Taxation

In Session Detail Review Material

Disclaimer:

These questions are designed to provide the student with a general review of areas covered on the CMA Entrance Examination. While the topic coverage and the number of response stems is consistent with that on the Entrance Examination, the level of difficulty of questions on the Entrance Exam tends to be a notch higher for the following reasons -- the length of question (entrance exam questions tend to be longer requiring more time to read); the types of distracters (the entrance examination tends to use distracters such as none of the above, all of the above and both x and y to a larger degree than other examinations); and the direction of the calculation (the entrance examination will often have you work back to front, middle to either front to back and so on).

Use of the Material

These questions will be covered in depth in the review session. The pace will be quick (frantic?) so students are advised to at least have read them (and at best have worked through them under exam conditions).

Basic Concepts

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 lawyers operating as a partnership.
    d) The Martin family trust.

2. Which of the following entities is not liable for paying Canadian income tax?

    a) Sam Jackle, a Canadian citizen who has lived in Barbados for the last fifteen years.
    b) Marian Jones, a U.S. citizen who lives in Buffalo, New York, but is employed in Fort Erie, Ontario.
    c) Baron Inc., a corporation that was incorporated in Manitoba in 1977.
    d) Marston Ltd., a U.S. corporation that employs a large sales force to sell its products in Ontario.

3. With respect to the legislation contained in the *Income Tax Act*, which of the following entities would not be considered a person?

    a) Canadian Investments Inc., a corporation chartered in Canada in 1984.
    b) Sarah Jones, a life-long resident of New Brunswick.
    c) Sundean Enterprises, an unincorporated distributor of lawn products.
    d) The Smither's Family Trust, a trust established for the benefit of the children of Martha Smithers, a resident of Newfoundland.

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) Each province can establish its own rules for determining the Taxable Income of corporations.
    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. Mr. Letwin dies on December 5, 2011. While he was an employee of a publicly traded Canadian company, he owned an unincorporated business which was managed by his common-law partner. What is the latest date for filing his 2011 income tax return?

   a) April 30, 2012.
   b) June 5, 2012.
   c) June 15, 2012.
   d) June 30, 2012.

6. Ms. Sophia dies on February 1, 2012. 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 2011 income tax return?

   a) April 30, 2012.
   b) June 15, 2012.
   c) August 1, 2012.
   d) June 30, 2012.

7. Mr. Finlay, a retired individual whose only source of income was pension receipts, dies on August 15, 2011. By what date must Mr. Finlay's final tax return be filed?

   a) April 30, 2012.
   b) February 28, 2012.
   c) February 16, 2012.
   d) December 31, 2012.

8. Ms. Whitehead has net tax owing for 2010 of $4,500, net tax owing for 2011 of $8,000, and estimates net tax owing for 2012 will be $7,500. If she wishes to pay the minimum total amount of installments for the 2012 taxation year, her first payment on March 15 will be for what amount?
   a) Nil.
   b) $1,125.
   c) $1,875.
   d) $2,000.

9. Jason Marks has to pay his tax by installments as a result of his significant investment income. His net tax owing in 2009 was $13,600. In 2010, it was $17,000, and for 2011, it was $15,000. If he decides to pay his 2012 tax installments according to the prior-year option, how much should he pay on September 15, 2012?

   a) $3,400.
   b) $3,750.
   c) $4,250.
   d) $6,500.

10. All of the following people will have to pay tax by installments 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 $3,000 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 taxable capital gains on real estate in excess of $20,000 in each of the last two years, and who expects to have similar gains this year. Terri has a marginal tax rate of 50 percent.

11. Which of the following statements regarding the general anti-avoidance rule (GAAR) is **FALSE**?

   a) GAAR is not applicable to transactions that do not result in the misuse or abuse of the Income Tax Act read as a whole.
   b) When GAAR is applied, the taxpayer faces a penalty as well as the taxes owing plus interest.
   c) The tax benefit that results from an avoidance transaction will be denied.
   d) An avoidance transaction is any transaction that results in a tax benefit in the absence of a legitimate purpose other than to obtain this benefit.

12. 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.

