Exam Question Book

140 main questions plus 140 variants, all our own, none official. Every option has a reason.

How to use

1. Work chapter by chapter at real exam pace (50 questions in 75 minutes).
2. When marking, read the reason for all four options: why the wrong ones are wrong is tested more often than why the right one is right.
3. For every miss, do its variant the same day and again three days later.

Chapter 1 · T1 Return Overview: Filing Requirements, Six-Step Calculation, and Post-Filing Procedures (2026 Tax Year) T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

1. During the 2026 taxation year, Liam disposed of mutual fund units held in a non-registered account, realizing a taxable capital gain. After applying his allowable deductions and non-refundable tax credits, Liam's calculated net federal and provincial tax payable is $0. He did not receive a formal demand to file from the CRA. Is Liam legally required to file a 2026 T1 personal tax return?

a. No, because Canada's self-assessment system only mandates filing when an individual has an unpaid tax balance owing.
b. Yes, because disposing of capital property or realizing a taxable capital gain triggers a mandatory filing requirement regardless of tax payable.
c. No, because mandatory reporting applies only when gross capital proceeds exceed the $3,500 basic exemption threshold.
d. Yes, but he is only required to submit an information schedule directly to his provincial tax authority rather than a federal T1 return.

1′. In 2026, Chloe earned $4,800 in net self-employment income from freelance copywriting, with no other income sources. After applying the basic personal amount, her calculated income tax liability is $0. Is Chloe legally required to file a 2026 T1 return?

a. No, because self-employed individuals with zero net income tax liability are fully exempt from filing.
b. No, because CPP contributions are entirely optional for self-employed individuals with net profits below $10,000.
c. Yes, because her net self-employment earnings exceeded the $3,500 CPP basic exemption, triggering mandatory CPP contributions.
d. Yes, but only if the CRA serves her with a formal written requirement to file within 90 days after year-end.

2. For the 2026 taxation year, what is the federal income tax rate applicable to an individual's taxable income in the lowest tax bracket (taxable income up to $58,523)?

a. 15%
b. 14.5%
c. 14%
d. 20.5%

2′. While calculating federal tax on an individual's 2026 taxable income of $45,000, a tax preparer applies a tax rate of 14.5%. Why is this rate incorrect under 2026 tax rules?

a. The 14.5% rate was a blended rate used only for the 2025 transition year; for 2026 the full-year rate is 14%.
b. The lowest federal tax rate reverted back to 15.0% after the temporary tax reduction expired at the end of 2025.
c. The 14.5% rate applies solely to taxable income between $58,523 and $117,045.
d. The 14.5% rate is restricted to corporations eligible for the small business deduction rather than individuals.

3. Marcus operates an unincorporated web design business. For the 2026 taxation year, his return reflects a balance owing of $5,000. Marcus files his T1 return on June 10, 2027, and pays the $5,000 balance in full on the same date. What are the legal consequences regarding penalties and interest?

a. No late-filing penalty is assessed, but prescribed interest is charged on the $5,000 balance owing from May 1, 2027, to June 10, 2027.
b. A 5% late-filing penalty is assessed because the filing extension to June 15 is voided if the tax balance is not paid by April 30.
c. Neither penalties nor interest apply because both filing and payment deadlines are extended to June 15 for business operators.
d. Prescribed interest and a 17% maximum penalty are charged retroactively from January 1, 2027.

3′. Elena is an employed accountant whose cohabiting spouse operates an unincorporated food truck business. For the 2026 tax year, Elena has an unpaid tax liability of $2,000. Which pair of dates correctly states Elena's filing deadline and payment deadline?

a. Filing deadline: April 30, 2027; Payment deadline: April 30, 2027.
b. Filing deadline: June 15, 2027; Payment deadline: June 15, 2027.
c. Filing deadline: April 30, 2027; Payment deadline: June 15, 2027.
d. Filing deadline: June 15, 2027; Payment deadline: April 30, 2027.

4. David had an assessed total tax payable of $16,000 for the 2026 tax year. His employer withheld $12,000 at source, leaving an unpaid balance owing of $4,000. David filed his return on July 10, 2027 (two complete months late) without paying the balance. He had no late-filing penalties for the prior three taxation years and received no CRA demand. What is David's late-filing penalty?

a. $1,120: 7% of the $16,000 total tax payable for the year
b. $200: 5% of the $4,000 unpaid balance, with no monthly add-on
c. $680: the 17% first-time cap applied to the $4,000 unpaid balance
d. $280: 5% plus 1% per complete month, on the $4,000 unpaid balance

4′. Sophia filed her 2026 T1 personal tax return four complete months late. Her total assessed tax payable for the year was $10,000, but her employer had already remitted $10,500 in source deductions by April 30, 2027. She had no prior penalty record. What is Sophia's late-filing penalty?

a. $900, representing 9% (5% initial plus 4% for four months) of her $10,000 total tax payable.
b. $0, because her balance owing on the filing deadline was zero.
c. $100, representing the statutory minimum administrative penalty for filing more than 90 days late.
d. $1,700, representing the maximum statutory penalty of 17% applied to her total tax liability.

5. In the current structure of the Canadian T1 Income Tax and Benefit Return, at which step is provincial or territorial tax (such as BC tax calculated on Form 428) formally integrated into the calculation?

a. Step 6 (Refund or balance owing), added to net federal tax before amounts already paid are subtracted.
b. Step 5 (Federal tax), where provincial credits are blended directly with the federal non-refundable credits.
c. Step 3 (Net income), where it is claimed as a deduction from total income before taxable income is set.
d. On a standalone provincial return, as CRA returns do not process provincial tax calculations.

5′. A tax student references an older training manual describing the T1 return as having seven distinct steps. What structural change made by the CRA explains why current returns contain only six steps?

a. Step 1 (Identification) and Step 2 (Total income) were combined into a single intake step.
b. Step 3 (Net income) was removed, and deductions are now directly applied to calculate federal tax.
c. The separate provincial and territorial tax step was dropped for 2021, and that tax now flows into Step 6.
d. Federal tax and refundable tax credits were split into two separate numbered steps, changing the total count.

6. Nathan, an employed individual, filed his 2026 T1 personal return on March 10, 2027. The CRA assessed his return and issued a Notice of Assessment (NOA) dated March 25, 2027, disallowing an eligible deduction. What is the latest date by which Nathan can file a valid Notice of Objection?

a. June 23, 2027, which is 90 days following the date of the Notice of Assessment.
b. April 30, 2028, which is the later of one year after the filing due date and 90 days after the NOA date.
c. March 10, 2028, which is exactly one year following his actual filing date.
d. September 25, 2027, which is six months following the issuance of the Notice of Assessment.

6′. Grace filed her 2026 T1 return on April 20, 2027. Following an audit, the CRA issued a Notice of Reassessment dated May 20, 2028. What is the deadline for Grace to file a Notice of Objection?

a. April 30, 2028, which is one year after the original filing due date for the 2026 tax year.
b. May 20, 2029, which is one year after the date of the Notice of Reassessment.
c. June 19, 2028, which is 30 days after the reassessment notice was issued.
d. August 18, 2028, 90 days after the reassessment, which is later than April 30, 2028.

7. Rachel is an employed resident of British Columbia. How does she fulfill her provincial personal income tax compliance obligations for the 2026 taxation year?

a. She must file an electronic T1 return with the CRA by April 30 and mail a separate provincial return to the BC Ministry of Finance by June 15.
b. She files a federal return with the CRA and is exempt from BC provincial tax calculations if her income is under $100,000.
c. She files a single combined T1 return with the CRA, calculating BC tax on Form 428, which is collected jointly by the CRA.
d. She reports BC provincial tax exclusively through her municipal property tax declaration.

7′. Gabriel moved from Montreal, Quebec, to Vancouver, British Columbia, in early 2026. How does his 2026 personal income tax filing process in BC differ from his previous filing experience in Quebec?

a. In BC he files one T1 with the CRA covering both taxes; Quebec needed separate federal and Revenu Québec returns.
b. In BC, provincial tax is assessed as a flat percentage of federal tax, whereas Quebec used a bracketed system.
c. In BC, he is required to obtain prior clearance from the provincial Ministry of Finance before filing his federal T1 return.
d. In BC, provincial income tax is optional for former residents of other provinces during their first tax year.

Chapter 2 · Identification and Marital Status: Spouse Details, Province of Residence, and Key Information Checkboxes (2026 Tax Year) T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

8. Liam and Sophia began living together in a conjugal relationship on March 1, 2025. In October 2025, due to a relationship dispute, Sophia moved out for 45 days, after which they reconciled and resumed living together. As of March 15, 2026, they had no children. When filing his 2026 personal income tax return, how should Liam determine his marital status as of December 31, 2026?

a. He must file as Single, because any separation during the qualification period resets the 12–month cohabitation clock back to zero.

b. Living common–law, because the 45–day break was under 90 days and did not interrupt the 12–month count.

c. He must file as Separated, because a relationship breakdown occurred within the 12–month qualification period.

d. He must file as Single, because federal tax law requires at least 24 consecutive months of cohabitation before common–law status is recognized.

8′. Ethan and Olivia began cohabiting in an intimate relationship on February 1, 2026. On August 15, 2026, a child was born to them. As of December 31, 2026, they had cohabited for only 11 months. What is Olivia's marital status for her 2026 T1 return?

a. Single, because they had not yet lived together for the mandatory 12 consecutive months required under the general rule.

b. Married, because having a common biological child automatically legally marries the partners under federal tax legislation.

c. Single, unless they jointly submit a formal notarized declaration to Service Canada prior to the tax filing deadline.

d. Living common–law, because her partner is the child's parent, which qualifies without the 12–month wait.

9. Marcus and Elena, who are legally married, experienced a breakdown in their marriage and began living separate and apart on November 15, 2026. They continued to live apart continuously, reaching 90 days of separation on February 13, 2027. When Marcus files his 2026 T1 personal tax return in April 2027, what was his marital status as of December 31, 2026, and what was the effective date of that status?

a. Married, because the mandatory 90-day separation period had not yet elapsed by December 31, 2026.
b. Separated, with an effective legal date of February 13, 2027, when the 90-day threshold was officially reached.
c. Separated, effective November 15, 2026, since once 90 days pass the status dates back to the first day apart.
d. Divorced, because living apart for more than 90 days automatically dissolves the legal marriage for federal tax purposes.

9′. David and Grace are legally married. In September 2026, Grace was transferred to another city for a temporary 1-year work assignment and lived in a rented apartment, while David remained in their family home. Their marital relationship remained intact throughout 2026. How should David report his marital status on his 2026 T1 return?

a. Married, because living apart for work, school or health reasons is not a breakdown of the relationship.
b. Separated, because physical separation exceeding 90 days automatically triggers separated status regardless of the underlying reason.
c. Single, because they maintained two separate primary residences as of December 31, 2026.
d. Living common-law, because their legal marriage is suspended during periods of cross-regional employment.

10. Julian was legally married to Claire as of December 31, 2026. Claire had no earnings or taxable income during 2026 and did not file a tax return. However, Claire operated a small unincorporated consulting business as a sole proprietor in 2026 (generating $0 net profit). Which of the following statements is correct regarding Julian's 2026 T1 return?

a. Julian must enter Claire's name, SIN, and net income as $0 on line 23600, and Julian's filing due date is extended to June 15, 2027, because his spouse was self-employed.
b. Julian may omit Claire's net income on line 23600 because Claire had zero income and did not file a return, and his deadline remains April 30, 2027.
c. Julian must report Claire's details, but his filing deadline remains April 30, 2027, because the deadline extension applies solely to the self-employed individual.
d. Julian must file Claire's return together with his own as a single joint consolidated return by April 30, 2027.

10′. Kevin is legally married to Maya as of December 31, 2026. Maya is a newcomer to Canada who had zero income from all sources in 2026. Kevin's tax preparer explains that Maya's net income (line 23600) must still be entered on Kevin's T1 return. What is the statutory rationale for this requirement?

a. To allow the CRA to impose a mandatory minimum tax assessment on spouses who fail to seek active employment.
b. To ensure that Kevin can be held jointly liable for Maya's future personal tax debts across subsequent years.
c. To serve as a necessary input parameter for calculating Kevin's spouse credit and evaluating eligibility for family-based benefits.
d. To transfer Maya's unused basic personal amount automatically to Kevin's provincial tax return without documentation.

11. Rachel resided in Calgary, Alberta from January 1, 2026, until December 20, 2026. On December 21, 2026, she permanently relocated to Vancouver, British Columbia, established her primary residence there, and resided in BC on December 31, 2026. How should Rachel determine her provincial tax liability on her 2026 T1 return?

a. She must file using Alberta Form 428 because she resided in Alberta for more than 11 months of the tax year.
b. She must apportion her 2026 taxable income between Alberta and BC based on the exact number of days lived in each province.
c. She must file two separate provincial returns, one with Alberta Treasury Board and Finance and one with the CRA for BC.
d. She must report British Columbia as her province of residence on December 31 and calculate her entire 2026 provincial tax using BC Form 428.

11′. Lucas lives in Victoria, BC, where he owns a home and maintains his primary residential ties. On December 15, 2026, he traveled to Ontario for a two-week holiday and was physically staying in a hotel in Toronto on December 31, 2026, returning to Victoria on January 5, 2027. Which province or territory should Lucas enter as his province of residence on his 2026 T1 return?

a. Ontario, because physical location on midnight of December 31 strictly supersedes all residential ties.
b. British Columbia, because he is considered a factual resident of BC where his significant residential ties remained on December 31.
c. Both Ontario and BC, requiring a pro-rata allocation of his taxable income across both provincial forms.
d. Federal non-resident status, because he was not physically present in his home province at the end of the taxation year.

12. Throughout 2026, Nathan held the following offshore assets: a foreign bank deposit with a cost amount of $35,000 (fair market value $35,000), shares in a foreign corporation with an adjusted cost base of $75,000 (fair market value $130,000), and a personal vacation home in Mexico used exclusively for family holidays with a cost amount of $250,000. Is Nathan required to check 'Yes' on his 2026 T1 return and file Form T1135?

a. No, because each individual specified foreign property is below the $100,000 threshold and the personal vacation home is exempt.
b. Yes, because his deposit and shares total $110,000 in cost, and the vacation home is excluded.
c. Yes, solely because the personal vacation home cost exceeds $100,000, while the bank deposits and shares are exempt.
d. No, because Form T1135 filing is determined strictly by fair market value exceeding $250,000 rather than historical cost.

12′. In 2026, Henry and his wife Grace each hold foreign assets. Henry owns foreign shares with an adjusted cost base of $60,000. Grace owns offshore bonds with an adjusted cost base of $55,000. Neither holds any other foreign property. How does the Form T1135 filing requirement apply to them?

a. Neither must file, since the cost threshold is tested for each person separately, not for the couple.
b. Both must file Form T1135, because their combined family foreign property cost of $115,000 exceeds the $100,000 threshold.
c. Only Henry must file Form T1135, because he is the primary earner and holds the larger share of offshore assets.
d. Henry and Grace must file a single joint Form T1135 reporting all assets under one submission.

13. An individual taxpayer owned specified foreign property with a total cost amount of $180,000 throughout 2026 and earned $6,000 in foreign dividend income, which was omitted from the 2026 T1 return. In addition, the taxpayer failed to check the foreign property box and did not submit Form T1135 by the deadline. If the CRA issued the original Notice of Assessment on May 20, 2027, how does this failure affect the CRA's reassessment period for the 2026 tax year?

a. The normal three-year reassessment period is extended by an additional 3 years, allowing the CRA to reassess the return within 6 years of the original assessment date.
b. The CRA's reassessment period is unchanged at 3 years, but an automatic non-waivable 50% gross negligence penalty is applied to total taxable income.
c. The reassessment period is extended permanently with no statutory limitation period regardless of whether the omission was fraudulent.
d. The CRA loses the right to reassess the return once the standard 1-year objection deadline expires following the initial assessment.

13′. An individual taxpayer realized that they neglected to file Form T1135 for 2026 despite holding $150,000 in foreign shares. The return and form were filed voluntarily 40 days after the filing deadline, without any demand letter from the CRA. Assuming no intentional gross negligence, what is the ordinary late-filing penalty for the form?

a. A flat $2,500 penalty charged as soon as the form is late, however short the delay.
b. 5% of the total cost amount of the foreign property, regardless of days late.
c. $500 for each month the form is late, totaling $1,000 here.
d. $25 per day late (minimum $100, maximum $2,500), so $1,000 here.

14. Tarrant is a registered Status Indian who worked on a reserve during 2026. All of his employment income is fully exempt from tax under Section 87 of the Indian Act. Tarrant has two dependent children under age 6 and earned no other income. Why is Tarrant strongly advised to file a 2026 T1 return along with Form T90?

a. Filing is mandatory because Section 87 exemptions automatically expire if a return is not submitted annually.
b. Filing is required to convert his tax-exempt employment earnings into RRSP contribution room for future deductions.
c. Filing is needed to qualify for and calculate income-tested benefits such as the CCB and CGEB, which require a filed return.
d. Filing allows the CRA to allocate a portion of his exempt earnings to provincial income tax under the First Nations personal income tax agreement.

14′. When completing the Identification section of the 2026 T1 return, a tax preparer in British Columbia notices the checkbox asking whether the taxpayer 'resided on Indigenous government lands.' Under what circumstance does this specific checkbox apply?

a. It must be checked by any taxpayer across Canada who claims tax-exempt income under Section 87 of the Indian Act on Form T90.
b. It applies only to residents of Newfoundland and Labrador, the NWT or Yukon living on certain settlement lands.
c. It applies to all Indigenous persons living in British Columbia who work for a band council or on reserve lands.
d. It is a mandatory field for any homeowner whose property is subject to municipal property tax exemptions in Canada.

Chapter 3 · Employment Income and the T4 Slip: Mapping Boxes to Income, Deductions, and Tax Credits (2026 Tax Year) Employment income

Items marked ′ are variants on the same point: do one when you miss the main question.

15. Sarah received a 2026 T4 slip from her employer showing $65,000 in Box 14 (Employment income) and $3,200 in Box 40 (Other taxable allowances and benefits). What amount should Sarah enter on Line 10100 of her 2026 T1 personal income tax return?

a. $65,000, because the $3,200 reported in Box 40 is already included in Box 14.
b. $68,200, because Box 40 represents additional taxable benefits that must be added to gross salary.
c. $61,800, because non-cash taxable benefits in Box 40 must be deducted from gross employment remuneration.
d. $3,200, because Line 10100 is specifically reserved for taxable benefits while salary is reported elsewhere.

15′. David received a 2026 T4 slip from an engineering firm showing $82,000 in Box 14 and $4,500 in Box 40 for employer-paid parking and group term life insurance. When completing his tax return, how should David report these figures on Line 10100?

a. He must add the two boxes together to report $86,500 on Line 10100.
b. He must subtract Box 40 from Box 14 and report $77,500 on Line 10100.
c. Report $82,000, since Box 40 only breaks out benefits already inside Box 14.
d. He must report $82,000 on Line 10100 and report $4,500 separately on Line 10400.

16. In the 2026 tax year, Kevin earned $90,000 from his sole employer. His T4 slip shows the maximum employee contributions: $4,230.45 in Box 16 and $416.00 in Box 16A. How should Kevin allocate these CPP contributions between Line 30800 (tax credit) and Line 22215 (deduction) on his 2026 T1 return?

a. Line 30800: $4,646.45; Line 22215: $0
b. Line 30800: $3,519.45; Line 22215: $1,127.00
c. Line 30800: $4,230.45; Line 22215: $416.00
d. Line 30800: $3,519.45; Line 22215: $416.00

16′. Rachel earned $74,600 in 2026, reaching exactly the YMPE cap. Her T4 Box 16 shows $4,230.45 and Box 16A shows $0. What exact amount should Rachel claim on Line 22215 as an enhanced CPP deduction on her 2026 T1 return?

a. $0, as no CPP2 was deducted in Box 16A
b. $4,230.45, the full Box 16 amount
c. $3,519.45, the 4.95% base portion
d. $711.00, the 1% first enhancement

17. During 2026, Liam was away from work on medical leave for three months and received $12,000 in wage-loss replacement benefits under a group disability plan fully paid for by his employer. His employer also provided him with an assigned office parking space (not required for business travel) and a company smartphone used exclusively for emergency business communications. Which of these benefits is taxable to Liam?

a. Only the company smartphone is taxable, because electronic devices are always deemed personal benefits.
b. None of these benefits are taxable, because sick leave benefits and working tools are statutory tax-exempt.
c. Both the $12,000 insurance benefit and the parking space are taxable, while the business smartphone is non-taxable.
d. All three items are fully taxable, because all employer-provided benefits must be included in employment income.

17′. Sophia was off work for two months due to an illness. She received $8,000 from a wage-loss replacement plan where the premiums were 100% paid by Sophia through payroll deductions using after-tax earnings. How is the $8,000 benefit treated on Sophia's 2026 tax return?

a. Fully non-taxable, because Sophia paid all the premiums with her own after-tax pay.
b. The entire $8,000 benefit is taxable and must be reported on Line 10100 as regular employment income.
c. Only 50% of the benefit ($4,000) is taxable under the standard non-accountable benefit rules.
d. The benefit is reported on Line 14400 and then deducted on Line 25000 like WorkSafeBC benefits.

18. In 2026, Emily exercised qualifying stock options from her arm's-length corporate employer, generating a taxable benefit of $24,000 reported in T4 Box 14 and Code 38. The shares were eligible common shares, the exercise price was not less than the grant-date fair market value, and the annual vesting limit was not exceeded. What deduction should Emily claim on Line 24900 of her 2026 T1 return under ITA s.110(1)(d)?

a. $8,000, because the 2024 federal budget reduced the stock option deduction rate to one-third (33.33%).
b. $24,000, because eligible stock options grant a full 100% tax exemption upon exercise.
c. $0, because stock option deductions were entirely eliminated for non-CCPC corporations under the 2021 rules.
d. $12,000, because the 50% deduction rate still applies after the proposed cut was withdrawn.

18′. Carlos exercised qualifying employee security options in 2026, receiving a T4 slip with Code 38 showing an eligible taxable benefit of $36,000 and Code 39 showing $18,000. Carlos was told by a colleague that recent tax reforms lowered the security option deduction to one-third. How much can Carlos legally deduct on Line 24900?

a. $12,000, reflecting the statutory one-third inclusion relief enacted in recent federal legislation.
b. $18,000, because the 50% deduction rate remains intact under 2026 law and Code 39 reflects this exact entitlement.
c. $36,000, representing the gross benefit offset under reciprocal private corporation agreements.
d. $9,000, because security options must be discounted by both 50% and provincial clawback percentages.

19. In 2026, Chloe changed jobs in July. Employer 1 withheld $2,500 in CPP (Box 16) and $700 in EI (Box 18). Employer 2, unaware of her prior deductions, withheld $3,000 in CPP (Box 16) and $650 in EI (Box 18). Chloe's total CPP withheld ($5,500) exceeded the 2026 maximum of $4,230.45, and total EI withheld ($1,350) exceeded the 2026 maximum of $1,123.07. How are these overpayments recovered?

a. Claim them as refundable credits on Line 44800 (CPP) and Line 45000 (EI) on her 2026 return.
b. The CRA automatically mails a refund cheque to the employee in March without requiring any schedule or line entry on the T1 return.
c. The overpaid amounts expire permanently and are retained in the federal insurance reserve fund as unallocated revenue.
d. The employee must submit a formal refund lawsuit against Employer 2 to recover the deductions before April 30.

19′. Lucas held two part-time jobs in 2026. Across both T4 slips, his total EI payroll deductions in Box 18 totaled $1,400, which exceeds the 2026 maximum employee premium of $1,123.07 by $276.93. Where and how should Lucas claim the $276.93 excess on his T1 return?

a. He should add $276.93 to Line 31200 to increase his non-refundable employment insurance tax credit.

b. He must claim a tax deduction of $276.93 on Line 22215 alongside enhanced pension deductions.

c. He must report the excess on Line 10400 as other employment income.

d. He should claim the $276.93 excess on Line 45000 as a refundable EI overpayment credit.

20. Brian received a 2026 T4 slip showing $3,500 in Box 20 (RPP contributions) and $6,200 in Box 52 (Pension Adjustment, PA). How should Brian report these two boxes on his 2026 personal income tax return?

a. Report $3,500 on Line 20700 and report $6,200 on Line 20800 as an RRSP deduction.

b. Deduct $3,500 on Line 20700; Box 52 goes on no line but trims next year's RRSP room.

c. Report the sum of both boxes ($9,700) on Line 20700 as total retirement plan deductions.

d. Report $3,500 on Line 30800 and report $6,200 on Line 43700 as prepaid retirement credits.

20′. A tax preparer is reviewing a client's 2026 T4 slip with $5,800 in Box 52 (Pension Adjustment). The client insists on entering this $5,800 onto Line 23200 (Other deductions) to lower taxable income. How should the preparer advise the client?

a. The client is correct, because PA represents an unutilized employee contribution deductible under ITA s.60.

b. The client should report the amount on Line 31260 to boost the Canada employment amount credit.

c. Box 52 goes on no T1 line; it only reduces the client's RRSP room for the following year.

d. The amount must be split evenly between Line 10100 as additional salary and Line 20700 as pension expense.

21. In 2026, Zoe had $1,200 in employment income from a part-time job (Line 10100) and $40,000 in net business income from self-employment. She is a resident of British Columbia. How much can Zoe claim for the Canada employment amount on federal Line 31260, and what corresponding credit can she claim on provincial Form BC428?

a. Federal Line 31260: $1,501; Form BC428: $1,501.

b. Federal Line 31260: $1,501; Form BC428: $0.

c. Federal Line 31260: $1,200; Form BC428: $0.

d. Federal Line 31260: $1,000; Form BC428: $1,000.

21′. An accountant is preparing a 2026 tax return for a Vancouver employee who earned $55,000 in salary on Line 10100 and incurred $2,000 in unvouched transit and clothing expenses. What is the maximum Canada employment amount credit the employee can claim on federal Line 31260, and do they need to submit expense receipts?

a. $1,501, and no receipts or proof of expenses are required.

b. $2,000, provided original receipts are uploaded through CRA My Account.

c. $1,000, because statutory credits cannot exceed the base unindexed amount stated in ITA s.118(10).

d. $0, because employees earning over $50,000 are clawed back from claiming employment credits.

Chapter 4 · CPP, EI, and Employment Expenses: Deductions, Overpayments, and Form T777 Claims Employment income

Items marked ′ are variants on the same point: do one when you miss the main question.

22. In 2026, David worked for two different employers in Vancouver. Employer 1 paid him $50,000 and deducted $2,766.75 in Box 16. Employer 2 paid him $40,000 and deducted $2,171.75 in Box 16. Neither employer deducted CPP2 (Box 16A is blank) because neither salary alone reached the 2026 YMPE ($74,600). His total pensionable earnings of $90,000 exceed both the YMPE and the YAMPE ($85,000). Total CPP deducted in Box 16 was $4,938.50. How should David complete Line 44800 and the related CPP lines on his 2026 return?

a. $292.05 on Line 44800, with Lines 30800 and 22215 showing the required amounts, not the amounts withheld

b. $292.05 on Line 44800, with Line 30800 showing the full $4,938.50 that both employers withheld

c. Nothing on Line 44800, because the CPP2 that was never withheld must be paid off separately first

d. $708.05 on Line 44800, being the total withheld minus the $4,230.45 Box 16 maximum

22′. In 2026, Brenda held two concurrent jobs in Surrey. Employer A deducted $2,500.00 in Box 16, and Employer B deducted $2,400.00 in Box 16. Neither employer deducted CPP2 (Box 16A is blank). Her total pensionable earnings from both T4 slips were $88,000, exceeding both the YMPE ($74,600) and YAMPE ($85,000). Total CPP deducted was $4,900.00. What is Brenda's correct CPP overpayment amount to be refunded on Line 44800?

a. $669.55, calculated by simply subtracting the 2026 maximum Box 16 threshold ($4,230.45) from her total deductions.

b. $0.00, because the uncollected CPP2 liability of $416.00 cancels out any potential overpayment.

c. $253.55, her $4,900.00 withheld minus the $4,646.45 required for base, enhanced and CPP2 together.

d. $416.00, representing the maximum employee second additional contribution payable under Schedule 8.

23. In 2026, Kevin, an 18–year–old student, earned $1,800 from a short–term part–time job. His T4 slip showed Box 14 and Box 24 insurable earnings of $1,800, and his employer withheld $29.34 of EI premiums in Box 18 (1.63% of $1,800). Kevin had no other employment or insurable income during the year. How should Kevin report this EI premium on his 2026 personal income tax return?

a. Report $29.34 on Line 31200 as a non–refundable tax credit, with $0 on Line 45000.
b. Apply a $2,000 basic exemption to his earnings, which reduces insurable earnings to $0 and forfeits the $29.34 withheld.
c. Report $0 on Line 31200 and claim the entire $29.34 as a refundable tax credit on Line 45000 via Form T2204.
d. Report $29.34 on Line 23200 as an employment expense deduction to reduce net taxable income.

23′. In 2026, Maya worked as a casual weekend worker earning a total of $1,600 in insurable earnings (Box 24). Her employer deducted $26.08 in EI premiums (Box 18). Maya wants to know how her EI premiums will be handled when filing her 2026 tax return using Form T2204. Which statement correctly describes the outcome?

a. The $26.08 is converted into a non–refundable tax credit on Line 31200 because all withheld EI premiums generate non–refundable credits.
b. The full $26.08 is refunded to Maya on Line 45000, and Line 31200 is set to zero, because her insurable earnings did not exceed $2,000.
c. Only the portion of premiums corresponding to earnings above $1,000 is refundable, while the remainder is forfeited.
d. The $26.08 cannot be refunded unless Maya also had CPP deductions exceeding the basic exemption on her T4 slip.

24. Marcus turned 18 years old on May 14, 2026. From June 1 to December 31, 2026, he worked part–time and earned $12,000 in employment income (T4 Box 14, Box 24, and Box 26 all show $12,000). He had no other income in 2026. How are his CPP contributory period and his EI premiums determined for the 2026 tax year?

a. Both CPP and EI are prorated for 7 months; the basic exemption and MIE are both multiplied by 7/12.
b. CPP is prorated over 7 months (June to December), but EI applies to the full $12,000 with no age rule or proration.
c. CPP is prorated for 8 months (May through December, including the birth month), while EI is entirely exempt because Marcus was a minor during part of the year.
d. Neither CPP nor EI is prorated because Marcus was 18 years old on December 31, 2026, so the full annual CPP basic exemption of $3,500 applies.

24′. Chloe celebrated her 18th birthday on September 22, 2026. During the remainder of 2026, she earned $8,000 in employment income. Her employer withheld both CPP and EI premiums. When preparing Schedule 8 and Form T2204, how many months should be entered for Chloe's CPP contributory period, and how are her EI premiums evaluated?

a. CPP contributory period is 4 months (September to December); EI insurable earnings ceiling is prorated to 4/12 of the 2026 MIE.
b. CPP contributory period is 12 months because she reached the age of majority during the tax year; EI applies normally.
c. CPP contributory period is 3 months, and EI premiums are entirely waived because her earnings occurred across fewer than six active months.
d. 3 months (October to December), with the exemption prorated to 3/12; EI is assessed on the full $8,000.

25. Jason is a salaried employee in Vancouver who entered into a formal written remote work agreement with his employer in 2026, requiring him to work from home four days a week. His employer signed Form T2200. Jason owns a condo where his dedicated home office occupies 15% of the total floor area. In 2026, he incurred the following expenses: mortgage interest $14,000, mortgage principal repayment $8,000, electricity and heat $2,400, home internet monthly access fees $1,200, internet initial connection fee $150, and condo maintenance fees of $3,600 (of which $1,200 covers in-unit heat and water). What is the total home office expense deduction Jason can claim on Line 9945 of Form T777?

a. $2,820, by also including 15% of the mortgage interest with the other eligible costs.
b. $1,080, calculated as 15% of the full condo maintenance fee ($3,600), utilities ($2,400), and internet access ($1,200).
c. $3,300, by calculating a deemed fair market rent equivalent for home ownership expenses under CRA detailed method rules.
d. $720, being 15% of utilities, monthly internet and the utility share of condo fees, with no mortgage costs.

25′. Sarah, a salaried graphic designer in Burnaby, rented a two-bedroom apartment in 2026. Under a formal T2200 arrangement, she used one bedroom exclusively as a home office, representing 20% of the apartment's square footage. In 2026, she paid $24,000 in residential rent, $1,800 in utilities (heat and electricity), $960 in home internet monthly access fees, $600 in tenant home insurance, and $1,500 to purchase an ergonomic workstation desk. Her rent, utilities and internet access fees add up to $26,760. What is Sarah's eligible home office deduction on Form T777?

a. $5,352: 20% of rent, utilities and internet ($26,760)
b. $5,472: the same plus 20% of the $600 insurance
c. $5,652: the same plus 20% of the $1,500 desk
d. $4,800: 20% of the $24,000 rent only

26. In 2026, Rachel was employed as a sales representative with Box 14 total employment income of $75,000, which included Box 42 commission income of $6,000. Her employer signed Form T2200 certifying she paid her own expenses without reimbursement. Rachel incurred $4,500 in eligible motor vehicle operating expenses (business portion, no CCA or interest), $1,200 in business travel meals (50% rule applied = $600), $1,500 in lodging, $800 in client entertainment (50% rule applied = $400), and $1,000 in advertising and promotion. She also had $2,000 in eligible home office expenses (utilities and rent). If claimed under commission employee rules, expenses under those provisions are capped at Box 42 commission income ($6,000). What is the optimal strategy for Rachel on Form T777, and what total amount can she deduct on Line 22900?

a. Use the salaried rules and deduct $8,600, giving up advertising and entertainment but escaping the $6,000 cap.
b. Must claim under the commission employee rules, deducting $10,000, because the presence of Box 42 strictly mandates the commission method.
c. Claim $6,000 under the commission rules and carry forward the disallowed $4,000 of expenses indefinitely to future tax years.
d. Split the claims by filing two separate T777 forms, reporting vehicle and travel under salaried rules and advertising under commission rules.

26′. Liam had $90,000 in Box 14 employment income in 2026, which included $8,000 in Box 42 commissions. His unreimbursed expenses supported by Form T2200 were: business vehicle operating costs $7,000, travel lodging $2,500, advertising $1,000, and client entertainment $500 (after 50% reduction). Under the commission rules, his total deduction is capped at his $8,000 commission. What should Liam do on Form T777 to maximize his deduction?

a. Claim under commission rules to preserve the $1,500 of advertising and entertainment, accepting the $8,000 cap.
b. Use the salaried method to deduct $9,500 (vehicle plus lodging), giving up advertising and entertainment.
c. Claim $8,000 in 2026 and re-characterize the remaining $3,000 as a moving expense deduction on Line 21900.
d. Report all $11,000 under commission rules because the commission cap only applies if total income is under $50,000.

27. In 2026, Nathan, an apprentice electrician living in Prince George, BC, was dispatched to a temporary remote construction site 160 km away from his ordinary residence for five months. His temporary lodging was located 135 km closer to the work site than his ordinary residence. Nathan earned $32,000 in employment income from this temporary project and personally incurred $11,500 in eligible temporary lodging, meals, and transportation expenses that were not reimbursed by his employer. His employer refused to sign Form T2200. What is the maximum Labour Mobility Deduction Nathan can claim on Line 22900 of his 2026 return?

a. $0, because no Form T2200 was signed by his employer

b. $10,000, the 2026 cap, which is under half his income

c. $4,000, the older cap that applied before 2026

d. $11,500, all of his costs, as there is no cap

27′. Trevor, a certified carpenter in BC, incurred $6,500 in eligible travel and temporary accommodation expenses for a qualifying temporary construction relocation in 2026. The distance between his ordinary residence and the project site was 180 km, and his temporary lodging was 130 km closer to the site. Trevor earned $11,000 from this temporary project in 2026. He did not receive a signed Form T2200 from the contractor. How much can Trevor deduct under the Labour Mobility Deduction on his 2026 tax return?

a. $0, because no T2200 was obtained

b. $6,500, as it is under the cap

c. $5,500, half of his income

d. $4,000, the older dollar cap

28. In 2026, Gary, an IT consultant employed by a registered commercial firm in BC, properly claimed $4,200 of eligible employment expenses (all subject to sales tax, excluding any motor vehicle CCA) on Line 22900 of his return. In early 2027, he filed Form GST370 to claim an employee GST/HST rebate. In July 2027, CRA approved the rebate and issued a refund payment of $200 ($4,200 × 5/105). Which of the following correctly describes the provincial sales tax rule and the subsequent tax reporting requirement for this rebate?

a. Gary was entitled to a 12% combined rebate covering both GST and BC PST, and the resulting refund is permanently non–taxable.

b. The rebate is restricted to 5% GST, but the $200 refund must be applied to reduce the undepreciated capital cost (UCC) of his personal computer equipment in 2027.

c. The rebate is restricted to 5% GST because BC PST is not rebatable, and the $200 refund received in 2027 must be reported as taxable income on Line 10400 of his 2027 tax return.

d. Gary is completely ineligible for the rebate because technology employees are categorized as listed financial institutions under CRA excise tax guidelines.

28′. Alice, a structural engineer in Vancouver, incurred $6,300 in eligible travel and supplies expenses while working for a GST-registered consulting firm in 2026. Her receipts showed 5% GST and 7% BC PST. She filed Form GST370 within the statutory 4-year deadline and received a rebate payment of $300 ($6,300 × 5/105) in October 2027. How must Alice treat this refund in her future filings, and why was the 7% PST portion excluded?

a. The 7% PST was excluded due to an administrative CRA error, and the $300 refund is completely tax-exempt under federal guidelines.
b. Alice must amend her 2026 tax return by reducing Line 22900 expenses by $300, and BC PST will be refunded separately by the BC Ministry of Finance.
c. The $300 refund must be deducted from her 2027 Canada Employment Amount on Line 31260, while PST is carried forward.
d. The 7% PST is excluded because BC is a non-participating province, and Alice must report the $300 refund as taxable employment income on Line 10400 of her 2027 return.

Chapter 5 · Pension & Investment Income: Three Pillars, Dividend Integration, and T1 Line Mapping T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

29. Martin, aged 62, retired during the current tax year. He received $14,000 from an employer Registered Pension Plan (RPP) periodic annuity, $6,000 from a Registered Retirement Income Fund (RRIF) withdrawal, and $4,500 in Canada Pension Plan (CPP) retirement benefits. None of these amounts were received as a consequence of a spouse's death. What is Martin's qualifying pension income for calculating the federal pension income amount on line 31400?

a. $24,500
b. $14,000
c. $20,000
d. $2,000

29′. Evelyn, aged 67, received $8,000 from an Old Age Security (OAS) pension, $5,000 in Canada Pension Plan (CPP) retirement benefits, and $12,000 from Registered Retirement Income Fund (RRIF) withdrawals during the current tax year. How much of these receipts qualifies as eligible pension income for the federal pension income amount on line 31400?

a. $25,000
b. $17,000
c. $2,000
d. $12,000

30. For the 2026 tax year, Arthur received a T4A(OAS) slip showing total Old Age Security payments of $9,000 in box 18. His net income before adjustments on line 23400 is $105,323, which exceeds the 2026 OAS recovery threshold of $95,323 by exactly $10,000. How should Arthur report his OAS income and the resulting OAS recovery tax on his 2026 T1 return?

a. Report $7,500 on line 11300 and leave line 23500 blank.
b. Report $9,000 on line 11300 and report a recovery tax of $1,000 on line 23500.
c. Report $9,000 on line 11300 and report a recovery tax of $1,500 on line 23500.
d. Report $9,000 on line 11300 and report a recovery tax of $2,150 on line 23500.

30′. Beatrice is preparing her 2026 personal tax return. Her T4A(OAS) slip indicates $8,400 in box 18. Her net income before adjustments on line 23400 is $101,323. The OAS recovery rate is 15% of net income above the threshold. Under 2026 tax rules, what is the proper amount to report on line 11300, and what is the OAS recovery tax on line 23500?

a. Report $8,400 on line 11300 and $900 on line 23500.

b. Report $7,500 on line 11300 and $0 on line 23500.

c. Report $8,400 on line 11300 and $1,549 on line 23500.

d. Report $8,400 on line 11300 and $1,260 on line 23500.

31. Raymond received a T5 slip from a Canadian public corporation indicating actual eligible dividends of $20,000 in box 24 and the taxable amount of dividends of $27,600 in box 25. The slip also reports a federal dividend tax credit of $4,145.46 in box 26. How should Raymond enter these amounts on his federal T1 return?

a. Enter $27,600 on line 12000 and enter $4,145.46 on line 40425.

b. Enter $20,000 on line 12000 and enter $4,145.46 on line 40425.

c. Enter $27,600 on both line 12000 and line 12010, and enter $4,145.46 on line 40425.

d. Enter $38,088 on line 12000 after multiplying box 25 by 138%, and calculate credit manually.

31′. Brenda received a T5 slip from a Canadian-controlled private corporation (CCPC) showing actual non-eligible dividends of $10,000 in box 10, taxable amount of dividends of $11,500 in box 11, and a federal dividend tax credit of $1,038.46 in box 12. How should Brenda enter these figures on her federal T1 return?

a. Enter $10,000 on line 12000 and enter $1,038.46 on line 40425, omitting line 12010.

b. Enter $11,500 on line 12000 only, leaving line 12010 blank.

c. Enter $11,500 on both line 12000 and line 12010, and enter $1,038.46 on line 40425.

d. Enter $13,225 on line 12000 after multiplying box 11 by 115%, and enter $1,038.46 on line 40425.

32. Harold (age 69) and his spouse Margaret (age 68) are Canadian residents who lived together throughout the tax year. Harold received $36,000 from an employer Registered Pension Plan (RPP periodic annuity), $8,000 in Old Age Security (OAS), and $6,000 from the Canada Pension Plan (CPP). Margaret had no pension income. Harold and Margaret wish to make a joint election to split pension income using Form T1032. What is the maximum amount of pension income Harold can allocate to Margaret?

a. $25,000

b. $21,000

c. $22,000

d. $18,000

32′. Douglas (age 66) received $24,000 from a Registered Retirement Income Fund (RRIF) withdrawal and $7,000 in Canada Pension Plan (CPP) payments during the tax year. His common-law partner, Linda (age 65), had no income. Both are Canadian residents living together. If they execute a valid joint election on Form T1032, what is the maximum deduction Douglas can claim on his return for splitting pension income with Linda?

a. $15,500

b. $12,000

c. $24,000

d. $2,000

33. Nathan contributes to a spousal RRSP in which his spouse, Chloe, is the annuitant. His only contributions in 2024, 2025 and 2026 were $5,000 made in November 2025. In October 2026, Chloe withdrew $8,000 from this spousal RRSP. Neither spouse is separated or non-resident. Under the spousal attribution rules in subsection 146(8.3) of the Income Tax Act, how must this $8,000 withdrawal be reported on their 2026 tax returns?

a. Chloe reports the full $8,000 on line 12900 of her return, and Nathan reports $0.

b. Nathan reports $5,000 on line 12900 of his return, and Chloe reports the remaining $3,000 on line 12900 of her return.

c. Nathan reports the entire $8,000 on line 12900 of his return, and Chloe reports $0.

d. Nathan and Chloe split the $8,000 equally, reporting $4,000 each on line 12900 under pension splitting rules.

33′. Samuel contributed $10,000 to a spousal RRSP for his wife, Hannah, in March 2024. He made no further contributions in 2024, 2025, or 2026. In December 2026, Hannah withdrew $6,000 from this plan. Assuming they remain married and living together in Canada, how is this $6,000 withdrawal taxed for the 2026 tax year?

a. Hannah reports the entire $6,000 on line 12900 because Samuel made no contributions in 2026.

b. Samuel and Hannah must each report $3,000 on line 12900 of their respective returns.

c. Samuel must report the entire $6,000 on line 12900 of his return, and Hannah reports $0.

d. Hannah reports $6,000 on line 13000, and Samuel claims a $6,000 deduction on line 20800.

34. Frank, a resident of British Columbia, wishes to withdraw a total of $12,000 from his regular RRSP. To reduce the immediate withholding tax, Frank requests the financial institution to process this as three separate withdrawals of $4,000 on three consecutive days. Under CRA administrative rules and standard withholding rates outside Quebec, how should the financial institution apply the withholding tax to Frank's request?

a. Apply a 20% withholding rate to each payment because withholding is based on the total requested withdrawal of $12,000.
b. Apply a 10% withholding rate to each $4,000 payment because each separate transaction is under $5,000.
c. Apply a 30% withholding rate to each payment because splitting withdrawals is subject to a statutory punitive rate.
d. Apply zero withholding at the time of withdrawal and settle the entire tax liability upon filing the annual T1 return.

34′. George, residing in BC, needs to make an unscheduled withdrawal of $18,000 from his Registered Retirement Savings Plan (RRSP). What is the mandatory federal/provincial lump-sum withholding tax rate that his financial institution must deduct from this payment?

a. 10%
b. 15%
c. 20%
d. 30%

35. Irene received a T4A(P) slip from Service Canada for the current tax year. Box 20 (Total CPP benefits) shows $11,000, which includes $3,000 of disability benefit shown in box 16. In addition, as a named individual beneficiary of her deceased father, Irene received a $2,500 CPP death benefit reported in box 18 of a separate T4A(P) slip issued in her name. How should Irene report these amounts on her T1 tax return?

a. Enter $14,000 on line 11400, enter $3,000 on line 11410, and enter $0 on line 13000.
b. Enter $13,500 on line 11400, enter $3,000 on line 11410, and enter $0 on line 13000.
c. Enter $11,000 on line 11400, enter $3,000 on line 11410, and enter $2,500 on line 13000.
d. Enter $8,000 on line 11400, enter $3,000 on line 11410, and enter $2,500 on line 13000.

35′. Kevin received a T4A(P) slip showing $9,500 in box 20 (Total CPP benefits), which includes $4,000 of disability benefits noted in box 16. What are the correct entries on lines 11400 and 11410 of Kevin's T1 return?

a. Enter $13,500 on line 11400 and leave line 11410 blank.
b. Enter $9,500 on line 11400 and enter $4,000 on line 11410.
c. Enter $5,500 on line 11400 and enter $4,000 on line 11410.
d. Enter $9,500 on line 11400 and enter $9,500 on line 11410.

Chapter 6 · Other Income & Social Benefits: Reporting, Offsetting, and Excluded Amounts T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

36. Darren received $12,000 in Employment Insurance (EI) regular benefits during the 2026 tax year (T4E box 14 shows $12,000, box 7 rate is 30%, and box 15 contains an amount). His net income before adjustments on line 23400 is $96,125. Darren has no other deductions or additions affecting line 23500. What amount should Darren report on line 11900 as EI benefits, and what amount of EI benefit repayment must be reported on line 23500?

a. Report $12,000 on line 11900 and $3,000 on line 23500.
b. Report $9,000 on line 11900 and $0 on line 23500.
c. Report $12,000 on line 11900 and $1,500 on line 23500.
d. Report $12,000 on line 11900 and $5,138 on line 23500.

36′. Nadia received $14,000 in EI maternity and parental benefits during 2026 (T4E box 14 shows $14,000, and box 7 indicates maternity/parental benefits with a rate other than 30%). Nadia returned to work later in the year, and her net income before adjustments on line 23400 reached $98,000. How should Nadia report her EI benefits and the EI repayment amount on her 2026 T1 return?

a. Report $10,438 on line 11900 and $0 on line 23500.
b. Report $14,000 on line 11900 and $3,563 on line 23500.
c. Report $14,000 on line 11900 and $0 on line 23500.
d. Report $0 on line 11900 and $0 on line 23500.

37. In 2026, Liam sustained a workplace injury and received $15,000 in Workers' Compensation Benefits (T5007 box 10). He had no other income during the year. How do these benefits affect Liam's net income (line 23600), taxable income (line 26000), and his eligibility for income-tested social benefits?

a. Net income is $0, taxable income is $0, and his income-tested benefits are calculated based on zero income.
b. Net income is $15,000, taxable income is $15,000, and he must pay federal tax at the lowest bracket while losing benefits.
c. Net income is $15,000, taxable income is $0, and the $15,000 is included in the base to determine his income-tested benefits.
d. Net income is $15,000, taxable income is $0, but income-tested benefits are legally required to exclude line 14400.

37′. Mateo and Sophia are common-law partners. In 2026, Mateo received a T5007 slip with $8,000 in box 11 for provincial social assistance issued in his name. During the same year, Mateo had no other income, while Sophia earned $45,000 in employment income. Who must report the $8,000 social assistance on the 2026 tax return, and what is the effect on the reporting partner's taxable income?

a. Mateo must report $8,000 on line 14500 and line 25000 because the T5007 slip was issued in his legal name, with $0 change to his taxable income.

b. Sophia, as the partner with the higher net income, reports it on lines 14500 and 25000; her taxable income is unchanged.

c. Sophia must report $8,000 on line 14500 with no deduction on line 25000, increasing her taxable income by $8,000.

d. Mateo and Sophia must split the $8,000 equally ($4,000 each) on their respective tax returns.

38. Under a written separation agreement signed in March 1995 that has never been modified and for which no Form T1157 was ever filed, Carlos pays his former spouse Elena $1,000 per month in child support and $500 per month in spousal support throughout 2026 (totaling $12,000 child support and $6,000 spousal support). How should Carlos and Elena report these payments on their respective 2026 Canadian personal income tax returns?

a. Carlos deducts $6,000 on line 22000; Elena reports $6,000 on line 12800; the $12,000 child support is neither deductible nor taxable.

b. Carlos deducts the full $18,000 on line 22000, and Elena must report the full $18,000 as taxable support payments on line 12800.

c. Carlos cannot deduct any amount because all support agreements older than 20 years are grandfathered out of deductions.

d. Carlos deducts $12,000 for child support on line 22000, while the $6,000 spousal support is tax-exempt.

38′. Under a court order dated June 2022, Derek pays his ex-spouse Chloe $800 monthly in child support and $400 monthly in spousal support (totaling $9,600 child support and $4,800 spousal support paid in 2026). How must Chloe report these receipts on lines 12799 and 12800 of her 2026 T1 return?

a. Report $14,400 on line 12799 and $14,400 on line 12800.

b. Report $4,800 on line 12799 and $4,800 on line 12800.

c. Report $0 on line 12799 and $4,800 on line 12800.

d. Report $14,400 on line 12799 and $4,800 on line 12800.

39. Dr. Benjamin completed his PhD and worked as a full-time postdoctoral fellow at a Canadian university throughout 2026. He received a $35,000 postdoctoral fellowship grant reported in box 105 of Form T4A. How much of this fellowship grant is taxable on line 13010 of his 2026 return?

a. $0, as full-time researchers are fully exempt
b. $17,500, after a 50% research exemption
c. $35,000, with no exemption at all
d. $34,500, after the $500 basic exemption

39′. Claire is a part-time qualifying student enrolled in a designated post-secondary program during 2026. She received a $4,000 bursary reported in box 105 of Form T4A. During the year, Claire paid $2,200 in eligible tuition and $300 for required course textbooks and materials. What amount must Claire include as taxable scholarship income on line 13010?

a. $1,000: the $4,000 bursary less tuition, materials and the basic exemption.
b. $0, because any student enrolled in a recognized university program receives a full exemption.
c. $1,500, calculated as $4,000 minus tuition of $2,200 and materials of $300, omitting the $500 basic exemption.
d. $3,500, because part-time students are only entitled to the $500 basic exemption regardless of tuition costs.

40. In 2026, Lucas withdrew money from an RESP that had been established for his daughter Emily. Emily completed her post-secondary studies, and the remaining funds were distributed as follows: $10,000 was refunded to Lucas as original capital contributions; $6,000 was paid to Emily as an Educational Assistance Payment (EAP, T4A box 042); and $8,000 of remaining investment growth was paid to Lucas as an Accumulated Income Payment (AIP, T4A box 040). How are these distributions treated on Lucas's and Emily's 2026 tax returns?

a. Lucas's $10,000 capital is tax-free; Emily reports $6,000 and Lucas $8,000 on line 13000, plus 20% extra tax.
b. Lucas reports $18,000 on line 13000, while Emily reports $6,000 on line 13000 with a 20% tax credit.
c. Emily reports both the $6,000 EAP and the $8,000 AIP on line 13000, while Lucas has no tax reporting obligations.
d. All $24,000 is fully tax-exempt because RESP funds represent government-approved educational savings.

40′. George received a T4A slip showing $12,000 in box 040 representing an Accumulated Income Payment (AIP) from a collapsed RESP. George is a resident of British Columbia. In addition to including the $12,000 in his regular taxable income on line 13000, what additional tax must George pay on line 41800, and what is its statutory purpose?

a. George pays an additional 10% tax ($1,200) on line 41800, intended to recover past provincial student grants.
b. George pays an additional 12% tax ($1,440) on line 41800, which is the standard federal surtax for all Canadian provinces.
c. George pays no additional tax on line 41800 because RESP investment growth is taxed strictly at the capital gains inclusion rate.
d. An extra 20% ($2,400), to stop RESPs being used as general tax-deferred savings.

41. Harold commenced employment with a manufacturer in 2002 and was laid off in 2026 after 24 years of continuous service. Upon termination, he received a retiring allowance (severance pay) of $50,000, shown in box 67 of his T4 slip as non-eligible retiring allowance (box 66 is $0). Harold wants to transfer this amount into his RRSP to reduce his 2026 tax. His 2026 Notice of Assessment shows an unused RRSP deduction limit of $18,000. How much of the retiring allowance can Harold transfer to his RRSP without incurring an excess contribution?

a. $50,000, because retiring allowances for employees with over 20 years of service can be transferred into an RRSP entirely without using contribution room.
b. $18,000, because the eligible transfer room was frozen after 1995, meaning post-1995 service creates no special transfer room and can only use his existing $18,000 RRSP limit.
c. $48,000, calculated as $2,000 per year of service for 24 years under the statutory severance sheltering formula.
d. $0, because non-eligible retiring allowances are legally prohibited from being contributed to an RRSP under any circumstances.

41′. Following the passing of her father in 2026, Vanessa received two payments: a $12,000 death benefit from her father's former employer, and a $2,500 Canada Pension Plan (CPP) death benefit. Vanessa is the sole beneficiary. How much of these receipts must Vanessa include in taxable income on line 13000 of her personal tax return?

a. $0, because all death benefits and survivorship payments up to $15,000 are fully exempt from personal income tax.
b. $2,000, because the $10,000 statutory exemption shields both the employer payment and the CPP death benefit.
c. $4,500: $2,000 of the employer benefit above the exemption plus the whole CPP death benefit.
d. $14,500, because all death-related distributions are fully taxable as other income without any deductions.

