Module 13 (Odd) – Pink Fall 2012 Name________________________________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Choose the number of the following statements that are correct: 1) ________

1. There is a limit to the number of RRIFs an individual may own

2. A RRIF is similar to an RRSP regarding the fact that the investment earnings within the two vehicles continue to grow tax sheltered, provided assets remain within the plan.

A) None B) One C) Two

2) Choose the number of the following statements that are correct: 2) ________

1. In order to minimize the annual minimum withdrawal from a RRIF, a couple would elect to have the RRIF withdrawal calculation based on the age of the older spouse

2. A spousal RRIF is established with assets transferred from a spousal RRSP or from another spousal RRIF.

A) None B) One C) Two

3) Choose the number of the following statements that are correct: 3) ________

1. Investment earnings within the RRIF continue to grow tax sheltered, provided assets remain within the plan.

2. Contributions can be made into an individual's RRIF up to the end of the year in which the individual reaches age 71.

A) None B) One C) Two

4) Leah, who is trying to gain an understanding of a RRIF in comparison to an RRSP, has comprised the following list of statements. With regard to Leah's list, which of the following statements are true? 4) ________

1. All of an individual's RRSPs must flow into one single RRIF.
2. A RRIF is typically considered a vehicle for retirement accumulation, similar to an RRSP.
3. The choices of investment options for an RRSP and RRIF are generally quite similar.
4. Investment earnings within an RRSP and a RRIF both grow tax sheltered.

A) 2 and 3 only. B) 3 and 4 only. C) 1 and 4 only. D) 1 and 2 only.

5) Gina has non–registered funds and wishes to purchase a prescribed annuity. Which of the following statements regarding a prescribed annuity is not correct? 5) ________

A) Payments must be level, so no inflation indexing may apply.
B) The owner of the annuity and the annuitant must be the same person.
C) Gina’s after–tax income will fluctuate.
D) She will pay lower tax in early years and higher tax in later years than if the annuity was non–prescribed.

6) When Bob established his RRIF in the fall of 2000, he named his spouse, Erin, as the successor annuitant. If Bob died in July 2006, how is income tax handled on Bob's RRIF assets? 6) ________

A) Bob's estate will pay tax on the total amount of payments made out of the RRIF during 2006.

B) Bob's estate will pay tax on the market value of the assets at the time of Bob's death.

C) Provided the payment amount is based on only the minimum annual amount, no income tax is payable.

D) The RRIF payments will continue to Erin after Bob's death, and Erin will become responsible for tax on amounts paid to her.

7) A life annuity can be purchased from a: 7) ________
1. life insurance company.
2. bank.
3. trust company.
4. mutual fund dealer.
5. securities dealer.

A) 2 and 3 only. B) 1, 4 and 5 only. C) 1 only. D) 1, 2 and 3 only.

8) Choose the number of the following statements that are correct: 8) ________

1. A prescribed annuity possesses enhanced after–tax income in the early payout years when compared to non–prescribed annuities or other fixed income investments such as GICs and bonds.

2. A prescribed annuity possesses enhanced after–tax income in the later payout years when compared to non–prescribed annuities or other fixed income investments such as GICs and bonds

A) None B) One C) Two

9) Choose the number of the following statements that are correct: 9) ________

1. If the annuitant's spouse/common–law partner is named as a successor annuitant of the RRIF plan, the RRIF payments continue to be made to the surviving spouse/common–law partner and the annuitant's estate is responsible for the tax

2. IF the surviving spouse of a RRIF annuitant personally received the RRIF funds as a designated benefit, the surviving spouse can transfer the funds into an eligible registered plan either that same year or within 60 days after the end of that year.

A) None B) One C) Two

10) With regard to an LRIF, which of the following statements is/are true? 10) _______

1. Maximum payment calculations for an LRIF differ from the formula used for a LIF.

2. Minimum LRIF payments are not subject to taxation.

3. An LRIF is subject to the same rules as a RRIF regarding a designated benefit.

4. The minimum required payment in the first calendar year of an LRIF is zero.

A) 1 and 3 only B) 2 and 4 only C) 1 only D) 1, 3 and 4 only

11) Choose the number of the following statements that are correct: 11) _______

1. Only the investment income portion of payments from a registered annuity is fully taxable to the recipient in the year that the payment is received

2. Payments from a registered annuity are fully taxable to the recipient in the year that the payment is received.

A) None B) One C) Two

12) With regard to a RRIF, which of the following statements are true? 12) _______

1. An annuitant can accumulate additional capital by making new regular, tax-deductible contributions.
2. An annuitant can accumulate additional capital through investment earnings.
3. In a low-return environment, withdrawals from a RRIF could erode the capital base of a RRIF.
4. RRIFs typically provide the annuitant with a guaranteed level of income throughout his lifetime.

