

Self Study And SSS Problems For Chapters 1 to 10

To provide practice in problem solving, these are the Self Study Problems for Volume 1 which includes Chapters 1 to 10. The detailed solutions to these problems are available in both the print and online Study Guide.

For additional practice in problem solving, there are Supplementary Self Study Problems with detailed solutions available for each chapter. These problems and solutions are available in this file after the Self Study problems for each Chapter.

Chapter 1 Self Study Problems

Self Study Problem One - 1

(Regressive Taxation)

A regressive tax can be described as one which is assessed at a lower rate as income levels increase. Despite the fact that the Harmonized Sales Tax (HST) is based on a single rate, it is referred to as a regressive form of taxation.

Required: Explain how a tax system with a single rate can be viewed as regressive.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 2

(Flat Rate Tax)

At a recent cocktail party, Mr. Right was heard complaining vehemently about the lack of progress towards tax simplification. He was tired of spending half of his time filling out various CRA forms and, if the matter were left to him, he could solve the problem in 10 minutes. "It is simply a matter of having one tax rate and applying that rate to 100 percent of income."

Required: Discuss Mr. Right's proposed flat rate tax system.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 3

(Qualitative Characteristics)

In recent years, the government has introduced a number of changes in tax legislation related to individuals. A selected group of these measures can be described as follows:

Family Tax Cut This provision provided a tax reduction based on a limited amount of income splitting. Specifically, a separate calculation of Tax Payable was based on the assumption that up to \$50,000 of Taxable Income was transferred from a higher income spouse to a lower income spouse. It was only available to couples with a child under the age of 18. This provision was repealed in 2016.

Lifetime Capital Gains Deduction An increase in the provision to remove from Taxable Income, capital gains on the disposition of a qualified farming or fishing property from \$866,912 (2015 limit) to \$1,000,000.

Home Accessibility Tax Credit A new credit against Tax Payable equal to 15 percent of up to \$10,000 in expenditures made by seniors and disabled people to gain access to, be more mobile within, or reduce the risk of harm within, their home.

Small Business Rate A reduction scheduled for 2016 (2 years in the future) in the federal tax rate on active business income earned by Canadian Controlled Private Companies. The rate was reduced from 11 percent of Taxable Income to a new rate equal to 10.5 percent of Taxable Income.

Increase In Tax Free Savings Account (TFSA) Limits The TFSA provision allows non-deductible contributions to be made to a registered account where earnings accumulate on a tax free basis. Withdrawals from these accounts are not taxed. The annual limit on contributions to Tax Free Savings Accounts (TFSAs) was increased from \$5,500 to \$10,000 for 2015. This increase was reversed in 2016.

Required: Analyze each of the described changes using two of the qualitative characteristics of tax systems that are listed in your text. For your convenience, the list of qualitative characteristics presented in the text is as follows:

- equity or fairness
- neutrality
- adequacy
- elasticity
- flexibility
- simplicity and ease of compliance
- certainty
- balance between sectors
- international competitiveness

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 4

(Sources Of Tax Information)

The principal source of Canadian income tax information is the *Income Tax Act*. There are, however, other sources that are of considerable significance in the application of these rules.

Required: List and briefly describe these other sources of information on Canadian income tax matters.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 5

(Residential Ties)

Paul Brossard accepts an offer to move to the U.S. from Canada to become a manager for a revitalized Black Hills Gold Savings and Loan branch in South Dakota. Paul has resigned from his Canadian federal government position, and severed his professional association ties. Further, he purchased a home in South Dakota. However, his daughter is nearing completion of an elite French immersion secondary school program in Ottawa, so Paul's wife and daughter intend to remain in Canada for two years. They continue to live in the family home in Ottawa.

After six months in South Dakota, the Savings and Loan branch closed. Paul then sold the U.S. home and moved back to Canada.

Required: Assess whether or not Paul became a non-resident of Canada, and if Paul will be taxed in Canada for the period during which he was living and working in the U.S.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 6

(Part Year Residency Of Individuals)

The following facts relate to three individuals who spent a part of the current year in Canada:

Mr. Aiken Mr. Aiken is a businessman and a U.S. citizen who moved to Canada and established residence in the middle of June. After the move, he spent the remaining 192 days of the year in Canada.

Mr. Baker Mr. Baker is a businessman and a Canadian citizen who moved out of Canada in the middle of July and established residence in the U.S. Prior to his move, he spent the preceding 192 days of the year in Canada.

