

STUDY GUIDE

Chapter 3



How To Work Through Chapter Three

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

Taxable Income Of Individuals

- Read the text page 85 - 87 (paragraph 3-1 through 3-14).
- Complete Exercise Three-1 on page 88 of the text. The solution is on page S-63.
- Read the text page 88 (paragraph 3-15).

Federal And Provincial Tax Payable Before Credits

- Read the text page 88 - 90 (paragraph 3-16 through 3-28).
- Complete Exercise Three-2 on page 90 of the text. The solution is on page S-63.
- Read the text page 90 - 91 (paragraph 3-29 through 3-33).

Credits Against Tax Payable - Calculating The Amount

- Read the text page 91 - 92 (paragraph 3-34 through 3-38).

Personal Tax Credits - ITA 118(1)

- Read the text page 92 - 93 (paragraph 3-39 through 3-42).
- Complete Exercise Three-3 on page 93 of the text. The solution is on page S-63.

Tax Credits -

Eligible Dependant, Child, Caregiver, And Infirm Dependant Over 17

- Read the text page 93 - 95 (paragraph 3-43 through 3-55).
- Complete Exercise Three-4 on page 95 of the text. The solution is on page S-63.
- Read the text page 95 (paragraph 3-56 through 3-59).
- Complete Exercise Three-5 on page 95 of the text. The solution is on page S-63.

Eligible Dependant vs. Caregiver vs. Infirm Dependant Over 17

- Read the text page 96 (paragraph 3-60 through 3-63).
- Complete Exercise Three-6 on page 96 of the text. The solution is on page S-63 and S-64.
- Read the text page 96 - 97 (paragraph 3-64 through 3-67).
- Complete Exercises Three-7 and Three-8 on page 97 of the text. The solutions are on page S-64.

How To Work Through Chapter Three

Age And Pension Income Credits

- Read the text page 97 (paragraph 3-68 through 3-69).
- Complete Exercise Three-9 on page 98 of the text. The solution is on page S-64.
- Read the text page 98 (paragraph 3-70 through 3-74).

Canada Employment Credit

- Read the text page 98 (paragraph 3-75 through 3-77).

Adoption Expenses Credit

- Read the text page 99 - 100 (paragraph 3-78 through 3-82).
- Complete Exercise Three-10 on page 100 of the text. The solution is on page S-64.

Public Transit Passes Credit

- Read the text page 100 (paragraph 3-83 through 3-87).

Child Fitness Credit

- Read the text page 100 - 101 (paragraph 3-88 through 3-91).

Home Renovations Credit

- Read the text page 101 (paragraph 3-92).

First Time Home Buyer's Credit

- Read the text page 102 (paragraph 3-93 through 3-95).

Charitable Donations Credit

- Read the text page 102 - 103 (paragraph 3-96 through 3-106).
- Complete Exercise Three-11 on page 103 - 104 of the text. The solution is on page S-65.

Medical Expense Credit

- Read the text page 104 - 106 (paragraph 3-107 through 3-114).
- Complete Exercise Three-12 on page 106 of the text. The solution is on page S-65.

Refundable Medical Expense Supplement

- Read the text page 106 - 107 (paragraph 3-115 through 3-118).
- Complete Exercise Three-13 on page 107 of the text. The solution is on page S-65 and S-66.

Disability Credit

- Read the text page 107 - 108 (paragraph 3-119 through 3-126).
- Complete Exercise Three-14 on page 108 of the text. The solution is on page S-66.
- Read the text page 108 - 109 (paragraph 3-127 through 3-130).

Tuition, Education, Textbook And Student Loan Credits

- Read the text page 109 - 110 (paragraph 3-131 through 3-139).
- Complete Exercise Three-15 on page 110 of the text. The solution is on page S-66.

Carry Forward And Transfers Of Tuition, Education And Textbook Credits

- Read the text page 110 - 111 (paragraph 3-140 through 3-148).
- Complete Exercises Three-16 and Three-17 on page 112 of the text. The solutions are on page S-67.

Employment Insurance And Canada Pension Plan Credits

- Read the text page 112 - 113 (paragraph 3-149 through 3-155).

Transfers To A Spouse Or Common-Law Partner

- Read the text page 113 (paragraph 3-156 through 3-158).
- Complete Exercise Three-18 on page 114 of the text. The solution is on page S-68.
- Complete Self Study Problem Three-1 on page 125 of the text. The solution is on page S-69 through S-71.

Working Income Tax Benefit

- Read the text page 114 (paragraph 3-159 through 3-162).
- Complete Exercise Three-19 on page 115 of the text. The solution is on page S-68.

Political Contributions Credit

- Read the text page 115 (paragraph 3-163 through 3-166).
- Complete Exercise Three-20 on page 116 of the text. The solution is on page S-68.

Labour Sponsored Funds Credit

- Read the text page 116 (paragraph 3-167 through 3-169).
- Complete Exercise Three-21 on page 116 of the text. The solution is on page S-68.
- Read the text page 116 (paragraph 3-170 through 3-172).

Refundable GST Credit And Canada Child Tax Benefit

- Read the text page 117 - 118 (paragraph 3-173 through 3-185).

EI And OAS Repayment (Clawback)

- Read the text page 118 - 119 (paragraph 3-186 through 3-196).
- Complete Exercise Three-22 on page 119 of the text. The solution is on page S-68 and S-69.

Comprehensive Example

- Read the text page 120 - 122 (paragraph 3-197).
- Complete Self Study Problem Three-2 on page 126 - 127 of the text. The solution is on page S-71 through S-73.

Sample Personal Tax Return For Chapter 3

- Read the text page 122 (paragraph 3-198 through 3-199).
- Read the Sample Personal Tax Return For Chapter 3 found on page S-47 through S-57 of this Study Guide. The complete sample tax return is available on the Student CD-ROM included with the text in two formats, a T1 ProFile return file and a .PDF file. To view the files, access your Student CD-ROM (not the ProFile Tax Suite CD-ROM) and under the heading "Textbook Support Files", select the option "Tax Return Files".

When the updated Intuit ProFile software is available in January, 2010, updated sample tax returns and updated Tax Software Problems, as well as instructions on how to install the updated software program, will be available at:

www.pearsoned.ca/byrdchen/ctp2010

Comprehensive Tax Payable

- Complete Self Study Problem Three-3 on page 127 - 128 of the text. The solution is on page S-73 through S-75.

Tax Software Self Study Problem

- Read the Suggestions For Working With ProFile Software found on page S-58 through S-60 of this Study Guide.
- Complete Tax Software Self Study Problem - Chapter 3 using the ProFile T1 Software. The Self Study Case is on pages S-61 and S-62 of this Study Guide. The condensed solution is on page S-75 through S-78 of this Study Guide. The complete tax return is available on the Student CD-ROM included with the text in two formats, a T1 ProFile return file and a .PDF file.

This Self Study Case is extended in Self Study Problem Three-3, using 2009 rates and in Tax Software Self Study Problem - Chapter 10.

To Complete This Chapter

- Review the Key Terms Used In This Chapter on page 123 of the text. Consult the Glossary for the meaning of any key terms you do not know.
- Review the Glossary Flashcards and complete the Key Terms Self-Test for the Chapter. These features can be found in two places, on your Student CD-ROM under the heading "Key Term Practice" and on the web site.
- Review the Learning Objectives of the Chapter found on pages S-79 and S-80 of this Study Guide.
- As a review, we recommend that you view the PowerPoint Slides for Chapter 3 that are on your Student CD-ROM. The PowerPoint Viewer program can be installed from the Student CD-ROM.

Sample Personal Tax Return For Chapter 3

The following example contains a T1 individual income tax return completed using the ProFile T1 Personal Income Tax Program for 2008 tax returns from Intuit Canada. As software for 2009 is not yet available, this example contains 2008 rates and credits.

When the updated Intuit ProFile software is available in January, 2010, the updated 2009 version of this sample return, as well as instructions on how to install the updated software program, will be available on the textbook web site at:

www.pearsoned.ca/byrdchen/ctp2010

This example is expanded in Chapter 10 to contain other components of Taxable Income and Tax Payable.

Sample Files On Student CD-ROM

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

Installation Of ProFile and Adobe Reader

In order to view the ProFile return files, you must first install the ProFile program from the ProFile Tax Suite CD-ROM (not the Student CD-ROM) that accompanies this book.

In order to view the complete return, including schedules, as a .PDF file, you must have the Adobe Reader program installed on your computer. If you do not have access to the Adobe Reader program, it can be downloaded and installed for free from the Adobe website (<http://www.adobe.com>).

To View The Tax Return Files

Insert your Student CD-ROM (not the ProFile Tax Suite CD-ROM) and you should see a splash page that allows you to access the contents of the Student CD-ROM.

Under the heading "Textbook Support Files", is the option to view "Tax Return Files". Select this option and you will see two drop-down lists. To view the ProFile file, select the file "Sample - Chapter 3" from the ProFile drop-down list. To view the .PDF file, select the file "PDF Sample - Chapter 3" from the PDF drop-down list.

How To Increase The Benefits From Viewing The ProFile Files

To get the maximum benefit from using the ProFile program, we strongly advise that you do the T1 tutorials "Getting Started" and "Using the Form Explorer" that are included with the program. The data in the following sample tax return problem can be used in the tutorial.

A Quick Reference Card is available on the ProFile Tax Suite CD-ROM in .PDF format.

When viewing the sample return file, we offer the following suggestions:

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

Sample Personal Tax Return For Chapter 3

For students who would like more assistance in using the software, we have provided “Suggestions For Working With ProFile Software” in this Study Guide. The three pages of suggestions and tips can be found following this example.

Sample Problem Data

George Kercher (SIN 527-000-145) is a married, semi-retired air force pilot living in Banff, Alberta. His wife, Deborah (SIN 130-692-544) was blinded three years ago when she tried to put on a Canada Day fireworks display and did not have professional help.

They have been your clients for many years. George was born on February 24, 1957 and Deborah was born on April 10, 1961. They are both Canadian citizens.

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

George informs you that on February 12, 2008, he received \$2 million from his mother’s estate. Using some of these funds, George bought a house in Banff. The remainder of the funds were invested with his stockbroker, Bull & Bear Inc. In this Chapter 3 version of the example, assume there is no investment income from these funds.

George and Deborah have three children:

- Bryan (SIN 527-000-947) was born on March 12, 2001 and had no income during the year.
- Janice (SIN 527-000-269) was born on June 6, 1995 and is in high school. She had income from babysitting totalling \$400 during 2008.
- Willa (SIN 527-000-228) was born on January 22, 1989 and is attending university in Edmonton. Willa had Net Income of \$3,300 during 2008.

