**Chapter One Test Item File Problems
TIF PROBLEM ONE - 1
Introduction - Essay Questions**1. The major source of federal revenues is the personal income tax. Indicate three other
types of taxes that contribute to federal revenues.
2. What is the meaning of "person" when the term is used in the *Income Tax Act*?
3. Briefly describe the procedures used in calculating provincial income taxes for individuals
in provinces other than Quebec.
4. The Canadian income tax system is often used to achieve various economic objectives.
Give three examples that illustrate this point.
5. Provide an example of how taxation policy can be used to influence resource allocation.
6. The government pays a Canada Child Benefit to the parents of children who are under 18
years of age. The payments are reduced by a percentage of income in excess of a specified
level. What objectives are achieved by this benefit system?
7. Indicate three disadvantages of a tax system that uses progressive rates.
8. A regressive tax is one that taxes high income individuals at lower effective rates. Explain
why a sales tax levied at a flat rate of 8 percent can be regressive.
9. Distinguish between horizontal equity and vertical equity as these terms are used in describing tax systems.
10. What are some of the factors that have led to the entrenched use of tax expenditures as opposed to program spending?
11. While the Sections of the *Income Tax Act* are numbered 1 through 260, there are actually
more than 260 Sections. Explain why this is the case.
12. What purposes are served by Canada's international tax treaties?
13. List four non-legislative sources of income tax information.
14. What is the meaning of "taxation year" as the phrase is used in the *Income Tax Act*?
15. Under what circumstances will a person who is not resident in Canada be required to pay
Canadian income taxes?
16. What is the importance of residence in Canadian income taxation?
17. When an individual leaves Canada, the CRA may take the position that he has retained his
residence status. What are the primary factors that the CRA will consider in determining
whether such an individual has, in fact, ceased to be a Canadian resident?
18. List three factors that would be considered in the determination of whether or not an individual is a resident of Canada.
**TIF Problem One - 1***Introduction - Essay Questions****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **1**
19. If an individual leaves Canada for a temporary absence, this raises the question of whether
he was a Canadian resident during the period of absence, particularly if some residential
ties have been retained. What are the major factors that are considered in determining
whether an individual continues to be a Canadian resident during a temporary absence?
20. One of your friends is leaving Canada and would like to know when he will no longer be
considered a Canadian resident. Briefly explain the rules related to terminating an individual's status as a Canadian resident.
21. For the current year, Jane Doe is deemed to a Canadian resident because she sojourned in
Canada for 210 days. Also for the current year, Jack Fawn, a long-time resident of Manitoba, was considered a part year resident for the first 210 days, after which he
permanently departed from Canada. Explain how these two individuals will be taxed in
Canada.
22. It is possible that an individual could be considered resident in more than one country. In
such situations, "tie-breaker" rules are used to avoid the individual being subject to taxation in both countries. List and describe three factors that would be considered in
implementing the tie-breaker rules.
23. Are enterprises that are incorporated in Canada always considered to be resident in Canada? Explain your conclusion.
24. Limon Inc. was incorporated in the U.S. five years ago. However, all of the directors of the
corporation are Canadian residents, holding all of their meetings in Montreal. How would
Limon Inc. be taxed?
25. What are the components of Net Income For Tax Purposes?
26. ITA 3(b) states that a taxpayer should “determine the amount, if any”, by which taxable
capital gains exceeds allowable capital losses. In this context, what is the meaning of the
phrase “the amount, if any”?
27. What is the difference between tax avoidance and tax deferral?
28. What is income splitting? Under what circumstances will it provide tax benefits to an individual?
29. Contributions to a Registered Retirement Savings Plan can be deducted to reduce the
taxes of an individual in the year that they are made. However, these contributions will be
subject to tax when they are withdrawn from the plan. What type of tax planning is involved in this arrangement?
30. Your client, a government employee, would like to reduce his taxes. He is trying to decide
whether he should contribute $5,000 to an RRSP this year. He has an RRSP as does his
wife, a part time employee at a day care centre.
Briefly describe the basic goals of tax planning. What advice would you give your client
regarding his RRSP contribution? Explain your conclusion.
**TIF Problem One - 1***Introduction - Essay Questions****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **2**
**TIF PROBLEM ONE - 2
Introduction - True Or False**1. A value added tax is a tax levied on the increase in value of a commodity or service that has
been created by the taxpayer’s stage of the production or distribution cycle.
True or False?
2. A partnership can be a taxable entity for income tax purposes.
True or False?
3. A partnership can be a taxable entity for GST purposes.
True or False?
4. In general, provincial income taxes are based on a specified percentage of federal tax payable.
True or False?
5. The federal government does not collect personal or corporate taxes for Ontario or Quebec.
True or False?
6. A sales tax is a regressive tax even when it is applied at a single rate on all transactions.
True or False?
7. A major advantage of progressive tax rates is that their use encourages economic growth.
True or False?
8. Tax expenditures are less costly to administer than direct funding programs.
True or False?
9. Part I of the *Income Tax Act* is the largest and most important part.
True or False?
10. The citation ITA 61(4)(b)(ii) would be read Paragraph 61, Subparagraph 4, Section b, Subsection ii.
True or False?
11. Any taxpayer can choose the calendar year as their taxation year.
True or False?
12. If there is a conflict between an international tax treaty and Canadian tax legislation, the
Canadian tax legislation will prevail.
True or False?
13. An income tax is payable for each taxation year on the Taxable Income of every person
resident in Canada at any time in the year.
True or False?
**TIF Problem One - 2***Introduction - True Or False****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **3**
14. Canadian citizens are required to file a Canadian income tax return, without regard to
where they currently live.
True or False?
15. When an individual is absent from Canada for some period of time, the length of their absence is an important factor in determining whether they continued to be a Canadian
resident during the period of their absence.
True or False?
