum transfer amount in this approach is $5,000. This would be reduced by $680 ($11,000 - $10,320), the excess of Megan's Taxable Income over her basic personal amount. This results in a maximum transfer of $4,320 ($5,000 - $680). Megan's carry forward amount is $6,720 ($11,720 - $680 - $4,320). Multiplying these amounts by the 15 percent minimum rate will give you the same $1,008 of unused credits as the calculations using the preceding *Income Tax Act* approach.

Exercise Three - 16

Subject: Carry Forward Of Education Related Credits

At the beginning of 2009, Kerri Holmes has a carry forward of education credits from 2008 of $300 [(15%)($2,000)]. During 2009, she is in full time attendance at a Canadian university for 8 months of the year. Her tuition fees total $4,800 for the year. Her Taxable Income for 2009 is $22,000. Other than education related tax credits, her only tax credit is her basic personal credit. Determine Kerri's total education related tax credits and any available carry forward.

Exercise Three - 17

Subject: Transfer And Carry Forward Of Education Related Credits

Jerry Fall has 2009 Taxable Income of $11,250. He attends an American university on a full time basis for 11 months of the year, paying a total amount for tuition of $23,500 (Canadian dollars). His only tax credits, other than education related credits, are his basic personal credit and a medical expense credit of $233 [(15%)($1,555)]. Determine Jerry's total education related tax credits and indicate how much of this total could be transferred to a parent and how much would be carried forward.

End of Exercises. Solutions available in Study Guide.

Employment Insurance (EI) And Canada Pension Plan (CPP) Credits - ITA 118.7

3-149. ITA 118.7 provides a tax credit equal to 15 percent of the Employment Insurance (EI) premiums paid by an individual, all of the Canada Pension Plan (CPP) contributions paid on employment income, and half of the CPP contributions paid on self-employed income.

3-150. For 2009, EI premiums are based on maximum insurable earnings of $42,300. The employee's rate is 1.73 percent, resulting in a maximum annual premium of $732. This results in a maximum credit against federal Tax Payable of $110 [(15%)($732)].

3-151. Employers are also required to pay EI premiums, the amount being 1.4 times the premiums paid by the employee. However, these premiums do not provide the employee with a tax credit. Further, self-employed individuals are not eligible to participate in the EI program and, as a consequence, since they do not pay EI premiums, they will not be eligible for any EI tax credit.

3-152. For 2009, an employee's CPP contributions are based on maximum pensionable earnings of $46,300, less a basic exemption of $3,500. The rate for 2009 is 4.95 percent, resulting in a maximum contribution of $2,119 [(4.95%)($46,300 - $3,500)]. This provides for a maximum 2009 credit against federal Tax Payable of $318 [(15%)($2,119)]. The employer matches the contributions made by the employee. However, this matching payment has no tax consequences for the employee.

3-153. A self-employed individual earning business income must make a matching CPP contribution for himself, effectively paying twice the amount he would as an employee. As discussed in Chapter 8, the matching contribution is a deduction from Net Income For Tax Purposes under ITA 60(e) (a Division B, Subdivision e deduction). This treatment for the matching CPP contribution as a deduction is analogous to the treatment used by employers. This means that a self-employed individual will have a tax credit equal to one-half of his CPP contributions for self-employed income, and a deduction for the remaining one-half.

Overpayment Of EI Premiums And CPP Contributions

3-154. It is not uncommon for employers to withhold EI and CPP amounts that are in excess of the amounts required. This can happen through an error on the part of the employer's payroll system. Even in the absence of errors, overpayments can arise when an individual changes employers. We would note that the CRA's form T2204 is designed to assist taxpayers in calculating the amount of any overpayment.

3-155. A refund of these excess amounts is available when an individual files his tax return. While any CPP or EI overpayment is not part of the base for the tax credit, it will increase the refund available or decrease the tax liability that is calculated in the return.

Example Jerry Weist changed employers during 2009 and, as a consequence, the total amount of EI premiums withheld during the year was $885. In a similar fashion, the total amount of CPP contributions withheld by the two employers was $2,499. His employment income was well in excess of the maximum insurable and pensionable earnings.

Analysis In filing his 2009 tax return, Jerry will claim a refund of $533, calculated as follows:

EI Premiums Withheld	$ 885	
2009 Maximum	(732)	$153
CPP Contributions Withheld	$2,499	
2009 Maximum	(2,119)	380
Refund		$533

Transfers To A Spouse Or Common-Law Partner - ITA 118.8

3-156. In general circumstances, there are six specific tax credits that can be transferred under ITA 118.8 to a spouse of common-law partner. They are:

- the age credit (see Paragraph 3-68),
- the pension income credit (see Paragraph 3-70),
- the disability credit (see Paragraph 3-119), and
- the current year tuition, education, and textbook credits to a maximum of $750 (see material beginning in Paragraph 3-144).

3-157. The maximum amount that can be transferred is based on the sum of these credits, reduced by a modified calculation of the spouse or common-law partner's Tax Payable. While the legislation is based on Tax Payable, the T1 tax return uses a simplified approach based on Taxable Income. This approach starts with the sum of the base for all of the preceding credits. From this amount is subtracted the spouse's taxable income, reduced by the bases of the basic personal credit, the CPP and EI credits, the tuition credits, the education credits, and the textbook credits. The resulting remainder is the amount that can be transferred to a spouse or common-law partner.

