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.

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 - 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 for individuals 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?

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 worldwide 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 - 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

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.

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.

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

Residence

Residence Of Individuals

28. 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.

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

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 2019, 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, 2019 to August 31, 2019. 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 2018, she accepted a minimum two-year contract with CS Services Inc. in London, England. Her position with CS Services Inc. started October 1, 2018. 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 2018, its manufacturing plant was located in Mississauga, Ontario. In May 2018, 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, 2017 to February 1, 2020.

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.

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:

Employment income	$35,000
Interest income	5,000
Taxable dividend income	7,000
Taxable capital gain	5,000
Allowable capital loss	12,000
Subdivision e deductions	2,000

What is Minjie's Net Income for Tax Purposes?

A. $47,000
B. $40,000
C. $45,000
D. $49,000

46. Tanya Turek has the following sources of income and deductions:

Gross employment income	$35,000
Net employment income	34,000
Business loss	14,000
Taxable capital gain	4,000
Allowable capital loss	2,000

What is Tanya's Net Income for Tax Purposes?

A. $23,000
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

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 - 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
13	Part Year Residence
14	Individual Residence
15	Individual Residence
16	Corporate Residency
17	Corporate Residency
18	Corporate Residency
19	Net Income For Tax Purposes
20	Net Income For Tax Purposes
21	Tax Planning
22	Tax Planning
23	Tax Planning
24	Tax Planning
25	Tax Planning
26	Tax Planning

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 15 percent, while the corresponding provincial rate is 8.2 percent. Determine Ms. Smith's combined federal and provincial tax payable, before consideration of any available credits against 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 15 percent and the corresponding provincial rate is 10 percent. Determine Ms. Ho's combined federal and provincial Tax Payable, before consideration of any available credits against Tax Payable.

Exam Exercise One - 5 (Regressive Taxes)

Samantha Taylor has Taxable Income for the current year of $625,000, of which $216,000 is spent on goods and services that are subject to Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister, Martha Taylor, is a part-time student living in the same province and has Taxable 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 modest life style, only $162,000 of this amount is spent on goods and services that are subject to the Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister is currently attending university on 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.

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 resident of 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 a cottage on Manitoba's Lake Winnipeg. In recent years, however, he has made little use of this property and, given this, he has sold the property. While there was a gain of $50,000 on the sale, 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 a pig farm, he was unable to sell his residence at a satisfactory price. However, he was able to rent it for a period of two years. He also retained his membership in the CPA (Chartered Professional 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 to transfer to the corporation's U.S. head office in New York City. Before leaving, she disposed of her residence and other personal property that she did not wish to move. She canceled her Saskatchewan driver's licence and health care card, and closed all of her Canadian banking and brokerage accounts.

Because her boyfriend remained in Regina, she found herself flying back to Canada at least once a month. After two years, she concluded that between the high cost of living in New York City and the travel required to maintain the relationship with her boyfriend, she would return to Canada. Would Mary be considered a Canadian resident during the two years that she was absent 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 in their office in Kitchener, Ontario. However, he has become convinced that he would have quicker advancement if he transferred to their office in New York City. He requests this transfer and moves to that location in September, 2019. Before leaving he cancels his apartment lease, sells all of the personal property that he does not wish to move, and cancels his Ontario driver's licence. However, he retains his Canadian banking and brokerage accounts and, because of concerns about the cost of U.S. health care, he does not cancel his Ontario health care card (he changes the address to that of his parents in Waterloo, Ontario). He has also left his dog, Bart with his parents.

After the move, he is shocked to realize how much he misses Bart. He finds himself flying back to Kitchener at least twice a month to spend the weekend caring for Bart. By February, 2021, after not being able to find a suitable dog-friendly apartment in New York City, John returns to his position in Kitchener. He has no plans to return to the U.S. Would John be considered a Canadian resident during the 18 months that he was absent from Canada? Explain your conclusion.

