

Practice Examination

Chapter 3 (Employment Income)

Instructions To Students

Create An Examination Environment

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

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

Materials To Be Used

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

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

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

Types Of Questions

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

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

How To Use The Marking Guides

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

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

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

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

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

Practice Examination On Employment Income

Examination Content

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

Question	Type Of Question Or Subject	Marks	Time In Minutes
1	Essay Question	12	10.8
2	Essay Question	8	7.2
3 - 8	True Or False	9	8.1
9 - 15	Multiple Choice	21	18.9
16	Employment Income	20	18.0
17	Exercises	30	27.0
Total		100	90.0

Question 1 (12 Marks)

Jonan Ltd. is a Canadian public company with a taxation year that ends on September 30. On September 15, 2013, the company declares a \$50,000 bonus in favour of a company employee. For each of the following cases, indicate (1) the taxation year in which the company would be able to deduct the bonus, and (2), the taxation year in which the employee will include the bonus in his Net Income For Tax Purposes. Your answers should be given in terms of the ending day of the relevant taxation year (e.g., the year ending September 30, 2013 or the year ending December 31, 2013).

Case A The bonus is paid on January 15, 2014.

Case B The bonus is paid on October 31, 2014.

Case C The bonus is paid on December 31, 2017.

Question 2 (8 Marks)

IT-470R contains a list of employee benefits that are considered to be taxable, as well as a list of employee benefits that are not considered taxable. List two examples from the taxable list and two examples from the non-taxable list.

Questions 3 Through 8 (9 Marks)

3. One of the advantages of being classified as a self-employed contractor is that you have a larger range of available tax deductions.

True or False?

4. If an individual has to purchase his own tools, it is an indication that he is an employee, rather than an independent contractor.

True or False?

5. During the current year, Gerri's employer provides him with a \$200 non-cash wedding gift and a \$700 non-cash gift as an award for 10 years of service. There will be no inclusion in Gerri's income for the gifts.

True or False?

6. The standby charge on an automobile provided by an employer to an employee will always be equal to 2 percent of the cost of the car for each month of availability.

True or False?

7. To be considered reasonable, an allowance paid to an employee for using his automobile in employment related activities must be based on kilometers of use.

True or False?

8. When an employer requires an employee to move to a new location, he can reimburse the employee for any housing loss that arises on the sale of his home in the old location, without creating a taxable benefit.

True or False?

Questions 9 Through 15 (21 Marks)

9. Which of the following would not be an advantage of being employed as opposed to being an independent contractor?

- A. The ability to receive more fringe benefits.
- B. The ability to make lower CPP payments.
- C. The ability to pay income tax in quarterly instalments.
- D. Greater job security.

10. Which of the following items would be considered a taxable benefit to an employee?

- A. Discounts on merchandise sold by the employer.
- B. A \$450 gift certificate that can be used at a local clothing store.
- C. Premiums on private health insurance plans.
- D. The cost of counseling services related to mental health.

11. During 2013, Ms. Green's employer provides her with an automobile for 11 months of the year. It cost \$58,760, including applicable HST. She drives it a total of 62,000 kilometers. Of the total kilometers driven, 16,000 relate to personal use of the automobile. The employer pays all maintenance costs which total \$9,200 for the year. What is the minimum taxable benefit for the use of the automobile that will be assessed to Ms. Green for 2013?

- A. \$17,248
- B. \$16,920
- C. \$15,600
- D. \$14,660

12. Which of the following allowances would have to be included in an employee's Net Income For Tax Purposes?

- A. An allowance of \$70 per day for food while traveling on the employer's behalf.
- B. An allowance of \$200 per day for lodging while traveling on the employer's behalf.
- C. An allowance of \$600 per month to compensate the employee for using his personal automobile for employment related activities.
- D. An allowance of \$0.40 per kilometer to compensate an employee for using his personal automobile for employment related activities.

13. On April 1, 2013, Virgil van Delden receives a \$100,000 loan from his employer for investment purposes. The loan requires that interest be paid at a rate of 1 percent. Assume that prescribed rates applicable to the last three quarters of 2013 are as follows:

2nd Quarter	4%
3rd Quarter	3%
4th Quarter	2%

What is the amount of the taxable benefit that will be assessed to Mr. van Delden as a result of having this loan?