Residency

13. Ms. Floot has been out of Canada for several years. She is presumed to be a non-resident as long as certain tests are met. Indicate the condition that does not have to be met.

    a) She did not leave a spouse or other dependants in Canada.
    b) She does not return to Canada on a regular or frequent basis.
    c) She did not leave taxable Canadian property in Canada.
    d) She did establish permanent residence in another jurisdiction.

14. For income tax purposes, which of the following statements with respect to a deemed resident is **FALSE**?

    a) A person who either enters or leaves Canada part way through the year on a permanent basis is a deemed resident.
    b) A deemed resident is taxed on his/her worldwide income in Canada regardless of where he/she lives.
    c) A person who has sojourned in Canada for a period greater than 183 days is a deemed resident.
    d) A deemed resident can be a corporation under certain conditions.

15. In which of the following situations is the person considered a non-resident of Canada, in 2012, for income tax purposes?

    a) James Arder, a recently qualified CA, based in Montreal, accepted a transfer to an office in Sydney, Australia for the period May 1, 2012 to August 31, 2012. James is not married and had lived at his parent's house in Montreal.
    b) Karen Cotin, a computer programmer, had been employed by ABC Systems Ltd. in Toronto. In 2011, she accepted a minimum two-year contract with CS Services Inc. in London, England. Her position with CS Services Inc. started October 1, 2011. Before moving to England, where she will join her fiancé, Karen terminated the lease on her apartment in Toronto and sold her car.
    c) N Limited was incorporated in Canada in 1985 and, until May 2011, its manufacturing plant was located in Mississauga, Ontario. In May 2011, it moved all of its operations, including the manufacturing plant, to North Carolina, U.S.A.
    d) B. Bath, a member of the Canadian Armed Forces, who is stationed in Lahr, Germany from September 1, 2009 to February 1, 2013.

16. The directors of Lartch Inc. have always met where the directors reside. Based on this fact, for income tax purposes, Lartch Inc. will not be resident in Canada if the Company was:

   a) incorporated in Canada in 1963 and all of its directors are Canadian residents.
   b) incorporated in the U.S. in 1970 and all of its directors are Canadian residents.
   c) incorporated in Canada in 1972 and all of its directors are U.S. residents.
   d) incorporated in the U.S. in 1965 and all of its directors are U.S. residents.

17. All of the following statements are true, except:

   a) Canadian residents must report their worldwide income for tax purposes.
   b) If an individual is a resident of Canada for part of the calendar year, that individual only has to report his worldwide income during the period of residency for Canadian tax purposes.
   c) An individual who immigrates to Canada during the year is a resident of Canada for tax purposes for the full calendar year.
   d) An individual can be a resident of Canada for tax purposes, even if she is not a Canadian citizen.

18. Alex is a U.S. citizen who commutes each day to Canada for employment purposes. Bob is a U.S. citizen who lives in Canada during the week for employment purposes, but returns to the U.S. on weekends to the house he shares with his wife and children. Charles is a Canadian citizen who lived in Toronto until March of last year, at which time he left for a four year aid mission in Africa under an agreement with the Canadian International Development Agency. Dick is a Canadian citizen who goes to school in the U.S. for eight months of each year but returns to Canada to live with his parents each summer. Of these individuals, who would be a resident or deemed resident of Canada for tax purposes this year?

   a) Alex, Bob and Charles.
   b) Bob, Charles and Dick.
   c) Bob and Charles.
   d) Alex and Dick.

19. WKZ Ltd. is a privately held company that was incorporated in 1970. It manufactures a product at plants located in England for customers in Canada and the United States. The sole shareholders and directors of WKZ Ltd. have always been members of the Williams family. For income tax purposes, WKZ Ltd. would **NOT** be considered a resident of Canada if it was incorporated in

a) Canada, and the Williams family resides in and directs the company from the United States.

b) the United States, and the Williams family resides in and directs the company from Canada.

c) the United States, and the Williams family resides in and directs the company from the United States.

d) both b) and c) above.

Employment Income

20. 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.

21. 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.

22. 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 related to wage loss replacement plans.
    d) Incentive awards.