Mr. Chase Mr. Chase is a professional athlete and a U.S. citizen. His residence is located in Nashville, Tennessee, and during most of the year his wife and children live in that city. Mr. Chase plays for a Canadian team and, during the current year, his work required him to be in Canada for a total of 192 days.

Required: All of the preceding individuals were in Canada for a total of 192 days. Explain their residence status for income tax purposes in the current year and their liability for Canadian income taxes.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 7

(Residency Of Individuals)

Determine whether the following persons are Canadian residents for the current year. Explain the basis for your conclusion. Ignore any possible implications related to tax treaties.

- A. Jane Smith was born in Washington, D.C., where her father has been a Canadian ambassador for 15 years. She is 12 years old, has no income of own, and has never been to Canada.
- B. Marvin Black lives in Detroit, Michigan. He works on a full time basis throughout the year in Windsor, Ontario.
- C. John Leather was born in Canada and, until September 12 of the current year, he has never been outside of the country. On this date, he departed from Canada and established a home in Savannah, Georgia.
- D. Francine Donaire is a citizen of France and is married to a member of the Canadian armed forces stationed in France. She has been in Canada only on brief visits since she and her husband have been married, and had never visited the country prior to that time. She is exempt from French taxation because she is the spouse of a member of the Canadian armed forces.
- E. Robert Green lived most of his life in Texas. In January of the current year, he moved to Edmonton to take a high paying job with a local oil exploration company. As he found the weather to be too cold in Edmonton, he resigned during September and returned to Texas before having to suffer through another winter.
- F. Susan Allen is a Canadian citizen who has lived in New York City for the past 7 years.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 8

(Residency Of Corporations)

Determine whether the following corporations are Canadian residents for the current year. Explain the basis for your conclusion.

- A. AMT Ltd. was incorporated in New Brunswick in 1964. Until 1994, all of the directors' meetings were held in that province. However, since that time, the directors have met on a regular basis in Portland, Maine.
- B. UIF Inc. was incorporated in the state of Montana in 1968. However, until four years ago all of the directors' meetings were held in Vancouver, British Columbia. Four years ago, the president of the Company moved to Helena, Montana and since that time all of the directors' meetings have been held in that city.
- C. BDT Ltd. was incorporated in Alberta in 1996. However, it is managed in North Dakota, where all directors' and shareholders' meetings have been held since incorporation.
- D. QRS Inc. was incorporated in New York state. However, all of the directors are residents of Ontario and all meetings of the Board of Directors have been held in that province since incorporation.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 9

(Residence - Individuals And Corporations)

For each of the following persons, indicate how they would be taxed in Canada for the current year. Your answer should explain whether the person is a Canadian resident, what parts of their income would be subject to Canadian taxation, and the basis for your conclusions.

- A. Mr. Samuel Salazar lives in Detroit, Michigan and is a full time employee of a business in Windsor, Ontario. His responsibilities with the business in Windsor require him to be present for about eight hours per day, five days per week. His annual salary in his Windsor position is \$72,000 per year.
- B. Mr. John Wills is a Canadian citizen who, until September 1 of the current year, had spent his entire life living in Regina. On September 1 of the current year, after disposing of all of his Canadian property, Mr. Wills moved his entire family to Bismarck, North Dakota where he opened a mixed martial arts school.
- C. Joan Brothers was born in Livonia, Michigan. She is seven years old and has never visited Canada. She has no income of her own. Her father has been consul in the Canadian Consulate in Livonia for the past 15 years. He was a resident of Canada immediately prior to his appointment as consul.
- D. Brogan Inc. was incorporated in Montana in 1992, but until five years ago, all of the directors' meetings were held in Calgary, Alberta. Five years ago, the president of the Company moved to Butte, Montana and since that time all of the directors meetings have been held in Butte.
- E. Mercer Ltd. was incorporated in British Columbia in 1963 and all of its directors' meetings were held in Vancouver until May, 1996. In June, 1996, all of the directors moved to Portland, Oregon and all subsequent directors' meetings were held in Portland.
- F. The Booker Manufacturing Company was incorporated in 1963 in Minnesota. The directors of the Company have always been residents of Winnipeg and, as a consequence, all meetings of the Board of Directors have been held in Winnipeg since the Company was first incorporated.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 10**(Net Income For Tax Purposes)**

The following two Cases make different assumptions with respect to the amounts of income and deductions of Mr. Morris Dorne for the current taxation year:

Case A Mr. Dorne had employment income of \$50,000 and interest income of \$12,000. His unincorporated business lost \$23,000 during this period. As the result of dispositions of capital property, he had taxable capital gains of \$95,000 and allowable capital losses of \$73,000. His Subdivision e deductions for the year totalled \$8,000. He also experienced a loss of \$5,000 on a rental property that he has owned for several years.