42. In 2026, Kevin was injured on the job. His employer continued paying his regular salary of $50,000 throughout his recovery. WorkSafeBC approved his claim and issued a T5007 slip showing $10,000 in box 10. Pursuant to company policy, Kevin reimbursed the $10,000 to his employer. Kevin also received a T4 slip reporting $50,000 in box 14. How should Kevin properly report these transactions on his 2026 T1 return?

a. Report $40,000 on line 10100 and leave lines 14400, 22900, and 25000 blank, because the $10,000 reimbursement nets out against his employment income.

b. Report $50,000 on line 10100, report $10,000 on line 14400, and claim a $10,000 deduction on line 25000, with no entry on line 22900.

c. Report $50,000 on line 10100, report $10,000 on line 14400, claim a $10,000 deduction on line 25000, and claim a $10,000 deduction on line 22900 for wage reimbursement.

d. Report $50,000 on line 10100 and report $10,000 on line 13000 as other income, with no deductions permitted.

42′. Mei is an equipment technician who was temporarily injured at work in 2026. Her employer paid her regular salary of $60,000 during her absence, reflected on her T4 slip. WorkSafeBC subsequently granted her $8,500 in wage-loss compensation (shown in box 10 of Form T5007). Mei immediately remitted the $8,500 back to her employer per collective agreement rules. What entries should Mei make on lines 10100, 14400, 22900, and 25000 of her 2026 T1 return?

a. Line 10100: $60,000; Line 14400: $8,500; Line 25000: $8,500; Line 22900: $8,500.

b. Line 10100: $51,500; Line 14400: $0; Line 25000: $0; Line 22900: $0.

c. Line 10100: $60,000; Line 14400: $8,500; Line 25000: $0; Line 22900: $8,500.

d. Line 10100: $60,000; Line 14400: $0; Line 25000: $8,500; Line 22900: $0.

Chapter 7 · Deductions: Net Income vs Taxable Income — RRSP, Child Care, Moving, and Support Payments T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

43. Liam relocated to Fort Nelson, British Columbia, and meets the qualifying residency requirements for the northern residents deduction. On his 2026 tax return, Liam claims a $4,000 northern residents deduction on line 25500. Liam and his spouse have two young children and receive the Canada Child Benefit (CCB). What is the direct effect of this $4,000 deduction on Liam's net income (line 23600) and his family's CCB entitlement?

a. It reduces line 23600 net income by $4,000, thereby increasing the family's CCB payments for the subsequent benefit year.

b. It reduces taxable income on line 26000 and net income on line 23600 by $2,000 each under federal–provincial allocation rules.

c. It reduces taxable income on line 26000 but leaves net income on line 23600 unchanged, resulting in zero increase to the family's CCB payments.

d. It has no effect on federal taxable income because northern residency benefits are delivered exclusively through provincial non–refundable credits.

43′. Chloe is completing her 2026 T1 personal return. She has $6,000 in allowable employment expenses on line 22900 and a $5,000 northern residents deduction on line 25500. Which of these deductions will reduce her net income on line 23600 for the purpose of calculating her eligibility for the Canada Groceries and Essentials Benefit?

a. Only the $6,000 employment expenses on line 22900 reduce net income, while the $5,000 deduction on line 25500 reduces taxable income only.

b. Only the $5,000 northern residents deduction on line 25500 reduces net income, because employment deductions only generate non–refundable tax credits.

c. Both deductions reduce net income on line 23600 equally, producing a combined $11,000 reduction in the benefit calculation base.

d. Neither deduction reduces net income because lines 22900 and 25500 are both classified as Step 4 deductions.

44. Natalie is a single parent who has two children: a 5–year–old son and a 9–year–old daughter (neither eligible for the DTC). In 2026, Natalie paid $15,000 in qualifying child care expenses. Her only income for 2026 was $18,000 of net employment earnings. Under Form T778 and line 21400, what is Natalie's maximum allowable child care expense deduction for 2026, and what is the tax treatment of the remaining undeducted balance?

a. She can deduct $13,000 based on the combined child age limits, and the remaining $2,000 can be carried forward indefinitely.
b. She can deduct $12,000 under the two–thirds earned income ceiling, and the remaining $3,000 lapses completely and cannot be carried forward.
c. She can deduct $15,000 based on actual amounts paid, because single–parent filers are exempt from the earned income limitation.
d. She can deduct $12,000 under the earned income ceiling, and the remaining $3,000 may be carried forward for up to seven tax years.

44′. Marcus is the lower–income spouse in a household with three children aged 4, 6, and 11 (none eligible for the DTC). In 2026, the family incurred $24,000 in qualifying daycare expenses. Marcus had employment income of $33,000, dividend investment income of $12,000, and received $6,000 in Employment Insurance (EI) benefits. What is Marcus's maximum child care expense deduction on line 21400 for 2026?

a. $24,000, because actual expenses paid take precedence when both parents have sufficient overall taxable income.
b. $34,000, representing two–thirds of Marcus's total income from all sources including investments and EI.
c. $22,000, calculated as two–thirds of Marcus's $33,000 qualifying employment earnings.
d. $21,000, the sum of the per–child limits for the three children, which is the lowest ceiling.

45. Oliver earned $110,000 and his spouse Sophia earned $25,000 in 2026. They have two children aged 5 and 8 (neither eligible for the DTC) and incurred $14,000 in child care expenses. Sophia was enrolled full–time in a designated educational program for exactly 10 weeks during the year. Under Form T778 rules, how much of the child care expenses can Oliver (the higher–income spouse) claim, and who claims the rest?

a. $3,250 ($325 a week for 10 weeks); Sophia claims the rest
b. $13,000, the full annual ceiling, as Sophia was a student
c. $2,000 ($200 a week for 10 weeks), the under–7 child only
d. $0, as the exceptions cover only illness or prison

45′. Daniel (income $95,000) and his spouse Emma (income $30,000) have one 6-year-old child (non-DTC). In 2026, they paid $7,500 in daycare fees. Emma was hospitalized and confined to bed due to severe illness for a certified continuous period of 8 weeks. What is the maximum child care deduction Daniel can claim on line 21400 as the higher-income earner?

a. $8,000, the child's full annual limit
b. $7,500, all of the fees paid
c. $1,600, at $200 a week for 8 weeks
d. $1,000, at $125 a week for 8 weeks

46. Patrick changed jobs and moved his residence within the Greater Vancouver area in 2026. The shortest normal public route distances between the relevant locations are: from Old Residence to New Residence is 18 km; from Old Residence to New Workplace is 52 km; and from New Residence to New Workplace is 9 km. Does Patrick meet the 40-kilometre distance requirement under Form T1-M to claim moving expenses?

a. No, because the distance between his old residence and new residence is only 18 km, which falls far short of the 40 km minimum.
b. No, because relocations within the same metropolitan transit region are statutory ineligible moves regardless of distance.
c. Yes, provided that Patrick's daily round-trip commute between his new residence and new workplace exceeds 40 km.
d. Yes, because his new residence is 43 km closer to his new workplace than his old residence was (52 km − 9 km = 43 km ⩾ 40 km).

46′. Samantha accepted a new job position in Abbotsford. The shortest public route from her old home to her new workplace was 65 km, and the distance from her new home to her new workplace is 28 km. The distance between her old home and new home is 45 km. Does Samantha qualify for the moving expenses deduction on line 21900?

a. Yes, because the physical relocation distance between her old residence and new residence is 45 km, which exceeds 40 km.
b. No, because the relocation brought her only 37 km closer to her new workplace (65 km − 28 km = 37 km), failing the 40 km statutory test.
c. Yes, because any relocation where the new home is within 30 km of the new workplace automatically satisfies the statutory criteria.
d. No, because moving expenses can only be claimed when the taxpayer moves across provincial boundaries.

47. In October 2026, Benjamin incurred $12,000 of allowable moving expenses when relocating to Kelowna for a new employment contract. Between October and December 2026, he earned $7,000 in employment income at the Kelowna location. He also had $15,000 in investment dividends and $8,000 in employment income earned at his prior location earlier in 2026. What amount can Benjamin deduct on line 21900 for 2026, and how is the unused balance treated?

a. He can deduct $12,000 in full against his combined 2026 income, with zero balance carried forward.
b. $7,000 against his Kelowna income, with $5,000 carried forward indefinitely against future new-location income.
c. He can deduct $7,000 in 2026, and the remaining $5,000 must be carried back to amend his 2025 tax return.
d. He can deduct $12,000 because moving expenses are permitted to offset any Canadian-source taxable employment or dividend income.

47′. Grace incurred $16,000 in eligible moving expenses when relocating for a new job in Prince George in November 2026. Her employment earnings at the new location in 2026 were $6,000. Her old residence was sold in early 2027, incurring $9,000 in real estate commissions paid in March 2027. How should Grace report these moving expenses across the 2026 and 2027 tax years?

a. Deduct $6,000 in 2026 and carry $10,000 forward; claim the $9,000 commission in 2027, the year it is paid.
b. Deduct $15,000 in 2026 by combining the initial expenses with the anticipated 2027 commission, carrying forward the rest.
c. Carry back the 2027 real estate commission of $9,000 to amend her 2026 tax return, creating a retroactive moving loss.
d. Deduct $6,000 in 2026; the remaining $10,000 and the 2027 commission lapse because moving expenses cannot span multiple calendar years.

48. Under a written court-registered separation agreement executed in 2021, Lucas was required to pay $12,000 in child support and $8,000 in spousal support during 2026. Due to financial hardship, Lucas paid a total of only $15,000 during the year. How should Lucas report these support payments on lines 21999 and 22000 of his 2026 T1 return?

a. Report $15,000 on line 21999 and $3,000 on line 22000, because payments are allocated to non-deductible child support first.
b. Report $3,000 on line 22000 and leave line 21999 blank, because non-deductible child support should not be entered on the tax return.
c. Report $15,000 on line 21999 and $6,000 on line 22000, prorating the shortfall proportionally between child and spousal support.
d. Report $15,000 on line 21999 and $8,000 on line 22000, prioritizing the deductible spousal support amount.

48′. Under a 2022 separation agreement, Nathan was obligated to pay $6,000 in child support and $10,000 in spousal support in 2026. He paid the full $16,000 during the year. In addition, Nathan paid $2,500 in legal fees to defend against an application by his former spouse to increase spousal support. What amounts should Nathan report on lines 21999, 22000, and 22100?

a. Line 21999: $16,000; Line 22000: $10,000; Line 22100: $2,500.

b. Line 21999: $10,000; Line 22000: $10,000; Line 22100: $2,500.

c. Line 21999: $16,000; Line 22000: $10,000; Line 22100: $0.

d. Line 21999: $16,000; Line 22000: $16,000; Line 22100: $0.

49. During the 2026 tax year, Victoria incurred the following investment-related outlays: $1,200 in portfolio management fees for a non-registered dividend-paying equity account; $2,500 in interest on a loan used to purchase dividend-yielding shares in a non-registered account; $800 in interest on a loan used to contribute to her Tax-Free Savings Account (TFSA); and $150 for a safety deposit box rental. What is the total carrying charges deduction Victoria can claim on line 22100?

a. $4,650, because all expenses incurred in managing investments and borrowing capital are fully deductible under the Income Tax Act.

b. $4,500, combining the management fees and all loan interest, while excluding the safety deposit box rental.

c. $3,700, consisting of the non-registered portfolio management fees ($1,200) and the loan interest incurred to earn taxable dividends ($2,500) only.

d. $2,500, because management fees are required to be capitalized into the adjusted cost base rather than deducted annually on line 22100.

49′. Timothy paid the following amounts in 2026: $1,800 in interest on a loan used to purchase dividend-paying public shares in a regular trading account; $1,100 in interest on a loan used to fund his RRSP contribution; $600 in trading commissions to buy mutual funds; and $300 in accounting fees to prepare tax statements for his rental property income. What is Timothy's allowable deduction on line 22100?

a. $3,800, summing all four amounts as legitimate investment and tax compliance expenditures.

b. $2,900, combining the two loan interest amounts while excluding trading commissions and accounting fees.

c. $1,800, restricting the deduction strictly to the margin interest on dividend-paying shares and excluding accounting fees.

d. $2,100, comprising the loan interest on dividend-paying shares ($1,800) and the accounting fees for rental property income ($300).

Chapter 8 · Non-Refundable Tax Credits Schedule: Rules and Calculations After the Federal Rate Reduction to 14% (2026 Tax Year) T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

50. Ethan graduated from university in late 2026 and worked for only one month, earning $4,500 of employment income. His federal tax payable before credits was $630 (14% × $4,500). His basic personal amount of $16,452 generated a tax credit of $2,303.28, which reduced his federal tax payable to zero. In December 2026, Ethan purchased his first home and qualified for the $10,000 home buyers' amount (Line 31270). What is the total federal tax benefit (reduction of tax or cash refund) Ethan receives from claiming the home buyers' amount on his 2026 return?

a. A cash refund of $1,400 paid directly by CRA under federal refundable tax credit rules.
b. $0, because the home buyers' amount is a non-refundable tax credit and Ethan's tax payable was already reduced to zero.
c. $1,500, calculated using the historical 15% credit rate and credited against Ethan's future tax liabilities.
d. A tax reduction of $630 allocated equally between federal and provincial tax liabilities on Form BC428.

50′. Maya earned $3,800 from part-time work in 2026, generating a pre-credit federal tax of $532 (14% × $3,800). Her basic personal amount credit fully reduced this tax liability to zero. During 2026, Maya also paid $4,000 of qualifying out-of-pocket medical expenses. What is Maya's federal tax savings from claiming the medical expense tax credit on Line 33099 for the 2026 tax year?

a. $560, issued as an automatic cash refund by CRA under social welfare refund programs.
b. $600, calculated by applying the expired 15% credit rate to the qualifying medical expenses.
c. $532, restoring the basic personal amount to be carried forward to Maya's 2027 tax return.
d. $0, since a non-refundable credit cannot cut tax below zero and none is left.

51. In the 2026 tax year, the federal lowest bracket tax rate and the general non-refundable credit conversion rate were reduced to 14%. To prevent taxpayers with substantial credits from experiencing a net tax increase, Parliament introduced the Top-Up Tax Credit under ITA s. 118(11). Under what specific statutory condition is a taxpayer entitled to receive the federal Top-Up Tax Credit on their 2026 return?

a. When the taxpayer's taxable income exceeds the highest federal 33% tax bracket threshold of $258,482.
b. Whenever the taxpayer's claimed tuition fee transfers or medical expenses alone exceed $5,000 in the current tax year.
c. When the total sum of qualifying non-refundable tax credit amounts exceeds the federal first bracket threshold of $58,523.
d. Exclusively when the taxpayer resides in British Columbia where the provincial basic credit rate was raised to 5.60%.

51′. Lucas has $95,000 of taxable income in 2026 and claims $80,000 in qualifying non-refundable tax credits (including large medical expenses and tuition carry-forwards; donations under $200). With the federal credit rate at 14% and the first bracket threshold at $58,523, what is the exact economic function of the statutory multiplier D = 7.14% in the ITA s. 118(11) Top-Up Tax Credit formula: (A − B × C) × D?

a. It lifts the credit rate on amounts above $58,523 back to about 15%, since 14% × 7.14% is about 1%.
b. It imposes a statutory penalty clawback of 7.14% on high-credit claimants to prevent aggressive tax avoidance.
c. It indexes the medical expense threshold by exactly 7.14% to compensate for health sector inflation.
d. It converts federal non-refundable credits into provincial non-refundable credits on Form BC428 at a fixed 7.14% exchange rate.

52. In 2026, Kevin had a net income of $85,000. His spouse, Brenda, had zero employment earnings from any job during 2026, but received $6,452 in taxable investment dividends and interest. Under 2026 tax year federal rules, what is the maximum spouse or common-law partner amount (Line 30300) Kevin is entitled to claim on Schedule 5?

a. $10,000, calculated as the maximum base entitlement of $16,452 reduced dollar-for-dollar by Brenda's net income of $6,452.
b. $16,452, because Brenda did not earn any active employment income from a job or business.
c. $9,253, calculated by subtracting Brenda's net income from the expired 2024 historical maximum of $15,705.
d. $0, because any spouse receiving passive investment income exceeding $3,500 is completely disqualified from the credit.

52′. In 2026, Marcus earned a net income of $200,000, which falls squarely within the federal high-income clawback bracket ($181,440 to $258,482). His spouse had zero net income. What is Marcus's allowable basic personal amount (Line 30000) for 2026 after applying the statutory phase-out of the enhanced portion?

a. $16,452.00, because the basic personal amount is universally exempt from clawbacks for all Canadian resident citizens.
b. $14,829.00, because any taxpayer earning above the 29% tax bracket immediately forfeits the entire enhanced portion.
c. $16,061.01, after the enhanced portion is reduced in proportion to income above $181,440.
d. $15,705.00, representing the unindexed historical baseline established under prior federal legislation.

53. During 2026, Daniel was employed as a financial manager with total earnings of $90,000, which exceeded both the YMPE ($74,600) and YAMPE ($85,000). On his T4 slip, his mandatory contributions were reported as: base CPP of $3,519.45, first enhanced CPP tier of $711.00, and second enhanced CPP tier (CPP2) of $416.00. How must these CPP components be classified and reported on Daniel's 2026 federal T1 return?

a. The entire combined sum of $4,646.45 is reported as a non-refundable tax credit on Line 30800.
b. The entire combined sum of $4,646.45 is reported as an employment expense deduction on Line 22900.
c. $3,519.45 is deducted from net income on Line 20800, while $1,127.00 is claimed as an employment insurance credit on Line 31200.
d. $3,519.45 is claimed as a non-refundable tax credit on Line 30800, while $1,127.00 ($711.00 + $416.00) is deducted from total income on Line 22215.

53′. Samantha is in the 29% federal tax bracket in 2026. She observes that her mandatory CPP contributions on her T4 slip are split between Line 30800 (base CPP) and Line 22215 (enhanced CPP). Why does an additional $100 allocated to Line 22215 provide a significantly higher federal tax saving than $100 allocated to Line 30800?

a. Because Line 22215 entitles the contributor to an immediate refundable cash rebate regardless of taxable income.
b. Line 22215 is a deduction worth her 29% marginal rate, while Line 30800 is a credit at the flat 14% rate.
c. Because amounts claimed on Line 30800 are subject to an automatic 15% provincial clawback penalty under Form BC428.
d. Because enhanced CPP contributions qualify for the federal Top-Up Tax Credit multiplier while base CPP contributions do not.

54. In 2026, Brandon was a full-time university student with $8,000 in qualifying tuition paid (Form T2202). His net employment income was $12,000, and his basic personal amount completely wiped out his federal tax payable to zero. Brandon is deciding whether to transfer his unused tuition to his mother or carry it forward. Which statutory rule strictly governs Brandon's decision regarding the transfer and carry-forward of his 2026 tuition fees?

a. Brandon can carry forward the entire $8,000 now and elect to transfer up to $5,000 of this carry-forward balance to his mother in any future tax year.
b. He may transfer up to $5,000 to his mother for 2026; the other $3,000 carries forward and can never be transferred later.
c. Brandon is entitled to transfer the entire $8,000 to his mother in 2026 because tuition transfers have no statutory dollar ceiling.
d. Because Brandon earned $12,000, he is legally mandated to convert all $8,000 of tuition into a deduction against line 23600 net income.

54′. In 2025, Chloe completed college and had $6,000 of unused tuition fees that she carried forward on Schedule 11 into the 2026 tax year. In 2026, Chloe had zero taxable income. Chloe's father had substantial taxable income and asked Chloe to transfer her $6,000 carried-forward tuition balance to him on her 2026 return to save family tax. Under federal tax law, how must this transfer request be handled?

a. Chloe can transfer up to $5,000 of the carried-forward balance to her father provided he co-signs Form T2202 in 2026.
b. Chloe can transfer the full $6,000 because carried-forward educational amounts are exempt from the annual $5,000 transfer ceiling.
c. None of it can be transferred, because carried-forward tuition is locked in for Chloe's own use.
d. Chloe's father can claim the credit unilaterally on Line 32400 simply by attaching Chloe's official college diploma to his return.

55. In 2026, George and Martha's 12-year-old son, Peter, had a valid Form T2201 (Disability Tax Credit Certificate) on file and approved by CRA. On their 2026 return, they claimed Peter's base disability amount of $10,341. In addition, George claimed $6,000 of qualifying child care expenses paid for Peter as a child care deduction on Line 21400. After the $6,000 child care deduction, what is Peter's supplemental disability amount for children (2026 maximum $6,032) on Line 31600?

a. $3,565, the supplement less child care above $3,533
b. $6,032, as the two claims are calculated separately
c. $2,467, the child care above the $3,533 threshold
d. $5,192, after cutting 14% of the child care

55′. Robert was diagnosed with a severe physical impairment in mid–2026. His physician signed a medical confirmation letter. Robert intends to claim the $10,341 disability amount on Line 31600 of his 2026 T1 return without submitting Form T2201 to CRA in advance, planning to submit the doctor's letter only if CRA audits his return. What is CRA's strict administrative requirement for claiming the disability tax credit on Line 31600?

a. Taxpayers may self–certify on Line 31600 as long as the supporting medical diagnosis letter is signed within the tax year.
b. Prior approval is only required if the claimed disability amount exceeds the provincial threshold of $9,913 on Form BC428.
c. Submitting Form T2201 is optional if the taxpayer attaches hospital expense receipts exceeding 3% of net income to their return.
d. A medical practitioner must complete Form T2201 and CRA must approve it before Line 31600 is claimed.

56. In July 2026, Arthur, a 68–year–old homeowner, paid $18,000 to construct an exterior wheelchair ramp and zero–threshold shower (goods acquired and services performed entirely in 2026). This expenditure meets the qualifying criteria for both the Home Accessibility Tax Credit (HATC, Line 31285) and the Medical Expense Tax Credit (METC, Line 33099). How must Arthur report this $18,000 expenditure on his 2026 federal T1 return under Bill C–15?

a. Arthur can claim the full $18,000 under HATC on Line 31285 and simultaneously claim the same $18,000 under METC on Line 33099.
b. Arthur must claim the entire expenditure exclusively under METC because HATC was permanently abolished effective January 1, 2026.
c. He cannot claim the same 2026 spending under both; amounts claimed as medical expenses cannot also go to HATC.
d. Arthur can claim $18,000 under HATC but must pay a mandatory 14% clawback fee on Form BC428 to validate the credit.

56′. In November 2025, Beatrice contracted for home accessibility renovations for her senior spouse. Materials were delivered and $15,000 was paid in December 2025. In February 2026, an additional $6,000 was paid for second-phase modifications performed in 2026. How does the 2026 anti-duplication rule between HATC and METC apply to these two expenditures when Beatrice files her taxes?

a. Both expenditures are prohibited from double-claiming because the entire project was completed after the January 1, 2026 effective date.

b. The $15,000 incurred in 2025 can be double-claimed under both HATC and METC under historical rules, while the $6,000 incurred in 2026 cannot be double-claimed.

c. Neither expenditure qualifies for HATC because all renovations involving seniors must be processed through the BC Seniors Home Renovation Tax Credit.

d. The entire $21,000 can be double-claimed because the contract was originally signed before the C-15 statutory cutoff date.

Chapter 9 · Medical Expenses & Charitable Donations T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

57. In the 2026 tax year, Liam reported a net income of $110,000 on line 23600 of his T1 return. During the year, he paid $6,500 in eligible out-of-pocket medical expenses for himself. Given the 2026 statutory threshold cap of $2,890, what is the eligible medical expense amount Liam can claim on line 33099 before calculating the non-refundable tax credit?

a. $3,610, calculated as $6,500 minus the statutory capped threshold of $2,890.
b. $3,200, calculated as $6,500 minus 3% of net income ($3,300).
c. $3,741, calculated as $6,500 minus the 2024 threshold of $2,759.
d. $6,500, because medical expenses are exempt from threshold deductions for incomes above $100,000.

57′. In the 2026 tax year, Sophia earned a net income of $140,000 and paid $8,200 in eligible prescription drugs and dental costs for herself. Assuming the 2026 medical expense dollar cap is $2,890, what is the net allowable amount to be entered on line 33099?

a. $4,000, calculated by subtracting 3% of Sophia's net income ($4,200) from total expenses.
b. $8,200, because high earners are entitled to a full deduction without any threshold deduction.
c. $5,310, calculated by subtracting the statutory capped threshold of $2,890 from total expenses.
d. $5,441, calculated by applying the expired 2024 threshold of $2,759.

58. In the 2026 tax year, Ethan has a taxable income of $75,000 (falling in the second federal tax bracket) and makes an eligible cash donation of $1,000 to a registered Canadian charity. How is Ethan's federal charitable donation tax credit (line 34900) calculated?

a. $200 at 15%, plus $800 at 29%
b. $200 at 14%, plus $800 at 29%
c. The whole $1,000 at 14%
d. The whole $1,000 at 29%

58′. In the 2026 tax year, Olivia has a taxable income of $85,000 and donates $1,500 to a registered university. What is the correct calculation of her federal charitable donation tax credit on line 34900?

a. ($1,500 × 14%) = $210, because non-refundable tax credits must apply a uniform single rate.
b. ($200 × 15%) + ($1,300 × 29%) = $407, using the traditional 15% base rate.
c. ($200 × 14.5%) + ($1,300 × 29%) = $406, using the 2025 blended transition rate.
d. ($200 × 14%) + ($1,300 × 29%) = $405, using the 2026 rate of 14% on the first $200.

59. Chloe incurred $1,800 in eligible dental surgery expenses in November 2025, and another $1,900 in orthodontic expenses in June 2026. Her annual net income was $70,000 in both years (meaning an annual 3% threshold of $2,100). Neither expense alone exceeded the threshold in its calendar year, and Chloe did not claim the November 2025 expense on her 2025 return. How can Chloe claim these expenses on her 2026 tax return?

a. She cannot claim the 2025 expense on her 2026 return because medical expenses must strictly follow the calendar year from January 1 to December 31.
b. She can claim both expenses, but she must file a formal T1–ADJ adjustment request to reopen her 2025 return to shift the threshold.
c. She can pick a 12–month period ending in 2026, such as Nov 1, 2025 to Oct 31, 2026, and claim both ($3,700) less her threshold.
d. She must carry forward the 2025 expenses using the standard 5–year charitable donation carryforward mechanism.

59′. Lucas had extensive periodontal treatments costing $2,200 in December 2025, and eye surgery costing $2,500 in May 2026. His net income in 2026 was $80,000 (3% threshold = $2,400). He did not claim any medical expenses on his 2025 return. Which strategy should Lucas adopt on his 2026 T1 return?

a. Combine both ($4,700) in a 12–month window ending in 2026, e.g. Dec 1, 2025 to Nov 30, 2026, and claim $2,300.
b. Discard the December 2025 expense entirely because medical expenses cannot cross tax year boundaries under any circumstance.
c. Claim only the $2,500 expense incurred in 2026 and apply for a 5–year carryforward for the $2,200 incurred in 2025.
d. Amend the 2025 tax return to split the $2,400 threshold equally between the two tax years.

60. Marcus owns shares in a publicly traded Canadian corporation with an adjusted cost base (ACB) of $10,000 and a current fair market value of $35,000. He wishes to donate the full value to a registered university foundation. If Marcus donates the shares directly in–kind rather than selling them first and donating the cash proceeds, what is the tax result regarding his capital gain?

a. The $25,000 capital gain is taxed at the regular 50% inclusion rate, but he receives an extra 10% donation tax credit.
b. The capital gain is completely deferred until the registered charity sells the shares on the open market.
c. Marcus must report a deemed disposition at ACB, meaning no donation tax receipt can be issued for the unrealized growth.
d. The inclusion rate on the $25,000 gain is 0%, and he gets a receipt for the full $35,000 value.

60′. Victoria holds units in a publicly listed exchange-traded fund (ETF) purchased for $15,000, now worth $45,000. She wants to make a major gift to a registered hospital foundation. What is the tax advantage of donating the ETF units directly compared to selling the units first and donating the cash?

a. Direct donation allows her to claim a 100% tax deduction against net income rather than a non-refundable tax credit.
b. The $30,000 accrued capital gain has an inclusion rate of zero, avoiding tax entirely while yielding a donation receipt for $45,000.
c. The hospital foundation is exempt from issuing split-receipting disclosures, allowing an inflated receipt value.
d. Victoria avoids CRA reporting completely and is not required to file Form T1170.

61. In 2026, Kevin (net income $110,000) supported his 72-year-old dependent mother (net income $20,000) and his 23-year-old dependent son (net income $12,000), both Canadian residents. In 2026, Kevin paid $4,000 in eligible medical expenses for his mother and $1,500 for his son. Together the expenses total $5,500, and 3% of the mother's and son's own net incomes is $600 and $360. What is Kevin's total claim on line 33199 for these dependants?

a. $4,540, using each dependant's own 3% threshold
b. $2,610, using one threshold from Kevin's income
c. $1,110, using the $2,890 cap for each dependant
d. $5,500, the full expenses with no threshold

61′. In 2026, Grace (net income $95,000) paid $3,000 in eligible medical expenses for her dependent elderly father (net income $18,000) and $2,000 for her dependent adult sister (net income $10,000). Both dependants lived in Canada. Together the expenses total $5,000, and 3% of the father's and sister's own net incomes is $540 and $300. What is Grace's total claim on line 33199?

a. $2,150, using one threshold from Grace's income
b. $110, using the $2,890 cap for each dependant
c. $5,000, the full expenses with no threshold
d. $4,160, using each dependant's own 3% threshold

62. In July 2026, Benjamin incurred $7,000 in qualifying renovation expenses to install a zero-threshold walk-in shower and safety handrails in his home to assist his severe physical mobility impairment. Prior to 2026, qualifying renovations could be claimed under both the Home Accessibility Tax Credit (HATC, line 31285) and the Medical Expense Tax Credit (METC, line 33099). Starting in the 2026 tax year, what is the rule governing this expenditure?

a. Benjamin can continue to claim the full $7,000 simultaneously under both HATC and METC, as the grandfathering provision applies indefinitely.
b. He must choose HATC or METC for the $7,000; claiming the same renovation under both is barred from 2026.
c. Benjamin can claim 100% of the expense under METC and 50% under HATC under a new prorated compromise formula.
d. Renovations for physical impairment no longer qualify for METC under any circumstance, and must exclusively be claimed under HATC.

62′. In October 2026, an eligible senior spent $5,000 widening interior doorways and installing exterior wheelchair ramps. Under current 2026 tax law, how must this expenditure be treated on the personal income tax return?

a. The senior may claim the full $5,000 under HATC and automatically receive an equivalent deduction on line 23600.
b. The senior is permitted to claim the $5,000 under both line 31285 (HATC) and line 33099 (METC) because the expenses were incurred for a primary residence.
c. The same $5,000 cannot be claimed twice; it goes under either HATC or METC, not both.
d. The expense is only deductible if the senior's family net income falls below the refundable supplement threshold.

63. In the 2026 tax year, Daniel earned $28,000 in employment income and had an adjusted family net income of $32,000. He paid $3,800 in eligible out-of-pocket medical expenses. Daniel already claimed these medical expenses under the non-refundable METC on line 33099. Which of the following statements correctly describes Daniel's eligibility to also claim the refundable medical expense supplement on line 45200?

a. Daniel cannot claim line 45200 because claiming the non-refundable METC on line 33099 strictly prohibits claiming the refundable supplement for the same expenses.
b. Daniel is disqualified from line 45200 because his employment income exceeds the 2026 minimum working income threshold of $4,478.
c. Daniel can claim line 45200 as well, since his working income clears the minimum and his family income is under the clawback threshold.
d. Daniel can claim line 45200 only if his total tax payable before credits is greater than zero.

63′. In 2026, Maya operated an unincorporated small business, generating $22,000 in net self-employment income, with an adjusted family net income of $30,000. She incurred $3,500 in eligible medical costs and claimed them on line 33099. Can Maya also claim the refundable medical expense supplement on line 45200?

a. Yes, since net self-employment income counts as working income and line 45200 is separate from line 33099.

b. No, because self-employment earnings are excluded from the definition of working income for the refundable medical supplement.

c. No, because claiming any medical tax credit on line 33099 forfeits eligibility for the refundable supplement.

d. Yes, but only if she transfers 50% of the claim to her spouse to avoid exceeding the single-filer cap.

Chapter 10 · Refundable Tax Credits & Off-Chart Benefits T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

64. A 21-year-old unmarried individual with no dependants lived in Ontario all year. During the tax year, they earned $7,500 from a summer job and were enrolled as a full-time student at a designated post-secondary institution for 20 weeks. Assuming standard federal rules apply, what is their eligible Canada Workers Benefit (line 45300)?

a. $0, because a full-time student for more than 13 weeks with no eligible dependant is excluded from CWB.

b. $1,215, calculated as 27% of working income exceeding $3,000 [($7,500 − $3,000) * 27%].

c. $1,665, because their income is below the 2026 phase-out reduction threshold of $27,392, granting them the maximum single entitlement.

d. $608, because full-time students receive a prorated 50% benefit when working income exceeds $5,000.

64′. A 23-year-old single parent lives with their 3-year-old child in British Columbia. During the tax year, the parent was enrolled full-time in university for 28 weeks and earned $14,000 from part-time work. Does the full-time student restriction disqualify this parent from claiming the Canada Workers Benefit (Schedule 6)?

a. Yes, because full-time enrollment exceeding 13 weeks is an absolute bar to CWB eligibility regardless of household composition.

b. Yes, because single parents studying full-time are required to claim student bursary deductions instead of refundable tax credits.

c. No, because the full-time student exclusion does not apply to individuals who have an eligible dependant at the end of the tax year.

d. No, but their benefit entitlement must be reduced by exactly 50% as a statutory penalty for full-time post-secondary study.

65. Divorced parents share custody of their 4-year-old child, with the child living roughly equal amounts of time with each parent. Their signed legal separation agreement specifies that the father shall receive 100% of the Canada Child Benefit (CCB). How will the Canada Revenue Agency (CRA) issue the CCB for this child?

a. CRA will honor the signed separation agreement and issue 100% of the maximum CCB to the father.
b. CRA ignores the agreement and pays each parent half of their sole-custody amount, based on each one's own AFNI.
c. CRA will pay 100% of the benefit to the lower-income parent to maximize the family's total net support.
d. CRA will completely suspend CCB payments until a provincial family court amends the agreement to specify a 50/50 split.

65′. Parents who separated in 2025 maintain equal shared custody of their two young children. The mother's AFNI is $32,000, while the father's AFNI is $115,000. Under an informal mediation accord, both parents agreed that the mother would claim 70% of the CCB and the father 30%. How does the CRA administer this shared custody claim?

a. CRA applies the 70/30 split because voluntary mediation accords are binding for personal income tax administration.
b. CRA pays the mother 100% of the entitlement because her AFNI falls below the federal first threshold.
c. CRA divides the combined entitlement equally by pooling both parents' incomes into an average family AFNI.
d. CRA rejects the 70/30 split and pays each parent half of their own sole-custody amount, using each one's AFNI.

66. An employed single worker received $800 in automatic Advanced Canada Workers Benefit (ACWB) payments across 2026 based on their prior year's low income. Due to a promotion in 2026, the worker's net income increased to $42,000, which completely phases out CWB eligibility on Schedule 6. How is this situation reconciled on their 2026 T1 return?

a. The worker must repay the entire $800 advance as a balance owing on line 42200.
b. The $800 advance is added to line 10400 as taxable other employment income and taxed at the worker's marginal rate.
c. The advance is offset on Schedule 6 so line 45300 is $0, and the $800 does not have to be repaid.
d. The CRA automatically reduces the worker's basic personal amount by $800 to recover the overpayment.

66′. A taxpayer received $600 in ACWB payments during the year. When completing Schedule 6, their calculated 2026 CWB basic entitlement was only $200 because of an increase in earnings. What is the net amount entered on line 45300, and must the taxpayer repay the $400 difference?

a. Line 45300 is reported as $0, and the taxpayer does not have to repay the $400 excess advance.
b. Line 45300 is reported as negative $400, adding directly to the final taxes payable.
c. Line 45300 is reported as $200, and CRA automatically debits $600 from the taxpayer's bank account.
d. Line 45300 is reported as $200, and the $400 difference is carried forward to offset future CWB claims.

67. A 32-year-old low-income Canadian resident recently had Form T2201 (Disability Tax Credit Certificate) approved by the CRA. The individual now wishes to receive the monthly Canada Disability Benefit (CDB). What administrative step must this individual take?

a. None; the CRA automatically begins depositing monthly CDB payments within 30 days of T2201 approval.
b. The taxpayer must amend their prior year's T1 return by filing Form T1-ADJ to claim line 45250.
c. The taxpayer must contact their provincial ministry of health to register in the provincial medical registry.
d. Apply to Service Canada, which runs the CDB; it is not paid automatically after T2201 approval.

67′. A family receives the monthly Canada Child Benefit for their 8-year-old daughter. The daughter was recently approved for the Disability Tax Credit under Form T2201. What application must the parents submit to begin receiving the Child Disability Benefit (CDB) supplement?

a. They must submit an annual disability assistance grant application through Service Canada.
b. None; CRA adds the Child Disability Benefit to the CCB automatically once the T2201 is approved.
c. They must submit Form RC66SCH along with three years of certified medical expense receipts.
d. They must file Form GST370 with their local provincial children's aid society.

68. A 23-year-old worker earned $38,000 in employment income during the 2025 tax year. In 2026, the worker paid $2,000 in eligible tuition to take a work-related certificate course at an accredited institution. Can this individual claim the refundable Canada Training Credit (line 45350) on their 2026 tax return?

a. No, because the training credit limit only builds up, and can only be used, from age 26 to 65.
b. Yes, they can claim a full refundable credit of $1,000, representing 50% of the eligible tuition paid.
c. Yes, because any taxpayer with prior-year earnings exceeding $10,000 automatically receives a $250 credit regardless of age.
d. No, because CTC is strictly restricted to tuition paid for doctoral programs in science and engineering.

68′. A 32-year-old employee has an accumulated Canada Training Credit Limit (CTCL) of $500 showing on their latest Notice of Assessment. In 2026, the employee paid $1,600 in eligible tuition fees for professional retraining. What is the refundable Canada Training Credit that can be claimed on line 45350 (Schedule 11)?

a. $800, equal to exactly 50% of the eligible tuition fees paid.
b. $1,600, equal to 100% of tuition because the individual is within the 26 to 65 age bracket.
c. $250, representing the statutory annual credit accrual cap.
d. $500, the lesser of the $500 CTCL and half the tuition paid.

69. A married couple lives in Canada with two young children. For the 2025 tax year, the husband earned $65,000 net income and filed his T1 return on April 15, 2026. The wife had zero income throughout 2025 and chose not to file a return because she owed no taxes. What will happen to the family's Canada Child Benefit (CCB) payments starting in July 2026?

a. CCB payments will continue uninterrupted because the primary earner's return provides sufficient verification of household income.
b. CCB will stop from July 2026, because both spouses must file for CRA to set the adjusted family net income.
c. CRA will deem the wife's income to be equal to the husband's and issue 50% of the CCB entitlement.
d. CRA will continue payments but impose a $100 monthly administrative late-filing penalty deducted from the benefit.

69′. A common-law couple has been receiving the Canada Groceries and Essentials Benefit (CGEB). In the spring filing season, the female partner filed her return showing $22,000 net income, but her partner did not file due to having only casual cash income under $3,000. Why will their quarterly CGEB payments stop in July?

a. Because CGEB uses combined family net income, and one partner not filing blocks CRA from confirming it.
b. Because casual cash earnings automatically disqualify both partners from all federal sales tax credits.
c. Because single filers and common-law partners are required to maintain joint bank accounts to receive quarterly credits.
d. Because common-law partners must wait until 3 years of cohabitation before becoming eligible for CGEB.

70. An employee with an adjusted family net income of $48,000 is eligible for an optional, employee-paid group dental insurance plan offered by their employer. To qualify for free coverage under the Canadian Dental Care Plan (CDCP), the employee voluntarily opts out of the employer's plan. Does the employee qualify for the CDCP?

a. Yes, because the employee currently holds no active dental insurance policy and family income is strictly below $90,000.
b. Yes, provided the employee submits an affidavit proving the employer plan premiums exceeded 5% of their net income.
c. No, because opting out of an available employer dental plan still counts as having dental coverage.
d. No, because CDCP eligibility requires family net income to be below the basic personal exemption amount.

70′. A 67-year-old retired senior with an AFNI of $35,000 was enrolled in the Canadian Dental Care Plan (CDCP) during 2025. The senior filed their 2025 tax return on time but did not take any action to renew their CDCP enrollment before June 1. What happens to the senior's dental coverage?

a. Coverage renews automatically for life as long as annual personal income tax returns are filed.
b. Coverage lapses because renewal by June 1 is required each year, so a gap arises until reapplying.
c. Coverage continues automatically but patient co-payment increases from 0% to 60% as a late-renewal penalty.
d. Health Canada automatically transfers the senior into a private provincial insurance pool with monthly premiums.

Chapter 11 · Students and Income Tax: Tuition Transfer and Carryforward, Scholarship Exemption, and Education Savings T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

71. A full-time university student paid $9,000 in eligible tuition in 2026. The student worked part-time and utilized $1,800 of the tuition tax credit to reduce their federal income tax payable to zero, leaving $7,200 in unused tuition fees. What is the maximum tuition amount the student can transfer to their father on their 2026 Schedule 11?

a. $1,800, which equals the tuition amount used to extinguish the student's federal tax liability.
b. $5,000, which is the statutory maximum annual transfer cap for post-secondary students.
c. $3,200, which represents the statutory limit of $5,000 minus the $1,800 used by the student to reduce their own tax to zero.
d. $7,200, which is the entire unused portion of tuition fees remaining after reducing the student's tax to zero.

71′. In 2026, a post-secondary college student paid $7,500 in eligible tuition. The student had modest employment income and applied $2,200 of current-year tuition credits to reduce federal tax payable to zero on Schedule 11, leaving $5,300 unused. What is the maximum tuition amount the student can transfer to their supporting mother for 2026?

a. $2,800, calculated as the statutory maximum of $5,000 minus the $2,200 claimed by the student.
b. $5,000, representing the maximum unadjusted federal annual tuition transfer limit.
c. $5,300, representing the full balance of current-year unused tuition fees.
d. $2,200, representing the exact amount applied against the student's personal tax return.

72. A university graduate accumulated $6,000 in unused tuition credits from 2024 and 2025, which were officially carried forward on their CRA Notice of Assessment. In 2026, the graduate's mother entered a higher marginal tax bracket and asked to claim $5,000 of the graduate's carried-forward tuition credits. How must these carried-forward tuition credits be treated on the 2026 return?

a. The graduate can transfer up to $5,000 of carried-forward tuition credits to the mother by filing Form T1-ADJ.
b. Only the graduate can use the carried-forward amount in later years; carried-forward tuition can never be moved to a parent.
c. The graduate may transfer 50% of the carried-forward balance to the mother provided both parties sign Schedule 11.
d. The CRA automatically converts carried-forward tuition into a cash refund payable to the supporting parent.

72′. A taxpayer completed an undergraduate program with $8,000 in unused tuition credits carried forward from prior tax years. In 2026, the taxpayer married a high-earning spouse. Can the taxpayer transfer any portion of these carried-forward tuition credits to the new spouse on their 2026 tax return?

a. Yes, up to the annual $5,000 statutory limit because marriage transfers supersede prior carryforward elections.
b. Yes, provided the spouse was declared as common-law or married on December 31 of the tax year.
c. Yes, but the transfer is limited to 50% of the spouse's basic personal amount tax credit.
d. No; amounts carried forward from earlier years lose transferability and can only be used by the taxpayer.

73. A part-time qualifying student enrolled in a designated post-secondary diploma program received a $3,500 scholarship reported in box 105 of Form T4A. During 2026, the student paid $1,900 in eligible tuition and $400 for required program textbooks and course materials. What amount of this scholarship must the student report as taxable income on line 13010?

a. $700: the $3,500 scholarship less the $2,800 exemption (tuition plus materials plus the $500 basic exemption).
b. $3,000, calculated by subtracting only the $500 basic exemption from the total scholarship received.
c. $0, because all post-secondary scholarships issued on Form T4A are completely tax-exempt.
d. $1,200, calculated by subtracting tuition fees only without including course materials or the basic exemption.

73′. A part-time qualifying post-secondary student received a $4,200 academic bursary in 2026. The student incurred $2,500 in eligible tuition fees and $300 for mandatory course materials related to the program. How much of the bursary must be included in taxable income on line 13010?

a. $3,700, reflecting only the standard $500 non-qualifying scholarship exemption.
b. $1,400, reflecting the bursary minus the tuition fees of $2,500 and materials of $300 without the basic exemption.
c. $900, calculated as the $4,200 bursary minus the $3,300 total exemption ($2,500 tuition + $300 materials + $500 basic exemption).
d. $0, reflecting the full scholarship exemption applicable to all enrolled post-secondary students.

74. A recent graduate has an outstanding government student loan under the Canada Student Financial Assistance Act. During 2026, the graduate had no taxable income. To help out, the graduate's parents paid $900 in student loan interest directly to the lender. Who is entitled to claim the student loan interest tax credit on line 31900?

a. The parents can claim the $900 interest deduction because they provided the actual funds to service the loan.
b. The parents and the graduate can split the $900 interest credit equally on their respective T1 tax returns.
c. Neither party can claim the credit because payments made by third parties permanently forfeit the tax credit.
d. Only the graduate, as the legal borrower, can claim it, and may carry the unused amount forward up to five years.

74′. A student incurred $650 in interest on an eligible provincial government student loan in 2026. The student's spouse paid the entire $650 interest balance from their personal bank account. How can this interest be claimed on the 2026 Canadian personal income tax returns?

a. The spouse may claim the credit on line 31900 because spouses living together are treated as a single economic unit.
b. Only the student debtor can claim the interest on line 31900, as the credit is legally non-transferable to a spouse or common-law partner.
c. The interest must be deducted as a carrying charge on line 22100 by the spouse who made the actual payment.
d. The interest credit is automatically doubled if both spouses file their T1 returns concurrently using certified software.

75. A student enrolled full-time in a university undergraduate program receives an Educational Assistance Payment (EAP) from their family Registered Education Savings Plan (RESP) during the first 10 consecutive weeks of studies in 2026. Under 2026 rules, what is the standard maximum EAP limit that can be paid to the student, and how is it taxed?

a. $5,000, and it is taxed in the hands of the subscriber with an additional 20% surtax.
b. $8,000, and it is included as taxable income of the student on line 13000.
c. $7,200, and it is received completely tax-free by the student as a return of capital.
d. $4,000, and it must be equally divided between the subscriber and the student on their T1 returns.

75′. A student enrolled in a qualifying part-time post-secondary education program requests an Educational Assistance Payment (EAP) from an RESP in 2026. What is the statutory standard EAP dollar ceiling for this part-time student for each 13-week enrollment period?

a. $2,500, which reflects the historical pre-2023 statutory ceiling for part-time students.
b. $8,000, which is the uniform EAP threshold applicable to both full-time and part-time students.
c. $5,000, which represents the maximum annual Canada Training Credit lifetime limit.
d. $4,000 per 13-week period, the post-2023 part-time ceiling, taxable to the student.

76. A full-time college student in Vancouver paid $6,000 in eligible tuition and was enrolled full-time for 8 months in 2026. When preparing provincial Form BC428, how should the student's post-secondary education credits be reported?

a. Claim the provincial tuition credit on the $6,000, but claim nothing for a provincial education amount, which BC ended in 2019.
b. Claim both provincial tuition fees of $6,000 and an additional monthly provincial education amount of $400 for each of the 8 months.
c. Claim $0 for all post-secondary education credits because BC harmonized with Ontario and Alberta in fully repealing provincial tuition and education credits.
d. Transfer the entire $6,000 tuition credit to the provincial training credit line on Form BC428.

76′. A tax client moved from Ontario to British Columbia in 2026 to attend university. The client is aware that Ontario eliminated its provincial tuition and education tax credits. What should the preparer advise regarding British Columbia's provincial rules on Form BC428?

a. BC strictly mirrors Ontario, meaning neither tuition nor education amounts can be claimed for provincial income tax purposes.
b. BC allows full claims for both tuition fees and monthly education amounts exactly as Newfoundland and Manitoba do.
c. BC kept its provincial tuition credit but ended the provincial education amount in 2019, unlike Ontario.
d. BC requires all post-secondary students to replace tuition claims with an automatic provincial grocery rebate.

77. A 19-year-old post-secondary student in 2026 earned $4,000 from a summer job and paid $5,000 in tuition. Because total income falls well below the basic personal amount, the student has $0 tax liability. Why is filing a 2026 Canadian T1 return advantageous for this student?

a. It enables the student to immediately cash out the $5,000 tuition credit as a direct refundable tax refund deposit.
b. It triggers an automatic $1,000 Canada Training Credit deposit into the student's personal bank account.
c. It is legally mandatory because individuals with summer employment are penalized 50% of earnings if they fail to file.
d. It records the tuition carryforward on the Notice of Assessment, builds RRSP room, and sets up CGEB eligibility.

77′. An 18-year-old full-time student had zero income and paid $7,000 in tuition fees in 2026. The student's parents do not require any tuition transfer. What is the primary tax consequence if the student chooses not to file a 2026 T1 return?

a. The unused $7,000 tuition amount is not recorded on a Notice of Assessment for carryforward until a return is filed.
b. The educational institution will permanently revoke the student's T2202 tuition certificate for that year.
c. The student will be assessed a mandatory late-filing penalty of $500 despite having zero tax payable.
d. The student's Social Insurance Number will be suspended by Service Canada for non-compliance.

Chapter 12 · Seniors and Pension Splitting: The Three Age-65 Triggers, Optimal Pension Splitting, and OAS Clawback Avoidance T1 basics

Items marked ′ are variants on the same point: do one when you miss the main question.

78. In the 2026 tax year, a 67-year-old Canadian resident reports net income (line 23600) of $56,432. The federal age amount maximum is $9,208, reduced by 15% of net income above the $46,432 threshold. What federal age amount can the taxpayer claim on line 30100?

a. $0, because the taxpayer's net income exceeds the statutory phase-out threshold of $46,432, resulting in immediate clawback.

b. $9,208, because any individual aged 65 or older by December 31 is entitled to the full maximum federal age amount.

c. $7,708: the $9,208 maximum less 15% of the $10,000 of net income above the threshold, which is $1,500.

d. $1,500, which is the 15% reduction on the excess income, mistaken here for the claimable age amount.

78′. In the 2026 tax year, a 71-year-old taxpayer has net income of $62,432 on line 23600. The federal age amount maximum is $9,208, reduced by 15% of net income above the $46,432 threshold. What federal age amount can the taxpayer claim on line 30100?

a. $6,808, calculated as the statutory maximum of $9,208 reduced by 15% of net income exceeding $46,432 ($2,400).

b. $9,208, representing the full unreduced age amount available to seniors regardless of net income.

c. $0, because the taxpayer's net income surpasses the clawback threshold, disqualifying the taxpayer from the credit.

d. $2,400, which is the 15% reduction on the $16,000 excess, mistaken here for the claimable age amount.

79. In 2026, a 62–year–old taxpayer received $12,000 in life annuity payments from a former employer's registered pension plan (RPP) and withdrew $5,000 from a personal registered retirement income fund (RRIF) converted from their own savings. What is the maximum federal pension income amount the taxpayer can claim on line 31400?

a. $2,000, because only the employer RPP life annuity qualifies before age 65, and it fully meets the $2,000 statutory maximum.
b. $0, because taxpayers under the age of 65 are entirely ineligible for the federal pension income amount.
c. $2,000 based on the RRIF withdrawal, because RRIF distributions qualify as eligible pension income at any age.
d. $4,000, because the taxpayer received qualifying payments from both an employer pension plan and a registered fund.

79′. A 61–year–old retiree withdrew $8,000 from a personal RRIF (not inherited) and received $6,000 in Canada Pension Plan (CPP) retirement benefits during 2026, with no employer pension income. What is the allowable federal pension income amount on line 31400?

a. $2,000, because any annual withdrawal from a RRIF automatically qualifies for the federal pension income credit.
b. $2,000, because CPP retirement benefits are treated as eligible pension income for early retirees.
c. $1,000, representing a prorated statutory pension income credit for retirees who are between ages 60 and 64.
d. $0, because pre–65 personal RRIF withdrawals and CPP benefits are both outside eligible pension income.

80. A tax preparer is evaluating a Form T1032 pension income splitting election for a 69–year–old retired couple. The husband has substantial eligible RPP pension income, while the wife receives a modest personal pension and full OAS benefits. Why does official tax guidance warn that automatically transferring the maximum 50% may not achieve the optimal family tax outcome?

a. Because transferring 50% of pension income automatically forfeits both spouses' future rights to participate in CPP pension sharing.
b. Because pension income splitting permanently reduces the family's joint Canada Groceries and Essentials Benefit (CGEB) entitlement.
c. Because splitting more than 30% of eligible pension income triggers a mandatory federal administrative audit on all registered accounts.
d. Because increasing the receiving spouse's net income may reduce her age amount or push her into the OAS recovery tax zone, offsetting family savings.

80′. In 2026, a 68–year–old taxpayer elects on Form T1032 to split $18,000 of qualifying RRIF income with their 63–year–old spouse. The 63–year–old receiving spouse has no other pension income. Can the 63–year–old receiving spouse claim the $2,000 pension income amount on line 31400 for this transferred RRIF income?

a. Yes, because the eligible character of the RRIF income is determined solely by the transferring spouse's age.
b. No; the receiving spouse is tested on their own age, and RRIF income does not qualify for a recipient under 65.
c. Yes, provided both spouses jointly file an additional waiver with CRA confirming mutual consent.
d. No, because Form T1032 completely prohibits receiving spouses from claiming any non–refundable tax credits on their returns.

81. A retired couple successfully elected pension income splitting on Form T1032 with CRA for the husband's company pension. The wife, who stayed at home throughout their marriage and never contributed to CPP, noticed that her husband's monthly CPP cheques remained unchanged and no CPP was split to her. How can this couple properly share the husband's CPP retirement pension?

a. Submit an amended Form T1032 to CRA checking the statutory CPP election box on line 11400.
b. Apply for CPP pension sharing through Service Canada using Form ISP1002, as CPP benefits cannot be split via Form T1032.
c. Transfer 50% of the husband's T4A(P) box 20 amount directly onto line 11500 of the wife's T1 return without official approval.
d. Request an administrative transfer of CPP credits via the annual Notice of Assessment objection process.

