École de gestion
TELFER
School of Management

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Mid-Term Exam #1 (2 hours)

ADM 3345 – Tax I
October 9, 2010

Student Name:: [redacted]

Student I.D.: [redacted]

Question #1	13.5 /17
Question # 2	13 /20
Question # 3	7 /8
Total:	33.5 /45 74/100

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Statement to be signed by the student:
I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed: [redacted]

Note: an examination copy or booklet without that signed statement will not be graded and will receive a final exam grade of zero.

Question #1: Employment Income (17 Marks)

Ms. Dombek is a sales representative located in downtown Toronto for a large corporation listed on a Canadian stock exchange. Her gross salary for the year ending December 31, 2010 is $35,000. In addition, she earned commissions of $163,500, of which $150,000 was paid before January 1, 2011. For the 2010 taxation year, Ms. Dombek's employer withheld the following amounts from her income:

Federal & Provincial Income Taxes	$79,400	CPP Premiums	$2,163
Registered Pension Plan Contributions	5,500	EI Premiums	747

Ms. Dombek's employer made a $5,500 matching contribution to her registered pension.

Other Information:

1. Since the time she was hired, Ms. Dombek had either walked or used taxis to meet her clients in downtown Toronto. The company reimbursed her the cost of using taxis. Lately, however, Ms. Dombek's sales territory has been expanding and the use of taxis was no longer economical or efficient. As a result, the company provided Ms. Dombek with a new company-owned vehicle. They acquired a BMW at a cost of $65,000 for Ms. Dombek's business use. The car has been available to her since July 1, 2010, and she has driven it a total of 118,000 kilometers. Of this total, 3,900 kilometers were for personal use. Ms. Dombek reimbursed her employer $1,500 for her personal use of the automobile.

2. On April 1, 2010, Ms. Dombek received a $150,000 loan from her employer. The loan requires annual interest payments at a rate of 2% but Ms. Dombek won't pay the interest for 2010 until January 30, 2011. The prescribed rates for 2010 were as follows:

1st quarter	90 days	4%
2nd quarter	91 days	5%
3rd quarter	92 days	6%
4th quarter	92 days	6%

The anticipated prescribed rate for the first quarter of 2011 (90 days) will be 7%.

3. In 2007, Ms. Dombek was given options to buy 5000 shares of her employer's stock at a price of $20 per share. At the time the options were issued, the shares had a fair market value of $18 per share. On June 1, 2010, when the shares had a fair market value of $30 per share, Ms. Dombek exercised her option and purchased 500 shares.. In July, Ms. Dombek also purchased another 500 shares of her employer's stock at a price of $31 per share through her broker. By December 31, the company's shares had increased in value to $35 per share.

4. During the year, Ms. Dombek traveled extensively on business. Her travel costs included $5,650 for air fares, $4,880 in travel lodging, and $2,500 in meals. Her employer reimbursed her fully for these costs on presentation of the receipts.

5. At the office Christmas party, everyone including Ms. Dombek received a $150 bottle of champagne as a Christmas gift. At the same time, Ms. Dombek was lauded as the company's best sales representative. She received a large trophy valued at $350 as an award for her sales

accomplishments during 2010 along with a cash prize of $2,500.. She also received a $250 watch in recognition of her years of service. In addition, throughout the year she received a $100 picture for her 40th birthday and a $40 turkey for Thanksgiving.

Required:

Calculate Ms. Dombek's minimum net employment income for the year ending December 31, 2010.

Show all your calculations and explain why any amounts were excluded to obtain full marks! Round to the nearest dollar.

	Gross Salary	35,000 (1)
	Commissions (Paid amount)	150,000 (2)
(1)	Car benefit	2,504
(2)	Reduced Rate Loan	4,886
(3)	Options.	5,000
(4)	See note	nil.
(5)	Gifts non-cash	140
	cash	2,500 (1)
	Employment income	$200,030

* The registered pension plan contributions would not be considered in the Employment income calculation.

(1) Calculation of car benefit.

Standby charge: → months availability

$(2\%)(65,000)(8)^{*}\left(\frac{3,900}{(1,667)(6)}\right) = 3,041$ (1) (1) (1) (1)

Operating benefit

(A): $(.24)(3,900) = 936$ (1)

B: $(.5)(3,041) = 1521$ (1)

*The car has been used: $\frac{118,000 - 3,900}{118,000} = 96.6$ of the time and thus, she is eligable for the standby reduction + alternative calculation for the operating benefit.

* It is best to use calculation A for the operating benefit.

Thus, the car benefit: Standby charge: 3,04
Operating benefit: X 96
Less: Contributions (1) (1,50
Car benefit 2,504

(2) Reduced Rate Loan:

1st Quarter $(150,000)(.04-.02)\left(\frac{90}{365}\right) = 740$

2nd Quarter $(150,000)(.05-.02)\left(\frac{91}{365}\right) = 1,122$

3rd Quarter $(150,000)(.06-.02)\left(\frac{92}{365}\right) = 1,51$

4th Quarter $(150,000)(.06-.02)\left(\frac{92}{365}\right) = 151$

Total of Reduced
(1) Rate Loan benefit $4886

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Solution to Question #1:

③ price of options (5,000)(20)
excercise of options (500)(30-20) = $5,000 ①

So, she would have to include $5,000 from the share excercise into net income.

