Introduction

4-1. As discussed in Chapter 1, Taxable Income is Net Income For Tax Purposes, less a group of deductions that are specified in Division C of Part I of the Income Tax Act. Also noted in the Chapter 1 material was the fact that Net Income For Tax Purposes is made up of several different income components. These components are employment income, business and property income, taxable capital gains, other sources, and other deductions.

4-2. Some tax texts defer any coverage of Taxable Income and Tax Payable until all of the income components that make up Net Income For Tax Purposes have been given detailed consideration. Despite the fact that the only component of Taxable Income that we have covered to this point is employment income, we decided to introduce material on Taxable Income and Tax Payable for individuals at this point in the text.

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

Other Reasons Other reasons for this organization of the material are more pedagogical in nature.

- Leaving the coverage of tax credits until after the completion of the material on all of the components of Taxable Income places this complex subject in the last weeks of most one semester tax courses. This can create significant difficulties for students.

- By introducing Taxable Income and Tax Payable at this earlier stage in the text, instructors who wish to do so can make more extensive use of the tax software program and problems provided with the text.

4-3. Since a significant portion of the material on Taxable Income and Tax Payable can be best understood after covering the other types of income that make up Net Income For Tax
Purposes, we require a second Chapter dealing with the subject of Taxable Income and Tax Payable. In addition, a few of the credits that are available in the calculation of Tax Payable require an understanding of additional aspects of business income, property income, and taxable capital gains. Given this, Chapter 11 is devoted to completing the necessary coverage of Taxable Income and Tax Payable for individuals. The determination of Taxable Income and Tax Payable for corporations is covered in Chapters 12 and 13. The determination of Taxable Income and Tax Payable for partnerships is covered in Chapter 18 and the determination of Taxable Income and Tax Payable for trusts is covered in Chapter 19.

**Taxable Income Of Individuals**

**Available Deductions**

4-4. The deductions that are available in calculating the Taxable Income of an individual can be found in Division C of Part I of the *Income Tax Act*. As indicated in the introduction to this Chapter, some of these deductions will be dealt with in this Chapter. However, coverage of the more complex items is deferred until Chapter 11. The available deductions, along with a description of their coverage in this text, are as follows:

- **ITA 110(1)(d), (d.01), and (d.1) - Employee Stock Options** Our basic coverage of stock options and stock option deductions is included in Chapter 3. This coverage will not be repeated here.

- **ITA 110(1)(f) - Deductions For Payments** This deduction, which is available for social assistance and workers’ compensation received, is covered beginning in Paragraph 4-6.

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

- **ITA 110.6 - Lifetime Capital Gains Deduction** The provisions related to this deduction are very complex and require a fairly complete understanding of capital gains. As a consequence, this deduction is covered in Chapter 11.

- **ITA 110.7 - Residing In Prescribed Zone (Northern Residents Deductions)** These deductions, which are available only to individuals living in prescribed regions of northern Canada, are given limited coverage in Paragraph 4-9.

- **ITA 111 - Losses Deductible** This is a group of deductions that is available for carrying forward or carrying back various types of losses. The application of these provisions can be complex and requires a fairly complete understanding of business income, property income, and capital gains. Coverage of this material for individuals is deferred until Chapter 11. Coverage of corporate loss carry overs is found in Chapter 12.

**Ordering Of Deductions**

4-5. ITA 111.1 specifies, to some degree, the order in which individuals must subtract the various deductions that may be available in the calculation of Taxable Income. As our coverage of these deductions is not complete in this Chapter, we will defer coverage of this ordering provision until Chapter 11.

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

4-6. ITA 110(1)(f) provides for the deduction of certain amounts that have been included in the calculation of Net Income For Tax Purposes. The items listed here are:

- amounts that are exempt from tax in Canada by virtue of a provision in a tax treaty or agreement with another country;
workers’ compensation payments received as a result of injury or death; 
- income from employment with a prescribed international organization; and 
- social assistance payments made on the basis of a means, needs, or income test and included in the taxpayer’s income.

4-7. At first glance, this seems to be a fairly inefficient way of not taxing these items. For example, if the government does not intend to tax social assistance payments, why go to the trouble of including them in Net Income For Tax Purposes, then deducting an equivalent amount in the calculation of Taxable Income?

4-8. There is, however, a reason for this. There are a number of items that influence an individual’s tax obligation that are altered on the basis of the individual’s Net Income For Tax Purposes. For example, we will find later in this Chapter that the amount of the age tax credit is reduced by the individual’s Net Income For Tax Purposes in excess of a specified amount (a.k.a., the threshold amount or the income threshold). In order to ensure that income tests of this type are applied on an equitable basis, amounts are included in Net Income For Tax Purposes, even in situations where the ultimate intent is not to assess tax on these amounts.

Northern Residents Deductions - ITA 110.7

4-9. Residents of Labrador, the Territories, as well as parts of some of the provinces, are eligible for deductions under ITA 110.7. To qualify for these deductions, the taxpayer must be resident in these prescribed regions for a continuous period of six months beginning or ending in the taxation year. The amount of the deductions involves fairly complex calculations that go beyond the scope of this text. The purpose of these deductions is to compensate individuals for the high costs that are associated with living in such prescribed northern zones.

Calculation Of Tax Payable

Federal Tax Payable Before Credits

4-10. The calculation of federal Tax Payable for individuals requires the application of a group of progressive rates to marginal increments in Taxable Income. The rates are progressive, starting at a low rate of 15 percent and increasing to a high of 33 percent as the individual’s Taxable Income increases. In order to maintain fairness, the brackets (i.e., income segments) to which these rates apply are indexed to reflect changes in the Consumer Price Index. Without such indexation, taxpayers could find themselves effectively subject to higher rates without having an increased level of real, inflation adjusted income.

4-11. For 2019, the brackets to which these five rates apply are as follows:

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Federal Tax</th>
<th>Marginal Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ -0-</td>
<td>$ -0-</td>
<td>15.0%</td>
</tr>
<tr>
<td>47,630</td>
<td>7,145</td>
<td>20.5%</td>
</tr>
<tr>
<td>95,259</td>
<td>16,908</td>
<td>26.0%</td>
</tr>
<tr>
<td>147,667</td>
<td>30,535</td>
<td>29.0%</td>
</tr>
<tr>
<td>210,371</td>
<td>48,719</td>
<td>33.0%</td>
</tr>
</tbody>
</table>

4-12. Note that the average rate for an individual just entering the 20.5 percent bracket is 15 percent ($7,145 ÷ $47,630). For an individual just entering the highest 33 percent bracket, the average rate is 23.2 percent ($48,719 ÷ $210,371).

4-13. There is a common misconception that once Taxable Income reaches the next tax bracket, all income is taxed at a higher rate. This is not the case as each rate is a marginal rate. For example, if Taxable Income is $210,372 ($210,371 + $1), only $1 is taxed at 33 percent.

4-14. The preceding table suggests that individuals are taxed on their first dollar of income. While the 15 percent rate is, in fact, applied to all of the first $47,630 of Taxable Income, a portion of this amount is not really subject to taxes. As will be discussed later in this Chapter,
every individual resident in Canada is entitled to a personal tax credit. For 2019, this tax credit is $1,810 \left(\frac{15\%}{\$12,069}\right)$. In effect, this means that no taxes will be paid on at least the first $12,069 of an individual’s Taxable Income. The amount that could be earned tax free would be even higher for individuals with additional tax credits (e.g., the age credit).

4-15. As an example of the calculation of federal Tax Payable before credits and the resulting average rate of taxation, consider an individual with Taxable Income of $98,300. The calculation would be as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax On First $95,259</td>
<td>$16,908</td>
</tr>
<tr>
<td>Tax On Next $3,041 ($98,300 - $95,259) At 26%</td>
<td>791</td>
</tr>
<tr>
<td><strong>Federal Tax Payable Before Credits</strong></td>
<td><strong>$17,699</strong></td>
</tr>
</tbody>
</table>

Average Rate Of Tax ($17,699 ÷ $98,300) 18%

4-16. A surtax is an additional tax calculated on the basis of the regular Tax Payable calculation. While such additional taxes are not assessed at the federal level, during 2017, they were used in two provinces, Ontario and Prince Edward Island. In the March, 2018 Ontario budget, the Liberal government (under Kathleen Wynne) proposed that the old surtaxes be built into the regular rates. The Liberals lost the June, 2018 Ontario election. As a result of a Conservative majority, the outcome of the 2018 Ontario budget proposals is very uncertain.

### Provincial Tax Payable Before Credits

#### Provincial Rates

4-17. As is the case at the federal level, provincial Tax Payable is calculated by multiplying Taxable Income by a group of progressive rates. In general, the provinces other than Quebec use the same Taxable Income figure that is used at the federal level.

4-18. Prior to 2016, Alberta was unique in that it used a single flat rate of 10 percent applied to all levels of income. However, Alberta joined the progressive rates club in 2016. All provinces use anywhere from 3 to 6 different tax rates applied to various levels of income. In general, the applicable income levels differ from those used in the federal brackets.

4-19. To give you some idea of the range of provincial rates, the 2019 minimum and maximum rates for provinces other than Quebec are found in the following table. The maximum rates include surtaxes where applicable. These rates are correct as of January 1, 2019. You may see other rates after this point in time as provincial budgets are introduced.

<table>
<thead>
<tr>
<th>Province</th>
<th>Minimum 2019 Tax Rate</th>
<th>Maximum 2019 Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>10.00%</td>
<td>15.00%</td>
</tr>
<tr>
<td>British Columbia</td>
<td>5.06%</td>
<td>16.80%</td>
</tr>
<tr>
<td>Manitoba</td>
<td>10.80%</td>
<td>17.40%</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>9.68%</td>
<td>20.30%</td>
</tr>
<tr>
<td>Newfoundland and Labrador</td>
<td>8.70%</td>
<td>18.30%</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>8.79%</td>
<td>21.00%</td>
</tr>
<tr>
<td>Ontario (Maximum Includes 56% Surtax On Tax Payable)</td>
<td>5.05%</td>
<td>20.53%</td>
</tr>
<tr>
<td>Prince Edward Island (Maximum Includes 10% Surtax On Tax Payable)</td>
<td>9.80%</td>
<td>18.37%</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>10.50%</td>
<td>14.50%</td>
</tr>
</tbody>
</table>

4-20. You should note the significant differences in rates between the provinces. The maximum rate ranges from 14.5 percent in Saskatchewan to 21 percent in Nova Scotia. This difference amounts to extra provincial taxes of $6,500 per year on each additional $100,000 of income. This can make provincial tax differences a major consideration when an individual decides where he should establish provincial residency.
4-21. When these provincial rates are combined with the federal rate schedule, the minimum combined rate varies from a low of 20.05 percent in Ontario (15 percent federal, plus 5.05 percent provincial), to a high of 25.8 percent in Manitoba (15 percent federal, plus 10.8 percent provincial).

4-22. Maximum combined rates are lowest in Saskatchewan where the rate is 47.5 percent (33 percent federal, plus 14.5 percent provincial). They are highest in Nova Scotia where the combined rate is 54 percent (33 percent federal, plus 21 percent provincial). Because the calculations are completely different, we have not included Quebec in this list of rates. We would note however, the overall rate in Quebec ranges from a low of 27.53 percent to a high of 53.31 percent.

**Exercise Four - 1**

**Subject:** Calculation Of Tax Payable Before Credits

During 2019, Joan Matel is a resident of Ontario and has calculated her Taxable Income to be $56,700. Assume that Ontario’s rates are 5.05 percent on Taxable Income up to $47,630 and 9.15 percent on the next $47,629. Calculate her 2019 federal and provincial Tax Payable before consideration of credits, and her average rate of tax.

**SOLUTION available in print and online Study Guide.**

**Provincial Residence**

4-23. Given the significant differences in provincial tax rates on individuals, it is somewhat surprising that the rules related to where an individual will pay provincial taxes are fairly simple. With respect to an individual’s income other than business income, it is subject to tax in the province in which he resides on the last day of the taxation year. This means that, if an individual moves to Ontario from Nova Scotia on December 30 of the current year, any income for the entire year, other than business income, will be taxed in Ontario.

**Types Of Income**

4-24. In terms of the effective tax rates, the income accruing to Canadian individuals can be divided into three basic categories:

**Ordinary Income** This would include employment income, business income, property income other than dividends, and other sources of income. In general, the effective tax rates on this category are those presented in the preceding tables. For example, the marginal rate for an individual living in Alberta and earning more than $350,000, would be 48 percent (33 percent federal, plus 15 percent provincial).

**Capital Gains** As will be discussed in detail in Chapter 8, capital gains arise on the disposition of capital property. Only one-half of such gains are included in Net Income For Tax Purposes and Taxable Income. This means that the effective tax rate on this category of income is only one-half of the rates presented in the preceding tables. Returning to our Alberta resident who is earning more than $350,000, his effective marginal rate on capital gains would be 24 percent \([(1/2)(33\% + 15\%)]\).

**Dividends** As will be explained in Chapter 7, dividends from taxable Canadian companies are subject to a gross up and tax credit procedure which reduces the effective tax rate on this type of income. Also in that Chapter, we explain the difference between eligible dividends and non-eligible dividends. Continuing with our Alberta example, maximum federal/provincial tax rates on dividends are as follows:

- Eligible Dividends 31.71%
- Non-Eligible Dividends 42.56%
4-25. A more complete discussion of the different effective tax rates mentioned here is provided in Chapter 7 (dividends) and Chapter 8 (capital gains).

**Taxes On Income Not Earned In A Province**

4-26. As will be discussed in Chapter 20, International Issues In Taxation, it is possible for an individual to be considered a resident of Canada for tax purposes, without being a resident of a particular province or territory. This would be the case, for example, for members of the Canadian Armed Forces who are stationed outside of Canada.

4-27. Income that is not subject to provincial or territorial tax is subject to additional taxation at the federal level. This additional tax is a surtax of 48 percent on federal tax payable. This gives a maximum rate of 48.84 percent \[(33\%)(148\%)]\). This additional tax is paid to the federal government.

**Calculating Tax Credits**

**Federal Amounts**

4-28. The most direct way of applying a tax credit system is to simply specify the amount of each tax credit available. In 2019, for example, the basic personal tax credit could have been specified to be $1,810. However, the Canadian tax system is based on a less direct approach. For most credits, but not all credits, a base amount is provided, to which the minimum federal tax rate (currently 15 percent) is applied. This means that, for 2019, the basic personal tax credit is calculated by taking 15 percent of $12,069 (we will refer to this number as the tax credit base), resulting in a credit against Tax Payable in the amount of $1,810.

4-29. In our tax credit calculations, we will sum the tax credit bases for which the 15 percent rate is used, then apply 15 percent to the total. This approach, rather than applying 15 percent to each credit base, makes relationships between the various credit bases easier to see and reduces calculation errors. We strongly suggest you use this approach in solving problems and writing examinations.

4-30. As was the case with the tax rate brackets, in order to avoid having these credits decline in value in terms of real dollars, the base for the tax credits needs to be adjusted for changing prices.

4-31. A technical problem in calculating credits will arise in the year a person becomes a Canadian resident, or ceases to be a Canadian resident. As discussed in Chapter 20, such individuals will only be subject to Canadian taxation for a part of the year. Given this, it would not be appropriate for them to receive the same credits as an individual who is subject to Canadian taxation for the full year. This view is reflected in ITA 118.91, which requires a pro rata calculation for personal tax credits, the disability tax credit and tax credits transferred from a spouse or a person supported by the taxpayer. Other tax credits, for example the tax credits for charitable donations and adoption expenses, are not reduced because of part year residence. This is because these credits reflect actual amounts paid or costs incurred during the period of Canadian residency.

**Provincial Amounts**

4-32. In determining provincial tax credits, the provinces use the same approach as that used at the federal level. That is, the minimum provincial rate is applied to a base that is indexed each year. In most cases, the base used is different from the base used at the federal level. For 2019, the basic personal tax credit at the federal level is $1,810 \[(15\%)(12,069)]\). Comparative 2019 figures for selected provinces are as follows:

<table>
<thead>
<tr>
<th>Province</th>
<th>Base</th>
<th>Rate</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta</td>
<td>$19,369</td>
<td>10.00%</td>
<td>$1,937</td>
</tr>
<tr>
<td>British Columbia</td>
<td>10,682</td>
<td>5.06%</td>
<td>541</td>
</tr>
<tr>
<td>Newfoundland And Labrador</td>
<td>9,414</td>
<td>8.70%</td>
<td>819</td>
</tr>
<tr>
<td>Ontario</td>
<td>10,582</td>
<td>5.05%</td>
<td>534</td>
</tr>
</tbody>
</table>
Personal Tax Credits - ITA 118(1)

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

Basic Personal Credit Plus Spousal Credit

4-33. For individuals with a spouse or common-law partner, ITA 118(1)(a) provides for two tax credits — one for the individual (sometimes referred to as the basic personal credit which is the term we use in our material) and one for his or her spouse or common-law partner. This latter credit is sometimes referred to as the spousal credit which is the term we use in our material. The spousal credit is applicable to common-law partners, but to include that in the title would be awkward. For 2019, the basic personal credit is $1,810 [(15%)($12,069)].

Calculation Of Spousal Credit

4-34. If the individual's spouse is not dependant because of a mental or physical infirmity, the spousal credit is calculated using the same base as the basic personal credit. However, it must be reduced by the spouse or common-law partner’s Net Income For Tax Purposes.

4-35. In those cases where the spouse or common-law partner is dependent on the individual by reason of a mental or physical infirmity, ITA 118(1)(a) adds, for 2019, an additional $2,230. We will discuss in detail the meaning of mental or physical infirmity beginning in Paragraph 4-53 within our coverage of the Canada caregiver credit.

4-36. The two possible calculations of the spousal credit are as follows:

**Spousal Credit - Spouse Is Not Infirm**

\[
\text{Spousal Amount (For Spouse)} \times 15\% = (15\%)(\text{Net Income For Tax Purposes})
\]

**Spousal Credit - Spouse Is Mentally Or Physically Infirm**

\[
\text{Spousal Amount (For Spouse)} = (15\%)(\text{Net Income For Tax Purposes} +$2,230)
\]

When the spouse is mentally or physically infirm, the maximum value for the credit is \[(15\%)(14,299)\].

4-37. As an example, consider an individual with a spouse who had Net Income For Tax Purposes of $5,200. The total personal credits under ITA 118(1)(a) if the spouse (1) was not mentally or physically infirm and (2) was dependent because of a mental or physical infirmity:

<table>
<thead>
<tr>
<th>Spouse</th>
<th>Not Infirm</th>
<th>Infirm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Personal Amount (For Taxpayer)</td>
<td>$12,069</td>
<td>$12,069</td>
</tr>
<tr>
<td>Spousal Amount ($12,069 - $5,200)</td>
<td>6,869</td>
<td>9,099</td>
</tr>
<tr>
<td>Credit Base</td>
<td>$18,938</td>
<td>$21,168</td>
</tr>
<tr>
<td>Rate</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Personal Tax Credits (Taxpayer And Spouse)</td>
<td>$2,841</td>
<td>$3,175</td>
</tr>
</tbody>
</table>

4-38. There are several other points to be made with respect to the credits for an individual with a spouse or common-law partner:

**Spouse Or Common-Law Partner’s Income** The income figure used for limiting the spousal amount is Net Income For Tax Purposes.

**Applicability To Either Spouse Or Common-Law Partner** The ITA 118(1)(a) provision is applicable to both spouses and, while each is eligible to claim the basic amount of $12,069, IT Folio S1-F4-C2, Basic Personal and Dependant Tax Credits, specifies that only one spouse or common-law partner may claim the spousal amount. S1-F4-C2 indicates that the spouse making the claim should be the one that supports the other. (Support is described in S1-F4-C2 Paragraph 2.18.)
Eligibility

The spousal credit can be claimed for either a spouse or a common-law partner. There is no definition of spouse in the Income Tax Act, so it would appear that the usual dictionary definition would apply. That is, a spouse is one of a pair of persons who are legally married. With respect to common-law partner, ITA 248(1) defines such an individual as a person who cohabits with the taxpayer in a conjugal relationship and:

- has so cohabited for a continuous period of at least one year; or
- is the parent of a child of whom the taxpayer is also a parent.