81′. A married couple applies to Service Canada for CPP pension sharing using Form ISP1002. The higher–earning spouse wishes to allocate exactly 50% of his monthly CPP retirement pension to his wife, but Service Canada calculates their joint contributory period cohabitation ratio at 32%. Can the couple insist on the 50% sharing ratio?

a. Yes, because spouses possess an unrestricted legal right to elect any sharing percentage up to 50%.
b. Yes, provided the couple submits a notarized spousal agreement agreeing to indemnify Service Canada against overpayments.
c. No; the CPP sharing ratio follows the months cohabited in the joint contributory period and cannot be chosen.
d. No, because Service Canada strictly mandates a flat 25% sharing ratio for all approved spousal applicants regardless of history.

82. A 68-year-old senior experienced a massive one-time taxable capital gain in 2025, pushing net income to $140,000 and triggering substantial monthly OAS recovery tax withholdings starting in July 2026. In 2026, the senior's net income will drop back to $55,000 (well below the $95,323 clawback threshold). What is the primary purpose and legal effect of the senior filing Form T1213OAS?

a. It permanently raises the senior's statutory OAS clawback threshold from $95,323 to $140,000 for all future tax years.
b. It completely exempts the senior from having to report world income on line 23400 of their 2026 personal tax return.
c. It asks CRA to cut monthly OAS recovery withholdings based on estimated 2026 income; final liability is unchanged.
d. It legally converts the previous year's assessed OAS clawback tax into a refundable tax credit on line 43700.

82′. In early 2026, a senior submitted Form T1213OAS estimating their 2026 net income at $70,000, and CRA approved a full waiver of monthly OAS recovery tax withholdings. However, in December 2026, the senior unexpectedly realized substantial capital gains, bringing final 2026 net income to $115,323 (exceeding the $95,323 threshold). How will CRA handle the OAS recovery tax when assessing the 2026 T1 return?

a. CRA recomputes the recovery tax on the actual $115,323 net income; any shortfall is payable, plus interest if applicable.
b. The CRA honors the approved T1213OAS as a final administrative waiver and forgives any recovery tax owed on the unexpected income.
c. The CRA automatically cancels the taxpayer's OAS eligibility for three consecutive years as a statutory penalty for underestimating income.
d. The CRA allows the senior to offset the clawback shortfall by transferring unused medical expenses from any previous decade.

83. In February 2026, a 68-year-old taxpayer spent $18,000 to construct a wheelchair access ramp and modify bathroom fixtures for disability accessibility. The entire expenditure meets the criteria for both the Home Accessibility Tax Credit (HATC, line 31285) and the Medical Expense Tax Credit (METC). How must this expenditure be treated on the 2026 federal tax return?

a. Choose either HATC or METC for this expense; from the 2026 tax year the same expense cannot be claimed under both.

b. The taxpayer can claim the entire $18,000 on both line 31285 and line 33099 simultaneously, as dual-claiming remains an evergreen statutory provision.

c. The taxpayer must claim exactly 50% under HATC and the remaining 50% under METC, as expenses exceeding $10,000 must be divided equally.

d. The taxpayer is prohibited from claiming either credit unless the home modification was physically ordered prior to the 2024 tax year.

83′. A senior homeowner initiated a major accessibility retrofit in late 2025, paying $12,000 for materials delivered in December 2025. Additional specialized installation labor costing $8,000 was performed and invoiced in March 2026. All expenses qualify under both HATC and METC. How should these expenses be claimed across the 2025 and 2026 tax returns?

a. Both expenditures must follow the 2026 mutual exclusion rule because the overall construction project reached substantial completion in 2026.

b. Both expenditures can be double-claimed under both HATC and METC because the initial construction contract was signed in 2025.

c. Neither expenditure qualifies for HATC because multi-year projects are classified exclusively as Multigenerational Home Renovations under line 45355.

d. The $12,000 incurred in 2025 can still be claimed under both credits; the $8,000 incurred in 2026 is one-or-the-other.

84. An 82-year-old nursing home resident has a CRA-approved Form T2201. In 2026, nursing home charges totalled $48,000, and the facility's itemized bill shows $9,500 for attendant care. Which of the following claim combinations is permitted?

a. Claim the full $48,000 as medical expenses on line 33099 and concurrently claim the full disability amount of $10,341 on line 31600.

b. Claim only the $9,500 attendant care portion as a medical expense, within the attendant-care limit, plus the disability amount.

c. Claim the full $48,000 as medical expenses and transfer 100% of the disability tax credit to a supporting family member on line 31800.

d. Claim $20,000 under the Home Accessibility Tax Credit and forfeit both medical expenses and disability amounts entirely.

84′. A taxpayer fully supports a frail parent residing in a licensed nursing home. The parent possesses a valid CRA–approved Form T2201. For 2026, the total nursing home bill was $42,000 with no breakdown for attendant care. The taxpayer claims the entire $42,000 as medical expenses for dependants on line 33199. Can the taxpayer also claim a transfer of the parent's unused disability amount on line 31800?

a. Yes, because supporting adult children are exempt from the mutual exclusion rules governing nursing home claims.

b. Yes, provided the parent's net income on line 23600 was under the federal basic personal amount threshold.

c. No; claiming the full nursing home fee as a medical expense bars everyone from the disability amount for that person.

d. Yes, up to a maximum statutory transfer cap of $5,000 as specified on federal Schedule 5.

Chapter 13 · Investment Income: Interest, Dividends, Capital Gains, and Attribution Rules

Investments and registered accounts

Items marked ′ are variants on the same point: do one when you miss the main question.

85. David, a Canadian resident taxpayer, received $3,000 CAD equivalent in dividends from shares of a US corporation held in his non-registered trading account during the 2026 tax year. US non-resident tax of 15% ($450 CAD) was withheld at source. Which of the following correctly describes how David must report this dividend on his Canadian T1 return?

a. Report the gross $3,000 on line 12100 with no gross-up or dividend tax credit, and claim a foreign tax credit on line 40500 for the $450.

b. David must gross up the $3,000 dividend by 38% to $4,140 on line 12000, claim the federal dividend tax credit, and deduct the $450 foreign tax on line 22100.

c. David reports 50% of the dividend ($1,500) on Schedule 3 under line 12700 because foreign equity distributions are taxed at the capital gains inclusion rate.

d. David reports only the net cash received ($2,550) on line 12100 and cannot claim any foreign tax credit on line 40500.

85′. Sarah, a Canadian resident, holds non-registered shares in a publicly traded UK corporation and received $2,000 in dividends during 2026, from which $300 in foreign tax was withheld abroad. Her previous tax preparer mistakenly applied a 15% gross-up and claimed a non-eligible dividend tax credit. How should Sarah properly report this income?

a. Sarah should maintain the 15% gross-up on line 12010 and claim a 9.0301% dividend tax credit since foreign corporations default to non-eligible status.

b. Sarah should report the net $1,700 on line 12100 and forgo filing Form T2209 since the dividend was already taxed abroad.

c. Report the gross $2,000 on line 12100 with no gross-up or dividend credit, and claim the $300 foreign tax credit via Form T2209.

d. Sarah should treat the $2,000 as a capital distribution, reporting $1,000 on line 12700 and zero on line 40500.

86. In May 2026, Arthur gifted $40,000 worth of shares in a Canadian public corporation to his 14-year-old daughter, Chloe. Later that year, Chloe received $1,200 in eligible dividends from these shares. In November 2026, Chloe sold all the shares for $50,000, realizing a $10,000 capital gain. Under ITA attribution rules (s.74.1 and s.74.2), how must the dividend and capital gain be reported?

a. Both the $1,200 dividend and the $10,000 capital gain attribute back to Arthur and must be reported on Arthur's personal return.

b. The $1,200 dividend is reported by Arthur; the $10,000 capital gain does not attribute and is reported by Chloe.

c. Both the $1,200 dividend and the $10,000 capital gain are reported entirely on Chloe's return because legal ownership of the shares was transferred.

d. The $10,000 capital gain attributes back to Arthur, while the $1,200 dividend is reported by Chloe under minor child income splitting rules.

86′. Evelyn transferred growth fund units to her 16-year-old son, Noah, without receiving any consideration. During the tax year, the fund distributed $800 in interest income to Noah, and later that year Noah redeemed all units, realizing a $6,000 capital gain. Who must report the interest income and the capital gain under Canadian attribution rules?

a. Noah reports both the $800 interest income and the $6,000 capital gain on his own tax return because beneficial ownership belongs to him.

b. Evelyn must report both the $800 interest income and the $6,000 capital gain on her tax return under statutory attribution provisions.

c. Evelyn reports the $6,000 capital gain, whereas Noah reports the $800 interest income on his own return.

d. Evelyn reports the $800 interest under s.74.1(2); Noah reports the $6,000 gain himself, as s.74.2 does not reach minors.

87. On January 1, 2024, Michael made a bona fide prescribed rate loan of $100,000 to his lower-income spouse, Brenda, to invest in Canadian dividend equities. Brenda properly paid the prescribed interest to Michael before January 30, 2025 for the 2024 tax year. However, for the 2025 tax year, Brenda forgot to make the required interest payment until February 8, 2026. How does this late payment affect the attribution of the investment income Brenda earns during the 2025 and 2026 tax years?

a. Brenda can file Form T2210 and pay a late filing penalty to the CRA to maintain the prescribed rate loan exemption retroactively.
b. Because the loan structure and interest payment were fully compliant in the first year (2024), the loan remains permanently exempt from attribution rules.
c. The exemption fails because the 2025 interest was paid after January 30, 2026, so income from 2025 onward attributes to Michael.
d. Attribution applies only for the 2025 tax year; once Brenda paid on February 8, the exemption automatically resumes for 2026 and future years.

87′. George loaned $80,000 to his common-law partner, Linda, using a formal loan agreement bearing the CRA prescribed interest rate, so Linda could invest in a non-registered bond portfolio. Linda paid the annual interest on January 25 for the first two years, but missed the deadline in the third year, paying the annual interest on February 3. What is the tax consequence of this late payment under s.74.5(2)?

a. The exemption stops applying from that third year, so the bond interest from then on attributes to George.
b. The loan retains its exemption as long as the interest was paid within a 60-day grace period following the calendar year end.
c. George must pay a small penalty interest to the CRA, but the bond interest continues to be taxed in Linda's hands without attribution.
d. Attribution applies only for the month of January when the payment was late, returning to Linda for the rest of the year.

88. During the 2026 tax year, Henry incurred the following investment–related expenditures: (1) $800 in management advisory fees for his non–registered account; (2) $500 in management fees for his TFSA account; (3) $400 in interest on a loan used to contribute to his RRSP; (4) $150 for an annual bank safety deposit box rental. What is the total amount Henry may legally deduct as carrying charges on line 22100 of his 2026 federal return?

a. $1,850, because all four expenses were paid out–of–pocket directly to facilitate his investment wealth generation.
b. $1,300, by including both the non–registered and TFSA portfolio management fees while excluding the loan interest and safety deposit box fees.
c. $1,200, by deducting the non–registered portfolio management fees and the loan interest used to make an RRSP contribution.
d. $800, because only the non–registered account's management fee qualifies; the other three items are not deductible.

88′. During the tax year, Fiona paid the following expenses: (1) $1,000 in professional investment counsel fees for her non–registered dividend stock portfolio; (2) $600 in management fees for her RRSP account; (3) $300 in trading commissions paid on purchasing dividend shares; (4) $500 in interest on a loan used to purchase non–registered dividend–paying stocks. How much can Fiona deduct on line 22100?

a. $2,400, claiming all four items as regular investment management expenses incurred to generate property income.
b. $1,500: the $1,000 non–registered counsel fee plus the $500 loan interest; the RRSP fee and commissions are excluded.
c. $2,100, including the non–registered fee, the RRSP fee, and the loan interest, while excluding only the trading commissions.
d. $1,800, including the non–registered counsel fee, the trading commissions, and the loan interest, while excluding only the RRSP fee.

89. A taxpayer purchases a strip bond (zero-coupon bond) in a non-registered account that pays no periodic coupon interest but matures in five years at face value. How must the taxpayer report the return on this strip bond for Canadian income tax purposes under the rules described in the lecture?

a. Accrue the interest each year by the effective interest method, report it on line 12100 though no cash is received, and add it to the ACB.
b. The taxpayer reports nothing until maturity in year five, at which time the entire difference between purchase price and face value is reported as a capital gain on Schedule 3.
c. The taxpayer waits until year five and then reports the entire cumulative return on line 12100 all at once, expecting an official T5 slip from the financial institution.
d. The taxpayer is exempt from reporting any annual interest income as long as no official T5 slip is issued by the broker during the holding period.

89′. An investor in a non-registered account purchases a corporate discount bond midway through the year from a previous holder in the secondary market. The bond accrued interest prior to the purchase date, which was included in the seller's income. How does the buyer treat this accrued interest paid to the seller under the lecture rules?

a. The buyer ignores the accrued interest paid and treats the entire subsequent coupon payment as a tax-free return of capital.
b. The buyer must wait until the bond is disposed of, treating the accrued interest paid as an allowable capital loss on Schedule 3.
c. The buyer must add the accrued interest paid to their gross income on line 12100 and claim a 50% deduction on line 12700.
d. Deduct the accrued interest paid to the seller on line 22100 and reduce the bond's ACB by the same amount.

90. A client brings a T3 slip from a Canadian mutual fund trust showing three specific allocations: Box 21 (Capital gains) of $2,000; Box 25 (Foreign non-business income) of $1,000; Box 26 (Other income) of $600. How should these three amounts be properly allocated across the client's federal T1 return according to the lecture?

a. Add all three amounts together ($3,600) and enter them directly onto line 12100 as total trust investment income.
b. Box 21 to Schedule 3 (50% on line 12700); Box 25 on line 12100 and Form T2209; Box 26 on line 13000.
c. Box 21 and Box 25 are combined on line 12100, while Box 26 is reported on line 12700 as a capital gain.
d. Box 21 is included at 100% on line 12100, Box 25 is grossed up by 38% on line 12000, and Box 26 is deducted on line 22100.

90′. A tax preparer is completing a return for a client who received a T3 slip displaying $4,000 in Box 21 (Capital gains) and $800 in Box 26 (Other income). What is the correct reporting line and treatment on the T1 return for these two boxes?

a. Box 21 goes through Schedule 3, giving a $2,000 taxable capital gain on line 12700; Box 26 goes on line 13000.
b. Both Box 21 and Box 26 are combined into a single entry of $4,800 on line 12100 under interest and other investment income.
c. Box 21 is reported at 100% ($4,000) on line 12700, and Box 26 is grossed up and reported on line 12000 as Canadian dividend income.
d. Box 21 is reported on line 13000, and Box 26 is reported on Schedule 3 at 50% ($400).

91. Under the Canadian tax framework explained in the lecture, which statement correctly explains the relationship and statutory coordination between the attribution rules (ITA s.74.1 to s.74.5) and the Tax on Split Income (TOSI)?

a. Attribution rules and TOSI apply simultaneously to the same dollar of dividend income, resulting in double anti–avoidance taxation at top marginal rates.
b. TOSI completely repealed and replaced the attribution rules in 2018, so attribution rules no longer exist under the 2026 Income Tax Act.
c. Attribution covers direct transfers or loans to family; TOSI covers splitting through private companies or trusts; TOSI–taxed amounts are not attributed again.
d. Attribution rules apply only to individuals aged 18 and older, whereas TOSI applies exclusively to minors under age 18.

91′. When analyzing an anti–avoidance situation involving a private corporation distributing dividends to family members, how does ITA s.74.5(13) prevent double taxation between attribution rules and the Tax on Split Income (TOSI)?

a. If an amount of private corporate dividend received by a spouse is taxed under TOSI, that same amount must also be attributed back to the other spouse under s.74.1(1) and taxed a second time.
b. Under s.74.5(13), an amount already subject to TOSI is excluded from the attribution rules, so it is not taxed twice.
c. Attribution rules require active business involvement, whereas TOSI applies whenever cash is gifted between spouses without any business involvement.
d. Attribution rules automatically apply the top marginal tax bracket, whereas TOSI taxes dividends at the recipient's personal progressive rates.

Chapter 14 · Capital Gains: 50% Inclusion Rate, ACB, Principal Residence, and Proposed Reforms Investments and registered accounts

Items marked ′ are variants on the same point: do one when you miss the main question.

92. In September 2026, Brian sold shares in a publicly traded Canadian corporation held in his personal non-registered brokerage account, realizing a capital gain of $300,000. Brian had no other capital transactions in 2026. A friend told Brian that capital gains over $250,000 are subject to a 66.67% inclusion rate. According to the 2026 tax-year rules in the lecture, what is Brian's taxable capital gain to be entered on line 12700 of his federal return?

a. $150,000, because ITA s.38(a) still sets a 50% inclusion rate for all gains; the 2/3 proposal was cancelled and never applied.
b. $158,333, calculated as 50% on the first $250,000 ($125,000) plus 66.67% on the remaining $50,000 ($33,333).
c. $200,000, calculated as a flat 2/3 inclusion rate on the full $300,000 capital gain.
d. $300,000, because capital gains from publicly traded securities are treated as regular investment income without any discount.

92′. In November 2026, Chloe realized a capital gain of $400,000 from disposing of investment property held in Canada. Her tax preparer relied on an outdated 2025 study manual that instructed preparers to apply a 2/3 inclusion rate to individual gains exceeding $250,000. Under the enacted 2026 federal rules, what is Chloe's correct taxable capital gain for line 12700?

a. $225,000, applying 50% to the first $250,000 ($125,000) and 66.67% to the remaining $150,000 ($100,000).
b. $200,000, because the federal inclusion rate remains 50% across the entire gain without any threshold tiering.
c. $266,680, calculated as a uniform 66.67% inclusion rate on all capital gains realized after June 2024.
d. $100,000, because personal investment properties receive an additional 50% secondary exemption under provincial rules.

93. Daniel holds shares of XYZ Ltd. in two non-registered accounts. In Account 1 he bought 600 shares in 2021 at $30 per share plus a $10 commission; in Account 2 he bought 400 shares in 2024 at $50 per share plus a $10 commission. In August 2026 he sold 300 shares from Account 2 at $70 per share, paying a $20 commission. Account 2's T5008 shows a cost based only on its own $50 shares. Which calculation of the capital gain follows ITA s.47?

a. CAD 5,972, using the CAD 15,008 cost on Account 2's T5008 for the 300 shares sold, less the CAD 20 commission.
b. CAD 11,975, using the cost of the oldest CAD 30 Account 1 shares first, less the CAD 20 selling commission.
c. CAD 9,574, using a CAD 38.02 average cost across all 1,000 shares (CAD 11,406 for 300), less the CAD 20 commission.
d. CAD 4,787, which is the weighted-average gain after it has been halved by the 50% inclusion rate.

93′. Emily owns shares of ABC Corp. in two non-registered accounts. Account X holds 200 shares bought at $20 each ($4,000 total, no commission). Account Y holds 300 shares bought at $40 each ($12,000 total, no commission). In 2026 she sold 250 shares from Account Y at $60 per share ($15,000 proceeds, no commission). Account Y's T5008 shows a cost of $10,000. What is her capital gain under ITA s.47?

a. $7,000, using an ACB of $8,000 for the 250 shares, averaged over all 500 shares in both accounts.
b. $5,000, taking the $10,000 cost on Account Y's T5008 slip as the ACB of the 250 shares sold.
c. $9,000, treating the 200 cheaper Account X shares as sold first and 50 Account Y shares after them.
d. $3,500, because the resulting capital gain must be halved before stating the capital gain amount.

94. In 2018, Frank bought a condo in Vancouver for $600,000 and lived in it as his sole principal residence. In July 2026, Frank moved into a new property and converted the condo into a full-time rental property without making any tax election. The fair market value (FMV) on the date of conversion was $950,000. Frank believes that because he didn't sell the property and received no cash, he has nothing to report on his 2026 tax return. Which of the following is correct regarding Frank's tax obligations?

a. Frank is correct; change of use is an internal personal event that CRA never treats as a taxable disposition until actual legal title is transferred.
b. A deemed disposition occurred; Frank must report it and file T2091 to get the exemption, or face denial and late-designation penalties.
c. Frank must immediately pay capital gains tax on the $350,000 deemed gain in 2026, because principal residence exemption can never be applied to deemed dispositions.
d. Frank only needs to report the property if CRA initiates a formal audit within 6 years of the conversion.

94′. Grace purchased a residential townhouse in 2017 for $500,000 and resided there until August 2026, when she relocated and converted the townhouse entirely into a long-term rental property (FMV was $800,000). She filed her 2026 return without reporting the conversion or submitting Form T2091, assuming that zero cash flow meant zero reporting. What is the potential statutory penalty if Grace requests CRA to accept a late principal residence designation under ITA s.220(3.5)?

a. A fixed penalty of 50% of the deemed capital gain ($150,000), payable immediately.
b. Zero penalty, because CRA automatically grants free retroactive elections for principal residence conversions within 10 years.
c. An administrative charge of $1,000 per year, capped at $10,000 under provincial legislation.
d. A penalty of $100 for each complete month the designation is late, up to a statutory maximum of $8,000.

95. On October 15, 2026, George sold 1,000 shares of a publicly traded company at a capital loss of $12,000 in his personal non-registered account. On November 4, 2026 (20 days after the sale), George's spouse purchased 1,000 identical shares in her own non-registered account and still held them at the end of the year. How is George's $12,000 loss treated for Canadian tax purposes?

a. George can deduct the allowable capital loss of $6,000 (50% of $12,000) against his taxable capital gains in 2026 because his spouse is an independent taxpayer with her own separate account.
b. The $12,000 loss is permanently forfeited to the government and cannot be recovered or added to any asset base.
c. George can elect to treat the transaction as a non-capital business loss and deduct it against his employment income.
d. The loss is classified as a superficial loss under ITA s.54 and is denied in 2026, but the disallowed $12,000 is added to the ACB of the replacement shares purchased by George's spouse.

95′. On May 10, 2026, Hannah sold 500 ETF units at a loss of $8,000 in her non-registered trading account. On May 22, 2026 (12 days later), a private corporation wholly owned and controlled by Hannah purchased 500 identical ETF units and continued holding them beyond 30 days. How does the superficial loss rule affect Hannah's $8,000 capital loss?

a. Hannah can claim the allowable capital loss of $4,000 because a corporation is a distinct legal person under corporate law.
b. It is a superficial loss: denied to Hannah in 2026, with the $8,000 added to the ACB of the units her corporation holds.
c. Hannah is assessed an immediate penalty of 20.5% under the alternative minimum tax rules for abusive wash sales.
d. The loss can be carried back 3 years immediately using Form T1A to offset Hannah's past taxable capital gains.

96. Ian had accumulated $25,000 in unused net capital losses from prior years, as confirmed on his CRA Notice of Assessment (NOA). In 2026, Ian earned $90,000 in employment income, received $4,000 in eligible dividends, but realized zero capital gains. Ian wants to use a portion of his accumulated net capital losses to reduce his taxable employment income on his 2026 return. Under ITA s.111, which of the following is correct?

a. None of the losses can be used against his employment income or dividends; while alive they offset only taxable capital gains.
b. Ian can claim up to $2,000 per year of net capital losses against ordinary employment income, similar to US tax rules.
c. Ian can deduct the full $25,000 against his employment income on line 25300 provided he files Form T1A with his 2026 return.
d. Net capital losses expire after 7 years, so Ian must deduct them against his dividend income or lose them permanently.

96′. Jack passed away in October 2026. On his final tax return (and the return for 2025, the immediately preceding year), his legal representative discovered $40,000 in unapplied net capital losses that exceeded Jack's remaining taxable capital gains. How does the special rule under ITA s.111(2) apply to Jack's unabsorbed net capital losses?

a. The unused net capital losses immediately expire upon death and cannot offset any remaining income of the deceased.
b. The losses must be transferred to Jack's surviving spouse and can only offset the spouse's capital gains in subsequent years.
c. In the year of death and the year before, unused net capital losses can be applied against any other income of the deceased.
d. The losses can only be applied against dividend gross-up amounts on Schedule 4.

97. In 2026, Kevin engaged in two personal property transactions: (1) He sold his personal motorboat for $8,000 (original cost was $15,000), incurring a $7,000 loss; (2) He sold an antique oil painting (a listed personal property, LPP) for $6,000 (original cost was $2,000), realizing a $4,000 gain. How should Kevin report these two dispositions on Schedule 3?

a. Kevin can net the boat loss of $7,000 against the painting gain of $4,000, reporting a net capital loss of $3,000 on line 12700.
b. Report only the $4,000 painting gain on line 15900, giving a $2,000 taxable gain; the boat loss is not deductible.
c. Both the boat and the painting are deemed to have proceeds and ACB of $1,000 under ITA s.46, resulting in zero gain and zero loss on both items.
d. The boat loss can be carried forward 7 years to offset future gains from disposing of personal automobiles.

97′. In 2026, Laura sold a piece of rare jewelry (listed personal property, LPP) for $3,000 (original cost was $7,000), suffering a $4,000 LPP loss. She also realized an $8,000 capital gain from selling publicly traded shares. How does the loss from the jewelry interact with Laura's other investment gains?

a. The $4,000 LPP loss immediately offsets the $8,000 stock gain on Schedule 3, reducing Laura's net capital gain to $4,000.
b. The jewelry loss is treated as personal–use property (PUP) and is permanently forfeited without any carryback or carryforward.
c. Laura must deduct the $4,000 loss against her employment income on line 23200.
d. It cannot offset the stock gain; the LPP loss can only reduce LPP gains, 3 years back or 7 years forward.

98. In 2026, Martin sold shares of a qualified small business corporation (QSBCS), realizing a capital gain of $1,200,000. He had never used his Lifetime Capital Gains Exemption (LCGE) previously and has zero other income in 2026. Under regular tax rules, his taxable capital gain of $600,000 is completely offset by the $600,000 capital gains deduction on line 25400, leaving regular federal tax at $0. How does the Alternative Minimum Tax (AMT) apply to Martin's transaction in 2026?

a. AMT does not apply because any transaction completely exempted by LCGE under regular tax rules is automatically exempt from AMT.
b. Martin must pay AMT on the full CAD 1,200,000 capital gain at 20.5% with zero deduction allowed for LCGE under AMT rules.
c. AMT counts the full CAD 1,200,000 gain but the LCGE deduction only as CAD 840,000 (7/5); the rest above CAD 181,440 is taxed at 20.5%.
d. Martin pays a flat provincial minimum tax of 5.6% on the entire CAD 1,200,000, which cannot be carried over.

98′. Nancy claimed the full Lifetime Capital Gains Exemption (LCGE) on the sale of her farm property in 2026, which eliminated her regular income tax. However, due to the 100% inclusion rate and 7/5 deduction scaling under AMT, Nancy was required to pay $35,000 in Alternative Minimum Tax for 2026. Nancy plans to retire immediately and anticipates having very modest pension income in future years. What is the tax recovery mechanism and risk regarding Nancy's $35,000 AMT payment?

a. It is a prepayment that can offset regular tax above minimum tax for 7 years, but may be lost if her later regular tax is too low.

b. Nancy can apply for an immediate cash refund of the $35,000 from CRA at the end of the 2026 tax year by filing Form T1A.

c. The $35,000 is an irreversible non–refundable punitive fine imposed by CRA for claiming high capital gains deductions.

d. Nancy can carry back the AMT liability to offset taxes paid in any of the preceding 10 years.

Chapter 15 · The Three Registered Accounts in 2026: RRSP Limits & Exits, TFSA Two 1% Penalties, and FHSA Life Cycle Investments and registered accounts

Items marked ′ are variants on the same point: do one when you miss the main question.

99. In 2025, Liam had an earned income of $110,000 from employment and net rental income. His 2025 T4 slip reported a Pension Adjustment (PA) of $4,500. Liam's Notice of Assessment for the 2025 tax year indicated an unused RRSP contribution room carried forward of $8,000. In the 2026 tax year, the statutory annual RRSP limit is $33,810. What is Liam's RRSP deduction limit for the 2026 tax year?

a. CAD 23,300: the CAD 8,000 carryforward plus 18% of CAD 110,000 (CAD 19,800), less the CAD 4,500 PA.
b. CAD 27,800: the CAD 8,000 carryforward plus 18% of CAD 110,000 (CAD 19,800), with the PA left out.
c. CAD 37,310: the CAD 8,000 carryforward plus the full CAD 33,810 annual limit, less the CAD 4,500 PA.
d. CAD 15,300: 18% of CAD 110,000 (CAD 19,800) less the CAD 4,500 PA, with the carryforward left out.

99′. In 2025, Evelyn had an earned income of $210,000 as a corporate executive. Her 2025 T4 slip reported a Pension Adjustment (PA) of $12,000. Her Notice of Assessment for 2025 showed zero unused RRSP contribution room carried forward. The 2026 statutory annual RRSP dollar limit is $33,810. What is Evelyn's RRSP deduction limit for the 2026 tax year?

a. $25,800, calculated as 18% of $210,000 ($37,800) minus $12,000 PA, ignoring the statutory annual dollar cap.
b. $33,810, calculated as the statutory maximum without subtracting the Pension Adjustment.
c. $21,810, calculated as the 2026 statutory maximum cap of $33,810 minus the $12,000 Pension Adjustment.
d. $37,800, calculated solely as 18% of earned income with no caps or adjustments applied.

100. On January 1, 2026, Brandon had a TFSA contribution room of exactly $7,000 (having used all prior contribution room). In February 2026, Brandon contributed $7,000 into his TFSA. In June 2026, needing cash, he withdrew $5,000 from his TFSA. In September 2026, having surplus funds, he re-deposited $5,000 back into his TFSA and kept it there for the rest of 2026. What is the tax consequence of Brandon's actions for the 2026 tax year?

a. Brandon owes $0 in penalties because withdrawals immediately restore contribution room within the same tax year.
b. A $5,000 excess exists from September to December, so 1% a month for 4 months is $200, reported on RC243.
c. Brandon has an excess contribution of $5,000, but enjoys a $2,000 lifetime grace buffer, paying a 1% tax on only $3,000 ($120 total).
d. Brandon loses his TFSA eligibility permanently and all investment earnings in the account become taxable as employment income.

100′. On January 1, 2026, Grace had an unused TFSA contribution room of $4,000 carried forward, plus her new 2026 annual room of $7,000 (total available room: $11,000). In March 2026, Grace contributed $11,000 to her TFSA. In May 2026, she withdrew $6,000. In October 2026, Grace deposited $6,000 back into her TFSA and withdrew the $6,000 excess on November 15, 2026. How many months of the 1% per month Part XI.01 penalty tax does Grace owe for 2026?

a. 0 months, because her total net contributions in 2026 ($11,000) did not exceed her initial January 1 room of $11,000.
b. 0 months, because Grace corrected the excess within 30 days of the deposit.
c. 1 month, because she withdrew the funds in mid-November before November month-end.
d. 2 months, October and November, since the May withdrawal only restores room on January 1, 2027.

101. In December 2024, Michael contributed $15,000 to a spousal RRSP in which his spouse, Jessica, is the annuitant. Michael deducted the full $15,000 on his 2024 tax return. Neither Michael nor Jessica made any further contributions to any spousal RRSP in 2025, 2026, or 2027. In January 2027, Jessica withdrew $15,000 from her spousal RRSP to cover emergency expenses. Under ITA s.146(8.3), how is this $15,000 withdrawal taxed?

a. The entire $15,000 is attributed back to Michael because a full 36 calendar months (3 full years) had not elapsed between December 2024 and January 2027.
b. 50% ($7,500) is taxed in Michael's hands and 50% ($7,500) is taxed in Jessica's hands under mandatory spousal income splitting.
c. All $15,000 is Jessica's income: the window covers 2027, 2026 and 2025, so the 2024 contribution is outside it.
d. The withdrawal is completely tax-free to both spouses because it was used for emergency living expenses.

101′. In January 2025, Henry contributed $12,000 to a spousal RRSP for his spouse, Olivia, and deducted the amount on his 2024 tax return (using the first 60 days rule). Neither Henry nor Olivia made any further contributions. In December 2026, Olivia withdrew $8,000 from this spousal RRSP. Under ITA s.146(8.3), how is this $8,000 withdrawal taxed?

a. The entire $8,000 is attributed back to Henry and taxed as his income on his 2026 tax return using Form T2205.
b. The entire $8,000 is taxed as Olivia's income because Olivia is the legal annuitant and owner of the account.
c. Only $4,000 is attributed to Henry because the attribution amount is capped at 50% of the withdrawal.
d. The withdrawal is exempt from attribution because Henry originally claimed the deduction against his 2024 tax return.

102. In May 2023, Rachel opened her first FHSA. In August 2025, Rachel completed a qualifying withdrawal to purchase a qualifying first home, leaving a remaining balance of $12,000 invested in GICs in the account. When does Rachel's maximum participation period for this FHSA end, and what happens if she fails to close the account before that deadline?

a. Her participation period ends on December 31, 2038 (15th anniversary); she can keep the $12,000 growing tax-free until then.
b. Her participation period never ends because qualifying home buyers are permitted to maintain the FHSA indefinitely for future home purchases.
c. Her participation period ended on December 31, 2025; failing to close it immediately resulted in a 50% confiscatory penalty on the $12,000 balance.
d. It ends December 31, 2026, the year after her first qualifying withdrawal; any balance left is then included in her income.

102′. Lucas opened his first FHSA in 2023. By 2037, Lucas has never purchased a home and has never made any qualifying withdrawal. In 2038, Lucas reaches the 15th anniversary of opening his FHSA, and the account holds a fair market value of $55,000. Lucas does not want the $55,000 to be taxed as income. What is Lucas's proper tax-deferred exit strategy before December 31, 2038?

a. Withdraw the entire $55,000 in cash and claim it as a non-taxable personal savings allowance on Schedule 15.
b. Transfer the whole balance directly to his RRSP or RRIF, which defers tax and uses no RRSP contribution room.
c. Transfer the $55,000 to his TFSA tax-free, provided his TFSA has at least $55,000 in accumulated room.
d. Lucas is barred from transferring the funds and must forfeit 30% withholding tax directly to the federal receiver general.

103. In August 2026, Nathan made his first-ever withdrawal under the Home Buyers' Plan (HBP) from his RRSP to purchase a qualifying principal residence. Under the rules enacted by Parliament (including Bill C-30), what is the maximum statutory HBP withdrawal limit for Nathan in 2026, when does his 15-year repayment period begin, and what is his first repayment taxation year?

a. Up to $60,000, with a five-year grace period that makes 2031 his first repayment year, then 15 years of repayments.
b. Up to $35,000, with repayments starting in the second year after withdrawal (2028) and spread over 15 years.
c. Up to $60,000, but repayments must start in the year right after the withdrawal year, 2027.
d. Up to $40,000, the same as the FHSA lifetime limit, repayable over 10 years like the LLP.

103′. Samuel withdrew $60,000 under the Home Buyers' Plan (HBP) in 2026, with his first repayment due in 2031 (annual required repayment: $4,000). In 2031, Samuel contributes $10,000 to his RRSP. However, on his 2031 Schedule 7, Samuel fails to designate any portion of the contribution as an HBP repayment. What is the tax consequence of this omission under Canadian tax law?

a. CRA will automatically designate $4,000 of his RRSP contribution as an HBP repayment on his behalf without adjusting his income.
b. The entire $10,000 contribution is rejected and refunded to Samuel with a $500 penalty.
c. The $4,000 not repaid is added to his 2031 income, and the $10,000 is treated as an ordinary RRSP contribution.
d. Samuel's HBP repayment period is automatically extended from 15 years to 20 years with zero tax impact.

104. Marcus permanently relocated to the UK for employment and became a non-resident of Canada for tax purposes on May 31, 2026. On that date, Marcus had $30,000 in unused accumulated TFSA contribution room. In August 2026, while residing as a non-resident in London, Marcus transferred $10,000 from his Canadian chequing account into his Canadian TFSA and held it there through December 31, 2026. What is the Canadian tax treatment of this $10,000 contribution for 2026?

a. No tax or penalty is assessed because Marcus had $30,000 in legally accumulated unused contribution room, which fully shields the $10,000 deposit.
b. A 1% monthly tax applies to the full $10,000 from August to December, $500 in all, whatever his room, via RC243.
c. The $10,000 contribution is automatically confiscated by the CRA, and the entire TFSA trust is deregistered.
d. Marcus is subject to a one-time 25% non-resident Part XIII withholding tax deducted at source by his Canadian bank.

104′. Sophia was a non-resident of Canada for the entirety of the 2025 and 2026 tax years. She maintained an existing Canadian TFSA opened in 2020 that held Canadian dividend-paying stocks. In 2026, her TFSA generated $3,000 in Canadian dividends and realized $4,000 in capital gains, and Sophia made no new contributions or withdrawals. How are these 2026 account earnings treated by the CRA?

a. The $7,000 total earnings are subject to a 25% Canadian Part XIII withholding tax because she is a non-resident.
b. Sophia owes a 1% per month penalty tax on the total fair market value of the account simply for maintaining a TFSA as a non-resident.
c. The account loses its registered tax-exempt status immediately and is converted into a regular taxable trading account.
d. The $7,000 stays exempt from Canadian tax; an existing TFSA keeps growing tax-free while the holder is non-resident.

105. In December 2026, Edward turns 71 and converts his entire $600,000 RRSP into a RRIF. His spouse turns 65 in 2026. The RRIF is worth $600,000 on January 1, 2027. Which statement about the RRIF minimum amounts for 2026 and 2027, the spouse's-age election and withholding tax is correct?

a. Edward must withdraw a minimum amount in 2026 based on the 5.28% factor, and the financial institution must withhold 30% tax from that payment.
b. Edward cannot use his spouse's age because RRIF minimum withdrawal formulas must strictly adhere to the primary account holder's age.
c. Minimum is $0 for 2026; before the first 2027 payment he may elect his spouse's age (4.00%), and the minimum is not withheld.
d. The 2027 minimum withdrawal must be withheld at 20% by the trust company regardless of whether it represents the minimum amount or excess.

105′. Leonard turned 71 in 2025 and established his RRIF. On January 1, 2026, Leonard is 71 years old (turning 72 later in the year), and the fair market value of his RRIF is $400,000. Under Income Tax Regulations s.7308(4), the prescribed factor for age 71 is 5.28%. Leonard withdraws a total of $35,000 from his RRIF in 2026. What is the statutory minimum withdrawal amount, and how is withholding tax applied by the financial institution on this $35,000 withdrawal?

a. Minimum CAD 21,120 with no withholding; the CAD 13,880 above it has 20% withheld, which is CAD 2,776.

b. The minimum amount is CAD 21,120, and the entire CAD 35,000 withdrawal is subject to a flat 30% withholding tax (CAD 10,500 withheld).

c. The minimum amount is CAD 35,000, and no withholding tax is deducted because RRIF withdrawals are completely exempt from tax withholding.

d. The minimum amount is CAD 0 because Leonard can defer mandatory withdrawals until he reaches age 75.

Chapter 16 · Rental Income Reporting: Form T776, CCA Restrictions, Recapture vs. Capital Gains, and BC SVT Real property

Items marked ′ are variants on the same point: do one when you miss the main question.

106. In the 2026 tax year, Marcus owns a residential rental property. After deducting all eligible current operating expenses (property taxes, mortgage interest, insurance, and utilities), his net rental income before claiming Capital Cost Allowance (CCA) is $3,500. Marcus's maximum allowable CCA based on the building's UCC and class rate is $9,200. Marcus also earned $75,000 in employment salary. What is the maximum CCA Marcus can claim on Form T776 for 2026, and what happens to the unclaimed portion?

a. Marcus can claim the full $9,200 CCA, creating a net rental loss of $5,700 to deduct against his $75,000 employment salary.

b. Marcus can claim $0 CCA, because whenever the calculated CCA exceeds net rental income, the entire CCA deduction for that tax year is forfeited.

c. Marcus can claim a maximum of $3,500 in CCA, reducing net rental income to $0; the remaining $5,700 stays in the property's UCC to be depreciated in future years.

d. Marcus can claim $3,500 in CCA, and can establish a separate $5,700 non-capital loss carryforward certificate to deduct directly next year.

106′. In the 2026 tax year, Diana owns two separate residential rental condominiums. Property 1 generated net rental income before CCA of $8,000. Property 2 incurred an operating rental loss before CCA of $3,000. Across both properties, the total maximum calculated CCA allowable under the class rates is $11,000. Diana has $90,000 in professional employment income. What is the maximum aggregate CCA deduction Diana can claim across both properties on Form T776 for 2026?

a. $8,000, because the CCA limit is calculated individually for each profitable property without considering losses from other properties.

b. $5,000, which reduces Diana's combined net rental income to $0, with all remaining unclaimed capital cost retained in UCC.

c. $11,000, creating an allowable combined rental loss of $6,000 to offset Diana's professional employment earnings.

d. $0, because owning any loss-making rental property completely eliminates the taxpayer's eligibility to claim CCA for that tax year.

107. In 2026, landlords Kevin and Rachel undertook renovations on their rental townhouse in Vancouver. They spent $18,000 completely replacing the 25-year-old asphalt shingle roof with an upgraded standing-seam architectural metal roof that substantially improves durability and carries a 50-year warranty. During the same renovation, they spent $1,200 patching drywall cracks and repainting the interior living room walls to repair normal tenant wear and tear. How should Kevin and Rachel classify and report these expenditures on Form T776 for 2026?

a. The $1,200 repainting is a current expense deducted in 2026; the $18,000 roof is a capital expenditure added to UCC.
b. The entire $19,200 is deductible in full as a current maintenance expense in 2026 because maintaining a watertight building is an essential operating requirement.
c. The entire $19,200 must be capitalized and depreciated over time because all work was contracted during a single renovation event.
d. The $18,000 roof is a deductible current repair, while the $1,200 cosmetic painting is a non-deductible personal living cost.

107′. In 2026, landlord Nathan incurred two separate expenses for his rental condominium in Burnaby. First, he spent $14,000 replacing standard builder-grade laminate counters and hollow-core interior doors with luxury quartz countertops and custom solid mahogany doors, substantially enhancing the property's market value. Second, he paid $650 to an HVAC technician for annual furnace servicing and replacing air filters to restore standard operating condition. How must Nathan treat these two expenses on his 2026 tax return?

a. The entire $14,650 is a fully deductible current expense in 2026 because all expenses were incurred to attract higher-paying tenants.
b. The entire $14,650 must be capitalized into Class 1 because any expenditure exceeding $500 is deemed capital in nature.
c. The $14,000 upgrade is deductible in full in 2026, while the $650 routine servicing must be capitalized into UCC.
d. The $650 servicing is a current expense for 2026; the $14,000 upgrade is capital and is depreciated through CCA.

108. In 2026, Henry sold a residential rental building (Class 1) for allocated building proceeds of $450,000 (excluding land). Henry had originally purchased the building for $350,000 and had claimed a cumulative total of $70,000 in CCA over several years, leaving an opening UCC of $280,000 at the beginning of 2026. Henry owned no other Class 1 properties. What are the correct tax consequences regarding recaptured CCA and taxable capital gain on Henry's 2026 tax return?

a. No recaptured CCA, and an CAD 85,000 taxable capital gain (half of the CAD 170,000 by which proceeds exceed UCC).
b. Recaptured CCA of CAD 35,000 (half of the CCA claimed), plus a CAD 50,000 taxable capital gain.
c. Recaptured CCA of CAD 70,000 fully included, plus a CAD 66,667 taxable capital gain at a two-thirds rate.
d. Recaptured CCA of CAD 70,000 fully included, plus a CAD 50,000 taxable capital gain at the 1/2 rate.

108′. In 2026, Chloe sold her sole Class 1 rental building for allocated building proceeds of $320,000. She had purchased the building for $300,000 and claimed $50,000 in cumulative CCA in prior years, resulting in an opening UCC balance of $250,000. Chloe acquired no new rental buildings during the year. What amounts must Chloe include in her 2026 taxable income as recaptured CCA and taxable capital gain?

a. Recaptured CCA of $70,000 and taxable capital gain of $0, because all disposition proceeds under $350,000 are treated as ordinary recapture.
b. Recaptured CCA of $50,000 (100% inclusion in income), and a taxable capital gain of $10,000 ($20,000 capital gain × 50% inclusion rate).
c. Recaptured CCA of $25,000 (50% inclusion) and taxable capital gain of $10,000 ($20,000 × 50%).
d. Recaptured CCA of $0 and a combined taxable capital gain of $35,000 ($70,000 total gain × 50%).

109. In the 2026 tax year, Fiona operated a rental condo in a municipality that requires short-term rental hosts to obtain a local registration license. Fiona failed to obtain the license. During 2026, she rented the unit under two distinct lease agreements: Tenancy A was a continuous 60-day lease, and Tenancy B was a continuous 120-day lease. The property was vacant for the remaining 185 days. How are the operating expenses incurred during these periods treated under ITA section 67.7 for the 2026 tax year?

a. All expenses for both tenancies are fully deductible because Fiona's total rental days in the year (180 days) well exceeded the 90-day threshold.
b. Expenses for the 60-day tenancy are denied as a non-compliant short-term rental; the 120-day tenancy is not short-term.
c. Expenses for the 60-day tenancy are deductible because Fiona can rely on the statutory transitional grace period by retroactively filing for a permit before filing her T1.
d. All expenses for both tenancies are completely denied because failure to obtain a municipal permit automatically disqualifies the entire property from claiming any deductions for the whole tax year.

109′. In 2026, George rented his Kelowna condominium exclusively through an online platform under three separate bookings of 40 consecutive days each (totaling 120 rented days). Kelowna municipal bylaws legally require short-term rental operators to hold a valid municipal business license, which George did not possess. Total annual property operating expenses for the condo were $12,000. How much of the $12,000 operating expenses can George deduct on Form T776 for 2026?

a. George can deduct all expenses allocated to the 120 rented days ($12,000 × 120/365) because the 2024 year-end compliance grace period remains permanently available.
b. George can deduct the entire $12,000 because each rental period exceeded 30 days, successfully bypassing the short-term rental classification.
c. $0 of the expenses allocated to the 120 rental days can be deducted, because every booking was under 90 consecutive days and lacked required licensing, and 2026 offers no grace period.
d. George can deduct 50% of the allocated expenses under standard administrative penalty reduction rules.

110. Two unrelated colleagues, Eric and Jason, jointly purchased a residential rental duplex as equal co-owners (holding title as tenants-in-common, not as a legal partnership). In the 2026 tax year, after deducting operating expenses, the property generated net rental income before CCA. Eric has high taxable employment earnings and wishes to claim his maximum allowable 50% share of CCA to reduce his tax payable. Jason, however, took an unpaid sabbatical in 2026, has zero taxable income, and wishes to claim $0 in CCA to preserve his capital cost base for future years. Under Canadian income tax rules, how is CCA reported by Eric and Jason?

a. They are legally required to make an identical joint CCA decision: either both must claim their full share of CCA, or neither can claim any CCA.
b. Eric cannot claim any CCA unless Jason agrees to transfer his unused CCA credits directly to Eric's Form T776.
c. Each co-owner decides separately on his own T776, so Eric can claim his full share while Jason claims none.
d. Because they own the property 50/50, CRA automatically applies 50% of the standard Class 1 rate to both owners regardless of what is reported on their returns.

110′. Contrast the co-ownership scenario with a formal business partnership: Sarah and Michael formally registered a general commercial partnership that owns a residential rental building. For the 2026 tax year, the partnership generated net rental profit. Michael wants the partnership to claim maximum CCA to lower distributed income, but Sarah wants no CCA claimed this year. Under the Income Tax Act, how must CCA be handled for property owned by a partnership?

a. CCA is decided and claimed once at the partnership level; partners cannot each make their own CCA claims.
b. Each partner reports their pro-rata share of the building's cost on their personal Form T776 and independently chooses their own CCA rate.
c. Partnerships are legally prohibited from claiming CCA on residential buildings under any circumstances.
d. The partner with the highest personal marginal tax rate automatically dictates the CCA claim for all partners.

111. In March 2026, Samantha purchased a residential rental condominium in Victoria as an investment. She immediately placed it on the long-term rental market and leased it to an arm's length tenant. In November 2026, after holding the property for 240 continuous days, Samantha received an unsolicited high offer from an eager buyer and sold the condo at a net profit of $45,000. Samantha did not experience any of the nine statutory life event exceptions. How is the $45,000 profit treated under the federal residential property flipping rule (ITA s.12(12)—(14))?

a. The entire $45,000 is deemed to be business income, fully taxable at 100% ordinary rates, without entitlement to the 50% capital gains inclusion rate.
b. The profit is treated as a regular capital gain eligible for the 50% inclusion rate ($22,500 taxable), because the flipping rule exclusively targets owner-occupied principal residences.
c. The profit is completely exempt from income tax because Samantha rented the condo under a genuine residential tenancy agreement.
d. The profit is split evenly: $22,500 as business income and $22,500 as an exempt capital gain under the short-term investor concession.

111′. In January 2026, Lucas bought a residential rental property in Surrey. Due to a sudden market downturn, he sold the property in August 2026 after owning it for 210 continuous days, realizing a net loss of $30,000. Lucas did not experience any of the nine statutory life event exceptions. How does ITA section 12(12)–(14) treat this $30,000 loss on Lucas's 2026 tax return?

a. The $30,000 loss is treated as a fully deductible non-capital business loss that can offset Lucas's employment income in 2026.
b. The loss is classified as an allowable business investment loss (ABIL) deductible against all income sources at a 50% rate ($15,000).
c. The loss is treated as an allowable capital loss of $15,000 (50% of $30,000) that can be carried back three years to offset past capital gains.
d. The loss is deemed to be nil ($0) under the statutory flipping rules, meaning Lucas cannot deduct any portion of this loss against any income.

112. Victor, a Canadian citizen residing in Vancouver, owns a secondary residential condominium in Richmond. In the 2026 calendar year, he leased the condo to an arm's length tenant under a formal written residential tenancy agreement for 8 continuous months, collecting $18,000 in gross rental income. Victor applied for and successfully obtained the provincial tenancy exemption from the BC Speculation and Vacancy Tax (SVT). What are Victor's tax reporting obligations for the 2026 tax year?

a. Victor has no further tax obligations; obtaining the provincial tenancy exemption legally establishes that the rental income is exempt from federal taxation.
b. Victor is exempt from paying the 1% BC SVT, but he remains legally required to report the $18,000 gross rental income and claim eligible expenses on Form T776 on his federal T1 return.
c. Victor must pay the 3% foreign owner SVT rate because Richmond properties are disqualified from the tenancy exemption, but he is exempt from federal T776 filing.
d. Victor may elect to pay the 1% BC SVT in lieu of filing federal Form T776, reducing his CRA audit exposure.

112′. A foreign national investor who is not a Canadian resident owns a vacant residential condominium in Kelowna. Throughout the entire 2026 calendar year, the property was left completely unoccupied with zero rental activity. What are the owner's BC Speculation and Vacancy Tax (SVT) and federal Canadian income tax obligations for the 2026 tax year?

a. The owner must pay BC SVT at the 1% resident rate, and must file a zero-income Form T776 with CRA.
b. The owner must pay a 2% BC SVT and report deemed rental income on federal Line 12599.
c. She owes SVT at the 3% foreign-owner rate on the assessed value; no T776 is needed since there was no rent.
d. The property is automatically exempt from BC SVT under the tourist accommodation concession, but must pay a federal non-resident vacancy surcharge.

Chapter 17 · Principal Residence Exemption, Change in Use Elections, and Residential Property Flipping Rules Real property

Items marked ′ are variants on the same point: do one when you miss the main question.

113. Elena bought a townhouse in 2017 for $400,000 and sold it in 2026 for $700,000 with no selling expenses (total gain: $300,000). She owned it for 10 tax years (2017 to 2026). Her family lived in it every year, but she designated it as her principal residence only for 2017 through 2021; for 2022 through 2026 she designated a cottage she also owned (one designation per family per year). She was a Canadian resident throughout. What is her taxable capital gain on the townhouse for 2026?

a. $0

b. $75,000

c. $60,000

d. $120,000

113′. David bought a home in 2019 for $500,000 and sold it in 2026 for $900,000 with no selling expenses (total gain: $400,000). He owned it for 8 tax years (2019 to 2026). His family lived in it every year, but he designated it as his principal residence only for 2019, 2020 and 2021; for 2022 through 2026 he designated a cottage he also owned. He was a Canadian resident throughout. What is his taxable capital gain on the home for 2026?

a. $100,000

b. $125,000

c. $200,000

d. $0

114. Marcus sold his solely-owned home in June 2024 (a year for which the T1 filing due date was April 30, 2025). He had lived in it as his sole principal residence since purchasing it. Believing that 'principal residence sales are never taxed and need not be reported,' he omitted the disposition entirely from his 2024 tax return. In August 2026 (15 complete months after the April 30, 2025 filing deadline), his accountant discovered the omission and submitted a request to CRA to accept a late designation on Form T2091(IND). What is the late-filing penalty prescribed under subsection 220(3.5) of the Income Tax Act?

a. CAD 1,500

b. CAD 8,000

c. CAD 0, because genuine principal residences are fully exempt from all reporting penalties

d. 5% of the total capital gain realized on the sale

114′. Chloe sold her principal residence in 2020 (filing deadline: April 30, 2021). She omitted the sale completely from her tax return. In November 2029 (102 complete months after the filing deadline), she applies to CRA to accept a late principal residence designation on Form T2091(IND). What is the late-filed election penalty under ITA subsection 220(3.5)?

a. $10,200
b. $1,200
c. $8,000
d. $0

115. In 2026, Liam moved out of his downtown condo that he had occupied as his principal residence since 2020, and began renting it out entirely to arm's length tenants. To defer the deemed disposition under subsection 45(1) and preserve his principal residence exemption, Liam files an election under subsection 45(2) with his 2026 income tax return. Which of the following conditions must Liam strictly satisfy to maintain the validity of this election and claim the maximum 4-year exemption extension?

a. He must continue to physically reside in the condo for at least 30 days during each rental year.
b. He may not claim CCA on the condo while the election applies, nor designate another property for those years.
c. He must re-file the election letter annually with each subsequent year's T1 return until the property is sold.
d. He must ensure that the rental income generated each year does not exceed 50% of his total net employment income.

