

Practice Examination

Chapter 1 (Introduction)

Instructions To Students

Create An Examination Environment

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

To get maximum benefits from this Practice Examination, you should write it under examination conditions. It is designed as a 90 minute examination and it should be written within that time constraint. You should make an effort to set aside 90 minutes of time during which you will not be interrupted. You should also pick a location where you will not be distracted by extraneous influences.

Materials To Be Used

The materials that you use while writing this Practice Examination should be consistent with the materials that will be available during the examinations that you will be writing in your tax course. These vary from course to course, and include the following possibilities:

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

You should determine, either from your course outline or directly from your instructor, which of these approaches applies in your situation. You should write this Practice Examination using only the materials permitted for your examination.

Types Of Questions

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

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

How To Use The Marking Guides

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

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

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

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

In the solution that we have provided for this Practice Examination, these grading points have been identified with **highlighting** the appropriate number or word.

Practice Examination On Introduction To Federal Taxation In Canada

NOTE Since the material in this introductory chapter is quite general, this Examination is less challenging than the Examinations for subsequent chapters. However, we suggest you make a serious effort to write this Practice Examination as it will improve your ability to create an examination environment and understand how examinations are marked.

Examination Content

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

Question	Type Of Question Or Subject	Marks	Time In Minutes
1	Essay Question	10	9.0
2	Essay Question	10	9.0
3	Essay Question	10	9.0
4 - 9	True Or False Questions	9	8.1
10 - 16	Multiple Choice Questions	21	18.9
17	Net Income For Tax Purposes	40	36.0
Total		100	90.0

Question 1 (10 Marks)

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

Question 2 (10 Marks)

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

Question 3 (10 Marks)

Your client, a government employee, would like to reduce his taxes. He is trying to decide whether he should contribute \$5,000 to an RRSP this year. He has an RRSP as does his wife, a part time employee at a day care centre.

Briefly describe the basic goals of tax planning. What advice would you give your client regarding his RRSP contribution? Explain your conclusion.

Questions 4 Through 9 (9 Marks)

4. Both corporations and trusts are required to file income tax returns.
True or False?
5. Partnerships, public corporations, private corporations, and trusts are required to file income tax returns.
True or False?
6. The use of progressive income tax rates encourages tax evasion.
True or False?
7. If a tax system has horizontal equity, individuals in the same economic circumstances will pay the same amount of taxes.
True or False?
8. If there is a conflict between an international tax treaty and Canadian tax legislation, the Canadian tax legislation will prevail.
True or False?
9. Canadian citizens are required to file a Canadian income tax return, without regard to where they currently live.
True or False?

Questions 10 Through 16 (21 Marks)

10. Which of the following is not a taxable entity for income tax purposes?
- A. Lyton Inc., a Canadian private company.
 - B. John Lyton, a Canadian resident.
 - C. Joan Lyton, a Canadian citizen, living in Tokyo, Japan.
 - D. The Lyton family trust.
11. Which of the following statements is correct?
- A. A progressive tax system encourages individuals to work harder.
 - B. Tax expenditures are more costly to administer than program expenditures.
 - C. Inelasticity is a desirable feature of a tax system.
 - D. Regressive taxes are unfair to individuals with low incomes.
12. Which of the following tax reference materials is a legislative source?
- A. Income Tax Folios.
 - B. International Tax Treaties.
 - C. Information Circulars.
 - D. Advance Income Tax Rulings.
13. With respect to taxation years, which of the following statements is not correct?
- A. Individuals can choose to have a non-calendar fiscal year.
 - B. Corporations can choose to have a non-calendar fiscal year.
 - C. Testamentary trusts can have a non-calendar fiscal year.
 - D. Corporations can have a taxation year based on the calendar year.

14. With respect to Canadian income taxes on non-residents, which of the following statements is not correct?
- Non-residents must pay Canadian income taxes on employment income earned in Canada.
 - Non-residents must pay Canadian income taxes on capital gains arising on dispositions of any Canadian property.
 - Non-residents must pay Canadian income taxes on business income earned in Canada.
 - Non-residents must pay Canadian income taxes on gains resulting from the sale of Canadian real property.
15. Fred Hopkins has employment income of \$45,000, a business loss of \$14,000, capital gains of \$20,000, capital losses of \$12,000, and subdivision deductions of \$3,000. Fred's Net Income For Tax Purposes is equal to:
- \$36,000
 - \$50,000
 - \$39,000
 - \$32,000
16. Which of the following will always result in tax avoidance?
- Making contributions to a registered retirement savings plan.
 - Making contributions to an employer's registered pension plan.
 - Making use of the lifetime capital gains deduction.
 - Making maximum capital cost allowance deductions.

Question 17 (40 Marks)

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

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

Required For each Case, calculate Ms. Rizk's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year.

END OF EXAMINATION