16. If an individual moves to Canada and is here less than 183 days prior to the end of the year,
that individual will be subject to Part I tax on their world wide income for the entire year.
True or False?
17. The residency of a trust depends on the country in which the central management and
control of the trust takes place, not where the beneficiaries reside.
True or False?
18. If an individual leaves Canada, the three most significant factors in determining whether
he has ceased to be a resident are:
Whether he continues to own a dwelling in Canada.
Whether he is accompanied by his spouse or common-law partner.
Whether he maintains social ties in Canada.
True or False?
19. If an individual returns to Canada after an absence of less than two years, S5-F1-C1 indicates that, in general, he will be considered to have retained Canadian residency during
his absence.
True or False?
20. A part year resident for the current year is an individual who either establishes residency
in Canada during the current year or, alternatively, terminates residency in Canada during
the current year.
True or False?
21. A sojourner is any individual who has been present in Canada for 183 consecutive days in
one year.
**TIF Problem One - 2***Introduction - True Or False****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **4**
**TIF PROBLEM ONE - 3
Introduction - Multiple Choice
Canadian Tax System**1. Which of the following types of taxes is not currently in use by the federal government of
Canada?
A. Excise Taxes
B. Custom Duties
C. Head Tax
D. Transfer Tax
2. Which of the following is **NOT** a taxable entity for Canadian income tax purposes?
A. Darklyn Ltd., a Canadian resident corporation.
B. Ms. Sarah Bright, a Canadian resident.
C. Walters and Walters, a group of CPAs operating as a partnership.
D. The Martin family trust.
3. Which of the following could be required to file a GST return?
A. Chan’s Clothing Store (an unincorporated business)
B. The Chan Foundation (a registered charity)
C. Min Chan (an individual)
D. All of the above could be required to file a GST return.
4. Which of the following forms of taxation provides the largest component of federal government taxation revenues?
A. Personal income tax
B. Corporate income tax
C. Goods and services tax
D. Employment insurance premiums
5. With respect to provincial income taxes, other than those assessed in Quebec, which of
the following statements is **NOT** correct?
A. Each province can apply different rates to as many brackets for individuals as it wishes.
B. The federal government collects the provincial income tax for individuals for every
province except Quebec.
C. Each province can establish its own tax credits to apply against Tax Payable for individuals.
D. Each province can establish rules for determining the Taxable Income of individuals.
6. Which of the following groups of entities are all subject to taxation on income?
A. Individuals, proprietorships and corporations
B. Proprietorships, corporations and trusts
C. Individuals, trusts and corporations
D. Individuals, partnerships and corporations
7. Income tax is calculated for which of the following groups of jurisdictions?
A. Municipal, provincial, and federal
B. Provincial, federal, and international
C. Municipal, federal, and international
D. Municipal, provincial, and international
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **5**
**Tax Policy Concepts**8. Which of the following statements with respect to Canadian tax policy is **NOT** correct?
A. The economic burden of a particular tax may not fall on the same group that has the legal liability to pay the tax.
B. Extremely high rates of tax will always encourage individuals to work harder so that
they will have more after tax income.
C. The inability to harmonize the GST in some provinces has increased the complexity of
tax compliance.
D. A progressive tax system is unfair to individuals with incomes that fluctuate significantly from year to year.
9. Which of the following goals is **NOT** a current economic policy objective of the Canadian
tax system?
A. Ensure the continued provision of public goods
B. Redistribute income and wealth among taxpayers
C. Ensure fairness in the allocation of resources to different levels of government.
D. Economic stabilization such as stimulating the economy or creating jobs.
10. Which of the following can be considered an advantage of an income tax system based on
progressive rates?
A. A progressive rate system is simpler to administer.
B. A progressive rate system provides greater stability in the context of changing economic conditions.
C. A progressive system discourages tax evasion.
D. A progressive system encourages greater effort on the part of individuals.
11. Which of the following statements accurately describes a regressive tax?
A. A tax which results in higher effective tax rates for higher income taxpayers.
B. A tax which results in lower effective tax rates for higher income taxpayers.
C. A tax in which the same effective rate applies to all levels of income.
D. A tax that is shifted to consumers through price increases on the goods purchased.
12. Which of the following statements with respect to using tax expenditures rather than program spending is **NOT** correct?
A. It is more costly to administer tax expenditures as opposed to program spending.
B. Tax expenditures reduce the visibility of government actions.
C. Tax expenditures leave fewer decisions in the hands of the private sector, thereby providing for more efficient allocation of resources.
D. Tax expenditures reduce the impact of progressive rates on higher income taxpayers.
13. Which of the following would **NOT** be considered a desirable characteristic of a tax system?
A. Balance between sectors.
B. Inelasticity.
C. Neutrality.
D. Flexibility.
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **6**
14. Which of the following would be considered a desirable characteristic of an effective tax
system?
A. Inelasticity.
B. Lack of international competitiveness.
C. Simplicity.
D. Ambiguity.
15. "We should not have a tax system which encourages investment in particular assets or in
specific areas of the country." This statement reflects which of the following qualitative
characteristics of an effective tax system?
A. Neutrality.
B. Horizontal equity.
C. Simplicity.
D. Elasticity.
16. "Taxpayers who earn $100,000 in dividends should pay the same amount of tax as taxpayers who earn $100,000 in capital gains." This statement reflects which of the following
qualitative characteristics of an effective tax system?
A. Vertical equity.
B. Neutrality.
C. Elasticity.
D. Horizontal equity.
**Income Tax Reference Materials**17. Which of the following statements with respect to tax reference materials is correct?
A. Income Tax Folios are a legislative source of guidance.
B. Income Tax Regulations are gradually being replaced by Income Tax Folios.
C. Interpretation Bulletins are gradually being replaced by Information Circulars.
D. The *Income Tax Act* is the most important source of information for dealing with matters related to the federal income tax.
18. With respect to the structure of the *Income Tax Act*, which of the following statements is
correct?