3-158. While this is not provided for by legislation, there are several credits that can be taken by either spouse or common-law partner, without regard to which individual actually makes the payment. These include the following:

- child credit (no payments involved)
- adoption expenses credit
- public transit passes credit
- child fitness credit
- charitable donations credit
- medical expense credit

Exercise Three - 18

Subject: Transfer Of Credits From A Spouse

Mr. Martin Levee is 68 years old and has Net Income For Tax Purposes of $42,000. Of this total, $24,000 was from a life annuity that he purchased with RRSP funds. His spouse is 66 years old, has no income of her own (she is ineligible for OAS), and is attending university on a full time basis. Her tuition fees for the year were $2,200 and she was in full time attendance for 4 months of the year. Determine Mr. Levee's maximum federal tax credits for 2009. Ignore the possibility of splitting his pension income with his spouse.

End of Exercise. Solution available in Study Guide.

Working Income Tax Benefit - ITA 122.7

The Welfare Wall

3-159. Despite the rantings of ostensibly virtuous individuals of a right-wing persuasion, many individuals who are receiving various types of social assistance are not necessarily lazy or lacking in motivation. The simple fact is that, given the types of wages such individuals receive, they are often better off economically if they do not work. The types of work that such individuals can earn is typically at the legal "minimum" (e.g., $8.80 per hour in Alberta). The amounts earned at this wage are typically offset by reductions in social assistance payments. Additional negative effects flow from loss of subsidized housing, prescription drug assistance, and other benefits that flow to individuals with little or no income.

3-160. It has been demonstrated that, if such individuals find employment, the result can be a reduction in their real income. Instead of rewarding their efforts, our current system can actually punish individuals who make an effort to improve their economic status. This is commonly referred to as the welfare wall.

Calculation Of The Basic Working Income Tax Benefit (WITB)

3-161. To assist eligible working low income individuals, ITA 122.7 provides for a working income tax benefit (WITB). This refundable tax credit is available to "eligible" individuals who are 19 years of age or older and who were not full-time students for more than 13 weeks in the year or in prison for 90 days or more during the year. In order to restrict the WITB to low income individuals, it is phased out at higher income levels. Although the amounts vary slightly in some provinces, the basic WITB provides a refundable credit equal to 20 percent of each dollar of income in excess of $3,000 with the following limits for 2009:

- For single individuals who earn employment and business income (i.e., working income) totalling $3,000 to $13,403 per year, the maximum credit of $522 is obtained when income reaches $5,610. The benefit is reduced by 15 percent of income in excess of $9,923 and disappears when income reaches $13,403 [$9,923 + ($522 ÷ 0.15)].
- For couples and single parents who earn working income totalling $3,000 to $22,105 per year, the maximum benefit is $1,044 which is available when the family income reaches $8,220. The 15 percent reduction begins at income in excess of $15,145 and the credit disappears when income reaches $22,105 [$15,145 + ($1,044 ÷ 0.15)].

WITB Disability Supplement

3-162. For individuals qualifying for the disability tax credit, a WITB disability supplement is available. The additional 20 percent benefit begins at an earned income level of $1,750. It reaches a maximum of $261 when earned income reaches $3,055. For a single individual, it is reduced by 15 percent of earned income in excess of $13,404. For couples and single parents, the reduction begins at a family income level of $22,108.

Exercise Three - 19

Subject: Working Income Tax Benefit (WITB)

Both Angelina and her common-law partner are employed during 2009. Angelina is an eligible individual and her common-law partner is an eligible spouse for the purposes of the working income tax benefit. Angelina earns $13,000 (including tips) working at a restaurant while her partner earns $6,000 in a part-time sales position. Neither Angelina nor her partner is entitled to the disability tax credit for the year. Angelina makes a claim for the WITB for 2009. Determine the amount of her claim.

End of Exercise. Solution available in Study Guide

Political Contributions Tax Credits - ITA 127(3)

Federal Accountability Act

3-163. While no changes have been made in the *Income Tax Act*, the *Federal Accountability Act* limits the ability of persons to make political contributions. More specifically, this *Act* contains the following provisions:

- The amount that can be contributed annually by an individual to a registered party is limited to $1,100.
- The amount that can be contributed annually to a candidate or a leadership contestant is limited to $1,100.
- The amount that can be contributed annually to a nomination contestant is limited to $1,100.
- There is a total ban on contributions by corporations, partnerships, trade unions and unincorporated associations.

Income Tax Rules

3-164. A federal tax credit is available on political contributions made to a registered federal political party, or to candidates at the time of a federal general election or by-election. The maximum value is $650 and it is available to both individuals and corporations. However, as discussed in the preceding Paragraph, the *Federal Accountability Act* totally bans contributions by corporations. The credit is calculated as follows:

	Contributions	Credit Rate	Tax Credit
First	$ 400	3/4	$300
Next	350	1/2	175
Next	525	1/3	175
Maximum Credit	$1,275		$650

3-165. The $650 credit is achieved when contributions total $1,275. Contributions in excess of this amount do not generate additional credits. Also note that most provinces have a similar credit against provincial Tax Payable. There is a difference, however, in that the eligible contributions must be made to a registered provincial political party.

