Practice Examination Solution

Chapter 2 (Procedures And Administration)

Examination Summary

The marks you have received on each question can be added in the final column.

Question	Type Of Question Or Subject	Total Marks	Your Mark
1	Essay Questions	20	
2 - 7	True Or False	9	
8 - 14	Multiple Choice	21	
15	Instalments	50	
Total		100	

Solution 1 (20 Marks)

Part A

An individual must file a tax return if any one of the following conditions apply:

- they owe taxes for the year;
- they have a taxable capital gain for the year;
- they have disposed of a capital property during the year; or
- they have an outstanding balance under the home buyers plan or lifelong learning plan legislation (see Chapter 10 for an explanation of these RRSP related balances).

For living individuals, the normal filing date is April 30th of the following calendar year.

However, if the individual or his spouse or common-law partner have business income, the date is extended to June 15th of the following calendar year. 11

For individuals who die prior to their normal filing date, the required date is the later of:

- the normal filing date and
- six months after the date of death.

Part B

The procedures can be outlined as follows:

- The first step would be to contact the CRA to discuss the changes contained in the reassessment.
- If informal discussions do not resolve the issue, the next step would be a notice of objection. This must be filed the later of:
  - one year after the due date for the return (April 30, 2015) or
  - 90 days after the date of the Notice of Reassessment (April 10, 2015). **11**
- If there is an adverse decision on the notice of objection, Jane can appeal to the Tax Court Of Canada. This has to be done within 90 days of receiving the decision on the notice of objection. She can use the informal procedure or the general procedure.
- Provided she has used the general procedure, a further appeal can be made to the Federal Court Of Appeal. This must be done within 30 days of receiving the Tax Court Of Canada decision.

Your Mark = [(# of grading points ÷ 22)(20%)] = ___%

Solutions 2 Through 7 (9 Marks)

2. True. As the payments are documented and recurring, amounts withheld by the employer can be reduced.
3. False. This individual has until 6 months after the date of death which would be June 29, 2015.
4. True. The penalty would be 5 percent, plus 1 percent for the month of May. Only complete months count in determining this penalty.
5. False. Only Canadian controlled private corporations that claim the small business deduction have 3 months. Other corporations only have 2 months.
6. True.
7. False. The rate is 2 percent higher.

1 grading point for each correct answer. Total 6
Your Mark = [(# of grading points ÷ 6)(9%)] = ___%

Solutions 8 Through 14 (21 Marks)

8. C. June 15, 2015.
9. A. An individual is required to file an income tax return if their only source of income is business income, even if no tax is payable.
10. C. $504 [($5,600)(5% + 4%)].
11. D. The return would be due on March 31, 2015, six months after the taxation year end.
12. A. October 31, 2014, two months after the year end.

13. C. The notice of objection must be filed the later of one year after the due day for the return (April 30, 2016), and 90 days after the date of the Notice of Assessment (August 10, 2015).

14. A. If the informal procedure has been used in the Tax Court Of Canada, no further appeal is allowed.

1 grading point for each correct answer. Total 7
Your Mark = [(# of grading points ÷ 7)(21%)] = ___%

Solution 15 (50 Marks)

Case One

1. The net tax owing for the years 2012 through 2014 would be calculated as follows:

2012 $**5,682** ($56,742 - $51,060)
2013 $**6,620** ($22,785 - $16,165)
2014 $**3,985** ($64,457 - $60,472)

As the net tax owing for the current year and one of the two preceding years exceeds $3,000, instalment payments are required.

2. The three acceptable alternatives would be as follows:

- Quarterly instalments of $996.25 ($3,985 ÷ 4) based on the current year estimate.
- Quarterly instalments of $1,655.00 ($6,620 ÷ 4) based on the first preceding year.
- Two quarterly instalments of $1,420.50 ($5,682 ÷ 4), followed by two quarterly instalments of $1,889.50 {[$6,620 - (2)($1,420.50)] ÷ 2]}, for a total of $6,620.

3. The best alternative would be quarterly instalments of $996.25 based on the current year estimate.

   The instalments would be due on March 15, June 15, September 15, and December 15, 2014.

30

Case Two

1. The net tax owing for the years 2012 through 2014 would be calculated as follows:

2012 $**3,316** ($56,742 - $53,426)
2013 **Nil** ($22,785 - $23,486)
2014 $**5,031** ($64,457 - $59,426)

As the net tax owing for the current year and one of the two preceding years exceeds $3,000, instalment payments are required.

10

2. The three acceptable alternatives would be as follows:

- Quarterly instalments of $1,257.75 ($5,031 ÷ 4), based on the current year estimate.
- Quarterly instalments of Nil.
- Two quarterly instalments of $829.00 ($3,316 ÷ 4) based on the second preceding year. No further instalments would be required as the net tax owing in the preceding year is nil. 15

3. As the net tax owing for 2013 was nil, using this year as the instalment base would be the best alternative.

   The instalments would be due on March 15, June 15, September 15, and December 15, 2014, if instalments were paid.

Case Three

1. The net tax owing for the years 2012 through 2014 would be calculated as follows:

   2012 **Nil** ($56,742 - $57,101)
   2013 $**3,302** ($22,785 - $19,483)
   2014 $**6,409** ($64,457 - $58,048)

As the net tax owing for the current year and one of the two preceding years exceeds $3,000, instalment payments are required. 28

2. The three acceptable alternatives would be as follows:

- Quarterly instalments of $1,602.25 ($6,409 ÷ 4) based on the current year estimate.
- Quarterly instalments of $825.50 ($3,302 ÷ 4) based on the first preceding year.
- As there was no net tax owing in 2012, the first two quarterly instalments would be nil, followed by two quarterly instalments of $1,651 [($3,302 - Nil) ÷ 2].

3. The best alternative would be the one used by the CRA in its quarterly Instalment Reminders as it provides some tax deferral. No instalments would be required on March 15 or June 15. The two instalments of $1,651 would be required on September 15 and December 15, 2014.

Case Four

1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required.

2. The three acceptable alternatives would be as follows:

- Monthly instalments of $5,371.42 ($64,457 ÷ 12) based on the current year estimate.
- Monthly instalments of $1,898.75 ($22,785 ÷ 12) based on the first preceding year.
- Two monthly instalments of $4,728.50 ($56,742 ÷ 12) based on the second preceding year, followed by 10 monthly instalments of $1,332.80 {[($22,785 - (2)($4,728.50)] ÷ 10}, a total of $22,785. 23

3. The best alternative would be monthly instalments of $1,898.75, a total of $22,785.

   The instalments would be due on the last day of each month, beginning in January, 2014.

Case Five

1. As the corporation's tax payable for both the current and the preceding year exceeds $3,000, instalments are required. As the corporation qualifies as a small CCPC, the instalments will be quarterly.

2. The three acceptable alternatives would be as follows:

- Quarterly instalments of $16,114.25 ($64,457 ÷ 4) based on the current year estimate.
- Quarterly instalments of $17,890.00 ($71,560 ÷ 4) based on the preceding year.
- One quarterly instalment of $14,185.50 ($56,742 ÷ 4), followed by three quarterly instalments of $19,124.83 [($71,560 - $14,185.50) ÷ 3], a total of $71,560.

3. The best alternative would be four quarterly instalments of $16,114.25, for a total of $64,457.

   The instalments are due on March 31, June 30, September 30, and December 31, 2014.

23

Summary Of Maximum Grading Points Available

Case 1 =	30
Case 2 =	25 (10 + 15)
Case 3 =	28
Case 4 =	23
Case 5 =	23
Total =	129

Your Mark = [(# of grading points ÷ 129)(50%)] = ___%

TEST ITEM FILE - PROBLEMS

Byrd & Chen's Canadian Tax Principles
2014 - 2015 Edition

ISBN: 013378567X

Problem Concordance

A concordance of the problems in the 2013/14 vs. 2014/15 editions is available after the Problem Listing to assist instructors who have previously used ***Canadian Tax Principles***.

Bookmarks In PDF File

To assist you in navigating through the electronic version of this Test Item File there are bookmarks on the first page of each Test Item problem and solution

Contact Information

Comments and queries from instructors should be e-mailed to Ida Chen at:

idachen@sympatico.ca

If you have any further questions, please contact Claire Varley, Marketing Manager, Pearson Canada, at:

claire.varley@pearsoned.com

Subjects Covered By Test Item File Problems

Chapter 1
Introduction

Chapter 2
Procedures and Administration

Chapter 3
Income Or Loss From
An Office Or Employment

Chapter 4
Taxable Income And Tax Payable
For Individuals

Chapter 5
Capital Cost Allowances And Cumulative Eligible Capital

Chapter 6
Income Or Loss From A Business

Chapter 7 - Income From Property

Chapter 8
Capital Gains And Capital Losses

Chapter 9
Other Income, Other Deductions, Income Attribution

Chapter 10
Retirement Savings

This Problem Concordance shows the problem number in the 2013/14 edition in grey type and the number of the updated problem in the 2014/15 (New) edition in bold.

	SS = Self Study		AP = Assignment Prob.		TIF = Test Item File	
Chap 1	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 1-1	SS 1-1	**AP 1-1**	AP 1-1	**TIF 1-1**	TIF 1-1
	SS 1-2	SS 1-2	**AP 1-2**	AP 1-2	**TIF 1-2**	TIF 1-2
	SS 1-3	SS 1-3	**AP 1-3**	AP 1-3	**TIF 1-3**	TIF 1-3
	SS 1-4	SS 1-4	**AP 1-4**	AP 1-4	**TIF 1-4**	TIF 1-4
	SS 1-5	SS 1-5	**AP 1-5**	AP 1-5	**TIF 1-5A**	TIF 1-5A
	SS 1-6	SS 1-6	**AP 1-6**	AP 1-6	**TIF 1-5B**	TIF 1-5B
	SS 1-7	SS 1-7	**AP 1-7**	AP 1-7	**TIF 1-6**	TIF 1-6
			AP 1-8	New	**TIF 1-7**	TIF 1-7
					TIF 1-8	TIF 1-8
Supplementary	**SSS 1-1**	TIF 1-11			**TIF 1-9**	TIF 1-9
Self Study (SSS)	**SSS 1-2**	TIF 1-12			**TIF 1-10**	TIF 1-10
					TIF 1-11	AP 1-8
Chap 2	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 2-1	SS 2-1	**AP 2-1**	AP 2-1	**TIF 2-1**	TIF 2-1
	SS 2-2	SS 2-2	**AP 2-2**	AP 2-2	**TIF 2-2**	TIF 2-2
	SS 2-3	SS 2-3	**AP 2-3**	New	**TIF 2-3**	TIF 2-3
	SS 2-4	SS 2-4	**AP 2-4**	New	**TIF 2-4**	TIF 2-4
	SS 2-5	SS 2-5	**AP 2-5**	AP 2-5	**TIF 2-5A**	TIF 2-5A
	SS 2-6	SS 2-6	**AP 2-6**	AP 2-6	**TIF 2-5B**	TIF 2-5B
	SS 2-7	New	**AP 2-7**	AP 2-7	**TIF 2-6**	TIF 2-10
					TIF 2-7	TIF 2-11
					TIF 2-8	TIF 2-12
Supplementary	**SSS 2-1**	TIF 2-6			**TIF 2-9**	TIF 2-13
Self Study (SSS)	**SSS 2-2**	TIF 2-7			**TIF 2-10**	TIF 2-14
	SSS 2-3	TIF 2-8			**TIF 2-11**	AP 2-3
	SSS 2-4	TIF 2-9			**TIF 2-12**	AP 2-4
					TIF 2-13	TIF 2-15
Chap 3	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 3-1	SS 3-1	**AP 3-1**	AP 3-1	**TIF 3-1**	TIF 3-1
	SS 3-2	SS 3-2	**AP 3-2**	AP 3-2	**TIF 3-2**	TIF 3-2
	SS 3-3	SS 3-3	**AP 3-3**	New	**TIF 3-3**	TIF 3-3
	SS 3-4	SS 3-4	**AP 3-4**	New	**TIF 3-4**	TIF 3-4
	SS 3-5	SS 3-5	**AP 3-5**	AP 3-5	**TIF 3-5A**	TIF 3-5A
	SS 3-6	SS 3-6	**AP 3-6**	New	**TIF 3-5B**	TIF 3-5B
	SS 3-7	AP 3-9	**AP 3-7**	AP 3-7	**TIF 3-6**	TIF 3-6
	SS 3-8	SS 3-7	**AP 3-8**	AP 3-8	**TIF 3-7**	AP 3-3
	SS 3-9	SS 3-8	**AP 3-9**	New	**TIF 3-8**	TIF 3-7
	SS 3-10	SS 3-9	**AP 3-10**	AP 3-10	**TIF 3-9**	AP 3-4
	SS 3-11	SS 3-10	**AP 3-11**	AP 3-11	**TIF 3-10**	AP 3-6
	SS 3-12	SS 3-11	**AP 3-12**	AP 3-12	**TIF 3-11**	TIF 3-11
	SS 3-13	SS 3-12	**AP 3-13**	AP 3-13	**TIF 3-12**	TIF 3-13
			AP 3-14	AP 3-14	**TIF 3-13**	TIF 3-14
Supplementary	**SSS 3-1**	TIF 3-8			**TIF 3-14**	TIF 3-15
Self Study (SSS)	**SSS 3-2**	TIF 3-9				
	SSS 3-3	TIF 3-10				
	SSS 3-4	TIF 3-12				

This Problem Concordance shows the problem number in the 2013/14 edition in grey type and the number of the updated problem in the 2014/15 (New) edition in bold.

	SS = Self Study		AP = Assignment Prob.		TIF = Test Item File	
Chap 4	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 4-1	SS 4-1	**AP 4-1**	New	**TIF 4-1**	TIF 4-1
	SS 4-2	SS 4-2	**AP 4-2**	New	**TIF 4-2**	TIF 4-2
	SS 4-3	SS 4-3	**AP 4-3**	AP 4-3	**TIF 4-3**	TIF 4-3
	SS 4-4	SS 4-4	**AP 4-4**	AP 4-4	**TIF 4-4**	TIF 4-4
	SS 4-5	SS 4-5	**AP 4-5**	AP 4-5	**TIF 4-5A**	TIF 4-5A
	SS 4-6	SS 4-6	**AP 4-6**	New	**TIF 4-5B**	TIF 4-5B
	SS 4-7	SS 4-7	**TS AP 4-1**	TS AP 4-1	**TIF 4-6**	AP 4-1
	TS SS 4-1	TS SS 4-1	**TS AP 4-2**	TS AP 4-2	**TIF 4-7**	AP 4-2
			TS AP 4-3	TS AP 4-3	**TIF 4-8**	TIF 4-8
					TIF 4-9	TIF 4-9
Supplementary	**SSS 4-1**	TIF 4-6			**TIF 4-10**	TIF 4-10
Self Study (SSS)	**SSS 4-2**	TIF 4-7			**TIF 4-11**	TIF 4-11
	SSS 4-3	TIF 4-12			**TIF 4-12**	AP 4-6
					TIF 4-13	TIF 4-13
Chap 5	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 5-1	SS 5-1	**AP 5-1**	AP 5-1	**TIF 5-1**	TIF 5-1
	SS 5-2	SS 5-2	**AP 5-2**	AP 5-2	**TIF 5-2**	TIF 5-2
	SS 5-3	SS 5-3	**AP 5-3**	New	**TIF 5-3**	TIF 5-3
	SS 5-4	SS 5-4	**AP 5-4**	AP 5-4	**TIF 5-4**	TIF 5-4
	SS 5-5	SS 5-5	**AP 5-5**	AP 5-5	**TIF 5-5A**	TIF 5-5A
	SS 5-6	SS 5-6	**AP 5-6**	New	**TIF 5-5B**	TIF 5-5B
	SS 5-7	SS 5-7	**AP 5-7**	New	**TIF 5-6**	TIF 5-6
	SS 5-8	SS 5-8	**AP 5-8**	AP 5-8	**TIF 5-7**	TIF 5-7
					TIF 5-8	TIF 5-8
					TIF 5-9	TIF 5-10
Supplementary	**SSS 5-1**	AP 5-3			**TIF 5-10**	AP 5-6
Self Study (SSS)	**SSS 5-2**	TIF 5-9			**TIF 5-11**	TIF 5-11
	SSS 5-3	TIF 5-12			**TIF 5-12**	TIF 5-13
					TIF 5-13	AP 5-7
Chap 6	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 6-1	SS 6-1	**AP 6-1**	New	**TIF 6-1**	TIF 6-1
	SS 6-2	SS 6-2	**AP 6-2**	AP 6-2	**TIF 6-2**	TIF 6-2
	SS 6-3	SS 6-3	**AP 6-3**	New	**TIF 6-3**	TIF 6-3
	SS 6-4	SS 6-4	**AP 6-4**	New	**TIF 6-4**	TIF 6-4
	SS 6-5	SS 6-5	**AP 6-5**	AP 6-5	**TIF 6-5A**	TIF 6-5A
	SS 6-6	AP 6-3	**AP 6-6**	AP 6-6	**TIF 6-5B**	TIF 6-5B
	SS 6-7	SS 6-6	**AP 6-7**	AP 6-7	**TIF 6-6**	AP 6-1
	SS 6-8	SS 6-7	**AP 6-8**	AP 6-8	**TIF 6-7**	TIF 6-7
	SS 6-9	SS 6-8	**AP 6-9**	AP 6-9	**TIF 6-8**	AP 6-4
	SS 6-10	SS 6-9	**AP 6-10**	AP 6-10	**TIF 6-9**	TIF 6-9
	SS 6-11	SS 6-10	**AP 6-11**	New	**TIF 6-10**	TIF 6-10
	SS 6-12	SS 6-11	**AP 6-12**	New	**TIF 6-11**	TIF 6-11
	SS 6-13	SS 6-12	**AP 6-13**	AP 6-13	**TIF 6-12**	TIF 6-13
	SS 6-14	SS 6-13			**TIF 6-13**	TIF 6-14
	SS 6-15	SS 6-14			**TIF 6-14**	TIF 6-16
	SS 6-16	AP 6-12			**TIF 6-15**	TIF 6-17
					TIF 6-16	AP 6-11
Supplementary	**SSS 6-1**	TIF 6-6			**TIF 6-17**	TIF 6-19
Self Study (SSS)	**SSS 6-2**	TIF 6-8			**TIF 6-18**	TIF 6-20
	SSS 6-3	TIF 6-12				
	SSS 6-4	TIF 6-15				
	SSS 6-5	TIF 6-18				

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	SS = Self Study		**AP = Assignment Prob.**		**TIF = Test Item File**	
Chap 7	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 7-1	SS 7-1	**AP 7-1**	AP 7-1	**TIF 7-1**	TIF 7-1
	SS 7-2	SS 7-2	**AP 7-2**	AP 7-2	**TIF 7-2**	TIF 7-2
	SS 7-3	SS 7-3	**AP 7-3**	New	**TIF 7-3**	TIF 7-3
	SS 7-4	SS 7-4	**AP 7-4**	AP 7-4	**TIF 7-4**	TIF 7-4
	SS 7-5	SS 7-5	**AP 7-5**	New	**TIF 7-5A**	TIF 7-5A
	SS 7-6	SS 7-6	**AP 7-6**	AP 7-6	**TIF 7-5B**	TIF 7-5B
	SS 7-7	SS 7-7	**AP 7-7**	New	**TIF 7-6**	TIF 7-6
	SS 7-8	SS 7-8	**AP 7-8**	AP 7-8	**TIF 7-7**	TIF 7-7
	SS 7-9	SS 7-9	**AP 7-9**	New	**TIF 7-8**	TIF 7-8
					TIF 7-9	AP 7-3
					TIF 7-10	TIF 7-9
Supplementary	**SSS 7-1**	TIF 7-14			**TIF 7-11**	TIF 7-10
Self Study (SSS)	**SSS 7-2**	TIF 7-13			**TIF 7-12**	AP 7-5
	SSS 7-3	TIF 7-12			**TIF 7-13**	AP 7-7
	SSS 7-4	TIF 7-15			**TIF 7-14**	TIF 7-11
					TIF 7-15	TIF 7-16
					TIF 7-16	AP 7-9
Chap 8	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 8-1	SS 8-1	**AP 8-1**	New	**TIF 8-1**	TIF 8-1
	SS 8-2	SS 8-2	**AP 8-2**	AP 8-2	**TIF 8-2**	TIF 8-2
	SS 8-3	SS 8-3	**AP 8-3**	New	**TIF 8-3**	TIF 8-3
	SS 8-4	SS 8-4	**AP 8-4**	AP 8-4	**TIF 8-4**	TIF 8-4
	SS 8-5	SS 8-5	**AP 8-5**	AP 8-5	**TIF 8-5A**	TIF 8-5A
	SS 8-6	SS 8-6	**AP 8-6**	AP 8-6	**TIF 8-5B**	TIF 8-5B
	SS 8-7	SS 8-7	**AP 8-7**	New	**TIF 8-6**	AP 8-1
	SS 8-8	SS 8-8	**AP 8-8**	New	**TIF 8-7**	TIF 8-7
	SS 8-9	SS 8-9	**AP 8-9**	New	**TIF 8-8**	TIF 8-8
	SS 8-10	SS 8-10	**AP 8-10**	New	**TIF 8-9**	TIF 8-9
	SS 8-11	SS 8-11	**AP 8-11**	AP 8-11	**TIF 8-10**	AP 8-7
	SS 8-12	SS 8-12	**AP 8-12**	New	**TIF 8-11**	AP 8-8
	SS 8-13	SS 8-13	**AP 8-13**	AP 8-13	**TIF 8-12**	AP 8-9
	SS 8-14	SS 8-14	**AP 8-14**	New	**TIF 8-13**	TIF 8-13
	SS 8-15	SS 8-15	**AP 8-15**	TIF 8-21	**TIF 8-14**	AP 8-10
	SS 8-16	SS 8-16	**AP 8-16**	AP 8-16	**TIF 8-15**	TIF 8-15
	SS 8-17	SS 8-17			**TIF 8-16**	AP 8-12
	SS 8-18	SS 8-18			**TIF 8-17**	TIF 8-17
					TIF 8-18	AP 8-14
Supplementary	**SSS 8-1**	TIF 8-6			**TIF 8-19**	TIF 8-19
Self Study (SSS)	**SSS 8-2**	AP 8-3			**TIF 8-20**	TIF 8-20
	SSS 8-3	TIF 8-10			**TIF 8-21**	AP 8-15
	SSS 8-4	TIF 8-11				
	SSS 8-5	TIF 8-12				
	SSS 8-6	TIF 8-14				
	SSS 8-7	TIF 8-16				
	SSS 8-8	TIF 8-18				

This Problem Concordance shows the problem number in the 2013/14 edition in grey type and the number of the updated problem in the 2014/15 (New) edition in bold.

	SS = Self Study		AP = Assignment Prob.		TIF = Test Item File	
Chap 9	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 9-1	SS 9-1	**AP 9-1**	AP 9-1	**TIF 9-1**	TIF 9-1
	SS 9-2	SS 9-2	**AP 9-2**	New	**TIF 9-2**	TIF 9-2
	SS 9-3	SS 9-3	**AP 9-3**	New	**TIF 9-3**	TIF 9-3
	SS 9-4	SS 9-4	**AP 9-4**	New	**TIF 9-4**	TIF 9-4
	SS 9-5	SS 9-5	**AP 9-5**	AP 9-5	**TIF 9-5A**	TIF 9-5A
	SS 9-6	SS 9-6	**AP 9-6**	AP 9-6	**TIF 9-5B**	TIF 9-5B
	SS 9-7	SS 9-7	**AP 9-7**	New	**TIF 9-6**	TIF 9-6
	SS 9-8	SS 9-8	**AP 9-8**	New	**TIF 9-7**	AP 9-2
	SS 9-9	SS 9-9	**AP 9-9**	AP 9-9	**TIF 9-8**	TIF 9-8
	SS 9-10	SS 9-10	**AP 9-10**	New	**TIF 9-9**	AP 9-3
	SS 9-11	SS 9-11	**AP 9-11**	AP 9-11	**TIF 9-10**	AP 9-4
	SS 9-12	SS 9-12	**AP 9-12**	TIF 9-17	**TIF 9-11**	TIF 9-11
	SS 9-13	SS 9-13	**AP 9-13**	AP 9-13	**TIF 9-12**	TIF 9-12
	SS 9-14	SS 9-14			**TIF 9-13**	AP 9-7
					TIF 9-14	AP 9-8
Supplementary	**SSS 9-1**	TIF 9-7			**TIF 9-15**	TIF 9-14
Self Study (SSS)	**SSS 9-2**	TIF 9-9			**TIF 9-16**	TIF 9-15
	SSS 9-3	TIF 9-10			**TIF 9-17**	AP 9-10
	SSS 9-4	TIF 9-13			**TIF 9-18**	AP 9-12
	SSS 9-5	TIF 9-16				
Chap 10	**2014/15**	2013/14	**2014/15**	2013/14	**2014/15**	2013/14
	SS 10-1	SS 10-1	**AP 10-1**	New	**TIF 10-1**	TIF 10-1
	SS 10-2	SS 10-2	**AP 10-2**	New	**TIF 10-2**	TIF 10-2
	SS 10-3	SS 10-3	**AP 10-3**	AP 10-3	**TIF 10-3**	TIF 10-3
	SS 10-4	SS 10-4	**AP 10-4**	AP 10-4	**TIF 10-4**	TIF 10-4
	SS 10-5	SS 10-5	**AP 10-5**	New	**TIF 10-5A**	TIF 10-5A
	SS 10-6	SS 10-6	**AP 10-6**	AP 10-6	**TIF 10-5B**	TIF 10-5B
	SS 10-7	SS 10-7	**AP 10-7**	**AP 10-7**	**TIF 10-6**	AP 10-1
	SS 10-8	SS 10-8	**AP 10-8**	**TIF 10-13**	**TIF 10-7**	AP 10-2
	SS 10-9	SS 10-9	**AP 10-9**	AP 10-9	**TIF 10-8**	TIF 10-6
	SS 10-10	SS 10-10			**TIF 10-9**	TIF 10-7
					TIF 10-10	TIF 10-8
					TIF 10-11	TIF 10-9
Supplementary	**SSS 10-1**	AP 10-5			**TIF 10-12**	TIF 10-10
Self Study (SSS)	**SSS 10-2**	TIF 10-14			**TIF 10-13**	TIF 10-11
					TIF 10-14	TIF 10-12
					TIF 10-15	AP 10-8

Chapter One Test Item File Problems

TIF PROBLEM ONE - 1
Introduction - Essay Questions

1. The major source of federal revenues is the personal income tax. Indicate three other types of taxes that contribute to federal revenues.

2. What is the meaning of "person" when the term is used in the *Income Tax Act*?

3. Briefly describe the procedures used in calculating provincial income taxes for individuals in provinces other than Quebec.

4. The Canadian income tax system is often used to achieve various economic objectives. Give three examples that illustrate this point.

5. Provide an example of how taxation policy can be used to influence resource allocation.

6. The government pays a "child tax benefit" to the parents of children who are under 18 years of age. The payments are reduced by a percentage of income in excess of a specified level. What objectives are achieved by this benefit system?

7. Indicate three disadvantages of a tax system that uses progressive rates.

8. A regressive tax is one that taxes high income individuals at lower effective rates. Explain why a sales tax levied at a flat rate of 8 percent can be regressive.

9. Distinguish between horizontal equity and vertical equity as these terms are used in describing tax systems.

10. What are some of the factors that have led to the entrenched use of tax expenditures as opposed to program spending?

11. While the Sections of the *Income Tax Act* are numbered 1 through 260, there are actually more than 260 Sections. Explain why this is the case.

12. What purposes are served by Canada's international tax treaties?

13. List four non-legislative sources of income tax information.

14. What is the meaning of "taxation year" as the phrase is used in the *Income Tax Act*?

15. Under what circumstances will a person who is not resident in Canada be required to pay Canadian income taxes?

16. What are the components of Net Income For Tax Purposes?

17. ITA 3(b) states that a taxpayer should “determine the amount, if any”, by which taxable capital gains exceeds allowable capital losses. In this context, what is the meaning of the phrase “the amount, if any”?

18. What is the difference between tax avoidance and tax deferral?

19. What is income splitting? Under what circumstances will it provide tax benefits to an individual?

20. Contributions to a Registered Retirement Savings Plan can be deducted to reduce the taxes of an individual in the year that they are made. However, these contributions will be subject to tax when they are withdrawn from the plan. What type of tax planning is involved in this arrangement?

TIF PROBLEM ONE - 2
Introduction - True Or False

1. A value added tax is a tax levied on the increase in value of a commodity or service that has been created by the taxpayer's stage of the production or distribution cycle.

   True or False?

2. A partnership can be a taxable entity for income tax purposes.

   True or False?

3. A partnership can be a taxable entity for GST purposes.

   True or False?

4. In general, provincial income taxes are based on a specified percentage of federal tax payable.

   True or False?

5. The federal government does not collect personal or corporate taxes for Ontario or Quebec.

   True or False?

6. A sales tax is a regressive tax even when it is applied at a single rate on all transactions.

   True or False?

7. A major advantage of progressive tax rates is that their use encourages economic growth.

   True or False?

8. Tax expenditures are less costly to administer than direct funding programs.

   True or False?

9. Part I of the *Income Tax Act* is the largest and most important part.

   True or False?

10. The citation ITA 61(4)(b)(ii) would be read Paragraph 61, Subparagraph 4, Section b, Subsection ii.

    True or False?

11. An income tax is payable for each taxation year on the Taxable Income of every person resident in Canada at any time in the year.

    True or False?

12. Any taxpayer can choose the calendar year as their taxation year.

    True or False?

TIF PROBLEM ONE - 3
Introduction - Multiple Choice

Canadian Tax System

1. Which of the following is **NOT** a taxable entity for Canadian income tax purposes?

   A. Darklyn Ltd., a Canadian resident corporation.
   B. Ms. Sarah Bright, a Canadian resident.
   C. Walters and Walters, a group of CPAs operating as a partnership.
   D. The Martin family trust.

2. Which of the following could be required to file a GST return?

   A. Chan's Clothing Store (an unincorporated business)
   B. The Chan Foundation (a registered charity)
   C. Min Chan (an individual)
   D. All of the above could be required to file a GST return.

3. Which of the following forms of taxation provides the largest component of federal government taxation revenues:

   A. Personal income tax
   B. Corporate income tax
   C. Goods and services tax
   D. Employment insurance premiums

4. With respect to provincial income taxes, other than those assessed in Quebec, which of the following statements is **NOT** correct?

   A. Each province can apply different rates to as many brackets for individuals as it wishes.
   B. The federal government collects the provincial income tax for individuals for every province except Quebec.
   C. Each province can establish its own tax credits to apply against Tax Payable for individuals.
   D. Each province can establish rules for determining the Taxable Income of individuals.

5. Which of the following groups of entities are all subject to taxation on income?

   A. Individuals, proprietorships and corporations
   B. Proprietorships, corporations and trusts
   C. Individuals, trusts and corporations
   D. Individuals, partnerships and corporations

6. Income tax is calculated for which of the following groups of jurisdictions?

   A. Municipal, provincial, and federal
   B. Provincial, federal, and international
   C. Municipal, federal, and international
   D. Municipal, provincial, and international

Tax Policy Concepts

7. Which of the following goals is **NOT** a current economic policy objective of the Canadian tax system?

   A. Ensure the continued provision of public goods
   B. Redistribute income and wealth among taxpayers
   C. Ensure fairness in the allocation of resources to different levels of government.
   D. Economic stabilization such as stimulating the economy or creating jobs.

8. Which of the following can be considered an advantage of an income tax system based on progressive rates?

   A. A progressive rate system is simpler to administer.
   B. A progressive rate system provides greater stability in the context of changing economic conditions.
   C. A progressive system discourages tax evasion.
   D. A progressive system encourages greater effort on the part of individuals.

9. Which of the following statements accurately describes a regressive tax?

   A. A tax which results in higher effective tax rates for higher income taxpayers.
   B. A tax which results in lower effective tax rates for higher income taxpayers.
   C. A tax in which the same effective rate applies to all levels of income.
   D. A tax that is shifted to consumers through price increases on the goods purchased.

10. Which of the following statements with respect to using tax expenditures rather than program spending is **NOT** correct?

    A. It is more costly to administer tax expenditures as opposed to program spending.
    B. Tax expenditures reduce the visibility of government actions.
    C. Tax expenditures leave fewer decisions in the hands of the private sector, thereby providing for more efficient allocation of resources.
    D. Tax expenditures reduce the impact of progressive rates on higher income taxpayers.

11. Which of the following would **NOT** be considered a desirable characteristic of a tax system?

    A. Balance between sectors.
    B. Inelasticity.
    C. Neutrality.
    D. Flexibility.

12. Which of the following would be considered a desirable characteristic of an effective tax system?

    A. Inelasticity.
    B. Lack of international competitiveness.
    C. Simplicity.
    D. Ambiguity.

13. "We should not have a tax system which encourages investment in particular assets or in specific areas of the country." This statement reflects which of the following qualitative characteristics of an effective tax system?

    A. Neutrality.
    B. Horizontal equity.
    C. Simplicity.
    D. Elasticity.

14. "Taxpayers who earn $100,000 in dividends should pay the same amount of tax as taxpayers who earn $100,000 in capital gains." This statement reflects which of the following qualitative characteristics of an effective tax system?

    A. Vertical equity.
    B. Neutrality.
    C. Elasticity.
    D. Horizontal equity.

Income Tax Reference Materials

15. With respect to the structure of the *Income Tax Act*, which of the following statements is correct?

    A. The major components of the *Income Tax Act* are called Divisions.
    B. The current *Income Tax Act* has Sections numbered 1 through 260, reflecting the fact that there are 260 Sections in the *Act*.
    C. All Parts of the *Income Tax Act* have Divisions.
    D. All Parts of the *Income Tax Act* contain at least one Section.

16. Of the following publications, indicate the one that is **NOT** a legislative source.

    A. *Income Tax Act*.
    B. Income Tax Folios.
    C. Income Tax Application Rules.
    D. International Tax Treaties.
    E. Income Tax Regulations.

17. Of the following publications, indicate the one that is **NOT** published by the CRA.

    A. Income Tax Folios.
    B. Information Circulars.
    C. Dominion Tax Cases.
    D. Income Tax Technical News.

18. There are a number of common areas of litigation involving the CRA. Indicate which type of transaction is least likely to be in dispute.

    A. Arm's length versus non-arm's length transactions.
    B. Capital versus income transactions.
    C. Unreported revenues from business transactions.
    D. Establishment of fair market value.
    E. The deductibility of farm losses against other sources of income.

19. Where would an individual find the formula for determining the prescribed rate?

    A. The Income Tax Act.
    B. The Income Tax Regulations.
    C. A CRA Interpretation Bulletin.
    D. A CRA Information Circular.

20. Which of the following statements is **NOT** correct?

    A. Most major income tax changes are introduced in the annual Federal Budget.
    B. A federal election can prevent passage of draft legislation.
    C. Proposed changes in tax law are usually introduced to parliament in the form of a Notice of Ways and Means Motion.
    D. When there is a conflict between the Canadian *Income Tax Act* and an international agreement, the terms of the Canadian *Income Tax Act* prevail.

Liability For Tax

21. An individual is liable for income tax in Canada if they:

    A. are a resident in Canada.
    B. are a citizen of Canada.
    C. have lived in Canada at anytime during the year.
    D. All of the above are required.

22. Which of the following persons is **NOT** liable for Canadian income tax under Part I of the *Income Tax Act*?

    A. Pheap Chom, an individual who has resided in Canada for the past 15 years.
    B. Chom Incorporated, a Canadian resident corporation.
    C. Phon Im, a resident of the United States who earns employment income in Canada.
    D. Bunly Im, a resident of the United States who earns interest income in Canada.

23. Which of the following types of income earned by a non-resident is **NOT** subject to Canadian income tax under Part I of the *Income Tax Act*?

    A. Employment income earned in Canada
    B. Business income earned in Canada
    C. Rental income earned in Canada
    D. Income from the disposition of Canadian real estate

Alternative Concepts of Income

24. Which of the following statements accurately describes the *Income Tax Act* view of income?

    A. Net income is determined by adding revenue based on recognition at the point of sale and deducting expenses which are determined based on generally accepted accounting principles.
    B. Net income is determined by adding together several different types of income based on an ordering rule.
    C. Net income is the amount paid to an employee after an employer deducts CPP, EI, income taxes and any other source deductions from employee pay.
    D. Net income is the total increase in a taxpayer's net worth for the year.

Calculation Of Net Income For Tax Purposes

25. With respect to the calculation of Net Income For Tax Purposes, which of the following statements is **NOT** correct?

    A. Subdivision e deductions are subtracted from the total of all positive sources of income.
    B. Allowable capital losses for the year can only be deducted to the extent of taxable capital gains for the year.
    C. Business losses can be netted against employment income in determining the positive amounts to be included under ITA 3(a) and 3(b).
    D. Property losses can only be deducted after the subtraction of Subdivision e deductions.

26. Minjie Liu has the following sources of income and deductions:

Employment income	$35,000
Interest income	5,000
Taxable dividend income	7,000
Taxable capital gain	5,000
Allowable capital loss	12,000
Subdivision e deductions	2,000

    What is Minjie's Net Income for Tax Purposes?