There is no requirement in the income tax legislation that either a spouse or a common-law partner be a person of the opposite sex. One can, however, assume that they must be of the same species (e.g., you can’t claim your dog, no matter how much he is dependent on you).

Multiple Relationships

Based on these definitions, it would be possible for an individual to have both a spouse and a common-law partner. ITA 118(4)(a) makes it clear that, if this is the case, a credit can only be claimed for one of these individuals. In such cases, determining your tax credits may be the least of your problems.

Year Of Separation Or Divorce

In general, ITA 118(5) does not allow a tax credit based on the spousal amount in situations where the individual is making a deduction for the support of a spouse or common-law partner (spousal support is covered in Chapter 9). However, S1-F4-C2 indicates that, in the year of separation or divorce, an individual can choose to deduct amounts paid for spousal support, or claim the tax credit for a spouse, but not both.

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Exercise Four - 2

Subject: Spousal Tax Credit

Johan Sprinkle is married and has 2019 Net Income For Tax Purposes of $35,450. His spouse has 2019 Net Income For Tax Purposes of $2,600. Johan has no tax credits other than the basic personal credits for his spouse and himself. Assuming that Johan’s spouse does not have a mental or physical infirmity, determine Johan’s federal tax credits for 2019. How would your answer differ if Johan’s spouse was dependent because of a mental or physical infirmity?

SOLUTION available in print and online Study Guide.

We suggest you work Self Study Problem Four-1 at this point.

Individuals Supporting A Dependent Person - ITA 118(1)(b)

Basic Personal Credit Plus Eligible Dependant Credit

Like ITA 118(1)(a), ITA 118(1)(b) provides for two tax credits. The first is the basic personal credit for the individual based on a 2019 base amount of $12,069. The second credit, based on the same amount, is for a qualifying eligible dependant. With respect to this second credit, if the eligible dependant is physically or mentally impaired, an additional amount of $2,230 is added to the $12,069. Note that this credit is not available to married individuals. We will discuss in detail the meaning of mental or physical infirmity beginning in Paragraph 4-53 within our coverage of the Canada caregiver credit.

Eligibility And Eligible Dependant Defined

The eligible dependant credit is available to a single individual who is not claiming the spousal credit and who supports a wholly dependent person who lives with them in a self-contained domestic establishment (we will refer to this person as an eligible dependant). To qualify for this credit, the individual taxpayer must be:
• unmarried;
• not living in a common-law partnership; or
• a person who is married or has a common-law partner but neither supports nor lives
  with that spouse or common-law partner.

4-41. To claim this credit, the eligible dependant must be “related” to the individual making
the claim and “wholly dependent for support”. ITA 251(2) defines related individuals as those
who are related by blood, marriage, common-law partnership, or adoption. IT Folio
S1-F5-C1, Related Persons And Dealing At Arm's Length, indicates that this would exclude
aunts, uncles, nieces, nephews, and cousins. To be wholly dependent would mean that the
taxpayer provides almost entirely for the person’s well-being. This means providing the
necessities such as food, shelter and clothing, as well as all financial support. For example, a
young child would normally be wholly dependent on a parent. Also note that the death of a
spouse or common-law partner severs all marriage and common-law relationships. For
example, an individual is not related to his deceased wife’s mother.

4-42. In view of today’s less stable family arrangements, the question of exactly who is
considered a child for tax purposes requires some elaboration. The credit may be taken for
natural children, children who have been formally adopted, as well as for natural and adopted
children of a spouse or common-law partner.

**Application**

4-43. This credit is most commonly claimed by single parents who are supporting a minor
child. More generally, this credit is available to individual taxpayers who are single, widowed,
divorced, or separated, and supporting a dependant who is:

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

4-44. The eligible dependant credit cannot be claimed by an individual:

• if the individual is claiming the spousal credit;
• if the individual is living with, supporting, or being supported by a spouse (the claim is only
  available for individuals who are either single, or living separately from their spouse);
• for more than one person;
• if the dependant’s Net Income exceeds $12,069 or $14,299 ($12,069 + $2,230) if they
  are mentally or physically infirm;
• if someone other than the individual is making this claim for the same individual; or
• for the individual’s child, if the individual is required to make child support payments to
  another individual, for that child. As is noted in Chapter 9, when child support is being
  paid, only the recipient of such payments can claim this tax credit.

**Calculation Of Eligible Dependant Tax Credit**

4-45. As we have noted, the base for the eligible dependant credit is $12,069, the same
value that is used for the basic personal credit and the spousal credit. As was the case with
the spousal credit, if the eligible dependant is dependent because of a mental or physical infir-
mity, an additional $2,230 is added to the 2019 base, bringing the total to $14,299. The
amount of the base is reduced by the eligible dependant’s Net Income For Tax Purposes for the
year. As was the case with the spousal credit, the infirmity does not have to be severe enough
to qualify for the disability tax credit. For 2019, the calculation of the eligible dependant
credit is as follows:
Eligible Dependant Credit - Is Not Infirm
[(15%)($12,069 - Eligible Dependant’s Net Income)]

Eligible Dependant Credit - Is Infirm And Is Not Under 18
[(15%)($12,069 + $2,230 - Eligible Dependant’s Net Income)]

4-46. As an example, consider an unmarried person supporting a parent who has Net Income For Tax Purposes of $5,200. The total personal credits under ITA 118(1)(b) if the (1) was not mentally or physically infirm and (2) was dependent because of a mental or physical infirmity, would be calculated as follows:

<table>
<thead>
<tr>
<th>Eligible Dependant</th>
<th>Not Infirm</th>
<th>Infirm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Personal Amount (For Taxpayer)</td>
<td>$12,069</td>
<td>$12,069</td>
</tr>
<tr>
<td>Eligible Dependant Amount ($12,069 - $5,200)</td>
<td>6,869</td>
<td>6,869</td>
</tr>
<tr>
<td>Eligible Dependant Amount ($12,069 + $2,230 - $5,200)</td>
<td>9,099</td>
<td>9,099</td>
</tr>
<tr>
<td>Credit Base</td>
<td>$18,938</td>
<td>$21,168</td>
</tr>
<tr>
<td>Rate</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Personal Tax Credits (Taxpayer And Eligible Dependant)</td>
<td>$2,841</td>
<td>$3,175</td>
</tr>
</tbody>
</table>

4-47. Note that this credit provides for the same total credits that would be available to an individual with a spouse who had Net Income For Tax Purposes of $5,200 (see Paragraph 4-37). For this reason, it was formerly referred to as the equivalent to spouse tax credit.

Canada Caregiver Amount For Child - ITA 118(1)(b.1)

4-48. There is no general tax credit available for a child who is under 18 at the end of the taxation year. However, in those cases where an under 18 year old child has a mental or physical infirmity, ITA 118(1)(b.1) provides a credit based on a 2019 base amount of $2,230 which is not decreased by any income of the child. In those cases where this credit is claimed for an infirm child by a single person, who also claims the eligible dependant credit for the child, the $2,230 is not added to the $12,069 base amount for that credit. The $2,230 is treated as a separate credit. We will discuss in detail the meaning of mental or physical infirmity beginning in Paragraph 4-53 within our coverage of the Canada caregiver credit.

EXAMPLE Mr. and Mrs. Barton have a 13 year old child who has a physical infirmity. The child has Net Income For Tax Purposes of $1,000.

ANALYSIS Either Mr. Barton or Mrs. Barton can claim a credit against Tax Payable of $335 [(15%)($2,230)].

Single Persons (Basic Personal Tax Credit) - ITA 118(1)(c)

4-49. Individuals living with a spouse, common-law partner or eligible dependant receive a credit for themselves and their spouse or common-law partner under ITA 118(1)(a), or themselves and their eligible dependant under ITA 118(1)(b). For individuals who do not have a spouse, common-law partner or eligible dependant, a basic personal tax credit is received under ITA 118(1)(c). For 2019, the credit is equal to $1,810 [(15%)($12,069)].

EXAMPLE Jason Broad is 35 years old, single, is not involved in a relationship with a common-law partner (although he has been known to fool around from time to time), and has no dependants.

ANALYSIS Jason can claim a credit against Tax Payable of $1,810 [(15%)($12,069)].

Canada Caregiver Tax Credit - ITA 118(1)(d)

Background

4-50. An important issue in Canada is the fact that many individuals are responsible for taking care of, and/or supporting some related individual because of that individual’s mental or physical infirmity. For some time, the federal government has dealt with this problem by providing some amount of monetary relief through the use of tax credits.
4-51. Prior to 2017, this tax relief was provided through three separate tax credits:  
- the family caregiver credit  
- the caregiver credit  
- the infirm dependant over 17 credit

4-52. The application of these credits proved to be very confusing to many taxpayers. Reflecting this, the 2017 budget repealed these credits and replaced them with a single Canada caregiver credit. The current approach produces the same results as were produced by the now repealed credits and is far easier for taxpayers to understand and implement.

**Mental Or Physical Impairment/Infirmity**

4-53. In our presentation on the spousal and eligible dependant credits, we noted that an extra base amount is available when the spouse or eligible dependant is mentally or physically impaired. Mental or physical impairment is also an eligibility requirement for the Canada caregiver credit. Given this, it is important to have some understanding of this concept.

4-54. Later in this Chapter, we will discuss the disability tax credit. This fairly substantial credit is available to an individual having one or more severe and prolonged impairments in physical or mental functions. For example, the disability tax credit would be available to an individual who could not dress or feed herself.

4-55. It is clear that an individual who qualifies for the disability tax credit would also qualify for the Canada caregiver amount and for the extra base amount that can be added to the spousal and eligible dependant amounts. It is also clear that an individual with a less severe impairment could qualify for these amounts.

4-56. While there have been a number of court cases which have discussed the meaning of mental or physical impairment, no consistent definition has emerged. For our purposes in this material, the following description will be used:

- The term mental or physical infirmity is not defined in the *Income Tax Act* and, therefore, it should be applied using its ordinary meaning. In most dictionaries and infirmity is described as a physical or mental weakness or ailment. In terms of the application of the term infirmity in tax work, it does not refer to a temporary weakness or ailment. In addition, the infirmity must be such that it requires the person to be dependent on the individual for a considerable period of time.

**Calculation Of The Canada Caregiver Credit**

4-57. The Canada caregiver credit has two parts. For 2019, the amounts are as follows:

**Part 1** - An amount of $7,140 for infirm dependants who are over 17 and who are parents, grandparents, brothers, sisters, aunts, uncles, nieces, nephews, and children of the claimant or his spouse or common-law partner. Note that aunts, uncles, nieces and nephews are eligible for the Canada caregiver credit where they are excluded from being claimed for the eligible dependant credit.

The amount is reduced on a dollar for dollar basis by the dependant's Net Income For Tax Purposes in excess of $16,766.

**Part 2** - An amount of $2,230 for:

- An infirm dependent spouse or common-law partner for whom the individual claims the spouse or common-law partner credit. (See Paragraph 4-35.)
- An infirm dependant for whom the individual claims the eligible dependant credit. (See Paragraph 4-45.)
- An infirm child who is under 18 at the end of the year. Any income of the child does not decrease the amount. (See Paragraph 4-48.)
4-58. In terms of the actual legislation, only the $7,140 amount is referred to in ITA 118(1)(d). The $2,230 amounts for a spouse or eligible dependant are included under ITA 118(1)(a) and 118(1)(b). In those provisions, the $2,230 amount is not referred to as a caregiver amount. (In our problem solutions we label the additional $2,230 the "infirm amount".) To prevent double counting for a spouse or an eligible dependant, ITA 118(4)(c) indicates that, if an individual is entitled to a credit for an infirm spouse or eligible dependant under ITA 118(1)(a) or ITA 118(1)(b), they cannot make any claim under ITA 118(1)(d).

4-59. Several other points are relevant here:

- Only one Canada caregiver credit will be available for each infirm dependant. If there is more than one caregiver, the credit must be shared.

- An individual will not be able to claim the Canada caregiver credit for a particular person if the individual is required to pay a support amount for that person to their former spouse or common law partner.

- There is no requirement that the infirm dependant live in the caregiver's home in order to claim the Canada caregiver credit.

- Except in the case of children or grandchildren, to qualify for the Canada caregiver credit, the infirm dependant must be a resident of Canada.

**Exercise Four - 3**

**Subject:** Canada Caregiver Tax Credit

Joan Barton lives with her husband whose Net Income For Tax Purposes is $5,000. Two years ago her father and mother moved in with her. The father, who is 69 years old is still very active. However, her 67 year old mother is dependent because of a physical infirmity, but the infirmity is not severe enough to qualify for the disability tax credit. Her father's 2019 Net Income For Tax Purposes is $25,300. The corresponding amount for her mother is $21,400. Determine the amount of Joan's Canada caregiver tax credit, if any, for 2019.

**Exercise Four - 4**

**Subject:** Infirm Spouse And Infirm Adult Child

Marcia Flood is married to Josh Flood. Josh has a mental infirmity. They have a 20 year old son who has a physical infirmity. Neither infirmity is severe enough to qualify for the disability tax credit. Josh has 2019 Net Income For Tax Purposes of $5,600. Their son has no 2019 income. Determine the amount of any 2019 tax credits that Marcia will have related to her spouse and son.

**Exercise Four - 5**

**Subject:** Infirm Eligible Dependant Who Is A Child Under 18

Darcy Gates is a single father who takes care of his 9 year old daughter, Janice. Janice has a physical infirmity, but the infirmity is not severe enough to qualify for the disability tax credit. Janice has no 2019 income of her own. Determine the amount of any 2019 tax credits that Darcy will have related to his daughter.

**SOLUTIONS** available in print and online Study Guide.
Canada Caregiver Credit - Additional Amount

4-60. There is a problem in those cases where the $2,230 amount is provided through either the spousal tax credit or the eligible dependant tax credit. The base for both of these credits is reduced, on a dollar-for-dollar basis, by the dependant's Net Income For Tax Purposes. While the Canada caregiver amount is not eroded until the dependant's Net Income For Tax Purposes is greater than $16,766, the spousal and eligible dependant credits would be completely eliminated once income reaches $14,299 ($12,069 + $2,230). In effect, this would result in the caregiver for an infirm spouse or an infirm eligible dependant getting no benefit from the Canada caregiver credit provisions.

4-61. Under ITA 118(1)(e), when an individual has an infirm spouse or infirm eligible dependant, they are entitled to an additional amount of credit base in those situations where their claim for the spousal or eligible dependant amount is less than the Canada caregiver amount. The additional amount is the amount that is required to increase the claimant's base amount up to equal the Canada caregiver amount. This makes the calculations sound more complicated than they really are, as illustrated in the following example.

EXAMPLE Mark Stucky has an infirm spouse. Assume her 2019 Net Income For Tax Purposes is (1) $15,000 and (2) $8,000.

ANALYSIS - $15,000 The base for Mark's spousal credit would be nil ($12,069 + $2,230 - $15,000). Given this, the additional amount would be $7,140 ($7,140 - nil). When this additional amount is added to the base for the spousal credit of nil, the total is $7,140, the 2019 base for the Canada caregiver credit.

ANALYSIS - $8,000 The base for Mark's spousal credit would $6,299 ($12,069 + $2,230 - $8,000). Given this, the additional amount would be $841 ($7,140 - $6,299). When this additional amount is added to the base for the spousal credit, the total is $7,140, the 2019 base for the Canada caregiver credit.

Exercise Four - 6

Subject: Canada Caregiver Tax Credit - Additional Amount

Sandy Hill is single and lives with her 63 year old mother, Ariel. Ariel has a physical infirmity, but the infirmity is not severe enough to qualify for the disability tax credit. Ariel has 2019 Net Income For Tax Purposes of $18,000. Determine the amount of any 2019 tax credits that Sandy will have related to her mother.

SOLUTION available in print and online Study Guide.

Other Tax Credits For Individuals

Age Tax Credit - ITA 118(2)

4-62. For individuals who attain the age of 65 prior to the end of the year, ITA 118(2) provides an additional tax credit of $1,124 [(15%)($7,494)]. However, the base for this credit is reduced by 15 percent of the individual's Net Income For Tax Purposes in excess of $37,790. This means that, at an income level of $87,750 ($7,494 ÷ 15%) + $37,790], the reduction will be equal to $7,494 and the individual will not receive an age credit. Note that the reduction is only 15 percent of the income above the threshold, not a dollar for dollar reduction.
EXAMPLE  A 67 year old individual has 2019 Net Income For Tax Purposes of $40,000.

ANALYSIS  An age credit of $1,074 \( \{15\% \times (7,494 - (15\% \times (40,000 - 37,790))\} \) will be available to this individual.

4-63. As we shall see when we consider the transfer of credits to a spouse, if an individual does not have sufficient Tax Payable to use this credit, it can be transferred to a spouse.

Exercise Four - 7

Subject: Age Tax Credit

Joshua Smythe is 72 years old and has 2019 Net Income For Tax Purposes of $51,500. Determine Mr. Smythe's age credit for 2019.

SOLUTION available in print and online Study Guide.

Pension Income Tax Credit - ITA 118(3)

General Rules

4-64. The pension income credit is equal to 15 percent of the first $2,000 of eligible pension income. This results in a maximum value of $300 \( (15\% \times 2,000) \). The base for this credit is not indexed for inflation and has been $2,000 since 2006.

4-65. The credit is only available with respect to “eligible pension income”. Specifically excluded from this definition are:

• payments under the Old Age Security Act or Canada Pension Plan;
• payments under certain provincial pension plans;
• payments under salary deferral arrangements;
• payments under retirement compensation arrangements;
• payments under an employee benefit plan; and
• death benefits.

4-66. Like the age credit, if an individual does not have sufficient Tax Payable to use this credit, it can be transferred to a spouse.

Individuals 65 Or Over

4-67. For an individual who has reached age 65 before the end of the year, this credit is available on “pension income” as defined in ITA 118(7). This includes payments that are:

• periodic (not lump sum) payments from a registered pension plan (RPP);
• an annuity payment out of a Registered Retirement Savings Plan (RRSP);
• a payment out of a Registered Retirement Income Fund (RRIF);
• an annuity payment from a Deferred Profit Sharing Plan (DPSP); and
• the interest component of other annuities.

Individuals Under 65

4-68. For an individual who has not reached age 65 during the year, the credit is based on “qualified pension income”, also defined in ITA 118(7). In general, this only includes the periodic payments from a registered pension plan. However, if the other types of pension income described in Paragraph 4-67 are received as a consequence of the death of a spouse or common-law partner, these amounts are also qualified, regardless of the age of the recipient.
Canada Employment Tax Credit - ITA 118(10)

4-69. This credit is available to all individuals who have employment income. From a conceptual point of view, it is designed to provide limited recognition of the fact that there are costs associated with earning employment income. As only limited deductions are available against employment income, this would appear to be an appropriate form of relief.

4-70. For 2019, the amount of the credit is equal to 15 percent of the lesser of:

- $1,222; and
- the individual’s Net Employment Income, calculated without the deduction of any employment related expenses.

4-71. For most employed individuals, this will produce a credit of $183 [(15%($1,222)].

Adoption Expenses Tax Credit - ITA 118.01

4-72. The adoption expenses tax credit is available to a taxpayer who adopts an "eligible child". As defined in ITA 118.01(1), an eligible child means a child who has not attained the age of 18 years at the time that an adoption order is issued or recognized by a government in Canada in respect of the adoption of that child. For 2019, the indexed base for this credit is up to $16,255 of eligible adoption expenses. This provides a maximum credit of $2,438.

