4Point Learning Systems Inc.

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 is consistent with that on the Entrance Examination, the number of stems (there are five on the entrance exam); 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).

Multiple Choice Questions

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.
    E. None of the above.

2. 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.
    E. None of the above.

3. John Barron is self-employed and plans to file his 2011 tax return on June 15, 2011. His balance-due day is:

    A. April 30, 2011.
    B. April 30, 2012.
    C. June 15, 2012.
    D. June 15, 2011.
    E. None of the above.

4. 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.
   E. None of the above.

5. Larry Short has self-employment income of $62,000 in 2011. 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 2011 will be $8,000. Which of the following statements is true?

   A. Larry must file his return for 2011 by April 30, 2012.
   B. Larry should pay installments in 2011.
   C. Larry must pay his income tax for 2011 by June 15, 2012.
   D. If Larry has as much income in 2012 as he had in 2011, he will have to pay installments during 2012.
   E. None of the above.

6. 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. The mind and management of Baron resides in the United States and all of its business is conducted in the US.
   D. Marston Ltd., a U.S. corporation that employs a large sales force to sell its products in Ontario.
   E. None of the above.

7. 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.
    E. None of the above.

8. 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 personal property or social ties in Canada.
    D. She did not leave taxable Canadian property in Canada.
    E. She did establish permanent residence in another jurisdiction.

9. 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 2007, she accepted a minimum two-year contract with CS Services Inc. in London, England. Her position with CS Services Inc. started October 1, 2007. 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 2012, its manufacturing plant was located in Mississauga, Ontario. In May 2012, 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, 2010 to February 1, 2014.
    E. None of the above.

10. 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.
    E. None of the above.

11. 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.
    E. None of the above.

12. 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.
    E. None of the above.

13. 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.
    E. None of the above.

14. 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.
    E. None of the above.

15. 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.
    E. None of the above.

16. 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.
    E. Individual premiums under provincial hospitalization plans.

Multiple Choice Questions

17. 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 owned busses.
    D. Premiums under private health services plans.
    E. Uniforms and special clothing.

18. T. Adams commenced employment at Moana Sales Ltd. on February 1, 2011. He had lived in an apartment until May 2011, at which time he purchased a new house. Under the terms of his employment, he received a housing loan on May 1, 2011 of $80,000 at a rate of 2 percent. He pays the interest on the loan on a monthly basis. Assume the 2011 prescribed interest rates applicable to employee loans are as follows:

First quarter	5%	J – M
Second quarter	4%	A – Jn
Third quarter	3%	Jl – S
Fourth quarter	3%	O – D

4% × 80,000 × 2/12   533
3% × 80,000 × 6/12 = 1200
1733
2% × 80,000 × 8/12 (1067)
666

What is T. Adams' taxable benefit on the above loan for 2011?

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

19. John secured employment as a commissioned salesman in July, 2011. In 2010, 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, 2012. 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 2011:

- 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

10,000

What is the maximum deduction John may claim for employment expenses in 2011?

A. $5,000.
B. $9,000.
C. $15,000.
D. $16,000.
E. None of the above.

20. 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.
   E. None of the above.

21. 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.
    E. None of the above.

22. 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.
    E. None of the above.

23. 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.
    E. None of the above.

24. 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.

25. 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.

26. 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.

27. 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.
    E. None of the above

$\frac{45000}{\text{min } 5} = 9.000 \times 1/2 = 4500$

28. 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.
    E. None of the above.

$\frac{70,000}{15} \times \frac{31}{365}$

RPT

29. 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.
   E. None of the above.

125000 x 4%
No 1/2 yr rule = 5000

30. 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.
   E. None of the above.

31. 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.
   E. None of the above.

40,000 x 20% x 1/2
4000

Multiple Choice Questions

32. 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
    E. Both A and D.

	L	B	T
Proceeds	180	340	520
Cost	80	240	320
Cap gain	100	100	

UCC 196 − 240 = 44

33. In determining whether a gain resulting from a disposition of an asset is capital or business, various criteria have been used by the courts. 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.

34. 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.
    E. None of the above.

35. 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.
E. None of the above.

36. 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.
E. None of the above.

earlier of the received and receivable

37. 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.
E. None of the above.

38. 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.
E. None of the above.

43 − 27 = 16
Max CCA (16)
0

39. 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 dividend of $16,000 from a taxable Canadian corporation, how much will she have left after tax (rounded to nearest 100)?
    A. $ 9,600.
    B. $10,600.
    C. $10,700.
    D. $11,700.
    E. None of the above.