    A. $47,000
    B. $40,000
    C. $45,000
    D. $49,000

27. Tanya Turek has the following sources of income and deductions:

Gross employment income	$35,000
Net employment income	34,000
Business loss	14,000
Taxable capital gain	4,000
Allowable capital loss	2,000

What is Tanya's Net Income for Tax Purposes?

A. $23,000
B. $22,000
C. $36,000
D. $24,000

28. Fadel Ghanem has the following sources of income and deductions:

Net employment income	34,000
Property income	6,000
Business loss	54,000
Taxable capital gain	4,000
Allowable capital loss	7,000

What is Fadel's Net Income or Loss for Tax Purposes?

A. $40,000 Income
B. Nil
C. $44,000 Income
D. $12,000 Loss

29. ITA 3(b) requires the taxpayer to "determine the amount, if any, by which taxable capital gains exceed allowable capital losses". The rule that is established by this phrase is:

A. That allowable capital losses in excess of taxable capital gains during a year are never deductible from income.
B. That the current year allowable capital losses can only be deducted to the extent that there are taxable capital gains during the current year.
C. That taxable capital gains are only included in income in a year when there are also allowable capital losses that can be used to reduce the effect on income.
D. That unused allowable capital losses are deductible against any type of income in one of the past 3 years or in a future year.

Net Income to Taxable Income

30. Which of the following amounts is **NOT** deducted in converting Net Income for Tax Purposes to Taxable Income?

A. Losses of other years.
B. The lifetime capital gains deduction.
C. An amount related to the exercise or sale of stock options.
D. The excess of allowable capital losses over taxable capital gains for the year.

Tax Planning

31. Providing employees with private health care benefits involves what type of tax planning?

    A. Tax evasion.
    B. Tax deferral.
    C. Income splitting.
    D. Tax avoidance.

32. Making contributions to an RRSP always involves what type of tax planning?

    A. Tax avoidance and tax deferral.
    B. Tax deferral.
    C. Tax avoidance.
    D. Income splitting.

TIF PROBLEM ONE - 4
Introduction - Exam Exercises

Exam Exercise Subject Listing For Chapter 1

Number	Subject
1	Taxable Entities (Income Taxes)
2	Taxable Entities (GST/HST)
3	Federal And Provincial Tax Payable
4	Federal And Provincial Tax Payable
5	Regressive Taxes
6	Regressive Taxes
7	Non-Resident Liability For Tax
8	Non-Resident Liability For Tax
9	Net Income For Tax Purposes
10	Net Income For Tax Purposes
11	Tax Planning
12	Tax Planning
13	Tax Planning
14	Tax Planning
15	Tax Planning
16	Tax Planning

Exam Exercise One - 1 (Taxable Entities For Income Tax Purposes)

Which of the following entities could be required to file an income tax return?

- Sally Forbes (an individual)
- Forbes Boutique (an unincorporated business)
- Forbes and Delaney (a partnership)
- The Forbes family trust (a trust)
- Forbes Enterprises Ltd. (a corporation)
- The Forbes Foundation (an unincorporated charity)

Exam Exercise One - 2 (Taxable Entities For GST Purposes)

Which of the following entities could be required to file a GST return?

- Sally Forbes (an individual)
- Forbes Boutique (an unincorporated business)
- Forbes and Delaney (a partnership)
- The Forbes family trust (a trust)
- Forbes Enterprises Ltd. (a corporation)
- The Forbes Foundation (an unincorporated charity)

Exam Exercise One - 3 (Federal And Provincial Taxes Payable)

Joan Smith has Taxable Income of $37,500. For the current year her federal tax rate is 15 percent, while the corresponding provincial rate is 8.2 percent. Determine Ms. Smith's combined federal and provincial tax payable, before consideration of any available credits against Tax Payable.

Exam Exercise One - 4 (Federal And Provincial Taxes Payable)

Karla Ho has Taxable Income of $26,700. For the current year her federal tax rate is 15 percent and the corresponding provincial rate is 10 percent. Determine Ms. Ho's combined federal and provincial Tax Payable, before consideration of any available credits against Tax Payable.

Exam Exercise One - 5 (Regressive Taxes)

Samantha Taylor has Taxable Income for the current year of $625,000, of which $216,000 is spent on goods and services that are subject to Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister, Martha Taylor, is a part-time student living in the same province and has Taxable Income of $12,000. During the current year, as a result of using some of her savings, she spends $21,400 on goods and services that are all subject to HST.

Determine the effective HST rate as a percentage of the income of the two sisters.

Exam Exercise One - 6 (Regressive Taxes)

Veronica Simms has Taxable Income for the current year of $843,000. Because of her modest life style, only $162,000 of this amount is spent on goods and services that are subject to the Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister is currently attending university on a full time basis and lives in the same city. Her Taxable Income for the current year is $8,000. Because she is able to use savings accumulated during several years of employment, she spends $36,000 on goods and services that are subject to HST at 13 percent.

Determine the effective HST rate as a percentage of the income of the two sisters.

Exam Exercise One - 7 (Non-Resident Liability For Tax)

Ms. Michelle Walker, a U.S. citizen, has Canadian employment income of $42,000 and U.S. employment income of $40,000 Canadian. She lives in Seattle, Washington and is a resident of the United States for the entire year. Ms. Walker does not believe that she is subject to taxation in Canada.

Is she correct? Explain your conclusion.

Exam Exercise One - 8 (Non-Resident Liability For Tax)

Daniel Bourne is a U.S. citizen who lives in Fargo, North Dakota. For many years, he has had a cottage on Manitoba's Lake Winnipeg. In recent years, however, he has made little use of this property and, given this, he has sold the property. While there was a gain of $50,000 on the sale, Daniel assumes that he will not pay Canadian taxes on this amount as he is a U.S. citizen.

Is he correct? Explain your conclusion.

Exam Exercise One - 9 (Net Income For Tax Purposes)

Ms. Sonia Nexus is a computer specialist with net employment income of $66,000. During the current year she has:

- a taxable capital gain on the sale of land of $13,500,
- an allowable capital loss on the sale of shares of $24,000,
- interest income of $10,250,
- net rental losses of $6,750, and
- a loss from her unincorporated business of $28,000.

In addition, she makes spousal support payments of $14,000 and makes a deductible contribution to her RRSP of $3,000 (these are Subdivision e deductions). Determine her minimum Net Income For Tax Purposes for the current year and indicate the amount and type of any loss carry overs that are available at the end of the year. Show all of your calculations.

Exam Exercise One - 10 (Net Income For Tax Purposes)

Harvey Nicastro has current year net employment income of $45,000. In addition, he has the following additional sources of income, gains, and losses:

- A loss from an unincorporated business of $23,000.
- Interest income of $4,500.
- A taxable capital gain of $13,500.
- An allowable capital loss of $18,200.
- Spousal support paid of $24,000.
- A net rental loss of $14,500.

Determine Harvey's minimum Net Income For Tax Purposes for the current year and indicate the amount and type of any loss carry overs that are available at the end of the year. Show all of your calculations.

Exam Exercise One - 11 (Tax Planning)

Mr. Jack Bronson makes a $5,000 contribution to his Registered Retirement Savings Plan. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 12 (Tax Planning)
Ms. Sarah Bloom convinces her employer to provide her with a private drug plan in lieu of additional salary. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 13 (Tax Planning)
Mr. John Lenonovitz is an unemployed poet. As Mr. Lenonovitz has no known sources of income, his wife Natasha, a successful painter, has decided to make contributions to an RRSP in his name, rather than making contributions to her own plan. What type of tax planning is involved in this decision? Explain your conclusion.

Exam Exercise One - 14 (Tax Planning)
Ms. Tricia Jones makes contributions to a Registered Pension Plan sponsored by her employer. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 15 (Tax Planning)
Mrs. Janice Theil gives $50,000 in Canada Savings Bonds to her 27 year old, unemployed daughter. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 16 (Tax Planning)
Mr. Norman Rock transfers some dividend paying shares to his 25 year son who is attending university on a full time basis. What type of tax planning is involved in this transaction? Explain your conclusion.

TIF PROBLEM ONE - 5A
Introduction - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms are listed at the end of Chapter 1, "Introduction To Federal Taxation In Canada":

A. Fiscal Period
B. Flat Tax System
C. Income Tax Regulations
D. Net Income For Tax Purposes
E. Person
F. Regressive Tax System
G. Tax Expenditures
H. Value Added Tax

The following list contains ten potential definitions for the preceding key terms.

1. A taxation year that does not exceed 53 weeks.

2. A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.

3. The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.

4. A CRA publication providing their interpretation of various technical issues related to income taxes.

5. A term used in the *Income Tax Act* to refer to taxable entities.

6. Foregone tax revenues due to special exemptions, rate reductions, rebates, and credits that reduce the amount of tax that would otherwise be payable.

7. A tax based on the value added to a product at each stage of production or distribution by a particular entity.

8. A tax on income that is applied at the same rate to all taxpayers, without regard to the level of their income.

9. A set of rules concerning administration and enforcement of the *Income Tax Act*.

10. A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.

11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM ONE - 5B
Introduction - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms are listed at the end of Chapter 1, "Introduction To Federal Taxation In Canada":

A. Fiscal Period
B. Flat Tax System
C. Income Tax Regulations
D. Net Income For Tax Purposes
E. Person
F. Regressive Tax System
G. Tax Expenditures
H. Value Added Tax

The following list contains 14 potential definitions for the preceding key terms.

1. A taxation year that does not exceed 53 weeks.

2. A tax that is assessed on the sale of goods and services at all stages of the production/distribution chain. The tax that an enterprise must collect and pay to the government is offset by input tax credits for the tax paid on the various inputs required to produce or distribute the goods and services.

3. A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.

4. The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.

5. A CRA publication providing their interpretation of various technical issues related to income taxes.

6. A term used in the *Income Tax Act* to refer to taxable entities.

7. The total of all positive sources of income, including employment income, business and property income, net taxable capital gains, and other sources of income.

8. Foregone tax revenues due to special exemptions, rate reductions, rebates, and credits that reduce the amount of tax that would otherwise be payable.

9. A tax based on the value added to a product at each stage of production or distribution by a particular entity.

10. A tax on income that is applied at the same rate to all taxpayers, without regard to the level of their income.

11. An individual human being.

12. A taxation year that is longer or shorter than 52 weeks.

13. A set of rules concerning administration and enforcement of the *Income Tax Act*.

14. A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.

15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM ONE - 6
Application Of Qualitative Characteristics

The city of Elysium is located on an island in the Nirvana River. Because of its very desirable climate, it has attracted wealthy immigrants from all over the world. These immigrants have either built palatial new homes on the river waterfront, or moved into luxurious residences, largely in high-rise buildings in the city's core.

In general, real estate values on the island are among the highest in the world. In order to protect their extremely orderly environment, the residents have prevented the development of any reasonably priced housing. To help maintain this environment the city has a large, well trained security force.

The economic activity on the island consists of financial services, haute cuisine restaurants, and retail shops which feature high-end products from all over the world. Because of the high real estate cost, staff for these operations must live off island and commute on a daily basis.

To accommodate residents of the island, the city operates a large heliport. This allows the residents of the island to quickly access a nearby airport where most maintain at least one private jet.

Until recently, the only other access to the island was via a city operated ferry. This service was provided free of charge by the city. While it was rarely used by the residents of Elysium, the staff of the various businesses on the island relied on it for access to their jobs.

Last year, the city completed a four lane bridge to access the island. In order to finance the tremendous cost of this project, there is a $10 toll for each trip across the bridge. To ensure that the bridge produces adequate revenues, the city has canceled the ferry service.

Required: Evaluate the $10 toll on the basis of the qualitative characteristics of tax systems that are listed in your text.

TIF PROBLEM ONE - 7
Application Of Qualitative Characteristics

With the growing importance of free trade and e-commerce, Canada is contemplating increased harmonization of the Canadian tax system with other major tax regimes in the world. Harmonization with the United States is the first priority, with harmonization with other major economic groups being secondary. Assume the following changes are proposed:

A. Taxing all e-commerce transactions based on where the goods and services are delivered.

B. Full deduction of mortgage interest related to principal residences, combined with taxation of capital gains arising on dispositions of these residences. Currently in Canada, the capital gains on the disposition of principal residences are not taxed and mortgage interest related to principal residences is not deductible.

C. Requiring corporations that are under common control to file a single consolidated tax return for all of the corporations in the group.

D. Conversion of the GST system into a national sales tax to be applied to the sale of goods and services at the retail level.

Required: Indicate a significant tax advantage, other than the benefits associated with international harmonization, that would result from introducing each of the proposed changes. In addition, analyze each proposed change using two of the qualitative characteristics of tax systems that are listed in your text.

TIF PROBLEM ONE - 8
Net Income - Two Cases

The following two Cases make different assumptions with respect to the amounts of income and deductions of Ms. Leslie Burke for the current taxation year:

Case A Ms. Burke had employment income of $17,000 and net rental income of $8,500. Her unincorporated business lost $12,300 during this period. As the result of dispositions of capital property, she had taxable capital gains of $17,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year totalled $6,300. Fortunately for Ms. Burke, she won $1,000,000 in a lottery on March 3.

Case B Ms. Burke had employment income of $42,100, interest income of $8,200, and a loss from her unincorporated business of $51,000. As the result of dispositions of capital property, she had taxable capital gains of $22,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year amounted to $4,200.

Required: For both Cases, calculate Ms. Burke's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

TIF PROBLEM ONE - 9
Net Income - Two Cases

The following two Cases make different assumptions with respect to the amounts of income and deductions of Mr. Morris Dorne for the current taxation year:

> **Case A** Mr. Dorne had employment income of $50,000 and interest income of $12,000. His unincorporated business lost $23,000 during this period. As the result of dispositions of capital property, he had taxable capital gains of $95,000 and allowable capital losses of $73,000. His Subdivision e deductions for the year totalled $8,000. He also experienced a loss of $5,000 on a rental property that he has owned for several years.

> **Case B** Mr. Dorne had employment income of $45,000, net rental income of $23,000, and a loss from his unincorporated business of $51,000. As the result of dispositions of capital property, he had taxable capital gains of $25,000 and allowable capital losses of $46,000. His Subdivision e deductions for the year amounted to $10,500. Fortunately for Mr. Dorne, he won $560,000 in a lottery on February 24.

Required: For both Cases, calculate Mr. Dorne's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

TIF PROBLEM ONE - 10
Net Income - Two Cases

The following two Cases make different assumptions with respect to the amounts of income and deductions of Miss Nora Bain for the current taxation year:

	Case A	Case B
Employment Income	$34,000	$18,500
Income (Loss) From Business	(36,000)	(28,200)
Income From Property	21,000	12,000
Taxable Capital Gains	42,000	9,000
Allowable Capital Losses	(57,000)	(12,000)
Subdivision e Deductions (Spousal Support)	(5,500)	(10,500)

Required For both Cases, calculate Miss Bain's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

TIF PROBLEM ONE - 11
Net Income - Four Cases

The following four Cases make different assumptions with respect to the amounts of income and deductions of Frank Denham for the current year:

	Case A	Case B	Case C	Case D
Employment Income	$58,200	$82,600	$46,700	$33,400
Income (Loss) From Business	(12,300)	(8,400)	(62,300)	(46,200)
Rental Income (Loss)	5,400	12,200	2,600	(18,300)
Taxable Capital Gains	31,600	15,600	11,600	23,100
Allowable Capital Losses	(12,400)	(23,400)	(10,700)	(24,700)
Subdivision e Deductions	(4,100)	(5,400)	(11,600)	(5,600)

Required For each Case, calculate Mr. Denham's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

Chapter Two Test Item File Problems

TIF PROBLEM TWO - 1
Procedures And Administration - Essay Questions

1. An individual can request that an employer reduce the amounts withheld for income taxes. What conditions must be met for this request to be granted? Provide an example of a situation where this request would be granted.

2. In some situations, an employee may request an increase in the amounts that are withheld for future income taxes. What circumstances might lead an employee to make such a request?

3. Under what circumstances must an individual make income tax instalment payments during the current year?

4. If an individual is required to make quarterly instalment payments on their income taxes, how is the required amount of the instalments determined?

5. By making all instalments on the basis of the CRA's instalment reminder, the taxpayer is assured that no interest will be assessed for deficient instalments. However, this may not be the best alternative for making instalment payments. Explain why this is true.

6. One of your clients has received his instalment notice and has asked your advice as to whether he should make the payments. Provide the requested advice.

7. How is interest on late instalments calculated?

8. On April 30 of the current year, her filing due date, Nicole Houde finds that she has a significant net tax owing. She will not be able to pay this until the beginning of July. She doesn't want to file her return until she has the funds available to pay the balance. What advice would you give Ms. Houde in this regard?

9. Under what circumstances must a corporation make income tax instalment payments during its current taxation year?

10. If a corporation that is not a small CCPC is required to make instalment payments on their income taxes, how are the required amounts determined?

11. If a corporation that is a small CCPC is required to make quarterly instalment payments on their income taxes, how are the required amounts determined?

12. A corporation's balance due date is not the same as its return due date. Explain how these dates differ.

13. The normal reassessment period is 3 years for individuals and CCPCs and 4 years for other corporations. Indicate two situations where a reassessment can occur outside the normal reassessment period.

14. Cases can be heard by the Tax Court of Canada using either the general or the informal procedures. How do these two procedures differ?

15. Briefly describe the difference between tax evasion and tax avoidance.

TIF PROBLEM TWO - 2
Procedures And Administration - True Or False

1. If an individual believes that the amount of income taxes withheld by his employer is greater than the amount that he will have to pay in a particular year, he can make a request to the CRA to have his source deductions reduced.

   True or False?

2. Because the taxation year of an individual must be based on the calendar year, all individuals will have the same filing due date.

   True or False?

3. If an individual dies after October in a particular taxation year, his legal representatives must file his tax return by the later of his normal filing due date and six months after the date of his death.

   True or False?

4. If quarterly instalments must be paid by an individual, they can be calculated as one-quarter of the net tax owing for the preceding year.

   True or False?

5. If an individual is required to make income tax instalment payments, one acceptable pattern of payments is to base each payment on one-quarter of the estimated Tax Payable for the current taxation year.

   True or False?

6. The interest rate applicable on refunds to individuals is 4 percentage points less than the interest rate applicable on amounts owing to the CRA.

   True or False?

7. The penalty for an individual making insufficient instalment payments is 5 percent of the total unpaid tax at the filing date, plus 1 percent per month.

   True or False?

8. Without regard to whether an individual's filing due date is April 30 or June 15, any balance of tax owing must be paid by April 30.

   True or False?

9. All corporations must file their tax returns no later than six months after the end of their fiscal year, and pay any balance of tax owing no later than three months after the end of their fiscal year.

   True or False?

10. The notice of objection for a corporation must be filed within 90 days from the date of mailing of the notice of assessment.

    True or False?

11. Tax avoidance involves deliberately ignoring a specific provision in the *Income Tax Act*.

    True or False?

12. The GAAR provisions are not applicable to gifts to adult children.

True or False?

13. Interest and penalties may be waived or reduced in extraordinary circumstances, such as those involving natural disasters or serious illness.

True or False?

TIF PROBLEM TWO - 3
Procedures And Administration - Multiple Choice

Individual Filing Requirements

1. With respect to the filing of an individual income tax return, which of the following statements is correct?

   A. An individual is required to file an income tax return if their only source of income is business income, even if no tax is payable.
   B. An individual is required to file an income tax return if they have reached the age of 18 by the end of the year.
   C. If an individual has disposed of a capital property during the year, they are required to file an income tax return, even if no tax is payable.
   D. An individual is not required to file an income tax return if no tax is payable for the year.

2. For the 2014 taxation year, John Bookman had a taxable capital gain of $45,000 and a net business loss of $45,000, resulting in a Taxable Income of nil. Which of the following statements is correct?

   A. John is not required to file a tax return for 2014.
   B. John must file a tax return on or before June 15, 2015.
   C. John must file a tax return on or before December 31, 2015.
   D. John must file a tax return on or before April 30, 2015.

3. John Barron is self-employed and plans to file his 2014 tax return on June 15, 2015. His balance-due day is:

   A. April 30, 2014.
   B. April 30, 2015.
   C. June 15, 2015.
   D. June 15, 2014.

4. Bunly Im is a self-employed hairdresser. Which of the following dates are correct for the date by which his tax return for a year must be filed (1st item) and his payment due date (2nd item)?

   A. April 30, April 30.
   B. June 15, April 30.
   C. April 30, June 15.
   D. June 15, June 15.

5. Ms. Deveco's 2014 income tax return is due on April 30, 2015. While she is too busy to file her tax return on that date, she remits a cheque to the government for $10,000, her estimated amount of net tax owing on that date. She has never filed a late return before. She prepares and files her tax return on May 31, 2015. At this time, the return shows that her actual net tax owing was $9,800. Assuming that the interest rate applicable to late payment of taxes is one-half percent per month without daily compounding, how much will she owe in penalties and interest on the late filing?

   A. $ 49.
   B. $490.
   C. $588.
   D. $637.
   E. Nil.

6. Mr. Finlay, a retired individual whose only source of income was pension receipts, dies on August 15, 2014. By what date must Mr. Finlay's final tax return be filed?

   A. April 30, 2015.
   B. February 28, 2015.
   C. February 15, 2015.
   D. December 31, 2014.
   E. None of the above.

7. Ms. Ali, a self-employed music teacher with business income, dies on November 15, 2014. What is the latest filing date for her 2014 income tax return?

   A. April 30, 2015.
   B. May 15, 2015.
   C. May 30, 2015.
   D. June 15, 2015.

8. Mr. Khan, a self-employed construction contractor, dies on April 1, 2014. What is the latest filing date for his final tax return?

   A. April 30, 2015.
   B. June 15, 2015.
   C. October 1, 2015.
   D. December 31, 2015.

9. Ms. Loren dies on February 1, 2015. All of her income is from employment activities and she does not have a spouse or common-law partner. What is the latest date for filing her 2014 income tax return?

   A. April 30, 2015.
   B. June 15, 2015.
   C. August 1, 2015.
   D. June 30, 2015.

10. Greta died on September 10, 2014. She has never reported any business income. By what date must her final tax return be filed?

   A. April 30, 2015.
   B. April 30, 2016.
   C. March 10, 2015.
   D. June 15, 2015.

Individual Instalments

11. Ms. Marston has net tax owing for 2012 of $4,500, net tax owing for 2013 of $8,000, and estimated net tax owing for 2014 of $7,500. If she wishes to pay the minimum total amount of instalments for the 2014 taxation year, her first payment on March 15 will be for what amount?

   A. Nil.
   B. $1,125.
   C. $1,875.
   D. $2,000.

12. Jason Marks has to pay his tax by instalments as a result of his significant investment income. His net tax owing in 2012 was $13,600. In 2013, it was $15,000. His estimate for 2014 is $17,000. If he decides to pay his 2014 tax instalments according to the prior year option, how much should he pay on September 15, 2014?

    A. $3,400.
    B. $3,750.
    C. $4,250.
    D. $6,500.

13. All of the following people will have to pay tax by instalments this year, except:

    A. Jane White, who received a one-time bonus of $60,000 last year and, because her employer had not deducted enough tax, found herself with net tax owing of $8,200.
    B. Karen Phillips, who has started to earn investment income, which resulted in net tax owing of $3,100 last year. Her investment income is expected to be even greater this year.
    C. Blake Fortin, who established a sole proprietorship two years ago. Blake had a very successful first year and, as result, he had net tax owing that year of $85,000. Business dropped in his second year, resulting in net tax owing of only $1,500. This year, business has picked up again and he expects to have net tax owing of $53,000.
    D. Terri Jones, who has had net taxable capital gains on real estate in excess of $40,000 in each of the last two years, and who expects to have similar gains this year.

14. Larry Short has self-employment income of $62,000 in 2014. Prior to this year, he was employed full-time and his employer's withholdings more than covered his tax liability for the year. Larry estimates that, based on his self-employment income, his net tax owing for 2014 will be $8,000. Which of the following statements is true?

    A. Larry must file his return for 2014 by April 30, 2015.
    B. Larry should pay instalments in 2014.
    C. Larry must pay his income tax for 2014 by June 15, 2015.
    D. If Larry has as much income in 2015 as he had in 2014, he will have to pay instalments during 2015.

15. Individuals are required to pay instalments:

    A. When net tax owing is over $3,000 for any one of the past two years.
    B. When net tax owing is over $3,000 for the current year and both of the two prior years.
    C. When net tax owing is over $3,000 for the current year and one of the two prior years.
    D. When net tax owing is over $3,000 for the current year only.

16. One way to ensure that no interest will be assessed for late instalments is:

    A. To pay the amounts provided by the CRA in their instalment reminder on or before the required dates.
    B. To pay the lowest amount calculated using the 3 alternative calculations on or before the required dates.
    C. To pay the estimated tax owing for the current year on the first instalment due date.
    D. To pay the average of the three amounts calculated using the 3 alternative calculations on or before the required dates.

Interest and Penalties

17. Dora Chen has determined that her minimum tax instalments for 2014 are $8,000 per quarter. She also owes $30,000 on her credit card, which carries an interest rate of 20%. She has destroyed her credit card, so no more can be put on it. Dora is unable to pay both the entire instalment amounts and her credit card balance, but she does have $8,000 in cash each quarter for her debts. Which of the following would be the best choice for Dora from a financial planning perspective?

    A. Dora should pay off her credit card balance before making instalment payments.
    B. Dora must make all her instalment payments, even if it means she cannot pay anything off on her credit card this year.
    C. Dora should split her payments equally between the credit card balance and the instalment liability, in order to show the CRA that she is trying her best to meet her obligations to them.
    D. Dora should pay her first two instalments and then make payments on her credit card balance.

18. Lang Lang Ltd., a CCPC eligible for the small business deduction, has a March 31 year end. Due to the death of the owner/manager, the tax return for the year ended March 31, 2013 was not filed until May 12, 2015. The unpaid tax on March 31, 2013 was $15,500. Lang Lang Ltd. has never filed a return late before. What is the total late file penalty that the corporation is required to pay? (Do not include any interest payable.)

    A. $775
    B. $2,635
    C. $1,860
    D. $3,720

19. Which of the following scenarios will result in a penalty being charged by the CRA?

    A. A taxpayer pays less than the required amount of instalments.
    B. A taxpayer who is owed a refund files their tax return late.
    C. A taxpayer who has a balance owing files their tax return late, with the payment enclosed.
    D. A taxpayer who has a balance owing files their tax return on time, but does not include a payment.

Corporate Filing Requirements

20. For corporations, the filing deadline for tax returns is:

    A. April 30.
    B. the fiscal year end.
    C. three months after the fiscal year end.
    D. three months after the fiscal year end if the small business deduction is claimed, otherwise two months after the fiscal year end.
    E. six months after the fiscal year end.

21. PS Swim Inc. has a year end of November 30. It is a small CCPC. For its 2014 taxation year, its income tax return is due on:

    A. January 31, 2015.
    B. February 28, 2015.
    C. April 30, 2015.
    D. May 31, 2015.
    E. None of the above.

22. For its 2014 taxation year, its first year of operation, PS Swim Inc. filed its return three months late. The unpaid tax at the due date for the return was $2,500. This amount was not paid until the return was filed. What would its penalty be?

    A. Nil.
    B. $75.
    C. $125.
    D. $200.
    E. $500.

23. The balance due date for a corporation is:

    A. April 30 of the following year.
    B. The same as the filing deadline.
    C. Three months after the end of the fiscal year, or two months after the end of the fiscal year if the corporation is a small CCPC.
    D. Two months after the end of the fiscal year, or three months after the end of the fiscal year if the corporation is a small CCPC.

Corporate Instalments

24. PP Ltd., a client of your firm, has a November 30 year end and has requested you to advise them on what its monthly instalments for the 2014 tax year will be. Its taxes payable for its November 30, 2012 and November 30, 2013 years were $13,800 and $13,200, respectively. Its estimated taxes payable for the November 30, 2014 year are $14,400. PP Ltd. wants to pay the lowest amount possible, without incurring interest penalties. What would its instalments be?

    A. Twelve payments at $1,200 per month.
    B. Twelve payments at $1,100 per month.
    C. Twelve payments at $1,150 per month.
    D. Two monthly payments at $1,200 each, followed by ten monthly payments at $1,140 each.
    E. None of the above.

25. A Canadian public corporation had federal taxes payable in 2012 and 2013 exceeding $3,000. One correct option it has with respect to its 2014 instalments is to pay:

    A. equal instalments, on a quarterly basis, based on its 2013 federal taxes payable.
    B. on a monthly basis, instalments equal to 1/12th of its estimated 2014 federal taxes payable.
    C. one lump-sum payment, within three months of its 2014 year end.
    D. on a monthly basis, instalments equal to 1/12th of its 2012 federal taxes payable.

26. If a Canadian public corporation is experiencing a year-to-year decrease in taxes payable, the most advantageous calculation of instalments that would be allowed is:

    A. monthly, based on the estimated tax for the current year.
    B. quarterly, based on the estimated tax for the current year.
    C. monthly, based on the estimated tax for the immediately preceding year.
    D. quarterly, based on the estimated tax for the immediately preceding year.
    E. monthly, based on the estimated tax for the second preceding year and the immediately preceding year.
    F. quarterly, based on the estimated tax for the second preceding year and the immediately preceding year.

27. Which of the following is not one of the criteria for a CCPC to be considered a small CCPC eligible to pay instalments on a quarterly basis?

   A. Taxable income cannot exceed $500,000 for the corporation and its associated corporations for the current taxation year and the two previous years.
   B. The corporation has claimed the small business deduction in the current or previous year.
   C. The corporation has a perfect compliance record during the last 12 months.
   D. The corporation and its associated corporations do not have Taxable Capital Employed in Canada that exceeds $10 million for the current or previous year.

Assessments And Appeals

28. Which of the following statements is **NOT** correct?

   A. When the person filing the return has made any misrepresentation due to neglect, carelessness or wilful default, the normal reassessment period can be extended beyond 3 years.
   B. A taxpayer can choose to file a waiver to extend the 3 year time limit.
   C. When a return has been reassessed once, no further reassessments are permitted.
   D. Reassessment can occur outside the normal reassessment period when reassessment within the normal period affects a balance outside of the normal period.

29. Which of the following is **NOT** one of the criteria that must be met before an adjustment to a previous year tax return is permitted?

   A. The CRA must be satisfied that the previous assessment was incorrect.
   B. The change is based on a successful appeal to the courts by another taxpayer.
   C. The taxpayer's return was filed within 3 years of the end of the year to which it relates.
   D. The reassessment must be made within the normal assessment period, or under certain permitted extensions to this period.

30. Tom Arnold filed his 2014 tax return on March 1, 2015. The CRA mailed a notice of assessment to Tom dated May 15, 2015, and Tom received it on May 30, 2015. If Tom disagrees with the notice of assessment, what is the latest date he has to file a notice of objection?

   A. 90 days from March 1, 2015.
   B. 90 days from April 30, 2015.
   C. 90 days from May 15, 2015.
   D. 90 days from May 30, 2015.
   E. None of the above.

31. Minnie Belanger is retired. She mailed her 2014 tax return on March 5, 2015. She received a portion of the tax refund claimed and an assessment notice, dated April 19, 2015, which set out the difference between the amount claimed and the amount of the refund. As Minnie disagrees with the notice of assessment, she wishes to file a notice of objection. What is the latest date she has to file a notice of objection?

   A. March 5, 2016.
   B. April 19, 2016.
   C. April 30, 2016.
   D. July 18, 2015.
   E. June 15, 2016.

32. For a public corporation, which of the following statements is correct with respect to filing a notice of objection?

    A. It must be filed no later than 180 days from the date on the notice of assessment.
    B. It must be filed the later of 90 days after the date on the notice of assessment and one year from the filing date for the return under assessment.
    C. It must be filed the later of 180 days after the date on the notice of assessment and one year from the filing date for the return under assessment.
    D. It must be filed no later than 90 days after the date on the notice of assessment.

33. Marc Mayer filed his 2014 personal tax return on March 1, 2015. Neither he nor his spouse has business income in any year. The CRA mailed a Notice of Assessment to Marc dated May 5, 2015 and Marc received it on May 14, 2015. If Marc disagrees with the Notice of Assessment, he has until which one of the following dates to file a Notice of Objection?

    A. August 3, 2015.
    B. August 12, 2015.
    C. March 1, 2016.
    D. April 30, 2016.

Tax Planning

34. Carice Martin is planning to sell a piece of capital equipment which can be sold for more than its cost. If she waits until after her company's year end to sell it, she is engaging in:

    A. tax evasion.
    B. tax avoidance.
    C. GAAR.
    D. tax planning.

TIF PROBLEM TWO - 4
Procedures And Administration - Exam Exercises

Exam Exercise Subject Listing For Chapter 2

Number	Subject
1	Individual Due Dates
2	Individual Due Dates
3	Deceased Taxpayer Due Date
4	Deceased Taxpayer Due Date
5	Individual Instalments
6	Individual Instalments
7	Individual Instalments
8	Penalties And Interest (Individuals)
9	Penalties And Interest (Individuals)
10	Corporate Instalments - Regular And Small CCPC
11	Corporate Instalments - Regular And Small CCPC
12	Corporate Instalments - Regular And Small CCPC
13	Corporate Due Dates
14	Corporate Due Dates
15	Corporate Due Dates
16	Notice Of Objection
17	Notice Of Objection

Exam Exercise Two - 1 (Individual Due Dates)

Mark Brown's 2014 Net Income includes business income. When is his 2014 tax return due? By what date must his 2014 tax liability be paid in order to avoid the assessment of interest on amounts due?

Exam Exercise Two - 2 (Individual Due Dates)

Ms. Jeanine Farrel has 2014 Net Income which includes business income. When is her 2014 tax return due? In addition, indicate when any remaining tax liability must be paid in order to avoid having interest assessed on the amount due.

Exam Exercise Two - 3 (Deceased Taxpayer Due Date)

George Klause dies on March 1, 2015. All of his income during 2014 was earned through his unincorporated accounting practice. By what date must his representatives file his 2014 income tax return? Explain your answer.

Exam Exercise Two - 4 (Deceased Taxpayer Due Date)

Gloria Klump dies December 1, 2014. Much of her 2014 income resulted from an unincorporated business which she operated. By what date must her representatives file her 2014 income tax return? Explain your answer.

Exam Exercise Two - 5 (Individual Instalments)

At the beginning of 2014, the following information relates to Sarah Elmsley:

Year	Net Tax Owing
2012	$1,800
2013	6,400
2014 (estimated)	3,600

Indicate whether Ms. Elmsley is required to make instalment payments during 2014. Explain your conclusion and, if your answer is positive, indicate the minimum instalments that will be required and when they are due.

Exam Exercise Two - 6 (Individual Instalments)

Horace Greesom filed his 2013 return on time. At the beginning of 2014, the following information relates to Mr. Greesom:

Year	Taxes Payable	Amounts Withheld
2012	$56,000	$45,000
2013	49,000	46,000
2014 (estimated)	65,000	45,000

What amounts will be shown on the Instalment Reminder notices for 2014 and when will the amounts be due? Should he pay those amounts? Explain your conclusion.

Exam Exercise Two - 7 (Individual Instalments)

At the beginning of 2014, the following information relates to Jerry Farrow:

Year	Tax Payable	Amounts Withheld
2012	$83,000	$78,000
2013	76,000	77,000
2014 (Estimated)	63,000	59,000

Is Mr. Farrow required to make instalment payments during 2014? If he is required to make instalment payments, indicate the amounts that would be required under each of the three alternative methods of calculating instalments. Indicate which alternative would be preferable.

Exam Exercise Two - 8 (Penalties And Interest For Individuals)

Despite the fact that her net tax owing has been between $7,000 and $8,000 in the two previous years, and is expected to be a similar amount during 2014, Marsha Fields has made no instalment payments for 2014. While her normal filing date would be April 30, 2015, she does not file her 2014 return or pay the balance owing until August 24, 2015. What penalties and interest will be assessed for the 2014 taxation year?

Exam Exercise Two - 9 (Penalties And Interest For Individuals)

As his Taxable Income in 2013 was nil, Mark Felton did not make any instalment payments during 2014. In completing his return for 2014, he finds that he has tax payable of $22,500. While his normal filing date would be April 30, 2015, he does not file his return or pay the balance owing until September 12, 2015. What penalties and interest will be assessed for the 2014 taxation year? Mark has filed his return on time in all previous years.

Exam Exercise Two - 10 (Corporate Instalments - Regular And Small CCPC)

Lemar Ltd. has a December 31 year end. It is not a small CCPC. For 2012, its taxes payable were $71,500, while for 2013, the amount was $93,600. For 2014, its estimated taxes payable are $114,700. What would be the minimum instalment payments for the 2014 taxation year and when would they be due? How would your answer differ if Lemar Ltd. qualified as a small CCPC?

Exam Exercise Two - 11 (Corporate Instalments - Regular And Small CCPC)

Chemco Inc. has a December 31 year end and is not a small CCPC. For 2012, its taxes payable were $146,300, while for 2013, the amount was $94,650. For 2014, its estimated taxes payable are $52,300. What would be the minimum instalment payments for the 2014 taxation year and when would they be due? How would your answer differ if Chemco Inc. qualified as a small CCPC?

