

STUDY GUIDE

Chapter 4



How To Work Through Chapter 4

We recommend the following approach in dealing with the material in this chapter:

Taxable Income Of Individuals

- ☐ Read paragraph 4-1 to 4-12 (in the textbook).
- ☐ Do Exercise Four-1 (in the textbook) and check the solution on page S-57 in this Study Guide.
- ☐ Read paragraph 4-13.

Federal And Provincial Tax Payable Before Credits

- ☐ Read paragraph 4-14 to 4-26.
- ☐ Do Exercise Four-2 and check the solution in this Study Guide.
- ☐ Read paragraph 4-27 to 4-31.

Credits Against Tax Payable - Calculating The Amount

- ☐ Read paragraph 4-32 to 4-36.

Family Caregiver, Spousal, Eligible Dependant And Child Tax Credits

- ☐ Read paragraph 4-37 to 4-46.
- ☐ Do Exercise Four-3 and check the solution in this Study Guide.
- ☐ Read paragraph 4-47 to 4-59.

Basic Personal, Caregiver And Infirm Dependant Over 17 Tax Credits

- ☐ Read paragraph 4-60 to 4-65.
- ☐ Do Exercise Four-4 and check the solution in this Study Guide.
- ☐ Read paragraph 4-66 to 4-72.
- ☐ Do Exercise Four-5 and check the solution in this Study Guide.

Eligible Dependant vs. Caregiver vs. Infirm Dependant Over 17 Tax Credits

- ☐ Read paragraph 4-73 to 4-77.
- ☐ Do Exercise Four-6 and check the solution in this Study Guide.
- ☐ Read paragraph 4-78 to 4-81.
- ☐ Do Exercises Four-7 and Four-8 and check the solutions in this Study Guide.

Age, Pension, Canada Employment And Adoption Expenses Tax Credits

- ☐ Read paragraph 4-82 to 4-83.
- ☐ Do Exercise Four-9 and check the solution in this Study Guide.
- ☐ Read paragraph 4-84 to 4-96.
- ☐ Do Exercise Four-10 and check the solution in this Study Guide.

**Public Transit Passes, Child Fitness, Children's Arts Credit,
First Time Home Buyer's And Volunteer Firefighters Tax Credits**

- ☐ Read paragraph 4-97 to 4-117.

Charitable Donations Credit

- ☐ Read paragraph 4-118 to 4-129.
- ☐ Do Exercise Four-11 and check the solution in this Study Guide.

Medical Expense Credit And Refundable Medical Expense Supplement

- ☐ Read paragraph 4-130 to 4-139.
- ☐ Do Exercise Four-12 and check the solution in this Study Guide.
- ☐ Read paragraph 4-140 to 4-143.
- ☐ Do Exercise Four-13 and check the solution in this Study Guide.

Disability Credit

- ☐ Read paragraph 4-144 to 4-151.
- ☐ Do Exercise Four-14 and check the solution in this Study Guide.
- ☐ Read paragraph 4-152 to 4-155.

Education Related Credits Including Carry Forwards And Transfers

- ☐ Read paragraph 4-156 to 4-166.
- ☐ Do Exercise Four-15 and check the solution in this Study Guide.
- ☐ Read paragraph 4-167 to 4-175.
- ☐ Do Exercises Four-16 and Four-17 and check the solutions in this Study Guide.

Employment Insurance And Canada Pension Plan Tax Credits

- ☐ Read paragraph 4-176 to 4-182.

Credit Transfers To A Spouse Or Common-Law Partner

- ☐ Read paragraph 4-183 to 4-184.
- ☐ Do Exercise Four-18 and check the solution in this Study Guide.
- ☐ Do Self Study Problems Four-1 and Four-2 at the end of the textbook chapter beginning on page 175 and check the solutions in this Study Guide.

Political Contributions Credit

- ☐ Read paragraph 4-185 to 4-187.
- ☐ Do Exercise Four-19 and check the solution in this Study Guide.
- ☐ Do Self Study Problems Four-3 and Four-4 and check the solutions in this Study Guide.

Labour Sponsored Funds Credit

- ☐ Read paragraph 4-188 to 4-190.
- ☐ Do Exercise Four-20 and check the solution in this Study Guide.
- ☐ Read paragraph 4-191 to 4-193.

Refundable Credits - GST, Working Income Tax Benefit, Canada Child Tax Benefit

- ☐ Read paragraph 4-194 to 4-206.
- ☐ Do Exercise Four-21 and check the solution in this Study Guide.
- ☐ Read paragraph 4-207 to 4-211.

EI And OAS Repayment (Clawback)

- ☐ Read paragraph 4-212 to 4-222.
- ☐ Do Exercise Four-22 and check the solution in this Study Guide.

Comprehensive Example

- ☐ Read paragraph 4-223.
- ☐ Do Self Study Problems Four-5 to Four-7 and check the solutions in this Study Guide.

Sample Personal Tax Return For Chapter 4

- ❑ Read the Sample Personal Tax Return For Chapter 4 found on page S-48 to S-51 of this Study Guide. The complete sample tax return is available on the Student CD-ROM in two formats, a T1 ProFile return file and a .PDF file. To view the files, access your Student CD-ROM and under the heading "Textbook Support Files", select the option "Tax Return Files".

In January, 2013, after the first 2012 filing version is released, the updated 2012 sample tax returns and updated Tax Software Problems will be available at:

www.pearsoncanada.ca/byrdchen/ctp2013

Tax Software Self Study Problem

- ❑ Read the Suggestions For Working With ProFile Software found on page S-52 to S-54 of this Study Guide.
- ❑ Do Tax Software Self Study Problem - Chapter 4 using the ProFile T1 Software. The Self Study Problem is on page S-55 and S-56 of this Study Guide. The condensed solution is on pages S-77 to S-79 of this Study Guide. The complete tax return is available on the Student CD-ROM.

To Complete This Chapter

- ❑ Review the Key Terms Used In This Chapter on page 173. Consult the Glossary for the meaning of any key terms you do not know.
- ❑ Review the Glossary Flashcards and complete the Key Terms Self-Test for the Chapter. These features can be found in two places, on your Student CD-ROM under the heading "Key Term Practice" and on the web site.
- ❑ Review the Learning Objectives of the Chapter found on page S-79 and S-80.
- ❑ As a final review, we recommend that you view the PowerPoint Slides for Chapter 4 that are on your Student CD-ROM. The PowerPoint Viewer program can be installed from the Student CD-ROM.

Practice Examination

- ❑ Write the Practice Examination for Chapter 4 that is on your Student CD-ROM. Mark your examination using the Practice Examination Solution that is also on your Student CD-ROM.

Sample Personal Tax Return For Chapter 4

The following example contains a T1 individual income tax return completed using the ProFile T1 Personal Income Tax Program for 2011 tax returns from Intuit Canada. As software for 2012 is not yet available, this example contains 2011 rates and credits.

The updated 2012 filing version of the ProFile software will be available in January, 2013. Non-filing versions will be available prior to that date, but include a number of 2012 draft forms that have not yet been updated. On installation, the program defaults to check for updates, so non-filing versions may be installed automatically. In January, 2013, after the first 2012 filing version is released, the updated 2012 version of this sample return will be available on the textbook web site at:

www.pearsoncanada.ca/byrdchen/ctp2013

This example is expanded in Chapter 11 to contain other components of Taxable Income and Tax Payable. In the following example, the relevant T1 schedule or ProFile form name is provided in square brackets to make it easier for users to find where the information is input.

Sample Files On Student CD-ROM

The complete sample tax return is available on the Student CD-ROM included with this book in two versions, a T1 ProFile return file and a .PDF file.

To View The Tax Return Files

To view the ProFile return files, you must have the ProFile program installed. For information on how to obtain the program for free, see the inside back cover of Volume 1.

To view the .PDF files, you must have the Adobe Reader program installed. This program can be installed for free from the Adobe website (www.adobe.com).

To view the files, insert your Student CD-ROM and you should see a splash page. Under the heading "Textbook Support Files", is the option to view "Tax Return Files". Select this option and you will see two drop-down lists.

- To view the ProFile file, select "Sample - Chapter 4" from the ProFile drop-down list.
- To view the .PDF file, select "PDF Sample - Chapter 4" from the PDF drop-down list.

Tips To Increase The Benefits From Viewing The ProFile Files

When viewing the sample return ProFile file, we suggest the following:

- Press <F1> on any ProFile form or field to display related information in the help system. In ProFile dialog boxes, click the [?] symbol in the top right corner, then click any element for help on that item.
- By pressing <F4> you will open the Form Explorer. In the categories of forms appearing in the shaded box on the left, if you choose "A. Used" near the bottom of the column, all the forms that have calculations for the return will be shown. You can then double click on the form itself to view it.
- Right clicking on a number in a field shows a variety of options, including the form or schedule where the amount originated from.
- Clicking on "Show Auditor" under the "Audit" list will display any warnings or potential errors.

For students who would like more assistance in using the software, we have provided "Suggestions For Working With ProFile Software" in this Study Guide following this example.

Sample Problem Data

DISCLAIMER: All characters appearing in this example are fictitious. Any resemblance to real persons, living or dead, is purely coincidental.

George Pilot (SIN 527-000-145) is a married, semi-retired air force pilot living in Banff, Alberta. His wife, Deborah (SIN 130-692-544) was blinded three years ago when she fell while rock climbing.

They have been your clients for many years. George was born on February 24, 1960 and Deborah was born on April 10, 1964. They are both Canadian citizens.

After some discussion with George and Deborah, you confirm that they have never owned any foreign property. As he has for many years, George authorizes the CRA to provide information to Elections Canada and he authorizes you to e-file his return. They are currently living at 69 Beaver Street in Banff, Alberta T0L 0C0. Their home phone number is (416) 111-1111.

