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Taxable Income And Tax Payable For Individuals

CHAPTER 6

Taxable Income And Tax Payable For Individuals

Introduction

6-1. You may recall from Chapter 3 that 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 3 material was the fact that Net Income For Tax Purposes is made up of several different income components. The more important of these components are employment income, business and property income, taxable capital gains, other sources, and other deductions.

6-2. Most tax texts have deferred 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.

6-3. 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.

6-4. 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. This appears to 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.

6-5. 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 14 is devoted to completing the necessary coverage of Taxable Income and Tax Payable for individuals. For corporations, these subjects are covered in Chapters 15 and 16.

Taxable Income Of Individuals

Available Deductions

6-6. 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 14. 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 5. 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 in Chapter 14.

ITA 110(1)(f) - Deductions For Payments This deduction, which is available for social assistance and workers' compensation received, is covered beginning in Paragraph 6-8.

ITA 110(1)(j) - Home Relocation Loan We refer to this deduction in Chapter 5 as it is related to a taxable benefit that is included in employment income. However, more detailed coverage is found beginning in Paragraph 6-11.

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 14.

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 6-15.

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 14.

Ordering Of Deductions

6-7. 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 14, 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)

6-8. 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 convention 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.

6-9. 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?

6-10. 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. We will find later in this Chapter that the amount of the available tax credit for a spouse is reduced or eliminated based on the Net Income For Tax Purposes of that spouse. 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)

6-11. As discussed in Chapter 5, 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".

6-12. 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 11, the distance is the same 40 kilometer test that is used in determining whether or not an individual can deduct moving expenses.

6-13. 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 5, 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.

6-14. 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 Six-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

6-15. 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

6-16. 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 15.25 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.

6-17. For 2006, the brackets to which these four rates apply are as follows:

Taxable Income In Excess Of	Federal Tax	Marginal Rate On Excess
$ -0-	$ -0-	15.25%
36,378	5,548	22.00%
72,756	13,551	26.00%
118,285	25,389	29.00%

Note: Technically the minimum rate of 15.25 percent is an average that reflects the fact that this rate was 15.0 percent from January 1, 2006 through June 30, 2006, and 15.5 percent from July 1, 2006 through December 31, 2006. Unless there are further adjustments to this rate, it will be at 15.5 percent for 2007 and subsequent years.

6-18. Note that the average rate for someone just entering the highest 29 percent bracket is 21.5 percent ($25,389 ÷ $118,285). This illustrates the importance of keeping an annual income level below this bracket. To this point, the average rate is 21.5 percent. For all income that exceeds this level, the federal rate goes to 29 percent. 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 the tax rate is a marginal rate. For example, if Taxable Income is $118,286, only $1 is taxed at 29 percent.

6-19. The preceding table suggests that individuals are taxed on their first dollar of income. While the 15.25 percent rate is, in fact, applied to all of the first $36,378 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 2006, this tax credit is $1,348 [(15.25%)($8,839)]. In effect, this means that no taxes will be paid on at least the first $8,839 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).

6-20. As an example of the calculation of federal Tax Payable before credits, consider an individual with Taxable Income of $82,300. The calculation would be as follows:

Tax On First $72,756	$13,551
Tax On Next $9,544 ($82,300 - $72,756) At 26%	2,481
Federal Tax Payable Before Credits	$16,032

6-21. Until 2001, there was a federal surtax. A surtax is an additional tax calculated on the basis of the regular Tax Payable calculation. In our opinion, this type of additional taxation is used as a politically expedient way of raising taxes, without raising stated tax rates. Fortunately, this practice has ended at the federal level for individuals. However, surtaxes are still used in several provinces, most notably in Ontario. For 2006, Ontario has a surtax of 56 percent on amounts of Ontario Tax Payable in excess of $5,066. This significantly increases the highest rate in Ontario from the stated 11.16 percent to 17.41 percent.

Provincial Tax Payable Before Credits

6-22. 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 tend to use the same Taxable Income figure that is used at the federal level.

6-23. 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, four of the provinces apply surtaxes when the Tax Payable figure reaches a certain level (Ontario, Nova Scotia, P.E.I., and Newfoundland).

6-24. To give you some idea of the range of provincial rates, the 2006 minimum and maximum rates, along with applicable surtaxes are as found in the following table:

Province	Minimum Tax Rate	Maximum Tax Rate	Applicable Surtax
Alberta	10.00%	10.00%	N/A
British Columbia	6.05%	14.70%	N/A
Manitoba	10.90%	17.40%	N/A
New Brunswick	9.68%	17.84%	N/A
Newfoundland	10.57%	18.02%	9%
Nova Scotia	8.79%	17.50%	10%
Ontario	6.05%	11.16%	20% and 56%
Prince Edward Island	9.80%	16.70%	10%
Quebec	16.00%	24.00%	N/A
Saskatchewan	11.00%	15.00%	N/A

6-25. Given the large differences in brackets and surtaxes, it is not immediately apparent from the preceding table how the real rates of taxation in the various provinces compare. Real comparisons require further calculations in order to give consideration to the manner in which these various components of provincial taxation work together. Further, different effective rates apply depending on the type of income. The following table indicates the maximum effective combined federal/provincial rates that are applicable to ordinary income, dividend income, and capital gains for 2006:

Province	Ordinary Income	Capital Gains	Canadian Dividends (See Note)
Alberta	39.00%	19.50%	24.08%
British Columbia	43.70%	21.85%	31.58%
Manitoba	46.40%	23.20%	35.08%
New Brunswick	46.84%	23.42%	37.26%
Newfoundland	48.64%	24.32%	37.32%
Nova Scotia	48.25%	24.13%	33.06%
Ontario	46.41%	23.20%	31.33%
Prince Edward Island	47.37%	23.69%	31.96%
Quebec	48.22%	24.11%	32.81%
Saskatchewan	44.00%	22.00%	28.33%

Note These rates do not reflect the changes in the dividend gross up and dividend tax credit that were proposed in the May, 2006 budget.

6-26. You should note the significant differences in rates between the provinces. An individual making amounts in excess of the threshold of the maximum bracket is almost ten percentage points better off living in Alberta, as compared to Newfoundland, Nova Scotia, or Quebec. This amounts to extra taxes of nearly $10,000 per year on each additional $100,000 of income. Provincial tax differences could be a major consideration when an individual decides where he should establish provincial residency.

6-27. A further important point is the different rates on alternative sources of income. Both dividends and capital gains have always received favourable tax treatment. However, with the inclusion rate on capital gains at only one-half (see Chapter 10), the maximum rates on capital gains are significantly lower than the maximum rates on dividends. Provided the proposals contained in the May, 2006 budget are adopted, this disparity will be reduced.

6-28. We have not shown combined federal/provincial minimum rates in the preceding table. If we were to do so, we would find that, in the lowest tax brackets, dividends are taxed more favourably than capital gains. This will be explained more fully in Chapter 9 when we deal with the detailed dividend gross up and tax credit procedures.

6-29. 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.

Exercise Six-2

Subject: Calculation Of Tax Payable Before Credits

During 2006, Joan Matel is a resident of Ontario and has calculated her Taxable Income to be $46,700. Ontario's rates are 6.05 percent on Taxable Income up to $34,759, 9.15 percent on the next $34,757, and 11.16 percent on the excess. Calculate her 2006 federal and provincial Tax Payable before consideration of credits.

End of Exercise. Solution available in Study Guide.

Taxes On Income Not Earned In A Province

6-30. As we have noted, 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. 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.

Credits Against Tax Payable

Calculating The Amount

Federal Tax Credits

6-31. The most direct way of applying a tax credit system is to simply specify the amount of each tax credit available. In 2006, for example, the basic personal tax credit could have been specified to be $1,348. 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 (15.25 percent for 2006) is applied. This means that, for 2006, the basic personal tax credit is calculated by taking 15.25 percent of $8,839 (we will refer to this number as the tax credit base), resulting in a credit against Tax Payable in the amount of $1,348. Note that the legislation is such that, when the minimum federal tax rate of 15.25 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 15.25 percent rate to the subtotals and totals. This approach makes the relationships between the various credits easier to see and reduces calculation errors.

6-32. 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. While most of the credit bases are adjusted using the same CPI rate that is applied to the tax brackets, there are exceptions. An example of this is the pension income credit. The base for this credit, after being at $1,000 for many years, will be increased to $2,000 by the proposals in the May, 2006 federal budget, a change that has nothing to do with the rate of inflation.

6-33. 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 3, 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 charitable donations tax credit and adoption tax credit, are not reduced because of part year residence.

Provincial Tax Credits

6-34. 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 example, the 2006 base for the federal basic personal tax credit is $8,839. Provincially, the base varies from a low of $7,231 in Nova Scotia, to a high of $14,799 in Alberta. Applying the provincial minimum rates to these bases gives a provincial basic personal tax credit in Nova Scotia of $636 [(8.79%)($7,231)] and a provincial basic personal tax credit in Alberta of $1,480 [(10%)($14,799)].

Personal Tax Credits - ITA 118(1)

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

6-35. For individuals with a spouse or common-law partner filing tax returns in 2006, ITA 118(1)(a) provides for two tax credits, with each one being calculated on a different base. The first amount is calculated as 15.25 percent of the basic personal amount, which for the 2006 taxation year is equal to $8,839. This provides for a credit against Tax Payable of $1,348.

6-36. For 2006, the second amount available to an individual with a spouse or common-law partner is equal to 15.25 percent of $7,505, an amount of $1,145. However, this amount is reduced by the Net Income For Tax Purposes of the spouse in excess of $751. This limiting amount is generally referred to as the income threshold for the credit. While the expression is not technically correct, this credit is usually referred to as the spousal credit. As the correct expression would be something like "spouse or common-law partner credit", for the sake of convenience, we will continue to use the less accurate but commonly used term, spousal credit. The complete expression for the credit is as follows:

{[15.25%][$7,505 - (Spouse or Common-Law Partner's Net Income - $751)]}

6-37. 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:

{[15.25%][$8,839 + [$7,505 - ($5,200 - $751)]} = $1,814

6-38. 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. Note that when this figure reaches $8,256 ($7,505 + $751), the base for this credit will be nil, and the individual's credit will be calculated using only the basic personal amount.