Exam Exercise Two - 12 (Corporate Instalments - Regular And Small CCPC)

Dustin Inc. has a September 30 year end and is not a small CCPC. For its taxation year ending September 30, 2012, its tax payable was $33,500. The corresponding figure for the year ending September 30, 2013 was $93,400. It is estimated that, for the year ending September 30, 2014, its tax payable will be $56,200. What would be the minimum instalment payments for the taxation year that ends on September 30, 2014, and when would they be due? How would your answer differ if Dustin Inc. qualified as a small CCPC?

Exam Exercise Two - 13 (Corporate Due Dates - CCPC)

The taxation year end for Grange Inc. is March 31, 2014. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending March 31, 2013 of $165,000. Indicate the date on which the corporate tax return for the year ending March 31, 2014 must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 14 (Corporate Due Dates)

The taxation year end for Lawnco Inc. is January 31, 2014. Lawnco Inc. is a Canadian public company and does not qualify for the small business deduction. Indicate the date on which the corporate tax return must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 15 (Corporate Due Dates - CCPC)

The taxation year end for Breyson Ltd. is June 30, 2014. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for year ending June 30, 2013 of $132,000. Indicate the date on which the corporate tax return for the year ending June 30, 2014 must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 16 (Notice of Objection)

Nancy Forth filed her 2014 tax return as was required on April 30, 2015. Her Notice of Assessment dated May 15, 2015 indicated that her return was accepted as filed. On July 12, 2016, she receives a Notice of Reassessment dated July 2, 2016 indicating that she owes additional taxes, as well as interest on the unpaid amounts. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.

Exam Exercise Two - 17 (Notice of Objection)

Norman Foster filed his 2014 tax return as was required on June 15, 2015. His Notice of Assessment dated August 28, 2015, indicated that his return was accepted as filed. On March 15, 2016, he receives a Notice of Reassessment dated March 8, 2016 indicating that he owes additional taxes, as well as interest on unpaid amounts. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.

TIF PROBLEM TWO - 5A
Procedures And Administration - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms were listed at the end of Chapter 2, "Procedures And Administration".

A. Instalment Threshold
B. Net Tax Owing
C. NETFILE
D. Notice Of Assessment
E. Prescribed Rate
F. Source Deductions
G. Tax Avoidance
H. Tax Evasion

The following list contains ten potential definitions for the preceding key terms.

1. A prescribed interest rate which changes quarterly and is based on the average interest rate paid on 90 day Treasury Bills during the first month of the preceding quarter.

2. The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.

3. A form that the CRA sends to all taxpayers after they process their returns which describes any changes made to the returns and states the amount of their additional tax payable or their refund.

4. A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.

5. Deliberately ignoring a specific part of the law or willfully refusing to comply with legislated reporting requirements.

6. An electronic filing system that requires the use of an approved software program.

7. Amounts withheld by an employer from the income of employees. The withholdings for income taxes, Canada Pension Plan contributions, and Employment Insurance premiums must be remitted to the government.

8. This ITA 245 provision attempts, in a very generalized manner, to limit the ability of taxpayers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.

9. An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.

10. A formal determination of taxes to be paid or refunded.

11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM TWO - 5B

Procedures And Administration - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms were listed at the end of Chapter 2, "Procedures And Administration".

A. Instalment Threshold
B. Net Tax Owing
C. NETFILE
D. Notice Of Assessment
E. Prescribed Rate
F. Source Deductions
G. Tax Avoidance
H. Tax Evasion

The following list contains 14 potential definitions for the preceding key terms.

1. A prescribed interest rate which changes quarterly and is based on the average interest rate paid on 90 day Treasury Bills during the first month of the preceding quarter.

2. An electronic system for filing individual tax returns. While the system can be used by anyone, the return must be transmitted by a registered EFILE service provider using approved software.

3. The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.

4. A form that the CRA sends to all taxpayers after they process their returns which describes any changes made to the returns and states the amount of their additional tax payable or their refund.

5. A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.

6. Deliberately ignoring a specific part of the law or willfully refusing to comply with legislated reporting requirements.

7. An electronic filing system that requires the use of an approved software program.

8. Amounts withheld by an employer from the income of employees. The withholdings for income taxes, Canada Pension Plan contributions, and Employment Insurance premiums must be remitted to the government.

9. A term used to describe the sum of the total federal and provincial taxes owing for the year.

10. Amounts withheld by an employer from the income of employees. The amounts withheld are based on the expected income tax liability of the employee for the current year.

11. This ITA 245 provision attempts, in a very generalized manner, to limit the ability of taxpayers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.

12. An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.

13. A formal determination of taxes to be paid or refunded.

14. An amount of total tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.

15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM TWO - 6
Instalment Payments For Individuals And Corporations

For the three years ending December 31, 2014, the taxpayer's combined federal and provincial tax payable was as follows:

Year Ending December 31	Taxes Payable
2012	$72,300
2013	89,400
2014 (Estimated)	78,300

Case One The taxpayer is an individual whose employer withholds combined federal and provincial taxes of $73,700 in 2012, $83,200 in 2013, and $75,000 in 2014.

Case Two The taxpayer is an individual whose employer withholds combined federal and provincial taxes of $65,100 in 2012, $90,100 in 2013, and $71,900 in 2014.

Case Three The taxpayer is a small CCPC with a taxation year that ends on December 31.

Case Four The taxpayer is a corporation with a taxation year that ends on December 31. It is not a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2013 were $74,500, instead of the $89,400 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2014. Provide a brief explanation of your conclusion. This explanation should be provided even if the amount of the required instalments is nil.
2. If instalments are required, calculate the amount of instalments that would be required under each of the acceptable methods available.
3. If instalments are required, indicate which of the available methods would best serve to minimize instalment payments during 2014. If instalments must be paid, indicate the date on which they are due.

TIF PROBLEM TWO - 7
Instalment Payments For Individuals

For the three years ending December 31, 2014, Galina Skurnick's combined federal and provincial taxes payable are as follows:

2012	$28,800
2013	23,040
2014 (Estimated)	21,600

Assume Ms. Skurnick's employer withholds combined federal and provincial taxes for each year as follows:

Case One $19,200 in 2012, $16,000 in 2013, and $16,000 in 2014.

Case Two $11,200 in 2012, $24,000 in 2013, and $14,400 in 2014.

Case Three $27,500 in 2012, $16,200 in 2013, and $18,200 in 2014.

Required: For each of the preceding independent Cases, calculate the minimum instalment payments that are required to be made towards the settlement of the taxes payable for the year ending December 31, 2014. Show all required calculations.

If instalments must be paid, your answer should include the date that each instalment is due. Note that, in answering this question, you should state a conclusion on whether or not instalments are required, even if the amount of the instalments is nil.

TIF PROBLEM TWO - 8
Instalment Payments For Corporations

For the three taxation years ending December 31, 2014, a corporation's combined federal and provincial tax payable are as follows:

Year Ending December 31	Taxes Payable
2012	$101,220
2013	125,160
2014 (Estimated)	109,620

Case One The taxpayer is a small CCPC.

Case Two The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2013 were $104,300, instead of the $125,160 given in the problem.

Case Three The taxpayer is a publicly traded corporation.

Case Four The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2013 were $104,300, instead of the $125,160 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2014. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2014. If instalments must be paid, indicate the date on which they are due.

TIF PROBLEM TWO - 9
Instalment Payments For Individuals

For the three years ending December 31, 2014, George Shivraj had combined federal and provincial Tax Payable as follows:

2012	$13,500
2013	16,200
2014 (Estimated)	18,400

Using this information consider the following three independent cases.

Case One Mr. Shivraj's employer withholds $11,200 in 2012, $12,900 in 2013, and $15,100 in 2014.

Case Two Mr. Shivraj's employer withholds $9,200 in 2012, $10,300 in 2013, and $14,900 in 2014.

Case Three Mr. Shivraj's employer withholds $10,100 in 2012, $16,300 in 2013, and $14,700 in 2014.

Required: For each of the preceding independent Cases, calculate the minimum instalment payments that are required to be made towards the settlement of the taxes payable for the year ending December 31, 2014. Show all required calculations.

If instalments must be paid, include in your answer the date that each instalment is due. Note that, in answering this question, you should state a conclusion on whether or not instalments are required, even if the amount of the instalments is nil.

TIF PROBLEM TWO - 10
Instalment Payments For Corporations

For the three taxation years ending December 31, 2014, a corporation's combined federal and provincial tax payable are as follows:

Year Ending December 31	Taxes Payable
2012	$ 86,500
2013	101,400
2014 (Estimated)	94,600

Case One The taxpayer is a small CCPC.

Case Two The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2013 were $92,100, instead of the $101,400 given in the problem.

Case Three The taxpayer is a publicly traded corporation.

Case Four The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2013 were $92,100, instead of the $101,400 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2014. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2014. If instalments must be paid, indicate the dates on which they are due.

TIF PROBLEM TWO - 11
Instalment Payments For Individuals

For the three years ending December 31, 2014, Gloria Sloan had combined federal and provincial Tax Payable as follows:

2012	$23,600
2013	25,400
2014 (Estimated)	27,200

Using this information consider the following three independent cases.

Case One Ms. Sloan's employer withholds $23,100 in 2012, $21,100 in 2013, and $23,300 in 2014.

Case Two Ms. Sloan's employer withholds $24,100 in 2012, $18,600 in 2013, and $23,700 in 2014.

Case Three Ms. Sloan's employer withholds $19,100 in 2012, $20,200 in 2013, and $24,300 in 2014.

Required:

A. For each of the three cases, indicate whether instalments are required for the 2014 taxation year (you should indicate the requirement to make instalments, even if one of the methods results in instalments of nil). Explain your conclusion. Show all calculations, even in cases where the answer to this question is obvious. If instalments are required, indicate the best alternative for calculating the instalments, as well as the amount of the instalments under that alternative.

B. For those Cases where instalments are required, indicate the dates on which the payments will be due.

TIF PROBLEM TWO - 12
Instalment Payments For Corporations

For the taxation year ending December 31, 2012, a corporation's combined federal and provincial Tax Payable is $57,600. The corresponding figure for 2013 is $67,900. For the year ending December 31, 2014, it is estimated that combined federal and provincial Tax Payable will be $62,900.

Case One The taxpayer is a publicly traded corporation.

Case Two The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2013 were $61,400, instead of the $67,900 given in the problem.

Case Three The taxpayer is a small CCPC.

Case Four The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2013 were $61,400, instead of the $67,900 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2014. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2014. If instalments must be paid, indicate the dates on which they are due.

TIF PROBLEM TWO - 13
Tax Preparer's Penalty

For each of the following independent cases, indicate whether you believe a penalty would be assessed against the tax return preparer under ITA 163.2. Explain your conclusion.

A. Accountant X is asked by Client A to prepare a tax return including a business financial statement to be used in the return. In response to a request by Accountant X for business related documents, Client A supplies information to Accountant X, which includes a travel expense receipt. Accountant X relies on this information provided by Client A and prepares the business statement that is filed with the return. The CRA conducts a compliance audit and determines that Client A's travel expense was a non-deductible personal expense.

B. Accountant X has several clients that have been reassessed in respect of a tax shelter. Accountant X knows that the CRA is challenging the tax effects claimed in respect of the tax shelter on the basis that the shelter is not a business, is based on a significant overvaluation of the related property and is technically deficient in its structure. The Tax Court of Canada, in a test case (general procedures), denies deductions claimed in respect of the tax shelter in a previous year by Client B (a client of Accountant X). Client B's appeal is dismissed. The case is not appealed and Accountant X is aware of the Court's decision. Accountant X prepares and files a tax return on behalf of Client C that includes a claim in respect of the same tax shelter that the Tax Court denied deductions for.

C. Taxpayer Z approaches Tax-preparer X to prepare and EFILE Z's tax return. Taxpayer Z provides X with a T4 slip indicating that Z has $32,000 of employment income. Taxpayer Z advises X that he made a charitable donation of $24,000 but forgot the receipt at home. Z asks that X prepare and EFILE the tax return. In fact, Z never donated anything to a charity. X prepares Z’s tax return without obtaining the receipt.

Chapter Three Test Item File Problems

TIF PROBLEM THREE - 1
Employment Income - Essay Questions

1. Explain how a bonus arrangement can be used to defer the taxes paid by an employee.

2. List and briefly describe the major factors that will be considered in determining whether an individual is working as an employee or as an independent contractor.

3. The tax consequences of being classified as an employee rather than as an independent contractor can be significant. As a result, it is not uncommon to find controversy and, in some cases, litigation resulting from the need to make this distinction. Explain the importance, from the point of view of an employee, of the distinction between being classified as an employee versus being classified as a self-employed independent contractor.

4. Briefly described the advantages to an employer of hiring independent contractors, as opposed to hiring employees.

5. Tax planning considerations are very significant in deciding the kinds of benefits that will be provided to employees. Explain why salary payments are considered the basic benchmark with which other types of employee compensation will be compared.

6. List two types of employee benefits that involve tax deferral and two types of benefits that involve tax avoidance.

7. London Wholesalers employs over 50 full time salespeople, all of whom are provided with a company car. While the cars are used primarily for business purposes, all of the sales staff drive them at least 20,000 kilometers per year for personal reasons. As controller of the Company you are aware that there is tax legislation in effect which can create substantial taxable benefits that could accrue to these salespeople because they have the use of a company car.

   Indicate some of the ways in which the Company and the sales staff might legitimately reduce the amount of the taxable benefit associated with having the use of a company car.

8. Because of the formula used to calculate the taxable benefit when an employer owned vehicle is provided to an employee, the amount of the benefit can exceed the value of the vehicle. Explain this statement.

9. What is the difference between an allowance and a reimbursement?

10. An employee may be paid a monthly amount for using his own automobile in employment related activities. Alternatively, he may be paid a reasonable amount based on the number of kilometers driven. From the point of view of both the employer and the employee, explain the tax treatment that will be given to these two alternatives.

11. Briefly explain the tax consequences resulting from being a member of an employer sponsored group disability insurance plan.

12. List the factors that will have to be considered in determining whether a particular low interest or interest free loan is an effective form of employee compensation.

13. Briefly describe the calculation of the taxable benefit that is assessed on loans to employees that are not considered to be housing loans.

14. For tax purposes, an employee who receives an option on his employer's stock that is not

in-the-money will not have an employment income inclusion at the time the option is received. Do you agree with this treatment? Explain your conclusion.

15. Under what circumstances is an individual entitled to a deduction equal to one-half of the employment income inclusion resulting from exercising or selling stock options?

16. The number of deductions that can be made in computing employment income is fairly limited. Further, certain types of expenses must meet specified conditions in order to be eligible for deduction. Indicate the conditions that must be met in order for a salesperson to deduct expenses in computing employment income. In addition, Indicate the conditions that must be met in order for travel costs to be deducted in computing employment income.

17. Many employees maintain a work space in their home. Describe the kinds of home related costs that can be deducted by an employee.

TIF PROBLEM THREE - 2
Employment Income - True Or False

1. Employment income is the salary, wages, and other remuneration, including gratuities, that are receivable by an individual during the year.

   True or False?

2. If properly constructed, bonus arrangements can result in tax deferral for employees.

   True or False?

3. One of the advantages of being an independent contractor rather than an employee is that you do not have to make CPP contributions.

   True or False?

4. Employers generally prefer contracting out as it avoids the cost of CPP and EI contributions.

   True or False?

5. Payments by employers of premiums on life insurance for employees are not taxable benefits.

   True or False?

6. When an employee pays all of the premiums for disability insurance coverage, the payments are not deductible and the benefits received are tax free.

   True or False?

7. Payments by employers to private health care plans are not taxable benefits and any benefits received under such plans are tax free.

   True or False?

Questions 8, 9, and 10 relate to the following facts:

An employee is given a $10,000 interest free loan from her employer on January 1 to buy a car to be used for business trips. Due to a serious illness, she used the car for only nine months of the year. Assume that the prescribed rate is 2 percent for the entire year.

8. Her taxable benefit from the loan is $200 for the year.

   True or False?

9. She pays her employer $1,000 on September 30 to decrease the loan. Her taxable benefit from the loan is $180 for the year.

   True or False?

10. In calculating her minimum standby charge, the imputed interest from the loan is part of her operating costs.

    True or False?

TIF PROBLEM THREE - 3
Employment Income - Multiple Choice

Employee vs. Self-Employed

1. Veronica mows lawns during the summer. In 2014 she was paid directly by homeowners for her work, in some case on the basis of the completed job, in other cases at an hourly rate. Her friend Jonathon does the same work. However, he is paid at an hourly rate by a lawn maintenance company. Which of the following statements is correct?

    A. Veronica earns business income and Jonathon earns employment income. Veronica will be able to deduct more expenses than Jonathon.
    B. Veronica and Jonathon both earn employment income.
    C. Veronica earns business income and Jonathon earns employment income. Their deductible expenses will be the same.
    D. Veronica and Jonathon both earn business income.

2. Which of the following groups of factors are used by the courts in order to determine a taxpayer's status as an employee or a self-employed contractor?

    A. intent, control test, ownership of tools test, number of hours worked per week
    B. intent, ability to subcontract test, the type of work being undertaken, ownership of tools test,
    C. intent, control test, ownership of tools test, opportunity for profit
    D. intent, ability to subcontract test, the location of the work site, opportunity for profit

Employee Benefits

3. Indicate which of the following benefits provided by an employer is **NOT** considered part of employment income.

    A. Reimbursement of moving expenses.
    B. Travel expenses of the employee's spouse.
    C. Payments resulting from wage loss replacement plans.
    D. Premiums paid by an employer on life insurance policies.
    E. Individual premiums under provincial hospitalization plans.

4. Indicate which of the following benefits provided by an employer is considered part of employment income.

    A. Subsidized meals provided in employer facilities.
    B. Low rent housing.
    C. Transportation to the job in employer vehicles.
    D. Premiums under private health services plans.
    E. Uniforms and special clothing.

5. Which of the following is **NOT** a taxable benefit?

    A. A cash Christmas gift to an employee from the employer. All the employees received a cash bonus of $150.
    B. Payment of the tuition for an employee completing a general interest degree on a part-time basis.
    C. A 20 percent discount on the employer's merchandise, available to all employees. The employer's mark-up is 50 percent.
    D. Low rent housing provided by the employer.

6. Which one of the following benefits received from an employer would **NOT** result in a taxable benefit to the employee?

   A. An allowance of 45 cents per kilometer for driving on employer business.
   B. An interest free loan used to acquire shares of the employer.
   C. Employer paid life insurance premiums for $20,000 of employee coverage.
   D. Use of the employer's vehicle which is used 95% for employment purposes.

7. In which one of the following lists are **ALL** items relevant when computing net employment income?

   A. Employee contributions to a registered pension plan; signing bonus on accepting employment; use of an employer-owned automobile.
   B. Monthly automobile allowance; dental plan paid for by the employer; promotional cost incurred in selling the employer's products.
   C. Subsidized meals in employer's facilities; life insurance paid by the employer; legal fees incurred to collect unpaid salary.
   D. Tips and gratuities; dental insurance paid by the employer; exercise of options to purchase shares of the publicly traded employer.

8. An employee has been offered a choice of an increase in salary of $100,000 or a combination of salary and other benefits with a cost to the employer of $100,000. Assuming that the employee would buy the listed benefits with his own funds if they were not provided in the benefits package, which of the following packages would be the most advantageous from a tax perspective?

   A. A dental plan plus a leased automobile that would be used only for personal travel by the employee.
   B. Life insurance plus a leased automobile that would be used only for personal travel by the employee.
   C. Salary plus life insurance.
   D. Salary only.

9. Which of the following is **NOT** a tax-free benefit for the employee when it is provided by an employer?

   A. Premiums for private health care plans.
   B. A gift of a digital camera for an employee's wedding.
   C. Employer reimbursement for the cost of tools required to perform work.
   D. Employer contributions to a registered pension plan.

10. Which of the following is a taxable benefit?

   A. Payment of the tuition for an employee taking a course that will benefit the employer.
   B. A $350 VISA gift card given as a Christmas present to all employees.
   C. A 15 percent discount on the employer's merchandise, available to all employees.
   D. Low priced meals in the company cafeteria where the prices are approximately equal to the cost of the meals.

Automobile Benefits

Questions 11 Through 14 Questions 8 through 11 are based on the following information:

The cost of the car is $20,000 including HST. If the car is leased, the monthly lease payment is $500 including HST. The car is driven for a total of 26,000 km during 2014 and its operating costs for the year are $4,000. For each of the **independent** questions 8 through 11, choose one of the following answers. Each answer can be used more than once.

A. $1,150.	G. $2,455.
B. $1,650.	H. $3,240.
C. $1,800.	I. $3,300.
D. $1,964.	J. $3,959.
E. $2,160.	K. $4,752.
F. $2,250.	L. $4,800.

11. Assume the car is purchased. It was used by an employee for the whole year. He drives it for personal purposes for a total of 9,000 km. The minimum taxable benefit is:

12. Assume the car is leased. It is used by the employee for 11 months of the year. In the other month, he was required to return the car to his employer's premises. He drives it for personal purposes for a total of 6,000 km. The minimum taxable benefit is:

13. Assume the car is purchased. It is used by the employee for 10 months of the year. In the other months, he was required to return the car to his employer's premises. He drives it for personal purposes for a total of 11,000 km. The minimum taxable benefit is:

14. Assume the car is leased. It is used by the employee for 11 months of the year. In the other month, he was required to return the car to his employer's premises. He drives it for personal purposes for a total of 7,500 km and reimburses the employer $1,100 ($100 per month) for the use of the car. The minimum taxable benefit is:

15. Mr. Brown's employer provides him with an automobile for his personal use, and pays all operating costs for that vehicle. The vehicle, used by Mr. Brown throughout 2014, cost his employer $31,500, including GST of $1,500 (no provincial sales tax was charged on the vehicle purchase). Mr. Brown drove the vehicle 45,000 km during the year, of which 9,000 km were for personal purposes. His employer paid $7,750 in operating costs for the year. Mr. Brown paid nothing to his employer for the use of the vehicle. Which one of the following amounts represents the **minimum** taxable benefit that Mr. Brown must include in his employment income for the use of this vehicle in 2014?

    A. $2,268.
    B. $4,859.
    C. $5,102.
    D. $5,831.

16. The following facts relate to an employer provided automobile.

Original cost of automobile, including HST	$40,000
Replacement value of car at time of providing it to employee	$30,000
Capital cost allowance claimed by employer	$ 3,000
Personal use kilometers driven by employee during the year	2,000 km
Total kilometers driven by employee during the year	30,000 km
Number of months automobile was used by employee	12

Which one of the following amounts represents the employee's minimum standby charge in 2014?

A. $720.
B. $960.
C. $640.
D. $9,600.

17. Omar is employed by Sansauto Corp. and uses his own car for employment activities. Which of the following may **NOT** be claimed as an employment expense deduction?

A. Gas (employment related portion)
B. Auto insurance (employment related portion)
C. Standby charge (employment related portion)
D. Oil change (employment related portion)

Allowances and Reimbursements

18. Which of the following will be included in taxable income because it is **NOT** a "reasonable allowance"?

A. $500 allowance for employment related use of employee's automobile (2,000 km @ $0.25/km).
B. $6,000 allowance for employment related use of employee's automobile (10,000 km @ $0.60/km).
C. $750 allowance for employment related trip expenses (actual costs were $700).
D. $750 allowance for employment related trip expenses (actual costs were $800).

19. Which of the following employee reimbursements would result in an increase in taxable income?

A. Housing loss reimbursement of $20,000
B. Moving costs reimbursement of $20,000
C. Travel expense reimbursement of $20,000
D. Employment related tuition reimbursement of $20,000

20. With respect to the determination of net employment income, which of the following statements is correct?

A. All allowances must be included in income.
B. One-half of reimbursed meals are taxable.
C. Reasonable vehicle allowances are not included in income.
D. All allowances are included in income, all reimbursements are not included in income.

Loans To Employees

21. T. Adams commenced employment at Moana Sales Ltd. on February 1, 2014. He had lived in an apartment until May 2014, at which time he purchased a new house. Under the terms of his employment, he received a housing loan on May 1, 2014 of $80,000 at a rate of 2 percent. He pays the interest on the loan on a monthly basis. Assume the 2014 prescribed interest rates applicable to employee loans are as follows:

First quarter	5%
Second quarter	4%
Third quarter	3%
Fourth quarter	3%

What is T. Adams' taxable benefit on the above loan for 2014?

A. Nil.
B. $267.40.
C. $670.68.
D. $1,073.97.
E. $2,147.95.

22. Sam borrowed $50,000 from her employer at an annual rate of 1% interest last year to cover her gambling debts. Assume that at the time the loan was made, the prescribed rate of interest was 3% and this rate has not changed. Sam is subject to a combined tax rate of 30 percent. What is the after tax cost of the loan to Sam for the current year?

A. $300
B. $500
C. $800
D. $1,500

Employee Stock Options

23. Ms. Joan Hanson is an employee of a Canadian controlled private corporation. During 2013, she receives options to purchase 500 shares of her employer's common stock at a price of $22 per share. At this time, the estimated per share value of the stock is $20.50. During 2014, she exercises all of these options. At this time, the estimated market value of the stock is $31.50 per share. On December 1, 2014, she sells the stock for $38.75 per share. The net effect of the 2014 transactions on her Taxable Income would be:

A. An increase of $1,812.50.
B. An increase of $2,375.00.
C. An increase of $4,187.50.
D. An increase of $4,750.00.
E. An increase of $6,562.50.

24. An employee of a public Canadian corporation receives an option to purchase 1,000 of her employer's common shares at $20 per share in July, 2013. At this time, the fair market value of the stock is $19 per share. In March, 2014, when the fair market value is $26 per share, she exercises the option and immediately sells the shares. By what amount do these transactions increase her Taxable Income?

A. $1,000 in 2013.
B. $3,000 in 2014.
C. $3,500 in 2014.
D. $6,000 in 2014.

Questions 25 And 26 Questions 25 and 26 are based on the following information:

Scott Bicycle Manufacturing Ltd. (SBM) is a Canadian controlled private corporation. Brian Mills, one of SBM's employees, was granted stock options on October 11, 2010 for 10,000 shares at $3 per share. The fair market value on October 11, 2010 was $4 per share.

Brian exercised the stock options on September 30, 2011, when the fair market value was $6 per share. In June 2014, Brian purchased a new home and sold the shares for $7 each.

25. What is the effect of these facts on Brian's Taxable Income?

A. An increase of $15,000 in 2011
B. An increase of $15,000 in 2014.
C. An increase of $30,000 in 2011.
D. An increase of $20,000 in 2014.
E. None of the above.

26. What is the adjusted cost base to Brian of the SBM shares at the time of sale in June, 2014?

A. $30,000.
B. $45,000.
C. $60,000.
D. $70,000.
E. None of the above.

Questions 27 And 28 Questions 27 and 28 are based on the following information:

Mr. Morra commenced employment with Peoples Bank Ltd., a public corporation, on September 1, 2009. On June 30, 2012, he was granted options to purchase 500 shares of Peoples Bank Ltd. stock for $15 per share. The market value on June 30, 2012 was $16 per share.

Mr. Morra exercised his options on May 31, 2014, purchasing 500 shares for $15 per share when the market value was $17 per share. On September 1, 2015, Mr. Morra sold the shares for $24 each.

27. What is the effect of the above transactions on Mr. Morra's Taxable Income in 2014?

A. Nil.
B. An increase of $250.
C. An increase of $500.
D. An increase of $1,000.

28. What is the effect of the above transactions on Mr. Morra's Taxable Income in 2015?

A. Nil.
B. An increase of $1,750.
C. An increase of $2,750.
D. An increase of $3,500.

Questions 29 and 30 are based on the following information:

Parminder is an employee of a public Canadian corporation. On April 1, 2013 she received options to purchase 5,000 shares of her employer's common stock at a price of $75 per share. She exercised her options and purchased 5,000 shares on November 1, 2013. She sold all of her shares on February 1, 2014. The market price of her employer's common stock was $74 per share on April 1, 2013; $79 per share on November 1, 2013 and $85 per share on February 1, 2014.

29. The effect on her 2013 tax return is:

A. Increase in Net Income for Tax Purposes of $12,500; increase in Taxable Income of $12,500
B. Increase in Net Income for Tax Purposes of $25,000; increase in Taxable Income of $12,500
C. Increase in Net Income for Tax Purposes of $10,000; increase in Taxable Income of $10,000
D. Increase in Net Income for Tax Purposes of $20,000; increase in Taxable Income of $10,000

30. The effect on her 2014 tax return is:

A. Increase in Net Income for Tax Purposes of $15,000; increase in Taxable Income of $15,000
B. Increase in Net Income for Tax Purposes of $30,000; increase in Taxable Income of $15,000
C. Increase in Net Income for Tax Purposes of $25,000; increase in Taxable Income of $25,000
D. Increase in Net Income for Tax Purposes of $50,000; increase in Taxable Income of $25,000

31. Gail works for a Canadian public corporation. Three years ago she was offered an option to purchase 100 shares at $30 per share from her employer. The fair market value on that day was $33 per share. Gail exercised her option by purchasing 100 shares in the current year at a time the fair market value was $42 per share. She is still holding the shares. What is the effect on Gail's Net Income For Tax Purposes in the current year?

A. $1,200 increase
B. $900 increase
C. $600 increase
D. No effect.

Employment Deductions

32. Roger is employed by an Internet based corporation as a technical support representative and is paid a salary of $40,000 per year. He is required to work from home and uses the 200 square foot den in his 1,000 square foot apartment exclusively for this purpose. Total costs for 2014 were as follows:

Apartment rent	$18,000
Tenant's insurance	500
Apartment utilities	850
Office Supplies	100

Roger's maximum employment expense deduction for 2014 is:

A. $3,890
B. $3,970
C. $3,870
D. $3,790

33. Nancy is employed by a large corporation as a sales representative. She is paid a salary of $70,000 during 2014. She is required to have a home office and uses the 375 square foot den in her 1,500 square foot house exclusively for this purpose. Total costs for 2014 were as follows:

Mortgage payments (40% principal, 60% interest)	$24,000
Home owner's insurance	900
Utilities	1,500
Roof repair	800
Property tax	5,000

As Nancy's compensation does not include any commissions, she is unable to use some of these costs as tax deductions. If instead, her compensation of $70,000 was in the form of commissions, she would be able to claim extra tax deductions of:

A. $1,675
B. $3,600
C. $5,075
D. $1,475

34. John secured employment as a commissioned salesman in July, 2014. In 2014, he received a base salary of $60,000, and $5,000 of commissions. A further $6,000 of commissions earned in December was paid to him in January, 2015. John worked away from the office negotiating sales contracts, and he is required to pay his own vehicle and promotional expenses. His employer has signed a Form T2200 certifying that requirement, and certifying that no reimbursements are paid for any expenses John incurs to earn commissions. John incurred the following costs from July through December 2014:

Meals and entertainment for potential customers	$14,000
Driving costs (90% of driving was for employment purposes):	
Fuel	4,000
Insurance	750
Repairs	2,250
Leasing costs ($500 per month)	3,000

What is the maximum deduction John may claim for employment expenses in 2014?

A. $5,000.
B. $9,000.
C. $11,000.
D. $16,000.

35. Which of the following criteria is **NOT** necessary in order for a salesperson to deduct office costs?

A. Must pay own expenses.
B. Must carry on duties away from the employer's place of business.
C. Must not receive an expense allowance which has not been included in income.
D. Must receive all remuneration in commissions.

TIF PROBLEM THREE - 4
Employment Income - Exam Exercises

Exam Exercise Subject Listing For Chapter 3

Number	Subject
1	Bonus
2	Bonus
3	GST On Taxable Benefits
4	Taxable Benefits - Purchased Car
5	Taxable Benefits - Purchased Car
6	Taxable Benefits - Leased Car
7	Taxable Benefits - Leased Car
8	Deductible Automobile Costs
9	Deductible Automobile Costs
10	Disability Insurance Benefits
11	Disability Insurance Benefits
12	Employee Housing Loan Benefit
13	Employee Housing Loan Benefit
14	Tax Planning - Employee Loans
15	Tax Planning - Employee Loans
16	Stock Options - Public Company
17	Stock Options - CCPC
18	Stock Options - Public Company
19	Stock Options - CCPC
20	Stock Options - Public Company
21	Stock Options - Public Company
22	Stock Options - CCPC
23	Commission Salesperson Expenses
24	Commission Salesperson Expenses
25	Employment Income Expenses
26	Employment Income Expenses

Exam Exercise Three - 1 (Bonus)

Connely Ltd. has an August 31 year end. On August 31, 2014, it declares a bonus of $250,000 payable to Ms. Sara Connely, the founder of the Company. The bonus is payable on April 1, 2015. Describe the tax consequences of this bonus to both Connely Ltd. and Ms. Sara Connely.

Exam Exercise Three - 2 (Bonus)

Brock Inc. has a taxation year that ends on September 30. On July 1, 2014 it declared a bonus of $100,000 payable to Stan Gable. The bonus will be paid on February 1, 2015. Describe the tax consequences of this bonus declaration and payment on both Stan Gable and Brock Inc.

Exam Exercise Three - 3 (GST On Taxable Benefits)

Mr. John Lamarche, as the result of an outstanding sales achievement within his organization, is awarded two airline tickets to Bali. His employer pays a travel agent $5,275, plus $264 in GST for the tickets. What is the amount of Mr. Lamarche's taxable benefit?

Exam Exercise Three - 4 (Taxable Benefits - Employer Owned Automobile)

Ms. Robin Nestor is provided with an automobile that is owned by her employer. The employer purchased the car in 2013 for $54,000, plus $7,020 in HST. During 2014, she drives the car a total of 72,000 kilometers, of which 67,000 kilometers were employment related. The automobile was used by Ms. Nestor for 268 days during 2014. When she was not using the automobile, her employer required that it be returned to their premises. Calculate Ms. Nestor's minimum taxable benefit for the use of the automobile.

Exam Exercise Three - 5 (Taxable Benefits - Employer Owned Automobile)

Mr. Robert Rhodes is provided with an automobile that is owned by his employer. The car was acquired by the employer in 2012 for $63,000, plus $3,150 in GST. During 2014, it was used by Mr. Rhodes for 8 months. When not using the automobile, the employer required that Mr. Rhodes return it to their premises. His total milage in 2014 was 53,000 kilometers, of which 22,000 were employment related. Calculate Mr. Rhodes' minimum taxable benefit for the use of the automobile.

Exam Exercise Three - 6 (Taxable Benefits - Employer Leased Automobile)

During 2014, Mr. Sam Warren is provided with an automobile that is leased by his employer. The monthly lease payment is $791 per month. This figure includes $91 HST. During the year, the car is used by Mr. Warren for a total of 310 days. When he is not using the car, his employer requires that it be returned to their premises. During this period, he drives the car a total of 40,000 kilometers, 22,000 of which are employment related. Calculate Mr. Warren's minimum taxable benefit for the use of the automobile.

Exam Exercise Three - 7 (Taxable Benefits - Employer Leased Automobile)

Ms. Sarah Wexler is provided with a car by her employer. It is leased by the employer for $728 per month, including $78 of HST. The lease payment also includes a payment of $50 per month to cover insuring the vehicle. During 2014, Ms. Wexler uses the car for 10 months. During the other 2 months, the employer requires that it be returned to their premises. She drives the car 76,000 kilometers during this period, of which 23,000 are for personal use. Calculate Ms. Wexler's minimum taxable benefit for the use of the automobile.

Exam Exercise Three - 8 (Deductible Automobile Costs)

Mr. Rudy Jackson is required by his employer to use his own automobile in the course of his employment. To compensate him, he is paid an annual allowance of $4,200. During 2014, he drove his automobile a total of 26,720 kilometers, of which 8,150 were employment related. His total automobile costs for the year, including lease costs, are $8,623. What amounts will Mr. Jackson include and deduct from his 2014 employment income related to the use of his automobile?

Exam Exercise Three - 9 (Deductible Automobile Costs)

Ms. Rhonda Jewel's employer provides her with an annual allowance of $6,500 per year to compensate her for the fact that she uses her own automobile for employment related activities. During 2014, she has total automobile related costs, including her monthly lease payments of $12,472. Her total milage is 42,000 kilometers, of which 18,000 kilometers were employment related. What amounts will Ms. Jewel include and deduct from her 2014 employment income related to the use of her own automobile?

Exam Exercise Three - 10 (Disability Insurance Benefits)

Ms. Jessica Tremblay is a member of a group disability plan sponsored by her employer. The plan provides periodic benefits that compensate for lost employment income. In 2013, Ms. Tremblay was required to pay $324 in premiums. In 2014, Ms. Tremblay received benefits under the plan of $6,940. Ms. Tremblay's contributions to the plan for 2014 totalled $250. During 2014, her employer’s share of the annual premium was $2,175. What amount will Ms. Tremblay include in her 2014 net employment income?

Exam Exercise Three - 11 (Disability Insurance Benefits)

John Tertiak's employer sponsors a group disability plan for its employees. The plan provides periodic benefits that compensate for lost employment income. The annual premium on this plan is $3,200, with this cost being shared equally by the employer and the employee. Because John became disabled in January, 2014, he did not make any contribution for this year. In the years prior to 2014, John had total contributions of $16,000. During 2014, because of his disability, John receives benefit under the plan totaling $24,000. What amount will John include in his 2014 net employment income?