3-166. Proposed legislation would require the amount of charitable and political contributions that are eligible for tax credits to be reduced by the amount of any advantage received by the taxpayer. In the case of political contributions, if an individual receives an advantage from a political contribution, it seems unlikely to us that they would be prepared to disclose this information to the CRA or any other government organization.

Exercise Three - 20

Subject: Political Contributions Tax Credit

Ms. Vivacia Unger contributes $785 to the Liberal New Conservative Democratic Party, a registered federal political party. Determine the amount of her federal political contributions tax credit.

End of Exercise. Solution available in Study Guide.

Labour Sponsored Funds Tax Credit - ITA 127.4

3-167. The government wishes to encourage investment in small and medium sized enterprises. To that end, ITA 127.4 provides a credit for individuals investing in the shares of prescribed labour sponsored venture capital corporations.

3-168. For purposes of this Section, these corporations must be set up under the appropriate legislation and managed by a labour organization. The assets of the corporation must be invested in small and medium sized businesses. In addition, under proposed legislation, the province in which the corporation is registered must provide a similar credit.

3-169. The federal credit is based on 15 percent of the cost of the labour sponsored venture capital corporation shares purchased by the individual. To be eligible for the credit, the investor must be the first registered holder of the shares. In addition, the maximum credit for a year is $750. This limits the net cost of investments eligible for the credit to $5,000.

Exercise Three - 21

Subject: Labour Sponsored Funds Credit

On June 30, 2009, Mr. Brad Clintor purchases newly issued shares in a prescribed labour sponsored venture capital corporation at a cost of $3,000. The province in which Mr. Clintor lives provides a provincial tax credit for this investment. Determine the amount of the federal tax credit that will result from this purchase.

End of Exercise. Solution available in Study Guide.

Dividend Tax Credit

3-170. The dividend tax credit is covered in Chapter 6 as part of our discussion of property income.

Foreign Tax Credits

3-171. The credits that are available for taxes paid in foreign jurisdictions are covered in Chapters 6 and 10.

Investment Tax Credits

3-172. When taxpayers make certain types of expenditures, they become eligible for investment tax credits. These credits reduce federal Tax Payable. While these credits can be claimed by individuals as well as corporations, they are much more commonly used by corporations and, as a consequence, we cover investment tax credits in Chapter 13.

Refundable Credits

Introduction

3-173. With the exception of the refundable medical expense supplement and the working income tax benefit, the credits that we have encountered to this point can be described as non-refundable. This means that, unless the taxpayer has Tax Payable for the current taxation year, there is no current benefit from the credit. Further, with the exception of the charitable donations credit and education related credits, there is no carry forward of these non-refundable credits to subsequent taxation years. This means that, if the credits are not used in the current year, they are permanently lost.

3-174. In this section we will describe two refundable credits, the refundable GST Credit and the Canada Child Tax Benefit.

3-175. Our coverage of these refundable credits will be limited. This reflects the fact that, unlike non-refundable credits, taxpayers do not calculate the eligible amount in the tax returns that they submit to the CRA. Rather, the CRA calculates the credits from the tax returns that the taxpayer has filed in previous years and pays these amounts to the eligible taxpayers. Given this, there is no need to provide coverage of the detailed calculation of these credits.

Refundable GST Credit

3-176. One of the major problems with the goods and services tax (GST) is the fact that it is a regressive tax. In order to provide some relief from the impact of the GST on low income families, there is a refundable GST credit available under ITA 122.5.

3-177. The GST credit is determined by the CRA on the basis of eligibility information supplied in the individual's tax returns for previous years. Because of this, it is only paid to individuals who file tax returns.

3-178. For 2009, the system provides for a total credit that is calculated as follows:

- $248 for the "eligible individual". An eligible individual includes a Canadian resident who is 19 years of age or over during the current taxation year, or is married or living common-law, or is a parent who resides with their child. In the case of a married couple, only one spouse can be an eligible individual.
- $248 for a "qualified relation". A qualified relation is defined as a cohabiting spouse or common-law partner. If the eligible individual does not have a qualified relation, he is entitled to an additional credit that is the lesser of $130 and 2 percent of the individual's Net Income For Tax Purposes in excess of $8,047.
- $248 for a dependant eligible for the eligible dependant tax credit.
- $130 for each "qualified dependant". A "qualified dependant" is defined as a person who is the individual's child or is dependent on the individual or the individual's cohabiting spouse or common-law partner for support. In addition, the child or dependent person must be under 19 years of age, reside with the individual, have never had a spouse or common-law partner, and have never been a parent of a child he has resided with. Further, this credit cannot be claimed for a dependant if the $248 was claimed for that dependant because he or she was eligible for the eligible dependant tax credit.

3-179. The total of these amounts must be reduced by 5 percent of the excess of the individual's "adjusted income" over an indexed threshold amount. For 2009, this threshold amount is $32,312. "Adjusted Income" is defined as total income of the individual and his qualified relation, if any.

3-180. The refundable GST credit is available to all eligible individuals, without regard to whether they have Tax Payable. The amount of the credit is calculated by the CRA on the basis of information included in the individual's tax return for a particular year, and the amounts are automatically paid to the taxpayer in subsequent years.