- **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 $8,839, 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.

- **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 11). 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 Six-3

Subject: Spousal Tax Credit

Mr. Johan Sprinkle is married and has 2006 Net Income For Tax Purposes of $35,450. His spouse has 2006 Net Income For Tax Purposes of $2,600. Determine Mr. Sprinkle's personal tax credits for 2006.

End of Exercise. Solution available in Study Guide.

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

6-39. For a single individual supporting a dependant in a self-contained domestic establishment, ITA 118(1)(b) allows for a tax credit for a wholly dependent person, a.k.a. eligible dependant. It is calculated using the same two amounts used under ITA 118(1)(a) for individuals claiming a credit for a spouse or common-law partner. In this case, the income threshold amount is based on the Net Income of the eligible dependant.

6-40. 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 (see definition in Paragraph 6-44) 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.

6-41. The residence requirement is not applicable to the individual's children. However, the child must still be living with the individual. This would be applicable, for example, to an individual who is a deemed resident (e.g., a member of the Canadian Armed Forces) and living with their child outside of Canada.

6-42. While there is no general tax credit for dependent children under age 18, the amount for the eligible dependant credit can be claimed for dependants in this age group.

6-43. 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 $8,256 ($7,505 + $751);
- 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 11, 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 them in determining Net Income For Tax Purposes.

Dependants Defined

6-44. A dependant is defined in ITA 118(6) as a person who, at any time in the year, is dependent on the individual for support and includes a child or grandchild of an individual or of his spouse or common-law partner and, if the supported person is resident in Canada, a parent, grandparent, brother, sister, uncle, aunt, niece, or nephew of the individual or the individual's spouse or common-law partner.

6-45. 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.

Single Persons - ITA 118(1)(c)

6-46. Individuals living with a spouse or common-law partner receive a credit for themselves under ITA 118(1)(a), and individuals living with an eligible dependant receive a corresponding credit under ITA 118(1)(b). For individuals who do not have a spouse, a common-law partner, or an eligible dependant, this same credit is received under ITA 118(1)(c). As noted previously, for 2006, this credit is equal to $1,348 [(15.25%)($8,839)].

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

6-47. ITA 118(1)(c.1) allows for a caregiver tax credit to an individual who provides in home care for an adult (18 years or older) relative. 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 individual's, or the individual's spouse's or common-law partner's child, grandchild, parent, grandparent, brother, sister, aunt, uncle, nephew, or niece. 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 65 years old or over, 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.

6-48. For 2006, the credit has a value of $600 [(15.25%)($3,933)]. The base for the credit is reduced by the amount of the dependant's Net Income in excess of $13,430. This means that this tax credit is not available once the dependant's Net Income is more than $17,363 ($13,430 + $3,933).

Exercise Six-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 2006 is $15,600. Determine the amount of Joan's caregiver tax credit, if any, for 2006.

End of Exercise. Solution available in Study Guide.

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

6-49. 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 2006, the credit has a value of $600 [(15.25%)($3,933)]. The base for the credit is reduced by the amount of the dependant's Net Income in excess of $5,580. This means that this tax credit is not available once the dependant's Net Income is more than $9,513 ($5,580 + $3,933).

6-50. 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 individuals under ITA 118.3 (see Paragraph 6-79). 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 claiming the credit. 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. 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 Six-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 2006 is $7,600. Determine the amount of Harold's infirm dependant over 17 tax credit for 2006.

End of Exercise. Solution available in Study Guide.

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

6-51. 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 Six-4 or Six-5 because both Joan Barton and Harold Reed were living with their spouses, making them ineligible to take the eligible dependant credit.

6-52. In contrast, assume a single individual who 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 credit for an infirm dependant over 17 credit. ITA 118(4)(c) provides such a restriction. This paragraph indicates that, if an individual is eligible for the ITA 118(1)(b) credit, they cannot claim either the caregiver credit or the infirm dependant over 17 credit. Note that ITA 118(4)(c) refers to "entitled to", without regard to whether the credit is actually taken.

6-53. Because the eligible dependant credit has a lower income threshold than either the caregiver credit or infirm dependant over 17 credit, the ITA 118(4)(c) restriction could result in a lower tax credit. To avoid this, ITA 118(1)(e) allows an additional credit to be taken based on the difference between the amount of the caregiver or infirm dependant over 17 credits, and the amount available under the eligible dependant credit.

Exercise Six-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 2006 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

6-54. It is likely that you have also 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 65. 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.

6-55. 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. In this situation, ITA 118(4)(d) indicates that, if a taxpayer is entitled to the caregiver credit for a particular individual, that individual is deemed not to be a dependant for purposes of the infirm dependant over 17 credit.

6-56. As both credits have a 2006 maximum value of $600, 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, $13,430 vs. $5,580. 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 Six-7

Subject: Caregiver Vs. Infirm Dependant Over 17 Tax Credits

Suki Leonard is married and has a 28 year old son. He lives with her and is dependant because of a physical infirmity. For 2006, he 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 Six-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 2006 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 2006, while her daughter has Net Income For Tax Purposes of $1,800. Determine Ms. Forest's maximum tax credits for 2006.

End of Exercises. Solutions available in Study Guide.

Age Tax Credit - ITA 118(2)

6-57. For individuals who attain the age of 65 prior to the end of the year, ITA 118(2) provides an additional tax credit of $620 [(15.25%)($4,066)]. However, the base for this credit is reduced by 15 percent of the individual's Net Income For Tax Purposes in excess of $30,270. This means that, at an income level of $57,377 [($4,066 ÷ 15%) + $30,270], the reduction will be equal to $4,066 and the individual will not receive an age credit. As an example, a 67 year old individual with 2006 Net Income of $35,000 will have an age credit of $512 {[15.25%][$4,066 - (15%)($35,000 - $30,270)]}.

6-58. 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 Six-9

Subject: Age Tax Credit

Joshua Smythe is 72 years old and has 2006 Net Income For Tax Purposes of $51,500. Determine Mr. Smythe's age credit for 2006.

End Of Exercise. Solution available in Study Guide.

Pension Income Tax Credit - ITA 118(3)

6-59. For many years, ITA 118(3) has provided a credit equal to 16 percent of the first $1,000 of eligible pension income. As we noted earlier, this $1,000 base has not been indexed, resulting in a situation where the real value of this credit has declined each year. In something of a surprise move, the May, 2006 budget increased the base for this credit from $1,000 of eligible pension income to $2,000 of eligible pension income.

6-60. Not all types of pension income are eligible for this credit. ITA 118(8) specifically excludes payments under the Old Age Security Act, the Canada Pension Plan, certain provincial pension plans, a salary deferral arrangement, a retirement compensation arrangement, an employee benefit plan, and death benefits.

6-61. 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.

6-62. Like the age credit, if an individual does not have sufficient Tax Payable to use this credit, it can be transferred to a spouse.

6-63. 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). This includes the life annuities out of, or under, a pension plan and, 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 the preceding Paragraph. However, this means that, in ordinary circumstances, individuals who have not reached age 65 will only be eligible for the pension income tax credit to the extent that their pension income is made up of life annuity payments.

Adoption Expense Credit - ITA 118.01

6-64. This is a new provision that provides a tax credit for the costs associated with the adoption of a child by a taxpayer. It was first introduced in the February, 2005 budget, with draft legislation presented in November, 2005. While this legislation was not passed prior to the Liberals losing control of Parliament, the May, 2006 budget proposes that this draft legislation be adopted. The credit was available to taxpayers beginning in 2005.

6-65. The adoption expense 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.

6-66. The credit is based on up to $10,000 in eligible adoption expenses, resulting in a maximum 2006 credit of $1,525 [(15.25%)($10,000)]. This limit will be indexed in subsequent years. 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 that is received by the taxpayer.

6-67. 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; and
> (f) any other reasonable expenses related to the adoption required by a provincial government or an adoption agency licensed by a provincial government.

6-68. 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.

6-69. 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 $10,000 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 Six-10

Subject: Adoption Expense Tax Credit

Ary Kapit and his spouse have adopted an infant Chinese orphan. The adoption process began in 2005 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, 2006, and the adoption order is issued on August 27, 2006. In September, the couple returns to China to pick up their new daughter. The happy family returns to Canada on September 18, 2006. The cost of this trip is $6,420. Additional expenses paid during the first week of September, 2006 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 2006. Mr. Kapit's employer has a policy of providing reimbursement for up to $5,000 in adoption expenses eligible for the adoption expense tax credit. This amount is received in September, 2006. What is the maximum adoption expense tax credit that can be claimed by Mr. Kapit or his spouse?

End of Exercise. Solution available in Study Guide.

Charitable Donations Credit - ITA 118.1

Extent Of Coverage In This Chapter

6-70. 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 14. However, limited coverage of charitable donations is included in this Chapter.

Eligible Gifts

6-71. 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 14.

6-72. 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.

Limits On Amount Claimed

6-73. 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.

6-74. 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.

6-75. 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, any unused amounts can be carried forward and used in the subsequent five year period. The carry forward should also be used if the taxpayer does not have sufficient Tax Payable to absorb all available credits, as the donation credit is non-refundable. In the carry forward period, the same 75 percent limit will apply in determining eligible amounts.

Calculating The Credit

6-76. Once the contribution base is established, the credit is equal to 15.25 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 15.25 percent would have resulted in a decline in donations. The 29 percent credit on larger donations was added in order to mitigate this result.