Exam Exercise Three - 12 (Employee Housing Loan Benefits)

On January 1, 2014, Mr. Packard receives a $135,000 loan from his employer to assist him in purchasing a home. The loan requires annual interest at a rate of 3.1 percent, which he pays on December 31, 2014. Assume that the relevant prescribed rate is 5 percent during the first quarter of 2014, 6 percent during the second quarter, and 4 percent during the remainder of the year. What is the amount of Mr. Packard’s taxable benefit on this loan for the year?

Exam Exercise Three - 13 (Employee Housing Loan Benefits)

On May 1, 2014, Ms. Ponti receives a $210,000 loan from her employer in order to assist her in purchasing a new home. The loan requires no payment of interest, but must be repaid in annual instalments of $30,000 on December 31 in each of the years 2015 through 2021. Assume that the relevant prescribed rate is 4 percent during the first two quarters of 2014, but is reduced to 3 percent in the third quarter, and to 2 percent in the fourth quarter. What is the amount of Ms. Ponti’s taxable benefit on this loan for the year?

Exam Exercise Three - 14 (Tax Planning - Loan Benefits)

A senior executive asks her employer for a $240,000 interest free housing loan that does not qualify as a home relocation loan. At this time, the employer has investment opportunities involving a rate of return of 8.2 percent before taxes. Assume the relevant prescribed rate for the period is 3 percent, while the market rate for home mortgages is 5 percent. The employee is subject to a marginal tax rate of 44 percent, while the employer pays corporate taxes at a marginal rate of 28 percent. Should the employer grant the loan or, alternatively, provide sufficient salary to carry an equivalent loan from a commercial lender? Explain your conclusion.

Exam Exercise Three - 15 (Tax Planning - Loan Benefits)

John Baxter is a highly valued employee of Stern Inc. His marginal tax rate is 46 percent and he would like to acquire a vacation property. To assist with this purchase, he has asked the management of Stern for a $350,000 interest free loan. At this time the mortgage rate for vacation properties is 4.5 percent and the prescribed rate is 2 percent. Stern is subject to a marginal tax rate of 26 percent and has alternative investment opportunities that earn 7 percent before taxes. Should Stern Inc. grant the loan or, alternatively, provide sufficient salary to carry an equivalent loan from a commercial lender? Explain your conclusion.

Exam Exercise Three - 16 (Stock Options - Public Company)

Ms. Mary Mason is employed by a large public company. In 2012, she was granted options to acquire 1,000 shares of her employer's common stock at a price of $23 per share. At the time the options were granted, the shares were trading at $20 per share. In May, 2014, when the shares are trading at $45 per share, she exercises her options and acquires 1,000 shares. What is the effect of the exercise of the options on Ms. Mason's 2014 net employment income?

Exam Exercise Three - 17 (Stock Options - CCPC)

Note this is the same as Exam Exercise Three-16 except that the employer is a CCPC.

Ms. Mary Mason is employed by a Canadian controlled private corporation. In 2012, she was granted options to acquire 1,000 shares of her employer's common stock at a price of $23 per share. At the time the options were granted, the shares had a fair market value of $20 per share. In May, 2014, when the shares had a fair market value of $45 per share, she exercises her options and acquires 1,000 shares. What is the effect of the exercise of the options on Ms. Mason's 2014 net employment income?

Exam Exercise Three - 18 (Stock Options - Public Company)

Mr. John Savage has been employed for many years by a Canadian public company. Several years ago, Mr. Savage was granted options to acquire 4,000 shares of his employer's stock for $54 per share. At this time, the shares have a fair market value of $50 per share. On July 15, 2013, Mr. Savage exercises all of these options. At this time, the fair market value of the shares is $82 per share. In February, 2014, he sells all of the shares for $97 per share. Calculate the effect of the transactions that took place during 2013 and 2014 on Mr. Savage's Net Income For Tax Purposes and Taxable Income. Where relevant, identify these effects separately.

Exam Exercise Three - 19 (Stock Options - CCPC)

Note this is the same as Exam Exercise Three-18 except that the employer is a CCPC.

Mr. John Savage has been employed for many years by a Canadian controlled private corporation. Several years ago, Mr. Savage was granted options to acquire 4,000 shares of his employer's stock for $54 per share. At this time, the shares have a fair market value of $50 per share. On July 15, 2013, Mr. Savage exercises all of these options. At this time, the fair market value of the shares is $82 per share. In February, 2014, he sells all of the shares for $97 per share. Calculate the effect of the transactions that took place during 2013 and 2014 on Mr. Savage's Net Income For Tax Purposes and Taxable Income. Where relevant, identify these effects separately.

Exam Exercise Three - 20 (Stock Options - Public Company)

Several years ago, Mr. Kerry Johnson's employer gave him options to purchase 1,000 shares of the employer's stock at a price of $13.25 per share. At that time, the shares were trading at $13.25 per share. The employer is a publicly traded company. During June, 2014, Mr. Johnson exercises the options. At this time, the shares are trading at $18.50 per share. Prior to the end of the year, Mr. Johnson sells the shares for $19.75 per share. Determine the effect of these transactions on Mr. Johnson's Net Income For Tax Purposes and Taxable Income. Where relevant, identify these effects separately.

Exam Exercise Three - 21 (Stock Options - Public Company)

Joan Smithers has been employed by a Canadian public company for several years. In 2012, she was granted options to acquire 2,200 of her employer's shares at $10.50 per share. At that time, the shares were trading at $10.00 per share. In 2013, when the shares are trading at $15 per share, she exercises all of these options. In 2014 she sells 1,000 of the shares for $13 per share. Indicate the tax consequences of the events in 2012, 2013, and 2014 on Ms. Smithers' Net Income For Tax Purposes and on her Taxable Income. Where relevant, identify these effects separately.

Exam Exercise Three - 22 (Stock Options - CCPC)

Jerry Farrow is employed by a Canadian controlled private corporation. In 2012, he was granted options to acquire 625 of his employer's shares at $92 per share. At that time, it was estimated that the fair market value of the shares was $90. In 2013, when the estimated fair market value of the shares is $95 per share, he exercises all of these options. In 2014, he sells 125 of the shares for $85 per share. Indicate the tax consequences of the events in 2012, 2013, and 2014 on Mr. Farrow's Net Income For Tax Purposes and on his Taxable Income. Where relevant, identify these effects separately.

Exam Exercise Three - 23 (Commission Salesperson Expenses)

Mrs. Joan Conway is a commission salesperson. During the current year, her gross salary was $46,700. In addition, she earned $9,200 in commissions. Her employment related costs during the year were advertising costs of $6,150, meals with clients of $8,850, and travel costs of $9,325. She is required to pay her own expenses and does not receive any allowance from her employer. What is Mrs. Conway's maximum expense deduction for the current year? Show your calculations.

Exam Exercise Three - 24 (Commission Salesperson Expenses)

Barton Ho is a commission salesperson. During the current year, in addition to his salary of $92,500, he earns and receives $14,700 in commissions. His costs for advertising were $12,200 and, in addition, he spent $6,400 on client entertainment. Because of the extensive travel required by his work, his travel costs totaled $16,100. He is required to pay his own expenses and does not receive any allowance from his employer. What is Mr. Ho's maximum expense deduction for the current year? Show your calculations.

Exam Exercise Three - 25 (Employment Income Expenses)

Doug Evans works for a company that sells video equipment. His records for the current year contain the following information:

Salary Received	$61,250
Commissions Received	6,250
Total Employment Inclusions	$67,500
Advertising And Promotion	$ 1,250
Traveling Expenses	7,500
Capital Cost Allowance On Van*	1,875
Interest On Van Loan*	625
Total Employment Deductions	$11,250

*The van is used exclusively for employment related activities.

Mr. Evans meets the conditions for deducting employment income expenses. Given the preceding information, determine Mr. Evans' minimum net employment income for the current year. Explain your conclusions.

Exam Exercise Three - 26 (Employment Income Expenses)

Deborah Ekert is employed as a salesperson and receives some of her compensation in the form of commissions. During the current year, her salary totaled $85,000 and her commissions totaled $8,400. Her employment related expenses during this period were as follows:

Capital Cost Allowance On Car*	$ 2,850
Interest On Car Loan*	1,075
Traveling Expenses	10,300
Promotion And Advertising	5,600
Client Entertainment	2,600
Total Available Deductions	$22,425

*The car is used exclusively for employment related activities.

Ms. Ekert meets the conditions for deducting employment income expenses. Given the preceding information, determine Ms. Ekart's minimum net employment income for the current year. Explain your conclusions.

TIF PROBLEM THREE - 5A
Employment Income - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms are listed at the end of Chapter 3, "Employment Income".

A. Allowance
B. Employee
C. Employment Income
D. Imputed Interest
E. Operating Cost Benefit
F. Self-Employed Individual
G. Stock Option
H. Taxable Benefit

The following list contains ten potential definitions for the preceding key terms.

1. The salary, wages, and other remuneration, including gratuities, received by an employee in the year.
2. A taxable benefit assessed to employees who have been provided with an automobile by their employer.
3. An individual who has a business relationship with an entity.
4. An allowance provided by an employer to an employee that must be included in the employee's employment income.
5. An individual who has an employment relationship with an entity that provides remuneration.
6. Interest on outstanding debt calculated at a specified interest rate without regard to the actual interest rate being paid.
7. A taxable benefit assessed to employees whose employers pay the operating costs of an automobile provided to the employee.
8. A contractual arrangement which gives the holder the right to purchase a specified number of shares for a specified period of time at a specified acquisition price.
9. An amount paid by an employer to an employee to provide for certain types of costs incurred by the employee, usually travel costs or automobile costs.
10. An amount of money, or the value of goods or services, that an employer pays or provides in addition to salary.
11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM THREE - 5B
Employment Income - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms are listed at the end of Chapter 3, “Employment Income”.

A. Allowance
B. Employee
C. Employment Income
D. Imputed Interest
E. Operating Cost Benefit
F. Self-Employed Individual
G. Stock Option
H. Taxable Benefit

The following list contains 14 potential definitions for the preceding key terms.

1. The salary, wages, and other remuneration, including gratuities, received by an employee in the year.

2. A taxable benefit assessed to employees who have been provided with an automobile by their employer.

3. A contractual arrangement which gives the holder the right to require the issuing corporation to redeem the shares that he is holding.

4. Non-cash benefits provided to employees by an employer (e.g., subsidized meals in an employer’s facilities).

5. An individual who has a business relationship with an entity.

6. An allowance provided by an employer to an employee that must be included in the employee’s employment income.

7. An individual who has an employment relationship with an entity that provides remuneration.

8. Interest on outstanding debt calculated at a specified interest rate without regard to the actual interest rate being paid.

9. A taxable benefit assessed to employees whose employers pay the operating costs of an automobile provided to the employee.

10. A contractual arrangement which gives the holder the right to purchase a specified number of shares for a specified period of time at a specified acquisition price.

11. An amount paid by an employer to an employee to provide for certain types of costs incurred by the employee, usually travel costs or automobile costs.

12. A taxable benefit, based on a pro rata share of automobile operating costs, assessed to an employee whose employer pays these costs for an automobile provided to the employee.

13. An amount of money, or the value of goods or services, that an employer pays or provides in addition to salary.

14. An individual who is employed by a corporation in which he is a specified shareholder.

15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM THREE - 6
Bonus Arrangements

Mr. Carl Lange is the president of Lange Enterprises Inc., a Canadian controlled private company. The Company has a September 30 year end. On September 30, 2014, the Company declares a bonus of $175,000, payable to Mr. Lange.

Required: For each of the following cases, indicate the taxation year in which the Company can deduct the bonus, as well as the taxation year in which Mr. Lange will have to include it in his taxable income.

Case A The bonus is paid on October 1, 2014.

Case B The bonus is paid on January 31, 2015.

Case C The bonus is paid on July 30, 2015.

Case D The bonus is paid on January 31, 2018.

TIF PROBLEM THREE - 7
Employer Owned Vs. Employee Owned Automobile

John Rush is a key employee of Megan Ltd. (ML), a Canadian public company. He is not required to use an automobile in carrying out his employment duties.

In 2012 and 2013, ML has provided John with a car with ML paying all of the operating costs of the car. John uses the car exclusively for personal travel.

On January 2, 2014, ML has indicated to John that, as an alternative to continuing to provide the car for him, they will sell the car to him at its current fair market value of $20,000. If he chooses to purchase the car, ML will no longer pay the operating costs.

John expects that, whether he chooses to purchase the car or not, he will use the car for two more years, 2014 and 2015. If he purchases the car, the estimated sales price at the end of these two years would be $12,000. He expects to drive the car about 40,000 kilometers in each of the two years.

Assume that operating costs will be $0.20 per kilometer and the prescribed operating cost benefit will be $0.27 per kilometre throughout both years.

John's combined federal/provincial marginal tax rate is 48 percent.

Required: On the basis of undiscounted cash flows, advise John as to whether he should purchase the car assuming:

A. ML purchased the car for $35,000.
B. ML purchased the car for $70,000.

Ignore GST/HST considerations.

TIF PROBLEM THREE - 8
Taxable Benefits - Automobiles

The Jareau Manufacturing Company owns a car with an original cost of $30,000. The car has been owned by the Company for two years. Jareau requires that cars be returned to the corporate premises when they are not being used by the employee.

During 2014, the car has been used by the Company's sales manager, Mr. Robert Stickler. During this year, Mr. Stickler drove the car 36,000 kilometers, with all of the expenses being paid for by the Company. The operating costs paid for by the Company total $3,920. In addition, the Company deducted capital cost allowance of $5,610 related to this car for the current year.

Required: Ignore all GST/PST/HST implications. Indicate the minimum taxable benefit that would be allocated to Mr. Stickler in each of the following Cases:

> **Case A** Mr. Stickler has use of the car for the entire year and drives it a total of 7,200 kilometers for personal purposes.
>
> **Case B** Mr. Stickler has use of the car for 10 months of the year and drives it a total of 15,000 kilometers for personal purposes.
>
> **Case C** Mr. Stickler has use of the car for 6 months of the year and drives it a total of 25,200 kilometers for personal purposes.

TIF PROBLEM THREE - 9
Taxable Benefits - Automobiles

Jordan Ltd. owns a car with an original cost of $28,500. The car has been owned by the company for over three years, with the Company deducting maximum CCA in each year. Jordan Ltd. requires that cars be returned to the corporate premises when they are not being used by the employee.

During 2014, the car has been used by Ms. Rachel Smith, the Company's regional marketing manager. During this year, she drove the car a total of 52,000 kilometers, with all of the operating expenses being paid for by the Company. These operating expenses averaged $0.12 per kilometer, a total of $6,240.

Required: Ignore all GST/PST/HST implications. Indicate the minimum taxable benefit that would be allocated to Ms. Smith in each of the following Cases:

Case A Ms. Smith has use of the car for the entire year and drives it a total of 18,000 kilometers for personal purposes.

Case B Ms. Smith has use of the car for 10 months of the year and drives it a total of 11,000 kilometers for personal purposes.

Case C Ms. Smith has use of the car for 6 months of the year and drives it a total of 28,300 kilometers for personal purposes.

TIF PROBLEM THREE - 10
Loans To Employees

Alan Cheng is negotiating a large increase in his compensation. As he is interested in using any tax advantaged form of compensation, he has suggested that his employer give him a $250,000 interest free loan. He will be using the proceeds of this loan for a variety of investments. Because he will be using the loan for income producing purposes, any interest on the loan will be deductible to Mr. Cheng.

Other information that is relevant to this decision is as follows:

- Mr. Cheng's various sources of income are such that any additional income will be taxed at a rate of 44 percent.
- Mr. Cheng can acquire a similar term, $250,000 loan at an annual rate of 4 percent.
- His employer is subject to tax at a combined federal/provincial rate of 32 percent. The company has alternative investment opportunities that earn a pre-tax rate of 8 percent.
- The relevant prescribed rate for all periods under consideration is 3 percent.
- Mr. Cheng's investment projects are expected to provide a pre-tax return of 12 percent.

Required: Evaluate, from the point of view of the cost to the employer, Mr. Cheng's suggestion of providing him with an interest free loan in lieu of sufficient salary to carry a commercial loan at the rate of 4 percent.

TIF PROBLEM THREE - 11
Employee Stock Options

On February 24, 2012, during her first year as an employee of Hardin Weaving Ltd., Ms. Jones was granted options to purchase 5,000 shares of the Company's stock at a price of $20 per share.
When Ms. Jones paid the Company $100,000 in order to exercise the options and acquire the 5,000 shares, the shares had a fair market value of $28 per share.

On October 3, 2014, Ms. Jones sells all of her 5,000 Hardin Weaving Ltd. shares at a price of $32 per share.

Required: Indicate the tax effect on Ms. Jones of the transactions that took place during 2012, 2013, and 2014 under each of the following independent Cases. Your answer should include the effect on both Net Income For Tax Purposes and Taxable Income. Where relevant, identify these effects separately.

A. Hardin Weaving Ltd. is a Canadian controlled private corporation. At the time the options were granted, the Company's shares had a fair market value of $18 per share. The options were exercised on December 1, 2013.

B. Hardin Weaving Ltd. is a Canadian public company. At the time the options were granted, the shares were trading at $18 per share. The options were exercised on December 1, 2013.

C. Hardin Weaving Ltd. is a Canadian public company. At the time the options were granted, the shares were trading at $22 per share. The options were exercised on December 1, 2013.

D. Hardin Weaving Ltd. is a Canadian controlled private corporation. At the time the options were granted, the Company's shares had a fair market value of $22 per share. The options were exercised on October 1, 2012.

TIF PROBLEM THREE - 12
Employment Income

Note To Instructor This problem is extended in TIF Problem Four - 10.

Mr. Samuel Kern is an administrator for a publicly traded Canadian manufacturing company. His gross salary for the year ending December 31, 2014 is $67,600. For the 2014 taxation year, Mr. Kern's employer withheld the following amounts from his income:

Federal Income Tax	$11,200
Employment Insurance Premiums	914
Canada Pension Plan Contributions	2,426
Registered Pension Plan Contributions	1,800
Contributions To Group Disability Plan	150

Mr. Kern's employer made a matching contribution of $1,800 to his registered pension plan and a $175 matching contribution for the group disability insurance.

Other Information:

1. During 2014, Mr. Kern is provided with an automobile that has been leased by his employer. The lease payments are $815 per month, an amount which includes all taxes and an $89 monthly payment for insurance. The total operating costs of the car were $4,600 for the year and they were paid by the employer. The car is used by him for nine months of the year and, during the months of non-use, it must be returned to the premises of his employer. During 2014, he drives it a total of 32,000 kilometers. Of this total, 29,000 kilometers were for travel required in pursuing the business of his employer and the remainder was for personal use. He reimbursed his employer $50 per month of use for his personal use of the automobile.

2. During 2014, the disability plan provided him with benefits of $1,650 after he was injured. Mr. Kern began making contributions to this plan in 2013 and paid $200 for that year. The plan provides periodic benefits that compensate for lost employment income.

3. Mr. Kern was required to pay 2014 dues to his professional association in the amount of $1,233.

4. In 2012, Mr. Kern was given options to buy 200 shares of his employer's stock at a price of $75 per share. At the time the options were issued, the shares were trading at $70 per share. On June 1, 2014, Mr. Kern exercises the options. At the time of exercise, the shares are trading at $83 per share. He is still holding the shares on December 31, 2014.

Required: Calculate Mr. Kern's minimum net employment income for the year ending December 31, 2014. Ignore all GST considerations.

TIF PROBLEM THREE - 13
Employment Income

Ms. Sarah Kline is a copy editor for a major Canadian publisher. Her gross salary for the year ending December 31, 2014 is $73,500. For the 2014 taxation year, Ms. Kline's employer withheld the following amounts from her income:

Federal And Provincial Income Taxes	$26,000
Registered Pension Plan Contributions	2,400
Contributions To Group Disability Plan	175

Ms. Kline's employer made a $2,400 matching contribution to her registered pension plan and a $200 matching contribution for the group disability insurance.

Other Information:

1. During 2014, Ms. Kline is provided with an automobile that has been leased by her employer. The lease payments are $700 per month, an amount which includes a $50 monthly payment for insurance. The car is used by her for 11 months of the year and, during the month of non-use, she is required to return the vehicle to her employer's premises. During 2014, she drives it a total of 40,000 kilometers. Of this total, 37,000 kilometers were for travel required in pursuing the business of her employer, and the remainder was for personal use. The operating costs of the car totaled $5,200 for the year and were paid by her employer. She reimbursed her employer $.30 per kilometer for her personal use of the automobile.

2. During 2014, Ms. Kline was hospitalized. The disability plan which provides periodic benefits to compensate for lost employment income paid her benefits of $1,800 during this period. Ms. Kline began making contributions to this plan in 2013 and paid $225 for that year.

3. Ms. Kline paid dues to her professional association in the amount of $1,650 for the year.

4. In 2012, Ms. Kline was given options to buy 200 shares of her employer's publicly traded stock at a price of $50 per share. At the time the options were issued, the shares were trading at $50 per share. On June 6, 2014, Ms. Kline exercises the options. At the time of exercise, the shares are trading at $70 per share. She is still holding the shares on December 31, 2014.

Required: Calculate Ms. Kline's minimum net employment income for the year ending December 31, 2014. Ignore all GST and PST considerations.

TIF PROBLEM THREE - 14
Employment Income

Mr. Siegfried Karson is employed by a publicly traded Canadian corporation. His 2014 salary was $82,500. In addition, he earned commission of $8,400. For the 2014 year, his employer withheld the following amounts from his income:

Federal And Provincial Income Taxes	$18,600
CPP Contributions	2,426
EI Premiums	914
United Way Contributions	250
Registered Pension Plan Contributions	4,200
Union Dues	375

Mr. Karson's employer made a matching contribution of $4,200 to the registered pension plan.

Other Information:

1. During 2014, the employer provided Mr. Karson, as well as all other employees of the corporation, with non-cash gifts with a total value of$450.
2. In 2011, the company provided all of its employees with stock options that allowed them to acquire 500 shares at $26 per share. At this time, the shares were trading at $25 per share. During 2014, when the shares were trading at $37 per share, Mr. Karson exercised all of his options. Before the end of the year, he sold one-half of these shares for $39 per share.
3. Mr. Karson is provided with an automobile that is leased by the company for $725 per month. The lease payment includes $75 per month to cover insurance on the vehicle. The car is used by Mr. Karson for 10 months during 2014 and, when it is not being used by him, he is required to return the vehicle to the premises of the Company. During 2014, he drove the car 46,000 kilometers, of which 11, 000 were not related to employment activities. He reimburses his employer $0.45 per kilometer for his personal use of the vehicle.
4. Mr. Karson is required to pay all travel and promotional expenses with no reimbursement from the Company. He had the following employment related expenses during 2014:

Advertising	$4,200
Client Entertainment	3,100
Traveling Costs (Hotels, Airlines And 50 Percent of Meals)	9,200

Required: Calculate Mr. Karson's minimum net employment income for the year ending December 31, 2014. Ignore all GST and PST considerations.

Chapter Four Test Item File Problems

TIF PROBLEM FOUR - 1
Tax Payable For Individuals - Essay Questions

1. Tax legislation requires that amounts received under the workers' compensation program be included in the determination of Net Income For Tax Purposes, despite the fact that these same amounts will be deducted in the determination of Taxable Income. If the intent was not to tax these amounts, why didn't the legislation simply exempt them from inclusion in the Net Income For Tax Purposes calculation?

2. Under what circumstances is an individual entitled to a home relocation loan deduction? How is the amount of the deduction calculated?

3. Explain briefly the rules for determining which province will assess an individual for income taxes. From the point of view of tax planning, is the province in which an individual is taxed an important issue?

4. Briefly explain the difference between a tax deduction and a tax credit.

5. The family caregiver amount can be added to the base for four tax credits. List these four credits.

6. ITA 118(1)(a) provides a tax credit for an individual's "spouse or common-law partner". Briefly describe the types of relationships that are eligible for this tax credit.

7. Under what circumstances can a taxpayer deduct the ITA 118(1)(b) credit for an eligible dependant?

8. An unmarried father is supporting a dependent child of 16 who is mentally infirm, but who does not qualify for the disability tax credit. What tax credits would be available to him related to that child?

9. Will the family caregiver amount always be added to the caregiver tax credit? Explain your conclusion.

10. The same relative of an individual may be eligible for either the ITA 118(1)(d) tax credit for an infirm dependant over 17 or the ITA 118(1)(c.1) caregiver credit including the family caregiver amount. As the value of the two credits is the same, what determines which credit should be used?

11. For individuals 65 or over, several types of income qualify for the pension income tax credit. Indicate three types of pension income that would qualify. Indicate one type of pension income that would not qualify.

12. Fees for sending a child to a summer music and tennis course could qualify for both the child fitness credit and the children's arts credit. How should the taxpayer decide which credit to claim?

13. The charitable donations tax credit is partially calculated at the maximum federal rate of 29 percent. What is the likely reason for this feature?

14. An individual may choose not to claim in the current taxation year, the full amount of a charitable donation made in that year. Explain why this may be an appropriate course of action.

15. Explain the advantage that results from being able to claim medical expenses for any 12 month period that ends in the calendar year.

16. A medical expense tax credit, based on the total medical expenses for a family, can be claimed by either spouse. Does it make any difference which spouse makes the claim?

17. Under what circumstances can the disability tax credit be transferred to a supporting person?

18. Indicate the types of tuition fees that are eligible for the tuition fees tax credit.

19. Certain credits against Tax Payable can be transferred to a spouse or common-law partner. Indicate which credits are eligible for this transfer. Include only credits that can be transferred, not credits that can be taken by either spouse or common-law partner.

20. Some tax credits are referred to as "refundable". What does this mean?

21. Some analysts contend that the OAS clawback is effectively an increase in an individual's tax rate. Explain this view.

TIF PROBLEM FOUR - 2
Tax Payable For Individuals - True Or False

1. Worker's compensation payments received are not included in an individual's Net Income For Tax Purposes.

   True Or False?

2. The home relocation loan deduction is only available when the taxpayer has moved to a new work location and his new dwelling is at least 40 kilometers closer to this new location.

   True Or False?

3. Provincial income taxes are calculated as a percent of federal Tax Payable.

   True Or False?

4. All federal tax credits are calculated by multiplying the lowest federal income tax bracket rate by an indexed base figure.

   True Or False?

5. A person claiming the ITA 118(1)(b) tax credit that is available to an eligible individual supporting a related dependant in a self-contained domestic establishment can claim the credit for their child, even if the child is not a resident of Canada.

   True Or False?

6. An individual cannot claim the pension income credit if their only income is from the Canada Pension Plan.

   True Or False?

7. If both spouses have medical expenses, it will usually be to their advantage for one of the spouses to claim the credit on the basis of their combined medical expenses.

   True Or False?

8. There is no limit on the amount of tuition, education and textbook credits that can be transferred to a spouse.

   True Or False?

9. Sharon Jarvis contributed $500 to the Federal Liberal Party. She is eligible for a federal political contributions tax credit of $500.

   True Or False?

10. The federal political contributions tax credit is deductible in computing Taxable Income, but cannot create a Taxable Loss.

    True Or False?

11. The working income tax benefit is not available to individuals who are full-time students.

    True Or False?

12. The clawback of OAS payments will not alter the individual's Net Income For Tax Purposes.

    True Or False?

TIF PROBLEM FOUR - 3
Tax Payable For Individuals - Multiple Choice

Taxable Income

1. On July 1, 2014, Sam Confrey received a five year, $50,000 loan from his employer. The loan was intended to assist Sam with the purchase of a home in his new employment location. The new home is 47 kilometers closer to Sam's new work location. The interest rate on the loan was 3 percent. Assume that during the third and fourth quarters of 2014, the relevant prescribed rate of interest is 4 percent. The effect of this transaction on his Taxable Income would be:

   A. An increase of $250.
   B. An increase of $500.
   C. An increase of $750.
   D. An increase of $2,000.
   E. No change.

2. In December 2011, Arcor Co. advanced funds of $200,000 to Mr. Jones, a new employee of the corporation, to assist him in acquiring a residence when he moved from Newfoundland to commence employment in British Columbia. The loan bears no interest and is to be repaid in full on December 31, 2016. The prescribed interest rate at the time of this advance was 5 percent. Assuming that the prescribed interest rate throughout 2014 was 6 percent, which one of the following represents the increase in Mr. Jones's Taxable Income in 2014 due to this loan?

   A. $ 8,750.
   B. $10,000.
   C. $10,500.
   D. $12,000.

3. During the year, Ted Knight received worker's compensation payments totaling $10,000 as a result of an injury he suffered at work. His only other source of income for the year was his wages of $25,000. Which one of the following represents Ted's Net and Taxable Incomes for the year?

   A. Net Income $25,000, Taxable Income $25,000.
   B. Net Income $30,000, Taxable Income $30,000.
   C. Net Income $35,000, Taxable Income $25,000.
   D. Net Income $35,000, Taxable Income $35,000.

Tax Payable

4. Which of the following statements is correct?

   A. Net income for tax purposes minus federal tax credits equals taxable income
   B. Taxable income minus federal tax credits equals total federal tax
   C. Total federal tax minus federal tax credits equals federal tax payable
   D. Net income for tax purposes minus federal tax credits equals federal tax payable

5. If total federal tax (before tax credits) is equal to $10,000 then taxable income must be:

   A. $45,455
   B. $54,054
   C. $59,439
   D. $66,667

6. Which of the following statements with respect to an individual's Tax Payable is **NOT** correct?

   A. Provincial Tax Payable is calculated by applying the appropriate rate to Taxable Income.
   B. The relevant provincial tax rate is based on the province in which the individual resides on December 31 of the taxation year.
   C. Only federal taxes are assessed on residents of Canada who are not a resident in any Canadian province on December 31 of the taxation year.
   D. All provinces apply a progressive rate system in the determination of Tax Payable.

Tax Credits

7. Which of the following contains a list of personal federal tax credits that will reduce the tax liability of an individual?

   A. caregiver, employment credit, medical expenses, disability
   B. child, standby charge, charitable donations, age
   C. tuition, adoption expenses, work space in home, pension
   D. public transit pass, child fitness, Canada pension plan, moving expenses

8. Which of the following tax credit bases is **NOT** subject to full indexation?

   A. Amount for an eligible dependant.
   B. Age amount.
   C. Disability amount.
   D. Pension income amount.

9. Of the following statements about tax credits, which one is correct?

   A. They are deducted from total income and are effectively not subject to tax.
   B. They reduce tax by the same amount regardless of a taxpayer's marginal tax rate.
   C. They are deducted from Net Income For Tax Purposes and are effectively not subject to tax.
   D. Their impact is greater for taxpayers with a higher marginal tax rate.

10. Of the following statements about the spousal tax credit, which one is correct?

    A. To claim this credit, the claimant must be legally married to the relevant individual.
    B. It can be claimed by either spouse.
    C. If the individuals are married during the year, the base for the credit must be reduced by the spouse's income since the date of the marriage.
    D. In the year of separation or divorce, an individual can claim both spousal support payments and the spousal tax credit.

11. Jean Marchand is a single parent with a child. Which of the following conditions is **NOT** required for Jean to claim the ITA 118(1)(b) credit for an eligible dependant?

    A. Jean must maintain a self-contained domestic establishment.
    B. The child must be under 18 years of age, or mentally or physically infirm.
    C. The child must be a resident of Canada.
    D. The child must be wholly dependent for support on Jean.

12. Jake Baxter donated $100,000 in cash to a Canadian registered charity. His Net Income For Tax Purposes for the year is $120,000. Calculate Jake's maximum federal tax credit for charitable gifts.

    A. $13,500.
    B. $15,000.
    C. $26,072.
    D. $28,972.

13. Of the following statements about medical expenses, which one is correct?

    A. A taxpayer can only claim his own medical expenses.
    B. The claim must be made in the calendar year the expense was incurred.
    C. Only expenses in excess of a specified amount are eligible for a tax credit.
    D. The amount of the tax credit is dependent on the taxpayer's marginal tax rate.

14. For an individual who is over 65 years of age, which of the following types of pension income does **NOT** qualify for the ITA 118(3) pension income tax credit?

    A. Payments from the Canada Pension Plan.
    B. Old Age Security payments.
    C. Payments from a provincial pension plan.
    D. All of the above.

15. Which of the following tax credits **CANNOT** be transferred to a spouse?

    A. The age credit.
    B. The disability credit.
    C. The education credit.
    D. The EI and CPP credits.
    E. The pension income credit.

16. With respect to the federal political contributions tax credit, which of the following statements is correct?

    A. Contributions made to any registered political party are eligible for the credit.
    B. Contributions made to a candidate at the time of a federal general election are eligible.
    C. The credit is equal to 29 percent of the eligible contributions made.
    D. There is no upper limit to the amount of the credit that can be claimed, as long as the contributions are made within the legal limits governing campaign contributions.

17. Shamus pays for monthly transit passes for his wife, his 10 year old son, his 19 year old blind daughter, his wife's 72 year old disabled mother and his 67 year old father. He claims the caregiver tax credit for both his wife's mother and his father. He can claim the public transit pass tax credit for:

    A. His wife and son.
    B. His wife, son and daughter.
    C. His wife, son, daughter and wife's mother.
    D. His wife, son, daughter, wife's mother and his father.

18. Which of the following relatives may **NOT** be used to claim the eligible dependant tax credit?

    A. Healthy grandfather age 65.
    B. Healthy daughter age 9.
    C. Mentally infirm spouse age 65.
    D. Mentally infirm brother age 19.

19. Which of the following relatives may **NOT** be used to claim the caregiver tax credit?

A. Physically infirm aunt age 62.
B. Mentally infirm grandchild age 16.
C. Healthy grandfather age 65.
D. Physically infirm sister age 35.

20. During the year Fred had the following amounts deducted from his pay:

CPP	$2,426
EI	914
Union Dues	1,500
United Way Donation	2,000

He can use all of the above to calculate federal tax credits except:

A. CPP
B. EI
C. Union Dues
D. United Way Donation

21. Joe supports his 80 year old blind mother who has no income and lives in a nursing home. Which of the following federal tax credits can he claim for his mother?

A. Disability tax credit only.
B. Disability tax credit and Caregiver tax credit only.
C. Disability tax credit and Infirm Dependant over 17 tax credit only.
D. Disability tax credit, Infirm Dependant over 17 tax credit and Age tax credit.

22. Hilda is a 67 year old widow. She lives in an apartment with her old 12 year old granddaughter, Sue. Both of Sue's parents are on a two year expedition to remote areas of the Yukon. They provide all financial support for Sue and speak with her weekly via satellite. Which of the following federal tax credits can Hilda claim regarding Sue?

A. Eligible dependant tax credit.
B. Child tax credit.
C. Caregiver tax credit.
D. No tax credits available.

23. Jennifer is single with no dependants. During the year she had the following amounts deducted from her salary:

CPP	$2,426
EI	914
Federal Income Tax	15,000

Based on this information, Jennifer's total federal tax credits for 2014 will be:

A. $501
B. $2,172
C. $2,341
D. $2,751

24. Bill is single with no dependants. His net income for tax purposes for 2014 was $75,000 and his medical expenses tax credit was $300. How much were his eligible medical expenses?

A. $2,000
B. $4,171
C. $4,250
D. $2,250

25. Harry is divorced with net income for tax purposes of $50,000. His 21 year old dependent daughter, Ann had net income for tax purposes of $15,000. During 2014 Harry paid a total of $2,250 for eligible medical expenses for Ann. Harry's medical expenses tax credit for 2014 is:

    A. $12
    B. $113
    C. $270
    D. $1,800

26. Mildred has $300 budgeted for donations. It will go either to the SPCA (a registered charity) or the Green Party (a registered federal political party). If she gives the money to the Green Party, her tax credit will be

    A. The same amount that she would get from donating to the SPCA.
    B. $180 more than she would get from donating to the SPCA.
    C. $138 more than she would get from donating to the SPCA.
    D. $166 more than she would get from donating to the SPCA.

27. George attended university on a part time basis during 2014. He took two courses in the Fall term and two courses in the Spring term. Tuition is $500 per course and textbooks cost an average of $100 per course. Each term lasts four months. His total education related federal tax credits for 2014 are:

    A. $468
    B. $504
    C. $840
    D. $858

28. Which of the following may **NOT** be used as a tax credit?

    A. Fees paid to an adoption agency.
    B. Fees paid for a child's dance class.
    C. Fees paid for a child's acting class.
    D. Fees paid to a day care centre.

29. Adam is self-employed. He might be eligible for all of the following federal tax credits except:

    A. CPP tax credit.
    B. EI tax credit.
    C. Canada Employment tax credit.
    D. Working Income Tax Benefit tax credit.

30. Oscar is 73 years old. His 2014 net income for tax purposes from his RRIF and other investments is $120,000. He lives with his common-law partner, Felix who is 63 years old. Felix's only income for 2014 was investment income of $6,000. Oscar can claim all of the following federal tax credits except:

    A. Basic personal tax credit.
    B. Age tax credit.
    C. Pension tax credit
    D. Spousal tax credit

31. With regards to the transfer of education related credits, which of the following statements is **NOT** correct?

    A. If the student is married, the tuition credit can be transferred to either the spouse or a parent.
    B. Any education related amounts that are not transferred to another person can be carried forward and claimed by the student.
    C. Credits related to tuition paid to a university outside of Canada cannot be transferred to another person.
    D. Credits related to interest paid on a student loan cannot be transferred to another person.