A. The major components of the *Income Tax Act* are called Divisions.
B. The *Income Tax Act* has Parts numbered I through XVII, reflecting the fact that there
are 17 Parts in the *Act*.
C. All Parts of the *Income Tax Act* have Divisions.
D. All Parts of the *Income Tax Act* contain at least one Section.
19. Of the following publications, indicate the one that is **NOT** a legislative source.
A. *Income Tax Act*.
B. Income Tax Folios.
C. Income Tax Application Rules.
D. International Tax Treaties.
E. Income Tax Regulations.
20. Of the following publications, indicate the one that is **NOT** published by the CRA.
A. Income Tax Folios.
B. Information Circulars.
C. Dominion Tax Cases.
D. Income Tax Technical News.
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **7**
21. There are a number of common areas of litigation involving the CRA. Indicate which type
of transaction is least likely to be in dispute.
A. Arm’s length versus non-arm’s length transactions.
B. Capital versus income transactions.
C. Unreported revenues from business transactions.
D. Establishment of fair market value.
E. The deductibility of farm losses against other sources of income.
22. Where would an individual find the formula for determining the prescribed rate?
A. The Income Tax Act.
B. The Income Tax Regulations.
C. A CRA Income Tax Folio.
D. A CRA Information Circular.
23. Which of the following statements is **NOT** correct?
A. Most major income tax changes are introduced in the annual Federal Budget.
B. A federal election can prevent passage of draft legislation.
C. Proposed changes in tax law are usually introduced to parliament in the form of a Notice of Ways and Means Motion.
D. When there is a conflict between the Canadian *Income Tax Act* and an international
agreement, the terms of the Canadian *Income Tax Act* prevail.
**Liability For Tax**24. Of the following statements related to liability for Canadian income tax, which statement
is **NOT** correct?
A. As used in the *Income Tax Act*, the term person refers to individuals, trusts, and corporations.
B. Corporations must use the calendar year as their taxation year.
C. The Canadian Part I tax is assessed on residents of Canada.
D. The Canadian Part I tax is assessed Canadian employment income earned by a
non-resident.
25. An individual is liable for income tax in Canada if he:
A. is a resident in Canada.
B. is a citizen of Canada.
C. has lived in Canada at any time during the year.
D. All of the above are required.
26. Which of the following persons is **NOT** liable for Canadian income tax under Part I of the
*Income Tax Act*?
A. Pheap Chom, an individual who has resided in Canada for the past 15 years.
B. Chom Incorporated, a Canadian resident corporation.
C. Phon Im, a resident of the United States who earns employment income in Canada.
D. Bunly Im, a resident of the United States who earns interest income in Canada.
27. Which of the following types of income earned by a non-resident is **NOT** subject to Canadian income tax under Part I of the *Income Tax Act*?
A. Employment income earned in Canada
B. Business income earned in Canada
C. Rental income earned in Canada
D. Income from the disposition of Canadian real estate
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **8**
**Residence
Residence Of Individuals**20. Which of the following is an essential factor in determining whether an individual has
ceased to be a resident of Canada?
A. The individual has closed his Canadian savings account.
B. The individual has given up his membership in the Canuck Country Club.
C. The individual has become a resident of another country.
D. The individual has given up his Ontario driver's licence.
29. Ms. Floot has been out of Canada for several years. She is presumed to be a non-resident
as long as certain tests are met. Indicate the condition that does **NOT** have to be met.
A. She did not leave a spouse or other dependants in Canada.
B. She does not return to Canada on a regular or frequent basis.
C. She did not leave personal property or social ties in Canada.
D. She did not leave taxable Canadian property in Canada.
E. She did establish permanent residence in another jurisdiction.
30. All of the following statements are true, except:
A. Canadian residents must report their worldwide income for tax purposes.
B. If an individual is a resident of Canada for part of the calendar year, that individual
only has to report his worldwide income during the period of residency for Canadian
tax purposes.
C. An individual who immigrates to Canada during the year is a resident of Canada for tax
purposes for the full calendar year.
D. An individual can be a resident of Canada for tax purposes, even if she is not a Canadian citizen.
31. Of the following individuals, who would be a resident or deemed resident of Canada for
tax purposes this year?
Alex is a U.S. citizen who commutes each day to Canada for employment purposes.
Bob is a U.S. citizen who lives in Canada during the week for employment purposes,
but returns to the U.S. on weekends to the house he shares with his wife and children.
Charles is a Canadian citizen who lived in Toronto until March of last year, at which
time he left for a four year aid mission in Africa under an agreement with the Canadian
International Development Agency.
Dick is a Canadian citizen who goes to school in the U.S. for eight months of each year
but returns to Canada to live with his parents each summer.
A. Alex, Bob and Charles.
B. Bob, Charles and Dick.
C. Bob and Charles.
D. Alex and Dick.
32. With respect to the residency of an individual, which of the following statements is **NOT**correct?
A. To be a resident for tax purposes, an individual must be a Canadian citizen.
B. If an individual leaves or enters Canada during the current year, he will be considered
a part-year resident for tax purposes.
C. An individual is a Canadian resident for tax purposes if his principal residential ties are
in Canada.
D. An individual is considered to be a Canadian resident for tax purposes if he visits for
more than 183 days in a calendar year.
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **9**
33. Which of the following factors would **NOT** be relevant under the Canada/U.S. tax treaty
tie-breaker rules for determining the residence of an individual?
A. The country in which the individual earns business income.
B. The country in which the individual is a citizen.
C. The country in which the individual has a permanent home available to him.
D. The country in which the individual has a habitual abode.
34. Jamal, his wife and two teenage children are all Canadian citizens. For the last 2 years he
and his family have been living in Mexico while he works for the Mexican subsidiary of a
Canadian company. Jamal still owns his house in Canada. His wife and children stay there
for 2 months in the summer and he spends 4 weeks a year there. The rest of the time the
house is empty as his wife visits family in Canada regularly. Jamal has no definite plans to
return to Canada and loves living in Mexico. However, since his mother-in-law is very ill,
it is possible that his wife will have to return to Canada for at least 6 months to nurse her
mother. Which of the following statements is correct?
