

Retirement savings

Assignment Problem Thirteen - 1

During 2006, Mr. Robert Sparks had the following amounts of income and deductions under the various Subdivisions of Division B of the *Income Tax Act*:

Net employment income	\$60,000
Income (Loss) from business	(16,000)
Income from property (Interest on term deposits)	6,000
Taxable capital gains	7,500
Allowable capital losses	(10,500)
Subdivision e deductions (Child care costs)	(3,000)

At the end of 2006, Mr. Sparks' Unused RRSP Deduction Room was nil and there were no undeducted contributions in his RRSP account.

Required:

- A. Calculate his 2006 Net Income For Tax Purposes and any carry overs available to him.
- B. Calculate the maximum deductible contribution Mr. Sparks can make to his RRSP for the 2007 taxation year for the following **independent** Cases:

Case 1 During 2006, he is a member of a money purchase Registered Pension Plan (RPP) in which he has contributed \$1,000 and his employer has contributed \$1,500.

Assignment Problem Thirteen - 3

Mrs. Holly Goh is a graphic designer with two young children. Her current husband, a body builder who once held the Mr. Alberta title, takes care of the children and the household, and has no source of income. As this was also the situation with her former husband, she is required to pay him \$200 per month in spousal support. In addition, she must pay \$150 per month in child support for the child that is still in the custody of her former husband. These amounts were established in a December, 2005 court decree.

Mrs. Holly Goh has a self-administered RRSP. At the end of 2006, Mrs. Goh has Unused RRSP Deduction Room of \$6,200. In addition, she has undeducted contributions in the plan of \$5,500. As he has never earned any income, her current husband does not have an RRSP.

Mrs. Goh's 2006 salary is \$98,000. Her only employment benefits are a dental plan that costs her employer \$1,200 per year, \$100,000 in group term life insurance for which her employer pays a premium of \$850 per year, and a Registered Pension Plan (RPP). During 2006, her employer contributes \$3,200 to this plan and Mrs. Goh contributes \$2,500. The RPP is a money purchase (a.k.a., defined contribution) plan.

During 2006, Mrs. Goh has various types of income as follows:

- Interest on term deposits of \$4,600.
- Taxable capital gains of \$14,500.
- A loss on a rental property of \$8,000.
- Royalties of \$4,800 on a design process that was invented by her father. (The patent for the process was awarded to Mrs. Goh's father and was left to Mrs. Goh in her father's will.)

Early in 2007, Mrs. Goh has indicated to you, her tax advisor, that she would like to maximize her RRSP deduction and contribution for 2007.

Required:

- A. Determine Mrs. Goh's RRSP Deduction Limit for 2007.
- B. Determine the maximum RRSP contribution that can be made by Mrs. Goh during 2007 without attracting the penalty for excess contributions.
- C. Briefly explain to Mrs. Goh the advantages of making her 2007 contributions to a spousal RRSP.