

Canadian Tax Principles 2012 / 2013

Test Items Problems – Chapters 1 to 10

Test Items Problems Table of Contents – Chapters 1 to 10

For a listing of the subjects covered by each Test Item Problem, please refer to the .PDF version of the Test Items Problem Listing that is available on your Instructor's CD-ROM.

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Chapter One Test Item File Problems

TIF PROBLEM ONE - 1

Introduction - Essay Questions

1. The major source of federal revenues is the personal income tax. Indicate three other types of taxes that contribute to federal revenues.
2. What is the meaning of “person” when the term is used in the *Income Tax Act*?
3. Briefly describe the procedures used in calculating provincial income taxes for individuals in provinces other than Quebec.
4. The Canadian income tax system is often used to achieve various economic objectives. Give three examples that illustrate this point.
5. Provide an example of how taxation policy can be used to influence resource allocation.
6. 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?
7. Indicate three disadvantages of a tax system that uses progressive rates.
8. 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.
9. Distinguish between horizontal equity and vertical equity as these terms are used in describing tax systems.
10. What are some of the factors that have led to the entrenched use of tax expenditures as opposed to program spending?
11. While the Sections of the *Income Tax Act* are numbered 1 through 260, there are actually more than 260 Sections. Explain why this is the case.
12. What purposes are served by Canada’s international tax treaties?
13. List four non-legislative sources of income tax information.
14. What is the meaning of “taxation year” as the phrase is used in the *Income Tax Act*?
15. Under what circumstances will a person who is not resident in Canada be required to pay Canadian income taxes?
16. What are the components of Net Income For Tax Purposes?
17. 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”?
18. What is the difference between tax avoidance and tax deferral?
19. What is income splitting? Under what circumstances will it provide tax benefits to an individual?

20. 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. Which of the following could be required to file a GST return?
 - A. Chan's Clothing Store (an unincorporated business)
 - B. The Chan Foundation (a registered charity)
 - C. Min Chan (an individual)
 - D. All of the above could be required to file a GST return.

3. Which of the following forms of taxation provides the largest component of federal government taxation revenues:
 - A. Personal income tax
 - B. Corporate income tax
 - C. Goods and services tax
 - D. Employment insurance premiums

4. 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

5. Which of the following goals is not a current economic policy objective of the Canadian tax system?
 - A. Ensure the continued provision of public goods
 - B. Redistribute income and wealth among taxpayers
 - C. Ensure fairness in the allocation of resources to different levels of government.
 - D. Economic stabilization such as stimulating the economy or creating jobs.

6. 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.

7. Which of the following statements accurately describes a regressive tax?
- A. A tax which results in higher effective tax rates for higher income taxpayers.
 - B. A tax which results in lower effective tax rates for higher income taxpayers.
 - C. A tax in which the same effective rate applies to all levels of income.
 - D. A tax that is shifted to consumers through price increases on the goods purchased.
8. 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.
9. 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.
10. 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.
11. "We should not have a tax system which encourages investment in particular assets or in specific 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.
12. "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

13. 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 numbered 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.

14. 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.
15. 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.
16. 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.
17. 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.
18. 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

19. A person is liable for income tax in Canada if they:
- A. are a resident in Canada.
 - B. are a citizen of Canada.
 - C. have lived in Canada at anytime during the year.
 - D. All of the above are required.
20. Which of the following persons is not liable for Canadian income tax under Part I of the *Income Tax Act*?
- A. Pheap Chom, an individual who has resided in Canada for the past 15 years.
 - B. Chom Incorporated, a Canadian resident corporation.
 - C. Phon Im, a resident of the United States who earns employment income in Canada.
 - D. Bunly Im, a resident of the United States who earns interest income in Canada.

21. Which of the following types of income earned by a non-resident is not subject to Canadian income tax under Part I of the *Income Tax Act*?
- A. Employment income earned in Canada
 - B. Business income earned in Canada
 - C. Rental income earned in Canada
 - D. Income from the disposition of Canadian real estate

Alternative Concepts of Income

22. Which of the following statements accurately describes the *Income Tax Act* view of income?
- A. Net income is determined by adding revenue based on recognition at the point of sale and deducting expenses which are determined based on generally accepted accounting principles.
 - B. Net income is determined by adding together several different types of income based on an ordering rule.
 - C. Net income is the amount paid to an employee after an employer deducts CPP, EI, income taxes and any other source deductions from employee pay.
 - D. Net income is the total increase in a taxpayer's net worth for the year.

