

# Net Income to Taxable Income for Individuals

# Net Income for Tax Purposes

- Net Employment Income
- Net Business Income
- Net Property Income
- Capital Gains and Losses
- Other Income
- Other Deductions
- Current Year Losses – Capital or Non-Capital
- = Net Income For Tax Purposes

# From Where We Were:

## Net Income for Tax Purposes \_\_\_\_\_ =

Less: Allowable capital losses

## Employee Stock Options

## Deductions – sections 60 to 66.8

## Capital gains deduction

#### Losses from an office or employment

## **Losses from an office or employment Losses from a business**

# Losses from a business

## Losses from property

**Taxable Income** \_\_\_\_\_ =

# Critical Thinking

- Why are there two totals?
  - Net Income For Tax Purposes – used to calculate eligibility for assistance programs and low income tax credits. (more inclusive)
  - Taxable Income – income actually intended to be taxed. (adjusted for losses & tax free income)

# Tax Calculation and Credits

# Calculation of Personal Tax

# Marginal Tax Rates

Up to \$43,000	24.1%	(+ \$0)
\$43,001 to \$87,000	34.1%	(+ \$10,363)
\$87,001 to \$135,000	38.4%	(+ \$25,367)
\$135,000 and up	43.3%	(+ \$43,799)

Example:

Mr. X makes \$93,000 in taxable income. How much tax will he pay before personal credits?

What about if he makes \$148,000?

# Example

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in taxable income.  
How much tax will he pay  
before personal credits?

Longhand:

$$43,000 - 0 = 43,000 \times 24.1\% = \$10,363$$

$$87,000 - 43,000 = 44,000 \times 34.1\% = \$15,004$$

$$93,000 - 87,000 = 6,000 \times 38.4\% = \$2,304$$

$$\$10,363 + 15,004 + 2,304 = \$27,671$$

# Example

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$$43,000 - 0 = 43,000 \times 24.1\% = \$10,363$$

$$87,000 - 43,000 = 44,000 \times 34.1\% = \$15,004$$

$$135,000 - 87,000 = 48,000 \times 38.4\% = \$18,432$$

$$148,000 - 135,000 = 13,000 \times 43.3\% = \$5,629$$

$$\$10,363 + 15,004 + 18,432 + 5,629 = \$49,428$$

# Example

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Shorthand:

$$148,000 - 135,000 = 13,000 \times 43.3\% = \$5,629$$

$$\$43,799 + 5,629 = \$49,428$$

# Example – Knowledge Check

Up to \$43,000	24.1%	(+ \$0)
\$43,001 to \$87,000	34.1%	(+ \$10,363)
\$87,001 to \$135,000	38.4%	(+ \$25,367)
\$135,000 and up	43.3%	(+ \$43,799)

Example:

Mr. X makes \$57,000  
in taxable income.  
How much tax will he pay  
before personal credits?

# Choose an Answer

- A. \$19,437
- B. \$4,774
- C. \$15,137
- D. \$42



Retrieved September 23, 2014 from:  
[http://wall.alphacoders.com/by\\_sub\\_category.php?id=212731](http://wall.alphacoders.com/by_sub_category.php?id=212731)

# Credit vs. Deduction

- Deduction
  - $\text{Income} - \text{Deduction} = \text{Taxable Income}$  (reduces tax by highest marginal rate)
- Credit
  - $\text{Taxes Owing} - (\text{Credit} \times \text{lowest rate}) = \text{Net Taxes Owing}$ . (reduces tax by lowest marginal rates).
  - Credits may be refundable or non-refundable.

# Tax Savings Example

## Deductions

\$146,000 Income before  
(11,000) Deduction is a  
reduction of income.

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\$135,000 Income After

\*Income over and above  
\$135,000 taxed at 43.3% so...

$\$11,000 \times 43.3\% = \$4,763$  tax  
savings

## Credits

\$146,000 Income before  
-  
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\$146,000 Income After

\*Credits reduce tax at lowest  
marginal tax rate of 24.1% so...

$\$11,000 \times 24.1\% = \$2,651$  tax  
savings

# Provincial vs. Federal

- Rates
  - Varying rates with varying cutoff levels (federal at \$43,000, provincial at \$37,000)
- We use combined federal & provincial rates with rough cutoff levels for this class to simplify this concept.
- Credits
  - Credit amounts may vary between Federal and Provincial.
  - Some credits may be only available provincially or federally.

Where there is a difference we use Federal credits as will future courses.

# Personal Tax Credits

# Family Based Credits



# Family Based Credits

- Definition: Common Law
  - Cohabited in a conjugal relationship for a continuous period for at least one year; or
  - Is the parent of a child of whom the taxpayer is also a parent.

No requirement they be of the opposite sex

Possible to have both

# Family Based Credits

- Definition: Child
  - Natural or adopted children of the individual or of their spouse/common law partner.

# Family Based Credits

- Personal Credits - \$11,000
  - For yourself
- Spousal Credits - \$11,000
  - For your spouse if they can't use
  - Reduced by your spouses Net Income For Tax Purposes.