16000 × 125% = 20,000
20,000 (29 + 17.5)% = 9300
F DTC 2/3 (20 − 16) (2667)
P DTC 6.21% × 20,000 = (1242)
5391
10609

16000 − 5391 = 10609

Question 40 and 41 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, 2011, BMP sold this land for $400,000. $150,000 was received in February, 2011, with the remainder to be paid in two equal installments in February, 2012 and February, 2013. You have been advised that capital gains treatment is appropriate for this transaction.

400,000 − 150,000
Cap Gain 250,000

40. BMP can claim a reserve on the above sale at March 31, 2011 of:
    A. Nil.
    B. $156,250.
    C. $200,000.
    D. $250,000.
    E. None of the above.

Lower of
- $\frac{1}{5}(4-0) \times 250{,}000 = 200{,}000$
- $\frac{250}{400} \times 250{,}000 = 156250$

41. BMP can claim a reserve on the above sale at March 31, 2012 of:
    A. Nil.
    B. $78,125.
    C. $125,000.
    D. $150,000.
    E. None of the above.

- $\frac{1}{5}(4-1) \times 250{,}000 = 150{,}000$
- $\frac{125}{400} \times 250{,}000 = 78125$

42. Bob sold a capital property on December 31, 2011 for $300,000; $280,000 is payable on December 31, 2015, 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 he following amounts represents the **minimum** taxable capital gain in 2011?
    A. $4,000.
    B. $10,000.
    C. $12,000.
    D. $24,000.
    E. None of the above.

300,000
− 170,000
− 10,000
Cap Gain 120,000

Reserve: $\frac{4}{5} \times 120,000$ = 96000
Lower of: $\frac{280}{300} \times 120,000$
24000
$\times \frac{1}{2}$
12000

43. Mike sold the following assets in 2011:

LPP
PUP

Sales	Price	Cost	Cap Gain
Painting	$2,500	1000 ~~$ 800~~	1500
Stamp collection	1000 ~~600~~	1,200	(200)
Outboard motor	1000 ~~900~~	1000 ~~100~~	Nil
Antique desk	1,300	1,950	Nil

Which one of the following amounts represents his capital gain, net of capital losses, for tax purposes in 2011?
    A. $650.
    B. $1,250.
    C. $1,300.
    D. $1,500.
    E. None of the above.

44. Indicate which of the following is not listed personal property:
    A. A stamp.
    B. A rare manuscript.
    C. An antique chair.
    D. A piece of jewellery.
    E. A piece of sculpture.

45. Stan Aiken changed employment during 2011 and, as a result of the change, moved 150 kilometers, from Windsor to London. His new employer was located in London and reimbursed 50 percent of Stan's eligible moving expenses. On his 2011 personal tax return, Stan can:
    A. Claim 0 percent of his moving expenses.
    B. Claim 50 percent of his moving expenses against his income from employment.
    C. Claim 50 percent of his moving expenses against his income from his new employer.
    D. Claim 100 percent of his moving expenses against his income from employment.
    E. None of the above.

46. In 2011, Mr. Kumar moved from Saskatchewan to Prince Edward Island to start a new business. In his 2011 fiscal year, the business generated income in excess of $50,000. Mr. Kumar incurred the following costs of moving:

Renter → owner

Transport of household effects	$5,000	5000
Travel - self, spouse, and three children	2,000	2000
Legal fees - house purchase in PEI	X 900	0
Cancellation costs - lease in Saskatchewan	750	750
Temporary accommodation while waiting for new house at $70 per day for 30 days	2,100 70×15	1050
House-hunting trip (prior to move)	X 500	
		8800

Which one of the following amounts represents the **maximum** amount that Mr. Kumar may deduct for moving expenses in his 2011 personal income tax return?
A. $ 8,800.
B. $ 9,850.
C. $10,350.
D. $10,750.
E. None of the above.

102000 ÷ 12. = 8500

47. During the current year, Jan Harding accepted a job transfer from British Columbia to Ontario. She will begin her new position on December 1. Her new salary will be $102,000 per annum. Upon arriving, Jan spent 25 days staying in a hotel due to an unfortunate delay in moving into her new residence. Jan incurred expenses related to the move of $13,402. Included in this total was $1,125 for meals and $2,125 for hotel stays while waiting for her new residence to be ready. How much can she claim on her 2011 tax return for moving expenses?

