

TEST ITEM FILE - PROBLEMS

Byrd & Chen's Canadian Tax Principles 2011 - 2012 Edition

ISBN-13: 9780132817219; ISBN-10: 0132817217
Copyright © 2010 Clarence Byrd Inc. All rights reserved.

This work is protected by Canadian copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Please visit the web site (URL below) for the procedures required to authorize limited on-line posting of Assignment Problem solutions.

www.pearsoncanada.ca/byrdchen/ctp2012

The Instructor's password protected web site can be accessed by clicking on the Instructor Resources jump link on the above web page.

Here you will find:

- Updates and corrections to the supplements package
- PowerPoint slide presentations for all chapters
- Online posting policy for assignment problem solutions and permission form
- Solutions to Tax Software Problems, updated for the 2011 version of ProFile (January, 2012)

Problem Concordance

A concordance of the problems in the 2010/11 vs. 2011/12 editions is available after the Problem Listing (and on the instructor's web site) to assist instructors who have previously used *Canadian Tax Principles*.

Bookmarks In PDF File

To assist you in navigating through the electronic version of this Test Item File, (available on the Instructor's CD-ROM) there are bookmarks on the first page of each Test Item problem and solution

Contact Information

Comments and queries from instructors should be e-mailed to Ida Chen at:

idachen@sympatico.ca

If you have any further questions, please contact Nicole Lukach, Acquisitions Editor, Pearson Canada, at:

Nicole.Lukach@PearsonEd.com

Subjects Covered By Test Item File Problems

Chapter 1 Introduction

<i>Problem</i>	<i>Subject</i>	<i>Page</i>
1-1	Essay questions	1
1-2	True or false	2
1-3	Multiple choice	3
1-4	Exam exercises	6
1-5	Key term matching	8
1-6	Application of qualitative characteristics	9
1-7	Net Income For Tax Purposes	10
1-8	Net Income For Tax Purposes	11
1-9	Net Income For Tax Purposes	12

Chapter 2 Procedures and Administration

2-1	Essay questions	13
2-2	True or false	14
2-3	Multiple choice	16
2-4	Exam exercises	20
2-5	Key term matching	22
2-6	Individual tax instalments	23
2-7	Individual and corporate tax instalments	24
2-8	Individual tax instalments	25
2-9	Corporate tax instalments	26
2-10	Individual and corporate tax instalments	27
2-11	Individual and corporate tax instalments	28

Chapter 3 Income Or Loss From An Office Or Employment

3-1	Essay questions	29
3-2	True or false	30
3-3	Multiple choice	31
3-4	Exam exercises	36
3-5	Key term matching	39
3-6	Automobile benefits	40
3-7	Employee loans	41

(continued)

Chapter 3, continued

Problem	Subject	Page
3-8	Employee stock options	42
3-9	Employee stock options	43
3-10	Employment income	44
3-11	Employment income with commission	45
3-12	Employment income (Extended in Test Item Problem 4-7)	46
3-13	Comprehensive employment income	47

Chapter 4 Taxable Income And Tax Payable For Individuals

4-1	Essay questions	51
4-2	True or false	52
4-3	Multiple choice	53
4-4	Exam exercises	56
4-5	Key term matching	59
4-6	Personal tax credits	61
4-7	Tax payable with employment income. (An extension of Test Item Problem 3-12)	62
4-8	Comprehensive tax payable with employment income	63
4-9	Personal tax credits - 6 cases	65
4-10	Comprehensive tax payable with employment income	66

Chapter 5 Capital Cost Allowances And Cumulative Eligible Capital

5-1	Essay questions	69
5-2	True or false	70
5-3	Multiple choice	71
5-4	Exam exercises	74
5-5	Key term matching	76
5-6	CCA calculations	77
5-7	CCA and tax planning	78
5-8	CCA, recapture, and terminal losses	79
5-9	Depreciable asset retirements and CEC sale	80
5-10	Cumulative Eligible Capital	81
5-11	Cumulative Eligible Capital	82
5-12	CCA on rental property	83
5-13	CCA and tax planning	84
5-14	CCA calculations	85

Chapter 6 Income Or Loss From A Business

Problem	Subject	Page
6-1	Essay questions	87
6-2	True or false	88
6-3	Multiple choice	90
6-4	Exam exercises	94
6-5	Key term matching	97
6-6	ITA 22 accounts receivable election	98
6-7	Home office costs	99
6-8	Simple business income	100
6-9	Deductible business expenses - corporation	101
6-10	Business income with CCA and CEC - corporation	102
6-11	Business income with CCA and CEC - corporation	104
6-12	Proprietorship - Business income with CCA	105
6-13	Comprehensive business income	106
6-14	Comprehensive case (with coverage of preceding chapters)	108

Chapter 7 Income From Property

7-1	Essay questions	111
7-2	True or false	112
7-3	Multiple choice	113
7-4	Exam exercises	116
7-5	Key term matching	118
7-6	Rental income	119
7-7	Property income - alternative investments	120
7-8	Alternative investments	121
7-9	Business and property income	122
7-10	Income trusts and mutual funds	123
7-11	Dividend vs. interest income	124
7-12	Comprehensive case (with coverage of preceding chapters)	125