Exam Exercise One - 12 (Part Year Residence)
Melissa is a Canadian citizen who has been employed in Vancouver for the last five years. She has accepted a new position in the United States and, as of March 15 of the current year, flies to New Mexico to assume her responsibilities. She has been granted a green card to enable her to work in the U.S. Her husband remains behind with the children until July 1, after the end of their school year. On that date, they fly to New Mexico to join Melissa. Their residence is 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 their new house in New Mexico on August 15. Explain how Melissa will be taxed in Canada during the 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 spouse and two school-aged children. As of May 2019, he accepts a new employment position in Akron, Ohio. On October 1, 2019, he moves to Akron to locate housing for his family. In order for his children to finish the school term, his family remains in London until January 1, 2020. When they move, John severs all residential ties with Canada other than the family residence. The residence is placed on the market in January, 2020. However, it has not been sold as of December 31, 2020.

While Barton was scheduled to begin working in the U.S. in early 2020, he is unable to obtain the required residency documents until July 1, 2020.

Explain Barton's Canadian tax status for the years 2019 and 2020.

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 her husband and two children. Her husband was born in Canada and was a Canadian resident at the time of their marriage. He is exempt from Tanzanian taxation because he is the spouse of a foreign diplomat. Her 25 year old son was born in Canada and works for a Tanzanian company. His income exceeds $30,000 annually. Her 16 year old son was born in Kenya and is 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 the year is from her Prague marketing job and is subject to taxes in Czechoslovakia. She has never visited Canada. Determine the residency status of Sharon Washton.

Exam Exercise One - 16 (Corporate Residency)

Nixon Inc. was incorporated as an Ontario corporation in 2011. However, since 2014, all of the Company's business has been carried on outside of Canada. Determine the residency status of Nixon Inc.

Exam Exercise One - 17 (Corporate Residency)

Wolfhowl Ltd. was incorporated in Banff, Alberta in 1961. Despite its Canadian charter, the Company has never carried on business in Canada. However, until 1971, all meetings of the Board of Directors were held in Banff. Since 1971, all board of directors meetings have been held in Wyoming. Determine the residency status of Wolfhowl Ltd.

Exam Exercise One - 18 (Corporate Residency)

Acton Enterprises was incorporated in Montana in 1964. Until 2015, all of the company's directors were residents of Bozeman, Montana, with all meetings held in that city. However, in 2015, all of the directors moved to Calgary, Alberta, with all subsequent meetings held in that city. Determine the residency status of Acton Enterprises for the taxation year ending December 31, 2019.

Exam Exercise One - 19 (Net Income For Tax Purposes)

Ms. Sonia Nexus is a computer specialist with net employment income of $66,000. During the 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, and
- a 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 minimum Net Income For Tax Purposes for the current year and indicate the amount and type of any loss carry 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 the following 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 indicate the amount and type of any loss carry overs that are available at the end of the year. Show all of your 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 of additional salary. What type of tax planning is involved in this transaction? Explain your conclusion.

Exam Exercise One - 23 (Tax Planning)

Mr. John Lenonovitz is an unemployed poet. As Mr. Lenonovitz has no known sources of income, his wife Natasha, a successful painter, has decided to make contributions to an RRSP in his name, rather than making contributions to her own plan. What type of tax planning is involved in this decision? Explain your conclusion.

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, unemployed daughter. 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 attending university on a full time basis. What type of tax planning is involved in this transaction? Explain your conclusion.

TIF PROBLEM ONE - 5A
Introduction - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms 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 are similar 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 Period
B. Flat Tax System
C. Part Year Resident
D. Net Income For Tax Purposes
E. Person
F. Regressive Tax System
G. Sojourner
H. Dual Resident

The 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 and lower 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 taxation year 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 level of 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 their Resident status.

10. A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.

11. 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 the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM ONE - 5B
Introduction - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms 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 are similar 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 Period
B. Flat Tax System
C. Part Year Resident
D. Net Income For Tax Purposes
E. Person
F. Regressive Tax System
G. Sojourner
H. Dual Resident

The 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 and lower 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 and property 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 taxation year 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 level of their income.

11. An individual human being.

12. A taxation year that is longer or shorter than 52 weeks.

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 their Resident status.

14. A tax system that applies higher effective rates for individuals with higher incomes and lower 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 the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

Indicate only one number for each key term. No marks will be awarded if you indicate more than one number for any key term.