23. 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) Premiums under private health services plans.
    d) Uniforms and special clothing.

24. T. Adams commenced employment at Moana Sales Ltd. on February 1, 2012. He had lived in an apartment until May 2012, at which time he purchased a new house. Under the terms of his employment, he received a housing loan on May 1, 2012 of $80,000 at a rate of 2 percent. He pays the interest on the loan on a monthly basis. Assume the 2012 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 2012?

a) Nil.
b) $267.40.
c) $670.68.
d) $1,073.97.

25. John secured employment as a commissioned salesman in July, 2012. In 2012, he received a base salary of $60,000, and $5,000 of commissions. A further $4,000 of commissions earned in December was paid to him in January, 2013. John worked away from the office negotiating sales contracts, and he is required to pay his own traveling 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 2012:

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

What is the maximum deduction John may claim for employment expenses in 2012?

a) $5,000.
b) $9,000.
c) $15,000.
d) $16,000.

26. 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.

27. Which one of the following benefits received from an employer may not result in a taxable benefit to the employee?

   a) A reasonable allowance of 65 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.

28. (+) The following receipts, benefits and expenditures for the year 2012 pertain to an individual who is an employee of a large corporation:

Gross salary		$30,000
Commissions		19,500
Bonus		3,000
Income taxes withheld	$16,800	
CPP contributions (maximum amount)	1,496	
EI contributions (maximum amount)	878	
Canada Savings Bonds payments made through payroll deductions	3,000	
Charitable donations made through payroll deductions	125	(22,299
Net remuneration received		$30,201

The individual is required by contract with his employer to travel away from the company's place of business on a regular basis and to pay these expenses directly. During 2012, the individual paid actual travel expenses of $2,500 for transportation, $1,000 for accommodations and $500 for meals, all of which were reasonable in the circumstances. The employer pays the individual a travel allowance of $200 per month and also pays an annual premium of $700 to a private medical health plan on behalf of the individual.

For purposes of calculating federal income tax, the individual's net income from office or employment for 2012 is

a) $47,001.

b) $51,150.

c) $50,450.

d) $48,776.

29. 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; availability of an employer-owned automobile.
b) Monthly automobile allowance; group disability insurance paid 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 employer.

30. On July 1, 2012, 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 2012, 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) No change.

31. In December 2009, 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, 2014. The prescribed interest rate at the time of this advance was 5 percent. Assuming that the prescribed interest rate throughout 2012 was 6 percent, which one of the following represents the increase in Mr. Jones's Taxable Income in 2012 due to this loan?

    a) $ 8,750.
    b) $10,000.
    c) $10,500.
    d) $12,000.

32. A taxpayer whose employer provides her with an automobile for her use must recognize a taxable benefit to the extent that the use is personal. In the instance where the employer owns the automobile, which one of the following would **NOT** be relevant to the calculation of that benefit?
    a) The original cost of the automobile to the employer.
    b) The amount of capital cost allowance claimed by the employer on the automobile in the year.
    c) The number of months in the year during which the automobile was available to the employee.
    d) The total number of kilometers driven by the employee in the year.

Tax Credits

33. 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.

34. 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.

Capital Cost Allowance

35. 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) Fire and theft insurance paid on the asset.
    c) Non-refundable provincial sales taxes paid on the asset.
    d) An appropriate allocation of overhead.

36. 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 $15,000 and the maximum CCA deductible for the year in Class 12 is $25,000. To minimize the subsequent year's taxes, the business should:

    a) Claim $5,000 CCA on Class 8 only.
    b) Claim $5,000 CCA on Class 12 only.
    c) Claim maximum CCA on Class 8 and Class 12.
    d) Claim $2,500 CCA on Class 8 and $2,500 CCA on Class 12.

37. 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) Costs of incorporating a new company.
    d) Cost of customer lists.