A) 2 and 3 only. B) 3 and 4 only. C) 1 and 4 only. D) 1 and 2 only.

13) Choose the number of the following statements that are correct: 13) _______

1. The attribution tax rules on a spousal RRIF does not apply if the contributing spouse or annuitant is non-resident at the time of the withdrawal.

2. All income withdrawn from a spousal RRIF is subject to the attribution rules if the owner is less than age 71

A) None B) One C) Two

14) With regard to the amount of income that can be withdrawn from a RRIF, which one of the following statements is true? 14) _______

A) CRA sets a prescribed maximum amount of income that can be withdrawn from a RRIF on an annual basis, beginning in the year that the plan is established.

B) CRA sets a prescribed minimum amount of income that must be withdrawn from a RRIF on an annual basis, beginning in the year after it is established.

C) Only RRIFs termed as non-qualifying RRIFs are subject to a prescribed schedule of withdrawals.

D) An individual has complete discretion as to the amount and timing of withdrawals from his RRIF

15) When non-registered funds are used to purchase an annuity, which of the following statements are true? 15) _______

1. A portion of each payment is a return of the owner's capital.
2. The purchase price is commonly referred to as tax-paid capital.
3. Payments incorporate both an interest component and a capital component.
4. Provided the plan meets prescribed requirements, the annuitant can elect special tax treatment that shifts the tax burden to a level amount.

A) 1 and 3 only. B) 1, 2 and 3 only. C) 2 and 4 only. D) 1, 2, 3 and 4.

16) Which of the following statements about annuities are correct? 16) _______

1. Annuity payments from the financial institution incorporate both an interest and a principal component.
2. Only life insurance companies and banks are allowed to sell life annuities.
3. Important determinations of the amount of annuity income include interest rate assumptions, number of years that the financial institution promises to make payments and amount of money deposited.
4. Once the capital has been used to purchase an annuity, it is generally no longer available to the annuitant.

A) 1, 2, 3 and 4. B) 1, 3 and 4 only. C) 1 and 3 only. D) 2 and 4 only.

17) Choose the number of the following statements that are correct: 17) _______

1. Generally in order to use a reverse mortgages a person must be retired and at least age 65 years of age

2. A qualified homeowner can access a maximum of seventy five percent of the home's appraised value

A) None B) One C) Two

18) Choose the number of the following statements that are correct: 18) _______

1. A non–qualifying RRIF is one that must have been established on or after January 1, 1993.

2. When a RRIF is first established, the annuitant has the option of electing to have the annual minimum withdrawal calculation based on either his age or the age of his spouse.

A) None B) One C) Two

19) With regard to minimum withdrawal calculations from a RRIF, which of the following statements is/are correct? 19) _______

1. A qualifying RRIF is one that was purchased before January 1, 1993, and that has retained this status.
2. The minimum payment calculation for a qualifying RRIF changes when the annuitant is age 71.
3. The minimum payment calculation for a non–qualifying RRIF changes when the annuitant is age 79.
4. A qualifying RRIF has a lower minimum calculation for annual payments for ages 71 through age 77 than a non–qualifying RRIF.

A) 1, 2, 3 and 4. B) 1 and 4 only. C) 1 only. D) 2 and 3 only.

20) John was the annuitant of a spousal RRSP to which her common–law partner, Amanda, made the following contributions: 20) _______
$4,000 on January 15, 2006
$5,000 on January 15, 2005

If John converts the spousal RRSP to an RRIF in the fall of 2006, and proceeds to withdraw $5,000 in 2006, what is the income tax consequence?

A) The full $5,000 is taxable to John.

B) The full $5,000 is taxable to Amanda.

C) There is no income tax payable in the year that the RRIF is established.

D) $4,000 is taxable to Amanda while $1,000 is taxable to Hannah.

21) John is thinking about the purchase of a prescribed annuity to supplement his retirement income. In which the following situations would John negate his ability to purchase a prescribed annuity? 21) _______
1. If he decides to use the funds in his self–directed RRSP to make a direct purchase.
2. If he insists that the annuity incorporate a 2% annual increase as protection against inflation.
3. If he decides to have his company purchase the annuity and become the owner while he becomes the annuitant.
4. If he insists on a guarantee period that extends to his age 80.
5. If he wants to establish the annuity as a joint and last survivor annuity with his spouse.
6. If John wants to make himself the owner and his financially dependent brother the annuitant.