Chapter 8

Capital Gains And Capital Losses

Problem	Subject	Page
8-1	Essay questions	127
8-2	True or false	128
8-3	Multiple choice	130
8-4	Exam exercises	134
8-5	Key term matching	138
8-6	Identical properties	139
8-7	Capital gains reserves	140
8-8	Non-arm's length transactions	141
8-9	Replacement properties - UCC	142
8-10	Involuntary dispositions	143
8-11	Change in use and rental income with CCA	144
8-12	Deemed dispositions on departure from Canada	145
8-13	Deemed dispositions at death	146
8-14	Principal residence designation	147
8-15	Personal use property	148
8-16	Capital gains on foreign securities	149
8-17	Identification of capital gains	150
8-18	Capital gains reserves	151
8-19	Voluntary dispositions	152
8-20	Deemed dispositions on death and departure from Canada	153
8-21	Comprehensive case (with coverage of preceding chapters)	154

Chapter 9

Other Income, Other Deductions, And Income Attribution

9-1	Essay questions	157
9-2	True or false	158
9-3	Multiple choice	160
9-4	Exam exercises	165
9-5	Key term matching	167
9-6	Other income and deductions including RESPs	168
9-7	Moving expenses	169
9-8	Child care expense	171
9-9	Pension income splitting	172
9-10	Income attribution	173
9-11	Gifts and income attribution	174
9-12	Child care expenses	175
9-13	Comprehensive case (with coverage of preceding chapters)	176

Chapter 10

Retirement Savings

<i>Problem</i>	<i>Subject</i>	<i>Page</i>
10-1	Essay questions	179
10-2	True or false	180
10-3	Multiple choice	181
10-4	Exam exercises	184
10-5	Key term matching	186
10-6	Net income with RRSP	187
10-7	RRSP contributions	188
10-8	Retirement savings	189
10-9	RRSP contributions	190
10-10	Employment income with RRSP	191
10-11	RRSP contributions	192
10-12	Comprehensive Case (with coverage of preceding chapters)	193

Chapter One Test Item File Problems

TIF PROBLEM ONE - 1 **Introduction - Essay Questions**

Provide brief answers to each of the following questions:

1. Indicate three disadvantages of a tax system that uses progressive rates.
2. A regressive tax is one that taxes high income individuals at lower effective rates. Explain why a sales tax levied at a flat rate of 8 percent can be regressive.
3. The Canadian income tax system is often used to achieve various economic objectives. Give three examples that illustrate this point.
4. Distinguish between horizontal equity and vertical equity as these terms are used in describing tax systems.
5. The government pays a "child tax benefit" to the parents of children who are under 18 years of age. The payments are reduced by a percentage of income in excess of a specified level. What objectives are achieved by this benefit system?
6. What is the meaning of "taxation year" as the phrase is used in the *Income Tax Act*.
7. Under what circumstances will a person who is not resident in Canada be required to pay Canadian income taxes?
8. What are the components of Net Income For Tax Purposes?
9. ITA 3(b) states that a taxpayer should "determine the amount, if any", by which taxable capital gains exceeds allowable capital losses. In this context, what is the meaning of the phrase "the amount, if any"?
10. What is the difference between tax avoidance and tax deferral?
11. What is income splitting? Under what circumstances will it provide tax benefits to an individual?
12. Contributions to a Registered Retirement Savings Plan can be deducted to reduce the taxes of an individual in the year that they are made. However, these contributions will be subject to tax when they are withdrawn from the plan. What type of tax planning is involved in this arrangement?

TIF PROBLEM ONE - 2

Introduction - True Or False

1. A value added tax is a tax levied on the increase in value of a commodity or service that has been created by the taxpayer's stage of the production or distribution cycle.
True or False?
2. A partnership can be a taxable entity for income tax purposes.
True or False?
3. A partnership can be a taxable entity for GST purposes.
True or False?
4. In general, provincial income taxes are based on a specified percentage of federal tax payable.
True or False?
5. The federal government does not collect personal or corporate taxes for Ontario or Quebec.
True or False?
6. A sales tax is a regressive tax even when it is applied at a single rate on all transactions.
True or False?
7. A major advantage of progressive tax rates is that their use encourages economic growth.
True or False?
8. Tax expenditures are less costly to administer than direct funding programs.
True or False?
9. Part I of the *Income Tax Act* is the largest and most important part.
True or False?
10. The citation ITA 61(4)(b)(ii) would be read Paragraph 61, Subparagraph 4, Section b, Subsection ii.
True or False?
11. An income tax is payable for each taxation year on the Taxable Income of every person resident in Canada at any time in the year.
True or False?
12. Any taxpayer can choose the calendar year as their taxation year.
True or False?

TIF PROBLEM ONE - 3

Introduction - Multiple Choice

Canadian Tax System

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 CMAs operating as a partnership.
 - D. The Martin family trust.
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. The federal government collects the provincial income tax for individuals for every province except Quebec.
 - 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.