38. A profitable company buys a depreciable class 8 asset (i.e. 20% CCA rate) for $500,000 at the beginning of Year 1. The company uses straight-line amortization for capital assets. This asset has an expected useful life of 8 years and has an estimated residual value of $50,000 at the end of 8 years. At the beginning of Year 3, the company sold this asset, which was the last asset in this class held by the company, for $370,000. What is the effect of this sale on the company's Year 3 taxable income?
    a) $17,500 terminal loss
    b) $50,000 recapture
    c) $10,000 terminal loss
    d) $10,000 recapture

39. A profitable company buys a depreciable class 8 asset (i. e. 20% CCA rate) for $500,000 at the beginning of Year 1. The company uses straight-line amortization for capital assets. This asset has an expected useful life of 8 years and has an estimated residual value of $50,000 at the end of 8 years. At the beginning of Year 3, the company sold this asset, which was the last asset in this class held by the company, for $350,000. What is the effect of this sale on the company's Year 3 taxable income?

    a) $10,000 terminal loss
    b) $30,000 recapture
    c) $37,500 terminal loss
    d) $26,000 recapture

40. (+) Farlost Ltd. purchased an automobile in 2012 for $35,000. What is the maximum amount that it can claim as capital cost allowance for the vehicle in 2012?

    a) $4,500.
    b) $5,250.
    c) $7,800.
    d) $9,000

41. 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) $ 7,500.
    d) $11,250.

42. 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.

43. 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. 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.

44. Many deduction claims for income tax purposes are discretionary (ie: they can be claimed in the current year, or carried forward for future use, at the discretion of the taxpayer). Which one of the following items must be claimed as soon as it becomes available?

   a) Cumulative eligible capital deductions.
   b) Losses carried forward from previous years.
   c) Reserves for doubtful accounts.
   d) Terminal losses on depreciable property.

45. ABC Company Limited was incorporated and issued 100 shares on September 1 of the current year. It has chosen December 31 as its year end. On October 1 of the current year, the Company purchased a franchised restaurant and paid the following amounts:

- Amount paid for restaurant equipment $40,000
- Amount paid for the franchise $50,000

The franchise is for an initial term of three years, followed by three renewal terms of five years each. (At the discretion of the franchisee, no fees are payable.) The maximum capital cost allowance on equipment 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.

46. 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

Business Income

47. As a part time employee, Derek earns $20,000 per year. He recently started up his own business as a sole proprietorship. For the current year, his business revenues were $12,000 and his business expenses were $28,000. Derek has some investments that resulted in taxable dividend income of $1,400 and incurred interest expense of $2,000. Assuming this accounts for all of Derek's sources of income, what is his non-capital loss carry forward for the year?
    a) Nil.
    b) $600.
    c) $3,400.
    d) $16,000.

48. With respect to an Allowable Business Investment Loss, which of the following statements is not correct?
    a) An Allowable Business Investment loss can be deducted against any source of income.
    b) If not used during the current year, an Allowable Business Investment Loss can only be applied against taxable capital gains in a carry forward or carry back period.
    c) An Allowable Business Investment Loss results from the disposition of shares of a small business corporation.
    d) An Allowable Business Investment Loss is the deductible portion of a Business Investment Loss.

49. (+) The following is a condensed income statement for a Canadian-controlled private corporation for the year ended December 31, Year 10 (in '000s):

Sales		$12,400
Cost of goods sold	$7,000	
Amortization	1,000	
Advertising and promotion	1,600	
Miscellaneous	1,400	11,000
Income before income taxes		1,400
Income taxes		560
Net income		$ 840

Other information:

1. The cost of goods sold includes a reserve for warranties in the amount of $150,000.
2. The company claims the maximum allowable capital cost allowance (CCA) each year. No capital assets were purchased or disposed of during Year 10. Undepreciated capital cost balances at the beginning of the year:

Class 8 (20% CCA rate)	$2,500,000
Class 10 (30% CCA rate)	$1,900,000

3. The miscellaneous expenses include $90,000 for meals at business meetings and $75,000 of interest expense related to a loan used to buy shares of a supplier's company.