George and Deborah have three children:

- Bryan (SIN 527-000-947) was born on March 12, 2004 and had no income during the year.
- Janice (SIN 527-000-269) was born on June 6, 1998 and is in high school. She had income from babysitting totalling \$400 during 2011.
- Willa (SIN 527-000-228) was born on January 22, 1992 and is attending university in Edmonton. Willa had Net Income of \$3,300 during 2011.

George loves flying and was hired in February to fly fire bombers June 1 to September 30 for the provincial forest service fire control squad located in Banff.

George informs you that on February 12, 2011, he received \$2 million from his mother's estate. Using some of these funds, George bought a house in Banff. The remainder of the funds were invested with his stockbroker, Bull & Bear Inc. In this Chapter 4 version of the example, assume there is no investment income from these funds.

Deborah had no income during the year. Only George will be filing a tax return.

George brings you the following receipts and documents:

1. A T4 (included on the Student CD).
2. A T2202A "Tuition And Education Amounts Certificate" for himself from Athabasca University. It showed he was a part time student for 6 months and paid \$591 in tuition for 2011. [T2202]
3. A receipt for \$1,000 from the Canadian Wildlife Federation dated December 3, 2011. [Donations]
4. A statement from the Banff Dental Clinic that he paid a total of \$1,650 during 2011. This consisted of \$850 for himself on November 24, and \$200 each for Deborah, Bryan, Willa and Janice on December 15. [Medical]
5. One receipt for Bryan for a one week hockey camp in Edmonton. The registration fee of \$650 includes \$182 for accommodation and \$193 for meals. A second receipt for Bryan of \$200 for membership in the co-ed soccer club. This enabled Bryan to participate in the club's weekly games for four months of the year. [Dependants]
6. One receipt for Janice for an art appreciation and sculpture workshop course in Banff. The course is for 10 Saturdays in the fall and cost \$600. [Dependants]

Sample Personal Tax Return For Chapter 4

7. Twelve monthly bus passes that were purchased during 2011 by Janice for \$30 per month. [OtherCredits]
8. An agreement of purchase and sale for a house at 69 Beaver St. in Banff. The purchase price was \$800,000 and the invoice for legal fees totalled \$1,200. The deal closed March 31, 2011. George and his family had been living in a rented townhouse for the last 5 years. Prior to that George had owned a house, but it went to his ex-wife in the divorce settlement. Deborah has never owned a principal residence. [OtherCredits for the Home Buyers' Credit.]
9. An instalment statement for 2011 that showed that George had paid the CRA instalments of \$1,500 on September 15 and December 15 (\$3,000 in total). These were the instalments requested by the CRA for the year due to his self-employed income in the previous year. [OtherCredits]

Required: With the objective of minimizing George's Tax Payable, complete his 2011 tax return. Ignore any GST implications.

Notes To The Chapter 4 Return

Reminder The family caregiver credit was introduced in 2012 and was not available in 2011.

1. As Deborah has no income, her disability credit has been transferred to George.
2. Inheritances are not taxable.
3. Due to his nil Tax Payable, George's \$1,000 charitable donation and his education related credits are all carried forward.
4. Since Willa is over 17 years of age, her medical expenses are reduced by 3 percent of her Net Income For Tax Purposes. Willa should file a return in order to receive the GST credit.
5. Due to his low Net Income For Tax Purposes, George is eligible for the refundable medical expense supplement and the working income tax benefit. Although George could consider carrying forward his medical expenses because his non-refundable tax credits are greater than his tax payable, if he did so, he would not receive the refundable medical expense supplement.
6. Both the hockey camp and the soccer club receipts qualify for the child fitness credit. However, since accommodation and meals do not qualify for the credit, the total credit base is \$475 (\$650 - \$182 - \$193 + \$200), which is less than the maximum of \$500.
7. The art course qualifies for the children arts credit. The credit base is limited to the annual maximum of \$500.
8. The Home Buyers' Tax Credit of \$750 [(15%)(5,000)] is available since George had been living in a rented town house for five years and neither he nor Deborah had another principal residence. However, since George's non-refundable tax credits already exceed his Tax Payable, he cannot take advantage of this credit and it cannot be carried forward.
9. George has paid installments based on the CRA's Instalment Reminders. Given the amount of his refund, they were unnecessary. George should review his estimated net tax owing periodically in the future to determine whether instalments should be paid.

Sample Returns

On the following page you will find George's T1 Summary. The complete return can be found on the Student CD-ROM.

Summary**2011 Tax Summary (Federal)****George-Chapter 4 Example**

Total income		
Employment *	101	19,000
Old Age Security	113	
CPP/QPP benefits	114	
Other pensions	115	
Split-pension amount	116	
Universal Child Care Benefit	117	
Employment Insurance	119	
Taxable dividends	120	
Interest	121	
Limited partnership	122	
RDSP	125	
Rental	126	
Taxable capital gains	127	
Support payments	128	
RRSP	129	
Other	130	
Self-employment *	135	
Workers' compensation and social assistance	147	
Total income	150	19,000

Net income

RPP	207	900
RRSP *	208	
Split-Pension Deduction	210	
Union and professional dues	212	110
UCCB repayment	213	
Child care expenses	214	
Disability supports deduction	215	
Business investment loss	217	
Moving expenses	219	
Support payments	220	
Carrying charges and interest	221	
CPP/QPP/PIPP *	222	
Exploration and development	224	
Employment expenses	229	
Social benefits repayment	235	
Other deductions *	231	
Net income	236	17,990

Taxable income

Canadian Forces personnel	244	
Home relocation loan	248	
Security options deductions	249	
Other payments deduction	250	
Losses of other years *	251	
Capital gains deduction	254	
Northern residents	255	
Additional deductions	256	
Taxable income	260	17,990

2012 Estimated**George-Chapter 4 Example**

GST/HST credit	794	00
Child Tax Benefit	8,245	20
RRSP contribution limit	1,600	00

* More than one line is considered

George-Chapter 4 Example

Non-refundable tax credits		
Basic personal amount	300	10,527
Age amount	301	
Spouse / eligible dependant *	303	10,527
Amount for children	367	4,262
Infirm/caregiver *	306	
CPP/QPP/PPIP/EI *	308	1,105
Volunteer firefighters' amount	362	
Canada employment amount	363	1,065
Public transit passes amount	364	360
Children's fitness amount	365	475
Children's arts amount	370	500
Home buyers/Home renovation *	369	5,000
Adoption expenses	313	
Pension income amount	314	
Disability amount	316	
Transfers *	318	7,341
Interest on student loans	319	
Tuition / education	323	
Medical expenses	332	1,011
Subtotal	335	42,174
Credit at 15%	338	6,326
Donations and gifts	349	
Non-refundable tax credits	350	6,326
Total payable		
Federal tax	404	2,698
Non-refundable tax credits	350	6,326
Dividend tax credit	425	
Min. tax carry-over/other *	426	
Basic federal tax	429	
Non resident surtax		
Foreign tax credits / other	405	
Federal tax	406	
Political/inv. tax credit/other *	410	
Labour-sponsored tax credit	414	
Alternative minimum tax	417	
WITB Prepayment (RC210)	415	
Additional tax on RESP	418	
Net federal tax	420	
CPP contributions payable	421	
EI self-employment	430	
Social benefits repayment	422	
Provincial/territorial tax	428	
Total payable	435	
Total credits		
Income tax deducted *	437	2,000
QC or YT abatement *	440	
CPP/EI overpayment *	448	
Medical expense supplement	452	253
WITB (Schedule 6)	453	1,142
Other credits *	454	
GST/HST rebate	457	
Instalments	476	3,000
Provincial tax credits	479	
Total credits	482	6,394
Balance owing (refund)		(6,394)
Combined balance (refund)		(6,394)

Suggestions For Working With ProFile Software

Before You Start

To get the maximum benefit from using the ProFile tax preparation software program, we strongly advise that you do the tutorial “Getting Started” included within the program under the Training tab. The data in the sample tax returns can be used in the tutorial.

Sample Tax Returns

Included in this Study Guide are sample tax returns for Chapters 4 and 11. The tax returns contain 2011 data as the 2012 version of the ProFile tax preparation software is not yet available. In January, 2013, after the first 2012 filing version is released, the updated 2012 sample tax returns and updated Tax Software Problems will be available at:

www.pearsoncanada.ca/byrdchen/ctp2013

Before completing the Tax Software Self Study Problem, you should review the ProFile files for the sample tax returns and ensure that you are familiar with how the data was entered into the program.

Creating A New T1 Return

To provide some guidance on how to use ProFile to create a simple new personal tax return, we suggest the following approach.

1. Start the ProFile software. Open a new file. Ensure that you have chosen the a new file in the correct software (T1) and year (2011 or 2012 if the updated data is available).
2. By default, the software will open on the form “Info”. Fill in the highlighted cells and answer all questions that are applicable. If you do not fill in the highlighted areas, ProFile will generate an audit message. At a minimum, you will need to have the following information:
 - Taxpayer’s Social Insurance Number (SIN)
 - Taxpayer’s first and last name
 - Address, city, province, and postal code
 - Telephone number
 - Taxpayer’s birth dateIf applicable, you will also need to enter any relevant information for the spouse on the “Info” form. At a minimum, the following information will be necessary:
 - Spouse’s Social Insurance Number (SIN)
 - Spouse’s first and last name
 - Address, city, province, and postal code
 - Telephone number
 - Spouse’s birth date
3. Using the Form Explorer (F4), go to the Dependant form and enter all relevant information about any dependants. At a minimum, the following information will be necessary:
 - Dependant’s Social Insurance Number (SIN) if there is one
 - Dependant’s first and last name
 - Dependant’s relationship to the taxpayer
 - Dependant’s birth date
 - Dependant’s Net Income
 - Address, city, province, and postal code
 - Child fitness or arts amount (if applicable)

Note that if there are child care expenses, the information will flow here from T778. If the Dependant has tuition, education and textbook amounts and is not filing a tax return, the education related information should be entered on the Dependant form.

