Canadian Income Taxation: Planning and Decision Making- 2013-2014 Edition

Chapter One

Multiple Choice

1. Which of the following entities is not taxed directly on its income?
A) Individuals
B) Proprietorships
C) Corporations
D) Trusts

Ans: B
Difficulty: Knowledge recall
Page Ref: 5

2. Which of the following attitudes and actions will help decision-makers develop an efficient approach to taxation?
A) Cash flows should be considered from a before-tax perspective when making decisions.
B) Functional managers should not be held responsible for the tax effects of decisions within their divisions.
C) Tax costs to a business should be regarded as controllable expenses, much like product costs and selling costs.
D) All managers should own a copy of the Income Tax Act.

Ans: C
Difficulty: Comprehension
Page Ref: 3

3. Which of the following statements is true?
A) Payment of the return on equity is deductible by the corporation and is a form of property income for the individual.
B) Payment of the return on equity is deductible by the corporation and is a form of business income for the individual.
C) Payment of the return on equity is not deductible by the corporation and is a form of business income for the individual.
D) Payment of the return on equity is not deductible by the corporation and is a form of property income for the individual.

Ans: D
Difficulty: Knowledge
Page Ref: 5

4. When assessing the value of a corporation, the most relevant information that decision-makers normally consider is
A) the potential for before-tax profits.

B) the potential for after-tax profits.
C) the current rate of corporate tax.
D) cash flow before-tax.

Ans: B
Difficulty: Comprehension
Page Ref: 4

5. Income tax is calculated for which of the following jurisdictional groups?
A) Municipal, provincial, and federal
B) Municipal, federal, and international
C) Provincial, federal, and international
D) Municipal, provincial, and international

Ans: C
Difficulty: Comprehension
Page Ref: 5

6. Two investor corporations may *not* enter jointly into which of the following?
A) Joint venture
B) Partnership
C) Separate corporation
D) Proprietorship

Ans: D
Difficulty: Knowledge
Page Ref: 5

7. Which of the following statements is false?
A) Cash flow should be calculated on an after-tax basis.
B) The tax cost to a business should not be regarded as a cost of doing business.
C) Income tax should be considered a controllable cost.
D) The value of an enterprise should not be based on pre-tax cash flow.

Ans: B
Difficulty: Knowledge and Comprehension
Page Ref: 2

Problems

8. The text book lists four fundamental tax variables that a manager needs to consider when making business decisions. These variables are: 1) primary types of income; 2) entities subject to taxation on income; 3) alternative forms of business and investing structures used by taxable entities structure; and 4) tax jurisdictions. List the relevant variables within these four categories.

Ans:
Income: Business, Property, Employment, Capital Gains
Entities: Individuals, Corporations, Trusts
Forms of business: Proprietorship, Corporation, Partnership, Limited Partnership, Joint Venture, Income Trusts
Tax Jurisdictions: Provincial, Federal, Foreign
Difficulty: Knowledge
Page Ref: 5

9. ABC Corporation is in a 25% income tax bracket. John Adams is an employee at ABC. He is in a 40% tax bracket. The company has offered John a 10% pay raise. His current salary is $50,000.

Required:
A) Calculate the actual cost (after-tax) of the raise to the corporation.
B) Calculate the actual value (after-tax) of the raise for John.
Show all calculations.

Ans:
A) Actual cost to ABC: ($50,000 x 10%) x (1 - .25) = $3,750
B) Actual value for John: ($50,000 x 10%) x (1 - .4) = $3,000
Difficulty: Application, Comprehension
Page: 4

10. Explain what is meant by the principle that tax should be treated as a ‘controllable cost’.

Ans:
Just as decision makers in business must control costs such as product, occupancy, selling, and many others, so should tax costs be regarded as controllable. The actions and activities of the organization must be analyzed at all levels, and across departments, to determine the impact on the overall tax cost.

Difficulty: Comprehension
Page Ref: 2