TIF PROBLEM ONE - 6
Qualitative Characteristics

Since it came into power in 2015, the Liberal government has made a number of changes in the 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 for individuals has been 29 percent. For 2016 and subsequent years, this maximum has been increased to 33 percent. This has resulted in a situation where the maximum combined 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 a limited amount of income splitting. Specifically, a separate calculation of Tax Payable was based on the assumption that up to $50,000 of Taxable Income was transferred from a higher income spouse to a lower income spouse. It was only available to couples with a child under the age of 18. It was repealed for 2016 and subsequent years.

Reduction To Tax Free Savings Account (TFSA) Contributions Limit The TFSA provision allows non-deductible contributions to be made to a registered account where earnings accumulate on a tax free basis. Withdrawals from these accounts are not taxed. For 2016 and subsequent years, the maximum annual contribution has been reduced from $10,000 to $5,500.

Small Business Tax Rate For many years, the federal tax rate on active business income earned by Canadian Controlled Private Corporations was 11 percent, 4 percentage points less than the rate applicable to most other corporate income. In 2015, the Conservative government announced that the rate would gradually be reduced to 9 percent. The rate was reduced to 10.5 percent for 2016 but the further planned reductions were cancelled. However, in 2017, the planned reductions were re-instated, with the rate going to 10 percent for 2018 and 9 percent for 2019

Early Child Educator School Supply Tax Credit The new Liberal government has introduced 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 qualitative characteristics presented in the text is as follows:

- equity or fairness
- neutrality
- adequacy
- elasticity
- flexibility
- simplicity and ease of compliance
- certainty
- balance between sectors
- international competitiveness

TIF PROBLEM ONE - 7
Evaluation Of Head Tax

Concerned with her inability to control the deficit, the Minister of Finance has indicated that she is considering the introduction of a head tax. This would be a tax of $200 per year, assessed on every living Canadian resident who, on December 31 of each year, has a head. In order to enforce the tax, all Canadian residents would be required to have a Head Administration Tax identification number (HAT, for short) tattooed in an inconspicuous location on their scalp. A newly formed special division of the RCMP, the Head Enforcement Administration Division (HEAD, for short), would run spot checks throughout the country in order to ensure that everyone has registered and received their HAT.

The Minister is very enthusiastic about the plan, anticipating that it will produce additional revenues of $5 billion per year. It is also expected to spur economic growth through increased sales of Canadian made toques.

As the Minister's senior policy advisor, you have been asked to prepare a memorandum evaluating this proposed new head tax.

Required: Prepare the memorandum.

TIF PROBLEM ONE - 8
Residency After Departure From Canada

Mr. Desmond Morris has spent his entire working life with his current employer, the Alcorn Manufacturing Company. In his first years with the Company, he was located in Winnipeg, Manitoba as a production supervisor. More recently, he was transferred to the Company's Calgary based subsidiary, where he has served as a manufacturing vice president until the current year.

Early in the current year, Mr. Morris was asked to move to the United States by April 1 to oversee the construction of a new manufacturing operation in Sarasota, Florida. It is expected that when the facility is completed, Mr. Morris will remain as the senior vice president in charge of all of the Florida operations. He does not have any intention of returning to live in Canada during the foreseeable future.

On April 1, Mr. Morris left Canada. In preparation for his departure, he had taken care to sell his residence, dispose of most of his personal property, and resign from all memberships in social and professional clubs. However, because Mr. Morris and his wife had three school age dependent children, it was decided that they would remain in Canada until the end of the current school year. As a consequence, Mrs. Morris and the children did not leave Canada until June 30. Until their departure, they resided in a small furnished apartment, rented on a month to month basis.

Required For purposes of assessing Canadian income taxes, determine when Mr. Morris ceased to be a Canadian resident and the portion of his annual income which would be assessed for Canadian taxes. Explain your conclusions.

TIF PROBLEM ONE - 9
Residency Of Individuals - Five Cases

For each of the following persons, indicate how they would be taxed in Canada for the year ending December 31, 2019. Your answer should explain whether the person is a Canadian resident, what parts of their income would be subject to Canadian taxation, and the basis for your conclusions.

Case A John is a citizen of the U.K. who has landed immigrant status in Canada. He has been employed in Canada for over 15 years. In 2018, he won $1.5 million in a lottery. He has decided to use these funds to spend two years touring Europe and Asia. His wife and children will remain at the family home in New Brunswick. He was not present in Canada during any part of 2019.