Tax Policy Concepts

3. Which of the following can be considered an advantage of an income tax system based on progressive rates?
 - A. A progressive rate system is simpler to administer.
 - B. A progressive rate system provides greater stability in the context of changing economic conditions.
 - C. A progressive system discourages tax evasion.
 - D. A progressive system encourages greater effort on the part of individuals.
4. Which of the following statements with respect to using tax expenditures rather than program spending is not correct?
 - A. It is more costly to administer tax expenditures as opposed to program spending.
 - B. Tax expenditures reduce the visibility of government actions.
 - C. Tax expenditures leave fewer decisions in the hands of the private sector, thereby providing for more efficient allocation of resources.
 - D. Tax expenditures reduce the impact of progressive rates on higher income taxpayers.
5. Which of the following would not be considered a desirable characteristic of a tax system?
 - A. Balance between sectors.
 - B. Inelasticity.
 - C. Neutrality.
 - D. Flexibility.
6. Which of the following would be considered a desirable characteristic of an effective tax system?
 - A. Inelasticity.
 - B. Lack of international competitiveness.
 - C. Simplicity.
 - D. Ambiguity.

TIF Problem One - 3

Introduction - Multiple Choice

7. We should not have a tax system which encourages investment in particular assets or in particular areas of the country. This statement reflects which of the following qualitative characteristics of an effective tax system?
 - A. Neutrality.
 - B. Horizontal equity.
 - C. Simplicity.
 - D. Elasticity.
8. Taxpayers who earn \$100,000 in dividends should pay the same amount of tax as taxpayers who earn \$100,000 in capital gains. This statement reflects which of the following qualitative characteristics of an effective tax system?
 - A. Vertical equity.
 - B. Neutrality.
 - C. Elasticity.
 - D. Horizontal equity.

Income Tax Reference Materials

9. With respect to the structure of the *Income Tax Act*, which of the following statements is correct?
 - A. The major components of the *Income Tax Act* are called Divisions.
 - B. The current *Income Tax Act* has Sections numbers 1 through 260, reflecting the fact that there are 260 Sections in the Act.
 - C. All Parts of the *Income Tax Act* have Divisions.
 - D. All Parts of the *Income Tax Act* contain at least one Section.
10. Of the following publications, indicate the one that is not a legislative source.
 - A. *Income Tax Act*.
 - B. Interpretation Bulletins.
 - C. Income Tax Application Rules.
 - D. International Tax Treaties.
 - E. Income Tax Regulations.
11. Of the following publications, indicate the one that is not published by the CRA.
 - A. Interpretation Bulletins.
 - B. Information Circulars.
 - C. Dominion Tax Cases.
 - D. Income Tax Technical News.
12. There are a number of common areas of litigation involving the CRA. Indicate which type of transaction is least likely to be in dispute.
 - A. Arm's length versus non-arm's length transactions.
 - B. Capital versus income transactions.
 - C. Unreported revenues from business transactions.
 - D. Establishment of fair market value.
 - E. The deductibility of farm losses against other sources of income.
13. Where would an individual find the formula for determining the prescribed rate?
 - A. The Income Tax Act.
 - B. The Income Tax Regulations.
 - C. A CRA Interpretation Bulletin.
 - D. A CRA Information Circular.

14. Which of the following statements is not correct?
- A. Most major income tax changes are introduced in the annual Federal Budget.
 - B. A federal election can prevent passage of draft legislation.
 - C. Proposed changes in tax law are usually introduced to parliament in the form of a Notice of Ways and Means Motion.
 - D. When there is a conflict between the Canadian *Income Tax Act* and an international agreement, the terms of the Canadian *Income Tax Act* prevail.

Liability For Tax

15. 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.

Tax Planning

16. 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.
17. 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.

TIF PROBLEM ONE - 4

Introduction - Exam Exercises

Exam Exercise One - 1 (Taxable Entities For Income Tax Purposes)

Which of the following entities could be required to file an income tax return?

- Sally Forbes (an individual)
- Forbes Boutique (an unincorporated business)
- Forbes and Delaney (a partnership)
- The Forbes family trust (a trust)
- Forbes Enterprises Ltd. (a corporation)
- The Forbes Foundation (an unincorporated charity)

Exam Exercise One - 2 (Taxable Entities For GST Purposes)

Which of the following entities could be required to file a GST return?

- Sally Forbes (an individual)
- Forbes Boutique (an unincorporated business)
- Forbes and Delaney (a partnership)
- The Forbes family trust (a trust)
- Forbes Enterprises Ltd. (a corporation)
- The Forbes Foundation (an unincorporated charity)

Exam Exercise One - 3 (Federal And Provincial Taxes Payable)

Joan Smith has Taxable Income of \$37,500. For the current year her federal tax rate is 15 percent, while the corresponding provincial rate is 8.2 percent. Determine Ms. Smith's combined federal and provincial tax payable, before consideration of any available credits against Tax Payable.

Exam Exercise One - 4 (Regressive Taxes)

Samantha Taylor has Taxable Income for the current year of \$625,000, of which \$216,000 is spent on goods and services that are subject to Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister, Martha Taylor, is a part-time student living in the same province and has Taxable Income of \$12,000. During the current year, as a result of using some of her savings, she spends \$21,400 on goods and services that are all subject to HST.

Determine the effective sales tax rate as a percentage of the income of the two sisters.

Exam Exercise One - 5 (Non-Resident Liability For Tax)

Ms. Michelle Walker, a U.S. citizen, has Canadian employment income of \$42,000 and U.S. employment income of \$40,000 Canadian. She lives in Seattle, Washington and is a resident of the United States for the entire year. Ms. Walker does not believe that she is subject to taxation in Canada. Is she correct?