4-73. The expenses can only be claimed in the year in which the adoption is finalized. The total amount of eligible expenses is reduced by any assistance that is received and not included in that taxpayer’s income. Normally, if an employer reimburses any portion of an employee’s adoption expenses, this amount will be treated as a taxable benefit. Given this, such amounts will not be deducted from the adoption expenses that form the basis for this credit as they will be taxed as employment income.

4-74. Eligible adoption expenses must be incurred during the "adoption period" (see next Paragraph) and, as defined in ITA 118.01(1), include:

- fees paid to an adoption agency licensed by a provincial government;
- court costs and legal and administrative expenses related to an adoption order in respect of that child;
- reasonable and necessary travel and living expenses of the child and the adoptive parents;
- document translation fees;
- mandatory fees paid to a foreign institution;
- mandatory expenses paid in respect of the immigration of the child; and
- any other reasonable expenses related to the adoption required by a provincial government or an adoption agency licensed by a provincial government.

4-75. An "adoption period" is also defined in ITA 118.01(1) as follows:

It begins at the earlier of:

- the time that an application is made for registration with a provincial ministry responsible for adoption (or with an adoption agency licensed by a provincial government); and
- the time, if any, that an application related to the adoption is made to a Canadian court; and

It ends at the later of:

- the time an adoption order is issued by, or recognized by, a government in Canada in respect of that child, and
- the time that the child first begins to reside permanently with the individual.

4-76. In the usual situation, a child will be adopted by a couple, either legally married or co-habiting on a common-law basis. The legislation points out that, while both parties are eligible for this credit, the $16,255 limit must be shared by the couple. The claim can be made by either party or split at their discretion.
Exercise Four - 8

Subject: Adoption Expenses Tax Credit

Ary Kapit and his spouse have adopted an infant Chinese orphan. The adoption process began in June, 2018 when they applied to an adoption agency licensed by the provincial government. Later that year they traveled to China to discuss the adoption and view available children. The cost of this trip was $4,250. Their provincial government opens the adoption file on February 13, 2019, and the adoption order is issued on August 27, 2019. In September, the couple returns to China to pick up their new daughter. The happy family returns to Canada on September 18, 2019. The cost of this trip is $6,420.

Additional expenses paid during the first week of September, 2019 were $1,600 paid to the Chinese orphanage and $3,200 paid to a Canadian adoption agency. Legal fees incurred during the adoption period were $2,700. After arrival in Canada, an additional $2,500 in medical expenses were incurred for the child prior to the end of 2019. Mr. Kapit’s employer has a policy of providing reimbursement for up to $5,000 in adoption expenses eligible for the adoption expenses tax credit. This amount is received in September, 2019 and will be considered a taxable benefit to Mr. Kapit. What is the maximum adoption expenses tax credit that can be claimed by the couple?

SOLUTION available in print and online Study Guide.

Home Accessibility Tax Credit - ITA 118.041

Described

4-77. The government provides a non-refundable tax credit for renovations that will allow seniors and persons with disabilities to live more independently at home. The base for the credit is equal to the lesser of $10,000 and the amount of qualifying expenditures for the year. The means that the maximum credit is $1,500 [(15%)($10,000)]. It does not appear that the $10,000 limit will be indexed.

4-78. The credit is available to a qualifying individual or an eligible individual for qualifying expenditures on an eligible dwelling.

4-79. As is often the case with income tax legislation, this basic provision contains a number of technical terms (in bold in Paragraph 4-78) which require further explanation. These explanations follow.

Qualifying And Eligible Individuals

4-80. A qualifying individual is an individual who is 65 years of age or older, or who is eligible to claim the disability tax credit.

4-81. An eligible individual is a qualifying individual’s spouse or common-law partner, or an individual who has claimed, or could have claimed under certain conditions, the eligible dependant or Canada caregiver credit for the qualifying individual. It would normally be a relative who ordinarily inhabits the same dwelling as the qualifying individual.

Eligible Dwelling

4-82. To begin, an eligible dwelling is a housing unit located in Canada. It must be owned by the qualifying individual or by an eligible individual. While it will usually be the principal residence of the individual, this is not a requirement. It can be a house, cottage or condominium, but it cannot be a rented dwelling.

4-83. If more than one individual is eligible to claim the credit in relation to the same eligible dwelling, the $10,000 limit applies to the total amount claimed for that dwelling in
the year. If there is more than one qualifying individual for an eligible dwelling, the total qualifying expenses cannot exceed $10,000 for the dwelling. If the qualifying individual has more than one principal residence in a tax year, the $10,000 limit applies to the total cost of qualifying expenses for all residences, not for each residence.

Qualifying Renovations And Expenditures

4-84. To be considered a qualifying expenditure in a qualifying renovation, the renovation or alteration must be made to allow the qualifying individual to gain access to, or to be more mobile or functional within the dwelling, or to reduce the risk of harm to the qualifying individual either when gaining access to the home or within the dwelling itself. The improvements must be of an enduring nature and be considered integral to the eligible dwelling. As a general rule, if the item purchased will not become a permanent part of the dwelling, it is not eligible.

4-85. Qualifying expenses can include materials, fixtures, labour or professional services. The credit will only apply to work performed and paid for and/or goods acquired in that particular tax year. Any expenses claimed for the home accessibility tax credit must be supported by receipts. This is expected to help the CRA battle the underground cash economy as receipts will be needed for qualifying labour in order to claim the credit.

4-86. Although the CRA website does not provide a list of qualifying expenditures, it does provide a list of some of the expenses that are not eligible for the credit such as outdoor maintenance services and electronic home entertainment devices. Some renovations that would clearly qualify would be wheelchair ramps or lifts, walk-in bathtubs and wheel-in showers.

4-87. Note that some expenditures would qualify for both this credit and the medical expenses tax credit (see Paragraph 4-107). For example, the cost of installing a ramp for a qualifying individual who is in a wheelchair would be a qualifying expenditure for both credits. Interestingly, the legislation is clear that, in cases such as this, the expenditures can be used in determining the base for both of these credits. This, in effect, results in a double credit for the same expenditure.

Exercise Four - 9

Subject: Home Accessibility Tax Credit

Della and Marcus Jacobs are married and they are both aged 68. They jointly own the house they live in. Because a recent automobile accident damaged his back, Marcus has limited mobility and has great difficulty climbing stairs. During 2019, they spent $8,500 installing a ramp to replace the steps to the front door and $2,000 for a snow removal contract as Marcus was no longer able to shovel the snow. What is the maximum home accessibility credit that can be claimed for the 2019 taxation year and who should claim it?

SOLUTION available in print and online Study Guide.

First Time Home Buyer’s Tax Credit - ITA 118.05

4-88. A tax credit is available for first-time home buyers who acquire a qualifying home in Canada. The credit is equal to 15 percent of the first $5,000 of the cost of a qualifying home, resulting in a maximum credit of $750. This amount is not indexed. To be eligible for the credit, the buyer must intend to occupy the home no later than one year after its acquisition.

4-89. An individual will be considered a first-time home buyer if neither the individual nor the individual's spouse or common-law partner, owned and lived in another home in the calendar year of the home purchase, or in any of the 4 preceding calendar years.

4-90. The credit may be claimed by the individual who acquires the home or by that individual's spouse or common-law partner. For the purpose of this credit, a home is considered to be acquired by an individual only if the individual's interest in the home is registered in accordance with the applicable land registration system.
Volunteer Firefighters And Volunteer Search And Rescue Workers Tax Credits - ITA 118.06 And 118.07

4-91. A credit is made available for both volunteer firefighters and volunteer search and rescue workers. The required services are defined in the *Income Tax Act* as follows:

**Volunteer Firefighters Services** In this Section 118.06 and in Section 118.07, "eligible volunteer firefighting services" means services provided by an individual in the individual's capacity as a volunteer firefighter to a fire department that consist primarily of responding to and being on call for firefighting and related emergency calls, attending meetings held by the fire department and participating in required training related to the prevention or suppression of fires, but does not include services provided to a particular fire department if the individual provides firefighting services to the department otherwise than as a volunteer.

**Volunteer Search And Rescue Workers Services** means services, other than eligible volunteer firefighting services, provided by an individual in the individual's capacity as a volunteer to an eligible search and rescue organization that consist primarily of responding to and being on call for search and rescue and related emergency calls, attending meetings held by the organization and participating in required training related to search and rescue services, but does not include services provided to an organization if the individual provides search and rescue services to the organization otherwise than as a volunteer.

4-92. As you can see, except for the type of services rendered, the conditions of service for the two types of credits are very similar.

4-93. For either type of volunteer, if they perform at least 200 hours of volunteer services during a taxation year, they are eligible for the relevant credit. It would appear that the required 200 hours can be solely one type of volunteer service or, alternatively, a combination of both types of services. The base for the non-refundable credit is $3,000, resulting in a credit of $450 (15%($3,000)). This amount is not indexed.

4-94. Other relevant considerations are as follows:

- An individual meeting the 200 hour requirement can take either credit. However, they cannot take both, regardless of the number of hours of volunteer services.
- Under ITA 81(4), there is an exemption from inclusion in Net Income For Tax Purposes for up to $1,000 in compensation received for these types of volunteer work. This exemption is not available to individuals who claim either of these tax credits. Stated alternatively, an individual cannot have both the exemption and the tax credits.

Charitable Donations Tax Credit - ITA 118.1

**Extent Of Coverage In This Chapter**

4-95. For tax purposes, donations, even in the form of cash, are segregated into categories, each with a different set of rules. Additional complications arise when non-cash donations are made. To be able to deal with gifts of depreciable capital property, a full understanding of capital gains and CCA procedures is required. Given these complications, a comprehensive treatment of charitable gifts is deferred until we revisit Taxable Income and Tax Payable in Chapter 11. However, there is limited coverage of charitable donations in this Chapter.

**Eligible Gifts**

4-96. In our coverage of donations in this Chapter, we will deal only with gifts of cash or monetary assets. Donations of other types of property are covered in Chapter 11.

4-97. In this Chapter, our coverage will be limited to what is referred to in ITA 118.1 as total charitable gifts. These include amounts donated to entities such as:
• a registered charity;  
• a registered Canadian amateur athletic association;  
• a Canadian municipality;  
• the Canadian government;  
• a university outside of Canada which normally enrolls Canadian students; and  
• a charitable organization outside of Canada to which the Canadian government made a  
gift in the current or preceding taxation year. In addition, a provision exists that allows the  
   federal government to provide a limited 24 month registration for foreign charities that  
   are involved in relief and humanitarian aid, provided the activities are in the national  
   interest of Canada.

**Limits On Amount Claimed**

4-98. It is the policy of the government to limit the amount of charitable donations that are  
   eligible for the tax credit to a portion of a taxpayer’s Net Income For Tax Purposes. Note that,  
   while corporations deduct their donations from Taxable Income as opposed to receiving a  
   credit against Tax Payable, the limits on the amount of eligible donations are the same for  
   corporations as they are for individuals.

4-99. The general limit on eligible amounts of charitable gifts is 75 percent of Net Income  
   For Tax Purposes. For individuals, this limit is increased to 100 percent of Net Income For Tax  
   Purposes in the year of death and the preceding year.

**Calculating The Donation Credit**

4-100. All of the credits that we have discussed to this point apply the lowest federal bracket  
   of 15 percent to some defined base. In contrast, this credit's calculation uses a combination of  
   three possible rates - 15, 29 and 33 percent. This reflects the belief that if the credit was only at  
   15 percent, high income individuals would not have an adequate monetary incentive to make  
   charitable donations.

4-101. The formula for calculating the credit is found in ITA 118(3). Stated in a somewhat  
   more understandable fashion, it is as follows:

\[
[(15\%) (A)] + [(33\%) (B)] + [(29\%) (C)],
\]

where

- **A** = The first $200 of eligible gifts.  
- **B** = The lesser of:  
  - The amount by which total eligible gifts exceed $200; and  
  - The amount, if any, by which the individual's Taxable Income for the  
    year exceeds $210,371 (i.e., the amount of income taxed at 33 percent)  
- **C** = The amount, if any, by which the individual's total gifts exceed the sum of  
  $200 plus the amount determined in B.

**Note** If the taxpayer's Taxable Income does not exceed $210,371, the lesser  
amount of component B will be nil. This means that none of the credit is based on the  
33 percent rate as no income is taxed at that rate. In these situations, the credit calcu- 
lation is simply 15 percent of the first $200 of eligible gifts, plus 29 percent of any  
eligible gifts in excess of $200.

4-102. The following example will serve to illustrate the application of this formula:

**EXAMPLE** For 2019, Doyle McLaughlin has Net Income For Tax Purposes of  
$620,000 and Taxable Income of $600,000. During the year, Doyle makes eligible  
gifts of $300,000.

**ANALYSIS** The maximum base for his charitable donations credit would be  
$465,000 $620,000. Doyle's charitable donations tax credit would be  
calculated as follows (note that Taxable Income is used in the following calculation):
Subject: Charitable Donations Tax Credit

For 2019, Travis Hoffman has Net Income For Tax Purposes of $350,000 and Taxable Income of $325,000. During the year, he makes eligible charitable gifts of $225,000. Determine Mr. Hoffman's 2019 charitable donations tax credit.

SOLUTION available in print and online Study Guide.

4-103. For couples, the CRA's administrative practices permit either spouse or common-law partner to claim some or all of the donations made by the couple. If neither individual has income taxed at 33 percent, combining the donations is advantageous given the 15 percent rate on the first $200 of donations. It would also be advantageous if one individual has sufficiently low income that not all of the couple's donations can be claimed, or if only one individual has income that is taxed at 33 percent. If both individuals have income that will be taxed at 33 percent, but neither can claim all the donations at that rate, the analysis is more complicated as splitting the donations could result in a higher combined donations credit.

Carry Forward Of Charitable Donations

4-104. With the limit set at 75 percent of Net Income, individuals will normally be able to claim all of the donations that they make in a year. However, if their donations exceed the 75 percent limit, or they choose not to claim all of the donations that year, any unused amounts can be carried forward. The carry forward is generally 5 years. However, for ecological gifts, the period has been extended to 10 years.

4-105. A further point here is that this limit is based on Net Income For Tax Purposes. This means that an individual could have eligible donations in excess of Taxable Income. This could occur, for example, if the individual deducted a large loss carry forward from a previous year. In situations such as this, it is important to recognize that the charitable donations tax credit is non-refundable. Given this, only the amount of donations required to reduce Tax Payable to nil should be claimed. Any additional amounts should be carried forward to future periods. Any claim that does not serve to reduce Tax Payable will simply be lost.

EXAMPLE Barry Mann has Net Income For Tax Purposes of $80,000. This is reduced to a Taxable Income of $20,000 because of a large business loss carry forward from a previous year. Because of a fortuitous lottery win, he chooses to make a charitable donation of $100,000.

ANALYSIS The potential base for Barry's charitable donations tax credit is $60,000 \([75\%]($80,000)\). However, if he were to claim this amount, the credit of $17,372 \([15\%]($200) + (29\%)(59,800)\) would be far in excess of the Tax Payable on only $20,000 of Taxable Income. Claiming the maximum amount would result in simply losing the greater part of the available credit. The preferable alternative would be to claim only enough to reduce his Tax Payable to nil and carry the remainder forward.
4-106. Determining the specific amounts to be used and carried forward will be discussed in Chapter 11.

Exercise Four - 11

**Subject:** Charitable Donations Tax Credit Carry Forward

For 2019, Terry Hoffman has Net Income For Tax Purposes of $350,000 and Taxable Income of $250,000. She has a charitable donation carry forward from 2018 of $225,000. Determine Ms. Hoffman's 2019 charitable donations tax credit. Until what year can she claim any unused portions of her 2018 donation?

**SOLUTION** available in print and online Study Guide.

Medical Expense Tax Credit - ITA 118.2

Qualifying Medical Expenses

4-107. There are many types of medical expenses which qualify for the credit under ITA 118.2. (For more detailed information, see Income Tax Folio S1-F1-C1, Medical Expense Tax Credit.) The current list of qualifying medical expenses includes amounts paid for:

- the services of authorized medical practitioners, dentists and registered nurses,
- prescribed drugs, medicaments and other preparations or substances, including cannabis products used for medical purposes,
- prescription eyeglasses or contact lenses,
- preventive, diagnostic and other laboratory work,
- dentures,
- premiums to private health services plans,
- the costs of home modifications for those with severe mobility restrictions, and to allow individuals confined to a wheelchair to be mobile within their home (see also the related home accessibility credit coverage beginning in Paragraph 4-77),
- guide and hearing-ear dogs and other specially trained animals, such as service animals trained to help an individual manage severe diabetes,
- artificial limbs, aids and other devices and equipment,
- products required because of incontinence,
- oxygen tents,
- the cost of rehabilitative therapy to adjust for speech or hearing loss,
- devices and equipment listed in ITR 5700 and prescribed by a medical practitioner,
- amounts paid for the design of an individualized therapy plan in situations where the cost of the therapy would be eligible for the medical expense tax credit.

4-108. Although payments for attendants, nursing home care, and care in an institution are qualifying medical expenses, there are many complications with claiming these expenses. They will be briefly covered after we have dealt with the disability tax credit.

4-109. Costs incurred for purely cosmetic reasons do not qualify for the medical expense tax credit. Examples of non-qualifying procedures include liposuction, hair replacement procedures, Botox injections and teeth whitening. Cosmetic procedures do qualify if they are required for medical or reconstructive purposes (e.g., facial surgery required due to a car accident). Perhaps wisely, the CRA refused to deal with the question of whether male infant circumcision was, or was not, cosmetic.

4-110. An important qualifying factor here is the fact that the provinces control the identification of authorized medical practitioners for the purposes of this credit. The CRA website contains a current list of these authorized medical practitioners by province. For example, acupuncturists are considered authorized in Alberta, British Columbia, Newfoundland, Ontario and Quebec, but not in other provinces. Homeopaths are currently authorized medical practitioners only in Ontario. This means that there is considerable variation between the provinces in the types of costs that qualify for the medical expense tax credit.
Determining The Credit

4-111. Qualifying medical expenses of an individual do not include any expense for which the individual has been, or is entitled to be, reimbursed unless the amount is required to be included in income. An amount reimbursed under a public or private medical, dental or hospitalization plan would not qualify for purposes of the medical expense tax credit.

4-112. The medical expense tax credit is determined by the following formula:

\[ A \times \left( B - C \right) + D \]

where:

- \( A \) is the appropriate percentage for the taxation year (15 percent).
- \( B \) is the total of an individual’s medical expenses for himself, his spouse or common-law partner, and any of his children who have not reached 18 years of age at the end of the year.
- \( C \) is the lesser of 3 percent of the individual’s Net Income For Tax Purposes and $2,352 (2019 figure). Note that the \( B - C \) total cannot be negative.
- \( D \) is the total of all amounts each of which is, in respect of a dependant of the individual (other than a child of the individual who has not attained the age of 18 years before the end of the taxation year), the amount determined by the formula \( E - F \), where:
- \( E \) is the total of the dependant’s medical expenses
- \( F \) is the lesser of 3 percent of the dependant’s Net Income For Tax Purposes and $2,352 (2019 figure).

4-113. If the taxpayer has no dependants who are 18 years of age or older, components \( D, E \) and \( F \) in the formula are not relevant. In this case, the \( B \) component is equal to the total of the qualifying medical expenses of the taxpayer, his spouse or common-law partner, and his minor children. This balance is reduced by the \( C \) component, the lesser of 3 percent of the taxpayer’s income and an indexed figure which for 2019 is equal to $2,352. This latter figure is the limiting factor if an individual’s 2019 Net Income For Tax Purposes is $78,400 ($2,352 ÷ 3%) or higher.

4-114. If the taxpayer has dependants who are 18 years of age or older, a separate credit base calculation is required for each of these dependants. This credit base is equal to the dependant’s qualifying medical expenses, reduced by the lesser of 3 percent of the dependant’s Net Income For Tax Purposes and $2,352 (\( E \) and \( F \) in the formula). The taxpayer adds the total of these amounts to the credit base calculated for the taxpayer, his spouse or common-law partner and his minor children.

