CHAPTER ONE SOLUTIONS

Solution to Assignment Problem One - 1

Note To Instructor If you are assigning this problem, note that only the first two answers can be found in Chapter 1 of the text.

The circumstances under which a general provision of the *Income Tax Act* can be overridden are as follows:

1. In those situations where there is a conflict between the provisions of an international tax treaty and the *Income Tax Act*, the terms of the international tax treaty will prevail.

2. While court decisions cannot be used to change the actual tax law, court decisions may call into question the reasonableness of interpretations of the ITA made by either the CRA or tax practitioners.

3. In some cases, a more specific provision of the *Act* will contain an exception to a general rule. For example, while ITA 18(1)(b) does not allow the deduction of capital expenditures in computing business income, ITA 20(1)(aa) contains a provision that allows the deduction of landscaping costs.

Solution to Assignment Problem One - 2

Some of the possible examples of conflicts between objectives would be as follows:

1. **Revenue Generation And International Competitiveness** The need to lower rates of taxation in order to be competitive on an international basis is in conflict with the need to generate revenues.

2. **Fairness And Simplicity** In order to make a tax system simple, a single or small number of tax rates must be applied to a well established concept of income with only a limited number of deductions or exceptions available. This is in conflict with the goal of tailoring the system to be fair to specific types of individuals, such as the disabled.

3. **Revenue Generation And Social Goals** The desire to provide funds to certain types of individuals (Old Age Security) or to provide certain types of services (health care) may be in conflict with the need to generate tax revenues.

4. **Flexibility And Certainty** To make a tax system flexible in changing economic, political, and social circumstances, there must be some uncertainty.

Solution to Assignment Problem One - 3

There is, of course, no one solution to this problem. Further, student answers will be limited as, at this point, their understanding of tax concepts and procedures is fairly limited. However, the problem should provide the basis of an interesting discussion. What we have provided here are some suggested comments related to the various qualitative characteristics.

International Competitiveness This is, perhaps, the most important reason for the tax rate reduction for corporations. At 35 percent, the U.S. corporate tax rate was higher than the corresponding rate in any other OECD country (e.g., the federal rate in Canada is 15 percent). If a country's tax system has rates that are out of line with those in comparable countries, the result will be an outflow of both business and skilled individuals to those countries that have more favourable tax rates.

Adequacy This is another important consideration. There is a belief in some circles that lowering tax rates on business will, because of the positive effect on economic activity, produce an increase in tax revenues. Evidence on the validity of this view is mixed. If this view is not valid, a reduction in corporate tax revenues will have to be accompanied by an increase in other types of taxes or, alternatively, a reduction in government expenses.

Balance Between Sectors Prior to the rate reduction, the U.S. had a high corporate tax rate, a relatively low maximum rate on individuals and no federal sales tax. If cutting the corporate tax rate results in either an increase in individual tax rates or the introduction of a federal sales tax, this would represent a significant change in the balance between corporations and individuals.

Equity Or Fairness If the reduction in corporate taxes results in increased taxes on individuals, some would argue that the change is not equitable or fair.

Neutrality The reduction in corporate taxes is not neutral in that it is likely to have a large impact on economic decisions. For example, it could result in some of the huge cash balances that U.S. companies are holding abroad being repatriated to the U.S.

Elasticity The reduction in corporate taxes wouldn't really alter the elasticity of the corporate tax system. Revenues would continue to move in a manner that is directly related to corporate profits.

Flexibility The reduction in corporate taxes would not alter flexibility of the corporate tax system. Before and after the reduction, tax rates can be changed by the relevant legislative body.

Simplicity And Ease Of Compliance Ease of compliance has little to do with the specific rate being charged. This characteristic is controlled by the rules related to the application of the rate.

Certainty There is uncertainty related to the reduction in corporate taxes in that the revenue outcome is uncertain. Proponents of the reduction expect an increase in revenue while opponents expect a decline in revenues.

Solution to Assignment Problem One - 4

There are a large number of possible responses to a question such as this. Some possibilities would include the following:

- **Simplicity And Ease Of Compliance** A very good feature of this tax is that it is very simple and presents the taxpayer with no compliance problems. Anyone with a head is taxed and no provisions have been made for any modifications in applicability or amounts to be paid.

- **Fairness And Equity** In one sense this is a fair tax in that it applies to every Canadian resident and the amount to be collected from each individual is the same. This could be described as horizontal equity. However, the tax could also be considered unfair in that it gives no consideration to the individual's ability to pay the tax, either in terms of accumulated wealth or income.