A. Jamal is considered a part-time resident of Canada for the 4 weeks he spends in Canada.
B. If Jamal's wife returns alone to Canada to care for her mother, Jamal is considered a
part-time resident of Canada for the 6 months she is in Canada.
C. Jamal is considered a non-resident of Canada.
D. Since Jamal owns a house in Canada that is not rented out under a long-term lease he
is considered a Canadian resident for income tax purposes.
35. Of the following individuals, who would be considered a part-year resident of Canada for
the current taxation year?
A. Ravi is a citizen of India, where he was born and lived until moving to Canada on
March 1 of the current year with his wife and child. He was transferred by his employer to its Canadian head office.
B. Helga had lived and worked in Canada for 10 years. She was transferred by her employer to its flagship hotel in Switzerland on March 1 of the current year for a 1 year
training assignment. Her husband remained in Canada to complete his MBA.
C. Marc is a French citizen who lives in Paris. On March 1 of the current year he begins
work as a translator in Ottawa. It is a 1 year assignment.
D. Billy Bob is a U.S. Marshall on loan to the RCMP detachment in Nunavut. It is a 9
month assignment.
36. Dominique, a Canadian citizen, lives in Buffalo, NY, USA. Throughout the current year
she commutes to Fort Erie, Ontario, Canada, where she is the bartender at the Cross Border Bar. She normally works 7 pm to 3 am Tuesday through Saturday. Dominique is:
A. A deemed resident (sojourner)
B. A non-resident
C. A full-time resident
D. A part-year resident
37. Vanessa moves to Germany on July 15 of the current year. She is 35 and has lived in Canada all of her life. Which one of the following best indicates Vanessa’s Canadian residency
status for the current year?
A. A deemed resident (sojourner)
B. A non-resident
C. A full-time resident
D. A part-year resident
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **10**
**Residence Of Corporations**38. Which of the following corporations would **NOT** be considered a resident of Canada?
A. Dram Inc. was incorporated in Alberta in 2005. While it has operations in both the
U.S. and Canada, its management has always been located in New York.
B. Craser Ltd. was incorporated in Ontario in 2010. All of its business activities are in
Canada and its management is located in Toronto.
C. Alor Inc. was incorporated in British Columbia in 2004. While most of its operations
are in Canada, management is located in Seattle.
D. Exeter Ltd. was incorporated in Alberta in 1956. However, it has never carried on
business in Canada and its management has always been located in Montana.
**Residence Of Individuals/Corporations**39. Of the persons described, which one would **NOT** be considered a Canadian resident?
A. A person who lives in Leamington, Ontario and commutes to work each day in Detroit, Michigan.
B. A corporation that was incorporated in North Dakota, but carries on all of its business
in southern Manitoba.
C. A member of the Canadian armed forces who has, for the last 3 years, been stationed
in Germany.
D. A corporation that was incorporated in Winnipeg, but carries on all of its business in
North Dakota.
40. In which of the following situations is the person considered a non-resident of Canada, in
2018, for income tax purposes?
A. James Arder, a recently qualified CPA, based in Montreal, accepted a transfer to an office in Sydney, Australia for the period May 1, 2018 to August 31, 2018. James is not
married and had lived at his parent’s house in Montreal.
B. Karen Cotin, a computer programmer, had been employed by ABC Systems Ltd. in Toronto. In 2017, she accepted a minimum two-year contract with CS Services Inc. in
London, England. Her position with CS Services Inc. started October 1, 2017. Before
moving to England, where she will join her fiance, Karen terminated the lease on her
apartment in Toronto and sold her car.
C. N Limited was incorporated in Canada in 1996 and, until May 2017, its manufacturing plant was located in Mississauga, Ontario. In May 2017, it moved all of its
operations, including the manufacturing plant, to North Carolina, U.S.A.
D. B. Bath, a member of the Canadian Armed Forces, who was stationed in Lahr, Germany from September 1, 2016 to February 1, 2019.
**Alternative Concepts of Income**41. Which of the following statements with respect to the relationship between accounting
Net Income and Net Income For Tax Purposes is **NOT** correct?
A. Both accounting Net Income and Net Income For Tax Purposes value many assets at
their historical cost.
B. Accounting Net Income requires that costs be matched with revenues.
C. Net Income For Tax Purposes requires that costs be matched with revenues.
D. Accounting Net Income is determined by applying Generally Accepted Accounting
Principles.
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **11**
42. Which of the following statements accurately describes the *Income Tax Act* view of income?
A. Net income is determined by adding revenue based on recognition at the point of sale
and deducting expenses which are determined based on generally accepted accounting principles.
B. Net income is determined by adding together several different types of income based
on an ordering rule.
C. Net income is the amount paid to an employee after an employer deducts CPP, EI, income taxes and any other source deductions from employee pay.
D. Net income is the total increase in a taxpayer’s net worth for the year.
**Calculation Of Net Income For Tax Purposes**43. With respect to the determination of Net Income For Tax Purposes, which of the following
statements is correct?
A. Property losses are deducted from business income before the deduction of RRSP
contributions.
B. Allowable capital losses can be deducted to the extent of other positive sources of income.
C. If not used during the current period, all subdivision e deductions can be carried forward to subsequent periods.
D. If a business loss exceeds all other positive sources of income, Net Income For Tax Purposes is equal to nil.
44. With respect to the calculation of Net Income For Tax Purposes, which of the following
statements is **NOT** correct?
A. Subdivision e deductions are subtracted from the total of all positive sources of income.
B. Allowable capital losses for the year can only be deducted to the extent of taxable capital gains for the year.
C. Business losses can be netted against employment income in determining the positive
amounts to be included under ITA 3(a) and 3(b).