4-115. A further point here relates to who actually pays for medical expenses. Interestingly, there is a conflict between legislation and administrative practice in this area. Both ITA 118.2 and Income Tax Folio S1-F1-C1 clearly state that medical expenses can only be deducted by the individual who paid for them. However, in the T1 Guide, this rule is contradicted for couples. According to this Guide, either spouse can claim the medical expense credit, without regard to who actually paid for the expenses. This administrative position is used in practice. The T1 Guide even includes a Tax Tip which suggests that since the credit can be claimed by either spouse, a comparison should be made to choose the better result.

Twelve Month Period

4-116. Medical expenses can be claimed for any period of 12 months that ends in the taxation year. This provision is extended to 24 months in the year of death. The ability to claim expenses for a 12 month period ending in the year is advantageous for individuals with large medical expenses in a 12 month period other than a calendar year.
EXAMPLE  Alex Lau has Net Income For Tax Purposes of $60,000 in both 2018 and 2019. In July, 2018, he began a year long (and very painful) corrective dental surgery program. During July to December, 2018 he paid $10,000 in dental fees. During January to June, 2019 he paid $12,000 in dental fees.

ANALYSIS  The 2018 claim could be deferred and the $22,000 total could be claimed in full in the 2019 taxation year. The advantage of doing this is that the threshold amount reduction would be applied only once in 2019. If medical expenses had to be claimed in the year in which they were incurred, Mr. Lau would have to apply the threshold reduction of $1,800 \([(3\%)(60,000)]\) in both years. If the full amount is claimed in 2019, federal tax savings would total $270 \[(15\%)(1,800)]\).

Example Of Medical Expense Tax Credit Calculation
4-117. The following example will illustrate the medical expense tax credit formula:

EXAMPLE  Sam Jonas and his dependent family members had the following Net Income For Tax Purposes and medical expenses for 2019. Sam paid for all of the medical expenses.

<table>
<thead>
<tr>
<th>Individual</th>
<th>Net Income</th>
<th>Medical Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sam Jonas</td>
<td>$100,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Kelly (Sam's Wife)</td>
<td>12,000</td>
<td>4,400</td>
</tr>
<tr>
<td>Sue (Sam's 16 Year Old Daughter)</td>
<td>8,500</td>
<td>4,100</td>
</tr>
<tr>
<td>Sharon (Sam's 69 Year Old Mother)</td>
<td>6,000</td>
<td>16,500</td>
</tr>
<tr>
<td>Martin (Sam's 70 Year Old Father)</td>
<td>12,000</td>
<td>200</td>
</tr>
<tr>
<td><strong>Total Medical Expenses</strong></td>
<td></td>
<td><strong>$30,200</strong></td>
</tr>
</tbody>
</table>

ANALYSIS  Sam's 2019 medical expense tax credit, using the formula in Paragraph 4-112, would be calculated as follows:

Amount B  Qualifying Expenses \((5,000 + 4,400 + 4,100)\)  \(\$13,500\)

Amount C  - Lesser Of:
  • \([(3\%)(100,000)]\) = $3,000
  • 2019 Threshold Amount = $2,352  (2,352)

Subtotal  \(\$11,148\)

Amount D  Sharon's Medical Expenses  \$16,500
  Reduced By The Lesser Of:
  • $2,352
  • \([(3\%)(6,000)]\) = $180  (180)  16,320

Martin's Medical Expenses  $200
  Reduced By The Lesser Of:
  • $2,352
  • \([(3\%)(12,000)]\) = $360  (360)  Nil*

Allowable Amount Of Medical Expenses  \$27,468

Amount A  The Appropriate Rate (Minimum Rate)  15%

Medical Expense Tax Credit  \$4,120

*Medical expenses can only be reduced to nil, the net result cannot be negative in this calculation.
Subject: Medical Expense Tax Credit

Ms. Maxine Davies and her spouse, Lance Davies, have 2019 medical expenses which total $4,330. While Ms. Davies has 2019 Net Income For Tax Purposes of $150,000, Lance's only income is $360 in savings account interest. They have three children. Mandy is 12, has 2019 medical expenses of $4,600 and no Net Income For Tax Purposes. Max is 21, has 2019 medical expenses of $8,425 and Net Income For Tax Purposes of $8,250. Matt is 23, has 2019 medical expenses of $120 and Net Income For Tax Purposes of $6,000. Ms. Davies pays all of the medical expenses. Determine Ms. Davies’ medical expense tax credit for 2019.

SOLUTION available in print and online Study Guide.

Disability Tax Credit - ITA 118.3

Calculation

4-118. The disability tax credit is available under ITA 118.3 and, for 2019, it is equal to $1,262 [(15%)( $8,416)]. In addition, there is a supplement to this amount for a disabled child who is under the age of 18 at the end of the year. For 2019, the base for the supplement is $4,909, providing a total maximum credit for a disabled minor of $1,999 [(15%)($8,416 + $4,909)]. Note, however, that the supplement amount of $4,909 is reduced by the total of amounts paid for attendant care or supervision in excess of $2,875 that are deducted as child care costs, deducted as a disability support amount, or claimed as a medical expense in calculating the medical expense tax credit. This means that once such costs reach $7,784 ($4,909 + $2,875) for the year, the supplement for a child is completely eliminated.

4-119. To qualify for the disability credit, the impairment must be such that there is a “marked” restriction of the activities of daily living or a “significant” restriction in more than one activity (while both terms are undefined, it appears that significant is less severe than marked). In addition, it must have lasted, or be expected to last, for at least 12 months.

4-120. In general, a medical doctor, nurse practitioner, or optometrist, must certify on Form T2201 that a severe physical or mental impairment exists. In the case of restrictions on the ability to walk, a physiotherapist can make the required certification.

4-121. ITA 118.4(1) tries to make the conditions for qualifying for this credit as clear as possible. This Subsection points out that an individual clearly qualifies if they are blind. They also qualify if 90 percent of the time they cannot perform, or take an inordinate amount of time to perform, a basic activity of daily living. The following are listed as basic activities:

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

Disability Credit Transfer To A Supporting Person

4-122. In many cases, an individual who is sufficiently infirm to qualify for the disability credit will not have sufficient Tax Payable to use it. In this situation, all or part of the credit may be transferred to a spouse, or a supporting person who claimed:
the disabled individual as an eligible dependant under the ITA 118(1)(b); or
• claimed the Canada caregiver credit under ITA 118(1)(d) for the disabled individual.

4-123. In order to make the disability credit transfer available in situations where there is a
disabled dependant who does not qualify for one of these credits, the transfer is extended
(somewhat awkwardly) to situations in which the taxpayer could have claimed the eligible
dependant credit or the Canada caregiver credit if:
• the taxpayer was not married; or
• the dependant had no income for the year and was over 17 years of age.

4-124. The credit amount that can be transferred is the same $1,262 that could be claimed
by the disabled individual. However, if the disabled individual has Tax Payable in excess of
credits under ITA 118 (personal credits), 118.01 to 118.07 (various credits including home
accessibility) and 118.7 (CPP and EI credits), the credit must first be applied to reduce the
disabled individual’s Tax Payable to nil. If a balance remains after all Tax Payable has been
eliminated, it can then be transferred to the supporting person.

4-125. Income Tax Folio S1-F1-C2, Disability Tax Credit provides detailed guidance on the
disability tax credit, including its transfer to a supporting person.

Exercise Four - 13

Subject: Disability Tax Credit

John Leslie lives with his wife and 21 year old blind son, Keith, who qualifies for the
disability tax credit. Keith has no income of his own. During 2019, John paid medical
expenses of $16,240 for Keith. None of these expenses involve attendant care. John's
Taxable Income for 2019 was $100,000. Determine the total amount of tax credits
related to Keith that will be available to John.

SOLUTION available in print and online Study Guide.

Other Credits And Deductions Related To Disabilities

4-126. Disabled individuals, or a supporting person, may have paid significant medical
expenses involving attendant care and/or nursing home care. The availability of the medical
tax credit for these costs is limited by the following considerations:

• Neither the individual, nor a supporting person, can claim the disability credit if a medical
  expense credit is claimed for a full time attendant, or for full time care in a nursing home.
  However, the individual or supporting person can claim either of the two amounts.

• The disability credit can be claimed if a medical expense credit is claimed for a part-time
  attendant. Part-time is defined as expenses claimed of less than $10,000 for the year
  ($20,000 in the year of death). Note that part-time attendant care can only be claimed as
  a medical expense credit if no part of that care is claimed as child care costs or for atten-
  dant care required to produce income.

4-127. For disabled individuals who work, or who attend a designated educational institu-
tion or secondary school, the disability supports deduction provides tax relief for a number of
medical expenses, including attendant care, which would assist a disabled person to work or
go to school. (See Chapter 9, Other Income, Other Deductions And Other Issues for coverage
of this deduction.)

4-128. There are complications and restrictions related to claiming these and many other
types of medical expenses. Complete coverage of all the relevant rules goes beyond the scope
of this text. For those interested in this subject, we refer you to the Income Tax Folio 1, "Health
and Medical". There are three Chapters that provide detailed guidance on the medical
expense tax credit, (S1-F1-C1), disability tax credit (S1-F1-C2) and disability supports deduc-
tion (S1-F1-C3).
Education Related Tax Credits

Tuition Fees Tax Credit - ITA 118.5(1) To ITA 118.5(4)
4-129. Under ITA 118.5, individuals receive a credit against Tax Payable equal to 15 percent of qualifying tuition fees paid with respect to the calendar year, regardless of the year in which they are actually paid, i.e., if $5,000 in tuition is owed for the current year and $1,000 of that was prepaid in the preceding calendar year, the tuition fee credit base for the current year is $5,000. The fees must total at least $100, but there is no upper limit on this credit. The following tuition fees qualify:

- Tuition fees paid to a university, college, or other institution for post-secondary courses located in Canada.
- Tuition fees paid to an institution certified by the Minister of Employment and Social Development for a course that developed or improved skills in an occupation. Fees paid for occupational skills that are not at the post-secondary level qualify for the credit, as long as the course provides the individual with skills in an occupation. The individual must be 16 or older to qualify for the credit.
- Tuition fees paid to a university outside Canada. To qualify the course must have a minimum duration of 3 weeks.
- For individuals who live near the U.S. border and commute, tuition fees paid to a U.S. college or university for part-time studies.

4-130. It is not uncommon for employers to reimburse employees for amounts of tuition paid, particularly if the relevant course is related to the employer’s business. If the reimbursement is included in the employee’s income, the student can claim a credit for the tuition paid. However, if amounts reimbursed are not included in the student’s income, the tuition credit is not available.

Ancillary And Examination Fees Included In Tuition Fees Tax Credit
4-131. It has been noted that universities are relying more heavily on ancillary fees for such items as health services, athletics, and various other services including examinations. To the extent that such fees are required for all full time students (if the student is attending full time) or all part time students (if the student is attending part time), these fees are eligible for inclusion in the base for the tuition fees tax credit.

4-132. The general provision of ancillary fees is found in ITA 118.5(3), while the provision for ancillary examination fees is found in ITA 118.5(4).

4-133. If such fees are not required of all full time or part time students, ITA 118.5(3) allows up to $250 in such ancillary fees to be added to the total, even if they do not meet the condition of being required for all full or part time students.

4-134. In addition, ITA 118.5(4) allows up to $250 in ancillary examination fees to be added to the total if they are not required to be paid by all students taking the examination. To be eligible, the fees must exceed $100.

4-135. Eligible fees include amounts for items such as the cost of examination materials or required identification cards. It does not, however, include fees for examinations required for entrance to professional programs.

Interest On Student Loans Tax Credit - ITA 118.62
4-136. There is a credit available under ITA 118.62 if a student or a related person has paid interest on student loans. The credit for the student is equal to 15 percent of interest paid in the year, or in any of the 5 preceding years. The interest paid must be on a loan under the Canada Student Loans Act, the Canada Student Financial Assistance Act, the Apprentice Loans Act, or a provincial statute governing the granting of financial assistance to students at the post-secondary school level. This credit is non-transferable.
Exercise Four - 14

Subject: Education Related Tax Credits

During 2019, Sarah Bright attends university for 4 months. Her total tuition for the year, including all ancillary fees, is $3,200 of which she prepaid $1,000 in 2018. The amount paid in 2019 includes $400 in fees that are only charged to students in her geology program. Interest paid for the year on her student loan was $325. Determine the total amount of education related tax credits that would be available for Ms. Bright for 2019.

SOLUTION available in print and online Study Guide.

Carry Forward Of Tuition Fees Tax Credit - ITA 118.61

4-137. There are situations in which a student does not have sufficient Tax Payable to use their tuition credit and, in addition, has not transferred it to a spouse, common-law partner, parent, or grandparent (see Paragraph 4-142).

4-138. To deal with this type of situation, ITA 118.61 allows a carry forward of unused tuition credits. There is no time limit on this carry forward. In addition, ITA 118.62 provides for a 5 year carry forward of unused interest on student loans.

4-139. Unfortunately, the calculation of the amount that is carried forward can be complex. Although the Income Tax Act uses Tax Payable and credit amounts to calculate carry forwards and transfers, Schedule 11 in the personal tax return uses Taxable Income and credit base amounts in its calculations. We will explain and illustrate both approaches in the example in Paragraph 4-146.

4-140. To carry amounts forward, the total available credits must be reduced by the student’s Tax Payable, calculated using the following credits (note the medical expense tax credit is not included in the list):

- ITA 118 (Personal)
- ITA 118.01 Through ITA 118.07 (Various credits)
- ITA 118.3 (Disability)
- ITA 118.7 (CPP And EI)

4-141. The available amount is also reduced by transfers to other individuals. The resulting balance can be carried forward and is available for the student’s personal use in any subsequent year. However, once it is carried forward, it cannot be transferred to another individual.

Transfer Of Tuition Fees Tax Credit - ITA 118.9

4-142. ITA 118.9 provides for a transfer of the tuition tax credit to a parent or grandparent. ITA 118.8 provides for a transfer of this credit (plus several others), to a spouse or common-law partner. ITA 118.81 limits the total amount of the tuition credit that can be transferred under either of these provisions. The transfer is at the discretion of the student and the legislation states that he must indicate in writing the amount that he is willing to transfer.

4-143. The maximum transfer for an individual student is the lesser of the available credit and $5,000, multiplied by the tax rate for the minimum tax bracket (referred to as the “appropriate percentage”). This amount is $750 [(15%)($5,000)].

4-144. This $750 maximum amount must be reduced by the student’s Tax Payable calculated after the same credits used to calculate the carry forward of tuition fee credits. As described in Paragraph 4-140, these are the credits available under ITA 118 through ITA 118.07, 118.3 and 118.7. If these credits reduce the student’s Tax Payable to nil, the full $750 is available for transfer.
4-145. The $750 limit is on a per student basis. A parent or grandparent could have $750 transfers from any number of children or grandchildren. For obvious reasons, transfers from more than one spouse would not be acceptable for tax purposes (even if having more than one spouse could be acceptable for other purposes). If the student is married, the supporting parent or grandparent can make the claim only if the student’s spouse did not claim the spousal credit, or any unused credits transferred by the student (see Paragraph 4-154).

4-146. An example will serve to illustrate both the ITA 118.9 transfer, as well as the ITA 118.81 limits on this transfer.

**EXAMPLE** Megan Doxy has 2019 Taxable Income of $13,000, all of which is rental income. She attends university full time during 2019, paying a total amount for tuition of $8,000. Other than her tuition credit, her only other tax credit is her personal amount of $1,810 [(15%)($12,069)]. She would like to transfer the maximum credits to her father.

**ANALYSIS - Income Tax Act Approach** Megan’s tuition credit is $1,200 [(15%)($8,000)], well in excess of the maximum transfer of $750. However, this maximum of $750 would have to be reduced by Megan’s Tax Payable after the deduction of her personal amount. This amount would be $140 [(15%)($13,000 - $12,069)], leaving a maximum transfer of $610 ($750 - $140). This would leave Megan with a remaining unused credit of $450 ($1,200 - $140 - $610) which can be carried forward to future years, but only for her own use. These calculations are the result of using the approach presented in the *Income Tax Act*.

**ANALYSIS - Tax Return Approach** The alternative calculation approach that is used in the tax return begins with the total tuition amount of $8,000. The maximum transfer amount in this approach is $5,000. This would be reduced by $931 ($13,000 - $12,069), the excess of Megan’s Taxable Income over her basic personal amount. This results in a maximum transfer of $4,069 ($5,000 - $931). Megan’s carry forward amount is $3,000 ($8,000 - $931 - $4,069). Multiplying these amounts by 15 percent gives the same $610 [(15%)($4,069)] transfer and $450 [(15%)($3,000)] of unused credits as the preceding *Income Tax Act* approach.

**Exercise Four - 15**

**Subject:** Transfer And Carry Forward Of Tuition Tax Credits

Jerry Fall has 2019 Taxable Income of $12,600. He attends an American university during 2019, paying a total amount for tuition of $23,500 (Canadian dollars). His only tax credits, other than the tuition credit, are his basic personal credit and a medical expense credit of $233 [(15%)($1,555)]. Determine Jerry's total tuition tax credit and indicate how much of this total could be transferred to a parent and how much would be carried forward.

**SOLUTION available in print and online Study Guide.**

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

4-147. ITA 118.7 provides a tax credit equal to 15 percent of the Employment Insurance (EI) premiums paid by an individual, all of the Canada Pension Plan (CPP) contributions paid on employment income, and half of the CPP contributions paid on self-employed income.

4-148. For 2019, an employee’s CPP contributions are based on maximum pensionable earnings of $57,400, less a basic exemption of $3,500. The rate for 2019 is 5.1 percent, resulting in a maximum contribution of $2,749 [(5.1%)($57,400 - $3,500)]. This provides for a maximum 2019 credit against federal Tax Payable of $412 [(15%)($2,749)]. The employer
matches the contributions made by the employee. However, this matching payment has no tax consequences for the employee.

4-149. A self-employed individual earning business income must make a matching CPP contribution for himself, effectively paying twice the amount he would as an employee. As discussed in Chapter 9, the matching contribution is a deduction from Net Income For Tax Purposes under ITA 60(e) (a Division B, Subdivision e deduction). This treatment for the matching CPP contribution as a deduction is analogous to the treatment used by employers. This means that a self-employed individual will have a tax credit equal to one-half of his CPP contributions for self-employed income, and a deduction for the remaining one-half.

4-150. For 2019, EI premiums are based on maximum insurable earnings of $53,100. The employee’s rate is 1.62 percent, resulting in a maximum annual premium of $860. This results in a maximum credit against federal Tax Payable of $129 [(15%($860)].

4-151. Employers are also required to pay EI premiums, the amount being 1.4 times the premiums paid by the employee. However, these employer paid premiums have no tax consequences for the employee. While self-employed individuals can elect to participate in the EI program, unlike for the CPP, they do not have to remit the employer’s share. Their premiums will be limited to the same maximum of $860 that is applicable to employees.

**Overpayment Of EI Premiums And CPP Contributions**

4-152. It is not uncommon for employers to withhold EI and CPP amounts that are in excess of the amounts required. This can happen through an error on the part of the employer’s payroll system, especially for employees with variable hours. Even in the absence of errors, overpayments can arise when an individual changes employers or has multiple employers. We would note that the CRA’s form T2204 is designed to assist taxpayers in calculating any overpayment of EI. Schedule 8 of the T1 provides similar assistance in calculating any CPP overpayment.

4-153. A refund of these excess amounts is available when an individual files his tax return. While any CPP or EI overpayment is not part of the base for the tax credit, it will increase the refund available or decrease the tax liability that is calculated in the return.

**EXAMPLE** Jerry Weist changed employers during 2019 and, as a consequence, the total amount of EI premiums withheld during the year was $957. In a similar fashion, the total amount of CPP contributions withheld by the two employers was $2,798. His employment income was well in excess of the maximum insurable and pensionable earnings.