Explain your conclusion.

Exam Exercise One - 6 (Net Income For Tax Purposes)

Ms. Sonia Nexus is a computer specialist with net employment income of \$66,000. During the current year she has:

- a taxable capital gain on the sale of land of \$13,500,
- an allowable capital loss on the sale of shares of \$24,000,
- interest income of \$10,250,
- net rental losses of \$6,750, and
- a loss from her unincorporated business of \$28,000.

In addition, she makes spousal support payments of \$14,000 and makes a deductible contribution to her RRSP of \$3,000 (these are Subdivision e deductions). Determine her minimum Net Income For Tax Purposes for the current year and indicate the amount and type of any loss carry overs that are available at the end of the year. Show all of your calculations.

Exam Exercise One - 7 (Tax Planning)

Mr. Jack Bronson makes a \$5,000 contribution to his Registered Retirement Savings Plan. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 8 (Tax Planning)

Mr. John Lenonovitz is an unemployed poet. As Mr. Lenonovitz has no known sources of income, his wife Natasha, a successful painter, has decided to make contributions to an RRSP in his name, rather than making contributions to her own plan. What type of tax planning is involved in this decision? Explain your conclusion.

Exam Exercise One - 9 (Tax Planning)

Mrs. Janice Theil gives \$50,000 in Canada Savings Bonds to her 27 year old, unemployed daughter. What type of tax planning is involved in this transaction? Explain your conclusion.

TIF PROBLEM ONE - 5

Introduction - Key Term Matching

The following eight key terms are listed at the end of Chapter 1, "Introduction To Federal Taxation In Canada":

- A. Fiscal Period
- B. Flat Tax System
- C. Income Tax Regulations
- D. Income Tax Technical News
- E. Person
- F. Regressive Tax System
- G. Tax Expenditure
- H. Value Added Tax

The following list contains ten potential definitions for the preceding key terms.

1. A taxation year that does not exceed 53 weeks.
2. A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.
3. An irregularly published newsletter prepared by the Income Tax Rulings Directorate.
4. A group of over 500 individual publications which provides the CRA's interpretation of the various laws that they administer.
5. A term used in the *Income Tax Act* to refer to taxable entities.
6. Foregone tax revenues due to special exemptions, rate reductions, rebates, and credits that reduce the amount of tax that would otherwise be payable.
7. A tax based on the value added to a product at each stage of production or distribution by a particular entity.
8. A tax on Income that is applied at the same rate to all taxpayers, without regard to the level of their income.
9. A set of rules concerning administration and enforcement of the *Income Tax Act*.
10. A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.
11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed, indicate the number of the item that provides the best definition of that term, or that none of the definitions apply. Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM ONE - 6

Application Of Qualitative Characteristics

The city of Elysium is located on an island in the Nirvana River. Because of its very desirable climate, it has attracted wealthy immigrants from all over the world. These immigrants have either built palatial new homes on the river waterfront, or moved into luxurious residences, largely in high-rise buildings in the city's core.

In general, real estate values on the island are among the highest in the world. In order to protect their extremely orderly environment, the residents have prevented the development of any reasonably priced housing. To help maintain this environment the city has a large, well trained security force.

The economic activity on the island consists of financial services, haute cuisine restaurants, and retail shops which feature high-end products from all over the world. Because of the high real estate cost, staff for these operations must live off island and commute on a daily basis.

For residents of the island, the city operates a large heliport. This allows the residents of the island to quickly access a nearby airport where most maintain at least one private jet.

Until recently, the only other access to the island was via a city operated ferry. This service was provided free of charge by the city. While it was rarely used by the residents of Elysium, the staff of the various businesses on the island relied on it for access to their jobs.

Last year, the city completed a four lane bridge to access the island. In order to finance the tremendous cost of this project, there is a \$10 toll for each trip across the bridge. To ensure that the bridge produces adequate revenues, the city has canceled the ferry service.

Required: Evaluate the \$10 toll on the basis of the qualitative characteristics of tax systems that are listed in your text.

TIF PROBLEM ONE - 7

Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions of Ms. Leslie Burke for the current taxation year:

Case A Ms. Burke had employment income of \$17,000 and net rental income of \$8,500. Her unincorporated business lost \$12,300 during this period. As the result of dispositions of capital property, she had taxable capital gains of \$17,400 and allowable capital losses of \$19,200. Her Subdivision e deductions for the year totalled \$6,300. Fortunately for Ms. Burke, she won \$1,000,000 in a lottery on March 3.

Case B Ms. Burke had employment income of \$42,100, interest income of \$8,200, and a loss from her unincorporated business of \$51,000. As the result of dispositions of capital property, she had taxable capital gains of \$22,400 and allowable capital losses of \$19,200. Her Subdivision e deductions for the year amounted to \$4,200.

Required: For both Cases, calculate Ms. Burke'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.

TIF PROBLEM ONE - 8

Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions of Mr. Morris Dorne for the current taxation year:

Case A Mr. Dorne had employment income of \$50,000 and interest income of \$12,000. His unincorporated business lost \$23,000 during this period. As the result of dispositions of capital property, he had taxable capital gains of \$95,000 and allowable capital losses of \$73,000. His Subdivision e deductions for the year totalled \$8,000. He also experienced a loss of \$5,000 on a rental property that he has owned for several years.