- **Regressiveness** Related to fairness is the fact that the tax is regressive. That is, the tax will take a higher percentage of income from low income individuals than it will from high income individuals.

- **Flexibility And Elasticity** Being a very simple tax, it will be very easy to change the rate at which it is assessed. However, as it is a flat tax based simply on the existence of the individual, it will not respond to changing economic conditions.

- **Enforcement And Dependability Of Revenues** Given the presence of a physically visible audit trail (the HAT), there should be no enforcement problems. Further, demographic statistics are reasonably predictable, making it relatively easy for the government to anticipate the expected levels of revenue.

- **Neutrality** Other than decisions related to whether to remain a Canadian resident, the tax appears to be neutral with respect to economic conditions.

- **International Competitiveness** It seems unlikely that a $200 tax would be sufficient to influence a decision to either leave Canada or move to Canada. Therefore, the tax could be thought of as being internationally competitive.

- **Balance Between Sectors** The tax might be criticized as an additional burden on Canadian individuals as opposed to Canadian businesses.

There are, of course, other factors that could be considered.

Solution to Assignment Problem One - 5

Solution According To Textbook

Mr. Valone would be considered a part year resident and would only be assessed for Canadian income taxes on worldwide income during the portion of the year prior to his ceasing to be a resident of Canada.

S5-F1-C1 indicates that, in general, the CRA will view an individual as becoming a non-resident on the latest of three dates:

- The date the individual leaves Canada.
- The date the individual's spouse or common-law partner and dependants leave Canada.
- The date the individual becomes a resident of another country.

While Mr. Valone departed from Canada on March 1, 2018, he will be considered a Canadian resident until his family's departure on June 20, 2018. The fact that his family remained in Canada would lead to this conclusion. While not essential to this conclusion, the fact that he did not sell his Canadian residence until that date would provide additional support.

His Canadian salary from January 1, 2018 to March 1, 2018 would be subject to Canadian taxes. In addition, his U.S. salary for the period March 1, 2018 through June 20, 2018 will be subject, first to U.S. taxes, and then subsequently to Canadian taxes. In calculating his Canadian taxes payable, he will receive a credit for the U.S. taxes which he has paid on this income. However, because Canadian tax rates at a given income level are usually higher than those which prevail in the U.S., it is likely that he will be required to pay some Canadian income taxes in addition to the U.S. taxes.

Note To Instructors

The preceding solution reflects the content of the text with respect to departures from Canada and students should be evaluated on that basis. However, S5-FI-C1 qualifies the general departure rules as follows:

> **Paragraph 1.22** An exception to this will occur where the individual was resident in another country prior to entering Canada and is leaving to re-establish his or her residence in that country. In this case, the individual will generally become a non-resident on the date he or she leaves Canada, even if, for example, his or her spouse or common law partner remains temporarily behind in Canada to dispose of their dwelling place in Canada or so that their dependants may complete a school year already in progress.

On the assumption that Mr. Valone was a resident of the U.S. prior to his working years in Canada, this exception would mean that he would cease to be a resident of Canada on March 1, 2018, the date that he departs from Canada.

The textbook does not deal with the residency rules of countries other than Canada. Although this solution concludes that June 20 is the date residency is terminated in Canada, it is probable that the foreign jurisdiction (the U.S.) would consider Mr. Valone to be resident under their own rules effective March 1. In effect, the period between March 1 and June 20 would become a dual residency period. We would not expect students to come to this conclusion, but include this to illustrate the complexities of international issues in taxation.

Solution to Assignment Problem One - 6

Note To Instructors This problem is based on a Tax Court Of Canada case, Hamel Vs. The Queen (2012 DTC 1004). The actual year in question is 2007, with the judgment being rendered in 2011. We have moved the dates in the problem up by 8 years. It is our opinion that, since this judgment was rendered, there have been no legislative or other changes that would alter the conclusions reached by Tax Court judge in this case.

Background

The minister assessed Mr. Hamel on the basis of his not giving up Canadian residency on January 13, 2007 (the original date in the case). Mr. Hamel appealed to the Tax Court of Canada which resulted in Hamel Vs. The Queen (2012 DTC 1004).

The solution that follows is the judge's analysis and decision in the case (note that it was translated from French). The judge's conclusion also contained a long section of references to other cases which we have not included in this solution. The original dates in the solution have been changed to correspond to the dates in the problem.