**ANALYSIS** In filing his 2019 tax return, Jerry will claim a refund of $146, calculated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>EI Premiums Withheld</td>
<td>$957</td>
</tr>
<tr>
<td>2019 Maximum</td>
<td>(860)</td>
</tr>
<tr>
<td>CPP Contributions Withheld</td>
<td>$2,798</td>
</tr>
<tr>
<td>2019 Maximum</td>
<td>(2,749)</td>
</tr>
<tr>
<td>Refund</td>
<td>$146</td>
</tr>
</tbody>
</table>

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

4-154. In the preceding material, we have covered several tax credits that can be claimed by either spouse, such as the charitable donations credit. There are also four tax credits that can be transferred to a spouse or common-law partner under ITA 118.8. They are:

- the age tax credit (see Paragraph 4-62),
- the pension income tax credit (see Paragraph 4-64),
- the disability tax credit (see Paragraph 4-118), and
- the tuition fees tax credit to a maximum of $750 (see material beginning in Paragraph 4-142).
4-155. The maximum amount that can be transferred is based on the sum of the preceding credits, reduced by a modified calculation of the spouse or common-law partner’s Tax Payable. While the legislation is based on Tax Payable, the T1 tax return uses a simplified approach based on Taxable Income, much like the alternative calculation for the tuition credit transfer. This approach starts with the sum of the base for all of the preceding credits. From this amount is subtracted the spouse’s taxable income, reduced by the bases of:

- the basic personal credit,
- the Canada employment credit, CPP and EI credits,
- the credits under ITA 118.01 through ITA 118.07 (various credits including the first time home buyers credit and the adoption expenses credit),
- the tuition fees tax credit.

4-156. The resulting remainder, if any, is the amount that can be transferred to a spouse or common-law partner.

### Exercise Four - 16

**Subject:** Transfer Of Credits From A Spouse

Mr. Martin Levee is 68 years old and has Net Income For Tax Purposes of $42,000. Of this total, $24,000 was from a life annuity that he purchased with funds in his RRSP. His spouse is 66 years old and blind. She has no income of her own (she is ineligible for OAS), and is attending university on a full time basis for 4 months of 2019. Her tuition fees for the year were $2,200. Determine Mr. Levee’s maximum tax credits for 2019. Ignore the possibility of splitting his pension income with his spouse.

**SOLUTION available in print and online Study Guide.**

We suggest you work Self Study Problems Four-2 and 3 at this point.

### Political Contributions Tax Credits - ITA 127(3)

**Canada Elections Act**

4-157. While no changes have been made in the Income Tax Act, the Canada Elections Act limits the ability to make political contributions to individuals only. More specifically, this Act contains the following provisions:

- There is a total ban on contributions by corporations, trade unions and unincorporated associations.
- For 2019, the amount that can be contributed by an individual:
  - to each registered party,
  - in total to all the registered associations, nomination contestants and candidates of each registered party,
  - in total to all leadership contestants in a particular contest, and
  - to each independent candidate
  is limited to $1,600 for the year. The limits increase by $25 on January 1 in each subsequent year.

**Income Tax Rules**

4-158. A federal tax credit is available on monetary political contributions made to a registered federal political party, or to candidates at the time of a federal general election or by-election. The maximum value is $650 and it is available to both individuals and corporations.

4-159. However, as discussed in the preceding Paragraph, the Canada Elections Act totally bans contributions by corporations. The credit is calculated as follows:
Contributions Credit Rate Tax Credit

<table>
<thead>
<tr>
<th>Contributions</th>
<th>Credit Rate</th>
<th>Tax Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>First $400</td>
<td>3/4</td>
<td>$300</td>
</tr>
<tr>
<td>Next $350</td>
<td>1/2</td>
<td>175</td>
</tr>
<tr>
<td>Next $525</td>
<td>1/3</td>
<td>175</td>
</tr>
<tr>
<td>Maximum Credit</td>
<td>$1,275</td>
<td>$650</td>
</tr>
</tbody>
</table>

4-160. The $650 credit is achieved when contributions total $1,275. Contributions in excess of this amount do not generate additional credits. Also note that most provinces have a similar credit against provincial Tax Payable. There is a difference, however, in that the eligible contributions must be made to a registered provincial political party.

**Exercise Four - 17**

**Subject:** Political Contributions Tax Credit

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

**SOLUTION available in print and online Study Guide.**

**Labour Sponsored Venture Capital Corporations Credit - ITA 127.4**

4-161. Labour Sponsored Venture Capital Corporations (LSVCCs) are a form of mutual fund corporation, sponsored by an eligible labour organization, and mandated to provide venture capital to small and medium sized businesses.

4-162. There is a 15 percent federal tax credit for provincially registered LSVCCs prescribed under the ITA. The maximum credit available is $750 [(15%)(5,000 net cost of shares)]. To be eligible for the federal credit, the provincially registered LSVCC would need to:

- be eligible for a provincial tax credit of at least 15 percent of the cost of an individual's shares;
- be sponsored by an eligible labour body; and
- mandate that at least 60 percent of the LSVCC's shareholders' equity be investments in small and medium sized enterprises.

**Dividend Tax Credit**

4-163. The dividend tax credit is covered in Chapter 7 as part of our discussion of property income.

**Foreign Tax Credits**

4-164. The credits that are available for taxes paid in foreign jurisdictions are covered in Chapters 7 and 11.

**Investment Tax Credits**

4-165. When taxpayers make certain types of expenditures, they become eligible for investment tax credits. These credits reduce federal Tax Payable. While these credits can be claimed by individuals as well as corporations, they are much more commonly used by corporations and, as a consequence, we cover investment tax credits in Chapter 14.

*We suggest you work Self Study Problems Four-4 and Four-5 at this point.*
Credits To Support Canada’s Media Sector

In the November 21, 2018 Economic Statement, the Minister of Finance announced a $595 million package designed to support Canada's media sector. To implement these provisions, the federal government will create an independent panel made up of members of the media. The package has three components, all of which are effective for 2019:

- A temporary, non-refundable 15 percent credit for qualifying subscribers to eligible digital news media. The panel will determine eligibility criteria and applicable dates.
- A donations tax credit for contributions to a new category of "qualified donee" for non-profit journalism organizations. This will allow these organizations to issue tax receipts for donations from both individuals and corporations.
- A refundable tax credit (see Paragraph 4-169) for qualifying news organizations that produce a wide variety of news and information of interest to Canadians. Specifically, the credit will apply to the labour costs associated with producing original content. The credit is available to both for-profit and non-profit news organizations. Here again, the independent panel will define eligibility for the measure.

Because of their highly specialized nature, we will not provide detailed coverage of these measures. In addition, they will not be included in any of our examples or problem material.

Refundable Credits

Introduction

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

In contrast, refundable credits are paid to the taxpayer, without regard to whether that individual has a Tax Payable balance. In this section we will describe six of these refundable credits. (A seventh one is of limited general interest. It was briefly described in Paragraph 4-166 and is only available to qualifying news organizations.)

- The GST/HST tax credit;
- the refundable medical expense supplement;
- the Canada Workers Benefit;
- the refundable teacher and early childhood educator school supply tax credit;
- Climate Action Incentive payments (available in only some provinces and territories); and
- the Canada Training Credit.

With respect to the GST/HST credit, our coverage will be limited. This reflects the fact that, unlike the other four refundable credits, taxpayers do not calculate the GST/HST credit in their tax returns. Rather, the CRA calculates the credit from the tax returns that the taxpayer has filed in previous years and pays the amount to the eligible taxpayers. Given this, there is no need to provide coverage of the detailed calculation of this credit.

GST/HST Credit - ITA 122.5

One of the major problems with the goods and services tax (GST) is the fact that it is a regressive tax (see discussion in Chapter 1). In order to provide some relief from the impact of the GST on low income families, there is a refundable GST credit available under ITA 122.5.

The GST/HST credit is determined by the CRA on the basis of eligibility information supplied in the individual’s tax returns for previous years. Because of this, it is only paid to individuals who file tax returns.
4-173. The amount of the credit, as well as the relevant income threshold, is indexed on the same basis as other credits. The relevant amounts for 2019 are as follows:

- $290 for the “eligible individual”. An eligible individual includes a Canadian resident who is 19 years of age or over during the current taxation year, or is married or living common-law, or is a parent who resides with their child. In the case of a married couple, only one spouse can be an eligible individual.

- $290 for a “qualified relation”. A qualified relation is defined as a cohabiting spouse or common-law partner. If the eligible individual does not have a qualified relation, he is entitled to an additional credit that is the lesser of $153 and 2 percent of the individual’s Net Income For Tax Purposes in excess of $9,412.

- $290 for a dependant eligible for the eligible dependant tax credit.

- $153 for each “qualified dependant”. A “qualified dependant” is defined as a person who is the individual's child or is dependent on the individual or the individual's cohabiting spouse or common-law partner for support. In addition, the child or dependent person must be under 19 years of age, reside with the individual, have never had a spouse or common-law partner, and have never been a parent of a child he has resided with.

4-174. The total of these amounts must be reduced by 5 percent of the excess of the individual’s 2017 “adjusted income” over an indexed threshold amount of $37,789. The system uses information provided on the 2017 tax return, since this return is normally filed by early 2018. “Adjusted Income” is defined as total income of the individual and his qualified relation, if any.

4-175. The GST/HST credit is available to all eligible individuals, without regard to whether they have Tax Payable. The amount of the credit is calculated by the CRA on the basis of information included in the individual’s tax return for a particular year, and the amounts are automatically paid to the taxpayer in subsequent years.

**Refundable Medical Expense Supplement - ITA 122.51**

4-176. The calculation of the GST/HST credit is not included in the tax return. The four other refundable credits, including the refundable medical expense supplement, are included in the tax return.

4-177. To be eligible for the 2019 medical expense supplement, the individual must be 18 or over at the end of the year, and must have income (employment or business) of at least $3,645. The credit is the lesser of $1,248 and 25/15 of the medical expense tax credit that can be claimed for the year.

4-178. The lesser amount is reduced by 5 percent of “family net income” in excess of an indexed threshold amount. Family net income is the sum of the income of the taxpayer and his spouse or common-law partner, but not that of an eligible dependant. For 2019, the income threshold is $27,639 and the credit is completely eliminated when family net income reaches $52,599 [($1,248 ÷ 5%) + $27,639]. A simple example will serve to illustrate this provision:

**EXAMPLE** For 2019, Mr. Larry Futon and his spouse have medical expenses that total $5,000. His Net Income For Tax Purposes is $28,900, all of which is employment income. His spouse has Net Income For Tax Purposes of $500. Mr. Futon claims the Canada caregiver tax credit for his mother who has Net Income of $8,000. He has no tax credits other than personal and medical credits.

**ANALYSIS** Mr. Futon’s allowable medical expenses for tax credit purposes would be $4,133 [($5,000 - (3%($28,900))], resulting in a tax credit of $620 [(15%($4,133))]. Given this, 25/15 of the credit would equal $1,033 [(25/15($620))]. Since this is less than the maximum of $1,248, his refundable credit would be $1,033 less a reduction of $88 (5%($28,900 + $500 - $27,639)], leaving a balance of $945 ($1,033 - $88).
4-179. The receipt of this refundable credit does not affect an individual’s ability to claim a tax credit for the same medical expenses that are used to calculate the refundable credit. In the preceding example, Mr. Futon’s basic personal, spousal, Canada caregiver, and medical expense credit bases total $34,911 ($12,069 + ($12,069 - $500) + $7,140 + $4,133). This is more than his Taxable Income of $28,900 which results in his federal Tax Payable being nil. This means that he will be able to claim the entire $945 as a refund.

**Exercise Four - 18**

**Subject:** Refundable Medical Expense Supplement

During 2019, Ms. Lara Brunt and her common-law partner, Sara, have medical expenses that total $6,250. Her Net Income For Tax Purposes is $28,400, all of which qualifies as income for the Refundable Medical Expense Supplement. Sara has no income of her own. Determine Lara’s minimum Tax Payable for 2019. Ignore any credits other than the basic, spousal and medical expense related credits.

_SOLUTION available in print and online Study Guide._

**Canada Workers Benefit - ITA 122.7**  
**(Formerly Working Income Tax Benefit)**

_The Welfare Wall_

4-180. Despite the rantings of ostensibly virtuous individuals of a right-wing persuasion, many individuals who are receiving various types of social assistance are not necessarily lazy or lacking in motivation. The simple fact is that, given the types of wages such individuals receive, they are often better off economically if they do not work. The types of wages that such individuals can earn are typically at the legal “minimum” (e.g., the minimum wage ranges from $11.35 in Manitoba to $15.00 per hour in Alberta). The amounts earned at this wage are typically offset by reductions in social assistance payments. Additional negative effects flow from loss of subsidized housing, prescription drug assistance, and other benefits that are available to individuals with little or no income.

4-181. It has been demonstrated that, if such individuals find employment, the result can be a reduction in their real income. Instead of rewarding their efforts, our current system can actually punish individuals who make an effort to improve their economic status. This is commonly referred to as the welfare wall.

_**Calculation Of The Canada Workers Benefit**_

4-182. To deal with this problem, the _Income Tax Act_ provides a refundable credit for individuals over the age of 19 and have working income in excess of $3,000. Working income is defined as gross employment income (i.e., no employment expenses deducted), business income, scholarships, and research grants. The amount of the benefit will depend on whether the individual is single or, alternatively, has a spouse or an eligible dependant. For this purpose, an eligible dependant is a child who lives with the individual and who is under the age of 19 at the end of the year.

4-183. Unfortunately, the calculation of this benefit is fairly complex and, in addition, there is a significant lag in the availability of relevant parameters for the current year. Given this, we have decided not to include detailed coverage of the calculation of this refundable credit. We have, however, provided sufficient information about the general nature of the benefit that users of this material will be aware of when this refundable credit might be available. Effective for 2019, the federal government has strengthened the former Working Income Tax Benefit and turned it into a new Canada Workers Benefit.
Refundable Teacher And Early Childhood Educator School Supply Tax Credit - ITA 122.9

4-184. The government has observed that early childhood educators often use their own funds to acquire supplies for the purpose of teaching or enhancing students' learning. In recognition of this situation, an eligible educator can claim a 15 percent tax credit for up to $1,000 of eligible expenditures. While it is unlikely that employed teachers will lack sufficient Tax Payable to claim the credit, the credit is refundable.

4-185. The definitions relevant to this credit are as follows:

**Eligible Educator** To be eligible for this credit, a teacher will need to have a teacher's certificate that is valid in the province where they are employed. Early childhood educators qualify if they hold either a teacher's certificate or a diploma in early childhood education that is recognized by the province in which they are employed.

**Eligible Supplies** Eligible supplies will include the following durable goods:

- games and puzzles;
- supplementary books for classrooms;
- educational support software;
- or containers such as plastic boxes for themes and kits.

Eligible supplies will also include consumable goods such as:

- construction paper for activities, flashcards, or activity centres;
- items for science experiments, such as seeds, potting soil, vinegar, and stir sticks;
- art supplies, such as paper, glue, and paint; and
- various stationery items, such as pens, pencils, posters, and charts.

4-186. For the cost of supplies to qualify for this credit, employers will be required to certify that the supplies were purchased for the purpose of teaching or otherwise enhancing learning in a classroom or learning environment. Claimants will be required to retain their receipts for eligible purchases.

Climate Action Incentive Payments

**Background**

4-187. Carbon tax plans are recognized as an effective way of dealing with the crucial problem of global warming. Globally speaking, there is always some opposition to any plan that deals with the negative influence of carbon on the environment. All such plans involve penalizing some group, or economic sector, in order to reduce the influence of carbon on the environment and, not surprisingly, such groups or sectors create arguments to support their opposition to the applied penalties.

4-188. At the federal level, the government of Canada has adopted such a plan and the federal carbon tax was, of course, no exception to opposition. Several provinces have objected to this federal initiative and have refused to accept it in their jurisdictions. For these provinces, the federal government offered an alternative. If they adopted a robust plan of their own for dealing with climate change, there would be no consequences related to rejecting the federal carbon tax.

4-189. Showing a disregard for the critical issue of climate change, four provinces and two territories have rejected the federal plan and have no effective plan of their own. These provinces and territories are:

- Four provinces - Manitoba, New Brunswick, Ontario, and Saskatchewan
- Two territories - Nunavut and Yukon

4-190. In order to ensure that there is a price on carbon pollution throughout Canada, the federal government has introduced the *Greenhouse Gas Pollution Pricing Act*. This is a federal fuel charge that will apply only in those four provinces and two territories that neither accepted the federal carbon tax nor adopted a pollution control plan of their own.
The Refundable Credit

4-191. In applying this fuel tax, it was not the intent of the federal government to increase tax revenues. The macro effects of the fuel tax will be offset by a refundable credit which the federal government has referred to as the Climate Action Incentive payment. It is expected that these payments, while making the use of polluting fossil fuels more expensive, will distribute to the residents of the provinces and territories where the fuel tax is applied, an amount that is supposed to roughly offset the cost of the fuel tax for residents.

4-192. This payment is implemented through the federal income tax system in the form of a refundable tax credit. Individuals aged 18 and older have to file a tax return in order to receive this Climate Action Incentive payment even if they wouldn’t otherwise be required to file a tax return. This process is analogous to that applicable to the GST credit.

4-193. The amount of the payments vary by province. The total paid is based on the number of dependants (family size) and is not income dependent. It was in effect for 2018. As an example of the amounts, the 2019 figures for Ontario are as follows:

<table>
<thead>
<tr>
<th>Family Member</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single adult or first family member</td>
<td>$154</td>
</tr>
<tr>
<td>Second adult in a couple or for the first child of a single parent</td>
<td>77</td>
</tr>
<tr>
<td>First child of family or second child of a single parent</td>
<td>38</td>
</tr>
<tr>
<td>Each additional child</td>
<td>38</td>
</tr>
<tr>
<td><strong>Total For A Family Of Four</strong></td>
<td><strong>$307</strong></td>
</tr>
</tbody>
</table>

4-194. The anticipated 2019 payments for a single adult for the four provinces are: New Brunswick ($128), Ontario ($154 table above), Manitoba ($170) and Saskatchewan ($305). Figures are not currently available for Yukon and Nunavut territories.

Canada Training Credit - ITA 122.91 (Proposed)

The Credit Base

4-195. The government is interested in encouraging working individuals to improve their professional skills. To this end, the 2019 budget is introducing the Canada Training Credit. In somewhat simplified terms, this proposal allows one-half of amounts that would normally be eligible for the 15 percent tuition tax credit, to be eligible for a refund. Note that refunds reduce the amount that is eligible for the tuition credit.

4-196. Eligibility for the tuition tax credit was discussed beginning in Paragraph 4-129. In general, the amount eligible for the Canada Training Credit will be the same as the amount that qualified for the tuition tax credit. The one exception to this is amounts paid to educational institutions outside of Canada. While these amounts will continue to be eligible for the tuition tax credit, they will not be eligible for the Canada Training Credit.

4-197. Despite the fact that the draft legislation states that it comes into force on January 1, 2019, the Training Account Limit for the Canada Training Credit only begins to accumulate in 2020. It accumulates at a rate of $250 per year, including years in which a refund is claimed. To be eligible for this annual addition to the Trading Account Limit, an individual must:

- file a tax return for the year of accumulation;
- be at least 25 years of age and less than 65 years of age;
- be a resident of Canada throughout the year;
- have earnings, subject to indexation, of $10,000 or more during the year (including employment income, self-employed income, maternity EI benefits, and taxable scholarship income); and
- have Net Income For Tax Purposes in the preceding year that does not exceed the top of the third tax bracket ($147,667 for 2019).
4-198. Over their lifetime, individuals will be able to add a maximum of $5,000 to their Canada Training account. This provides for adding the annual amount of $250 in each of 20 years. However, any unused amount that is present in the year an individual turns 65 will expire at the end of that year.