Case B In 2018, Jane's Canadian employer asked her to spend three years working in their Hong Kong office. Her employment contract requires her to return to Canada in 2021. Jane severs all of her residential ties with Canada and moves to Hong Kong in November, 2018. She is not present in Canada during any part of 2019.

Case C Laura is married to a member of the Canadian armed forces who is serving in Ghana. She is a citizen of Ghana and has never visited Canada. During 2019, because her husband is a member of the Canadian armed forces, she is not subject to taxation in Ghana.

Case D Martha Mendoza is a U.S. citizen who lives in Buffalo, New York. During 2019 she is employed 5 days per week in Fort Erie, Ontario. Her 2019 salary is $52,000. In addition, she has $2,000 (Canadian) of interest on a savings account with a Buffalo bank.

Case E Barry Long is a Canadian citizen who has lived and worked in Canada all of his life. When he is offered a significant increase in salary if he accepts a position in Spain, he accepts this position and on March 1, 2019, he moves to Spain. While he immediately establishes residency in Spain, he is not joined by his wife and children until July 1, 2019. As they are unable to sell their Canadian home at an acceptable price, the property is rented under a long-term residential lease.

TIF PROBLEM ONE - 10
Residency Of Corporations - Four Cases

Indicate which of the corporations described in the following Cases would be considered residents of Canada for the current year. Explain the basis for your conclusion.

Case A Bonix Ltd. was incorporated in Canada in 1981. While it operated in Canada for a number of years, all of its operations, management and directors relocated to the United States in 2008.

Case B Dorad Inc. was incorporated in Ohio in 2003. For several years, all of its directors were residents of Canada, with board meetings being held in Windsor, Ontario. However, in 2008, all of the directors moved to Toledo, Ohio. All Board Of Directors meetings are now held in that city.

Case C Upton Inc. was incorporated in Delaware in 2008. However, the head office of the corporation is in Halifax, Nova Scotia. All of the directors of the corporation are Canadian residents and all meetings of the board of directors are held in Halifax.

Case D Carlin Inc. was incorporated in Canada in 2005. However, its directors have always been residents of the United States, with all of the company's Board Of Directors meetings held in that country.

TIF PROBLEM ONE - 11
Residence - Individuals And Corporations

For each of the following persons, indicate how they would be taxed in Canada for the current year. Your answer should explain whether the person is a Canadian resident, what parts of their income would be subject to Canadian taxation, and the basis for your conclusions.

A. Molly London was born in Salmon Arm, British Columbia. On October 31, after a very serious dispute with her fiancé, she quit her job, left Salmon Arm and moved all her belongings to San Diego, California. She has vowed to never set foot in Canada again.

B. Daryl Bennett is a Canadian citizen living and working in Sault Ste. Marie, Michigan. He has a summer cottage in Sault Ste. Marie, Ontario, where he spent July and August. As his only sister lives in Sault Ste. Marie, Ontario, he spent a total of 27 days during the year staying with her in her home.

C. Tweeks Inc. was incorporated in Vermont in 1980 by two U.S. citizens who were residents of Quebec. All of the directors are residents of Quebec and all meetings of the Board of Directors have been held in Montreal since incorporation.

D. Bordot Industries Ltd. was incorporated in British Columbia on September 29, 1973. However, the directors of the corporation have always lived in Blaine, Washington. All of their meetings have been held at a large waterfront property just south of Blaine.

TIF PROBLEM ONE - 12
Residence - Individuals And Corporations - Six Cases

Pertinent facts are given for a different individual or corporation in each of the Parts of this problem. For each Part, indicate whether or not this individual or corporation would be considered a Canadian resident for income tax purposes during the current year. Briefly explain your conclusion.

Part A Dorothy is married to Jack, who is a member of the Canadian armed forces serving in Indonesia. Other than a brief visit to Jack's parents' home in Halifax, she has never been to Canada in her life. Because Jack is a member of the Canadian armed forces, neither he nor his wife is subject to taxation in Indonesia.

Part B Alice is a U.S. citizen living in Seattle, Washington. While she leaves many of her belongings at her parent's home in that city, she spends at least four days every week living with her boyfriend in Burnaby, British Columbia. They plan to be married at some future date.