4. Using the Form Explorer (F4), open the relevant information slip form. Enter all relevant information in the appropriate forms. Some common information slip forms are:
 - T3 - Statement of Trust Income
 - T4 - Statement of Remuneration Paid
 - T5 - Statement of Investment Income
 - T2202 - Tuition and Education Amounts
 - T4AOAS - Statement of Old Age Security
5. Enter any other relevant income information on the appropriate forms. These forms may include the following:
 - S3Details - Capital Gains Entry
(this form, not Schedule 3, must be used to input details on capital dispositions)
 - T2125 - Statement of Business Or Professional Activities
 - T2125Asset - T2125 Asset Details
 - T2125CCA - T2125 CCA Details
 - T776 - Statement of Real Estate Rentals
 - T776Asset - T776 Asset Details
 - T776CCA - T776 CCA Details
6. Enter any relevant deduction information on the appropriate forms. These forms may include the following:
 - RRSP - RRSP Deduction
 - T777 - Statement of Employment Expenses (Use the jump link to T777Details in upper right hand corner of form if applicable)
 - T778 - Child Care Expense Deduction
 - Support - Support Payments
 - Auto - Motor Vehicle Expenses
 - S4 - Statement of Investment Income
(much of the information for this schedule will be carried forward from the T3, T5, and other information slips, but a few items such as carrying charges are entered directly on Schedule 4)
 - LossNetCap - Net Capital Losses (carry forward information)
 - LossNonCap - Non-Capital Losses (carry forward information)
7. Enter any relevant tax credit information on the appropriate forms. These forms may include the following:
 - Donations - Charitable Donations
 - Medical - Medical Expenses
8. Enter any remaining relevant information in the appropriate schedule. These schedules may include the following:
 - S2 - Federal Amounts Transferred From Your Spouse or Common-Law Partner
(primarily used if spouse or common-law partner is not filing a tax return)
 - T1032 - Joint Election To Split Pension Income
9. Use the function "Show Auditor" under the "Audit" list to check for warnings or potential errors.

Tips For Using ProFile Software

- Press the F5 key or choose Spouse from the Form menu to display the return of the spouse.
- If you cannot determine where a specific slip or other information should be input, one way to search for the correct form is to open the Form Explorer (F4) and choose the “Key” mode icon in the top right corner of the menu. If you type a key word into the line above the listing of key words, the appropriate form may be found.
- Press the F4 key to view the Form Explorer. Choose the form “Summary” to see the tax data of both spouses on the same one page summary. (Second column will be blank for a single taxpayer.)
- If you want to print only the form you have on the screen, use the print icon identified with 1 in the tool bar. The other print icon opens the print selection screen for printing complete returns. If you want to print just one copy of the return, deselect the print sets you don't want on the print selection screen. Before you print the return, review the forms that have been selected in the print set to ensure that you will not be printing forms you do not require. If it is a coupled return, the print settings for the spouse should be reviewed before clicking on Print as both returns will be printed.
- Review marks can be used to flag information that should be reviewed. The cell with the review mark will be listed when the Show Auditor feature is turned on.
- A memo and/or a tape can be attached to a cell to provide backup information.
- To see the effect of various changes such as province of residence or a change in an RRSP contribution, you can use the “Snapshot/Variance” feature. Information on this feature is available from the Help menu. Note you must press the “Enter” key for the change to take effect. The data monitor at the bottom of the screen should show the new balance/refund. The difference can also be seen on the “Summary” form. If you open the Auditor (F9) and select the Variance tab you will see a detailed analysis of the changes.

Tax Software Self Study Problem - Chapter 4

DISCLAIMER: All characters appearing in this problem are fictitious. Any resemblance to real persons, living or dead, is purely coincidental.

Note The following problem contains 2011 (not 2012) information as software for 2012 is not yet available. If you have an updated 2012 version of ProFile installed on your computer, ensure that when you begin, you open a file for 2011, not 2012. In January, 2013, after the first 2012 filing version is released, the updated 2012 version of this problem will be available on the textbook web site at:

www.pearsoncanada.ca/byrdchen/ctp2013

This Tax Software Self Study Problem is expanded in Chapter 11 to contain other components of Taxable Income and Tax Payable.

Ms. Eleanor Victoria'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. Victoria's widowed mother, Marjorie Toshio lives with Ms. Victoria and takes care of the house, Ms. Victoria's younger daughter, Amy, and all of the household cooking. In addition to OAS benefits, Marjorie has a small income from her deceased husband's life insurance policy. She has never filed a tax return.

Diane Victoria, 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 impaired driving.

Late in December, 2011, Eleanor was notified that she had inherited \$500,000 from an aunt. Eleanor loves her work and though she plans to travel more, she has no plans to retire.

Information concerning Ms. Victoria for 2011 is given on the following pages.

Required: With the objective of minimizing Ms. Victoria's Tax Payable, prepare the 2011 income tax return of Eleanor Victoria using the ProFile tax software program. List any assumptions you have made, and any notes and tax planning issues you feel should be discussed with Ms. Victoria.

Personal Information	
Title	Ms.
First Name	Eleanor
Last Name	Victoria
SIN	527-000-087
Date of birth (Y/M/D)	1963-05-15
Marital Status	Widowed
Canadian citizen?	Yes
Provide information to Elections Canada?	Yes
Own foreign property of more than \$100,000 Canadian?	No

Chapter 4 Learning Objectives

Taxpayer's Address
1415 Vancouver Street, Victoria, B.C. V8V 3W4
Phone number (250) 363-0120

Dependants	Child 1	Child 2	Mother
First Name	Diane	Amy	Marjorie
Last Name	Victoria	Victoria	Toshiro
SIN	527-000-293	None	527-000-483
Date of birth (Y/M/D)	1991-05-14	1999-10-11	1930-05-21
Net income	\$2,300	Nil	\$8,000

T2202A - (Diane)	Box	Amount
Tuition fees - for Diane Victoria (daughter)	A	7,000
Number of months in school - part-time	B	2
Number of months in school - full-time	C	8

T4	Box	Amount
Issuer - 1750 Canada Inc.		
Employment income	14	60,201.80
Employee's CPP contributions	16	2,217.60
Employee's EI premiums	18	786.76
RPP contributions	20	2,406.16
Pension adjustment	52	7,829.00
Income tax deducted	22	11,408.00
Union dues	44	748.59
Charitable donations	46	175.00

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

Patient	(Y/M/D)	Medical Expenses	Description	Am't
Eleanor	2011-08-15	Grace Hospital	Ambulance charge	392
Eleanor	2011-08-18	Paramed Home Health	Nursing care	1,350
Marjorie	2011-05-20	Dr. Zhang (Optometrist)	Contact lenses	110
Marjorie	2011-07-06	Pharmacy	Prescription	75
Diane	2011-09-01	Dr. Glassman	Physiotherapist	100
Amy	2011-05-11	Walk Right Foot Clinic	Orthotics	450
Amy	2011-01-23	Dr. Tamo	Dental	1,120

Donor	Charitable Donation Receipts	Am't
Eleanor	Heart and Stroke	375
Eleanor	Terry Fox Foundation	50
Diane	Addiction Research Council of Canada	100

Solution to Chapter Four Exercises

Exercise Four - 1 Solution

The net effect of this home relocation loan on Taxable Income would be as follows:

Taxable Benefit Under ITA 80.4(1)(a) - Lesser Of:	
• $[(4\%)(2/4)(\$82,000) + (5\%)(2/4)(\$82,000)] = \$3,690$	
• $[(4\%)(4/4)(\$82,000)] = \$3,280$	\$3,280
Reduction For Payments Under ITA 80.4(1)(c) - $[(2\%)(\$82,000)]$	(1,640)
Total ITA 80.4(1) Benefit	\$1,640
ITA 110(1)(j) Deduction - Lesser Of:	
• ITA 80.4(1) Benefit = \$1,640	
• $[(\$3,280)(\$25,000 \div \$82,000)] = \$1,000$	(1,000)
Net Addition To Taxable Income	\$ 640

Despite the fact that the prescribed rate has increased, the taxpayer can continue to use the rate in effect at the time the loan was made to calculate the taxable benefit. This can continue for a period of five years. Note that the ITA 110(1)(j) deduction is calculated as if the loan had been for \$25,000 rather than \$82,000 and uses the amount of the taxable benefit, before the deduction of payments for interest.

Exercise Four - 2 Solution

The required Tax Payable would be calculated as follows:

Tax Payable On First \$42,707 At 20.05 Percent (15.00% + 5.05%)	\$8,563
Tax Payable On Next \$3,993 (\$46,700 - \$42,707)	
At 31.15 Percent (22% + 9.15%)	1,244
Total Tax Payable Before Credits	\$9,807

Her average rate of tax is 21.0 percent ($\$9,807 \div \$46,700$).

Exercise Four - 3 Solution

Assuming Johan's wife does not have a mental or physical infirmity, the required amount would be calculated as follows:

Basic Personal Amount	\$ 10,822
Spousal Amount (\$10,822 - \$2,600)	8,222
Credit Base	\$19,044
Rate 15%	
Personal Tax Credits	\$ 2,857

If there was a mental or physical infirmity, the amount would be calculated as follows:

Basic Personal Amount	\$ 10,822
Spousal Amount (\$10,822 + \$2,000 - \$2,600)	10,222
Credit Base	\$21,044
Rate 15%	
Personal Tax Credits	\$ 3,157

Exercise Four - 4 Solution

As her father is active, Joan would be entitled to a caregiver tax credit in the amount of \$575 $\{[15\%][\$4,402 - (\$15,600 - \$15,033)]\}$. If he were infirm, the base for the credit would be

Solution to Chapter Four Exercises

increased by the FCA, resulting in a credit of \$875 $\{[15\%](\$4,402 + \$2,000 - (\$15,600 - \$15,033))\}$.

