

Canadian Tax Principles 2014 / 2015

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 CPAs 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.
5. Which of the following groups of entities are all subject to taxation on income?
 - A. Individuals, proprietorships and corporations
 - B. Proprietorships, corporations and trusts
 - C. Individuals, trusts and corporations
 - D. Individuals, partnerships and corporations
6. Income tax is calculated for which of the following groups of jurisdictions?
 - A. Municipal, provincial, and federal
 - B. Provincial, federal, and international
 - C. Municipal, federal, and international
 - D. Municipal, provincial, and international

Tax Policy Concepts

7. 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.

8. 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.
9. 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.
10. 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.
11. 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.
12. 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.
13. "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.
14. "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

15. 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.
16. Of the following publications, indicate the one that is **NOT** a legislative source.
- A. *Income Tax Act*.
 - B. Income Tax Folios.
 - C. Income Tax Application Rules.
 - D. International Tax Treaties.
 - E. Income Tax Regulations.
17. Of the following publications, indicate the one that is **NOT** published by the CRA.
- A. Income Tax Folios.
 - B. Information Circulars.
 - C. Dominion Tax Cases.
 - D. Income Tax Technical News.
18. 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.
19. 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.
20. 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

21. An individual 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.

22. 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.
23. 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

24. 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

25. 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.

26.

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

27. 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

28. 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

29. 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

30. 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

31. 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.

32. 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.

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

Practice Examination Solution

Chapter 1 (Introduction)

Examination Summary

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

| Question | Type Of Question Or Subject | Total Marks | Your Mark |
|----------|-----------------------------|-------------|-----------|
| 1 | Essay Question | 10 | |
| 2 | Essay Question | 10 | |
| 3 | Essay Question | 10 | |
| 4 - 9 | True Or False | 9 | |
| 10 - 16 | Multiple Choice | 21 | |
| 17 | Net Income For Tax Purposes | 40 | |
| Total | | 100 | |

Solution 1 (10 Marks)

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

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

1 grading point for each highlighted item. Total 10

Your Mark = [(# of grading points ÷ 10)(10%)] = ____%

Solution 2 (10 Marks)

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

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

1 grading point for each highlighted item. Total 5

Your Mark = [(# of grading points ÷ 5)(10%)] = ____%

Question 3 (10 Marks)

The basic goals of tax planning can be summarized as follows:

- **Tax avoidance** - To permanently avoid the payment of some amount of tax.
- **Tax deferral** - To delay the recognition of certain types of income or accelerate the timing of certain deductions.
- **Income splitting** - To have a family or other related group's aggregate taxable income allocated as evenly as possible among the members of the group.

He should contribute the \$5,000 to the **spousal RRSP**. By contributing to an RRSP he will be **deferring taxes**. By contributing to a spousal RRSP he is also **income splitting** and there may be **possible tax avoidance** if his spouse is taxed at a lower rate when the funds become taxable to her.

1 grading point for each highlighted item. Total 7

Your Mark = [(# of grading points ÷ 7)(10%)] = ____%

Questions 4 Through 9 (9 Marks)

4. **True.** Corporations and trusts are required to file income tax returns.
5. **False.** Partnerships are not required to file income tax returns.
6. **True.** Most authorities believe that progressive income tax rates encourage tax evasion.
7. **True.** Horizontal equity refers to individuals in the same economic position paying the same amount of taxes.
8. **False.** The provisions of the international treaty will prevail.
9. **False.** Canadian income taxes are assessed on residents of Canada.

1 grading point for each correct answer. Total 6

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

Questions 10 Through 16 (21 Marks)

10. **C.** Joan Lyton, a Canadian citizen, living in Tokyo, Japan.
11. **D.** Regressive taxes are unfair to individuals with low incomes.
12. **B.** International Tax Treaties.
13. **A.** Individuals can choose to have a non-calendar fiscal year.
14. **B.** Non-residents must pay Canadian income taxes on capital gains arising on dispositions of any Canadian property.
15. **D.** \$32,000 [\$45,000 + (1/2)(\$20,000 - \$12,000) - \$3,000 - \$14,000]
16. **C.** Making use of the lifetime capital gains deduction.

1 grading point for each correct answer. Total 7

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

Question 17 (40 Marks)**Case A**

The Case A solution would be calculated as follows:

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

In this Case, Ms. Rizk has **no loss carry overs** at the end of the year.

Case B

The Case B solution would be calculated as follows:

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

In this Case, Ms. Rizk has a carry over of \$6,000 (\$42,000 - \$36,000) in unused **allowable** capital losses.

Case C

The Case C solution would be calculated as follows:

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

In this Case, Ms. Rizk would have a carry over of unused allowable capital losses in the amount of \$37,000 (\$69,000 - \$32,000).

Case D

The Case D solution would be calculated as follows:

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

As Ms. Rizk's property loss exceeds the amount carried forward from ITA 3(c), her total Net Income For Tax Purposes (Division B income) is nil. There would be a carry over of unused non-capital losses in the amount of \$4,000 (\$36,000 - \$32,000) and of unused allowable capital losses in the amount of \$6,000 (\$27,000 - \$21,000).

1 grading point for each highlighted item. Total 38

Your Mark = [(# of grading points ÷ 38)(40%)] = ____%