Part C Last year, John transferred to the Cayman Islands office at the request of his Canadian employer. His three year employment contract calls for him to return to work in Canada after its completion. On his departure from Canada, he severed all residential ties with Canada.

Part D Millicent is a U.S. citizen who, until last year, had lived and worked in Canada as a landed immigrant for over 20 years. Last year, after winning $2 million in an Ontario lottery, she left Canada on a two year pleasure trip that will take her to virtually every country in the world. Her husband and children, all Canadian citizens, continue to live at the family home in Port Hope, Ontario.

Part E Berkly Management Inc. was incorporated in Alberta in 1963. Until 1986, its only director resided in that province. In that year, the director was replaced by an individual resident in Fresno, California.

Part F Lorris Ltd. was incorporated in Wisconsin in 1983. Until 1992, all of the directors of the corporation lived in Kenora, Ontario. During this period, the Board of Directors meetings were held in that city. Beginning in 1992, all of the directors have been residents of Green Bay, Wisconsin and all of the Board of Directors meetings have been held in Green Bay.

TIF PROBLEM ONE - 13
Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amount of income and deductions of Ms. Leslie Burke for the current taxation year:

> **Case A** Ms. Burke had employment income of $17,000 and net rental income of $8,500. Her unincorporated business lost $12,300 during this period. As the result of dispositions of capital property, she had taxable capital gains of $17,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year totalled $6,300. Fortunately for Ms. Burke, she won $1,000,000 in a lottery on March 3.
>
> **Case B** Ms. Burke had employment income of $42,100, interest income of $8,200, and a loss from her unincorporated business of $51,000. As the result of dispositions of capital property, she had taxable capital gains of $22,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year amounted to $4,200.

Required: For both Cases, calculate Ms. Burke's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

TIF PROBLEM ONE - 14
Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions that are available to Carl Suzak, a Canadian resident, for the current year.

Case A Carl had employment income of $126,100, as well as income from an unincorporated business of $14,100. A rental property owned by Carl experienced a net loss of $4,600. Dispositions of capital property during the current year had the following results:

Capital Gains	$56,400
Capital Losses	72,300

In compliance with the terms of his divorce agreement, Carl paid deductible spousal support of $600 per month for the entire year. In addition to the preceding items, Carl had a winning lottery ticket which resulted in his receiving a prize of $562,000.

Case B Carl had employment income of $89,000, interest income of $3,100, and net rental income of $8,600. Carl also operated an unincorporated business. Unfortunately, during the current year, it experienced a net loss of $187,400. Dispositions of capital property during the current year had the following results:

Capital Gains	$46,200
Capital Losses	26,300

Also during the current year, Carl made deductible contributions of $8,600 to his RRSP.

Required: For each Case, calculate Carl's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year.

TIF PROBLEM ONE - 15
Net Income For Tax Purposes

The following two Cases make different assumptions with respect to the amounts of income and deductions of Miss Nora Bain for the current taxation year:

	Case A	Case B
Employment Income	$34,000	$18,500
Income (Loss) From Business	(36,000)	(28,200)
Income From Property	21,000	12,000
Taxable Capital Gains	42,000	9,000
Allowable Capital Losses	(57,000)	(12,000)
Subdivision e Deductions (Spousal Support)	(5,500)	(10,500)

Required For both Cases, calculate Miss Bain's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.

TIF PROBLEM ONE - 16
Net Income For Tax Purposes

The following four Cases make different assumptions with respect to the amounts of income and deductions of Kirsten for the current year:

	Case A	Case B	Case C	Case D
Employment Income	$75,660	$107,380	$60,710	$43,420
Income (Loss) From Business	(15,990)	(10,920)	(80,990)	(60,060)
Rental Income (Loss)	7,020	15,860	3,380	(23,790)
Taxable Capital Gains	41,080	20,280	15,080	30,030
Allowable Capital Losses	(16,120)	(30,420)	(13,910)	(32,110)
Subdivision e Deductions	(5,330)	(7,020)	(15,080)	(7,280)

Required For each Case, calculate Kirsten's Net Income For Tax Purposes (Division B income). Indicate the amount and type of any loss carry overs that would be available at the end of the current year, or state that no carry overs are available.