

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 is the importance of residence in Canadian income taxation?
17. When an individual leaves Canada, the CRA may take the position that he has retained his residence status. What are the primary factors that the CRA will consider in determining whether such an individual has, in fact, ceased to be a Canadian resident?
18. List three factors that would be considered in the determination of whether or not an individual is a resident of Canada.

19. If an individual leaves Canada for a temporary absence, this raises the question of whether he was a Canadian resident during the period of absence, particularly if some residential ties have been retained. What are the major factors that are considered in determining whether an individual continues to be a Canadian resident during a temporary absence?
20. One of your friends is leaving Canada and would like to know when he will no longer be considered a Canadian resident. Briefly explain the rules related to terminating an individual's status as a Canadian resident.
21. For the current year, Jane Doe is deemed to a Canadian resident because she sojourned in Canada for 210 days. Also for the current year, Jack Fawn, a long-time resident of Manitoba, was considered a part year resident for the first 210 days, after which he permanently departed from Canada. Explain how these two individuals will be taxed in Canada.
22. It is possible that an individual could be considered resident in more than one country. In such situations, "tie-breaker" rules are used to avoid the individual being subject to taxation in both countries. List and describe three factors that would be considered in implementing the tie-breaker rules.
23. Are enterprises that are incorporated in Canada always considered to be resident in Canada? Explain your conclusion.
24. Limon Inc. was incorporated in the U.S. five years ago. However, all of the directors of the corporation are Canadian residents, holding all of their meetings in Montreal. How would Limon Inc. be taxed?
25. What are the components of Net Income For Tax Purposes?
26. 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"?
27. What is the difference between tax avoidance and tax deferral?
28. What is income splitting? Under what circumstances will it provide tax benefits to an individual?
29. 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?
30. 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.

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. Any taxpayer can choose the calendar year as their taxation year.
True or False?
12. If there is a conflict between an international tax treaty and Canadian tax legislation, the Canadian tax legislation will prevail.
True or False?
13. 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?

14. Canadian citizens are required to file a Canadian income tax return, without regard to where they currently live.

True or False?

15. When an individual is absent from Canada for some period of time, the length of their absence is an important factor in determining whether they continued to be a Canadian resident during the period of their absence.

True or False?

16. If an individual moves to Canada and is here less than 183 days prior to the end of the year, that individual will be subject to Part I tax on their world wide income for the entire year.

True or False?

17. The residency of a trust depends on the country in which the central management and control of the trust takes place, not where the beneficiaries reside.

True or False?

18. If an individual leaves Canada, the three most significant factors in determining whether he has ceased to be a resident are:

- Whether he continues to own a dwelling in Canada.
- Whether he is accompanied by his spouse or common-law partner.
- Whether he maintains social ties in Canada.

True or False?

19. If an individual returns to Canada after an absence of less than two years, S5-F1-C1 indicates that, in general, he will be considered to have retained Canadian residency during his absence.

True or False?

20. A part year resident for the current year is an individual who either establishes residency in Canada during the current year or, alternatively, terminates residency in Canada during the current year.

True or False?

21. A sojourner is any individual who has been present in Canada for 183 consecutive days in one year.

TIF PROBLEM ONE - 3

Introduction - Multiple Choice

Canadian Tax System

1. Which of the following types of taxes is not currently in use by the federal government of Canada?
 - A. Excise Taxes
 - B. Custom Duties
 - C. Head Tax
 - D. Transfer Tax
2. 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.
3. 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.
4. 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
5. 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.
6. 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
7. 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

8. Which of the following statements with respect to Canadian tax policy is **NOT** correct?
- A. The economic burden of a particular tax may not fall on the same group that has the legal liability to pay the tax.
 - B. Extremely high rates of tax will always encourage individuals to work harder so that they will have more after tax income.
 - C. The inability to harmonize the GST in some provinces has increased the complexity of tax compliance.
 - D. A progressive tax system is unfair to individuals with incomes that fluctuate significantly from year to year.
9. 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.
10. 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.
11. 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.
12. 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.
13. 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.
14. 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.

15. "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.
16. "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

17. Which of the following statements with respect to tax reference materials is correct?
- A. Income Tax Folios are a legislative source of guidance.
 - B. Income Tax Regulations are gradually being replaced by Income Tax Folios.
 - C. Interpretation Bulletins are gradually being replaced by Information Circulars.
 - D. The *Income Tax Act* is the most important source of information for dealing with matters related to the federal income tax.
18. 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 *Income Tax Act* has Parts numbered I through XVII, reflecting the fact that there are 17 Parts 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.
19. 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.
20. 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.
21. 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.

22. 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 Income Tax Folio.
 - D. A CRA Information Circular.
23. 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

24. Of the following statements related to liability for Canadian income tax, which statement is **NOT** correct?
- A. As used in the *Income Tax Act*, the term person refers to individuals, trusts, and corporations.
 - B. Corporations must use the calendar year as their taxation year.
 - C. The Canadian Part I tax is assessed on residents of Canada.
 - D. The Canadian Part I tax is assessed Canadian employment income earned by a non-resident.
25. An individual is liable for income tax in Canada if he:
- A. is a resident in Canada.
 - B. is a citizen of Canada.
 - C. has lived in Canada at any time during the year.
 - D. All of the above are required.
26. 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.
27. 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

Residence

Residence Of Individuals

20. Which of the following is an essential factor in determining whether an individual has ceased to be a resident of Canada?
- A. The individual has closed his Canadian savings account.
 - B. The individual has given up his membership in the Canuck Country Club.
 - C. The individual has become a resident of another country.
 - D. The individual given up his Ontario driver's licence.
29. Ms. Floom has been out of Canada for several years. She is presumed to be a non-resident as long as certain tests are met. Indicate the condition that does **NOT** have to be met.
- A. She did not leave a spouse or other dependants in Canada.
 - B. She does not return to Canada on a regular or frequent basis.
 - C. She did not leave personal property or social ties in Canada.
 - D. She did not leave taxable Canadian property in Canada.
 - E. She did establish permanent residence in another jurisdiction.
30. All of the following statements are true, except:
- A. Canadian residents must report their worldwide income for tax purposes.
 - B. If an individual is a resident of Canada for part of the calendar year, that individual only has to report his worldwide income during the period of residency for Canadian tax purposes.
 - C. An individual who immigrates to Canada during the year is a resident of Canada for tax purposes for the full calendar year.
 - D. An individual can be a resident of Canada for tax purposes, even if she is not a Canadian citizen.
31. Of the following individuals, who would be a resident or deemed resident of Canada for tax purposes this year?
- Alex is a U.S. citizen who commutes each day to Canada for employment purposes.
 - Bob is a U.S. citizen who lives in Canada during the week for employment purposes, but returns to the U.S. on weekends to the house he shares with his wife and children.
 - Charles is a Canadian citizen who lived in Toronto until March of last year, at which time he left for a four year aid mission in Africa under an agreement with the Canadian International Development Agency.
 - Dick is a Canadian citizen who goes to school in the U.S. for eight months of each year but returns to Canada to live with his parents each summer.
- A. Alex, Bob and Charles.
 - B. Bob, Charles and Dick.
 - C. Bob and Charles.
 - D. Alex and Dick.
32. With respect to the residency of an individual, which of the following statements is **NOT** correct?
- A. To be a resident for tax purposes, an individual must be a Canadian citizen.
 - B. If an individual leaves or enters Canada during the current year, he will be considered a part-year resident for tax purposes.
 - C. An individual is a Canadian resident for tax purposes if his principal residential ties are in Canada.
 - D. An individual is considered to be a Canadian resident for tax purposes if he visits for more than 183 days in a calendar year.