Judge's Analysis And Decision

The respondent's main argument is that every person must have a residence. Presuming the appellant had not resided in Qatar, she found that he must necessarily have resided in Canada.

After arriving at this conclusion, she relied on the following facts:

- The appellant came to Canada a few times.
- The appellant had two bank accounts in Canada, which he used to make all his payments, in particular for his credit cards, which were also issued in Canada.
- The appellant had some money in an RRSP.
- The appellant had no postal address in Qatar.

As for the other elements, for example, not having a driver's licence, not having property such as furniture, clothing, accommodations or vehicles, and not having a health insurance card, the respondent claims that they have no impact one way or the other.

The evidence clearly showed that the appellant's decision came after a lengthy period of reflection. It also showed that the appellant did not have any deep roots and did not hesitate to leave when his son, who was ill, let him go with no regrets.

His relationship with his wife was so tense that they tolerated one another only because of their shared concern about their son who was ill.

The appellant had a very good position. He did not want to run away from his responsibilities. He gave all his property and agreed to pay generous support payments before leaving; he has always complied with these commitments. He did not apply for a new Canadian driver's licence when his was suspended, even though the evidence showed it was important for him to be able to use a car if he wanted an international driver's license or even a driver's licence from the country in which he was living.

He specifically gave up his health card in 2016.

Regarding the beginning of the relevant period of the appeal, the beginning of 2015 (the original year), it must be considered that a reasonable person would be careful. The appellant stated he could only get a work permit if a medical exam showed he was in good health, otherwise he had to return to his country of origin. The same can be said for the position, the duration of which generally depends on the employer, not the employee. In other words, there is, normally, a reasonable delay before a permanent break. This explains the time between the beginning of the period in question and the time the appellant gave up his health insurance.

As for the argument that the appellant never had a residence in Qatar, I do not believe it is cogent, because the appellant was employed and had a residence. The appellant's strong interest in staying in Qatar was shown by the intensive courses he took to get a driver's licence, when he could have traveled with coworkers, even though he had cancelled his Canadian driver's licence. When his employment ended in Qatar, the appellant returned to the country to see the people with whom he had worked and the work he had done.

In particular, in view of the following facts, I find that, on the preponderance of the evidence, the appellant's position must be accepted:

- The family context was special and conducive to a permanent departure.
- The appellant left after disposing of all his own property.
- The appellant waived his right to obtain a new driver's licence a few months before leaving Canada.
- The appellant returned to Canada a few times for very short stays that were for the purpose of visiting his two sons, his mother and friends.

After leaving Qatar upon the expiry of his work contract, the appellant returned to meet friends and business acquaintances, thereby showing he had been happy there.

The break came after a long period of thorough reflection.

The appellant has set out all the facts showing his intention to sever ties with this country permanently.

Although the relevance of prior facts is limited, they tend to confirm that the appellant severed his ties with Canada in mid-January 2015.

For these reasons, I conclude that the appellant ceased being a resident of Canada as of January 13, 2015. As a result, the appeal is allowed with costs in favour of the appellant.

Solution to Assignment Problem One - 7

Case A

John's 2 year tour would be considered a temporary absence from Canada. Given the facts, it appears his intent is not to permanently sever residential ties with Canada. This position is evidenced by the fact his tour is for a limited time and he will not be establishing residency in another country.

John's departure does not appear to be a true departure in that he has not severed any of the primary ties (dwelling, spouse and dependants) the CRA looks to. As a result, examining those ties would not be relevant since they are typically used when there is an intention to sever residential ties, but they are not all severed at the same time.

John will remain a Canadian resident during his tour and would be subject to Canadian tax on his worldwide income during 2018.

Case B

Because she has an employment contract that requires her to return to Canada in three years, she will be viewed as having retained Canadian residence status. Although she has severed her ties with Canada, the requirement to return would show that she does not intend to permanently leave Canada.

Jane will be subject to Canadian tax on her worldwide income during 2018.

Case C

As she is exempt from taxation in Ghana because she is the spouse of a deemed Canadian resident, Laura would be a deemed resident of Canada for income tax purposes during 2018 [(ITA 250(1)(g)].

Laura would be subject to Canadian tax on her worldwide income during 2018.

Case D

As noted in S5-F1-C1, commuting from the U.S. for employment purposes does not make an individual a deemed resident under the sojourner rules. Therefore, Martha would not be considered a Canadian resident for income tax purposes.