Calculation Of Net Income For Tax Purposes

23. 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.
24. Minjie Liu has the following sources of income and deductions:

Employment income	\$35,000
Interest income	5,000
Taxable dividend income	7,000
Taxable capital gain	5,000
Allowable capital loss	12,000
Subdivision e deductions	2,000

What is Minjie's Net Income for Tax Purposes?

- A. \$47,000
- B. \$40,000
- C. \$45,000
- D. \$49,000

25. Tanya Turek has the following sources of income and deductions:

Gross employment income	\$35,000
Net employment income	34,000
Business loss	14,000
Taxable capital gain	4,000
Allowable capital loss	2,000

What is Tanya's Net Income for Tax Purposes?

- A. \$23,000
- B. \$22,000
- C. \$36,000
- D. \$24,000

26. Fadel Ghanem has the following sources of income and deductions:

Net employment income	34,000
Property income	6,000
Business loss	54,000
Taxable capital gain	4,000
Allowable capital loss	7,000

What is Fadel's Net Income or Loss for Tax Purposes?

- A. \$40,000 Income
- B. Nil
- C. \$44,000 Income
- D. \$12,000 Loss

27. ITA 3(b) requires the taxpayer to "determine the amount, if any, by which taxable capital gains exceed allowable capital losses". The rule that is established by this phrase is:

- A. That allowable capital losses in excess of taxable capital gains during a year are never deductible from income.
- B. That the current year allowable capital losses can only be deducted to the extent that there are taxable capital gains during the current year.
- C. That taxable capital gains are only included in income in a year when there are also allowable capital losses that can be used to reduce the effect on income.
- D. That unused allowable capital losses are deductible against any type of income in one of the past 3 years or in a future year.

Net Income to Taxable Income

28. Which of the following amounts is not deducted in converting Net Income for Tax Purposes to Taxable Income?

- A. Losses of other years.
- B. The lifetime capital gains deduction.
- C. An amount related to the exercise or sale of stock options.
- D. The excess of allowable capital losses over taxable capital gains for the year.

Tax Planning

29. 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.

30. 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 Concordance For Chapter 1

2012 Number	Subject	2011 Number
1	Taxable Entities (Income Taxes)	1
2	Taxable Entities (GST/HST)	2
3	Federal And Provincial Tax Payable	3
4	Federal And Provincial Tax Payable	New
5	Regressive Taxes	4
6	Regressive Taxes	New
7	Non-Resident Liability For Tax	5
8	Non-Resident Liability For Tax	New
9	Net Income For Tax Purposes	6
10	Net Income For Tax Purposes	New
11	Tax Planning	7
12	Tax Planning	New
13	Tax Planning	8
14	Tax Planning	New
15	Tax Planning	9
16	Tax Planning	New

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 (Federal And Provincial Taxes Payable)

Karla Ho has Taxable Income of \$26,700. For the current year her federal tax rate is 15 percent and the corresponding provincial rate is 10 percent. Determine Ms. Ho's combined federal and provincial Tax Payable, before consideration of any available credits against Tax Payable.

Exam Exercise One - 5 (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 HST rate as a percentage of the income of the two sisters.

Exam Exercise One - 6 (Regressive Taxes)

Veronica Simms has Taxable Income for the current year of \$843,000. Because of her modest life style, only \$162,000 of this amount is spent on goods and services that are subject to the Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister is currently attending university on a full time basis and lives in the same city. Her Taxable Income for the current year is \$8,000. Because she is able to use savings accumulated during several years of employment, she spends \$36,000 on goods and services that are subject to HST at 13 percent.

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

Exam Exercise One - 7 (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 - 8 (Non-Resident Liability For Tax)

Daniel Bourne is a U.S. citizen who lives in Fargo, North Dakota. For many years, he has had a cottage on Manitoba's Lake Winnipeg. In recent years, however, he has made little use of this property and, given this, he has sold the property. While there was a gain of \$50,000 on the sale, Daniel assumes that he will not pay Canadian taxes on this amount as he is a U.S. citizen.