Case B Mr. Dorne had employment income of \$45,000, net rental income of \$23,000, and a loss from his unincorporated business of \$51,000. As the result of dispositions of capital property, he had taxable capital gains of \$25,000 and allowable capital losses of \$46,000. His Subdivision e deductions for the year amounted to \$10,500. Fortunately for Mr. Dorne, he won \$560,000 in a lottery on February 24.

Required: For both Cases, calculate Mr. Dorne'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.

TIF PROBLEM ONE - 9**Net Income For Tax Purposes**

The following four Cases make different assumptions with respect to the amounts of income and deductions of Jonathan Oakley for the current year:

	Case A	Case B	Case C	Case D
Employment Income	\$83,000	\$92,000	\$46,000	\$57,000
Income (Loss) From Business	(22,000)	(22,000)	21,000	16,000
Rental Income (Loss)	12,000	16,000	(42,000)	(92,000)
Taxable Capital Gains	81,000	18,000	22,000	31,000
Allowable Capital Losses	(35,000)	(32,000)	(53,000)	(35,000)
Subdivision e Deductions	(15,000)	(12,000)	(16,000)	(17,000)

Required For each Case, calculate Mr. Oakley'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.

Unauthorized

Chapter Two Test Item File Problems

TIF PROBLEM TWO - 1

Procedures And Administration - Essay Questions

1. An individual can request that an employer reduce the amounts withheld for income taxes. What conditions must be met for this request to be granted? Provide an example of a situation where this request would be granted.
2. Briefly describe the due dates applicable to the remittance of source deductions by the various classes of employers.
3. Under what circumstances must an individual make income tax instalment payments during the current year?
4. If an individual is required to make quarterly instalment payments on their income taxes, how is the required amount of the instalments determined?
5. On April 30 of the current year, her filing due date, Nicole Houde finds that she has a significant net tax owing. She will not be able to pay this until the beginning of July. She doesn't want to file her return until she has the funds available to pay the balance. What advice would you give Ms. Houde in this regard?
6. Under what circumstances must a corporation make income tax instalment payments during its current taxation year?
7. If a corporation that is not a small CCPC is required to make instalment payments on their income taxes, how are the required amounts determined?
8. If a corporation that is a small CCPC is required to make quarterly instalment payments on their income taxes, how are the required amounts determined?
9. Cases can be heard by the Tax Court of Canada using either the general or the informal procedures. How do these two procedures differ?
10. One of your clients has received his instalment notice and has asked your advice as to whether he should make the payments. Provide the requested advice.

TIF PROBLEM TWO - 2

Procedures And Administration - True Or False

1. If an individual believes that the amount of income taxes withheld by his employer is greater than the amount that he will have to pay in a particular year, he can make a request to the CRA to have his source deductions reduced.

True or False?

2. Because the taxation year of an individual must be based on the calendar year, all individuals will have the same filing due date.

True or False?

3. If an individual dies after October in a particular taxation year, his legal representatives must file his tax return by the later of his normal filing due date and six months after the date of his death.

True or False?

4. If quarterly instalments must be paid by an individual, they can be calculated as one-quarter of the net tax owing for the preceding year.

True or False?

5. If an individual is required to make income tax instalment payments, one acceptable pattern of payments is to base each payment on one-quarter of the estimated Tax Payable for the current taxation year.

True or False?

6. The interest rate applicable on refunds to individuals is 4 percentage points less than the interest rate applicable on amounts owing to the CRA.

True or False?

7. The penalty for an individual making insufficient instalment payments is 5 percent of the total unpaid tax at the filing date, plus 1 percent per month.

True or False?

8. Without regard to whether an individual's filing due date is April 30 or June 15, any balance of tax owing must be paid by April 30.

True or False?

9. All corporations must file their tax returns no later than six months after the end of their fiscal year, and pay any balance of tax owing no later than three months after the end of their fiscal year.

True or False?

10. The notice of objection for a corporation must be filed within 90 days from the date of mailing of the notice of assessment.

True or False?

11. Tax avoidance involves deliberately ignoring a specific provision in the *Income Tax Act*.

True or False?

12. The GAAR provisions are not applicable to gifts to adult children.

True or False?

13. Interest and penalties may be waived or reduced in extraordinary circumstances, such as those involving natural disasters or serious illness.

True or False?

True

TIF PROBLEM TWO - 3

Procedures And Administration - Multiple Choice

Individual Filing Requirements

1. With respect to the filing of an individual income tax return, which of the following statements is correct?
 - A. An individual is required to file an income tax return if their only source of income is business income, even if no tax is payable.
 - B. An individual is required to file an income tax return if they have reached the age of 18 by the end of the year.
 - C. If an individual has disposed of a capital property during the year, they are required to file an income tax return, even if no tax is payable.
 - D. An individual is not required to file an income tax return if no tax is payable for the year.
2. For the 2011 taxation year, John Bookman had a taxable capital gain of \$45,000 and a net business loss of \$45,000, resulting in a Taxable Income of nil. Which of the following statements is correct?
 - A. John is not required to file a tax return for 2011.
 - B. John must file a tax return on or before June 15, 2012.
 - C. John must file a tax return on or before December 31, 2012.
 - D. John must file a tax return on or before April 30, 2012.
3. John Barron is self-employed and plans to file his 2011 tax return on June 15, 2012. His balance-due day is:
 - A. April 30, 2011.
 - B. April 30, 2012.
 - C. June 15, 2012.
 - D. June 15, 2011.
4. Ms. Loren 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.
5. 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 15, 2012.
 - D. December 31, 2011.
 - E. None of the above.

