

Practice Examination

Chapter 11 (Tax Payable For Individuals II)

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 Tax Payable For Individuals II

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	9	8.1
8 - 14	Multiple Choice	21	18.9
15	Loss Carry Overs	20	18.0
16	Lifetime Capital Gains Deduction and ABILs	20	18.0
17	Alternative Minimum Tax	20	18.0
Total		100	90.0

Question 1 (10 Marks)

Briefly describe the calculation of a taxpayer's non-capital loss for the year. Indicate the carry over provisions that are applicable to this type of loss.

Question 2 Through 7 (9 Marks)

2. Farm losses can be carried back 3 years and forward for 20 years.

True or False?

3. Loss carry overs should always be used to reduce Taxable Income to nil.

True or False?

4. A business investment loss is a loss resulting from the disposition of shares or debt of a Canadian Controlled Private Corporation (CCPC).

True or False?

5. All of the split income of a specified individual will be taxed at the maximum federal rate of 29 percent.

True or False?

6. Provided it reduces the Tax Payable of a taxpayer, dividends received by that individual's spouse or common-law partner can be transferred to that taxpayer.

True or False?

7. The base for the charitable donations tax credit is limited to 75 percent of Taxable Income, plus 25 percent of any taxable capital gain arising as the result of the gift, plus 25 percent of any recaptured CCA resulting from the gift.

True or False?

Question 8 Through 14 (21 Marks)

8. With respect to personal use property, which of the following statements is not correct?
- A. In determining gains or losses on the disposition of personal use property, the minimum value for the adjusted cost base is \$1,000.
 - B. Losses on such property can never be deducted.
 - C. Gains on the disposition of personal use property are always subject to tax.
 - D. In determining gains or losses on the disposition of personal use property, the minimum value for the proceeds of disposition is \$1,000.
9. With respect to net capital loss balances, which of the following statements is correct?
- A. They can be carried forward for a maximum of 20 years.
 - B. When they are carried over to a different taxation year, they can be deducted against any type of income.
 - C. They must be deducted before deducting any non-capital loss carry overs.
 - D. They can be deducted against any type of income in the year of death or the immediately preceding year.
10. Which of the following items would not be considered "split income" if received by a specified individual?
- A. Imputed interest on an interest free loan received from a corporation in which the specified individual's father is the sole shareholder.
 - B. A taxable dividend received from a private company.
 - C. Dividends received on public company shares that were gifted to a specified individual by that individual's grandfather.
 - D. Income received from a partnership in which the specified individual's parents were active partners.
11. An individual has Net Income For Tax Purposes of \$182,500. He has donated a depreciable asset with a fair market value of \$320,000, a capital cost of \$217,000, and a UCC of \$165,000. It is the only asset in its CCA class and no additions are made subsequent to the gift. If he elects to have the donation valued at its fair market value, what is the maximum amount that this taxpayer can claim as the basis for his charitable donations tax credit?
- A. \$136,875
 - B. \$175,625
 - C. \$162,750
 - D. \$320,000
12. Which of the following statements with respect to the charitable donations tax credit is correct?
- A. The limit on the base for charitable donations in the year of death and the immediately preceding year is 100 percent of Net Income For Tax Purposes.
 - B. Donations that are not used for a credit in the current year can be carried back three years and forward five years.
 - C. Unlike the other credits which are based on the lowest federal tax bracket, this tax credit is equal to 29 percent of eligible donations.
 - D. If an individual has sufficient Tax Payable to make use of the credit, charitable donations must be used in the year in which they are made.

13. With respect to foreign tax credits for individuals, which of the following statements is not correct?
- Amounts withheld from foreign business income will be included in the taxpayer's Net Income For Tax Purposes.
 - The foreign tax credit for taxes withheld on foreign non-business income will be the lesser of the amount withheld and an amount determined by a formula in which tax otherwise payable is multiplied by the ratio of foreign non-business income divided by adjusted Division B Income.
 - If a foreign tax credit for amounts withheld of foreign business income cannot be used during the current period, it can be carried back three years and forward ten years.
 - For individuals, the tax credit for amounts withheld from foreign non-business income cannot exceed 15 percent of the foreign non-business income.
14. In the calculation of Adjusted Taxable Income for alternative minimum tax purposes, so-call "tax preferences" are added back to regular Taxable Income. Which of the following is not a "tax preference" item.
- The home relocation loan deduction.
 - 30 percent of the excess of capital gains over capital losses.
 - RRSP deductions.
 - Losses arising through the deduction of CCA on Certified Canadian Films.

Question 15 (20 Marks)

Mr. Peter Li carries on business as a sole proprietor. The fiscal year end of the business is December 31. During 2012, its first year of operation, net business income amounts to \$62,000. In addition, the disposal of a business property resulted in an \$18,000 capital loss which could not be deducted. The following amounts relate to the year ending December 31, 2013:

Business Loss	(\$123,000)
Capital Gains	15,700
Capital Losses	(8,200)

Mr. Li has no other source of income or loss in either year and does not anticipate realizing capital gains in the foreseeable future. Assume that he wishes to minimize his net capital and non-capital loss carry forwards at the end of 2013, without regard to his ability to claim his tax credits for the preceding year (2012). Calculate:

- Mr. Li's Net Income For Tax Purposes and Taxable Income for 2013.
- The net capital loss carry forward that will be available at the end of 2013.
- The non-capital loss carry forward that will be available at the end of 2013.
- Mr. Li's amended amounts of Net Income For Tax Purposes and Taxable Income for 2012.

Question 16 (20 Marks)

At the beginning of 2013, Mr. Lindon had a \$10,250 $[(1/2)(\$20,500)]$ net capital loss carry forward and a non-capital loss carry forward of \$3,500. His net employment income amounted to \$21,300 in 2013.

During 2013, Mr. Lindon realized a taxable capital gain of \$18,300 on the sale of shares in a qualified small business corporation and an allowable capital loss of \$4,800 on the sale of shares of a public company. In addition, he had loaned \$3,000 to a small business corporation. This loan was considered uncollectible when the corporation went bankrupt in December, 2013.

In a prior year, Mr. Lindon used the lifetime capital gains deduction election to deduct \$50,000 $[(1/2)(\$100,000)]$ of capital gains. He has made no other deduction under ITA 110.6 (lifetime capital gains deduction). As of the end of 2013, he has a Cumulative Net Investment Loss balance of \$1,200.

Mr. Lindon would prefer to make maximum use of his lifetime capital gains deduction prior to applying any net capital loss carry forwards.

Required: Calculate Mr. Lindon's allowable business investment loss and minimum Net Income For Tax Purposes and Taxable Income for 2013. Include all of the calculations required to determine the maximum ITA 110.6 deduction in your solution. In addition, briefly explain why Mr. Lindon would prefer using his lifetime capital gains deduction rather than his net capital loss carry forward.

Question 17 (20 Marks)

During 2013, Ms. Angelina Morganstern has Net Income For Tax Purposes of \$218,088. This amount is made up of taxable capital gains of \$180,000 and taxable eligible dividends of \$38,088 $[(138\%)(\$27,600)]$. As the taxable capital gain was on a disposition of qualified farm property, she reduced her Taxable Income to \$38,088 through the use of the lifetime capital gains deduction. Her only tax credits are the basic personal credit and the dividend tax credit.

Determine whether Ms. Morganstern would have a liability for the federal alternative minimum tax and, if so, the total amount of such tax.

END OF EXAMINATION