6-77. While the same level of total giving could probably have been achieved with a compromise rate somewhere between 15.25 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.

6-78. The following example illustrates the calculation of the charitable donations tax credit, including the determination of eligible amounts:

> **Example** Nancy Hart has 2006 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 2006.
>
> **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:

15.25 Percent Of $200	$ 31
29 Percent Of $1,800 ($2,000 - $200)	522
Total Credit	$553

6-79. 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 Six-11

Subject: Charitable Donations

Marion Scalpal has 2006 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 2006 winnings of over $200,000. As she had promised in her prayers, at the end of 2006 she donates $100,000 of these winnings to her church. She chooses to claim $10,000 of her donations in 2006. In 2007, her income remains at $65,000 and she makes no further donations. Determine her charitable donations tax credit for 2006, as well as the base for the maximum allowable charitable donations tax credit for 2007. Until what year can she claim any unused portions of her 2006 donation?

End of Exercise. Solution available in Study Guide.

Medical Expense Credit - ITA 118.2

Qualifying Medical Expenses

6-80. 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.

6-81. This definition 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

6-82. 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 (15.25 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 $1,884 (2006 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 $1,884 (2006 figure).

6-83. 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 2006 is equal to $1,884. This latter figure will be the limiting factor once an individual's 2006 Net Income For Tax Purposes reaches $62,800 ($1,884 ÷ 3%).

6-84. If the taxpayer has dependants who are 18 years of age or older, a separate credit base calculation is required for each of the dependants who are not minors. 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 $1,884 (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.

Twelve Month Period

6-85. Medical expenses can be claimed for any 12 month period ending in the year and must be documented by receipts. 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. For example, if an individual with Net Income For Tax Purposes of $60,000 for 2005 and 2006, had $10,000 in medical expenses in the period July to December, 2005, and a further $12,000 in the period January to June, 2006, the 2005 claim could be deferred and the $22,000 total could be claimed in full in the 2006 taxation year. The advantage of doing this is that the threshold amount reduction would be applied only once in 2006. If medical expenses had to be claimed in the year in which they were incurred, this individual would have to apply the threshold reduction in both 2005 ($1,844) and 2006 ($1,884). Claiming the full amount in 2006 involves a savings in federal Tax Payable of $277 [(15%)($1,844)]. Note that the tax savings that we have calculated are based on the 2005 tax credit percentage of 15 percent.

Example

6-86. 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 2006:

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

Tax Consequences Sam's 2006 medical expense tax credit, using the formula in Paragraph 6-82, 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		
• 2006 Threshold Amount = $1,884		(1,884)
Subtotal		$11,616
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		$25,256
Amount A The Appropriate Rate		15.25%
Medical Expense Tax Credit		$ 3,852

Exercise Six-12

Subject: Medical Expense Tax Credit

Ms. Maxine Davies and her spouse, Lance Davies, have 2006 medical expenses which total $4,330. While Ms. Davies has 2006 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 2006 medical expenses of $4,600 and no Net Income For Tax Purposes. Their 21 year old son, Max, has 2006 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 2006.

End of Exercise. Solution available in Study Guide.

Refundable Medical Expense Supplement - ITA 122.51

6-87. The tax credits that we have discussed to this point are referred to as non-refundable. This means that, if the 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 credit is of this type.

6-88. To be eligible for the 2006 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 $2,919. The credit is the lesser of $1,000 and 25/15.25 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. The lesser amount is reduced by 5 percent of family Net Income For Tax Purposes in excess of an indexed threshold amount. For 2006, the amount is $22,140. The credit is completely eliminated when family Net Income For Tax Purposes reaches $42,140. A simple example will serve to illustrate this provision:

Example For 2006, 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 $586 [(15.25%)($3,843)]. Given this, 25/15.25 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 $1,000, less a reduction of $263 [(5%)($26,900 + $500 - $22,140)], leaving a balance of $698 ($961 - 263).

6-89. 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 $424 [(15.25%)($26,900 - $8,839 - $7,505 - $3,933 - $3,843)]. When this result is combined with the refundable credit of $698, Mr. Futon winds up with a refund of $274 ($698 - $424) for the year.

Exercise Six-13

Subject: Refundable Medical Expense Supplement

During 2006, 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 2006.

End of Exercise. Solution available in Study Guide.

Disability Credit - ITA 118.3

Calculation

6-90. The disability credit is available under ITA 118.3 and, for 2006, it is equal to $1,028 [(15.25%)($6,741)]. 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 2006, the base for the supplement is $3,933, providing a total credit for a disabled minor of $1,628 [(15.25%)($6,741 + $3,933)]. Note, however, that the supplement amount of $3,933 is reduced by child care and attendant care costs in excess of $2,303. This means that once such costs reach $6,236 for the year, the supplement is completely eliminated.

6-91. 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).

6-92. 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.

6-93. 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.

6-94. There have been several attempts to provide improved guidance in this area. The 2006 budget incorporates the recommendations contained in the December 2004 report of the Technical Advisory Committee On Tax Measures For Persons With Disabilities. It is hoped that this will improve a situation where reassessments appear to be common. 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

6-95. 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, or as a disabled dependant over 17. The list of potential transferees includes parents, grandparents, children, grandchildren, brothers, sisters, aunts, uncles, nieces, and nephews.

6-96. In order to make the disability credit transfer available in most situations where a disabled child, parent, or grandparent is dependent on a taxpayer for support, 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.

6-97. The amount that can be transferred is the same $1,028 (or $1,628 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 personal credits, pension credit, CPP and EI credits, the credit must first be applied to reduce the disabled individual's Tax Payable to nil. While we have not seen the legislation, we are advised that the new Canada Employment Credit (as discussed in Paragraph 6-133, the base is $250 for 2006) will also be applicable in this calculation. If a balance remains after all Tax Payable has been eliminated, it can be transferred to the supporting person.

Other Credits and Deductions Related To Disabilities

6-98. Disabled individuals, or a supporting person, may have medical expenses that are eligible for tax credits, including attendant care and nursing home care. For disabled individuals who are able to work or who are attending 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 11 for a detailed discussion of this deduction from Net Income For Tax Purposes.) Finally, a supporting person may be in a position to deduct child care costs for a disabled individual. There is a fairly complex interplay among these provisions with respect to which of them can be used for a given individual. While a full discussion of this point goes beyond the scope of this material, the following points are relevant:

- 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.

Exercise Six-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 2006, 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 2006 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.

Education Related Credits

Tuition Credit - ITA 118.5

6-99. Under ITA 118.5, individuals receive a credit against Tax Payable equal to 15.25 percent of qualifying tuition fees paid for the calendar year, regardless of the year in which they are actually paid. 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;
- an institution certified by the Minister of Human Resources and Skills Development for a course that developed or improved skills in an occupation (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.

6-100. 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

6-101. Under ITA 118.6(2), there is a credit for 2006 equal to $61 [(15.25%)($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 Development for a course that develops or improves skills in an occupation. 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.

6-102. An alternative education credit of $18 [(15.25%)($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 the requirement that at least 10 hours per week be devoted to its requirements, would be a qualifying educational program. In somewhat simplified terms, this credit is available to individuals pursuing part-time studies, defined in terms of a minimum of 12 hours per month of course work.

6-103. 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 $61 per month is available to such individuals, without regard to whether their attendance is full or part-time.

Textbook Tax Credit - 2006 Budget Proposals

6-104. The May, 2006 budget includes a proposal for a tax credit related to the acquisition of textbooks. It does not, however, appear to be based on the actual purchase of textbooks. Rather, it is tied to the education credit (ITA 118.6). The credit will be equal to $10 [(15.25%)($65)] for each month in which the student is entitled to claim the education credit as a full-time student, or $3 [(15.25%)($20)] for each month in which the student is entitled to claim the education credit as a part-time student.

6-105. The budget papers indicate that this new credit will be added to the tuition and education credits as part of the amount that is eligible for a carry forward by the student (see Paragraph 6-108). It will also be added to these credits in determining the amount that can be transferred to a spouse, parent or grandparent (see Paragraph 6-111). While the budget papers do not make this clear, it is likely that the education credit rule for disabled students will also apply to this new credit (see Paragraph 6-103).

6-106. As this credit is not based on the actual purchase of textbooks, it is difficult to understand why this additional credit was created. It would appear that the exact same result could have been achieved by adding the $65 and $20 amounts to the education credit base.

Interest On Student Loans Credit - ITA 118.62

6-107. If a student or a related person has paid interest on student loans, ITA 118.62 permits the deduction of 15.25 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 Six-15

Subject: Education Related Tax Credits

During 2006, 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 2005. The amount paid in 2006 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 2006.

End of Exercise. Solution available in Study Guide.

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

6-108. 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 6-111). 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.

6-109. 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 6-115. 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), 118.3 (disability), and 118.7 (CPP and EI). It is expected that the new Canada Employment Credit (see Paragraph 6-133) will also be applicable in this calculation. The carry forward amount is further reduced by any transfer to another individual.

6-110. 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.

Exercise Six-16

Subject: Carry Forward Of Education Related Credits

At the beginning of 2006, Kerri Holmes has an education credit carry forward from 2005 of $300 [(15%)($2,000)]. During 2006, 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 2006 is $22,000. Other than education related tax credits, her only tax credit is her personal credit of $1,348 [(15.25%)($8,839). Determine Kerri's total education related tax credits for 2006.

End of Exercise. Solution available in Study Guide.

Transfer Of Tuition, Education, And Textbook Credits - ITA 118.81

6-111. 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.

6-112. For 2006 and subsequent years, 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 2006, this amount will be $763 [(15.25%)($5,000)].