6. Ms. Deveco's 2011 income tax return is due on April 30, 2012. While she is too busy to file her tax return on that date, she remits a check to the government for \$10,000, her estimated amount of net tax owing on that date. She has never filed a late return before. She prepares and files her tax return on May 31, 2012. At this time, the return shows that her actual net tax owing was \$9,800. Assuming that the interest rate applicable to late payment of taxes is one-half percent per month without daily compounding, how much will she owe in penalties and interest on the late filing?
- A. \$ 49.
 - B. \$490.
 - C. \$588.
 - D. \$637.
 - E. Nil.

Individual Instalments

7. Ms. Marston has net tax owing for 2009 of \$4,500, net tax owing for 2010 of \$8,000, and net tax owing for 2011 of \$7,500. If she wishes to pay the minimum total amount of instalments for the 2011 taxation year, her first payment on March 15 will be for what amount?
- A. Nil.
 - B. \$1,125.
 - C. \$1,875.
 - D. \$2,000.
8. Jason Marks has to pay his tax by instalments as a result of his significant investment income. His net tax owing in 2009 was \$13,600. In 2010, it was \$15,000. His estimate for 2011 is \$17,000. If he decides to pay his 2011 tax instalments according to the prior year option, how much should he pay on September 15, 2011?
- A. \$3,400.
 - B. \$3,750.
 - C. \$4,250.
 - D. \$6,500.
9. All of the following people will have to pay tax by instalments 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 \$3,100 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 net taxable capital gains on real estate in excess of \$40,000 in each of the last two years, and who expects to have similar gains this year.
10. 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 instalments 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 instalments during 2012.

Corporate Filing Requirements

11. For corporations, the filing deadline for tax returns is:
- A. April 30.
 - B. the fiscal year end.
 - C. three months after the fiscal year end.
 - D. three months after the fiscal year end if the small business deduction is claimed, otherwise two months after the fiscal year end.
 - E. six months after the fiscal year end.
12. PS Swim Inc. has a year end of November 30. For its 2011 taxation year, its income tax return is due on:
- A. January 31, 2012.
 - B. February 29, 2012.
 - C. April 30, 2012.
 - D. May 31, 2012.
 - E. None of the above.
13. For its 2011 taxation year, its first year of operation, PS Swim Inc. filed its return three months late. The unpaid tax at the due date for the return was \$2,500. This amount was not paid until the return was filed. What would its penalty be?
- A. Nil.
 - B. \$75.
 - C. \$125.
 - D. \$200.
 - E. \$500.

Corporate Instalments

14. PP Ltd., a client of your firm, has a November 30th year end and has requested you to advise them on what its monthly instalments for the 2011 tax year will be. Its taxes payable for its November 30, 2009 and November 30, 2010 years were \$13,800 and \$13,200, respectively. Its estimated taxes payable for the November 30, 2011 year are \$14,400. PP Ltd. wants to pay the lowest amount possible, without incurring interest penalties. What would its instalments be?
- A. Twelve payments at \$1,200 per month.
 - B. Twelve payments at \$1,100 per month.
 - C. Twelve payments at \$1,150 per month.
 - D. Two monthly payments at \$1,200 each, followed by ten monthly payments at \$1,140 each.
 - E. None of the above.
15. A Canadian public corporation had federal taxes payable in 2009 and 2010 exceeding \$3,000. One correct option it has with respect to its 2011 instalments is to pay:
- A. equal instalments, on a quarterly basis, based on its 2010 federal taxes payable.
 - B. on a monthly basis, instalments equal to 1/12th of its estimated 2011 federal taxes payable.
 - C. one lump-sum payment, within three months of its 2011 year end.
 - D. on a monthly basis, instalments equal to 1/12th of its 2009 federal taxes payable.

16. If a Canadian public corporation is experiencing a year-to-year decrease in taxes payable, the most advantageous calculation of instalments that would be allowed is:
- A. monthly, based on the estimated tax for the current year.
 - B. quarterly, based on the estimated tax for the current year.
 - C. monthly, based on the estimated tax for the immediately preceding year.
 - D. quarterly, based on the estimated tax for the immediately preceding year.
 - E. monthly, based on the estimated tax for the second preceding year and the immediately preceding year.
 - F. quarterly, based on the estimated tax for the second preceding year and the immediately preceding year.