115′. Sophia purchased a home in 2021 and lived in it until May 2026, when she converted it entirely into an income-producing rental property. She filed a valid subsection 45(2) election with her 2026 tax return. In 2027, to reduce her net rental income, Sophia claims Capital Cost Allowance (CCA) of $4,500 on the building on Form T776. What is the tax consequence of Sophia claiming CCA?

a. The CCA claim is permitted up to 4% per year without affecting her principal residence designation years.
b. She can continue to designate the home as her principal residence for up to 4 years, but must recapture the CCA upon sale.
c. Her 45(2) election is extended by another 4 years because CCA creates a separate depreciable property pool.
d. Claiming CCA ends the 45(2) election from that year, so later years can no longer be designated under it.

116. In 2022, Kevin purchased a residential townhouse as a pure rental investment and earned rental income, but he never claimed any capital cost allowance (CCA). In July 2026, Kevin ceased renting the townhouse and moved into it as his personal home. He plans to make an election under subsection 45(3) of the Income Tax Act to defer the deemed disposition and designate up to 4 prior years as principal residence years. According to the Income Tax Act, when must Kevin submit this election letter, and what would invalidate it?

a. He must file it with his 2026 T1 return; it is invalidated if he sells the townhouse within 365 days.
b. He must file it strictly on the filing deadline of the year the property was acquired; it is invalidated if he claims moving expenses.
c. He must file it within 30 days of moving in; it is invalidated if his spouse owns any registered accounts.
d. By the earlier of 90 days after a CRA request or the filing due date for the sale year; any prior CCA voids it.

116′. Rachel bought a rental property in 2020. On her 2021 and 2022 T776 forms, she claimed CCA on the building. In 2026, she converted the property into her primary residence. She sells the home in 2028 and submits a subsection 45(3) election with her 2028 tax return to shelter the pre-2026 appreciation. What will CRA's determination be regarding Rachel's 45(3) election?

a. The election is deemed never to have been made under subsection 45(4) because CCA was previously deducted on the property in 2021 and 2022.
b. The election is accepted provided Rachel repays the previously claimed CCA with interest.
c. The election is valid for all years except 2021 and 2022, allowing 2020 and 2023—2025 to be designated as principal residence years.
d. The election is automatically approved, but the capital gains inclusion rate increases from 50% to 100%.

117. In March 2025, Lucas entered into a presale purchase agreement for a condominium unit in Vancouver and paid the required deposit. In December 2025 (270 days after signing the contract), prior to building completion and possession, Lucas assigned his rights under the purchase contract to another buyer, realizing a net profit of $60,000. Lucas did not experience any of the nine statutory life event exceptions. Under the federal residential property flipping rule (ITA s.12(12)—(14)), how must this $60,000 gain be treated on Lucas's tax return?

a. As a capital gain eligible for the 50% inclusion rate and reported on Schedule 3 line 13800.
b. Fully included as business income on Form T2125 with no capital gains inclusion rate and ineligible for the principal residence exemption.
c. Fully exempt from tax because a presale contract is an intangible right rather than a completed physical housing unit.
d. Treated as taxable capital gain, but permitted to deduct a statutory $20,000 primary residence deduction against the federal gain.

117′. Benjamin purchased a residential rental duplex on February 1, 2025. Due to falling market prices, he sold the duplex on October 15, 2025 (holding period: 256 consecutive days) at a net loss of $40,000. Benjamin was not in the business of buying and selling real estate and none of the nine life event exceptions applied. Under ITA subsection 12(14), what is Benjamin's allowable deduction for this $40,000 loss?

a. He can deduct a business loss of $40,000 against his employment income on Form T2125.
b. He can deduct an allowable business investment loss (ABIL) of 50% of the loss ($20,000).
c. The loss is deemed to be zero under ITA subsection 12(14), meaning no loss deduction is permitted against any income.
d. He can claim an allowable capital loss of $20,000 to carry back 3 years or forward indefinitely.

118. Grace purchased a home in Burnaby in September 2025. In April 2026 (holding period: 215 days), Grace accepted a new permanent engineering job offer in Seattle, Washington, USA. To relocate for her new employment, she sold her Burnaby home at a gain of $50,000. Her new residence in Seattle is over 200 kilometers closer to her new work location than her Burnaby home was. Which of the following statements correctly describes the application of the federal residential property flipping rule to Grace?

a. The flipping rule applies because the eligible relocation exception strictly requires both the old residence and the new workplace to be located within Canada.
b. The flipping rule applies because voluntary job changes never qualify under any of the nine life event exceptions.
c. It is exempt under the eligible relocation exception, which here drops the rule that the new work location be in Canada.
d. Grace must pay a 20% flat penalty tax under federal rules because her holding period was under 365 days regardless of relocation.

118′. In January 2025, Nathan and his spouse purchased a home. In August 2025, their marriage broke down and they separated. Nathan sold the home in October 2025 (holding period: 270 days) to divide assets. At the time of the sale, Nathan and his spouse had been living separate and apart due to the breakdown of their marriage for 95 consecutive days. Does Nathan qualify for an exception from the federal flipping rule?

a. No, because relationship breakdown requires a formal divorce decree issued by a court before any property disposition can be exempt.
b. Yes; a relationship breakdown qualifies if the couple lived apart for at least 90 days before the sale.
c. No, because relationship breakdown requires a minimum separation period of at least 365 days to match the holding period.
d. Yes, but only if Nathan surrenders 100% of the sale proceeds directly to CRA as an escrow deposit.

119. In May 2025, a homeowner purchased a single-family house in Surrey, BC, and occupied it as their primary residence. In July 2026 (holding period: 425 continuous days), the homeowner sold the property for a profit of $80,000. When preparing the 2026 tax filings, which of the following statements correctly reflects the treatment under the BC Home Flipping Tax compared to federal rules?

a. BC flipping tax applies under 730 days, but the BC primary residence deduction (up to CAD 20,000) is allowed after 365 days.
b. The sale is subject to federal flipping rules because the holding period is under 730 days, reclassifying the entire gain as business income.
c. The homeowner cannot claim the BC primary residence deduction because that deduction is strictly reserved for properties held for under 365 days.
d. No BC return is required because under the 2024 tax-year exam benchmark and current rules, provincial flipping rules are administered automatically through federal Schedule 3.

119′. An employee in Victoria, BC purchased a condominium on March 1, 2025. On October 1, 2025 (holding period: 214 days), the employee was involuntarily laid off by their employer and sold the condominium at a profit of $40,000. The seller believes that because involuntary termination is a recognized life event, no tax return of any kind needs to be filed with the BC Ministry of Finance. What is the correct legal position?

a. The seller is correct; life event exemptions under the BC flipping tax apply automatically without any reporting obligation.
b. Involuntary termination is recognized only under federal rules and is entirely excluded from the BC flipping tax exemption list.
c. The seller must report the sale on federal Schedule 3, which automatically forwards the exemption request to BC without a provincial deadline.
d. To get the exemption the seller must file a separate BC return within 90 days of the sale, or face penalties from $500.

Chapter 18 · Newcomers to Canada: Residency Determination, First-Year Tax Return, and Foreign Property Rules Residency

Items marked ′ are variants on the same point: do one when you miss the main question.

120. Chloe, an international IT specialist from France, arrived in Vancouver on March 1, 2026 on a two-year work permit. She immediately signed a 12-month residential apartment lease, enrolled in the BC Medical Services Plan (MSP), and opened Canadian bank accounts. During the 2026 calendar year, Chloe stayed physically present in Canada for 306 days. How should Chloe's residency status and Canadian tax liability be determined for the 2026 tax year?

a. She is a deemed resident under ITA s.250(1)(a) because she stayed over 183 days; therefore, she must pay federal tax on her worldwide income for the entire year plus a 48% federal surtax in lieu of provincial tax.

b. She is a factual resident (part-year resident) from March 1, 2026 because she established significant and secondary residential ties; she is taxed on worldwide income only from March 1 onward and pays BC provincial tax.

c. She remains a non-resident for the entire 2026 tax year because temporary work permit holders cannot acquire factual tax residency until permanent resident status is granted.

d. She is a deemed resident under ITA s.250(1)(a), which allows her to claim full BC provincial tax credits while excluding all Canadian employment income earned prior to March 1.

120′. David, an engineering consultant from Australia, moved to Calgary on April 15, 2026 under a temporary employment contract. He rented a townhouse, moved his personal furniture, registered with provincial healthcare, and lived there with his spouse for 261 days in 2026. A tax software automatically flagged him as a 'deemed resident under the 183-day rule.' How should David's tax return be correctly filed under the Income Tax Act?

a. David should accept the deemed resident designation because any foreign citizen spending more than 183 days in Canada is legally required to file under ITA s.250(1)(a).

b. David must file as a non-resident paying 25% Part XIII withholding tax on his employment earnings because temporary residents cannot be factual residents.

c. David should file as a deemed resident, which subjects his entire calendar-year worldwide income to tax but grants him full provincial tax credits for the entire year.

d. David must file as a factual part-year resident from April 15, 2026, reporting worldwide income only for the period from April 15 to December 31 and claiming provincial tax credits.

121. Marcus landed in Vancouver as a permanent resident on May 15, 2026 and established immediate factual residency. For the 2026 tax year, Marcus earned $65,000 from Canadian employment between May 15 and December 31, with no income before landing. Under the 2026 tax-year rules stated in the lecture, what is the maximum basic personal amount (BPA) Marcus can claim on line 30000 of his federal T1 return, and what is its actual federal tax credit value?

a. BPA of $16,452, yielding a tax credit value of $2,467.80 calculated at the 15% credit rate.

b. BPA of $15,705, yielding a tax credit value of $2,355.75 calculated at the 15% credit rate.

c. BPA of $10,412.09, yielding a tax credit value of $1,457.69 calculated at the 2026 credit rate of 14%.

d. BPA of $10,412.09, yielding a tax credit value of $1,561.81 calculated at the 15% credit rate.

121′. Elena arrived in Canada as a new immigrant on September 1, 2026, establishing factual residency on that date. She had no Canadian-source income prior to landing and earned $40,000 in Canada during the remainder of 2026. Under the 2026 tax-year rules stated in the lecture, what is the maximum basic personal amount (BPA) Elena can claim on line 30000 of her federal return?

a. CAD 5,499.02, calculated as CAD 16,452 × (122 resident days ÷ 365 days).

b. CAD 16,452.00, because the Income Tax Act provides the full annual basic personal amount to any individual residing in Canada at year-end.

c. CAD 5,249.34, calculated as CAD 15,705 × (122 resident days ÷ 365 days).

d. CAD 8,226.00, calculated as a flat 50% half-year deduction regardless of actual landing date.

122. Victor immigrated to Canada on June 1, 2026. On his landing date, he owned foreign investment shares purchased years ago for $70,000 CAD equivalent, which had a fair market value (FMV) of $140,000 CAD on June 1, 2026. He also owned a condominium in his home country used exclusively as his personal vacation home (FMV $300,000 CAD). During 2026 and 2027, he made no sales or new purchases. Under the Income Tax Act, how are Victor's foreign reporting obligations (Form T1135) determined for the 2026 and 2027 tax years?

a. Exempt for 2026 as a first-year resident; for 2027 he must file, since the shares' stepped-up $140,000 cost exceeds $100,000.

b. He must file Form T1135 for both 2026 and 2027 because the combined fair market value of his foreign shares and foreign condominium ($440,000) exceeds the $100,000 threshold at all times.

c. He is permanently exempt from Form T1135 as long as he does not remit any investment income or capital proceeds back into Canadian bank accounts.

d. He is exempt for 2026, and also exempt for 2027 because the historical cost of his investment shares is only $70,000, which is below the statutory $100,000 threshold.

122′. Sophia immigrated to Canada on July 10, 2026. On that date, she owned a foreign rental property originally purchased in 2018 for $150,000 CAD equivalent. Its appraised fair market value on July 10, 2026 was $320,000 CAD. In November 2027, Sophia sold the rental property for $350,000 CAD equivalent. Under ITA subsection 128.1(1), what is Sophia's capital gain for Canadian income tax purposes upon the sale?

a. $200,000, calculated as total proceeds of $350,000 minus the historical purchase cost of $150,000.

b. $0, because foreign real estate acquired before becoming a Canadian resident is entirely exempt from Canadian capital gains tax forever.

c. $30,000, calculated as gross proceeds of $350,000 minus the stepped-up cost base of $320,000 established on her landing date.

d. $15,000, calculated by taking 50% of the entire $30,000 gain under a blanket lifetime newcomer exemption.

123. The Zhang family landed in British Columbia as permanent residents in June 2026. They did not submit Form RC151 or Form RC66 upon arrival. In April 2027, while preparing their first Canadian tax return, Mr. Zhang inquires whether filing the 2026 T1 will automatically disburse retroactive Canada Groceries and Essentials Benefit (CGEB) payments for the quarters prior to filing, and expresses concern that reporting their pre-landing world income on the Statement of Income (SOI) will trigger Canadian income tax. What is the correct advice?

a. The T1 tax return automatically calculates and retroactively issues all missed CGEB quarters from their landing date, and SOI income is taxed at the lowest 14% federal rate.

b. Newcomers cannot receive any CGEB or CCB payments until they have filed at least two consecutive annual Canadian tax returns, regardless of application forms.

c. Filing the T1 will automatically trigger CGEB back-payments, but pre-landing income reported on the SOI is fully taxable unless protected by a bilateral tax treaty.

d. CGEB needs an RC151 or RC66 application and missed quarters are not back-paid on filing; SOI income is used only for benefits, not taxed.

123′. After landing in Canada in 2026, Kevin applied for Canada Child Benefit (CCB) and Canada Groceries and Essentials Benefit (CGEB) for his family. The CRA requested that Kevin complete a Statement of Income (SOI) detailing his and his spouse's worldwide income for the two calendar years prior to arrival. How does CRA treat this reported pre-landing income?

a. CRA includes this income on line 10400 of the newcomer's first T1 return and subjects it to Canadian income tax subject to foreign tax credits.
b. It is used only to work out family net income for benefits, is not taxed in Canada, and is converted at the Bank of Canada rate on receipt.
c. CRA treats the pre-landing income as a taxable capital gain under ITA s.128.1 unless the taxpayer applies for a special waiver within 90 days.
d. CRA automatically rejects benefit applications if pre-landing income exceeded $50,000 CAD, as benefits are reserved exclusively for zero-income newcomers.

124. Raymond immigrated to Canada on October 1, 2026. During the non-resident period from January 1 to September 30, 2026, Raymond earned $60,000 CAD from remote consulting services provided to a Canadian company (Canadian-source income) and $3,000 CAD in foreign bank interest. On his 2026 Canadian T1 return, can Raymond claim non-refundable tax credits for the pre-landing non-resident period under ITA section 118.94?

a. Yes; Canadian-source income is more than 90% of his net world income for that period, so he may claim them, attaching a statement.
b. No, because non-refundable tax credits can never be claimed by any taxpayer for any period prior to physical landing under any circumstances.
c. Yes, but only if he agrees to subject his pre-landing foreign bank interest ($3,000) to Canadian income tax at the top marginal rate.
d. No, because the 90% rule is strictly evaluated against the taxpayer's entire calendar-year worldwide income rather than the non-resident period income.

124′. Brenda landed in Canada as a permanent resident on August 1, 2026. During the non-resident period (January 1 to July 31, 2026), Brenda earned $8,000 from Canadian freelance editing and $72,000 from local employment in her former home country. Can Brenda claim non-refundable personal tax credits for that pre-landing period under ITA section 118.94?

a. Yes, because she earned more than $5,000 in Canadian-source income during the pre-landing period.
b. Yes, because becoming a permanent resident before year-end automatically entitles a taxpayer to full pre-landing personal credits.
c. No; her $8,000 of Canadian-source income is far below 90% of her $80,000 net world income for that period.
d. No, but she can elect to transfer 100% of the unused credit to her spouse's return without any income restriction.

125. In April 2026, two families arrived in British Columbia: the Miller family (permanent residents) and the Gupta family (holding temporary closed work permits). Both families have 4-year-old children, established factual residency on arrival, and filed all required applications. Under CRA rules governing the Canada Child Benefit (CCB), when are these two families eligible to begin receiving monthly CCB payments?

a. Both families must wait 18 continuous months after arrival before becoming eligible for CCB payments.
b. Both families are immediately eligible to receive monthly CCB payments starting the month following their arrival.
c. The Millers can receive it right away; the Guptas must first live in Canada 18 months and hold a valid permit in the 19th month.
d. Neither family is eligible for CCB until both parents have filed at least three consecutive Canadian tax returns.

125′. Raj, a foreign software engineer on a work permit, moved to Canada with his young daughter in January 2025 and received CCB payments starting in his 19th month (July 2026). His initial work permit was set to expire on November 30, 2026. Raj properly submitted an extension application on November 10, 2026, and is waiting for Immigration, Refugees and Citizenship Canada (IRCC) to process it. What happens to his family's monthly CCB payments in December 2026?

a. CCB payments immediately terminate on December 1, 2026 and all previous benefits received must be fully refunded to CRA.
b. Payments continue, because the extension was filed before the old permit expired, so he keeps maintained status.
c. CCB payments are suspended automatically on December 1, 2026 and can only be repaid as a lump sum after permanent residency is approved.
d. Payments continue only if Raj pays an administrative status-maintenance guarantee deposit of $1,000 to the CRA.

126. Ethan and his family emigrated from British Columbia to Singapore in 2027. Ethan physically departed Canada on August 10, 2027; his spouse and children joined him on September 1, 2027; and Ethan officially established tax residency in Singapore on September 15, 2027. On that date, Ethan held Canadian bank cash of $40,000 CAD, an RRSP worth $60,000 CAD, and non-registered Canadian stock shares with a fair market value (FMV) of $55,000 CAD (ACB $30,000 CAD). Under the Income Tax Act rules stated in the lecture, what is Ethan's official departure date and his reporting obligation under Form T1161?

a. His departure date is August 10, 2027, and he is exempt from Form T1161 because his capital gain ($25,000) does not exceed the statutory $25,000 threshold.
b. His departure date is September 1, 2027, and he must file Form T1161 reporting all $155,000 of his assets including cash and RRSP.
c. His departure date is August 10, 2027, and Form T1161 is strictly optional unless requested in writing by the CRA.
d. September 15, 2027, the latest of the three dates; he must file T1161, as his $55,000 of shares exceed $25,000 once cash and RRSP are excluded.

126′. After emigrating from Canada to the United Kingdom and establishing non-resident status, George continues to receive monthly rental income from a residential investment condo in Vancouver and quarterly dividend income from a Canadian corporation. Under ITA subsection 212(1), what immediate action must George take regarding these Canadian income streams?

a. Tell his Canadian payers he is now a non-resident so they withhold the 25% Part XIII tax, or a lower treaty rate.
b. He is not required to take any action because non-residents are completely exempt from Canadian tax on rental and dividend income.
c. He must file an annual Part I tax return by June 15 and pay the flat 48% federal surtax on all Canadian dividends and rents.
d. He must immediately sell the Canadian properties and shares within 60 days of departure to avoid criminal penalties.

Chapter 19 · Determining Canadian Residency Status: Factual Residence, Deemed Residence, and Treaty Tie-Breakers Residency

Items marked ′ are variants on the same point: do one when you miss the main question.

127. Jin, an international graduate student from South Korea, moved to Vancouver in January 2026 to begin a full-time university program. Jin signed a one-year apartment lease, obtained BC Medical Services Plan (MSP) coverage, opened local bank accounts, and was physically present in BC for 330 days in 2026. A tax software prompts Jin to declare as a 'deemed resident under the 183-day rule' and pay the 48% federal surtax. How should Jin's residency status and provincial tax obligations be correctly reported under the Income Tax Act?

a. Jin should file as a deemed resident under ITA s.250(1)(a) because staying 330 days legally triggers automatic deemed residency, requiring payment of the 48% federal surtax in lieu of BC provincial tax.

b. Jin is a factual resident: the lease, MSP and bank accounts are residential ties, so Jin pays BC tax, not the 48% surtax.

c. Jin is considered a non-resident for 2026 because foreign study permit holders are statutorily barred from becoming factual Canadian tax residents.

d. Jin is a deemed resident, which allows Jin to claim both full BC provincial tax credits and the 48% federal surtax refund.

127′. Carlos, a renewable energy researcher from Spain, arrived in Victoria, BC on February 1, 2026 on a temporary work permit. He rented a residential townhouse for his exclusive use, registered for BC healthcare, and lived there for 315 days during 2026. A tax preparer calculated Carlos's taxes using the federal package for deemed residents, claiming that 'anyone staying over 183 days is deemed a resident and pays the 48% surtax.' What is the correct classification for Carlos?

a. Carlos is a deemed resident under ITA s.250(1)(a) because total days of physical presence exceed 183, overriding common-law residential ties.

b. Carlos is a non-resident because temporary foreign workers cannot establish factual residency until permanent residency is officially granted.

c. Carlos is a deemed resident who must pay 48% federal surtax on Canadian income while excluding foreign income.

d. Carlos is a factual resident (part-year resident for 2026) who must file a BC provincial return and pay BC provincial tax rather than the 48% federal surtax.

128. For an individual with no significant residential ties in Canada (no home, spouse or dependants), how many secondary ties did the 2024 training-material checklist require to establish residency, and how does that contrast with current CRA practice in Folio S5-F1-C1?

a. The exam checklist requires at least 3 ties, while CRA administrative position requires at least 10 ties.
b. The exam checklist requires at least 1 tie, while CRA administrative position states that secondary ties can never establish residency under any circumstances.
c. The 2024 checklist asked for at least 6; current CRA practice sets no number and weighs the ties together.
d. Both the exam checklist and CRA administrative practice strictly enforce a statutory minimum threshold of 8 secondary ties.

128′. A taxpayer has no home, spouse or dependants in Canada but keeps Canadian bank accounts, a Canadian credit card, a BC driver's licence, a vehicle registered in BC, a Canadian passport and a Canadian professional association membership (six secondary ties). Under current CRA practice, how are these ties assessed?

a. No count decides it; CRA weighs these secondary ties together with all other facts to judge whether the person is resident.
b. Resident, because holding six secondary ties meets the minimum count CRA requires to establish residency.
c. Non-resident, because without a home, spouse or dependant, secondary ties can never establish residency.
d. Deemed resident under s.250(1)(a), because six secondary ties count as 183 days of presence in Canada.

129. Robert resides permanently with his family in Point Roberts, Washington, USA. During 2026, Robert drove across the international border into Delta, BC every business day to work at an engineering firm, returning home to sleep in Washington every evening, completing 225 border crossings. In July 2026, Robert also stayed at a resort hotel in Whistler, BC for a 10-day family vacation (spanning 10 full calendar days). Under ITA s.250(1)(a) and CRA Folio S5-F1-C1 ¶1.33, how many days did Robert 'sojourn' in Canada during 2026?

a. 10 days: daily commuting sets up no temporary residence and counts as zero, while each vacation day counts.
b. 235 days (225 commute days + 10 vacation days), because any physical presence in Canada for any part of a day statutorily counts as a full day of sojourning under all circumstances.
c. 225 days, because only days spent working count towards the residency test, while personal leisure vacation days are statutorily exempt.
d. 0 days, because US residents are completely exempt from Canadian residency day-counting under the bilateral tax treaty.

129′. Maya lives in Niagara Falls, New York, USA. During 2026, Maya commuted across the rainbow bridge into Niagara Falls, Ontario 210 times to manage a retail store, returning to her US home every night. Maya also spent one single long weekend (arriving Saturday at 11:00 AM and departing Monday at 2:00 PM, spanning 3 calendar days) staying at an Ontario hotel. How many days did Maya sojourn in Canada in 2026 for the purposes of the 183-day deemed residency rule?

a. 213 days, because every entry into Canada constitutes a taxable sojourn day under ITA s.250(1)(a).

b. 0 days, because staying fewer than 7 consecutive days on any trip is statutorily rounded down to zero.

c. 3 days: commuting days count as zero, while each day of the hotel weekend, including part days, counts.

d. 210 days, because employment days take priority over personal holiday days in residency calculations.

130. Captain Tremblay, an active member of the Canadian Armed Forces, was stationed abroad at a NATO base in Germany throughout the entire 2026 tax year. Captain Tremblay had no Canadian dwelling during 2026. Living with him in Germany was his 19-year-old dependent son, Felix. During 2026, Felix earned $14,200 CAD in global investment income and part-time wages. Under ITA s.250(1)(b) and s.250(1)(f), and the 2026 tax parameters stated in the lecture, what is the residency status of Captain Tremblay and Felix for the 2026 tax year?

a. Both Captain Tremblay and Felix are non-residents of Canada because neither maintained a dwelling place or stayed physically present in Canada during 2026.

b. Captain Tremblay is a deemed resident, but Felix is a non-resident because adult dependent children over age 18 can never qualify for deemed residency under s.250(1)(f).

c. Captain Tremblay is a factual resident of BC, while Felix is a deemed non-resident subject to a flat 25% withholding tax.

d. Both are deemed residents: he serves in the Armed Forces, and Felix's $14,200 is within the $16,452 BPA.

130′. Sylvie is a Canadian diplomat serving at an overseas embassy in Tokyo throughout 2026, qualifying as a deemed resident under ITA s.250(1)(c). Her 20-year-old dependent daughter, Camille, lived with Sylvie in Tokyo and earned $19,500 CAD in 2026 working remotely as a graphic designer. Based on the 2026 tax parameters stated in the lecture ($16,452 federal BPA limit), how is Camille's Canadian residency status determined for the 2026 tax year?

a. Camille is automatically a deemed resident under s.250(1)(f) regardless of her income because her parent is an active diplomatic officer.
b. She is not deemed resident, as her $19,500 exceeds the $16,452 BPA; her status is decided under the normal rules.
c. Camille is classified as a factual resident of Ontario and must pay 48% federal surtax on her Japanese earnings.
d. Camille is exempt from all Canadian taxation permanently under the Vienna Convention on Diplomatic Relations.

131. Elena, a dual national of Canada and the United Kingdom, owned a condo in Vancouver and a house in London. In 2026, both Canada and the UK claimed Elena as a tax resident under their respective domestic tax laws. Under Article 4 of the Canada–UK bilateral tax treaty, the tie-breaker rules formally assigned Elena's residence to the United Kingdom as of July 1, 2026. What is the statutory effect of this tie-breaker determination under ITA subsection 250(5) on Elena's Canadian tax position?

a. From July 1, 2026 she is deemed non-resident for all purposes of the Act, triggering departure tax and Part XIII withholding.
b. Elena remains a factual resident for Canadian capital gains purposes, but becomes a non-resident solely for foreign pension reporting.
c. Elena is classified as a deemed resident under ITA s.250(1) and must pay the 48% federal surtax on her worldwide UK income.
d. Elena is exempt from Canadian departure tax because tax treaty tie-breaker decisions only apply to employment income earned within Canada.

131′. Hiroshi is considered a tax resident of Canada under common-law ties and also a tax resident of Japan under Japanese domestic law for 2026. Applying the residency tie-breaker rules of the Canada–Japan Tax Convention, Hiroshi is determined to be a resident of Japan. What is the legal consequence of this treaty outcome under Canadian domestic tax legislation?

a. Hiroshi retains Canadian factual resident status and continues paying provincial tax, but receives a 15% treaty rebate on line 40400 of his T1 return.
b. Hiroshi is treated as an ordinary resident in Canada for business tax but as a deemed non-resident for passive income only.
c. Under s.250(5) he is deemed non-resident for all purposes of the Act, so Part XIII applies to his Canadian passive income.
d. Hiroshi must pay a 48% federal surtax on his Japanese employment income under ITA s.120(1).

132. A junior tax preparer suggests to an international client residing in British Columbia: 'If we structure your status as a deemed resident rather than a BC factual resident for 2026, you will pay no BC provincial tax, saving you significant money.' Under the 2026 tax-year rules and parameters stated in the lecture (federal lowest bracket 14.0%, BC lowest bracket 5.60%, BC basic personal amount $13,216, federal surtax 48%), why is this advice completely flawed?

a. Deemed residents must pay double BC provincial tax in addition to the 48% federal surtax.
b. BC provincial income tax is calculated at a fixed 48% rate, so both statuses result in mathematically identical tax bills.
c. The 48% surtax applies to gross worldwide income rather than basic federal tax.
d. The surtax replaces BC tax at 6.72% (14% × 48%) in the lowest bracket, and the $13,216 BC credit is lost too.

132′. An unadvised taxpayer in Vancouver assumes that filing as a deemed resident under the 183-day rule is preferable to filing as a BC factual resident because 'deemed residents avoid provincial tax entirely.' Based on the lecture's analysis for a taxpayer with modest taxable income in the lowest bracket, what is the comparative tax burden in 2026?

a. Deemed resident status is substantially cheaper because the 48% federal surtax is fully refundable through the Canada Groceries and Essentials Benefit.
b. Deemed status costs more: 14% × 48% = 6.72% exceeds BC's 5.60%, and the $13,216 BC amount is lost.
c. Factual residency is more expensive because BC taxpayers must pay both BC provincial tax and the 48% federal surtax simultaneously.
d. Both statuses produce identical net tax liabilities because CRA automatically levels out provincial disparities across Canada.

133. Daniel, who originally moved to Canada from New Zealand in 2018, decided to permanently return to New Zealand to re-establish his home. Daniel departed Canada on May 1, 2026 and began employment in Auckland. His spouse remained in Vancouver until August 31, 2026 to oversee the sale of their Canadian home and allow their child to finish the school term. Under CRA Folio S5-F1-C1 and the departure date exception explained in the lecture, what is Daniel's official departure date for Canadian tax purposes?

a. August 31, 2026, under the general rule that takes the latest date among the taxpayer's departure, the spouse's departure, and establishing foreign residence.
b. December 31, 2026, because residency can only be terminated at the conclusion of a calendar tax year.
c. May 1, 2026: someone returning to re-establish a home in their country of origin leaves on the day they personally depart.
d. April 30, 2027, the deadline for filing the 2026 departure tax return.

133′. Sunita, an engineer who relocated from the UK to BC in 2020, decided to move back to the UK permanently to resume her life there. Sunita left Vancouver on June 15, 2026 and commenced her job in London. Her husband stayed in BC until October 31, 2026 to stage and sell their townhouse. A tax software defaulted Sunita's departure date to October 31, 2026 under the general 'latest of three dates' rule. Under CRA Folio S5-F1-C1, how should Sunita's departure date be correctly established?

a. October 31, 2026, because married couples must legally share an identical departure date under all circumstances.
b. December 31, 2026, because emigrants are deemed full-year residents until the calendar year closes.
c. January 1, 2026, because departure tax retroactively covers the entire calendar year of emigration.
d. June 15, 2026, the day she left, because she is returning to re-establish her home in her country of origin.

Chapter 20 · Navigating Assessments, Objections, and Appeals: From the Three Parts of an NOA to the Tax Court of Canada Procedure

Items marked ′ are variants on the same point: do one when you miss the main question.

134. Lucas is an employed individual taxpayer who timely filed his 2025 personal income tax return on April 25, 2026. The CRA assessed the return and mailed an initial Notice of Assessment on May 20, 2026, disallowing his moving expense deduction. Lucas intends to dispute the adjustment by serving a formal Notice of Objection (Form T400A). Under subsection 165(1) of the Income Tax Act, what is the statutory deadline for Lucas to serve his Notice of Objection on the CRA?

a. August 18, 2026, which is exactly 90 days after the mailing date of the Notice of Assessment.

b. December 31, 2026, which represents the end of the taxation year in which the disputed assessment was rendered.

c. April 30, 2027: for an individual it is the later of one year after the filing due date and 90 days after the NOA.

d. May 20, 2029, because an objection can be initiated at any time throughout the three-year normal reassessment period.

134′. Evelyn operates an unincorporated sole proprietorship whose 2025 personal tax return was subject to the June 15, 2026 filing deadline. Evelyn filed her return on June 10, 2026. Due to internal administrative backlogs, the CRA did not mail her initial Notice of Assessment until May 5, 2027. Evelyn disagrees with an expense disallowance. Under ITA s.165(1)(a), what is Evelyn's statutory deadline to file a Notice of Objection?

a. August 3, 2027 (90 days after the Notice of Assessment date), because it falls later than one year after her return's filing due date (June 15, 2027).

b. June 15, 2027, because the one-year window following the statutory filing deadline serves as an absolute statutory limitation bar for business proprietors.

c. June 10, 2027, precisely one year from the date Evelyn electronically submitted her tax return to the CRA.

d. May 5, 2028, representing one full calendar year from the date the Notice of Assessment was mailed by the CRA.

135. Marcus, an individual taxpayer, filed his 2021 personal return on April 28, 2022, and the CRA issued his initial Notice of Assessment on June 15, 2022. In October 2026, during an audit of third-party corporate records, the CRA discovered that Marcus failed to report a $25,000 taxable dividend in 2021 as a result of careless bookkeeping. Marcus argues the CRA is legally prohibited from reassessing his 2021 return because more than three years have passed since his initial assessment. How does the Income Tax Act apply?

a. The CRA is entitled to reassess Marcus beyond the normal reassessment period because the misrepresentation was attributable to carelessness or neglect under ITA s.152(4)(a)(i).

b. The CRA is permanently barred from reassessing Marcus because the three-year statutory limitation period expired on June 15, 2025, and no criminal fraud occurred.

c. The CRA may only reassess Marcus if it simultaneously establishes liability for a gross negligence penalty under ITA s.163(2).

d. The CRA may reassess the return only if Marcus consents in writing by executing a retrospective waiver on Form T2029.

135′. Chloe, an individual taxpayer, filed her 2022 personal income tax return on April 30, 2023, and received her initial Notice of Assessment on May 25, 2023. Chloe made honest and diligent disclosures with no neglect, carelessness, or fraud. In September 2026, the CRA re-examines her file and issues a Notice of Reassessment disallowing a moving expense deduction claimed on her 2022 return. Chloe contends the reassessment is statute-barred. How should her objection be determined under ITA s.152(3.1)?

a. The reassessment is valid because the CRA maintains an unrestricted four-year reassessment window for all individual personal returns.

b. The reassessment is valid because the three-year clock does not begin until the end of the calendar year in which the initial assessment was mailed.

c. The reassessment is valid because the CRA has administrative discretion to extend the limitation period whenever deductions exceed $5,000.

d. The reassessment is statute-barred and invalid because the three-year normal reassessment period expired on May 25, 2026, and no statutory exception applies.

136. In August 2026, three months after receiving his 2025 Notice of Assessment, Brian receives a letter from the CRA titled 'Processing Review.' The letter requests receipts and proof of payment for the childcare expenses and charitable donations claimed on his return, providing a reference claim code and a 30-day response window. Brian panics, believing he is undergoing a comprehensive tax audit. How should this correspondence and Brian's appropriate response be characterized?

a. It is a comprehensive field audit examining Brian's complete financial books for the past six years, requiring immediate legal representation.
b. A routine post-assessment check of specific claims; he should send the requested receipts via the claim code within 30 days.
c. It is a Pre-assessment Review that immediately revokes Brian's issued Notice of Assessment and suspends his social insurance number.
d. It is a Matching Program inquiry signaling that Brian's employer or financial institution submitted conflicting tax information slips to the CRA.

136′. Hannah filed her 2025 personal return in April 2026 reporting employment earnings and bank interest. In October 2026, after receiving her NOA, she receives a CRA letter titled 'Matching Program' saying that $3,500 of interest shown on a T5 slip from an investment account was not reported on her return, and proposing a revised balance. What is the basic mechanism of this CRA review?

a. It is a pre-assessment examination that delays the issuance of the taxpayer's original Notice of Assessment until in-person interviews conclude.
b. It is an arbitrary assessment issued under ITA s.152(7) as a legal sanction for non-filing of corporate partnership returns.
c. It is a post-assessment verification program that systematically cross-references amounts reported on the return against information slips submitted by third-party payors.
d. It is a taxpayer relief proceeding initiated to evaluate whether the taxpayer qualifies for an administrative penalty cancellation under Form RC4288.

137. In July 2026, Trevor discovers that he omitted an eligible tuition tax credit on his 2014 personal return and neglected to claim an eligible medical expense deduction on his 2022 return. He has already received the initial Notice of Assessment for both taxation years. Trevor prepares adjustment requests to claim refunds for both years. Under the Income Tax Act (s.152(4.2)) and CRA administrative rules, how will his adjustment requests be treated?

a. Both adjustment requests will be processed and refunded because the 10-year limitation rule applies exclusively to corporate tax returns.
b. Both adjustment requests will be rejected because taxpayers are strictly prohibited from adjusting any return once the three-year normal reassessment period has elapsed.
c. The 2014 adjustment can be processed online through ReFILE, whereas the 2022 adjustment must be submitted via paper Form T1-ADJ.
d. The 2022 adjustment can be processed and refunded, but the 2014 adjustment cannot yield a refund because it falls outside the 10-calendar-year statutory limitation cap.

137′. Brenda submitted her 2025 personal tax return electronically on April 15, 2026. On April 22, 2026, prior to receiving her initial Notice of Assessment, Brenda finds an unrecorded $500 charitable donation receipt. Brenda logs into CRA My Account and attempts to immediately submit an adjustment through 'Change my return.' What fundamental rule governs Brenda's adjustment request?

a. Brenda must wait until she receives her initial Notice of Assessment before submitting any adjustment request through Change my return, ReFILE, or Form T1-ADJ.
b. Brenda must immediately file a formal Notice of Objection on Form T400A within 90 days to prevent the unassessed return from becoming irreversible.
c. Brenda should immediately file a brand-new complete T1 return marked as an amended duplicate using standard NETFILE software.
d. Brenda is required to file paper Form T1-ADJ immediately because electronic adjustment channels are prohibited prior to June 15.

138. Derek received a Notice of Reassessment assessing an additional $8,000 in federal income tax plus $600 in accrued interest. In July 2026, Derek timely serves a formal Notice of Objection (Form T400A) disputing the entire reassessment. During the ten months that the CRA Appeals Branch spends reviewing his objection, Derek makes no payments toward the disputed balance. What are the legal ramifications regarding CRA collection actions and interest accrual under ITA s.225.1?

a. The CRA is legally restricted from initiating collection enforcement actions against Derek, but prescribed arrears interest continues to accumulate on the unpaid balance.
b. The CRA is statutorily authorized to garnish Derek's wages for 50% of the disputed balance while freezing the remaining 50% until court adjudication.
c. Both collection actions and the accumulation of arrears interest are fully frozen until the Appeals Branch renders a final decision.
d. The CRA may seize Derek's financial accounts unless he posts a commercial surety bond equal to 100% of the disputed reassessment.

138′. Apex Freight Inc., a large corporation subject to ITA s.225.1(7), and Neil, an individual disputing a disallowed charitable donation tax credit derived from a tax shelter arrangement, both file valid Notices of Objection. How do statutory collection restrictions apply to Apex Freight Inc. and Neil's tax shelter donation dispute under the Income Tax Act?

a. Both taxpayers enjoy complete 100% suspension of all collection actions because a valid statutory objection was served.
b. Apex Freight Inc. must pay 100% of the disputed balance immediately, while Neil's entire tax shelter dispute is completely protected from collection.
c. The CRA may collect 50% of the disputed amount from the large corporation within 90 days, and may actively collect 50% of the disputed tax shelter donation balance.
d. Collection is fully suspended for both entities, but the Tax Court must impose an automatic 20% delay penalty upon filing.

139. In 2026, two taxpayers seek administrative relief from the CRA. Sandra omitted rental income from an overseas apartment for the past four taxation years; the CRA has never contacted her or commenced an audit regarding this income. Gregory, due to a severe automobile collision resulting in prolonged hospitalization in 2024, missed his tax filing and payment deadlines; the CRA subsequently issued an assessment correctly calculating late-filing penalties and arrears interest. Which relief channels should Sandra and Gregory pursue?

a. Sandra should apply for Taxpayer Relief under Form RC4288, while Gregory should file an Unprompted application under the Voluntary Disclosures Program.
b. Both Sandra and Gregory must submit Form T400A to initiate formal objections before the CRA Appeals Branch.
c. Sandra should apply under the Voluntary Disclosures Program (VDP), while Gregory should request discretionary relief under Taxpayer Relief Provisions (Form RC4288).
d. Both Sandra and Gregory must appeal directly to the Tax Court of Canada because the CRA lacks statutory jurisdiction to cancel interest.

139′. In May 2026, Kevin submits an application on Form RC4288 requesting: (1) the cancellation of a late-filing penalty assessed on his 2014 personal tax return, and (2) the cancellation of arrears interest that accumulated between 2018 and 2023 on an unpaid tax assessment originating from his 2012 tax year. How does the 10-year limitation rule apply to Kevin's requested relief under CRA guidelines (IC07-1R1)?

a. Both the 2014 penalty and the 2018—2023 interest are fully eligible for relief because personal tax liabilities fall under a 15-year statutory umbrella.
b. The 2018—2023 interest can be considered, as it accrued within 10 years, but the 2014 penalty is outside the window.
c. The 2014 penalty is eligible for relief because personal penalties are unconstrained by time, but the interest is barred because the underlying debt arose in 2012.
d. Neither request can be considered because any underlying tax balance originating prior to 2020 is permanently excluded from ministerial discretion.

140. Nathan received a decision from the CRA Appeals Branch confirming an unfavorable reassessment involving $22,000 in disputed federal income tax and $2,500 in disputed penalties (totaling $24,500, excluding interest). Nathan files an appeal to the Tax Court of Canada (TCC) electing the Informal Procedure. Which of the following correctly describes the procedural rules and legal characteristics of Nathan's appeal under the Tax Court of Canada Act (s.18)?

a. Nathan must retain a licensed lawyer, pay a mandatory court filing fee, and strictly adhere to formal rules of judicial evidence.
b. He pays no filing fee, may act alone or through an agent, and the judgment does not bind other cases as precedent.
c. Nathan is disqualified from the Informal Procedure because disputed penalties must be excluded when determining the $25,000 threshold.
d. The final judgment rendered under the Informal Procedure creates a binding national legal precedent that CRA must apply to all identical disputes across Canada.

140′. Samantha received an unfavorable decision from the CRA Appeals Branch regarding a disallowed business expense deduction, involving $31,000 in disputed federal income tax. Samantha wishes to avoid expensive legal representation and formal evidentiary procedures. She asks her tax preparer whether she can access the Informal Procedure of the Tax Court of Canada. How should the preparer advise Samantha under the Tax Court of Canada Act?

a. Samantha is strictly disqualified from the Informal Procedure under any circumstances because her disputed federal tax exceeds $25,000.
b. Samantha may automatically access the Informal Procedure provided she pays an administrative waiver fee equal to 10% of the excess $6,000 balance.
c. Samantha can access the Informal Procedure only if the Department of Justice grants special written dispensation prior to filing.
d. Samantha may elect to limit her dispute to $25,000 in federal tax, thereby entitling her to proceed under the Informal Procedure.

Answers and option–by–option reasons

Chapter 1 answers and reasons

1 answer b

a. ✗ Incorrect. This falls into the classic zero–tax–means–no–filing trap. The Income Tax Act stipulates that even if final tax payable is zero, filing is mandatory once specific statutory triggers (such as disposing of capital property) occur.

b. ✓ Correct. Under the Income Tax Act (ITA), disposing of capital property or realizing a taxable capital gain is a mandatory filing trigger, even if the individual's net tax payable is $0.

c. ✗ Incorrect. This confuses statutory concepts; $3,500 is the Canada Pension Plan (CPP) basic exemption and has no relevance to capital property dispositions.

d. ✗ Incorrect. Except for Quebec, provincial personal income taxes and capital gains are administered by the CRA through the federal T1 return; there is no separate provincial information return to file.

1′ answer c

a. ✗ Incorrect. This falls into the zero–tax–means–no–filing trap. Although income tax payable is zero, earning net self–employment income above the CPP basic exemption triggers a mandatory obligation to file and remit CPP contributions.

b. ✗ Incorrect. CPP contributions are not optional for self–employed individuals; contributions on earnings above the basic exemption are mandatory (only Employment Insurance, or EI, allows voluntary participation).

c. ✓ Correct. When net self–employment earnings exceed the 2026 CPP basic exemption of $3,500, the individual is required to pay CPP contributions and report them on a T1 return, making filing mandatory under the law.

d. ✗ Incorrect. Earning net self–employment income above the CPP basic exemption directly triggers a statutory filing obligation without requiring the CRA to issue a formal demand to file.

2 answer c

a. ✗ Incorrect. The 15% rate applied to the lowest bracket in the 2024 taxation year (legacy exam materials); for the 2026 tax year, it has been reduced to 14%.

b. ✗ Incorrect. The 14.5% rate was a full–year blended rate resulting from the mid–year tax cut in 2025, applicable exclusively to the 2025 transition year.

c. ✓ Correct. For the 2026 taxation year, the two–year phased reduction in the lowest federal tax bracket is fully implemented, applying a 14% rate for the full year (bracket threshold up to $58,523).

d. ✗ Incorrect. The 20.5% rate is the federal marginal tax rate for the second bracket ($58,523 to $117,045), not the lowest bracket.

2′ answer a

a. ✓ Correct. The 14.5% rate existed solely in the 2025 transition year as a blended rate (15% for the first half and 14% for the second half); starting in the 2026 tax year, the full–year rate is 14%.

b. ✗ Incorrect. The reduction of the lowest federal bracket to 14% is a permanent structural statutory change; it did not sunset or revert to 15% at the end of 2025.

c. ✗ Incorrect. The second bracket marginal tax rate is 20.5%; 14.5% is not the second bracket rate.

d. ✗ Incorrect. The 14.5% rate was a personal income tax transitional rate for 2025 and has no connection to the small business deduction for corporations.

3 answer a

a. ✓ Correct. The filing due date for self-employed individuals is extended to June 15, so filing on June 10 does not incur a late-filing penalty; however, the balance owing payment due date remains April 30, meaning overdue tax accrues prescribed interest starting May 1.

b. ✗ Incorrect. The extended filing deadline is an independent statutory right not conditioned upon paying the balance owing by April 30; failing to pay by April 30 does not trigger a late-filing penalty.

c. ✗ Incorrect. This falls into the self-employed dual-deadline confusion trap. The June 15 extension applies solely to filing the return without penalties; it never waives interest on balances unpaid after April 30.

d. ✗ Incorrect. No late-filing penalty applies, and prescribed interest accrues starting the day after the payment deadline (May 1), never retroactively from January 1.

3′ answer d

a. ✗ Incorrect. The spouse of an individual carrying on a business is also entitled to the extended filing deadline of June 15; her filing deadline is not April 30.

b. ✗ Incorrect. This falls into the self-employed dual-deadline confusion trap. The payment due date is never extended alongside the filing deadline; it remains April 30.

c. ✗ Incorrect. This reverses the deadlines; the Income Tax Act never allows a payment deadline later than a filing deadline.

d. ✓ Correct. The Income Tax Act provides that the filing due date for self-employed individuals and their cohabiting spouse or common-law partner is June 15 of the following year; however, the balance owing payment due date for all individuals is April 30.

4 answer d

a. ✗ Incorrect. This falls into the late-filing penalty total tax base trap. The statutory base is the $4,000 unpaid balance on the filing deadline, not the total annual tax payable; calculating 7% on $16,000 ($1,120) uses the incorrect base.

b. ✗ Incorrect. This omits the 1% addition for each complete month late: $4,000 x 5% = $200 only calculates the initial 5%, omitting the 2% for being two complete months late.

c. ✗ Incorrect. The 17% rate is the maximum statutory cap reached after 12 complete months of delinquency; it cannot be applied directly for two complete months late ($4,000 x 17% = $680).

d. ✓ Correct. The first-time late-filing penalty is 5% of the unpaid balance at the deadline plus 1% for each complete month late (2% for two complete months), totaling 7%: $4,000 x 5% = $200, plus $4,000 x 2% = $80, giving $280.

4′ answer b

a. ✗ Incorrect. This falls into the late-filing penalty total tax base trap. The statutory base for the penalty is the tax unpaid at the deadline, not total tax payable.

b. ✓ Correct. The statutory base for the late-filing penalty is the tax unpaid at the filing deadline. Because Sophia had excess source deductions resulting in a refund, her balance owing was $0, making the penalty $0.

c. ✗ Incorrect. Canadian tax law does not impose a mandatory minimum administrative penalty for late-filing a personal return when no tax is owed.

d. ✗ Incorrect. When no tax balance is owing, no late-filing penalty is assessed, and the 17% maximum cap does not apply.

5 answer a

a. ✓ Correct. Starting in the 2021 taxation year, the standalone provincial tax step was removed; provincial and territorial tax calculated on Form 428 is now added to net federal tax in Step 6 (Refund or balance owing) before subtracting source deductions and refundable credits.

b. ✗ Incorrect. Step 5 calculates federal tax and federal non–refundable tax credits exclusively; provincial tax calculations are not combined at this stage.

c. ✗ Incorrect. Provincial tax is a tax liability rather than a deduction from income, so it is never deducted in Step 3.

d. ✗ Incorrect. Except for Quebec, the CRA administers personal income tax for all provinces, and provincial tax is settled directly within the federal T1 return.

5′ answer c

a. ✗ Incorrect. Step 1 (Identification) and Step 2 (Total income) remain two distinct, independent steps on the current return.

b. ✗ Incorrect. Net income (Step 3) is the critical benchmark used to determine eligibility for various federal and provincial benefits and was never removed.

c. ✓ Correct. In the 2021 taxation year, the standalone provincial and territorial tax step was removed and redirected through Form 428 into Step 6, streamlining the return from seven steps into six.

d. ✗ Incorrect. Splitting steps would increase the total step count, whereas the historical reform condensed seven steps into six.

6 answer b

a. ✗ Incorrect. This falls into the individual objection 90–day universal deadline trap. While a strict 90–day deadline applies to corporations, individual taxpayers benefit from the later–of rule if one year after the filing due date is later.

b. ✓ Correct. Under the ITA, the objection deadline for an individual is the later of one year after the filing due date (April 30, 2028) or 90 days after the date of the Notice of Assessment (June 23, 2027); therefore, the deadline is April 30, 2028.

c. ✗ Incorrect. The statutory clock runs from one year after the statutory filing due date (April 30), not from the date the taxpayer actually filed early.

d. ✗ Incorrect. The Income Tax Act does not contain a standard six–month objection window from the issuance date of a Notice of Assessment.

6′ answer d

a. ✗ Incorrect. Although one year after the filing due date is April 30, 2028, individual taxpayers are entitled to the later of the two dates; because the reassessment was issued in May 2028, the 90–day rule provides an extended deadline.

b. ✗ Incorrect. The Income Tax Act contains no provision extending the objection deadline to one year after the date of a Notice of Reassessment.

c. ✗ Incorrect. The statutory baseline objection window is 90 days, not 30 days.

d. ✓ Correct. The individual objection deadline is the later of one year after the filing due date (April 30, 2028) or 90 days after the Notice of Reassessment date (August 18, 2028); since the reassessment occurred after that one–year mark, the 90–day date is later and governs.

7 answer c

a. ✗ Incorrect. British Columbia does not have a separate provincial tax return and does not require a separate filing with the BC Ministry of Finance.
b. ✗ Incorrect. BC provincial income tax is universally levied using progressive tax brackets; there is no $100,000 provincial tax exemption threshold.
c. ✓ Correct. Except for Quebec, personal income taxes for all provinces are collected by the CRA; BC residents file a single return with the CRA, calculating BC tax on Form 428 and integrating it into Step 6.
d. ✗ Incorrect. Income taxes fall under federal and provincial jurisdiction and are completely separate from municipal property tax declarations.

7′ answer a

a. ✓ Correct. Quebec has administered an independent personal tax system since 1954, requiring residents to file separate returns with the CRA and Revenu Quebec; BC residents file a single combined return with the CRA.
b. ✗ Incorrect. All provinces currently apply their own progressive tax brackets and rates to taxable income (provincial tax is no longer a simple percentage of basic federal tax); the distinction lies in whether an independent provincial return is required.
c. ✗ Incorrect. British Columbia does not require taxpayers to obtain tax clearance or approval from the provincial Ministry of Finance before filing.
d. ✗ Incorrect. Provincial tax liability is determined based on the taxpayer's province of residence on December 31; it is a mandatory statutory liability with no first-year voluntary exemption.

Chapter 2 answers and reasons

8 answer b

a. ✗ Incorrect. This falls into the 'any break resets the clock' trap: under the tax rules, a separation during cohabitation caused by relationship breakdown that lasts fewer than 90 days still counts as continuous cohabitation and does not reset the count.
b. ✓ Correct. Living common-law requires 12 months of continuous cohabitation; the tax rules state that a break of fewer than 90 days due to relationship breakdown, followed by reconciliation, still counts toward continuous cohabitation. They reached 12 months in March 2026, so on December 31, 2026 the status is living common-law.
c. ✗ Incorrect. Separated requires living apart for 90 days because of relationship breakdown, and the two have reconciled and were living together at year end, so Separated cannot be chosen.
d. ✗ Incorrect. The federal Income Tax Act sets the basic common-law cohabitation threshold at 12 months, not 24 months.

8′ answer d

a. ✗ Incorrect. This ignores the alternative condition for common-law status: if the partner is the parent of the taxpayer's child, there is no need to wait 12 months.
b. ✗ Incorrect. Married is strictly limited to persons in a legally registered marriage; having a common child does not automatically make them married.
c. ✗ Incorrect. Common-law status is a legal question of fact and does not depend on submitting a notarized declaration to the government.
d. ✓ Correct. Meeting any one of the three conditions is enough for common-law status: (1) 12 months of continuous cohabitation; (2) the partner is the child's biological or adoptive parent; (3) the partner has custody and control of the child, who is wholly dependent on the partner for support. Because they have a common biological child, common-law status exists even though cohabitation is under 12 months.

9 answer c

a. ✗ Incorrect. Although fewer than 90 days had passed on December 31, the 90 days had been completed by the time of filing in April 2027; once separation is established its effective date reaches back to the day they began living apart (November 15, 2026), so the status on December 31 is confirmed as Separated.

b. ✗ Incorrect. This falls into the 'separation effective on day 90' trap; the effective date is not the 90th day but the first day of living apart.

c. ✓ Correct. Under CRA rules, Separated requires living apart for 90 days because of relationship breakdown, but once 90 days are met the effective date is not the 90th day but reaches back to the day they began living apart (November 15, 2026). By the April 2027 filing the 90-day condition is met, so the status on December 31, 2026 is Separated.

d. ✗ Incorrect. Living apart for 90 days is not a divorce; Divorced requires a court divorce judgment.