D. Property losses can only be deducted after the subtraction of Subdivision e deductions.
45. Minjie Liu has the following sources of income and deductions:

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| --- | --- |
| Employment income Interest income  | $35,0005,000 |
| Taxable dividend income  | 7,000 |
| Taxable capital gain  | 5,000 |
| Allowable capital loss  | 12,000 |
| Subdivision e deductions What is Minjie’s Net Income for Tax Purposes?A. $47,000 | 2,000 |

B. $40,000
C. $45,000
D. $49,000
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **12**
46. Tanya Turek has the following sources of income and deductions:

|  |  |
| --- | --- |
| Gross employment income Net employment income  | $35,00034,000 |
| Business loss  | 14,000 |
| Taxable capital gain  | 4,000 |
| Allowable capital loss What is Tanya’s Net Income for Tax Purposes?A. $23,000 | 2,000 |

B. $22,000
C. $36,000
D. $24,000
47. Fadel Ghanem has the following sources of income and deductions:

|  |  |
| --- | --- |
| Net employment income  | 34,000 |
| Property income  | 6,000 |
| Business loss  | 54,000 |
| Taxable capital gain  | 4,000 |
| Allowable capital loss  | 7,000 |

What is Fadel’s Net Income or Loss for Tax Purposes?
A. $40,000 Income
B. Nil
C. $44,000 Income
D. $12,000 Loss
48. ITA 3(b) requires the taxpayer to “determine the amount, if any, by which taxable capital
gains exceed allowable capital losses”. The rule that is established by this phrase is:
A. That allowable capital losses in excess of taxable capital gains during a year are never
deductible from income.
B. That the current year allowable capital losses can only be deducted to the extent that
there are taxable capital gains during the current year.
C. That taxable capital gains are only included in income in a year when there are also allowable capital losses that can be used to reduce the effect on income.
D. That unused allowable capital losses are deductible against any type of income in one
of the past 3 years or in a future year.
49. Fred Hopkins has employment income of $45,000, a business loss of $14,000, capital
gains of $20,000, capital losses of $12,000, and subdivision e deductions of $3,000.
Fred’s Net Income For Tax Purposes is equal to:
A. $36,000
B. $50,000
C. $39,000
D. $32,000
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **13**
**Net Income to Taxable Income**50. Which of the following items would be deducted in converting Net Income For Tax Purposes to Taxable Income?
A. A deduction for spousal support payments made during the year.
B. A deduction for the extra costs related to living in prescribed areas of the Canadian
north.
C. Current year allowable capital losses in excess of current year taxable capital gains.
D. Current year business losses in excess of other positive sources of income.
51. Which of the following amounts is **NOT** deducted in converting Net Income for Tax Purposes to Taxable Income?
A. Losses of other years.
B. The lifetime capital gains deduction.
C. An amount related to the exercise or sale of stock options.
D. The excess of allowable capital losses over taxable capital gains for the year.
**Tax Planning**52. Which of the following items does not result in tax avoidance?
A. Use of the lifetime capital gains deduction.
B. Employer contributions to group disability plans.
C. Employer contributions to private health care plans.
D. Accelerated depreciation (CCA) on rental properties.
53. Providing employees with private health care benefits involves what type of tax planning?
A. Tax evasion.
B. Tax deferral.
C. Income splitting.
D. Tax avoidance.
54. Making contributions to an RRSP always involves what type of tax planning?
A. Tax avoidance and tax deferral.
B. Tax deferral.
C. Tax avoidance.
D. Income splitting.
55. Which of the following will always result in tax avoidance?
A. Making contributions to a registered retirement savings plan.
B. Making contributions to an employer’s registered pension plan.
C. Making use of the lifetime capital gains deduction.
D. Making maximum capital cost allowance deductions.
**TIF Problem One - 3***Introduction - Multiple Choice****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **14**
**TIF PROBLEM ONE - 4
Introduction - Exam Exercises
Exam Exercise Subject Listing For Chapter 1**

|  |  |
| --- | --- |
| **Number**  | **Subject** |
| 1  | Taxable Entities (Income Taxes) |
| 2  | Taxable Entities (GST/HST) |
| 3  | Federal And Provincial Tax Payable |
| 4  | Federal And Provincial Tax Payable |
| 5  | Regressive Taxes |
| 6  | Regressive Taxes |
| 7  | Non-Resident Liability For Tax |
| 8  | Non-Resident Liability For Tax |
| 9  | Residential Ties |
| 10  | Temporary Absences |
| 11  | Temporary Absences |
| 12  | Part Year Residence |
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| 14  | Individual Residence |
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| 16  | Corporate Residency |
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| 20  | Net Income For Tax Purposes |
| 21  | Tax Planning |
| 22  | Tax Planning |
| 23  | Tax Planning |
| 24  | Tax Planning |
| 25  | Tax Planning |
| 26  | Tax Planning |

# **TIF Problem One - 4***Introduction - Exam Exercises****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **15****Exam Exercise One - 1 (Taxable Entities For Income Tax Purposes)**Which of the following entities could be required to file an income tax return?Sally Forbes (an individual)Forbes Boutique (an unincorporated business)Forbes and Delaney (a partnership)The Forbes family trust (a trust)Forbes Enterprises Ltd. (a corporation)The Forbes Foundation (an unincorporated charity)**Exam Exercise One - 2 (Taxable Entities For GST Purposes)**Which of the following entities could be required to file a GST return?Sally Forbes (an individual)Forbes Boutique (an unincorporated business)Forbes and Delaney (a partnership)The Forbes family trust (a trust)Forbes Enterprises Ltd. (a corporation)The Forbes Foundation (an unincorporated charity)**Exam Exercise One - 3 (Federal And Provincial Taxes Payable)**Joan Smith has Taxable Income of $37,500. For the current year her federal tax rate is 15percent, while the corresponding provincial rate is 8.2 percent. Determine Ms. Smith’scombined federal and provincial tax payable, before consideration of any available creditsagainst Tax Payable.**Exam Exercise One - 4 (Federal And Provincial Taxes Payable)**Karla Ho has Taxable Income of $26,700. For the current year her federal tax rate is 15percent and the corresponding provincial rate is 10 percent. Determine Ms. Ho's combinedfederal and provincial Tax Payable, before consideration of any available credits against TaxPayable.