6-113. This $763 maximum amount must be reduced by the student's Tax Payable calculated using only the credits available under ITA 118 (various personal), ITA 118.3 (disability), ITA 118.61 (carry forwards from a previous year), ITA 118.7 (CPP and EI) and ITA 118.01 (adoption). It is expected that the new Canada Employment Credit (see Paragraph 6-133) will also be applicable in this calculation. If these credits reduce the student's Tax Payable to nil, the full $763 is available for transfer.

6-114. The $763 limit is on a per student basis. A parent or grandparent could have $763 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.

Transfer To A Parent Or Grandparent - ITA 118.9

6-115. As we have indicated, ITA 118.9 provides for a transfer to a parent or grandparent. An example will serve to illustrate this provision.

Example Megan Doxy has 2006 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 $1,348 [(15.25%)($8,839)]. She would like to transfer the maximum amount of these credits to her father.

Analysis Megan's education related credits total $1,787 [(15.25%)($11,720)], well in excess of the maximum transfer of $763. However, this maximum of $763 would have to be reduced by Megan's Tax Payable after the deduction of her personal amount. This amount would be $330 [(15.25%)($11,000 - $8,839)], leaving a maximum transfer of $433 ($763 - $330). This would leave Megan with remaining unused credits of $1,024 ($1,787 - $330 - $433) which can be carried forward to future years. These calculations are the result of using the approach presented in the *Income Tax Act*.

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 $2,161 ($11,000 - $8,839), the excess of Megan's Taxable Income over her basic personal amount. This results in a maximum transfer of $2,839 ($5,000 - $2,161). Megan's carry forward amount is $6,720 ($11,720 - $2,161 - $2,839). Multiplying these amounts by the 15.25 percent minimum rate will give you the same credits as the calculations using the *Income Tax Act* approach.

Exercise Six-17

Subject: Transfer And Carry Forward Of Education Related Credits

Jerry Fall has 2006 Taxable Income of $11,250, none of which is employment income. 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 credit, other than education related credits, is his basic personal amount. Determine Jerry's education related credit amounts and indicate how much of this total could be transferred to a parent and how much would be carried forward.

End of Exercise. Solution available in Study Guide

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

6-116. ITA 118.7 provides a tax credit equal to 15.25 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.

6-117. For 2006, EI premiums are based on maximum insurable earnings of $39,000. The employee's rate is 1.87 percent, resulting in a maximum annual premium of $729. This results in a maximum credit against federal Tax Payable of $111 [(15.25%)($729)].

6-118. 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.

6-119. For 2006, an employee's CPP contributions are based on maximum pensionable earnings of $42,100, less a basic exemption of $3,500. The rate for 2006 is 4.95 percent, resulting in a maximum contribution of $1,911 [(4.95%)($42,100 - $3,500)]. This provides for a maximum 2006 credit against federal Tax Payable of $291 [(15.25%)($1,911)]. The employer matches the contributions made by the employee. However, this matching payment has no tax consequences for the employee.

6-120. 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 11, 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

6-121. 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.

6-122. A refund of these excess amounts is available on an individual's tax return. While any CPP or EI overpayment is not a 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 2006 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 $2,099. His employment income was well in excess of the maximum insurable and pensionable earnings.

Analysis In filing his 2006 tax return, Jerry will claim a refund of $344, calculated as follows:

EI Premiums Withheld	$ 885	
2006 Maximum	(729)	$156
CPP Contributions Withheld	$2,099	
2006 Maximum	(1,911)	188
Refund		$344

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

6-123. ITA 118.8 permits the transfer of six specific tax credits to a spouse or common-law partner. The credits that are eligible for transfer are:

- the age credit (see Paragraph 6-57),
- the pension income credit (see Paragraph 6-59),
- the disability credit (see Paragraph 6-95), and
- the current year tuition, education, and textbook credits to a maximum of $763 (see material beginning in Paragraph 6-111).

6-124. The transferable amount is the excess of these credits over the spouse's Tax Payable after applying the $8,839 (2006) basic personal credit, as well as the EI and CPP credits. It is expected that the new Canada Employment Credit will also be applicable in this calculation. A further point here is that no transfer of these credits is available if the spouses were separated for a period of 90 days or more that included December 31 of the current taxation year.

Exercise Six-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 federal tax credits for 2006.

End of Exercise. Solution available in Study Guide.

Dividend Tax Credit

6-125. The dividend tax credit is covered in Chapter 9 as part of our discussion of property income.

Foreign Tax Credits

6-126. The credits that are available for taxes paid in foreign jurisdictions are covered in Chapters 9 and 14.

Investment Tax Credits

6-127. 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 15.

Political Contributions Tax Credits - ITA 127(3)

6-128. 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. 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

6-129. 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.

6-130. The proposed Subsections ITA 248(30) and ITA 248(31), (July 18, 2005), 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. While recent events, (such as the sponsorship scandal), make it clear that individuals do receive benefits related to their political contributions, it is unlikely that this would occur in the form of a documented transaction that could be used as a basis for assessing the contributing taxpayer. This suggests that these proposed Subsections will have greater applicability in the area of charitable contributions. Given this, we will defer discussion of these proposals until Chapter 14 where we provide our more comprehensive discussion of donations to charitable organizations.

Exercise Six-19

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

6-131. 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. For purposes of this Section, these corporations must be set up under provincial legislation and managed by a labour organization. The assets of the corporation must be invested in small and medium sized businesses. Proposed legislation will make the credit unavailable if the province or territory where the company is registered does not provide a similar credit. The credit is based on the cost of the shares purchased by the individual.

6-132. The federal credit is equal to 15 percent of the net cost of the labour sponsored venture capital corporation (LSVCC) shares. To be eligible for the credit, the investor must be the first registered holder of the LSVCC 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 Six-20

Subject: Labour Sponsored Funds Credit

On June 30, 2006, Mr. Brad Clintor purchases newly issued shares in a prescribed labour sponsored venture capital corporation at a cost of $3,000. Determine the amount of the federal tax credit that will result from this purchase.

End of Exercise. Solution available in Study Guide.

Canada Employment Credit - May, 2006 Budget

6-133. As we noted in Chapter 5, individuals earning employment income have only a limited number of deductions available. This situation was improved somewhat by the introduction in the May, 2006 budget of a deduction for tradepeople's tools. The fact remains, however, that individuals who are employed have non-deductible expenses related to that activity. They have to wear clothes appropriate to their position, they have to incur the costs of traveling to work, and they have additional costs associated with meals outside the home.

6-134. In recognition of this situation, the May, 2006 budget introduced a Canada employment credit. For 2006, the credit will be $38 [(15.25%)($250)], as long as employment income is $250 or greater. In 2007, the base for the credit will increase to $1,000 and, in subsequent years, this base will be indexed.

Public Transit Passes Tax Credit - May, 2006 Budget

6-135. In order to encourage the use of public transit, the May, 2006 budget proposed a new tax credit. For 2006, this credit will be equal to 15.25% of the cost of monthly or longer transit passes. For 2006, the credit is only available for passes that are in respect of transit on or after July 1, 2006.

6-136. The credit is available on the cost of transit passes for an individual, the individual's spouse or common-law partner, and the individual's dependent children who are under the age of 19. Provided receipts are retained for the cost of passes, there does not appear to be any limit on the amount of this credit.

Children's Fitness Tax Credit - May, 2006 Budget

6-137. There is a growing recognition that there are significant deficiencies in the fitness levels of Canada's young people. In an effort to change this situation, the May, 2006 budget proposed a tax credit for fees paid for the enrollment of a child under 16 in an eligible program of physical activity. The credit will be for the eligible fees of up to $500 per child per year, multiplied by the rate for the minimum tax bracket.

6-138. The credit will be available to either parent starting in 2007. The government intends to establish a small group of experts to advise it on the definition of an eligible program for purposes of this credit.

Apprenticeship Job Creation Tax Credit - May, 2006 Budget

6-139. In order to encourage the training of apprentices, an new credit is available to any business that incurs salaries and wages in respect of qualifying apprentices. The credit is equal to 10 percent of salaries and wages paid to qualifying apprentices to a maximum credit of $2,000 per year per apprentice. It is available on salaries and wages paid after May 2, 2006.

6-140. A qualifying apprentice is an apprentice who is working in a qualifying trade in the first two years of his or her provincially registered apprenticeship contract. The qualifying trades will be prescribed and will include the trades currently included in the Red Seal trades (Red Seal allows a journeyperson to engage in their trade without having to write further examinations in any province or territory in Canada where the trade is recognized). Other trades may be prescribed after consultation with the provinces and territories.

Refundable GST Credit

6-141. 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. Features that make this credit different from other types of credits are that the CRA calculates it for the individual, and it cannot be used as a credit against Tax Payable. Unlike other tax credits, where the relevant calculations are included in the individual's tax return, the GST credit is determined by the CRA on the basis of eligibility information supplied in the individual's tax return. It is only paid if tax returns have been filed.

6-142. For 2006, the system provides for a total credit that is calculated as follows:

- $232 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.
- $232 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 $122 and 2 percent of the individual's Net Income For Tax Purposes in excess of $7,539.
- $232 for a dependant eligible for the eligible dependant tax credit.
- $122 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 $232 was claimed for that dependant because he or she was eligible for the eligible dependant tax credit.

6-143. 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 2006, this threshold amount is $30,270. "Adjusted Income" is defined as total income of the individual and his qualified relation, if any.

6-144. 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. Taxpayers do not calculate this credit in their tax returns, nor do they have the option of applying this credit against the current year's Tax Payable.

Child Tax Benefit System

Current System

6-145. The 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 under this program have been significantly enhanced in recent years and are subject to indexation. For the period July, 2005 through June, 2006, the payments are as follows:

- $104.58 per month for each qualified dependant, basically a child who is under 18;
- an additional $7.33 per month for each dependant in excess of two;
- an additional $20.75 per month for each dependant under age seven, with this amount being reduced by 25 percent of all child care expenses claimed.