Exercise Four - 5 Solution

Harold would be entitled to an infirm dependant over 17 tax credit in the amount of \$783 $\{[15\%][\$6,402 - (\$7,600 - \$6,420)]\}$. He could not claim the caregiver credit as his mother does not live with him. If his mother lived with him, Harold would be able to claim the full caregiver credit as his mother's income is below the income threshold of the caregiver credit.

Exercise Four - 6 Solution

As his mother is over 64 years of age, she does not have to be infirm to qualify for the caregiver credit. In addition, she qualifies for the eligible dependant credit. In these circumstances, ITA 118(4)(c) indicates that he cannot take the caregiver credit, in effect requiring that he take the eligible dependant credit. The value of this credit would be calculated as follows:

$$[(15\%)(\$10,822 - \$7,500)] = \$498$$

As his mother's income is below the \$15,033 threshold for the caregiver credit, in the absence of the ITA 118(4)(c) restriction, he would have been eligible for \$660, the full amount of the caregiver credit. This means that he will have an additional credit under ITA 118(1)(e) of \$162 $(\$660 - \$498)$. The combination of the eligible dependant credit and the ITA 118(1)(e) credit totals \$660, the maximum caregiver credit.

Exercise Four - 7 Solution

ITA 118(4)(d) indicates that, if a taxpayer is entitled to the caregiver credit for a particular individual, the taxpayer cannot claim the infirm dependant over 17 credit for that individual. As his investment income is below the income threshold for the caregiver tax credit, the caregiver tax credit, including the FCA, for Suki's son would be calculated as follows:

$$[(15\%)(\$4,402 + \$2,000 - \text{Nil})] = \$960$$

Exercise Four - 8 Solution

The son qualifies for the eligible dependant credit, the infirm dependant over 17 credit, and the caregiver tax credit. However, if the eligible dependant credit is taken for the daughter, the fact that this claim can only be made for one dependant means that the son is no longer eligible for this credit. This leaves the infirm dependant over 17 and caregiver credits for the son. In these circumstances, ITA 118(4)(d) requires that she claim the caregiver credit. As the son is dependent because of a physical disability, the family caregiver amount is added. Given these considerations, the maximum credits would be calculated as follows:

Basic Personal Amount	\$ 10,822
Eligible Dependant - Daughter $(\$10,822 - \$1,800)$	9,022
Caregiver - Son $(\$4,402 + \$2,000)$	6,402
Child - Daughter	2,191
<hr/>	
Credit Base	\$28,437
Rate 15%	
<hr/>	
Total Credits	\$ 4,266

Exercise Four - 9 Solution

Mr. Smythe's age credit would be \$612 $\{[15\%][\$6,720 - (15\%)(\$51,500 - \$33,884)]\}$.

Exercise Four - 10 Solution

The adoption expenses tax credit would be calculated as follows:

Cost Of Second China Trip	\$ 6,420
Chinese Orphanage Fee	1,600
Canadian Adoption Agency Fee	3,200
Legal Fees	2,700
Total Eligible Expenses	\$13,920

The first trip to China is not eligible for the credit as it was incurred before the adoption period. While the additional medical expenses will likely be available for a medical expenses tax credit, they are not eligible for the adoption expenses credit. Since the \$5,000 employer reimbursement is a taxable benefit and included in employment income, it does not reduce the total eligible adoption expenses. As the total eligible expenses exceed the maximum of \$11,440, the credit is limited to \$1,716 [(15%)(\$11,440)].

Exercise Four - 11 Solution

The credit base for 2012 would be limited to \$48,750 [(75%)(65,000)]. However, she chooses to claim \$10,000, leaving a carry forward of \$90,000 (\$100,000 - \$10,000). The resulting credit would be:

\$200 At 15 Percent	\$ 30
\$9,800 (\$10,000 - \$200) At 29 Percent	2,842
Total Credit	\$2,872

As her income for 2013 is unchanged from 2012, the base for the maximum credit would be the same limit of \$48,750 [(75%)(65,000)]. Charitable donations can be carried forward for up to 5 years. As a result, the final year to claim any unused portion of her 2012 donation would be 2017.

Exercise Four - 12 Solution

Amount B Qualifying Expenses (\$4,330 + \$4,600)	\$ 8,930
Amount C - Lesser Of:	
• [(3%)(150,000)] = \$4,500	
• 2012 Threshold Amount = \$2,109	(2,109)
Subtotal	\$ 6,821
Amount D	
Max's Medical Expenses	\$8,425
Reduced By The Lesser Of:	
• \$2,109	
• [(3%)(8,250)] = \$248	(248)
Allowable Amount Of Medical Expenses	\$14,999
Amount A The Appropriate Rate (Minimum Rate)	15%
Medical Expense Tax Credit	\$ 2,250

Exercise Four - 13 Solution

The regular medical expense credit would be calculated as follows:

Medical Expenses	\$6,250
Lesser Of:	
• [(3%)(26,400)] = \$792	
• 2012 Threshold Amount = \$2,109	(792)
Allowable Amount Of Medical Expenses	\$5,458

The refundable supplement would be calculated as follows:

Solution to Chapter Four Exercises

Lesser Of:

• \$1,119 (2012 Maximum)	
• [(25%)(5,458)] = \$1,365	\$1,119
Reduction [(5%)(26,400 - 24,783)]	(81)
Refundable Medical Expense Supplement	\$1,038

Ms. Brunt's total Tax Payable (Refund) would be calculated as follows:

Tax Payable Before Credits [(15%)(26,400)]	\$3,960
Non-Refundable Credits:	
Basic	\$ 10,822
Common-Law Partner	10,822
Allowable Medical Expenses	5,458
Total	\$27,102
Rate	15%
	(4,065)
Tax Before Refundable Supplement	\$ Nil
Refundable Medical Expense Supplement	(1,038)
Tax Payable (Refund)	(\$1,038)

Exercise Four - 14 Solution

John's income is too high to qualify for the refundable medical expense supplement. As Keith has no income, the regular disability credit can be transferred to John. However, as Keith is over 17, the disability supplement is not available. In addition to the disability credit, John will be able to take the caregiver credit and the family caregiver credit, as well as a credit for Keith's medical expenses. Since the caregiver credit is claimed, the infirm dependant over 17 credit is not available. The total credits related to Keith would be as follows:

Transfer Of Keith's Disability - Regular Amount	\$ 7,546
Caregiver (Includes Family Caregiver Amount)	6,402
Keith's Medical Expenses	\$16,240
Reduced By The Lesser Of:	
• \$2,109	
• [(3%)(Nil)] = Nil	Nil
	16,240
Total Credit Base	\$30,188
Rate	15%
Total Credits Related To Keith	\$ 4,528

Exercise Four - 15 Solution

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

Tuition Amount:	
Total (Including \$1,000 Prepayment)	\$3,200
Ineligible Ancillary Fees (\$400 - \$250)	(150)
	\$3,050
Education Amount:	
Full Time [(4)(\$400)]	\$1,600
Part Time [(2)(\$120)]	240
	1,840
Textbook Amount:	
Full Time [(4)(\$65)]	\$ 260
Part Time [(2)(\$20)]	40
	300
Interest On Student Loan	325
Total Credit Base	\$5,515
Rate	15%
Total Available Credits	\$ 827

Exercise Four - 16 Solution

Income Tax Act Approach The available education related credits for the year would be calculated as follows:

Tuition Amount	\$4,800
Education Amount [(8)(\$400)]	3,200
Textbook Amount [(8)(\$65)]	520
Education Related Amounts From Current Year	\$8,520
Rate 15%	
Education Related Credits From Current Year	\$1,278
Carry Forward Credit	300
Total Available Education Related Credits	\$1,578

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

Education Related Amounts From Current Year (Preceding Calculation)	\$ 8,520
Carry Forward Amount	2,000
Total Available Education Related Amounts	\$10,520
Rate 15%	
Total Available Education Related Credits	\$ 1,578

Kerri's Tax Payable before deducting education related credits would be \$1,977 [(15%)($\$24,000 - \$10,822$)]. This is more than sufficient to absorb the available education related credits of \$1,578 and, as a consequence, there would be no carry forward of credits.

Exercise Four - 17 Solution

The available education related credits for the year would be calculated as follows:

Tuition Amount	\$23,500
Education And Textbook Amounts [(11)(\$400 + \$65)]	5,115
Available Education Related Amounts (Maximum Transfer = \$5,000)	\$28,615
Rate	15%
Available Education Related Credits (Maximum Transfer = \$750)	\$ 4,292

Note that the transfer and carry forward amounts calculated in the following alternative approaches ignore his medical expense credit. If he is eligible for the refundable medical expense supplement, that supplement would also be ignored in the following calculations.

Income Tax Act Approach The \$750 maximum transfer of education related credits must be reduced by Jerry's Tax Payable, before deducting his medical expense credit, of \$64 [(15%)($\$11,250 - \$10,822$)]. This will leave a maximum transfer of \$686 (\$750 - \$64) and a carry forward credit of \$3,542 (\$4,292 - \$64 - \$686).

Tax Return Approach The \$5,000 maximum transfer of education related amounts must be reduced by \$428 (\$11,250 - \$10,822), the excess of Jerry's Taxable Income over his basic personal amount. This results in a maximum transfer of \$4,572 (\$5,000 - \$428) and a carry forward amount of \$23,615 (\$28,615 - \$428 - \$4,572). Multiplying this by 15 percent gives the same \$3,542 that we calculated under the alternative approach.

Exercise Four - 18 Solution

His tax credits would be calculated as follows:

Basic Personal Amount	\$ 10,822
Spousal Amount (\$10,822 - Nil)	10,822
Age [$\$6,720 - (15\%)(\$42,000 - \$33,884)$]	5,503
Pension Income*	2,000
Spousal Age Transfer	6,720
Spousal Tuition, Education, and Textbook Transfer - Lesser Of:	
• [$\$2,200 + (4 \text{ Months})(\$400) + (4 \text{ Months})(\$65)$] = \$4,060	
• Maximum Transfer = \$5,000	4,060
Credit Base	\$39,927
Rate	15%
Total Credits	\$ 5,989

* A payment from a life annuity purchased with funds in an RRSP is eligible pension income.