130 day × 10 = 1300

13402 - 1300 = 12102

    A. $ 8,500.
    B. $12,102.
    C. $12,952.
    D. $13,402.
    E. None of the above.

48. Maxine used to work and live in Alberta, but has accepted a new job in Ontario. The new job has a starting salary of $105,600 per year, or $8,800 per month. She moved there with her family in October, so she could start her new job on November 1. While she had rented her accommodations in Alberta, she bought a new house in Ontario. She incurred the following expenses as a result of the move:
    - _ canceling the lease on her rental apartment, $1,200. ✓
    - _ hiring movers to pack and move her household effects, $12,000. ✓
    - _ legal fees on the house purchase, $1,400.
    - _ land transfer tax on the house purchase, $3,000.
    - _ cost of disconnecting utilities in Alberta, $100. ✓
    - _ cost of connecting utilities in Ontario, $200. ✓
    - _ gas, food, and lodging while traveling from Alberta to Ontario, $2,800. ✓

    How much can she claim for moving expenses for the year of the move?

$\Sigma = 16300$

    A. $16,000.
    B. $16,300.
    C. $20,400.
    D. $20,700.
    E. None of the above.

Multiple Choice Questions

49. 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.
    - E. None of the above.

Emp 20 000
Bus. (16000)
1400 x 125% 1750
(2000)
positive
At lease

50. 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.
    - E. None of the above.

51. 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. Both Taxable Income and Net Income For Tax Purposes, with no offsetting credit against Tax Payable.
    - C. Neither Taxable Income nor Net Income For Tax Purposes.
    - D. Net Income For Tax Purposes, but not Taxable Income.
    - E. Taxable Income, but not Net Income For Tax Purposes.

52. 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 2011.
   A. $1,125.
   B. $1,958.
   C. $2,900.
   D. $3,625.
   E. $4,350.

10,000 x 1.25 = 12500
Taxes 12500 x 29% 3625
DTC = 2/3 x 2500 (1667)
1958

53. Peach Farming Ltd. has been in operation for twenty years. While the Company incurred some losses on start-up, it had very profitable years until about five years ago. At present, it has farming losses carried forward as follows:

Year Ended	Loss
October 31, 2007	$10,000
October 31, 2008	$ 8,000
October 31, 2009	$15,000

Updated + changed dates

On December 31, 2009, 70 percent of the shares in Peach Farming Ltd. were purchased by Mr. Knox. Mr. Knox was not related to the corporation prior to the purchase. Assuming Peach Farming Ltd. maintains a year end of October 31 for tax purposes, and the same business is carried on, the losses expire as follows:

Deemed year end.

A. $10,000 on October 31, 2027; $8,000 on October 31, 2028, and $15,000 on October 31, 2029.
B. $10,000 on October 31, 2026; $8,000 on October 31, 2027, and $15,000 on October 31, 2028.
C. $10,000 on October 31, 2017; $8,000 on October 31, 2018, and $15,000 on October 31, 2019.
D. $10,000 on October 31, 2057; $8,000 on October 31, 2058, and $15,000 on October 31, 2059.
E. None of the above.

54. 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.
   E. None of the above.

45000
(250000)
(15000)
(220.000)

Multiple Choice Questions

55. The 17 percent small business deduction is only available on:

    A. Income earned in Canada by a resident corporation. CCPC
    B. The first $500,000 in manufacturing and processing income earned by a Canadian controlled private corporation. ABI
    C. The active business income of a private corporation with no more than five full-time employees devoted to the production of property income. CCPC
    D. The first $500,000 of active business income earned by a private corporation. CCPC
    E. None of the above.

56. 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 B and C.
    E. Both A and C.

57. 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.
    E. None of the above.

Least of 3 amounts

Multiple Choice Questions

1) $26\frac{2}{3}\%$ (55,000 + 45,000) = 26,667

2) $26\frac{2}{3}\%$ (250,000 − 200,000) = 13,333

TI − Income eligible for SBD

58. 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:

3 Taxes Payable [250,000 (38% − 10%)] − [17% × 200,000] = 36,000

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

Ag Invest Income

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.
E. None of the above.

59. 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, 2011. 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 2011 taxation year. Assuming Premier has no other income, what is Premier's minimum 2011 Part IV Tax Payable?