**Calculating The Refund**

4-199. The actual refund will be equal to the lesser of:

- one-half of eligible training/tuition costs for the current year; and
- the balance in the individual's Canada Training account for the preceding year.

**NOTE** As the Training Account Limit has no additions prior to 2020 and actual refunds are based on the balance in this account in the previous year, there will be no benefits received from this refundable credit prior to 2021.

4-200. An example will serve to illustrate the required calculations.

**EXAMPLE** Michael is eligible to accumulate an amount in his Canada Training account in each of the years 2020 through 2022. This means that his preceding year balance for 2023 is $750 [(3)($250)]. During 2023 he pays $1,500 in eligible tuition fees.

**ANALYSIS** For 2023, Michael can claim a refundable tax credit equal to $750. This is both one-half of the training costs of $1,500, as well as the balance in his Canada Training account for 2022. The other $750 of the tuition fees can be used to claim a non-refundable tuition tax credit of $112.50 [(15%($750)].

At the end of 2023, the balance in his Canada Training account will be $250 ($750 opening balance + $250 for 2023 - $750 claimed in 2023). For 2024 and subsequent years, he can accumulate an additional $4,000 in his Canada Training account. This is the accumulation limit of $5,000, less the $250 per year that was added during the 4 years 2020 through 2023.

**Implementation**

4-201. While the legislation refers to application as of January 1, 2019, accumulation of a Training Account Limit will only begin in 2020. No refund will be available until 2021.

**Social Benefits Repayment (OAS And EI)**

**Basic Concepts**

**Clawbacks**

4-202. Many Canadian tax credits and benefits are available on a universal basis, without regard to the income level of the recipient. However, both Old Age Security payments (OAS) and Employment Insurance payments (EI) are reduced for higher income individuals.

4-203. With respect to OAS payments, the government assesses a Part I.2 tax on OAS benefits received by individuals with an adjusted Net Income above a threshold amount. In similar fashion, the Employment Insurance Act requires that individuals with an adjusted Net Income above a specified threshold amount repay a portion of any Employment Insurance (EI) benefits received. These required repayments are commonly referred to as “clawbacks”.

**Treatment In Net And Taxable Income**

4-204. Both OAS payments received and EI payments received must be included in an individual’s Net Income For Tax Purposes. However, in situations where part or all of these amounts must be repaid, it would not be equitable to have the full amounts received flow through to Taxable Income and be fully taxed.

4-205. This problem is dealt with by providing a deduction for amounts repaid. You may recall from Chapter 1 that one of the components of Net Income For Tax Purposes was Other Deductions (subdivision e of the Income Tax Act). While we will not provide detailed coverage
of this subdivision until Chapter 9, we need to note here that ITA 60(v.1) provides a deduction for repayments of EI, and ITA 60(w) provides a deduction for repayment of OAS amounts.

4-206. As both the EI and OAS repayments are calculated on the basis of the individual’s income in excess of a threshold amount, the question arises as to whether these tests should be applied using income figures which include the full amount received or, alternatively, income figures from which the repayments have been deducted. The solution to this problem will be discussed in the two sections which follow.

**Employment Insurance (EI) Benefits Clawback**

4-207. The Employment Insurance Act requires the partial repayment of benefits received if the recipient’s threshold income is greater than $66,375 (1.25 times the 2019 maximum insurable earnings of $53,100). This $66,375 income figure includes all of the components of Net Income For Tax Purposes except the deductions for repayment of EI benefits [ITA 60(v.1)] and the deduction for the repayment of OAS benefits [ITA 60(w)]. As the EI clawback is deducted from the threshold income used for determining the OAS clawback, the EI clawback must be determined prior to calculating any amount of OAS clawback.

4-208. Once the amount of threshold income over $66,375 is determined, it must be compared to the EI benefits included in the current year’s Net Income For Tax Purposes. The lesser of these two amounts is multiplied by 30 percent and this becomes the amount that must be repaid for the year as a social benefits repayment. This amount can then be deducted under ITA 60(v.1) in the determination of Net Income For Tax Purposes for the year.

**Old Age Security (OAS) Benefits Clawback**

4-209. The OAS clawback is the lesser of the OAS payments included in income and 15 percent of the taxpayer’s income in excess of the $77,580 income threshold. For this purpose, income is equal to Net Income For Tax Purposes computed after any EI clawback, but before consideration of the deduction for the OAS clawback.

4-210. The current annual benefit from OAS is about $7,400. Assuming this to be the correct figure, all of the OAS benefit would be clawed back when the individual’s Net Income For Tax Purposes reaches $126,913 \([\$7,400 \div 15\% + \$77,580]\).

4-211. For higher income seniors, OAS benefits are clawed back on a regular basis, with some individuals never receiving benefits during their lifetime. Given this, the government has an administrative procedure under which they withhold payments that they expect to be clawed back. Expectations are based on tax returns filed in the two previous years.

**EXAMPLE**

In her tax returns for both 2017 and 2018, Sally Leung has reported Taxable Income in excess of $200,000 per year. Despite the fact that Sally is 70 years of age, she would receive no OAS payments in 2019.

4-212. It is important to understand the procedures related to OAS payments. In their first year of eligibility for OAS, individuals will automatically be enrolled in this program. Unless they take action to defer the payments, they will begin immediately.

### Exercise Four - 19

**Subject:** EI and OAS Clawbacks

For 2019, Ms. Marilyn Jacobi has net employment income of $65,000, receives EI payments of $10,000, and receives $7,400 in Old Age Security (OAS) payments. No amount was withheld from the OAS payments because she had very low income in the previous two years due to large rental losses. Determine Ms. Jacobi’s Net Income For Tax Purposes for 2019.

**SOLUTION** available in print and online Study Guide.
Comprehensive Example

While this Chapter has provided a reasonably detailed description of the determination of Tax Payable for individuals, including small examples of some of the issues that arise in this process, a more comprehensive example is appropriate at this point. To focus on the federal tax calculations, we have ignored provincial income taxes and income tax withholdings on employment income.

Basic Data

Mr. Thomas Baxter is 66 years of age and his 2019 income is made up of net employment income of $73,800 and Old Age Security benefits of $7,400 (because of large business losses during the previous two years, no amount was withheld from these payments). Mr. Baxter and his family live in Nanaimo, B.C.

For 2019, Mr. Baxter’s employer withheld maximum CPP and EI contributions. Other information pertaining to 2019 is as follows:

1. Mr. Baxter’s spouse is 49 years old and qualifies for the disability tax credit. Her income for the year totalled $5,000.
2. Mr. and Mrs. Baxter have two daughters, Kim, aged 14 and Lori, aged 17. Kim had income of $2,700 for the year while Lori had net income of $2,000. In September, 2019, Lori began full time attendance at a Canadian university. Mr. Baxter paid her tuition fees of $5,000, of which $2,500 was for the fall, 2019 semester. Lori is willing to transfer her tuition credit to her father.
3. The family medical expenses for the year, all of which were paid by Mr. Baxter, totalled $2,843. Of this amount, $300 was paid for Kim and $900 for Lori.
4. During the year, Mr. Baxter made cash donations to registered Canadian charities in the amount of $3,000.
5. During the year, Mr. Baxter made contributions to federal political parties totaling $800.

Net And Taxable Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Employment Income</td>
<td>$73,800</td>
</tr>
<tr>
<td>OAS Benefits</td>
<td>7,400</td>
</tr>
<tr>
<td>Net Income Before Clawback</td>
<td>$81,200</td>
</tr>
<tr>
<td>OAS Clawback (Note One)</td>
<td>(543)</td>
</tr>
<tr>
<td>Net Income For Tax Purposes And Taxable Income</td>
<td>$80,657</td>
</tr>
</tbody>
</table>

Note One  The required repayment of OAS is the lesser of:

- $7,400, the OAS payments included in income, and
- $543 [(15%)($81,200 - $77,580)].

Note Two  As the spousal amount is larger than the Canada caregiver amount of $7,140, there is no additional Canada caregiver amount.

Note Three  Since both daughters are under 18 at the end of the year, their expenses can be aggregated with those of Mr. Baxter for the purposes of this calculation.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Medical Expenses</td>
<td>$2,843</td>
</tr>
<tr>
<td>Lesser Of:</td>
<td></td>
</tr>
<tr>
<td><a href="$80,657">(3%)</a>] = $2,420</td>
<td></td>
</tr>
<tr>
<td>2019 Threshold Amount = $2,352</td>
<td>(2,352)</td>
</tr>
<tr>
<td>Allowable Amount Of Medical Expenses</td>
<td>$  491</td>
</tr>
</tbody>
</table>
## Tax Payable/Federal Balance Owing

As Mr. Baxter is a resident of B.C. he is not eligible for the Climate Action Incentive payment. His federal tax payable and balance owing is calculated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Tax On First $47,630</td>
<td>$ 7,145</td>
</tr>
<tr>
<td>Federal Tax On Next $33,027 ($80,657 - $47,630) At 20.5%</td>
<td>6,771</td>
</tr>
<tr>
<td><strong>Gross Tax</strong></td>
<td><strong>$13,916</strong></td>
</tr>
<tr>
<td><strong>Tax Credits:</strong></td>
<td></td>
</tr>
<tr>
<td>Basic Personal Amount</td>
<td>($12,069)</td>
</tr>
<tr>
<td>Spousal Including Infirm Amount</td>
<td>9,299</td>
</tr>
<tr>
<td>($12,069 + $2,230 - $5,000)</td>
<td></td>
</tr>
<tr>
<td>Additional Caregiver Amount (Note Two)</td>
<td>Nil</td>
</tr>
<tr>
<td>EI Premiums (Maximum)</td>
<td>860</td>
</tr>
<tr>
<td>CPP Contributions (Maximum)</td>
<td>2,749</td>
</tr>
<tr>
<td>Canada Employment</td>
<td>1,222</td>
</tr>
<tr>
<td>Age [$7,494 - (15%)($80,657 - $37,790)]</td>
<td>1,064</td>
</tr>
<tr>
<td>Medical Expenses (Note Three)</td>
<td>491</td>
</tr>
<tr>
<td>Mrs. Baxter’s Disability Transferred</td>
<td>8,416</td>
</tr>
<tr>
<td>Lori’s Tuition For 2019 Transferred</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>($38,670)</strong></td>
</tr>
<tr>
<td><strong>Rate</strong></td>
<td>15%</td>
</tr>
<tr>
<td><strong>Charitable Donations (Note Five)</strong></td>
<td>(5,800)</td>
</tr>
<tr>
<td>{((15%)(200)) + ((33%)(Nil)) + ((29%)(3,000 - 200))}</td>
<td>842</td>
</tr>
<tr>
<td><strong>Political Contributions Tax Credit</strong></td>
<td>492</td>
</tr>
<tr>
<td>{((400)(3/4) + (350)(1/2) + (50)(1/3))}</td>
<td></td>
</tr>
<tr>
<td><strong>Federal Tax Payable</strong></td>
<td><strong>$ 6,782</strong></td>
</tr>
<tr>
<td><strong>Social Benefits Repayment (Note One)</strong></td>
<td>543</td>
</tr>
<tr>
<td><strong>Federal Balance Owing</strong></td>
<td><strong>$ 7,325</strong></td>
</tr>
</tbody>
</table>

**Note Four** Since Lori has no Tax Payable before consideration of her tuition credit, it can be all be transferred to her supporting parent as it totals less than the $5,000 transfer limit. Alternatively, she could have chosen to carry forward these credits to apply against her own Tax Payable in a subsequent year.

**Note Five** Since none of Mr. Baxter’s income is taxed at 33 percent, this rate is not used to calculate the charitable donations credit.

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**We suggest you work Self Study Problems Four-6 to Four-8 at this point.**

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**Additional Supplementary Self Study Problems Are Available Online.**
Key Terms Used In This Chapter

4-214. The following is a list of the key terms used in this Chapter. These terms, and their meanings, are compiled in the Glossary located at the back of the Study Guide.

<table>
<thead>
<tr>
<th>Key Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adoption Expenses Tax Credit</td>
<td>Labour Sponsored Funds Tax Credit</td>
</tr>
<tr>
<td>Age Tax Credit</td>
<td>Medical Expense Tax Credit</td>
</tr>
<tr>
<td>Canada Caregiver Amount For Child</td>
<td>Non-Refundable Tax Credit</td>
</tr>
<tr>
<td>Canada Caregiver Tax Credit</td>
<td>Northern Residents Deductions</td>
</tr>
<tr>
<td>Canada Employment Credit</td>
<td>OAS Clawback</td>
</tr>
<tr>
<td>Canada Pension Plan (CPP)</td>
<td>Old Age Security (OAS) Benefits</td>
</tr>
<tr>
<td>Canada Pension Plan Tax Credit</td>
<td>Pension Income Tax Credit</td>
</tr>
<tr>
<td>Canada Training Credit</td>
<td>Personal Tax Credits</td>
</tr>
<tr>
<td>Canada Workers Benefit</td>
<td>Political Contributions Tax Credit</td>
</tr>
<tr>
<td>Charitable Donations Tax Credit</td>
<td>Progressive Tax System</td>
</tr>
<tr>
<td>Charitable Gifts</td>
<td>Refundable Medical Expense Supplement</td>
</tr>
<tr>
<td>Clawback</td>
<td>Refundable Tax Credit</td>
</tr>
<tr>
<td>Climate Action Incentive Payment</td>
<td>Regressive Tax System</td>
</tr>
<tr>
<td>Common-Law Partner</td>
<td>Social Benefits Repayment</td>
</tr>
<tr>
<td>Dependant</td>
<td>Spousal Tax Credit</td>
</tr>
<tr>
<td>Disability Tax Credit</td>
<td>Spouse</td>
</tr>
<tr>
<td>Disability Tax Credit Supplement</td>
<td>Student Loan Interest Tax Credit</td>
</tr>
<tr>
<td>Eligible Dependant Tax Credit</td>
<td>Tax Credit</td>
</tr>
<tr>
<td>Employment Insurance (EI)</td>
<td>Taxable Income</td>
</tr>
<tr>
<td>Employment Insurance Tax Credit</td>
<td>Teacher School Supply Tax Credit</td>
</tr>
<tr>
<td>First Time Home Buyer’s Tax Credit</td>
<td>Tuition Fees Tax Credit</td>
</tr>
<tr>
<td>GST Tax Credit</td>
<td>Volunteer Firefighters Tax Credit</td>
</tr>
<tr>
<td>Home Accessibility Tax Credit</td>
<td>Volunteer Search And Rescue Tax Credit</td>
</tr>
<tr>
<td>Indexation</td>
<td>Wholly Dependent Person</td>
</tr>
</tbody>
</table>
References

4-215. For more detailed study of the material in this Chapter, we would refer you to:

ITA 110 Deductions Permitted
ITA 111.1 Order Of Applying Provisions
ITA 117 Individual Taxes Payable
ITA 117.1 Annual Adjustment (Indexation)
ITA 118(1) Personal Credits
ITA 118(2) Age Credit
ITA 118(3) Pension Credit
ITA 118(10) Canada Employment Credit
ITA 118.01 Adoption Expense Credit
ITA 118.041 Home Accessibility Tax Credit
ITA 118.05 First-Time Home Buyers’ Credit
ITA 118.06 Volunteer Firefighters Tax Credit
ITA 118.07 Volunteer Search And Rescue Workers Tax Credit
ITA 118.1 Definitions (Charitable Gifts)
ITA 118.2 Medical Expense Credit
ITA 118.3 Credit For Mental Or Physical Impairment
ITA 118.5 Tuition And Other Education Related Credits
ITA 118.61 Unused Tuition, Textbook And Education Tax Credits
ITA 118.62 Credit For Interest On Student Loan
ITA 118.7 Credit For EI And QPIP Premiums And CPP Contributions
ITA 118.8 Transfer Of Unused Credits To Spouse Or Common-Law Partner
ITA 118.81 Tuition Tax Credit Transferred
ITA 118.9 Transfer To Parent Or Grandparent
ITA 122.5 GST/HST Credit
ITA 122.51 Refundable Medical Expense Supplement
ITA 122.7 Canada Worker’s Benefit (Formerly Working Income Tax Benefit)
ITA 127(3) Federal Political Contributions Tax Credit
ITA 180.2 OAS Clawback
ITR 5700 Prescribed Devices Or Equipment Or Equipment For The Medical Expense Tax Credit,
IC 75-2R9 Contributions To A Registered Political Party Or To A Candidate At A Federal Election
S1-F1-C1 Medical Expense Tax Credit
S1-F1-C2 Disability Tax Credit
S1-F1-C3 Disability Supports Deduction
S1-F2-C1 Education And Textbook Tax Credits
S1-F2-C2 Tuition Tax Credit
S1-F2-C3 Scholarships, Research Grants, And Other Education Assistance
S1-F4-C1 Basic Personal And Dependant Tax Credits (For 2016 And Prior Years)
S1-F4-C2 Basic Personal And Dependant Tax Credits (For 2017 And Subsequent Years)
S1-F5-C1 Related Persons And Dealing At Arm’s Length
S7-F1-C1 Split-receipting and Deemed Fair Market Value
IT-113R4 Benefits To Employees — Stock Options
IT-226R Gift To A Charity Of A Residual Interest In Real Property Or An Equitable Interest In A Trust
IT-244R3 Gifts By Individuals Of Life Insurance Policies As Charitable Donations
IT-407R4 Dispositions Of Cultural Property To Designated Canadian Institutions
IT-523 Order Of Provisions Applicable In Computing An Individual’s Taxable Income And Tax Payable
Sample Tax Return And Tax Software SS Problem

The Chapter 4 Sample Tax Return and the Tax Software Self Study Problem for Chapter 4 can be found in the print and online Study Guide.

Problems For Self Study (Online)

To provide practice in problem solving, there are Self Study and Supplementary Self Study problems available on MyLab Accounting.

Within the text we have provided an indication of when it would be appropriate to work each Self Study problem. The detailed solutions for Self Study problems can be found in the print and online Study Guide.

We provide the Supplementary Self Study problems for those who would like additional practice in problem solving. The detailed solutions for the Supplementary Self Study problems are available online, not in the Study Guide.

The .PDF file "Self Study Problems for Volume 1" on MyLab contains the following for Chapter 4:

• 8 Self Study problems,
• 3 Supplementary Self Study problems, and
• detailed solutions for the Supplementary Self Study problems.

Assignment Problems

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

Assignment Problem Four - 1
(Personal Tax Credits - 5 Cases)

In each of the following independent Cases, determine the maximum amount of 2019 personal tax credits, including transfers from a spouse or dependant, that can be applied against federal Tax Payable by the taxpayer. In all Cases, the taxpayer's Net Income For Tax Purposes is equal to their Taxable Income. Ignore, where relevant, the possibility of pension income splitting.

A calculation of Tax Payable is NOT required, only the applicable credits.

1. Cammy Tarbell has Net Income For Tax Purposes of $96,500, all of which is employment income. Her employer has withheld maximum EI and CPP contributions. She is married to Bob Tarbell who has Net Income For Tax Purposes of $8,650. They have four children ages 3, 5, 7, and 9. All of the children are in good health and none of them have any income during the current year.

2. Scotty Severa has been divorced for a number of years. Because his former wife is an airline pilot who travels extensively, he has been awarded custody of their three children. The children are aged 7, 10, and 15 and they are all in good health. Scotty's Net Income For Tax Purposes is $71,400, all of which is spousal support payments. The two younger children have no income of their own. The 15 year old has income from part time jobs of $8,640.
3. Donald Preble has Net Income For Tax Purposes of $126,325, all of which is rental income. His spouse Donna has Net Income For Tax Purposes $6,340. Their daughter Diane is 26 years old and has a mental disability. While the disability is not severe enough to qualify for the disability tax credit, she has no income during the current year and continues to live with Donald and Donna.

4. Bibi Spillman is 68 years old. Her Net Income For Tax Purposes totals $65,420 and is made up of OAS payments of $7,400 and pension income from a former employer. Her spouse is 62 years old and has Net Income For Tax Purposes of $6,250.