Exercise Four - 19 Solution

Ms. Unger's \$487 credit would be calculated as follows:

	Contributions	Credit Rate	Tax Credit
First	\$400	3/4	\$300
Next	350	1/2	175
Remaining	35	1/3	12
Maximum Credit	\$785		\$487

Exercise Four - 20 Solution

The credit will be \$450 [$(15\%)(\$3,000)$]. As his acquisition is less than the \$5,000 maximum, the full cost is eligible for the 15 percent federal credit.

Exercise Four - 21 Solution

The family working income totals \$19,000 (\$13,000 + \$6,000). The working income tax benefit for 2012 would be calculated as follows:

Lesser Of:	
• [$(25\%)(\$19,000 - \$3,000)$] = \$4,000	
• Maximum Benefit For Family = \$1,762	\$1,762
Reduction [$(15\%)(\$19,000 - \$15,205)$]	(569)
Working Income Tax Benefit	\$1,193

Exercise Four - 22 Solution

Ms. Jacobi's income before deducting either the EI or OAS repayments would be calculated as follows:

Net Employment Income	\$60,000
EI Benefits	10,000
OAS Benefits	6,500
Income Before Deductions	\$76,500

Dealing first with the EI repayment, Ms. Jacobi would have to repay the lesser of:

- \$3,000 [$(30\%)(\$10,000)$]
- \$5,738 [$(30\%)(\$76,500 - \$57,375)$]

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

- \$6,500, the OAS payments included in income, and
- \$591 [(15%)($\$76,500 - \$3,000 - \$69,562$)].

As a result, her Net Income For Tax Purposes would be as follows:

Income Before Deductions	\$76,500
ITA 60(v.1) Deduction (EI)	(3,000)
ITA 60(w) Deduction (OAS)	(591)
Net Income For Tax Purposes	<u>\$72,909</u>

Self Study Solution Four - 1

Federal Tax Before Credits

For all of the following Cases, the Federal Tax Before Credits would be calculated as follows:

Tax On First \$42,707	\$ 6,406
Tax On Next \$35,293 ($\$78,000 - \$42,707$) At 22 Percent	7,764
Federal Tax Before Credits	<u>\$14,170</u>

Case A

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$14,170
Basic Personal Amount	(\$10,822)	
Eligible Dependant	(10,822)	
Child	(2,191)	
Tuition	(5,640)	
Education [(10)(\$120)]	(1,200)	
Textbook [(10)(\$20)]	(200)	
Credit Base	(\$30,875)	
Rate	15%	(4,631)
Federal Tax Payable		<u>\$ 9,539</u>

Case B

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$14,170
Basic Personal Amount	(\$10,822)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
Credit Base	(\$15,064)	
Rate	15%	(2,260)
Charitable Donations (See Note)		(10,122)
Federal Tax Payable		<u>\$ 1,788</u>

Note With a Net Income For Tax Purposes of \$78,000, Ms. Sykes' maximum claim for charitable donations is \$58,500 [(75%)($\$78,000$)]. However, if this amount was claimed, the resulting credit would exceed her Tax Payable. By claiming \$35,000, her credit will be \$10,122 [(15%)($\200) + (29%)($\$35,000 - \200)]. The unused donation of \$115,000 ($\$150,000 - \$35,000$) can be carried forward for up to five years.

Self Study Solution Four - 1

The \$2,000,000 that she won in the lottery is not included in her Net Income For Tax Purposes.

Case C

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$14,170
Basic Personal Amount	(\$10,822)	
Spousal (\$10,822 - \$7,600)	(3,222)	
Child Including FCA (\$2,191 + \$2,000)	(4,191)	
Transfer Of Disability	(7,546)	
Transfer Of Disability Supplement	(4,402)	
Caregiver - Harry [\$4,402 - (\$17,600 - \$15,033)]	(1,835)	
Credit Base	(\$32,018)	
Rate	15%	(4,803)
Federal Tax Payable		\$ 9,367

Ms. Sykes would claim the caregiver credit for Harry since Buff would have no Tax Payable. As Harry is a parent over the age of 64, he does not have to be infirm to qualify for the caregiver credit. However, as he is not infirm, the family caregiver amount is not added to this credit.

Case D

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$14,170
Basic Personal Amount	(\$10,822)	
Spousal (\$10,822 - \$2,540)	(8,282)	
Child - Janice	(2,191)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
Medical Expenses (See Note)	(8,442)	
Credit Base	(\$33,979)	
Rate	15%	(5,097)
Federal Tax Payable		\$ 9,073

Note The claim for medical expenses is determined as follows:

Wanda, Buff, And Janice (\$2,100 + \$360 + \$3,645)		\$6,105
Lesser Of:		
• [(3%)(\$78,000)] = \$2,340		
• 2012 Threshold Amount = \$2,109		(2,109)
Mark's Medical Expenses	\$4,520	
Reduced By The Lesser Of:		
• [(3%)(\$2,460)] = \$74		
• 2012 Threshold Amount = \$2,109	(74)	4,446
Total Medical Expense Claim		\$8,442

Case E

The solution to this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$14,170
Basic Personal Amount	(\$10,822)	
Spousal Including FCA (\$10,822 + \$2,000 - \$9,600)	(3,222)	
Children [(2)(\$2,191)]	(4,382)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
Transfer Of Buff's Disability Amount	(7,546)	
Transfer Of Buff's Age Amount	(6,720)	
Transfer Of Buff's Pension Amount	(2,000)	
Transfer Of Education Related Amounts (See Note)	(5,000)	
Credit Base	(\$43,934)	
Rate	15%	(6,590)
Federal Tax Payable		\$ 7,580

Note Buff's education related amounts are calculated as follows:

Tuition	\$ 8,450
Education [(8)(\$400)]	3,200
Textbook [(8)(65)]	520
Total	\$12,170

While Buff has \$12,170 in education related amounts available and cannot make any use of them in determining his Tax Payable, the transfer is limited to \$5,000. The unused amount of \$7,170 (\$12,170 - \$5,000) can be carried forward indefinitely, but can only be claimed by Buff.

Self Study Solution Four - 2

Mr. Lane's federal tax payable (refund) would be calculated as follows:

Net Income For Tax Purposes And Taxable Income		\$70,000
Tax On First \$42,707		\$ 6,406
Tax On Next \$27,293 (\$70,000 - \$42,707) At 22 Percent		6,004
Federal Tax Before Credits		\$12,410
Basic Personal Amount	(\$10,822)	
Eligible Dependant (Note 1)	(10,822)	
Child [(3)(\$2,191)]	(6,573)	
EI	(840)	
CPP (maximum)	(2,307)	
Canada Employment	(1,095)	
Public Transit Passes [(11)(2)(\$75)]	(1,650)	
Child Fitness [(2)(\$425)]	(850)	
Medical Expenses (Note 2)	(2,300)	
Credit Base	(\$37,259)	
Rate	15%	(5,589)
Federal Political Tax Credit [(3/4)(\$400) + (1/2)(\$50)]		(325)
Federal Tax Payable		\$ 6,496
CPP Overpayment (\$2,253 - \$2,218)		(35)
Federal Tax Withheld		(10,100)
Federal Tax Payable (Refund)		(\$ 3,639)

Self Study Solution Four - 3

Note 1 The eligible dependant amount can be claimed for either his 10 or 12 year old child. His 15 year old son would not be selected as he has Net Income For Tax Purposes of \$8,200.

Note 2 Allowable medical expenses are as follows:

Minor Child's Medical Expenses	\$4,400
Lesser Of:	
• $[(3\%)(\$70,000)] = \$2,100$	
• 2012 Threshold Amount = \$2,109	(2,100)
Allowable Medical Expenses	<u>\$2,300</u>

Since his 15 year old son is under 18 years of age, his allowable medical expenses are not affected by his Net Income For Tax Purposes. If he was 18 or older, they would be.

Self Study Solution Four - 3

Federal Tax Before Credits

For all of the following Cases, except Case G, the Federal Tax Before Credits would be calculated as follows:

Tax On First \$42,707	\$6,406
Tax On Next \$12,293 (\$55,000 - \$42,707) At 22 Percent	2,704
Federal Tax Before Credits	<u>\$9,110</u>

Case A

The solution for this Case would be as follows:

Federal Tax Before Credits (As Previously Calculated)		\$9,110
Basic Personal Amount	(\$10,822)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
Credit Base	(\$15,064)	
Rate	15%	(2,260)
Political Contributions Tax Credit		
$[(3/4)(\$400) + (1/2)(\$350) + (1/3)(\$250)]$		(558)
Federal Tax Payable		<u>\$ 6,292</u>

Case B

The solution for this Case is as follows:

Federal Tax Before Credits (As Previously Calculated)		\$9,110
Basic Personal Amount	(\$10,822)	
Spousal (\$10,822 - \$4,650)	(6,172)	
Child - Eileen	(2,191)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
Medical Expenses $[\$3,150 - (3\%)(\$55,000)]$	(1,500)	
Credit Base	(\$24,927)	
Rate	15%	(3,739)
Federal Tax Payable		<u>\$ 5,371</u>

As family net income is greater than \$47,163, Stanley Murphy is not eligible for the refundable medical expense supplement. Eileen's income does not affect the child tax credit or the medical expenses credit.

Case C

The solution for this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$9,110
Basic Personal Amount	(\$10,822)	
Spousal (\$10,822 - \$9,400)	(1,422)	
Caregiver Including FCA (Note 1)	(6,402)	
Transfer Of Albert's Disability	(7,341)	
Medical Expenses (Note 2)	(8,350)	
Credit Base	(\$34,337)	
Rate	15%	(5,151)
Federal Tax Payable		\$3,959

Note 1 Albert qualifies for both the caregiver tax credit and the infirm dependant over 17 tax credit. In these circumstances, ITA 118(4)(d) effectively requires the use of the caregiver credit. As Albert is disabled, the family caregiver amount is included in the base for this credit.