Canada Child Tax Benefit

Basic Amount

3-181. The Canada Child Tax Benefit is in the form of a non-taxable monthly payment. As is the case with the refundable GST credit, the amount of this benefit is calculated by the CRA. The benefits are subject to indexation. For the period July, 2008 through June, 2009, the benefits are as follows:

- $1,340 per year (paid monthly) for each qualified dependant, basically a child who is under 18; and
- an additional $93 per year (paid monthly) for each dependant in excess of two.

3-182. This basic benefit is reduced when family Net Income reaches $38,832. For a family with one child, the phase out is at the rate of 2 percent of the excess income. For a family with two or more children, the reduction is based on 4 percent of the excess income.

National Child Benefit Supplement

3-183. In addition to the regular Child Tax Benefit, there is also a National Child Benefit Supplement. The amount of the supplement is $2,076 per year for the first child, $1,837 per year for the second, and $1,747 per year for the third and subsequent child. All of these benefits are paid monthly.

3-184. The benefit is reduced when family Net Income reaches $21,816. The phase out rate is 12.2 percent for a one child family, 23.0 percent for a two child family, and 33.3 percent for families with more than two children.

Universal Child Care Benefit

3-185. While this is not part of the child tax benefit system, we would note here that there is also a taxable Universal Child Care Benefit. This benefit is paid to the lower income spouse or common-law partner and is included in their Net Income For Tax Purposes (see Chapter 8).

Social Benefits Repayment (OAS And EI)

Basic Concepts

Clawbacks

3-186. Many Canadian tax credits and benefits are available on a universal basis, without regard to the income level of the recipient. However, both Old Age Security payments (OAS) and Employment Insurance payments (EI) are reduced for higher income individuals.

3-187. With respect to OAS payments, the government assesses a Part I.2 tax on OAS benefits received by individuals with an adjusted Net Income above a threshold amount. In similar fashion, the *Employment Insurance Act* requires that individuals with an adjusted Net Income above a specified threshold amount repay a portion of any Employment Insurance (EI) benefits received. These required repayments are commonly referred to as "clawbacks".

Treatment In Net And Taxable Income

3-188. Both OAS payments received and EI payments received must be included in an individual's Net Income For Tax Purposes. However, in situations where all or part of these amounts must be repaid, it would not be appropriate to allow the full amounts received to flow through to Taxable Income and have an influence on Tax Payable.

3-189. This problem is dealt with by providing a deduction for amounts repaid. You may recall from Chapter 1 that one of the components of Net Income For Tax Purposes was Other Deductions (subdivision d of the *Income Tax Act*). While we will not provide detailed coverage of this subdivision until Chapter 8, we need to note here that ITA 60(v.1) provides a deduction for repayments of EI, and ITA 60(w) provides a deduction for repayment of OAS amounts received.

3-190. As both the EI and OAS repayments are calculated on the basis of the individual's income in excess of a threshold amount, the question arises as to whether these tests should

be applied using income figures which include the full amount received or, alternatively, income figures from which the repayments have been deducted. The solution to this problem will be discussed in the two sections which follow.

Employment Insurance (EI) Benefits Clawback

3-191. The *Employment Insurance Act* requires the partial repayment of benefits received if the recipient's threshold income is greater than $52,875 (1.25 times the 2009 maximum insurable earnings of $42,300). This $52,875 income figure includes all of the components of Net Income For Tax Purposes except the deductions for repayment of EI benefits [ITA 60(v.1)] and the deduction for the repayment of OAS benefits [ITA 60(w)]. As the EI clawback is deducted from the threshold income used for determining the OAS clawback, the EI clawback must be determined prior to calculating the amount of the OAS clawback.

3-192. Once the amount of threshold income over $52,875 is determined, it must be compared to the EI benefits included in the current year's Net Income For Tax Purposes. The lesser of these two amounts is multiplied by 30 percent and this becomes the amount that must be repaid for the year as a social benefits repayment. This amount can then be deducted under ITA 60(v.1) in the determination of Net Income For Tax Purposes for the year.

Old Age Security (OAS) Benefits Clawback

3-193. The tax on OAS benefits is equal to 15 percent of the taxpayer's threshold income in excess of $66,335. For this purpose, the threshold income is equal to Net Income For Tax Purposes computed after any EI clawback, but without consideration of the ITA 60(w) deduction for the tax on OAS benefits.

3-194. For the first quarter of 2009, the OAS benefit is $516.96 per month. If this rate did not change during the year (the rates are, in fact, adjusted quarterly), the 2009 total would be $6,204. Based on this figure, the benefit would disappear at an income level of $107,695.

3-195. For higher income seniors, OAS benefits are clawed back on a regular basis, with some individuals receiving no benefits under this program during their lifetime. Given this, the government has introduced an administrative procedure under which they withhold payments that they expect to be clawed back. Expectations are based on tax returns filed in the two previous years.

> **Example** In her tax returns for both 2007 and 2008, Sally Leung has reported Taxable Income in excess of $200,000 per year. Despite the fact that Sally is 70 years of age, she would receive no OAS payments in 2009.

3-196. Interestingly, once an individual has applied for OAS, the government will issue an information slip [T4A(OAS)] indicating that they have received the full benefit, even in cases where the full amount has been clawed back. The information slip will also show any amount that is clawed back. This means the full benefit must be included in income, accompanied by a deduction for the amount "repaid". For an individual who reaches age 65 with the expectation that they will have very high income for the foreseeable future, this process can be avoided by not applying for OAS.