She would be exempted by the Canada/U.S. tax treaty under ITA 2(3) if the amount of employment income was less than $10,000, or if she was physically present in Canada for less than 183 days. Her employment income was more than $10,000 and, because she was working 5 days a week, it appears that she was physically present in Canada for more than 183 days. Given these facts, she would not be exempted from Canadian taxation because of the Canada/U.S. tax treaty.

Martha would be subject to Canadian tax on her 2018 Canadian employment income. She would not be subject to Canadian tax on her U.S. savings account interest.

Case E

Residency terminates at the latest of:

- the date the individual leaves Canada;
- the date the individual’s family leaves Canada; and
- the date that individual establishes residency elsewhere.

As Barry’s family did not leave Canada until July 1, 2018, Barry would be considered a Canadian resident until that date. Provided he has no intention of returning to Canada, he would be subject to Canadian taxes on his worldwide income for the period January 1, 2018 through July 1, 2018. In addition, he would be subject to Canadian tax on his 2018 rental income. As will be discussed in Chapter 20, the tax on the rental income would not be Part I tax. It would be Part XIII tax.

Solution to Assignment Problem One - 8

Canada/U.S. Tax Treaty Tie Breaker Rule

In cases of dual residency for corporations, where a corporation could be considered a resident of both countries, the Canada/U.S. tax treaty indicates that the corporation will be deemed to be a resident only in the country in which it is incorporated.

Case A

The mind and management of the Allor Company are in Canada and this suggests that the Company is a resident of Canada. However, as the Allor Company was incorporated in the U.S., it is also a resident of that country. Using the tie breaker rule, the Allor Company will be considered a resident of the U.S. and a non-resident of Canada.

Case B

Kodar Ltd. was incorporated in Canada after April 26, 1965. This means that, under ITA 250(4)(a), Kodar Ltd. is a deemed resident of Canada. Because the mind and management of the Company are in the United States, it is also considered a resident of the U.S. Using the tie breaker rule, Kodar Ltd. will be considered a resident of Canada as it was incorporated in Canada.

Case C

The Karlos Company was not incorporated in Canada and its mind and management are not currently located in Canada. Therefore, Karlos would not be considered a resident of Canada.

Case D

While Bradlee Inc. is not operating in Canada, it was incorporated here prior to April 27, 1965. If it had not carried on business in Canada after that date, it would not be a Canadian resident. However, it did carry on business in Canada after that date and, as a consequence, it is a deemed resident under ITA 250(4)(c).

As the mind and management of the Company are currently in the United States, the Company is also a resident of that country. Under the tie breaker rule, Bradlee Inc. would be a resident of Canada as it was incorporated in Canada.

Solution to Assignment Problem One - 9

Part A

Brian Palm would be considered a part year resident of Canada until July 31, 2018, the date of his departure and would be taxed on his worldwide income for this period. As his presence in Canada during the first part of the year was on a full time basis, he would not fall under the sojourning rules.

Part B

Rachel is a deemed resident of Canada under ITA 250(1)(b). As Gunter is exempt from German taxation because he is related to Rachel, he is also considered a deemed resident of Canada under ITA 250(1)(g).

Part C

As she is present in Canada on a temporary basis for more than 183 days per year, she would be considered a sojourner. Under ITA 250(1)(a), this would make her a Canadian resident for income tax purposes for all of 2018.

Part D

Martha would be a Canadian resident for income tax purposes during 2018. An individual is not considered to have departed from Canada until the latest of the departure date, the date of departure for their spouse and children, and the date on which residence is established in a different country. As her family is staying in Canada and Martha will not be establishing residency in another country, she will remain a Canadian resident during her trip. The fact that she is a U.S. citizen is irrelevant to her residency status.

Part E

ITA 250(4)(c) indicates that a corporation is resident in Canada if it was incorporated in Canada prior to April 27, 1965 and carried on business, or was resident in Canada, in any year ending after April 26, 1965. However, as the mind and the management of the company is in the U.S., it is also a resident of that country. In cases of dual residency for corporations, where a corporation could be considered a resident of both countries, the Canada/U.S. tax treaty indicates that the corporation will be deemed to be a resident only in the country in which it is incorporated. Given this, Bronson Inc. would be a resident of Canada.

Part F

The company was not incorporated in Canada and the mind and management of the company is not in Canada. Ubex Ltd. is not a resident of Canada.