What is the taxable income for the company for Year 10 (in '000s)?

a) $1,525

b) $1,330

c) $1,570

d) $1,375

50. (+) The following is a condensed income statement for a Canadian-controlled private corporation for the year ended December 31, Year 7 (in '000s):

Sales	$9,500	
Cost of goods sold	$4,200	
Salaries and wages	500	
Amortization	800	
Advertising and promotion	700	
Miscellaneous	1,000	7,200
Income before income taxes		2,300
Income taxes		920
Net income		$ 1,380

Other information:

- The cost of goods sold includes inventory valued using the LIFO method. The value of inventory using the LIFO and FIFO methods are as follows (in '000s):

	LIFO	**FIFO**
Opening inventory	$125	$140
Ending inventory	$145	$155

- The company claims the maximum allowable capital cost allowance (CCA) each year. No capital assets were purchased or disposed of during Year 7. Undepreciated capital cost balances at the beginning of the year (in '000s):
  - Class 8 (20% CCA rate) => $1,950
  - Class 10 (30% CCA rate) => $1,300
- The miscellaneous expenses include the following (in '000s):
  - Interest on income taxes paid after due date $50
  - Interest with respect to the acquisition of 80% of the shares of another Canadian corporation $15
  - Contribution to a registered federal political party $10

What is the taxable income for the company for Year 7 (in '000s)?

a) $2,375
b) $2,385
c) $2,325
d) $2,390

Capital Gains & Losses

51. 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 transaction resulted in a gain or loss.

52. 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 net capital gains of $26,350.
    b) Jerry has a taxable capital gain of 13,175.
    c) Jerry has business income of $26,350.
    d) Jerry must include 50 percent of his gain in Taxable Income.

53. 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 loss.

54. 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.

55. (+) In 2006, Company Q received a government grant in the amount of $5,000 to help pay for a particular non-depreciable capital property that Company Q purchased at the beginning of 2006 for $50,000. In 2012, Company Q sold this property for $85,000. Selling costs were $1,000. The total taxable capital gain that would be included in Company Q's net income for tax purposes would be

    a) $39,000.
    b) $19,500.
    c) $17,000.
    d) $20,000.

Question 55 and 56 are based on the following information:

BMP Products Ltd. (BMP) has been in operation for more than 20 years. Ten years ago, planning for future growth of its manufacturing facilities, BMP purchased a plot of land in an industrial area for $150,000. During the last couple of years, BMP has not met expectations.

Business has fallen slightly and cash flows are tight. Due to the decrease in product demand, management does not believe that BMP will use this plot of land in the near future. As a result, during the taxation year ended March 31, 2012, BMP sold this land for $400,000. $150,000 was received in February, 2012, with the remainder to be paid in two equal installments in February, 2013 and February, 2014. You have been advised that capital gains treatment is appropriate for this transaction.

56. BMP can claim a reserve on the above sale at March 31, 2012 of:
   a) Nil.
   b) $156,250.
   c) $200,000.
   d) $250,000.

57. BMP can claim a reserve on the above sale at March 31, 2013 of:
   a) Nil.
   b) $78,125.
   c) $125,000.
   d) $150,000.

58. Bob sold a capital property on December 31, 2012 for $300,000; $280,000 is payable on December 31, 2018, and the balance was paid immediately in cash. The adjusted cost base of the property was $170,000 and the selling costs totaled $10,000. Which one of the following amounts represents the **minimum** taxable capital gain in 2012?
   a) $4,000.
   b) $10,000.
   c) $12,000.
   d) $24,000.

59. Mike sold the following assets in 2012:

Sales	Price	Cost
Painting	$2,500	$ 800
Stamp collection	600	1,200
Outboard motor	900	100
Antique desk	1,300	1,950

Which one of the following amounts represents his capital gain, net of capital losses, for tax purposes in 2012?
   a) $650.
   b) $1,250.
   c) $1,300.
   d) $1,500.

60. Indicate which of the following is not listed personal property:
   a) A rare manuscript.
   b) An antique chair.
   c) A piece of jewelry.
   d) A piece of sculpture.

Property Income

61. In which of the following situations would the income attribution rules apply?
    a) Transferring ownership of a capital property to a subsidiary in return for more shares in the subsidiary at an elected transfer price equal to the adjusted cost base of the capital property.
    b) Transferring ownership of an income-generating property to a spouse.
    c) Hiring a spouse as an employee of the family business at a salary appropriate for the services performed by the spouse.
    d) Both a) and b) above.