33. Which of the following factors would **NOT** be relevant under the Canada/U.S. tax treaty tie-breaker rules for determining the residence of an individual?
- A. The country in which the individual earns business income.
 - B. The country in which the individual is a citizen.
 - C. The country in which the individual has a permanent home available to him.
 - D. The country in which the individual has a habitual abode.
34. Jamal, his wife and two teenage children are all Canadian citizens. For the last 2 years he and his family have been living in Mexico while he works for the Mexican subsidiary of a Canadian company. Jamal still owns his house in Canada. His wife and children stay there for 2 months in the summer and he spends 4 weeks a year there. The rest of the time the house is empty as his wife visits family in Canada regularly. Jamal has no definite plans to return to Canada and loves living in Mexico. However, since his mother-in-law is very ill, it is possible that his wife will have to return to Canada for at least 6 months to nurse her mother. Which of the following statements is correct?
- A. Jamal is considered a part-time resident of Canada for the 4 weeks he spends in Canada.
 - B. If Jamal's wife returns alone to Canada to care for her mother, Jamal is considered a part-time resident of Canada for the 6 months she is in Canada.
 - C. Jamal is considered a non-resident of Canada.
 - D. Since Jamal owns a house in Canada that is not rented out under a long-term lease he is considered a Canadian resident for income tax purposes.
35. Of the following individuals, who would be considered a part-year resident of Canada for the current taxation year?
- A. Ravi is a citizen of India, where he was born and lived until moving to Canada on March 1 of the current year with his wife and child. He was transferred by his employer to its Canadian head office.
 - B. Helga had lived and worked in Canada for 10 years. She was transferred by her employer to its flagship hotel in Switzerland on March 1 of the current year for a 1 year training assignment. Her husband remained in Canada to complete his MBA.
 - C. Marc is a French citizen who lives in Paris. On March 1 of the current year he begins work as a translator in Ottawa. It is a 1 year assignment.
 - D. Billy Bob is a U.S. Marshall on loan to the RCMP detachment in Nunavut. It is a 9 month assignment.
36. Dominique, a Canadian citizen, lives in Buffalo, NY, USA. Throughout the current year she commutes to Fort Erie, Ontario, Canada, where she is the bartender at the Cross Border Bar. She normally works 7 pm to 3 am Tuesday through Saturday. Dominique is:
- A. A deemed resident (sojourner)
 - B. A non-resident
 - C. A full-time resident
 - D. A part-year resident
37. Vanessa moves to Germany on July 15 of the current year. She is 35 and has lived in Canada all of her life. Which one of the following best indicates Vanessa's Canadian residency status for the current year?
- A. A deemed resident (sojourner)
 - B. A non-resident
 - C. A full-time resident
 - D. A part-year resident

Residence Of Corporations

38. Which of the following corporations would **NOT** be considered a resident of Canada?
- A. Dram Inc. was incorporated in Alberta in 2005. While it has operations in both the U.S. and Canada, its management has always been located in New York.
 - B. Craser Ltd. was incorporated in Ontario in 2010. All of its business activities are in Canada and its management is located in Toronto.
 - C. Alor Inc. was incorporated in British Columbia in 2004. While most of its operations are in Canada, management is located in Seattle.
 - D. Exeter Ltd. was incorporated in Alberta in 1956. However, it has never carried on business in Canada and its management has always been located in Montana.

Residence Of Individuals/Corporations

39. Of the persons described, which one would **NOT** be considered a Canadian resident?
- A. A person who lives in Leamington, Ontario and commutes to work each day in Detroit, Michigan.
 - B. A corporation that was incorporated in North Dakota, but carries on all of its business in southern Manitoba.
 - C. A member of the Canadian armed forces who has, for the last 3 years, been stationed in Germany.
 - D. A corporation that was incorporated in Winnipeg, but carries on all of its business in North Dakota.
40. In which of the following situations is the person considered a non-resident of Canada, in 2017, for income tax purposes?
- A. James Arder, a recently qualified CPA, based in Montreal, accepted a transfer to an office in Sydney, Australia for the period May 1, 2017 to August 31, 2017. James is not married and had lived at his parent's house in Montreal.
 - B. Karen Cotin, a computer programmer, had been employed by ABC Systems Ltd. in Toronto. In 2016, she accepted a minimum two-year contract with CS Services Inc. in London, England. Her position with CS Services Inc. started October 1, 2016. Before moving to England, where she will join her fiancé, Karen terminated the lease on her apartment in Toronto and sold her car.
 - C. N Limited was incorporated in Canada in 1996 and, until May 2016, its manufacturing plant was located in Mississauga, Ontario. In May 2016, it moved all of its operations, including the manufacturing plant, to North Carolina, U.S.A.
 - D. B. Bath, a member of the Canadian Armed Forces, who was stationed in Lahr, Germany from September 1, 2015 to February 1, 2018.

Alternative Concepts of Income

41. Which of the following statements with respect to the relationship between accounting Net Income and Net Income For Tax Purposes is **NOT** correct?
- A. Both accounting Net Income and Net Income For Tax Purposes value many assets at their historical cost.
 - B. Accounting Net Income requires that costs be matched with revenues.
 - C. Net Income For Tax Purposes requires that costs be matched with revenues.
 - D. Accounting Net Income is determined by applying Generally Accepted Accounting Principles.

42. 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

43. With respect to the determination of Net Income For Tax Purposes, which of the following statements is correct?
- A. Property losses are deducted from business income before the deduction of RRSP contributions.
 - B. Allowable capital losses can be deducted to the extent of other positive sources of income.
 - C. If not used during the current period, all subdivision e deductions can be carried forward to subsequent periods.
 - D. If a business loss exceeds all other positive sources of income, Net Income For Tax Purposes is equal to nil.
44. 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.

45. 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

46. 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

47. 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

48. 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.

49. 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:

- A. \$36,000
- B. \$50,000
- C. \$39,000
- D. \$32,000

Net Income to Taxable Income

50. Which of the following items would be deducted in converting Net Income For Tax Purposes to Taxable Income?
- A. A deduction for spousal support payments made during the year.
 - B. A deduction for the extra costs related to living in prescribed areas of the Canadian north.
 - C. Current year allowable capital losses in excess of current year taxable capital gains.
 - D. Current year business losses in excess of other positive sources of income.
51. 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

52. Which of the following items does not result in tax avoidance?
- A. Use of the lifetime capital gains deduction.
 - B. Employer contributions to group disability plans.
 - C. Employer contributions to private health care plans.
 - D. Accelerated depreciation (CCA) on rental properties.
53. 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.
54. 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.
55. Which of the following will always result in tax avoidance?
- A. Making contributions to a registered retirement savings plan.
 - B. Making contributions to an employer's registered pension plan.
 - C. Making use of the lifetime capital gains deduction.
 - D. Making maximum capital cost allowance deductions.

