

Practice Examination Solution

Chapter 1 (Introduction)

Examination Summary

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

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

Solution 1 (10 Marks)

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

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

1 grading point for each highlighted item. Total 10

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

Solution 2 (10 Marks)

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

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

1 grading point for each highlighted item. Total 5

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

Question 3 (10 Marks)

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

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

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

1 grading point for each highlighted item. Total 7

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

Questions 4 Through 9 (9 Marks)

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

1 grading point for each correct answer. Total 6

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

Questions 10 Through 16 (21 Marks)

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

1 grading point for each correct answer. Total 7

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

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

The Case A solution would be calculated as follows:

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

8

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

Case B

The Case B solution would be calculated as follows:

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

9

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

Case C

The Case C solution would be calculated as follows:

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

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

Case D

The Case D solution would be calculated as follows:

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

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

1 grading point for each highlighted item. Total 38

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