6-146. This basic benefit is subject to being reduced when family Net Income reaches $36,378. 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.

6-147. In addition to these benefits, there is also a National Child Benefit (NCB) supplement. The amount of the NCB supplement is $162.08 per month for the first child, $143.33 per month for the second, and $136.42 per month for the third and subsequent. The benefit is phased out based on family Net Income in excess of $20,435 (the phase out rate is 12.2 percent for a one child family, 22.8 percent for a two child family, and 32.9 percent for families with more than two children).

6-148. Given that the CRA does the calculations associated with the benefits, the payment is not taxable and will not be included in tax returns, and the fact that its complex data requirements make a realistic calculation extremely difficult, we have not included specific calculations of the Child Tax Benefit in any of the problem material in this text.

May, 2006 Budget Changes

6-149. The May, 2006 budget proposes a universal child care benefit equal to $100 per month for each child under the age of 6. The benefit will be paid beginning in July, 2006 and, as will be discussed in Chapter 11, it will have to be included in the income of the lower income spouse or common-law partner.

6-150. The introduction of this benefit will be accompanied by amendments to the Child Tax Benefit System. The current enhancement of the Benefit for children under age seven will be eliminated. However, it will remain in effect for an additional year for children who reach the age of six prior to June 30, 2007.

Social Benefits Repayment (OAS And EI)

Basic Concepts

6-151. While at one time Canada applied its social assistance programs on a universal basis, this has not been the case for some time. Both Old Age Security (OAS) and Employment Insurance (EI) benefits are reduced or eliminated for high income individuals.

6-152. 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. While the legislation is in the form of a tax on OAS benefits, this tax is often referred to as a repayment or clawback of OAS benefits.

6-153. 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. While the source of this requirement is a different legislative Act, both the OAS tax and the EI benefits repayment create a deduction in calculating an individual's Net Income For Tax Purposes. In the T1 tax return, the total of these deductions is referred to as the "Social Benefits Repayment".

6-154. These deductions are based on income tests and, because the amounts determined in these tests are deductions in the calculation of Net Income For Tax Purposes, there is a potentially circular calculation process. As will be explained in the material which follows, this problem is avoided by basing the income tests on an income figure which does not include these deductions.

Employment Insurance (EI) Benefits Clawback

6-155. The *Employment Insurance Act* requires the partial repayment of benefits received if the recipient's threshold income is greater than $48,750 (1.25 times the 2006 maximum insurable earnings of $39,000). For the purposes of this test, the individual's threshold income is equal to Net Income For Tax Purposes computed without consideration of the deduction for repayment of EI benefits [ITA 60(v.1)] or the deduction for the tax on 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.

6-156. Once the amount of threshold income over $48,750 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

6-157. ITA 180.2 assesses a tax on OAS benefits in an amount equal to 15 percent of the taxpayer's threshold income in excess of $62,144. 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.

6-158. For some individuals, all or part of the OAS benefits are taxed away on a recurring basis. Because of this, the government estimates what the taxpayer will have to repay and withholds this amount at the time the payments are made. Estimates are made on the basis of the income for the "base taxation year". For OAS payments made during the first six months of a year, the base taxation year is the second preceding year and for OAS payments made during the last six months of the year, the base taxation year is the immediately preceding year.

6-159. For individuals with consistently high levels of income, this withholding procedure results in the full amount of the OAS benefits being withheld. For the first quarter of 2006, OAS benefits are $484.63 per month (they are adjusted on a quarterly basis). If this rate did not change, the 2006 benefit will be $5,816. This means that the benefit will be completely withheld or repaid at an income level of about $100,917. Note that, even in cases where no OAS payments are made because the total has been withheld, the individual will receive an information slip [T4A(OAS)] indicating that they were entitled to the amount of the benefit, with the same amount being shown as taxes withheld from the payment.

Exercise Six-21

Subject: EI and OAS Clawbacks

For 2006, Ms. Marilyn Jacobi has net employment income of $50,000, receives EI payments of $10,000, and receives $5,800 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. Determine Ms. Jacobi's Net Income For Tax Purposes for 2006.

End of Exercise. Solution available in Study Guide.

Comprehensive Example

6-160. 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. In the separate paper Study Guide, there is an additional example containing a completed tax return which includes provincial income taxes.

Example Mr. Thomas Baxter is 66 years of age and his 2006 income is made up of net employment income of $73,800 and Old Age Security benefits of $5,800 (because of large business losses during the previous two years, no amount was withheld from these payments). For 2006, Mr. Baxter's employer withheld maximum CPP and EI contributions and a total of $20,000 in income tax. Other information pertaining to 2006 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, 2006, 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 semester.
3. The family medical expenses for the year, all of which are claimed by Mr. Baxter, totalled $2,843.
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 $1,500.

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

Net Employment Income	$73,800
OAS Benefits	5,800
Net Income Before Clawback	$79,600
OAS Clawback (Note One)	(2,618)
Net Income For Tax Purposes And Taxable Income	$76,982

Note One The required repayment of OAS is the lesser of the actual OAS payments of $5,800 and $2,618 [(15%)($79,600 - $62,144)].

Using the preceding Taxable Income, the balance owing (refund) would be as follows:

Tax On First $72,756		$13,551
Tax On Next $4,226 ($76,982 - $72,756) At 26 Percent		1,099
Gross Tax		$14,650
Tax Credits:		
Basic Personal Amount	$ 8,839	
Spousal [$7,505 - ($5,000 - $751)]	3,256	
Mr. Baxter's Age (Note Two)	Nil	
EI Premiums (Maximum)	729	
CPP Contributions (Maximum)	1,911	
Mr. Baxter's Canada Employment	250	
Mrs. Baxter's Disability Transferred	6,741	
Lori's Tuition, Education, And Textbook Transferred (Note Three)	4,360	
Medical Expenses (Note Four) ($2,843 - $1,884)	959	
Total	$27,045	
Rate	15.25%	(4,124)
Charitable Donations {[(15.25%)($200)] + [(29%)($3,000 - $200)]}		(843)
Political Contributions Tax Credit - Lesser Of:		
• $650 (Maximum)		
• [($400)(3/4) + ($350)(1/2) + ($1,500 - $400 - $350)(1/3)] = $725		(650)
Federal Tax Payable		$ 9,033
Social Benefits Repayment (Note One)		2,618
Total Payable		$11,651
Income Tax Withheld		(20,000)
Balance Owing (Refund) Before Consideration Of Provincial Income Taxes		($ 8,349)

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

Full Base Amount		$4,066
Reduction - Lesser Of:		
• $7,007 [(15%)($76,982 - $30,270)]		
• $4,066 Full Base Amount		(4,066)
Age Credit		Nil

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

Tuition For 2006 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.

Note Four Medical expenses eligible for the credit are the actual expenditures of $2,843, less the maximum of $1,884 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.

Key Terms Used In This Chapter

6-161. 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.

Age Tax Credit
Adoption Expenses Tax Credit
Apprenticeship Job Creation Tax Credit
Canada Employment Credit
Canada Pension Plan (CPP)
Canada Pension Plan Tax Credit
Caregiver Tax Credit
Charitable Donations Tax Credit
Child Tax Benefit
Children's 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
GST 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 Passes 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
Universal Child Care Benefit
Wholly Dependant Person

References

6-162. 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(4)	Limitations [re 118(1)]
ITA 118(5)	Support
ITA 118(6)	Definition Of Dependant
ITA 118(7)	Definition (Pension Income)
ITA 118.01	Adoption Expense Tax Credit
ITA 118.1	Definitions (Charitable Gifts)
ITA 118.2	Medical Expense Credit
ITA 118.3	Credit For Mental Or Physical Impairment
ITA 118.5	Tuition Credit
ITA 118.6	Education Credit
ITA 118.61	Unused Tuition And Education Tax Credits
ITA 118.7	Credit For UI Premium And CPP Contribution
ITA 118.8	Transfer Of Unused Credits To Spouse Or Common-Law Partner
ITA 118.9	Transfer To Parent Or Grandparent
ITA 122.5	Definitions (GST Credit)
ITA 122.6 To 122.64	Canada Child Tax Benefit
ITA 127(3)	Monetary Contributions - Canada Elections Act (Political Contributions Credit)
ITA 127.4	Labour Sponsored Funds Tax Credit
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
IC 92-3	Guidelines For Refunds Beyond The Normal Three Year Period
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
	Income Tax Technical News #26, December 24, 2002

Problems For Self Study

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

Self Study Problem Six - 1

The following five independent Cases make varying assumptions with respect to Mr. Stanley Murphy and his 2006 tax status. In all Cases, where Mr. Norris earned employment income, his employer withheld the required 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 employment income 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 2006.

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 employment income 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 2006 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	5,800	5,800
Income From Registered Pension Plan	31,150	450
Total Net Income	$41,650	$6,500

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 2006 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, 2006, 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 2006. His only income is $50,000 in net employment income. Helen has employment income of $9,000.

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

Self Study Problem Six - 2

This is an extension of Self Study Problem Five-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 2006, 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 2011, the year of his expected retirement.

Other Information:
For the 2006 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	729
Canada Pension Plan Contributions	1,911
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 $27,500. 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, 2007. Assume that, at the time the loan was granted, the relevant prescribed rate was 3 percent.

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

6. In 2005, 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. Shortly after his purchase, the stock price rose quickly, then started to drop. Mr. Barth left instructions with his stockbroker to sell his shares if they reached $18 per share. This occurred on August 24, 2006.

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 $232 [(1.87%)($12,400)] and CPP contributions of $441

[(4.95%)($12,400 - $3,500)]. Mr. Barth paid Marg's tuition for 2006 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 2006 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 Six - 3

This is an extension of Self Study Case Six-1. It has been updated for 2006 rates.