Case B Mr. Dorne had employment income of \$45,000, net rental income of \$23,000, and a loss from his unincorporated business of \$51,000. As the result of dispositions of capital property, he had taxable capital gains of \$25,000 and allowable capital losses of \$46,000. His Subdivision e deductions for the year amounted to \$10,500. Fortunately for Mr. Dorne, he won \$560,000 in a lottery on February 24.

Required: For both Cases, calculate Mr. Dorne's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 11**(Net Income For Tax Purposes - Four Cases)**

The following four Cases make different assumptions with respect to the amounts of income and deductions of Karl Marks for the current year:

	Case A	Case B	Case C	Case D
Employment Income	\$73,300	\$41,400	\$89,400	\$34,300
Income (Loss) From Business	(14,700)	(4,700)	(112,600)	(47,800)
Rental Income (Loss)	8,300	5,900	5,300	(20,100)
Taxable Capital Gains	42,400	7,800	23,700	24,700
Allowable Capital Losses	(18,600)	(11,600)	(21,200)	(26,300)
Subdivision e Deductions	(6,200)	(2,800)	(22,400)	(6,400)

Required: For each Case, calculate Mr. Marks' Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

SOLUTION available in printed and online Study Guide.

Self Study Problem One - 12

(Net Income For Tax Purposes - Four Cases)

The following four Cases make different assumptions with respect to the amounts of income and deductions available to Mr. Emerson Comfort for the current taxation year:

Case 1

During the year, Emerson has net employment income of \$123,480, interest income of \$4,622, and taxable capital gains of \$24,246. He has allowable capital losses of \$4,835. He has deductible child care costs of \$9,372.

Case 2

During the year, Emerson has net business income of \$72,438 and a net rental loss of \$9,846. His taxable capital gains for the year total \$4,233, while his allowable capital losses for the year are \$7,489. Because of his very high Earned Income in the previous year, he is able to make \$22,000 deductible RRSP contribution.

Case 3

During the year, Emerson has net employment income of \$47,234 and a net business loss of \$68,672. Capital gains for the year total \$12,472 while capital losses are realized in the amount of \$9,332. He has deductible child care costs of \$3,922.

Case 4

During the year, Emerson has interest income of \$6,250, net business income of \$43,962, and capital gains of \$12,376. He also has a net rental loss of \$72,460 and capital losses of \$23,874. As he moved to a new work location during the year, he has deductible moving expenses of \$7,387.

Required: For each Case, calculate Emerson's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

SOLUTION available in printed and online Study Guide.

Chapter 1 Supplementary Self Study (SSS) Problems

The solutions to these Chapter 1 SSS Problems can be found following the SSS Problems for this Chapter.

SSS Problem One - 1

(Qualitative Characteristics)

With the growing importance of free trade and e-commerce, Canada is contemplating increased harmonization of the Canadian tax system with other major tax regimes in the world. Harmonization with the United States is the first priority, with harmonization with other major economic groups being secondary. Assume the following changes are proposed:

- A. Taxing all e-commerce transactions based on where the goods and services are delivered.
- B. Full deduction of mortgage interest related to principal residences, combined with taxation of capital gains arising on dispositions of these residences. Currently in Canada, the capital gains on the disposition of principal residences are not taxed and mortgage interest related to principal residences is not deductible.
- C. Requiring corporations that are under common control to file a single consolidated tax return for all of the corporations in the group.
- D. Conversion of the GST system into a national sales tax to be applied to the sale of goods and services at the retail level.

Required: Indicate a significant tax advantage, other than the benefits associated with international harmonization, that would result from introducing each of the proposed changes. In addition, analyze each proposed change using two of the qualitative characteristics of tax systems that are listed in your text.

For your convenience, the list of qualitative characteristics presented in the text is as follows:

- equity or fairness
- neutrality
- adequacy
- elasticity
- flexibility
- simplicity and ease of compliance
- certainty
- balance between sectors
- international competitiveness

SSS Problem One - 2

(Residency Of Individuals And Corporations)

For each of the following persons, indicate how they would be taxed in Canada for the year ending December 31, 2019. Your answer should explain whether the person is a Canadian resident and the basis for your conclusions.