TIF PROBLEM ONE - 4

Introduction - Exam Exercises

Exam Exercise Subject Listing For Chapter 1

Number	Subject
1	Taxable Entities (Income Taxes)
2	Taxable Entities (GST/HST)
3	Federal And Provincial Tax Payable
4	Federal And Provincial Tax Payable
5	Regressive Taxes
6	Regressive Taxes
7	Non-Resident Liability For Tax
8	Non-Resident Liability For Tax
9	Residential Ties
10	Temporary Absences
11	Temporary Absences
12	Part Year Residence
13	Part Year Residence
14	Individual Residence
15	Individual Residence
16	Corporate Residency
17	Corporate Residency
18	Corporate Residency
19	Net Income For Tax Purposes
20	Net Income For Tax Purposes
21	Tax Planning
22	Tax Planning
23	Tax Planning
24	Tax Planning
25	Tax Planning
26	Tax Planning

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 (Residential Ties)

At the end of the current year, Michael Resner departed from Canada in order to take a permanent position in Mexico. He was accompanied by his common-law partner and their children, as well as what personal property he had not sold. Due to the intent of his neighbour to start a pig farm, he was unable to sell his residence at a satisfactory price. However, he was able to rent it for a period of two years. He also retained his membership in the CPA (Chartered Professional Accountants) Alberta. After his departure, would he still be considered a Canadian resident for tax purposes? Explain your conclusion.

Exam Exercise One - 10 (Temporary Absences)

Mary is a Canadian citizen who is employed by a corporation operating in Canada and the U.S. While she has worked for many years in the Canadian office of this organization, she agreed to transfer to the corporation's U.S. head office in New York City. Before leaving, she disposed of her residence and other personal property that she did not wish to move. She canceled her Saskatchewan driver's licence and health care card, and closed all of her Canadian banking and brokerage accounts.

Because her boyfriend remained in Regina, she found herself flying back to Canada at least once a month. After two years, she concluded that between the high cost of living in New York City and the travel required to maintain the relationship with her boyfriend, she would return to Canada. Would Mary be considered a Canadian resident during the two years that she was absent from Canada? Explain your conclusion.

Exam Exercise One - 11 (Temporary Absences)

John Acheever is employed by Research In Limbo. He has worked for a number of years in their office in Kitchener, Ontario. However, he has become convinced that he would have quicker advancement if he transferred to their office in New York City. He requests this transfer and moves to that location in September, 2017. Before leaving he cancels his apartment lease, sells all of the personal property that he does not wish to move, and cancels his Ontario driver's licence. However, he retains his Canadian banking and brokerage accounts and, because of concerns about the cost of U.S. health care, he does not cancel his Ontario health care card (he changes the address to that of his parents in Waterloo, Ontario). He has also left his dog, Bart with his parents.

After the move, he is shocked to realize how much he misses Bart. He finds himself flying back to Kitchener at least twice a month to spend the weekend caring for Bart. By February, 2019, after not being able to find a suitable dog-friendly apartment in New York City, John returns to his position in Kitchener. He has no plans to return to the U.S. Would John be considered a Canadian resident during the 18 months that he was absent from Canada? Explain your conclusion.

Exam Exercise One - 12 (Part Year Residence)

Melissa is a Canadian citizen who has been employed in Vancouver for the last five years. She has accepted a new position in the United States and, as of March 15 of the current year, flies to New Mexico to assume her responsibilities. She has been granted a green card to enable her to work in the U.S. Her husband remains behind with the children until July 1, after the end of their school year. On that date, they fly to New Mexico to join Melissa. Their residence is sold on August 1 of the current year, at which time a moving company picks up their furniture and other personal possessions. The moving company delivers these possessions to their new house in New Mexico on August 15. Explain how Melissa will be taxed in Canada during the current year.

Exam Exercise One - 13 (Part Year Residence)

Barton Vader is a Canadian citizen who has always lived in London, Ontario. He has a spouse and two school-aged children. As of May 2017, he accepts a new employment position in Akron, Ohio. On October 1, 2017, he moves to Akron to locate housing for his family. In order for his children to finish the school term, his family remains in London until January 1, 2018. When they move, John severs all residential ties with Canada other than the family residence. The residence is placed on the market in January, 2018. However, it has not been sold as of December 31, 2018.

While Barton was scheduled to begin working in the U.S. in early 2018, he is unable to obtain the required residency documents until July 1, 2018.

Explain Barton's Canadian tax status for the years 2017 and 2018.

Exam Exercise One - 14 (Individual Residency)

Mary Sothor is the Canadian ambassador to Tanzania. She was a resident of Canada immediately prior to her appointment as ambassador. Living with her in Tanzania's capital city are her husband and two children. Her husband was born in Canada and was a Canadian resident at the time of their marriage. He is exempt from Tanzanian taxation because he is the spouse of a foreign diplomat. Her 25 year old son was born in Canada and works for a Tanzanian company. His income exceeds \$30,000 annually. Her 16 year old son was born in Kenya and is a full time student with no income of his own. Which of these individuals would be considered Canadian residents for tax purposes? Explain your conclusions.

Exam Exercise One - 15 (Individual Residency)

Ms. Sharon Washton was born 26 years ago in Bahn, Germany. She is the daughter of a Canadian High Commissioner serving in that country. Her father still holds this position. However, Ms. Washton is now working in Prague, Czechoslovakia. The only income that she earns in the year is from her Prague marketing job and is subject to taxes in Czechoslovakia. She has never visited Canada. Determine the residency status of Sharon Washton.

Exam Exercise One - 16 (Corporate Residency)

Nixon Inc. was incorporated as an Ontario corporation in 2009. However, since 2012, all of the Company's business has been carried on outside of Canada. Determine the residency status of Nixon Inc.

Exam Exercise One - 17 (Corporate Residency)

Wolfhowl Ltd. was incorporated in Banff, Alberta in 1961. Despite its Canadian charter, the Company has never carried on business in Canada. However, until 1971, all meetings of the Board of Directors were held in Banff. Since 1971, all board of directors meetings have been held in Wyoming. Determine the residency status of Wolfhowl Ltd.

Exam Exercise One - 18 (Corporate Residency)

Acton Enterprises was incorporated in Montana in 1964. Until 2013, all of the company's directors were residents of Bozeman, Montana, with all meetings held in that city. However, in 2013, all of the directors moved to Calgary, Alberta, with all subsequent meetings held in that city. Determine the residency status of Acton Enterprises for the taxation year ending December 31, 2017.

Exam Exercise One - 19 (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 - 20 (Net Income For Tax Purposes)

Harvey Nicastro has current year net 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 - 21 (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 - 22 (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 - 23 (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 - 24 (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 - 25 (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 - 26 (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 - 5A**Introduction - Key Term Matching (Easy)**

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

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. Part Year Resident
- D. Net Income For Tax Purposes
- E. Person
- F. Regressive Tax System
- G. Sojourner
- H. Dual Resident

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. The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.
4. A CRA publication providing their interpretation of various technical issues related to income taxes.
5. A term used in the *Income Tax Act* to refer to taxable entities.
6. An individual who is deemed under ITA 250 to be a Canadian resident for the full taxation year as the result of having been temporarily present in Canada for 183 days or more.
7. A taxpayer who is considered to be a resident of two countries.
8. A tax on income that is applied at the same rate to all taxpayers, without regard to the level of their income.
9. An individual who either enters Canada during the year and becomes a resident or, alternatively, an individual who departs from Canada during the year and gives up their Resident status.
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.)

Introduction - Key Term Matching (Easy)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

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 - 5B**Introduction - Key Term Matching (Moderate)**

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

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. Part Year Resident
- D. Net Income For Tax Purposes
- E. Person
- F. Regressive Tax System
- G. Sojourner
- H. Dual Resident

The following list contains 14 potential definitions for the preceding key terms.