**Exam Exercise One - 5 (Regressive Taxes)**Samantha Taylor has Taxable Income for the current year of $625,000, of which $216,000 isspent on goods and services that are subject to Harmonized Sales Tax (HST) at a rate of 13percent. Her sister, Martha Taylor, is a part-time student living in the same province and hasTaxable Income of $12,000. During the current year, as a result of using some of her savings,she spends $21,400 on goods and services that are all subject to HST.Determine the effective HST rate as a percentage of the income of the two sisters.**Exam Exercise One - 6 (Regressive Taxes)**Veronica Simms has Taxable Income for the current year of $843,000. Because of her modestlife style, only $162,000 of this amount is spent on goods and services that are subject to theHarmonized Sales Tax (HST) at a rate of 13 percent. Her sister is currently attending universityon a full time basis and lives in the same city. Her Taxable Income for the current year is$8,000. Because she is able to use savings accumulated during several years of employment,she spends $36,000 on goods and services that are subject to HST at 13 percent.Determine the effective HST rate as a percentage of the income of the two sisters.**TIF Problem One - 4***Introduction - Exam Exercises****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **16****Exam Exercise One - 7 (Non-Resident Liability For Tax)**Ms. Michelle Walker, a U.S. citizen, has Canadian employment income of $42,000 and U.S.employment income of $40,000 Canadian. She lives in Seattle, Washington and is a residentof the United States for the entire year. Ms. Walker does not believe that she is subject to taxation in Canada.Is she correct? Explain your conclusion.**Exam Exercise One - 8 (Non-Resident Liability For Tax)**Daniel Bourne is a U.S. citizen who lives in Fargo, North Dakota. For many years, he has had acottage on Manitoba's Lake Winnipeg. In recent years, however, he has made little use of thisproperty and, given this, he has sold the property. While there was a gain of $50,000 on thesale, Daniel assumes that he will not pay Canadian taxes on this amount as he is a U.S. citizen.Is he correct? Explain your conclusion.**Exam Exercise One - 9 (Residential Ties)**At the end of the current year, Michael Resner departed from Canada in order to take a permanent position in Mexico. He was accompanied by his common-law partner and their children,as well as what personal property he had not sold. Due to the intent of his neighbour to start apig farm, he was unable to sell his residence at a satisfactory price. However, he was able torent it for a period of two years. He also retained his membership in the CPA (CharteredProfessional Accountants) Alberta. After his departure, would he still be considered a Canadian resident for tax purposes? Explain your conclusion.**Exam Exercise One - 10 (Temporary Absences)**Mary is a Canadian citizen who is employed by a corporation operating in Canada and the U.S.While she has worked for many years in the Canadian office of this organization, she agreed totransfer to the corporation's U.S. head office in New York City. Before leaving, she disposed ofher residence and other personal property that she did not wish to move. She canceled herSaskatchewan driver's licence and health care card, and closed all of her Canadian bankingand brokerage accounts.Because her boyfriend remained in Regina, she found herself flying back to Canada at leastonce a month. After two years, she concluded that between the high cost of living in New YorkCity and the travel required to maintain the relationship with her boyfriend, she would returnto Canada. Would Mary be considered a Canadian resident during the two years that she wasabsent from Canada? Explain your conclusion.**Exam Exercise One - 11 (Temporary Absences)**John Acheever is employed by Research In Limbo. He has worked for a number of years intheir office in Kitchener, Ontario. However, he has become convinced that he would havequicker advancement if he transferred to their office in New York City. He requests thistransfer and moves to that location in September, 2018. Before leaving he cancels his apartment lease, sells all of the personal property that he does not wish to move, and cancels hisOntario driver's licence. However, he retains his Canadian banking and brokerage accountsand, because of concerns about the cost of U.S. health care, he does not cancel his Ontariohealth care card (he changes the address to that of his parents in Waterloo, Ontario). He hasalso left his dog, Bart with his parents.After the move, he is shocked to realize how much he misses Bart. He finds himself flying backto Kitchener at least twice a month to spend the weekend caring for Bart. By February, 2020,after not being able to find a suitable dog-friendly apartment in New York City, John returns tohis position in Kitchener. He has no plans to return to the U.S. Would John be considered aCanadian resident during the 18 months that he was absent from Canada? Explain yourconclusion.**TIF Problem One - 4***Introduction - Exam Exercises****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **17****Exam Exercise One - 12 (Part Year Residence)**Melissa is a Canadian citizen who has been employed in Vancouver for the last five years. Shehas accepted a new position in the United States and, as of March 15 of the current year, fliesto New Mexico to assume her responsibilities. She has been granted a green card to enableher to work in the U.S. Her husband remains behind with the children until July 1, after theend of their school year. On that date, they fly to New Mexico to join Melissa. Their residenceis sold on August 1 of the current year, at which time a moving company picks up their furniture and other personal possessions. The moving company delivers these possessions to theirnew house in New Mexico on August 15. Explain how Melissa will be taxed in Canada duringthe current year.**Exam Exercise One - 13 (Part Year Residence)**Barton Vader is a Canadian citizen who has always lived in London, Ontario. He has a spouseand two school-aged children. As of May 2018, he accepts a new employment position inAkron, Ohio. On October 1, 2018, he moves to Akron to locate housing for his family. Inorder for his children to finish the school term, his family remains in London until January 1,2019. When they move, John severs all residential ties with Canada other than the family residence. The residence is placed on the market in January, 2019. However, it has not been soldas of December 31, 2019.While Barton was scheduled to begin working in the U.S. in early 2019, he is unable to obtainthe required residency documents until July 1, 2019.Explain Barton's Canadian tax status for the years 2018 and 2019.