Note 2 The base for the medical expense tax credit would be calculated as follows:

Expenses For Stanley And Helen		\$1,250
Lesser Of:		
• [(3%)(55,000)] = \$1,650		
• 2012 Threshold Amount = \$2,109		(1,650)
Subtotal		\$ Nil
Albert's Medical Expenses (Note 3)	\$8,350	
Reduced By The Lesser Of:		
• [(3%)(Nil)] = Nil		
• 2012 Threshold Amount = \$2,109	Nil	8,350
Base For Medical Expense Credit		\$8,350

Case D

The solution for this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$9,110
Basic Personal Amount	(\$10,822)	
Spousal (Income Too High)	Nil	
Caregiver (Ahmed)	(4,402)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
Interest On Student Loan	(375)	
Credit Base	\$ 19,841	
Rate	15%	(2,976)
Federal Tax Payable		\$ 6,134

Stanley would claim the caregiver credit for Ahmed, since Helen would have no Tax Payable after considering her basic personal, CPP, EI and employment income credit. As Ahmed is a

Self Study Solution Four - 3

parent over 64 years of age, he does not have to be infirm to qualify for the caregiver credit. Note that, because Ahmed is not infirm, the family caregiver amount is not added to this credit. There would be no credit available for Jaleh as she is not a parent of either Stanley or Helen and is not infirm.

Case E

The solution for this Case can be completed as follows:

Federal Tax Before Credits (As Previously Calculated)		\$9,110
Basic Personal Amount	(\$10,822)	
Common-Law Partner (\$10,822 - \$4,500)	(6,322)	
Child [(2)(\$2,191)]	(4,382)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
First Time Home Buyer (Maximum)	(5,000)	
Credit Base	(\$30,768)	
Rate	15%	(4,615)
Federal Tax Payable		\$ 4,495

Case F

The solution for this Case is as follows:

Federal Tax Before Credits (As Previously Calculated)		\$9,110
Basic Personal Amount	(\$10,822)	
Spousal (\$10,822 - \$5,050)	(5,772)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
Transfer From Son (Note)	(5,000)	
Credit Base	(\$25,836)	
Rate	15%	(3,875)
Federal Tax Payable		\$ 5,235

Note The transfer from the son is as follows:

Tuition Fees	\$5,400
Base For Education Credit [(8 Months)(\$400)]	3,200
Base For Textbook Credit [(8 Months)(\$65)]	520
Total Amount Available	\$9,120
Maximum Transfer	(5,000)
Carry Forward (For Albert's Use Only)	\$4,120

Albert's Tax Payable is completely eliminated by his basic personal credit. He can transfer a maximum of \$5,000 of his education, tuition and textbook amounts to his father. The remaining \$4,120 can be carried forward indefinitely, but must be used by Albert.

Case G

The solution for this Case is as follows:

Tax [(15%)(42,350)]		\$6,353
Basic Personal Amount	(\$10,822)	
Spousal (\$10,822 + \$2,000 - \$7,200)	(5,622)	
Age [\$6,720 - (15%)(42,350 - \$33,884)]	(5,450)	
Pension	(2,000)	
Spouse's Age	(6,720)	
Spouse's Disability	(7,546)	
Spouse's Pension	(450)	
Credit Base	(\$38,610)	
Rate	15%	(5,792)
Federal Tax Payable		\$ 561

As Helen is infirm, the family caregiver amount is added to the spousal credit. Helen's Registered Pension Plan receipt is eligible for the pension income credit, but the Old Age Security and Canada Pension Plan receipts are not. As Helen's income is below \$33,884, there is no reduction in her age credit. Neither Stanley nor Helen's income is high enough to have an OAS clawback.

Self Study Solution Four - 4

Part A

The required Tax Payable calculation is as follows:

Taxable Income		\$13,400
Less:		
Basic Personal Amount	(\$10,822)	
EI	(245)	
CPP	(490)	
Canada Employment	(1,095)	
Credit Base Before Education Related Amounts	(\$12,652)	
Tuition, Education And Textbook Amounts Claimed (Note 1)	(748)	(13,400)
Subtotal		Nil
Rate		15%
Federal Tax Payable (Refund)		Nil

Note 1 Marg has tuition, education and textbook amounts available totalling \$10,020 [(\$400)(8 Months) + (\$65)(8 Months) + \$6,300]. Of this total, she will use \$748 to reduce her current Tax Payable to nil. This leaves an unused amount of \$9,272 (\$10,020 - \$748). Of this amount, \$4,252 (\$5,000 - \$748) can be transferred to her father. This will leave her with a carry forward amount of \$5,020 (\$10,020 - \$748 - \$4,252).

Since her medical expenses were paid for by her father, she cannot claim them herself and they must be transferred to her father. Even if she had paid for them herself and claimed them, she would not increase the transfer to her father as the medical expense tax credit is not taken into consideration in determining the amount of education credits that can be transferred.

Part B

Mr. Barth's net employment income for the year would be calculated as follows:

Self Study Solution Four - 4

Gross Salary		\$ 82,500
Additions:		
Bonus (Note One)	\$20,000	
Automobile Benefit (Note Two)	7,460	
Counseling Benefit (Note Three)	1,500	
Imputed Interest Benefit (Note Four)	375	
Stock Option Benefit [(\$18 - \$15)(1,000)] (Note Five)	3,000	32,335
		<u>\$114,835</u>
Deductions:		
Registered Pension Plan Contributions	(\$3,200)	
Professional Dues	(1,800)	(5,000)
Net Employment Income		<u>\$109,835</u>

Note One As the bonus is not payable until more than three years after the end of the employer's taxation year, it is a salary deferral arrangement and must be included in income under ITA 6(11).

Note Two Since Mr. Barth's employment related usage is not more than 50 percent, there is no reduction of the full standby charge. In addition, he cannot use the alternative calculation of the operating cost benefit. Given this, the automobile benefit is calculated as follows:

Standby Charge [(2%)(47,500)(10)]	\$9,500
Operating Cost Benefit [(6,000)(\$0.26)]	1,560
Payments Withheld	(3,600)
Taxable Benefit	<u>\$7,460</u>

Note Three IT-470R indicates that counseling services, with the exception of those items specified under ITA 6(1), are considered taxable benefits. The items specified under ITA 6(1)(a)(iv) are counseling with respect to mental or physical health or with respect to re-employment or retirement. As a consequence, the counseling on personal finances is a taxable benefit.

Note Four The imputed interest benefit is calculated as follows:

Taxable Benefit [(\$150,000)(2%)(3/12)]	\$750
Reduction For Interest Paid	(375)
Net Addition To Employment Income	<u>\$375</u>

Note Five As the option price was greater than the market price at the time the options were issued, one-half of this amount can be deducted in the determination of Taxable Income. The adjusted cost base of the stock option shares is equal to their fair market value at the exercise date (\$18 per share). Since they were sold for \$18 per share, there is no capital gain or loss.

Taxable Income

The loan to purchase a ski chalet would not be a home relocation loan and there would be no deduction from Taxable Income related to the interest benefit. Mr. Barth's Taxable Income would be calculated as follows:

Net Income For Tax Purposes = Net Employment Income	\$109,835
Stock Option Deduction $[(1/2)(\$3,000)]$	(1,500)
Taxable Income	\$108,335

Tax Payable

Mr. Barth's Tax Payable would be calculated as follows:

Tax On First \$85,414		\$15,802
Tax On Next \$22,921 $(\$108,335 - \$85,414)$ At 26 Percent		5,959
Federal Tax Before Credits		\$21,761
Basic Personal Amount	(\$10,822)	
Spousal Including FCA		
$(\$10,822 + \$2,000 - \$1,250)$	(11,572)	
Spouse's Disability	(7,546)	
EI	(840)	
CPP	(2,307)	
Canada Employment	(1,095)	
Medical Expenses (Note Six)	(1,959)	
Marg's Education, Tuition And Textbook Transfer (See Part A)	(4,252)	
Credit Base	(\$40,393)	
Rate	15%	(6,059)
Charitable Donations $[(15\%)(\$200) + (29\%)(\$2,000 - \$200)]$	(552)	
Net Federal Tax		\$ 15,150
Federal Income Tax Withheld During Year		(16,000)
Federal Tax Payable (Refund)		(\$ 850)

Note Six Allowable medical expenses are as follows:

John And Spouse Medical Expenses $(\$200 + \$3,550)$		\$3,750
Lesser Of:		
• $[(3\%)(\$109,835)] = \$3,295$		
• 2012 Threshold Amount = \$2,109		(2,109)
Marg's Medical Expenses	\$720	
Reduced By The Lesser Of:		
• $[(3\%)(\$13,400)] = \402		
• 2012 Threshold Amount = \$2,109	(402)	318
Allowable Medical Expenses		\$1,959

Self Study Solution Four - 5

The required calculations for Eleanor's balance owing would be as follows:

Salary	\$ 60,202
RPP Deduction	(2,406)
Union Dues	(749)
Net And Taxable Income	\$ 57,047

Self Study Solution Four - 5

Federal Tax On First \$42,707		\$6,406
Federal Tax On Next \$14,340 (\$57,047 - \$42,707) At 22 Percent		3,155
Gross Federal Tax		\$9,561
Basic Personal Amount	(\$10,822)	
Eligible Dependant - Amy	(10,822)	
Child - Amy	(2,191)	
Caregiver - Marjorie	(4,402)	
EI Premiums	(840)	
CPP Contributions	(2,307)	
Canada Employment	(1,095)	
Transfer Of Tuition, Education And Textbook - Lesser Of:		
• \$5,000		
• [$\$7,000 + (8)(\$400) + (8)(\$65) + (2)(\$120) + (2)(\$20)$] = \$11,000	(5,000)	
Medical Expenses (Note One)	(1,632)	
Credit Base	(\$39,111)	
Rate	15%	(5,867)
Charitable Donations [(15%)(\$200) + (29%)(\$175 + \$375 + \$50 - \$200)]		(146)
Federal Tax Payable		\$ 3,548