- A. Martin Judge was born in Kamloops, British Columbia in 1989. In 1994, Martin's family moved to southern California and, until October 1, 2019, Martin did not return to Canada. On October 1, 2019, Martin accepted a position with an accounting firm in London, Ontario. He returned to Canada and began working at his new job on this date.
- B. Ms. Gloria Salinas is a Canadian citizen who, on November 1, 2019, is appointed as Canada's new ambassador to Mexico. While Ms. Salinas was born in, and grew up in, Nova Scotia, she has resided in Mexico for the last 15 years. She anticipates that she will continue to live in Mexico subsequent to her appointment as the Canadian ambassador.
- C. Roberto Salinas is the 12 year old son of Ms. Gloria Salinas (see Part B). Roberto has lived with his mother in Mexico since his birth.
- D. Kole Ltd. was incorporated in Alberta in 1962 and, until December 31, 2014, carried on most of its business in that province. However, on January 1, 2014 the head office of the corporation moved to Oregon and the Company ceased doing business in Canada in all subsequent years.
- E. Forman Inc. was incorporated in Syracuse, New York during 2017. However, the head office of the corporation is in Smith Falls, Ontario and all meetings of the Board of Directors are held in that city.

SSS Problem One - 3

(Residency/Dual Residency - Individuals)

Determine the residency status of the two individuals in the following Cases. Use the tie-breaker rules found in the Canada/U.S. tax treaty where appropriate.

Case A Brad is a U.S. citizen who has been living in Seattle, Washington. Through an online dating service, he meets Sarah in 2018. She is a Canadian citizen who lives and works in Vancouver. After several face-to-face meetings they conclude that they should marry and, after much discussion, they decide that they will live in Seattle after the marriage. Since Sarah is committed to remaining in her position in Vancouver until September, 2019, in December, 2018, Brad takes a 10 month leave of absence from his job and gives up his apartment in Seattle. On January 1, 2019, they move in together sharing an apartment in Vancouver which is leased on a month-to-month basis. On September 15, 2019, they get married, terminate the Vancouver lease, and move to a newly purchased house in Seattle.

Case B Helen is a single individual who makes her living painting portraits of wealthy individuals. She is a U.S. citizen and has, in recent years, worked in Burlington, Vermont. Of late, business has dropped off and, as a consequence, she decided to try working in Montreal. Because of the uncertainty involved in her line of work, she does not sell her Burlington residence, asking a friend to watch it while she is absent. On April 15, 2019, she moves to Montreal. She lives in various Montreal hotels until January 15, 2020. At this time she concludes that the work situation is no better in Montreal than it was in Burlington. Given this, she returns to Burlington.

SSS Problem One - 5

SSS Problem One - 4**(Net Income For Tax Purposes - Two Cases)**

The following two Cases make different assumptions with respect to the amounts of income and deductions for the current year for Christophe Szabo, a Canadian resident.

Case A Christophe has employment income of \$46,700, interest income of \$3,500, a net rental loss of \$22,250, and a net business loss of \$37,260. Dispositions of capital property during the current year had the following results:

Taxable Capital Gains	\$13,470
Allowable Capital Losses	10,540

Christophe paid deductible spousal support of \$500 per month. His cash position was significantly improved when he won a provincial lottery prize of \$450,000 during the year.

Case B Christophe had employment income of \$75,400, interest income of \$4,560, and a net rental loss of \$12,200.

Dispositions of capital property during the current year had the following results:

Taxable Capital Gains	\$8,725
Allowable Capital Losses	9,460

Subdivision e deductions for the current year were child care costs of \$4,520, RRSP contributions of \$6,570, and spousal support payments of \$3,600.

Required: For both Cases, calculate Christophe's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year.

SSS Problem One - 5**(Net Income For Tax Purposes - Four Cases)**

The following four Cases make different assumptions with respect to the amounts of income and deductions of Jonathan Oakley for the current year:

	Case A	Case B	Case C	Case D
Employment Income	\$83,000	\$92,000	\$46,000	\$57,000
Income (Loss) From Business	(22,000)	(22,000)	21,000	16,000
Rental Income (Loss)	12,000	16,000	(42,000)	(92,000)
Taxable Capital Gains	81,000	18,000	22,000	31,000
Allowable Capital Losses	(35,000)	(32,000)	(53,000)	(35,000)
Subdivision e Deductions	(15,000)	(12,000)	(16,000)	(17,000)

Required: For each Case, calculate Mr. Oakley's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

Chapter 1 Supplementary Self Study (SSS) Solutions

SSS Solution One - 1

Given the subject matter of this question, there are many answers that would satisfy the requirements of the problem. Those listed below should only be considered as examples of possible solutions.