A) 2, 3 and 5 only. B) 4, 5 and 6 only.

C) 1, 2, 3 and 6 only. D) 1, 4 and 6 only.

22) Choose the number of the following statements that are correct: 22) _______

1. The Income Tax Act allows that in a reverse mortgage situation, the expense is tax-deductible and the investment earnings represent income subject to applicable taxes

2. With a reverse annuity mortgage, the term of the annuity that is purchased is equal to the length of the mortgage

A) None B) One C) Two

23) What are the income tax consequences associated with a reverse mortgage? 23) _______

A) Interest expense is not deductible and annuity income is taxable.

B) Interest expense is not deductible and annuity income is not taxable.

C) Interest expense is deductible and annuity income is taxable.

D) Interest expense is deductible and annuity income is not taxable.

24) Which of the following are features of the special tax regime for a registered compensation arrangement (RCA)? 24) _______

1. The RCA is eligible for tax-preferred treatment as it relates to dividends but not capital gains.
2. All contributions into an RCA are taxable.
3. Taxes paid by the RCA are refundable when distributions are made from the RCA to beneficiaries.
4. The RCA tax rate mirrors that of corporations.

A) 1 and 4 only. B) 2 and 4 only. C) 2 and 3 only. D) 1 and 3 only.

25) Using the prescribed method of taxation for an annuity, rather than regular taxation, allows the annuitant to: 25) _______

A) pay taxes based on a step-rate that is adjusted at each amortization point.

B) increase total taxes in early years that is offset by lower taxes in later years.

C) decrease total taxes in early years which is offset by higher taxes in later years.

D) elect a tax schedule designed by the provider of the annuity.

26) With regard to a LIF, which of the following statements is/are true? 26) _______

1. A LIF is subject to the exact same income tax rules as a RRSP.
2. A LIF is subject to pension benefits regulations in its respective jurisdiction.
3. A LIF includes a maximum annual withdrawal limit.
4. A LIF has similar investment rules to those of a RRIF.

A) 1 and 4 only. B) 3 only. C) 2, 3 and 4 only. D) 2 only.

27) Seventy–two–year–old Andrew is married to Emily, who turned age 66 on July 1, 2006. Andrew has substantial earned income so has continued to make contributions into a spousal RRSP. Andrew's most recent contributions into the spousal RRSP are: $13,500 in December 2006, $13,500 in December 2005, and $13,500 in December 2004. 27) _______

If Emily transfers her spousal RRSP assets to a spousal RRIF on January 1, 2007, which of the following statements regarding attribution is correct?

A) Withdrawals from Emily's spousal RRIF are not subject to attribution because Andrew is over age 71.

B) All attribution can be avoided if Emily keeps the withdrawals to an amount less than $13,500 for each of 2006 through 2008 inclusive.

C) All income withdrawn from Emily's spousal RRIF is subject to the attribution rules because she is less than age 71.

D) All attribution can be avoided if Emily withdraws nothing in 2007 and only the minimum amount in 2008 and 2009.

28) Which of the following plans are subject to pension benefits legislation in the respective jurisdiction? 28) _______
1. LIF.
2. LRIF.
3. RRIF.

A) 1 and 2 only. B) 2 only. C) 1 only. D) 1, 2 and 3.

29) Choose the number of the following statements that are correct: 29) _______

1. Distributions made to a beneficiary out the RCA trust are taxable to the beneficiary and the RCA trustee is obligated to withhold tax on distributions.

2. An RCA pays an annual tax of 25% on any contributions made to the RCA contributions

A) None B) One C) Two

30) Choose the number of the following statements that are correct: 30) _______

1. LRIFs can be established with funds transferred from a LIRA or locked–in RRSP.

2. Maximum payment calculations for an LRIF differ from the formula used for a LIF.

A) None B) One C) Two

31) Mary owns a RRIF that was first established in December of 2002. On January 1, 2003 assets in the RRIF were valued at $400,000. Calculate the minimum payment if it was based on Mary’s age (born January 15, 1937). 31) _______

A) $20,000
B) $16,667
C) $16,000
D) None of the above answers are correct

32) Choose the number of the following statements that are correct: 32) _______

1. A Life Income fund (LIF) can be established with funds transferred from another LIF.

2. A Life Income fund (LIF) can be established with funds transferred from a registered pension plan.

A) None B) One C) Two

33) Jane purchased a registered annuity in April 2006, and began to receive a monthly payment of $900 starting in May 2006. With regard to the taxation of the $900 monthly payment, which one of the following statements is true? 33) _______

A) Jane will pay tax on the $7,200 received in 2006.