Note One Allowable medical expenses are as follows:

Eleanor And Minor Child (Amy) Medical Expenses (\$392 + \$1,350 + \$450 + \$1,120)		\$3,312
Lesser Of:		
• [(3%)(\$57,047)] = \$1,711		
• 2012 Threshold Amount = \$2,109	(1,711)	
Balance Before Dependants 18 And Over		1,601
Marjorie's Medical Expenses (\$110 + \$75)	\$185	
Reduced By The Lesser Of:		
• \$2,109		
• [(3%)(\$8,000)] = \$240	(240)	Nil
Diane's Medical Expenses	\$100	
Reduced By The Lesser Of:		
• \$2,109		
• [(3%)(\$2,300)] = \$69	(69)	31
Allowable Medical Expenses		\$1,632

Notes To Eleanor's Tax Return

- Diane transfers the \$5,000 maximum education related credits to Eleanor and carries forward the remaining \$6,000 (\$11,000 - \$5,000).
- Eleanor cannot claim the charitable donation made by Diane, but Diane can carry it forward for up to five years.
- Diane should file a tax return, otherwise she will not be eligible for the GST credit and she will not benefit from the RRSP deduction room created during the year. Filing a tax return will also make her education related tax credits and charitable donation tax credit easier to keep track of for carry forward purposes.
- Marjorie should file a tax return in order to receive the GST credit. However, she will need to obtain a Social Insurance Number to do so.

- Since Amy is under 18 and wholly dependent, Eleanor can claim the eligible dependant credit for Amy.
- Since the eligible dependant credit is taken for Amy, the fact that this claim can only be made for one dependant means that Marjorie is not eligible for this credit. As a result, Eleanor claimed the full caregiver credit for Marjorie as her income is well below the income threshold. Note that, because Marjorie is not infirm, the family caregiver amount is not added to this credit.
- Since Diane and Marjorie are over 17 years of age, their medical expenses are reduced by 3 percent of their Net Income For Tax Purposes. This means that none of Marjorie's medical expenses can be claimed by Eleanor.

Self Study Solution Four - 6

Part A

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

Salary	\$72,000
Additions:	
Employer's Disability Contribution (Not A Taxable Benefit)	Nil
Automobile Benefit (Note 1)	7,920
Tuition For Chants Course (Note 2)	600
Travel Costs (Note 3)	Nil
Home Relocation Loan Benefit (Note 4)	1,500
Deductions:	
RPP Contributions	(4,200)
Cost Of Tools - Maximum (Note 5)	(500)
Net Income For Tax Purposes	\$77,320

Note 1 The automobile benefit would be calculated as follows:

Standby Charge $[(2/3)(12)(\$565 - \$40)(10/12)]$	\$3,500
Operating Cost Benefit $[(\$0.26)(17,000)]$	4,420
Total Benefits	\$7,920

As Mr. Strong's employment related use was less than 50 percent, there is no reduction in the standby charge and he cannot use the alternative calculation of the operating cost benefit.

Note 2 Employer paid tuition is a taxable benefit unless it is for the benefit of that employer. While the spoken French course appears to be for the benefit of the employer, it would be difficult to argue that the employer would benefit from a course in 16th century liturgical chants.

Note 3 As the travel costs were reimbursed, there is no deduction. As long as the costs were reasonable, there would be no benefit from the reimbursement.

Note 4 The ITA 80.4(1) loan benefit would be \$1,500, the lesser of:

- $[(\$150,000)(2\% - \text{Nil})(1/4) + (\$150,000)(1\% - \text{Nil})(2/4)]$ \$1,500
- $[(\$150,000)(2\% - \text{Nil})(3/4)]$ \$2,250

Note 5 Mr. Strong can deduct the cost of tradesperson's tools that cost more than \$1,095. However, the overall limit for this deduction is \$500 per year.

Part B

Mr. Strong's minimum Taxable Income would be calculated as follows:

Net Income For Tax Purposes	\$77,320
Home Relocation Loan Deduction (Note 6)	(250)
Taxable Income	\$77,070

Note 6 The deduction would be \$250, the lesser of:

• ITA 80.4(1) Benefit	\$1,500
• [(\$1,500)(\$25,000 ÷ \$150,000)]	\$ 250

Part C

Based on the Taxable Income calculated in Part B, Mr. Strong's Tax Payable would be calculated as follows:

Tax On First \$42,707	\$ 6,406
Tax On Next \$34,363 (\$77,070 - \$42,707) At 22 Percent	7,560
Tax Before Credits	\$13,966
Credits:	
Basic Personal Amount	(\$10,822)
Spousal (\$10,822 - \$5,600)	(5,222)
Child [(2)(\$2,191)]	(4,382)
Caregiver (Note 7)	(4,402)
EI Premiums	(840)
CPP Contributions	(2,307)
Canada Employment	(1,095)
Monthly Transit Passes [(\$60)(2)(10)]	(1,200)
Tuition (Note 8)	(600)
Education And Textbook (Note 8)	Nil
Medical Expenses (Note 9)	(4,041)
Credit Base	(\$34,911)
Rate	15%
	(5,237)
Charitable Donations (Note 10)	
[(15%)(\$200) + (29%)(\$1,200 - \$200)]	(320)
Federal Tax Payable	\$ 8,409

Note 7 His mother's income is below the threshold for the caregiver credit. This means that Mr. Strong can claim the full amount of the caregiver credit. Note that because the mother is not infirm, the family caregiver amount is not available.

Note 8 When an employer reimburses tuition costs, the tuition credit can be claimed if the reimbursement is included in the employee's income. However, when there is employer reimbursement, without regard to whether the amount is included in income, none of the other education related credits can be claimed by the employee.

Note 9 The base for Mr. Strong's medical expense credit can be calculated as follows:

Mr. Strong, His Spouse, And Minor Children		
(\$1,250 + \$2,300 + \$850)		\$4,400
Lesser Of:		
• $[(3\%)(\$77,320)] = \$2,320$		
• 2012 Threshold Amount = \$2,109		(2,109)
Mother's Medical Expenses	\$1,960	
Reduced By The Lesser Of:		
• \$2,109		
• $[(3\%)(\$7,000)] = \210	(210)	1,750
Allowable Medical Costs		<u>\$4,041</u>

Note 10 Mr. Strong cannot claim a credit for the \$1,500 of donated services.

Note 11 Mr. Strong cannot claim the First Time Home Buyers' Credit as he owned a house within 4 years of purchasing the heritage home.

Self Study Solution Four - 7

Part A

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

Salary	\$180,000
Additions:	
Commissions	11,500
Bonus (Note 1)	Nil
Life Insurance Premiums (Employer's Contribution)	460
Automobile Benefit (Note 2)	6,800
Gift (\$2,500, Less \$500 Limit On Gifts)	2,000
Stock Option Benefit (Note 3)	13,000
Deductions:	
RPP Contributions	(5,200)
Employment Expenses (Note 4)	(20,371)
Net Income For Tax Purposes	<u>\$188,189</u>

Note 1 As all of the bonus is being paid in 2013, none of it will be included in Mr. Bosworth's 2012 Net Income For Tax Purposes.

Note 2 The standby charge would be calculated as follows:

$$[(2/3)(12)(\$925 - \$75)(20,004 \div 20,004)] = \$6,800$$

As Mr. Bosworth's personal mileage exceeds 20,004 kilometers, there is no reduction in the standby charge. There would be no operating cost benefit as Mr. Bosworth paid for all of the operating costs.

Note 3 The total employment income inclusion would be \$13,000 $[(5,000)(\$12.35 - \$9.75)]$. As the option price was equal to the market price at the time the options were issued, \$6,500 $[(1/2)(\$13,000)]$ can be deducted in the determination of Taxable Income.

Note 4 Potentially deductible expenses are as follows:

Self Study Solution Four - 7

Car Operating Costs $[(41,000 \div 62,000)(\$10,300)]$	\$ 6,811
Meals $[(50\%)(\$6,420)]$	3,210
Hotels	10,350
Subtotal for ITA 8(1)(h) and (h.1)	\$20,371
Advertising	12,400
Entertainment $[(50\%)(\$6,500)]$	3,250
Total for ITA 8(1)(f) - Limited To Commissions	\$36,021

All of these costs can be deducted under ITA 8(1)(f). However, the total deduction is limited to commission income which, for 2012, is only \$11,500. Alternatively, the car operating costs, meals, and hotels, can be deducted under ITA 8(1)(h) and (h.1). As shown in the preceding table, this total would be \$20,371. As Mr. Bosworth cannot simultaneously use ITA 8(1)(f) and the combination of ITA 8(1)(h) and (h.1), he will minimize his Net Income For Tax Purposes by deducting under the latter provisions.

Part B

Mr. Bosworth's minimum Taxable Income would be calculated as follows:

Net Income For Tax Purposes	\$188,189
Stock Option Deduction $[(1/2)(\$13,000)]$	(6,500)
Taxable Income	\$181,689

Part C

Based on the Taxable Income calculated in Part B, Mr. Bosworth's federal Tax Payable would be calculated as follows:

Tax On First \$132,406	\$28,020
Tax On Next \$49,283 $(\$181,689 - \$132,406)$ At 29 Percent	14,292
Tax Before Credits	\$42,312
Credits:	
Basic Personal Amount	(\$10,822)
Spouse $(\$10,822 - \$6,450)$	(4,372)
Child Including FCA - Daughter	(4,191)
Transfer Of Daughter's Disability	(7,546)
Transfer Of Disability Supplement	(4,402)
EI Premiums	(840)
CPP Contributions	(2,307)
Canada Employment	(1,095)
Child Fitness $(\$400 + \$500)$ (Note 5)	(900)
Tuition - Andrew	(1,670)
Education - Andrew $[(4)(\$120)]$	(480)
Textbook - Andrew $[(4)(\$20)]$	(80)
Transfer Of Son's Education Credits (Note 6)	(3,372)
Medical Expenses (Note 7)	(14,557)
Credit Base	(\$56,634)
Rate	15%
	(8,495)
Charitable Donations $[(15\%)(\$200) + (29\%)(\$2,400 - \$200)]$	(668)
Federal Tax Payable	\$33,149

Note 5 Since the son is over 16 years old and not disabled, his fitness fees are not eligible for the fitness credit. Mr. Bosworth's credit is based on the \$400 paid for his daughter, plus the \$500 supplement that is available because she is under 18 and qualifies for the disability credit.