9′ answer a

a. ✓ Correct. Living apart for work, school, health reasons or imprisonment is an involuntary separation, not a separation due to relationship breakdown, so the couple still file as Married for tax purposes.

b. ✗ Incorrect. The core premise of separation for tax purposes is living apart because of a breakdown of the relationship; a work assignment is not a tax separation.

c. ✗ Incorrect. Keeping two residences does not change the fact that the legal marriage continues, so Single cannot be chosen.

d. ✗ Incorrect. A legal marriage is not suspended or converted into common-law status by working in another city.

10 answer a

a. ✓ Correct. If there is a spouse on December 31, the spouse's net income (Line 23600) must be entered even if it is zero; and because the spouse is self-employed (runs a business) in the year, the taxpayer's own filing due date also extends to June 15 of the next year. A net profit of zero does not change the fact that she ran a business.

b. ✗ Incorrect. This falls into the 'zero-income spouse need not be reported' trap: spouse net income is a required input for the spouse amount credit and for family benefits, so it must be reported even when zero; and a self-employed spouse extends the taxpayer's own filing period to June 15.

c. ✗ Incorrect. The tax rules tie the filing due date to the spouse's self-employed status, so the filing period of both spouses extends to June 15.

d. ✗ Incorrect. Canada uses individual filing; there is no single joint return prepared for a couple.

10′ answer c

a. ✗ Incorrect. The tax rules do not impose a minimum penalty tax on a non-working spouse.

b. ✗ Incorrect. Reporting spouse net income is not intended to create joint liability for the spouse's future personal tax debts.

c. ✓ Correct. Spouse net income (Line 23600) is not used only to test for tax owing; it is the statutory input variable for calculating the filer's own spouse amount tax credit and for benefits such as the CCB and CGEB that are based on adjusted family net income.

d. ✗ Incorrect. The spouse amount credit is calculated through Schedule 5; the basic personal amount is not automatically transferred without calculation.

11 answer d

a. ✗ Incorrect. This falls into the 'longest residence during the year' trap; the province of residence is not decided by where one lived the longest but only by December 31.

b. ✗ Incorrect. The tax rules fix provincial tax attribution by the single date of December 31; there is no proration by days.

c. ✗ Incorrect. Except for Quebec, provincial tax is handled by the CRA through the federal T1 return; there is no separate filing with Alberta.

d. ✓ Correct. The province of residence is the province where the taxpayer lived, or was deemed a factual resident, on December 31; Rachel lived in BC on December 31, so provincial tax for the whole year is calculated on the BC form (Form 428), even though she lived in Alberta most of the time.

11′ answer b

a. ✗ Incorrect. A temporary hotel stay while travelling is not a change of residence for tax purposes, so Ontario cannot be entered mechanically by physical location.

b. ✓ Correct. The province of residence is the province where the taxpayer lived, or was deemed a 'factual resident', on December 31. Lucas was only on a short holiday in Ontario; his significant residential ties (home, main base of life) remained in BC, so BC is reported.

c. ✗ Incorrect. The tax rules do not allow an individual to prorate provincial residence between two provinces in the same tax year.

d. ✗ Incorrect. A short domestic holiday between provinces does not affect Canadian resident status or provincial factual residence.

12 answer b

a. ✗ Incorrect. The threshold is tested on the total cost amount of all of the individual's specified foreign property ($35,000 + $75,000 = $110,000), not item by item.

b. ✓ Correct. Form T1135 is required when the total cost amount of specified foreign property exceeds $100,000; a vacation home used only personally is excluded by law; the deposit and shares total $110,000 in cost, over the threshold, so he must tick 'Yes' and file Form T1135.

c. ✗ Incorrect. A vacation home is personal–use property and by law is not specified foreign property; it is the deposit and the shares that are reportable property.

d. ✗ Incorrect. This falls into the 'cost amount mistaken for market value' trap; the T1135 threshold is the cost amount (ACB), not fair market value (FMV), and the basic threshold is $100,000, not $250,000.

12′ answer a

a. ✓ Correct. The $100,000 cost threshold for T1135 is tested on the specified foreign property in each filer's own name, not combined for a couple or family; Henry ($60,000) and Grace ($55,000) each stay under it, so neither has to file.

b. ✗ Incorrect. This falls into the 'couple combined' trap: assuming T1135 is tested on combined family assets like family benefits such as the CCB.

c. ✗ Incorrect. The tax rules have no provision for a main earner to file foreign property on behalf of the family.

d. ✗ Incorrect. Canada does not use joint filing, and Form T1135 must also be filed separately by each individual.

13 answer a

a. ✓ Correct. When income from specified foreign property is not reported for the year and Form T1135 is not filed on time or contains a false statement or omission, the CRA's normal reassessment period for that year (normally 3 years after the Notice of Assessment is sent) is extended by 3 more years (extended reassessment period, 6 years in total).

b. ✗ Incorrect. Under the specific Income Tax Act rule, when foreign income is unreported and Form T1135 is not filed on time, the reassessment period is explicitly extended by 3 years; it does not stay at 3 years.

c. ✗ Incorrect. An unlimited reassessment period normally requires fraud or wilful neglect; a simple failure to report and to file T1135 triggers the specific statutory 3-year extension.

d. ✗ Incorrect. This confuses the taxpayer's objection deadline with the CRA's reassessment authority; the objection deadline is the cut-off for the taxpayer to dispute and does not limit the CRA's reassessment period.

13′ answer d

a. ✗ Incorrect. $2,500 is the statutory maximum of the ordinary late-filing penalty, not a flat amount charged immediately.

b. ✗ Incorrect. The 5% of cost amount penalty applies only to serious continuing non-compliance beyond 24 months, not to a form that is 40 days late.

c. ✗ Incorrect. $500 per month is the escalated penalty for wilful or grossly negligent failure, not the ordinary late-filing penalty.

d. ✓ Correct. The ordinary T1135 late-filing penalty is $25 per day, with a minimum of $100 and a maximum of $2,500; 40 days late = 40 x $25 = $1,000.

14 answer c

a. ✗ Incorrect. The statutory exemption under section 87 of the Indian Act does not lapse because no personal tax return is filed.

b. ✗ Incorrect. Employment income exempt under section 87 does not create RRSP contribution room.

c. ✓ Correct. Case 3 and checklist item 6 in the lecture state that almost all cash benefits such as the CCB and CGEB require a filed return; being exempt does not mean no filing. The exempt net income must be calculated on Form T90 and a return filed so the CRA has the input data to pay benefits.

d. ✗ Incorrect. The settlement-lands checkbox under Indigenous tax agreements applies only to specific residents of the Northwest Territories, Yukon and Newfoundland and Labrador, and has no direct link to reporting exempt on-reserve income through Form T90.

14′ answer b

a. ✗ Incorrect. Section 87 exemption is calculated on Form T90 and has its own checkbox; it is a separate matter from 'residing on Indigenous government settlement lands'.

b. ✓ Correct. Section 2.5 of the lecture states that 'residing on Indigenous government settlement lands' applies only to residents of Newfoundland and Labrador, the Northwest Territories and Yukon, to allocate provincial or territorial tax revenue to Indigenous governments that signed agreements; it does not apply to BC residents.

c. ✗ Incorrect. This settlement-lands checkbox does not apply to BC residents.

d. ✗ Incorrect. A municipal property tax exemption is a local government matter and has nothing to do with the Indigenous tax agreement checkbox on the federal T1 return.

Chapter 3 answers and reasons

15 answer a

a. ✓ Correct. Under the tax rules and the T4 design, Box 40 (other taxable allowances and benefits) is a memo box whose amount is already included in the Box 14 total (employment income); Line 10100 takes Box 14 directly, $65,000, and the amounts must not be added again.

b. ✗ Incorrect. This falls into the 'adding Box 40 again' trap: wrongly treating Box 40 as extra income and adding it to Box 14 ($65,000 + $3,200 = $68,200), which overstates taxable income.

c. ✗ Incorrect. Box 40 consists of taxable benefits and must never be deducted from gross pay.

d. ✗ Incorrect. Line 10100 is the statutory line for total employment income (including salary and benefits), not just the benefits portion.

15′ answer c

a. ✗ Incorrect. This falls into the 'adding Box 40 again' trap; the $4,500 in Box 40 is already inside Box 14, so adding it would tax it twice.

b. ✗ Incorrect. Taxable benefits are not subtracted from gross pay.

c. ✓ Correct. Box 40 is just a window showing how much of Box 14 comes from non-cash benefits; Line 10100 takes the Box 14 total, $82,000.

d. ✗ Incorrect. Line 10400 is for other employment income without a T4 (such as foreign employment); taxable benefits already on a T4 cannot go on Line 10400.

16 answer b

a. ✗ Incorrect. This treats all of Box 16 and Box 16A as a credit: $4,230.45 + $416.00 = $4,646.45 all on Line 30800, ignoring that the 1% enhanced portion and CPP2 go on Line 22215 as a deduction.

b. ✓ Correct. For 2026, ($74,600 − $3,500) = $71,100; the base portion $71,100 x 4.95% = $3,519.45 goes on Line 30800; the first enhancement $71,100 x 1% = $711.00, plus the $416.00 in Box 16A, totals $1,127.00 on Line 22215.

c. ✗ Incorrect. This treats all of Box 16 as a credit and only Box 16A as a deduction, missing that the 1% first-layer enhancement in Box 16 ($711.00) also belongs on Line 22215.

d. ✗ Incorrect. The base portion is right, but Line 22215 includes only CPP2 and misses the $711.00 first enhancement ($4,230.45 − $3,519.45); it should be $1,127.00.

16′ answer d

a. ✗ Incorrect. This assumes no CPP2 means no enhanced deduction; Box 16 itself contains the 1% first-layer enhancement ($711.00), which still goes on Line 22215.

b. ✗ Incorrect. This treats all of Box 16 as a deduction; the 4.95% base portion of $3,519.45 can only be claimed as a credit on Line 30800.

c. ✗ Incorrect. This reverses the direction: $3,519.45 is the base portion, which is a Line 30800 credit, not a Line 22215 deduction.

d. ✓ Correct. ($74,600 − $3,500) x 1% = $711.00, which is $4,230.45 − $3,519.45. This portion goes on Line 22215 as a deduction.

17 answer c

a. ✗ Incorrect. A company phone used mainly for business contact without significant personal use is not a taxable benefit under CRA administrative policy.

b. ✗ Incorrect. A wage-loss replacement benefit funded entirely by the employer is treated like wages and is fully taxable; a parking space without a business reason is also a taxable benefit.

c. ✓ Correct. The test is who mainly benefits and who paid the premiums: the employer paid all of the group sickness and accident premiums and the employee never paid after-tax premiums, so the wage-loss replacement plan benefit is like continued pay and the $12,000 is fully taxable; a reserved parking space not needed for the business mainly benefits the employee's own convenience and is a taxable benefit; the phone is mainly for business and is not a taxable benefit.

d. ✗ Incorrect. Tools or conveniences provided mainly for the employer's business need (such as a business phone) are not taxable benefits.

17′ answer a

a. ✓ Correct. Core rule from the lecture: who paid the premiums decides whether the benefit is taxable. If the employee paid the full group sickness and accident premiums from after-tax income, it is like buying coverage at her own expense, and the wage-replacement benefit received is fully tax-free and not added to income.

b. ✗ Incorrect. A benefit is taxable only when the employer paid the premiums; a benefit is tax-free when the employee paid the premiums from after-tax pay.

c. ✗ Incorrect. The tax rules have no provision that halves the taxation of wage-loss insurance.

d. ✗ Incorrect. The T5007 flow-through applies only to public workers' compensation; a benefit from self-paid commercial group sickness insurance is simply tax-free, and no form flow-through is needed.

18 answer d

a. ✗ Incorrect. This falls into the 'quoting the failed stock option rate reform' trap; the 2024 budget proposal to cut the deduction rate to 33.33% never took effect and was withdrawn, so the outdated 33.33% proposal cannot be used.

b. ✗ Incorrect. The security options deduction removes only part of the qualifying benefit; it is not a 100% exemption.

c. ✗ Incorrect. The 2021 rules only set a $200,000 annual vesting limit for large employers, and within that limit the 50% deduction still applies; the deduction was not eliminated overall.

d. ✓ Correct. As the lecture states, the 2024 proposal to cut the stock option deduction rate to 33.33% was withdrawn together with the capital gains inclusion rate reform, and for the 2026 tax year the statutory deduction rate (security options deduction) is still 50%. Line 24900 should show $24,000 x 50% = $12,000.

18′ answer b

a. ✗ Incorrect. The one-third deduction rate (33.33%) was a failed proposal that never took effect; the current tax deduction rate is unchanged.

b. ✓ Correct. The proposed tightening of the option deduction to 33.33% never took effect, and the 2026 tax year keeps the 50% rate; the $18,000 already calculated in T4 code 39 (half of $36,000) goes directly on Line 24900.

c. ✗ Incorrect. The option deduction is 50% of the benefit amount, not 100%.

d. ✗ Incorrect. There is no double discount or provincial clawback mechanism.

19 answer a

a. ✓ Correct. Excess CPP and EI contributions withheld independently by several employers are not refunded automatically; at filing they must be worked out on Schedule 8 and claimed on the main return as refundable credits on Line 44800 (overpayment of CPP) and Line 45000 (overpayment of EI), which offset tax owing or increase the refund.

b. ✗ Incorrect. This falls into the 'believing CPP and EI overpayments from several employers are refunded automatically' trap; the CRA system does not automatically mail a cheque, and the amount must be calculated and claimed on the personal return.

c. ✗ Incorrect. The tax rules give the taxpayer a statutory right to recover the overpayment; it is never forfeited or lapsed.

d. ✗ Incorrect. Each employer withheld lawfully on a single income and is not at fault; the refund is made entirely through the CRA's personal return process.

19′ answer d

a. ✗ Incorrect. Line 31200 can only claim the statutory premium maximum ($1,123.07); the excess cannot be put into the non–refundable credit.

b. ✗ Incorrect. Line 22215 is the deduction line for the CPP enhanced portion and has nothing to do with an EI premium refund.

c. ✗ Incorrect. An overpaid premium is a refundable amount, not new taxable income.

d. ✓ Correct. The EI overpayment from two jobs ($1,400 – $1,123.07 = $276.93) goes on Line 45000 (EI overpayment refund) as a refundable credit that is returned directly to the taxpayer.

20 answer b

a. ✗ Incorrect. Box 52 is the PA (pension adjustment), not the employee's own RRSP contribution, and cannot be deducted on Line 20800.

b. ✓ Correct. Box 20 (employee RPP contributions, Registered Pension Plan) is deducted before tax on Line 20700; Box 52 (Pension Adjustment, PA) reflects the retirement savings value accrued this year in the registered pension plan, appears on no line of the T1 return, and is only used by the CRA to calculate and reduce the taxpayer's RRSP contribution room for next year (2027).

c. ✗ Incorrect. This falls into the 'treating the Box 52 pension adjustment as a deduction this year' trap; adding PA to the RPP contributions and deducting the total would improperly double up the deductions.

d. ✗ Incorrect. RPP contributions are a deduction (Line 20700), not a credit (Line 30800); the PA is certainly not tax already paid (Line 43700).

20′ answer c

a. ✗ Incorrect. PA is not an employee's own deductible payment; the tax rules have never allowed it to be deducted as another deduction.

b. ✗ Incorrect. The Canada employment amount (Line 31260) has no connection to a pension adjustment.

c. ✓ Correct. Box 52 goes on no line of the return; it is the core data reported to the CRA to reduce the taxpayer's RRSP contribution room for the next year (2027 tax year), and forcing it into a deduction line is a misreport.

d. ✗ Incorrect. The PA is neither salary income nor a pension expense, and must not be included on Line 10100 or Line 20700.

21 answer c

a. ✗ Incorrect. The employment amount is the lower of the $1,501 cap and qualifying employment income ($1,200 < $1,501), self-employment profit does not count, and BC has no corresponding provincial employment amount credit.
b. ✗ Incorrect. The federal employment amount is the lower of the 2026 cap of $1,501 and qualifying employment income; Zoe's employment income is only $1,200 (her $40,000 of self-employment income does not count), so only $1,200 can be claimed.
c. ✓ Correct. The Canada employment amount (Line 31260) is a non-refundable credit equal to the lower of the 2026 cap of $1,501 and qualifying employment income (Lines 10100 and 10400); net business profit from self-employment is not employment income, so the federal amount is $1,200. Also, per Section 4 of the lecture, BC has no corresponding provincial employment amount credit, so the BC428 amount is $0.
d. ✗ Incorrect. $1,000 is the 2006 statutory face value; after indexing, the 2026 cap is $1,501, and BC has no corresponding provincial credit.

21′ answer a

a. ✓ Correct. The employment amount is the lower of the $1,501 cap and the year's employment income; $55,000 is far above the cap, so $1,501 is used; this credit is a fixed allowance for miscellaneous employment expenses and needs no receipts.
b. ✗ Incorrect. The Canada employment amount is a fixed-cap credit; it does not reimburse actual spending of $2,000.
c. ✗ Incorrect. The return uses the current value indexed under section 117.1 ($1,501 for the 2026 tax year), not the $1,000 face value of the 2006 text.
d. ✗ Incorrect. The Canada employment amount has no high-income clawback; all employed taxpayers can claim it by law.

Chapter 4 answers and reasons

22 answer a

a. ✓ Correct. Schedule 8, five steps: base portion ($74,600 − $3,500) x 4.95% = $3,519.45 goes on Line 30800; first enhancement $71,100 x 1% = $711, plus CPP2 ($85,000 − $74,600) x 4% = $416, total $1,127 on Line 22215; total payable $4,646.45, withheld $4,938.50, overpayment $292.05 on Line 44800. When there is an overpayment, the first two lines show the payable amounts, not the amounts withheld.
b. ✗ Incorrect. This is the 'copying the amounts withheld' trap: adding up Box 16 on the two T4s for Line 30800 and also claiming the overpayment on Line 44800 credits and refunds the same money, and also misses the enhanced deduction on Line 22215.
c. ✗ Incorrect. Schedule 8 combines the base portion, first enhancement and CPP2 into one net comparison; CPP2 may not have been withheld, but overall there is still an overpayment, and the CPP2 is already netted off, so no separate payment is needed.
d. ✗ Incorrect. This subtracts only the first-layer Box 16 maximum and misses the CPP2 payable by law once income exceeds the YMPE ($416 for 2026), so the overpayment is overstated.

22′ answer c

a. ✗ Incorrect. This subtracts only the first-layer maximum of $4,230.45 and misses the CPP2 ($416) payable by law once income exceeds the YMPE, so the overpayment is overstated.

b. ✗ Incorrect. Wrong sign for the net: the $4,900.00 withheld exceeds the total statutory payable of $4,646.45, so even after offsetting the unpaid CPP2 there is still a net overpayment; it does not become zero.

c. ✓ Correct. Total payable = base $3,519.45 + first enhancement $711 + CPP2 $416 = $4,646.45; withheld $4,900.00 − $4,646.45 = $253.55, reported on Line 44800.

d. ✗ Incorrect. Wrong item: $416.00 is the 2026 statutory maximum of CPP2 payable, not the overpayment refund amount.

23 answer c

a. ✗ Incorrect. This falls into the EI low-income mistake: when insurable earnings for the year do not exceed $2,000, the taxpayer should not claim a non-refundable credit on Line 31200 but should claim the full refund.

b. ✗ Incorrect. This is the trap of treating the switch as an exemption: $2,000 is a switch that triggers a full refund, not a basic exemption; the premiums withheld are not forfeited but refunded to the employee.

c. ✓ Correct. This applies the full EI low-income refund rule: an employee with insurable earnings of $2,000 or less for the year can hardly meet the hours needed to claim benefits, so on Form T2204 the full EI premiums withheld ($29.34) are entered on Line 45000 and refunded, and Line 31200 is zero.

d. ✗ Incorrect. This mixes up the nature of the item: EI premiums are not an other deduction on Line 23200 (Line 23200 is for repayment of social benefits); the premium is a refundable credit.

23′ answer b

a. ✗ Incorrect. This ignores the $2,000 low-income switch: when insurable earnings do not exceed $2,000, nothing may go on Line 31200 as a credit and the full amount must be refunded.

b. ✓ Correct. This applies the low-income refund rule: Maya's insurable earnings of $1,600 are under the $2,000 line, so the full $26.08 withheld flows through T2204 to Line 45000 for refund and Line 31200 is zero.

c. ✗ Incorrect. This invents a tiered rule: EI has no $1,000 tier of withholding or partial forfeiture, and below $2,000 the refund is 100%.

d. ✗ Incorrect. This confuses two separate insurance programs: the EI overpayment and low-income refund are completely independent of CPP, and CPP deductions are not a precondition.

24 answer b

a. ✗ Incorrect. This is the trap of applying CPP proration to EI: EI has no age limit and no monthly proration, and the MIE cannot be multiplied by 7/12.

b. ✓ Correct. In the year of turning 18, the CPP contributory period is the months after the birthday month (June to December, 7 months), and the YMPE and basic exemption are prorated by 7/12; EI has no age threshold, no exemption and no monthly proration, and is calculated on full-year insurable earnings of $12,000 x 1.63% = $195.60.

c. ✗ Incorrect. This miscounts the months and misjudges the scope of EI: the month of the 18th birthday is not counted in the CPP period (counting starts the next month), and a young worker must still have EI withheld normally.

d. ✗ Incorrect. This ignores the statutory proration of the contributory period: the year of turning 18 is a typical monthly proration case, and the full $3,500 exemption cannot be taken directly.

24′ answer d

a. ✗ Incorrect. This miscounts the months and applies proration to EI: the birthday month (September) does not count, the period starts in October, and EI is never prorated by month.

b. ✗ Incorrect. This misses the monthly proration rule: the tax rules clearly state that in the year of turning 18 the contributory period is shorter than the full year and must be reduced.

c. ✗ Incorrect. This invents an EI waiver: EI premiums do not depend on the number of months employed, and are collected normally whenever there is employment income.

d. ✓ Correct. The birthday is in September, so the qualifying months are the 3 months after the birthday month (October, November, December), and the exemption is prorated to $3,500 x 3/12 = $875; EI is not affected by age or months and is calculated on the full $8,000.

25 answer d

a. ✗ Incorrect. This is the homeowner mortgage interest trap: a salaried employee who owns the home cannot include mortgage interest in home office expenses (it overcounts $14,000 x 15% = $2,100).

b. ✗ Incorrect. This wrongly includes the full condo fee: only the clearly identified share of the condo fee that corresponds to utilities such as heat, water and electricity ($1,200) can be included; the reserve fund and building maintenance parts are not deductible.

c. ✗ Incorrect. This is an invented concept: tax law recognizes only operating costs actually paid to third parties, and prohibits an owner from deducting a deemed 'rent on one's own home'.

d. ✓ Correct. The qualifying base = electricity and heat $2,400 + monthly internet $1,200 + the utilities part of the condo fee $1,200 = $4,800; mortgage principal and interest and the internet set-up fee are not deductible; $4,800 x 15% = $720.

25′ answer a

a. ✓ Correct. A salaried tenant can deduct rent, utilities and internet access: $24,000 + $1,800 + $960 = $26,760, x 20% = $5,352; home insurance is deductible only for commission employees, and a desk is a capital expense.

b. ✗ Incorrect. A salaried employee wrongly deducting home insurance: $5,352 + $600 x 20% ($120) = $5,472; home insurance is deductible only for commission employees with an amount in Box 42.

c. ✗ Incorrect. Treating the desk as office supplies: $5,352 + $1,500 x 20% ($300) = $5,652; a desk is a capital expense and cannot be deducted or claimed as CCA.

d. ✗ Incorrect. This counts rent only ($24,000 x 20%); utilities and monthly internet fees are also on the list a salaried employee can deduct.

26 answer a

a. ✓ Correct. This applies the either-or rule between salaried and commission bases correctly. On the commission basis, advertising and entertainment can be included, but the total is capped by the commission income of $6,000 (with vehicle CCA/interest of $0 it is still $6,000); on the salaried basis, advertising ($1,000) and entertainment ($400) are given up, but the remaining vehicle ($4,500) + travel, meals and lodging ($2,100) + home office ($2,000) = $8,600, with no commission cap (total employment income of $75,000 gives ample room). Choosing the salaried basis allows $2,600 more deduction.

b. ✗ Incorrect. This misjudges the choice: an amount in Box 42 does not force commission reporting, and the tax rules allow a commission employee to choose the salaried basis freely each year.

c. ✗ Incorrect. This invents a carry-forward rule: ordinary expenses cut off by the commission cap (vehicle, travel, advertising, entertainment and so on) cannot be carried forward and are permanently lost (only home office expenses can be carried forward when net income is insufficient).

d. ✗ Incorrect. This breaks the form procedure: for the same employer in the same tax year one must choose either the salaried basis or the commission basis; the two cannot be mixed or split.

26′ answer b

a. ✗ Incorrect. This is a mathematically poorer choice: the commission basis is capped at $8,000, less than the $9,500 on the salaried basis, wasting $1,500 of deduction.

b. ✓ Correct. This measures the either–or benefit precisely: the salaried basis gives up advertising ($1,000) and entertainment ($500), and vehicle ($7,000) plus lodging ($2,500) total $9,500, with no $8,000 commission income cap, so the net deduction is $1,500 higher than on the commission basis.

c. ✗ Incorrect. An improper reclassification: employment business expenses can never be disguised as moving expenses (Line 21900).

d. ✗ Incorrect. This invents a cap exemption threshold: the commission deduction cap is determined by Box 42 itself and the vehicle capital cost allowance and interest, and has nothing to do with whether total employment income reaches $50,000.

27 answer b

a. ✗ Incorrect. The labour mobility deduction is not conditional on a T2200.

b. ✓ Correct. From 2026 the cap rises from $4,000 to $10,000 and the distance threshold is 120 km (135 km qualifies); the $11,500 of expenses exceeds the cap, and the limit of 50% of the project income ($32,000 x 50% = $16,000) does not bite, so the deduction is the $10,000 cap and no T2200 is needed.

c. ✗ Incorrect. This uses the old year's figure: $4,000 and 150 km are the parameters for 2025 and earlier; for 2026 they are $10,000 and 120 km.

d. ✗ Incorrect. This ignores the annual cap: $11,500 – $10,000 = $1,500 cannot be deducted.

27′ answer c

a. ✗ Incorrect. The labour mobility deduction does not require a T2200.

b. ✗ Incorrect. This misses the 50% income limit: $6,500 is under the 2026 cap of $10,000 but exceeds $11,000 x 50% = $5,500.

c. ✓ Correct. The cap is $10,000, the distance difference of 130 km qualifies, and no T2200 is needed; the deduction cannot exceed 50% of the income from that assignment: $11,000 x 50% = $5,500.

d. ✗ Incorrect. This uses the old cap that applied up to 2025; the 50% income limit is what applies here.

28 answer c

a. ✗ Incorrect. This is the BC sales tax misconception and the tax–free misconception: BC is a non–participating province, the PST (7%) is not covered by the federal employee GST rebate, and the rebate is not permanently tax–free.

b. ✗ Incorrect. This mixes up what reduces the UCC: only GST refunded in respect of capital cost allowance on a vehicle is used to reduce next year's opening UCC; a refund relating to ordinary employment expenses does not reduce UCC.

c. ✓ Correct. This explains the BC special rule and the link to next year's income. BC did not join the harmonized sales tax (HST), the 7% PST is never refundable, and the rebate is calculated strictly at 5/105 ($4,200 x 5/105 = $200); and by law, GST refunded on employment expenses offsets expenses deducted in earlier years and must be included on Line 10400 (other employment income) in the tax year the refund is received (the 2027 tax year).

d. ✗ Incorrect. This wrongly excludes an industry: those who cannot claim GST370 are employees of banks, trusts, insurance and other 'listed financial institutions'; employees of ordinary technology businesses are fully eligible.

28′ answer d

a. ✗ Incorrect. This blames an administrative error: BC PST is simply outside the legal scope of the GST rebate, and the refund must by law be taxed.

b. ✗ Incorrect. A wrong retroactive adjustment: receiving the refund does not require amending the return for the year the expenses belong to (2026); it is included directly in income of the year received (2027), and the BC ministry of finance does not refund the PST to the employee.

c. ✗ Incorrect. This invents a deduction line: a GST refund has no linkage to reducing the Canada employment amount on Line 31260.

d. ✓ Correct. This grasps the GST370 rules and the return lines: BC runs separate GST and PST systems, PST is not a refundable tax, and the rebate is limited to the 5% GST (5/105 gives $300); the taxpayer must report the full $300 as taxable income on Line 10400 in the tax year the refund is received (2027).

Chapter 5 answers and reasons

29 answer b

a. ✗ Incorrect. This adds up the RPP, RRIF and CPP ($14,000 + $6,000 + $4,500) and falls into the trap of treating all retirement–type income as qualifying pension income. CPP is a second–pillar mandatory social insurance and can never be included in qualifying pension income at any age; and since the taxpayer is under 65, the RRIF withdrawals do not qualify either.

b. ✓ Correct. Under the tax rules, the qualifying scope of the federal pension income amount (Line 31400) is divided at age 65. When the taxpayer is under 65 and has not inherited because of a spouse's death, qualifying pension income is limited to periodic payments from an employer Registered Pension Plan (RPP). RRIF withdrawals qualify only from age 65, and CPP never qualifies at any age, so only the $14,000 RPP qualifies.

c. ✗ Incorrect. This includes the $14,000 RPP and the $6,000 RRIF but excludes CPP. It falls into the trap of thinking that converting to a RRIF gives the pension credit at any age. When the taxpayer is under 65 and no inheritance on a spouse's death has occurred, RRIF withdrawals are not qualifying pension income.

d. ✗ Incorrect. This confuses the 'total qualifying pension income' with the 'maximum pension income amount base of $2,000'. The stem asks for the qualifying income before the credit is calculated, not the final credit limit.

29′ answer d

a. ✗ Incorrect. This simply adds OAS, CPP and RRIF ($8,000 + $5,000 + $12,000) and falls into the trap of treating all government benefits and pensions as qualifying credit income. OAS and CPP are first– and second–pillar social security and are inherently excluded from qualifying pension income at any age.

b. ✗ Incorrect. This includes the $5,000 CPP and the $12,000 RRIF. CPP is contribution–based social insurance and can never be qualifying pension income for Line 31400 at any age.

c. ✗ Incorrect. This confuses the qualifying income amount with the statutory credit base cap of $2,000. The stem asks how much income qualifies, not the maximum credit that can finally be claimed.

d. ✓ Correct. When the taxpayer reaches age 65, Registered Retirement Income Fund (RRIF) withdrawals come within qualifying pension income, while Old Age Security (OAS) and Canada Pension Plan (CPP) never qualify at any age. So only the $12,000 RRIF withdrawal qualifies.

30 answer c

a. ✗ Incorrect. This calculates the 15% recovery tax of $1,500 ($10,000 x 15%) and subtracts it from $9,000, reporting a net $7,500 on Line 11300. It falls into the classic trap of reporting the OAS recovery as a net amount. The CRA cannot reconcile the original T4A(OAS) data when it is filled this way.

b. ✗ Incorrect. This distinguishes the lines correctly but wrongly calculates the recovery at 10% of the excess ($10,000 x 10% = $1,000). The statutory OAS recovery rate (clawback rate) is fixed at 15% of the excess.

c. ✓ Correct. Under the 2026 tax year rules, the full T4A(OAS) box 18 benefit of $9,000 must be entered in full on Line 11300 without deducting the recovery tax; the part of net income above the 2026 statutory threshold of $95,323 ($10,000) is recovered at 15%, giving an OAS recovery tax of $1,500, reported separately on Line 23500.

d. ✗ Incorrect. This uses the old 2024 tax year threshold of $90,997 (excess $14,326 x 15% = about $2,149). The 2026 tax year threshold has been indexed to $95,323.

30′ answer a

a. ✓ Correct. Line 11300 shows the full box 18 amount of $8,400; the part above the 2026 threshold of $95,323 is $101,323 – $95,323 = $6,000, x 15% = $900.

b. ✗ Incorrect. This reports the recovery as a net amount: $8,400 – $900 = $7,500, which the CRA cannot reconcile with the original T4A(OAS) figure.

c. ✗ Incorrect. This uses the 2024 threshold of $90,997: ($101,323 – $90,997) x 15% = about $1,549.

d. ✗ Incorrect. This applies the 15% to the OAS itself: $8,400 x 15% = $1,260; the recovery amount is calculated on the part of net income above the threshold ($6,000) x 15%.

31 answer a

a. ✓ Correct. For eligible dividends on a T5, box 25 already shows the taxable amount grossed up at 138% (38% gross–up), which the taxpayer copies directly to Line 12000; the federal dividend tax credit (DTC) printed in box 26 is copied directly to Line 40425. Eligible dividends do not go on Line 12010 (which is used only for non–eligible dividends).

b. ✗ Incorrect. This enters the actual cash received of $20,000 on Line 12000. It falls into the classic trap of reporting the cash dividend received. Canadian dividends use a gross–up system, and the grossed–up taxable amount of $27,600 must be reported.

c. ✗ Incorrect. Line 12010 is a check line only for non–eligible dividends. Raymond received eligible dividends, which go only on Line 12000 and must never be entered on Line 12010.

d. ✗ Incorrect. This multiplies the box 25 taxable amount by 138% again ($27,600 x 138% = $38,088). Box 25 on the slip has already been grossed up ($20,000 x 138% = $27,600) and is simply copied; never gross up twice.

31′ answer c

a. ✗ Incorrect. This reports the actual dividend of $10,000, missing the 15% gross–up, and also omits the Line 12010 check entry required for non–eligible dividends.

b. ✗ Incorrect. Non–eligible dividends must not only be included on Line 12000 (total taxable dividends) but also copied to Line 12010 as the check line for the non–eligible portion.

c. ✓ Correct. For non–eligible dividends, T5 box 11 has already been grossed up at 115% ($10,000 x 115% = $11,500). The taxpayer must enter this taxable amount on both Line 12000 and Line 12010 (Line 12010 is a separate check position for non–eligible dividends, not double taxation), and copy the credit amount from box 12 to Line 40425.

d. ✗ Incorrect. This multiplies the box 11 figure, already grossed up, by 115% again ($11,500 x 115% = $13,225), enlarging it twice. The taxable amount box on the slip is simply copied.

32 answer d

a. ✗ Incorrect. This adds all the income and divides by 2 (($36,000 + $8,000 + $6,000) x 50% = $25,000). It falls into the classic trap of mixing OAS and CPP into the T1032 split. By design the law strictly excludes OAS and CPP from splittable income.

b. ✗ Incorrect. This adds the RPP ($36,000) and CPP ($6,000) and takes 50% ($42,000 x 50% = $21,000). Although CPP has a separate pension–sharing channel by application to Service Canada, it can never be split between spouses through Form T1032 on the return.

c. ✗ Incorrect. This adds the RPP ($36,000) and OAS ($8,000) and takes 50% ($44,000 x 50% = $22,000). OAS has no spousal splitting mechanism of any kind and must not be included in the qualifying splitting base.

d. ✓ Correct. Under the tax rules, the cap for retirement income splitting on Form T1032 is 50% of the transferring spouse's 'eligible pension income'. Eligible income includes only the qualifying items on Line 11500 (here the $36,000 RPP periodic payments); OAS (Line 11300) and CPP (Line 11400) are legally barred from splitting through T1032. So the maximum splittable amount is $36,000 x 50% = $18,000.

32′ answer b

a. ✗ Incorrect. This adds the RRIF ($24,000) and CPP ($7,000) for $31,000 and takes 50% ($15,500). CPP is a second–pillar mandatory contribution and cannot be counted in the qualifying base for T1032 splitting.

b. ✓ Correct. Douglas is 65 or over, so the $24,000 RRIF withdrawal he reports on Line 11500 is eligible pension income. Through the joint election on Form T1032, the transferring spouse can split up to 50% of eligible income with the spouse he lives with. CPP benefits do not qualify for T1032 splitting. So the maximum deduction Douglas can claim is $24,000 x 50% = $12,000 (the spouse includes an equal amount in income).

c. ✗ Incorrect. This wrongly assumes that all the RRIF income can be transferred in full to a spouse with no income. The Income Tax Act caps retirement income splitting at 50%, not 100%.

d. ✗ Incorrect. This confuses the $2,000 cap of the Line 31400 pension income amount credit with the T1032 retirement income splitting deduction.

33 answer b

a. ✗ Incorrect. This assigns the whole withdrawal to Chloe, the person withdrawing, based only on the name on the T4RSP, ignoring the spousal attribution rule completely. Because Nathan contributed in the year of withdrawal and the two previous calendar years, the contributed part is forcibly attributed to Nathan.

b. ✓ Correct. Under the spousal attribution rules (ITA s.146(8.3)), where a spouse contributed to the spousal RRSP in the year of withdrawal (2026) or the two previous tax years (2024, 2025), the part of the withdrawal equal to the total contributions in that 3–year window must be reported as income by the contributor (Nathan) on Line 12900; only the rest above the contributions ($8,000 – $5,000 = $3,000) is reported by the person withdrawing (Chloe) on her own Line 12900.

c. ✗ Incorrect. This attributes the whole withdrawal to the contributor Nathan. The cap of the attribution rule is the contributor's actual contributions in the three–year window ($5,000); the excess is still reported by the person withdrawing.

d. ✗ Incorrect. Spousal RRSP withdrawals are not subject to T1032 retirement income splitting; and the attribution rule is a statutory mandatory rule, not a mechanism by which a couple can freely agree to split equally.

33′ answer c

a. ✗ Incorrect. The look-back window for spousal attribution looks not only at the year of withdrawal (2026) but also at the two previous calendar years (2024 and 2025). Samuel made a contribution in 2024, which is still within the three-year window.

b. ✗ Incorrect. The attribution rule is not an equal-splitting mechanism. As long as total contributions in the three-year window ($10,000) are greater than or equal to the withdrawal ($6,000), the whole withdrawal is attributed to the contributor.

c. ✓ Correct. The spousal RRSP attribution window covers the year of withdrawal (2026) and the two previous tax years (2024 and 2025). Samuel contributed $10,000 in 2024, within the 3-year window and more than the $6,000 withdrawn. So, under section 146(8.3) of the Income Tax Act, all $6,000 withdrawn by Hannah is attributed to Samuel and reported on his Line 12900.

d. ✗ Incorrect. An ordinary RRSP withdrawal goes on Line 12900, not Line 13000; and Samuel cannot claim any RRSP contribution deduction at the time of the withdrawal.

34 answer a

a. ✓ Correct. Outside Quebec: up to $5,000 has 10% withheld, over $5,000 up to $15,000 has 20%, and over $15,000 has 30%. When one withdrawal instruction is carried out in several payments, the withholding rate is set by the total amount requested ($12,000, in the 20% tier), and splitting the payments cannot get the 10% rate.

b. ✗ Incorrect. This falls into the common misunderstanding that splitting into several small withdrawals gets a lower withholding rate. The CRA states clearly that the same withdrawal instruction carried out in a series or in batches has its withholding tier set by the cumulative total.

c. ✗ Incorrect. There is no penalty withholding rate for splitting withdrawals; the financial institution simply withholds at the normal statutory tier (20%) for the total amount actually requested ($12,000).

d. ✗ Incorrect. An ordinary RRSP withdrawal is a taxable payment, and the financial institution has a mandatory statutory duty to withhold tax; withholding cannot be waived.

34′ answer d

a. ✗ Incorrect. 10% applies only to withdrawals of $5,000 or less.

b. ✗ Incorrect. The standard RRSP withholding tiers outside Quebec are 10%, 20% and 30%; there is no 15% tier.

c. ✗ Incorrect. 20% applies to withdrawals over $5,000 up to $15,000, and $18,000 is over $15,000.

d. ✓ Correct. For a one-time RRSP withdrawal outside Quebec there are three withholding tiers: 10% up to $5,000, 20% over $5,000 up to $15,000, and 30% over $15,000; $18,000 gets 30%.

35 answer c

a. ✗ Incorrect. This adds the box 16 disability benefit to box 20 again ($11,000 + $3,000 = $14,000). It falls into the common misreport of adding T4A(P) box 16 to Line 11400 again, and wrongly omits the death benefit.

b. ✗ Incorrect. This also adds the $2,500 death benefit she received to Line 11400. A CPP death benefit received directly as beneficiary is the only amount that leaves the Line 11400 total box and must go on Line 13000.

c. ✓ Correct. Under the T4A(P) reporting rules, box 20 already totals all CPP/QPP benefits in boxes 14 to 19, so Line 11400 takes $11,000 as is; the box 16 disability benefit is also copied to Line 11410 only as an information memo and must never be added to Line 11400 again; and a CPP death benefit received personally as beneficiary does not go on Line 11400 but is included separately on Line 13000 (other income).

d. ✗ Incorrect. This subtracts the box 16 disability amount from box 20 ($11,000 – $3,000 = $8,000). Line 11400 requires the full box 20 total as is, with no deduction of the disability portion.

35′ answer b

a. ✗ Incorrect. This adds box 16 to box 20 again ($9,500 + $4,000 = $13,500), so the disability benefit is counted twice in taxable income.

b. ✓ Correct. T4A(P) box 20 is the total of all benefits and is copied as is to Line 11400 (included in total income); the box 16 disability benefit amount is copied to Line 11410 only as an information memo for the CRA to check eligibility. It does not affect total income and must never be added again.

c. ✗ Incorrect. This subtracts box 16 from box 20 ($9,500 – $4,000 = $5,500). Line 11400 must include the full box 20 total, disability benefits included.

d. ✗ Incorrect. Line 11410 corresponds only to the disability amount in box 16, not to the whole box 20 total.

Chapter 6 answers and reasons

36 answer a

a. ✓ Correct. EI regular benefits are fully taxable, so $12,000 goes on Line 11900. The 2026 recovery threshold = 1.25 x $68,900 = $86,125; the excess is $96,125 – $86,125 = $10,000, x 30% = $3,000 on Line 23500.

b. ✗ Incorrect. Subtracting the $3,000 recovery from $12,000 and reporting the net $9,000 goes against the principle of reporting the gross amount.

c. ✗ Incorrect. This uses the OAS rate of 15%: $10,000 x 15% = $1,500; the EI recovery rate is 30%.

d. ✗ Incorrect. This uses the 2024 threshold of $79,000: ($96,125 – $79,000) x 30% = about $5,138; the 2026 threshold is $86,125.

36′ answer c

a. ✗ Incorrect. This arbitrarily deducts the 30% excess recovery directly from the income line, making the mistake of net reporting, and wrongly brings maternity benefits into the recovery.

b. ✗ Incorrect. This calculates a 30% recovery on maternity benefits (($98,000 – $86,125) x 30% = about $3,563). Special benefits such as maternity, parental and sickness do not have a 30% rate in box 7 and do not fall under the recovery.

c. ✓ Correct. Maternity and parental benefits are taxable income and are reported in full as $14,000 on Line 11900; but they are special benefits, the T4E box 7 rate is not 30%, and they are not subject to the Line 23500 recovery rules, so even if net income exceeds the $86,125 threshold the recovery is $0.

d. ✗ Incorrect. This falls into the classic 'government benefits are never taxed' trap. All EI, whether regular benefits or special benefits such as maternity, is taxable income.

37 answer c

a. ✗ Incorrect. This wrongly assumes that being tax–free means not entering the return at all. If it is not reported on Line 14400, the benefit base is seriously distorted.

b. ✗ Incorrect. This omits the full deduction on Line 25000. Workers' compensation benefits are never taxable income; taxable income should be zero.

c. ✓ Correct. Under the two–step mechanism of the tax rules, workers' compensation benefits are entered from T5007 box 10 on Line 14400, enter total income and form net income (Line 23600) of $15,000, so that all income–tested benefits (CCB, CGEB and so on) can accurately assess the family's economic position; then an equal deduction of $15,000 is claimed on Line 25000, so taxable income (Line 26000) is $0 and no income tax arises.

d. ✗ Incorrect. Almost all income–tested benefits use Line 23600 (including Line 14400) as the sole base for determination, and the law does not remove it from the benefit base.

37′ answer b

a. ✗ Incorrect. This decides who reports only by the name on the slip and falls into the common 'whoever's name is on it reports' error, going against the special attribution rule for social assistance of cohabiting partners.

b. ✓ Correct. Under the tax rules, when social assistance (T5007 box 11) is received while living with a spouse or common-law partner, the reporting duty falls by law on the partner with the higher net income for the year. Sophia's net income is higher than Mateo's, so Sophia must include $8,000 on Line 14500 and deduct $8,000 on Line 25000; this raises Sophia's net income (affecting benefit calculations) but her taxable income increases by $0.

c. ✗ Incorrect. This omits the statutory deduction on Line 25000, so tax-free social assistance is wrongly taxed.

d. ✗ Incorrect. Social assistance is not a retirement pension, and no law has spouses report half each (50/50).

38 answer b

a. ✗ Incorrect. This directly applies the rules for new agreements made after May 1, 1997, ignoring that the agreement was made in 1995 and was never changed or covered by a T1157 election.

b. ✓ Correct. The first step in judging the tax treatment of support is the agreement date. This agreement was made in 1995 (before May 1, 1997) and has never had its amount changed, it does not state tax-free treatment from 1997 on, and the parties did not file a Form T1157 election; so the old treatment continues by law: the full $18,000 Carlos paid for the year (child and spouse parts) is deductible in full on Line 22000, and the full $18,000 Elena received must be reported on Line 12800 as taxable support payments.

c. ✗ Incorrect. The tax rules have no provision that support agreements older than 20 years automatically lose their deduction eligibility.

d. ✗ Incorrect. This wrongly treats spousal support as tax-free, reversing the basic classification logic of the old and new tax rules.

38′ answer d

a. ✗ Incorrect. This enters the whole $14,400 as taxable income on Line 12800, ignoring that child support under a new order made after May 1, 1997 is non-taxable.

b. ✗ Incorrect. This omits child support from the total on Line 12799. Line 12799 is an information total line and must include all the support received.

c. ✗ Incorrect. This sets the total line to zero, going against the design in the slip reporting guide that separates the total line (Line 12799) from the taxable line (Line 12800).

d. ✓ Correct. Under the current rules in effect since May 1, 1997, the recipient must report the total support received of $14,400 ($9,600 + $4,800) on Line 12799; since the court order was made in 2022, the child support part of $9,600 is not taxed, and only the periodic spousal support of $4,800 is taxable income, entered on Line 12800.

39 answer d

a. ✗ Incorrect. This falls into the classic trap of 'full-time status equals qualifying student'. A postdoctoral fellow is not a student enrolled in a qualifying education program and cannot get the full exemption.

b. ✗ Incorrect. There is no 50% exemption rule for postdoctoral fellows ($35,000 x 50% = $17,500 is an invented method).

c. ✗ Incorrect. This misses the $500 basic exemption that a non-qualifying student still has.

d. ✓ Correct. A postdoctoral fellow is not a student in a qualifying education program and has only the $500 basic exemption: $35,000 − $500 = $34,500.

39′ answer a

a. ✓ Correct. For a part–time qualifying student the exemption = tuition $2,200 + materials $300 + basic exemption $500 = $3,000; the $1,000 by which the $4,000 bursary exceeds $3,000 is included on Line 13010.

b. ✗ Incorrect. This wrongly applies the full exemption rule for full–time qualifying students to a part–time student.

c. ✗ Incorrect. This deducts tuition and materials but omits the $500 basic exemption the tax rules expressly add.

d. ✗ Incorrect. This treats a part–time qualifying student as a non–qualifying student, ignoring the eligibility to deduct tuition and materials.

40 answer a

a. ✓ Correct. Under the three RESP paths: the contributions ($10,000) are taken back tax–free by the subscriber Lucas and never enter anyone's income line; the educational assistance payment EAP ($6,000) is taxable income of the beneficiary student Emily, reported on her Line 13000; the accumulated income payment AIP ($8,000) is paid to the subscriber Lucas, included on Line 13000 at Lucas's normal tax rate, and subject to a separate 20% additional penalty tax (for non–Quebec residents) calculated on Line 41800.

b. ✗ Incorrect. This wrongly includes the $10,000 of contributions taken back tax–free as taxable income, and reverses the additional tax on Line 41800 into a tax credit.

c. ✗ Incorrect. This wrongly attributes the AIP income received by the subscriber to the student, avoiding the 20% penalty tax that applies to the subscriber.

d. ✗ Incorrect. This falls into the serious misunderstanding that a registered education plan is entirely tax–free. In an RESP only the return of contributions is not taxed; both EAP and AIP are legally taxable amounts.

40′ answer d

a. ✗ Incorrect. The additional tax rate is 20% by law (12% in Quebec), not 10%, and its purpose is not to recover provincial grants.

b. ✗ Incorrect. The 12% additional tax rate applies only to Quebec residents (because Quebec collects its own provincial additional tax); residents of BC and other provinces pay the federal additional tax at 20%.

c. ✗ Incorrect. AIP is never a capital gain; the tax rules compel it to be taxed in full with a penalty additional tax on top.

d. ✓ Correct. Under Section 2.5, when an accumulated income payment (AIP) not used for the student's education is paid to the subscriber, in addition to being taxed on Line 13000 at the subscriber's normal rates, an additional tax of 20% must be paid separately on Line 41800 (the rate for BC residents; Quebec is 12%) ($12,000 x 20% = $2,400), to stop the subscriber from abusing the RESP as a personal long–term tax–free compounding tool.

41 answer b

a. ✗ Incorrect. This wrongly assumes that long service automatically gives eligibility for transfer room, ignoring that this privilege was frozen at the historical point of the 1996 reform.

b. ✓ Correct. Under Section 2.6 and the historical changes in Section 5, the transfer mechanism for retiring allowances (eligible transfer) was frozen in the 1996 tax reform and recognizes only service up to 1995. Harold started in 2002, so all his service is after 1996 and the eligible part (box 66) is zero; the whole $50,000 is non–eligible (box 67) and can only use the taxpayer's own remaining RRSP room for the year ($18,000); the $32,000 above that room cannot be transferred and is taxed normally on Line 13000.

c. ✗ Incorrect. The $2,000 per year of accumulated room is calculated only to the end of 1995, and service from 1996 on no longer adds any room.

d. ✗ Incorrect. A non–eligible retiring allowance is not barred from being contributed; as long as Harold has his own remaining RRSP room, he can contribute and deduct normally.

41′ answer c

a. ✗ Incorrect. This falls into the intuitive trap that all death benefits are tax-free. An employer death benefit gets only a statutory capped exemption, and the CPP death benefit is fully taxable.

b. ✗ Incorrect. This wrongly applies the $10,000 exemption to the CPP death benefit. Section 2.6 states clearly that CPP/QPP death benefits do not qualify for this exemption.

c. ✓ Correct. Under Section 2.6, an employee death benefit has a statutory exemption cap of $10,000 for all employers and beneficiaries together for the same deceased person; the $12,000 paid by the employer less $10,000 leaves $2,000 taxable; the CPP death benefit ($2,500) is expressly not eligible for the $10,000 exemption and is fully taxable income. So the total taxable amount on Line 13000 is $4,500 ($2,000 + $2,500).

d. ✗ Incorrect. This omits the $10,000 statutory exemption the tax rules give an employee death benefit.

42 answer c

a. ✗ Incorrect. This offsets the repayment against the T4 wages privately and reports a net $40,000 on Line 10100. This is a serious misreport and goes against the line-by-line matching requirement of the tax rules.

b. ✗ Incorrect. This omits the statutory deduction on Line 22900 for the amount repaid to the employer, so Kevin pays tax twice on wages he already repaid.

c. ✓ Correct. Under the standard practice in Case 1 of Section 6, each receipt and payment must go on its own line and must never be offset privately: the $50,000 salary paid by the employer on the T4 is reported honestly on Line 10100; the $10,000 workers' compensation on the T5007 is reported on Line 14400 with a $10,000 deduction on Line 25000 (workers' compensation itself is tax-free); and the $10,000 of advanced wages Kevin repaid to the employer is separately claimed on Line 22900 as an other employment deduction. All four entries are clear and complete, with no omission and no double taxation.

d. ✗ Incorrect. Workers' compensation is never taxable other income on Line 13000, and this approach causes a tax-free benefit to be taxed by mistake.

42′ answer a

a. ✓ Correct. Each receipt and payment must be reported separately on its own statutory line: the T4 wages of $60,000 go on Line 10100; the $8,500 workers' compensation on the T5007 goes on Line 14400 with a full $8,500 deduction on Line 25000 to keep it tax-free; the $8,500 of advanced wages repaid to the employer is deducted on Line 22900 to offset exactly the extra taxable wages in Line 10100.

b. ✗ Incorrect. This arbitrarily subtracts the repayment from the T4 wages and reports a net $51,500 on Line 10100, going against the rule that a slip must be entered by its original box numbers.

c. ✗ Incorrect. This omits the deduction on Line 25000, so the $8,500 workers' compensation is included in taxable income and taxed.

d. ✗ Incorrect. Claiming a deduction on Line 25000 out of nothing without reporting income on Line 14400 will cause a logical reconciliation error in the CRA system.

Chapter 7 answers and reasons

43 answer c

a. ✗ Incorrect. This option mistakes a Step 4 deduction on line 25500 for a Step 3 deduction, falling into the classic trap of assuming that all deductions reduce net income.

b. ✗ Incorrect. There is no rule in the northern residents deduction allocating half of the net income reduction to the federal government and half to the province.

c. ✓ Correct. Under the institutional design principles in Section 1, the Canadian return strictly divides deductions into two tiers: lines 20700 through 23500 belong to Step 3, which reduce tax and lower net income; lines 24400 through 25600 belong to Step 4, which only reduce taxable income on line 26000 while leaving net income on line 23600 completely unchanged. Because the Canada Child Benefit (CCB) is calculated based on the parents' combined adjusted family net income, the northern residents deduction on line 25500 does not reduce net income and therefore provides zero increase to the family's CCB entitlement.

d. ✗ Incorrect. The northern residents deduction is a statutory federal taxable income deduction under the Income Tax Act, taking effect directly on federal line 25500.