Solution to Assignment Problem One - 10

In cases of dual residency, the Canada/U.S. tax treaty has tie breaker rules. Under these rules residence would be determined by applying criteria in the following order:

- **Permanent Home** If the individual has a permanent home available in only one country, the individual will be considered a resident of that country. A permanent home means a dwelling, rented or purchased, that is continuously available at all times. For this purpose, a home that would only be used for a short duration would not be considered a permanent home.
- **Centre of Vital Interests** If the individual has permanent homes in both countries, or in neither, then this test looks to the country in which the individual's personal and economic relations are greatest. Such relations are virtually identical to the ties that are examined when determining factual residence for individuals.
- **Habitual Abode** If the first two tests do not yield a determination, then the country where the individual spends more time will be considered the country of residence.
- **Citizenship** If the tie-breaker rules still fail to resolve the issue, then the individual will be considered a resident of the country where the individual is a citizen.
- **Competent Authority** If none of the preceding tests resolve the question of residency then, as a last resort, the so-called "competent authority procedures" are used. Without describing them in detail, these procedures are aimed at opening a dialogue between the two countries for the purpose of resolving the conflict.

Case A

As Ty was in Canada for more than 183 days, he is a deemed resident through the application of the sojourner rule. This means that he is likely to be considered a resident in both the United States and Canada. In such situations, the tie breaker rules would be applicable

It does not appear that Ty has a permanent home, a centre of vital interests, or a habitual abode. Therefore, it would appear that the fact that Ty is a citizen of the U.S. would be the determining factor. This treaty result would override the sojourner rule, making Ty a non-resident of Canada.

Case B

As he is in Canada for more than 183 days, Jordan would be a deemed Canadian resident under the sojourner rules. As in Case A, it is likely that he would be considered a resident in both countries. Given this the tie breaker rules would be applicable. As Jordan appears to have a permanent home in Kalispell, these rules would make him a resident of the United States. This treaty result would override the sojourner rule, making Jordan a non-resident of Canada.

Solution to Assignment Problem One - 11

Accountant's View

The accountant's definition uses historical cost accounting following GAAP. Under GAAP, revenue is generally recognized when goods are sold or services delivered. Expenses are then matched against these revenues, with the resulting difference referred to as accounting Net Income.

Economist's View

The economist's definition of income includes all gains, whether realized or unrealized, as increases in net economic power.

Income Tax Act View

Conceptually, the ITA view is very similar to the accountant's view. However, there are many differences which result from the application of complex rules in the ITA. For example, a portion of capital gains is not considered to be Taxable Income under the ITA view. In contrast, both accountants and economists would include 100 percent of such gains in income. Note, however, the timing would be different as economists would tend to recognize such gains prior to the realization. Accountants generally do not recognize capital gains until they are realized through a disposition of the relevant asset.

Solution to Assignment Problem One - 12

Case One

The Case One solution would be calculated as follows:

Income Under ITA 3(a):		
Net Employment Income		$62,350
Income Under ITA 3(b):		
Taxable Capital Gains [(1/2)($97,650)]	$48,825	
Allowable Capital Losses [(1/2)($5,430)]	(2,715)	46,110
Balance From ITA 3(a) And (b)		$108,460
Subdivision e Deduction:		
Deductible RRSP Contribution		(4,560)
Balance From ITA 3(c)		$103,900
Deduction Under ITA 3(d):		
Net Business Loss		(115,600)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Karla has an unused business loss carry over of $11,700 ($103,900 - $115,600).

Case Two

The Case Two solution would be calculated as follows:

Income Under ITA 3(a):		
Net Employment Income	$45,600	
Net Business Income	27,310	$72,910
Income Under ITA 3(b):		
Taxable Capital Gains [(1/2)($31,620)]	$15,810	
Allowable Capital Losses [(1/2)($41,650)]	(20,825)	Nil
Balance From ITA 3(a) And (b)		$72,910
Subdivision e Deduction:		
Spousal Support Payments [(12)($600)]		(7,200)
Balance From ITA 3(c)		$65,710
Deduction Under ITA 3(d):		
Net Rental Loss		(4,600)
Net Income For Tax Purposes (Division B Income)		$61,110

In this Case, Karla has an unused allowable capital loss carry over of $5,015 ($20,825 - $15,810). As Karla's gambling activity does not appear to be substantial enough to be considered a business, the $46,000 in winnings would not be taxable.