Exercise Three - 22

Subject: EI and OAS Clawbacks

For 2009, Ms. Marilyn Jacobi has net employment income of $60,000, receives EI payments of $10,000, and receives $6,200 in Old Age Security (OAS) payments. No amount was withheld from the OAS payments because she had very low income in the previous two years due to large rental losses. Determine Ms. Jacobi's Net Income For Tax Purposes for 2009.

End of Exercise. Solution available in Study Guide.

Comprehensive Example

3-197. While this Chapter has provided a reasonably detailed description of the determination of Tax Payable for individuals, including small examples of some of the issues that arise in this process, a more comprehensive example is appropriate at this point. To simplify calculations, we have ignored provincial income taxes and income tax withholdings on employment income. In the separate paper Study Guide, there is an additional example containing a completed tax return, as well as a Tax Software Self Study Problem, both of which include provincial income taxes.

Taxpayer Information

Mr. Thomas Baxter is 66 years of age and his 2009 income is made up of net employment income of $73,800 and Old Age Security benefits of $6,200 (because of large business losses during the previous two years, no amount was withheld from these payments). For 2009, Mr. Baxter's employer withheld maximum CPP and EI contributions. Other information pertaining to 2009 is as follows:

1. Mr. Baxter's spouse is 49 years old and is physically disabled. Her only income for the year is $5,000 in Canadian source interest. The investment funds were inherited from her father at the time of his death.
2. Mr. and Mrs. Baxter have two daughters and, at the end of the year, their ages were 14 and 17. Kim, the younger daughter, has income of $2,700, none of which was employment income. Lori, the older daughter, had net income of $2,000, none of which was employment income. In September, 2009, Lori began full time attendance at a Canadian university. Mr. Baxter paid her tuition fees of $5,000, of which $2,500 was for the fall, 2009 semester.
3. The family medical expenses for the year, all of which were paid by Mr. Baxter, totalled $2,843. Of this amount, $900 was paid for Lori.
4. During the year, Mr. Baxter made cash donations to registered Canadian charities in the amount of $3,000.
5. During the year, Mr. Baxter made contributions to federal political parties totalling $800.
6. During the year, Mr. Baxter paid $960 for monthly public transit passes.
7. Because of an ongoing problem with her weight, Mr. Baxter enrolled his daughter, Kim, in an eligible fitness program. The annual cost of this program is $1,800.

Net And Taxable Income

Mr. Baxter's Net and Taxable Income would be calculated as follows:

Net Employment Income	$73,800
OAS Benefits	6,200
Net Income Before Clawback	$80,000
OAS Clawback (Note One)	(2,050)
Net Income For Tax Purposes And Taxable Income	$77,950

Note One The required repayment of OAS is the lesser of the actual OAS payments of $6,200 and $2,050 [(15%)($80,000 - $66,335)].

Federal Tax Payable

Using the preceding Taxable Income, the federal balance owing would be as follows:

Federal Tax On First $40,726		$ 6,109
Federal Tax On Next $37,224 ($77,950 - $40,726) At 22 Percent		8,189
Gross Tax		$14,298
Tax Credits:		
Basic Personal Amount	($ 10,320)	
Spousal ($10,320 - $5,000)	(5,320)	
Child - Kim	(2,089)	
Child - Lori	(2,089)	
Mr. Baxter's Age (Note Two)	Nil	
Mr. Baxter's Canada Employment	(1,044)	
Public Transit Passes	(960)	
Kim's Fitness Program (Note Three)	(500)	
Medical Expenses (Note Four) ($2,843 - $2,011)	(832)	
Mrs. Baxter's Disability Transferred	(7,196)	
Lori's Tuition, Education, And Textbook Transferred (Note Five)	(4,360)	
EI Premiums (Maximum)	(732)	
CPP Contributions (Maximum)	(2,119)	
Total	($37,561)	
Rate	15%	(5,634)
Charitable Donations {[(15%)($200)] + [(29%)($3,000 - $200)]}		(842)
Political Contributions Tax Credit - Lesser Of:		
• $650 (Maximum)		
• [($400)(3/4) + ($350)(1/2) + ($50)(1/3)] = $492		(492)
Federal Tax Payable		$ 7,330
Social Benefits Repayment (Note One)		2,050
Federal Balance Owing		$ 9,380

Note Two Mr. Baxter's age credit would be calculated as follows:

Full Base Amount	$6,408
Reduction - Lesser Of:	
• [(15%)($77,950 - $32,312)] = $6,846	
• Full Base Amount = $6,408	(6,408)
Age Credit	Nil

Note Three While Mr. Baxter paid $1,800 for this program, the maximum credit base is $500.

Note Four Medical expenses eligible for the credit are the actual expenditures of $2,843, less the maximum of $2,011 as this limit is less than 3 percent of Mr. Baxter's Net Income. Since both daughters are under 18 at the end of the year, their expenses can be aggregated with those of Mr. Baxter for the purposes of this calculation.

Note Five Lori's total education related amount is calculated as follows:

Tuition For 2009 Semester ($5,000 - $2,500)	$2,500
Education (Four Months At $400)	1,600
Textbook (Four Months At $65)	260
Total Amount Available For Transfer Or Carry Forward	$4,360

Since Lori has no Tax Payable before consideration of her education related credits, the solution assumes that they are all transferred to her supporting parent as they total less than the $5,000 transfer limit. Alternatively, she could choose to carry forward these credits to apply against her own Tax Payable in a subsequent year.