TIF PROBLEM FOUR - 4
Tax Payable For Individuals - Exam Exercises

Exam Exercise Subject Listing For Chapter 4

Number	Subject
1	Home Relocation Loan
2	Home Relocation Loan
3	Tax Payable Before Credits
4	Tax Payable Before Credits
5	Spousal Tax Credit
6	Spousal Tax Credit
7	Caregiver Tax Credit
8	Caregiver Tax Credit
9	Infirm Dependant Over 17 Tax Credit
10	Infirm Dependant Over 17 Tax Credit
11	Eligible Dependant Vs. Caregiver
12	Eligible Dependant Vs. Caregiver
13	Caregiver Vs. Infirm Dependant Over 17
14	Multiple Credits For Dependants
15	Multiple Credits For Dependants
16	Age Tax Credit
17	Age Tax Credit
18	Adoption Expenses Tax Credit
19	Charitable Donations Tax Credit
20	Charitable Donations Tax Credit
21	Medical Expense Tax Credit
22	Medical Expense Tax Credit
23	Refundable Medical Expense Supplement
24	Disability Tax Credit
25	Disability Tax Credit
26	Education Related Tax Credits
27	Education Related Tax Credits
28	Carry Forward Of Education Credits
29	Transfer Of Education Credits
30	Transfer Of Education Credits
31	Transfer Of Credits From A Spouse
32	Transfer Of Credits From A Spouse
33	Political Contributions Tax Credit
34	Labour Sponsored Funds Credit
35	EI And OAS Clawbacks
36	Tax Payable With OAS Clawback

Exam Exercise Four - 1 (Home Relocation Loan)

On January 1, 2014, Ms. Anna Rossi's employer asks her to relocate to one of the company's offices in a different city. In order to facilitate the move, the employer provides her with a $78,000, five year home relocation loan. Annual interest of 1 percent must be paid on the loan. Assume that throughout 2014, the relevant prescribed rate is 5 percent. Determine the effect of this loan on Ms. Rossi's 2014 Taxable Income.

Exam Exercise Four - 2 (Home Relocation Loan)

Darlene Hill has been asked by her employer to relocate to one of the company's other offices that is several hundred kilometers away from her present work location. The move will take place on January 1, 2014. To facilitate the move, she has been provided with a $125,000 home relocation loan. Annual interest on the loan is at a rate of 1 percent and the principal must be repaid within five years. Assume that throughout 2014, the prescribed rate is 3 percent. What is the effect of this loan on Darlene's 2014 Taxable Income?

Exam Exercise Four - 3 (Calculation Of Tax Payable Before Credits)

During 2014, Canadian resident Mark Forbes has calculated his Taxable Income to be $53,175. Calculate his 2014 federal Tax Payable before consideration of credits.

Exam Exercise Four - 4 (Calculation Of Tax Payable Before Credits)

Canadian resident Zack Bronson has 2014 Taxable Income of $92,485. Calculate his 2014 federal Tax Payable before consideration of credits.

Exam Exercise Four - 5 (Spousal Tax Credit With FCA)

Mr. Don Deloran has 2014 Net Income For Tax Purposes of $26,100. His spouse is dependent on him because of a physical infirmity. The infirmity is not sufficient to qualify for the disability tax credit. She has 2014 Net Income For Tax Purposes of $5,800. Mr. Deloran has no tax credits other than the basic personal credits for his spouse and himself. Determine Mr. Deloran's federal tax credits for 2014.

Exam Exercise Four - 6 (Spousal Tax Credit)

Nadel Lyon has 2014 Net Income For Tax Purposes of $32,400. His common-law partner has Net Income For Tax Purposes $8,420. Nadel has no tax credits other than the basic personal credits for his common-law partner and himself. Determine Nadel's federal tax credits for 2014.

Exam Exercise Four - 7 (Caregiver Tax Credit)

Gerrard Bensen lives with his wife and their two children. His wife's income is less than the basic personal tax credit amount. Two years ago, his mother who is 72 years old and extremely healthy, moved in with him. Her Net Income For Tax Purposes for 2014 is $18,400. Determine the amount of Gerrard's caregiver tax credit, if any, for 2014.

Exam Exercise Four - 8 (Caregiver Tax Credit)

Elaine Markham lives with her husband and 11 year old daughter. Her husband's income is less than the basic personal tax credit amount. Her 81 year old mother also lives with the family. While her mother has 2014 investment income of $10,000, she has a physical infirmity that makes her dependent on Elaine. Determine the amount of Elaine's caregiver tax credit, if any, for 2014.

Exam Exercise Four - 9 (Infirm Dependant Over 17 Tax Credit)

Margo Riche is married and has a 27 year old son who lives in a group home. The son is dependent on Margo because of a physical infirmity. His Net Income For Tax Purposes for 2014 is $6,920. Determine the amount of Margo's caregiver and infirm dependant over 17 tax credits for 2014.

Exam Exercise Four - 10 (Infirm Dependant Over 17 Vs. Caregiver Tax Credits)

Farah Delorme is married and has a 22 year old daughter. The daughter lives with Farah and her husband and is dependent on Farah because of a physical disability. The daughter's Net Income For Tax Purposes is $7,200. Determine the amount of Farah's caregiver and infirm dependant over 17 tax credit for 2014.

Exam Exercise Four - 11 (Eligible Dependent Vs. Caregiver Tax Credits)

Sheila Cox is a single individual with an 83 year old father. While her father is not mentally or physically infirm, he lives with Sheila. He has Net Income For Tax Purposes for 2014 of $7,675. Calculate the tax credits that will be available to Sheila as a result of her father living with her.

Exam Exercise Four - 12 (Eligible Dependent Vs. Caregiver Tax Credits)

Gloria Mason is recently divorced. She has no children. However, her 75 year mother lives with her. While the mother has Net Income For Tax Purposes of $17,200, she is dependent on Gloria because of a physical infirmity. Calculate the tax credits that will be available to Gloria as a result of her mother living with her.

Exam Exercise Four - 13 (Caregiver Vs. Infirm Dependent Over 17 Tax Credits)

Toshiro Mifune is married and has a 28 year old daughter. She lives with him and is dependent because of a physical infirmity. For 2014, she has investment income of $9,315. Toshiro would like to know whether he should take the caregiver tax credit for his daughter or, alternatively, the infirm dependant over 17 tax credit. Calculate the amount of the credit that you have selected.

Exam Exercise Four - 14 (Multiple Credits For Dependants)

Mr. John Foret is 42 years old and divorced from his wife. His income consists of rental income. He has retained the family home and both of the children of the marriage live with him. His daughter is 23 years old and has Down Syndrome. She does not qualify for the disability tax credit. His son is 14 years old and in good health. His daughter has no income during 2014, while his son has Net Income For Tax Purposes of $2,100. Determine Mr. Foret's maximum federal tax credits for 2014.

Exam Exercise Four - 15 (Multiple Credits For Dependants)

Ingrid Tower is a 45 year old widow. Her income consists of rental income. She maintains a home for herself and her two children. Her 19 year old son has a physical disability that makes him wholly dependent on Ingrid for support. However, he does not qualify for the disability tax credit. He has no income of his own. Her daughter is 13 years old, is in good health, and has 2014 Net Income For Tax Purposes of $1,230. Determine Ms. Tower's maximum federal tax credits for 2014.

Exam Exercise Four - 16 (Age Tax Credit)

Ms. Marlene Burns is 69 years old and has 2014 Net Income For Tax Purposes of $46,642. Determine Ms. Burns' age credit for 2014.

Exam Exercise Four - 17 (Age Tax Credit)

Harry Rose is 71 years of age and has 2014 Net Income For Tax Purposes of $62,485. Determine Harry's age credit for 2014.

Exam Exercise Four - 18 (Adoption Expenses Tax Credit)

Claude Lafleur and his spouse have adopted an infant French orphan. The adoption process began on January 2, 2014 when they applied to a licensed adoption agency. Later that month they traveled to France to discuss the adoption and view available children. The cost of this trip was $3,850. Their provincial government opens the adoption file on March 15, 2014, and the adoption order is issued on September 29, 2014. In October, the couple returns to France to pick up their new daughter. The happy family returns to Canada on October 20, 2014. The cost of this trip is $6,280.

Additional expenses paid during the first week of October, 2014 were $1,759 paid to the French orphanage and $5,600 paid to a Canadian adoption agency. Legal fees incurred during the adoption period were $3,250. After arrival in Canada, an additional $3,200 in medical expenses were incurred for the child prior to the end of 2014. Mr. Lafleur's employer has a policy of providing reimbursement for up to $4,500 in adoption expenses eligible for the adoption expenses tax credit. This amount is received in October, 2014 and will be considered a taxable benefit to Mr. Lafleur. What is the maximum adoption expenses tax credit that can be claimed by the couple? Show your calculations.

Exam Exercise Four - 19 (Charitable Donations Tax Credit)

Leon Fiero has 2014 Net Income For Tax Purposes of $70,400. Each week, without fail, he plays a nation-wide lottery. While over the years he has not had any winnings of consequence, his fortunes have changed and, in 2014, he wins over $320,000. As he had hoped to do for many years, he donates $120,000 of these winnings to the Canadian Cancer Society in 2014. He chooses to claim $15,000 of his donations in 2014. In 2015, his income remains at $70,400 and he makes no further donations. Mr. Fiero is not eligible for the first-time donor's super credit.

Determine Mr. Fiero's charitable donations tax credit for 2014, as well as the maximum amount of the donation that he can use in 2015. Until what year can he claim any unused portions of his 2014 donation?

Exam Exercise Four - 20 (Charitable Donations Tax Credit)

Jack Banino has Net Income For Tax Purposes of $83,000 in both 2014 and 2015. Because of a recent run of good luck in Las Vegas, he is able to make a 2014 donation of $120,000 to a registered Canadian charity. He plans to use $30,000 of the donation as the base for a charitable donations tax credit in 2014. He plans to carry the balance of the $120,000 forward to subsequent years. Jack is not eligible for the first-time donor's super credit.

Determine Jack's charitable donations tax credit for 2014. In addition, determine the maximum amount of the donation that he can use in 2015. Until what year can he claim any unused portions of his 2014 donation?

Exam Exercise Four - 21 (Medical Expense Tax Credit)

Mr. Samuel Silverstein has a spouse and a 19 year old dependent son. Mr. Silverstein's 2014 Net Income For Tax Purposes is $125,000. For 2014, Mr. Silverstein's spouse has no income and his son has Net Income For Tax Purposes of $8,675. During 2014, Mr. Silverstein and his spouse have medical expenses of $2,042. His son has medical expenses of $7,780 which Mr. Silverstein paid. Determine Mr. Silverstein's medical expense credit for 2014.

Exam Exercise Four - 22 (Medical Expense Tax Credit)

Saul Lawson has a spouse, a 20 year old dependent son, and a 12 year old daughter. His 2014 Net Income For Tax Purposes is $70,000. Medical expenses for Saul, his spouse, and his 12 year old daughter total $4,500. He also pays medical expenses for his son of $6,200. His spouse has Net Income For Tax Purposes of $10,000 during 2014, while his son has Net Income For Tax Purposes of $9,200. Determine Saul's medical expense tax credit for 2014.

Exam Exercise Four - 23 (Refundable Medical Expense Supplement)

During 2014, Mr. Chris Mackey has Net Income For Tax Purposes of $28,248. Mr. Mackey and his common-law partner, Emily, have total medical expenses of $10,325. Emily has no income of her own. Determine Mr. Mackey's minimum Tax Payable for 2014.

Exam Exercise Four - 24 (Disability Tax Credit)

Lorraine Tramer lives with her husband and 20 year old paraplegic daughter, Marie, who qualifies for the disability tax credit. During 2014, Lorraine paid medical expenses of $9,850 for Marie, none of which involved attendant care expenses. Marie has no income of her own. Lorraine's Taxable Income for 2014 was $108,600. Determine the total amount of tax credits related to Marie that will be available to Lorraine.

Exam Exercise Four - 25 (Disability Tax Credit)

Larry Osborne has a wife and a 16 year disabled daughter, Suzanne, who qualifies for the disability tax credit. His Net Income For Tax Purposes is $186,000 and he and his wife have medical expenses of $3,560. During 2014, Larry paid medical expenses for Suzanne of $12,400, none of which involved payments for attendant care. Suzanne has a 2014 Net Income For Tax Purposes of $5,650. Determine the total amount of tax credits related to Suzanne that will be available to Larry.

Exam Exercise Four - 26 (Education Related Tax Credits)

During 2014, Frank Balmer attends university for five months of full time study and three months of part time study. His total tuition for the year, including all ancillary fees, is $4,100, of which he prepaid $1,400 in 2013. The amount paid in 2014 includes $415 in fees that are only charged to students in his biology program. Interest paid for the year on his student loan was $417. Determine the total amount of education related tax credits that would be available for Mr. Balmer for 2014.

Exam Exercise Four - 27 (Education Related Tax Credits)

During the first 6 months of 2014, Grace Bucknell attends university on a full time basis. For the last 6 months of the year, her studies continue, but only on a part time basis. The tuition fees for the year total $10,400, including $350 of special fees that are only charged to students in her program. As she has taken out a student loan to pay for these studies, she has 2014 interest payments on this loan of $623. Determine the total amount of education related tax credits that would be available for Grace for 2014.

Exam Exercise Four - 28 (Carry Forward Of Education Related Tax Credits)

At the beginning of 2014, Karl Schmidt has a carry forward of education related credits from 2013 of $525 [(15%)($3,500)]. During 2014, he is in full time attendance at a Canadian university for 10 months of the year. His tuition fees total $5,650 for the year. His Taxable Income for 2014 is $34,650. Other than education related tax credits, his only tax credit is his basic personal credit. Determine Karl's total education related tax credits and any available carry forwards.

Exam Exercise Four - 29 (Transfer Of Education Related Tax Credits)

Betty Masters has 2014 Taxable Income of $11,785. She attends university in London, England on a full time basis for 9 months of the year, paying a total amount for tuition of $26,800 (Canadian dollars). Her only tax credit, other than education related credits, is her basic personal credit. Determine Betty's education related credits and indicate how much of this total could be transferred to a supporting parent and how much would be carried forward.

Exam Exercise Four - 30 (Transfer Of Education Related Tax Credits)

Carl Bond is a student at the University of Michigan in the U.S. on a full time basis for 8 months of the year. His tuition fees total $31,400 (Canadian dollars). For 2014, he has Taxable Income of $12,150. Other than education related credits, his only tax credit is the basic personal credit. Determine Carl's education related credits and indicate how much of this total could be transferred to a supporting parent and how much would be carried forward.

Exam Exercise Four - 31 (Transfer Of Credits From A Spouse)

Mrs. Rhonda Lee is 65 years old and has Net Income For Tax Purposes of $53,500. Of this total, $30,600 was from a life annuity that she purchased with funds in her RRSP. Her spouse is 68 years old, has no income of his own as he is ineligible for OAS, and is attending university on a full time basis. His tuition fees for the year were $3,450 and he was in full time attendance for 3 months of the year. Determine Mrs. Lee's maximum federal tax credits for 2014. Ignore the possibility of splitting her pension income with her spouse.

Exam Exercise Four - 32 (Transfer Of Credits From A Spouse)

John Trask is 67 years old and his spouse is 66 years old. He has Net Income For Tax Purposes of $63,200, largely from various pension funds. His spouse has no income of her own as she is not eligible for OAS payments. During 2014, his spouse attended university on a full time basis for 4 months. Her tuition fees for the attendance were $4,200 and, in addition, she spent $800 on textbooks. Determine John's maximum federal tax credits for 2014. Ignore the possibility of splitting his pension income with his spouse.

Exam Exercise Four - 33 (Political Contributions Tax Credit)

Mr. Allen Dion contributes $826 to the Canadian Political Alliance, a registered federal political party. Determine the amount of his federal political contributions tax credit.

Exam Exercise Four - 34 (Labour Sponsored Funds Credit)

On June 30, 2014, Ms. Monica Neville purchases newly issued shares in a prescribed labour sponsored venture capital corporation at a cost of $4,600. The province in which Ms. Neville lives provides a provincial tax credit for this investment. Determine the amount of the federal tax credit that will result from this purchase.

Exam Exercise Four - 35 (EI And OAS Clawbacks)

For 2014, Mr. Oliver Clemens has net employment income of $67,200, receives EI payments of $9,460, and receives $6,600 in Old Age Security (OAS) payments. No amount was withheld from the OAS payments because he had very low income in the previous two years due to large business losses. Determine Mr. Clemens' Net Income For Tax Purposes for 2014.

Exam Exercise Four - 36 (Tax Payable With OAS Clawback)

Agnes is 66 years old. During 2014 she received OAS payments of $6,600, CPP payments of $10,000 and investment income of $65,000. Assume that no federal tax was withheld at source. Her total federal tax credits for 2014 (including charitable donations) are $2,500. Taking the OAS clawback into consideration, what is her federal balance owing?

TIF PROBLEM FOUR - 5A
Tax Payable For Individuals - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

Due to the large number of key terms in Chapter 4, "Taxable Income and Tax Payable for Individuals", the number of key terms listed is double the other chapters.

The following 16 key terms were listed at the end of Chapter 4, "Taxable Income and Tax Payable for Individuals".

A. Canada Pension Plan Tax Credit
B. Caregiver Tax Credit
C. Child Tax Credit
D. Disability Tax Credit
E. Disability Tax Credit Supplement
F. Eligible Dependant Tax Credit
G. Refundable Medical Expense Supplement
H. Social Benefits Repayment

I. Dependant
J. Education Tax Credit
K. Indexation
L. Non-Refundable Tax Credit
M. Old Age Security Clawback
N. Spouse
O. Textbook Tax Credit
P. Tuition Tax Credit

The following list contains 20 potential definitions for the preceding key terms.

1. A refundable credit against tax payable that increases the amount available to certain low income individuals for their eligible medical expenses.

2. A credit against tax payable that is available to the parent of a child who is under the age of 18 years at the end of a taxation year.

3. A credit against tax payable that is available to individuals with a doctor certified severe mental or physical disability.

4. A credit against tax payable that is available to a single individual supporting a dependant in a self-contained domestic establishment.

5. A credit against tax payable that is available to individuals making contributions to the Canada Pension Plan.

6. A credit against tax payable that is available to individuals with qualifying medical expenses.

7. A credit against tax payable that is available to an individual who provides home care for an adult relative.

8. An income tested taxing back, or reduction, in the payment of Old Age Security benefits and Employment Insurance benefits.

9. A supplement to the disability tax credit that is available for individuals who are under 18 years of age at the end of the year.

10. A pension plan sponsored by the federal government. Individuals with employment or business income must make contributions based on their income and, in return, receive benefits in future years.

11. An individual to whom a taxpayer is legally married.

12. A credit against tax payable that is available to individuals who have a spouse or common-law partner.

13. A credit against tax payable that is available to individuals making qualifying tuition payments.

14. An individual who, at any time during the year, is dependent on the taxpayer for support and is the child or grandchild of the individual or of the individual's spouse or common-law partner, the parent, grandparent, brother, sister, uncle, aunt, niece, or nephew, if resident in Canada at any time in the year, of the individual or of the individual's spouse or common-law partner.

15. A tax credit that can only be used against the tax payable of an individual. It will not be refunded to individuals without sufficient tax payable to make use of it.

16. A monthly payment to residents of Canada who are 65 years of age or older.

17. The process of adjusting tax brackets and some tax credits to reflect changes in the consumer price index.

18. A credit against tax payable that is available to individuals who qualify for the education tax credit.

19. A taxing back, or reduction, in the payment of Old Age Security benefits.

20. A credit against tax payable that is available to individuals attending a designated educational institution on a full or part time basis.

21. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the 16 key terms listed (A through P), indicate the number of the item (1 through 20) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (21). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM FOUR - 5B
Tax Payable For Individuals - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

Due to the large number of key terms in Chapter 4, "Taxable Income and Tax Payable for Individuals", the number of key terms listed is double the other chapters.

The following 16 key terms were listed at the end of Chapter 4, "Taxable Income and Tax Payable for Individuals".

A. Canada Pension Plan Tax Credit
B. Caregiver Tax Credit
C. Child Tax Credit
D. Disability Tax Credit
E. Disability Tax Credit Supplement
F. Eligible Dependant Tax Credit
G. Refundable Medical Expense Supplement
H. Social Benefits Repayment

I. Dependant
J. Education Tax Credit
K. Indexation
L. Non-Refundable Tax Credit
M. Old Age Security Clawback
N. Spouse
O. Textbook Tax Credit
P. Tuition Tax Credit

The following list contains 25 potential definitions for the preceding key terms.

1. A refundable credit against tax payable that increases the amount available to certain low income individuals for their eligible medical expenses.

2. A credit against tax payable that is available to the parent of a child who is under the age of 18 years at the end of a taxation year.

3. A credit against tax payable that is available to individuals with a doctor certified severe mental or physical disability.

4. A credit against tax payable that is available to a single individual supporting a dependant in a self-contained domestic establishment.

5. A person of the opposite sex to whom a taxpayer is legally married.

6. A credit against tax payable that is available to individuals making contributions to the Canada Pension Plan.

7. A credit against tax payable that is available to individuals with qualifying medical expenses.

8. A taxing back, or reduction, in the payment of Old Age Security or Employment Insurance

benefits.

9. A credit against tax payable that is available to an individual who provides home care for an adult relative.

10. An income tested taxing back, or reduction, in the payment of Old Age Security benefits and Employment Insurance benefits.

11. An individual who, at any time during the year, is dependent on the taxpayer for support and is the child or grandchild of the individual or of the individual's spouse or common-law partner, the parent, grandparent, brother, sister, uncle, aunt, niece, or nephew if resident in Canada at any time in the year, of the individual.

12. A supplement to the disability tax credit that is available for individuals who are under 18 years of age at the end of the year.

13. A pension plan sponsored by the federal government. Individuals with employment or business income must make contributions based on their income and, in return, receive benefits in future years.

14. An individual to whom a taxpayer is legally married.

15. A credit against tax payable that is available to individuals who have a spouse or common-law partner.

16. The process of adjusting tax brackets and all tax credits to reflect changes in the Consumer Price Index.

17. A credit against tax payable that is available to individuals making qualifying tuition payments.

18. An individual who, at any time during the year, is dependent on the taxpayer for support and is the child or grandchild of the individual or of the individual's spouse or common-law partner, the parent, grandparent, brother, sister, uncle, aunt, niece, or nephew, if resident in Canada at any time in the year, of the individual or of the individual's spouse or common-law partner.

19. A tax credit that can only be used against the tax payable of an individual. It will not be refunded to individuals without sufficient tax payable to make use of it.

20. A monthly payment to residents of Canada who are 65 years of age or older.

21. The process of adjusting tax brackets and some tax credits to reflect changes in the consumer price index.

22. A credit against Tax Payable that is available to an individual supporting a dependant in a self-contained domestic establishment.

23. A credit against tax payable that is available to individuals who qualify for the education tax credit.

24. A taxing back, or reduction, in the payment of Old Age Security benefits.

25. A credit against tax payable that is available to individuals attending a designated educational institution on a full or part time basis.

26. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the 16 key terms listed (A through P), indicate the number of the item

(1 through 25) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (26). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM FOUR - 6
Tax Payable For Individuals - Personal Tax Credits

In each of the following independent Cases, determine the maximum amount of 2014 personal tax credits, including transfers from a spouse or dependant, that can be applied against federal Tax Payable by the taxpayer.

A calculation of Tax Payable is **NOT** required, only the applicable credits.

1. Sarah Partridge is 72 years old and has Net Income For Tax Purposes of $61,300. This total is made up of OAS payments and pension income from her former employer. Her husband is 58 years old and has Net Income For Tax Purposes of $4,725. Ignore the possibility of splitting Sarah's pension income.

2. Martin Brody was divorced from his wife several years ago. He has custody of their four children, ages 7, 9, 12, and 15. His Net Income For Tax Purposes consists of spousal support payments totaling $54,000 per year. The children are all in good health. The oldest child has Net Income For Tax Purposes of $11,200 during the year.

3. Marion Lassiter has Net Income For Tax Purposes of $132,450, all of which is rental income. Her husband has no income of his own. They have three children, ages 14, 16, and 19. All of these children are in good health and continue to live at home. The 19 year old child has Net Income For Tax Purposes of $8,460. During the current year, Ms. Lassiter pays the following medical expenses:

Marion	$ 4,240
Her Spouse	3,450
14 Year Old Child	1,860
16 Year Old Child	2,450
19 Year Old Child	6,720
Total	$18,720

4. Janice Archer has Net Income For Tax Purposes of $92,100, none of which is employment income or income from self-employment. Her spouse has Net Income For Tax Purposes of $7,240. Their daughter is 15 years old, lives with them, and has Net Income For Tax Purposes of $2,150. Their son is 22 years old and, because of a physical disability, continues to live with them. He has no income of his own. His disability is not severe enough to qualify for the disability tax credit.

5. Joan Baxter has Net Income For Tax Purposes of $85,000, all of which is employment income. She is married to John Brown whose Net Income For Tax Purposes is $4,230. They have three children aged 7, 9, and 11. All of the children are in good health and none of them have income of their own.

Required: In each Case, calculate Barbra Baines' minimum federal Tax Payable for 2014. Indicate any carry forwards available to her and her dependants and the carry forward provisions. Ignore any amounts Barbra might have had withheld or paid in instalments, as well as the possibility of pension splitting.

TIF PROBLEM FOUR - 8
Tax Payable For Individuals - Personal Tax Credits

In each of the following independent Cases, determine the maximum amount of 2014 personal tax credits, including transfers from a spouse or dependant, that can be applied against federal Tax Payable by the taxpayer.

A calculation of Tax Payable is not required, only the applicable credits.

1. Mr. Hanson has Net Income For Tax Purposes of $40,000, all of which is investment income. He is single and provides support for his mother. His mother is a widow who resides in England, and has income of $700 per year.

2. Mr. Johnson has Net Income For Tax Purposes of $250,000, all of which is employment income. His employer has withheld and remitted the required EI and CPP amounts. Mr. Johnson was married on December 1, 2014. His wife, an accounting student, had salary of $27,500 for the period from January 1 to November 30, 2014 and $2,500 for the month of December, 2014.

3. Mr. Massey has Net Income For Tax Purposes of $60,000, all of which is rental income. He lives with his common-law wife and her two children from a previous marriage. The two children are 8 and 10 years of age and neither his wife nor the children have any source of income.

4. Mr. Jones is married and has Net Income For Tax Purposes of $70,000, none of which is employment income or income from self-employment. His 19 year old dependent son attends university. His wife has Net Income For Tax Purposes of $1,200, and his son has Net Income For Tax Purposes of $2,900. His son does not wish to transfer his tuition, education or textbook credits.

5. Ms. Morrison is divorced, maintains a residence far from her former spouse, and receives $2,000 per month in child support payments. She has custody of the two children from the marriage. They are aged 7 and 10 and have no income of their own. Her Net Income For Tax Purposes is $50,000, all of which is spousal support payments.

6. Mr. Bagley is 68 years old and has Net Income For Tax Purposes of $27,100, which is comprised of OAS benefits and pension income paid out of his Registered Retirement Income Fund. His wife is 52 years old and is blind. She has no income of her own. Ignore the possibility that Mr. Bagley would split his pension income with his wife.

TIF PROBLEM FOUR - 9
Tax Payable For Individuals - Personal Tax Credits

In each of the following independent Cases, determine the maximum amount of 2014 personal tax credits, including transfers from a spouse or dependant, that can be applied against federal Tax Payable by the taxpayer.

A calculation of Tax Payable is **NOT** required, only the applicable credits.

1. Ms. Smith is married and has Net Income For Tax Purposes of $123,000, none of which is employment income or income from self-employment. Her husband is currently unemployed, but has interest income from investments of $3,750. Her 20 year old dependent son attends university and lives at home. Her son has Net Income For Tax Purposes of $4,800 and does not wish to transfer his tuition, education or textbook credits to her.

2. Ms. Finkly is 66 years old and has Net Income For Tax Purposes of $24,750. This total is made up of OAS of $6,600, plus pension income of $18,150 from a former employer. Her husband is 51 years old and blind. He has no income of his own. Ignore the possibility that Ms. Finkly would split her pension income with her husband.

3. Mr. Saladin has Net Income For Tax Purposes of $72,350, none of which is employment income or income from self-employment. He lives with his common-law partner and her three children from a previous relationship. The children are aged 13, 15, and 20. The 20 year child is dependent because of a physical disability. However, the disability is not sufficiently severe to qualify for the disability tax credit. Neither the common-law partner nor any of the children have any source of income.

4. Mr. Renaud was divorced two years ago and maintains a residence separate from his former spouse. He has custody of the three children of the marriage, aged 8, 9, and 10 and receives $2,500 per month in child support payments. Mr. Renaud has Net Income For Tax Purposes of $62,300, none of which is employment income or income from self-employment. None of the children have any income of their own.

5. Ms. Hill has Net Income For Tax Purposes of $175,000, all of which is employment income. Her employer has withheld and remitted the required EI and CPP amounts. She was married on December 1, 2014. Her new husband is an accounting student with a large firm. His salary for the period January 1 through November 30, 2014 was $33,000. For the month of December, 2014, his salary was $3,000.

6. Mr. Rajit has 2014 Net Income For Tax Purposes of $85,000, none of which is employment income or income from self-employment. He lives in a residence that he has owned for many years. He does not currently have a spouse or common-law partner. However, he has custody of his ten year old son who lives with him. Also living with him is his 68 year old, widowed mother. His son had no income during 2014. His mother had OAS benefits and pension income which totaled $16,500 during 2014.

TIF PROBLEM FOUR - 10
Simple Tax Payable With Employment Income

Note To Instructor This problem is an extension of Test Item File Problem Three -12.

Mr. Samuel Kern is an administrator for a publicly traded Canadian manufacturing company. His gross salary for the year ending December 31, 2014 is $67,600. For the 2014 taxation year, Mr. Kern's employer withheld the following amounts from his income:

Federal Income Tax	$11,200
Employment Insurance Premiums	914
Canada Pension Plan Contributions	2,426
Registered Pension Plan Contributions	1,800
Contributions To Group Disability Plan	150

Mr. Kern's employer made a matching contribution of $1,800 to his registered pension plan and a $175 matching contribution for the group disability insurance.

Other Information:

1. During 2014, Mr. Kern is provided with an automobile that has been leased by his employer. The lease payments are $815 per month, an amount which includes all taxes and an $89 monthly payment for insurance. The total operating costs of the car were $4,600 for the year and they were paid by the employer. The car is used by him for nine months of the year and, during the months of non-use, it must be returned to the premises of his employer. During 2014, he drives it a total of 32,000 kilometers. Of this total, 29,000 kilometers were for travel required in pursuing the business of his employer and the remainder was for personal use. He reimbursed his employer $50 per month of use for his personal use of the automobile.

2. During 2014, the disability plan provided him with benefits of $1,650 after he was injured. Mr. Kern began making contributions to this plan in 2013 and paid $200 for that year. The plan provides periodic benefits that compensate for lost employment income.

3. Mr. Kern was required to pay 2014 dues to his professional association in the amount of $1,233.

4. In 2012, Mr. Kern was given options to buy 200 shares of his employer's stock at a price of $75 per share. At the time the options were issued, the shares were trading at $70 per share. On June 1, 2014, Mr. Kern exercises the options. At the time of exercise, the shares are trading at $83 per share. He is still holding the shares on December 31, 2014.

5. Mr. Kern donated $500 to the Canadian Cancer Society in 2013, but forgot to claim the donation in 2013. He has found the donation receipt in his files. He is not eligible for the first-time donor's super credit.

6. Mr. Kern lives with his wife and 23 year old son, David. His wife has Net Income For Tax Purposes of $3,660. David is a full time student at university for 8 months of the year and has Net Income For Tax Purposes of $5,780. Mr. Kern has paid David's tuition for 2014 of $6,700, and in return, David has agreed to transfer the maximum credit possible to his father.

7. Mr. Kern paid the following medical costs:

For Himself	$2,100
For His Wife	770
For David	3,260
Total	$6,130

Required: Calculate, for the 2014 taxation year, Mr. Kern's minimum Taxable Income and federal Tax Payable (Refund). Indicate any carry forwards available to him and his dependants and the carry forward provisions. Ignore all GST considerations.

TIF PROBLEM FOUR - 11
Comprehensive Tax Payable With Employment Income

Ms. Marcy Van Horne is employed by a large publicly traded corporation and her 2014 salary is $126,000. In addition to her annual salary, she received a performance bonus of $25,000, one-half of which was paid in 2014, with the remaining one-half not due until July 1, 2015. In addition to her salary, she earns commissions of $32,000 during 2014.

During 2014, Ms. Van Horne's employer withheld the following amounts from her compensation:

EI Premiums	$ 914
CPP Contributions	2,426
RPP Contributions	7,400
Life Insurance Premiums (Employer Makes A Matching Contribution)	550

Ms. Van Horne is divorced and has custody of her two children. They are aged 12 and 17. The 12 year son has 2014 income of $2,500. The 17 year old daughter is in full time attendance at a university during 8 months of the year. Ms. Van Horne pays her annual tuition of $7,000. The daughter has summer income of $4,500 and has agreed to transfer her education related credits to her mother. Also living with Ms. Van Horne is her 68 year old father whose Net Income For Tax Purposes for 2014 totals $8,000. He has supplemented his income for years with his casino winnings and they total $20,000 in 2014. He is not mentally or physically infirm.

Other Information:

1. Ms. Van Horne is provided with an automobile by her employer. During 2014, it is driven 48,000 kilometres, of which 42,500 are employment related. The automobile is leased by the employer at a monthly rate of $728, including GST of $30 and PST of $48. The monthly rate also includes a payment for insurance of $50 per month. The automobile was used by Ms. Van Horne for 11 months during 2014. She was required to return the automobile to her employer's garage during the month that she did not use it.

2. Ms. Van Horne incurred the following employment related expenses during 2014:

Advertising	$5,600
Entertainment	9,000
Meals	2,400
Hotels	8,400
Airline Tickets	3,400
Total Expenses	$28,800

   Ms. Van Horne's employer reimburses all of her meal costs and one-half of her hotel bills. No other expenses were reimbursed.

3. During 2013, Ms. Van Horne was granted options to acquire 5,000 shares of her employer's common shares at an option price of $25 per share. This was also the market value of the shares at this time. During July, 2014, Ms. Van Horne exercises all of the options at a point in time when the shares were trading at $31 per share. She is still holding the shares at the end of the year.

4. Ms. Van Horne buys monthly transit passes for both of her children during the school year. The cost is $45 per month per child. Passes were purchased for 9 months during 2014.

5. During 2014, Ms. Van Horne gives total cash of $1,800 to a variety of registered charities. As she makes charitable donations every year, she is not eligible for the first-time donor's super credit.

6. Also during 2014, Ms. Van Horne donates $300 to each of the three federal political parties.

7. During 2014, Ms. Van Horne pays for the following eligible medical costs:

For Herself	$ 850
For Her Two Children	1,480
For Her Father	3,940
Total Medical Costs	$6,270

Required:

A. Determine Ms. Van Horne's minimum Net Income For Tax Purposes for the 2014 taxation year.

B. Determine Ms. Van Horne's minimum Taxable Income for the 2014 taxation year.

C. Based on your answer in Part B, determine Ms. Van Horne's federal Tax Payable for the 2014 taxation year. Indicate any carry forwards available to her and her dependants and the carry forward provisions. Ignore any amounts that might have been withheld by her employer or paid in instalments.

TIF PROBLEM FOUR - 12
Comprehensive Tax Payable With Employment Income

Martin Dorne is 53 years old and employed in construction work by a large public company. His annual salary is $98,500, none of which involves commissions. As the company was very successful during 2014, Martin has been provided with a $15,000 bonus. This bonus will be paid in equal amounts ($3,000) over the period 2014 through 2018.

Martin's employer withheld maximum EI premiums and CPP contributions, along with $18,000 in federal income taxes. Other amounts withheld by his employer are as follows:

RPP Contributions	$4,300
Union Dues	450

Martin's common-law partner is Brian Lassiter. Brian is 48 years old and is legally blind. Brian has 2014 income from investments of $9,400.

Eight years ago, Martin and Brian adopted three brothers from a third-world country. Information on these children is as follows:

David is 15 years old, in good health, and has income from part time jobs of $10,500.

Devon is 20 years old and has serious breathing problems that prevent him from working on a full time basis. He lives with Martin and Brian and has income from part time jobs of $5,150.

Derek is 22 years old and attends university on a full time basis for 8 months of the year. Martin pays his tuition fees of $10,300, along with textbook costs of $1,200. He lives with Martin and Brian and is in good health. He has self-employed income of $13,500. Assume he pays no CPP contributions on this income.

Other Information:

1. During 2014, Martin spent $12,300 on employment related meals and entertainment with clients of his employer. His employer reimbursed $7,300 of these costs.
2. During 2014, Martin makes his regular annual contribution of $2,000 to a registered charity, the The Shepherds Of No Hope. (Martin is a very pessimistic individual.)
3. The family's 2014 medical expenses, all of which were paid by Martin, were as follows:

Martin and Brian	$ 2,200
David	1,700
Devon	10,600
Derek	4,500

4. Martin buys monthly transit passes for David and Derek. The cost is $85 per month per child. The passes covered 10 months during 2014.
5. During 2013, Martin received options to purchase 500 shares of his employer's stock at a price of $45 per share. At the time the options were granted, the market price of the shares was $50 per share. During July, 2014, when the shares are trading at $70 per share, Martin exercises all of these options. He is still holding these shares on December 31, 2014.
6. As interest rates continue to be very favourable, Martin and Brian purchase a residence near the rented residence that they have lived in for the last 15 years. The cost of the new residence is $480,000 and, to assist with the purchase, Martin's employer provides a $280,000 interest free loan. The loan was granted on July 1, 2014 and will have to be repaid on July 1, 2019. Assume the prescribed rate is 1 percent throughout the year 2014.