43′ answer a

a. ✓ Correct. Line 22900 (other employment expenses) falls within the lines 20700—23500 range as a Step 3 net income tier deduction, effectively reducing net income on line 23600 and thereby increasing the groceries and essentials benefit based on net income; line 25500 (northern residents deductions) falls in the lines 24400—25600 range as a Step 4 deduction, reducing taxable income only with zero impact on net income on line 23600.

b. ✗ Incorrect. Employment expenses on line 22900 are deducted directly at the net income tier rather than being non–refundable tax credits, whereas northern residents deductions specifically do not reduce net income.

c. ✗ Incorrect. This option confuses the watershed boundary between the two tiers of deductions, mistakenly assuming that all deductions reduce net income equally.

d. ✗ Incorrect. Line 22900 is explicitly classified as a Step 3 net income tier deduction.

44 answer b

a. ✗ Incorrect. The sum of per–child limits is calculated correctly ($8,000 + $5,000 = $13,000), but this overlooks the two–thirds earned income ceiling ($18,000 × 2/3 = $12,000) and mistakenly assumes child care expenses can be carried forward like moving expenses.

b. ✓ Correct. The deduction is the lowest of three ceilings: actual amount paid of $15,000; sum of per–child limits of $8,000 (age 5) + $5,000 (age 9) = $13,000; and two–thirds of earned income of $18,000 × 2/3 = $12,000. Taking the lowest yields $12,000; the remaining $3,000 undeducted in the current year lapses completely and cannot be carried forward.

c. ✗ Incorrect. Single–parent filers are equally subject to the statutory two–thirds earned income ceiling, as the tax law provides no exemption.

d. ✗ Incorrect. Child care expenses have no carry–forward mechanism whatsoever and any unused balance expires immediately; a seven–year carry–forward is a distractor conflating business loss rules.

44′ answer d

a. ✗ Incorrect. Actual expenses paid represent only the first ceiling and must be compared against the sum of per–child limits and two–thirds of earned income to take the lowest.

b. ✗ Incorrect. This option includes investment income and EI when calculating earned income. The Income Tax Act explicitly provides that investment income and EI benefits cannot be included in earned income.

c. ✗ Incorrect. Although $33,000 × 2/3 = $22,000 is calculated correctly, the sum of per–child limits of $8,000 + $8,000 + $5,000 = $21,000 is lower, and the deduction is the lowest of the three ($21,000).

d. ✓ Correct. The deduction is the lowest of three ceilings: actual amount paid of $24,000; sum of per–child limits of $8,000 (age 4) + $8,000 (age 6) + $5,000 (age 11) = $21,000; and two–thirds of earned income based strictly on employment earnings of $33,000 (excluding investment income and EI) × 2/3 = $22,000. Taking the lowest yields $21,000.

45 answer a

a. ✓ Correct. When the lower–income spouse is enrolled full–time in school, the higher–income spouse claims a weekly allowance equal to 2.5% of the annual ceiling per child: $8,000 × 2.5% = $200, $5,000 × 2.5% = $125, totaling $325 per week × 10 weeks = $3,250; the remaining qualifying expenses are claimed by Sophia.

b. ✗ Incorrect. This mistakes the schooling exception for a transfer of the full annual ceiling ($8,000 + $5,000 = $13,000); the higher–income spouse can only claim based on the number of enrolled weeks.

c. ✗ Incorrect. This only calculates the weekly amount for the 5–year–old child ($200 × 10 weeks) and omits the 8–year–old child's $125 weekly limit.

d. ✗ Incorrect. Full–time educational enrollment is one of the statutory exceptions.

45′ answer c

a. ✗ Incorrect. The severe illness exception provides only a weekly allowance and does not transfer the full annual limit of $8,000.

b. ✗ Incorrect. Actual expenses paid represent only the first ceiling, and the higher–income spouse is capped by the statutory weekly limit.

c. ✓ Correct. The annual limit for a 6–year–old child is $8,000, providing a weekly limit of $8,000 × 2.5% = $200. For 8 weeks of confinement: $200 × 8 = $1,600.

d. ✗ Incorrect. This applies the weekly limit of $125 ($5,000 × 2.5%) for children aged 7 to 15; because the child is 6 years old (under age 7 at year–end), the $8,000 tier applies.

46 answer d

a. ✗ Incorrect. This option directly measures the distance between the old and new residences, falling into the common trap of measuring moving distance only between the two homes. Tax law measures distance to the new work location, not the new residence.

b. ✗ Incorrect. Tax law contains no exclusion for relocations within the same metropolitan area; any move that satisfies the statutory 40–kilometre distance test qualifies.

c. ✗ Incorrect. Daily round–trip commute distance is not the statutory criterion for the moving expense distance test.

d. ✓ Correct. Under the moving expense rules in Section 2, the 40–kilometre threshold measures whether the move brought the taxpayer significantly closer to the new workplace, not how far the household moved. The statutory formula requires that the distance from the old residence to the new work location minus the distance from the new residence to the new work location (via the shortest normal public route) must be at least 40 km. Here, 52 km − 9 km = 43 km ⩾ 40 km, which fully satisfies the eligibility requirement.

46′ answer b

a. ✗ Incorrect. Even though the two residences are 45 km apart, tax law disregards the distance between the residences and looks solely at the reduction in distance to the new workplace.

b. ✓ Correct. The 40–kilometre moving expense test requires calculating the difference between two distances: old residence to new workplace (65 km) minus new residence to new workplace (28 km) = 37 km. Because 37 km is less than the statutory threshold of 40 km, this move does not constitute an eligible relocation under tax law, and moving expenses cannot be deducted.

c. ✗ Incorrect. There is no statutory rule providing that a new home located within 30 km of the new workplace automatically qualifies.

d. ✗ Incorrect. Intraprovincial relocations are fully eligible to claim moving expenses as long as the 40–kilometre distance reduction requirement is met.

47 answer b

a. ✗ Incorrect. Moving expenses are strictly prohibited from offsetting other income earned during the year (such as income from the former workplace or investment income); the deduction is capped by income earned at the new location.

b. ✓ Correct. Under the moving expense rules in Section 2, eligible moving expenses can only be deducted against new employment or self-employment income earned at the new location. Benjamin earned only $7,000 at the new location, so the maximum deduction in 2026 is $7,000. The second key rule is that unused eligible moving expenses ($5,000) may be carried forward indefinitely to future years against the same type of income earned at that new location.

c. ✗ Incorrect. Tax law explicitly specifies that moving expenses cannot be carried back to prior tax years.

d. ✗ Incorrect. Investment income and employment earnings from outside the new location cannot be used as the deduction base for moving expenses under tax law.

47′ answer a

a. ✓ Correct. Moving expenses follow two timing rules: first, the deduction in any year is capped by income at the new location, meaning Sarah deducts $6,000 of the $16,000 in 2026 and carries the remaining $10,000 forward indefinitely to 2027; second, expenses must be claimed in the calendar year they are paid and cannot be carried back, so the $9,000 selling commission paid in March 2027 must be claimed on the 2027 return and deducted alongside the carried-forward $10,000 against 2027 new-location income.

b. ✗ Incorrect. Outlays that have not yet been incurred cannot be accelerated and claimed prematurely in 2026.

c. ✗ Incorrect. Moving expenses are strictly barred from being carried back to amend a prior-year tax return; expenses paid in 2027 can only be claimed in 2027 or later years.

d. ✗ Incorrect. Unlike child care expenses, undeducted moving expenses enjoy a statutory right of indefinite carry-forward and never lapse across tax years.

48 answer a

a. ✓ Correct. Under the support payment rules in Section 2, in agreements executed after April 1997, child support is non-deductible and spousal support is fully deductible. When the payer makes a partial payment that falls short of the total obligation, tax law mandatorily allocates payments to child support first. Of the $15,000 paid, the first $12,000 fully satisfies child support, leaving the remaining $3,000 allocated to spousal support. The payer must use the two-line reporting structure: report the total support paid ($15,000) on line 21999, and report the allowable deductible amount ($3,000) on line 22000.

b. ✗ Incorrect. This falls into the high-frequency reporting trap of entering line 22000 while leaving line 21999 blank. CRA relies on the total on line 21999 to cross-match with the recipient's line 12799; omitting line 21999 triggers matching failures and CRA inquiries.

c. ✗ Incorrect. Tax law explicitly prohibits prorating partial payments between child support and spousal support, requiring child support to be fully satisfied first.

d. ✗ Incorrect. Tax law protects the welfare of minor children; the order of payment always prioritizes child support before spousal support.

48′ answer c

a. ✗ Incorrect. This option improperly includes legal fees incurred by the payer defending against a support increase on line 22100. Only legal fees incurred by the recipient to collect or increase support are deductible; legal fees incurred by the payer to contest support are non–deductible under tax law.

b. ✗ Incorrect. Line 21999 must report the total amount of all support paid ($16,000), including child support, and the legal fees are non–deductible.

c. ✓ Correct. Line 21999 reports the total support paid during the year of $16,000; line 22000 reports the deductible spousal support of $10,000 (child support of $6,000 under a 2022 agreement is non–deductible). For legal fees, tax law is strict: only legal fees incurred by the recipient to collect or increase support can be deducted on line 22100; legal fees paid by the payer to establish, defend, or reduce support obligations are strictly non–deductible, making line 22100 $0.

d. ✗ Incorrect. This option includes non–deductible child support on line 22000, violating post–1997 support payment tax rules.

49 answer c

a. ✗ Incorrect. This option simply sums all expenditures, ignoring statutory exclusions for interest on loans for registered accounts and safety deposit box rentals.

b. ✗ Incorrect. This option includes interest on the loan used to contribute to a TFSA. Tax law explicitly prohibits deducting interest on money borrowed to fund any registered plan (TFSA, RRSP, FHSA).

c. ✓ Correct. Under the carrying charges rules for line 22100 in Section 2, the test for deductibility is whether the expense was incurred to earn taxable investment income (interest or dividends). The non–registered portfolio management fees ($1,200) and the loan interest to purchase dividend–paying shares ($2,500) are both eligible outlays, totaling $3,700. Ineligible items explicitly excluded by tax law include loan interest to contribute to registered accounts ($800) and safety deposit box rentals ($150).

d. ✗ Incorrect. Professional management and custody fees for non–registered accounts are deductible annually on line 22100 and are not required to be capitalized into the adjusted cost base (only trading commissions on security transactions must be capitalized into ACB).

49′ answer d

a. ✗ Incorrect. This option incorrectly includes the non–deductible RRSP borrowing interest and trading commissions in full.

b. ✗ Incorrect. Interest on loans borrowed to contribute to an RRSP is non–deductible by law, whereas accounting fees for reporting property income are legally deductible.

c. ✗ Incorrect. Tax law explicitly permits taxpayers with property income (such as rental income) or business income to deduct tax preparation and accounting fees ($300); omitting this amount results in under–claiming.

d. ✓ Correct. Line 22100 allows deductions for interest paid on loans borrowed to earn taxable investment income ($1,800) and accounting fees paid to prepare returns reporting business or property income ($300), totaling $2,100. Interest on loans borrowed to fund an RRSP contribution ($1,100) is explicitly excluded by tax law; trading commissions on purchasing securities ($600) cannot be claimed on line 22100 and must be capitalized into the adjusted cost base (ACB).

Chapter 8 answers and reasons

50 answer b

a. ✗ Incorrect. This option mistakenly treats the home buyers' amount as a refundable tax credit. The home buyers' amount is a non–refundable tax credit and never generates a direct cash refund. This falls into the classic trap of assuming non–refundable credits yield cash refunds without tax payable.

b. ✓ Correct. Under the institutional design principles in Section 1, the legal effect of a non–refundable tax credit is strictly limited to reducing the taxpayer's current–year tax payable to zero; it cannot create a negative balance, and unused credits can neither be refunded in cash nor carried forward. Because the basic personal amount (BPA) ranks first in the statutory claiming order and has already completely eliminated Ethan's $630 federal tax payable, the home buyers' amount (Line 31270) ranked behind it provides zero actual tax savings, resulting in a tax benefit of $0.

c. ✗ Incorrect. In addition to the federal credit rate being reduced to 14% (rather than 15%) for 2026, the home buyers' amount cannot legally be carried forward to future years.

d. ✗ Incorrect. Ethan's federal tax liability has already been reduced to zero by the basic personal amount, leaving no tax for the home buyers' amount to offset; federal and provincial taxes are calculated on separate forms, and there is no rule dividing $630 equally between them.

50′ answer d

a. ✗ Incorrect. The medical expense tax credit (METC) is a non–refundable tax credit and cannot generate a cash refund when tax payable has already been reduced to zero.

b. ✗ Incorrect. This option uses the expired 15% credit rate and ignores the strict non–refundable limitation when tax payable is zero.

c. ✗ Incorrect. The basic personal amount has a mandatory statutory priority and any unused portion cannot be carried forward, so it cannot be artificially displaced to make room for medical expenses.

d. ✓ Correct. Section 1 emphasizes that determining whether a non–refundable tax credit provides any benefit begins with verifying the taxpayer's current–year tax payable ceiling. Maya's federal tax has already been completely eliminated by the basic personal amount; because the medical expense credit (Line 33099) sits further down the statutory ordering, it produces zero tax reduction and zero cash refund, yielding $0 in tax savings.

51 answer c

a. ✗ Incorrect. Triggering the Top–Up credit does not depend on whether the taxpayer reaches the highest tax bracket. Many high–income taxpayers with few credits receive nothing, while middle–income taxpayers with large eligible credits qualify.

b. ✗ Incorrect. Triggering the credit does not depend on a single item like tuition or medical expenses reaching a specific dollar threshold, but rather on the aggregate total of all eligible non–refundable tax credit amounts.

c. ✓ Correct. Under Section 2.2, the Top–Up Tax Credit (ITA s. 118(11)) is a key addition for the 2026 tax year, triggered solely when the sum of the taxpayer's qualifying non–refundable tax credit amounts exceeds the first federal tax bracket threshold ($58,523 in 2026). When total credits exceed this threshold, the loss from cutting the credit rate from 15% to 14% outweighs the gain from the lower bracket rate, so the formula restores approximately 1% (14% × 7.14% = 0.9996%) on the excess portion, ensuring the taxpayer retains the original 15% credit value.

d. ✗ Incorrect. Section 4 confirms that the Top–Up credit exists solely at the federal level (ITA Part I); because British Columbia did not lower its lowest bracket rate, no provincial Top–Up credit exists.

51′ answer a

a. ✓ Correct. Section 2.2 analyzes the underlying mathematical logic of the statutory formula: A represents 14% × total credits, and B × C represents 14% × $58,523. Factoring out 14%, the Top-Up equals 14% × D × (total credits − $58,523). Because 14% × 7.14% = 0.9996%, it almost exactly equals the 1 percentage point difference between 15% and 14%. Thus, factor D (7.14%) functions to restore the credit conversion rate on credits exceeding the threshold back to the original 15% level.

b. ✗ Incorrect. The Top-Up credit is a relieving tax credit providing additional tax savings to taxpayers, not a punitive clawback mechanism.

c. ✗ Incorrect. Annual indexation of medical expenses is governed by the regular inflation adjustments under ITA s. 117.1 and has nothing to do with factor D (7.14%) in the Top-Up formula.

d. ✗ Incorrect. Federal and provincial credits are calculated separately, and there is no inter-jurisdictional tax credit conversion rate.

52 answer a

a. ✓ Correct. Under Section 2.4, because Kevin's net income of $85,000 is below the $181,440 phase-out threshold, his maximum spouse amount entitlement is the full $16,452; this base is reduced dollar-for-dollar by the spouse's full-year net income (whether from employment or investment earnings): $16,452 − $6,452 = $10,000.

b. ✗ Incorrect. This option assumes that only active employment earnings reduce the spouse amount, falling into the classic trap of claiming the full spouse amount simply because the spouse is not employed. The law requires a dollar-for-dollar reduction based on the spouse's total net income, including investment income.

c. ✗ Incorrect. This option uses the expired 2024 historical baseline of $15,705 rather than the 2026 current statutory figure of $16,452.

d. ✗ Incorrect. There is no statutory rule disqualifying the spouse amount once investment income exceeds $3,500; the credit reaches zero only when the spouse's net income equals or exceeds the maximum entitlement of $16,452.

52′ answer c

a. ✗ Incorrect. Since 2020, the basic personal amount (BPA) has used a two-tier structure where the enhanced portion is subject to a statutory linear phase-out for high earners, rather than allowing everyone to claim the maximum.

b. ✗ Incorrect. The enhanced portion does not disappear as a cliff; it phases out linearly between $181,440 and $258,482, reducing to the base amount of $14,829 only when net income reaches or exceeds $258,482.

c. ✓ Correct. Section 6 (Case 2) demonstrates the calculation: income exceeding the lower threshold is $200,000 − $181,440 = $18,560; the bracket width is $258,482 − $181,440 = $77,042; reduction of the enhanced portion is $1,623 × ($18,560 / $77,042) = $390.99; allowable BPA is $16,452 − $390.99 = $16,061.01.

d. ✗ Incorrect. This option reflects the unreduced historical baseline from the 2024 tax year, failing to use the 2026 statutory figures.

53 answer d

a. ✗ Incorrect. Claiming all CPP contributions as non-refundable tax credits ignores the statutory reforms in 2019 and 2024 that established enhanced CPP contributions as tax deductions.

b. ✗ Incorrect. CPP contributions are not employment expenses (Line 22900), and base CPP contributions must mandatorily be claimed as a non-refundable credit rather than a full deduction.

c. ✗ Incorrect. Line 20800 is for RRSP deductions and Line 31200 is for Employment Insurance premiums, completely confusing the tax form line functions.

d. ✓ Correct. Section 2.7 details the dual-track system for CPP contributions: employee 4.95% base CPP contributions (2026 cap $3,519.45) are claimed on Line 30800 as a non-refundable tax credit (converted at 14%); meanwhile, the 1.00% first enhanced tier ($711.00) and the 4.00% second enhanced tier CPP2 ($416.00), totaling $1,127.00, are claimed on Line 22215 as a deduction, reducing net income at the taxpayer's marginal tax rate.

53′ answer b

a. ✗ Incorrect. Line 22215 is a pre-tax deduction, not a refundable cash benefit.

b. ✓ Correct. Section 1 highlights that deductions are progressive while non-refundable credits are flat: Line 22215 is a deduction reducing taxable income, saving tax at the individual's marginal tax rate ($100 × 29% = $29); Line 30800 is a non-refundable tax credit multiplied by the statutory credit rate (14% in 2026), saving a fixed $14. For high-income earners, the tax savings of a deduction is more than double that of a credit.

c. ✗ Incorrect. Form BC428 fully recognizes the provincial base CPP credit, and there is no punitive clawback.

d. ✗ Incorrect. The Top-Up credit applies to total non-refundable tax credits; enhanced CPP contributions are deducted from income, do not enter the credit schedule, and have no role in Top-Up calculations.

54 answer b

a. ✗ Incorrect. This option assumes that carried-forward tuition can be transferred to parents in future years, falling into the fatal one-way door trap of carrying forward tuition to transfer later. Once carried forward, it can never be transferred.

b. ✓ Correct. Section 2.9 and Case 3 establish three strict tuition rules: first, student-first priority (Brandon's tax is already zero, so current-year self-claim is $0); second, the annual federal transfer ceiling is $5,000, designated exclusively to a spouse, parent, or grandparent via signed designation on Form T2202; third, the one-way door rule dictates that any amount not transferred and carried forward to future years ($3,000) is permanently locked in Brandon's name for his own use and can never be transferred to anyone in any future year.

c. ✗ Incorrect. The federal tuition transfer is subject to a strict statutory cap of $5,000 per year (which is unindexed) and cannot be transferred in full up to $8,000.

d. ✗ Incorrect. Tuition on Line 32300 is a Step 5 non-refundable tax credit, not a deduction that reduces Step 3 net income.

54′ answer c

a. ✗ Incorrect. The $5,000 transfer limit applies only in the year the tuition was incurred; once an unused balance is carried forward, it can never be transferred in a later year.

b. ✗ Incorrect. Carried-forward tuition permanently loses transfer eligibility; it cannot be transferred up to $5,000, nor can the full $6,000 be transferred.

c. ✓ Correct. Section 2.9 highlights the irreversible one-way door rule: the decision to transfer tuition must be executed in the year the expense was incurred (2025); once untransferred amounts are carried forward to future years under the student's name, they can only be used by the student to reduce their own tax in future years, and the law strictly prohibits transferring carried-forward tuition to parents or a spouse.

d. ✗ Incorrect. A transferee cannot unilaterally claim ineligible carried-forward tuition, and submitting a university diploma has no legal effect under tax law.

55 answer a

a. ✓ Correct. The supplement for persons under 18 is reduced dollar-for-dollar by child care expenses exceeding the threshold: $6,000 − $3,533 = $2,467 reduction; allowable supplement is $6,032 − $2,467 = $3,565.

b. ✗ Incorrect. This option calculates the amounts independently, omitting the mandatory child care expense clawback.

c. ✗ Incorrect. This option mistakes the clawback amount for the remaining credit: $6,000 − $3,533 = $2,467 is the reduction amount, leaving an allowable supplement of $3,565.

d. ✗ Incorrect. Reducing the credit base by 14% of the expenses ($6,032 − 14% × $6,000 = $5,192) misapplies the rule; the clawback operates dollar-for-dollar on the credit base, not at the 14% credit rate.

55′ answer d

a. ✗ Incorrect. The disability amount cannot be self-assessed, and a standard physician's letter cannot substitute for official statutory requirements.

b. ✗ Incorrect. Claiming the disability amount always requires prior CRA administrative approval on Form T2201, regardless of the credit amount claimed.

c. ✗ Incorrect. Hospital expense receipts fall under the medical expense tax credit (METC) and cannot replace the independent administrative approval required for the DTC.

d. ✓ Correct. Sections 1.4 and 2.6 state that the disability amount (Line 31600) is the only non-refundable credit that mandatorily requires prior administrative pre-approval. An authorized medical practitioner must complete Form T2201 (Disability Tax Credit Certificate) and submit it to CRA; only after CRA reviews and approves eligibility can the taxpayer claim the credit. Submitting a claim without prior approval results in system rejection.

56 answer c

a. ✗ Incorrect. This option follows the old pre-2026 rules that permitted double-claiming. Effective the 2026 tax year, Bill C-15 enacted an express statutory prohibition against claiming both credits for the same expense, falling into the classic trap of double-claiming renovations and medical expenses under the new rules.

b. ✗ Incorrect. The HATC was not abolished; the $20,000 annual eligible expense cap remains active, but the same expense cannot be double-claimed under the medical expense credit.

c. ✓ Correct. Section 2.10 explains that while the HATC annual expense cap remains $20,000, Bill C-15 enacted legislation prohibiting amounts claimed under the medical expense tax credit (Line 33099) from also being claimed under HATC starting in the 2026 tax year. As of October 30, 2026, the CRA line-by-line guidance pages still reflect the 2025 rules and cannot be relied on.

d. ✗ Incorrect. Form BC428 has no 14% clawback penalty; both credits are directly subject to the anti-duplication rule at both federal and provincial levels.

56′ answer b

a. ✗ Incorrect. Application of the new rule is determined by the specific tax year in which the goods were acquired or services rendered, not by the final completion date of the entire project.

b. ✓ Correct. Section 2.10 and Item 7 of the review checklist state that the anti-duplication rule applies based strictly on the year expenditures are incurred (when goods are acquired or services rendered). Expenditures incurred by December 31, 2025 ($15,000) remain under prior rules allowing double claims under both HATC and METC; expenditures incurred in 2026 ($6,000) are strictly governed by the new anti-duplication rule. Multi-year renovation projects must be segregated by expenditure year.

c. ✗ Incorrect. The federal HATC is fully available to qualifying seniors and is not restricted to provincial credits.

d. ✗ Incorrect. The contract signing date is not the statutory criterion for determining the taxation year; the $6,000 incurred and paid for services rendered in 2026 cannot be double-claimed.

Chapter 9 answers and reasons

57 answer a

a. ✓ Correct. Under the Medical Expense Tax Credit (METC) rules, the threshold is the lesser of 3% of the filer's net income ($110,000 × 3% = $3,300) and the statutory dollar cap ($2,890 for 2026). Because net income exceeds the crossover threshold (approximately $96,333), the threshold is capped at $2,890. The claimable amount is $6,500 − $2,890 = $3,610.

b. ✗ Incorrect. This option mistakenly deducts 3% of net income ($3,300) as the threshold ($6,500 − $3,300 = $3,200), falling into the classic trap of taking the 'greater of' instead of the 'lesser of' and overlooking that high earners are protected by the statutory cap of $2,890.

c. ✗ Incorrect. This option mistakenly uses the historical 2024 tax year cap of $2,759 ($6,500 − $2,759 = $3,741), failing to apply the current indexed statutory cap of $2,890 for the 2026 tax year.

d. ✗ Incorrect. This option mistakenly assumes that high earners are exempt from any threshold deduction, ignoring the statutory requirement to deduct the lesser of 3% of net income and the dollar cap.

57′ answer c

a. ✗ Incorrect. This option mistakenly deducts 3% of net income ($140,000 × 3% = $4,200) as the threshold ($8,200 − $4,200 = $4,000), improperly expanding the threshold for a high earner and falling into the 'greater of' trap.

b. ✗ Incorrect. This option completely ignores the statutory threshold requirement, incorrectly assuming that the full medical expense amount can be converted directly into a tax credit.

c. ✓ Correct. The threshold is the lesser of 3% of net income ($4,200) and the 2026 statutory cap of $2,890, locking the threshold at $2,890; the claimable amount on line 33099 is $8,200 − $2,890 = $5,310.

d. ✗ Incorrect. This option mistakenly uses the outdated 2024 tax year cap of $2,759 ($8,200 − $2,759 = $5,441), failing to apply the current $2,890 cap for the 2026 tax year.

58 answer b

a. ✗ Incorrect. The first $200 incorrectly uses the 15% rate from the 2024 tax year (outdated study materials); in the 2026 tax year, the 'appropriate percentage' dropped to 14% alongside the lowest federal tax bracket.

b. ✓ Correct. Under ITA s. 118.1(3) and s. 248(1), the first $200 is calculated at the appropriate percentage for the year (the 2026 lowest federal tax bracket rate of 14%), and the portion exceeding $200 that does not fall into the 33% bracket is calculated at 29%: $28 + $232 = $260.

c. ✗ Incorrect. The charitable donation tax credit is the only non–refundable credit calculated in tiers; amounts exceeding $200 receive a 29% credit rather than having the entire donation calculated at 14% (which would yield only $140).

d. ✗ Incorrect. The first $200 must be calculated at the lowest federal tax bracket rate of 14% and cannot receive the 29% rate across the entire amount (which would improperly yield $290).

58′ answer d

a. ✗ Incorrect. The charitable donation tax credit is the sole exception among non–refundable credits calculated in tiers, rather than applying a single uniform rate across the entire amount.

b. ✗ Incorrect. Mistakenly applies the outdated 15% rate from the 2024 tax year; the 2026 federal lowest tax bracket rate (appropriate percentage) has dropped to 14%.

c. ✗ Incorrect. Mistakenly uses the transitional blended rate of 14.5% from the 2025 tax year; the current rate for the 2026 tax year is fully enacted at 14%.

d. ✓ Correct. In the 2026 tax year, the first $200 applies the lowest bracket rate of 14% (the appropriate percentage), yielding a $28 credit; the remaining $1,300 exceeding $200 applies the statutory 29% rate, yielding a $377 credit; total federal credit is $28 + $377 = $405.

59 answer c

a. ✗ Incorrect. Tax law does not mandate aggregating medical expenses on a strict calendar–year basis; rather, it permits choosing any continuous 12–month period.

b. ✗ Incorrect. There is no need to file a formal adjustment request (T1–ADJ) to reopen the prior–year return; as long as the expenses were not previously claimed, the taxpayer can simply designate a 12–month window spanning both years on the 2026 return.

c. ✓ Correct. Under the 'any 12–month period' rule, a filer can choose any continuous 12–month window ending in the current tax year (2026) to aggregate medical expenses, provided the expenses were not claimed in a prior year. Chloe can combine the November 2025 and June 2026 expenses into $3,700, and after deducting her 2026 threshold of $2,100, successfully claim $1,600 on line 33099.

d. ✗ Incorrect. The Medical Expense Tax Credit (METC) has no 5–year carryforward mechanism similar to charitable donations; expenses must be claimed in the chosen 12–month period for that tax year.

59′ answer a

a. ✓ Correct. Using the 'any 12–month period' rule, as long as the window ends in the 2026 tax year and the expenses were not claimed in the prior year, Lucas can combine both expenses into $4,700, deduct his 2026 threshold of $2,400, and claim $2,300.

b. ✗ Incorrect. Falls into the rigid calendar–year boundary trap; tax law explicitly allows the 12–month window to span two calendar years.

c. ✗ Incorrect. Medical expenses cannot be carried forward for 5 years like charitable donations; unclaimed expenses from a prior period must be claimed by selecting an appropriate 12–month window spanning across years.

d. ✗ Incorrect. The statutory threshold is deducted in full per tax year and cannot be arbitrarily split 50/50 between two separate tax years.

60 answer d

a. ✗ Incorrect. Directly donating publicly listed securities provides the special tax incentive of reducing the capital gains inclusion rate to zero, rather than taxing the gain at the standard 50% inclusion rate and offering an extra credit.

b. ✗ Incorrect. The gain is not deferred; rather, it is permanently exempt from taxable income (0% inclusion rate), and the charity selling the donated shares incurs no tax liability.

c. ✗ Incorrect. The donation receipt is issued for the full fair market value of the shares on the date of donation ($35,000), not at adjusted cost base (ACB).

d. ✓ Correct. Under special tax provisions, directly donating appreciated publicly listed securities to a registered charity reduces the capital gains inclusion rate to zero (0%), eliminating tax on the $25,000 accrued gain while still providing a donation tax receipt for the full fair market value of $35,000 (reported on Form T1170).

60′ answer b

a. ✗ Incorrect. A direct donation yields a non–refundable tax credit, not a tax deduction against net income.

b. ✓ Correct. Directly donating publicly listed securities results in an inclusion rate of zero on capital gains, avoiding tax entirely on the $30,000 gain while securing a donation receipt for the full $45,000 fair market value; selling first and donating cash would trigger tax on the gain at standard inclusion rates.

c. ✗ Incorrect. Registered charities must strictly adhere to fair market valuation rules, and direct in–kind donations do not allow inflating the receipt value.

d. ✗ Incorrect. When donating securities eligible for the zero inclusion rate, the taxpayer must still file Form T1170 to report the disposition compliantly.

61 answer a

a. ✓ Correct. The threshold is calculated separately for each person based on their own net income (lesser of 3% and $2,890): mother's threshold is $20,000 × 3% = $600 ($4,000 − $600 = $3,400); son's threshold is $12,000 × 3% = $360 ($1,500 − $360 = $1,140); total claim on line 33199 is $3,400 + $1,140 = $4,540.

b. ✗ Incorrect. This incorrectly pools the expenses and deducts Kevin's own threshold: Kevin's 3% is $3,300, capped at $2,890 ($5,500 − $2,890 = $2,610); line 33199 requires calculating a separate threshold based on each dependant's own net income.

c. ✗ Incorrect. This takes the greater of rather than the lesser of by applying the $2,890 cap to each person: mother's claim is $4,000 − $2,890 = $1,110 and son's claim is $0; the threshold must be the lesser of 3% and $2,890.

d. ✗ Incorrect. Overlooks deducting any threshold: $4,000 + $1,500 = $5,500.

61′ answer d

a. ✗ Incorrect. This incorrectly pools the expenses and deducts Grace's own threshold: $95,000 × 3% = $2,850 (which is less than $2,890), giving $5,000 − $2,850 = $2,150.

b. ✗ Incorrect. Takes the greater of rather than the lesser of by applying the $2,890 cap to each person: father's claim is $3,000 − $2,890 = $110, and sister's claim is $0.

c. ✗ Incorrect. Overlooks deducting the required thresholds: $3,000 + $2,000 = $5,000.

d. ✓ Correct. The threshold is calculated separately for each dependant: father's threshold is $18,000 × 3% = $540 ($3,000 − $540 = $2,460); sister's threshold is $10,000 × 3% = $300 ($2,000 − $300 = $1,700); total claim on line 33199 is $2,460 + $1,700 = $4,160.

62 answer b

a. ✗ Incorrect. The Budget Implementation Act for the 2026 tax year has officially eliminated the double-claiming mechanism, and this prohibition directly applies to expenses incurred in 2026 and later years without grandfathering exemptions.

b. ✓ Correct. Starting in the 2026 tax year, tax legislation officially eliminates double-claiming for the same expenditure under both the Home Accessibility Tax Credit (HATC) and the Medical Expense Tax Credit (METC). Taxpayers must choose between HATC (line 31285) and METC (line 33099) and can no longer receive both credits for the same expense as permitted prior to 2026.

c. ✗ Incorrect. Tax law has introduced no prorated compromise formula; current rules explicitly require choosing only one credit for the expenditure.

d. ✗ Incorrect. Qualifying accessibility renovations remain on the eligible list for METC, and taxpayers retain the right to claim the expenditure under either METC or HATC depending on which credit offers greater tax savings; METC eligibility has not been revoked.

62′ answer c

a. ✗ Incorrect. Both HATC and METC are non-refundable tax credits and never generate a deduction against net income on line 23600.

b. ✗ Incorrect. Falls into the outdated accessibility double-claiming trap; starting in the 2026 tax year, double-claiming the same expense is strictly prohibited for expenditures incurred in 2026 and later.

c. ✓ Correct. Current tax law effective for the 2026 tax year strictly prohibits claiming both HATC and METC for the same qualifying home accessibility renovation expense; the taxpayer must choose one or the other.

d. ✗ Incorrect. Neither HATC nor METC has a family net income clawback threshold disqualifying filers, confusing these rules with the income thresholds of the refundable medical expense supplement.

63 answer c

a. ✗ Incorrect. Falls into the trap of assuming a mandatory either–or choice; METC (line 33099) and the refundable medical expense supplement (line 45200) are separate tax measures that can be claimed concurrently for the same expenses and are not mutually exclusive.

b. ✗ Incorrect. The $4,478 figure is the minimum working income threshold required to qualify, not an income cap; earning at least this amount is an eligibility requirement.

c. ✓ Correct. The line 45200 refundable medical expense supplement is designed for low–income working individuals: for 2026, working income must reach at least $4,478, and the supplement phases out at 5% on adjusted family net income over $33,960 (up to a maximum supplement of $1,534). Daniel's working income of $28,000 and family net income of $32,000 satisfy both tests; the same medical expenses claimed on line 33099 can also be used on the line 45200 worksheet.

d. ✗ Incorrect. Line 45200 is a refundable tax credit; even if the taxpayer has zero tax payable before credits, the excess supplement amount is paid directly as a cash tax refund.

63′ answer a

a. ✓ Correct. Net self–employment income qualifies as working income and comfortably exceeds the 2026 minimum threshold of $4,478; her family net income of $30,000 is below the clawback threshold of $33,960, qualifying her for the full maximum supplement of $1,534; the supplement operates independently from line 33099 and can be claimed concurrently.

b. ✗ Incorrect. Tax legislation explicitly defines working income to include both employment income and net business income from self–employment (sole proprietorships or partnerships).

c. ✗ Incorrect. Falls into the trap of assuming a mandatory either–or choice; the two measures serve different policy objectives, and tax rules allow the same medical expenses to be used in both calculation worksheets.

d. ✗ Incorrect. Line 45200 is claimed by the qualifying individual based on adjusted family net income, and there is no rule requiring a mandatory 50% split with a spouse.

Chapter 10 answers and reasons

64 answer a

a. ✓ Correct. Under Income Tax Act s. 122.7, an individual enrolled as a full–time student at a designated educational institution for more than 13 weeks in the tax year is statutorily excluded from CWB eligibility, unless they have an eligible dependant at the end of the year. Because this taxpayer was enrolled full–time for 20 weeks and has no dependants, their benefit entitlement is $0.

b. ✗ Incorrect. This option merely applies the basic phase–in formula, overlooking the statutory full–time student exclusion for individuals enrolled full–time for more than 13 weeks without an eligible dependant.

c. ✗ Incorrect. Even though net income is below the phase–out threshold, the taxpayer is disqualified due to full–time enrollment exceeding 13 weeks and cannot claim the single maximum entitlement of $1,665.

d. ✗ Incorrect. The tax law contains no prorated 50% benefit provision for full–time students; enrollment exceeding 13 weeks results in complete disqualification.

64′ answer c

a. ✗ Incorrect. Full-time enrollment exceeding 13 weeks is not an absolute bar; the tax law explicitly provides an exception for taxpayers who have an eligible dependant at the end of the year.

b. ✗ Incorrect. Student bursary deductions and the Canada Workers Benefit are not mutually exclusive, and the CWB is a statutory refundable tax credit.

c. ✓ Correct. The statutory exclusion for full-time students explicitly provides an exception: if a taxpayer has an eligible dependant at the end of the year (such as the 3-year-old child in this scenario), the 13-week restriction does not apply, and they remain eligible to claim the CWB under the family entitlement rules.

d. ✗ Incorrect. The tax law contains no statutory penalty reducing benefits by 50% for student parents with eligible children.

65 answer b

a. ✗ Incorrect. Falls into the agreement allocation trap. CRA explicitly rules that private agreements between parents cannot alter the statutory 50/50 shared custody split.

b. ✓ Correct. Under mandatory shared custody rules, when a child lives roughly equal time with each parent and both share primary care, the CRA rejects any privately agreed allocation ratio and strictly issues 50% of the sole-custody entitlement to each parent, calculated independently based on each parent's own adjusted family net income (AFNI).

c. ✗ Incorrect. The CRA does not accept private tax-planning arrangements assigning 100% of the benefit to the lower-income parent; the statutory 50/50 split is mandatory.

d. ✗ Incorrect. The CRA does not need to wait for a family court amendment; it directly enforces the statutory 50% split per parent under its administrative authority.

65′ answer d

a. ✗ Incorrect. Even if established through a mediation accord, the tax law does not permit parents to customize allocation percentages for the Canada Child Benefit.

b. ✗ Incorrect. Under shared custody, the benefit cannot be assigned 100% to one parent simply because that parent has lower income; a 50/50 split is required.

c. ✗ Incorrect. Each parent's entitlement is determined independently based on their own AFNI, rather than pooling and averaging both parents' incomes.

d. ✓ Correct. When shared custody is established, the CRA rejects any non-equal allocation agreement (whether 70/30 or 100/0) and statutorily mandates that each parent receive 50% of their own sole-custody entitlement, calculated using their own separate AFNI.

66 answer c

a. ✗ Incorrect. Falls into the misconception that advance payments must be repaid. The CWB advance payment legislation specifically provides that advance payments are exempt from clawback.

b. ✗ Incorrect. ACWB payments are tax-free advance benefits, not taxable employment income, and cannot be reported on line 10400.

c. ✓ Correct. ACWB advance payments have statutory no-clawback protection: even if an individual completely phases out of CWB entitlement due to higher current-year income, Step 4 of Schedule 6 reconciles net line 45300 to $0, and advance payments already received do not need to be repaid to the CRA.

d. ✗ Incorrect. The CRA does not reduce the basic personal amount to indirectly recover lawfully issued ACWB advance payments.

66′ answer a

a. ✓ Correct. When the basic CWB entitlement calculated on Schedule 6 ($200) is less than advance payments received ($600), Step 4 reconciles the final net credit on line 45300 to $0 (it cannot be negative), and the $400 excess advance payment does not need to be repaid to the CRA.

b. ✗ Incorrect. Refundable tax credit lines cannot be negative, and excess advance payments do not create an amount owing or tax payable.

c. ✗ Incorrect. Schedule 6 must accurately reconcile advance payments, and the CRA has no statutory right to claw back lawfully received advance payments.

d. ✗ Incorrect. The Canada Workers Benefit is reconciled on an annual basis, and there is no mechanism to carry forward excess advance payments to future tax years.

67 answer d

a. ✗ Incorrect. Falls into the automatic delivery trap. While the Child Disability Benefit is paid automatically with the CCB, the adult Canada Disability Benefit is administered by Service Canada and requires a formal application.

b. ✗ Incorrect. The Canada Disability Benefit is not claimed on the T1 return and cannot be requested via Form T1–ADJ.

c. ✗ Incorrect. The Canada Disability Benefit is a federal social benefit program that operates independently of provincial health registries.

d. ✓ Correct. The Canada Disability Benefit is designed for eligible adults aged 18 to 64 holding an approved Form T2201; it is administered by Service Canada rather than the CRA, meaning it is not paid automatically and requires the taxpayer to submit an independent application to Service Canada.

67′ answer b

a. ✗ Incorrect. The Child Disability Benefit for minor children is administered by the CRA, not Service Canada, and requires no separate application.

b. ✓ Correct. The Child Disability Benefit (CDB) for children under 18 is an automatic supplement to the CCB; once the child's Form T2201 is approved by the CRA, the benefit is automatically included in the monthly CCB payments without requiring any additional application.

c. ✗ Incorrect. Once Form T2201 is approved, parents do not need to submit Form RC66SCH or provide medical receipts.

d. ✗ Incorrect. Form GST370 is an employee GST/HST rebate form and has no connection to child disability benefits.

68 answer a

a. ✓ Correct. Under Income Tax Act s. 122.91, the statutory age window for the Canada Training Credit (CTC) requires an individual to be at least 26 years old and under 66 at the end of the tax year (ages 26 to 65). A 23–year–old cannot accumulate a Canada Training Credit Limit (CTCL) and therefore cannot claim line 45350 (their tuition is claimed as a standard non–refundable tuition tax credit on Schedule 11).

b. ✗ Incorrect. Because the taxpayer is under age 26, their CTCL balance is zero, making them ineligible for the refundable training credit.

c. ✗ Incorrect. Accumulating the annual $250 CTCL requires satisfying both the working income threshold and the mandatory age requirement of being at least 26 at year–end.

d. ✗ Incorrect. The CTC applies broadly to eligible tuition paid to qualifying post–secondary and occupational training institutions, not just doctoral programs in science and engineering.

68′ answer d

a. ✗ Incorrect. Overlooks the CTCL cap; the claimable credit cannot exceed the taxpayer's accumulated CTCL balance ($500).

b. ✗ Incorrect. The statutory CTC calculation is based on 50% of eligible tuition fees, not 100%.

c. ✗ Incorrect. The $250 amount is the annual accrual limit, whereas the claim is based on the total accumulated CTCL available ($500).

d. ✓ Correct. On Schedule 11, the Canada Training Credit equals the lesser of the individual's available CTCL ($500) and 50% of eligible tuition fees paid ($1,600 * 50% = $800), resulting in an eligible claim of $500.

69 answer b

a. ✗ Incorrect. To calculate income–tested benefits, the CRA must determine combined AFNI from both partners; a return filed by only one spouse is insufficient.

b. ✓ Correct. Canada Child Benefit (CCB) and CGEB payments are calculated using adjusted family net income (AFNI). When taxpayers are married or common–law, both individuals must file an annual tax return. If the wife does not file, the CRA cannot determine AFNI, causing benefit payments to stop automatically starting in the new benefit year (July).

c. ✗ Incorrect. The CRA does not estimate or impute the non–filing spouse's income; it simply suspends benefit payments.

d. ✗ Incorrect. The CRA suspends payments entirely rather than deducting a $100 monthly administrative late–filing penalty from benefit amounts.

69′ answer a

a. ✓ Correct. The CGEB is an income–tested tax–free family benefit calculated on adjusted family net income (AFNI). If either partner fails to file a return, the CRA cannot verify total family income, automatically suspending the benefit delivery pipeline.

b. ✗ Incorrect. Earning casual cash income does not disqualify individuals from benefits; reporting the income properly on a tax return allows full benefit eligibility.

c. ✗ Incorrect. The CGEB is issued to one eligible partner, and holding a joint bank account is not an eligibility requirement.

d. ✗ Incorrect. The tax definition of common–law partnership generally requires 12 continuous months of cohabitation or having a child together, and payments stopped due to non–filing rather than partnership duration.

70 answer c

a. ✗ Incorrect. Falls into the trap of assuming voluntary opt–out creates eligibility. Tax rules stipulate that choosing not to enroll in an available plan still counts as having access to dental coverage.

b. ✗ Incorrect. The tax rules provide no exemption allowing opt–outs if insurance premiums exceed 5% of net income.

c. ✓ Correct. The primary gatekeeper requirement for the CDCP is having no access to private dental insurance. Under official program rules, if an employer offers group dental coverage, even if optional and employee–paid, voluntarily opting out is still deemed as having access to private dental insurance, disqualifying the employee from CDCP eligibility.

d. ✗ Incorrect. CDCP eligibility requires family net income to be strictly below $90,000, not below the basic personal amount; disqualification here is driven entirely by deemed access to private coverage.

70′ answer b

a. ✗ Incorrect. CDCP coverage does not automatically renew indefinitely with annual tax filing; beneficiaries must proactively confirm renewal each year.

b. ✓ Correct. CDCP operates on benefit coverage periods, and official guidelines mandate that enrollees complete proactive renewal by June 1 each year; missing this renewal deadline causes a coverage gap, requiring the individual to reapply to restore coverage.

c. ✗ Incorrect. Failing to renew on time causes an outright lapse in coverage rather than increasing the co-payment rate to 60%.

d. ✗ Incorrect. Health Canada does not automatically transfer individuals who lapse coverage into private insurance pools.

Chapter 11 answers and reasons

71 answer c

a. ✗ Incorrect. $1,800 is the amount the student used personally that year and cannot be transferred to a parent.

b. ✗ Incorrect. This option falls into the trap of not deducting self-use from the transfer cap. It ignores that the statutory $5,000 cap must be reduced by the tuition amount the student has already used.

c. ✓ Correct. Under the Schedule 11 rules, the cap on transfer of the tuition amount is the statutory $5,000 minus the amount the student used that year ($5,000 – $1,800 = $3,200), and cannot exceed the unused amount for the year ($7,200). So at most $3,200 can be transferred to the father, and the remaining $4,000 is left to be carried forward.

d. ✗ Incorrect. The transferable amount is rigidly limited by the statutory maximum, so the whole unused $7,200 cannot be transferred to the father.

71′ answer a

a. ✓ Correct. Under the tuition credit transfer rules, the cap is the statutory $5,000 minus the amount the student used that year ($5,000 – $2,200 = $2,800), and cannot exceed the unused part ($5,300). So at most $2,800 can be transferred to the mother.

b. ✗ Incorrect. This falls into the self-use trap. The statutory cap must first be reduced by the student's own $2,200.

c. ✗ Incorrect. Even if the current-year unused amount exceeds $5,000, the transfer is capped by the adjusted statutory limit.

d. ✗ Incorrect. $2,200 is the amount the student used against his or her own tax, not the amount transferred to the mother.

72 answer b

a. ✗ Incorrect. Even amending earlier returns cannot make an amount already elected to be carried forward available for transfer to a parent in later years.

b. ✓ Correct. Under the one-way gate rule for tuition carryforward, once a taxpayer elects in a year to carry unused tuition forward, the amount is locked permanently in the taxpayer's own name and can only be used by the student in a future year with tax payable; it can never again be transferred to a parent or spouse.

c. ✗ Incorrect. The tax rules have no provision for transferring half of a prior-year carryforward.

d. ✗ Incorrect. Carried-forward tuition is non-refundable and cannot be paid out in cash to a parent.

72′ answer d

a. ✗ Incorrect. A change in marital status does not change the legal nature of the carryforward; prior-year carryforwards remain non-transferable.

b. ✗ Incorrect. Transfers for the year are limited to the unused tuition arising in that year; prior-year carryforwards cannot be transferred.

c. ✗ Incorrect. The tax rules have no mechanism linking transfer of a tuition carryforward to a spouse's basic personal amount.

d. ✓ Correct. Tuition amounts carried forward from earlier years can only be used by the taxpayer personally in future years, and permanently lose eligibility to be transferred to a spouse or parent; marriage does not change this.

73 answer a

a. ✓ Correct. The scholarship exemption for a part-time qualifying student = tuition required for the program ($1,900) + materials ($400) + $500 basic exemption = $2,800. The excess of $3,500 – $2,800 = $700 is included on Line 13010.

b. ✗ Incorrect. This falls into the 'deduct only $500' trap: only those who are not qualifying students deduct just $500; a part-time qualifying student can also add tuition and materials.

c. ✗ Incorrect. In principle only the scholarships of full-time qualifying students get the full exemption; for part-time students the taxable amount must be calculated by formula.

d. ✗ Incorrect. The exemption is the sum of tuition, materials and the $500 basic exemption; deducting tuition only would overstate the taxable amount.

73′ answer c

a. ✗ Incorrect. Deducting only $500 is the rule for non-qualifying students; a part-time qualifying student can also add tuition and materials.

b. ✗ Incorrect. This omits the statutory $500 basic exemption.

c. ✓ Correct. The exemption for a part-time qualifying student is tuition ($2,500) + materials ($300) + basic exemption ($500) = $3,300. The taxable portion is $4,200 – $3,300 = $900, reported on Line 13010.

d. ✗ Incorrect. The full exemption in principle applies only to full-time students in post-secondary programs.

74 answer d

a. ✗ Incorrect. This option falls into the trap of parents claiming interest they paid. Whoever actually pays the loan does not thereby gain the legal right to claim the credit.

b. ✗ Incorrect. The tax rules do not allow taxpayers to divide up the student loan interest credit freely.

c. ✗ Incorrect. Payment by a third party does not void the eligibility for the credit, which still belongs to the legal borrower.

d. ✓ Correct. Under the Line 31900 rule, only the legal borrower of a government student loan can claim the student loan interest tax credit, and payment by parents does not count; when there is no tax to offset in the year, the student can carry the interest amount forward to use in any of the next 5 years.

74′ answer b

a. ✗ Incorrect. This falls into the trap of claiming for someone else's payment. Even a married spouse cannot claim student loan interest registered in the other person's name.

b. ✓ Correct. The student loan interest credit belongs strictly to the legal borrower who obtained the loan and cannot be transferred to a spouse or parent; paying on someone's behalf does not change who may claim.

c. ✗ Incorrect. Student loan interest can only be claimed as a non-refundable credit on Line 31900 and cannot be deducted as investment interest on Line 22100.

d. ✗ Incorrect. The tax rules have no absurd provision that doubles the credit.

75 answer b

a. ✗ Incorrect. $5,000 is the old pre–2023 limit, and the 20% additional tax applies to an accumulated income payment (AIP), not an EAP.

b. ✓ Correct. Since the Budget 2023 legislative change, which continues to apply for the 2026 tax year, the limit for ordinary educational assistance payments (EAP) in the first 13 consecutive weeks of study by a full–time student is $8,000 (previously $5,000); the EAP (the government grant and earnings portion) is included in the student's own taxable income and reported on Line 13000.

c. ✗ Incorrect. $7,200 is the lifetime limit of the basic CESG grant, and only the return of contributions is tax–free; an EAP is taxable income.

d. ✗ Incorrect. $4,000 is the limit per 13–week window for part–time students, the full–time limit is $8,000, and the EAP is reported entirely by the student.

75′ answer d

a. ✗ Incorrect. $2,500 is the old limit before the Budget 2023 change and has been raised since March 2023.

b. ✗ Incorrect. $8,000 is the limit for the first 13 consecutive weeks for full–time students; the part–time limit is different.

c. ✗ Incorrect. $5,000 is the lifetime limit of the CTC, which mixes up two different tax items.

d. ✓ Correct. Under the rule raised by Budget 2023 and continuing in 2026, for a part–time student the ordinary EAP limit is $4,000 per 13–week window ending at the time of payment (previously $2,500), included in the student's taxable income.

76 answer a

a. ✓ Correct. BC follows the third model: BC428 keeps the provincial tuition credit, so the $6,000 tuition is claimed as usual; the provincial education amount was eliminated in 2019 and can no longer be claimed by months of study (except old amounts carried forward from 2018 and earlier).

b. ✗ Incorrect. BC completely eliminated the provincial education amount back in 2019, so apart from old carryforward amounts, no education amount can be claimed for the current year.

c. ✗ Incorrect. This option falls into the trap of confusing provinces. Ontario and Alberta eliminated both the tuition and education amounts entirely, but BC still keeps the tuition credit.

d. ✗ Incorrect. BC has no parallel provincial training credit, and the tuition credit is still entered on the tuition line.

76′ answer c

a. ✗ Incorrect. BC did not copy the Ontario model; BC still keeps the provincial tuition credit.

b. ✗ Incorrect. Newfoundland and Manitoba still keep the education amount, but BC eliminated it in 2019.

c. ✓ Correct. BC follows a distinct model: it ended the provincial education amount in 2019 but fully kept the provincial tuition tax credit, so it differs from Ontario and Alberta, which eliminated both entirely.

d. ✗ Incorrect. The provincial tax system has no rule replacing the tuition credit with an automatic grocery rebate.

77 answer d

a. ✗ Incorrect. The tuition credit is non–refundable and cannot be cashed directly as a refund cheque.

b. ✗ Incorrect. The CTC accumulates only in years when the person is 26 or over at year end and meets the income tests, so a 19–year–old student is not eligible.

c. ✗ Incorrect. When there is no tax payable, the tax rules impose no penalty of 50% of income.

d. ✓ Correct. Even when tax payable is zero, filing records the unused tuition carryforward on the Notice of Assessment, builds next year's RRSP room at 18% of labour income, and establishes eligibility for a student aged 19 to receive the CGEB (which replaces the GST/HST credit from July 2026).

77′ answer a

a. ✓ Correct. Without filing, there is no Notice of Assessment for the year, the CRA system has no record of this tuition carryforward, and when the amount is needed in a later high-income year it is hard to prove the amount, and the only fix is to file the missed return late.

b. ✗ Incorrect. The T2202 certificate issued by the school is kept in the school's and the CRA's systems and is not revoked.

c. ✗ Incorrect. The late-filing penalty is calculated as a percentage of tax owing; when tax payable is zero the penalty is zero.

d. ✗ Incorrect. Not filing a return never causes a Social Insurance Number to be suspended or invalidated.

Chapter 12 answers and reasons

78 answer c

a. ✗ Incorrect. This falls into the trap of everything being lost once over the threshold. The age amount is reduced only by 15% of the excess; it reaches zero only at net income of about $107,819.

b. ✗ Incorrect. This ignores the income phase-out rule. Net income above $46,432 must reduce the age amount at 15%, so the full amount cannot be claimed directly.

c. ✓ Correct. Under the 2026 tax year formula for the age amount (Line 30100), the taxpayer is 65 or over; the net income above the start is $56,432 – $46,432 = $10,000; the reduction is $10,000 x 15% = $1,500; so the age amount actually claimable is $9,208 – $1,500 = $7,708.

d. ✗ Incorrect. $1,500 is the reduction to be deducted from the maximum, not the age amount that can be claimed; the claimable amount is $9,208 – $1,500.