62. Which of the following is not a characteristic of interest?
    a) It must represent compensation for use of a principal amount.
    b) It must accrue continuously over time.
    c) It must be paid on a regular, periodic basis.
    d) It must be calculated with reference to a principal amount.

63. Saul has two rental properties that are mortgaged. Both properties are in Class 1, which has a maximum CCA rate of 4 percent. At the beginning of the year, Property A has a UCC of $500,000 and Property B has a UCC of $1,100,000. Before consideration of CCA, Property A earned net rental income of $43,000, and Property B had a net rental loss of $27,000. What is the maximum amount of CCA Saul will be able to claim this year?
    a) Nil.
    b) $16,000.
    c) $20,000.
    d) $44,000.

64. Which one of the following statements is true with respect to the reporting by an individual of dividends received from a taxable corporation resident in Canada?

  a) The amount received is grossed up and then the individual may claim a tax credit.
  b) An individual who receives dividends need not report them for personal tax purposes because the corporation has already paid tax.
  c) The individual includes the amount received in the computation of income from a business because the amount was expensed by the corporation in calculating its business profits.
  d) The amount received is grossed up and included as income from property in the computation of net income for tax purposes, but then the entire grossed-up amount is taken as a deduction in the computation of taxable income.

65. A Canadian controlled private corporation pays a dividend of $10,000 to its only shareholder, a Canadian resident. This shareholder is already in the maximum federal tax bracket. Indicate the amount of additional federal tax that will be paid by this individual as a result of receiving the dividend in 2012.
  a) $1,125.
  b) $1,958.
  c) $2,900.
  d) $3,625.

66. Sherry is in the top federal tax bracket of 29 percent. She lives in a province where her provincial marginal tax rate is 17.50 percent and the provincial dividend tax credit is 6.21 percent of the grossed up amount of dividends. If Sherry receives a non eligible dividend of $16,000 from a taxable Canadian corporation, how much will she have left after tax?
  A. $ 9,615.
  B. $10,608.
  C. $10,700.
  D. $11,686.

67. Sherry is in the top federal tax bracket of 29 percent. She lives in a province where her provincial marginal tax rate is 17.5 percent and the provincial dividend tax credit is 31 percent of the dividend gross up. If Sherry receives an eligible dividend of $16,000 from a Canadian public corporation, how much will she have left after tax (rounded to the nearest $1,000)?

A. $ 4,000.
B. $10,000.
C. $11,000.
D. $13,000.

68. (+) Jane Thomas, who has a marginal federal tax rate of 29%, has decided to invest $30,000 in preferred shares with a cumulative, non-participating dividend of 5% based on the current market price. Assuming that the non eligible dividend is paid yearly, the annual after-tax income (ignoring provincial tax) for Jane that would be generated by the above would be

a) $440.
b) $684.
c) $1,206.
d) $1,500.

Taxation of Corporations

69. When dividends are paid by one taxable Canadian corporation to another taxable Canadian corporation, the recipient corporation will include the dividends in:
    a) Both Taxable Income and Net Income For Tax Purposes, but with an offsetting credit against Tax Payable.
    b) Neither Taxable Income nor Net Income For Tax Purposes.
    c) Net Income For Tax Purposes, but not Taxable Income.
    d) Taxable Income, but not Net Income For Tax Purposes.

70. Which of the following statements does **NOT** apply to the taxation of a corporation?
    a) A corporation can choose any fiscal year that does not exceed 53 weeks.
    b) A corporation can be a deemed resident.
    c) Taxes payable are generally due within two months of the fiscal year end.
    d) The filing deadline is four months after the fiscal year end.

71. Control of SWM Ltd., a Canadian-controlled private corporation, has been acquired by a non-related person who will operate the company in the same business as before. On the date that control was acquired, SWM Ltd. had net capital losses and non-capital losses for tax purposes available to carry forward. The non-capital losses included losses from carrying on a business, property losses, and allowable business investment losses. Which of the following will SWM Ltd. be allowed to carry forward to apply to future business income or future capital gains?
    a) The net capital losses.
    b) All of the non-capital losses.
    c) Only the non-capital losses from carrying on a business and the allowable business investment losses.
    d) Only the non-capital losses from carrying on a business.