The other amount would not be included in income due to fact that she has not sold the shares.

④ These costs will not be included due to the fact that they were reimbursed by the employer

⑤ ~~Gifts~~ Received non-cash

champagne	150
trophy	350
picture	100
turkey	40.
Total	640
deduct	(500)
~~total Gifts~~ to be included	~~$~~ 140.

1½

* Please note that the watch is not to be included as it is a ~~gift for her years of service~~.

X

Question # 2: Capital Cost Allowance and Cumulative Eligible Capital (20 Marks)

Custom Productions Ltd. (CPL) was incorporated on ~~August 1, 2007 at a cost of $5,500~~ and selected a December 31st year end. The company produced custom pre-manufactured woodwork which their carpenters install in new, high-end homes. On August 1, 2007, CPL purchased a variety of equipment and office furniture for a total $250,000 (Class 8, 20%). All of these assets will be pooled into one class. Business was successful right from the start, and CPL's net income for the 153 days of operation during 2007 was $237,324.

Business was booming and therefore in 2008, CPL purchased a competitor, paying a total of $256,000 of which $90,000 was for goodwill.

In 2010, Custom Productions Ltd. sold the business it had acquired in 2008, and the sale price included $112,200 for the goodwill. On December 31, 2010, CPL also sold the equipment it purchased in 2007 for $82,600. New equipment was arriving on January 3, 2011.

Custom Productions Ltd. has a company policy of taking the maximum deductions permitted under tax law.

Required:

Identify any and all tax consequences CPL will incur on all its assets (tangible and intangible) from the year of purchase to the year of disposition.

Show all your calculations and, if required, round decimal points up to the nearest dollar.

2007. Class 8 → 1/2 year rule (2)

new aquisition (250,000 x .2 x .5) (1) = $ 25,000

∴ The total CCA deduction for 2007 is $ 25,000

20x8 U.C.C. class 8 225,000.

CCA (class 8) - (225,000 x .2) 45,000 (1)

Cumulative Eligable Capital

new aquisition

goodwill (90,000 x 3/4) (1) 67,500

∴ The CCA on the CEC will be (67,500 x .07) (1) 4,725.

∴ The total CCA deduction for 20x8 will be 49,725.

Solution to Question #2:

* Conclusion:

The terminal loss of 61,400 will be deducted from income while the two amounts: 91,20 + 11,100 will be added to income.
1

Solution to Question #2 Continued:

2009.

Class 8 U.C.C. (225,000 - 45,000)	180,000	
CCA on class 8 (180,000 x .2)		36,000 ①
CEC U.C.C. (67,500 - 4,725)	62,775.	
CCA on C.E.C. (62,775 x .07)		4,395
∴ The total CCA taken in 2009 will be: (36,000 + 4,395)		$40,395

2010

Class 8 disposition:
It will be the final item in the account: The cost taken out of class 8 is the lesser of:

Cost of Capital	250,000
proceeds of disposition	82,600

U.C.C. Class 8 (180,000 - 36,000)	144,000
less: proceeds of disposition	82,600 ①
Terminal loss (Class 8) ①	61,400

Cumulative eligable capital: disposal.

U.C.C. (62,775 - 4,395)	58,380
deduct proceeds of disposition (112,200 x .75)	(84,150) ①
Ending balance	(25,770)

Since there is a negative balance, we divide the loss into 2 parts 1st, we will do a recapture of the CCA taken off, which will amount to:

('08 4,725 + '09 4,395) = 9,120 ①

The rest of the sum (25,770 - 9120) $16,650 will be multiplied by (2/3 x 16,650) = $11,100 ①

Turn back now
1pg Please ~~for con~~clusion

Question 3: Residency

For each of the following cases state the taxpayer's 2010 residency status for Canadian tax purposes and, if a change in status occurs, the **date** the change becomes effective.

a) Robin Scherbatsky is a Canadian citizen. She had spent the past 5 years working and living in New York City. She returns to Toronto to become the anchor on CTV News Toronto. She moves back to Canada July 5, 2010 and starts her new job on August 1, 2010.

She would be considered a resident of canada from July 5th and taxed on her worldwide income there in.

1

b) Lt. Pete Mitchell is a member of the Canadian Armed Forces posted in Afghanistan throughout 2010. As he is single with few ties to Canada, he may decide to teach flight school in Europe after his posting. Prior to his posting overseas he was based in Edmonton, Alberta.

2 ✓

Pete Mitchell is still considered a resident (deemed) in 2010.

c) Dunder Miffin Paper Company was incorporated in Canada in 1962. The company operated in Victoria, BC until 1980 when they shut down the facility and relocated to Scranton, Pennsylvania. All operations and management have been in Scranton ever since.

Even though Dunder Mifflin was incorporated before 1965 in Canada, they would still be considered a resident of Canada since, they ran business after 1965 in Canada.

2

d) Wayne Gretzky was named Canadian Ambassador to the United States effective July 1, 2010. Mr. Gretzky has been a non-resident of Canada since leaving for Los Angeles in 1988.

Wayne Gretzky would not be considered a resident of Canada.

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