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

Deborah had no income during the year. Only George will be filing a tax return. George brings you the following receipts and documents:

1. A T4 (included in this example).
2. A T2202A “Tuition And Education Amounts Certificate” for himself from Athabasca University. It showed he was a part time student for 6 months and paid \$591 in tuition for 2008. [T2202]
3. A receipt for \$1,000 from the Canadian Wildlife Federation dated December 3, 2008. [Donations]
4. A statement from the Banff Dental Clinic that he paid a total of \$1,650 during 2008. This consisted of \$850 for himself on November 24, and \$200 each for Deborah, Bryan, Willa and Janice on December 15. [Medical]
5. Twelve monthly bus passes that were purchased during 2008 by Janice for \$30 per month. [OtherCredits]
6. One receipt for Bryan for a one week hockey camp in Edmonton. The registration fee of \$650 includes \$182 for accommodation and \$193 for meals. A second receipt for Bryan of \$200 for membership in the co-ed soccer club. This enabled Bryan to participate in the club’s weekly games for four months of the year. [Dependants]

Required: With the objective of minimizing George’s Tax Payable, complete his 2008 tax return. Ignore any GST implications.

Notes To The Chapter 3 Return

1. As Deborah has no income, her disability credit has been transferred to George.
2. Inheritances are not taxable.
3. Due to his nil Tax Payable, George's \$1,000 charitable donation and his education related credits are all carried forward.
4. Since Willa is over 17 years of age, her medical expenses are reduced by 3 percent of her Net Income For Tax Purposes. Willa should file a return in order to receive the GST credit.
5. Due to his low Net Income For Tax Purposes, George is eligible for the refundable medical expense supplement and the working income tax benefit. Although George could consider carrying forward his medical expenses because his non-refundable tax credits are greater than his tax payable, if he did so, he would not receive the refundable medical expense supplement.
6. Both the hockey camp and the soccer club receipts qualify for the child fitness credit. However, since accommodation and meals do not qualify for the credit, the total credit base is \$475 (\$650 - \$182 - \$193 + \$200), which is less than the annual maximum of \$500.

Printed Return

Below and on the following pages you will find George's T4, his T1 Summary, his T1 jacket and his Schedule 1 (federal tax calculations). The complete return can be found on the Student CD-ROM.

Employer's name - Nom de l'employeur Alberta Fire Control		Canada Revenue Agency / Agence du revenu du Canada		T4 STATEMENT OF REMUNERATION PAID ÉTAT DE LA RÉMUNÉRATION PAYÉE	
		Year / Année: 2008			
Business Number / Numéro d'entreprise: 54 RP		Province of employment / Province d'emploi: 10 AB		Employment Income - line 101 / Revenus d'emploi - ligne 101: 14 19,000.00	
Social insurance number / Numéro d'assurance sociale: 12 527 000 145		Employee's CPP contributions - line 308 / Cotisations de l'employé au RPC - ligne 308: 16 767.25		Income tax deducted - line 437 / Impôt sur le revenu retenu - ligne 437: 22 2,000.00	
Exempt-Exemption / CPP-QPP EI PPIP: 28		Employee's QPP contributions - line 308 / Cotisations de l'employé au RRQ - ligne 308: 17		EI insurable earnings / Gains assurables d'AE: 24	
Employee's name and address - Nom et adresse de l'employé Last name - Nom de famille: Kercher First name - Prénom: George Initials - Initiales: TOL OC0 Address: 69 Beaver Street Banff AB CAN		Employee's EI premiums - line 312 / Cotisations de l'employé à l'AE - ligne 312: 18 328.70		CPP-QPP pensionable earnings / Gains ouvrant droit à pension - RPC-RRQ: 26	
		RPP contributions - line 207 / Cotisations à un RPA - ligne 207: 20 900.00		Union Dues - line 212 / Cotisations syndicales - ligne 212: 44 110.00	
		Pension adjustment - line 206 / Facteur d'équivalence - ligne 206: 52 1,800.00		Charitable donations - Schedule 1 / Dons de bienfaisance - Annexe 1: 46	
		Employee's PPIP premiums / Cotisations de l'employé au RPAP: 55		RPP or DPSP registration number / N° d'agrément d'un RPA ou d'un RPDB: 50	
				PPIP insurable earnings / Gains assurables du RPAP: 56	

1
RC-06-599

Other Information / Autres renseignements T4 (06)	Box-Case / Amount-Montant: N/A	Box-Case / Amount-Montant: N/A	Box-Case / Amount-Montant: N/A
	Box-Case / Amount-Montant: N/A	Box-Case / Amount-Montant: N/A	Box-Case / Amount-Montant: N/A

Summary

2008 Tax Summary

George-Chapter 3 Example

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

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

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

2009 Estimated	George-Chapter 3 Example
GST/HST credit	756 00
Child Tax Benefit	7,986 00
RRSP contribution limit	1,600 00

George-Chapter 3 Example

Non-refundable tax credits		
Basic personal amount	300	9,600
Age amount	301	
Spouse / eligible dependant *	303	9,600
Amount for children	367	4,076
Infirm/caregiver *	306	
CPP/QPP/PIPP/EI *	308	1,096
Canada employment amount	363	1,019
Public transit passes amount	364	360
Children's fitness amount	365	475
Adoption expenses	313	
Pension income amount	314	
Disability amount	316	
Transfers *	318	7,021
Interest on student loans	319	
Tuition / education	323	
Medical expenses	332	1,011
Subtotal	335	34,258
Credit at 15%	338	5,139
Donations and gifts	349	
Non-refundable tax credits	350	5,139

Total payable		
Federal tax	404	2,699
Non-refundable tax credits	350	5,139
Dividend tax credit	425	
Min. tax carry-over/other *	426	
Basic federal tax	429	
Non resident surtax		
Foreign tax credits / other	405	
Federal tax	406	
Political/inv. tax credit *	410	
Labour-sponsored tax credit	414	
Alternative minimum tax	417	
WITB Prepayment (RC210)	415	
Additional tax on RESP	418	
Net federal tax	420	
CPP contributions payable	421	
Social benefits repayment	422	
Provincial/territorial tax	428	
Total payable	435	

Total credits		
Income tax deducted *	437	2,000
QC or YT abatement *	440	
CPP/EI overpayment *	448	
Medical expense supplement	452	253
WITB (Schedule 6)	453	537
Other credits *	454	
GST/HST rebate	457	
Instalments	476	
Provincial tax credits	479	
Total credits	482	2,790

Balance owing (refund)	(2,790)
Combined balance (refund)	(2,790)

* More than one line is considered

T1-2008

Federal Tax

Schedule 1

Complete Step 1 to claim your federal non-refundable tax credits, Step 2 to calculate your federal tax on taxable income, and Step 3 to calculate your net federal tax.

You must attach a copy of this schedule to your return.

Step 1 - Federal non-refundable tax credits (For details, read the related lines in the guide.)

Basic personal amount	claim \$9,600	300	9,600	00	1
Age amount (if you were born in 1943 or earlier) (use federal worksheet)	(maximum \$5,276)	301			2
Spouse or common-law partner amount: (if negative, enter "0")		303	9,600	00	3
\$ 9,600 minus (0 00 his or her net income from page 1 of your return) =		305			4
Amount for an eligible dependant (attach schedule 5) (if negative, enter "0")		306			5
\$ 9,600 minus (0 00 his or her net income) =		307			6
Amount for children born in 1991 or later	Number of children 366 2 x \$2,038 =	367	4,076	00	7
Amount for infirm dependants age 18 or older (use federal worksheet and attach Schedule 5)		308			8
CPP or QPP contributions:					
through employment from box 16 and box 17 on all T4 slips	(maximum \$2,049.30)	309	767	25	9
on self-employment and other earnings (attach Schedule 8)		310			10
Employment Insurance premiums from box 18 and box 55 on all T4 slips	(maximum \$711.03)	311	328	70	11
Canada employment amount		312			12
(if you reported employment income on line 101 or line 104, see line 363 in the guide)	(maximum \$1,019)	313	1,019	00	13
Public transit amount		314	360	00	14
Children's fitness amount		315	475	00	15
Adoption expenses		316			16
Pension income amount (use federal worksheet)	(maximum \$2,000)	317			17
Caregiver amount (use federal worksheet and attach Schedule 5)		318			18
Disability amount (for self) (claim \$7,021 or if you were under age 18, use federal worksheet)		319			19
Disability amount transferred from a dependant (use federal worksheet)		320			20
Interest paid on your student loans		321			21
Tuition, education, and textbook amounts (attach Schedule 11)		322			22
Tuition, education, and textbook amounts transferred from a child		323			23
Amounts transferred from your spouse or common-law partner (attach Schedule 2)		324	7,021	00	24
Medical expenses for self, spouse or common-law partner, and your dependent children born in 1991 or later	330 1,450 00				
Minus: \$1,962 or 3% of line 236, whichever is less			539	70	
Subtotal (if negative, enter "0")			910	30 (A)	
Allowable amount of medical expenses for other dependants (see the calculation at line 331 in the guide and attach Schedule 5)	331 101 00 (B)				
Add lines (A) and (B).			1,011	30	25
Add lines 1 to 22.		335	34,258	25	26
Multiply the amount on line 23 by 15%.		338	5,138	74	27
Donations and gifts (attach Schedule 9)		349			28
Total federal non-refundable tax credits: add lines 24 and 25.		350	5,138	74	29

Step 2 - Federal tax on taxable income

Enter your **taxable income** from line 260 of your return. 17,990|00 27

Use the amount on line 27 to determine which ONE of the following columns you have to complete.	If line 27 is \$37,885 or less	If line 27 is more than \$37,885 but not more than \$75,769	If line 27 is more than \$75,769 but not more than \$123,184	If line 27 is more than \$123,184	
Enter the amount from line 27.	17,990 00				28
Base amount		37,885 00	75,769 00	123,184 00	29
Line 28 minus line 29 (cannot be negative)	17,990 00				30
Rate	x 15 %	x 22 %	x 26 %	x 29 %	31
Multiply line 30 by line 31.	2,698 50				32
Tax on base amount	0 00	5,683 00	14,017 00	26,345 00	33
Add lines 32 and 33.	2,698 50				34

Step 3 - Net federal tax

Enter the amount from line 34		2,698 50	35
Federal tax on split income (from line 5 of Form T1206)	424		• 36
Add lines 35 and 36.	404	2,698 50	37
Enter the amount from line 26		350	5,138 74 38
Federal dividend tax credit (see line 425 in the guide)	425		• 39
Overseas employment tax credit (attach Form T626)	426		40
Minimum tax carryover (attach Form T691)	427		• 41
Add lines 38 to 41.		5,138 74	42
Basic federal tax: Line 37 minus line 42 (if negative, enter "0")	429		43
Federal foreign tax credit (attach Form T2209)		405	44
Federal logging tax credit			
Federal tax: Line 43 minus line 44 (if negative, enter "0")	406	0 00	45
Total federal political contributions (attach receipts)	409		
Federal political contribution tax credit (use federal worksheet)	410		• 46
Investment tax credit (attach Form T2038(IND))	412		• 47
Labour-sponsored funds tax credit			
Net cost 413		Allowable credit 414	• 48
Add lines 46 to 48.	416		49
Line 45 minus line 49 (if negative, enter "0")			
(if you have an amount on line 36 above, see Form T1206)	417		50
Working Income Tax Benefit (WITB) advance payments received (box 10 on the RC210 slip).	415		• 51
Additional tax on RESP accumulated income payments (attach Form T1172)	418		52
Net federal tax: add lines 50 to 52.			
Enter this amount on line 420 of your return.	420	0 00	53



Income Tax and Benefit Return

Complete all the sections that apply to you in order to benefit from amounts to which you are entitled.