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 Takarabe, had extremely bad luck the last time she was in Las Vegas. She lost all 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 impaired driving.

Other information concerning Ms. Trubey for 2006 is as follows:

1. Eleanor was born on May 15, 1958. She lives in Victoria, B.C.

2. She paid instalments of $2,528 for 2006.

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

	Birth Date (Y/M/D)	Annual Income
Diane	1986-05-14	$2,300
Amy	1994-10-11	Nil
Marjorie	1925-05-21	$5,800 (OAS)

4. Eleanor's T4 for 2006 showed the following:

Employment Income	$60,202
Employee's EI Premiums	729
Employee's CPP Contributions	1,911
RPP Contributions	2,406
Pension Adjustment	7,829
Income Tax Deducted	19,408
Union Dues	749
Charitable Donations	175

5. Eleanor and her family had the following medical expenses for 2006:

Patient	Medical Expenses	Description	Amount
Eleanor	Grace Hospital	Ambulance Charge	$ 392
Eleanor	Paramed Home Health	Nursing Care	1,350
Marjorie	Dr. Zhang	Acupuncture	50
Marjorie	Pharmacy	Prescription	75
Diane	Dr. Glassman	Physiotherapist	100
Amy	Walk Right Foot Clinic	Orthodics	450
Amy	Dr. Tamo	Dental	1,120
Total			$3,537

6. In addition to the $175 in charitable contributions withheld by Eleanor's employer, Eleanor and Diane had the following charitable donations for 2006:

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

7. Diane's T2202A showed tuition fees of $7,000, full-time attendance for 8 months, and part-time attendance for 2 months.

8. Assume that Eleanor's provincial Tax Payable has been calculated correctly as $2,390.

Required: Calculate Ms. Trubey's minimum balance owing to (refund from) the CRA for 2006. List any assumptions you have made, and any notes and tax planning issues you feel should be placed in the file.

Self Study Case

Self Study Case Six - 1 (Using ProFile T1 Software For 2006 Tax Returns)

This is extended in Self Study Problem Six-3 to use 2006 rates. This Case is continued in Chapter 14.

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 Takarabe, had extremely bad luck the last time she was in Las Vegas. She lost all 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 impaired driving.

Information concerning Ms. Trubey for 2005 is given on the following pages.

Required: With the objective of minimizing Ms. Trubey's Tax Payable, prepare the 2005 income tax return of Eleanor Trubey using the ProFile tax software program. List any assumptions you have made, and any notes and tax planning issues you feel should be placed in the file.

Personal Information	
Title	Ms.
First Name	Eleanor
Last Name	Trubey
SIN	527-000-087
Date of birth (Y/M/D)	1957-05-15
Marital Status	Widowed
Provide information to Elections Canada?	Yes
Own foreign property of more than $100,000 Canadian?	No
Instalments paid on March 15 and June 15 of $1,264	$2,528 total for 2005

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	Trubey	Trubey	Takarabe
SIN	527-000-293	None	None
Date of birth (Y/M/D)	1985-05-14	1993-10-11	1924-05-21
Net income	$2,300	Nil	$5,600

T2202A - (Diane)	Box	Amount
Tuition fees - for Diane Trubey (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	1,861.00
Employee's EI premiums	18	760.50
RPP contributions	20	2,406.16
Pension adjustment	52	7,829.00
Income tax deducted	22	19,408.00
Union dues	44	748.59
Charitable donations	46	175.00

Patient	(Y/M/D)	Medical Expenses	Description	Am't
Eleanor	2005-08-15	Grace Hospital	Ambulance charge	392
Eleanor	2005-08-18	Paramed Home Health	Nursing care	1,350
Marjorie	2005-05-20	Dr. Zhang	Acupuncture	50
Marjorie	2005-07-06	Pharmacy	Prescription	75
Diane	2005-09-01	Dr. Glassman	Physiotherapist	100
Amy	2005-05-11	Walk Right Foot Clinic	Orthodics	450
Amy	2005-01-23	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

Assignment Problems

(The solutions for these problems are only available in the solutions manual that has been provided to your instructor.)

Assignment Problem Six - 1

All of the following Cases are independent and involve the determination of personal tax credits for the 2006 taxation year. Assume that in all Cases, unless stated differently, the Net Income For Tax Purposes does not include employment income.

1. Ms. Smith is married and has Net Income For Tax Purposes of $123,000. Her husband is currently unemployed, but has interest income from investments of $3,750. Her 20 year old dependent son attends university and lives at home. Her son has Net Income For Tax Purposes of $4,800 and does not wish to transfer his tuition, education or textbook credits to her.

2. Ms. Finkly is 66 years old and has Net Income For Tax Purposes of $23,950. This total is made up of OAS of $5,800, plus pension income of $18,150. Her husband is 51 years old and blind. He has no income of his own.

3. Mr. Saladin has Net Income For Tax Purposes of $72,350. He provides full support for his common-law partner and her three children from a previous relationship. The children are aged 13, 15, and 20. The 20 year child is dependent because of a physical disability. However, the disability is not sufficiently severe to qualify for the disability tax credit. Neither the common-law partner nor any of the children have any source of income.

4. Mr. Renaud was divorced two years ago and maintains a residence separate from his former spouse. He has custody of the three children of the marriage, aged 5, 7, and 10 and receives $2,500 per month in child support payments. Mr. Renaud has Net Income For Tax Purposes of $62,300. None of the children have any income of their own.

5. Ms. Hill has Net Income For Tax Purposes of $175,000, all of which is employment income. Her employer has withheld and remitted the required EI and CPP amounts. She was married on December 1, 2006. Her new husband is an accounting student with a large firm. His salary for the period January 1 through November 30, 2006 was $33,000. For the month of December, 2006, his salary was $3,000.

6. Mr. Rajit has 2006 Net Income For Tax Purposes of $85,000 and lives in a residence that he has owned for many years. He does not currently have a spouse or common-law partner. However, he has custody of his ten year old son who lives with him. Also living with him is his 68 year old, widowed mother. His son had no income during 2006. His mother had OAS benefits and pension income which totaled $14,500 during 2006.

Required: In each of the preceding independent Cases, determine the maximum amount of 2006 personal tax credits, including transfers from a spouse or dependant, that can be applied against federal Tax Payable by the taxpayer.

Assignment Problem Six - 2

Mr. William Norris is 45 years old. The following five independent Cases make varying assumptions for the 2006 taxation year with respect to Mr. Norris' marital status and number of dependants. In all Cases, Mr. Norris earned employment income of $46,000 and his employer withheld the required EI premiums and CPP contributions.

Case A Mr. Norris is married and his wife, Susan, has employment income of $8,800. Susan's 73 year old mother, Bernice, lives with them. Bernice, an avid skier, had Net Income For Tax Purposes of $14,000 for the year.

Case B Mr. Norris is married and his wife, Susan, has employment income of $4,410. They have one child, Martha, who is 10 years of age. Martha had no income during the year. During the year, the family had medical expenses as follows:

William	$1,200
Susan	1,600
Martha	350
Total	$3,150

Case C Mr. Norris is married and his wife, Susan, has employment income of $4,500. They have a son, Allen, who is 19 years old and lives at home. He attends university on a full time basis during 8 months of the year. Mr. Norris pays $4,000 for Allen's tuition and $900 for required textbooks. Allen had employment income during the summer months of $2,200. He will transfer any unused credits to his father.

Case D Mr. Norris is not married and has no dependants. On receipt of a $300,000 inheritance in December, he donates $50,000 to his local hospital and chooses to claim $15,000 in 2006. In addition, he makes contributions to federal political parties in the amount of $1,000.

Case E Mr. Norris is a single father. He has a daughter, Mary, who is 8 years old and lives with him. Mary had no income for the year. Two years ago, Mr. Norris graduated from a Canadian university. He currently has a Canada Student Loan outstanding. Mr. Norris pays back this loan in monthly instalments of $300. During the year, he paid $450 in interest on this loan.

Required: In each Case, calculate Mr. Norris' minimum federal Tax Payable. In making this calculation, ignore any tax amounts that Mr. Norris might have had withheld or paid in instalments. Indicate any carry forwards available to him and his dependants and the carry forward provisions.

Assignment Problem Six - 3

Mr. Dennis Lane has been a widower for several years. For 2006, both his Net Income For Tax Purposes and Taxable Income were equal to his net employment income of $65,000. Mr. Lane's employer withheld $10,100 in income taxes, $729 for Employment Insurance premiums and $1,946 in Canada Pension Plan contributions. Because of an error by his employer, an overcontribution of $35 was made for the Canada Pension Plan.

Other Information:

1. Mr. Lane made political contributions to federal political parties in the amount of $450.

2. Due to an extensive business trip, Mr. Lane did not file his 2006 return until June 1, 2007.

3. Mr. Lane has three children, aged 10, 12, and 15. They all live with him in his principal residence and, other than his 15 year old son, have no income of their own. Mr. Lane paid no medical expenses other than $4,400 for hospital care for his 15 year old son. His son had 2006 Net Income For Tax Purposes of $8,200. His son did not use the medical expense credit as he had no Tax Payable.

4. Mr. Lane's provincial Tax Payable, net of all applicable credits, has been correctly calculated to be $4,250.

5. Assume that the prescribed interest rate for all relevant periods, including the extra 4 percent on amounts owing to the Minister, is 7 percent compounded on an annual basis.

Required: Calculate Mr. Lane's amount owing (refund) for 2006. Include in your solution any penalties and interest that will result from the late filing.

Assignment Problem Six - 4

This is an extension of Assignment Problem Five-12.

For the past five years, Mr. Brooks has been employed as a financial analyst by a large Canadian public firm located in Winnipeg. During 2006, his basic gross salary amounts to $53,000. In addition, he was awarded an $11,000 bonus based on the performance of his division. Of the total bonus, $6,500 was paid in 2006 and the remainder is to be paid on January 15, 2007.