Solution to Assignment Problem One - 13

Case A

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$75,660	
Rental Income	7,020	$ 82,680
Income Under ITA 3(b):		
Taxable Capital Gains	$41,080	
Allowable Capital Losses	(16,120)	24,960
Balance From ITA 3(a) And (b)		$107,640
Subdivision e Deductions		(5,330)
Balance From ITA 3(c)		$102,310
Deduction Under ITA 3(d):		
Business Loss		(15,990)
Net Income For Tax Purposes (Division B Income)		$ 86,320

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

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$107,380	
Rental Income	15,860	$123,240
Income Under ITA 3(b):		
Taxable Capital Gains	$20,280	
Allowable Capital Losses	(30,420)	Nil
Balance From ITA 3(a) And (b)		$123,240
Subdivision e Deductions		(7,020)
Balance From ITA 3(c)		$116,220
Deduction Under ITA 3(d):		
Business Loss		(10,920)
Net Income For Tax Purposes (Division B Income)		$105,300

In this Case, Kirsten has an allowable capital loss carry over of $10,140 ($20,280 - $30,420).

Case C

The Case C solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$60,710	
Rental Income	3,380	$64,090
Income Under ITA 3(b):		
Taxable Capital Gains	$15,080	
Allowable Capital Losses	(13,910)	1,170
Balance From ITA 3(a) and (b)		$65,260
Subdivision e Deductions		(15,080)
Balance From ITA 3(c)		$50,180
Deduction Under ITA 3(d):		
Business Loss		(80,990)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Kirsten would have a business loss carry over in the amount of $30,810 ($50,180 - $80,990).

Case D

The Case D solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income		$43,420
Income Under ITA 3(b):		
Taxable Capital Gains	$30,030	
Allowable Capital Losses	(32,110)	Nil
Balance From ITA 3(a) And (b)		$43,420
Subdivision e Deductions		(7,280)
Balance From ITA 3(c)		$36,140
Deduction Under ITA 3(d):		
Business Loss		(60,060)
Rental Loss		(23,790)
Net Income For Tax Purposes (Division B Income)		Nil

Kirsten would have a carry over of business and rental losses in the amount of $47,710 ($36,140 - $60,060 - $23,790) and of allowable capital losses in the amount of $2,080 ($30,030 - $32,110).

CHAPTER TWO SOLUTIONS

Solution to Assignment Problem Two - 1

While there are alternatives in all Cases, the following answers represent the "minimum" instalments, as required in the problem.

Case One

Ms. Skurnick's net tax owing in each of the three years is as follows:

2016 = $9,600 ($28,800 - $19,200)
2017 = $7,040 ($23,040 - $16,000)
2018 = $5,600 ($21,600 - $16,000) Estimated

As her net tax owing is expected to exceed $3,000 in 2018 and was more than $3,000 in both the first and second preceding years, the payment of instalments is required.

Using the 2018 estimate would result in minimum instalment payments. Based on this year, the required quarterly instalments would be $1,400 ($5,600 ÷ 4) for a total of $5,600.

They would be due on March 15, June 15, September 15, and December 15.

Case Two

Ms. Skurnick's net tax owing in each of the three years is as follows:

2016 = $17,600 ($28,800 - $11,200)
2017 = Nil ($23,040 - $24,000)
2018 = $7,200 ($21,600 - $14,400) Estimated

As her net tax owing is expected to exceed $3,000 in 2018 and was more than $3,000 in 2016, the payment of instalments is required.

Using the 2017 net tax owing would result in minimum instalment payments. Based on this year, the required quarterly instalments would be nil.

Case Three

Ms. Skurnick's net tax owing in each of the three years is as follows:

2016 = $1,300 ($28,800 - $27,500)
2017 = $6,840 ($23,040 - $16,200)
2018 = $3,400 ($21,600 - $18,200) Estimated

As her net tax owing is expected to exceed $3,000 in 2018 and was more than $3,000 in 2017, the payment of instalments is required.

Instalments under the three acceptable alternatives would be as follows:

Alternative 1 Using the estimated net tax owing for the current year would result in quarterly instalments of $850 ($3,400 ÷ 4) for a total of $3,400.

Alternative 2 Using the net tax owing for the previous year would result in quarterly instalments of $1,710 ($6,840 ÷ 4), for a total amount of $6,840.

Alternative 3 Using the net tax owing for the second previous year would result in a figure of $325 ($1,300 ÷ 4) for the first two instalments. The remaining two instalments would be $3,095 each {[$6,840 - (2)($325)] ÷ 2]. This would result in total instalments of $6,840.

The best choice would be Alternative 1. While the first two instalments are lower under Alternative 3, the total for the year under Alternative 3 is $3,340 ($6,840 - $3,400) higher.

They would be due on March 15, June 15, September 15, and December 15.