5. Clarice McBryde has Net Income For Tax Purposes of $132,400, all of which is employment income. Her employer has withheld the maximum EI and CPP contributions. She and her husband Moishe have two children aged 11 and 13. Moishe and the children have no income of their own during the current year. The 13 year old child was severely injured in a car accident two years ago and qualifies for the disability tax credit. No amount was paid for attendant care for this child during the current year.

Clarice spent $12,500 installing wheelchair ramps to improve access to various parts of the family residence. She also spent the following on dental fees and fees for various medical practitioners:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarice</td>
<td>$ 4,420</td>
</tr>
<tr>
<td>Moishe</td>
<td>2,620</td>
</tr>
<tr>
<td>11 Year Old Child</td>
<td>1,875</td>
</tr>
<tr>
<td>13 Year Old Child</td>
<td>14,250</td>
</tr>
<tr>
<td><strong>Total Medical Fees Paid</strong></td>
<td><strong>$23,165</strong></td>
</tr>
<tr>
<td>Reimbursement From Company Medical Plan</td>
<td>- Plan’s Annual Maximum (11,000)</td>
</tr>
<tr>
<td><strong>Net Medical Fees Paid</strong></td>
<td><strong>$12,165</strong></td>
</tr>
</tbody>
</table>

Assignment Problem Four - 2

**Individual Tax Payable - 5 Cases**

Mr. William Norris is 45 years old. The following five independent Cases make varying assumptions for the 2019 taxation year with respect to Mr. Norris’ marital status and number of dependants. In all Cases, Mr. Norris earned employment income of $60,000 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, has a mental infirmity that is not severe enough to qualify for the disability tax credit. However, it does make her dependent on William and Susan. Because of a large investment portfolio, Bernice had Net Income For Tax Purposes of $18,000 during 2019.

**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:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>William</td>
<td>$1,200</td>
</tr>
<tr>
<td>Susan</td>
<td>1,600</td>
</tr>
<tr>
<td>Martha</td>
<td>350</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,150</strong></td>
</tr>
</tbody>
</table>
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 $9,000 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 2019. He also makes contributions to a federal political party 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. 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 for 2019. 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 Four - 3  
(Individual Tax Payable - 7 Cases)**
The following seven independent Cases make varying assumptions with respect to Roger Blaine and his 2019 tax status. In all Cases, where Roger earned employment income, his employer withheld the maximum EI premium and CPP contribution.

Case A  Roger Blaine is 48 years of age and has employment income of $65,000. During the year, Roger makes contributions to federal political parties in the amount of $1,000. Roger is not married and has no dependants.

Case B  Roger Blaine is 48 years of age and has employment income of $65,000. His wife, Martha, is 43 years of age and has Net Income For Tax Purposes of $4,650. They have one child, Eileen, who is 11 years of age and has income of $3,000. During the year, the family had eligible medical expenses of $1,050 for Roger, $1,800 for Martha, and $300 for Eileen.

Case C  Roger Blaine is 48 years old and his wife, Martha, is 43. Roger has rental income of $65,000 and Martha has investment income of $9,400. They have a 19 year old disabled son, Albert, who lives with them. His disability qualifies him for the disability tax credit and he has no income of his own. During the year, Roger and Martha have medical expenses of $1,250. Medical expenses for Albert during the year total $8,350.

Case D  Roger Blaine is 48 years of age and his wife, Martha, is 43. They have no children. Roger has employment income of $65,000. Martha has employment income of $14,000. Martha’s 68 year old father, Ahmed, and her 70 year old aunt, Jaleh, live with them. Both are in good health. Ahmed’s Net Income For Tax Purposes is $9,200 and Jaleh’s Net Income For Tax Purposes is $11,000. Roger paid $375 in interest related to his student loan during the year.

Case E  Roger Blaine is 48 years of age and his common-law partner Bob is 43. Roger has employment income of $65,000. Bob has Net Income For Tax Purposes of $4,500. They have two adopted children, Barry aged 8 and Don aged 10. After living in rented premises for the last 7 years, Roger and Bob decide to purchase a residence. They acquire a 3 bedroom house in the suburbs at a cost of $245,000 and move into the house during the year.
Case F  Roger Blaine is 48 years of age and his wife, Martha, is 43. Roger has employment income of $65,000. Martha has Net Income For Tax Purposes of $5,050. They have a son, Albert, who is 19 years old and lives at home. He attends university on a full time basis during 8 months of the year. Roger pays $5,400 for Albert’s tuition for two semesters during the 2019 calendar year and $525 for required textbooks. Albert had employment income of $3,000 that he earned during the summer. He agrees to transfer the maximum of his tuition fee amount to his father.

Case G  Roger Blaine is 67 and his wife Martha is 68. Martha has been completely disabled for a number of years and the extent of her disability qualifies her for the disability tax credit. Their son, Albert, is 38 years old, in good health and lives with them to help care for Martha. Albert has $10,000 of income from spousal support. The components of Roger and Martha’s income are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Roger</th>
<th>Martha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>$300</td>
<td>$50</td>
</tr>
<tr>
<td>Canada Pension Plan Benefits</td>
<td>4,400</td>
<td>200</td>
</tr>
<tr>
<td>Old Age Security Benefits</td>
<td>7,400</td>
<td>7,400</td>
</tr>
<tr>
<td>Income From Registered Pension Plan</td>
<td>32,150</td>
<td>450</td>
</tr>
<tr>
<td><strong>Total Net Income</strong></td>
<td><strong>$44,250</strong></td>
<td><strong>$8,100</strong></td>
</tr>
</tbody>
</table>

**Required:** In each Case, calculate Roger Blaine’s minimum federal Tax Payable for 2019. Indicate any carry forwards available to him and his dependants and the carry forward provisions. Ignore any amounts Roger might have had withheld or paid in instalments and the possibility of pension income splitting.

**Assignment Problem Four - 4**
*(Personal Tax Credits - 6 Cases)*

In each of the following independent Cases, determine the maximum amount of 2019 personal tax credits, including transfers from a spouse or dependant, that can be applied against federal Tax Payable by the taxpayer.

A calculation of Tax Payable is **NOT** required, only the applicable credits.

1. Ms. Jones is married and has Net Income For Tax Purposes of $123,000, none of which is employment income or income from self-employment. 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 agree to transfer his tuition credit to her.

2. Ms. Martin is 66 years old and has Net Income For Tax Purposes of $28,750. This total is made up of OAS of $7,400, plus pension income of $21,350 from a former employer. Her husband is 51 years old and blind. He has no income of his own. Ignore the possibility that Ms. Martin would split her pension income with her husband.

3. Mr. Sharp has Net Income For Tax Purposes of $72,350, none of which is employment income or income from self-employment. He lives with his common-law partner and her three children from a previous relationship. The children are aged 13, 15, and 20. The 20 year old 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. Barton 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. Barton has Net Income For Tax Purposes of $62,300, none of which is employment income or income from self-employment. None of the children have any income of their own.
5. Ms. Cole 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, 2019. Her new husband is an accounting student with a large firm. His salary for the period January 1 through November 30, 2019 was $33,000. For the month of December, 2019, his salary was $3,000.

6. Mr. Smead has Net Income For Tax Purposes of $85,000, none of which is employment income or income from self-employment. 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 10 year old son who lives with him. Also living with him is his 68 year old, widowed mother. She has a physical infirmity. However, it is not sufficiently severe for her to qualify for the disability tax credit. Mr. Smead's son had no income during the year. His mother had OAS benefits and pension income which totaled $18,500 during the year.

**Assignment Problem Four - 5**

*(Comprehensive Tax Payable)*

Ms. Tanja Umstead is 46 years old and lives in Richmond, British Columbia. She is in good health and works in the sales department of a large publicly traded company.

**Tanja's Personal Information**

1. She is divorced from her husband and has custody of her 11 year old daughter, Cynthia. The daughter is sufficiently disabled that she qualifies for the disability tax credit. The daughter has 2019 Net Income For Tax Purposes of $6,425, largely made up of interest on bonds purchased from an inheritance.

2. Tanja's 68 year old mother lives with her and provides care for Cynthia on a full time basis. She is active and healthy. As she receives no compensation for this work, Tanja has no child care costs during 2019. The mother's 2019 Net Income For Tax Purposes is $13,460.

3. Because of a 2019 decrease in Cynthia's mobility, Tanja has had to install access ramps in several locations in her home. The cost of these ramps was $14,600.

4. During 2019, Tanja worked nearly 300 hours as a volunteer search and rescue volunteer. She received $200 in compensation for this work.

5. Tanja's 2019 medical expenses are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various Prescription Drugs Including Medical Marijuana (Tanja And Cynthia)</td>
<td>$3,465</td>
</tr>
<tr>
<td>Various Medical Specialist Treatments For Cynthia</td>
<td>10,490</td>
</tr>
<tr>
<td>Prescription Sunglasses For Tanja And Cynthia</td>
<td>875</td>
</tr>
<tr>
<td>Liposuction For Tanja To Reduce Fat On Her Thighs</td>
<td>2,463</td>
</tr>
<tr>
<td>Dentist Fees For Tanja's Mother</td>
<td>3,300</td>
</tr>
<tr>
<td>Dentures For Tanja's Mother</td>
<td>1,325</td>
</tr>
</tbody>
</table>

6. During 2019, Tanja contributes $3,500 to Unplanned Parenthood, a registered Canadian charity.

**Employment Information**

1. Tanja's salary compensation for 2019 is $93,500. In addition, she was awarded a year-end bonus of $12,000, all of which is payable in January 2020.

2. Tanja's employer sponsors a defined benefit registered pension plan. During 2019, Tanja and her employer each contribute $4,150 to the plan. In addition, her employer withheld maximum EI contributions of $860 and maximum CPP contributions of $2,749.
3. Her employer offers to pay the tuition for employees taking foreign language courses. Tanja is taking an intensive course in spoken Chinese at a British Columbia university. The tuition fee for the course is $3,600, all of which is paid for by her employer. The tuition payment is to be included in her employment income as a taxable benefit. The duration of the course is 8 months and Tanja must purchase her own textbooks for $150.

4. Tanja is provided with disability insurance by an employer sponsored plan. During 2019, as a consequence of an automobile accident, she was unable to go to work for one month and receives benefits of $6,500. Starting in 2017, Tanja has been contributing $340 per year for the plan's coverage. Her employer makes a matching contribution in each year.

5. Tanja's employer provides her with an automobile that was purchased several years ago at a cost of $39,500. During 2019, the car is driven 41,000 kilometers, 34,000 of which were for employment related travel. Tanja is required to pay her own operating costs, which for 2019 totaled $7,240. Except for the one month that she was off from work, the car was available to Tanja throughout the year. During the one month that she was off, the car was left in her employer's garage.

6. Tanja's employer provides all of its employees with financial counseling services. The cost to the company of the services provided to Tanja was $450.

7. As a result of winning a sales contest, Tanja received a one week trip to Las Vegas. The value of this trip in Canadian dollars was $5,620.

8. Several years ago, Tanja received options to acquire 250 shares of her employer's common stock at a price of $25 per share. When the options were granted, the shares were trading at $25 per share. During 2019, Tanja exercises all of these options. On the exercise date, the shares are trading at $32 per share. Tanja is still holding the shares at the end of the year.

**Required:** Calculate, for the 2019 taxation year, Tanja's minimum Taxable Income and federal Tax Payable. Ignore GST and PST considerations.

---

**Assignment Problem Four - 6**

*(Comprehensive Tax Payable With Employment Income)*

Ms. Marcy Van Horne is employed by a large publicly traded corporation and her 2019 salary is $126,000. In addition to her annual salary, she received a performance bonus of $25,000, one-half of which was paid in 2019, with the remaining one-half not due until July 1, 2020. In addition to her salary, she earns commissions of $32,000 during 2019.

During 2019, Ms. Van Horne’s employer withheld the following amounts from her compensation:

- EI Premiums $860
- CPP Contributions 2,749
- RPP Contributions 7,400
- Life Insurance Premiums (Employer Makes A Matching Contribution) 550

Ms. Van Horne is divorced and has custody of her two children. They are aged 12 and 17. The 12 year son has 2019 income of $2,500.

The 17 year old daughter is in full time attendance at a university during 8 months of the year. Ms. Van Horne pays her annual tuition of $7,000. The daughter has summer income of $4,500 and has agreed to transfer her education related credits to her mother. Also living with Ms. Van Horne is her 68 year old father whose Net Income For Tax Purposes for 2019 totals $8,000. He has supplemented his income for years with his casino winnings and they total $10,000 in 2019. While he does not qualify for the disability tax credit, he has a physical infirmity that makes him dependent on Marcy.
Other Information:

1. Ms. Van Horne is provided with an automobile by her employer. During 2019, it is driven 48,000 kilometres, of which 42,500 are employment related. The automobile is leased by the employer at a monthly rate of $728, including GST of $30 and PST of $48. The monthly rate also includes a payment for insurance of $50 per month. The automobile was used by Ms. Van Horne for 11 months during 2019. She was required to return the automobile to her employer’s garage during the month that she did not use it.

2. Ms. Van Horne incurred the following employment related expenses during 2019:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>$5,600</td>
</tr>
<tr>
<td>Entertainment</td>
<td>$9,000</td>
</tr>
<tr>
<td>Meals</td>
<td>$2,400</td>
</tr>
<tr>
<td>Hotels</td>
<td>$8,400</td>
</tr>
<tr>
<td>Airline Tickets</td>
<td>$3,400</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>$28,800</strong></td>
</tr>
</tbody>
</table>

Ms. Van Horne’s employer reimburses all of her meal costs and one-half of her hotel bills. No other expenses were reimbursed.

3. During 2018, Ms. Van Horne was granted options to acquire 5,000 shares of her employer’s common shares at an option price of $25 per share. This was also the market value of the shares at this time. During July, 2019, Ms. Van Horne exercises all of the options at a point in time when the shares were trading at $31 per share. She is still holding the shares at the end of the year.

4. During 2019, Ms. Van Horne gives total cash of $1,800 to a variety of registered charities.

5. Also during 2019, Ms. Van Horne donates $300 to each of the three federal political parties.

6. During 2019, Ms. Van Horne pays for the following eligible medical costs:

<table>
<thead>
<tr>
<th>Medical Cost</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>For Herself</td>
<td>$850</td>
</tr>
<tr>
<td>For Her Two Children</td>
<td>1,480</td>
</tr>
<tr>
<td>For Her Father</td>
<td>3,940</td>
</tr>
<tr>
<td><strong>Total Medical Costs</strong></td>
<td><strong>$6,270</strong></td>
</tr>
</tbody>
</table>

Required:


B. Determine Ms. Van Horne’s minimum Taxable Income for the 2019 taxation year.

C. Based on your answer in Part B, determine Ms. Van Horne’s federal Tax Payable for the 2019 taxation year. Indicate any carry forwards available to her and her dependants and the carry forward provisions. Ignore any amounts that might have been withheld by her employer or paid in instalments.

Assignment Problem Four - 7

*(Comprehensive Tax Payable)*

Lydia Hines is a translator who works for a consulting firm in Ottawa. Her 2019 salary is $73,500, from which her employer, a Canadian controlled private company, deducts maximum CPP and EI contributions. Also deducted is an RPP contribution of $2,600. The employer makes a matching contribution. Her employment compensation does not include any commission income.
Lydia's husband, Mark is the beneficiary of a trust. Mark's mother was extremely wealthy and when she died, she left her assets to a trust for her children and her grandchildren. Mark will eventually inherit much of the estate. As a result, he no longer works for pay and devotes much of his time to volunteer work. His 2019 Net Income For Tax Purposes is $8,600. All of this income is from the trust.

The couple have three children aged 15, 20, and 22 who live with them. The 15 year old, Barry, is in good health and has 2019 Net Income For Tax Purposes of $9,400 from the trust.

The 20 year old, Mary, is dependent on her family because of mental health issues. However, she does not qualify for the disability tax credit. Her 2019 Net Income For Tax Purposes of $3,100 is from the trust.

The 22 year old, Harry, attends university on a full time basis in Vancouver for 8 months of the year. Lydia pays his tuition of $11,300, his textbook costs of $1,250 and his residence fees of $8,000. Harry's 2019 Net Income For Tax Purposes of $14,100 is from the trust. He has agreed to transfer the maximum tuition amount to Lydia.

Other Information:

1. To reward Lydia for her outstanding work, and as an incentive to stay with the company, her employer has awarded her a bonus of $10,000. Of this total, $4,000 will be paid in 2020, with the remaining $6,000 payable in 2023.

2. Lydia received options to purchase 200 shares of her employer’s stock at a price of $72 per share last year. At the time the options were granted, the fair market value of the shares was $74 per share. During May, 2019, when the shares had a fair market value of $90 per share, Lydia exercises all of these options. She is still holding these shares at the end of the year.

3. Lydia is provided with an automobile by her employer. The automobile was leased on February 1, 2019 at a monthly rate of $565, a figure which includes a payment for insurance of $75 per month. The automobile is driven a total of 36,000 kilometers, 32,000 of which were employment related. It was available to her from February 1 to the end of the year. The employer did not provide an automobile during the month of January.

4. During 2019, Lydia spent $5,600 on employment related meals and entertainment with clients of her employer. Her employer reimbursed $3,200 of these costs.

5. During 2019, Lydia receives several gifts from her employer:
   - As is the case for all of the company's employees, Lydia receives a $150 gift certificate that can be used for merchandise at a local department store.
   - In recognition of her 10 years of service, Lydia receives a Visconti fountain pen she has been coveting. The retail value of this pen is $1,000.
   - At Christmas, all of the company's employees receive a gift basket of holiday treats. The retail value of these gift baskets is $200.

6. After years of accumulating savings and living in rental units, Lydia and Mark purchase a residence. The cost of the house is $380,000 and, to assist with the purchase, Lydia's employer provides a $100,000 interest free loan. The loan was granted on May 1, 2019 and will have to be repaid on April 30, 2024. Assume the prescribed rate is 2 percent throughout the year 2019.

7. Because of the nature of her employment, Lydia is required to pay annual professional dues of $350.

8. During 2019, Lydia makes her annual contribution of $2,000 to a registered charity, The No Hope Of Salvation Army. (Lydia is an atheist.)
9. Lydia’s employer provides all employees with a health care plan. It reimburses employees for 50 percent of all prescriptions, dental and vision fees for the employee, the employee’s spouse and all children under 18 years of age. The family’s 2019 medical expenses, all of which were paid by Lydia, were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lydia - Prescriptions</td>
<td>$2,500</td>
</tr>
<tr>
<td>Lydia - Botox treatments</td>
<td>$1,400</td>
</tr>
<tr>
<td>Mark - Dentist’s fees for root canals (3)</td>
<td>$7,200</td>
</tr>
<tr>
<td>Mark - Hair replacement procedures</td>
<td>$3,700</td>
</tr>
<tr>
<td>Barry - Dentist’s fees, including $1,000 for a tooth replacement</td>
<td>$2,100</td>
</tr>
<tr>
<td>Mary - Doctor’s fees for treatment for depression</td>
<td>$8,400</td>
</tr>
<tr>
<td>Mary - Prescriptions</td>
<td>$3,900</td>
</tr>
<tr>
<td>Mary - Liposuction treatment for her upper arms</td>
<td>$4,200</td>
</tr>
<tr>
<td>Harry - Physiotherapy</td>
<td>$1,500</td>
</tr>
<tr>
<td>Harry - Fees for prescription glasses and contact lenses</td>
<td>$2,200</td>
</tr>
</tbody>
</table>

**Required:**

A. Determine Lydia’s minimum Net Income For Tax Purposes for the 2019 taxation year.

B. Determine Lydia’s minimum Taxable Income for the 2019 taxation year.

C. Based on your answer in Part B, determine Lydia’s federal Tax Payable for the 2019 taxation year.

---

**Assignment Problem Four - 8**

*Comprehensive Tax Payable*

Ezra Pinnock is 73 years old and is an engineering professor at a major Canadian University. He is in good health and lives in Toronto in a large house he inherited from his mother.