During 2006, Mr. Brooks' employer withheld the following amounts from his gross wages:

Federal Income Tax	$8,000
Canada Pension Plan Contributions	1,911
Employment Insurance Premiums	729
Registered Pension Plan Contributions	2,800
Donations To The United Way	480
Union Dues	240
Payments For Personal Use Of Company Car	1,000

Other Information:

1. Due to an airplane accident while flying back from Thunder Bay on business, Mr. Brooks was seriously injured and confined to a hospital for two full months during 2006. As his employer provides complete group disability insurance coverage, he received a total of $4,200 in payments during this period. All of the premiums for this insurance plan are paid by the employer.

2. Mr. Brooks is provided with a car that the company leases at a rate of $684 per month, including both GST and PST. The company also assumes all of the operating costs of the car and these amounted to $3,500 during 2006. Mr. Brooks drove the car a total of 35,000 kilometers during 2006, 30,000 kilometers of which were carefully documented as employment related travel. While he was in the hospital (see Item 1), the car and its keys were left with his employer.

3. On January 15, 2005, Mr. Brooks received options to buy 200 shares of his employer's common stock at a price of $23 per share. At this time, the shares were trading at $20 per share. Mr. Brooks exercised these options on July 6, 2006, when the shares were trading at $28 per share. He does not plan to sell the shares for at least a year. He was not aware that there is an election to defer the income inclusion on stock options, and did not file the required election.

4. In order to assist Mr. Brooks in acquiring a new personal residence in Winnipeg, his employer granted him a five year loan of $125,000 at an annual interest rate of 2 percent. The loan qualifies as a home relocation loan. The loan was granted on October 1, 2006 and, at this point in time, the interest rate on open five year mortgages was 8 percent. Assume the relevant ITR 4301 rate was 3 percent on this date. Mr. Brooks pays the interest on the loan on January 15, 2007.

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

Advanced financial accounting course tuition fees	$1,200
Music history course tuition fees (University of Manitoba night course)	600
Fees paid to financial planner	300
Payment of premiums on life insurance	642

Mr. Brooks' employer reimbursed him for the tuition fees for the accounting course, but not the music course.

6. Mr. Brooks is a widower. His wife was killed in a car accident in 2004 that injured his 8 year old son, Harold, so badly that he qualifies for the disability tax credit. Mr. Brooks' mother, Grace, lives with Mr. Brooks and cares for Harold. Harold has no Net Income For Tax Purposes. Grace is 67 years old and her only income is OAS payments of $5,800. Grace refused to take any payments for caring for Harold. As a result, Mr. Brooks did not pay any child care or attendant costs for Harold.

7. Mr. Brooks paid the following medical costs:

For Himself	$ 7,300
For Harold	4,450
For Grace	1,220
Total	$ 12,970

The medical expenses for himself included $5,700 for acupuncture treatments for pain from a licenced practitioner while he was confined to the hospital.

Required: Calculate, for the 2006 taxation year, Mr. Brooks' minimum Taxable Income and federal Tax Payable (Refund).

Assignment Problem Six - 5

This is an extension of Assignment Case Six-3. It has been updated for 2006 rates.

Seymour Gravel and Mary Walford have been married for more than 10 years. Mary has progressed quickly in the firm she is working for due to her strong tax and accounting background and has been rewarded with a large bonus in 2006.

Other information concerning Seymour and Mary for 2006 is as follows:

1. Seymour was born on January 29, 1947. Mary was born on December 8, 1968. Their son, William, was born on February 24, 1999. He has no income for 2006. They live in Saint John, New Brunswick.
2. Mary's T4 showed employment income of $152,866. Her withholdings included CPP contributions of $1,911, EI premiums of $729, and charitable donations of $1,000.
3. Seymour has no income for 2006.
4. To help deal with his son, who has been refusing to go to school and is displaying hostile tendencies, Seymour enrolled in a three month course on child psychology at Dalhousie

University. His T2202A showed tuition fees of $2,200 and full-time attendance for 3 months.

5. In addition to the charitable donations withheld by Mary's employer, Seymour donated $500 to the Canadian Cancer Foundation and $250 to the Salvation Army.

Required: Calculate Ms. Walford's minimum federal Tax Payable for 2006, without consideration of any income tax withheld.

Assignment Problem Six - 6

This is an extension of Assignment Case Six-2. It has been updated for 2006 rates.

George Hall is a pharmaceutical salesman who has been very successful at his job in the last few years. Unfortunately, his family life has not been very happy. Three years ago, his only child, Anna, was driving a car that was hit by a drunk driver. She and her husband were killed and their 13 year old son, Kevin, was blinded in the accident. He also suffered extensive injuries to his jaw that have required major and prolonged dental work.

George and his wife, Valerie, adopted Kevin. Valerie quit her part-time job to care for him. She also cares for her mother, Joan Parker. Joan suffers from diabetes and severe depression and lives with George and Valerie. Valerie's parents separated two years ago in Scotland after her father, David Parker, suffered enormous losses in the stock market. They were forced to sell their home and David moved to South America. David phones periodically to request that money be deposited in his on-line bank account. Valerie does not meet the residency requirements necessary to qualify for Canadian Old Age Security payments.

George's brother, Martin, completed an alcohol rehabilitation program after being fired for drinking on the job. He is also living with George and Valerie while he is enrolled as a full-time student at the Northern Alberta Institute of Technology. George is paying his tuition and Martin has agreed to transfer the maximum tuition and education amounts to George. Although Martin plans to file his 2006 tax return, he has not done so yet.

In addition to George's salary, he also earns commissions. His employer requires him to have an office in his home and has signed Form T2200 each year to this effect.

Other information concerning George for 2006 is as follows:

1. George was born on July 2, 1942 and lives in Edmonton, Alberta.

2. The birthdates and income for the year of his family members are as follows:

	Birth Date (Y/M/D)	Annual Income
Valerie (income from CPP)	1941-12-30	$5,800
Kevin	1990-10-17	Nil
Joan Parker	1921-02-24	500
David Parker	1922-01-12	Nil
Martin	1959-06-02	8,300

3. George's T4 showed employment income of $378,000, which includes employment commissions of $82,000. His withholdings consisted of income tax of $125,000, CPP contributions of $1,911, EI premiums of $729, and charitable donations of $400.

4. Martin's T2202A showed tuition fees of $6,000 and full-time attendance for 8 months.

5. During the year, Valerie donated $1,000 to Mothers Against Drunk Drivers (MADD). George donated $3,000 to the Canadian National Institute For The Blind (CNIB).

6. George and his family had the following medical expenses for 2006:

Patient	Medical Expenses	Description	Amount
George	Johnson Inc.	Out Of Canada Insurance	$ 731
George	Dr. Smith	Dental Fees	155
George	Optician	Prescription Glasses	109
Valerie	Pharmacy	Prescription	67
Joan	Dr. Wong	Psychiatric Counseling	2,050
David	Tropical Disease Centre	Prescription	390
Martin	Dr. Walker	Group Therapy	6,000
Kevin	Dr. Takarabe	Orthodontics and Dental	30,000
Total			$39,502

7. George paid $800 for the care and feeding of Kevin's seeing eye dog, Isis, during 2006.

8. George's home has a total area of 5,000 square feet. The area of the home used as a home office is 650 square feet. Other costs for the home are as follows:

Telephone Line (including high speed internet connection)	$ 620
Hydro	3,200
Insurance - House	4,000
Maintenance And Repairs	3,800
Mortgage Interest	6,200
Mortgage Life Insurance Premiums	400
Property Taxes	6,700
Total	$24,920

9. George purchased a new computer and software that will be used solely in his home office for employment related uses. The computer cost $3,600 and the various software programs cost $1,250.

Required: Calculate Mr. Hall's minimum federal Tax Payable for 2006, without consideration of any income tax withheld. List any assumptions you have made, and any notes and tax planning issues you feel should be placed in the file. Assume that George does not qualify for the GST rebate for employees.

Assignment Cases

Assignment Case Six - 1 (Using ProFile T1 Software For 2006 Tax Returns)

This Case is continued in Chapter 14.

Mr. Buddy Cole (SIN 527-000-061) was born on August 28, 1938. He has spent most of his working life as a pianist and song writer. He and his family live at 1166 West Pender Street, Vancouver, B.C. V6E 3H8, phone (604) 669-7815.

Mr. Cole's wife, Natasha (SIN 527-000-129), was born on June 6, 1980 and was a professional singer prior to her marriage to Mr. Cole. She still enjoys singing, and gave a few weekend performances during 2005 at the Loose Moose Pub. She earned $3,200 for these performances. She and Mr. Cole have four children. Each child was born on April 1 of the following years, Linda; 2000, Larry; 2001, Donna; 2002, and Donald; 2003. Natasha has never filed a tax return before, and does not plan on filing one this year.

Buddy and Natasha Cole have two adopted children. Richard (SIN 527-000-285) was born on March 15, 1988 and has income of $2,800 for the year. Due to his accelerated schooling, he started full time attendance at university in September of 2005 at the age of 17. His first semester tuition fee is $3,000 and he requires books with a total cost of $375. These amounts are paid by Mr. Cole.

The other adopted child, Sarah, was born on September 2, 1985, and is in full time attendance at university for all of 2005 (including a four month summer session). Her tuition is $9,600 and she requires textbooks which cost $750. These amounts are also paid by Mr. Cole. Sarah has no income during the year.

Neither Richard nor Sarah will have any income in the next three years. Any unused credits of either child are available to be transferred to their father.

Mr. Cole's mother, Eunice, was born on April 10, 1918 and his father, Earl, was born on November 16, 1916. They both live with Mr. Cole and his wife. While his father is still physically active, his mother is blind. Eunice Cole had income of $9,500 for the year, while Earl Cole had income of $7,500.