1. A taxation year that does not exceed 53 weeks.
2. An individual who has a residence in more than one country.
3. A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.
4. The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.
5. A CRA publication providing their interpretation of various technical issues related to income taxes.
6. A term used in the *Income Tax Act* to refer to taxable entities.
7. The total of all positive sources of income, including employment income, business and property income, net taxable capital gains, and other sources of income.
8. An individual who is deemed under ITA 250 to be a Canadian Resident for the full taxation year as the result of having been temporarily present in Canada for 183 days or more.
9. A taxpayer who is considered to be a resident of two countries.
10. A tax on income that is applied at the same rate to all taxpayers, without regard to the level of their income.
11. An individual human being.
12. A taxation year that is longer or shorter than 52 weeks.

Introduction - Key Term Matching (Moderate)

13. An individual who either enters Canada during the year and becomes a resident or, alternatively, an individual who departs from Canada during the year and gives up their Resident status.
14. A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.
15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

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

Since it came into power in 2015, the new Liberal government has made a number of changes in the Canadian tax system. A brief description of five of these changes follows.

Increase In Maximum Tax Rate For many years the maximum federal tax rate for individuals has been 29 percent. For 2016 and subsequent years, this maximum has been increased to 33 percent. This has resulted in a situation where the maximum combined federal/provincial rate on individuals is over 50 percent in most provinces. It reaches as high as 54 percent in one province.

Repeal Of The Family Tax Cut This provision provided a tax reduction based on a limited amount of income splitting. Specifically, a separate calculation of Tax Payable was based on the assumption that up to \$50,000 of Taxable Income was transferred from a higher income spouse to a lower income spouse. It was only available to couples with a child under the age of 18. It was repealed for 2016 and subsequent years.

Reduction To Tax Free Savings Account (TFSA) Contributions Limit The TFSA provision allows non-deductible contributions to be made to a registered account where earnings accumulate on a tax free basis. Withdrawals from these accounts are not taxed. For 2016 and subsequent years, the maximum annual contribution has been reduced from \$10,000 to \$5,500.

Small Business Tax Rate For many years, the federal tax rate on active business income earned by Canadian Controlled Private Corporations was 11 percent, 4 percentage points less than the rate applicable to most other corporate income. In 2015, the Conservative government announced that the rate would gradually be reduced to 9 percent by 2019. The new Liberal government accepted the scheduled rate reduction to 10.5 percent for 2016, but cancelled any further reduction in the rate.

Early Child Educator School Supply Tax Credit The new Liberal government has introduced a new tax credit equal to 15 percent of eligible expenditures for supplies (e.g., paper, glue, paint for art projects, etc.). The maximum base for the credit will be \$1,000 of eligible supplies in each year. To qualify, the taxpayer must have a certificate or diploma in early childhood education.

Required: Analyze each of the described changes using two of the qualitative characteristics of tax systems that are listed in your text. For your convenience, the list of qualitative characteristics presented in the text is as follows:

- equity or fairness
- neutrality
- adequacy
- elasticity
- flexibility
- simplicity and ease of compliance
- certainty
- balance between sectors
- international competitiveness

TIF PROBLEM ONE - 7

Application Of Qualitative Characteristics

Note Alsaskatoba is a fictional Canadian province. Any resemblance to an actual Canadian province is purely coincidental.

The Province of Alsaskatoba is experiencing large deficits and, because there is a real possibility of a credit rating downgrade, the Premier has concluded that some type of change is required. The Province has a corporate income tax which is assessed at the lowest rate of any Canadian province. It also has an income tax on individuals which is assessed at a flat rate of 9 percent. However, the province does not participate in the Harmonized Sales Tax (HST) regime and has never had a provincial sales tax.

The Premier has consulted with a large group of experts as to the appropriate solution to the problem. The following suggestions have been put forward:

1. Introduce a provincial sales tax at a rate of 8 percent.
2. Participate in the federal HST regime at a rate of 13 percent.
3. Cut provincial contributions to education services by 10 percent.
4. Cut provincial contributions to health care by 10 percent.
5. Introduce progressive income tax rates on individuals.
6. Increase corporate income tax rates.
7. Introduce a one-time entry fee of \$5,000 per person on new immigrants to the province.

Required: Evaluate these alternative suggestions on the basis of the qualitative characteristics that are presented in the text.

TIF PROBLEM ONE - 8

Residency After Departure From Canada

Mr. Desmond Morris has spent his entire working life with his current employer, the Alcorn Manufacturing Company. In his first years with the Company, he was located in Winnipeg, Manitoba as a production supervisor. More recently, he was transferred to the Company's Calgary based subsidiary, where he has served as a manufacturing vice president until the current year.

Early in the current year, Mr. Morris was asked to move to the United States by April 1 to oversee the construction of a new manufacturing operation in Sarasota, Florida. It is expected that when the facility is completed, Mr. Morris will remain as the senior vice president in charge of all of the Florida operations. He does not have any intention of returning to live in Canada during the foreseeable future.

On April 1, Mr. Morris left Canada. In preparation for his departure, he had taken care to sell his residence, dispose of most of his personal property, and resign from all memberships in social and professional clubs. However, because Mr. Morris and his wife had three school age dependent children, it was decided that they would remain in Canada until the end of the current school year. As a consequence, Mrs. Morris and the children did not leave Canada until June 30. Until their departure, they resided in a small furnished apartment, rented on a month to month basis.

Required For purposes of assessing Canadian income taxes, determine when Mr. Morris ceased to be a Canadian resident and the portion of his annual income which would be assessed for Canadian taxes. Explain your conclusions.

TIF PROBLEM ONE - 9

Residence Of Individuals

The following independent Cases describe situations in which income has been earned by an individual. In each of the Cases, indicate whether the income amounts described would be subject to Canadian taxation. Explain the basis for your conclusions.

Case A Donald Plessner is a U.K. citizen who immigrated to Canada on July 1 of the current year. He immediately began employment as a retail clerk and, during the period July 1 through December 31, his employment income totaled \$11,000. In addition, he has retained a large savings account in the U.K. Interest on this account, which was earned uniformly over the current year, totaled £11,000.

Case B Uta Jurgens is the spouse of Colin Jurgens, a member of the Canadian armed forces stationed in Germany. Mrs. Jurgens is a German citizen and has never visited Canada. During the current year, she has employment income of €28,000. She is exempt from German taxation because she is the spouse of a member of the Canadian armed forces.

Case C Martin Downs is a U.S. citizen who lives in Detroit, Michigan. He is employed two days each week in Windsor, Ontario by a local landscaping business. During the current year, he is paid \$15,000 (Canadian) for this work. In addition, he maintains a savings account at a bank in Windsor. This account earned interest of \$1,500 during the current year.

Case D Sarah Mennan is a Canadian citizen who lives in Syracuse, New York. She works as an accountant in that city, and has professional income of \$72,000. Ten years ago, she left her husband at the end of the second period of the final game of the Stanley Cup Playoffs. She departed from Canada the following day, and has vowed to never set foot in Canada again. She is divorced from her husband and has no assets in Canada, other than a small savings account on which she earned interest of \$150 during the current year.

TIF PROBLEM ONE - 10

Residency Of Corporations

Indicate which of the corporations described in the following Cases would be considered residents of Canada for the current year. Explain the basis for your conclusion.

Case A Bonix Ltd. was incorporated in Canada in 1981. While it operated in Canada for a number of years, all of its operations, management and directors relocated to the United States in 2008.

Case B Dorad Inc. was incorporated in Ohio in 2003. For several years, all of its directors were residents of Canada, with board meetings being held in Windsor, Ontario. However, in 2008, all of the directors moved to Toledo, Ohio. All Board Of Directors meetings are now held in that city.