20,000 × $33\frac{1}{3}$ = 6667

(3000 + 7000) × $33\frac{1}{3}$ = 3333

~ 3334

A. Nil.
B. $1,667.
C. $3,333.
D. $5,666.
E. None of the above.

Multiple Choice Questions

60. Morgan Ltd., a CCPC, had a $25,000 balance in its Refundable Dividend Tax On Hand (RDTOH) account on December 31, 2010, the end of its taxation year. Its refundable portion of Part I tax, before any refunds, for the 2011 year is $10,000. It did not receive any dividends in 2011. Morgan Ltd. paid dividends of $15,000 in each of 2010 and 2011. What is the balance in Morgan Ltd.'s RDTOH account at December 31, 2011?

    A. $25,000.
    B. $30,000.
    C. $35,000.
    D. $40,000.
    E. None of the above.

15000 × 33 1/3

Ref Pt I

25000
(5000)
20,000
10,000
30000

61. 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.
    E. All of the above are correct.

62. Individual Residency

Part A
Mary Sothor is the Canadian ambassador to Tanzania. She was a resident of Canada immediately prior to her appointment as ambassador. Living with her in Tanzania's capital city are her husband and two children. Her husband was born in Canada and was a Canadian resident at the time of their marriage. He is exempt from Tanzanian taxation because he is the spouse of a foreign diplomat. Her 25 year old son was born in Canada and works for a Tanzanian company.

His income exceeds $30,000 annually. Her 16 year old son was born in Kenya and is a full time student with no income of his own. Which of these individuals would be considered Canadian residents for tax purposes?

Mary deemed resident
16 yr old son. – mother
Husband – spouse of resident & exempt as a result

Part B
Ms. Sharon Washton was born 26 years ago in Bahn, Germany. She is the daughter of a Canadian High Commissioner serving in that country. Her father still holds this position. However, Ms.Washton is now working in Prague, Czechoslovakia. The only income that she earns in the year is from her Prague marketing job and is subject to taxes in Czechoslovakia. She has never visited Canada. Determine the residency status of Sharon Washton.

Non resident

63. Corporate Residency

Part A

Nixon Inc. was incorporated as an Ontario corporation in 1998. However, since 2004, all of the Company's business has been carried on outside of Canada. Determine the residency status of Nixon Inc.

Incorp in Cda after 1965
Resident

Part B

Wolfhowl Ltd. was incorporated in Banff, Alberta in 1961. Despite its Canadian charter, the Company has never carried on business in Canada. However, until 1971, all meetings of the Board of Directors were held in Banff. Since 1971, all directors meetings have been held in Wyoming. Determine the residency status of Wolfhowl Ltd.

Incorp in Canada before 1965
But was tied to Cda
1965 - 1971
Resident forever.

64. Taxable Benefits - Automobile

$\frac{67}{72}$ > 50%

Ms. Robin Nestor is provided with an automobile that is owned by her employer. The employer purchased the car in 2011 for $54,000, plus $2,700 GST and $4,320 PST. During 2011, she drives the car a total of 72,000 kilometers, of which 67,000 kilometers were employment related. The automobile was available to Ms. Nestor for 268 days during 2011. Calculate Ms. Nestor's minimum taxable benefit for the use of the automobile.

Standby

$\frac{5000}{1667 \times 9}$ $(54000 + 2700 + 4320) \times 2\% / mo \times \frac{268}{30}) = 3660$

9

Op Cost benefit

1/2 of SB 1830

or .26/km × 5000 1300

2012 rate announced late Dec 2011.

$\frac{1300}{4960}$

Short Answer Questions

65. Taxable Benefits - Automobile

During 2011, 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 $35 in GST and $56 in PST. During the year, the car is available to Mr. Warren for a total of 310 days. 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.

$\frac{22}{40} > 50\%$

$\frac{A}{B} = \frac{1800}{1667 \times 10} = 1$

Standby

$1 \times \frac{2}{3} \times 791 \times \frac{310}{30} = 5273$

$\Downarrow$ 10

66.

Op Cost Benefit

$.26 \times 18000 = 4680$

or $1/2 \times 5273$ 2636

2636

7909

Short Answer Questions

Stock Options

Part A

Ms. Mary Mason is employed by a large public company. In 2006, 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. Early in 2011, when the shares are trading at $45 per share, she exercises her options and acquires 1,000 shares which she plans on holding for at least three years. As Ms. Mason is taking unpaid leave for ten months to pursue her passion for accounting courses, she does not make an election to defer the employment income benefit. What is the effect of the exercise of the options on Ms. Mason's 2011 employment income?