7. Martin is provided with an automobile by his employer. The automobile was purchased at a cost of $45,200, including HST at 13 percent. During 2014, the automobile is driven 48,000 kilometers, of which 37,000 were employment related. The automobile was used by Martin for 11 months during 2014. He was required to return the automobile to his employer's garage during the month that he did not use it.

8. During 2014, Martin receives several gifts from his employer:
   - As is the case for all of the company's employees, Martin receives a $250 gift certificate that can be used for merchandise at a local department store.
   - In recognition of his 10 years of service, Martin receives an engraved wrist watch. The retail value of this watch is $800.
   - At Christmas, all of the company's employees receive a gift box of vintage wines. The retail value of these wines is $400.

Required:

A. Determine Martin's minimum Net Income For Tax Purposes for the 2014 taxation year.

B. Determine Martin's minimum Taxable Income for the 2014 taxation year.

C. Based on your answer in Part B, determine Martin's federal Tax Payable and amount owing (refund) for the 2014 taxation year.

TIF PROBLEM FOUR - 13
Comprehensive Tax Payable With Employment Income

Margarita Dalvi is a financial analyst employed by a large public company. Her 2014 salary is $143,000, none of which is commission income. In addition, she was awarded an incentive bonus of $34,500. Two-thirds of this bonus was paid during 2014, with the balance due in September, 2015.

Ms. Dalvi's employer withheld the following amounts from her earnings:

EI Premiums	$ 914
CPP Contributions	2,426
RPP Contributions	6,400
Federal Income Taxes	29,000
Contributions To United Way	4,000
Professional Association Dues	1,200

Ms. Dalvi is 55 years old and married to Jonathan Dalvi who has been legally blind since an automobile accident that occurred several years ago. Jonathan is 66 years old. He has 2014 income from OAS and various investments of $7,200. The couple have three children:

Martha is 15 years old. She has 2014 income from various part time jobs of $11,000.

Mary is 19 years old and has mental health problems that prevent her from working on a full time basis. She lives with her mother and father and has 2014 income from part time jobs of $4,800.

Mark is 21 years old and attends university on a full time basis for 10 months of the year. His tuition fees are $9,400. As he has no income of his own, he has agreed to transfer all of his education related credits to his mother.

The family's 2014 medical expenses, all of which were paid by Ms. Dalvi, were as follows:

Ms. Dalvi And Her Husband	$ 6,200
Martha	1,800
Mary	11,300
Mark	2,500

Other Information:

1. Ms. Dalvi buys monthly transit passes for Mark and Martha. The cost is $75 per month per child. The passes covered 10 months during 2014.
2. Ms. Dalvi is provided with an automobile by her employer. The automobile is leased at a rate of $728 per month, including applicable HST. This payment also includes a payment of $50 per month for insurance coverage. During 2014, the automobile is driven 57,000 kilometers, of which 42,000 were employment related. The automobile was used by Ms. Dalvi for 11 months during 2014. She was required to return the automobile to her employer's garage during the month that she did not use it.
3. During 2014, Ms. Dalvi spent $14,800 on employment related meals and entertainment with clients. Her employer reimbursed $9,500 of these costs.
4. Throughout their marriage, the Dalvi's have always lived in rented premises. Seeing the current level of mortgage rates as presenting an opportunity to acquire a residence, they purchase a 4 bedroom bungalow in the same neighbourhood for $422,000 on July 1, 2014. On this date, her employer provides Ms. Dalvi with a $250,000 loan that will facilitate this acquisition. The loan does not require any payment of interest. However, the balance must be paid on July 1, 2019. Assume that the prescribed rate is 1 percent throughout 2014.

5. During 2014, Ms. Dalvi receives several gifts from her employer:
   - As is the case for all of her employer's senior staff, she receives a $400 gift certificate that can be used for merchandise at a local clothing store.
   - In recognition of 10 years of continuous service, she receives an engraved wrist watch. The retail value of this watch is $1,200.
   - At Christmas all of the employees of her employer receive a gift basket containing gourmet food items. The retail value of this basket is $300.
6. During 2013, Ms. Dalvi received options to purchase 1,200 shares of her employer's stock at a price of $37 per share. At the time the options were granted, the market price of the shares was $40 per share. During July, 2014, when the shares are trading at $45 per share, Ms. Dalvi exercises all of these options. She is still holding these shares on December 31, 2014.
7. As Ms. Dalvi makes a regular annual contribution to the United Way, she does not qualify for the first-time donor's super tax credit.

Required:

A. Determine Ms. Dalvi's minimum Net Income For Tax Purposes for the 2014 taxation year.

B. Determine Ms. Dalvi's minimum Taxable Income for the 2014 taxation year.

C. Based on your answer in Part B, determine Ms. Dalvi's federal Tax Payable and amount owing (refund) for the 2014 taxation year.

Chapter Five Test Item File Problems

TIF PROBLEM FIVE - 1
CCA - Essay Questions

1. The calculation of amortization expense under generally accepted accounting principles and the determination of CCA to be deducted for tax purposes can be viewed as somewhat similar procedures. However, there are some differences that arise in the application of these procedures. Describe the similarities and differences between the procedures used to calculate amortization expense for accounting records and those procedures used to establish the amount of CCA to be deducted in tax returns.

2. For accounting purposes, assets are generally recorded at their acquisition cost. This amount would include the basic invoice cost, delivery and installation costs, and other expenditures required to make the asset available for use by the enterprise. Indicate some of the reasons why the capital cost of an asset for tax purposes may differ from the asset cost that will be recorded for accounting purposes.

3. For CCA purposes, most assets are allocated to a Class that contains all of the assets of that Class. However, in some cases individual assets have to be allocated to a separate Class, resulting in multiple balances for that Class. What are some examples of this type of situation?

4. Briefly explain why it is important to take care in allocating assets to the appropriate CCA class.

5. If the government wishes to increase or decrease the rate applicable to a particular type of asset, this can be accomplished using two different approaches. Describe these approaches, indicate which you think is preferable, and explain the reason for your preference.

6. Each passenger vehicles with a cost in excess of $30,000 must be allocated to a separate Class 10.1. Other passenger vehicles are allocated to a single Class 10. Briefly describe the differences between the rules applicable to Class 10.1, and those applicable to Class 10.

7. Patents are normally allocated to Class 44 where they are subject to declining balance CCA calculations at a 25 percent rate. However, a taxpayer can elect to allocate these assets to Class 14, where they are subject to straight-line CCA over their legal life. Under what circumstances would this election be desirable?

8. Most depreciable assets are subject to the half-year rules. Describe three exceptions to these rules.

9. If a taxpayer has decided, in a particular taxation year, to deduct less than the maximum available CCA, he will need to decide from which classes the amount that will be deducted should be taken. How will he make this decision? Explain your conclusion.

10. When a depreciable asset is sold, there may be no immediate tax consequences related to the sale. Indicate the conditions that must be present for this situation to occur.

11. When there is a disposition of a depreciable asset, there may be recapture of CCA. Another possibility is that a terminal loss may arise. Indicate the conditions that will result in (1) recapture of CCA, and (2) a terminal loss.

12. When there is a disposition of a depreciable asset, there may be recapture of CCA. Another possibility is that a terminal loss may arise. How are these balances treated in the determination of Net Income For Tax Purposes and the UCC balance?

13. When a depreciable asset is sold or retired, the procedures used for tax purposes are usually very different than those used for accounting purposes. Describe the differences between the procedures used for tax purposes and those that would be required under generally accepted accounting principles for dispositions of depreciable assets.

14. When a taxpayer acquires a photocopier to be used in producing business income, he can either allocate its cost to his general Class 8 or, alternatively, elect to allocate it to a separate Class 8. What is the potential advantage of allocating the cost of a photocopier to a separate Class 8?

15. What is the definition of eligible capital property? Provide three examples of such property.

16. Describe the differences between the procedures used in determining the maximum deduction for the CEC amount and the procedures used in determining the maximum CCA deduction.

17. Describe the procedures to be used when there is a disposition of cumulative eligible capital. Assume that no election is made to give separate treatment to the item that is being sold.

TIF PROBLEM FIVE - 2
CCA - True Or False

1. Capital cost allowance is analogous to the accounting term amortization and allocates the cost of the capital asset to current and subsequent taxation years.

   True or False?

2. Undepreciated capital cost is decreased by government assistance received to acquire assets and increased by acquisitions of depreciable assets.

   True or False?

3. Capital cost allowance for each class can be calculated using the declining balance method or the straight line method, as long as it is the same method used to calculate amortization for the financial statements.

   True or False?

4. A corporation with a June 30 year end begins its operations on January 1, 2014. It has acquired $50,000 of Class 8 assets on January 1. The maximum CCA for its fiscal year ending June 30, 2014 is $5,000.

   True or False?

5. If a patent is acquired near the end of its legal life, it will usually be a good idea to elect to include its cost in Class 14.

   True or False?

6. The separate class election for photocopiers should be used only if the assets are retained and used for long periods of time.

   True or False?

7. Recapture of CCA occurs when there is a negative balance in the class at the end of the year.

   True or False?

8. Only one-half of a terminal loss can be deducted in the determination of a taxpayer's Net Income For Tax Purposes.

   True or False?

9. Cumulative eligible capital is amortized at a maximum rate of 7 percent, calculated on a straight line basis.

   True or False?

10. Goodwill is purchased for $60,000 during the year. The maximum CEC amount that can be deducted for tax purposes for the year is $1,575.

    True or False?

TIF PROBLEM FIVE - 3
CCA - Multiple Choice

CCA Questions

1. The Nelson Company has a taxation year end of December 31. On January 1 of the current year, the UCC of Class 8 was $80,000. The Nelson Company has a policy of always deducting maximum CCA. Each of the **independent** Parts of this question deal with transactions during the current year which involved Class 8 assets. Choose one of the following answers for each Part (individual answers can be used more than once).

A. $4,000	I. $43,200	Q. $5,000 Recapture
B. $10,000	J. $52,000	R. $10,000 Recapture
C. $10,800	K. $60,800	S. $5,000 Terminal Loss
D. $12,000	L. $67,000	T. $10,000 Terminal Loss
E. $13,000	M. $72,000	U. $5,000 Allowable Capital Loss
F. $18,000	N. $76,000	V. $10,000 Allowable Capital Loss
G. $19,000	O. $91,000	W. $5,000 Taxable Capital Gain
H. $20,000	P. $98,000	X. $10,000 Taxable Capital Gain

1. An additional class 8 asset was purchased for $20,000 on April 1. Maximum CCA for Class 8 is:

2. An asset with a capital cost of $15,000 was sold for $4,000 on June 30. Minimum UCC on January 1 of the following year is:

3. An asset with a capital cost of $15,000 was sold for $26,000 on September 1. Maximum CCA for Class 8 is:

4. An asset with a capital cost of $15,000 was sold for $26,000 on September 1. Minimum UCC on January 1 of the following year is:

5. An asset with a capital cost of $100,000 was sold on June 30 for $90,000. Also during the year, an asset was purchased for $60,000. Maximum CCA for Class 8 is:

6. The last asset in the class, with a capital cost of $85,000, was sold on July 15 for $90,000. This would give rise to:

7. The last asset in the class, with a capital cost of $85,000, was sold on August 1 for $70,000. This would give rise to:

8. An asset with a capital cost of $40,000 was sold for $50,000 on September 1. This would give rise to:

9. An asset with a capital cost of $70,000 was sold on October 1 for $90,000. An asset was purchased on November 1 for $100,000. Maximum CCA for Class 8 is:

10. An asset with a capital cost of $70,000 was sold on May 1 for $90,000. An asset was purchased on May 15 for $100,000. Minimum UCC on January 1 of the following year is:

11. The capital cost of an asset includes a number of costs. Indicate which cost would not be considered part of the capital cost.

    A. Legal fees incurred to acquire the asset.
    B. Duties paid on the asset.
    C. Fire and theft insurance paid on the asset.
    D. Non-refundable provincial sales taxes paid on the asset.
    E. An appropriate allocation of overhead.

12. A business has $5,000 in Taxable Income before CCA in the current year. The management anticipates a high income for the subsequent year. The maximum CCA deductible for the year in Class 8 is $5,000 and the maximum CCA deductible for the year in Class 12 is $5,000. To minimize the subsequent year's taxes, the business should:

    A. Claim maximum CCA on Class 8 only.
    B. Claim maximum CCA on Class 12 only.
    C. Claim maximum CCA on Class 8 and Class 12.
    D. Claim no CCA for the year.
    E. Claim $2,500 CCA on Class 8 and $2,500 CCA on Class 12.

13. During the current year, Denos Corporation incurred costs of $45,000 for leasehold improvements to its newly rented building. The lease was signed in the current year for an initial term of three years plus four successive options to renew the lease, each for an additional one year term. Which one of the following amounts represents the **maximum** capital cost allowance claim in the current year?

    A. $ 4,500.
    B. $ 5,625.
    C. $ 9,000.
    D. $11,250.

14. On December 1 of the current year, Plen Limited purchased a franchise for $70,000. The franchise has a limited life of 15 years. Which one of the following amounts represents the **maximum** amount of capital cost allowance Plen Limited can deduct for its current year ending on December 31?

    A. $ 198.
    B. $ 396.
    C. $1,837.
    D. $3,675.

15. In the current fiscal year, a corporation acquired a rental property from its sole shareholder. The building was transferred at its fair market value of $125,000, but was not allocated to a separate Class 1. The shareholder originally paid $150,000 for it. The property was included in Class 1 (4%) on the shareholder's tax return. The shareholder has earned rental income on the property since its acquisition in 1979. The undepreciated capital cost of the building at the time of the transfer was $120,000.

    Which one of the following amounts represents the **maximum** allowable capital cost allowance that the corporation may claim for this building in the current fiscal year?

    A. $2,400.
    B. $2,500.
    C. $4,800.
    D. $5,000.

16. ABC Enterprises began operations on September 1 of the current year. It has chosen December 31 as its year end. On October 1 of the current year, the proprietorship purchased furniture and fixtures for $40,000. The maximum capital cost allowance on the furniture and fixtures for the current year ending December 31 will be:

    A. $1,088.22.
    B. $1,336.99.
    C. $4,000.00.
    D. $8,000.00.

17. Robert bought a rental property ten years ago for $320,000, with $80,000 of the purchase price allocated to the land. Over the ten years, he claimed CCA such that his UCC at the beginning of this year for the building was $196,000. Robert sold the property this year for $520,000, with $180,000 of the sale price allocated to the land. Which of the following statements is correct?

    A. Robert has recapture of $44,000.
    B. Robert has recapture of $124,000.
    C. Robert has recapture of $144,000.
    D. Robert has a capital gain of $100,000.

18. Sherry owned a rental property. She originally acquired the property for $260,000 with $200,000 of the cost attributed to the building. Over the years, Sherry has claimed CCA of $32,000, such that her UCC at the beginning of the year was $168,000. The rental property is the only asset in the class. This year, she sold the property for $214,000, with $160,000 of the sale price attributed to the building. Which of the following statements is correct?

    A. Sherry has a terminal loss of $8,000.
    B. Sherry has a capital loss of $36,000.
    C. Sherry has an allowable capital loss of $4,000.
    D. Sherry has recapture of $32,000.

19. Dresses R Us moved into their new rented premises on January 1, 2013. The term of the lease is 10 years. $8,000 of leasehold improvements were done during January 2013 with further leasehold improvements of $4,500 completed during January 2014. The maximum amount of CCA for 2014 is:

    A. $1,025
    B. $1,050
    C. $1,250
    D. $1,300

20. Fried's Factory Inc. purchased Class 29 assets for $20,000 on November 1, 2013. The company's fiscal year end is December 31. The maximum CCA deduction for 2013, 2014 and 2015 will be:

    A. $1,671 for 2013; $18,329 for 2014; $0 for 2015.
    B. $1,671 for 2013; $10,000 for 2014; $8,329 for 2015.
    C. $5,000 for 2013; $10,000 for 2014; $5,000 for 2015.
    D. $10,000 for 2013; $10,000 for 2014; $0 for 2015.

21. Curt's Consulting Company purchased a laptop computer on February 15, 2014 for $2,000. The laptop was destroyed in a fire on April 30, 2014 and Curt's Consulting received $500 in compensation from the insurance company. It was the only asset in the CCA Class as all computer equipment has been leased for the last two years. The effect on Net Income For Tax Purposes for the year ending December 31, 2014 is:

    A. $550 decrease.
    B. $412.50 decrease.
    C. $2,000 decrease.
    D. $1,500 decrease.

22. On September 1, 2014 Carla's Company purchased a new computer for $1,600 and desktop publishing software for $400. The maximum CCA deduction for 2014 is:

    A. $550
    B. $640
    C. $1,000
    D. $1,800

23. During 2014 Desiderata Design Corp. purchased a new BMW for $42,000. The car is used exclusively for business use. The maximum CCA deduction for 2014 is:

    A. $4,500
    B. $6,300
    C. $9,000
    D. $12,600

24. Several years ago, Solea Company purchased a Mercedes Benz that is used exclusively for business use. The car is in a separate Class 10.1. On January 1, 2014 the UCC balance is $17,850. On August 1, 2014 the car was sold for $17,000. For 2014 tax purposes, the company will report a:

    A. Terminal loss of $850
    B. Recapture of $850
    C. CCA deduction of $2,678
    D. CCA deduction of $2,245

25. On January 1, 2014 Jorge purchased two newly constructed rental buildings for $350,000 each. Of the total cost of $350,000 for each building, $100,000 represents the value of the land on which the building is situated. One building contains four suites and is rented to students. The other building is rented to a florist business. Net rental revenue (before CCA) for 2014 is $30,000. The maximum CCA deduction for 2014 is:

    A. $10,000
    B. $12,500
    C. $15,000
    D. $20,000

26. CCC Construction Company purchased three new tools during 2014 as follows:

January 1	$600
March 15	$350
April 30	$470

    The maximum CCA deduction for 2014 is:

    A. $142
    B. $470
    C. $710
    D. $880

27. Amazine Inc. purchased Class 8 furniture for $4,000 in 2013. In 2015, this furniture was sold for proceeds of $1,000. The UCC balance in Class 8 was $10,300 at the beginning of 2015 and no Class 8 assets were purchased during the year. What is the UCC of this class at the end of 2015?

   A. $1,860
   B. $7,440
   C. $9,300
   D. $8,240

28. Which of the following statements regarding recapture is correct?

   A. Recapture occurs when there is a negative UCC balance in a class, even if there are assets remaining in the class.
   B. Recapture is deductible in the calculation of business income.
   C. Recapture occurs when there is a positive UCC balance in a class and there are no assets in the class.
   D. Recapture occurs when there is a positive UCC balance in a class, even if there are assets remaining in the class.

29. Which of the following assets is **NOT** eligible for capital cost allowance in the current year?

   A. A delivery truck is purchased in December of the current year. The truck is not paid for until January of the following year.
   B. An employee owns and uses a truck for employment duties during December. His pay for December is not received until January of the following year.
   C. A delivery truck is leased during the year on a 3 year lease.
   D. A delivery truck is purchased during the year on a 3 year financing term.

30. On September 1, 2014, Lerner Ltd, purchased a franchise for $75,000. The franchise has a limited life of 10 years. Lerner Ltd. has a September 30 year end. The maximum tax deduction related to the franchise for the year ending September 30, 2014 is:

   A. $616
   B. $3,750
   C. $3,938
   D. $7,500

31. Wolfe Ltd. has a December 31 year end. It purchased a Class 10.1 automobile four years ago for $38,000. On January 1, 2014, the undepreciated capital cost for this Class 10.1 was $12,900. During 2014, it was sold for $10,000. What is the effect on Net Income For Tax Purposes of this sale?

   A. No effect
   B. Terminal loss of $2,900.
   C. Capital loss of $2,900.
   D. CCA deduction of $1,935.

32. Nestor Nerd paid $4,000 to purchase various computer applications software for his sole proprietorship, Nerd01 on April 1 of the current year. Nerd01 has a December 31 year end and has been operating for 3 years. What is the maximum tax deduction that Nerd01 can claim on the software for the current year?

   A. $1,100
   B. $1,500
   C. $2,000
   D. $4,000

CEC Questions

33. Fred opened his MacDingle Restaurant franchise on November 1, 2014. He paid $50,000 for the franchise rights and can use them for an unlimited number of years. The restaurant's fiscal year end is December 31. The maximum CEC deduction was taken for 2014. The CEC balance on January 1, 2015 is:

    A. $34,875
    B. $37,061
    C. $47,375
    D. $49,561

34. On January 1, 2013 Forest Corp. purchased a patent for $20,000. The patent has an unlimited life and it is the only eligible capital expenditure. The maximum CEC deduction was taken for 2013. On January 1, 2014 the patent is sold for $22,000. The ITA14(1.01) election to treat the disposition separately is not taken. The resulting increase in 2014 taxable income is:

    A. $1,000
    B. $1,275
    C. $2,050
    D. $2,550

35. Fish Magazine bought a customer list during 2012 for $10,000. This was their only eligible capital expenditure. On January 1, 2014 the CEC balance was $6,487. On June 30, 2014 Fish Magazine sold the customer list for $6,000. Their maximum CEC deduction for 2014 is:

    A. $34
    B. $139
    C. $487
    D. $0. There is no CEC deduction because there are no assets left.

36. Indicate which of the following could not be an eligible capital expenditure.

    A. Cost of fines and penalties.
    B. Cost of government rights with an unlimited life.
    C. Appraisal costs associated with capital costs.]
    D. Costs of incorporating a new company.
    E. Cost of customer lists.

37. Lerner Ltd. purchased an unlimited life franchise at a cost of $200,000 during the current year. The maximum tax deduction related to the franchise for the current year is:

    A. $5,250
    B. $20,000
    C. $10,500
    D. $14,000

TIF PROBLEM FIVE - 4
CCA - Exam Exercises

Exam Exercise Subject Listing For Chapter 5

Number	Subject
1	CCA Error
2	CCA Error
3	Class 10 And Half-Year Rule
4	Class 8 And Half-Year Rule
5	Class 14 - No Half-Year Rule
6	Short Fiscal Periods
7	Short Fiscal Periods
8	CCA And Tax Planning
9	CCA And Tax Planning
10	Capital Gains On Depreciable Assets
11	Recapture Of CCA
12	Recapture Of CCA
13	Terminal Loss
14	Terminal Loss
15	Separate Class Election
16	Separate Class Election
17	CEC With Disposition
18	CEC With Disposition
19	Cumulative Eligible Capital Election

Exam Exercise Five - 1 (CCA Error)
During 2014, your company acquired a depreciable asset for $437,000 and your accountant included this asset in Class 1 at the end of the year (it was not allocated to a separate Class 1). Early in 2015, you discover that the asset should have been allocated to Class 8. What was the impact of this error on your 2014 deductions from business income?

Exam Exercise Five - 2 (CCA/CEC Error)
During 2014, the Lardly Company spent $675,000 to acquire a government license with an unlimited life. The Company's accountant, because of his limited experience with assets of this type, allocated this cost to Class 8. This error was discovered in early 2015. What is the impact of this error on the Company's 2014 deductions from business income?

Exam Exercise Five - 3 (Class 10 And Half-Year Rule)
Lambda Ventures, an unincorporated business with a December 31 year end, has a Class 10 UCC balance on January 1, 2014 of $453,000. During 2014, it acquires additional Class 10 assets at a cost of $63,200. Also during 2014, it deducts $36,700 from the Class 10 UCC for dispositions. Determine the maximum Class 10 CCA for 2014 and the January 1, 2015 UCC balance.

Exam Exercise Five - 4 (Class 8 And Half-Year Rule)
Baron Ltd., a Company with a December 31 year end, has a Class 8 UCC balance on January 1, 2014 of $128,500. During 2014, it acquires additional Class 8 assets at a cost of $12,400. Also during 2014, the Company sells assets with a capital cost of $9,600 for proceeds of $10,200. Determine the maximum Class 8 CCA for 2014 and the January 1, 2015 UCC balance.

Exam Exercise Five - 5 (Class 14 - No Half Year Rule)
Baril Ltd. has a December 31 year end. On July 1, 2014, the Company pays $286,000 to enter into a franchise agreement. The contract is for a period of 5 years. Determine the maximum CCA for 2014, as well as the January 1, 2015 UCC balance.

Exam Exercise Five - 6 (Short Fiscal Periods)
Fielding Inc. is incorporated on August 1, 2014. On September 15, 2014, the Company acquires $150,000 in Class 10 assets. The Company has a December 31 year end and no other depreciable assets are acquired before December 31, 2014. Determine the maximum CCA for the year ending December 31, 2014.

Exam Exercise Five - 7 (Short Fiscal Periods)
Murray's Antiques is an unincorporated business which begins operations on May 1, 2014 and rents a store on that day. On June 1, 2014, Murray acquired Class 8 assets for $92,400. The business will have a taxation year which ends on December 31. No other depreciable assets are acquired prior to December 31, 2014. Determine the maximum CCA for the year ending December 31, 2014.

Exam Exercise Five - 8 (CCA And Tax Planning)

Pointer Ltd. has determined that, for the current year, it has Taxable Income before the deduction of CCA of $40,000. It is the policy of the Company to limit CCA deductions to an amount that would reduce Taxable Income to nil. At the end of the year, before the deduction of CCA, the following UCC balances are present:

Class 1 (Buildings Acquired In 2005)	$475,000
Class 8	95,000
Class 10	102,000
Class 10.1	26,000

There have been no additions to or dispositions from these classes during the year. Which class(es) should be charged for the $40,000 of CCA that will be required to reduce Taxable Income to nil? Explain your conclusion.

Exam Exercise Five - 9 (CCA And Tax Planning)

Sharma Inc. has determined that, for the current year, it has Taxable Income before the deduction of CCA of $14,000. At the end of the year, before the deduction of CCA, the following UCC balances are present:

Class 1 (Buildings Acquired In 2006)	$213,000
Class 8	16,000
Class 10	42,000

There have been no additions to or dispositions from these classes during the year.

It is the policy of the Company to limit CCA deductions to an amount that would reduce Taxable Income to nil. Given this policy, which class(es) should be charged for the $14,000 of CCA that will be required to reduce Taxable Income to nil? Explain your conclusion.

Exam Exercise Five - 10 (Capital Gains On Depreciable Assets)

Barber Ltd. has a Class 10 balance of $423,000. During the current year, an asset which cost $42,000 is sold for $51,000. There are no other dispositions during the year and there are over 50 assets left in Class 10. What are the tax consequences of this disposition?

Exam Exercise Five - 11 (Recapture)

At the beginning of 2014, Marquee Inc. has two assets in Class 10. The balance in this class is $7,423. The cost of each asset in the class was $7,500. On June 30, 2014, one of the assets is sold for $7,950. There are no other additions or dispositions prior to the Company's December 31, 2014 year end. What is the effect of the disposition on the Company's 2014 net business income? In addition, determine the January 1, 2015 UCC balance.

Exam Exercise Five - 12 (Recapture)

On January 1, 2014, Bard Ltd. has a balance in its Class 8 of $32,400. The only transaction involving Class 8 assets during 2014 was a disposition on July 12 of a group of Class 8 assets that had cost $62,300. The proceeds of disposition for these assets was $41,800. The Company's taxation year ends on December 31. What is the effect of the disposition on the Company's 2014 net business income? In addition, determine the January 1, 2015 UCC balance.

Exam Exercise Five - 13 (Terminal Loss)
At the beginning of 2014, Quest Inc. has two assets in Class 29. The cost of each asset was $72,000 and the Class 29 UCC balance was $56,472. On June 30, 2014, both of these assets are sold for a total of $41,500. There are no other additions or dispositions prior to the Company's December 31, 2014 year end. What is the effect of the disposition on the Company's 2014 net business income? In addition, determine the January 1, 2015 UCC balance.

Exam Exercise Five - 14 (Terminal Loss)
Farine Ltd. has a taxation year which ends on December 31. On January 1, 2014, the Company had 10 assets left in Class 10. The January 1, 2014 balance in this Class was $83,400. The capital cost of these 10 assets was $110,000. Subsequent transactions during the year are as follows:

- On May 1, 2014, all of the original Class 10 assets are sold for $92,400.
- On June 1, 2014, 10 new assets are acquired at a cost of $105,000.
- On December 1, 2014, the 10 new assets are sold for $65,000.

On December 31, 2014, no assets remain in Class 10. What is the effect of these transactions on the Company's 2014 net business income? In addition, determine the January 1, 2015 UCC balance.

Exam Exercise Five - 15 (Separate Class Election)
In January, 2014, Multilink Inc. acquires 5 photocopiers at a cost of $5,500 each. In December, 2014, two of these photocopiers are upgraded for newer models. The new photocopiers cost $6,000 each, and the Company receives an upgrade allowance for each old photocopier of $2,000. Indicate the amount(s) that would be deducted from 2014 business income if no election is made to put each photocopier in a separate class. Contrast this with the deduction(s) that would be available if the separate class election is used.

Exam Exercise Five - 16 (Separate Class Election)
Garick Ltd. has a December 31 year end. In February 2014, the Company acquires 3 photocopiers at a cost of $23,000 each. Because of their extremely heavy usage, they must be replaced in November, 2014. They are replaced with three new photocopies at a cost of $21,500 each. The Company received a trade in allowance of $2,500 for each of the replaced machines. Indicate the amount(s) that would be deducted from 2014 business income if no election is made to put each photocopier in a separate class. Contrast this with the deduction(s) that would be available if the separate class election is used.

Exam Exercise Five - 17 (CEC With Disposition)
During 2012, Korngold Inc. purchases another business and pays $123,000 for its goodwill. Prior to this acquisition, the cumulative eligible capital balance of Korngold Inc. is nil. There are no additions to this balance in 2013 or 2014. On December 1, 2014, the business acquired in 2012 was sold, and the sale price included a payment for goodwill of $118,200. Korngold Inc. takes the maximum deduction for cumulative eligible capital in both 2012 and 2013. What amount, if any, will be included in the Company's 2014 income as a result of this sale?

Exam Exercise Five - 18 (CEC With Disposition)

Exxor Ltd. has a December 31 year end. On December 1, 2012, it acquired an unlimited life franchise at a cost of $48,000. The balance in the Company's cumulative eligible capital account on January 1, 2012 was nil. There were no additions to the Company's cumulative eligible capital account during either 2013 or 2014. On May 1, 2014, the unlimited life franchise that was acquired in 2012 is sold for $84,000. It is the policy of the Company to take the maximum deduction for cumulative eligible capital in each year. What amount, if any, will be included in the Company's 2014 income as a result of this sale?

Exam Exercise Five - 19 (CEC Election)

On January 1, 2013, Elector Inc. has no CEC balance. During the taxation year ending December 31, 2013, the Company makes the following eligible capital expenditures:

Cost Of Reorganization	$146,000
Goodwill	297,000
Unlimited Life Franchise	86,000
Total	$529,000

During the 2013 taxation year, the Company deducts maximum CEC. In July, 2014, the unlimited life franchise is sold for $124,000. Compare the tax consequences associated with the sale of the franchise:

- Assuming an election is made under ITA 14(1.01) to treat the disposition of the unlimited life franchise separately.
- Assuming no election is made.

TIF PROBLEM FIVE - 5A
CCA - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms were listed at the end of Chapter 5, "Capital Cost Allowances And Cumulative Eligible Capital".

A. Terminal Loss
B. Cumulative Eligible Capital
C. Depreciable Capital Property
D. Half-Year Rules
E. Non-Depreciable Capital Property
F. Recapture Of CCA
G. Separate Class Rules
H. Undepreciated Capital Cost

The following list contains ten potential definitions for the preceding key terms.

1. An inclusion in business and property income that arises when deductions from a CCA class, engendered by disposals, leave a negative balance in that class at the end of the taxation year.

2. Rules that require certain types of assets that would, in the absence of these special rules, be included in a single Class, be allocated to a separate balance for that Class.

3. A deduction in the calculation of business and property income which arises when the last asset in a CCA Class is retired and a positive balance is left in the Class.

4. The amortized balance of eligible capital expenditures.

5. A group of rules which require, for most CCA Classes, the subtraction of one-half of the year's net additions from the Class, prior to calculating the CCA for the year.

6. An amount expended to acquire an intangible asset that is not eligible for either write-off through CCA deductions or as a deduction in the period in which it is incurred.

7. Capital property that is not subject to depreciation or amortization.

8. The capital cost of a depreciable asset class, less the cumulative CCA that has been taken to date.

9. Capital property that is subject to depreciation or amortization.

10. A deduction in the determination of business or property income based on the capital cost of capital assets.

11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM FIVE - 5B
CCA - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms were listed at the end of Chapter 5, "Capital Cost Allowances And Cumulative Eligible Capital".

A. Terminal Loss
B. Cumulative Eligible Capital
C. Depreciable Capital Property
D. Half-Year Rules
E. Non-Depreciable Capital Property
F. Recapture Of CCA
G. Separate Class Rules
H. Undepreciated Capital Cost

The following list contains 14 potential definitions for the preceding key terms.

1. An inclusion in business and property income that arises when deductions from a CCA class, engendered by disposals, leave a negative balance in that class at the end of the taxation year.

2. The unamortized balance of total eligible capital expenditures.

3. Rules that require certain types of assets that would, in the absence of these special rules, be included in a single Class, be allocated to a separate balance for that Class.

4. A deduction in the calculation of business and property income which arises when the last asset in a CCA Class is retired and a positive balance is left in the Class.

5. The capital cost of a depreciable asset class, less the CCA that has been taken for the current year.

6. The amortized balance of eligible capital expenditures.

7. A group of rules which require, for most CCA Classes, the subtraction of one-half of the year's net additions from the Class, prior to calculating the CCA for the year.

8. An amount expended to acquire an intangible asset that is not eligible for either write-off through CCA deductions or as a deduction in the period in which it is incurred.

9. An addition in the calculation of business and property income which arises when the last asset in a CCA class is retired and a positive balance is left in the class.

10. Capital property that is not subject to depreciation or amortization.

11. The capital cost of a depreciable asset class, less the cumulative CCA that has been taken to date.

12. Capital property that is subject to depreciation or amortization.

13. An inclusion in business and property income that arises when a depreciable asset is sold for proceeds that exceed the balance in its UCC class.

14. A deduction in the determination of business or property income based on the capital cost of capital assets.

15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM FIVE - 6
CCA Calculations

Shawarma Palace Ltd. was incorporated on January 1, 2012. In addition to operating a luxury restaurant featuring the cuisine of Lebanon, the Company also intends to offer delivery of its famous shawarmas. The Company will have a December 31 year end and plans to deduct the maximum CCA each year.

On February 15, 2012, the Company acquires a new building for its operations at a cost of $750,000. Of this total, $500,000 is allocated to the building and $250,000 to the land. The building is being used 100 percent for non-residential purposes of which about 25 percent is classified as manufacturing and processing (the preparation of food and drinks). It is allocated to a separate Class 1.

Furnishings for the building are acquired on March 1, 2012 at a cost of $225,000.

Also on March 1, 2012, the Company acquires 10 vehicles to be used in its delivery operations. The cost of these vehicles is $27,000 each for a total of $270,000.

During 2013, the Company trades in 4 of its old vehicles for more fuel efficient vehicles. The replacement vehicles cost $29,000 per vehicle. The company receives a trade-in allowance of $21,000 for each old vehicle. Also during this year, the Company acquires a luxury vehicle to be used by the Company's CEO. The cost of this vehicle is $89,000.

At the end of the 2014 taxation year, mounting losses force the Company to discontinue its operations. The assets are sold as follows:

- The building is sold for its original cost of $750,000, with $250,000 of this amount being attributed to the land.
- The furniture is sold for $150,000.
- The 6 remaining vehicles that were purchased in 2012 are sold for $72,000. The 4 vehicles that were acquired in 2013 are sold for $100,000.
- The luxury vehicle is sold for $45,000.

Required: Determine the maximum CCA that can be taken in each of the years 2012 through 2014. In your calculations, include and identify the January 1, 2013, January 1, 2014, and January 1, 2015 UCC balances.

In addition, indicate any tax effects resulting from the 2013 and 2014 dispositions.

Ignore GST/HST/PST considerations.

TIF PROBLEM FIVE - 7
CCA Calculations

All Night Service Ltd. was incorporated on April 1, 2012 to supply computer service 24 hours per day. At the time of incorporation, the Company establishes December 31 as its year end for both tax and accounting purposes.

On April 1, 2012, the Company acquired a new building to be used as an office and communications centre at a cost of $250,000. This total cost is allocated $180,000 to the building and $70,000 to the land. As the building is being used 100 percent for non-residential purposes, it is allocated to a separate Class 1. Also on this date, the Company purchased six cars to be used by the service technicians at a cost of $25,000 per vehicle.

On May 1, 2012, the Company purchased a variety of computer repair and maintenance equipment at a cost of $48,000. The Company owns no computers as it leases all of its computer hardware and software.