Case C Upton Inc. was incorporated in Delaware in 2008. However, the head office of the corporation is in Halifax, Nova Scotia. All of the directors of the corporation are Canadian residents and all meetings of the board of directors are held in Halifax.

Case D Carlin Inc. was incorporated in Canada in 2005. However, its directors have always been residents of the United States, with all of the company's Board Of Directors meetings held in that country.

TIF PROBLEM ONE - 11**Residence - Individuals And Corporations**

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

- A. Mr. Samuel Salazar lives in Detroit, Michigan and is a full time employee of a business in Windsor, Ontario. His responsibilities with the business in Windsor require him to be present for about eight hours per day, five days per week. His annual salary in his Windsor position is \$72,000 per year.
- B. Mr. John Wills is a Canadian citizen who, until September 1 of the current year, had spent his entire life living in Regina. On September 1 of the current year, after disposing of all of his Canadian property, Mr. Wills moved his entire family to Bismarck, North Dakota where he opened a mixed martial arts school.
- C. Joan Brothers was born in Livonia, Michigan. She is seven years old and has never visited Canada. She has no income of her own. Her father has been consul in the Canadian Consulate in Livonia for the past 15 years. He was a resident of Canada immediately prior to his appointment as consul.
- D. Brogan Inc. was incorporated in Montana in 1990, but until five years ago, all of the directors' meetings were held in Calgary, Alberta. Five years ago, the president of the Company moved to Butte, Montana and since that time all of the directors meetings have been held in Butte.
- E. Mercer Ltd. was incorporated in British Columbia in 1963 and all of its directors' meetings were held in Vancouver until May, 1994. In June, 1994, all of the directors moved to Portland, Oregon and all subsequent directors' meetings were held in Portland.
- F. The Booker Manufacturing Company was incorporated in 1963 in Minnesota. The directors of the Company have always been residents of Winnipeg and, as a consequence, all meetings of the Board of Directors have been held in Winnipeg since the Company was first incorporated.

TIF PROBLEM ONE - 12**Residence - Individuals And Corporations**

Pertinent facts are given for a different individual or corporation in each of the Parts of this problem. For each Part, indicate whether or not this individual or corporation would be considered a Canadian resident for income tax purposes during the current year. Briefly explain your conclusion.

Part A Dorothy is married to Jack, who is a member of the Canadian armed forces serving in Indonesia. Other than a brief visit to Jack's parents' home in Halifax, she has never been to Canada in her life. Because Jack is a member of the Canadian armed forces, neither he nor his wife is subject to taxation in Indonesia.

Part B Alice is a U.S. citizen living in Seattle, Washington. While she leaves many of her belongings at her parent's home in that city, she spends at least four days every week living with her boyfriend in Burnaby, British Columbia. They plan to be married at some future date.

Part C Last year, John transferred to the Cayman Islands office at the request of his Canadian employer. His three year employment contract calls for him to return to work in Canada after its completion. On his departure from Canada, he severed all residential ties with Canada.

Part D Millicent is a U.S. citizen who, until last year, had lived and worked in Canada as a landed immigrant for over 20 years. Last year, after winning \$2 million in an Ontario lottery, she left Canada on a two year pleasure trip that will take her to virtually every country in the world. Her husband and children, all Canadian citizens, continue to live at the family home in Port Hope, Ontario.

Part E Berkly Management Inc. was incorporated in Alberta in 1963. Until 1986, its only director resided in that province. In that year, the director was replaced by an individual resident in Fresno, California.

Part F Lorris Ltd. was incorporated in Wisconsin in 1983. Until 1992, all of the directors of the corporation lived in Kenora, Ontario. During this period, the Board of Directors meetings were held in that city. Beginning in 1992, all of the directors have been residents of Green Bay, Wisconsin and all of the Board of Directors meetings have been held in Green Bay.

TIF PROBLEM ONE - 13

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, or state that no carry overs are available.

TIF PROBLEM ONE - 14

Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions that are available to Carl Suzak, a Canadian resident, for the current year.

Case A Carl had employment income of \$126,100, as well as income from an unincorporated business of \$14,100. A rental property owned by Carl experienced a net loss of \$4,600. Dispositions of capital property during the current year had the following results:

Capital Gains	\$56,400
Capital Losses	72,300

In compliance with the terms of his divorce agreement, Carl paid deductible spousal support of \$600 per month for the entire year. In addition to the preceding items, Carl had a winning lottery ticket which resulted in his receiving a prize of \$562,000.

Case B Carl had employment income of \$89,000, interest income of \$3,100, and net rental income of \$8,600. Carl also operated an unincorporated business. Unfortunately, during the current year, it experienced a net loss of \$187,400. Dispositions of capital property during the current year had the following results:

Capital Gains	\$46,200
Capital Losses	26,300

Also during the current year, Carl made deductible contributions of \$8,600 to his RRSP.

Required: For each Case, calculate Carl'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 - 15

Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions of Miss Nora Bain for the current taxation year:

	Case A	Case B
Employment Income	\$34,000	\$18,500
Income (Loss) From Business	(36,000)	(28,200)
Income From Property	21,000	12,000
Taxable Capital Gains	42,000	9,000
Allowable Capital Losses	(57,000)	(12,000)
Subdivision e Deductions (Spousal Support)	(5,500)	(10,500)

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

TIF PROBLEM ONE - 16

Net Income For Tax Purposes

The following four Cases make different assumptions with respect to the amounts of income and deductions available to Mr. Martin Bowman for the current taxation year:

Case 1	
Net Employment Income	\$82,438
Interest Income	3,521
Taxable Capital Gains	16,346
Allowable Capital Losses	(3,478)
RRSP Contribution	(6,420)

Case 2	
Net Business Income	\$56,782
Net Rental Loss	(6,742)
Taxable Capital Gains	3,426
Allowable Capital Loss	(4,560)
Spousal Support Payments	(18,000)

Case 3	
Net Employment Income	\$36,582
Net Business Loss	(47,384)
Capital Gains	8,426
Capital Losses	(6,220)
Child Care Costs	(2,860)

Case 4	
Interest Income	\$ 4,850
Net Business Income	35,682
Net Rental Loss	(51,462)
Capital Gains	8,460
Capital Losses	(18,462)
Moving Expenses	(5,643)

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

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. Which of the following statements is **NOT** correct?
 - A. If an individual has business income during the year, the due date for their income tax return is June 15 of the following year.
 - B. An income tax return may be required of an individual, without regard to their age.
 - C. If an individual has no Taxable Income for the year, they do not have to file an income tax return.
 - D. If an individual sells a capital property during the year, they are required to file an income tax return, even if there is no gain or loss on the transaction.
2. Which of the following statements is correct?
 - A. When an individual dies in a year, an income tax return must be filed for that year within 6 months of the date of death.
 - B. Only residents of Canada are required to file Canadian income tax returns.
 - C. An individual with business income during the year must pay any balance owing by June 15 of the following year.
 - D. A self-employed individual with a net business loss for the year does not have to file an income tax return for the year.
3. 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.
4. For the 2017 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 2017.
 - B. John must file a tax return on or before June 15, 2018.
 - C. John must file a tax return on or before December 31, 2018.
 - D. John must file a tax return on or before April 30, 2018.
5. John Barron is self-employed and plans to file his 2017 tax return on June 15, 2018. His balance-due day is:
 - A. April 30, 2017.
 - B. April 30, 2018.
 - C. June 15, 2018.
 - D. June 15, 2017.
6. 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.