- A. \$1,250
B. \$1,500
C. \$2,250
D. \$3,000
14. Lily Zhao is a commission salesperson who is required to have an office in her personal residence. Which of the following home office related costs cannot be included in the amount that she deducts for this office?
- A. Interest on the mortgage.
B. Maintenance costs.
C. Property taxes.
D. Fire insurance.
15. Amir Patel is a commission salesperson with a base salary of \$96,000. During 2013, he earns commissions of \$16,000, with \$7,000 of this not being paid until January, 2014. During 2013, he incurs the following expenses:

Meals and Entertainment With Clients	\$23,000
Hotel And Airline Tickets	\$12,000

What is the amount of Amir's maximum deduction for these costs in determining his 2013 employment income?

- A. \$35,000
B. \$23,500
C. \$16,000
D. \$12,000
E. \$9,000

Question 16 (20 Marks)

Ms. Marsh has been employed by the Ace Distributing Company for the past three years. During 2013, the following amounts were credited to Ms. Marsh's payroll account:

- Salary of \$40,500 as per her employment contract.
- Reimbursement of employment related travel costs as per invoices supplied by Ms. Marsh totalling \$4,250.
- Reimbursement of \$1,100 in tuition fees for a work related course.
- A \$1,560 dividend on Ace Distributing Company shares acquired through the employee purchase program.
- Fees of \$1,200 for serving as the employee's representative on the Company's board of directors.

From the preceding credits to Ms. Marsh's payroll account, the following amounts were withheld by the Company:

Income taxes	\$6,423
Premiums on group medical insurance	342
Contributions to registered pension plan	1,400

With respect to the registered pension plan, the Company also made a \$1,400 contribution on behalf of Ms. Marsh. In addition to the preceding, Ms. Marsh made the following payments during the year:

Dental expenses	\$1,250
Charitable donations	275
Costs of moving to a larger apartment	2,800
Tuition fees for work related course (reimbursed)	1,100
Life insurance premiums	850
Cost of travel to and from place of employment	620
Cost of employment related travel (reimbursed)	4,250

The dental expenses were not covered by her medical insurance.

Required: Calculate Ms. Marsh's net employment income for the 2013 taxation year. Provide reasons for omitting items that you have not included in your calculations. Ignore all GST implications.

Question 17 (30 Marks)

Provide the information required by the following Exercises.

- A. During 2013, Mr. Shaun Badry is provided with an automobile that is leased by his employer. The monthly payment on this lease is \$565, including \$65 of HST. During 2013, he drives the car a total of 35,000 kilometers, of which 27,500 are employment related. The car is used by Mr. Badry for a total of 265 days during 2013. When the car is not being used by Mr. Badry, it must be returned to the employer's premises. Calculate Mr. Badry's minimum taxable benefit for the use of the automobile.
- B. Mr. Alonso Sotomeyer is required by his employer to use his own automobile in the course of his employment. His total automobile costs for the year, including lease costs, are \$11,460. To compensate him, his employer pays an annual allowance of \$12,000. During 2013, he drove his automobile a total of 48,260 kilometers, of which 19,960 were employment related. What amounts will Mr. Sotomeyer include and deduct from his 2013 employment income related to the use of his automobile?
- C. Ms. Cheryl Fernandes is a member of a group disability plan sponsored by her employer. The plan provides periodic benefits that compensate for lost employment income. The cost of the plan is shared with her employer. Her share of the cost was \$460 in 2012, and \$500 in 2013. During 2013, Ms. Fernandes was hospitalized for a period of 2 weeks, resulting in her receiving \$7,400 in benefits under the plan. What amount, if any, will Ms. Fernandes include in her 2013 employment income for the disability benefits?
- D. Several years ago, Mr. Jeremiah Pitt's employer, a publicly traded company, gave him options to purchase 1,500 shares of the employer's stock at a price of \$21 per share. At that time, the shares were trading at \$20 per share. During July, 2013, Mr. Pitt exercises the options. At this time the shares are trading at \$28 per share. In December, 2013, all the shares are sold for \$31 per share. Determine the effect of these transactions on both the Net Income For Tax Purposes and Taxable Income of Mr. Pitt.

END OF EXAMINATION