Is he correct? Explain your conclusion.

Exam Exercise One - 9 (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 - 10 (Net Income For Tax Purposes)

Harvey Nicastro has current year employment income of \$45,000. In addition, he has the following additional sources of income, gains, and losses:

- A loss from an unincorporated business of \$23,000.
- Interest income of \$4,500.
- A taxable capital gain of \$13,500.
- An allowable capital loss of \$18,200.
- Spousal support paid of \$24,000.
- A net rental loss of \$14,500.

Determine Harvey's 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 - 11 (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 - 12 (Tax Planning)

Ms. Sarah Bloom convinces her employer to provide her with a private drug plan in lieu of additional salary. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 13 (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 - 14 (Tax Planning)

Ms. Tricia Jones makes contributions to a Registered Pension Plan sponsored by her employer. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 15 (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.

Exam Exercise One - 16 (Tax Planning)

Mr. Norman Rock transfers some dividend paying shares to his 25 year son who is attending university on a full time basis. 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.

To accommodate 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 - Two Cases

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 - Four Cases

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.

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. In some situations, an employee may request an increase in the amounts that are withheld for future income taxes. What circumstances might lead an employee to make such a request?
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. By making all instalments on the basis of the CRA's instalment reminder, the taxpayer is assured that no interest will be assessed for deficient instalments. However, this may not be the best alternative for making instalment payments. Explain why this is true.
6. 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.
7. How is interest on late instalments calculated?
8. 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?
9. Under what circumstances must a corporation make income tax instalment payments during its current taxation year?
10. 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?
11. 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?
12. A corporation's balance due date is not the same as its return due date. Explain how these dates differ.
13. The normal reassessment period is 3 years for individuals and CCPCs and 4 years for other corporations. Indicate two situations where a reassessment can occur outside the normal reassessment period.
14. Cases can be heard by the Tax Court of Canada using either the general or the informal procedures. How do these two procedures differ?
15. Briefly describe the difference between tax evasion and tax avoidance.

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?

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 2012 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 2012.
 - B. John must file a tax return on or before June 15, 2013.
 - C. John must file a tax return on or before December 31, 2013.
 - D. John must file a tax return on or before April 30, 2013.
3. John Barron is self-employed and plans to file his 2012 tax return on June 15, 2013. His balance-due day is:
 - A. April 30, 2012.
 - B. April 30, 2013.
 - C. June 15, 2013.
 - D. June 15, 2012.
4. Bunly Im is a self-employed hairdresser. Which of the following dates are correct for the date by which his tax return for a year must be filed (1st item) and his payment due date (2nd item)?
 - A. April 30, April 30.
 - B. June 15, April 30.
 - C. April 30, June 15.
 - D. June 15, June 15.
5. Ms. Loren dies on February 1, 2013. 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 2012 income tax return?
 - A. April 30, 2013.
 - B. June 15, 2013.
 - C. August 1, 2013.
 - D. June 30, 2013.

6. Mr. Finlay, a retired individual whose only source of income was pension receipts, dies on August 15, 2012. By what date must Mr. Finlay's final tax return be filed?
- A. April 30, 2013.
 - B. February 28, 2013.
 - C. February 15, 2013.
 - D. December 31, 2012.
 - E. None of the above.
7. Ms. Ali, a self-employed music teacher with business income, dies on November 15, 2012. What is the latest filing date for her 2012 income tax return?
- A. April 30, 2013.
 - B. May 15, 2013.
 - C. May 30, 2013.
 - D. June 15, 2013.
8. Mr. Khan, a self-employed construction contractor, dies on April 1, 2013. What is the latest filing date for his final tax return?
- A. April 30, 2014.
 - B. June 15, 2014.
 - C. October 1, 2014.
 - D. December 31, 2014.
9. Ms. Devecó's 2012 income tax return is due on April 30, 2013. While she is too busy to file her tax return on that date, she remits a cheque 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, 2013. 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

10. Ms. Marston has net tax owing for 2010 of \$4,500, net tax owing for 2011 of \$8,000, and estimated net tax owing for 2012 of \$7,500. If she wishes to pay the minimum total amount of instalments for the 2012 taxation year, her first payment on March 15 will be for what amount?
- A. Nil.
 - B. \$1,125.
 - C. \$1,875.
 - D. \$2,000.
11. Jason Marks has to pay his tax by instalments as a result of his significant investment income. His net tax owing in 2010 was \$13,600. In 2011, it was \$15,000. His estimate for 2012 is \$17,000. If he decides to pay his 2012 tax instalments according to the prior year option, how much should he pay on September 15, 2012?
- A. \$3,400.
 - B. \$3,750.
 - C. \$4,250.
 - D. \$6,500.