**Exam Exercise One - 14 (Individual Residency)**Mary Sothor is the Canadian ambassador to Tanzania. She was a resident of Canada immediately prior to her appointment as ambassador. Living with her in Tanzania’s capital city are herhusband and two children. Her husband was born in Canada and was a Canadian resident atthe time of their marriage. He is exempt from Tanzanian taxation because he is the spouse of aforeign diplomat. Her 25 year old son was born in Canada and works for a Tanzaniancompany. His income exceeds $30,000 annually. Her 16 year old son was born in Kenya andis a full time student with no income of his own. Which of these individuals would be considered Canadian residents for tax purposes? Explain your conclusions.**Exam Exercise One - 15 (Individual Residency)**Ms. Sharon Washton was born 26 years ago in Bahn, Germany. She is the daughter of a Canadian High Commissioner serving in that country. Her father still holds this position. However,Ms. Washton is now working in Prague, Czechoslovakia. The only income that she earns in theyear is from her Prague marketing job and is subject to taxes in Czechoslovakia. She has nevervisited Canada. Determine the residency status of Sharon Washton.**Exam Exercise One - 16 (Corporate Residency)**Nixon Inc. was incorporated as an Ontario corporation in 2010. However, since 2013, all ofthe Company’s business has been carried on outside of Canada. Determine the residencystatus of Nixon Inc.**Exam Exercise One - 17 (Corporate Residency)**Wolfhowl Ltd. was incorporated in Banff, Alberta in 1961. Despite its Canadian charter, theCompany has never carried on business in Canada. However, until 1971, all meetings of theBoard of Directors were held in Banff. Since 1971, all board of directors meetings have beenheld in Wyoming. Determine the residency status of Wolfhowl Ltd.**TIF Problem One - 4***Introduction - Exam Exercises****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **18****Exam Exercise One - 18 (Corporate Residency)**Acton Enterprises was incorporated in Montana in 1964. Until 2014, all of the company'sdirectors were residents of Bozeman, Montana, with all meetings held in that city. However,in 2014, all of the directors moved to Calgary, Alberta, with all subsequent meetings held inthat city. Determine the residency status of Acton Enterprises for the taxation year endingDecember 31, 2018.**Exam Exercise One - 19 (Net Income For Tax Purposes)**Ms. Sonia Nexus is a computer specialist with net employment income of $66,000. Duringthe current year she has:a taxable capital gain on the sale of land of $13,500,an allowable capital loss on the sale of shares of $24,000,interest income of $10,250,net rental losses of $6,750, anda loss from her unincorporated business of $28,000.In addition, she makes spousal support payments of $14,000 and makes a deductible contribution to her RRSP of $3,000 (these are Subdivision e deductions). Determine her minimumNet Income For Tax Purposes for the current year and indicate the amount and type of any losscarry overs that are available at the end of the year. Show all of your calculations.**Exam Exercise One - 20 (Net Income For Tax Purposes)**Harvey Nicastro has current year net employment income of $45,000. In addition, he has thefollowing additional sources of income, gains, and losses:A loss from an unincorporated business of $23,000.Interest income of $4,500.A taxable capital gain of $13,500.An allowable capital loss of $18,200.Spousal support paid of $24,000.A net rental loss of $14,500.Determine Harvey's minimum Net Income For Tax Purposes for the current year and indicatethe amount and type of any loss carry overs that are available at the end of the year. Show all ofyour calculations.**Exam Exercise One - 21 (Tax Planning)**Mr. Jack Bronson makes a $5,000 contribution to his Registered Retirement Savings Plan.What type of tax planning is involved in this transaction? Explain your conclusion.**Exam Exercise One - 22 (Tax Planning)**Ms. Sarah Bloom convinces her employer to provide her with a private drug plan in lieu ofadditional salary. What type of tax planning is involved in this transaction? Explain yourconclusion.**Exam Exercise One - 23 (Tax Planning)**Mr. John Lenonovitz is an unemployed poet. As Mr. Lenonovitz has no known sources ofincome, his wife Natasha, a successful painter, has decided to make contributions to an RRSPin his name, rather than making contributions to her own plan. What type of tax planning isinvolved in this decision? Explain your conclusion.**TIF Problem One - 4***Introduction - Exam Exercises****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **19****Exam Exercise One - 24 (Tax Planning)**Ms. Tricia Jones makes contributions to a Registered Pension Plan sponsored by her employer.What type of tax planning is involved in this transaction? Explain your conclusion.**Exam Exercise One - 25 (Tax Planning)**Mrs. Janice Theil gives $50,000 in Canada Savings Bonds to her 27 year old, unemployeddaughter. What type of tax planning is involved in this transaction? Explain your conclusion.**Exam Exercise One - 26 (Tax Planning)**Mr. Norman Rock transfers some dividend paying shares to his 25 year son who is attendinguniversity on a full time basis. What type of tax planning is involved in this transaction?Explain your conclusion.**TIF Problem One - 4***Introduction - Exam Exercises****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **20****TIF PROBLEM ONE - 5AIntroduction - Key Term Matching (Easy)Note to Instructor** There are two versions of this matching problem. The list of keyterms is the same in both versions, but the potential definitions given are different.Version A is easy, there is only one possible answer for each term.Version B is more difficult in that there are additional possible answers that aresimilar to the correct answers.The following eight key terms are listed at the end of Chapter 1, “Introduction To Federal Taxation In Canada”:A. Fiscal PeriodB. Flat Tax SystemC. Part Year ResidentD. Net Income For Tax PurposesE. PersonF. Regressive Tax SystemG. SojournerH. Dual ResidentThe following list contains ten potential definitions for the preceding key terms.1. A taxation year that does not exceed 53 weeks.2. A tax system that applies higher effective rates for individuals with lower incomes andlower effective rates for individuals with higher incomes.3. The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.4. A CRA publication providing their interpretation of various technical issues related to income taxes.5. A term used in the *Income Tax Act* to refer to taxable entities.6. An individual who is deemed under ITA 250 to be a Canadian resident for the full taxationyear as the result of having been temporarily present in Canada for 183 days or more.7. A taxpayer who is considered to be a resident of two countries.8. A tax on income that is applied at the same rate to all taxpayers, without regard to the levelof their income.9. An individual who either enters Canada during the year and becomes a resident or, alternatively, an individual who departs from Canada during the year and gives up theirResident status.10. A tax system that applies higher effective rates for individuals with higher incomes andlower effective rates for individuals with lower incomes.11. None of the above definitions apply. (This answer can be used more than once.)