

Practice Exam Solution

Chapter 1 (Introduction)

Examination Summary

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

Question	Type Of Question Or Subject	Total Marks	Your Mark
1	Essay Question	15	
2 - 7	True Or False Questions	9	
8 - 14	Multiple Choice Questions	21	
15	Residence	20	
16	Net Income For Tax Purposes	35	
Total		100	

Solution 1 (15 Marks)

Part A

A regressive tax is one that is assessed at higher effective rates for low income individuals, as compared to lower effective rates for high income individuals.

While the basic GST rate is the same for all individuals without regard to their income level, lower income individuals normally spend a higher percentage of their total income. Since the sales tax is levied on the amounts spent, this means that the sales tax paid by lower income individuals represents a larger percentage of their income. As a consequence, they are generally considered to be regressive in nature.

Part B

The term "person" as used in the *Income Tax Act* refers to individuals, corporations, and trusts.

The term "person" in the GST legislation refers to anyone engaged in commercial activity. While other answers are possible, a common example of an entity that could be subject to GST, but not income tax would be a partnership. Other answers (see text) are acceptable.

1 grading point for each highlighted item. Total 15

Your Mark = [(# of grading points ÷ 15)(15%)] = ____%

Questions 2 Through 7 (9 Marks)

2. **False.** Such children are only deemed residents if they are also dependants of the member of the Canadian armed forces.
3. **False.** The corporation does not have to be incorporated in Canada to be a Canadian resident.
4. **True.** Corporations and trusts are required to file income tax returns.
5. **False.** Partnerships are not required to file income tax returns.
6. **True.** Most authorities believe that progressive income tax rates encourage tax evasion.
7. **True.** Horizontal equity refers to individuals in the same economic position paying the same amount of taxes.

1 grading point for each correct answer. Total 6

Your Mark = [(# of grading points ÷ 6)(9%)] = ____%

Questions 8 Through 14 (21 Marks)

8. **D.** The individual has given up his Canadian citizenship in order to become a citizen of another country.
9. **C.** Norad Inc. was incorporated in New York state on March 1, 1985 and, until the end of 1993, carried on business in Canada. At that time, all of the management and operations of the Company moved to the southern United States.
10. **C.** Joan Lyton, a Canadian citizen, living in Tokyo, Japan.
11. **D.** Regressive taxes are unfair to individuals with low incomes.
12. **B.** International Tax Treaties.
13. **A.** Individuals can choose to have a non-calendar fiscal year.
14. **B.** Non-residents must pay Canadian income taxes on capital gains arising on dispositions of any Canadian property.

1 grading point for each correct answer. Total 7

Your Mark = [(# of grading points ÷ 7)(21%)] = ____%

Solution 15 (20 Marks)**Case 1**

Because he has an employment contract that requires him to return to Canada in two years, he will be viewed as having retained Canadian residence status. Although he has severed his ties with Canada, the requirement to return would show that he does not intend to permanently leave Canada.

Mark will be subject to Canadian tax on his worldwide income during 2019.

Case 2

As she is exempt from taxation in Latvia because she is the spouse of a deemed Canadian resident, Maxine would be a deemed resident of Canada for income tax purposes during 2019 [(ITA 250(1)(g)).

Maxine will be subject to Canadian tax on her worldwide income during 2019.

Case 3

As noted in S5-F1-C1, "Determining an Individual's Residence Status", commuting from the U.S. for employment purposes does not make an individual a deemed resident under the sojourner rules. Therefore, Susan would not be considered a Canadian resident for income tax purposes.

While Susan will be subject to Canadian tax on her Canadian employment income, she would not be subject to Canadian tax on her U.S. savings account interest. As noted in the text, individuals employed in Canada are not subject to the sojourner rule.

1 grading point for each highlighted item. Total 15

Your Mark = [(# of grading points ÷ 15)(15%)] = ____%

Question 16 (35 Marks)**Case A**

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$35,000	
Income From Property	12,000	\$47,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$42,000	
Allowable Capital Losses	(18,000)	24,000
Balance From ITA 3(a) And (b)		\$71,000
Subdivision e Deductions		(4,000)
Balance From ITA 3(c)		\$67,000
Deduction Under ITA 3(d):		
Business Loss		(10,000)
Net Income For Tax Purposes (Division B Income)		\$57,000

Carry Overs At The End Of The Year

Ms. Rizk has no loss carry overs.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$33,000	
Income From Property	14,000	\$47,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$36,000	
Allowable Capital Losses	(42,000)	Nil
Balance From ITA 3(a) And (b)		\$47,000
Subdivision e Deductions		(7,000)
Balance From ITA 3(c)		\$40,000
Deduction Under ITA 3(d):		
Business Loss		(39,000)
Net Income For Tax Purposes (Division B Income)		\$ 1,000

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Carry Overs At The End Of The Year

Unused allowable capital losses (\$42,000 - \$36,000) \$6,000

Case C

The Case C solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$16,000	
Income From Business	22,000	\$38,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$32,000	
Allowable Capital Losses	(69,000)	Nil
Balance From ITA 3(a) and (b)		\$38,000
Subdivision e Deductions		(5,000)
Balance From ITA 3(c)		\$33,000
Deduction Under ITA 3(d):		
Property Loss		(21,000)
Net Income For Tax Purposes (Division B Income)		\$12,000

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Carry Overs At The End Of The Year

Unused allowable capital losses (\$69,000 - \$32,000) \$37,000

Case D

The Case D solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	\$28,000	
Income From Business	15,000	\$43,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$21,000	
Allowable Capital Losses	(27,000)	Nil
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Balance From ITA 3(a) And (b)		\$43,000
Subdivision e Deductions		(11,000)
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Balance From ITA 3(c)		\$32,000
Deduction Under ITA 3(d):		
Property Loss		(36,000)
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Net Income For Tax Purposes (Division B Income)		Nil

As Ms. Rizk's property loss exceeds the amount carried forward from ITA 3(c), her total Net Income For Tax Purposes (Division B income) is nil.

Carry Overs At The End Of The Year

Unused allowable capital losses	(\$27,000 - \$21,000)	\$6,000
Unused non-capital losses	(\$36,000 - \$32,000)	\$4,000

1 grading point for each highlighted item. Total 45
Your Mark = [(# of grading points ÷ 45)(35%)] = ____%

15