12. 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.
13. Larry Short has self-employment income of \$62,000 in 2012. 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 2012 will be \$8,000. Which of the following statements is true?
- A. Larry must file his return for 2012 by April 30, 2013.
 - B. Larry should pay instalments in 2012.
 - C. Larry must pay his income tax for 2012 by June 15, 2013.
 - D. If Larry has as much income in 2013 as he had in 2012, he will have to pay instalments during 2013.
14. Individuals are required to pay instalments:
- A. When net tax owing is over \$3,000 for any one of the past two years.
 - B. When net tax owing is over \$3,000 for the current year and both of the two prior years.
 - C. When net tax owing is over \$3,000 for the current year and one of the two prior years.
 - D. When net tax owing is over \$3,000 for the current year only.
15. One way to ensure that no interest will be assessed for late instalments is:
- A. To pay the amounts provided by the CRA in their instalment reminder on or before the required dates.
 - B. To pay the lowest amount calculated using the 3 alternative calculations on or before the required dates.
 - C. To pay the estimated tax owing for the current year on the first instalment due date.
 - D. To pay the average of the three amounts calculated using the 3 alternative calculations on or before the required dates.

Interest and Penalties

16. Dora Chen has determined that her minimum tax instalments for 2012 are \$8,000 per quarter. She also owes \$30,000 on her credit card, which carries an interest rate of 20%. She has destroyed her credit card, so no more can be put on it. Dora is unable to pay both the entire instalment amounts and her credit card balance, but she does have \$8,000 in cash each quarter for her debts. Which of the following would be the best choice for Dora from a financial planning perspective?
- A. Dora should pay off her credit card balance before making instalment payments.
 - B. Dora must make all her instalment payments, even if it means she cannot pay anything off on her credit card this year.
 - C. Dora should split her payments equally between the credit card balance and the instalment liability, in order to show the CRA that she is trying her best to meet her obligations to them.
 - D. Dora should pay her first two instalments and then make payments on her credit card balance.

17. Which of the following scenarios will result in a penalty being charged by the CRA?
- A. A taxpayer pays less than the required amount of instalments.
 - B. A taxpayer who is owed a refund files their tax return late.
 - C. A taxpayer who has a balance owing files their tax return late, with the payment enclosed.
 - D. A taxpayer who has a balance owing files their tax return on time, but does not include a payment.

Corporate Filing Requirements

18. 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.
19. PS Swim Inc. has a year end of November 30. It is a small CCPC. For its 2012 taxation year, its income tax return is due on:
- A. January 31, 2013.
 - B. February 28, 2013.
 - C. April 30, 2013.
 - D. May 31, 2013.
 - E. None of the above.
20. For its 2012 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.
21. The balance due date for a corporation is:
- A. April 30 of the following year.
 - B. The same as the filing deadline.
 - C. Three months after the end of the fiscal year, or two months after the end of the fiscal year if the corporation is a small CCPC.
 - D. Two months after the end of the fiscal year, or three months after the end of the fiscal year if the corporation is a small CCPC.