7

Identification

First name and initial
George-Chapter 3 Example

Last name
Kercher

Care of

Mailing address: Apt No – Street No Street name
69 Beaver Street

PO Box _____ RR _____

City Postal Code
Banff AB T0L 0C0

Information about your residence

Enter your province or territory of residence on **December 31, 2008**: Alberta

Enter the province or territory where you **currently** reside if it is not the same as that shown above for your mailing address: _____

If you were self-employed in 2008, enter the province or territory of self-employment: Alberta

If you **became** or **ceased** to be a resident of Canada in 2008, give the date of:
 entry _____ Month/Day or departure _____ Month/Day

Information about you

Enter your social insurance number (SIN) 527 000 145

Enter your date of birth: Year/Month/Day 1957-02-24

Your language of correspondence: English Français

Votre langue de correspondance :

Your marital status on December 31, 2008

(see the "Marital status" section in the guide for details)

1 Married 2 Living common law 3 Widowed
 4 Divorced 5 Separated 6 Single

Information about your spouse or common-law partner (if you ticked box 1 or 2 above)

Enter his or her social insurance number: 130 692 544

Enter his or her first name: Deborah

Enter his or her net income for 2008: _____

Enter the amount of UCCB included on line 117 of his or her return: _____

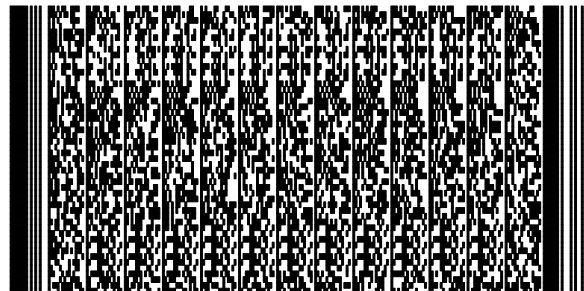
Enter the amount of UCCB repayment included on line 213 of his or her return: _____

Tick this box if he or she was self-employed in 2008: 1

Person deceased in 2008

If this return is for a deceased person, enter the date of death: _____ Year/Month/Day

Do not use this area



Do not use this area	172		171				
----------------------	-----	--	-----	--	--	--	--



Elections Canada (see the Elections Canada page in the guide for details)

A) Are you a Canadian citizen? _____ Yes 1 No 2

Answer the following question **only if you are a Canadian citizen.**

B) As a Canadian citizen, do you authorize the Canada Revenue Agency to give your name, address, date of birth, and citizenship to Elections Canada for the National Register of Electors? _____ Yes 1 No 2

Your authorization is valid until you file your next return. This information will be used only by Elections Canada for purposes permitted under the *Canada Elections Act*.

Goods and services tax/harmonized sales tax (GST/HST) credit application

See the guide for details.

Are you applying for the GST/HST credit? _____ Yes 1 No 2

Please answer the following question

Did you own or hold foreign property at any time in 2008 with a total cost of more than CAN\$100,000? (see the "Foreign income" section in the guide for details) _____ **266** Yes 1 No 2

If yes, attach a completed Form T1135.

If you had dealings with a non-resident trust or corporation in 2008, see the "Foreign income" section in the guide.

Attach your Schedule 1 (federal tax) and Form 428 (provincial or territorial tax) here. Also attach here any other schedules, information slips, forms, receipts, and documents that you need to include with your return.

Your guide contains valuable information to help you complete your return.

When you come to a line on the return that applies to you, look up the line number in the guide for more information.

As a Canadian resident, you have to report your income from all sources both inside and outside Canada.

Total income

Employment income (box 14 on all T4 slips)			101	19,000	00
Commissions included on line 101 (box 42 on all T4 slips)	102				
Other employment income			104		
Old Age Security pension (box 18 on the T4A(OAS) slip)			113		
CPP or QPP benefits (box 20 on the T4A(P) slip)			114		
Disability benefits included on line 114 (box 16 on the T4A(P) slip)	152				
Other pensions or superannuation			115		
Elected split-pension amount (see the guide and attach Form T1032)			116		
Universal Child Care Benefit (see the guide)			117		
Employment Insurance and other benefits (box 14 on the T4E slip)			119		
Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations (see the guide and attach Schedule 4)			120		
Taxable amount of dividends other than eligible dividends, included on line 120, from taxable Canadian corporations	180				
Interest and other investment income (attach Schedule 4)			121		
Net partnership income: limited or non-active partners only (attach Schedule 4)			122		
Registered disability savings plan income (from all T4A information slips)			125		
Rental income		Gross 160		Net 126	
Taxable capital gains (attach Schedule 3)			127		
Support payments received		Total 156		Taxable amount 128	
RRSP income (from all T4RSP slips)			129		
Other income		Specify:	130		
Self-employment income (see lines 135 to 143 in the guide)					
Business income		Gross 162		Net 135	
Professional income		Gross 164		Net 137	
Commission income		Gross 166		Net 139	
Farming income		Gross 168		Net 141	
Fishing income		Gross 170		Net 143	
Workers' compensation benefits (box 10 on the T5007 slip)	144				
Social assistance payments	145				
Net federal supplements (box 21 on the T4A(OAS) slip)	146				
Add lines 144, 145, and 146 (see line 250 in the guide)				147	
Add lines 101, 104 to 143, and 147				150	19,000 00
This is your total income.				150	19,000 00

Net income

Enter your total income from line 150	150	19,000	00
Pension adjustment (box 52 on all T4 slips and box 34 on all T4A slips)	206	1,800	00
Registered pension plan deduction (box 20 on all T4 slips and box 32 on all T4A slips)	207	900	00
RRSP deduction (see Schedule 7 and attach receipts)	208		
Saskatchewan Pension Plan deduction (maximum \$600)	209		
Deduction for elected split-pension amount (see the guide and attach Form T1032)	210		
Annual union, professional, or like dues (box 44 on all T4 slips, and receipts)	212	110	00
Universal Child Care Benefit repayment (box 12 on all RC62 slips)	213		
Child care expenses (attach Form T778)	214		
Disability supports deduction	215		
Business investment loss Gross 228	217		
Allowable deduction	219		
Moving expenses	219		
Support payments made Total 230	220		
Allowable deduction	221		
Carrying charges and interest expenses (attach Schedule 4)	221		
Deduction for CPP or QPP contributions on self-employment and other earnings (attach Schedule 8)	222		
Exploration and development expenses (attach Form T1229)	224		
Other employment expenses	229		
Clergy residence deduction	231		
Other deductions Specify:	232		
Add lines 207 to 224, 229, 231, and 232. 233		1,010	00
Line 150 minus line 233 (if negative, enter "0"). This is your net income before adjustments. 234		17,990	00
Social benefits repayment (if you reported income on line 113, 119, or 146, see line 235 in the guide) Line 234 minus line 235 (if negative, enter "0"). If you have a spouse or common-law partner, see line 236 in the guide.	235		
This is your net income. 236		17,990	00

Taxable income

Canadian Forces personnel and police deduction (box 43 on all T4 slips)	244		
Employee home relocation loan deduction (box 37 on all T4 slips)	248		
Security options deductions	249		
Other payments deduction (if you reported income on line 147, see line 250 in the guide)	250		
Limited partnership losses of other years	251		
Non-capital losses of other years	252		
Net capital losses of other years	253		
Capital gains deduction	254		
Northern residents deductions (attach Form T2222)	255		
Additional deductions Specify:	256		
Add lines 244 to 256. 257			
Line 236 minus line 257 (if negative, enter "0") This is your taxable income. 260		17,990	00

Use your taxable income to calculate your federal tax on Schedule 1 and your provincial or territorial tax on Form 428.

Suggestions For Working With ProFile Software

Before You Start

To get the maximum benefit from using the ProFile tax preparation software program, we strongly advise that you do the T1 tutorials “Getting Started” and “Using the Form Explorer” that are included with the program. The data in the sample tax returns can be used in the tutorial.

A Quick Reference Card is available on the ProFile Tax Suite CD-ROM in .PDF format.

Sample Tax Returns

Included in this Study Guide are sample tax returns for Chapters 3 and 10. The tax returns contain 2008 data as the 2009 version of the ProFile tax preparation software was not yet available. The ProFile software on the ProFile Tax Suite CD also contains the version for 2008 returns. As a result, the 2008 credits and rates in the sample returns will not be the same as the 2009 figures in the text which can cause confusion for some students.

When the updated Intuit ProFile software is available in January, 2010, the updated 2009 versions of the sample returns, as well as instructions on how to install the updated software program, will be available on the Text Enrichment Site at:

www.pearsoned.ca/byrdchen/ctp2010

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

Creating A New T1 Return

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

1. Start the ProFile software. Open a new file. Ensure that you have chosen the new file in the correct software (T1) and year (2008 or 2009 if available).
2. By default, the software will open on the form “Info”. Enter all relevant information here. At a minimum, you will need to enter the following information:
 - Taxpayer’s Social Insurance Number (SIN)
 - Taxpayer’s first and last name
 - Address, city, province, and postal code
 - Telephone number
 - Taxpayer’s birth date

If applicable, you will also need to enter any relevant information for the spouse on the “Info” form. At a minimum, the following information will be necessary:

- Spouse’s Social Insurance Number (SIN)
- Spouse’s first and last name
- Address, city, province, and postal code
- Telephone number
- Spouse’s birth date

3. Using the Form Explorer (F4), go to the Dependant form and enter all relevant information about any eligible dependants. At a minimum, the following information will be necessary:
 - Dependant's Social Insurance Number (SIN)
 - Dependant's first and last name
 - Dependant's relationship to the taxpayer
 - Dependant's birth date
 - Dependant's Net Income
 - Address, city, province, and postal code

If the Dependant has tuition and education amounts and is not filing a tax return, the education related information should be entered on the Dependant form.