72. Which of the following statements about the small business deduction is **FALSE**?

a) A corporation must be a Canadian-controlled private corporation throughout the year to qualify for the small business deduction.

b) The small business deduction is a deduction used in determining income for tax purposes.

c) Foreign income not taxed in Canada is removed from the base on which the small business deduction is calculated.

d) The benefits of the small business deduction are also available for large Canadian-controlled private corporations.

73. Which of the following is an allowable expense for calculating net income for tax purposes for a Canadian controlled private corporation?

a) Amortization expense.

b) Charitable donations.

c) Club dues and fees.

d) Promotion expense.

74. ABC Ltd. is a Canadian-controlled private corporation operating a transport business in Ontario. The company has taxable income of $210,000 for 2012 with income from active business carried on in Canada of $150,000 (before considering charitable donations of $15,000 that were made during the year). Assuming ABC Ltd. is not associated with any other corporations operating in Canada, the maximum amount that would be eligible for the small business deduction for 2012 is

a) $210,000.

b) $200,000.

c) $150,000.

d) $100,000.

75. When dividends are paid by one taxable Canadian corporation to another taxable Canadian corporation, the recipient corporation will include the dividends in:
   a) Both Taxable Income and Net Income For Tax Purposes, with no offsetting credit against Tax Payable.
   b) Neither Taxable Income nor Net Income For Tax Purposes.
   c) Net Income For Tax Purposes, but not Taxable Income.
   d) Taxable Income, but not Net Income For Tax Purposes.

76. During the current year, Loner Ltd. has a business loss of $250,000, net taxable capital gains of $45,000, an Allowable Business Investment Loss of $15,000, and receives dividends from taxable Canadian corporations in the amount of $35,000. What is the amount of the non-capital loss for the year?
   a) $185,000.
   b) $220,000.
   c) $250,000.
   d) $265,000.

77. The 17 percent small business deduction is only available on:
   a) The first $500,000 in manufacturing and processing income earned by a Canadian controlled private corporation.
   b) The active business income of a private corporation with no more than five full-time employees devoted to the production of property income.
   c) The first $500,000 of active business income earned by a private corporation.
   d) None of the above.

78. Which of the following is an example of a Canadian controlled private corporation?
   a) A Canadian corporation in which 55 percent of the common shares are owned by Canadian residents and the remaining 45 percent of the common shares by non-residents. The shares are all privately held.
   b) A wholly-owned Canadian subsidiary of a public company.
   c) A Canadian corporation in which Mr. Adams and Mr. Peters each own 50 percent of the shares. Both Mr. Adams and Mr. Peters are Canadian residents.
   d) Both A and C.

79. Village Concrete Inc. (Village) is a Canadian controlled private corporation (CCPC) with a year end of December 31, 2012. The owner of Village also controls Bob's Roofing Inc. (Bob's), another CCPC with active business income for the year ended December 31, 2012 of $116,500. The owner has agreed to allocate a sufficient amount of the small business deduction to Bob's to ensure that all of its active business income is taxed at the lower rate.

Other than the income related items listed below, you may assume that Village's income is from active business in Canada.

Other information about Village:

1. Village had a taxable capital gain in the year of $2,000.
2. Charitable donations were $2,500.
3. Recaptured CCA from operating assets was $1,000.
4. Net Income For Tax Purposes for the year was $185,000.

What is the appropriate small business deduction for Village?

a) $30,940.
b) $31,025.
c) $31,110.
d) $48,195.

80. Caribbean Cruise Tours (CCT) is a Canadian controlled private corporation that operates a chain of travel agencies. In its most recent fiscal year, the Company had the following financial results:

Active business income earned in Canada	$125,000
Active business income earned outside Canada	25,000
Taxable capital gains	Nil
Investment income earned in Canada	100,000
Net Income For Tax Purposes	$250,000
Taxable Income	$175,000

The company paid no foreign taxes on its foreign operations.