# Family Based Credits

- Eligible Dependant Credit - \$11,000
  - If you have no spouse or common-law partner
  - have a dependant minor child, disabled adult child, parent, or grandparent
  - Must be dependant on you for food, clothing, shelter & living with you.
  - Reduced by dependants Net Income for Tax Purposes

Key to remember – these three are all the same.

# Family Based Credits

## Example

George and Marie are married. George earns \$50,000 from interest and Marie does not work. Calculate the reduction of George's taxes based what you know about him.

\$11,000 Personal Credit

\$11,000 Spousal Credit

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$\$22,000 \times 24.1\% = \$5,302$  Reduction in Taxes.

# Family Based Credits Cont'd.

- Age Credit
  - Taxpayers 65 and over - \$6,900
  - Reduced if they earn too much income. (\$38,000 starts, eliminated by \$89,000)
  - Transferable to a spouse



Retrieved September 23, 2014 from:  
<http://kristiholl.net/writers-blog/2011/11/age-are-you-too-old-to-write/>

# Family Based Credits Cont'd

## Disability Tax Credit - \$8,000 (T2201)

- Available to individuals with an impairment that results in a “marked” restriction in a basic activity of daily living, that has lasted or is expected to last for at least 12 months
- Mental or physical infirmity must be certified by a medical doctor or similar professional.
- A \$4,732 supplement is added on for disabled children under the age of 18
- The credit may be transferred to:
  - a spouse, or
  - A supporting person who claimed the caregiver credit, or eligible dependent credit on behalf of the impaired individual.

# Family Based Credits

## Example

George is 70 years old, unmarried, and has 3 children age 6, 7 and 8. George earns \$30,000 annually. Not enough to reduce any of his credits. Calculate the reduction of George's taxes based what you know about him.

\$11,000 Personal Credit

\$11,000 Eligible Dependant Credit

\$6,900 Age Credit

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\$28,900 x 24.1% = \$6,964.90 Reduction in Taxes.

# Family Based Credits

## Example

George is 73 years old and married. His spouse has a registered disability certified by a doctor, and is 66 years old. Their combined income for the year is \$30,000, all of which is George's. Calculate George's Personal Credits.

\$11,000 Personal Credit

\$11,000 Spousal Credit

\$6,900 Age Credit

\$6,900 Age Credit from spouse

\$8,000 disability credit transferred from spouse

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\$43,800 x 24.1% = \$10,555.80 Reduction in Taxes.

# Family Based Credits Cont'd.

- Canada Caregiver Amount. – 6,900
  - For supporting an infirm adult relative, including a child, grandchild, parent, grandparent, brother, sister, aunt, uncle, niece, or nephew
  - Must be dependent because of mental or physical infirmity
  - Relative need not live with the taxpayer
  - Credit is reduced by 15% of the relative's net income in excess of \$16,163
- If eligible for dependant credit, can't claim Canada Caregiver amount.

# Family Based Credits Cont'd.

- Family caregiver amount for infirm dependent. – 2,150
  - One family caregiver amount is allowed for each infirm dependent, for which the spousal or equivalent to spouse is claimed.
  - Also available on a standalone basis for an infirm child under 18 for the 2017 year and onward.

# Family Based Credits Cont'd

## Home Accessibility Amount - \$10,000

- Available to taxpayers 65 years of age or older, or who are eligible for the disability tax credit.
- For eligible renovations to improve safety and accessibility of a home.
- The basis for the credit is the lesser of the cost of the eligible renovations and \$10,000.

# Family Based Credits

## Example

George is 45 years old and unmarried. He supports his 23 year old niece, since his brother (her father) passed away. She has an registered disability. Calculate George's Personal Credits.

\$11,000 Personal Credit

\$6,900 Canada Caregiver

\$8,000 disability credit transferred from niece since George claimed the caregiver credit for her.

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$\$25,900 \times 24.1\% = \$6,241.90$  Reduction in Taxes.

# Family Based Credits Cont'd

- First Time Homebuyers Tax Credit
  - \$5,000 – where individual or spouse hasn't purchased a home or lived in one they owned in the last 4 years.
- Adoption Expenses Tax Credit
  - \$15,000 in Eligible Adoption Expenses
  - For the adoption of a child under 18
  - Must be claimed in the year adoption finalized
  - Includes agency fees, court costs, travel & living expenses of child & adoptive parents, etc.

# Income Based Credits



# Income Based Credits

- EI/CPP Credits
  - Credit for amounts paid up to annual max
  - EI Max is \$891, CPP Max is \$2,356
  - Remainder deducted from pay is refunded
- Employment Credit
  - \$1,117 for having employment income (at least \$1,117 of it)

# Income Based Credits

- Pension Credit

- \$2,000 for having pension income (at least \$2,000 of it)
- Not available on OAS, CPP, or Death Benefit Income
- Transferable to a spouse if unused



Retrieved September 23, 2014 from:  
<http://pensionsatwork.ca/>

# Income Based Credits

## Example

George is 34 and earns \$500 in employment income in 2012.  
Calculate the reduction of his income tax from credits.