Short Summary Of Filing Procedures

3-198. The detailed procedures for filing tax returns and paying taxes are covered in Chapter 14 of this text, Procedures And Administration. In courses where no use is made of the tax return software which accompanies the text, this information is not relevant to understanding the examples in the text or completing the Assignment and Self Study problems. These problems do not deal with employment income withholding, instalment payments, filing dates or late filing penalties.

3-199. However, in those courses where some use is made of the tax return software, these concepts cannot be avoided as the software will issue warnings. In some cases, instructors may decide to cover Chapter 14 at this point. However, if they do not, the following information should be sufficient for you to deal with these matters in the context of the tax return software:

Withholding Employers are required to withhold from employee wages amounts that are designed to cover the individual's federal and provincial Tax Payable for the year. If the employee has no other source of income, these income tax withholdings will usually approximate the individual's Tax Payable for the year.

Instalments For many employees, withholdings from employment income are not sufficient to cover their Tax Payable at the end of the year (e.g., an employee with large amounts of investment income). In such cases, and in cases where income is not earned as an employee (i.e. individuals with self-employed income), the individual may be required to make instalment payments on a quarterly basis throughout the year.

Filing Dates In general, individuals must file their tax return no later than April 30 of the year following the applicable taxation year. For individuals earning business income as a partner or proprietor, the filing date is deferred until June 15 of the year following the applicable taxation year. In the year of death, the taxpayer's representatives have until 6 months after the date of death to file.

Payment Of Taxes Individuals must remit any remaining Tax Payable, net of any instalments or withholding, no later than April 30 of the year following the applicable taxation year. If the balance owing is not paid at this time, the individual will be charged interest on the amount owing.

Late Filing If an individual fails to file his return on the required due date, they are subject to a penalty of 5 percent of the net tax owing, plus an additional 1 percent per month until such time as the balance is paid.

Key Terms Used In This Chapter

3-200. The following is a list of the key terms used in this Chapter. These terms, and their meanings, are compiled in the Glossary Of Key Terms located at the back of the separate paper Study Guide and on the Companion CD-ROM.

- Adoption Expenses Tax Credit
- Age Tax Credit
- Canada Employment Credit
- Canada Pension Plan (CPP)
- Canada Pension Plan Tax Credit
- Caregiver Tax Credit
- Charitable Donations Tax Credit
- Charitable Gifts
- Child Tax Benefit
- Child Tax Credit
- Child Fitness Tax Credit
- Clawback
- Common-Law Partner
- Dependant
- Disability Tax Credit
- Disability Tax Credit Supplement
- Education Tax Credit
- Eligible Dependant Tax Credit
- Employment Insurance (EI)
- Employment Insurance Tax Credit
- First Time Home Buyer's Tax Credit
- GST Tax Credit
- Home Renovations Tax Credit
- Home Relocation Loan
- Indexation
- Labour Sponsored Funds Tax Credit
- Medical Expense Tax Credit
- Non-Refundable Tax Credit
- Northern Residents Deductions
- OAS Clawback
- Old Age Security (OAS) Benefits
- Pension Income Tax Credit
- Personal Tax Credits
- Political Contributions Tax Credit
- Progressive Tax System
- Public Transit Pass Tax Credit
- Refundable Medical Expense Supplement
- Refundable Tax Credit
- Regressive Tax System
- Social Benefits Repayment
- Spouse
- Tax Credit
- Taxable Income
- Textbook Tax Credit
- Tuition Tax Credit
- Wholly Dependant Person
- Working Income Tax Benefit

References

3-201. For more detailed study of the material in this Chapter, we would refer you to the following:

ITA 110	Deductions Permitted
ITA 111.1	Order Of Applying Provisions
ITA 117	Tax Payable Under This Part
ITA 117.1	Annual Adjustment
ITA 118(1)	Personal Credits
ITA 118(2)	Age Credit
ITA 118(3)	Pension Credit
ITA 118(10)	Canada Employment Credit
ITA 118.01	Adoption Expense Credit
ITA 118.02	Public Transit Pass Credit
ITA 118.03	Child Fitness Credit
ITA 118.1	Definitions (Charitable Gifts)
ITA 118.2	Medical Expense Credit
ITA 118.3	Credit For Mental Or Physical Impairment