4. Using the Form Explorer (F4), open the relevant information slip form. Enter all relevant information in the appropriate forms. Some common information slip forms are:
 - T3 - Statement of Trust Income
 - T4 - Statement of Remuneration Paid
 - T5 - Statement of Investment Income
 - T2202 - Tuition and Education Amounts
 - T4AOAS - Statement of Old Age Security
5. Enter any other relevant income information on the appropriate forms. These forms may include, but are not limited to, the following:
 - T776 - Statement of Real Estate Rentals
 - T776Asset - T776 Asset Details
 - T776CCA - T776 CCA Details
 - T2125 - Statement of Business or Professional Activities
 - T2125Asset - T2125 Asset Details
 - T2125CCA - T2125 CCA Details
6. Enter any relevant other deduction information on the appropriate forms. These forms may include, but are not limited to, the following:
 - RRSP - RRSP Deduction
 - T777 - Statement of Employment Expenses
 - T778 - Child Care Expense Deduction
 - Support - Support Payments
 - Auto - Motor Vehicle Expenses
 - LossNetCap - Net Capital Losses
 - LossNonCap - Non-Capital Losses
7. Enter any relevant tax credit information on the appropriate forms. These forms may include, but are not limited to, the following:
 - Donations - Charitable Donations
 - Medical - Medical Expenses

Suggestions For Working With ProFile Software

8. Enter any remaining relevant information in the appropriate schedule. These schedules may include, but are not limited to, the following:
 - S2 - Federal Amounts Transferred From Your Spouse or Common-Law Partner (primarily used if spouse or common-law partner is not filing a tax return)
 - S3Details - Capital Gains Entry (this form, not Schedule 3, must be used to input details on capital dispositions)
 - S4 - Statement of Investment Income (much of the information for this schedule will be carried forward from the T3, T5, and other information slips, but a few items such as carrying charges are entered directly on Schedule 4)
 - T1032 - Joint Election To Split Income (this form must be filled out for both spouses as it is a joint election. T1032 contains a link to a form, "T1032Opt" that calculates the optimum amount of pension income to transfer)
9. Use the function "Show Auditor" under the "Audit" list to check for warnings or potential errors.

Tips For Using ProFile Software

- Press the F5 key or choose Spouse from the Form menu to display the return of the spouse.
- Press the F4 key to view the Form Explorer. Choose the form "Summary" to see the tax data of both spouses on the same one page summary. (Second column will be blank for a single taxpayer.)
- Review marks can be used to flag information that should be reviewed. The cell with the review mark will be listed when the Show Auditor feature is turned on.
- A memo and/or a tape can be attached to a cell to provide backup information.
- If you cannot determine where a specific slip or other information should be input, one way to search for the correct form is to open the Form Explorer (F4) and choose the "Key" mode icon in the top right corner of the menu. If you type a key word into the line above the listing of key words, the appropriate form may be found.
- To see the effect of various changes such as province of residence or a change in an RRSP contribution, use the "Snapshot/Variance" feature. Information on this feature is available from the Help menu. Note you must press the "Enter" key for the change to take effect. The data monitor at the bottom of the screen should show the new balance/refund. The difference can also be seen on the "Summary" form. If you open the Auditor (F9) and select the Variance tab you will see a detailed analysis of the changes.

Tax Software Self Study Problem - Chapter 3

Note The following problem contains 2008 (not 2009) information as software for 2009 is not yet available. When the updated Intuit ProFile software is available in January, 2010, the updated 2009 version of this problem, as well as instructions on how to install the updated software program, will be available on the textbook web site at:

www.pearsoned.ca/byrdchen/ctp2010

This Tax Software Self Study Problem is expanded in Chapter 10 to contain other components of Taxable Income and Tax Payable. A version of this problem, which does not require tax software, has been updated for 2009 rates and credits and is available in your textbook as Self Study Problem Three-3.

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

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

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

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

Information concerning Ms. Trubey for 2008 is given on the following pages.

Required: With the objective of minimizing Ms. Trubey's Tax Payable, prepare the 2008 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 discussed with Ms. Trubey.

Personal Information	
Title	Ms.
First Name	Eleanor
Last Name	Trubey
SIN	527-000-087
Date of birth (Y/M/D)	1960-05-15
Marital Status	Widowed
Canadian citizen?	Yes
Provide information to Elections Canada?	Yes
Own foreign property of more than \$100,000 Canadian?	No

Tax Software Self Study Problem - Chapter 3

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	Toshiro
SIN	527-000-293	None	None
Date of birth (Y/M/D)	1988-05-14	1996-10-11	1927-05-21
Net income	\$2,300	Nil	\$6,500

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	2,049.30
Employee's EI premiums	18	711.03
RPP contributions	20	2,406.16
Pension adjustment	52	7,829.00
Income tax deducted	22	11,408.00
Union dues	44	748.59
Charitable donations	46	175.00

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

Patient	(Y/M/D)	Medical Expenses	Description	Am't
Eleanor	2008-08-15	Grace Hospital	Ambulance charge	392
Eleanor	2008-08-18	Paramed Home Health	Nursing care	1,350
Marjorie	2008-05-20	Dr. Zhang (Optometrist)	Contact lenses	110
Marjorie	2008-07-06	Pharmacy	Prescription	75
Diane	2008-09-01	Dr. Glassman	Physiotherapist	100
Amy	2008-05-11	Walk Right Foot Clinic	Orthotics	450
Amy	2008-01-23	Dr. Tamo	Dental	1,120

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

Solution to Chapter Three Exercises

Exercise Three - 1 Solution

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

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

*Despite the fact that the prescribed rate has increased, the taxpayer can continue to use the rate in effect at the time the loan was made. This can continue for a period of five years. Note that the ITA 110(1)(j) deduction is also based on the rate in effect at the time the loan was made.

Exercise Three - 2 Solution

The required Tax Payable would be calculated as follows:

Tax Payable On First \$40,726 At 21.05 Percent (15.00% + 6.05%)	\$8,573
Tax Payable On Next \$5,974 (\$46,700 - \$40,726) At 31.15 Percent (22% + 9.15%)	1,861
Total Tax Payable Before Credits	\$10,434

Her average rate of tax is 22.3 percent ($\$10,434 \div \$46,700$).

Exercise Three - 3 Solution

The required amount would be calculated as follows:

Basic Personal Amount	\$ 10,320
Spousal Amount ($\$10,320 - \$2,600$)	7,720
Credit Base	\$18,040
Rate 15%	
Personal Tax Credits	\$ 2,706

Exercise Three - 4 Solution

Joan would be entitled to a caregiver tax credit in the amount of \$440 $\{[15\%][\$4,198 - (\$15,600 - \$14,336)]\}$.

Exercise Three - 5 Solution

Harold would be entitled to an infirm dependant over 17 tax credit in the amount of \$383 $\{[15\%][\$4,198 - (\$7,600 - \$5,956)]\}$. He could not claim the caregiver credit as his daughter does not live with him.

Exercise Three - 6 Solution

As Mr. Litvak is entitled to claim his mother as an eligible dependant, he cannot take the caregiver tax credit for her. Given this he would first determine the amount of the eligible dependant credit as follows:

Solution to Chapter Three Exercises

$$[(15\%)(\$10,320 - \$7,500)] = \$423$$

As his mother's income is below the \$14,336 threshold for the caregiver credit, in the absence of ITA 118(4), he would have been eligible for \$630, the full amount of the caregiver credit. This means that he will have an additional credit under ITA 118(1)(e) of \$207 (\$630 - \$423). The combination of the eligible dependant credit and the ITA 118(1)(e) credit totals \$630, the maximum caregiver credit.

Exercise Three - 7 Solution

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

$$[(15\%)(\$4,198 - \text{Nil})] = \$630$$

Exercise Three - 8 Solution

Her tax credits would be determined as follows:

Basic Personal Amount	\$ 10,320
Eligible Dependant (Son)	10,320
Child (Daughter)	2,089
<hr/>	
Credit Base	\$22,729
Rate 15%	
<hr/>	
Total Credits	\$ 3,409

As Ms. Forest is entitled to claim her son as an eligible dependant, she cannot take the caregiver or infirm dependant over 17 tax credit for him. She does not have the option to claim her daughter as an eligible dependant and claim the caregiver credit for her son. Since she is entitled to claim him as an eligible dependant, she cannot claim the caregiver credit instead.

Exercise Three - 9 Solution

Mr. Smythe's age credit would be \$530 $\{[15\%][\$6,408 - (15\%)(\$51,500 - \$32,312)]\}$.

Exercise Three - 10 Solution

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

Cost Of Second China Trip	\$ 6,420
Chinese Orphanage Fee	1,600
Canadian Adoption Agency Fee	3,200
Legal Fees	2,700
<hr/>	
Total Eligible Expenses	\$13,920
Employer Reimbursement	(5,000)
<hr/>	
Base For Credit	\$ 8,920
Rate 15%	
<hr/>	
Maximum Adoption Expenses Credit	\$ 1,338

The first trip to China is not eligible for the credit as it was incurred before the adoption period. While the additional medical expenses will likely be available for a medical expenses tax credit, they are not eligible for the adoption expenses credit. You should also note that the expense base for the credit is less than the \$10,909 maximum. The employer reimbursement would likely be considered a taxable benefit and included in employment income, but this would have no effect on the tax credit.

Exercise Three - 11 Solution

The credit base for 2009 would be limited to \$48,750 [(75%)(65,000)]. However, she chooses to claim \$10,000, leaving a carry forward of \$90,000 (\$100,000 - \$10,000). The resulting credit would be:

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

As her income for 2010 is unchanged from 2009, the base for the maximum credit would be the same limit of \$48,750 [(75%)(65,000)]. Charitable donations can be carried forward for up to 5 years. As a result, the final year to claim any unused portion of her 2009 donation would be 2014.