During 2013, the Company trades in three of its old cars on three new minivans. The list price of the new minivans is $24,000 per vehicle, and the Company receives a trade-in allowance towards this list price of $14,000 per old vehicle.

On September 20, 2014, a convertible is acquired at a cost of $98,000 for use by the president of the Company. In addition, several unusual events occur during 2014. They are as follows:

- Equipment that had a value of $12,000 was stolen by one of the service technicians.
- One of the original six cars was involved in a severe accident, resulting in repair costs of $8,270. Because the Company's insurance has a deductibility clause, the insurance proceeds covered only $7,770 of these repair costs.
- Because he had never received a speeding ticket (despite numerous violations) while driving the car allocated to him, a departing service technician offers the Company $27,000 for one of its original six cars. The Company accepts the offer.

Required:

A. Determine the maximum CCA that can be taken in each of the years 2012 through 2014. In your calculations, include and identify the January 1, 2013, January 1, 2014, and January 1, 2015 UCC balances. Ignore GST/HST/PST considerations.

B. Explain the tax effects of the unusual events that occurred during 2014.

TIF PROBLEM FIVE - 8
CCA, Recapture, And Terminal Losses

On January 1, 2014, the beginning of its taxation year, Bard Ltd. has the following information on depreciable assets in its records:

Type Of Asset	Undepreciated Capital Cost	Original Capital Cost
Class 8 Furniture	$ 24,000	$147,000
Class 1 Buildings (Acquired In 2005)	562,000	846,000
Class 10 Automobiles	220,000	315,000

During the 2014 taxation year, the following transactions occur:

Sale Of Furniture Furniture with an original cost of $52,000 was sold for $36,000. There are still assets in Class 8 at the end of the year.

Purchase And Sale Of Buildings A new building was acquired on February 1, 2014 at a cost of $325,000. Of this total, $75,000 was the estimated value of the land on which the building was situated. The building will be used 100 percent for office space and is placed in a separate Class 1.

Also during the year, a building (including the land) with an original cost of $335,000 was sold for $352,000. Of the $352,000 received, $200,000 is for the land on which the building is situated. The adjusted cost base of the land was equal to the $200,000 proceeds of disposition.

Sale Of Automobiles An extensive analysis of capital and operating costs indicated that the Company would be better off leasing automobiles, rather than continuing to purchase and retain ownership of these assets. As a consequence, all of the Company's automobiles were sold on December 28, 2014 for $185,000. The leased vehicles were delivered on January 2, 2015.

Required: For the taxation year ending December 31, 2014 calculate the maximum CCA that can be deducted by Bard Ltd. for each CCA class. In addition, calculate the January 1, 2015 UCC balance for each class. As part of your answer, you should indicate any other tax consequences that would result from the described transactions.

TIF PROBLEM FIVE - 9
CCA And Tax Planning

For its taxation year ending December 31, 2014, Northcote Inc. has determined that its Net Income For Tax Purposes, before any deduction for CCA amounts, is equal to $328,000. The Company does not have any Division C deductions, so whatever amount is determined as Net Income For Tax Purposes will also be the amount of Taxable Income for the taxation year.

On January 1, 2014, the Company has the following UCC balances:

Class 1 (Building Acquired In 2005)	$2,597,000
Class 8	718,000
Class 10	524,000

During 2014, the cost of additions to Class 10 amounted to $374,000, while the proceeds from dispositions in this class totalled $234,000. In no case did the proceeds of disposition exceed the capital cost of the assets retired and there were still assets in Class 10 on December 31, 2014.

There were no acquisitions or dispositions in either Class 1 or Class 8 during 2014.

Required:

A. Calculate the maximum CCA that could be taken by Northcote Ltd. for the taxation year ending December 31, 2014. Your answer should include the maximum that can be deducted for each CCA class.

B. As Northcote's tax advisor, indicate how much CCA you would advise the Company to take for the 2014 taxation year, and the specific classes from which it should be deducted. Provide a brief explanation of the reasons for your recommendation. In providing this advice, do not take into consideration the possibility that losses can be carried either forward or back.

TIF PROBLEM FIVE - 10
CCA, CEC And Tax Planning

For the taxation year ending December 31, 2014, Kreton Inc. has determined that its Net Income For Tax Purposes, before any deductions for CCA or CEC, amounts to $51,000. As the Company does not have any Division C deductions, Taxable Income, before any deductions for CCA or CEC, would also amount to $51,000.

On January 1, 2014, the Company has the following UCC and CEC balances:

Class 8	$220,000
Class 10	152,000
Class 12	56,000
Class 13	272,000
CEC	210,000

During 2014, the cost of additions to Class 8 amount to $42,000, while the proceeds from dispositions in this class totaled $16,000. In no case did the proceeds of disposition exceed the capital cost of the assets retired, and there were still assets in the class as of December 31, 2014.

All of the Class 12 assets were acquired in 2013.

The leasehold improvements were made in 2012 at a cost of $320,000.

There were no 2014 acquisitions or dispositions in Classes 10, 12, or 13. There were no eligible capital expenditures acquired during 2014 and no dispositions of cumulative eligible capital.

In previous years, the Company has always deducted the maximum amount of CCA and CEC.

Required:

A. Calculate the maximum CCA and CEC write-off that could be taken by Kreton Inc. for the taxation year ending December 31, 2014.

B. As Kreton's tax advisor, indicate how much CCA and CEC you would advise them to take for the 2014 taxation year and the specific classes from which it should be deducted. Provide a brief explanation of the reason for your recommendation. In providing this advice, do not take into consideration the possibility that losses can be carried either back or forward.

TIF PROBLEM FIVE - 11
Depreciable Asset Retirements And CEC Sale

Vance Enterprises closes its books on December 31 of each year. On January 1, 2014, the following information on depreciable assets was contained in its records:

Type Of Asset	Undepreciated Capital Cost	Original Capital Cost	Date Of Acquisition
Equipment	$ 2,100	$ 26,000	January, 2007
Buildings	205,000	250,000	January, 2002
Automobile	10,200	20,500	June, 2010

There was no balance in the Cumulative Eligible Capital account at this time.

During the 2014 fiscal year, the following transactions occur:

Sale Of Equipment - As the result of an extensive analysis, it is decided that it would be better to sell the existing equipment and to replace it with improved equipment that will be leased. The equipment is sold for $21,000.

Sale Of Buildings - A similar decision is made with respect to the buildings. They are sold for $342,000 and replaced with leased premises. Of the $342,000 received, $80,000 is for the land on which the buildings are situated. The adjusted cost base of the land was equal to the $80,000 proceeds of disposition. The lease term is for four years with no options for renewal. However, a total of $39,000 is spent on leasehold improvements to make the buildings more suitable for the business.

Sale Of Automobile - The automobile is used by Ms. Vance for both business and personal matters. It is sold during the current year and replaced with a leased vehicle. The sale proceeds are $8,900.

Sale Of Goodwill - In order to further streamline her operations, Ms. Vance sells off a portion of her operations to another individual. No depreciable or capital assets were disposed of. However, an amount of $110,000 was received for the goodwill of this portion of the business.

Required: For the taxation year ending December 31, 2014 calculate the maximum CCA that can be deducted by Vance Enterprises for each CCA class. In addition, calculate the January 1, 2015 UCC balances and indicate any other tax consequences that would result from the described transactions.

TIF PROBLEM FIVE - 12
Cumulative Eligible Capital

The retail division of Moxy Distributors Inc. (MDI) was established through the acquisition of three unincorporated operations. These acquisitions were made during the taxation year ending December 31, 2012, with the following amounts being paid for goodwill:

Operation	Goodwill Acquired
A	$150,000
B	225,000
C	180,000

Operation A proved to be unprofitable and was sold during the taxation year ending December 31, 2013. The sales proceeds included a payment for goodwill of $82,000.

As MDI continued to have difficulties with lack of profits in its retail division, Operations B and C were sold during the year ending December 31, 2014. The proceeds from the sale of Operation B included a $210,000 payment for goodwill, while the proceeds from the sale of Operation C included a payment for goodwill of $283,000.

On January 1, 2012, MDI had a cumulative eligible capital balance of nil. MDI made the maximum CEC deduction in both 2012 and 2013.

Required: Determine the tax consequences resulting from the preceding transactions for each of the years 2012 through 2014.

TIF PROBLEM FIVE - 13
Cumulative Eligible Capital With Disposal Election

On January 1, 2012, Altec Ltd. has no balance in its CEC account. The Company has a taxation year that ends on December 31.

During the 2012 taxation year, Altec acquires the assets of another business at a cost of $4,250,000. The identifiable assets of this business have a fair value of $4,000,000, indicating that Altec has acquired $250,000 of goodwill. In addition, the identifiable assets of Altec included an unlimited life franchise with a fair value of $175,000.

The unlimited life franchise proved to be incompatible with the Altec's other operations and, during the 2013 taxation year, it is sold for proceeds of $225,000.

During the 2014 taxation year, Altec sells one of its business divisions. The consideration received included a $350,000 payment for the division's goodwill.

It is the policy of Altec Ltd. to deduct maximum amounts of CCA and CEC.

Required:

A. What is the maximum deduction that Altec can claim for amortization of cumulative eligible capital in 2012, 2013, and 2014? Assume that no elections are made with respect to the CEC dispositions in any of these years.

B. Calculate the amounts that will be included in Altec's 2013 and 2014 Net Income For Tax Purposes as a result of the CEC dispositions. Assume that no elections are made with respect to the CEC dispositions.

C. How would the results in Parts A and B differ if Altec makes all possible CEC disposal elections under ITA 14(1.01)? Explain why a taxpayer might want to make such elections.

D. Compare the inclusions in Net Income For Tax Purposes that occur without the ITA 14(1.01) election with the inclusions that occur with the ITA 14(1.01) election.

Chapter Six Test Item File Problems

TIF PROBLEM SIX - 1
Business Income - Essay Questions

1. What are the major types of income that make up Net Income For Tax Purposes?

2. Assets can be acquired for use in a business, for resale by a business, or as investments. For each of these classifications, indicate (1) how the income earned will be classified, and (2) how the income resulting from the sale of the asset would be classified.

3. For tax purposes, the sale of inventories is treated differently than the sale of non-depreciable capital assets. Briefly describe the different treatments given to these two types of sales.

4. While there are many similarities between business income (for tax purposes) and accounting income as determined under GAAP, there are a number of differences. Indicate four such differences.

5. While business income and property income are covered in the same subdivision of the *Income Tax Act*, there are differences in the tax treatment of these two types of income. Briefly describe two of these differences.

6. Why is the distinction between capital gains and business income important?

7. List four criteria that can be used in distinguishing between business income and capital gains. Explanations are not required.

8. Both GAAP and income tax legislation require the allocation of the cost of depreciable assets to income over several years. Briefly describe how the accounting procedures used for this process differ from those required for income tax purposes.

9. What is a reserve? Explain briefly the reserve system that is used in determining net business income.

10. List three reserves that can be deducted in the determination of net business income.

11. Compare the procedures used to determine bad debt expense under GAAP, with those used to determine the annual deduction for bad debts under the *Income Tax Act*.

12. The ability to use a reserve for unpaid amounts gives results that are similar to those that would result from using the cash basis of revenue recognition. However, there are constraints on the use of this reserve that prevent achieving results that are identical to those that result from using cash based revenue recognition. Describe these constraints.

13. Section 18 of the *Income Tax Act* lists a number of general limitations on the deductions that can be made in the determination of net business income. List four of these limitations.

14. Describe the tax rules that apply to interest and property taxes on land.

15. Both employees and self-employed individuals can deduct the costs associated with maintaining a home office. Compare the items that can be deducted by an employee with those that can be deducted by a self-employed individual.

16. Describe the restrictions that the *Income Tax Act* places on the deductibility of costs incurred to place advertising in foreign media.

17. ITA 67 indicates that no deduction is available for an outlay or expense, except to the extent that the outlay or expense was reasonable in the circumstances. Provide an example of an outlay or expense that would be disallowed by this provision.

18. List and briefly describe three of the exceptions to the rule that only 50 percent of the cost of business meals and entertainment can be deducted in the determination of Net Income For Tax Purposes.

19. The *Income Tax Act* limits the deductions associated with the ownership of company cars. Describe these limitations.

20. Describe the alternative methods of inventory valuation that can be used for tax purposes.

21. Compare the accounting treatment for estimated warranty costs with the required treatment for income tax purposes.

22. When an enterprise issues debt obligations, they may be sold at a discount from their maturity value. For accounting purposes, this discount is amortized to income as an addition to interest expense. What is the required treatment of such discount amounts for income tax purposes?

23. In determining whether an individual can deduct farm losses against other sources of income, taxation authorities divide farmers into various categories. Describe these categories and indicate how the farm losses for each category are treated in the year they occur.

24. Explain briefly how the billed basis of determining professional income differs from the normal accrual approach to determining business income.

25. In situations where a business ceases to operate and its assets are being sold, it is important that the parties to the transaction make the ITA 22 election with respect to the accounts receivable that are being transferred. Explain this importance.

TIF PROBLEM SIX - 2
Business Income - True Or False

1. The tax rules for determining business income are identical to those used for determining property income.

True or False?

2. When property acquired for personal use is sold for more than its cost, there will be a taxable capital gain.

True or False?

3. The deduction of CCA cannot be used to create or increase a net business loss.

True or False?

4. If an asset has been held for a considerable period of time, any gain on its disposition will be treated as business income.

True or False?

5. Differences between business income for tax purposes and business income as determined under GAAP can be either permanent or temporary.

True or False?

6. When a business makes payments that are unreasonable in the circumstances, they cannot be deducted in the calculation of either accounting Net Income or net business income.

True or False?

7. If a reserve is deducted for accounting purposes, it can also be deducted for tax purposes.

True or False?

8. The amounts charged to income for bad debts on accounts receivable will generally be the same for both tax and accounting purposes.

True or False?

9. A self-employed individual cannot deduct CCA on a home office in his principal residence unless it is used exclusively for income producing purposes.

True or False?

10. Landscaping costs can be deducted in the determination of net business income, even if they involve items that would normally be considered capital assets.

True or False?

11. For the hobby farmer, deductible farming losses for a year are restricted to $2,500, plus one-half of the next $30,000.

True or False?

12. For tax purposes, inventories can be valued at aggregate market, which can mean replacement cost or net realizable value.

True or False?

13. When a business ceases to operate and its inventories are disposed of, a gain on the inventories will be treated as a capital gain unless an election is made by the selling taxpayer.

True or False?

14. When a business ceases to operate and its accounts receivable are disposed of with the other business assets, any loss on the receivables will be treated as a capital loss unless a joint election is made by the purchaser and seller.

True or False?

TIF PROBLEM SIX - 3
Business Income - Multiple Choice

Business Vs. Property Vs. Capital Gains

1. Which of the following would be considered by the CRA to be business income rather than property income or capital gains?

   A. Profit from the sale of assets that were used to produce business income
   B. Profit from the sale of assets that were used to produce property income
   C. Profit from the sale of inventory items
   D. Both A and C

2. Fung Wo purchased vacant land on a remote island off the coast of British Columbia on January 1, 2011 for $50,000. She intended to re-sell it for a profit the next year but due to an oil spill, property values dropped. She was finally able to sell the vacant land for $45,000 on December 31, 2014. In the meantime, she paid property taxes of $500 each year. For 2014 tax purposes, Fung Wo has:

   A. An allowable capital loss of $2,500
   B. An allowable capital loss of $3,500
   C. A net business loss of $5,000
   D. A net business loss of $7,000

3. Which of the following statements is NOT correct?

   A. In determining property income, the deduction of CCA cannot be used to create or increase a loss.
   B. Both business and property income are subject to the income attribution rules.
   C. Property income is not included in the earned income calculation that limits RRSP deductions.
   D. Travel expenses cannot be deducted against property income.

4. In determining whether a gain resulting from a disposition of an asset is capital or business, various criteria have been used. Which of the following considerations would be least likely to affect the decision?

   A. The length of time the asset is held.
   B. Whether the transaction is related to the taxpayer's business.
   C. The number and frequency of similar asset dispositions.
   D. Whether the taxpayer knew the investment could be sold for a profit if the investment return was inadequate.
   E. Whether the transaction resulted in a gain or loss.

5. Jerry collects baseball cards as a hobby. During the current year, he acquired twenty-five different items at a total cost of $29,550. During the year, he sold each of those items and received total proceeds of $55,900. What is the effect of these transactions on Jerry's Net Income For Tax Purposes?

   A. Jerry has a taxable capital gain of $26,350.
   B. Jerry has a taxable capital gain of 13,175.
   C. Jerry has business income of $26,350.
   D. Because the collection was a hobby, the gain does not have to be included in Net Income For Tax Purposes.

6. Which of the following is correct?

    A. In determining whether a disposition is capital or business in nature, the number and frequency of transactions is taken into account.
    B. A taxpayer must include 50 percent of both business income and capital gains in their Taxable Income.
    C. Amounts collected under an insurance policy are considered capital gains.
    D. The sale of a depreciable asset can result in a capital gain or capital loss.

7. Marvin purchased a large piece of land 5 years ago when a highway bypass was rumoured to have an exit being built nearby. He had planned to subdivide the land into building lots within 5 years, but has done no work on the land yet. He has rented the land each summer over the Labour Day weekend for $500. A local non-profit organization holds a huge neighbourhood garage sale on that weekend. A heart attack has convinced Marvin to slow down. As a result, he has advertised the land for sale online and an interested buyer is offering to purchase it at a price that would give him a large gain. That gain would be taxed as:

    A. property income.
    B. business income.
    C. a capital gain.
    D. a taxable capital gain.

Inclusions And Reserves

8. A business may sometimes receive amounts of cash for goods or services to be delivered in a future taxation year. Under the requirements of the *Income Tax Act*, these amounts should be:

    A. included in income when the goods or services are delivered.
    B. included in income no later than 180 days after the end of the taxation year.
    C. allocated to income over the period between the time the cash is received and the time the goods and services are delivered.
    D. included in income when the cash is received.

9. Ginger has her own accounting practice and her fiscal year end is December 31. Her regular billing rate is $100 per hour. One of her clients has a November 30 year end. Work is done on the file during December and January and the client is billed on February 1 of each year. Billable hours for this client are as follows:

	Dec. 2013	Jan. 2014	Dec. 2014	Jan. 2015
For Nov. 30, 2013 year end	25	35		
For Nov. 30, 2014 year end			32	30

    Ginger's 2014 taxable income for this particular client is:

    A. $6,200 on the accrual basis or $5,500 on the billed basis of recognition
    B. $6,200 on the accrual basis or $6,000 on the billed basis of recognition
    C. $6,700 on the accrual basis or $6,000 on the billed basis of recognition
    D. $6,700 on the accrual basis and the billed basis of recognition

10. Selected items from Mini Move Inc.'s December 31 audited financial statements are as follows:

	2014	2013
Income Statement:		
Revenue	$200,000	$180,000
Income before taxes	$ 30,000	$ 25,000
Net Income	$ 24,000	$ 20,000
Balance Sheet:		
Accounts Receivable	$12,000	$11,000
Accounts Payable	$ 7,000	$ 4,000
Deferred Revenue	$ 500	$ 200

Mini Move's 2014 Net Income for Tax Purposes is:

A. $24,300
B. $30,300
C. $31,000
D. $31,300

11. In 2013, Marg's Antiques deducted a reserve for doubtful debts of $12,000. During 2014, she had actual write-offs of $12,500 and recoveries of previously written off debts of $1,500. At the end of 2014, she deducted a reserve for doubtful debts of $14,000. Marg's 2014 net deduction for bad debts would be:

A. $12,500.
B. $11,000.
C. $13,000.
D. $14,000.

12. Ed's Appliances Ltd (Ed's) sold a furnace to a customer in October, 2014 for $10,000. The mark-up on the $5,000 cost of the furnace was 100 percent. The customer paid 20 percent of the purchase price on delivery, with the remainder of the purchase price due in March 2015. What is the maximum reserve Ed's can claim for tax purposes for its November 30, 2014 year end?

A. $2,000.
B. $4,000.
C. $6,000.
D. $8,000.
E. None of the above.

Limitations On Deductions

13. For income tax purposes, X Co. can deduct life insurance premiums paid providing:

A. The life insurance policy is required as security on a loan from a financial institution.
B. The interest payable on the loan for which the life insurance is required is deductible by X Co. for tax purposes.
C. The premium paid is for insurance on the president of X Co.
D. Both A and B.
E. All of A, B, and C.

14. Maxine is the proprietor of a home based business. She paid $25,000 to her editorial assistant, $8,000 to her son as her computer technician, and $32,000 to herself as salary. How much can she deduct as a business expense on her income tax return?

A. Nil.
B. $25,000.
C. $33,000.
D. $65,000.

15. Jon Bogen operates a consulting business out of a dedicated space in his home. It is his principal place of business. With respect to the items that he can deduct, which of the following statements is correct?

A. Jon can only deduct a pro rata share of operating costs and utilities.
B. Jon can only deduct a pro rata share of operating costs, utilities, and property taxes.
C. Jon can only deduct a pro rata share of operating costs, utilities, property taxes, and mortgage interest.
D. Jon can deduct a pro rata share of operating costs, utilities, property taxes, mortgage interest and CCA.

16. Omar owns and manages an unincorporated business. During 2014, a car which he owns was driven 10,000 kilometers for business purposes and 12,000 kilometers for Omar's personal use. The total vehicle related expenses for 2014 were as follows:

Lease payments	$7,200
Insurance	1,000
Other Operating Costs	1,300

For tax purposes, there is a:

A. Business deduction of $4,318 and a taxable benefit of $0.
B. Business deduction of $5,182 and a taxable benefit of $0.
C. Business deduction of $9,500 and taxable benefit of $7,500.
D. Business deduction of $9,500 and taxable benefit of $8,040.

17. Jean Brochet uses an automobile in his unincorporated business. It cost $53,000 in 2013, with maximum CCA being deducted in that year. The purchase was financed with a bank loan of $37,000. For 2014, the interest on this loan was $4,440. The automobile is used exclusively for business purposes, with the 2014 operating costs totaling $7,500. In determining his 2014 business income, his maximum automobile related deduction will be:

A. $18,800.
B. $19,590.
C. $24,665.
D. $20,150.

18. Which of the following expenses would be denied as a deduction under the *Income Tax Act*?

A. A speeding ticket received by a truck delivering goods for resale.
B. The costs of disability related building modifications,
C. Work space in a home costs for a self-employed contractor.
D. A reserve for doubtful accounts

19. Which of the following statements regarding farming income is correct?

    A. A full time school teacher has income from his part-time farming activities. His farming income must be calculated on a cash basis.
    B. A full time school teacher recognized a $9,500 loss this year from his part-time farming activities. The maximum deduction allowed this year from the farm loss is $6,000.
    C. A full time school teacher recognized a $9,500 loss this year from his part-time farming activities. The maximum deduction allowed this year from the farm loss is $2,500.
    D. A full time school teacher has income from his part-time farming activities. His farming income must be calculated on an accrual basis.

20. Antonio Capellini is a successful self-employed accountant. He meets all of his clients in his office in the basement of his home. The office is 800 square feet and the house is 3,000 square feet. Antonio incurred the following costs during the current year:

Business liability insurance	$ 400
House insurance	880
House utilities	2,600
House repairs and maintenance	3,000
Mortgage interest	5,700
Property tax	1,600
Office supplies	760

    What is the amount of the expenses deductible from Antonio's business income?

    A. $1,160
    B. $2,888
    C. $3,675
    D. $4,835

21. Kyle purchased a large lot on a lake in anticipation of building his home there within 3 years. During the current year, Kyle paid $650 in property taxes and $2,500 of interest on the demand loan he obtained to purchase the lot. January to March he rented out the lot to a local snowmobile club for $1,500. Which of the following statements is correct?

    A. Kyle cannot deduct any of the property taxes or interest paid for the vacant lot.
    B. Kyle can deduct the $650 of property taxes paid, but none of the interest paid.
    C. Kyle can deduct the $650 of property taxes paid and $850 of the interest paid.
    D. Kyle can deduct all of the property taxes and interest paid.

Specific Deductions

22. For tax purposes, the cost of the end of period inventory can be determined in a variety of ways. Which of the following approaches cannot be used?

    A. Last-In, First-Out.
    B. First-In, First-Out.
    C. Specific Identification.
    D. Average Cost.

23. Which of the following items is not deductible in calculating net business income for the current taxation year?

   A. An $11,000 legal fee paid for services rendered in conjunction with a new issue of the company's common stock.
   B. A $125,000 management bonus paid 125 days after the end of the corporation's current taxation year.
   C. An amount of $25,000 paid for planting large maple trees in various locations on the grounds of the company's facilities.
   D. A $10,000 contribution to a company pension fund.

24. Which of the following business expenses is deductible for tax purposes?

   A. $25 late filing penalty charged by CRA.
   B. $50 speeding ticket incurred while delivering goods to a customer.
   C. $15 late payment interest charged by utility company.
   D. $20 late payment interest charged by CRA.

25. Which of the following is a deductible expense for an unincorporated business?

   A. Donation made to the United Way.
   B. Contribution made to the Federal Green Party.
   C. Estimated cost of providing warranty services in future taxation years.
   D. Reasonable salary paid to a relative.

26. Old Time Company purchased a Class 10 truck many years ago for $8,000. The truck has now become a collectors' item and was sold on August 1, 2014 for $10,000. The net book value on that date was $500 and the Class 10 UCC balance was $11,525. There are other assets left in the class. Accounting net income before tax for the year ended December 31, 2014 was $24,000. Amortization of depreciable capital assets for accounting purposes is equal to the CCA deducted for tax purposes. Net income for tax purposes is:

   A. $15,000.
   B. $15,500.
   C. $25,000.
   D. $26,000.

27. Sea Tour Company's accounting net income for 2014 is $12,200. This includes amortization expense for a boat that was purchased for $28,000 in 2013. The boat is amortized on the straight-line basis over 10 years with no estimated residual value. Minimum net income for tax purposes for 2014 is:

   A. $11,115.
   B. $11,430.
   C. $15,000.
   D. $9,960.

28. Tomas began his unincorporated business on January 1, 2014. During 2014, he received $40,000 cash in revenues and paid $33,000 for operating expenses. On December 31, 2014 one of his customers owed him $1,200 and Tomas owed one of his suppliers $2,300. In addition to the operating expenses, Tomas can also deduct one-third of his house costs since he operates his business out of the ground floor of his rented 3-storey home. Total house costs for 2014 were: rent of $19,200; insurance of $800; utilities of $2,100. Tomas' maximum work space in the home expense deduction for 2014 is:

   A. $5,900.
   B. $7,000.
   C. $7,100.
   D. $7,367.

29. Busy Company incurred the following meal costs during 2014:

Meals with Clients:		
Cost of clients' and employees' meals	$10,000	
Gratuities (tips)	1,500	$11,500
Company Christmas Party		4,100
Management Dinner Meetings		1,800
Family Picnic (Management only)		1,200
Meal allowances paid to employees during eligible business travel (100 days @ $51 per day)		5,100
Total		$23,700

The total deductible meal expense for tax purposes is:

A. $11,100
B. $11,850
C. $13,300
D. $13,900

30. Maria has her own accounting practice in Victoria, B.C. During 2014 she paid $1,650 to attend the following conventions:

- $400 for a 2 day convention on "Tax issues for the owner/manager" held at Vancouver, B.C.
- $500 for a 3 day convention on "Attracting new clients" held at Kelowna, B.C.
- $750 for a 5 day convention on "IFRS implementation" held at Whistler, B.C.

Maria's total deductible convention expense for tax purposes is:

A. $1,650
B. $1,250
C. $1,050
D. $825

31. 888 Company leased a car throughout 2014 for $950 per month, $75 of which was for insurance. There was no down payment or refundable deposit. The manufacturer's suggested list price for the car is $38,000. Other costs incurred for the vehicle during 2014 were $1,600 for gas and $420 for repairs.

The maximum tax deduction for 2014 vehicle expenses is:

A. $11,753
B. $12,653
C. $12,672
D. $13,420

32. Jon Avery starts an unincorporated business on December 1, 2014. Which of the following statements is correct with respect to Jon's taxation year end?

A. Jon must select December 31 as his taxation year end.
B. Jon must select November 30 as his taxation year end.
C. Jon can choose any date for his year end. However, if Jon chooses a non-calendar year end he will have to adjust his income by an amount referred to as "additional business income".
D. Jon can choose any date for his year end. However, if Jon chooses a non-calendar year end he will have to report income for his first two fiscal years in his 2015 tax return.

33. Widget Production Ltd. has a fiscal year end of June 30. In February 2012, the Company borrowed $750,000 to fund an expansion. The Company paid $21,000 to obtain this financing. In January 2013, the Company repaid $250,000 of the principal and in June 2014, it repaid the remaining $500,000. All repayments were made from cash flow from operations. For tax purposes, which one of the following schedule of claims represents the **most** rapid method of claiming the costs of obtaining this financing.

    A. $4,200 in each of fiscal 2012 through 2016.
    B. $4,200 in each of 2012 and 2013, and the remaining $12,600 in 2014.
    C. $4,200 in 2012, $8,400 in 2013, and $8,400 in 2014.
    D. $7,000 in 2013 and $14,000 in 2014.

34. In fiscal year 2013, ABC Ltd. acquired vacant land for $150,000. The shareholders had been advised that this land would soon be approved for commercial development, causing it to increase in value significantly, and they had hoped to sell it within the next 12 months for a large profit. The Company rented the land for the whole of 2013 to a farmer as pasture, for an annual rent of $1,000. It also paid $300 in property taxes and $4,000 in interest on funds borrowed to purchase the land. In 2013, it also incurred $800 in legal fees defending itself against a lawsuit brought by its tenant. Unfortunately for the Company, the efforts of an environmental group lobbying against the development plans were successful. ABC sold the property for $125,000 in early 2014, when it became clear that development would not be permitted.

    Calculate the Net Income (Loss) For Tax Purposes to be reported for each of 2013 and 2014 resulting from the transactions described above.

	2013	2014
A.	$0 income	$29,100 loss
B.	$200 income	$29,300 loss
C.	$800 loss	$28,300 loss
D.	$4,100 loss	$25,000 loss

35. Quality Homes Ltd. (Quality) has a December 31, 2014 year end. The controller has calculated the Company's 2014 income as $50,000. However, in arriving at this amount, the controller deducted $30,000 of salary to an employee who is the sole shareholder of the Company and $5,000 of salary to an arm's length employee. Both of these amounts were paid on June 30, 2015. Which one of the following represents Quality's 2014 Net Income For Tax Purposes?

    A. $50,000.
    B. $55,000.
    C. $80,000.
    D. $85,000.

36. Mary operates a proprietorship that generated $100,000 in income under GAAP. Included in this amount are:

    - $7,000 of amortization expense;
    - $4,000 for bad debt expense;
    - $112,000 cost of goods sold; and
    - $12,000 meals and entertainment with clients.

    Mary's maximum CCA has been calculated at $10,000 for the year. How much is Mary's business income for tax purposes?

    A. $113,000
    B. $109,000
    C. $107,000
    D. $103,000

TIF PROBLEM SIX - 4
Business Income - Exam Exercises

Exam Exercise Subject Listing For Chapter 6

Number	Subject
1	Business Vs. Property Income
2	Business Income Vs. Capital Gain
3	Business Income Vs. Capital Gain
4	Reserve For Bad Debts
5	Reserve For Bad Debts
6	Bad Debts And Undelivered Services
7	Bad Debts And Undelivered Services
8	Reserve For Unpaid Amounts
9	Reserve For Unpaid Amounts
10	Interest In Thin Capitalization
11	Interest In Thin Capitalization
12	Work Space In The Home Costs
13	Work Space In The Home Costs
14	Automobile Ownership Costs
15	Automobile Ownership Costs
16	Automobile Leasing Costs
17	Automobile Leasing Costs
18	Leases: Tax Vs. GAAP
19	Inventory Valuation
20	Additional Business Income
21	Professional Income
22	Professional Income
23	Sale Of Receivables
24	Sale Of Receivables

Exam Exercise Six - 1 (Business Vs. Property Income)

Martin Elwood has purchased the rights to a group of songs written by the Ringtones. He estimates that these songs will produce royalties of about $100,000 per year for at least 5 years. He does not have plans to acquire additional song rights. Explain whether the royalties he receives would be treated as business income or property income. In addition, indicate how any gain or loss on their disposition would be taxed.

Exam Exercise Six - 2 (Business Income Vs. Capital Gains)

During 2013, William Lemay acquired a six unit apartment building for $315,000 with the intention of operating it as a rental property. Three weeks after his purchase, he received an unexpected offer to purchase the building for $387,000. He accepts the offer. Should the $72,000 be treated as a capital gain or as business income? Justify your conclusion.

Exam Exercise Six - 3 (Business Income Vs. Capital Gains)

Several years ago, John Martin purchased a group of internet domain names at a cost of $1,000 each, hoping at some point that he could sell one or more at a later date. Until this year, none of the names have been sold. However, during this year, two of the names were sold for $25,000 each. Should the resulting gains be treated as capital gains or as business income? Justify your conclusion.

Exam Exercise Six - 4 (Bad Debts And Reserve For Doubtful Debts)

At the end of 2013, Barton's Books has ending accounts receivable of $87,500. Of this amount, it is estimated that $3,400 would prove uncollectible. A reserve for tax purposes is deducted for this amount. During 2014, $3,600 of accounts receivable are written off. At the end of 2014, accounts receivable total $103,200, with $4,100 of this amount expected to be uncollectible. By what amount will the 2014 net business income of Barton's Books be increased or decreased by the preceding information with respect to bad debts?

Exam Exercise Six - 5 (Bad Debts And Reserve For Doubtful Debts)

During 2014, Leslie's Boutique wrote off $13,000 in accounts receivable as uncollectible. At the end of this year, the accounts receivable balance was $256,400. Based on past experience, it is expected that 4 percent of these accounts will prove uncollectible. In its 2013 tax return, Leslie's Boutique had deducted a reserve for bad debts of $12,300. By what amount will the 2014 net business income of Leslie's Boutique be increased or decreased by the preceding information with respect to bad debts?

Exam Exercise Six - 6 (Reserve For Doubtful Debts And Undelivered Services)

Frank's Auto Body, an unincorporated business, keeps its records on a cash basis. During 2014, its first year of operation, the business has cash sales of $71,200. At the end of the year, an additional $22,450 of revenues was receivable. Of the amounts received, $7,100 was for services that will be delivered during 2015. Frank estimates that $650 of the end of year receivable amounts will be uncollectible. By what amount will the 2014 net business income of Frank's Auto Body be increased by the preceding information?

Exam Exercise Six - 7 (Reserve For Doubtful Debts And Undelivered Services)

Bob's Hats is an unincorporated business. During 2014, its first year of operations, the business has cash sales of $123,000. It also has account sales of $46,000, of which $22,000 remains uncollected at the end of 2014. It is estimated that $4,000 of these accounts will be uncollectible. Of the cash amounts received, $9,500 is for merchandise that will be delivered in 2015. By what amount will the 2014 net business income of Bob's Hats be increased by the preceding information?

Exam Exercise Six - 8 (Reserve For Unpaid Amounts)

During February, 2014, Jacob's Jewels sells a broach for $428,000. The cost to the business of this necklace was $212,000, resulting in a gross profit of $216,000. The $428,000 sales price is to be paid in four equal annual instalments on December 31 in each of the years 2015 through 2018. Jacob's Jewels has a December 31 year end. Indicate the amount of the reserve that can be deducted, and the net business income, for each of the years 2014 through 2018.

Exam Exercise Six - 9 (Reserve For Unpaid Amounts)

In January, 2014, Marty's Fine Pens sells a limited edition fountain pen for $125,000. The cost of the pen is $63,000. There is a down payment of 40 percent in 2014, followed by 3 annual payments of 20 percent in the years 2015, 2016, and 2017. Indicate the amount of the reserve that can be deducted and the net business income that will be included in income for each of the years 2014 through 2017.

Exam Exercise Six - 10 (Interest In Thin Capitalizations)

On January 1, 2013, a new Canadian corporation is created by issuing $9,100,000 in debt securities and $2,100,000 in common shares. The debt securities pay interest at 7 percent. The new corporation will use December 31 as its year end. At the time the corporation is formed, Mr. Phillip Roundtree, who is a resident of England, acquires $5,250,000 of the debt securities and 29 percent of the common shares. On January 1, 2014 the Retained Earnings balance of the corporation is $750,000. How much, if any, of the interest paid in 2014 on Mr. Roundtree's holding of debt securities would be disallowed under the thin capitalization rules in ITA 18(4)?

Exam Exercise Six - 11 (Interest In Thin Capitalizations)

On February 28, 2013, a new Canadian corporation is created by issuing $12,200,000 in debt securities and $2,500,000 in common shares. The debt securities pay interest at 9 percent. The corporation has elected a December 31 year end. Of the securities issued by the new corporation, one-half of the debt securities and $1,000,000 of the common shares are acquired by Nathalie Bergeron, a resident of France. As of January 1, 2014, the Retained Earnings balance of the corporation is $560,000. How much, if any, of the interest paid in 2014 on Ms. Bergeron's holding of debt securities would be disallowed under the thin capitalization rules in ITA 18(4)?