Part B

How would your answer to Part A differ if Ms. Mason's employer was a Canadian controlled private company? Explain.

2011

Grant Date

FMV 20

Ex 23

Exercise Date

45

- 23

22

x 1000

Sale of Shares

Employment Income. 22,000

Div C Ded'n

1/2 x 22000 (11,000)

↑ to taxable income. 11,000

Part B

No taxes until sale of shares

67. Recapture

At the beginning of 2011, 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, 2011, one of the assets is sold for $7,950. There are no other additions or dispositions prior to the Company's December 31, 2011 year end. What is the effect of the disposition on the Company's 2011 net business income?

Lower of cost & proceeds

UCC		7423
Add.		
– Disp	7500 (7500)	(7500)
Avail for UCC		(77)
Recapture		77
UCC		0

Business Income ↑ by recapture of $77

Note there would also be a TCG.

68. Terminal Loss
At the beginning of 2011, Quest Inc. has two assets in Class 43. The cost of each asset was $72,000 and the Class 43 UCC balance was $56,472. On June 30, 2011, 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, 2011 year end. What is the effect of the disposition on the Company's 2011 net business income?

UCC		56472.
Add		
Disp	41500	
	(41500)	41500
Avail for CCA		14972
No Assets remain		
Term Loss		(14972)
		0

Must ↓ Business income by 14972 terminal loss

69. a Dividend Income

During the current year, Ms. Marion Blatz receives dividends from taxable Canadian corporations in the amount of $5,600. Her income is such that this additional amount will be taxed at a 22 percent federal rate and a 10 percent provincial rate. The province has a dividend tax credit equal to 38 percent of the gross up. Determine the total tax that will be payable on these dividends.

5600 × 125% = 7000

Fed 7000 × 22% = 1540

DTC $\frac{2}{3}$ (7000 − 5600) (933) = 607

Prov 7000 × 10% = 700

DTC 38% (1400) (532) 168

774

69. b **Dividend Income**

During the current year, Mr. Franz Schlitz receives $23,500 in eligible dividends from Canadian public corporations. His income is such that this additional amount will be taxed at a 29 percent federal rate and a 14 percent provincial rate. On eligible dividends, the province has a dividend tax credit equal to 25 percent of the gross up. Determine the total tax that will be payable on these dividends (use calculations for 2012).

2010 44% Gross up $\frac{10}{17}$ DTC

2011 41% GU $\frac{13}{23}$ DTC

2012 → 38% $\frac{6}{11}$ DTC

23500 × 1.38 = 32430

Fed 32430 × 29% = 9405

DTC $\frac{6}{11}$ (32430 − 23500) (4871)

4534

Prov 32430 × 14% 4540

25% (32430 − 23500) − 2233

2307

Total tax = 4534 + 2307 = 6841

70. Capital Gains Reserve

During June, 2011, Ms. Janet Houston sells a capital asset with an adjusted cost base of $112,500, for proceeds of $172,300. She receives $33,000 of this amount in cash, with the balance due at the end of the following year. What is the minimum amount that she will have to include in her 2011 Net Income For Tax Purposes as a result of this transaction?

Orig Cap Gains

	172300	Proceeds
−	112500	ACB
	59800	Cap Gain

Reserve

Lesser of

- $\frac{1}{5}(4-0)$ 59800 $= \boxed{47840}$
- $\frac{172300 - 33000}{172300} \times 59800 = 48346$

Cap Gain	59800
Reserve	47840
Net Capital Gain	11960
	× 1/2
Tax Cap Gain	5980

71. Dividend Refund

Ho Trading Company is a Canadian controlled private corporation. At the end of the previous year, it had an RDTOH account balance of $43,500. It paid dividends during the previous year of $18,000, resulting in a dividend refund of $6,000. During the current year, Ho Trading Company's only income is $43,000 in taxable capital gains and $12,350 in dividends received from a temporary investment in Royal Bank shares. During the year, the Company declares and pays a $35,000 dividend on its common shares. Determine the Company's dividend refund for the year.

RDTOH 43500

Last yrs dividend refund

18000 × 33 1/3 % (6000)

37500

Part IV tax

12350 × 33 1/3 % 4117

Ref Part I tax

43000 × 26 2/3 % 11467

53084

D.E Refund

Lesser of Balance in RDTOH 53084

33 1/3 % × dividends paid

35000 × 33 1/3 % $\boxed{11667}$