Corporate Instalments

22. PP Ltd., a client of your firm, has a November 30 year end and has requested you to advise them on what its monthly instalments for the 2012 tax year will be. Its taxes payable for its November 30, 2010 and November 30, 2011 years were \$13,800 and \$13,200, respectively. Its estimated taxes payable for the November 30, 2012 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.
23. A Canadian public corporation had federal taxes payable in 2010 and 2011 exceeding \$3,000. One correct option it has with respect to its 2012 instalments is to pay:
- A. equal instalments, on a quarterly basis, based on its 2011 federal taxes payable.
 - B. on a monthly basis, instalments equal to 1/12th of its estimated 2012 federal taxes payable.
 - C. one lump-sum payment, within three months of its 2012 year end.
 - D. on a monthly basis, instalments equal to 1/12th of its 2010 federal taxes payable.
24. 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.
25. Which of the following is not one of the criteria for a CCPC to be considered a small CCPC eligible to pay instalments on a quarterly basis?
- A. Taxable income cannot exceed \$500,000 for the corporation and its associated corporations for the current taxation year and the two previous years.
 - B. The corporation has claimed the small business deduction in the current or previous year.
 - C. The corporation has a perfect compliance record during the last 12 months.
 - D. The corporation and its associated corporations do not have Taxable Capital Employed in Canada that exceeds \$10 million for the current or previous year.

Assessments And Appeals

26. Which of the following statements is not correct?
- A. When the person filing the return has made any misrepresentation due to neglect, carelessness or wilful default, the normal reassessment period can be extended beyond 3 years.
 - B. A taxpayer can choose to file a waiver to extend the 3 year time limit.
 - C. When a return has been reassessed once, no further reassessments are permitted.
 - D. Reassessment can occur outside the normal reassessment period when reassessment within the normal period affects a balance outside of the normal period.
27. Which of the following is not one of the criteria that must be met before an adjustment to a previous year tax return is permitted?
- A. The CRA must be satisfied that the previous assessment was incorrect.
 - B. The change is based on a successful appeal to the courts by another taxpayer.
 - C. The taxpayer's return was filed within 3 years of the end of the year to which it relates.
 - D. The reassessment must be made within the normal assessment period, or under certain permitted extensions to this period.
28. Tom Arnold filed his 2012 tax return on March 1, 2013. The CRA mailed a notice of assessment to Tom dated May 15, 2013, and Tom received it on May 30, 2013. If Tom disagrees with the notice of assessment, what is the latest date he has to file a notice of objection?
- A. 90 days from March 1, 2013.
 - B. 90 days from April 30, 2013.
 - C. 90 days from May 15, 2013.
 - D. 90 days from May 30, 2013.
 - E. None of the above.
29. Minnie Belanger is retired. She mailed her 2012 tax return on March 5, 2013. She received a portion of the tax refund claimed and an assessment notice, dated April 19, 2013, 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. What is the latest date she has to file a notice of objection?
- A. March 5, 2014.
 - B. April 19, 2014.
 - C. April 30, 2014.
 - D. July 18, 2013.
 - E. June 15, 2014.
30. For a public corporation, which of the following statements is correct 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 Concordance For Chapter 2

2012 Number	Subject	2011 Number
1	Individual Due Dates	1
2	Individual Due Dates	New
3	Deceased Taxpayer Due Date	2
4	Deceased Taxpayer Due Date	New
5	Individual Instalments	3
6	Individual Instalments	4
7	Individual Instalments	New
8	Penalties And Interest (Individuals)	5
9	Penalties And Interest (Individuals)	New
10	Corporate Instalments - Regular And Small CCPC	6
11	Corporate Instalments - Regular And Small CCPC	7
12	Corporate Instalments - Regular And Small CCPC	New
13	Corporate Due Dates	8
14	Corporate Due Dates	9
15	Corporate Due Dates	New
16	Notice Of Objection	10
17	Notice Of Objection	New

Exam Exercise Two - 1 (Individual Due Dates)

Mark Brown's 2012 Net Income includes business income. When is his 2012 tax return due? By what date must his 2012 tax liability be paid in order to avoid the assessment of interest on amounts due?

Exam Exercise Two - 2 (Individual Due Dates)

Ms. Jeanine Farrel has 2012 Net Income which includes business income. When is her 2012 tax return due? In addition, indicate when any remaining tax liability must be paid in order to avoid having interest assessed on the amount due.

Exam Exercise Two - 3 (Deceased Taxpayer Due Date)

George Klause dies on March 1, 2013. All of his income during 2012 was earned through his unincorporated accounting practice. By what date must his representatives file his 2012 income tax return? Explain your answer.

Exam Exercise Two - 4 (Deceased Taxpayer Due Date)

Gloria Klump dies December 1, 2012. Much of her 2012 income resulted from an unincorporated business which she operated. By what date must her representatives file her 2012 income tax return? Explain your answer.

