

Practice Examination Solution

Chapter 3 (Employment Income)

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	12	
2	Essay Question	8	
3 - 8	True Or False	9	
9 - 15	Multiple Choice	21	
16	Employment Income	20	
17	Exercises	30	
Total		100	

Solution 1 (12 Marks)

Case A

The employer would deduct it in the year ending September 30, 2013.

The employee would include it in income in the year ending December 31, 2014.

Case B

As the bonus was not paid within 180 days of the Company's year end, it cannot be deducted until it is paid. This would occur in the year ending September 30, 2015.

The employee would include it in income in the year ending December 31, 2014.

Case C

In this case, the bonus is paid more than three years after the end of the calendar year in which the services were rendered. This makes it a salary deferral arrangement. The company will deduct the bonus in the year ending September 30, 2013.

The employee must include it in income in the year ending December 31, 2013.

1 grading point for each highlighted item. Total 12

Your Mark = [(# of grading points ÷ 12)(12%)] = ____%

Solution 2 (8 Marks)

The IT-470R lists are found on paragraphs 3-49 and 3-59 of your text. Any two items from each list would be acceptable. Note, your answer should clearly indicate which list you are referring to (i.e. these are the two items from the taxable benefits list).

1 grading point for each correct item you list. Total 4

Your Mark = $[(\# \text{ of grading points} \div 4)(8\%)] = __\%$

Solutions 3 Through 8 (9 Marks)

3. **True.** One of the advantages of being classified as a self-employed contractor is that you have a larger range of available tax deductions.
4. **False.** Acquiring one's tools is an indication that you are an independent contractor.
5. **False.** The \$200 excess over \$500 will have to be included in Gerri's income.
6. **False.** The standby charge may be reduced if the employee uses the car more than 50 percent for employment related activities.
7. **True.** 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.
8. **False.** Such reimbursements are limited to the first \$15,000, plus one-half of any excess. One-half of any amount in excess of \$15,000 is considered a taxable benefit.

1 grading point for each correct answer. Total 6

Your Mark = $[(\# \text{ of grading points} \div 6)(9\%)] = __\%$

Solutions 9 Through 15 (21 Marks)

9. **C.** The ability to pay income tax in quarterly instalments.
10. **B.** A \$450 gift certificate that can be used at a local clothing store.
11. **C.** Standby charge = \$11,280 $[(\$58,760)(2\%)(11)(16,000 \div 18,337)]$
Operating cost benefit = \$4,320 $[(\$0.27)(16,000)]$
Total benefit = \$15,600 $(\$11,280 + \$4,320)$.
12. **C.** An allowance of \$600 per month to compensate the employee for using his personal automobile for employment related activities.
13. **B.** $[(1/4)(4\%)(\$100,000) + (1/4)(3\%)(\$100,000) + (1/4)(2\%)(\$100,000)]$
 $- [(3/4)(1\%)(\$100,000)] = \$1,500$
14. **A.** Interest on the mortgage.
15. **D.** \$12,000. Under ITA 8(1)(f) he could have deducted \$23,500 $[(1/2)(\$23,000) + \$12,000]$. However, this is limited by his commission income received of \$9,000 $(\$16,000 - \$7,000)$. He would maximize his deduction by using ITA 8(1)(h) to deduct the hotel and airline costs of \$12,000.

1 grading point for each correct answer. Total 7

Your Mark = $[(\# \text{ of grading points} \div 7)(21\%)] = __\%$

Solution 16 (20 Marks)

The calculation of Ms. Marsh's net employment income would be as follows:

Salary	\$40,500
Reimbursement Of Travel Costs	Nil
Reimbursement Of Tuition Fees	Nil
Fees As Director	1,200
Registered Pension Plan Contribution	(1,400)
Net Employment Income	\$40,300

Notes:

1. As the reimbursement of employment related travel costs appears to be based on actual expenditures, it is not a taxable benefit and can be left out of all income calculations. Since the reimbursement is not taxable, the cost of employment related travel is not deductible.
2. As the course was work related, there is no taxable benefit for the employer reimbursed tuition fees. However, the tuition fees will not be eligible for a credit against taxes payable.
3. The dividends will be included in income, but not as a component of employment income. Rather they are income from property.
4. Income taxes withheld cannot be deducted in calculating employment income.
5. The premiums for group medical insurance and the dental expenses will qualify as medical expenses and will be eligible for treatment as a credit against taxes payable. However, they cannot be deducted in the calculation of employment income.
6. The employer's contribution to the registered pension plan is not a taxable benefit.
7. Charitable donations will generate a credit against an individual's taxes payable. However, they cannot be deducted in the calculation of employment income.
8. The life insurance premiums and the costs of travel to and from work are not deductible expenses. Since Ms. Marsh has not moved to a new work location, the costs of moving to a larger apartment are not deductible.

1 grading point for each highlighted item. Total 15

Your Mark = [(# of grading points ÷ 15)(20%)] = ____%

Question 17 (30 Marks)

- A. Rounded to the nearest whole number, 265 days results in 9 months of availability. His personal use is 7,500 kilometers (35,000 - 27,500). As Mr. Badry's employment related use is more than 50 percent, he is eligible for a reduction in the full standby charge. He is also eligible for the alternative one-half of the standby charge calculation of the operating cost benefit. Given these factors, the standby charge would be calculated as follows:

Standby Charge $[(2/3)(12)(\$565)(9/12)(7,500 \div 15,003^*)]$	\$1,695
Operating Cost Benefit - Lesser Of:	
• $[(7,500)(\$0.27)] = \$2,025$	
• $[(1/2)(\$1,695)] = \848	848
Total Taxable Benefit	\$2,543

* $[(9)(1,667)]$

10 grading points for Part A.

- B. As the car allowance is not based on kilometers, Mr. Sotomeyer will have to include the \$12,000 allowance that was received from his employer in his employment income. He can deduct the employment related portion of his actual automobile costs against this amount. This would be \$4,740 $[(\$11,460)(19,960/48,260)]$. The net inclusion would be \$7,260 $(\$12,000 - \$4,740)$.

6 grading points for Part B.

- C. As her employer contributes to the plan, and the contributions do not create a taxable benefit, the \$7,400 in benefits received during the year will be included in her employment income. This will be reduced by the \$960 $(\$460 + \$500)$ in non-deductible contributions that she made during 2012 and 2013, leaving a net inclusion of \$6,440 $(\$7,400 - \$960)$.

6 grading points for Part C.

- D. The effect of these transactions would be calculated as follows:

Employment Income $[(1,500)(\$28 - \$21)]$	\$10,500
Taxable Capital Gain $[(1/2)(1,500)(\$31 - \$28)]$	2,250
Increase In Net Income For Tax Purposes	\$12,750
Deduction Under ITA 110(1)(d) $[(1/2)(\$10,500)]$	(5,250)
Increase In Taxable Income	\$ 7,500

11 grading points for Part D.

1 grading point for each highlighted item. Total 33.

Your Mark = $[(\# \text{ of grading points} \div 33)(30\%)] = ___\%$