Assessments And Appeals

17. Tom Arnold filed his 2011 tax return on March 1, 2012. The CRA mailed a notice of assessment to Tom dated May 15, 2012, and Tom received it on May 30, 2012. If Tom disagrees with the notice of assessment, he has until which one of the following dates to file a notice of objection?
- A. 90 days from March 1, 2012.
 - B. 90 days from April 30, 2012.
 - C. 90 days from May 15, 2012.
 - D. 90 days from May 30, 2012.
 - E. None of the above.
18. Minnie Belanger is retired. She mailed her 2011 tax return on March 5, 2012. She received a portion of the tax refund claimed and an assessment notice, dated April 19, 2012, which set out the difference between the amount claimed and the amount of the refund. As Minnie disagrees with the notice of assessment, she wishes to file a notice of objection. By which of the following dates must she file her notice of objection?
- A. March 5, 2013.
 - B. April 19, 2013.
 - C. April 30, 2013.
 - D. July 18, 2012.
 - E. June 15, 2013.
19. For a public corporation, which of the following statements is true with respect to filing a notice of objection?
- A. It must be filed no later than 180 days from the date the notice of assessment was mailed.
 - B. It must be filed the later of 90 days after the date the notice of assessment was filed and one year from the filing date for the return under assessment.
 - C. It must be filed the later of 180 days after the date the notice of assessment was filed and one year from the filing date for the return under assessment.
 - D. It must be filed no later than 90 days after the notice of assessment was mailed.

TIF PROBLEM TWO - 4**Procedures And Administration - Exam Exercises**

Exam Exercise Two - 1 (Individual Due Dates)

Mark Brown's 2011 Net Income includes business income. When is his 2011 tax return due? By what date must his 2011 tax liability be paid in order to avoid the assessment of interest on amounts due?

Exam Exercise Two - 2 (Deceased Taxpayer Due Date)

George Klause dies on March 1, 2012. All of his income during 2011 was earned through his unincorporated accounting practice. By what date must his representatives file his 2011 income tax return? Explain your answer.

Exam Exercise Two - 3 (Individual Instalments)

At the beginning of 2011, the following information relates to Sarah Elmsley:

Year	Net Tax Owing
2009	\$1,800
2010	6,400
2011 (estimated)	3,600

Indicate whether Ms. Elmsley is required to make instalment payments during 2011. Explain your conclusion and, if your answer is positive, indicate the minimum instalments that will be required and when they are due.

Exam Exercise Two - 4 (Individual Instalments)

Horace Greesom filed his 2010 return on time. At the beginning of 2011, the following information relates to Mr. Greesom:

Year	Taxes Payable	Amounts Withheld
2009	\$56,000	\$45,000
2010	49,000	46,000
2011 (estimated)	65,000	45,000

What amounts will be shown on the Instalment Reminder notices for 2011 and when will the amounts be due? Should he pay those amounts? Explain your conclusion.

Exam Exercise Two - 5 (Penalties And Interest For Individuals)

Despite the fact that her net tax owing has been between \$7,000 and \$8,000 in the two previous years, and is expected to be a similar amount during 2011, Marsha Fields has made no instalment payments for 2011. While her normal filing date would be April 30, 2012, she does not file her 2011 return or pay the balance owing until August 24, 2012. What penalties and interest will be assessed for the 2011 taxation year?

Exam Exercise Two - 6 (Corporate Instalments - Regular And Small CCPC)

Lemar Ltd. has a December 31 year end. It is not a small CCPC. For 2009, its taxes payable were \$71,500, while for 2010, the amount was \$93,600. For 2011, its estimated taxes payable are \$114,700. What would be the minimum instalment payments for the 2011 taxation year and when would they be due? How would your answer differ if Lemar Ltd. qualified as a small CCPC?

Exam Exercise Two - 7 (Corporate Instalments - Regular And Small CCPC)

Chemco Inc. has a December 31 year end and is not a small CCPC. For 2009, its taxes payable were \$146,300, while for 2010, the amount was \$94,650. For 2011, its estimated taxes payable are \$52,300. What would be the minimum instalment payments for the 2011 taxation year and when would they be due? How would your answer differ if Chemco Inc. qualified as a small CCPC?

Exam Exercise Two - 8 (Corporate Due Dates)

The taxation year end for Grange Inc. is March 31, 2011. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending March 31, 2010 of \$165,000. Indicate the date on which the corporate tax return must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 9 (Corporate Due Dates)

The taxation year end for Lawnco Inc. is January 31, 2011. Indicate the date on which the corporate tax return must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 10 (Notice of Objection)

Ms. Nancy Forth filed her 2011 tax return as was required on April 30, 2012. She receives an initial assessment notice during May, 2012. However, on July 12, 2013, she receives a reassessment indicating that she owes additional taxes, as well as interest on the unpaid amounts. The reassessment was mailed on July 2, 2013. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.

TIF PROBLEM TWO - 5

Procedures And Administration - Key Term Matching

The following eight key terms were listed at the end of Chapter 2, "Procedures And Administration".

- A. Instalment Threshold
- B. Net Tax Owing
- C. NETFILE
- D. Notice Of Assessment
- E. Prescribed Rate
- F. Source Deductions
- G. Tax Avoidance
- H. Tax Evasion

The following list contains ten potential definitions for the preceding key terms.

