**COMPREHENSIVE CASE SOLUTIONS**

These comprehensive cases can be found on Connect.

**Solution to COMPREHENSIVE CASE ONE JOHN SMITH AND BOB JOHNSON**

*Comparison of two employment offers received by John Smith*

1. Offer of employment from ABC Co.
   1. Salary of $45,000 is included in income when received [ITA 5(1)]
   2. Stock option: The option is “in the money” at the date of grant; exercise price = $20; value at grant date = $25.

If ABC Co is not a Canadian-controlled private corporation (CCPC):

* there will be an employment income inclusion on the exercise date to the extent the value at the exercise date exceeds $20 [ITA 7(1)]
* the stock option deduction will not be available [ITA 110(1)(d)]
* John will have a capital gain or loss on the disposition of the shares based on the difference between the selling price and the value at the date of exercise

If ABC Co is a CCPC:

* the employment income inclusion is deferred until the date of disposition [ITA 7(1.1)]
* if John does not dispose of the ABC Co shares within two years after acquiring them, John is entitled to the stock option deduction which is equal to ½ of the stock option employment benefit [ITA 110(1)(d.1)]
* John will have a capital gain or loss on the disposition of the shares based on the difference between the selling price and the value at the date of exercise
  1. Home purchase loan: John will have an imputed interest benefit included in his employment income. The benefit is calculated by multiplying the loan principal by the prescribed rate of interest. The benefit is reduced by the 1% interest paid by John, provided the interest is paid by 30 days after the end of the calendar year.

If the prescribed rate increases, the loan benefit will continue to be calculated using the 2% prescribed rate in effect at the time the home purchase loan was received (for a period of five years) [ITA 80.4].

* 1. Private health services plan: The annual premium for prescription drugs, dental, and vision coverage does not result in a taxable benefit [ITA 6(1)(a)].
  2. Tax deductions: John will be able to claim the following deductions relating to his car in computing his employment income.

|  |  |  |  |
| --- | --- | --- | --- |
| CCA | $25,000 (includes HST) x 30% x 1.5 (CCA rate in the first year; 30% thereafter) | $11,250 | 8(1)(j) |
| Interest | Lesser of :  (i) Amount paid $3,000  (ii) $300 x 365/30 = $3,650 | 3,000 | 8(1)(j)  67.2 |
| Gasoline |  | 5,000 | 8(1)(h.1) |
| Insurance |  | 2,000 | 8(1)(h.1) |
|  |  | $21,250 |  |
|  |  |  |  |
|  | Employment usage 10,000/30,000 | $7,083 |  |

1. Offer of employment from DEF Co.
2. Salary of $60,000 is included in income when received [ITA 5(1)].
3. The group term life insurance premiums are included in income [ITA 6(4)].
4. The fitness club membership results in a taxable benefit [ITA 6(1)(a)].
5. The phone is a capital asset and therefore CCA cannot be claimed for the purposes of computing employment income.
6. Taxable benefit with respect to the car is calculated below for 20X8 and 20X9.

|  |  |  |
| --- | --- | --- |
|  | **20X8** | **20X9** |
| Monthly lease payments | $700 | $700 |
|  | x 2/3 | X 2/3 |
| Number of months car available | 1 | 12 |
| Standby Charge | $467 | $5,600 |
|  |  |  |
| Personal kilometers | 1,200 | 14,400 |
| Operating expense benefit at (2018 = $0.26; 2019 = $0.28) | $312 | $4,032 |
|  |  |  |
| TOTAL | $779 | $9,632 |

The reduced standby charge is not available because the car is not used primarily for employment purposes.

The employment offer that provides John with the greatest amount of disposable income after tax should be accepted.

*Discussion with Bob Johnson, CFO of GHI Inc.*

Stock-based compensation is not deductible [ITA 7(3)(b)]. The bonuses declared by GHI Inc. in 20X7 will not be deductible in 20X7 because they were not paid in 20X7 or by June 29, 20X8 (180 days [ITA 78(4)]. The bonuses will be deductible in 20X8 when paid.