Exam Exercise Six - 12 (Work Space In The Home Costs)

During 2014, Janice Teason has the following costs:

Utility Costs For Home	$3,200
Maintenance And Repairs For Home	3,800
Property Taxes For Home	6,400
House Insurance	1,800
Interest On Mortgage	6,200
Telephone:	
Monthly Charge	480
Personal Long Distance Charges	275
Employment/Business Related Long Distance Charges	780
Office Supplies	675

Ms. Teason estimates that she uses 30 percent of the residence for employment/business related purposes. Maximum CCA on 100 percent of the house would be $15,000. Determine the maximum deduction that would be available to Ms. Teason assuming:

A. She is an employee with $80,000 in income (no commissions).
B. She is an employee with $80,000 in commission income.
C. She is self-employed and earns $80,000 in business income.

Exam Exercise Six - 13 (Work Space In The Home Costs)

During 2014, Jonathan Beasley has the following costs:

Utility Costs For Home	$2,500
Maintenance And Repairs For Home	3,100
Property Taxes For Home	5,400
House Insurance	1,300
Interest On Mortgage	4,600
Telephone:	
Monthly Charge	240
Personal Long Distance Charges	85
Separate Line To Home Office	480
Employment/Business Related Long Distance Charges	560
Office Supplies	425

Mr. Beasley estimates that he uses 18 percent of the residence for employment/business related purposes. Maximum CCA on 100 percent of the house would be $12,000. Determine the maximum deduction that would be available to Mr. Beasley assuming:

A. He is an employee with $72,000 in income (no commissions).
B. He is an employee with $72,000 in commission income.
C. He is self-employed and earns $72,000 in business income.

Exam Exercise Six - 14 (Automobile Ownership Costs)

Mr. Alex Roddle acquires an automobile to be used 100 percent of the time in his unincorporated business. This business has been in operation for several years. The purchase occurs on October 1, 2014 at a cost of $83,000. He finances $70,000 of the car purchase through his bank at an annual rate of 9 percent. Interest charges for the period October 1, 2014 through December 31, 2014 amount to $1,575. What amounts can Mr. Roddle deduct in his 2014 tax return with respect to this acquisition? Ignore GST and PST considerations.

Exam Exercise Six - 15 (Automobile Ownership Costs)

For a number of years, Ms. Alexandria Bouclair has operated an unincorporated business. Because of a growing need to travel for this business, on September 1, 2014, she acquires an automobile that will be used 100 percent for business. The cost of the automobile is $63,000, of which $50,000 is financed by the dealer. Interest charges for the period September 1, 2014 through December 31, 2014 total $2,000. What amounts can Ms. Bouclair deduct in her 2014 tax return with respect to this acquisition? Ignore GST and PST considerations.

Exam Exercise Six - 16 (Automobile Leasing Costs)

On November 1, 2014, Ms. Sherry Boland leases an automobile to be used 100 percent of the time in her unincorporated business. The lease cost is $862 per month, and a total of $1,724 was paid for the year. The manufacturer's suggested list price for the automobile is $53,000. Ms. Boland makes no down payment and no refundable deposits. Determine her maximum deduction for lease payments for 2014. Ignore GST and PST considerations.

Exam Exercise Six - 17 (Automobile Leasing Costs)

On August 1, 2014, Mr. Jimmy Bond leases an automobile that will be used 100 percent by his unincorporated business. The monthly lease payment is $797, with a total of $3,985 being paid during 2014. The manufacturer's list price for the vehicle is $61,000. Mr. Bond makes no down payment and no refundable deposit is required. Determine his maximum deduction for lease payments for 2014. Ignore GST and PST considerations.

Exam Exercise Six - 18 (Leases: Tax Vs. GAAP)

Sharp Ltd. signs an 8 year lease for an asset with an economic life of 9 years. The lease payments are $32,500 per year. Compare the tax treatment of the lease with its treatment under Canadian GAAP.

Exam Exercise Six - 19 (Inventory Valuation)

Morton Enterprises sells a single product which it buys from various manufacturers. It has a December 31 fiscal year end. During 2014, its first year of operations, purchases of this item were as follows:

Date	Quantity	Price
February 1	7,500	$23.00
May 23	5,000	28.00
August 18	6,800	21.00
October 28	5,300	25.00

On December 31, 2014, 7,800 of these items are still on hand. Their replacement cost on this date is $24.00 and they are being sold for $31.00. It is estimated that selling costs average 20 percent of the sales price. It is not possible to identify the individual items being sold. Calculate all the values that could be used for the 7,800 remaining units for tax purposes, identifying the method you used for each value.

Exam Exercise Six - 20 (Additional Business Income)

Ms. Melinda Gabor starts a business on May 1, 2014. After some consideration, she concludes that it would be best to have a fiscal year that ends on September 30. During the period May 1, 2014 through September 30, 2014, her business has income of $23,500. What amount of business income will Ms. Gabor report in her personal tax return for the year ending December 31, 2014?

Exam Exercise Six - 21 (Professional Income - Billed Basis Of Recognition)

Ms. Joan Vickers is an accountant and, at the beginning of the current year, she had unbilled work in process of $41,400, as well as uncollected billings of $48,700. During the year, she bills the remaining work in process and collects all of these new receivables, as well as the uncollected amounts that were present at the beginning of the year. Her work during the year totals potential billings of $206,350. Of this amount, $171,300 has been billed and $152,100 of these billings have been collected. Calculate her inclusion in net business income for the year using:

- the cash basis;
- the billed basis; and
- accrual accounting.

Exam Exercise Six - 22 (Professional Income - Billed Basis Of Recognition)

Mr. Jonathan Volke is a lawyer with a medium sized practice in Halifax. At the beginning of 2014, he had unbilled work in process of $23,800, as well as uncollected billings of $27,200. During 2014, he bills all of the opening work in process. Also during 2014, his work creates potential billings of $187,200. Of this amount, $156,300 has been billed by the end of the year. Collections during the year include all of the opening $23,800 of unbilled amounts, all of the $27,200 of opening uncollected billings, as well as $124,600 of the $156,300 of new work that was billed during the year. Calculate his inclusion in net business income for the year using:

- the cash basis;
- the billed basis; and
- accrual accounting.

Exam Exercise Six - 23 (ITA 22 Election On Receivables)

Mr. Brian Brock is selling his unincorporated business during 2014. Included in his assets are accounts receivable with a face value of $87,560. He and the purchaser of the business have agreed that the net realizable value of these receivables is $82,150. In 2013, he deducted a reserve for doubtful debts of $4,800. Determine the tax effect of selling these receivables for Mr. Brock, provided that he and the purchaser jointly elect under ITA 22.

Exam Exercise Six - 24 (ITA 22 Election On Receivables)

Ms. Brooke Besson is selling her unincorporated business during 2014. Included in the assets of this business are accounts receivable with a face value of $68,500. She and the purchaser of her business have reached an agreement that the net realizable value of these receivables is $65,300. In 2013, Ms. Besson deducted a reserve for doubtful debts of $4,200. Determine the tax effect of selling these receivable for Ms. Besson, assuming that:

- she and the purchaser do not elect under ITA 22; and
- she and the purchaser jointly elect under ITA 22.

TIF PROBLEM SIX - 5A
Business Income - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms were listed at the end of Chapter 6, "Income Or Loss From A Business".

A. Accrual Basis
B. Billed Basis
C. Hobby Farmer
D. Business Income
E. Reserve
F. Restricted Farm Loss
G. Net Business Income
H. Thin Capitalization

The following list contains 10 potential definitions for the preceding key terms.

1. Income that is earned through active business activity. This would include amounts earned by producing goods, selling goods or services, or delivering services.

2. A method of accounting for income based on cash receipts and cash disbursements.

3. Situations where a non-resident specified shareholder is receiving interest on an amount of debt that exceeds 1.5 times the sum of his share of contributed capital plus 100 percent of retained earnings.

4. A deduction in the calculation of net business income or net taxable capital gains.

5. The period that is covered by a taxpayer's return.

6. A self-sustaining integrated set of activities and assets conducted and managed for the purpose of providing a return to investors.

7. The net of inclusions less deductions, related to business income, with all amounts determined as per Division B, Subdivision b, of the *Income Tax Act*.

8. A method of determining net business income based on recording inclusions when the relevant amounts are billed.

9. A method of accounting for income based on recording assets when the right to receive them is established and liabilities when the obligation to pay them arises.

10. A part-time farmer who does not have a reasonable expectation of profit.

11. None of the above definitions apply. (This answer can be used more than once.)

Business Income - Key Term Matching (Easy)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM SIX - 5B
Business Income - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms were listed at the end of Chapter 6, "Income Or Loss From A Business".

A. Accrual Basis
B. Billed Basis
C. Hobby Farmer
D. Business Income
E. Reserve
F. Restricted Farm Loss
G. Net Business Income
H. Thin Capitalization

The following list contains 14 potential definitions for the preceding key terms.

1. Income that is earned through active business activity. This would include amounts earned by producing goods, selling goods or services, or delivering services.

2. A method of accounting for income based on cash receipts and cash disbursements.

3. Income that is earned through active business activity. This would include amounts earned by producing goods, selling goods or services, or selling capital assets.

4. A method of determining net business income based on recording deductions when the relevant amounts are billed.

5. Situations where a non-resident specified shareholder is receiving interest on an amount of debt that exceeds 1.5 times the sum of his share of contributed capital plus 100 percent of retained earnings.

6. A deduction in the calculation of net business income or net taxable capital gains.

7. The period that is covered by a taxpayer's return.

8. A self-sustaining integrated set of activities and assets conducted and managed for the purpose of providing a return to investors.

9. The net of inclusions less deductions, related to business income, with all amounts determined as per Division B, Subdivision b, of the *Income Tax Act*.

10. An amount of resources set aside to provide for future obligations.

11. A method of determining net business income based on recording inclusions when the relevant amounts are billed.

12. A method of accounting for income based on recording assets when the right to receive them is established and liabilities when the obligation to pay them arises.

13. A farmer who operates a farm as a hobby, but has a reasonable expectation of making a profit.

14. A part-time farmer who does not have a reasonable expectation of profit.

15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM SIX - 6
Reserves

Olivia Smith is the owner of an unincorporated business that does landscaping. The business began operations on January 2, 2014 and will have a December 31 year end. The 2014 and 2015 results for the business can be described as follows:

2014 During its first year, the business had sales of delivered merchandise and services totaling $185,000. Of this total, $65,000 had not been collected on December 31, 2014. Olivia anticipates that $5,000 of these sales will be uncollectible.

Olivia purchased a large supply of landscaping materials from the trustee of a bankrupt landscaping business at a very good price. Since she is unlikely to use them in the next few years, she has arranged to sell these materials for $50,000. These materials have a cost of $40,000, resulting in a total gross profit os $10,000. Because of the size of this sale, she has agreed to accept a down payment of $$30,000, followed by two annual instalments of $10,000. The instalments are due on December 31, 2015 and December 31, 2016.

2015 During 2015, $5,500 of accounts receivable had to be written off. All of the merchandise for which advances had been received was delivered, and the $10,000 instalment on the large project was received.

Sales of delivered merchandise and services totaled $240,000. Of this total, $50,000 was still on account at December 31, 2015. Olivia anticipates that $3,500 of this amount will be uncollectible.

In addition to the 2015 sales of delivered merchandise and services, she receives $13,400 in advances for merchandise to be delivered in 2016.

Required: How would the preceding information affect the calculation of Olivia Smith's business income for the 2014 and 2015 taxation years? Include the full details of your calculations, not just the net result for each year.

TIF PROBLEM SIX - 7
Work Space In The Home Costs And CCA

Veronica Hart is employed in retail sales with a large department store. Because of the expertise in sports clothing that she has gained as an employee, she has decided to start a sports clothing mail order business in order to supplement her employment income. The business commences on January 20, 2014.

On that date, she acquires office furniture and display racks at a total cost of $14,000, a computer for $1,350, and software appropriate to her business activities for $795. She also has a separate telephone line installed for dealing exclusively with the mail order business.

The business will be run out of her home, making exclusive use of 15 percent of the total available floor space. The business will have a December 31 year end.

During the period January 20, 2014 through December 31, 2014, her mail order sales total $89,000. Costs associated with these sales are as follows:

Cost Of Merchandise Sold	$46,000
Unsold Merchandise (Lower Of Cost And Market)	23,500
Packaging Materials	1,547
Shipping Costs	3,216
Miscellaneous Office Supplies	825
Telephone Charges (Total For The Period)	210
Printing Of Brochures Distributed	156

Her home was purchased several years ago for $355,000 of which $80,000 was allocated to the land. Costs accrued with respect to the home for the year ending December 31, 2014 are as follows:

Utilities For Home (Heat, Light, And Water)	$2,850
Mortgage Interest Paid	4,183
House Insurance	400
Property Taxes	1,230
Repairs And Maintenance For Home	1,125
Total	$9,788

Required:

A. Can Ms. Hart deduct work space in the home costs? Briefly explain your conclusion.

B. Compute the minimum net business income or loss that Veronica must report in her 2014 personal income tax return.

C. Briefly describe any issues that should be discussed with Veronica concerning the work space in her home costs and business costs.

TIF PROBLEM SIX - 8
Inventory Valuation

Halley Martin has designed a new skirt that proves to be particularly attractive on men who are cross-dressers. Based on the resulting success of her product, she has decided to open a Boutique in downtown Toronto. She will have a December 31 year end.

The skirts are manufactured by a local clothing manufacturer. During her first year of operations, she has purchases as follows:

Date	Quantity	Price	Total Cost
February 1	5,000	$42.00	$ 210,000
April 3	10,000	$45.00	450,000
July 12	8,000	$43.00	344,000
September 5	2,000	$48.00	96,000
November 12	3,000	$52.00	156,000
Totals	28,000		$1,256,000

On December 31, the end of her first year of operation, the inventory on hand amounts to 6,000 units. It is estimated that these units have a replacement cost of $51.00 per unit and a net realizable value of $58.00 per unit.

Required: Calculate the various closing inventory values that could be used to determine business income for tax purposes. Your answer should indicate the valuation method being used, as well as the resulting value.

TIF PROBLEM SIX - 9
Deductible Business Expenses - Corporation

The Vernon Manufacturing Company, a Canadian controlled private corporation, has just ended its first fiscal year. During that year, a number of outlays were made for which the Company is uncertain as to the appropriate tax treatment. You have been asked to advise them in this matter and, to that end, you have been provided with the list of outlays and expenditures that follows:

1. A part of the Company's raw materials had to be imported from Brazil. In order to obtain local financing for these inventories, the Company paid a $1,200 fee to a Brazilian financial consultant for assistance in locating the required financing.
2. Donations totalling $12,000 were given to various registered Canadian charities.
3. The Company paid $2,500 to the owner of a tract of land in return for an option to purchase the land for $950,000 for a period of 2 years. The land is adjacent to the Company's main factory and management believes it may be required for future expansion of the Company's manufacturing facilities.
4. Direct costs of $7,500, related to incorporating the Company, were incurred during the year.
5. An amount of $10,000 was paid for a franchise giving the Company the right to manufacture a Brazilian consumer product for a period of ten years.
6. Because of its rapid growth, the Company was forced to move into a building that they had originally leased to another company. In order to cancel the lease, it paid $8,000 to the tenant. In addition, $9,500 was spent to landscape the facilities and another $13,000 was spent to provide a parking lot for employees.
7. As some of its employees use public transportation, a pedestrian bridge over an adjacent highway was required to allow these employees to reach the plant from the public transportation terminal. The cost of this bridge was $12,000.

Required: Indicate which of the preceding expenditures you feel that the Vernon Manufacturing Company will be able to deduct in the calculation of business income for the current year, and the tax treatment of the non-deductible expenditures. Explain your conclusions.

TIF PROBLEM SIX - 10
Deductible Business Expenses - Proprietorship

Dr. Sweet is a dentist with a well established practice in Smith Falls, Ontario. She has sought your advice regarding the deductibility of the following expenditures made during the current taxation year:

1. Insurance payments included a $680 premium for coverage of her office and contents, $1,800 for malpractice coverage, and $1,700 in life insurance premiums.
2. Payments were made to a collection agency in the amount of $1,250 for assistance in collecting past due amounts from patients.
3. Contributions of $600 were made to various registered charities.
4. Dr. Sweet paid a total of $18,000 to her husband for his services as a full time bookkeeper and receptionist.
5. A total of $4,600 was spent to attend a dental convention in Phoenix, Arizona. Dr. Sweet was accompanied by her husband and $1,500 of the total cost of the trip relates directly to him.
6. An amount of $1,000 was paid for membership in a racquets club. In addition, $1,300 was spent for court time, approximately 40 percent of which was for time spent playing with patients.
7. Dr. Sweet paid $1,200 in legal and accounting fees. These fees related to fighting a personal income tax reassessment for a previous tax year. The fight was not successful and, as a consequence, Dr. Sweet was required to pay additional taxes of $13,000, plus $1,600 in interest on the late payments.
8. During the year, Dr. Sweet spent $3,200 purchasing provincial lottery tickets.

Required: Advise Dr. Sweet with respect to the deductibility of the preceding expenditures in the calculation of Net Income For Tax Purposes. Explain your position on each expenditure.

TIF PROBLEM SIX - 11
Simple Business Income - Proprietorship

Fairway Distribution is a proprietorship. The business distributes a wide variety of health aid products to retailers. The business is owned by John Fairway. His wife, Jane Fairway, is an avid golfer with no interest or experience in business matters.

For the taxation year ended December 31, 2014, the accountant calculated a Net Income for Fairway Distribution of $273,000. In calculating this figure, Mr. Fairway's accountant relied on generally accepted accounting principles except for the fact that no provision is made at the end of the year for anticipated bad debts. This variance from generally accepted accounting principles resulted from the accountant's belief that Mr. Fairway is a much more reasonable and pleasant person when he is presented with a higher Net Income figure.

Other Information Other information related to the 2014 taxation year is as follows:

1. In the previous year, a reserve for bad debts was deducted for tax purposes in the amount of $15,000. For accounting purposes, only the actual 2014 write-offs of $17,500 were deducted. The accountant felt that an appropriate reserve to be deducted for tax purposes at the end of 2014 would be $19,200.
2. Accounting income included a deduction for amortization in the amount of $78,500. The accountant has determined that the maximum CCA for 2014 would be $123,600.
3. The following items were included in the accounting expenses:

Cost of advertising in a foreign newspaper that is distributed in Canada	$ 3,500
Donations to registered charities	1,260
Cost of appraisal on real estate to be sold	1,470
Costs of landscaping work done on the grounds of Mr. Fairway's personal estate	5,260
Management fee to Mrs. Jane Fairway	123,000

4. As the business is unincorporated, no taxes were deducted in calculating Net Income.

Required: Calculate the minimum net business income for Fairway Distribution that will be included in Mr. Fairway's tax return for the year ending December 31, 2014.

TIF PROBLEM SIX - 12
Simple Business Income - Corporation

Astrolab Industries has a taxation year that ends on December 31. For the year ending December 31, 2014, the Company's accounting statements prepared in accordance with generally accepted accounting principles showed a Net Income of $278,000. The accountant has provided the following other information that was used in the preparation of this Net Income figure:

1. A total of $123,000 was deducted as income tax expense. This amount included $16,000 in future income taxes.

2. As the Company was late in making its required income tax instalments, it was required to pay interest of $400.

3. For the year ending December 31, 2014, the Company recorded $83,000 in amortization expense. Maximum available CCA deductions for this period were $97,000.

4. The Company's accounting expenses included a payment of dues in a local golf club of $2,500. The cost of entertaining clients at this club during the year ending December 31, 2014 was $9,600.

5. For accounting purposes, no allowance for bad debts was established at either the beginning or the end of 2014. The $5,200 bad debt expense that was included in the accounting records reflected only the amounts that were written off during the year. For tax purposes, the Company deducted a reserve of $3,400 for the taxation year ending December 31, 2013. An appropriate reserve for the year ending December 31, 2014 would be $4,200.

6. The 2014 accounting expenses include $1,500 for the premiums on a life insurance policy on the life of the Company's president. The Company is the beneficiary of this policy. One of the Company's major creditors requires that this policy be in force during all periods in which there are loan balances outstanding.

7. The 2014 accounting expenses included $37,000 in bonuses that were declared in favour of Company executives. Only $12,000 of these bonuses were paid in 2014, with the balance being payable in February, 2015.

8. The bond interest expense that is included in the accounting records includes $3,200 in discount amortization.

9. On December 31, 2014, the Company paid landscaping costs of $27,000. These costs were treated as capital expenditures for accounting purposes and, as the expenditure was made at the end of the year, no amortization was recorded in the 2014 financial statements.

Required: For each of the preceding items, indicate the appropriate treatment in the tax records of Astrolab Industries Ltd. for the year ending December 31, 2014. For those items that require an adjustment of accounting Net Income in order to arrive at Net Income For Tax Purposes, indicate the specific adjustment that would be required, including the amount of the adjustment. The calculation of Net Income For Tax Purposes is not required.

TIF PROBLEM SIX - 13
Business Income With CCA And CEC - Corporation

For the year ending December 31, 2014, the Income Statement of Markham Ltd., prepared in accordance with generally accepted accounting principles, is as follows:

Revenues		$973,000
Expenses:		
Cost Of Goods Sold	($272,000)	
Selling And Administrative Costs	(132,000)	
Amortization Expense	(156,000)	
Other Expenses	(137,000)	(697,000)
Income Before Tax Expense		$276,000
Income Tax Expense:		
Current	($ 97,000)	
Future	(32,000)	(129,000)
Net Income		$147,000

Other Information:

1. The Company spent $6,000 during the year on landscaping for its new building. For accounting purposes this was treated as an asset. The Company will not amortize this balance as it believes the work has an unlimited life.
2. Selling And Administrative Costs include $15,000 in business meals and entertainment.
3. Other Expenses include contributions to registered charities of $3,700.
4. As the Company expects to issue more shares during 2015, it made a number of amendments to its articles of incorporation and included the legal costs in Other Expenses. These costs totalled $6,000.
5. During 2013, Markham Ltd. acquired a competing business at a price that included goodwill of $70,000. For accounting purposes, there is no impairment or write-down of the goodwill purchased in either year.
6. Other Expenses includes bond discount amortization of $2,500.
7. Selling And Administrative Costs include membership fees for several employees in a local golf and country club. These fees total $3,400.
8. On January 1, 2014, the Company had the following UCC balances:

Class 1	$400,000
Class 8	575,000
Class 10	45,000
Class 13	68,000

The Class 1 balance relates to a single building acquired in 2000 at a cost of $550,000. It is estimated that the value of the land at this time was $50,000. On February 1, 2014, this building is sold for $612,000. It is estimated that the value of the land is unchanged at $50,000. In the accounting records, this real property was carried at $507,000, $457,000 for the building and $50,000 for the land. The resulting gain on the building is included in the accounting revenues.

The old building is replaced on February 15, 2014 with a new building acquired at a cost of $683,000 of which $60,000 is allocated to land. The Company chose not to put the new building into a separate Class 1 so it does not qualify for the 6 percent CCA rate. No elections are made with respect to the replacement of the building.

There are no dispositions of Class 8 assets during the year. However, there are acquisitions in the total amount of $126,000.

As the Company has decided to lease all of its vehicles in the future, all of the assets in Class 10 are sold during the year. The capital cost of these assets was $93,000 and the proceeds of disposition amounted to $37,000. The net book value of these assets was $52,000 and the resulting accounting loss of $15,000 was included in Other Expenses.

The Class 13 balance relates to a single lease that commenced on January 1, 2012. The lease has an initial term of seven years, with two successive options to renew for three years each. Expenditures on this leasehold were $50,000 in 2012 and $27,000 in 2013. There were no further expenditures in 2014. The write-off of these expenditures for accounting purposes is included in Amortization Expense.

9. Other Expenses includes interest on late income tax instalments of $500 and on late municipal tax payments of $275.
10. Markham Ltd. deducts maximum CCA.

Required: Determine Markham Ltd.'s 2014 minimum Net Income For Tax Purposes. In addition, calculate the January 1, 2015 UCC for each CCA class. Indicate why you have excluded some items from your calculations.

TIF PROBLEM SIX - 14
Business Income With CCA - Billed Basis

Carl Pomery is a Certified General Chartered Accountant who is employed as a controller of a medium sized corporation. He has been married three times and is required to make support payments to each of his former spouses. Because of his need for additional income, he operates an unincorporated tax and accounting services business. This business has a December 31 year end and has been in operation for several years.

Carl purchased a new building in 2008. It has been used exclusively for non-residential purposes and was allocated to a separate Class when it was purchased. On January 1, 2014, the business has the following UCC balances:

Class 1 Building	$242,000
Class 8 Furniture And Fixtures	72,000
Class 10 Vehicle (Purchased For $19,600)	16,660

During January, 2014, the Class 10 vehicle is involved in a serious accident, requiring it to be permanently taken off the road. The insurance proceeds are $14,600. On February 1, Carl replaces it with a vehicle with a manufacturer's list price of $34,000 that is leased for $525 per month. Both vehicles are used exclusively for business purposes.

During July, 2014, Carl replaces most of the furniture in his office. The old furniture has a capital cost of $23,000, while the new items cost $46,000. Carl receives a trade in allowance for the old furniture of $18,000.

Also during January 2014, Carl acquires a new computer for $2,500, along with applications software for $2,200.

During March, 2014, Carl acquires a client list from an accountant who is retiring. The cost of this list is $82,000.

On January 1, 2014, Carl had unbilled work-in-progress of $35,000, along with billed receivables of $48,000. During 2014, his collections total $123,000. On December 31, 2014, the unbilled work-in-progress has increased to $42,000 and the billed receivables have increased to $56,000.

During 2014, the various costs of operating his business, determined on an accrual basis, are as follows :

Building Operating Costs	$22,000
Costs Of Operating Leased Vehicle	7,200
Payments To Assistants	24,000
Miscellaneous Office Costs	4,500
Meals With Clients	3,500

Required: Calculate the minimum net business income Carl would include in his 2014 personal income tax return. In preparing your solution, ignore PST and GST implications.

TIF PROBLEM SIX - 15
Comprehensive Business Income

Darby Inc. has just completed its fiscal year ended December 31, 2014. The accountant has determined that, for financial statement purposes, the Company has experienced a Net Loss Before Taxes for the year of $113,000. The accountant provides the following information that was used in the determination of the Net Loss for accounting purposes:

1. The Company was forced to pay damages of $12,300 for failure to perform a service contract. The amount was paid when the client threatened to bring action for breach of contract. The $12,300 was expensed in the current year.

2. The Company's property tax expense of $19,500 includes an amount of $1,100 that was paid to a regional municipality in which the Company maintains a fishing lodge for its employees.

3. The Company's expenses include contributions to registered charities of $13,700.

4. The Company's expenses include costs of new landscaping at their administration building in the amount of $9,800.

5. The Company deducted a loss of $10,100 resulting from a theft by one of its clerical employees.

6. Effective December 31, 2014, as the result of a change in its distribution system, the Company was forced to cancel a tenant's lease that would have been in force until January 1, 2022. During the 2014 taxation year, the Company agreed to pay, and deducted, damages in the amount of $17,000. On December 31, 2014, $5,000 of this amount had not been paid.

7. The current salary expense included a bonus payable to the Company's president in the amount of $14,500. It will be paid on February 1, 2015.

8. The insurance expense included the premium on a whole life policy on the life of the president's wife in the amount of $9,500. This was not a group life policy and the proceeds were payable to the Company.

9. As the Company changed property and casualty insurers during the year, all of its assets had to be appraised. The cost of this appraisal was $4,150, with the entire amount being expensed in the year.

10. The Company's wage expense included $51,000 in management bonuses (other than that of the president described in item 7) that will not be paid until May 1, 2015. In addition, $34,000 in bonuses, which were deducted for both tax and accounting purposes in 2013, were paid in March, 2014.

11. Bad debt expense amounted to $11,000.

12. Renovation costs in the amount of $153,000 were charged to expense during the year. This amount resulted from the need to completely renovate one of the Company's offices and involved the installation of plumbing and air conditioning systems, as well as rewiring and installation of new concrete foundations.

13. The president and his wife attended a convention that resulted in $5,200 in travel expenses for the Company. Of this amount, $1,900 related to the fact that the president's wife chose to accompany him on this trip.

14. The Company's interest expense included bond discount amortization in the amount of $950.

15. The Company's legal expenses for the year amount to $10,500 and were related to the following transactions:

Defense of breach of contract (see item 1)	$2,450
Cost of amending articles of incorporation	3,600
Defense costs related to income tax reassessment	4,450

16. The Company's expenses included a total amount of $12,500 for business meals and entertainment.

17. The Company's calculations for CCA and Cumulative Eligible Capital write-offs have not yet been completed.

Required: Compute the Company's Net Income For Tax Purposes for the year ending December 31, 2014, before the consideration of CCA or Cumulative Eligible Capital write-offs. Indicate why you have not included any of the preceding items in your calculations.

TIF PROBLEM SIX - 16
ITA 22 Election

George Pentel is the owner of George's Geodes, an unincorporated business that provides distribution at the wholesale level of collectable mineral specimens. The business has a December 31 year end.

While the business has been very successful, George would like to return to his first love, research related to plate tectonics.

To accomplish this goal, he intends to sell George's Geodes to an unrelated party, Ms. Molly Stone. The transaction will take place on August 1, 2014 and will involve all of the assets of the business. Ms. Stone does not anticipate incorporating the business and will continue to use the December 31 year end.

On the date of the sale, the Accounts Receivable of the business have a face value of \$352,000. George and Molly agree that the current fair market value of these receivables is \$335,000. In 2013, George deducted a reserve for doubtful debts under ITA 20(1)(l) of \$12,000.

Between August 1, 2014 and December 31, 2014, \$337,000 of the Accounts Receivable are collected, with the remaining \$15,000 being written off as uncollectible.

Both George and Molly have heard of an election under ITA 22 that may have some influence on the tax treatment of the transfer of accounts receivable. They would like to have your advice on this matter. George notes that he did not have any capital gains in the previous three years. Further, he does not expect to have capital gains in 2014 or any subsequent year.

Required:

A. Indicate the tax effects, for both George Pentel and Molly Stone, of the disposition of the accounts receivable and the subsequent 2014 collections and write-offs, assuming:

- that no election is made under ITA 22.
- that they make an election under ITA 22.

B. Indicate, from the point of view of each taxpayer, whether making the election would be a desirable course of action.

TIF PROBLEM SIX - 17
Comprehensive Case (Chapters 1 To 6)

Mr. Allen Archer is employed by Global Inc., a Canadian public company. For 2014, his salary is $56,000. In addition, his commissions for the year total $48,000. For the year ending December 31, 2014, his employer withholds the following amounts from his income.

RPP Contributions*	$4,200
EI Premiums	914
CPP Contributions	2,426
Parking Fees At Employer's Lot	600

*Mr. Archer's employer makes a matching contribution of $4,200 to his RPP.

Mr. Archer's employer requires him to use his own car for traveling to clients. The car that Mr. Archer is currently using was acquired on January 1, 2014 at a cost of $28,500. During 2014, Mr. Archer drove the car a total of 21,000 kilometers, of which 18,500 were employment related. The other 2,500 kilometers involved personal use. His total operating costs for the year were $3,750. Global Inc. provided an allowance of $500 per month to reimburse him for the use of the car.

His employment related travel did not require overnight stays and, as a consequence, he has no hotel expenses. However, he spent $7,200 during 2014 on meals and entertainment for clients. These amounts were fully reimbursed by his employer.

In 2012, Mr. Archer's employer granted him options to acquire 1,000 shares of the Global Inc. stock for $12 per share. At the time the options were granted, the Global Inc. shares were trading at $10 per share. During 2014, Mr. Archer exercises the options. At the time of exercise, the Global Inc. shares were trading at $18.25 per share. He is still holding the shares on December 31, 2014.

Mr. Archer has a spouse and two children. During 2014, his spouse, Jan, had Net Income For Tax Purposes of $7,500. His 22 year old son, Ron, is dependent on Mr. Archer because he is disabled. However, the disability is not severe enough to create a marked restriction in his daily activities. Ron has no income during 2014. His 18 year old daughter, Mona, was in full time attendance at a Canadian university for 8 months during 2014. While she has 2014 Net Income For Tax Purposes of $4,750, Mr. Archer paid her tuition fees of $4,800. Mona has agreed to transfer her education related tax credits to Mr. Archer.

During 2014, Mr. Archer paid medical expenses as follows:

Allen	$ 3,780
Jan	2,000
Ron	6,400
Mona	1,500
Total	$13,680

Because of his interest in antiques, Mr. Archer opened a retail operation to sell antiques on January 1, 2014. Mr. Archer invests $239,000 of his savings in this unincorporated business. Of this amount $183,000 was used to purchase a new store building, with the remaining $56,000 invested in fixtures for the store. He estimates that $42,000 of the $183,000 paid for the store represents the value of the land. The business is called Allen's Oldies and, as the retail operation is only a few blocks from his residence, Mr. Archer makes no use of his car in this business.

As Mr. Archer has had no formal training as an accountant, he keeps the records for Allen's Oldies on a cash basis. As at December 31, 2014, the business had accumulated total cash of $32,800. Mr. Archer's informal records indicate that at December 31, 2014, the business had receivables from customers of $2,600, inventories with a cost of $12,600, and liabilities to suppliers of $5,750. The business had no other debt obligations on this date.

Required: Calculate Mr. Archer's 2014 Net Income For Tax Purposes, his 2014 Taxable Income, and his minimum 2014 federal Tax Payable without consideration of any income tax withheld by his employer. Ignore GST and PST considerations.

TIF PROBLEM SIX - 18
Comprehensive Case (Chapters 1 To 6)

Mr. Martin Bowles is 43 years old and is employed by, Dominion Brass, a large public company. During 2014, his basic salary was $89,000. In addition, he earned $12,000 in commissions. His employer withheld the following amounts from his income during 2014:

RPP Contributions*	$3,750
EI Premiums	914
CPP Contributions	2,426
Union Dues	430
Payments For Personal Use Of Company Car	1,200

*Mr. Bowles' employer makes a matching contribution of $3,750 to his RPP.

His employer provides Mr. Bowles with a car which is leased at a rate of $459 per month, a total of $5,508 for the year. During 2014, the car is driven 33,000 kilometres, of which 24,500 are related to his employment activities. The car was used by Mr. Bowles for 11 months during 2014. When he is not using the car, he is required to return it to the company's garage.

Mr. Bowles is provided with an allowance of $400 per month to cover hotel and meal costs during his employment related travel. Mr. Bowles' actual costs for 2014 were as follows:

Hotels	$2,850
Meals	1,875

It is the policy of Dominion Brass to reimburse tuition paid by employees when taking college or university courses. During 2014, Mr. Bowles received reimbursements of $1,600 for two courses. Of this total, $1,000 was for a two day marketing course, while $600 was for a weekend course in art appreciation.

During 2014, Dominion Brass gave Mr. Bowles a $450 watch in recognition of his 10 years of service with the company. In addition, all employees were given a $400 gift certificate for purchases at a local department store.

In 2013, Mr. Bowles was granted options to purchase 1,500 shares of Dominion Brass stock at a price of $52 per share. At that time, the shares were trading at $50 per share. In June, 2014, when the shares are trading at $61 per share, Mr. Bowles exercises the options and immediately sells the resulting shares at that price.

On January 1, 2014, Mr. Bowles started a management consulting business located in an office that he rents for $500 per month. In order to run his business effectively, he made improvements to the office space that cost $12,000. His lease on the office terminates on December 31, 2016 and does not contain any renewal options.

Other information related to this business is as follows:

Revenues During 2014, Mr. Bowles issued invoices for his services totalling $41,750. In addition, he has unbilled work in progress of $8,500.

Capital Expenditures Mr. Bowles spent $10,000 for furniture for his new office. In addition, he purchased a computer for $1,150 and application software for $836.

Costs During 2014, the following costs were incurred in operating the management consulting business:

Part Time Assistant	$5,725
Office Supplies	347
Monthly Telephone Service	312
Cell Phone Charges (For Business Only)	211
Meals With Clients And Client Entertainment	3,150

As the rented office is in the same building complex as his home, Mr. Bowles makes no use of his employer's vehicle for operating this business.

Mr. Bowles is married and has two children:

Sally, Martin's spouse, has 2014 income from part time work of $3,450.

Marie is 14 years old and has income of $2,300. All of this income resulted from the investment of rewards that she has received for science projects.

Ellen is 19 years old and attends university on a full time basis for 8 months during 2014. Martin pays her tuition costs of $9,800, as well as the cost of textbooks and supplies. These latter costs total $1,500. As Ellen has no income of her own, she intends to transfer all of her education related tax credits to Martin.

Marie is enrolled in a gymnastics program that costs $1,800 per year. The program has one meeting each week through the months of June, July, and August.

The family's 2014 medical expenses, all paid for by Mr. Bowles, are as follows:

Martin	$ 2,500
Sally	1,850
Marie	1,600
Ellen	6,540
Total	$12,490

During 2014, Mr. Bowles makes donations to registered charities of $1,425, as well as contributions to registered federal political parties in the amount of $275. He is not eligible for the first time donor's super credit.

Required: Calculate Mr. Bowles' 2014 Net Income For Tax Purposes, his 2014 Taxable Income, and his minimum 2014 federal Tax Payable without consideration of any income tax withheld by his employer. Ignore GST and PST considerations.