Exam Exercise Two - 5 (Individual Instalments)

At the beginning of 2012, the following information relates to Sarah Elmsley:

Year	Net Tax Owing
2010	\$1,800
2011	6,400
2012 (estimated)	3,600

Indicate whether Ms. Elmsley is required to make instalment payments during 2012. 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 - 6 (Individual Instalments)

Horace Greesom filed his 2011 return on time. At the beginning of 2012, the following information relates to Mr. Greesom:

Year	Taxes Payable	Amounts Withheld
2010	\$56,000	\$45,000
2011	49,000	46,000
2012 (estimated)	65,000	45,000

What amounts will be shown on the Instalment Reminder notices for 2012 and when will the amounts be due? Should he pay those amounts? Explain your conclusion.

Exam Exercises Two - 7 (Individual Instalments)

At the beginning of 2012, the following information relates to Jerry Farrow:

Year	Tax Payable	Amounts Withheld
2010	\$83,000	\$78,000
2011	76,000	77,000
2012 (Estimated)	63,000	59,000

Is Mr. Farrow required to make instalment payments during 2012? If he is required to make instalment payments, indicate the amounts that would be required under each of the three alternative methods of calculating instalments. Indicate which alternative would be preferable.

Exam Exercise Two - 8 (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 2012, Marsha Fields has made no instalment payments for 2012. While her normal filing date would be April 30, 2013, she does not file her 2012 return or pay the balance owing until August 24, 2013. What penalties and interest will be assessed for the 2012 taxation year?

Exam Exercise Two - 9 (Penalties And Interest For Individuals)

As his Taxable Income in 2011 was nil, Mark Felton did not make any instalment payments during 2012. In completing his return for 2012, he finds that he has tax payable of \$22,500. While his normal filing date would be April 30, 2013, he does not file his return or pay the balance owing until September 12, 2013. What penalties and interest will be assessed for the 2012 taxation year? Mark has filed his return on time in all previous years.

Exam Exercise Two - 10 (Corporate Instalments - Regular And Small CCPC)

Lemar Ltd. has a December 31 year end. It is not a small CCPC. For 2010, its taxes payable were \$71,500, while for 2011, the amount was \$93,600. For 2012, its estimated taxes payable are \$114,700. What would be the minimum instalment payments for the 2012 taxation year and when would they be due? How would your answer differ if Lemar Ltd. qualified as a small CCPC?

Exam Exercise Two - 11 (Corporate Instalments - Regular And Small CCPC)

Chemco Inc. has a December 31 year end and is not a small CCPC. For 2010, its taxes payable were \$146,300, while for 2011, the amount was \$94,650. For 2012, its estimated taxes payable are \$52,300. What would be the minimum instalment payments for the 2012 taxation year and when would they be due? How would your answer differ if Chemco Inc. qualified as a small CCPC?

Exam Exercise Two - 12 (Corporate Instalments - Regular And Small CCPC)

Dustin Inc. has a September 30 year end and is not a small CCPC. For its taxation year ending September 30, 2010, its tax payable was \$33,500. The corresponding figure for the year ending September 30, 2011 was \$93,400. It is estimated that, for the year ending September 30, 2012, its tax payable will be \$56,200. What would be the minimum instalment payments for the taxation year that ends on September 30, 2012, and when would they be due? How would your answer differ if Chemco Inc. qualified as a small CCPC?

Exam Exercise Two - 13 (Corporate Due Dates - CCPC)

The taxation year end for Grange Inc. is March 31, 2012. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending March 31, 2011 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 - 14 (Corporate Due Dates)

The taxation year end for Lawnco Inc. is January 31, 2012. Lawnco Inc. is a Canadian public company and does not qualify for the small business deduction. 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 - 15 (Corporate Due Dates - CCPC)

The taxation year end for Breyson Ltd. is June 30, 2012. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for year ending June 30, 2011 of \$132,000. 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 - 16 (Notice of Objection)

Nancy Forth filed her 2012 tax return as was required on April 30, 2013. She receives an initial assessment notice during May, 2013. However, on July 12, 2014, 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, 2014. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.