Exercise Three - 12 Solution

Amount B Qualifying Expenses (\$4,330 + \$4,600)	\$ 8,930
Amount C	
Lesser Of:	
• [(3%)(150,000)] = \$4,500	
• 2009 Threshold Amount = \$2,011	(2,011)
Subtotal	\$ 6,919
Amount D	
Max - Lesser Of:	
• [\$8,425 - (3%)(8,250)]* = \$8,178	
• Absolute Limit = \$10,000	8,178
Allowable Amount Of Medical Expenses	\$15,097
Amount A The Appropriate Rate (Minimum Rate)	15%
Medical Expense Tax Credit	\$ 2,265

* [(3%)(8,250)] is less than \$2,011.

Exercise Three - 13 Solution

The regular medical expense credit would be calculated as follows:

Medical Expenses	\$6,250
Lesser Of:	
• [(3%)(25,400)] = \$762	
• 2009 Threshold Amount = \$2,011	(762)
Allowable Amount Of Medical Expenses	\$5,488

The refundable supplement would be calculated as follows:

Lesser Of:	
• \$1,067 (2009 Maximum)	
• [(25%)(5,488)] = \$1,372	\$1,067
Reduction [(5%)(25,400 - \$23,633)]	(88)
Refundable Medical Expense Supplement	\$ 979

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

Solution to Chapter Three Exercises

Tax Payable Before Credits [(15%)(25,400)]		\$3,810
Non-Refundable Credits:		
Basic	\$ 10,320	
Common-Law Partner	10,320	
Allowable Medical Expenses	5,488	
Total	\$26,128	
Rate	15%	(3,919)
Tax Before Refundable Supplement		\$ Nil
Refundable Supplement		(979)
Tax Payable (Refund)		(\$ 979)

Exercise Three - 14 Solution

John has sufficient other medical expenses to exceed the 3 percent threshold. His income is too high to qualify for the refundable supplement. As Keith has no income, the regular disability credit can be transferred to John. However, as Keith is over 17, the disability supplement is not available. In addition to the disability credit, John will be able to take the caregiver credit, as well as a credit for Keith's medical expenses. Keith's medical expense credit base is limited to the maximum of \$10,000. The total credits related to Keith would be as follows:

Disability - Regular Amount	\$ 7,196
Caregiver	4,198
Medical Expenses (Absolute Limit)	10,000
Total Credit Base	\$21,394
Rate 15%	
Total Credits Related To Keith	\$ 3,209

Exercise Three - 15 Solution

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

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

Exercise Three - 16 Solution

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

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

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

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

Kerri's Tax Payable before deducting education related credits would be \$1,752 [(15%)($\$22,000 - \$10,320$)]. This is more than sufficient to absorb the available education related credits of \$1,578 and, as a consequence, there would be no carry forward of credits.

Exercise Three - 17 Solution

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

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

Income Tax Act Approach The \$750 maximum transfer of education related credits must be reduced by Jerry's Tax Payable, before deducting his medical expense credit, of \$140 [(15%)($\$11,250 - \$10,320$)]. This will leave a maximum transfer of \$610 ($\$750 - \140) and a carry forward credit of \$3,542 ($\$4,292 - \$140 - \610).

Tax Return Approach The \$5,000 maximum transfer of education related amounts must be reduced by \$930 ($\$11,250 - \$10,320$), the excess of Jerry's Taxable Income over his basic personal amount. This results in a maximum transfer of \$4,070 ($\$5,000 - \930) and a carry forward amount of \$23,615 ($\$28,615 - \$930 - \$4,070$). Multiplying this by 15 percent gives the same \$3,542 that we calculated under the alternative approach. Note that these amounts do not take into account his medical expense credit.

Solution to Chapter Three Exercises

Exercise Three - 18 Solution

His tax credits would be calculated as follows:

Basic Personal Amount	\$ 10,320
Spousal Amount (\$10,320 - Nil)	10,320
Age [$\$6,408 - (15\%)(\$42,000 - \$32,312)$]	4,955
Pension Income	2,000
Spousal Age Transfer	6,408
Spousal Tuition, Education, and Textbook Transfer - Lesser Of:	
• [$\$2,200 + (4 \text{ Months})(\$400) + (4 \text{ Months})(\$65)$] = \$4,060	
• Maximum Transfer = \$5,000	4,060
<hr/>	
Credit Base	\$38,063
Rate	15%
<hr/>	
Total Credits	\$ 5,709
<hr/>	

Exercise Three - 19 Solution

The family working income totals \$19,000 (\$13,000 + \$6,000). The working income tax benefit for 2009 would be calculated as follows:

Lesser Of:	
• Maximum Benefit For Family = \$1,044	
• $[(20\%)(\$19,000 - \$3,000) = 3,200$	\$1,044
Reduction $[(15\%)(\$19,000 - \$15,145)]$	(578)
<hr/>	
Working Income Tax Benefit	\$ 466
<hr/>	

Exercise Three - 20 Solution

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

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

Exercise Three - 21 Solution

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

Exercise Three - 22 Solution

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

Net Employment Income	\$60,000
EI Benefits	10,000
OAS Benefits	6,200
<hr/>	
Income Before Deductions	\$76,200
<hr/>	

Dealing first with the EI repayment, Ms. Jacobi would have to repay \$3,000 $[(30\%)(\$10,000)]$, which is the lesser of 30 percent of the EI benefits received and \$6,998 $[(30\%)(\$76,200 - \$52,875)]$.

Using this deduction, the clawback of her OAS payments would be \$1,030 [(15%)($\$76,200 - \$3,000 - \$66,335$)]. As a result, her Net Income For Tax Purposes would be as follows:

Income Before Deductions	\$76,200
ITA 60(v.1) Deduction (EI)	(3,000)
ITA 60(w) Deduction (OAS)	(1,030)
Net Income For Tax Purposes	\$72,170

Solution to Self Study Problem Three - 1

Case A The solution for this Case would be as follows:

Net Income For Tax Purposes And Taxable Income	\$50,000
Tax [$\$6,109 + (22\%)(\$50,000 - \$40,726)$]	\$8,149
Basic Personal Amount	(\$10,320)
EI	(732)
CPP	(2,119)
Canada Employment	(1,044)
Credit Base	(\$14,215)
Rate	15%
Political Contributions Tax Credit [(3/4)($\$400$) + (1/2)($\350) + (1/3)($\$250$)]	(558)
Federal Tax Payable	\$ 5,459

Case B The solution for this Case is as follows:

Net Income For Tax Purposes And Taxable Income	\$50,000
Tax [$\$6,109 + (22\%)(\$50,000 - \$40,726)$]	\$8,149
Basic Personal Amount	(\$10,320)
Spousal ($\$10,320 - \$4,650$)	(5,670)
Child - Eileen	(2,089)
EI	(732)
CPP	(2,119)
Canada Employment	(1,044)
Medical Expenses [$\$3,150 - (3\%)(\$50,000)$]	(1,650)
Credit Base	(\$23,624)
Rate	15%
Federal Tax Payable	\$ 4,605

As family Net Income For Tax Purposes is greater than \$44,973, Stanley Murphy is not eligible for the refundable medical expense supplement.

Solution to Self Study Problem Three - 1

Case C The solution for this Case is as follows:

Net Income For Tax Purposes And Taxable Income		\$50,000
Tax [\$6,109 + (22%)(50,000 - 40,726)]		\$8,149
Basic Personal Amount	(\$10,320)	
Spousal (\$10,320 - \$5,050)	(5,270)	
EI	(732)	
CPP	(2,119)	
Canada Employment	(1,044)	
Transfer From Son (Note)	(5,000)	
Credit Base	(\$24,485)	
Rate	15%	(3,673)
Federal Tax Payable		\$ 4,476

Note: The transfer from the son is as follows:

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

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

Case D The solution for this Case is as follows:

Net Income For Tax Purposes and Taxable Income		\$42,050
Tax [\$6,109 + (22%)(42,050 - 40,726)]		\$ 6,400
Basic Personal Amount	(\$10,320)	
Spousal (\$10,320 - \$6,900)	(3,420)	
Age [\$6,408 - (15%)(42,050 - 32,312)]	(4,947)	
Pension	(2,000)	
Spouse's Age	(6,408)	
Spouse's Disability	(7,196)	
Spouse's Pension	(450)	
Credit Base	(\$34,741)	
Rate	15%	(5,211)
Federal Tax Payable		\$ 1,189

The Old Age Security and Canada Pension Plan receipts are not eligible for the pension income credit. Helen's Registered Pension Plan receipt is eligible. As Helen Murphy's income is below \$32,312, there is no reduction in her age credit.

Case E The solution for this Case can be completed as follows:

Net Income For Tax Purposes And Taxable Income	\$50,000
Tax [\$6,109 + (22%)(50,000 - 40,726)]	\$8,149
Basic Personal Amount	(\$10,320)
Spousal (Income Too High)	Nil
Caregiver (Ahmed)	(4,198)
EI	(732)
CPP	(2,119)
Canada Employment	(1,044)
Interest On Student Loan	(375)
Credit Base	\$ 18,788
Rate	15% (2,818)
Federal Tax Payable	\$ 5,331

Stanley would claim the caregiver credit for Ahmed, since Helen would have no Tax Payable after considering her basic personal, CPP, EI and employment income credit. There would be no credit available for Jaleh as she is not infirm.

Solution to Self Study Problem Three - 2

Part A

Marg has tuition, education and textbook amounts available totalling \$10,020 [(\$400)(8 Months) + (\$65)(8 Months) + \$6,300]. Her Tax Payable is nil, which can be calculated as follows:

Taxable Income	\$12,400
Less:	
Basic Personal Amount	(\$10,320)
EI	(215)
CPP	(441)
Canada Employment	(1,044)
Credit Base Before Education Related Amounts	(\$12,020)
Tuition, Education And Textbook Amounts Claimed	
(\$12,400 - \$12,020)	(380) (12,400)
Subtotal	Nil
Rate	15%
Federal Tax Payable	Nil

Marg has an unused tuition, education and textbook amount of \$9,640 (\$10,020 - \$380). She can transfer a maximum of \$4,620 (\$5,000 - \$380) to her father. This leaves her with a carry forward amount of \$5,020 (\$10,020 - \$380 - \$4,620).

Note that since her medical expenses were paid for by her father, she cannot claim them herself and they must be transferred to her father. Even if she had paid for them herself and claimed them, she would not increase the transfer to her father as she cannot deduct a medical expense credit prior to deducting her education related credits.