7. Ms. Deveco's 2017 income tax return is due on April 30, 2018. 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, 2018. 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.
8. Mr. Finlay, a retired individual whose only source of income was pension receipts, dies on August 15, 2017. By what date must Mr. Finlay's final tax return be filed?
- A. April 30, 2018.
 - B. February 28, 2018.
 - C. February 15, 2018.
 - D. December 31, 2017.
 - E. None of the above.
9. Ms. Ali, a self-employed music teacher with business income, dies on November 15, 2017. What is the latest filing date for her 2017 income tax return?
- A. April 30, 2018.
 - B. May 15, 2018.
 - C. May 30, 2018.
 - D. June 15, 2018.
10. Mr. Khan, a self-employed construction contractor, dies on April 1, 2017. What is the latest filing date for his final tax return?
- A. April 30, 2018.
 - B. June 15, 2018.
 - C. October 1, 2018.
 - D. December 31, 2018.
11. Ms. Loren dies on February 1, 2018. 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 2017 income tax return?
- A. April 30, 2018.
 - B. June 15, 2018.
 - C. August 1, 2018.
 - D. June 30, 2018.
12. Greta died on September 10, 2017. She has never reported any business income. By what date must her final tax return be filed?
- A. April 30, 2018.
 - B. April 30, 2019.
 - C. March 10, 2018.
 - D. June 15, 2018.

Individual Instalments

13. Which of the following individuals did **NOT** have to pay instalments in 2017?
- A. Jane Austen, who had business income of \$50,000 in both 2015 and 2017 and a \$1,000 business loss in 2016.
 - B. Charlotte Bronte, who realized capital gains of \$3,500 in 2016 and \$4,000 in 2017. Her only other income during the years 2015 through 2017 was \$5,000 in employment income.
 - C. George Eliot, who had rental income of \$50,000 in the years 2015 through 2017 and a net allowable capital loss of \$50,000 in 2016.
 - D. Emily Bronte, who received spousal support payments of \$20,000 per year in each of the years 2015 through 2017.
14. Ms. Marston has net tax owing for 2015 of \$4,500, net tax owing for 2016 of \$8,000, and estimated net tax owing for 2017 of \$7,500. If she wishes to pay the minimum total amount of instalments for the 2017 taxation year, her first payment on March 15 will be for what amount?
- A. Nil.
 - B. \$1,125.
 - C. \$1,875.
 - D. \$2,000.
15. Jason Marks has to pay his tax by instalments as a result of his significant investment income. His net tax owing in 2015 was \$13,600. In 2016, it was \$15,000. His estimate for 2017 is \$17,000. If he decides to pay his 2017 tax instalments according to the prior year option, how much should he pay on September 15, 2017?
- A. \$3,400.
 - B. \$3,750.
 - C. \$4,250.
 - D. \$6,500.
16. 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.
17. Larry Short has self-employment income of \$62,000 in 2017. 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 2017 will be \$8,000. Which of the following statements is true?
- A. Larry must file his return for 2017 by April 30, 2018.
 - B. Larry should pay instalments in 2017.
 - C. Larry must pay his income tax for 2017 by June 15, 2018.
 - D. If Larry has as much income in 2018 as he had in 2017, he will have to pay instalments during 2018.

18. 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.
19. 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

20. Dora Chen has determined that her minimum tax instalments for 2017 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.
21. Lang Lang Ltd., a CCPC eligible for the small business deduction, has a March 31 year end. Due to the death of the owner/manager, the tax return for the year ended March 31, 2016 was not filed until May 12, 2018. The unpaid tax on March 31, 2016 was \$15,500. Lang Lang Ltd. has never filed a return late before. What is the total late file penalty that the corporation is required to pay? (Do not include any interest payable.)
- A. \$775
 - B. \$2,635
 - C. \$1,860
 - D. \$3,720
22. 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

23. Which of the following statements with respect to corporations is **NOT** correct?
- A. Corporate income tax returns must be filed within 6 months of the end of the taxation year.
 - B. All corporations must file their income tax returns electronically.
 - C. If the corporation is a CCPC, the due date for any balance owing is three months after the end of the taxation year.
 - D. If a corporation has foreign operations, it can determine its Canadian tax liabilities on the basis of financial statements prepared in the corporation's functional currency.
24. 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.
25. PS Swim Inc. has a year end of November 30. It is a small CCPC. For its 2017 taxation year, its income tax return is due on:
- A. January 31, 2018.
 - B. February 28, 2018.
 - C. April 30, 2018.
 - D. May 31, 2018.
 - E. None of the above.
26. For its 2017 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.
27. 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

28. A Canadian public company has Tax Payable of \$62,000 in 2015, \$95,000 in 2016, and \$75,000 in 2017. The company would like to minimize its 2017 instalments. What would its instalments be?
- A. One monthly payment of \$5,167 per month, followed by eleven monthly payments of \$8,167 per month.
 - B. Twelve payments of \$5,167 per month.
 - C. Twelve payments of \$6,250 per month.
 - D. Two monthly payments of \$5,167 per month, followed by ten monthly payments of \$8,467 per month.
29. 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 2017 tax year will be. Its taxes payable for its November 30, 2015 and November 30, 2016 years were \$13,800 and \$13,200, respectively. Its estimated taxes payable for the November 30, 2017 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.
30. A Canadian public corporation had federal taxes payable in 2015 and 2016 exceeding \$3,000. One correct option it has with respect to its 2017 instalments is to pay:
- A. equal instalments, on a quarterly basis, based on its 2016 federal taxes payable.
 - B. on a monthly basis, instalments equal to 1/12th of its estimated 2017 federal taxes payable.
 - C. one lump-sum payment, within three months of its 2017 year end.
 - D. on a monthly basis, instalments equal to 1/12th of its 2015 federal taxes payable.
31. 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.
32. 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

33. Dora Burch files her 2017 income tax return on March 2, 2018. She receives a nil assessment on June 3, 2018. However, on December 28, 2018, she receives a reassessment indicating that she owes a substantial amount of additional tax. She would like to object to this reassessment. What is the latest date for her to file a notice of objection? (Ignore the effect of leap year if applicable.)
- A. March 2, 2019.
 - B. April 30, 2019.
 - C. March 28, 2019.
 - D. December 28, 2019.
34. 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.
35. 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.
36. Tom Arnold filed his 2017 tax return on March 1, 2018. The CRA mailed a notice of assessment to Tom dated May 15, 2018, and Tom received it on May 30, 2018. 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, 2018.
 - B. 90 days from April 30, 2018.
 - C. 90 days from May 15, 2018.
 - D. 90 days from May 30, 2018.
 - E. None of the above.
37. Minnie Belanger is retired. She filed her 2017 tax return on March 5, 2018. She received a portion of the tax refund claimed and an assessment notice, dated April 19, 2018, 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, 2019.
 - B. April 19, 2019.
 - C. April 30, 2019.
 - D. July 18, 2018.
 - E. June 15, 2019.

38. 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 on the notice of assessment.
 - B. It must be filed the later of 90 days after the date on the notice of assessment 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 on the notice of assessment and one year from the filing date for the return under assessment.
 - D. It must be filed no later than 90 days after the date on the notice of assessment.
39. Marc Mayer filed his 2017 personal tax return on March 1, 2018. Neither he nor his spouse has business income in any year. The CRA mailed a Notice of Assessment to Marc dated May 5, 2018 and Marc received it on May 14, 2018. If Marc disagrees with the Notice of Assessment, he has until which one of the following dates to file a Notice of Objection?
- A. August 3, 2018.
 - B. August 12, 2018.
 - C. March 1, 2019.
 - D. April 30, 2019.