**TIF Problem One - 5A***Introduction - Key Term Matching (Easy)****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **21****Required:** For each of the eight key terms listed (A through H), indicate the number of theitem (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that noneof the definitions apply (11). Explanations are not required.Indicate only one number for each key term. No marks will be awarded if you indicate morethan one number for any key term.**TIF Problem One - 5A***Introduction - Key Term Matching (Easy)****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **22****TIF PROBLEM ONE - 5BIntroduction - Key Term Matching (Moderate)Note to Instructor** There are two versions of this matching problem. The list of keyterms is the same in both versions, but the potential definitions given are different.Version A is easy, there is only one possible answer for each term.Version B is more difficult in that there are additional possible answers that aresimilar to the correct answers.The following eight key terms are listed at the end of Chapter 1, “Introduction To Federal Taxation In Canada”:A. Fiscal PeriodB. Flat Tax SystemC. Part Year ResidentD. Net Income For Tax PurposesE. PersonF. Regressive Tax SystemG. SojournerH. Dual ResidentThe following list contains 14 potential definitions for the preceding key terms.1. A taxation year that does not exceed 53 weeks.2. An individual who has a residence in more than one country.3. A tax system that applies higher effective rates for individuals with lower incomes andlower effective rates for individuals with higher incomes.4. The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.5. A CRA publication providing their interpretation of various technical issues related to income taxes.6. A term used in the *Income Tax Act* to refer to taxable entities.7. The total of all positive sources of income, including employment income, business andproperty income, net taxable capital gains, and other sources of income.8. An individual who is deemed under ITA 250 to be a Canadian Resident for the full taxationyear as the result of having been temporarily present in Canada for 183 days or more.9. A taxpayer who is considered to be a resident of two countries.10. A tax on income that is applied at the same rate to all taxpayers, without regard to the levelof their income.11. An individual human being.12. A taxation year that is longer or shorter than 52 weeks.**TIF Problem One - 5B***Introduction - Key Term Matching (Moderate)****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **23**13. An individual who either enters Canada during the year and becomes a resident or, alternatively, an individual who departs from Canada during the year and gives up theirResident status.14. A tax system that applies higher effective rates for individuals with higher incomes andlower effective rates for individuals with lower incomes.15. None of the above definitions apply. (This answer can be used more than once.)**Required:** For each of the eight key terms listed (A through H), indicate the number of theitem (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that noneof the definitions apply (15). Explanations are not required.Indicate only one number for each key term. No marks will be awarded if you indicate morethan one number for any key term.**TIF Problem One - 5B***Introduction - Key Term Matching (Moderate)****Test Item File Problems*** *for Canadian Tax Principles 2018 - 2019* **24****TIF PROBLEM ONE - 6Application Of Qualitative Characteristics**Since it came into power in 2015, the Liberal government has made a number of changes inthe Canadian tax system. A brief description of five of these changes follows.**Increase In Maximum Tax Rate** For many years the maximum federal tax rate forindividuals has been 29 percent. For 2016 and subsequent years, this maximum hasbeen increased to 33 percent. This has resulted in a situation where the maximumcombined federal/provincial rate on individuals is over 50 percent in most provinces.It reaches as high as 54 percent in one province.**Repeal Of The Family Tax Cut** This provision provided a tax reduction based on alimited amount of income splitting. Specifically, a separate calculation of Tax Payablewas based on the assumption that up to $50,000 of Taxable Income was transferredfrom a higher income spouse to a lower income spouse. It was only available tocouples with a child under the age of 18. It was repealed for 2016 and subsequentyears.**Reduction To Tax Free Savings Account (TFSA) Contributions Limit** The TFSAprovision allows non-deductible contributions to be made to a registered accountwhere earnings accumulate on a tax free basis. Withdrawals from these accounts arenot taxed. For 2016 and subsequent years, the maximum annual contribution hasbeen reduced from $10,000 to $5,500.**Small Business Tax Rate** For many years, the federal tax rate on active businessincome earned by Canadian Controlled Private Corporations was 11 percent, 4percentage points less than the rate applicable to most other corporate income. In2015, the Conservative government announced that the rate would gradually bereduced to 9 percent by 2019. The new Liberal government accepted the scheduledrate reduction to 10.5 percent for 2016, but cancelled any further reduction in therate.**Early Child Educator School Supply Tax Credit** The new Liberal government hasintroduced a new tax credit equal to 15 percent of eligible expenditures for supplies(e.g., paper, glue, paint for art projects, etc.). The maximum base for the credit will be$1,000 of eligible supplies in each year. To qualify, the taxpayer must have a certificate or diploma in early childhood education.**Required:** Analyze each of the described changes using two of the qualitative characteristics of tax systems that are listed in your text. For your convenience, the list of qualitativecharacteristics presented in the text is as follows:equity or fairnessneutralityadequacyelasticityflexibilitysimplicity and ease of compliancecertaintybalance between sectorsinternational competitiveness