78′ answer a

a. ✓ Correct. Under the 2026 age amount rules, net income above the threshold is $62,432 – $46,432 = $16,000; the reduction is $16,000 x 15% = $2,400; the claimable amount is $9,208 – $2,400 = $6,808.

b. ✗ Incorrect. This falls into the trap of claiming in full. Net income above the $46,432 threshold must reduce the age amount at 15%.

c. ✗ Incorrect. This falls into the trap of losing everything over the threshold. Net income has not reached the zero point (about $107,819), so a partial credit can still be claimed.

d. ✗ Incorrect. $2,400 is the reduction itself, to be deducted from $9,208; the claimable amount is $9,208 – $2,400 = $6,808.

79 answer a

a. ✓ Correct. Under the pension income amount (Line 31400) rules, when the taxpayer is under 65, eligible pension income is limited to periodic life annuity payments from an employer RPP (and pensions inherited on a spouse's death); the taxpayer's own RRIF withdrawals are strictly not eligible before 65. Since the qualifying RPP income is $12,000, which exceeds the statutory $2,000 cap, the full $2,000 can be claimed.

b. ✗ Incorrect. A taxpayer under 65 is not absolutely barred; as long as periodic annuity payments from an employer RPP are received, Line 31400 can still be claimed.

c. ✗ Incorrect. This falls into the trap of the RRIF credit under 65. Before 65, one's own RRIF withdrawals are never qualifying pension income.

d. ✗ Incorrect. The statutory cap of the pension income amount is a fixed $2,000, and RRIF income under 65 does not qualify at all, so the amounts cannot be added up.

79′ answer d

a. ✗ Incorrect. This falls into the trap of the RRIF credit under 65. Before 65, personal RRIF withdrawals are by law not qualifying pension income.

b. ✗ Incorrect. CPP/QPP benefits are never qualifying pension income by law, and the pension income amount can never be claimed on CPP at any age.

c. ✗ Incorrect. The tax rules have no provision that halves or prorates the pension income amount for ages 60 to 64.

d. ✓ Correct. Before 65, personal RRIF withdrawals not inherited on a spouse's death are not qualifying pension income; and CPP/QPP benefits are excluded from qualifying pension income at any age. So the taxpayer's qualifying income is $0, and Line 31400 can only claim $0.

80 answer d

a. ✗ Incorrect. T1032 retirement income splitting and Service Canada CPP sharing are two independent systems that do not affect each other, and the former never removes eligibility for the latter.

b. ✗ Incorrect. The CGEB is calculated on the couple's combined net income (family net income); splitting only moves income between the two, the combined family net income does not change, and CGEB is unaffected.

c. ✗ Incorrect. The tax rules expressly allow any split ratio freely chosen between 0% and 50%, with no rule that splitting more than 30% triggers an audit.

d. ✓ Correct. The age amount and the OAS recovery are both calculated on each person's own net income. Transferring the full 50% raises the receiving spouse's net income, may reduce her age amount, and if income is high enough can put her into the OAS recovery range (2026 threshold $95,323, excess recovered at 15%), cancelling the tax her husband saves.

80′ answer b

a. ✗ Incorrect. This wrongly assumes that if the transferring spouse qualifies the receiving spouse does too. Whether the receiving spouse can claim Line 31400 must be judged independently on the receiving spouse's own age and conditions.

b. ✓ Correct. Under Form T1032, whether the receiving spouse can claim the pension income amount on his or her own Line 31400 is tested on the receiving spouse's own age; since the receiving spouse is only 63 (under 65), the RRIF income transferred in is not qualifying pension income for them (under 65 only an RPP is recognized), so the receiving spouse cannot claim that credit on Line 31400.

c. ✗ Incorrect. The tax rules have no mechanism for changing the statutory age threshold by signing a waiver.

d. ✗ Incorrect. The receiving spouse can still claim the other statutory credits normally; it is only that the RRIF income transferred in does not meet the Line 31400 definition of qualifying because of the person's own age under 65.

81 answer b

a. ✗ Incorrect. This falls into the trap of filing T1032 mistaken for splitting CPP. T1032 is a CRA annual return form whose qualifying scope by law completely excludes CPP/QPP and OAS, so amending T1032 is of no use.

b. ✓ Correct. CPP pension sharing and the CRA's T1032 are two parallel systems: CPP sharing requires an ISP1002 application to Service Canada, and once approved the monthly benefit actually paid is redistributed in proportion to the months of cohabitation in the joint contributory period; the qualifying scope of T1032 never includes CPP.

c. ✗ Incorrect. Taxpayers must never alter slip amounts or report them across lines on their own; privately moving T4A(P) income will cause an anomaly in the CRA system and trigger tax owing, penalties and interest.

d. ✗ Incorrect. An objection to an assessment is a legal remedy against an existing assessment result and cannot replace the normal social security administrative application.

81′ answer c

a. ✗ Incorrect. This confuses the T1032 and CPP sharing rules. Freely choosing up to 50% is a rule of CRA T1032 retirement income splitting, not of CPP pension sharing.

b. ✗ Incorrect. CPP pension sharing is strictly governed by the Canada Pension Plan regulations, and a private notarized agreement cannot change the statutory calculation formula.

c. ✓ Correct. Under CPP pension sharing, the ratio is determined strictly by the number of months the couple lived together in the joint contributory period as a share of the total contributory period; it is a rigid statutory formula, and the applicants cannot negotiate or choose a ratio freely as with T1032.

d. ✗ Incorrect. The regulations do not set a flat 25% ratio; the ratio is calculated precisely from each couple's actual months of cohabitation in the joint contributory period.

82 answer c

a. ✗ Incorrect. The OAS recovery threshold is set uniformly by federal regulation and indexed to prices, and no taxpayer has the right to raise their own statutory recovery threshold.

b. ✗ Incorrect. T1213OAS cannot relieve the taxpayer of the statutory duty to report world income.

c. ✓ Correct. By default, the withholding of OAS recovery tax for the new benefit year from July is estimated from the previous year's net income; when the taxpayer's income clearly drops in the current year, Form T1213OAS (Request to Reduce OAS Recovery Tax at Source) lets the taxpayer ask the CRA in advance to lower the withholding based on estimated net income for the year, avoiding cash flow being over-withheld for a whole year; but it only adjusts the timing of withholding, and at year-end assessment the amount is recalculated on actual 2026 net income, with a refund or balance owing.

d. ✗ Incorrect. T1213OAS addresses current withholding cash flow, and can never convert recovery tax already lawfully assessed for the previous tax year into a refundable credit.

82′ answer a

a. ✓ Correct. T1213OAS only adjusts the timing of withholding and does not waive the recovery tax itself. Year-end assessment recalculates on the actual net income for the year: ($115,323 – $95,323) x 15% = $3,000, the under-withheld amount must be paid, and interest accrues if it is not paid on time.

b. ✗ Incorrect. T1213OAS is never a tax waiver; at assessment the amount must be calculated on the actual net income for the year, with a refund or balance owing.

c. ✗ Incorrect. The tax rules have no penalty clause that suspends OAS for three years because year-end income exceeds the estimate.

d. ✗ Incorrect. Medical expenses have strict claim period limits and cannot be applied across ten years to offset OAS recovery tax.

83 answer a

a. ✓ Correct. For the 2025 and earlier tax years the same accessibility expense could be claimed under both HATC and medical expenses (METC); but from the 2026 tax year (effective January 1, 2026), the federal budget implementation act expressly excludes 'expenses claimed under METC' from the definition of HATC qualifying expenditure, so the taxpayer can claim only one for the same money.

b. ✗ Incorrect. This falls into the trap of the old rule of double-claiming accessibility work. From the 2026 tax year double claiming has been ended by law, and continuing it is a misreport.

c. ✗ Incorrect. The tax rules require choosing one or the other expense by expense; they do not mechanically split the same expense 50% and 50%.

d. ✗ Incorrect. The new rule only prohibits double-claiming the same expense and does not affect claiming either credit normally when the conditions are met.

83′ answer d

a. ✗ Incorrect. HATC qualifying expenses are assigned to the year in which the goods or services are acquired (the expense is incurred), not the final completion date of the whole project.

b. ✗ Incorrect. Service expenses acquired in 2026 must follow the mutual exclusion rule in effect from 2026, and cannot avoid it by relying on a 2025 contract.

c. ✗ Incorrect. A project spanning two years does not change its legal nature as a home accessibility renovation (HATC); MHRTC is for building a self–contained secondary suite and has nothing to do with simply adding features.

d. ✓ Correct. The new rule takes effect from January 1, 2026, and the year is assigned strictly by 'the year the goods or services are acquired' (the year the expense is incurred), not the completion date; the $12,000 incurred in December 2025 can still be claimed under both HATC and METC under the old rule; the $8,000 incurred in March 2026 must follow the new either–or rule.

84 answer b

a. ✗ Incorrect. Once the full nursing home fees are claimed as medical expenses, neither the person nor anyone else can claim the disability amount for that person.

b. ✓ Correct. Claiming full nursing home fees excludes the disability amount; claiming as medical expenses only the attendant care part within $10,000 ($20,000 in the year of death) allows the disability amount ($10,341 for the 2026 tax year) to be claimed at the same time, and whatever the person cannot use can be transferred to a supporting family member (Line 31800). Which path saves more tax must be decided by comparing the actual figures.

c. ✗ Incorrect. The exclusion effect of claiming full nursing home medical expenses is absolute: not only the person but no family member can claim a transfer of the disability amount for the same person.

d. ✗ Incorrect. Routine care costs in a nursing home are not home accessibility expenses and cannot be claimed for HATC.

84′ answer c

a. ✗ Incorrect. The mutual exclusion rule treats the taxpayer and any family member claiming on their behalf equally; there is no exemption for supporting dependants.

b. ✗ Incorrect. Whatever the mother's income, claiming full nursing home medical expenses completely excludes the disability amount and its transfer by law.

c. ✓ Correct. Under sections 118.2 and 118.3 of the Income Tax Act, once the full nursing home bill (full nursing home fees) is claimed as medical expenses, neither the person nor anyone else (including children who provide funding) can claim the disability amount or the transfer of the disability amount (Line 31800) for that person for the year.

d. ✗ Incorrect. This scenario is one of complete legal exclusion; there is no compromise of a $5,000 transfer cap.

Chapter 13 answers and reasons

85 answer a

a. ✓ Correct. Under Sections 2.1 and 2.3 of the lecture, a foreign company has not paid corporate tax in Canada, so there is nothing to integrate; a foreign dividend therefore gets no gross-up and no dividend tax credit (DTC), and must be included 100% in full as interest and other investment income on Line 12100; withholding tax already paid abroad is claimed as a foreign tax credit (FTC) on Line 40500.
b. ✗ This is the 'foreign dividend integration' trap. Grossing up a foreign dividend 38% as a Canadian eligible dividend and claiming the DTC is a major mischaracterization; on assessment the overstated credit and the gross-up part are removed, and foreign tax should be offset through the FTC, not deducted on Line 22100.
c. ✗ This is the 'income classification mix-up' error. A foreign dividend is recurring property income, not a capital gain from disposing of capital property, and cannot get the 50% inclusion rate.
d. ✗ This is the 'net reporting' trap. A Canadian personal return must report gross income (gross foreign income); the foreign withholding tax cannot be subtracted by oneself to report a net amount, otherwise the foreign tax credit cannot be calculated accurately.

85′ answer c

a. ✗ This is the 'foreign dividend integration' trap. A foreign company, whatever its size, has not paid Canadian corporate tax at all, so the 15% gross-up and 9.0301% DTC treatment of non-eligible dividends cannot be applied.
b. ✗ This is the 'net reporting' trap. The taxpayer must report the pre-tax gross income of $2,000; reporting the net $1,700 directly breaks the tax rules and wastes the chance to credit the tax already paid abroad.
c. ✓ Correct. A foreign dividend is classified directly as interest-type income (Line 12100), with no gross-up and no Canadian dividend tax credit; the $300 of foreign tax paid is calculated on Form T2209 and claimed as a foreign tax credit (FTC) on Line 40500.
d. ✗ This is the 'income classification mix-up' error. A regular foreign dividend is investment income, not a return of capital or a capital gain on disposition, and cannot be included at 50% on Line 12700.

86 answer b

a. ✗ This is the 'minor's capital gains attribution' trap. Candidates often wrongly think all of a minor's gains are attributed back to the parents, ignoring that the capital gains attribution of ITA s.74.2 applies only to spouses and never extends to minors.
b. ✓ Correct. Under Section 2.4 of the lecture, when property is transferred to a related person under 18 not at arm's length, recurring income (interest, dividends) is attributed back to the transferor Arthur under s.74.1(2); but the capital gain or loss from disposing of the property is not subject to s.74.2 attribution (that provision is limited to spouses), so the $10,000 capital gain is always reported by Chloe herself on her own return at the 50% inclusion rate.
c. ✗ This is the 'ignoring the attribution rules' trap. Although ownership legally passed, the attribution rules (s.74.1(2)) compel the minor child's dividend income back to the parents for taxation.
d. ✗ This is the 'rule completely reversed' error. The tax rules are exactly the opposite: recurring dividends are attributed to the parent, and the capital gain on disposition stays with the minor child.

86′ answer d

a. ✗ This is the 'ignoring the attribution rules' trap. Interest income from interest-bearing assets transferred to a minor under 18 without consideration must be attributed back to the transferor parent under s.74.1(2).
b. ✗ This is the 'minor's capital gains attribution' trap. A capital gain realized by a minor on disposing of an asset is by law not attributed to the parent; only transfers between spouses attribute both income and capital gains.
c. ✗ This is the 'rule completely reversed' error. The tax rules provide that recurring interest income of a minor is attributed to the parent, while the capital gain is reported by the minor.
d. ✓ Correct. Under Section 2.4 of the lecture, for property transferred to a relative under 18, the interest income is attributed to the parent Evelyn (s.74.1(2)); the capital gain on disposing of the asset is not attributed (s.74.2 applies only to spouses) and is reported by Noah himself on his return.

87 answer c

a. ✗ This is the 'late payment fixed by paying the interest' trap. The payment deadline in s.74.5(2) is a rigid hard rule, with no remedy by paying a late charge and no procedure to waive late payment.

b. ✗ This is the 'compliant once, valid for life' trap. Paying interest on a prescribed rate loan is a continuous requirement and does not hold for life once met.

c. ✓ Correct. Under Section 2.4 of the lecture and Case 2, ITA s.74.5(2) requires that interest payable for each year be actually paid by January 30 of the following year; once a year is late (February 8 is past the deadline), the exemption is permanently broken from the year of default (2025), and all interest and dividend income from that year and later is attributed back to the contributing spouse Michael.

d. ✗ This is the 'temporary lapse restored next year' trap. Once the exemption condition has been broken in a year, it cannot be restored automatically by paying afterwards, and later years continue to trigger attribution.

87′ answer a

a. ✓ Correct. Under Section 2.4 of the lecture, one condition of the prescribed rate loan exemption is that each year's interest be paid by January 30 of the following year; in the third year payment was made as late as February 3, which breaks the continuing condition, and from that year the income earned from the loan is permanently attributed back to the lender George.

b. ✗ This is the 'grace period misunderstanding' trap. The statute clearly requires actual payment within 30 days after the end of each calendar year (that is, by January 30 of the following year); there is no 60-day grace period.

c. ✗ This is the 'penalty instead of attribution' trap. Late payment of interest is not a matter of paying an administrative penalty to the CRA; its direct statutory consequence is the loss of the s.74.5(2) anti-attribution protection, with income reallocated.

d. ✗ This is the 'attribution divided by months' trap. The attribution rules apply by tax year and do not divide the attribution status by month.

88 answer d

a. ✗ This is the 'blindly deducting everything' trap. Not all investment-related spending is deductible; the tax rules expressly forbid deducting registered account advisory fees, interest on money borrowed to contribute to registered plans, and safe deposit box fees.

b. ✗ This is the 'registered account advisory fees' trap. Earnings in a TFSA are tax-free, and advisory fees charged to it are expressly prohibited from deduction on Line 22100.

c. ✗ This is the 'interest on borrowing for registered plans' trap. Interest on money borrowed to contribute to any registered plan such as an RRSP, TFSA or FHSA is never deductible, whatever the purpose of the contribution.

d. ✓ Correct. Under the table in Section 2.5 of the lecture, only the investment management advisory fee of the non-registered account ($800) can be deducted on Line 22100; the TFSA advisory fee ($500), the interest on money borrowed to contribute to the RRSP ($400) and the safe deposit box fee ($150) are all non-deductible by law.

88′ answer b

a. ✗ This is the 'blindly deducting everything' trap. RRSP management fees and securities purchase commissions cannot go on Line 22100, and deducting them all would be a serious misreport.

b. ✓ Correct. Under the table in Section 2.5 of the lecture, the non-registered account investment counsel fee ($1,000) and interest on money borrowed to earn dividends ($500) are both legitimate carrying charges, totalling $1,500; the RRSP management fee ($600) already enjoys tax deferral and is not deductible, and the purchase trading commission ($300) must be added to the ACB and cannot be deducted in the current year.

c. ✗ This is the 'registered account advisory fees' trap. Management fees in the name of an RRSP account cannot be deducted again on the personal return.

d. ✗ This is the 'confusing trading commissions with carrying charges' trap. Brokerage commissions on buying and selling stock must be capitalized into the adjusted cost base (ACB) and cannot be deducted as a current expense on Line 22100.

89 answer a

a. ✓ Correct. Under Step 3 of Section 3 of the lecture, a strip bond has no T5 slip, and the holder must each year calculate by the effective interest method the interest accrued but not received and include it on Line 12100 for that year, while adding the interest already taxed to the bond's adjusted cost base (ACB), so that it is not taxed again at redemption on maturity.

b. ✗ This is the 'cash basis deferral' trap. The difference between the issue price and face value of discount and strip bonds is characterized as interest, not a capital gain, for tax purposes, and the tax rules compel reporting on an annual accrual basis; it cannot be deferred to redemption and treated as a capital gain.

c. ✗ This is the 'one-time reporting at redemption' trap. A strip bond is not reported on a cash basis in one amount, and financial institutions usually do not issue a T5 for it, so the holder must calculate and report annually.

d. ✗ This is the 'no slip means no tax' trap. The CRA states clearly that not receiving an information slip does not relieve the taxpayer of the reporting duty; the taxpayer has a statutory duty to calculate accrued interest.

89′ answer d

a. ✗ This is the 'tax-free capital misunderstanding'. Interest received later must still be reported normally, and the accrued interest paid has a specific statutory deduction mechanism; it cannot be treated directly as a tax-free return of capital.

b. ✗ This is the 'capital loss characterization' trap. The accrued interest paid by the buyer is an interest-type expense and should be deducted in the current period as a carrying charge; it cannot be converted into a capital loss.

c. ✗ This is the 'double inclusion and classification mix-up' trap. What the buyer pays is an interest cost; it can never be added to his own gross income to then take a capital gains deduction.

d. ✓ Correct. Under Step 3 of Section 3 of the lecture, a buyer who takes over the bond partway through the year can claim the accrued interest already included in the seller's income as a deduction (Interest Paid by You) on Line 22100, and must correspondingly reduce his own adjusted cost base (ACB) of the bond.

90 answer b

a. ✗ This is the 'T3 slip mixed in one entry' trap. A T3 trust slip contains income of different natures and must never be combined in one entry on Line 12100, otherwise the CRA system matching fails and the tax burden is miscalculated.

b. ✓ Correct. Under Step 4 of Section 3 and the self-check list item 8 of Section 7, box 21 is the capital gain distributed by the trust, goes to Schedule 3 at 50% inclusion on Line 12700; box 25 is foreign non-business income, included on Line 12100 and entered on T2209; box 26 is other income of the trust, going on Line 13000 (not Line 12100 and not Line 12700).

c. ✗ This is the 'box flow misplaced' trap. Box 21 is a capital gain and should go to Schedule 3 and Line 12700, and box 26 is other income that should go on Line 13000; they cannot be reversed or confused with interest.

d. ✗ This is the 'absurd total misreport' trap. Foreign income cannot get the 38% gross-up, trust other income cannot be deducted as an expense, and a capital gain cannot be included 100% on the interest line.

90′ answer a

a. ✓ Correct. Under Step 4 of Section 3 of the lecture, T3 box 21 is a capital gain and must go on Schedule 3 and enter Line 12700 at the 50% inclusion rate (taxable amount $2,000); box 26 is other income distributed by the trust and must go on Line 13000, and cannot be mixed into Line 12100.

b. ✗ This is the 'T3 slip mixed in one entry' trap. Mixing the capital gain and other income into one entry on Line 12100 not only loses the 50% inclusion benefit for capital gains but also causes a CRA system mismatch review.

c. ✗ This is the 'inclusion rate and characterization error'. The capital gains inclusion rate is 50%, not 100%, and trust other income is not a Canadian company dividend and cannot be grossed up and entered on Line 12000.

d. ✗ This is the 'box numbers completely reversed' trap. Putting the capital gain and the trust other income on each other's lines completely reverses the flow of the return.

91 answer c

a. ✗ This is the 'double taxation misunderstanding'. The tax rules expressly provide that the anti-avoidance mechanisms do not tax the same income twice, and there is a clear coordination provision between the two.
b. ✗ This is the 'new law repealed the old law' misunderstanding. In 2018 TOSI was only extended to more people; the attribution rules remain fully in force, and the two operate in parallel.
c. ✓ Correct. Under Section 2.4 and Section 5 of the lecture, the attribution rules govern direct transfers of property, while TOSI governs indirect dividends through family businesses or trusts; under ITA s.74.5(13), an amount already taxed under TOSI no longer triggers the attribution rules, so each has its own role without stacking tax twice.
d. ✗ This is the 'age scope reversed' trap. The attribution rules have always included a minors provision (s.74.1(2)), while TOSI has been extended since 2018 to adult family members over 18.

91′ answer b

a. ✗ This is the 'double taxation misunderstanding'. Section 74.5(13) exists precisely as the statutory coordination provision to exclude this result of double taxation.
b. ✓ Correct. Under Section 2.4 of the lecture, ITA s.74.5(13) expressly provides that an amount already taxed under the tax on split income (TOSI) is not caught again by the attribution rules, which excludes in legislation the repeated application of two anti-avoidance rules to the same dividend.
c. ✗ This is the 'objects completely reversed' trap. TOSI looks at the real degree of involvement in the business (such as the excluded shares or excluded business tests), while the attribution rules concern gratuitous or low-interest transfers of property.
d. ✗ This is the 'tax rate mechanism reversed' error. TOSI compels tax at the top federal and provincial marginal rates, while the attribution rules pull income back to the transferor and tax it at the transferor's overall marginal rate.

Chapter 14 answers and reasons

92 answer a

a. ✓ Correct. Under sections 2.1 and 5 of the lecture, the 2024 proposal to raise the inclusion rate to 2/3 (and to keep 1/2 on the first $250,000 for individuals) was formally cancelled in March 2025 and was never in effect for a single day. ITA s.38(a) and Schedule 3 line 23 both state a 50% inclusion rate. So the entire $300,000 gain is multiplied by 1/2, and the taxable capital gain is $150,000.
b. ✗ This is the "outdated proposed inclusion rate trap". Splitting the gain at a $250,000 threshold (50% on the first $250,000, 66.67% above) comes from the 2024 proposal that was cancelled. It never received Royal Assent, and using it in 2026 is a serious misreporting.
c. ✗ This is the "misapplied corporate proposed rate trap". The 2/3 inclusion rate never became law in any tax year, and it applies neither to individuals nor to corporations.
d. ✗ This is the "confusing the inclusion rate with full inclusion of interest" error. Gains on the disposition of capital property get the 1/2 inclusion rate under ITA s.38(a); only interest income is included at 100%.

92′ answer b

a. ✗ This is the "outdated proposed inclusion rate trap". Applying 66.67% above a $250,000 line never took effect, and section 2.1 of the lecture states that the proposal was fully cancelled in 2025.
b. ✓ Correct. Under section 2.1 of the lecture, the inclusion rate for the 2026 tax year is still 1/2 (50%) on the entire gain, with no $250,000 threshold. $400,000 x 1/2 = $200,000, which goes on line 12700.
c. ✗ This is the "proposal in effect misjudgment trap". The 2/3 inclusion rate proposed for June 25, 2024 never received Royal Assent and has been formally withdrawn. The official Schedule 3 form prints 50%.
d. ✗ This is the "invented second reduction error". Provincial tax uses federal taxable income as its base, and no province halves the tax again on personal investment property.

93 answer c

a. ✗ Incorrect. This copies the T5008 cost box: $21,000 – $15,008 – $20 = about $5,972. The brokerage sees only the holdings in its own account, which does not meet the requirement to average across accounts.

b. ✗ Incorrect. This is first–in, first–out: $21,000 – 300 x $30.0167 – $20 = about $11,975. Canadian tax law does not use first–in, first–out for identical properties; they must be averaged across all holdings.

c. ✓ Correct. ITA s.47 requires a weighted average across all identical properties held. Total cost = 600 x $30 + $10 + 400 x $50 + $10 = $38,020 for 1,000 shares, or $38.02 per share. Selling 300 shares: proceeds $21,000 – ACB $11,406 – commission $20 = capital gain $9,574.

d. ✗ Incorrect. Halving gives the taxable capital gain (about $4,787), not the capital gain that the question asks for.

93′ answer a

a. ✓ Correct. Total cost = $4,000 + $12,000 = $16,000 for 500 shares, an average of $32 per share. The ACB of the 250 shares sold is $8,000. Capital gain = $15,000 – $8,000 = $7,000.

b. ✗ Incorrect. This copies the T5008 cost box, which reflects only the Account Y holdings at $40 per share. It skips the cross–account weighted average, and the $5,000 result understates the gain.

c. ✗ Incorrect. This is first–in, first–out: cost $4,000 + 50 x $40 = $6,000, gain $9,000. Canadian tax law does not accept first–in, first–out; identical properties must be weighted–averaged.

d. ✗ This is a "concept confusion error". The capital gain is $7,000; only after applying the 50% inclusion rate does the taxable capital gain become $3,500.

94 answer b

a. ✗ This is the "no cash means no disposition trap". The law expressly treats a change of use as a deemed disposition: the taxpayer is deemed to sell at fair market value and immediately reacquire at the same value.

b. ✓ Correct. Converting a home to a rental is a deemed disposition, measured at fair market value on the day of the change of use. The principal residence exemption can reduce the taxable gain to zero, but since 2016 you must file T2091(IND) and tick the designation on Schedule 3 line 17900, or the exemption is not granted. A late designation accepted afterward carries a penalty of $100 for each complete month, capped at $8,000 (ITA s.220(3.5)).

c. ✗ This is the "deemed disposition cannot be exempt misunderstanding". A deemed disposition fully qualifies for the principal residence exemption. If the designation is properly filed, the taxable gain for the year can drop to zero and the new ACB is locked in at $950,000.

d. ✗ Incorrect. Reporting is the taxpayer's own duty and does not wait for CRA to audit. If the disposition is not reported and the designation not made, the principal residence exemption is not granted.

94′ answer d

a. ✗ This is the "invented large percentage penalty error". The penalty for a late principal residence designation is not half of the capital gain; it has a statutory cap in dollars.

b. ✗ This is the "free remedy fantasy trap". Sections 1.4 and 6 of the lecture state that a late designation is not free; the law sets a specific monthly penalty.

c. ✗ This is the "invented provincial provision error". The principal residence designation penalty falls under the federal Income Tax Act, ITA s.220(3.5), not provincial tax.

d. ✓ Correct. Under sections 1.4 and 6.2 of the lecture, when a late principal residence designation (Form T2091) is requested and CRA accepts it, the penalty is $100 for each complete month it is late, capped by law at $8,000 (ITA s.220(3.5)).

95 answer d

a. ✗ This is the "separate spouse account is not checked trap". The superficial loss rule (ITA s.54) expressly lists a spouse as an affiliated person, and a purchase by an affiliated person within the window triggers the limit as well.
b. ✗ This is the "loss permanently forfeited misunderstanding". A superficial loss is not wholly confiscated; the denied amount is added to the ACB of the replacement property and is realized on its eventual disposition.
c. ✗ This is the "arbitrarily changing the character of a loss error". A loss on stock investments is a capital loss and cannot be freely recharacterized as a non–capital business loss to offset salary.
d. ✓ Correct. Under section 3.4 and item 4 of the section 7 checklist, a purchase of identical or same–kind property by the taxpayer or an affiliated person (including a spouse) within the 61–day window from 30 days before to 30 days after the disposition, with the property still held at the end of the period, triggers the superficial loss rule. The capital loss is not deductible for the year, and the denied $12,000 is added directly to the ACB of the replacement shares held by the spouse.

95′ answer b

a. ✗ This is the "separate legal person defence trap". The definition of affiliated person includes a corporation controlled by the taxpayer or the taxpayer's spouse, so a repurchase by a controlled corporation also triggers the superficial loss rule.
b. ✓ Correct. Under section 3.4 of the lecture, a corporation controlled by the taxpayer is an affiliated person. A repurchase of the same property by the controlled corporation within 30 days after the disposition is a superficial loss. Hannah cannot deduct the loss for the year, and the $8,000 is added to the ACB of that ETF held by the corporation.
c. ✗ This is the "misapplied AMT penalty trap". A superficial loss is handled by increasing the ACB of the replacement property and produces no AMT penalty.
d. ✗ This is the "forced carryback of a superficial loss error". A superficial loss is nil for the year and is moved into the ACB, so it cannot create a net capital loss for the year and cannot be carried back using T1A.

96 answer a

a. ✓ Correct. A net capital loss can normally offset only taxable capital gains (line 25300), not salary or dividends; the only exception is the year of death and the year before (ITA s.111(2)). Ian has no capital gains this year, so the loss can only continue to be carried forward indefinitely.
b. ✗ Incorrect. Canada has no allowance that lets a portion of the loss offset ordinary income each year. While alive, a net capital loss can offset only taxable capital gains.
c. ✗ This is the "Form T1A confusion error". Form T1A is used to carry the current year's loss back to the previous three years. It cannot be used to apply a carried–forward historical loss against current salary across categories.
d. ✗ This is the "capital loss expiry misunderstanding". Net capital losses carry forward indefinitely and never expire (only LPP losses carry forward for 7 years).

96′ answer c

a. ✗ This is the "death ends the carryover misunderstanding". The law gives a special relief for the deceased, and unused net capital losses do not simply lapse.
b. ✗ This is the "spouse inherits the loss error". An individual's net capital loss is a personal tax attribute and cannot be transferred directly to the surviving spouse's future returns.
c. ✓ Correct. Under section 3.4 and item 5 of the section 7 checklist, ITA s.111(2) provides that in the year of death and the year before, unused net capital losses can offset any income, no longer limited to capital gains.
d. ✗ This is the "absurd deduction limit error". The relief for the deceased applies to the taxpayer's total income, not just the dividend gross–up amounts.

97 answer b

a. ✗ This is the "personal–use property loss deduction trap". A motorboat is personal–use property (PUP), and its loss is not deductible. It cannot be netted against any gain, including an LPP gain.

b. ✓ Correct. Under section 3.1 and items 2 and 9 of the section 7 checklist, a loss on personal–use property (PUP such as a private boat or furniture) is not deductible, and Schedule 3 line 9 (line 15800) takes gains only. A painting is listed personal property (LPP); its gain goes on line 15900 and, at the 50% inclusion rate, a $2,000 taxable capital gain goes to line 12700.

c. ✗ This is the "misused $1,000 rule trap". ITA s.46 deems both ACB and proceeds to be at least $1,000, but the boat's proceeds of $8,000 and the price of the painting both exceed $1,000, so the zero–gain relief does not apply.

d. ✗ This is the "carryover period misapplied error". A PUP loss is a personal consumption loss that is neither deductible nor carried forward in the year; the 7–year carryforward applies only to LPP losses.

97′ answer d

a. ✗ This is the "LPP loss separate pool confusion trap". An LPP loss cannot offset capital gains on ordinary stocks or real estate; it can offset only gains on LPP property such as jewelry and artwork.

b. ✗ This is the "LPP and PUP mix–up error". Jewelry is one of the five categories expressly listed as LPP, with a 3–year carryback and 7–year carryforward, and is not simply forfeited like ordinary PUP.

c. ✗ This is the "offsetting across categories trap". A loss of a capital nature cannot be deducted against employment income.

d. ✓ Correct. Under section 3.4 and item 9 of the section 7 checklist, listed personal property (LPP) losses form their own pool and can offset only LPP gains, not gains on ordinary stocks. An unused LPP loss can be carried back 3 years and forward 7 years (ITA s.41(2)).

98 answer c

a. ✗ This is the "LCGE exemption means AMT exemption trap". Sections 2.3 and 6.3 of the lecture state that taxpayers whose regular tax is reduced to zero are often the main AMT payers; the LCGE does not exempt anyone from minimum tax.

b. ✗ This is the "deduction fully denied misunderstanding". Under AMT the LCGE deduction is allowed, grossed up by 7/5 (1.4 times); it is not denied entirely.

c. ✓ Correct. For AMT, the gain is included at 100% ($1,200,000), while the LCGE deduction is only grossed up by 7/5 ($600,000 x 1.4 = $840,000), leaving adjusted taxable income of $360,000. After subtracting the 2026 exemption of $181,440, minimum tax is computed at 20.5% and compared with regular tax, and the larger applies. Excess AMT can be recovered over 7 years (ITA s.120.2).

d. ✗ This is the "provincial AMT invention error". AMT is a federal Income Tax Act regime, and any excess paid can be carried forward against regular tax for the next 7 years.

98′ answer a

a. ✓ Correct. Under sections 2.3 and 6.3 of the lecture, excess AMT paid can be recovered in the following 7 tax years, to the extent regular tax exceeds minimum tax (ITA s.120.2). But if the taxpayer retires right after selling the asset and income stays too low over the next 7 years to generate enough regular tax, the excess AMT may expire and never be recovered.

b. ✗ This is the "AMT cash refund fantasy trap". AMT is not a withholding that is trued up by a refund, and a cash refund cannot be requested through T1A; it can only be applied against future regular tax year by year.

c. ✗ This is the "AMT as a fine misunderstanding". The lecture states that AMT is not a penalty but a parallel tax calculation with a statutory 7–year recovery period.

d. ✗ This is the "10–year carryback invention error". AMT has no carryback mechanism; it can only be carried forward for 7 years.

Chapter 15 answers and reasons

99 answer a

a. ✓ Correct. Room = carryforward $8,000 + min($110,000 x 18% = $19,800, cap $33,810) – PA $4,500 = $23,300.

b. ✗ Incorrect. Forgetting to subtract the PA gives $27,800. The deferral already enjoyed through the employer pension must be deducted from next year's RRSP room.

c. ✗ Incorrect. The cap is only a ceiling. 18% x $110,000 = $19,800 is below $33,810, so $19,800 is used.

d. ✗ Incorrect. Unused room from prior years carries forward indefinitely and must be added to this year's room. Leaving it out understates the figure at $15,300.

99′ answer c

a. ✗ This is the "ignoring the annual cap trap". $210,000 x 18% = $37,800 already exceeds the 2026 statutory cap of $33,810 and must be capped at $33,810.

b. ✗ This is the "forgetting to subtract the PA trap". Even when the maximum is reached, the PA ($12,000) accumulated in an employer pension plan must still be deducted in full from the room available for the year.

c. ✓ Correct. Evelyn's $210,000 x 18% = $37,800 exceeds the 2026 cap of $33,810, so the cap applies; subtracting the 2025 PA of $12,000 leaves room of $21,810.

d. ✗ This is the "bare percentage error". It considers neither the statutory cap of $33,810 nor the pension adjustment for the employer plan.

100 answer b

a. ✗ This is the "TFSA same–year withdraw–and–redeposit trap". The taxpayer wrongly assumes room is restored immediately by a withdrawal in the year; the law restores it only on January 1 of the next year.

b. ✓ Correct. The $5,000 withdrawn in the year does not restore room until January 1 of the next year. The year's $7,000 was already used up in February, so the $5,000 put back in September is entirely excess. September to December is 4 months, and the tax is $5,000 x 1% x 4 = $200, reported on RC243.

c. ✗ This is the "applying the RRSP buffer to the TFSA trap". The $2,000 penalty–free buffer is specific to the RRSP; the TFSA has no buffer at all, and every dollar over is taxed at 1% per month.

d. ✗ This is the "exaggerated penalty trap". An excess contribution is subject only to a special tax of 1% per month. It does not remove the account's eligibility or turn the earnings into taxable remuneration.

100′ answer d

a. ✗ This is the "netting illusion trap". TFSA room is tracked dynamically against total contributions, so you cannot use the year–end net contribution to back out an intermediate excess.

b. ✗ This is the "invented 30–day grace period trap". Only a withdrawal before the end of the same calendar month in which the excess arose avoids tax for that month; running into November created a second taxable month.

c. ✗ This is the "daily proration misunderstanding". If the excess exists on any day in a calendar month, the 1% tax applies to the largest excess for the whole month, so November still counts as a full month.

d. ✓ Correct. Under section 2.3 and section 3.1 of the lecture, the $6,000 withdrawn in May does not restore room until January 1 of the next year. The re–deposit in October creates a $6,000 excess contribution. Because the excess existed for all of October and the first half of November, it spans two calendar months, October and November, and the 1% monthly excess tax applies for 2 months.

101 answer c

a. ✗ This is the "counting spousal attribution by days trap". ITA s.146(8.3) expressly measures the window in taxation years, not in an absolute 36 months of days.

b. ✗ This is the "invented 50/50 split trap". A spousal RRSP amount is either attributed back to the contributor under the rule or taxed in the holder's hands; there is no statutory 50/50 mechanism.

c. ✓ Correct. Under section 3.4 and checklist item 6 of section 7, the spousal attribution rule in ITA s.146(8.3) covers "the year of withdrawal (2027) plus the two preceding taxation years (2025 and 2026)". Michael's contribution was made in December 2024, which falls outside this three-year window. So the attribution rule is not triggered, and 100% of the withdrawal is taxed as Jessica's income: Jessica reports the T4RSP and includes it in taxable income on line 12900. A deposit in December 2024 and a withdrawal in January 2027 span only about 25 months, which shows the calendar-year planning technique.

d. ✗ This is the "emergency spending is tax-free fantasy trap". An RRSP withdrawal is fully included in taxable income, and personal spending reasons give no exemption from income tax.

101′ answer a

a. ✓ Correct. Under section 3.4 of the lecture, the spousal withdrawal occurs in 2026 and the attribution window covers the year of withdrawal (2026) and the two preceding taxation years (2024 and 2025). Henry's $12,000 deposited in January 2025 falls inside this three-year window. The lesser of the actual withdrawal of $8,000 and the contribution of $12,000 is used, so all $8,000 is attributed back to the contributor Henry and taxed to him, computed on Form T2205 and included in Henry's 2026 income.

b. ✗ This is the "holder pays all tax trap". A spousal RRSP withdrawal within the attribution window is by law caught by the attribution rule first and cannot simply be taxed as the spouse's income.

c. ✗ This is the "invented 50% attribution cap trap". The attribution rule uses the lesser-of principle (the lesser of total contributions in the window and the withdrawal); here $8,000 is less than $12,000, so all of it is attributed.

d. ✗ This is the "first-60-days deduction avoids attribution misunderstanding". The contribution was actually made in calendar year 2025, and whether it was deducted for 2024 or 2025, it falls within the three-year look-back window for a 2026 withdrawal.

102 answer d

a. ✗ This is the "treating 15 years as the only end point trap". The maximum participation period ends at the earliest of three end points, and the end of the year after the first withdrawal (2026) is far earlier than the 15th anniversary (2038).

b. ✗ This is the "FHSA lasts forever fantasy trap". The FHSA is a one-time home-buying tool, and after a qualifying withdrawal the account begins a countdown to the end of its life; it cannot be kept open indefinitely.

c. ✗ This is the "forced closing in the year of withdrawal error". The law gives until the end of the year after the withdrawal (December 31, 2026) as the closing buffer, not the end of the year of withdrawal.

d. ✓ Correct. Under section 2.4 and checklist item 4 of section 7, the maximum FHSA participation period ends at the earliest of three points: (1) the end of the year of the 15th anniversary of opening the first FHSA; (2) the end of the year the holder turns 71; (3) the end of the year after the first qualifying withdrawal. Rachel made her first qualifying withdrawal in 2025, so the participation period must end at the end of the following year, December 31, 2026. If the funds are not emptied or transferred tax-free to an RRSP/RRIF before that date, the account loses FHSA status that day, and the entire fair market value ($12,000) is included in her 2026 taxable income (T4FHSA box 26).

102′ answer b

a. ✗ This is the "non-qualifying withdrawal is tax-free fantasy trap". Taking cash out without buying a home is a taxable withdrawal and is included in full in the year's income.

b. ✓ Correct. Under the tip box in section 2.4, the best exit for someone who did not buy a home before the end of the participation period is to transfer the entire balance directly to an RRSP or RRIF. By law the transfer is fully tax-deferred and does not use up the taxpayer's RRSP contribution room.

c. ✗ This is the "direct transfer between registered plans trap". The law allows an FHSA to be transferred tax-free only to an RRSP or RRIF, and a direct transfer to a TFSA is not allowed.

d. ✗ This is the "invented punitive forfeiture trap". The law gives the taxpayer a full protective transfer to an RRSP/RRIF, and there is no unremediable 30% forfeiture.

103 answer a

a. ✓ Correct. The HBP limit was raised in 2024 and has stayed at $60,000. C-30 received Royal Assent on June 18, 2026 and moved the first-withdrawal window for the five-year grace period to 2026-2028. Nathan first withdraws in 2026, so his first repayment year is 2031, repayment is spread over 15 years, and it is designated on Schedule 7.

b. ✗ Incorrect. $35,000 is the old limit in effect up to and including April 16, 2024, and it also misses the extended five-year grace period.

c. ✗ This is the "ignoring the statutory extension of the five-year grace period trap". A person who withdraws in 2026 enjoys the five-year grace period now in effect, so the first repayment year is 2031, not 2027.

d. ✗ Incorrect. $40,000 is the FHSA lifetime limit, and 10 years is the LLP repayment period. The HBP limit is $60,000 with a 15-year repayment period.

103′ answer c

a. ✗ This is the "CRA designates for you fantasy trap". CRA does not make a designation on the taxpayer's behalf. If Schedule 7 is not designated, it is by law treated as no repayment for the year.

b. ✗ This is the "refund with an invented penalty trap". The $10,000 contribution is entirely lawful and is treated as an ordinary RRSP contribution; it is not returned.

c. ✓ Correct. An HBP repayment must be designated on Schedule 7. If it is not designated, the year's contribution is treated as an ordinary contribution, and the $4,000 that was due but not repaid for the year is added directly to 2031 income.

d. ✗ This is the "automatic extension error". The 15-year HBP repayment period is rigid. Years in default become taxable income, and the repayment period is not lengthened.

104 answer b

a. ✗ This is the "separate penalty on non-resident TFSA contributions trap". Taxpayers assume that enough room means they can contribute from abroad, but the law states that non-residency removes the eligibility to contribute, and no amount of room avoids the monthly penalty.

b. ✓ Correct. Any TFSA contribution made while non-resident is subject to 1% per month, whether or not room is sufficient, until it is withdrawn or residency is resumed. August to December is 5 months: $10,000 x 1% x 5 = $500, reported on RC243.

c. ✗ This is the "exaggerated confiscation and cancellation trap". CRA does not forcibly confiscate the funds or dissolve the trust; it only imposes the special 1% monthly tax.

d. ✗ This is the "confusing the non-resident withholding tax trap". A contribution to a TFSA is not within Part XIII withholding (a withdrawal or investment dividends might be). The tax that applies to non-resident contributions is the monthly Part XI.01 special tax.

104′ answer d

a. ✗ This is the "taxing earnings inside a non–resident's TFSA trap". Canadian tax law states that growth and dividends inside a TFSA remain tax–exempt on the Canadian side even if the holder is a non–resident.

b. ✗ This is the "holding alone is penalized misreading trap". A non–resident can lawfully keep a TFSA opened before leaving, and as long as no new contribution is made, no 1% monthly penalty arises.

c. ✗ This is the "forced removal on change of status error". The law allows a non–resident to keep the TFSA wrapper, and no forced conversion to an ordinary taxable account is required.

d. ✓ Correct. Under "the full treatment of a TFSA after leaving Canada" in section 2.3 of the lecture, after becoming a non–resident for tax purposes the taxpayer's existing TFSA can be kept, and dividends, interest and capital gains inside it remain fully exempt on the Canadian side (the country of residence, such as the UK or the US, may tax them). What a non–resident cannot do is contribute new money, and no new room accrues for the years the holder is a non–resident.

105 answer c

a. ✗ This is the "minimum in the year of opening and mandatory withholding misunderstanding". In the year a RRIF is opened (2026), the statutory minimum is zero, and the statutory minimum is by law exempt from withholding tax.

b. ✗ This is the "denying the choice of spouse's age trap". The law expressly allows the holder to elect once, before the first payment, to base the minimum on a younger spouse's age.

c. ✓ Correct. The minimum is zero in the year a RRIF is established and applies only from the next year. Before the first payment the holder may elect once to use the spouse's age: the spouse is 65 at the start of 2027, factor 1 / (90 – 65) = 4.00%, which is lower than Edward's 5.28%, so the minimum falls from $31,680 to $24,000. The minimum itself is not subject to withholding.

d. ✗ This is the "confusing the minimum with the excess withholding trap". Only the part above the minimum is withheld at the 10/20/30% tiers; the minimum itself is not withheld at all.

105′ answer a

a. ✓ Correct. At the start of the year the factor for age 71 is 5.28%, so the minimum is $400,000 x 5.28% = $21,120, with no withholding. The excess, $35,000 – $21,120 = $13,880, falls in the $5,000 to $15,000 tier, where 20% is withheld, which is $2,776.

b. ✗ This is the "withholding the whole amount at the top tier error". The minimum is by law not withheld, and the $13,880 excess is below $15,000, so the withholding rate is 20%, not 30%.

c. ✗ This is the "no withholding on an excess withdrawal misunderstanding". A withdrawal above the statutory minimum must by law be withheld at the 10/20/30% tiers.

d. ✗ This is the "invented deferral to 75 trap". Age 71 is a hard dividing line: from the year after the holder turns 71 (the start of the year in which the holder turns 72), the minimum must be withdrawn every year.

Chapter 16 answers and reasons

106 answer c

a. ✗ Incorrect. This falls into the classic "using depreciation to create a loss" trap. The law firmly provides that an individual's rental CCA cannot create or increase a rental loss, and rental depreciation must not be used to reduce salary income.

b. ✗ Incorrect. The law does not take away the right to deduct part of the depreciation. The taxpayer may claim within the amount that net rental income allows, bringing net rental income exactly to zero.

c. ✓ Correct. Under the rule limiting CCA on rental property, the capital cost allowance (CCA) claimable for the year is capped at net rental income after other expenses ($3,500 here), to prevent a paper loss from being created to offset other income. The unclaimed difference ($9,200 – $3,500 = $5,700) does not disappear but stays in the undepreciated capital cost (UCC) balance for recalculation in future years.

d. ✗ Incorrect. The unclaimed $5,700 does not become a separate non–capital loss carryforward. It is reflected in the UCC base of the asset class and must be recalculated in future years against the then UCC balance and the income limit.

106′ answer b

a. ✗ Incorrect. This wrongly assumes the limit can be worked out separately for a single profitable property. The law requires combining the results of all the taxpayer's rental properties: Property 2's $3,000 loss must be netted against Property 1's $8,000 income, so combined net rental income is only $5,000.

b. ✓ Correct. Under the CCA limit rule for rental property, the taxpayer must combine the net results, after other expenses, of all rental properties owned. Property 1's net income of $8,000 less Property 2's net loss of $3,000 gives combined net rental income of $5,000. So Diana can claim at most $5,000 of CCA in total, bringing overall net rental income to zero, and may not use depreciation to create a loss against her $90,000 salary.

c. ✗ Incorrect. This is a typical non–compliant loss–creating claim, in breach of the core statutory red line that CCA cannot create or increase a rental loss.

d. ✗ Incorrect. Owning one loss–making property does not remove the right to claim depreciation on all of them. As long as combined net rental income is positive, CCA can be claimed up to the combined net income.

107 answer a

a. ✓ Correct. Under the statutory dividing line between a current expense and a capital expenditure: the $1,200 for drywall patching and repainting is routine maintenance that merely restores the home to its original condition, so it is a current expense and fully deductible in 2026. The $18,000 for a better metal roof with a longer life and warranty is a substantial improvement that brings a lasting benefit, so it is a capital expenditure. It cannot be deducted all at once and must be added to the building's undepreciated capital cost (UCC) and depreciated year by year as CCA.

b. ✗ Incorrect. This falls into the common misconception that any spending needed to maintain the home is fully deductible. The roof replacement used a better material, extended its life and materially raised the asset's value, so it must be capitalized.

c. ✗ Incorrect. This wrongly assumes all spending under one contract must have the same character. The law requires each item to be characterized by its economic substance, and ordinary routine repainting does not have to be capitalized just because it was done at the same time as a major job.

d. ✗ Incorrect. This reverses the characterization. Normal repainting and patching between tenants is a legitimate rental operating expense, while a roof replacement that upgrades the material is the capital expenditure.

107′ answer d

a. ✗ Incorrect. Attracting a higher rent does not change the legal character of a capital expenditure. A luxury renovation that greatly raises the standard and value of the home must be capitalized and depreciated yearly.

b. ✗ Incorrect. The law has no hard dollar threshold under which anything over $500 must be capitalized, and routine servicing that keeps things running ($650) is purely a current expense.

c. ✗ Incorrect. This reverses the characterization. A substantial improvement must be capitalized, and routine maintenance and restoration are current deductions.

d. ✓ Correct. Under the dividing line, the $650 furnace servicing and filter change are regular spending that keeps the asset working, so they are a current expense, fully deducted in the year. The $14,000 upgrade significantly improves the asset beyond its original level and brings a long–term benefit, so it is a capital expenditure and must be added to the undepreciated capital cost (UCC) and depreciated year by year.

108 answer d

a. ✗ Incorrect. This ignores the separate calculation of recaptured CCA and wrongly treats the whole excess of the sale price over UCC ($450,000 – $280,000 = $170,000) as a capital gain taxed at half.

b. ✗ Incorrect. Recapture is not subject to an inclusion rate and must be included in full, not halved to $35,000.

c. ✗ Incorrect. The 2/3 inclusion rate is a proposal that never took effect and was cancelled, and the 2026 tax year still uses 1/2.

d. ✓ Correct. Two separate calculations: (1) proceeds capped at the original cost of $350,000, less the opening UCC of $280,000, gives recaptured CCA of $70,000, included in income in full; (2) the $100,000 by which the sale price exceeds original cost is a capital gain, which at the current 1/2 inclusion rate is a taxable capital gain of $50,000.

108′ answer b

a. ✗ Incorrect. The statutory ceiling on recapture is the total CCA actually claimed in the past ($50,000), so $70,000 of recapture is impossible. The $20,000 by which the sale price exceeds original cost is a capital gain.

b. ✓ Correct. Step one: proceeds, capped at the original cost of $300,000, are applied against UCC. $300,000 less the opening UCC of $250,000 = $50,000, and the absolute value of this negative balance is included in income in full (100%) as recaptured CCA. Step two: the part of the sale price above original cost is a capital gain ($320,000 – $300,000 = $20,000), and at the current 2026 inclusion rate of 50% the taxable capital gain is $20,000 x 50% = $10,000.

c. ✗ Incorrect. This wrongly halves the recapture. The capital gains inclusion rate does not apply to recaptured CCA, which must be included in income at 100%.

d. ✗ Incorrect. This mixes recaptured CCA with a capital gain and taxes everything at the 50% concession, overlooking the law's requirement that recapture be taxed in full.

109 answer b

a. ✗ Incorrect. This falls into the trap of judging by the cumulative rental days for the whole year. The law judges "fewer than 90 consecutive days" on each separate tenancy, and the year's total days cannot be used to avoid short-term rental characterization.

b. ✓ Correct. Under the ITA s.67.7 rule denying expenses of non-compliant short-term rentals: first, the statutory short-term rental threshold is fewer than 90 consecutive days, judged separately for each tenancy. Tenancy A (60 days) is under 90 days and so is a short-term rental. Because the local licence was not obtained, and the one-time catch-up grace for 2024 no longer exists in 2026, the expenses for those 60 days are denied in proportion and cannot be deducted. Second, Tenancy B (120 days) reaches 90 consecutive days or more, is not within the statutory short-term rental definition and is not subject to the s.67.7 denial, so its compliant expenses are deducted normally.

c. ✗ Incorrect. The 2024 transitional grace (compliant if completed by year end) applied only once, for 2024. There is no grace for the 2025 and 2026 tax years.

d. ✗ Incorrect. This overextends the penalty. Section 67.7 denies expenses in proportion only for the non-compliant short-term (under 90 days) days and does not affect deductions for longer tenancies of 90 consecutive days or more.

109′ answer c

a. ✗ Incorrect. This wrongly assumes the 2024 catch-up grace is still usable in 2026. For the 2026 tax year there is no grace, and non-compliant short-term rental expenses are denied outright.

b. ✗ Incorrect. This remembers the statutory short-term threshold as 30 days. The threshold in ITA s.67.7 is fewer than 90 consecutive days, and a 40-day tenancy is a statutory short-term rental.

c. ✓ Correct. Under section 67.7 of the Income Tax Act, each of the three tenancies is 40 consecutive days (all under 90 consecutive days), so all are statutory short-term rentals. Where a local permit is required and not obtained, there is no grace for the 2026 tax year, and all operating expenses attributable to the rental period are denied in full.

d. ✗ Incorrect. The law denies expenses in the proportion of non-compliant days over short-term rental days. Because all the short-term rental days are non-compliant, the denial is 100%, and there is no administrative halving.

110 answer c

a. ✗ Incorrect. This confuses the line between a partnership and co-ownership. Under co-ownership there is no partnership-level mandatory constraint, and the co-owners do not need to act uniformly.

b. ✗ Incorrect. The law does not let co-owners freely transfer capital cost or CCA room between them. Each co-owner can compute and deduct only on his or her own share of cost.

c. ✓ Correct. Under the principle in the tax law, in a co-ownership structure that does not amount to a legal partnership, each co-owner keeps separate books on his or her own share of capital cost and reports on his or her own personal Form T776. The co-owners decide completely independently, so it is fully lawful for Eric to claim the maximum depreciation on his share and for Jason to claim $0 for the year.

d. ✗ Incorrect. CCA is a permissive deduction that the taxpayer decides to take, and CRA will never force or automatically claim depreciation for a taxpayer.

