

Practice Examination

Chapter 9 (Other Income And Deductions)

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 Other Income And Deductions

Examination Content

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

Question	Type Of Question Or Subject	Marks	Time In Minutes
1	Essay Question	10	9.0
2 - 7	True Or False Questions	9	8.1
8 - 14	Multiple Choice	21	18.9
15	Moving Costs	25	22.5
16	Income Attribution	35	31.5
Total		100	90.0

Question 1 (10 Marks)

An individual owns shares with a fair market value that is greater than their adjusted cost base. She wishes to transfer these shares to her spouse. How can she avoid having the income from these shares attributed back to her? What are the tax consequences if the income attribution rules apply?

Question 2 Through 7 (9 Marks)

2. Workers' Compensation payments are included in Net Income For Tax Purposes, but deducted in the determination of Taxable Income.

True or False?

3. Moving expenses can only be deducted to the extent of any employment income earned at the new work location.

True or False?

4. Child care costs can be deducted by the higher income spouse when the lower income spouse is confined to prison for not less than two weeks in the year.

True or False?

5. In order to qualify for the disability supports deduction, an individual must be eligible for the disability tax credit.

True or False?

6. Spousal support is deductible to the payor and taxable to the recipient.

True or False?

7. If an individual taxpayer gifts shares to a related minor, both dividend income while the shares are held and capital gains if the shares are sold, are attributed back to the individual making the gift.

True or False?

Question 8 Through 14 (21 Marks)

8. Which of the following statements with respect to Subdivision B income inclusions is not correct?
- A. The full amount of any retiring allowance has to be included in income.
 - B. The universal child benefit payments can be included in the income of either spouse.
 - C. 100 percent of scholarships received in connection with an elementary school education program are excluded from income.
 - D. Withdrawals from Registered Retirement Savings Plans must be included in income.
9. With respect to the deduction of child care costs, which of the following statements is not correct?
- A. For child care costs to be eligible, the eligible child must have income that does not exceed the basic personal credit amount.
 - B. The annual child care expense limit is \$7,000 per child.
 - C. The child care costs will generally be deducted by the lower income spouse.
 - D. When a child is in attendance at a boarding school or camp, the deductible cost is limited to a specified amount for each week.
10. Jack and Joan were divorced three years ago. Their separation agreement calls for Joan to pay \$350 per month in child support and \$200 per month in spousal support. During the current year, Joan pays the full amount of \$550 for each of the first ten months. No further payments were made. What is the amount that will be included in Jack's Net Income For Tax Purposes for the current year?
- A. \$2,000
 - B. \$1,300
 - C. \$5,500
 - D. \$2,400
11. With respect to Registered Education Savings Plans, which of the following statements is correct?
- A. Earnings on assets that are held in the plan accumulate on a tax free basis.
 - B. All amounts paid out of the plan will be taxed in the hands of the beneficiary.
 - C. All amounts paid out of the plan will be taxed in the hands of the contributor.
 - D. The annual contribution made by any one individual is limited to \$4,000.
12. Which of the following statements correctly describes an advantage that can be attributed to a Registered Education Savings Plan?
- A. Contributions to the plan can be deducted by the contributor.
 - B. The distribution of accumulated plan earnings will not be included in a beneficiary's Net Income For Tax Purposes.
 - C. Accumulated earnings in the plan that are paid to contributors to the plan will be taxed at regular rates.
 - D. Contributions to the plan are supplemented by Canada Education Savings Grants.
13. With respect to Tax Free Savings Accounts, which of the following statements is correct?
- A. Contributions to the plan can be deducted by the taxpayer.
 - B. The income attribution rules do not apply to earnings on assets held in the plan.
 - C. When funds are withdrawn from the plan, the related contribution room is permanently lost.
 - D. No more than \$5,500 can be contributed to a plan each year.

14. On January 15, 2013, Ahmed Salsa gives common shares to his spouse. These shares have an adjusted cost base of \$20,000 and a fair market value of \$35,000. During the following year these shares pay eligible dividends of \$1,200. In December 2013, his spouse sells the shares for \$30,000. Assuming that Ahmed does not elect out of the spousal rollover, what is the amount that will be included in his 2013 Net Income For Tax Purposes as a result of these transactions.
- A. \$11,200
 - B. \$6,200
 - C. \$16,656
 - D. \$6,656

Question 15 (25 Marks)

Mr. Tully resigned from his job in Calgary on September 30 of the current year, after completing his executive MBA. His new position at a high tech firm in Ottawa started on December 1. In October, Mr. Tully flew to Ottawa to find a new home for himself and his family. While he located a suitable house and signed the purchase agreement after four days in the city, finalizing all of the details associated with the purchase required him to remain in Ottawa for another three days. His expenses for this trip were as follows:

Air fare (Calgary - Ottawa, Return)	\$ 675
Car rental (7 days at \$30)	210
Hotel (7 days at \$90)	630
Food (7 days at \$30)	210
Total Expenses	\$ 1,725

On his return to Calgary, he received the following information from his lawyer:

Real estate commission - old home	\$ 9,000
Legal fees - old home	1,500
Unpaid property taxes on old home to date of sale	1,200
Legal fees - new home	1,750
Transfer tax on new home	1,100
Total	\$14,550

On November 14 of the current year, after supervising the final packing of their property and its removal from the old house, Mr. Tully and his family leave Calgary in their minivan. They arrive in Ottawa on November 20th. However, because of some delays in the completion of their new home, they are unable to move in until November 30. Their expenses during the period November 14 through November 30 are as follows:

Gasoline	\$ 415
Hotel (16 days at \$75)	1,200
Food (16 days at \$60)	960
Total	\$2,575

The moving company invoice totals \$4,500. Included in the fee is \$450 for the 9 days of storage required because the furniture could not be moved into the new home on its arrival in Ottawa.

Mr. Tully's only income for the current year was employment income and the net amounts to be included in his Net Income For Tax Purposes are as follows:

Old job (9 months)	\$54,000
New job (1 month)	8,000
Net Employment Income	<u>\$62,000</u>

Mr. Tully's new employer did not provide any reimbursement for moving expenses.

Required: Calculate the maximum allowable moving expenses that Mr. Tully can deduct from his Net Income For Tax Purposes for the current year and any amount that can be carried forward. Mr. Tully does not use the simplified method of calculating travel expenses.

Question 16 (35 Marks)

On February 1, 2010, Mrs. Morris used her own funds to acquire 10,000 shares of Merryweather Farms, a Canadian public company. The cost of these shares was \$150,000 and Mrs. Morris holds the shares until August 31, 2013.

On August 31, 2013, Mrs. Morris gives 5,000 of the shares to her husband and the other 5,000 shares to her 15 year old daughter, Martha. The fair market value of the shares at the time of the gift is \$20 per share. Mrs. Morris does not elect out of ITA 73(1).

Merryweather Farms declares eligible dividends of \$1 per share on September 30, 2013. The dividends are paid on October 15, 2013. On December 1, 2013, Mr. Morris sells his 5,000 shares at \$22 per share and on December 15, 2013, Martha sells her 5,000 shares for \$26 per share.

Required: For Mrs. Morris, her husband, and her daughter Martha, indicate the tax consequences for each of the following events:

- The gift of the shares
- The receipt of dividends on the shares.
- The sale of the shares.

END OF EXAMINATION