Tax Planning

40. Carice Martin is planning to sell a piece of capital equipment which can be sold for more than its cost. If she waits until after her company's year end to sell it, she is engaging in:
- A. tax evasion.
 - B. tax avoidance.
 - C. GAAR.
 - D. tax planning.

TIF PROBLEM TWO - 4

Procedures And Administration - Exam Exercises

Exam Exercise Subject Listing For Chapter 2

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

Exam Exercise Two - 1 (Individual Due Dates)

Mark Brown's 2017 Net Income includes business income. When is his 2017 tax return due? By what date must his 2017 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 2017 Net Income which includes business income. When is her 2017 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, 2018. All of his income during 2017 was earned through his unincorporated accounting practice. By what date must his representatives file his 2017 income tax return? Explain your answer.

Exam Exercise Two - 4 (Deceased Taxpayer Due Date)

Gloria Klump dies on December 1, 2017. Much of her 2017 income resulted from an unincorporated business which she operated. By what date must her representatives file her 2017 income tax return? Explain your answer.

Exam Exercise Two - 5 (Individual Instalments)

At the beginning of 2017, the following information relates to Sarah Elmsley:

Year	Net Tax Owing
2015	\$1,800
2016	6,400
2017 (Estimated)	3,600

Indicate whether Ms. Elmsley is required to make instalment payments during 2017. 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 2016 return on time. At the beginning of 2017, the following information relates to Mr. Greesom:

Year	Taxes Payable	Amounts Withheld
2015	\$56,000	\$45,000
2016	49,000	46,200
2017 (Estimated)	65,000	45,000

What amounts will be shown on the Instalment Reminder notices for 2017 and when will the amounts be due? Should he pay those amounts? Explain your conclusion.

Exam Exercise Two - 7 (Individual Instalments)

At the beginning of 2017, the following information relates to Jerry Farrow:

Year	Tax Payable	Amounts Withheld
2015	\$83,000	\$78,000
2016	76,000	77,000
2017 (Estimated)	63,000	59,000

Is Mr. Farrow required to make instalment payments during 2017? 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 2017, Marsha Fields has made no instalment payments for 2017. While her normal filing date would be April 30, 2018, she does not file her 2017 return or pay the balance owing until August 24, 2018. What penalties and interest will be assessed for the 2017 taxation year?

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

As his Taxable Income in 2016 was nil, Mark Felton did not make any instalment payments during 2017. In completing his return for 2017, he finds that he has tax payable of \$22,500. While his normal filing date would be April 30, 2018, he does not file his return or pay the balance owing until September 12, 2018. What penalties and interest will be assessed for the 2017 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 2015, its taxes payable were \$71,500, while for 2016, the amount was \$93,600. For 2017, its estimated taxes payable are \$114,700. What would be the minimum instalment payments for the 2017 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 2015, its taxes payable were \$146,300, while for 2016, the amount was \$94,650. For 2017, its estimated taxes payable are \$52,300. What would be the minimum instalment payments for the 2017 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, 2015, its tax payable was \$33,500. The corresponding figure for the year ending September 30, 2016 was \$93,400. It is estimated that, for the year ending September 30, 2017, its tax payable will be \$56,200. What would be the minimum instalment payments for the taxation year that ends on September 30, 2017, and when would they be due? How would your answer differ if Dustin Inc. qualified as a small CCPC?

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

The taxation year end for Grange Inc. is March 31, 2017. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending March 31, 2016 of \$165,000. Indicate the date on which the corporate tax return for the year ending March 31, 2017 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, 2017. 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, 2017. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending June 30, 2016 of \$132,000. Indicate the date on which the corporate tax return for the year ending June 30, 2017 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 2017 tax return as was required on April 30, 2018. Her Notice of Assessment dated May 15, 2018 indicated that her return was accepted as filed. On July 12, 2019, she receives a Notice of Reassessment dated July 2, 2019 indicating that she owes additional taxes, as well as interest on the unpaid amounts. 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 2017 tax return as was required on June 15, 2018. His Notice of Assessment dated August 28, 2018, indicated that his return was accepted as filed. On March 15, 2019, he receives a Notice of Reassessment dated March 8, 2019 indicating that he owes additional taxes, as well as interest on unpaid amounts. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.

TIF PROBLEM TWO - 5A**Procedures And Administration - Key Term Matching (Easy)**

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

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. Deliberately ignoring a specific part of the law or willfully refusing to 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. The withholdings for income taxes, Canada Pension Plan contributions, and Employment Insurance premiums 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.)

Procedures And Administration - Key Term Matching (Easy)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

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 - 5B**Procedures And Administration - Key Term Matching (Moderate)**

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

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 14 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. An electronic system for filing individual tax returns. While the system can be used by anyone, the return must be transmitted by a registered EFILE service provider using approved software.
3. The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.
4. 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.
5. A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.
6. Deliberately ignoring a specific part of the law or willfully refusing to comply with legislated reporting requirements.
7. An electronic filing system that requires the use of an approved software program.
8. Amounts withheld by an employer from the income of employees. The withholdings for income taxes, Canada Pension Plan contributions, and Employment Insurance premiums must be remitted to the government.
9. A term used to describe the sum of the total federal and provincial taxes owing for the year.
10. Amounts withheld by an employer from the income of employees. The amounts withheld are based on the expected income tax liability of the employee for the current year.
11. This ITA 245 provision attempts, in a very generalized manner, to limit the ability of tax-

Procedures And Administration - Key Term Matching (Moderate)

payers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.

12. An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.
13. A formal determination of taxes to be paid or refunded.
14. An amount of total tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.
15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

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

In the three independent cases which follow, assume that Barry Levenor's combined federal and provincial Tax Payable is as follows:

2015	\$14,256
2016	15,776
2017 (Estimated)	16,483

The amount Barry's employer withholds for the three independent cases is as follows:

Case 1 \$11,800 in 2015, \$14,150 in 2016, and \$12,400 (estimated) in 2017.

Case 2 \$14,920 in 2015, \$11,400 in 2016, and \$13,226 (estimated) in 2017.

Case 3 \$11,220 in 2015, \$13,275 in 2016, and \$12,873 (estimated) in 2017.

Required:

- A. For each of the three cases:
- indicate whether instalments are required for the 2017 taxation year;
 - in those Cases where instalments are required, calculate the amount of the instalments that would be required under each of the three acceptable methods; and
 - in those cases where instalments are required, indicate which of the three acceptable methods would be the best alternative.
- B. For those Cases where instalments are required, indicate the dates on which the payments will be due.

TIF PROBLEM TWO - 7

Instalment Payments For Individuals

For the three years 2015, 2016, and 2017, Mr. George Grafton provides the following information on his combined federal and provincial taxes payable, along with information on withholdings by his employer:

Year	Taxes Payable	Taxes Withheld
2015	\$31,500	\$29,800
2016	14,600	6,200
2017 (Estimated)	27,400	24,300

In January, 2017, you are asked to provide tax advice to Mr. Grafton. He has asked you whether it will be necessary for him to pay instalments in 2017 and, if so, what the minimum amounts that should be paid are, along with the dates on which these amounts are due.

Required: Provide the information requested by Mr. Grafton. Be sure to show all required calculations.