Solution to Self Study Problem Three - 2

Part B

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

Gross Salary	\$ 82,500
Bonus (Note One)	20,000
Registered Pension Plan Contributions	(3,200)
Professional Dues	(1,800)
Stock Option Benefit (Note Two)	3,000
Automobile Benefit (Note Three)	7,340
Counseling Benefit (Note Four)	1,500
Imputed Interest Benefit (Note Five)	375
Net Employment Income	\$109,715

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

Note Two As Mr. Barth's employer is a public company, the employment income inclusion for stock options would normally occur when the options were exercised in 2008. This amount would have been \$3,000 [(\$18 - \$15)(1,000)]. However, the specified value of the securities is \$12,000 [(1,000)(\$12)], well below the \$100,000 limit on amounts that can be deferred. As a consequence, the \$3,000 income inclusion can be deferred until the shares are sold. As the shares are sold in 2009, the \$3,000 must be taken into net employment income in that year. Note that there is no capital gain on the sale, reflecting the fact that the shares were sold at their adjusted cost base of \$18 per share.

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

Standby Charge [(2%)(47,500)(10)]	\$9,500
Operating Cost Benefit [(6,000)(\$0.24)]	1,440
Payments Withheld	(3,600)
Taxable Benefit	\$7,340

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

Note Five The imputed interest benefit is calculated as follows:

Basic Benefit [(\$150,000)(2%)(3/12)]	\$750
Interest Paid	(375)
Taxable Benefit	\$375

Taxable Income

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

Net Income For Tax Purposes (Net Employment Income)	\$109,715
Stock Option Deduction [(1/2)(\$3,000)]	(1,500)
Taxable Income	\$108,215

Tax Payable

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

Tax On First \$81,452		\$ 15,069
Tax On Next \$26,763 At 26 Percent		6,958
<hr/>		
Federal Tax Before Credits		\$ 22,027
Basic Personal Amount	(\$10,320)	
Spousal (\$10,320 - \$1,250)	(9,070)	
Spouse's Disability	(7,196)	
EI	(732)	
CPP	(2,119)	
Canada Employment	(1,044)	
Medical Expenses (Note Six)	(2,087)	
Marg's Education, Tuition And Textbook Transfer (See Part A)	(4,620)	
Credit Base	(\$37,188)	
Rate	15%	(5,578)
<hr/>		
Charitable Donations [(15%)(\$200) + (29%)(\$2,000 - \$200)]		(552)
Net Federal Tax		\$ 15,897
Federal Income Tax Withheld During Year		(16,000)
<hr/>		
Federal Tax Payable (Refund)		(\$ 103)
<hr/>		

Note Six Allowable medical expenses are as follows:

John And Spouse Medical Expenses (\$200+ \$3,550)		\$3,750
Lesser Of:		
• [(3%)(\$109,715)] = \$3,291		
• 2009 Threshold Amount = \$2,011		(2,011)
Marg's Medical Expenses - Lesser Of:		
• [\$720 - (3%)(\$12,400)] = \$348		
• Absolute Limit = \$10,000		348
<hr/>		
Allowable Medical Expenses		\$2,087
<hr/>		

Solution to Self Study Problem Three - 3

This is an extension of the Tax Software Self Study Problem found on page S-61. It has been updated for 2009 rates.

The required calculations for Ms. Trubey's balance owing would be as follows:

Employment Income	\$ 60,202
RPP Deduction	(2,406)
Union Dues	(749)
<hr/>	
Net And Taxable Income	\$ 57,047
<hr/>	

Solution to Self Study Problem Three - 3

Federal Tax On First \$40,726		\$6,109
Federal Tax On Next \$16,321 At 22 Percent		3,591
<hr/>		
Gross Federal Tax		\$9,700
Basic Personal Amount	(\$10,320)	
Eligible Dependant - Amy	(10,320)	
Child - Amy	(2,089)	
Caregiver - Marjorie	(4,198)	
EI Premiums	(732)	
CPP Contributions	(2,119)	
Canada Employment	(1,044)	
Transfer Of Tuition, Education And Textbook - Lesser Of:		
• \$5,000		
• [\$7,000 + (8)(\$400) + (8)(\$65) + (2)(\$120) + (2)(\$20)] = \$11,000	(5,000)	
Medical Expenses (Note One)	(1,632)	
<hr/>		
Credit Base	(\$37,454)	
Rate	15%	(5,618)
<hr/>		
Charitable Donations [(15%)(\$200) + (29%)(\$175 + \$375 + \$50 - \$200)]		(146)
<hr/>		
Federal Tax Payable		\$ 3,936
<hr/>		

Note One Allowable medical expenses are as follows:

Eleanor And Minor Child (Amy) Medical Expenses (\$392 + \$1,350 + \$450 + \$1,120)		\$3,312
Lesser Of:		
• [(3%)(\$57,047)] = \$1,711		
• 2009 Threshold Amount = \$2,011	(1,711)	
Marjorie's Medical Expenses - Lesser Of:		
• [(\$110 + \$75) - (3%)(\$6,500)] = Nil		
• Absolute Limit = \$10,000		Nil
Diane's Medical Expense - Lesser Of:		
• [\$100 - (3%)(\$2,300)] = \$31		
• Absolute Limit = \$10,000		31
<hr/>		
Allowable Medical Expenses		\$1,632
<hr/>		

Notes To Eleanor's Tax Return

- Diane transfers the \$5,000 maximum education related credits to Eleanor and carries forward the remaining \$6,000 [\$7,000 + (8)(\$400) + (8)(\$65) + (2)(\$120) + (2)(\$20) - \$5,000].
- Eleanor cannot claim the charitable donation made by Diane, but Diane can carry it forward for up to five years.
- Her daughter, Diane, should file a tax return to make her education related tax credits and charitable donation tax credit available for carry forward. If she does not file, she will not be eligible for the GST credit and she will not benefit from the RRSP deduction room created during the year.
- Her mother, Marjorie, should file a tax return in order to receive the GST credit.
- Eleanor is eligible for the caregiver tax credit for her mother as her income is well below the threshold.

- Since Diane and Marjorie are over 17 years of age, their medical expenses are reduced by 3 percent of their Net Income For Tax Purposes. This means that none of Marjorie's medical expenses can be claimed by Eleanor.

Solution to Tax Software Self Study Problem - Chapter 3

This solution includes selected schedules and worksheets from the ProFile T1 return. Note that the program can only be used to calculate 2008 (not 2009) tax returns, and the problem and solution reflect this fact. The complete tax return is available on the Student CD-ROM (not the ProFile Tax Suite CD-ROM).

Under the heading "Textbook Support Files", is the option to view "Tax Return Files". Select this option and you will see two drop-down lists.

- To view the ProFile file, select the file "Chapter 3 SS Software Problem" from the ProFile drop-down list.
- To view the .PDF file, select the file "PDF Chapter 3 SS Software Problem" from the PDF drop-down list.

For more information on how to use your Student CD-ROM and the ProFile tax program, refer to the sample tax returns in this Study Guide.

Notes to tax return

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

Summary

2008 Tax Summary

Eleanor-Chapter 3 SS Problem

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

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

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

2009 Estimated Eleanor-Chapter 3 SS Problem		
GST/HST credit		
Child Tax Benefit		976.00
RRSP contribution limit		2,872.00

Eleanor-Chapter 3 SS Problem

Non-refundable tax credits		
Basic personal amount	300	9,600
Age amount	301	
Spouse / eligible dependant *	303	9,600
Amount for children	367	2,038
Infirm/caregiver *	306	4,095
CPP/QPP/PIPP/EI *	308	2,760
Canada employment amount	363	1,019
Public transit passes amount	364	
Children's fitness amount	365	
Adoption expenses	313	
Pension income amount	314	
Disability amount	316	
Transfers *	318	5,000
Interest on student loans	319	
Tuition / education	323	
Medical expenses	332	1,632
Subtotal	335	35,744
Credit at 15%	338	5,362
Donations and gifts	349	146
Non-refundable tax credits	350	5,508

Total payable		
Federal tax	404	9,899
Non-refundable tax credits	350	5,508
Dividend tax credit	425	
Min. tax carry-over/other *	426	
Basic federal tax	429	4,391
Non resident surtax		
Foreign tax credits / other	405	
Federal tax	406	4,391
Political/inv. tax credit *	410	
Labour-sponsored tax credit	414	
Alternative minimum tax	417	
WITB Prepayment (RC210)	415	
Additional tax on RESP	418	
Net federal tax	420	4,391
CPP contributions payable	421	
Social benefits repayment	422	
Provincial/territorial tax	428	1,858
Total payable	435	6,249

Total credits		
Income tax deducted *	437	11,408
QC or YT abatement *	440	
CPP/EI overpayment *	448	
Medical expense supplement	452	
WITB (Schedule 6)	453	
Other credits *	454	
GST/HST rebate	457	
Instalments	476	
Provincial tax credits	479	
Total credits	482	11,408

Balance owing (refund)	(5,159)
Combined balance (refund)	(5,159)

* More than one line is considered

T1-2008

Federal Tax

Schedule 1

Complete Step 1 to claim your federal non-refundable tax credits, Step 2 to calculate your federal tax on taxable income, and Step 3 to calculate your net federal tax.

You must attach a copy of this schedule to your return.

Step 1 - Federal non-refundable tax credits (For details, read the related lines in the guide.)

Basic personal amount	claim \$9,600	300	9,600	00	1
Age amount (if you were born in 1943 or earlier) (use federal worksheet)	(maximum \$5,276)	301			2
Spouse or common-law partner amount: (if negative, enter "0")		303			3
\$ 9,600 minus (0 00 his or her net income from page 1 of your return) =		305	9,600	00	4
Amount for an eligible dependant (attach schedule 5) (if negative, enter "0")		306			5
\$ 9,600 minus (0 00 his or her net income) =		307	9,600	00	6
Amount for children born in 1991 or later	Number of children 366 1 x \$2,038 =	367	2,038	00	7
Amount for infirm dependants age 18 or older (use federal worksheet and attach Schedule 5)		308			8
CPP or QPP contributions:					
through employment from box 16 and box 17 on all T4 slips	(maximum \$2,049.30)	309	2,049	30	• 7
on self-employment and other earnings (attach Schedule 8)		310			• 8
Employment Insurance premiums from box 18 and box 55 on all T4 slips	(maximum \$711.03)	311	711	03	• 9
Canada employment amount		312			
(if you reported employment income on line 101 or line 104, see line 363 in the guide)	(maximum \$1,019)	313	1,019	00	10
Public transit amount		314			11
Children's fitness amount		315			12
Adoption expenses		316			13
Pension income amount (use federal worksheet)	(maximum \$2,000)	317			14
Caregiver amount (use federal worksheet and attach Schedule 5)		318	4,095	00	15
Disability amount (for self) (claim \$7,021 or if you were under age 18, use federal worksheet)		319			16
Disability amount transferred from a dependant (use federal worksheet)		320			17
Interest paid on your student loans		321			18
Tuition, education, and textbook amounts (attach Schedule 11)		322			19
Tuition, education, and textbook amounts transferred from a child		323	5,000	00	20
Amounts transferred from your spouse or common-law partner (attach Schedule 2)		324			21
Medical expenses for self, spouse or common-law partner, and your dependent children born in 1991 or later	330 3,312 00				
Minus: \$1,962 or 3% of line 236, whichever is less			1,711	41	
Subtotal (if negative, enter "0")			1,600	59 (A)	
Allowable amount of medical expenses for other dependants (see the calculation at line 331 in the guide and attach Schedule 5)	331 31 00 (B)				
Add lines (A) and (B).			1,631	59 ▶	332 22
Add lines 1 to 22.			35,743	92	335 23
Multiply the amount on line 23 by 15%.		338	5,361	59	24
Donations and gifts (attach Schedule 9)		349	146	00	25
Total federal non-refundable tax credits: add lines 24 and 25.		350	5,507	59	26