CCT has no associated corporations. Which one of the following amounts represents the **maximum** amount of income on which CCT may claim the small business deduction?

a) $125,000.
b) $150,000.
c) $175,000.
d) $225,000.

Integration and the Refundable Dividend Tax on Hand Account

81. Aggregate investment income, as defined in ITA 129(4), includes the following:
    a) Dividends from any source.
    b) Net taxable capital gains for the year, less net capital loss carry overs deducted.
    c) Interest and rents, but not foreign source property income.
    d) Interest, rents, and dividends.

82. A Ltd. is a Canadian controlled private corporation that operates a chain of fast-food restaurants. In its most recent fiscal year, the Company had the following financial results:

Active business income eligible for the small business deduction	$200,000
Taxable capital gains	-0-
Foreign investment income	55,000
Investment income earned in Canada	45,000
Net Income For Tax Purposes	$300,000
Taxable Income	$250,000

The Company paid no foreign taxes on its foreign investment income. A Ltd. is not associated with any other corporations.

Which one of the following amounts represents the refundable portion of Part I tax?
    a) $12,000.
    b) $13,333.
    c) $26,667.
    d) $66,667.

83. Premier Investments Inc. (Premier) is a private corporation. Premier received $20,000 of dividends from its investments in publicly traded Canadian shares during its taxation year ended June 30, 2012. Premier has loss carry forwards as follows: non-capital losses of $3,000, net capital losses of $5,000, and farm losses of $7,000. All of these losses are available for application in Premier's 2012 taxation year. Assuming Premier has no other income, what is Premier's minimum 2011 Part IV Tax Payable?

a) Nil.
b) $1,667.
c) $3,334.
d) $5,666.

84. Morgan Ltd., a CCPC, had a $25,000 balance in its Refundable Dividend Tax On Hand (RDTOH) account on December 31, 2011, the end of its taxation year. Its refundable portion of Part I tax, before any refunds, for the 2012 year is $10,000. It did not receive any dividends in 2012. Morgan Ltd. paid dividends of $15,000 in each of 2011 and 2012. What is the balance in Morgan Ltd.'s RDTOH account at December 31, 2012?

a) $25,000.
b) $30,000.
c) $35,000.
d) $40,000.

85. Which of the following statements about the use of a corporation is correct?
a) Use of a corporation will always result in the deferral of taxes.
b) Use of a corporation can result in a tax saving.
c) Use of a corporation is more desirable in a province that has low tax rates on individuals.
d) Use of a corporation is more desirable in a province that has a low (e.g., below one-third of the gross up) dividend tax credit.

86. During the current year, Norton Tools Ltd. has net taxable capital gains of $45,000, receives dividends of $34,000, and earns interest income of $21,000. Taxable Income for the year equals $280,000, of which $210,000 is eligible for the small business deduction. The Company's additional refundable tax for the year is equal to:

a) $4,667
b) $6,667
c) $4,400
d) $3,667

Wild Cards

87. Mr. Rollet currently owns land (capital property) that he intends to transfer to Holdco using the "rollover" provision, subsection 85(1) of the Income Tax Act. The land has a fair market value of $28,000 and an adjusted cost base of $40,000. Mr. Rollet will receive from Holdco as consideration for the land, a $10,000 note and one of its no par value common shares. The minimum amount that Mr. Rollet can elect (which determines his deemed proceeds of disposition) under subsection 85(1) is

    a) $10,000.
    b) $28,000.
    c) $30,000.
    d) $38,000.

88. Barb Weiss, CMA, is researching the requirements of S 85.1 of the Income Tax Act. In order for a taxpayer to exchange shares in Corporation A for shares in Corporation B for tax deferral purposes, which of the following conditions must apply?

    a) The transferred shares of the taxpayer must be capital property.
    b) Immediately prior to the exchange, the taxpayer and Corporation B must be dealing with each other at arm's length.
    c) Immediately after the exchange, the taxpayer must control Corporation B.
    d) Both a) and b) above.