TIF PROBLEM TWO - 8

Instalment Payments For Corporations

For the taxation year ending December 31, 2015, a corporation's combined federal and provincial Tax Payable is \$103,680. The corresponding figure for 2016 is \$122,220. For the year ending December 31, 2017, it is estimated that combined federal and provincial Tax Payable will be \$113,220.

Case One The taxpayer is a publicly traded corporation.

Case Two The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were \$110,520, instead of the \$122,220 given in the problem.

Case Three The taxpayer is a small CCPC.

Case Four The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were \$110,520, instead of the \$122,220 given in the problem.

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

1. Indicate whether instalments are required during 2017. 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 2017. If instalments must be paid, indicate the dates on which they are due.

TIF PROBLEM TWO - 9

Instalment Payments For Individuals

For the three years ending December 31, 2017, George Shivraj had combined federal and provincial Tax Payable as follows:

2015	\$13,500
2016	16,200
2017 (Estimated)	18,400

Using this information consider the following three independent cases.

Case One Mr. Shivraj's employer withholds \$11,200 in 2015, \$12,900 in 2016, and \$15,100 in 2017.

Case Two Mr. Shivraj's employer withholds \$9,200 in 2015, \$10,300 in 2016, and \$14,900 in 2017.

Case Three Mr. Shivraj's employer withholds \$10,100 in 2015, \$16,300 in 2016, and \$14,700 in 2017.

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, 2017. Show all required calculations.

If instalments must be paid, include in your answer 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. You should also state the basis for your conclusion.

TIF PROBLEM TWO - 10

Instalment Payments For Corporations

For the three taxation years ending December 31, 2017, a corporation's combined federal and provincial tax payable are as follows:

Year Ending December 31	Taxes Payable
2015	\$ 86,500
2016	101,400
2017 (Estimated)	94,600

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, 2016 were \$92,100, instead of the \$101,400 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, 2016 were \$92,100, instead of the \$101,400 given in the problem.

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

1. Indicate whether instalments are required during 2017. 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 2017. If instalments must be paid, indicate the dates on which they are due.

TIF PROBLEM TWO - 11

Instalment Payments For Individuals

For the three years ending December 31, 2017, Gloria Sloan had combined federal and provincial Tax Payable as follows:

2015	\$23,600
2016	25,400
2017 (Estimated)	27,200

Using this information consider the following three independent cases.

Case One Ms. Sloan's employer withholds \$23,100 in 2015, \$21,100 in 2016, and \$23,300 in 2017.

Case Two Ms. Sloan's employer withholds \$24,100 in 2015, \$18,600 in 2016, and \$23,700 in 2017.

Case Three Ms. Sloan's employer withholds \$19,100 in 2015, \$20,200 in 2016, and \$24,300 in 2017.

Required:

A. For each of the three cases:

- indicate whether instalments are required for the 2017 taxation year. Show all of the calculations required to make this decision;
- in those cases where instalments are required, indicate the amount of the instalments that would be required under the approach used in the CRA's instalment reminder; and
- in those cases where you have calculated the instalments required under the CRA's instalment reminder, indicate whether you believe there is a better approach and calculate the required instalments under that approach.

B. For those Cases where instalments are required, indicate the dates on which the payments will be due.

TIF PROBLEM TWO - 12

Instalment Payments For Corporations

For the taxation year ending December 31, 2015, a corporation's combined federal and provincial Tax Payable is \$57,600. The corresponding figure for 2016 is \$67,900. For the year ending December 31, 2017, it is estimated that combined federal and provincial Tax Payable will be \$62,900.

Case One The taxpayer is a publicly traded corporation.

Case Two The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were \$61,400, instead of the \$67,900 given in the problem.

Case Three The taxpayer is a small CCPC.

Case Four The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were \$61,400, instead of the \$67,900 given in the problem.

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

1. Indicate whether instalments are required during 2017. 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 2017. If instalments must be paid, indicate the dates on which they are due.

TIF PROBLEM TWO - 13

Third Party Civil Penalties

For each of the following independent cases, indicate whether you believe any penalty would be assessed under ITA 163.2 on any of the parties involved. Explain your conclusion.

Case A

A newly acquired client, who is self-employed, brings to his accountant a listing of his business expenses. The client also provides the accountant with a figure for his total revenue. He instructs his accountant to prepare an income statement and his tax return based on this information. The accountant has a quick look at the expenses. The expenses seem to be related to the type of business of the client and nothing stands out as obviously unreasonable. After the client's income statement is prepared, it reflects \$80,000 of revenue and \$55,000 of expenses and the income tax return is filed on that basis.

Upon audit, the CRA finds a large proportion of the expenses claimed cannot be substantiated by adequate documentation and may not have been incurred. Furthermore, the reported revenue is only half of actual revenue.

Case B

A company is selling units in a limited partnership tax shelter. The company had acquired software for \$50,000 on the open market and transferred it to the limited partnership on the same day for \$10,000,000. The prospectus prepared by the company states that the fair market value of the software is \$10,000,000 and is supported by an appraisal. The tax shelter is registered with the CRA and is available as an investment opportunity in the current year. The company's gross entitlements are \$2,000,000.

The CRA reviews the tax shelter and determines that the fair market value of the software on the day of transfer into the limited partnership is \$50,000. The appraisal supporting the \$10,000,000 value was prepared by an independent appraiser. However, it was not prepared using normal valuation principles. The appraiser informed the CRA that all his calculations were based on the assumptions and other relevant facts provided to him by the company. The appraiser was paid \$75,000 for the appraisal.

Case C

An accountant relies on the financial statements prepared by another professional accountant to report his client's self-employment income on the client's tax return. The statements did not look obviously unreasonable. The CRA conducts an audit and discovers that the income statement contained material misrepresentations.

Case D

An accountant has prepared a tax return for a new client. While, the accountant has known the individual for some time, this is the first time that he has done any work for him.

In preparing the new client's tax return he is given a T4 slip which reports \$40,000 in income. The client indicates that this is his only source of income.

You are surprised by this as you know that the client lives a home that is worth at least \$2 million, has an expensive cottage in Huntsville, and drives a \$275,000 Bentley. When the accountant asks the client about this, he indicates that, several years ago, he received a large inheritance from his parents.

The accountant does not ask any further questions and prepares and files the return. When the taxpayer is audited it is discovered that he has over \$400,000 in unreported income.

Case E

A taxpayer approaches a tax return preparer to prepare and file his tax return. Prior to this, the tax return preparer and his firm did not provide any services to the taxpayer and they did not know each other.

The taxpayer provides the tax return preparer with a T4 slip indicating that the taxpayer has \$32,000 of employment income, which represents his sole source of income.

The taxpayer tells the tax return preparer that he made a charitable donation of \$20,000 but forgot the receipt at home. The taxpayer asks that the tax return preparer prepare and e-file the tax return without obtaining the receipt as it is April 29. The tax return preparer does so in order to avoid late filing the return.

Case F (Requires Basic GST Knowledge)

An annual GST return filer informs her accountant that she has not kept records of the GST paid or payable on her business purchases for the year. The accountant informs her that he will make an input tax credit claim for GST paid based on the financial statements of her business. The amounts on the financial statements are reasonable and have been incurred.

The income statement includes a large amount for wages and interest expense on which GST is not paid. The cost of sales includes a large proportion of purchases that are zero-rated on which GST is not paid. The accountant applies a factor of 5/105 to all expenses shown in the income statement. This results in an overstatement of input tax credits reported on the GST return.