Step 2 - Federal tax on taxable income

Enter your **taxable income** from line 260 of your return. 57,047|05 27

Use the amount on line 27 to determine which ONE of the following columns you have to complete.	If line 27 is \$37,885 or less	If line 27 is more than \$37,885 but not more than \$75,769	If line 27 is more than \$75,769 but not more than \$123,184	If line 27 is more than \$123,184	
Enter the amount from line 27.		57,047 05			28
Base amount		37,885 00	75,769 00	123,184 00	29
Line 28 minus line 29 (cannot be negative)	0 00	19,162 05			30
Rate	x 15 %	x 22 %	x 26 %	x 29 %	31
Multiply line 30 by line 31.		4,215 65			32
Tax on base amount	0 00	5,683 00	14,017 00	26,345 00	33
Add lines 32 and 33.		9,898 65			34

Step 3 - Net federal tax

Enter the amount from line 34		9,898 65	35
Federal tax on split income (from line 5 of Form T1206)	424		• 36
Add lines 35 and 36.	404	9,898 65	37

Enter the amount from line 26	350	5,507 59	38
Federal dividend tax credit (see line 425 in the guide)	425		• 39
Overseas employment tax credit (attach Form T626)	426		40
Minimum tax carryover (attach Form T691)	427		• 41
Add lines 38 to 41.		5,507 59	42

Basic federal tax: Line 37 minus line 42 (if negative, enter "0") 429 4,391|06 43

Federal foreign tax credit (attach Form T2209)	405		44
Federal logging tax credit			

Federal tax: Line 43 minus line 44 (if negative, enter "0") 406 4,391|06 45

Total federal political contributions (attach receipts)	409		
Federal political contribution tax credit (use federal worksheet)	410		• 46
Investment tax credit (attach Form T2038(IND))	412		• 47
Labour-sponsored funds tax credit			
Net cost 413		Allowable credit 414	• 48
Add lines 46 to 48.	416		49

Line 45 minus line 49 (if negative, enter "0") (if you have an amount on line 36 above, see Form T1206) 417 4,391|06 50

Working Income Tax Benefit (WITB) advance payments received (box 10 on the RC210 slip).	415		• 51
Additional tax on RESP accumulated income payments (attach Form T1172)	418		52

Net federal tax: add lines 50 to 52.
Enter this amount on line 420 of your return.

420 4,391|06 53

Chapter Three Learning Objectives

Note Regarding Rates And Credits

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

After completing Chapter 3, you should be able to:

1. Calculate Taxable Income when an individual has basic deductions against Net Income For Tax Purposes. (paragraphs 3-1 through 3-15).
2. Calculate federal Tax Payable before the consideration of any tax credits (paragraphs 3-16 through 3-33).
3. Calculate the personal tax credits described in ITA 118(1) which includes the spousal, eligible dependant, child, basic, caregiver and infirm over 17 credits (paragraphs 3-34 through 3-67).
4. Calculate the age tax credit (paragraphs 3-68 and 3-69).
5. Calculate the pension income tax credit (paragraphs 3-70 through 3-74).
6. Calculate the Canada employment tax credit (paragraphs 3-75 through 3-77).
7. Calculate the adoption expenses tax credit (paragraphs 3-78 through 3-82).
8. Calculate the public transit pass credit (paragraphs 3-83 through 3-87).
9. Calculate the child fitness tax credit (paragraphs 3-88 through 3-91).
10. Calculate the home renovations tax credit (paragraph 3-92).
11. Calculate the first time home buyer's tax credit (paragraph 3-93 through 3-95).
12. Calculate the charitable donations tax credit when the donation is in the form of cash (paragraphs 3-96 through 3-106).
13. Calculate the medical expenses tax credit (paragraphs 3-107 through 3-114).
14. Calculate the refundable medical expense supplement (paragraphs 3-115 through 3-118).
15. Calculate the disability tax credit (paragraphs 3-119 through 3-130).
16. Calculate the tuition, education, textbook and student loan interest tax credits (paragraphs 3-131 through 3-139).
17. Calculate the amount of education related tax credits that can be carried forward or transferred to another individual (paragraphs 3-140 through 3-148).

Chapter Three Learning Objectives

18. Calculate the Employment Insurance and Canada Pension Plan credits (paragraphs 3-149 through 3-155).
19. List the types and amounts of tax credits that can be transferred to a spouse or common-law partner or that can be claimed by either individual (paragraphs 3-156 through 3-158).
20. Calculate the working income tax benefit (paragraphs 3-159 through 3-162).
21. Calculate the political contributions tax credit (paragraphs 3-163 through 3-166).
22. Calculate the labour sponsored funds tax credit (paragraphs 3-167 through 3-172).
23. Explain the basic provisions of the refundable GST credit and the Canada child tax benefit system (paragraphs 3-173 through 3-185).
24. Calculate the OAS and EI clawbacks (paragraphs 3-186 through 3-196).
25. Calculate the federal balance owing for an individual with employment income and dependants (paragraph 3-197).
26. Complete a simple personal tax return using the ProFile T1 tax preparation software program (page S-48 through S-57 in this Study Guide).

Assignment Problems For Chapter 3

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

Assignment Problem Three - 1 (Personal Tax Credits)

In each of the following independent Cases, determine the maximum amount of 2009 personal tax credits, including transfers from a spouse or dependant, that can be applied against federal Tax Payable by the taxpayer.

1. Ms. Smith is married and has Net Income For Tax Purposes of \$123,000, none of which is employment income. 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 \$24,350. This total is made up of OAS of \$6,200, 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, none of which is employment income. 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 8, 9, 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 which is employment income. 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, 2009. Her new husband is an accounting student with a large firm. His salary for the period January 1 through November 30, 2009 was \$33,000. For the month of December, 2009, his salary was \$3,000.
6. Mr. Rajit has 2009 Net Income For Tax Purposes of \$85,000, none of which is employment income. He 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 2009. His mother had OAS benefits and pension income which totaled \$16,500 during 2009.

Assignment Problem Three - 2 (Individual Tax Payable - 5 Cases)

Mr. William Norris is 45 years old. The following five independent Cases make varying assumptions for the 2009 taxation year with respect to Mr. Norris' marital status and number of dependants. In all Cases, Mr. Norris earned employment income of \$51,000 and his employer withheld the required EI premiums and CPP contributions.

Case A Mr. Norris is married and his wife, Susan, has Net Income For Tax Purposes of \$8,800. Susan's 73 year old mother, Bernice, lives with them. Bernice, an avid skier, had Net Income For Tax Purposes of \$16,000 for the year.

Assignment Problems For Chapter 3

Case B Mr. Norris is married and his wife, Susan, has Net Income For Tax Purposes 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
<hr/>	
Total	\$3,150
<hr/>	

Case C Mr. Norris is married and his wife, Susan, has Net Income For Tax Purposes 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, a registered charity. He chooses to claim \$15,000 in 2009. 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. Indicate any carry forwards available to him and his dependants and the carry forward provisions. Ignore any tax amounts that Mr. Norris might have had withheld or paid in instalments.

Assignment Problem Three - 3 (Individual Tax Payable - Simple)

Mr. Dennis Lane has been a widower for several years. For 2009, both his Net Income For Tax Purposes and Taxable Income were equal to his net employment income of \$70,000. Mr. Lane's employer withheld \$10,100 in federal income taxes, \$732 for Employment Insurance premiums and \$2,154 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. 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 2009 Net Income For Tax Purposes of \$8,200.
3. Mr. Lane buys public transit passes for his oldest son and himself. The monthly cost of these passes is \$75 for each individual. Because of a family vacation, no passes were purchased in the month of July.
4. His two younger children are enrolled in an eligible fitness program. The annual cost for each child is \$425.

Required: Calculate Mr. Lane's federal tax payable (refund) for 2009.

Assignment Problem Three - 4 (Tax Payable With Employment Income)

Extension of Assignment Problem Two - 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 2009, 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 2009 and the remainder is to be paid on January 15, 2010.

During 2009, Mr. Brooks' employer withheld the following amounts from his gross wages:

Federal Income Tax	\$8,000
Employment Insurance Premiums	732
Canada Pension Plan Contributions	2,119
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 2009. 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 \$678 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 2009. Mr. Brooks drove the car a total of 35,000 kilometers during 2009, 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, 2008, 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, 2009, 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, interest free loan of \$125,000. The home qualifies for the First Time Home Buyer's Tax Credit. The loan qualifies as a home relocation loan. The loan was granted on October 1, 2009 and, at this point in time, the interest rate on open five year mortgages was 5 percent. Assume the relevant ITR 4301 rate was 2 percent on this date. Mr. Brooks pays the interest on the loan on January 15, 2010.
5. Other disbursements made by Mr. Brooks include the following:

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

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

Assignment Problems For Chapter 3

6. Mr. Brooks is a widower. His wife was killed in a car accident in 2007 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 Net Income For Tax Purposes is \$7,500. 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 eligible medical costs:
- | | |
|-------------|----------|
| For Himself | \$ 7,300 |
| For Harold | 4,450 |
| For Grace | 1,265 |
| <hr/> | |
| Total | \$13,015 |
| <hr/> | |
8. Mr. Brooks buys public transit passes for his son, his mother and himself. The monthly cost of these passes is \$26 (son), \$50 (mother) and \$60 (himself). He purchased these passes for 10 months of the year.

Required: Calculate, for the 2009 taxation year, Mr. Brooks' minimum Taxable Income and federal Tax Payable (Refund).