References

ITA 118.5	Tuition Credit
ITA 118.6	Education Credit And Textbook Credit
ITA 118.61	Unused Tuition And Education Tax Credits
ITA 118.62	Credit For Interest On Student Loan
ITA 118.7	Credit for EI and QPIP premiums and CPP contributions
ITA 118.8	Transfer Of Unused Credits To Spouse Or Common-Law Partner
ITA 118.81	Tuition, Textbook, And Education Tax Credits Transferred
ITA 118.9	Transfer To Parent Or Grandparent
ITA 122.5	Definitions (GST Credit)
ITA 122.51	Definitions (Refundable Medical Expense Supplement
ITA 122.6 To 122.64	Canada Child Tax Benefit
ITA 122.7	Working Income Tax Benefit
ITA 127(3)	Federal Political Contributions Tax Credit
ITA 127.4	Labour Sponsored Funds Tax Credit
ITA 180.2	OAS Clawback
ITR 9400	Prescribed Program Of Physical Activity
IC 75-2R7	Contributions To A Registered Political Party Or To A Candidate At A Federal Election
IC 75-23	Tuition Fees And Charitable Donations Paid To Privately Supported Secular and Religious Schools
IC 84-3R5	Gifts To Certain Organizations Outside Canada
IT-110R3	Gifts And Official Donation Receipts
IT-113R4	Benefits To Employees — Stock Options
IT-226R	Gift To A Charity Of A Residual Interest In Real Property Or An Equitable Interest In A Trust
IT-244R3	Gifts By Individuals Of Life Insurance Policies As Charitable Donations
IT-407R4	Dispositions Of Cultural Property To Designated Canadian Institutions
IT-513R	Personal Tax Credits
IT-515R2	Education Tax Credit
IT-516R2	Tuition Tax Credit
IT-519R2	Medical Expense And Disability Tax Credits And Attendant Care Expense Deduction
IT-523	Order Of Provisions Applicable In Computing An Individual's Taxable Income And Tax Payable

Sample Tax Return For Chapter 3

The Sample Tax Return for this Chapter can be found in the Study Guide beginning on page S-47.

Problems For Self Study

(The solutions for these problems can be found in the separate Study Guide.)

Self Study Problem Three - 1 (Individual Tax Payable - 5 Cases)

The following five independent Cases make varying assumptions with respect to Mr. Stanley Murphy and his 2009 tax status. In all Cases, where Mr. Murphy earned employment income, his employer withheld the maximum EI premiums and CPP contributions.

Case A Mr. Murphy is 48 years of age and has employment income of $50,000. During the year, Stanley makes contributions to federal political parties in the amount of $1,000. Mr. Murphy is not married and has no dependants.

Case B Mr. Murphy is 48 years of age and has income from employment of $50,000. His wife, Helen Murphy, is 43 years of age and has Net Income For Tax Purposes of $4,650. They have one child, Eileen, who is 11 years of age. During the year, the family had eligible medical expenses of $1,050 for Stanley, $1,800 for Helen, and $300 for Eileen. Eileen has no income in 2009.

Case C Mr. Murphy is 48 years of age and his wife, Helen, is 43. Mr. Murphy has income from employment of $50,000. Helen has Net Income For Tax Purposes of $5,050. They have a son, Albert, who is 19 years old and lives at home. He attends university on a full time basis during 8 months of the year. Stanley pays $5,400 for Albert's tuition for two semesters during the 2009 calendar year and $525 for required textbooks. Albert had employment income of $3,000 that he earned during the summer. He will transfer any unused credits to his father.

Case D Mr. Murphy is 67 and his wife Helen is 68. Helen has been completely disabled for a number of years. The components of Stanley and Helen's income are as follows:

	Stanley	Helen
Interest	$ 300	$ 50
Canada Pension Plan Benefits	4,400	200
Old Age Security Benefits	6,200	6,200
Income From Registered Pension Plan	31,150	450
Total Net Income	$42,050	$6,900

Case E Mr. Murphy is 48 years of age and his wife, Helen, is 43. Her 68 year old father, Ahmed, and her 70 year old aunt, Jaleh, live with them. Ahmed's 2009 Net Income For Tax Purposes is $9,200 and Jaleh's Net Income For Tax Purposes is $11,000. In June of last year, Stanley graduated from a Canadian university with a degree in mathematics. In January, 2009, Stanley began to repay his student loan of $25,000 in monthly installments of $325. Stanley paid $375 in interest related to his student loan in 2009. His only income is $50,000 in net employment income. Helen has employment income of $11,000.

Required: In each Case, calculate Mr. Murphy's Taxable Income and minimum federal Tax Payable. Indicate any carry forwards available to him and his dependants and the carry forward provisions. Ignore any amounts Mr. Murphy might have had withheld or paid in instalments and the possibility of pension splitting.

Self Study Problem Three - 2 (Tax Payable With Employment Income)

Extension of Self Study Problem Two - 6

Mr. John Barth has been employed for many years as a graphic illustrator in Kamloops, British Columbia. His employer is a large publicly traded Canadian company. During 2009, his gross salary was $82,500. In addition, he was awarded a $20,000 bonus to reflect his outstanding performance during the year. As he was in no immediate need of additional income, he arranged with his employer that none of this bonus would be paid until 2014, the year of his expected retirement.

Other Information:

For the 2009 taxation year, the following items were relevant.

1. Mr. Barth's employer withheld the following amounts from his income:

Federal Income Tax	$16,000
Employment Insurance Premiums	732
Canada Pension Plan Contributions	2,119
United Way Donations	2,000
Registered Pension Plan Contributions	3,200
Payments For Personal Use Of Company Car	3,600

2. During the year, Mr. Barth is provided with an automobile owned by his employer. The cost of the automobile was $47,500. Mr. Barth drove the car a total of 10,000 kilometers during the year, of which only 4,000 kilometers were related to the business of his employer. The automobile was available to Mr. Barth for ten months of the year. During the other two months, he was out of the country and left the automobile with one of the other employees of the corporation.

3. During the year, the corporation paid Mega Financial Planners a total of $1,500 for providing counseling services to Mr. Barth with respect to his personal financial situation.