Exam Exercise Two - 17 (Notice of Objection)

Norman Foster filed his 2012 tax return as was required on June 15, 2013. He receives a notice of assessment on August 28, 2012, indicating that his return was accepted as filed. However, on March 15, 2014, he receives a reassessment indicating that he owes additional taxes, as well as interest on unpaid amounts. This reassessment was mailed on March 8, 2014. 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

Instalment Payments For Individuals

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
2010	\$23,000	\$21,500
2011	\$27,000	\$15,000
2012 (Estimated)	\$21,200	\$18,000

Required:

- A. Indicate whether Ms. Birch has an obligation to make instalment payments during the 2012 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 all 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

Instalment Payments For Individuals And Corporations

For the year ending December 31, 2010, the taxpayer's combined federal and provincial taxes payable amounted to \$93,000, while for the year ending December 31, 2011, the amount payable was \$108,000. It is estimated that federal and provincial taxes payable for the year ending December 31, 2012 will be \$82,500.

Case A The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$86,700 in 2010, \$109,500 in 2011, and \$79,200 in 2012.

Case B The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$91,500 in 2010, \$98,700 in 2011, and \$78,300 in 2012.

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, 2010 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, 2012.
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 2012. If instalments must be paid, indicate the date on which they are due.

TIF PROBLEM TWO - 8

Instalment Payments For Individuals

In January, 2012, 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 2010 and 2011 taxation years:

Year	Taxes Payable	Taxes Withheld
2010	\$22,000	\$9,500
2011	18,000	9,700

For 2012, 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 2012 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

Instalment Payments For Corporations

The fiscal year of the Sloan Company, a public company, ends on October 31. During the year ending October 31, 2010, its federal taxes payable amounted to \$168,000, while for the year ending October 31, 2011, the federal taxes payable were \$153,000. It is estimated that federal taxes payable for the year ending October 31, 2012 will be \$144,000.

Required:

- A. Calculate the instalment payments that are required for the year ending October 31, 2012 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 2012 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).

TIF PROBLEM TWO - 10

Instalment Payments For Individuals And Corporations

For the three years ending December 31, 2012, the taxpayer's combined federal and provincial tax payable was as follows:

Year Ending December 31	Taxes Payable
2010	\$72,300
2011	89,400
2012 (Estimated)	78,300

Case One

The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$73,700 in 2010, \$83,200 in 2011, and \$75,000 in 2012.

Case Two

The taxpayer is an individual whose employer withholds combined federal and provincial taxes of \$65,100 in 2010, \$90,100 in 2011, and \$71,900 in 2012.

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, 2011 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 2012. Provide a brief explanation of your conclusion. This explanation should be provided even if the amount of the required instalments is nil.
2. If instalments are required, calculate the amount of instalments that would be required under each of the acceptable methods available.
3. If instalments are required, indicate which of the available methods would best serve to minimize instalment payments during 2012. If instalments must be paid, indicate the date on which they are due.

TIF PROBLEM TWO - 11

Instalment Payments For Individuals

For the three years ending December 31, 2012, Galina Skurnick's combined federal and provincial taxes payable are as follows:

2010	\$28,800
2011	23,040
2012 (Estimated)	21,600

Assume Ms. Skurnick's employer withholds combined federal and provincial taxes for each year as follows:

Case One

\$19,200 in 2010, \$16,000 in 2011, and \$16,000 in 2012.

Case Two

\$11,200 in 2010, \$24,000 in 2011, and \$14,400 in 2012.

Case Three

\$27,500 in 2010, \$16,200 in 2011, and \$18,200 in 2012.

Required: For each of the preceding 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, 2012.

If instalments must be paid, your answer should include the date that each instalment is due. 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.

TIF PROBLEM TWO - 12

Instalment Payments For Corporations

For the three taxation years ending December 31, 2012, a corporation's combined federal and provincial tax payable are as follows:

Year Ending December 31	Taxes Payable
2010	\$101,220
2011	125,160
2012 (Estimated)	109,620

Case One

The taxpayer is a small CCPC.

Case Two

The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2011 were \$104,300, instead of the \$125,160 given in the problem.

Case Three

The taxpayer is a publicly traded corporation.

Case Four

The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2011 were \$104,300, instead of the \$125,160 given in the problem.

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

1. Indicate whether instalments are required during 2012. 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 2012. If instalments must be paid, indicate the date on which they are due.