1. An interest rate which changes quarterly and is based on the average interest rate paid on 90 day Treasury Bills during the first month of the preceding quarter.
2. The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.
3. A form that the CRA sends to all taxpayers after they process their returns which describes any changes made to the returns and states the amount of their additional tax payable or their refund.
4. A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.
5. The undertaking of transactions or arrangements that do not comply with legislated reporting requirements.
6. An electronic filing system that requires the use of an approved software program.
7. Amounts withheld by an employer from the income of employees that must be remitted to the government.
8. This ITA 245 provision attempts, in a very generalized manner, to limit the ability of taxpayers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.
9. An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.
10. A formal determination of taxes to be paid or refunded.
11. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed, indicate the number of the item that provides the best definition of that term, or that none of the definitions apply. Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM TWO - 6

Individual Tax Instalments

The following information relates to Ms. Shannon Birch for tax years ending December 31:

	Federal And Provincial Income Taxes Payable	Income Taxes Withheld By Employer
2009	\$23,000	\$21,500
2010	\$27,000	\$15,000
2011 (Estimated)	\$21,200	\$18,000

Required:

- A. Indicate whether Ms. Birch has an obligation to make instalment payments during the 2011 taxation year. Explain your conclusion.
- B. If Ms. Birch is required to make instalment payments, indicate the amounts that should be paid and the dates on which the amounts are payable. Your answer should include the alternatives that are available to Ms. Birch, as well as an indication as to which alternative is preferable.
- C. Ms. Birch would like your advice as to whether or not she should make the recommended instalment payments. Explain your conclusion.

TIF PROBLEM TWO - 7

Individual And Corporate Tax Instalments

For the year ending December 31, 2009, the taxpayer's combined federal and provincial taxes payable amounted to \$93,000, while for the year ending December 31, 2010, the amount payable was \$108,000. It is estimated that federal and provincial taxes payable for the year ending December 31, 2011 will be \$82,500.

Case A

The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$86,700 in 2009, \$109,500 in 2010, and \$79,200 in 2011.

Case B

The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$91,500 in 2009, \$98,700 in 2010, and \$78,300 in 2011.

Case C

The taxpayer is a small CCPC with a December 31 year end.

Case D

The taxpayer is a publicly traded corporation with a December 31 year end. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2009 are estimated to be \$78,100, instead of the \$93,000 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during the year ending December 31, 2011.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the acceptable methods would best serve to minimize instalment payments during 2011. If instalments must be paid, indicate the date on which they are due.

TIF PROBLEM TWO - 8

Individual Tax Instalments

In January, 2011, you are asked to provide tax advice to Ms. Leslie Garond. She has provided you with the following information about her combined federal and provincial taxes payable and the income taxes withheld by her employer for the 2009 and 2010 taxation years:

Year	Taxes Payable	Taxes Withheld
2009	\$22,000	\$9,500
2010	18,000	9,700

For 2011, she estimates that her combined federal and provincial taxes payable will be \$14,000 and that her employer will withhold a total of \$9,850 in income taxes.

She has asked you whether it will be necessary for her to pay instalments in 2011 and, if so, what the minimum amounts that should be paid are, and when they are due.

Required: Provide the information requested by Ms. Garond.

TIF PROBLEM TWO - 9

Corporate Tax Instalments

The fiscal year of the Sloan Company, a public company, ends on October 31. During the year ending October 31, 2009, its federal taxes payable amounted to \$168,000, while for the year ending October 31, 2010, the federal taxes payable were \$153,000. It is estimated that federal taxes payable for the year ending October 31, 2011 will be \$144,000.

Required:

- A. Calculate the instalment payments that are required for the year ending October 31, 2011 under the alternative methods available. Indicate which of the alternatives would be preferable.
- B. If the Company did not make any instalment payments towards its 2011 taxes payable, and did not file its corporate tax return or pay its taxes payable on time, indicate how the interest and penalty amounts assessed against it would be determined (a detailed calculation is not required).

Answer

TIF PROBLEM TWO - 10

Individual And Corporate Tax Instalments

For the year ending December 31, 2009, the taxpayer's combined federal and provincial taxes payable amounted to \$18,000, while for the year ending December 31, 2010, the amount payable was \$14,400. It is estimated that federal and provincial taxes payable for the year ending December 31, 2011 is \$13,500.

Required: For each of the following independent Cases, calculate the minimum instalment payments that are required to be made towards the settlement of the taxes payable for the year ending December 31, 2011. Included in your answer should be the date that each instalment is due to be paid. Note that, in answering this question, you should state a conclusion on whether or not instalments are required, even if the amount of the instalments is nil.

- A. The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$12,000 in 2009, \$10,000 in 2010, and \$10,000 in 2011.
- B. The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$7,000 in 2009, \$15,000 in 2010, and \$9,000 in 2011.
- C. The taxpayer is a small CCPC with a December 31 year end.
- D. The taxpayer is a corporation with a December 31 year end. It is not a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2011 are estimated to be \$16,000, instead of the \$13,500 given in the problem.

TIF PROBLEM TWO - 11**Individual And Corporate Tax Instalments**

For the three years ending December 31, 2011, the taxpayer's combined federal and provincial tax payable was as follows:

Year Ending December 31	Taxes Payable
2009	\$72,300
2010	89,400
2011 (Estimated)	78,300

Case One The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$73,700 in 2009, \$83,200 in 2010, and \$75,000 in 2011.

Case Two The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$65,100 in 2009, \$90,100 in 2010, and \$71,900 in 2011.

Case Three The taxpayer is a small CCPC with a taxation year that ends on December 31.

Case Four The taxpayer is a corporation with a taxation year that ends on December 31. It is not a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2010 were \$74,500, instead of the \$89,400 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2011. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2011. If instalments must be paid, indicate the date on which they are due.