4. In order to assist Mr. Barth in purchasing a ski chalet, the corporation provided him with a five year loan of $150,000. The loan was granted on October 1 at an interest rate of 1 percent. Mr. Barth paid the corporation a total of $375 in interest for the year on January 20, 2010. Assume that, at the time the loan was granted, the relevant prescribed rate was 2 percent.

5. Mr. Barth was required to pay professional dues of $1,800 during the year.

6. In 2008, when Mr. Barth exercised his stock options to buy 1,000 shares of his employer's common stock at a price of $15 per share, the shares were trading at $18 per share. When the options were issued, the shares were trading at $12 per share. At the time of exercise, he elected to defer the income inclusion on the stock options. During 2009, the shares were sold at $18 per share.

7. Mr. Barth lives with his wife, Lynda. Lynda is blind and qualifies for the disability tax credit. She has Net Income For Tax Purposes of $1,250.

8. His 22 year old dependent daughter, Marg, is a full time student at the University of British Columbia for 8 months of the year. She lives in Vancouver and has Net Income For Tax Purposes and Taxable Income of $12,400. She had withheld from her employment income EI premiums of $215 [(1.73%)($12,400)] and CPP contributions of $441 [(4.95%)($12,400 - $3,500)]. Mr. Barth paid Marg's tuition for 2009 of $6,300. She has agreed to transfer the maximum credit available to her father.

9. Mr. Barth paid the following medical costs:

For Himself	$ 200
For His Wife	3,550
For Marg	720
Total	$4,470

Required: Calculate, for the 2009 taxation year:

A. Marg's minimum federal Tax Payable and any carry forward amounts available to her at the end of the year.

B. Mr. Barth's minimum Taxable Income and federal Tax Payable (Refund).

Self Study Problem Three - 3 (Tax Payable With Multiple Credits)

This is an extension of the Tax Software Self Study Problem for Chapter 3 that is available in the Study Guide. It has been updated for 2009 rates. This Problem is continued in Chapter 10.

Ms. Eleanor Trubey's husband died two years ago. After her husband died, she moved from her house in Prince George, B.C., to a rented house in Victoria, B.C.

Ms. Trubey's widowed mother, Marjorie Toshiro, had extremely bad luck the last time she was in Las Vegas. She lost most of her life savings and her house. As a result, she has moved in with Ms. Trubey and takes care of the house, Ms. Trubey's younger daughter, Amy, and all of the household cooking. Marjorie has never filed a tax return and has no Social Insurance Number.

Diane Trubey, Eleanor's older daughter, is studying psychology at McGill University in Montreal. Her field is addiction research with a special emphasis on gambling. She does volunteer work at a gambling addiction treatment centre in Montreal in the summers. As Eleanor has paid for her tuition and living costs, Diane has agreed that any credits available should be transferred to her mother.

Diane has decided not to file a tax return this year as she is too busy with her studies and volunteer work. Her income was earned driving for a client of the addiction treatment centre who had lost his licence after being charged with driving under the influence.

Other information concerning Ms. Trubey for 2009 is as follows:

1. Eleanor was born on May 15, 1961. She lives in Victoria, B.C.

2. The birth dates and income for the year of her dependants are as follows:

	Birth Date (Y/M/D)	Annual Income
Diane	1989-05-14	$2,300
Amy	1997-10-11	Nil
Marjorie	1928-05-21	$6,500

3. Eleanor's T4 for 2009 showed the following:

Employment Income	$60,202
Employee's EI Premiums	732
Employee's CPP Contributions	2,119
RPP Contributions	2,406
Pension Adjustment	7,829
Union Dues	749
Charitable Donations	175

4. Eleanor and her family had the following medical expenses for 2009, all of which Eleanor paid for:

Patient	Medical Expenses	Description	Amount
Eleanor	Grace Hospital	Ambulance Charge	$ 392
Eleanor	Paramed Home Health	Nursing Care	1,350
Marjorie	Dr. Zhang (Optometrist)	Contact Lenses	110
Marjorie	Pharmacy	Prescription	75
Diane	Dr. Glassman	Physiotherapist	100
Amy	Walk Right Foot Clinic	Orthotics	450
Amy	Dr. Tamo	Dental	1,120
Total			$3,597

5. In addition to the $175 in charitable contributions withheld by Eleanor's employer, Eleanor and Diane had the following charitable donations for 2009:

Donor	Charitable Donation Receipts	Amount
Eleanor	Heart And Stroke	$ 375
Eleanor	Terry Fox Foundation	50
Diane	Addiction Research Council Of Canada	100

6. During 2009, Diane was in university full time for 8 months and part time for an additional 2 months. Her tuition fees for the year were $7,000.

Required: Calculate Ms. Trubey's minimum federal Tax Payable. Ignore any possible instalments paid or withholdings by her employer. List any assumptions you have made, and any notes and tax planning issues you feel should be discussed with Ms. Trubey.

Tax Software Self Study Problem (Chapter 3)

The Tax Software Self Study Problem for this Chapter can be found in the Study Guide beginning on page S-61.

Assignment Problems

The Assignment Problems for this Chapter can be found in the Study Guide beginning on page S-81.

Tax Software Assignment Problems

The Tax Software Assignment Problems for this Chapter can be found in the Study Guide beginning on page S-87.