\$11,000 Personal Credit

\$500 Employment Credit (lesser of emp income or \$1,117)

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\$11,500 x 24.1% = \$2,771.50 (potential) Reduction in Taxes.

# Income Based Credits

## Example

George is 34 and earns \$25,000 in pension income in 2012.

Calculate the reduction of his income tax from credits.

\$11,000 Personal Credit

\$2,000 Pension Credit (Lesser of pension income or \$2,000)

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\$13,000 x 24.1% = \$3,133 Reduction in Taxes.

# Income Based Credits

## Example

George is 34 and earns \$25,000 in employment income in 2012.

George contributed \$1,000 to EI from his employment income.

Calculate the reduction of his income tax from credits.

\$11,000 Personal Credit

\$1,117 Employment Credit (Lesser of employ income or \$1,117)

\$891 EI Credit

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$\$13,008 \times 24.1\% = \$3,135 + (\$1,000 - 891) = \$3,244$  Reduction in Taxes.

# Miscellaneous Credits



# Miscellaneous Credits

- Tuition Tax Credits
  - Tuition paid at university, college, post-secondary institution
  - Unused credits can be carried forward
  - Can be transferred up to \$5,000 in the current year to parents
    - not mandatory – balance with unlimited carry-forward
  - Not claimable if reimbursed by employer unless it was a taxable benefit
- Exam Fees
  - Exam fees \$100 or more

# Miscellaneous Credits

- Student Loan Interest
  - Credit available for interest paid on government student loans. Lines of credit generally not applicable. 5 yrs forward

# Tuition Credits

## Example

George is 23 attends the University of New Brunswick for 4 full time months in 2012. His tuition costs \$6,000. Calculate the reduction of his income tax from credits.

\$11,000 Personal Credit

\$6,000 Tuition Credit

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\$17,000 x 24.1% = \$4,097 Reduction in Taxes.

\*If unable to use the tuition amount, George can carry them forward to a future year.

# Miscellaneous Credits

- Volunteer Firefighters Credit
  - \$3,000
  - Individuals volunteering 200 hours a year
  - Cannot use volunteering hours from a fire department the individual also works for.



# Miscellaneous Credits Cont'd

- Medical Expense Credits

- Total expenses for the family (spouses, minors, adult children with disabilities)
- Reduced by: 3% of net income or \$2,152 (lesser of).
- Includes: Prescriptions, glasses, premiums, dentistry, etc.
- Federal Doesn't include: Cosmetic surgery
- NB Doesn't include: acupuncture, natural remedies
- Any 12 month period ending in the year & 24 months at death.

# Miscellaneous Credits Cont'd

- Medical Expense Credits Continued...
  - Can include spouse & minor children with no reduction, and
  - Adult children less 3% of their income or \$2,152 (lesser of)
  - Does not include any amounts reimbursed by medical insurance.

# Medical Credits

## Example

George is married to Marie. George spent \$6,000 and Marie spent \$8,000 in medical expenses from November 2011 to October 2012. George estimates that \$2,000 was reimbursed by Blue Cross Insurance. He earns \$50,000 annually and she earns \$8,500. Calculate his tax reduction JUST from medical.

\$6,000 George's Medical

\$8,000 Marie's Medical

(2,000) Less: reimbursement

(1,500) Less: 3% of \$50,000 (less than \$2,152)

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\$10,500 x 24.1% = \$2,530.50 Reduction in Taxes.

# Miscellaneous Credits Cont'd

- Charitable Donations

- Preferential treatment. First \$200 at lowest bracket – afterwards at highest tax bracket.
- Limited to 75% of net income for tax purposes
- Able to be carried forward for 5 years
- Better to lump spousal donations together.

## First-time Donors Super Credit (new in 2013)

- Extra 25% on donations up to \$1,000
- Available to individuals (or couples) who haven't donated since 2007.

# Donation Credits

## Example

George contributes \$10,000 in donations in 2012. Calculate his tax reduction from donations only.

$$\$200 \times 24.1\% = \$48.20$$

$$\$9,800 \times 43.3\% = \$4,243.40$$

$$\text{Total Tax Reduction: } 48.20 + 4,243.40 = \$4,291.60$$

# Donation Credits

## Example

George contributes \$10,000 in donations in 2014. Calculate his tax reduction from donations only, assuming he has never donated before.

$$\$200 \times 24.1\% = \$48.20$$

$$\$9,800 \times 43.3\% = \$4,243.40$$

$$\$1,000 \times 25\% = \$250 \text{ (\$25\% of the first \$1000)}$$

$$\text{Total Tax Reduction: } 48.20 + 4,243.40 + 250 = \$4,541.60$$

# Changing Province of Residence

In general, provincial tax credits are lower than federal. This results in a faster use of the provincial portion of your tuition credits than your federal (you will run out of provincial sooner).

However, when changing provinces of residences, some provinces allow you to “reset” your provincial tuition credit carry forward to the federal amount. Watch for this potential benefit if you move.