- A. A big advantage here would be the likelihood that Canadian tax revenues would increase. In terms of qualitative characteristics, two possibilities would be:
- More neutrality, as businesses would no longer make location decisions based on the tax status of the shipping point.
 - Complexity would be added in terms of finding a mechanism to enforce collections.
- B. A possible advantage would be economic development in that the deductibility of interest could encourage real estate purchases. In terms of qualitative characteristics, two possibilities would be:
- Vertical equity in the sense that high income taxpayers benefit most from the non-taxation of capital gains on the disposition of a principal residence.
 - Balance between sectors would be improved as the tax relief on interest payments would reduce taxes on individuals.
- C. A major advantage would likely be increased revenues as the ability to use multiple corporate structures for tax planning purposes would be reduced. In terms of qualitative characteristics, two possibilities would be:
- More neutrality, as it would remove the incentive to make investment decisions on the basis of multiple corporate structures.
 - There would be greater ease of compliance as only one tax return would be required.
- D. The major advantage here would likely be greater ease of compliance for business. In terms of qualitative characteristics, two possibilities would be:
- Simplicity and ease of compliance would be improved.
 - Certainty would be improved, in that taxpayers would be more aware of the amounts to be paid, without having to do the additional calculations required for input tax credits.

SSS Solution One - 2

Case A

Martin Judge would be considered resident in Canada for the part year beginning October 1, 2019 and would be taxed on his worldwide income for this period. This conclusion is based on the assumption that he did not become a resident of Canada until he returned to Canada and began working at his new position.

Case B

Ms. Gloria Salinas would not be considered a Canadian resident. As a result, none of her income would be subject to Canadian taxes. ITA 250(1)(c)(i) indicates that an ambassador of Canada will be deemed to be a Canadian resident only if she was resident in Canada immediately prior to her appointment to the position.

Case C

Roberto Salinas would not be considered a Canadian resident. As a result, none of his income (if any) would be subject to Canadian taxes. While ITA 250(1)(f) indicates that a child of an ambassador who is a deemed resident under ITA 250(1)(c)(i) is also a deemed resident, Roberto's mother is not such a deemed resident. Therefore, Roberto would not be considered a Canadian resident.

Case D

Kole Ltd. would be considered resident in Canada based on ITA 250(4)(c), which indicates that a corporation is resident in Canada if it was incorporated in Canada prior to April 27, 1965 and carried on business, or was resident in Canada, in any year ending after April 26, 1965. Based on the location of its mind and management, it would also be considered a resident of the U.S. Given this dual residency, the tie breaker rule in the Canada/U.S. tax treaty would resolve the situation by making the Company a resident of its country of incorporation. This would result in Kole Ltd. being considered a resident of Canada, the country of incorporation.

Case E

Forman Inc. would be considered resident in Canada because of the location of its mind and management. However, as Forman was incorporated in the U.S., it would also be considered a resident of that country. Given this dual residency, the tie breaker rule in the Canada/U.S. tax treaty would resolve the situation by making the Company a resident of its country of incorporation. This would result in Forman being considered a resident of the U.S., and a non-resident of Canada.

SSS Solution One - 3

Case A

As Brad was in Canada for more than 183 days in 2019, he is a deemed resident through the application of the sojourner rule, and therefore a dual resident. In applying the tie-breaker rules, the first factor that is considered is in which country the individual has a permanent home.

With respect to this criterion, Brad would not be considered to have a permanent home in either country. He gave up his lease on the Seattle property and, given that he only planned to stay for a short period of time, the Vancouver apartment would not be considered a permanent home. In the absence of a permanent home in either country, the next factor to consider would be the location of Brad's "centre of vital interests". This would appear to be the U.S. and, given this, the tie-breaker rules would make Brad a resident of the U.S. and a non-resident of Canada.

Sarah is a resident of Canada until September 15, 2019. Assuming she severs all residential ties with Canada on her departure, she would become a non-resident of Canada on that date.

Case B

Because Helen is temporarily in Canada for more than 183 days in 2019, she would be considered a deemed resident of Canada under the sojourner rules. As this makes her a dual resident of the U.S. and Canada, the tie-breaker rules would come into play.