**Employment Information**

1. Ezra’s salary received for 2019 is $163,000. As the result of a negotiations by his union, he is entitled to receive an additional $8,000 in salary related to his work during 2019. However, this adjustment will not be received until January, 2020.

2. During 2019, Ezra’s employer deducts EI contributions of $860. Because of his age and the fact that he is collecting CPP benefits, Ezra no longer has to make CPP contributions.

3. Ezra’s employer sponsors a defined benefit pension plan. Because of his age, Ezra no longer contributes to this plan. However, when he reached age 69, he was required to start receiving a pension. During 2019, he received benefits from this plan of $26,000.

4. As much of Ezra’s work involves distance education, he is required by his employer to maintain an office in his home. This home office occupies 18 percent of the space in his residence and is viewed as his principal place of business. The 2019 costs associated with this residence are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>$4,680</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>$19,200</td>
</tr>
<tr>
<td>Interest On Mortgage</td>
<td>$12,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>$3,450</td>
</tr>
<tr>
<td>Repairs To Roof</td>
<td>$4,970</td>
</tr>
<tr>
<td>Lawn Maintenance</td>
<td>$863</td>
</tr>
<tr>
<td>Snow Removal</td>
<td>$647</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$45,810</strong></td>
</tr>
</tbody>
</table>

5. As Ezra is one of his university’s more charismatic professors, he does an extensive amount of travel promoting the university’s programs. He receives an allowance of $1,000 per month ($12,000 in total) to cover his travel costs. The actual costs for 2019 are as follows:
Hotels $4,200  
Meals While Travelling 1,650  
Airline Tickets 2,150  

In addition to these costs, Ezra uses his personal automobile for some of the travel. During 2019, the mileage on the car totaled 32,000 kilometers, with 16,000 of these kilometers related to his travel for the university. Operating costs for the year totaled $3,200. His accountant has advised him that CCA for the year (100 percent basis) would be $4,500.

6. In 2019, having accumulated 10 years of service with his current employer, Ezra receives a cash award of $350 and a very fancy plaque. In addition, all of the university employees receive a basket of gourmet food at Christmas. The value of this basket is $325.

7. The university provides Ezra with $500,000 in life insurance coverage, as well as a supplemental accident and sickness insurance plan. The 2019 cost to the university for the life insurance coverage is $675, while the cost for the accident and sickness plan is $472. The accident and sickness plan would pay cash benefits due to injury or illness, it would not pay periodic benefits to replace salary if Ezra was unable to work. Ezra does not contribute to the accident and sickness plan.

8. After he was hit by a speeding bicyclist and injured, Ezra receives benefits under the accident and sickness plan of $1,245 during the year.

Other Income

Having worked for several other universities prior to joining his present employer, Ezra has 2019 receipts from the registered pension plans sponsored by these universities of $35,000. In addition, he receives Canada Pension Plan benefits of $13,000. Since he knows his income will remain quite high for the foreseeable future, Ezra has not applied for OAS.

Personal Information

1. Ezra has been married to Laurie Pinnock for over 40 years. Laurie is 64 years old and, because of a terrible skiing accident 3 years ago, she is sufficiently disabled that she qualifies for the disability tax credit. She has 2019 Net Income of $8,420 which includes $2,500 from a registered pension plan.

2. Ezra and Laurie have a 25 year old son named Martin. As the result of significant substance abuse, he continues to live at home. He is currently unemployed and his only income is $3,400 in employment insurance benefits.

3. Laurie’s father Ezekial is 92 years old. Two years ago, on a senior’s trip to Las Vegas, he met a retired pole dancer named Blaze. They hit it off immediately and Blaze returned to Canada with Ezekial. She is 77 years old and has established Canadian residency. They have both been living with Ezra and Laurie in the basement granny suite, presumably in a conjugal relationship, since that time. Ezekial has a physical infirmity and has income from various sources of $17,300. Blaze has no infirmity and no income in 2019. She is not eligible for OAS.

4. During 2019, Ezra spent $11,400 for home modifications required to deal with the mobility restrictions caused by Laurie’s disability. Since Ezekial has very poor night vision, he also spent $1,200 on installing motion activated external lights for his safety.

5. During 2019, the family had medical expenses, all of which were paid for by Ezra, as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ezra</td>
<td>$2,850</td>
</tr>
<tr>
<td>Laurie</td>
<td>3,420</td>
</tr>
<tr>
<td>Martin</td>
<td>2,470</td>
</tr>
<tr>
<td>Ezekial</td>
<td>685</td>
</tr>
<tr>
<td>Blaze*</td>
<td>1,432</td>
</tr>
</tbody>
</table>

*All of Blaze’s expenses were for the reversal of a breast enhancement operation.
Although the spectacular results of her operation were very helpful to her career, she now feels the enhancement is not in keeping with her post-retirement lifestyle.

6. During 2019, Laurie wins $200,000 in a lottery. She donates cash of $50,000 to the Safe Skiing Research Fund, a registered Canadian charity. Laurie has been a regular donor since her accident.

**Required:** For the 2019 taxation year, calculate Ezra’s minimum:

1. Net Income For Tax Purposes,
2. Taxable Income,

In determining these amounts, ignore GST/HST considerations and the possibility of pension income splitting.

---

**Tax Software Assignment Problems**

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

**Tax Software Assignment Problem Four - 1**

This problem is continued in Chapter 11.

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

Mr. Buddy Musician (SIN 527-000-061) was born in Vancouver on August 28, 1951. He has spent most of his working life as a pianist and song writer. He and his family live at 111 WWW Street, Vancouver, B.C. V4H 3W4, phone (604) 111-1111.

Mr. Musician’s wife, Natasha (SIN 527-000-129), was born on June 6, 1993. She and Mr. Musician have four children. Each child was born on April 1 of the following years, Linda; 2013, Larry; 2014, Donna; 2015, and Donald; 2016. Natasha’s only income during 2018 is $3,000 from singing engagements.

Buddy and Natasha Musician have two adopted children. Richard (SIN 527-000-285) was born on March 15, 2001 and has income of $2,800 for the year. Due to his accelerated schooling, he started full time attendance at university in September of 2018 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. Musician.

The other adopted child, Sarah, was born on September 2, 1998, and is in full time attendance at university for all of 2018 (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. Musician. Sarah has no income during the year.

Neither Richard nor Sarah will have any income in the next three years. They both have agreed that the maximum tuition amount should be transferred to their father.

Mr. Musician’s mother, Eunice, was born on April 10, 1931 and his father, Earl, was born on November 16, 1929. They both live with Mr. Musician and his wife. While his father has some mobility issues, he is not infirm. His mother is legally blind. Eunice Musician had income of $9,500 for the year, while Earl Musician had income of $7,500.

Other information concerning Mr. Musician and his family for 2018 is as follows:
1. Mr. Musician 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 $293.90 for EI. No CPP was withheld as he has previously filed an election to stop contributing to the CPP.

2. During the year, Mr. Musician made his annual $3,000 donation to Planned Parenthood Of Canada, a registered Canadian charity.

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

4. Mr. Musician has two additional children who live with their mother, Ms. Dolly Nurse (SIN 527-000-582), in Burnaby, British Columbia. The children are Megan Nurse, aged 12 and Andrew Nurse, aged 14. Neither child has any income during 2018. While Ms. Nurse and Mr. Musician were never married, Mr. Musician acknowledges that he is the father of both children. Although Buddy has provided limited financial aid by paying their dental and medical expenses, the children are not dependent on Buddy for support.

5. Mr. Musician wishes to claim all his medical expenses on a calendar year basis. On December 2, 2018, Mr. Musician paid dental expenses to Canada Wide Dental Clinics for the following individuals:

<table>
<thead>
<tr>
<th>Individual</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Himself</td>
<td>$1,200</td>
</tr>
<tr>
<td>Natasha (wife)</td>
<td>700</td>
</tr>
<tr>
<td>Richard (adopted son)</td>
<td>800</td>
</tr>
<tr>
<td>Sarah (adopted daughter)</td>
<td>300</td>
</tr>
<tr>
<td>Linda (daughter)</td>
<td>100</td>
</tr>
<tr>
<td>Earl (father)</td>
<td>1,050</td>
</tr>
<tr>
<td>Lori (ex-wife)</td>
<td>300</td>
</tr>
<tr>
<td>Dolly Nurse (mother of two of his children)</td>
<td>675</td>
</tr>
<tr>
<td>Megan Nurse (daughter of Dolly Nurse)</td>
<td>550</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,675</strong></td>
</tr>
</tbody>
</table>

6. Mr. Musician signed a contract with Fred Nesbitt on January 13, 2018 to do permanent modifications to his house. The contract was for the installation of ramps with sturdy hand railings outside his front and back doors to give his parents easier access to the house and modifications to their bathroom so they would be less likely to fall when using the shower. The contract price was $5,800. As neither of his parents has a severe and prolonged mobility impairment, these expenditures are not eligible medical expenses.

7. Mr. Musician paid four quarterly instalments of $1,000 each (total of $4,000) for 2018, as requested on his Instalment Reminders from the CRA. He paid each instalment on the due date.

8. Assume that Mr. Musician has not applied to receive either OAS or CPP benefits.

**Required:** With the objective of minimizing Mr. Musician's Tax Payable, prepare Mr. Musician's 2018 income tax return using the ProFile tax software program assuming Natasha does not file a tax return. List any assumptions you have made, and any notes and tax planning issues you feel should be placed in the file.

---

**DISCLAIMER:** All characters appearing in this problem are fictitious. Any resemblance to real persons, living or dead, is purely coincidental.
George Pharmacy 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 14 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 Drugstore who lives with them. Joan suffers from dementia, Parkinson’s and severe depression. The family doctor has signed a letter stating that she is dependent on George and Valerie because of her impairments. Joan does not meet the residency requirements necessary to qualify for Canadian Old Age Security payments.

Valerie’s parents separated two years ago in Scotland after her father, David Drugstore, suffered enormous losses in the stock market. They were forced to sell their home and David moved to Chile. David phones periodically to request that money be deposited in his on-line bank account.

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 Western University. George is paying his tuition and Martin has agreed to transfer any available education related amounts to George. Although Martin plans to file his 2018 tax return, he has not done so yet.

Kevin is taking several undergraduate psychology courses at Western University. After hearing a talk given by an expert blind echolocator, i.e., one who uses sound to locate objects, his goal is to become a researcher at the Brain and Mind Institute and study the use of echolocation.

Other information concerning George for 2018 is given on the following pages.

**Required:** With the objective of minimizing George's Tax Payable, prepare the 2018 income tax return of George Pharmacy using the ProFile tax software program assuming Valerie does not file a tax return.

List any assumptions you have made, and any notes and tax planning issues you feel should be placed in the file. Ignore HST implications in your solution by assuming that George does not qualify for the GST/HST rebate.

<table>
<thead>
<tr>
<th>Personal Information</th>
<th>Taxpayer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
<td>Mr.</td>
</tr>
<tr>
<td>First Name</td>
<td>George</td>
</tr>
<tr>
<td>Last Name</td>
<td>Pharmacy</td>
</tr>
<tr>
<td>SIN</td>
<td>527-000-509</td>
</tr>
<tr>
<td>Date of birth (Y/M/D)</td>
<td>1954-07-02</td>
</tr>
<tr>
<td>Marital Status</td>
<td>Married</td>
</tr>
<tr>
<td>Canadian citizen?</td>
<td>Yes</td>
</tr>
<tr>
<td>Provide information to Elections Canada?</td>
<td>Yes</td>
</tr>
<tr>
<td>Own foreign property of more than $100,000 Canadian?</td>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxpayer’s Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>123 ZZZ Street, London, Ontario N0Z 0Z0</td>
</tr>
<tr>
<td>Phone number (519) 111-1111</td>
</tr>
</tbody>
</table>
### Family Members

<table>
<thead>
<tr>
<th>First Name</th>
<th>Last Name</th>
<th>SIN</th>
<th>Date of birth (Y/M/D)</th>
<th>Net income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valerie</td>
<td>Pharmacy</td>
<td>527-000-483</td>
<td>1953-12-30</td>
<td>$6,520 in CPP</td>
</tr>
<tr>
<td>Kevin</td>
<td>Pharmacy</td>
<td>527-000-517</td>
<td>2002-10-17</td>
<td>Nil</td>
</tr>
<tr>
<td>Joan</td>
<td>Drugstore</td>
<td>None</td>
<td>1933-02-24</td>
<td>$500</td>
</tr>
<tr>
<td>David</td>
<td>Drugstore</td>
<td>None</td>
<td>1934-01-12</td>
<td>Nil</td>
</tr>
<tr>
<td>Martin</td>
<td>Pharmacy</td>
<td>527-000-533</td>
<td>1971-06-02</td>
<td>$8,300</td>
</tr>
</tbody>
</table>

During September, David was arrested in Chile. Valerie had to spend three weeks in Chile and pay $2,000 in bribes before she could get him released from jail. George had to pay Nannies On Call $3,500 for in-home help to take care of Kevin while she was gone.

### T2202A (Martin)

<table>
<thead>
<tr>
<th>Box</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>8,000</td>
</tr>
<tr>
<td>B</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>8</td>
</tr>
</tbody>
</table>

### T2202A (Kevin)

<table>
<thead>
<tr>
<th>Box</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>3,600</td>
</tr>
<tr>
<td>B</td>
<td>8</td>
</tr>
<tr>
<td>C</td>
<td>0</td>
</tr>
</tbody>
</table>

### Donor

<table>
<thead>
<tr>
<th>Donor</th>
<th>Charitable Donation Receipts</th>
<th>Am’t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valerie</td>
<td>Mothers Against Drunk Drivers (MADD)</td>
<td>1,000</td>
</tr>
<tr>
<td>George</td>
<td>Canadian Institute For The Blind (CNIB)</td>
<td>3,000</td>
</tr>
</tbody>
</table>

### T4

<table>
<thead>
<tr>
<th>Issuer - Mega Pharma Inc.</th>
<th>Box</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment income</td>
<td>14</td>
<td>378,000.00</td>
</tr>
<tr>
<td>Employee’s CPP contributions</td>
<td>16</td>
<td>2,593.80</td>
</tr>
<tr>
<td>Employee’s EI premiums</td>
<td>18</td>
<td>858.22</td>
</tr>
<tr>
<td>Income tax deducted</td>
<td>22</td>
<td>114,000.00</td>
</tr>
<tr>
<td>Employment commissions</td>
<td>42</td>
<td>82,000.00</td>
</tr>
<tr>
<td>Charitable donations</td>
<td>46</td>
<td>400.00</td>
</tr>
</tbody>
</table>
During 2018, Mega reimbursed George $3,788 for meals and entertainment with clients, $2,268 for hotels and $4,925 for airline tickets.

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.

On October 1, 2018, 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.

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

<table>
<thead>
<tr>
<th>(Y/M/D)</th>
<th>Patient</th>
<th>Medical Expenses</th>
<th>Description</th>
<th>Am’t</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-12-31</td>
<td>George Johnson Inc.</td>
<td>Out of Canada insurance</td>
<td>731.00</td>
<td></td>
</tr>
<tr>
<td>2018-08-31</td>
<td>George Dr. Smith</td>
<td>Dental fees</td>
<td>155.40</td>
<td></td>
</tr>
<tr>
<td>2018-09-19</td>
<td>George Optician</td>
<td>Prescription glasses</td>
<td>109.00</td>
<td></td>
</tr>
<tr>
<td>2018-11-07</td>
<td>Valerie Pharmacy</td>
<td>Prescription</td>
<td>66.84</td>
<td></td>
</tr>
<tr>
<td>2018-06-07</td>
<td>Joan Dr. Wong</td>
<td>Psychiatric counseling</td>
<td>2,050.00</td>
<td></td>
</tr>
<tr>
<td>2018-03-22</td>
<td>David Tropical Disease Centre</td>
<td>Prescription</td>
<td>390.00</td>
<td></td>
</tr>
<tr>
<td>2018-12-20</td>
<td>Martin Dr. Walker</td>
<td>Group therapy</td>
<td>6,000.00</td>
<td></td>
</tr>
<tr>
<td>2018-10-01</td>
<td>Kevin Dr. Takarabe</td>
<td>Orthodontics and Dental</td>
<td>30,000.00</td>
<td></td>
</tr>
</tbody>
</table>

George paid $800 for the care and feeding of Kevin’s seeing eye dog, Isis, during 2018.

**Tax Software Assignment Problem Four - 3**

This problem is continued in Chapter 11.

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

Seymour Career and Mary Career are your tax clients. They have been married for two years. Mary has progressed quickly in MoreCorp, the large, publicly traded firm she is working for due to her strong tax and accounting background. Her firm has an excellent health and dental plan that reimburses 100 percent of all medical and dental expenses.

Although Seymour has been working, his increasing ill health makes it likely that he will not be able to continue to work in 2019. He is contemplating a return to university as a student of music.

In order to estimate her possible financial position in 2019, she would like you to prepare her 2018 tax return assuming that Seymour has no income for 2018.
### Personal Information

<table>
<thead>
<tr>
<th></th>
<th>Taxpayer</th>
<th>Spouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
<td>Ms.</td>
<td>Mr.</td>
</tr>
<tr>
<td>First Name</td>
<td>Mary</td>
<td>Seymour</td>
</tr>
<tr>
<td>Last Name</td>
<td>Career</td>
<td>Career</td>
</tr>
<tr>
<td>SIN</td>
<td>527-000-129</td>
<td>527-000-079</td>
</tr>
<tr>
<td>Date of birth</td>
<td>1980-12-08</td>
<td>1959-01-29</td>
</tr>
<tr>
<td>Marital status</td>
<td>Married</td>
<td>Married</td>
</tr>
<tr>
<td>Canadian citizen?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Provide information to Elections Canada?</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Own foreign property of more than $100,000 Cdn?</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

### Taxpayer’s Address

123 ABC Street, Saint John, N.B. E0E 0E0
Phone number (506) 111-1111
Spouse’s address same as taxpayer? Yes

### Dependant

<table>
<thead>
<tr>
<th></th>
<th>Child</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Name</td>
<td>William</td>
</tr>
<tr>
<td>Last Name</td>
<td>Career</td>
</tr>
<tr>
<td>SIN</td>
<td>527-000-319</td>
</tr>
<tr>
<td>Date of Birth</td>
<td>2011-02-24</td>
</tr>
<tr>
<td>Net Income</td>
<td>Nil</td>
</tr>
</tbody>
</table>

### T4 - Mary

<table>
<thead>
<tr>
<th>Issuer - MoreCorp</th>
<th>Box</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment Income</td>
<td>14</td>
<td>152,866.08</td>
</tr>
<tr>
<td>Employee’s CPP Contributions</td>
<td>16</td>
<td>2,593.80</td>
</tr>
<tr>
<td>Employee’s EI Premiums</td>
<td>18</td>
<td>858.22</td>
</tr>
<tr>
<td>RPP Contributions</td>
<td>20</td>
<td>Nil</td>
</tr>
<tr>
<td>Income Tax Deducted</td>
<td>22</td>
<td>48,665.11</td>
</tr>
<tr>
<td>Charitable Donations</td>
<td>46</td>
<td>1,000.00</td>
</tr>
</tbody>
</table>

### Donor

<table>
<thead>
<tr>
<th>Donor</th>
<th>Charitable Donation Receipts</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seymour</td>
<td>Canadian Cancer Foundation</td>
<td>500</td>
</tr>
<tr>
<td>Seymour</td>
<td>Salvation Army</td>
<td>250</td>
</tr>
</tbody>
</table>

**Required:** With the objective of minimizing Mary’s Tax Payable, prepare her 2018 income tax return using the ProFile tax software program. Assume that Seymour has no income in 2018 and that he does not file a tax return.