Assignment Problem Three - 5 (Comprehensive Tax Payable With Employment Income)

Mr. Lance Strong is a skilled carpenter who is employed by a large public company. For 2009, his annual salary is \$72,000. He is required to pay for his own tools, but is reimbursed for out-of-pocket travel costs when he is required to work away from his employer's municipality for more than 12 hours.

During 2009, Mr. Strong's employer withheld the following amounts from his compensation:

EI Premiums	\$ 732
CPP Contributions	2,119
RPP Contributions	4,200
Contributions To Disability Plan (Employer Makes Matching Contribution)	430

Mr. Strong is married and has two children aged 14 and 16. Neither child has any income during 2009. His spouse has 2009 income of \$5,600. Mr. Strong's 67 year old mother lives with the family. Her Net Income For Tax Purposes of \$7,000 consists of OAS payments and investment income.

Other Information:

1. Mr. Strong is provided with a automobile by his employer. During 2009, it is driven 32,000 kilometres, of which only 15,000 are employment related. The automobile is leased by the employer at a monthly rate of \$565, including GST of \$25 and PST of \$40. The monthly rate also includes a payment for insurance of \$40 per month. The automobile is available to Mr. Strong for 10 months during 2009.
2. During 2009, Mr. Strong was required to buy \$1,800 in carpentry tools in order to carry out his employment duties.
3. Mr. Strong's employer encourages its employees to take university courses by paying their tuition fees. During 8 months of 2009, Mr. Strong was in part time attendance for two university courses. The first course was devoted to 16th century liturgical chants and the second was a course in spoken French. The tuition for each course was \$600, with the employer paying the full amount. The employer was particularly interested in the French course as it would allow Mr. Strong to deal more effectively with francophone clients.

4. Mr. Strong incurred \$4,600 in travel costs during 2009, all of which were reimbursed by his employer.
5. During 2009, Mr. Strong moved 50 kilometres closer to his employer's main office. To assist with the relocation, on April 1, 2009, his employer provided an interest free loan of \$150,000. It must be repaid in full on April 1, 2014. Assume that during the first two quarters of 2009 the prescribed rate was 5 percent and that during the last two quarters it declined to 4 percent.
6. During 2009, Mr. Strong pays for the following eligible medical costs:

For Himself	\$1,250
For His Spouse	2,300
For His Two Children	850
For His Mother	1,960
Total Medical Costs	\$6,360
7. During 2009, Mr. Strong gives cash of \$1,200 to his church. He also donates carpenter services with a market value of \$1,500.
8. Mr. Strong buys monthly transit passes for both of his children during the school year. The cost is \$60 per month per child. The passes covered 10 months during 2009.

Required:

- A. Determine Mr. Strong's minimum Net Income For Tax Purposes for the 2009 taxation year.
- B. Determine Mr. Strong's minimum Taxable Income for the 2009 taxation year.
- C. Based on your answer in Part B, determine Mr. Strong's federal Tax Payable for the 2009 taxation year. Ignore any amounts that might have been withheld by his employer or paid in instalments.

Assignment Problem Three - 6
(Comprehensive Tax Payable With Employment Income)

Ms. Angelina Bradmore is a very successful salesperson for a large publicly traded company. For 2009, her base salary is \$250,000. In addition, she received commissions totaling \$12,000 during the year. Because of the high level of her salary, she is required to pay her own advertising and travel costs. For 2009, she also received a bonus of \$32,000, one-half of which was paid during 2009, with the remainder due on January 31, 2010.

During 2009, her employer withholds the following amounts from her salary:

Registered Pension Plan Contributions	\$7,500
EI Premiums	732
CPP Contributions	2,119
Contributions To The Local United Way	1,200
Life Insurance Premiums (The Employer Makes A Matching Contribution)	460

Ms. Bradmore is divorced. However, she has custody of her 12 year old son and 10 year old daughter, both of whom live with her. The son has summer job employment income of \$2,350. The daughter, who is legally blind, has no income of her own.

Other Information

1. Ms. Bradmore’s employer provides her with an automobile that has a cost of \$47,460, including applicable GST and PST. During 2009, the automobile is driven 53,000 kilometres, of which 48,000 were for employment related activities. Ms. Bradmore pays all of the operating costs for the car. For 2009, these totaled \$7,950. The automobile is available for Ms. Bradmore’s use throughout 2009.

2. In addition to the operating costs for her vehicle, Ms. Bradmore incurred the following employment related costs:

Meals	\$ 4,500
Hotels	9,000
Advertising	11,000
Entertainment	5,000
Total	\$29,500

3. Her employer provides all employees with gifts on their birthday. For 2009, Angelina received a \$250 certificate for services at a local spa along with \$200 in cash.

4. In 2008, Ms. Bradmore received options to acquire 2,500 shares of her employer’s common stock. They are fully vested at the time they are granted. The option price was \$50 per share, the market value of the common shares at the time the options were granted. During 2009, after the market price of the shares reaches \$72 per share, Ms. Bradmore exercises all of these options. She elects to defer the maximum amount of the employment income inclusion. She is still holding the shares at the end of the year.

5. Ms. Bradmore contributes \$5,000 to the Save The Children Fund, a registered Canadian charity.

6. Ms. Bradmore incurs the following medical expenses during 2009:

For Herself	\$ 2,800
For Her Son	1,200
For Her Daughter	6,400
Total	\$10,400

7. During 2009, Ms. Bradmore purchases monthly public transit passes for her son at a cost of \$985. In addition, because of his continuing problems with controlling his weight, she enrolls him in an eligible fitness program at a cost of \$725.

8. In order to improve her ability to deal with people, Ms. Bradmore is enrolled in a part time, human resources program at a local university. Her 2009 tuition totals \$1,890 and she is required to purchase textbooks with a cost of \$220. The duration of the course was 4 months.

Required:

- A. Determine Ms. Bradmore’s minimum Net Income For Tax Purposes for the 2009 taxation year.
- B. Determine Ms. Bradmore’s minimum Taxable Income for the 2009 taxation year.
- C. Based on your answer in Part B, determine Ms. Bradmore’s federal Tax Payable for the 2009 taxation year. Ignore any amounts that might have been withheld by her employer or paid in instalments.

Tax Software Assignment Problems For Chapter 3

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

Tax Software Assignment Problem Three - 1

This problem is continued in Chapter 10.

Mr. Buddy Cole (SIN 527-000-061) was born in Vancouver on August 28, 1941. 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, 1983. She and Mr. Cole have four children. Each child was born on April 1 of the following years, Linda; 2003, Larry; 2004, Donna; 2005, and Donald; 2006. Natasha's only income during 2008 is \$4,800 [(4)(\$100)(12)] in universal child care benefits.

Buddy and Natasha Cole have two adopted children. Richard (SIN 527-000-285) was born on March 15, 1991 and has income of \$2,800 for the year. Due to his accelerated schooling, he started full time attendance at university in September of 2008 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, 1988, and is in full time attendance at university for all of 2008 (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, 1921 and his father, Earl, was born on November 16, 1919. 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 2008 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 \$500 for income taxes and \$285 for EI. 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 2008. 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.

Tax Software Assignment Problems For Chapter 3

5. Mr. Cole wishes to claim all his medical expenses on a calendar year basis. On December 2, 2008, 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 2008 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.

Tax Software Assignment Problem Three - 2

This problem is continued in Chapter 10.

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 education related amounts to George. Although Martin plans to file his 2008 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 2008 is given on the following pages.

Required: Prepare the 2008 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. Ignore GST implications in your solutions.

Personal Information	Taxpayer
Title	Mr.
First Name	George
Last Name	Hall
SIN	527-000-509
Date of birth (Y/M/D)	1944-07-02
Marital Status	Married
Canadian citizen?	Yes
Provide information to Elections Canada?	Yes
Own foreign property of more than \$100,000 Canadian?	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)	1943-12-30	1992-10-17	1923-02-24
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)	1924-01-12	1961-06-02
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

Tax Software Assignment Problems For Chapter 3

T4	Box	Amount
Issuer - Mega Pharma Inc.		
Employment income	14	378,000.00
Employee's CPP contributions	16	2,049.30
Employee's EI premiums	18	711.03
Income tax deducted	22	118,000.00
Employment commissions	42	82,000.00
Charitable donations	46	400.00

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

(Y/M/D)	Patient	Medical Expenses	Description	Am't
2008-12-31	George	Johnson Inc.	Out of Canada insurance	731.30
2008-08-31	George	Dr. Smith	Dental fees	155.40
2008-09-19	George	Optician	Prescription glasses	109.00
2008-11-07	Valerie	Pharmacy	Prescription	66.84
2008-06-07	Joan	Dr. Wong	Psychiatric counseling	2,050.00
2008-03-22	David	Tropical Disease Centre	Prescription	390.00
2008-12-20	Martin	Dr. Walker	Group therapy	6,000.00
2008-10-01	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 2008.

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

During 2008, 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.

Tax Software Assignment Problem Three - 3

This problem is continued in the Tax Software Assignment Problem for Chapter 5.

This Tax Software Assignment Problem is introduced in this Chapter and is continued in Chapters 5 through 10. More information is provided in subsequent chapters that is related to the material covered in that Chapter. Each Tax Software Assignment Problem must be completed in sequence. The information in each problem is applicable to all subsequent problems.

Seymour Gravel and Mary Walford are your tax clients. They have been married for two years. In late December, 2008, Mary comes to your office with the tax information for 2008 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 2008. 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 2009. He is contemplating a return to university as a student of music.

In order to estimate her possible financial position in 2009, she would like you to prepare her 2008 tax return assuming that Seymour has no income for 2008. She would also like you to compare her 2008 tax liability in the different provinces assuming Seymour has no income for 2008.

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)	1970-12-08	1949-01-29
Marital status	Married	Married
Canadian citizen?	Yes	Yes
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

Tax Software Assignment Problems For Chapter 3

Dependant	Child
First Name	William
Last Name	Gravel
SIN	527-000-319
Date of Birth (Y/M/D)	2001-02-24
Net Income	Nil

T4 - Mary	Box	Amount
Issuer - MoreCorp		
Employment Income	14	152,866.08
Employee's CPP Contributions	16	2,049.30
Employee's EI Premiums	18	711.03
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:

- With the objective of minimizing Mary's Tax Payable, prepare, but do not print, her 2008 income tax return using the ProFile tax software program. Assume that Seymour has no income in 2008. **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.
- 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.
- Create and print a separate table (not in ProFile) that compares the total federal and provincial Tax Payable (Refund) for Mary for all the territories and provinces other than Quebec. **Hint:** 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. To see a detailed analysis of 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 open the Auditor <Ctrl+F9> and select the Variance tab.