110′ answer a

a. ✓ Correct. Under the tax rules for a partnership, the capital property of the rental belongs to the partnership as a whole, and CCA must be determined and claimed (or not claimed) uniformly at the partnership level. The net income after depreciation is then allocated to the partners according to the partnership agreement, and an individual partner cannot independently claim depreciation on his or her personal return.

b. ✗ Incorrect. This is the treatment for co-ownership and cannot be applied to a partnership. The UCC of partnership property belongs to the partnership as a whole and is not divided and recorded separately at the personal level.

c. ✗ Incorrect. A partnership is fully entitled to claim CCA on the qualifying capital property it holds; the depreciation decision just has to be made uniformly at the partnership level.

d. ✗ Incorrect. The law has no rule that the partner with the highest personal marginal rate decides the partnership's filing. The partnership's reporting decisions are governed by the partnership agreement and the management mechanism of the partnership as a whole.

111 answer a

a. ✓ Correct. Under the flipped property rule in ITA s.12(12)–(14), the gain on a residential property held fewer than 365 consecutive days is deemed business income, taxed in full at 100%, and does not get the 1/2 (50%) capital gain inclusion rate. A key exam point: the flipping rule applies not only to a home lived in but equally to a residential property used purely as a rental. Samantha held the condo only 240 days with no life-event exception, so the whole profit is deemed business income.

b. ✗ Incorrect. This falls into the classic misconception that the flipping rule governs only a home lived in. The law expressly brings rental properties of a residential nature within the flipping rule.

c. ✗ Incorrect. Actually renting the home does not exempt it from the federal 365-day flipping rule. Only the nine life events listed in the law (such as death, disability or a job transfer) provide an exemption.

d. ✗ Incorrect. The flipping rule has no halving or even split. Once triggered, the whole gain is deemed business income.

111′ answer d

a. ✗ Incorrect. This wrongly assumes that if the gain is characterized as business income, the loss can be deducted as a business loss. The flipping rule sets a one-sided penalty: a gain is deemed business income and taxed in full, but a loss is not deductible.

b. ✗ Incorrect. An ABIL applies only to losses on qualifying small business shares or debts, and a residential flip never qualifies for an ABIL.

c. ✗ Incorrect. A loss on a flipped property is not allowed to be treated as an ordinary capital loss; the law expressly reduces it unilaterally to nil.

d. ✓ Correct. Under the flipped property rule, when a residence held fewer than 365 consecutive days is disposed of with no life-event exemption, the law unilaterally deems the loss on disposition to be nil. Lucas's $30,000 loss can neither be deducted against other income nor carried forward as a capital loss; it is reduced entirely to nothing and is not deductible.

112 answer b

a. ✗ Incorrect. This falls into the serious misconception of confusing a provincial vacancy tax exemption with federal income tax. A provincial property tax exemption does not mean an exemption from federal income tax.

b. ✓ Correct. The BC speculation and vacancy tax (SVT) is a provincial property tax, a completely separate and parallel regime from federal personal income tax. Victor met the condition of renting for 6 months in the calendar year and so is exempt from the 1% SVT that applies to Canadian citizens for 2026. But as long as he received rental income, the federal T776 rental income filing duty (gross income Line 12599, net income Line 12600) is not affected at all and must be reported honestly.

c. ✗ Incorrect. Victor is a Canadian citizen, and the SVT rental exemption fully applies in Richmond. Also, the federal filing can never be waived.

d. ✗ Incorrect. The law gives no right to elect to pay a provincial property tax in place of the federal income tax filing. The two have different legal bases and must each be met independently.

112′ answer c

a. ✗ Incorrect. A foreign owner is subject to the raised 3% SVT rate in 2026, not the 1% resident rate. And since no rental activity occurred, no T776 needs to be filed.

b. ✗ Incorrect. 2% is the old 2025 rate. For 2026 the foreign owner rate has risen to 3%. And federal tax law does not impose deemed rental income on a fully vacant home.

c. ✓ Correct. Under the current rules for the 2026 tax year, the BC speculation and vacancy tax (SVT) rate for foreign owners is raised to 3% (it was 2% in 2025). Because the home was vacant all year with no exemption, the full 3% SVT must be paid. At the federal income tax level, no rental income arose, so the taxpayer does not need to file Form T776.

d. ✗ Incorrect. A vacant residential condominium does not qualify for the tourist accommodation exemption, and there is no such thing as a federal non–resident vacancy surtax that replaces it.

Chapter 17 answers and reasons

113 answer c

a. ✗ Incorrect. The exemption is given in proportion to years: only the years designated to this townhouse (plus one) go in the numerator, and the years designated to the vacation home do not count, so it cannot be fully exempt.

b. ✗ Incorrect. This misses the "plus one" year: counting only 5 years gives an exemption of $300,000 x 5/10 = $150,000, leaving $150,000, and half of that is $75,000. She was a resident in the year of acquisition, so B should be 5 + 1 = 6.

c. ✓ Correct. Exempt amount = A x B/C = $300,000 x 6/10 = $180,000 (B = 5 designated years + 1, C = 10). The remaining capital gain is $120,000, included at 1/2, so the taxable capital gain is $60,000.

d. ✗ Incorrect. $120,000 is the capital gain after the exemption. It must still be multiplied by the 1/2 inclusion rate to get the taxable capital gain.

113′ answer a

a. ✓ Correct. Exempt amount = $400,000 x 4/8 = $200,000 (B = 3 + 1, C = 8). The remaining capital gain is $200,000, included at 1/2, so the taxable capital gain is $100,000.

b. ✗ Incorrect. This misses the "plus one" year: with B at 3 years the exemption is $150,000, leaving $250,000, and half of that is $125,000. He was a resident in the year of acquisition, so B should be 4.

c. ✗ Incorrect. $200,000 is the capital gain after the exemption, and the 1/2 inclusion rate was forgotten.

d. ✗ Incorrect. The gain is fully exempt only when the designated years plus one cover all the years of ownership (B/C is at least 1). Here only 3 years were designated.

114 answer a

a. ✓ Correct. The s.220(3.5) penalty is the lesser of $8,000 and $100 times the number of complete months late. Fifteen complete months late gives $100 x 15 = $1,500, which is less than $8,000.

b. ✗ Incorrect. $8,000 is the cap and is reached only once the monthly accumulation reaches 80 months or more. In this case 15 months should give the lower $1,500.

c. ✗ Incorrect. This falls into the misconception that a genuine home lived in is never penalized. After the 2016 reform, enjoying the principal residence exemption has the legal precondition of reporting and designating. Making a designation late after forgetting to report is a special procedure under the law and must bear the s.220(3.5) penalty.

d. ✗ Incorrect. This confuses the late designation penalty with the ordinary late-filing penalty on tax owing on a T1. A late principal residence designation uses a statutory fixed monthly amount calculation ($100 per month) and has nothing to do with how much the property appreciated.

114′ answer c

a. ✗ Incorrect. $100 x 102 = $10,200, but the penalty is the lesser of the two and is capped at $8,000.

b. ✗ Incorrect. This wrongly caps the calculation at 12 months. The monthly accumulation under ITA s.220(3.5) is not limited to 12 months, and its only cap is the statutory $8,000.

c. ✓ Correct. The lesser of $8,000 and "$100 x 102 complete months = $10,200" is $8,000, so the penalty is $8,000.

d. ✗ Incorrect. This wrongly assumes the penalty is waived after a certain look-back period. Making a late designation is the taxpayer seeking special relief and must pay the s.220(3.5) penalty as the law provides.

115 answer b

a. ✗ Incorrect. The legislative purpose of the 45(2) election is to allow a taxpayer who has completely moved out and does not live in the home to still lawfully designate it as a principal residence under ITA s.54(b). It does not require returning to live there for 30 days each year.

b. ✓ Correct. Under ITA s.45(2) and the definition of principal residence in s.54, the hard price of making a 45(2) election is that no capital cost allowance (CCA) may be claimed on the property while the election is in effect. And since a family can designate only one principal residence per year, during the up to 4 years of the 45(2) extension the taxpayer may not designate any other property as a principal residence.

c. ✗ Incorrect. The 45(2) election letter needs to be filed only once, with the return for the year of the change in use (the 2026 tax year), and need not be refiled each year afterward.

d. ✗ Incorrect. Section 45(2) of the law places no limit on the absolute amount of rental income or on its share of total income.

115′ answer d

a. ✗ Incorrect. Claiming any CCA is absolutely prohibited while the 45(2) election is in effect, and there is no 4% safe allowance.

b. ✗ Incorrect. The consequence of claiming CCA is not only recapture on the sale. It directly causes the 45(2) election to be revoked, so the eligibility to keep designating the home as a principal residence is lost.

c. ✗ Incorrect. This is a false statement with no basis in tax law. Claiming depreciation never extends the election period.

d. ✓ Correct. Claiming capital cost allowance (CCA) while a 45(2) election is in effect is the taxpayer revoking (rescinding) that election by conduct. From the year the CCA is claimed, the 45(2) election ends, a deemed disposition on the change in use occurs, and from that year the designated years can no longer be claimed under the election.

116 answer d

a. ✗ Incorrect. This confuses 45(2) with 45(3). A 45(2) election is filed with the T1 for the year a home changes from personal use to rental, while a 45(3) election is for rental to personal use, and the law allows it to be filed as late as the year the property is actually sold (or 90 days after a CRA request), not necessarily in the year of the change in use.

b. ✗ Incorrect. In the year of acquisition it is impossible to know whether the home will later become a personal residence, so filing in the year of acquisition is not possible, and claiming moving expenses has nothing to do with the validity of a 45(3) election.

c. ✗ Incorrect. There is no rule in the law to file a 45(3) election within 30 days of moving in, and whether a spouse owns any registered account has no connection to the election.

d. ✓ Correct. Under ITA s.45(3)(a), the statutory deadline for the election letter is the earlier of "90 days after a written CRA request" and "the tax filing deadline for the year the property is finally disposed of". Under s.45(4), if capital cost allowance (CCA) was claimed on the property in any year before the change in use, the 45(3) election is deemed never made by law.

116′ answer a

a. ✓ Correct. Under ITA s.45(4), if the taxpayer, a spouse or a related trust claimed any capital cost allowance (CCA) on the property in any year before the change in use, the subsection 45(3) election is deemed never to have been made. Rachel claimed CCA in 2021 and 2022, which completely destroys the precondition for the election, so the deferral is wholly invalid.

b. ✗ Incorrect. The Income Tax Act has no remedy under which repaying the CCA previously claimed with interest revives a 45(3) election. Once CCA was ever deducted, the law expressly says the election is treated as never made.

c. ✗ Incorrect. Claiming CCA is an overall disqualifying condition. It does not remove only the specific years CCA was claimed but makes the whole 45(3) election invalid.

d. ✗ Incorrect. If 45(3) is invalid, a deemed disposition occurs on the change in use in 2026, and the appreciation is taxed as a normal capital gain, not characterized as flipping business income included at 100%.

117 answer b

a. ✗ Incorrect. A disposition with a holding period under 365 consecutive days and no exception is removed from the capital gain category entirely by the flipping rule. It does not get the 50% inclusion rate and cannot be reported on Schedule 3.

b. ✓ Correct. Under ITA s.12(12)–(14), the subject matter of the flipped property rule expressly includes "the right to acquire a Canadian housing unit" (that is, an assignment of a pre-sale contract). Lucas held the right for only 270 days (under 365 consecutive days) with no life event exception, so his entire gain is forced to be deemed business income, 100% included in taxable income, reported on Form T2125, with no principal residence exemption available.

c. ✗ Incorrect. This falls into the trap of "a pre-sale unit is not a house, and with no delivery and no keys it is not a sale". Section 12(13)(a)(ii) of the law expressly lists the right under a pre-sale contract as a statutory subject of the flipping rule.

d. ✗ Incorrect. The $20,000 primary residence deduction is a concept specific to the BC flipping tax, and federal income tax has no such deduction. Also, an assignment of a pre-sale contract was never lived in, so even in BC the primary residence deduction would not be available.

117′ answer c

a. ✗ Incorrect. The flipping rule is a harsh one-way rule. ITA s.12(14) expressly provides that a loss on a flipped property is deemed to be zero and may not be deducted as a business loss against other income.

b. ✗ Incorrect. An allowable business investment loss (ABIL) applies only to losses on shares or debt of a small business corporation and does not apply at all to losses on residential real estate held by an individual.

c. ✓ Correct. Under ITA s.12(14), for a disposition caught by the federal residential flipping rule, any loss the taxpayer has on the property is deemed by law to be nil. A gain is taxed in full as business income, and a loss is unilaterally reduced to nothing and not allowed, so it cannot be deducted against current or any later income.

d. ✗ Incorrect. The flipping rule has already removed the property from the character of a capital asset, so the loss cannot be reported as a capital loss, and there is no carryback of 3 years or indefinite carryforward.

118 answer c

a. ✗ Incorrect. This is an important point separating an ordinary qualifying relocation from the flipping exception. In the life event exception to flipping, ITA s.12(13)(b)(vi) expressly waives the requirement from the moving expense deduction rules that the new work location and new home be in Canada.

b. ✗ Incorrect. A voluntary job change that is an eligible relocation (the new home at least 40 km closer to the new work location than the old home) is one of the nine statutory life events, and is not limited to involuntary layoffs.

c. ✓ Correct. Under ITA s.12(13)(b)(vi), an eligible relocation (shortening the distance by at least 40 km) for employment or study is one of the nine life event exceptions, and the law specifically says that the usual limit that the new work location and new home be in Canada does not apply here. Grace moving to Seattle, USA for work fully fits the exception, does not fall within the flipping rule, and her gain is treated as a capital gain and can claim the principal residence exemption.

d. ✗ Incorrect. The 20% rate is a BC flipping tax rule, not a federal income tax rule. And when a life event exception applies, no penalty tax is imposed.

118′ answer b

a. ✗ Incorrect. The law does not require a formal divorce decree issued by a court. It requires only separation because of the breakdown of the marriage or common-law relationship.

b. ✓ Correct. Under ITA s.12(13)(b)(iii), a disposition because of the breakdown of a marriage or common-law partnership is one of the life event exceptions, but the law sets an objective time condition: the couple must have lived separate for at least 90 days before the disposition. Nathan and his spouse had lived apart continuously for 95 days, meeting the statutory number of days, so they fully qualify for the exception and escape flipping characterization.

c. ✗ Incorrect. The statutory separation threshold is 90 days, not 365 days. Do not confuse the consecutive holding period threshold with the separation time threshold.

d. ✗ Incorrect. The law has no such absurd requirement of handing sale proceeds to CRA in escrow.

119 answer a

a. ✓ Correct. Federal: holding for 425 days exceeds 365 days, so the federal flipping rule is not triggered. BC: the threshold is 730 days, so 425 days is still taxable (at a declining rate). Because it was a primary residence held at least 365 days, the primary residence deduction of up to $20,000 can reduce the tax.

b. ✗ Incorrect. This confuses jurisdiction with threshold. The federal flipping threshold is 365 days, and 425 days is outside the federal flipping rule, so the federal gain remains a capital gain. 730 days is the threshold of the separate BC statute.

c. ✗ Incorrect. This reverses the threshold completely. The BC primary residence deduction is given only when the property is held for at least 365 days, and an owner with a shorter holding and the higher rate does not get the deduction.

d. ✗ Incorrect. Although when the 2024 tax-year exam benchmark was finalized the BC flipping tax had not yet been introduced (so the exam benchmark coverage is zero), under the 2026 tax rules in force the BC flipping tax is a completely independent provincial statute. It is neither administered through federal Schedule 3 nor merged with federal tax, and it must be filed separately with the BC Ministry of Finance within 90 days after the disposition.

119′ answer d

a. ✗ Incorrect. This is a fatal confusion of federal and BC procedural requirements. The federal nine exceptions apply once they are met, while a life event exemption under the BC flipping tax is of the "must file" kind, and without a filing the exemption cannot be enjoyed.

b. ✗ Incorrect. Involuntary termination of an employee is also on the list of statutory life event exemptions under the BC flipping tax law (but does not apply to the self-employed).

c. ✗ Incorrect. The two systems operate completely independently, and CRA does not collect or forward BC flipping tax returns on the province's behalf.

d. ✓ Correct. Under the BC Residential Property (Short-Term Holding) Profit Tax Act, a life event exemption does not take effect automatically. The taxpayer must file a separate flipping tax return with the BC Ministry of Finance within 90 days after the disposition to obtain it. If the return is not filed within 90 days, even when the facts fully meet the termination condition, a late-filing penalty of at least $500 applies.

Chapter 18 answers and reasons

120 answer b

a. ✗ Incorrect. This is the classic "reversed order of determination" trap. Under CRA Income Tax Folio S5-F1-C1 para 1.30, the 183-day sojourn deemed resident rule of ITA s.250(1)(a) applies only after it is established that the individual is not a factual resident. Chloe has a home and provincial health coverage, so she is already a factual resident and the deemed resident rule can never be applied.

b. ✓ Correct. Under the Supreme Court's Thomson decision and ITA s.250(3), residency must first be tested on factual residential ties. Chloe rents an apartment (a significant tie), obtained BC provincial health coverage and opened a bank account (secondary ties), and from entering on March 1, 2026 she established an ordinary residence, so she is a part-year factual resident. She pays Canadian tax only on worldwide income for the period from March 1 to year end, pays BC tax as the province of residence on December 31, and has provincial credits.

c. ✗ Incorrect. This is the "confusing immigration status with tax residency" trap. Canadian tax law follows the principle of factual residence and not nationality or immigration visas (ITA s.2(1)). A work permit holder who establishes residential ties can be a factual tax resident from the first day.

d. ✗ Incorrect. The deemed resident rule not only has the wrong precondition, its legal consequences are the opposite. A deemed resident is taxed on worldwide income for the whole year, belongs to no province and so cannot get provincial credits, and must pay the 48% federal surtax.

120′ answer d

a. ✗ Incorrect. This memorizes the 183-day rule and ignores the statutory test sequence. ITA s.250(1)(a) is a backstop clause that applies only to individuals without factual residential ties.

b. ✗ Incorrect. Employment income is Part I employment income, to which Part XIII withholding does not apply even for a non-resident. More important, David has significant residential ties and is a factual resident, not a non-resident.

c. ✗ Incorrect. A deemed resident belongs to no province by law, cannot claim provincial credits and must pay the 48% federal surtax.

d. ✓ Correct. Under ITA s.250(3) and CRA Folio S5-F1-C1, David and his spouse live in and rent a home in Canada and have health coverage, which establishes firm factual residential ties, so he is a factual part-year resident from April 15, 2026. He reports and pays tax only on worldwide income after April 15 and can never be treated as a 183-day deemed resident.

121 answer c

a. ✗ Incorrect. This option makes three mistakes. First, it files the full-year $16,452 and ignores that a first-year part-year resident must prorate by days. Second, it uses the outdated 15% credit rate (the 2024 basis), whereas for the 2026 tax year the lowest federal bracket and credit rate have dropped to 14%. Third, it seriously overstates the tax.

b. ✗ Incorrect. This option uses the 2024 tax-year exam benchmark figures ($15,705 and 15%). It neither uses the current 2026 figures nor prorates by resident days.

c. ✓ Correct. Under ITA s.118.91(b)(ii) and CRA rules, amount-based credits of a part-year resident must be prorated by resident days. 2026 is a common year (365 days), and May 15 to December 31 is 231 days. The federal basic personal amount maximum for the 2026 tax year is $16,452, so the amount claimable on line 30000 is $16,452 x 231 / 365 = $10,412.09. The credit rate at the lowest federal bracket for 2026 has dropped to 14%, so the actual federal tax value is $10,412.09 x 14% = $1,457.69.

d. ✗ Incorrect. Although the days proration correctly gives $10,412.09, it wrongly multiplies by the 15% credit rate of the 2024 tax year. The statutory credit rate for the 2026 tax year has dropped to 14% (tax value $1,457.69).

121′ answer a

a. ✓ Correct. The amount-based credit is prorated by resident days: September 1 to December 31 is 122 days (30 + 31 + 30 + 31), and 2026 has 365 days. $16,452 x 122 / 365 = $5,499.02.

b. ✗ Incorrect. This is the most common misreport in a newcomer's first year (the "first-year basic personal amount filed in full" trap). Being in Canada at year end does not give the full basic personal amount, and a part-year resident must strictly prorate by days in the resident period.

c. ✗ Incorrect. $15,705 is the old amount for the 2024 tax year. For the 2026 tax year the proration should use $16,452.

d. ✗ Incorrect. The credit amount is not roughly estimated as a simple half year (50%). It is computed precisely to the cent on actual resident days divided by 365.

122 answer a

a. ✓ Correct. Under ITA s.233.7, an individual who first becomes a Canadian tax resident is completely exempt from filing Form T1135 in the first tax year (2026). Under ITA s.128.1(1)(c), the cost base (cost amount) of Victor's foreign assets is deemed to be reacquired at fair market value (FMV) on the landing day, so the new cost base of the shares is stepped up to $140,000 (not the original purchase price of $70,000). Personal-use property is excluded by law from specified foreign property. So in the second year (2027), the cost amount of the shares, $140,000, exceeds the $100,000 threshold, and Victor must file the T1135 for the 2027 tax year.

b. ✗ Incorrect. This option makes two serious mistakes. First, it ignores the first-year exemption (ITA s.233.7). Second, it wrongly counts personal-use property in specified foreign property and applies the test using market value rather than tax cost (cost amount).

c. ✗ Incorrect. The T1135 is a statutory information return, and a hard filing duty exists whenever the cost amount exceeds $100,000 at any time in the year, whether or not any money is remitted to Canada.

d. ✗ Incorrect. This is the classic "using the original purchase price for the T1135 threshold" trap. A newcomer is subject to the deemed acquisition rule of ITA s.128.1, under which the tax cost is reset to the landing-day market value of $140,000, and $140,000 must be used to test the threshold.

122′ answer c

a. ✗ Incorrect. This is the trap newcomers fall into most often, "not stepping up the cost base". Computing from the historical original cost would wrongly include the appreciation from before landing ($170,000) in the Canadian tax base, causing double taxation.

b. ✗ Incorrect. The law exempts only the appreciation before landing. Later appreciation after becoming a tax resident ($350,000 − $320,000 = $30,000) must be reported and taxed in Canada as a capital gain.

c. ✓ Correct. Under ITA s.128.1(1)(b) and (c), an individual is deemed to dispose of assets at fair market value (FMV) immediately before becoming a Canadian resident and to reacquire them at the same price. So the adjusted cost base (ACB) of Sophia's rental property under Canadian tax law is automatically stepped up to the landing-day market value of $320,000. The capital gain on the 2027 sale is only the difference between the price and the landing-day market value: $350,000 − $320,000 = $30,000.

d. ✗ Incorrect. This confuses the inclusion rate on a taxable capital gain with the capital gain itself. The total capital gain is $30,000, and there is no "lifetime half-off special exemption for newcomers".

123 answer d

a. ✗ Incorrect. The CGEB (formerly the GST/HST credit) requires a newcomer to file an application form, and filing a return never automatically catches up past quarters that were not applied for. Also, the pre-landing income reported in the SOI is entirely outside the scope of Canadian tax.

b. ✗ Incorrect. CRA expressly provides that a newcomer who meets the conditions can apply for benefits right after arriving in Canada, and a permanent resident need not wait to file a return or to complete two years of residence.

c. ✗ Incorrect. This is the classic trap of "mistaking the SOI for taxable income". CRA officially restates that income earned abroad before landing does not need to be taxed in Canada, and the SOI serves only as the threshold basis for computing the benefit amount.

d. ✓ Correct. Under CRA's guide for newcomers and practice, a newcomer must file the RC151 (no children) or the RC66 (with minor children) application for the CGEB. If it is not filed after landing, filing a return does not automatically catch up quarters that were not applied for. The statement of world income (SOI) for up to two years before landing is used purely to compute the reduction by family net income of the benefit amount. CRA expressly provides that this income is never included in Canadian taxable income, and no Canadian income tax is payable on it.

123′ answer b

a. ✗ Incorrect. Income earned abroad before landing is entirely outside the scope of Canadian tax and must never be entered in the income section of the T1 return, otherwise a serious overpayment of tax results.

b. ✓ Correct. Under the lecture and CRA guidance, the statement of pre-landing income (SOI) filed by a newcomer is used only to compute income-tested benefit amounts such as the CCB and CGEB. It is not taxable income, and no Canadian tax is payable on it at all. Foreign-currency income is converted at the Bank of Canada rate on the date received.

c. ✗ Incorrect. Section 128.1 is the deemed disposition and acquisition rule for capital property and has nothing to do with ordinary employment or business income. Also, pre-landing income is not taxed in the first place, so no exemption need be applied for.

d. ✗ Incorrect. Higher income only reduces the benefit proportionally, and there is no one-size-fits-all rule that an application is automatically rejected once income exceeds $50,000.

124 answer a

a. ✓ Correct. The standard in s.118.94 is "all or substantially all", which CRA applies as 90%. Canadian-source income in the non-resident period is $60,000, about 95% of the net world income of $63,000 for that period, which exceeds 90%, so amount-based credits can be claimed in full for that period. A paper return must attach a statement of Canadian and foreign income for the non-resident period.

b. ✗ Incorrect. ITA s.118.94 expressly preserves the statutory right to claim non-resident-period credits for a taxpayer who meets the "all or substantially all" (90%) threshold.

c. ✗ Incorrect. Foreign passive income during a non-resident period is by law entirely outside Canadian jurisdiction, and it neither needs to nor should be taxed in Canada.

d. ✗ Incorrect. The denominator of the 90% rule is expressly limited to "net worldwide income for that non-resident period" and by no means the income for the whole year.

124′ answer c

a. ✗ Incorrect. The law has no absolute threshold under which Canadian income of $5,000 allows full credits. The test is a relative proportion (90%).

b. ✗ Incorrect. Immigration status is decoupled from credit eligibility. A part-year resident by default gets only the prorated credits for the resident period, and credits for the non-resident period are strictly limited by the proportion in s.118.94.

c. ✓ Correct. During the non-resident period, Brenda's Canadian-source income was $8,000 and her net world income was $8,000 + $72,000 = $80,000, so Canadian-source income is only 10% (far below the "all or substantially all" threshold of 90% that CRA sets under ITA s.118.94). She therefore cannot claim amount-based personal credits for the non-resident period, and can only claim the basic personal amount prorated by days for the resident period from August 1 to December 31.

d. ✗ Incorrect. The individual has no credit eligibility for that period, so there is no valid amount that can be transferred to a spouse.

125 answer c

a. ✗ Incorrect. Permanent residents and protected persons can receive benefits from the time they establish factual residential ties, with no 18–month waiting period at all.

b. ✗ Incorrect. Temporary residents holding a temporary work permit or study permit are strictly restricted by the Income Tax Act and cannot be paid on landing. They must meet the 18–month residence threshold.

c. ✓ Correct. Under CRA's official guidance, a permanent resident (PR) or protected person can apply for the CCB immediately after arriving in Canada as long as they are a tax resident and meet the custody conditions, with no waiting period. A person holding a temporary residence permit such as a study or work permit must live in Canada continuously for 18 months and must hold a valid permit in the 19th month before CCB payments can start.

d. ✗ Incorrect. CCB eligibility depends on residency status and actual custody, and there is never a need to wait until three consecutive years of returns have been filed before payments are made.

125′ answer b

a. ✗ Incorrect. Filing an extension before the original permit expires gives "maintained status", and benefits received earlier were lawfully received and are never refunded.

b. ✓ Correct. Under the lecture and CRA practice guidance, a temporary resident who files an extension application before the old permit expires enjoys statutory "maintained status" while it is processed. The permit is treated as still valid, so the monthly CCB is not interrupted and continues to be paid on schedule.

c. ✗ Incorrect. During maintained status there is no need to suspend payments, much less to wait until a permanent residence approval.

d. ✗ Incorrect. There is no requirement to pay CRA a status–maintenance guarantee deposit.

126 answer d

a. ✗ Incorrect. The departure date cannot simply be the day the person leaves. It must be the latest of the three dates (September 15, 2027). Also, the $25,000 threshold for the T1161 tests the total fair market value of property, not capital gains.

b. ✗ Incorrect. The departure date should be September 15, when new country tax residency was acquired. And when testing the $25,000 threshold for the T1161, Canadian–dollar cash deposits and RRSPs are assets that are by law excluded first.

c. ✗ Incorrect. The date is wrong, and as long as the total market value of qualifying property exceeds $25,000, the T1161 is a statutory mandatory form.

d. ✓ Correct. Under CRA's departure tax rules, the official departure date is the latest of three dates: the day the person leaves (August 10), the day the spouse and dependants leave (September 1) and the day the new country's tax residency is acquired (September 15), so the departure date is September 15, 2027. Under the Form T1161 guidance, Canadian–dollar cash deposits and prescribed registered interests (such as an RRSP) are excluded by law. After exclusion, the fair market value of the remaining property (unregistered shares worth $55,000) exceeds the $25,000 threshold, so Ethan must file Form T1161 by law.

126′ answer a

a. ✓ Correct. Under ITA s.212(1) and CRA's guidance for non-resident taxpayers, after leaving and becoming a non-resident, an individual must proactively notify all Canadian payers (including banks, tenants, property managers and dividend-paying companies) of his non-resident status. By law the payer has a duty to withhold 25% Part XIII tax (or the concessionary rate under a tax treaty). If the failure to notify causes under-withholding, the taxpayer faces reassessment and interest penalties.

b. ✗ Incorrect. Although a non-resident does not pay Canadian tax on foreign income, there is a strict tax obligation on Canadian-source passive income, usually settled through 25% withholding tax.

c. ✗ Incorrect. Canadian-source passive income by default goes through the Part XIII withholding system, and the taxpayer does not file by June 15 of the next year with a 48% surtax.

d. ✗ Incorrect. The law fully allows a non-resident to keep Canadian properties and investments, and there is no forced sale rule.

Chapter 19 answers and reasons

127 answer b

a. ✗ Incorrect. This is the classic "reverse the order and count days first" trap. Under CRA's folio, the deemed resident provision of s.250(1)(a) applies only once it is confirmed that the taxpayer is not a factual resident.

b. ✓ Correct. Under Supreme Court case law and CRA Folio S5-F1-C1, the test must strictly follow the ladder: step one is to examine residential ties. Jin rents an apartment (a significant residential tie) and obtained BC health coverage and bank accounts (secondary ties), so Jin is a factual resident. A factual resident pays provincial tax to the province of residence on December 31 (BC) and has provincial credits, the deemed resident rule never applies, and the 48% federal surtax is not paid.

c. ✗ Incorrect. This confuses immigration visa status with tax residency. A study permit holder who establishes residential ties can be a factual tax resident from the first day.

d. ✗ Incorrect. A deemed resident belongs to no province by law and cannot claim provincial credits, and the surtax is an amount payable, not a refundable amount.

127′ answer d

a. ✗ Incorrect. The statutory 183-day deemed resident rule cannot override factual residential ties, and the factual ties must be looked at first.

b. ✗ Incorrect. Tax residency is a question of fact and has nothing to do with whether permanent residence has been obtained.

c. ✗ Incorrect. A deemed resident is taxed on worldwide income for the whole year, and Carlos has factual ties, so the characterization itself is wrong.

d. ✓ Correct. Under CRA's ladder of tests, Carlos rents a townhouse and has provincial health coverage, which establishes firm significant and secondary residential ties, so he is a factual resident. He should file using the BC provincial forms for the province of residence on December 31, pay BC tax with provincial credits, and can never be treated as a deemed resident paying the 48% federal surtax.

128 answer c

a. ✗ Incorrect. The exam wording does not require 3 ties, and CRA practice has never required 10.

b. ✗ Incorrect. A single secondary tie alone does not usually settle the matter, but CRA has not denied the legal effect of secondary ties in a determination.

c. ✓ Correct. The 2024 training material wrote secondary ties as "at least six". CRA's current folio has no numeric threshold, and its words are that secondary ties generally must be looked at collectively, with unequal weights. This site answers on the current basis, and the old six-item threshold is used only to recognize outdated material.

d. ✗ Incorrect. Neither the exam wording nor CRA practice has a threshold of 8 secondary ties.

128′ answer a

a. ✓ Correct. CRA's current folio has no numeric threshold for secondary ties. They are looked at collectively, weighed by their weight, and combined with the other facts to decide whether the person ordinarily resides in Canada. The old training material's "gather six" is not the current position.

b. ✗ Incorrect. "At least six" is the decision table from the old 2024 training material, and CRA's current practice has no numeric threshold.

c. ✗ Incorrect. CRA says it is "unusual" for a single secondary tie alone to be enough, but several secondary ties looked at together can establish residence.

d. ✗ Incorrect. Secondary ties are used to decide factual residents. The 183-day deemed resident rule looks at the days of sojourn, and the two cannot be swapped.

129 answer a

a. ✓ Correct. Under CRA Folio S5-F1-C1 para 1.33 and section 2.2 of the lecture, the legal definition of "sojourn" is a stay in which a temporary dwelling place is established. A daily commuter who crosses the border to work and goes home to sleep that night has zero days of sojourn in tax law even after 225 crossings, while a 10-day vacation established a temporary residence in Canada and counts as 10 days, including the part days at each end. Robert's statutory days of sojourn in 2026 are therefore only 10, far short of the 183-day threshold, so he is a non-resident.

b. ✗ Incorrect. This mechanically applies "any part of a day counts as a day" and ignores the core exception that commuting days are not a sojourn.

c. ✗ Incorrect. Commuting to work does not count as sojourn, while a vacation does. The direction is completely reversed.

d. ✗ Incorrect. A tax treaty does not exempt a person from the domestic law's day counting, and the vacation days already constitute a factual sojourn.

129′ answer c

a. ✗ Incorrect. Daily cross-border commuting does not count toward days of sojourn.

b. ✗ Incorrect. The law has no rule rounding stays of fewer than 7 consecutive days on a trip down to zero, and a part day also counts as a whole day.

c. ✓ Correct. Under ITA s.250(1)(a) and section 2.2 of the lecture, daily cross-border commuting does not establish a temporary residence in Canada, so the days of sojourn for 210 round trips are zero. During the hotel vacation a temporary residence was established, and under the rule that "any part of a day counts as a day", Saturday, Sunday and Monday all count, for a total of 3 days. Maya is far short of 183 days and is not a deemed resident.

d. ✗ Incorrect. The concept is reversed: commuting workdays are not a sojourn, while personal holiday days are.

130 answer d

a. ✗ Incorrect. This ignores the special statutory deemed resident rule in ITA s.250(1) for members of the armed forces and their dependant children.

b. ✗ Incorrect. Section 250(1)(f) looks at economic dependence and the income threshold, and does not use age 18 as a hard exclusion.

c. ✗ Incorrect. A soldier posted abroad with no home in Canada is a deemed resident, not a factual resident, and Felix is not a deemed non-resident either.

d. ✓ Correct. Under ITA s.250(1)(b), a member of the Canadian Armed Forces who serves at any time in the year is deemed a Canadian resident. Under s.250(1)(f), a dependant child whose net income for the year does not exceed that year's federal basic personal amount (BPA) is also deemed resident. For the 2026 tax year the federal BPA maximum is $16,452. Felix's world income is $14,200, which does not exceed $16,452, so father and son are both deemed residents for 2026.

130′ answer b

a. ✗ Incorrect. Section 250(1)(f) provides that a dependant child's income for the year must not exceed the BPA for the year, and the child is not unconditionally deemed resident with the parent.

b. ✓ Correct. Under ITA s.250(1)(f) and section 2.2 and case three of the lecture, the dependant child of a posted official is deemed resident along with the parent only if net world income for the year does not exceed the federal basic personal amount for the year ($16,452 for the 2026 tax year). Camille's income is $19,500, above the $16,452 threshold, so she is not automatically deemed resident, and her tax status must be decided separately under the ordinary residential ties and sojourn rules.

c. ✗ Incorrect. Camille has no residential ties in Canada and cannot be directly judged a factual resident of Ontario. Also a factual resident does not pay the 48% federal surtax.

d. ✗ Incorrect. A child's income above the dependency threshold must be decided separately under the tax law, and the Vienna Convention does not remove Canada's tax jurisdiction over its own citizens and residents.

131 answer a

a. ✓ Correct. Under ITA s.250(5) and sections 1.1, 1.4 and 2.2 of the lecture, when the tie-breaker rule of a tax treaty awards a dual resident to the other contracting state, that person is deemed non-resident under Canadian tax law. The key is that the provision expressly states its effect is "for all purposes of the Act", which means not only that the treaty limits taxation, but that the domestic deemed disposition departure tax, Part XIII withholding and the TFSA non-resident contribution penalty tax all apply in full from that moment.

b. ✗ Incorrect. Section 250(5) is "for all purposes of the Act" and is never a partial adjustment limited to particular types of income.

c. ✗ Incorrect. After a treaty tie-breaker awards the person to the other state, s.250(5) deemed non-residence applies, not deemed residence.

d. ✗ Incorrect. A treaty tie-breaker decision awarding the person to the other state directly triggers domestic deemed non-residence, which in turn directly triggers the departure tax. It is by no means an exemption.

131′ answer c

a. ✗ Incorrect. A treaty tie-breaker awarding the person to the other state directly removes the person's Canadian domestic residence status, rather than giving a 15% rebate.

b. ✗ Incorrect. Deemed non-residence applies to all provisions of the Act, and the status cannot be split by category of income.

c. ✓ Correct. Under ITA s.250(5), an individual determined to be resident of another country under a tax treaty between Canada and that country is deemed non-resident for all purposes of the Act under Canadian tax law. So Hiroshi no longer pays Canadian tax on worldwide income, his Canadian investment income becomes subject to Part XIII withholding, and the full set of non-resident rules, including the deemed disposition departure tax, applies.

d. ✗ Incorrect. Hiroshi is deemed non-resident and no longer pays Canadian tax on foreign employment income, and the 48% deemed resident surtax does not apply.

132 answer d

a. ✗ Incorrect. A deemed resident belongs to no province by law and does not pay provincial tax on income not earned in a province, rather than paying provincial tax twice.

b. ✗ Incorrect. The BC provincial lowest rate is 5.60%, and 48% is the federal surtax rate, not a provincial rate.

c. ✗ Incorrect. The federal surtax is 48% of basic federal tax computed proportionally, not 48% of gross income.

d. ✓ Correct. Under part four of the lecture, treating "deemed resident" as a way to save tax gets the direction completely backwards. In the 2026 tax year, the marginal burden of the surtax for a deemed resident in the lowest bracket is 14% x 48% = 6.72%, already above BC's lowest provincial rate of 5.60%. More important, a factual resident enjoys the BC basic personal amount credit of $13,216 and provincial refundable credits, while a deemed resident has none of the provincial credits. A deemed resident in BC therefore almost always falls in the more expensive tier.

132′ answer b

a. ✗ Incorrect. The surtax is never refundable, and the groceries benefit is a fixed-amount benefit that cannot offset a large surtax.

b. ✓ Correct. Part four of the lecture states clearly that deemed residence is not a way to save tax. The lowest federal bracket rate is 14%, so the marginal effect of the surtax is 14% x 48% = 6.72%, which exceeds BC's lowest bracket of 5.60%. In addition, a deemed resident cannot use the BC basic personal amount credit of $13,216 or any BC refundable credits, so the actual burden is almost certainly higher than for a factual resident.

c. ✗ Incorrect. A factual resident pays provincial tax to the province of residence and never pays the 48% federal surtax.

d. ✗ Incorrect. Provincial tax and the deemed resident surtax are completely parallel calculations with markedly different burdens, and CRA does not level them out.

133 answer c

a. ✗ Incorrect. This is common misreporting trap number 7 listed in part seven of the lecture: mechanically applying the general rule to the special case of "returning to re-establish a home in the country of origin" and wrongly postponing the departure date to the day family members leave.

b. ✗ Incorrect. For a part-year resident the departure date is fixed on the day of leaving in the year, and is by no means fixed at year end.

c. ✓ Correct. Under CRA Folio S5-F1-C1 para 1.24 and part seven of the lecture, although the ordinary departure date takes "the latest of three dates" (the person leaves, family leaves, new country tax residency is acquired), there is a key exception: a taxpayer who leaves Canada to return to the country of origin and re-establish residence there uses the day the person leaves (May 1, 2026). A spouse and children staying in Canada to sell the home or finish school do not postpone the taxpayer's statutory departure date. If it were wrongly computed as August 31, the deemed disposition date and the cut-off for worldwide income would also be wrong.

d. ✗ Incorrect. This confuses the filing deadline with the departure date.

133′ answer d

a. ✗ Incorrect. The law has no rule that spouses must share an identical departure date.

b. ✗ Incorrect. For a part-year resident the departure date is fixed on the day of leaving in the year.

c. ✗ Incorrect. The deemed disposition under the departure tax happens immediately before the departure date and does not reach back to the start of the year.

d. ✓ Correct. Under CRA Folio S5-F1-C1 para 1.24 and part seven of the lecture, returning to the country of origin to re-establish a home is a special exception, and the departure date is the day the person leaves (June 15, 2026). A spouse leaving later to deal with the property does not postpone the date. Sunita's employment income in the UK after June 15 is entirely outside the Canadian tax net.

Chapter 20 answers and reasons

134 answer c

a. ✗ Incorrect. This falls into the "mechanically applying 90 days" trap. An individual and a graduated rate estate are not subject to the plain 90-day rule: it must be compared with one year after the filing due date and the later taken.
b. ✗ Incorrect. The law has never set the end of the calendar year in which the assessment was issued as the objection deadline.
c. ✓ Correct. Under ITA s.165(1)(a) and section 2.5 of the lecture, the objection deadline for an individual (not a trust) and a graduated rate estate is the later of "one year after the filing due date for the year" and "90 days after the notice of assessment is issued". The filing due date for an ordinary employee for the 2025 tax year is April 30, 2026, and one year after it is April 30, 2027. 90 days after the NOA date is about August 18, 2026. Taking the later of the two, the statutory objection deadline is April 30, 2027.
d. ✗ Incorrect. This confuses the objection time limit with the normal reassessment period (3 years). The normal reassessment period is the period within which CRA may reassess and is never the statutory period for the taxpayer to object.

134′ answer a

a. ✓ Correct. Under ITA s.165(1)(a), the filing due date for a self-employed person for the 2025 tax year is June 15, 2026, and one year after it is June 15, 2027. 90 days after the NOA date (May 5, 2027) is August 3, 2027. Taking the later of the two, August 3 is later than June 15, so the deadline is August 3, 2027, 90 days after the NOA.
b. ✗ Incorrect. This ignores the "later of" rule. When CRA issues the NOA very late, 90 days after the NOA is later than one year after the filing due date, and the later 90 days governs.
c. ✗ Incorrect. The base for the statutory one year is the statutory "filing due date" (June 15), not the date the taxpayer actually filed (June 10).
d. ✗ Incorrect. The length counted from the NOA date is 90 days, not a full year. Only counting from the filing due date gives a full year.

135 answer a

a. ✓ Correct. Under ITA s.152(4)(a)(i) and sections 1.2 and 2.2 of the lecture, the individual's 3-year normal reassessment period is not an unconditional umbrella. As long as there is a "misrepresentation attributable to neglect, carelessness or wilful default" or fraud, CRA may reassess without limit going back, and the law does not require CRA to first establish a gross negligence penalty. Marcus omitted taxable dividends through careless bookkeeping, which is a neglectful misrepresentation, so CRA is fully entitled to reassess beyond the period.
b. ✗ Incorrect. This falls into the trap of treating the normal reassessment period as an unconditional umbrella. Reassessment beyond the period does not need to reach the threshold of criminal fraud: civil carelessness or neglect is enough to open the door to unlimited reassessment.
c. ✗ Incorrect. Section 2.2 of the lecture stresses that reassessment beyond the period and the gross negligence penalty are two independent thresholds. Section 152(4)(a)(i) covers the lower threshold of "neglect" and does not require a gross negligence penalty first.
d. ✗ Incorrect. A T2029 waiver must be signed voluntarily by the taxpayer before the reassessment period expires. Where there is a neglectful misrepresentation, CRA has a statutory right to reassess without limit and does not need the taxpayer to sign a waiver at all.

135′ answer d

a. ✗ Incorrect. Only a non–CCPC corporation has a 4–year period, and an ordinary individual's normal reassessment period is strictly 3 years.

b. ✗ Incorrect. The normal reassessment period starts on the day the original NOA is issued (May 25, 2023), not at the end of the year.

c. ✗ Incorrect. CRA has no administrative discretion to extend the normal reassessment period unilaterally just because of the size of the amount.

d. ✓ Correct. Under ITA s.152(3.1)(b), an individual's normal reassessment period is 3 years from the date the original NOA is issued (May 25, 2023 to May 25, 2026). Because the taxpayer reported honestly and there was no neglectful, careless or wilful misrepresentation, none of the statutory exceptions applies, and the reassessment issued in September 2026 is out of time (statute–barred) and is not valid.

136 answer b

a. ✗ Incorrect. This falls into the "confusing a review with a full audit" trap. A Processing Review is only a routine check of supporting documents for specific deduction boxes, and is by no means a full field audit of multi–year books for a business or individual.

b. ✓ Correct. Under section 2.3 of the lecture, a Processing Review (a post–assessment review) occurs after the NOA is issued and is one of CRA's eight matching and review programs. Its nature is to verify whether specific boxes have supporting documents, not an audit that goes deep into the books. Brian should enter the claim code at the website given in the letter to find out which documents are needed and supply the receipts on time within the 30–day window.

c. ✗ Incorrect. A Pre–assessment Review occurs before the NOA is issued, and a review procedure never revokes the taxpayer's social insurance number (SIN).

d. ✗ Incorrect. The Matching Program checks third–party slips (T4/T5) against the return, while a Processing Review checks receipts for deductions or credits the taxpayer claimed on his or her own.

136′ answer c

a. ✗ Incorrect. The Matching Program occurs after the NOA is issued and is not a Pre–assessment Review that delays issuing the notice before assessment.

b. ✗ Incorrect. An arbitrary assessment is a compulsory administrative assessment issued after a long failure to file and a demand, and is completely different in nature from the automated matching of the ordinary post–assessment Matching Program.

c. ✓ Correct. Under the table in section 2.3 of the lecture, the Matching Program occurs after the NOA is issued. Its mechanism is to systematically and automatically cross–reference the figures the taxpayer reported against tax slips (such as the T4 and T5) sent directly to CRA by third parties such as employers and financial institutions, to find whether income was missed or the figures are inconsistent.

d. ✗ Incorrect. The Matching Program is a verification program CRA starts on its own, not a taxpayer relief proceeding the taxpayer applies for under RC4288.

137 answer d

a. ✗ Incorrect. The 10–year fairness provision in ITA s.152(4.2) expressly applies to adjusting an individual's return and is not limited to corporations.

b. ✗ Incorrect. Although the 3–year normal reassessment period has passed, under s.152(4.2) CRA has a discretionary power to adjust for up to 10 calendar years, so 2022 can still be accepted.

c. ✗ Incorrect. ReFILE software can only change the 2021 and later tax years and cannot handle 2014 at all. Also the 2022 year supports a faster online change.

d. ✓ Correct. Under ITA s.152(4.2) and section 2.4 of the lecture, there is a hard cap on CRA paying an adjusted refund: a refund is not paid on an adjustment request that goes back more than 10 calendar years. The 10–year window is anchored to the tax year being changed, and a request accepted in 2026 can reach back at most to the 2016 tax year. The 2022 tax year is fully inside the 10–year window and can be adjusted and refunded normally, while the 2014 tax year is more than 10 calendar years back and by law no refund can be paid.

137′ answer a

a. ✓ Correct. Under section 2.4 and point 2 of section three of the lecture, the statutory precondition to applying to change a return already filed (whether through Change my return in My Account, ReFILE in software or paper T1–ADJ) is that the NOA must be received first. Until the original assessment is complete, the system neither supports nor allows an adjustment request. Also, if there are several adjustments, the next one can be submitted only after the previous one has been processed.

b. ✗ Incorrect. A Notice of Objection (T400A) can be filed only against an assessment already issued (NOA/NOR), and an objection cannot be filed at all before the assessment is issued.

c. ✗ Incorrect. NETFILE does not accept a duplicate return for the same tax year, and blindly refiling causes a system error and delays the initial assessment of the original return.

d. ✗ Incorrect. A paper T1–ADJ also requires that the NOA be received before it is submitted, and there is no rule that electronic channels are disabled before June 15.

138 answer a

a. ✓ Correct. Under ITA s.225.1(1) and section 2.6 of the lecture, once a taxpayer objects to an assessment, CRA must pause enforced collection against an individual (it cannot sue, freeze accounts or garnish wages). However, the collection restriction only protects the taxpayer's property from forced seizure and does not cancel the tax debt. Interest on the tax owing continues to accumulate daily, compounded, at the prescribed rate throughout the objection.

b. ✗ Incorrect. Collection against an ordinary individual is 100% paused. Only for a "large corporation" or a case involving a "tax shelter" charitable donation may CRA collect 50%.

c. ✗ Incorrect. This falls into the "mistaking a collection pause for waived interest" trap. What is paused is only the collection action, and interest never stops accruing.

d. ✗ Incorrect. An individual's tax objection in Canada has a statutory right to an automatic pause on collection, and the taxpayer does not need to provide any commercial surety bond or guarantee.

138′ answer c

a. ✗ Incorrect. This is the general rule, but a large corporation and a tax shelter donation credit are both statutory exceptions that break the "full pause for individuals".

b. ✗ Incorrect. A large corporation does not have to pay in full immediately, since the law sets the collection limit at 50%, and an individual with a tax shelter donation also does not get a complete pause.

c. ✓ Correct. Under ITA s.225.1(7) and section 2.6 of the lecture, the law sets two statutory exceptions that break the collection pause: even after an objection, CRA may within 90 days of the NOA first collect 50% of the disputed tax from a large corporation, and for a dispute over a charitable donation credit involving a tax shelter, CRA likewise pauses only 50% and the other 50% may be collected as usual.

d. ✗ Incorrect. Only where the court finds that the main purpose of the taxpayer's objection was to delay payment in bad faith may the court impose a delay penalty of up to 10%. It is not an automatic 20% on filing.

139 answer c

a. ✗ Incorrect. This reverses the persons to whom the two regimes apply. Unassessed income omitted cannot go through RC4288, and penalties and interest already correctly assessed cannot go through the VDP.

b. ✗ Incorrect. An objection concerns an error in the characterization or computation of the assessment itself. In this case Gregory's penalties and interest were correctly computed (only excusable), and Sandra has not yet been assessed, so neither can file an objection.

c. ✓ Correct. Under sections 2.7 and 2.8 of the lecture and item 6 of the section seven list of misreports, the core test that separates them is "has CRA ever assessed this money?" Sandra's foreign rental income is tax that was never declared and has not been found by CRA, so she should use the Voluntary Disclosures Program (VDP, meeting the Unprompted condition). Gregory's penalties and interest were already correctly assessed by CRA, but they are excusable because of circumstances beyond the taxpayer's control such as a serious car accident, so he should apply for taxpayer relief through RC4288.

d. ✗ Incorrect. The Tax Court has no jurisdiction to cancel or reduce correctly assessed penalties and interest, and that discretion belongs exclusively to CRA's taxpayer relief procedure.

139′ answer b

a. ✗ Incorrect. Taxpayer relief in the law is strictly limited by a 10–year time limit, and there is no such thing as a 15–year umbrella window.

b. ✓ Correct. Under section 2.7 of the lecture and TWS–0634, taxpayer relief (RC4288) uses different 10–year anchors for penalties and interest. Penalties are anchored to the "tax year or filing period they relate to", so an application in 2026 can relieve only penalties for the 2016 and later tax years, and the 2014 tax year penalty has expired. Interest is anchored to the "calendar year in which it actually accumulated", so an application in 2026 can review interest accumulated on or after January 1, 2016. So even if the original tax owing arose in 2012, the interest accumulated in 2018 to 2023 is inside the 10–year window and is by law eligible to be considered for relief.

c. ✗ Incorrect. Penalties are subject to the 10–year limit by the tax year they relate to, while interest relief is not excluded just because the original tax owing arose more than 10 years ago, as long as the interest accumulated within the last 10 years.

d. ✗ Incorrect. This ignores the special rule that interest relief is anchored to the year of accumulation, and wrongly ties interest to the year of the original tax owing.

140 answer b

a. ✗ Incorrect. These are the requirements of the "General Procedure". The informal procedure has no filing fee, is not bound by strict rules of evidence, and allows a non-lawyer representative to appear.

b. ✓ Correct. Under section 18 of the Tax Court of Canada Act and section 2.9 of the lecture, the statutory threshold for the informal procedure is that the tax in dispute plus penalties does not exceed $25,000 (unchanged from 2024 to 2026 and not indexed to inflation). The procedure has no court filing fee, is not bound by strict rules of evidence and allows a non-lawyer representative to appear. Also, under section 18.28, a judgment in the informal procedure may not be cited as binding judicial precedent in other cases.

c. ✗ Incorrect. The formula for the $25,000 threshold expressly includes the federal tax and penalties in dispute and excludes only interest. $22,000 + $2,500 = $24,500, which does not exceed the $25,000 threshold.

d. ✗ Incorrect. This falls into the trap of mistaking a small-claims judgment for a precedent. Section 18.28 of the Tax Court of Canada Act expressly provides that a judgment in the informal procedure does not have formal binding precedent.

140′ answer d

a. ✗ Incorrect. The law gives the taxpayer a voluntary election to limit the amount, so exceeding the threshold does not mean absolute exclusion.

b. ✗ Incorrect. The Tax Court has no rule under which paying a 10% excess waiver fee removes the threshold limit.

c. ✗ Incorrect. Whether to use the informal procedure depends on the statutory threshold or the taxpayer's own election, and no approval of the Department of Justice is needed.

d. ✓ Correct. Under section 18 of the Tax Court of Canada Act and section 2.9 of the lecture, a taxpayer whose dispute exceeds the $25,000 threshold may by law elect to limit the amount in dispute to $25,000 or less (giving up the claim to the excess), in exchange for the lower-cost and simpler informal procedure.