Since it appears that Helen has a permanent home in Burlington, the tie-breaker rules would indicate that she is a resident of the United States. The hotels would not be considered to be a permanent home given that Helen never intended to stay for a long period of time.

SSS Solution One - 4**Case A**

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$46,700	
Interest Income	<u>3,500</u>	\$50,200
Income Under ITA 3(b):		
Taxable Capital Gains	\$13,470	
Allowable Capital Losses	<u>(10,540)</u>	2,930
Balance From ITA 3(a) And (b)		\$53,130
Spousal Support Payments [(12)(\$500)]		<u>(6,000)</u>
Balance From ITA 3(c)		\$47,130
Deductions Under ITA 3(d):		
Net Rental Loss		(22,250)
Business Loss		<u>(37,260)</u>
Net Income For Tax Purposes (Division B Income)		<u>Nil</u>

In this Case, Christophe has rental and business loss carry overs of \$12,380 (\$47,130 - \$22,250 - \$37,260). The provincial lottery winnings would not be included in Christophe's Net Income For Tax Purposes as they are not subject to tax.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$75,400	
Interest Income	<u>4,560</u>	\$79,960
Income Under ITA 3(b):		
Taxable Capital Gains	\$8,725	
Allowable Capital Losses	<u>(9,460)</u>	Nil
Balance From ITA 3(a) And (b)		\$79,960
Child Care Costs		<u>(4,520)</u>
RRSP Contributions		<u>(6,570)</u>
Spousal Support Payments		<u>(3,600)</u>
Balance From ITA 3(c)		\$65,270
Deduction Under ITA 3(d):		
Net Rental Loss		<u>(12,200)</u>
Net Income For Tax Purposes (Division B Income)		<u>\$53,070</u>

In this Case, Christophe has an allowable capital loss carry over of \$735 (\$8,725 - \$9,460).

SSS Solution One - 5**Case A**

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$83,000	
Rental Income	<u>12,000</u>	\$ 95,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$81,000	
Allowable Capital Losses	<u>(35,000)</u>	46,000
Balance From ITA 3(a) And (b)		\$141,000
Subdivision e Deductions		<u>(15,000)</u>
Balance From ITA 3(c)		\$126,000
Deduction Under ITA 3(d):		
Business Loss		<u>(22,000)</u>
Net Income For Tax Purposes (Division B Income)		<u>\$104,000</u>

In this Case, Mr. Oakley has no loss carry overs at the end of the year.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$92,000	
Rental Income	<u>16,000</u>	\$108,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$18,000	
Allowable Capital Losses	<u>(32,000)</u>	Nil
Balance From ITA 3(a) And (b)		\$108,000
Subdivision e Deductions		<u>(12,000)</u>
Balance From ITA 3(c)		\$ 96,000
Deduction Under ITA 3(d):		
Business Loss		<u>(22,000)</u>
Net Income For Tax Purposes (Division B Income)		<u>\$ 74,000</u>

In this Case, Mr. Oakley has a carry over of \$14,000 (\$32,000 - \$18,000) in unused allowable capital losses.

SSS Solution One - 5

Case C

The Case C solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$46,000	
Business Income	<u>21,000</u>	\$67,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$22,000	
Allowable Capital Losses	(53,000)	Nil
Balance From ITA 3(a) and (b)		\$67,000
Subdivision e Deductions		(16,000)
Balance From ITA 3(c)		\$51,000
Deduction Under ITA 3(d):		
Rental Loss		(42,000)
Net Income For Tax Purposes (Division B Income)		<u>\$ 9,000</u>

In this Case, Mr. Oakley would have an allowable capital loss carry over in the amount of \$31,000 (\$53,000 - \$22,000).

Case D

The Case D solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$57,000	
Business Income	<u>16,000</u>	\$73,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$31,000	
Allowable Capital Losses	(35,000)	Nil
Balance From ITA 3(a) And (b)		\$73,000
Subdivision e Deductions		(17,000)
Balance From ITA 3(c)		\$56,000
Deduction Under ITA 3(d):		
Rental Loss		(92,000)
Net Income For Tax Purposes (Division B Income)		<u>Nil</u>

Mr. Oakley would have a carry over of unused business losses in the amount of \$36,000 (\$92,000 - \$56,000) and of unused allowable capital losses in the amount of \$4,000 (\$35,000 - \$31,000).