Note 6 The son's available education credits are as follows:

Tuition	\$ 7,650
Ancillary Fees (Mandatory For All Students)	560
Tuition [(8)(\$400)]	3,200
Textbook [(8)(\$65)]	520
Total	\$11,930

As the son has Net Income For Tax Purposes of \$12,450, he must use \$1,628 (\$12,450 - \$10,822) of this total. This means that the maximum transfer to his father will be \$3,372 (\$5,000 - \$1,628).

Note 7 The base for Mr. Bosworth's medical expense credit can be calculated as follows:

Eligible Medical Expenses	
Andrew And His Spouse (\$1,200 + \$2,250)	\$ 3,450
Daughter	11,250
Lesser Of:	
• [(3%)(\$188,189)] = \$5,646	
• 2012 Threshold Amount = \$2,109	(2,109)
Son's Medical Expenses	\$2,340
Reduced By The Lesser Of:	
• \$2,109	
• [(3%)(\$12,450)] = \$374	(374)
Total Credit Base	\$1,966

Solution to Tax Software Self Study Problem - Chapter 4

The following page contains the Tax Summary from the ProFile T1 return. Note that the program can only be used to calculate 2011 (not 2012) tax returns, and the problem and solution reflect this fact. The complete tax return is available on the Student CD-ROM.

To view the files, access your Student CD-ROM. Under the heading "Textbook Support Files", select the option "Tax Return Files" and you will see two drop-down lists.

- To view the ProFile file, select "Chapter 4 SS Software Problem" from the ProFile drop-down list.
- To view the .PDF file, select "PDF Chapter 4 SS Software Problem" from the PDF drop-down list.

For more information on how to use the ProFile tax program, refer to the Chapter 4 sample tax return in this Study Guide.

Summary**2011 Tax Summary (Federal)****Eleanor-Chapter 4 SS Problem**

Total income		
Employment *	101	60,202
Old Age Security	113	
CPP/QPP benefits	114	
Other pensions	115	
Split-pension amount	116	
Universal Child Care Benefit	117	
Employment Insurance	119	
Taxable dividends	120	
Interest	121	
Limited partnership	122	
RDSP	125	
Rental	126	
Taxable capital gains	127	
Support payments	128	
RRSP	129	
Other	130	
Self-employment *	135	
Workers' compensation and social assistance	147	
Total income	150	60,202

Net income

RPP	207	2,406
RRSP *	208	
Split-Pension Deduction	210	
Union and professional dues	212	749
UCCB repayment	213	
Child care expenses	214	
Disability supports deduction	215	
Business investment loss	217	
Moving expenses	219	
Support payments	220	
Carrying charges and interest	221	
CPP/QPP/PIPP *	222	
Exploration and development	224	
Employment expenses	229	
Social benefits repayment	235	
Other deductions *	231	
Net income	236	57,047

Taxable income

Canadian Forces personnel	244	
Home relocation loan	248	
Security options deductions	249	
Other payments deduction	250	
Losses of other years *	251	
Capital gains deduction	254	
Northern residents	255	
Additional deductions	256	
Taxable income	260	57,047

2012 Estimated**Eleanor-Chapter 4 SS Problem**

GST/HST credit		
Child Tax Benefit	1,118	20
RRSP contribution limit	8,616	00

* More than one line is considered

Eleanor-Chapter 4 SS Problem

Non-refundable tax credits		
Basic personal amount	300	10,527
Age amount	301	
Spouse / eligible dependant *	303	10,527
Amount for children	367	2,131
Infirm/caregiver *	306	4,282
CPP/QPP/PPIP/EI *	308	3,004
Volunteer firefighters' amount	362	
Canada employment amount	363	1,065
Public transit passes amount	364	
Children's fitness amount	365	
Children's arts amount	370	
Home buyers/Home renovation *	369	
Adoption expenses	313	
Pension income amount	314	
Disability amount	316	
Transfers *	318	5,000
Interest on student loans	319	
Tuition / education	323	
Medical expenses	332	1,632
Subtotal	335	38,168
Credit at 15%	338	5,725
Donations and gifts	349	146
Non-refundable tax credits	350	5,871
Total payable		
Federal tax	404	9,643
Non-refundable tax credits	350	5,871
Dividend tax credit	425	
Min. tax carry-over/other *	426	
Basic federal tax	429	3,771
Non resident surtax		
Foreign tax credits / other	405	
Federal tax	406	3,771
Political/inv. tax credit/other *	410	
Labour-sponsored tax credit	414	
Alternative minimum tax	417	
WITB Prepayment (RC210)	415	
Additional tax on RESP	418	
Net federal tax	420	3,771
CPP contributions payable	421	
EI self-employment	430	
Social benefits repayment	422	
Provincial/territorial tax	428	1,618
Total payable	435	5,390
Total credits		
Income tax deducted *	437	11,408
QC or YT abatement *	440	
CPP/EI overpayment *	448	
Medical expense supplement	452	
WITB (Schedule 6)	453	
Other credits *	454	
GST/HST rebate	457	
Instalments	476	
Provincial tax credits	479	
Total credits	482	11,408
Balance owing (refund)		(6,018)
Combined balance (refund)		(6,018)

Notes to tax return

- Diane transfers the \$5,000 maximum education related credits to Eleanor and carries forward the remaining \$6,000 [$\$7,000 + (8)(\$400) + (8)(\$65) + (2)(\$120) + (2)(\$20) - \$5,000$]. The carry forward can only be used by Diane.
- Eleanor cannot claim the charitable donation made by Diane, but Diane can carry it forward for up to five years.
- Diane should file a tax return, otherwise she will not be eligible for the GST credit and she will not benefit from the RRSP deduction room created during the year. Filing a tax return will also make her education related tax credits and charitable donation tax credit easier to keep track of for carry forward purposes.
- Marjorie should file a tax return in order to receive the GST credit.
- Since Amy is under 18 and wholly dependent, Eleanor claimed the eligible dependant credit for Amy.
- Since the eligible dependant credit is taken for Amy, the fact that this claim can only be made for one dependant means that Marjorie is not eligible for this credit. As a result, Eleanor claimed the full caregiver credit for Marjorie as her income is well below the income threshold.
- Since Diane and Marjorie are over 17 years of age, their medical expenses are reduced by 3 percent of their Net Income For Tax Purposes. This means that none of Marjorie's medical expenses can be claimed by Eleanor.

Chapter 4 Learning Objectives

Note Regarding Rates And Credits

A schedule of rates, brackets, credit amounts and other data is available at the beginning of both Volumes of this textbook (but not this Study Guide). We expect you to refer to this information when calculating the credits covered in this chapter (i.e., you are not expected to memorize the rates, brackets and credit bases).

After completing Chapter 4, you should be able to:

1. Calculate Taxable Income when an individual has basic deductions against Net Income For Tax Purposes. (paragraph [P hereafter] 4-1 through 4-13).
2. Calculate federal and provincial Tax Payable before the consideration of any tax credits (P 4-14 through 4-31).
3. Calculate the personal tax credits described in ITA 118(1) which include the:
 - family caregiver,
 - spousal,
 - eligible dependant,
 - child,
 - basic,
 - caregiver, and
 - infirm dependant over 17 credits (P 4-32 through 4-81).

Chapter 4 Learning Objectives

4. Calculate the age tax credit (P 4-82 and 4-83).
5. Calculate the pension income tax credit (P 4-84 through 4-88).
6. Calculate the Canada employment tax credit (P 4-89 through 4-91).
7. Calculate the adoption expenses tax credit (P 4-92 through 4-96).
8. Calculate the public transit passes tax credit (P 4-97 through 4-101).
9. Calculate the child fitness and children's arts tax credits (P 4-102 through 4-112).
10. Calculate the first time home buyer's tax credit (P 4-113 through 4-115).
11. Calculate the volunteer firefighters tax credit (P 4-116 and 4-117).
12. Calculate the charitable donations tax credit when the donation is in the form of cash (P 4-118 through 4-129).
13. Calculate the medical expenses tax credit (P 4-130 through 4-139).
14. Calculate the refundable medical expense supplement (P 4-140 through 4-143).
15. Calculate the disability tax credit (P 4-144 through 4-155).
16. Calculate the education related tax credits including tuition, examination fees, ancillary fees, education, textbook and student loan interest tax credits (P 4-156 through 4-166).
17. Calculate the amount of education related tax credits that can be carried forward or transferred to another individual (P 4-167 through 4-175).
18. Calculate the Employment Insurance and Canada Pension Plan credits (P 4-176 through 4-182).
19. List the types and amounts of tax credits that can be transferred to a spouse or common-law partner (P 4-183 through 4-184).
20. Calculate the political contributions tax credit (P 4-185 through 4-187).
21. Calculate the labour sponsored funds tax credit (P 4-188 through 4-190).
22. Explain the basic provisions of the refundable GST credit (P 4-194 through 4-201).
23. Calculate the working income tax benefit and WITB disability supplement (P 4-202 through 4-206).
24. Calculate the Canada child tax benefit (P 4-207 through 4-211).
25. Calculate the OAS and EI clawbacks (P 4-212 through 4-222).
26. Complete a simple personal tax return using the ProFile T1 tax preparation software program (page S-48 through S-54 in this Study Guide).