

# Practice Exam

## Chapter 1 (Introduction)

### Instructions To Students

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#### Create An Examination Environment

Your text, the accompanying Study Guide and MyLab provide you with a large number of Exercises, Self Study Problems and Supplementary Self Study Problems for which solutions are provided. These problems are designed to assist you with understanding the content of each chapter. In contrast, the goal of this Practice Examination is to help you evaluate your ability to write the examinations in your tax course.

To get the maximum benefit from this Practice Examination, you should write it under examination conditions. It is designed as a 90 minute examination and should be written within that time constraint. You should choose a location where you will not be distracted and set aside 90 minutes of time during which you will not be interrupted.

#### Materials To Be Used During the Examination

Any materials that you use while writing this Practice Examination should be consistent with the materials that will be available during your tax course examinations. These vary from course to course depending on the instructor and can include the following possibilities:

- you may be provided with the list of “Rates and Other Data” that is found in the front of your *Canadian Tax Principles* textbook and on MyLab,
- you may be allowed to bring into the examination room:
  - a copy of the *Income Tax Act*, or
  - a “cheat sheet” with various notes, or
  - your *Canadian Tax Principles* textbook.

You should determine exactly what materials are allowed for your tax examination, either from your course outline or from your instructor. You should then write this Practice Examination using only the materials permitted for your examination.

#### Types Of Questions

Different instructors use alternative types of questions on their examinations. This examination includes essay questions, true or false questions, and multiple choice questions. However, the majority of the marks on this examination are allocated to problems that are similar to the Exercises, Self Study Problems and Supplementary Self Study Problems that are available through your *Canadian Tax Principles* text.

This content may not be consistent with the types of questions used by the instructor in your course (e.g., an instructor might choose to have an examination that contains only multiple choice questions, or only one comprehensive question). You should take this into consideration when you are evaluating your results on this examination.

#### Show Your Calculations

We think it is important for students to realize that showing their calculations clearly can result in many part marks, even if the final answer is wrong. Your instructor could have a different approach to marking than the one shown in this solution, but it would be very rare that part marks are not available on more complex questions.

### How To Use The Marking Guides

In the solution to this Practice Examination, we have provided information on how we would allocate the marks for each question. In some cases, this allocation is very straightforward. For example, if a 12 mark question consists of 6 multiple choice questions, 2 marks will be allocated to each correct answer.

However, in other situations the allocation process is more complex. Consider, for example, an employment income calculation that has 11 separate components (i.e., salary, RPP contributions and so forth). If 15 grading marks were assigned to this problem, the marking guide could assign 1.36 marks (15 marks divided by 11 components) to each line or, alternatively, award more than one mark to some components. Both of these approaches can be awkward.

To resolve this problem, the marking guides that we provide in these more complex situations will be based on “grading points”. In the preceding example, 11 grading points would be assigned to this question — one for each component in the calculation. These “grading points” would then be converted into the relevant mark. Continuing the example, if you had 8 of 11 components in the calculation correct, this result would be converted to a mark as follows:

$$[(8 \div 11)(15\%)] = 10.9\%$$

In the solution for this Practice Examination, these grading points have been identified with **highlighting** the appropriate number or word(s).

## Practice Examination

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### Examination Content

The content of this examination, along with the marks and times for each question, are found in the following table.

Question	Type Of Question Or Subject	Marks	Time In Minutes
1	Essay Question	15	13.5
2 - 7	True Or False Questions	9	8.1
8 - 14	Multiple Choice Questions	21	18.9
15	Residence	20	18.0
16	Net Income For Tax Purposes	35	31.5
Total		100	90.0

### Question 1 (15 Marks)

#### Part A

The goods and services tax is assessed at a single rate, applied to certain specified goods and services. Despite the use of a single rate, this tax is criticized for being a regressive tax. What is a regressive tax? Explain how a tax that is assessed at a single rate can be considered regressive.

#### Part B

Describe the meaning of the term "person" as it is used in the *Income Tax Act*. Does this term have a different meaning under the GST legislation? Provide one example of an entity that would be taxable under the GST legislation, but not under the *Income Tax Act*.

### Questions 2 Through 7 (9 Marks)

2. Children of members of the Canadian armed forces are considered to be Canadian residents, without regard to where they actually live.

True or False?

3. A corporation must be incorporated in Canada and have its mind and management located in Canada in order to be a Canadian resident.

True or False?

4. Both corporations and trusts are required to file income tax returns.

True or False?

5. Partnerships, public corporations, private corporations, and trusts are required to file income tax returns.

True or False?