Other information concerning Mr. Cole and his family for 2005 is as follows:

1. Mr. Cole earned $16,500 for work as the house pianist at the Loose Moose Pub. His T4 showed that his employer withheld $4,200 for income taxes and $362 for EI. Due to an error on the part of the payroll accountant, he overpaid his EI by $40. No CPP was withheld.

2. During the year, Mr. Cole made $3,000 in donations to Planned Parenthood Of Canada, a registered Canadian charity.

3. Mr. Cole has been married before to Lori Cole (SIN 527-000-319). Lori is 52 years old and lives in Fort Erie, Ontario.

4. Mr. Cole has two additional children who live with their mother, Ms. Dolly Holt (SIN 527-000-582), in Burnaby, British Columbia. The children are Megan Holt, aged 15 and Andrew Holt, aged 16. Neither child has any income during 2005. While Ms. Holt and Mr. Cole were never married, Mr. Cole acknowledges that he is the father of both children. Although Buddy has provided limited financial aid, the children are not dependent on Buddy for support.

5. Mr. Cole wishes to claim all his medical expenses on a calendar year basis. On December 2, 2005, Mr. Cole paid dental expenses to Canada Wide Dental Clinics for the following individuals:

Himself	$1,200
Natasha (wife)	700
Richard (adopted son)	800
Sarah (adopted daughter)	300
Linda (daughter)	100
Earl (father)	1,050
Lori (ex-wife)	300
Dolly Holt (mother of two of his children)	675
Megan Holt (daughter of Dolly Holt)	550
Total	$5,675

6. Mr. Cole has not applied to receive either OAS or CPP benefits.

Required: With the objective of minimizing Mr. Cole's Tax Payable, prepare his 2005 income tax return using the ProFile tax software program. List any assumptions you have made, and any notes and tax planning issues you feel should be placed in the file.

Assignment Case Six - 2 (Using ProFile T1 Software For 2006 Tax Returns)

This is extended in Assignment Problem Six-6 to use 2006 rates. This Case is continued in Chapter 14.

George Hall is a pharmaceutical salesman who has been very successful at his job in the last few years. Unfortunately, his family life has not been very happy. Three years ago, his only child, Anna, was driving a car that was hit by a drunk driver. She and her husband were killed and their 13 year old son, Kevin, was blinded in the accident. He also suffered extensive injuries to his jaw that have required major and prolonged dental work.

George and his wife, Valerie, adopted Kevin. Valerie quit her part-time job to care for him. She also cares for her mother, Joan Parker. Joan suffers from diabetes and severe depression and lives with George and Valerie. Valerie's parents separated two years ago in Scotland after her father, David Parker, suffered enormous losses in the stock market. They were forced to sell their home and David moved to South America. David phones periodically to request that money be deposited in his on-line bank account. Valerie does not meet the residency requirements necessary to qualify for Canadian Old Age Security payments.

George's brother, Martin, completed an alcohol rehabilitation program after being fired for drinking on the job. He is also living with George and Valerie while he is enrolled as a full time student at the Northern Alberta Institute of Technology. George is paying his tuition and Martin has agreed to transfer the maximum tuition and education amounts to George. Although Martin plans to file his 2005 tax return, he has not done so yet.

In addition to George's salary, he also earns commissions. His employer requires him to have an office in his home and has signed the form T2200 each year to this effect.

Other information concerning George for 2005 is given on the following pages.

Required: Prepare the 2005 income tax return of George Hall using the ProFile tax software program. List any assumptions you have made, and any notes and tax planning issues you feel should be placed in the file. Assume that George does not qualify for the GST rebate.

Personal Information	Taxpayer
Title	Mr.
First Name	George
Last Name	Hall
SIN	527-000-509
Date of birth (Y/M/D)	1941-07-02
Marital Status	Married
Provide information to Elections Canada?	Yes
Own foreign property of more than $100,000 Cdn?	No

Taxpayer's Address
97 Jasper Avenue, Apt 10, Edmonton, Alberta T5J 4C8
Phone number (780) 495-3500

Family Members	Spouse	Child	Mother-In-Law
First Name	Valerie	Kevin	Joan
Last Name	Hall	Hall	Parker
SIN	527-000-483	527-000-517	None
Date of birth (Y/M/D)	1940-12-30	1989-10-17	1920-02-24
Net income	$5,800 in CPP	Nil	$500

Family Members	Father-In-Law	Brother
First Name	David	Martin
Last Name	Parker	Hall
SIN	None	527-000-533
Date of birth (Y/M/D)	1921-01-12	1958-06-02
Net income	Nil	$8,300

T2202A - (Martin)	Box	Amount
Tuition fees - for Martin Hall (brother)	A	6,000
Number of months in school - part-time	B	0
Number of months in school - full-time	C	8

T4	Box	Amount
Issuer - Mega Pharma Inc.		
Employment income	14	378,000.00
Employee's CPP contributions	16	1,861.00
Employee's EI premiums	18	760.50
Income tax deducted	22	125,000.00
Employment commissions	42	82,000.00
Charitable donations	46	400.00

(Y/M/D)	Patient	Medical Expenses	Description	Am't
2005-12-31	George	Johnson Inc.	Out of Canada insurance	731.30
2005-08-31	George	Dr. Smith	Dental fees	155.40
2005-09-19	George	Optician	Prescription glasses	109.00
2005-11-07	Valerie	Pharmacy	Prescription	66.84
2005-06-07	Joan	Dr. Wong	Psychiatric counseling	2,050.00
2005-03-22	David	Tropical Disease Centre	Prescription	390.00
2005-12-20	Martin	Dr. Walker	Group therapy	6,000.00
2005-10-01	Kevin	Dr. Takarabe	Orthodontics and Dental	30,000.00

George paid $800 for the care and feeding of Kevin's seeing eye dog, Isis, during 2005.

Donor	Charitable Donation Receipts	Am't
Valerie	Mothers Against Drunk Drivers (MADD)	1,000
George	Canadian Institute For The Blind (CNIB)	3,000

House Costs	
Area of home used for home office (square feet)	650
Total area of home (square feet)	5,000
Telephone line including high speed internet connection	620
Hydro	3,200
Insurance - House	4,000
Maintenance and repairs	3,800
Mortgage interest	6,200
Mortgage life insurance premiums	400
Property taxes	6,700

George purchased a new computer and software that will be used solely in his home office for employment related uses. The computer cost $3,600 and the various software programs cost $1,250.

Assignment Case Six - 3 (Progressive Running Case - Chapter 6 Version Using ProFile T1 Software For 2006 Tax Returns)

This version of the Progessive Running Case is extended in Assignment Problem Six-5 to use 2006 rates.

This Progressive Running Case requires the use of the ProFile tax software program. We have referred to this as a Progressive Running Case (PRC) because more complex versions will be provided in subsequent Chapters.

It is introduced in this Chapter and is continued in Chapters 8 through 14. Each version must be completed in sequence. The information in each version is applicable to all subsequent versions.

Seymour Gravel and Mary Walford are your tax clients. They have been married for two years. In late December, 2005, Mary comes to your office with the tax information for 2005 which she has managed to obtain before the end of the year.

Mary has progressed quickly in MoreCorp, the large, publicly traded firm she is working for due to her strong tax and accounting background . She has been rewarded with a large bonus in 2005. Her firm has an excellent health and dental plan that reimburses 100 percent of all medical expenses.

Although Seymour has been working, his increasing ill health makes it likely that he will not be able to continue to work in 2006. He is contemplating a return to university as a student of music.

In order to estimate her possible financial position in 2006, she would like you to prepare her 2005 tax return assuming that Seymour has no income for 2005. She would also like you to compare her 2005 tax liability in the different provinces assuming Seymour has no income for 2005.

Personal Information	Taxpayer	Spouse
Title	Ms.	Mr.
First Name	Mary	Seymour
Last Name	Walford	Gravel
SIN	527-000-129	527-000-079
Date of Birth (Y/M/D)	1967-12-08	1946-01-29
Marital Status	Married	Married
Provide Information To Elections Canada?	Yes	Yes
Own Foreign Property of More Than $100,000 Cdn?	No	No

Taxpayer's Address
126 Prince William Street, Saint John, N.B. E2L 4H9
Phone number (506) 636-5997
Spouse's address same as taxpayer? Yes

Dependant	Child
First Name	William
Last Name	Gravel
SIN	527-000-319
Date of Birth (Y/M/D)	1997-02-24
Net Income	Nil

T4 - Mary	Box	Amount
Issuer - MoreCorp		
Employment Income	14	152,866.08
Employee's CPP Contributions	16	1,861.00
Employee's EI Premiums	18	760.50
RPP Contributions	20	Nil
Income Tax Deducted	22	48,665.11
Charitable Donations	46	1,000.00

Donor	Charitable Donation Receipts	Amount
Seymour	Canadian Cancer Foundation	500
Seymour	Salvation Army	250

Required:

A. With the objective of minimizing Mary's Tax Payable, prepare, but do not print, her 2005 income tax return using the ProFile tax software program. Assume that Seymour has no income in 2005. ***Hint:*** On her "Info" page, answer "Yes" to the question in the spousal information box "Is spouse's net income zero?". List any other assumptions you have made and provide any explanatory notes and tax planning issues you feel should be placed in the files.

B. Access and print Mary's summary (Summary on the Form Explorer, not the T1Summary). This form is a two column summary of the couple's tax information. In this version, the second column is blank.

C. Create and print a schedule that compares the total federal and provincial Tax Payable (Refund) for Mary for all the territories and provinces other than Quebec. ***Hint***: To see the effect of various changes such as province of residence, use the "Snapshot/Variance" feature (information on this feature is available from the Help menu) to create a separate snapshot of the finished return for Mary. Then, on the "Info" screen, you can change the province of residence. (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.