6. The use of progressive income tax rates encourages tax evasion.

True or False?

7. If a tax system has horizontal equity, individuals in the same economic circumstances will pay the same amount of taxes.

True or False?

**Questions 8 Through 14 (21 Marks)**

8. Which of the following is **NOT** a factor in determining whether an individual has ceased to be a Canadian resident?
- A. The individual's spouse and dependent children have left Canada.
  - B. The individual is no longer physically present in Canada.
  - C. The individual has become a resident of another country.
  - D. The individual has given up his Canadian citizenship in order to become a citizen of another country.
9. Which of the following corporations would **NOT** be considered resident in Canada for tax purposes?
- A. Dontar Inc. was incorporated in Manitoba on April 5, 1965 and has carried on business in Canada since that date.
  - B. Linco Ltd. was incorporated in Ontario on April 4, 1975 and, until the end of 1996, carried on business in Canada. At that time, all of the management and operations of the Company moved to the southern United States.
  - 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.
  - D. Rio Amgal Inc. was incorporated in Ontario on September 3, 2001. While the Company has operations in both Canada and the U.S., the directors live in Chicago. As a consequence, all director's meetings are held in that city.
10. Which of the following is **NOT** a taxable entity for income tax purposes?
- A. Lyton Inc., a Canadian private company.
  - B. John Lyton, a Canadian resident.
  - C. Joan Lyton, a Canadian citizen, living in Tokyo, Japan.
  - D. The Lyton family trust.
11. Which of the following statements is correct?
- A. A progressive tax system encourages individuals to work harder.
  - B. Tax expenditures are more costly to administer than program expenditures.
  - C. Inelasticity is a desirable feature of a tax system.
  - D. Regressive taxes are unfair to individuals with low incomes.
12. Which of the following tax reference materials is a legislative source?
- A. Income Tax Folios.
  - B. International Tax Treaties.
  - C. Information Circulars.
  - D. Advance Income Tax Rulings.
13. With respect to taxation years, which of the following statements is **NOT** correct?
- A. Individuals can choose to have a non-calendar fiscal year.
  - B. Corporations can choose to have a non-calendar fiscal year.
  - C. Inter-vivos trusts must use the calendar year for their taxation year.
  - D. Corporations can have a taxation year based on the calendar year.

14. With respect to Canadian income taxes on non-residents, which of the following statements is **NOT** correct?
- A. Non-residents must pay Canadian income taxes on employment income earned in Canada.
  - B. Non-residents must pay Canadian income taxes on capital gains arising on dispositions of any Canadian property.
  - C. Non-residents must pay Canadian income taxes on business income earned in Canada.
  - D. Non-residents must pay Canadian income taxes on gains resulting from the sale of Canadian real property.

### Question 15 (20 Marks)

For each of the following persons, indicate how they would be taxed in Canada for the year ending December 31, 2019. Your answer should explain whether the person is a Canadian resident, what parts of their income would be subject to Canadian taxation, and the basis for your conclusions.

#### Case 1

In 2019, Mark's Canadian employer asked him to spend two years working in their Delhi office. His employment contract requires him to return to Canada in 2020. Mark severs all of his residential ties with Canada and moves to Delhi in November, 2018. He is not present in Canada during any part of 2019.

#### Case 2

Maxine is married to a member of the Canadian armed forces who is serving in Latvia. She is a citizen of Latvia and has never visited Canada. During 2019, because her husband is a member of the Canadian armed forces, she is not subject to taxation in Latvia.

#### Case 3

Susan is a U.S. citizen who lives in Detroit, Michigan. During 2019 she is employed 5 days per week in Windsor, Ontario. Her 2019 salary is \$65,000. In addition, she has \$2,000 (Canadian) of interest on a savings account with a Detroit bank.

### Question 16 (35 Marks)

The following four Cases make different assumptions with respect to the amounts of income and deductions of Ms. Salma Rizk for the current year:

	Case A	Case B	Case C	Case D
Employment Income	\$35,000	\$33,000	\$16,000	\$28,000
Income (Loss) From Business	( 10,000)	( 39,000)	22,000	15,000
Income (Loss) From Property	12,000	14,000	( 21,000)	( 36,000)
Taxable Capital Gains	42,000	36,000	32,000	21,000
Allowable Capital Losses	( 18,000)	( 42,000)	( 69,000)	( 27,000)
Subdivision e Deductions (RRSP)	( 4,000)	( 7,000)	( 5,000)	( 11,000)

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

**END OF EXAMINATION**