B) Jane can elect on her tax return to have tax on the monthly payment deferred for up to three years.

C) Jane has the option to utilize prescribed tax treatment for the monthly payments, which could substantially reduce her 2006 taxable income.

D) Jane's monthly payment is not taxable because the money originates from a registered plan.

34) Renee is considering the purchase of an annuity with half of her RRSP funds. Renee has been told that for $145,000 she could receive a life annuity based on her single life that pays $1,400 per month, and has a 5 year guarantee period. Assuming that Renee does not change the amount of capital used to purchase the annuity, which of the following changes will typically increase the monthly income that Renee has been quoted (look at each change in isolation of any other change). 34) _______

A) Decrease the guarantee period to 0 years.

B) Adding Renee's spouse so the plan is established as a joint and last survivor.

C) Extending the guarantee period to 10 years.

D) Add a low level of inflation protection.

35) Which of the following statements regarding RRIFs are correct? 35) _______

1. Attribution rules may apply to withdrawals from a spousal RRIF.
2. Payments from a RRIF qualify as eligible pension income for the Pension Income tax credit.
3. A financially dependent child or grandchild receiving funds from a deceased annuitant’s RRIF has the option to transfer the amount into a term–certain–to–age–18 annuity.
4. Appointment of an irrevocable beneficiary of a RRIF is not permitted.

A) 1, 2, 3 and 4. B) 1 and 2 only. C) 3 and 4 only. D) 1, 2 and 3 only.

36) Pension legislation in some jurisdictions requires that any amount remaining in a LIF be transferred to a life annuity by a certain age. What is that age? 36) _______

A) Beginning of the year in which the annuitant reaches age 80.

B) Beginning of the year in which the annuitant reaches age 71.

C) End of the year in which the annuitant reaches age 80.

D) The day on which the annuitant reaches age 71.

37) With regard to a withdrawal from a RRIF, excluding any amount rolled to another registered plan, which of the following statements is/are true? 37) _______

1. All withdrawals are taxable.
2. All withdrawals are subject to withholding tax.
3. All withdrawals are subject to a prescribed maximum.

A) 1 only. B) 2 and 3 only. C) 1 and 2 only. D) 3 only.

38) Choose the number of the following statements that are correct: 38) _______

1. A Life Income fund (LIF) can be established with funds transferred from a LIRA or locked –in RRSP.

2. A Life Income fund (LIF) can be established with funds transferred from an eligible life annuity.

A) None B) One C) Two

39) Choose the number of the following statements that are correct: 39) _______

1. If the beneficiary of the deceased annuitant's RRIF assets is a financially dependent child or grandchild, the recipient becomes responsible for payment of the tax associated with receipt of the designated benefit.

2. If the beneficiary of the deceased annuitant's RRIF assets is a financially dependent child or grandchild, the recipient has the option to transfer the amount into a life annuity, which spreads out the tax consequences

A) None B) One C) Two

40) Choose the number of the following statements that are correct: 40) _______

1. A LIF uses the same rules as a RRIF regarding a designated benefit.

2. A LIF uses the same rules as a RRIF regarding qualified beneficiaries.

A) None B) One C) Two

41) Choose the number of the following statements that are correct: 41) _______

1. A RCA is another type of registered savings plan similar to a DPSP or an RRSP

2. A RCA is used to provide a supplemental pension to an RPP which would be above the limits imposed on registered savings, for highly paid executives.

A) None B) One C) Two

42) With regard to a "reverse annuity mortgage", which of the following statements is NOT true? 42) _______

A) This type of arrangement involves the homeowner borrowing a lump sum of money through a mortgage on his property.

B) If the home is sold prior to the homeowner's death, the mortgage is paid off and the annuity income ceases.

C) A reverse annuity mortgage involves both a mortgage and an annuity.

D) Interest and principal on the mortgage become due when the homeowner dies, or sooner if the home is sold.

43) Calculate the effective annual rate on the following Term Certain to Age 90 annuity: Capital invested is $50,000, and the monthly annuity payment is $300 and the annuitant's age is 70. 43) _______

A) 3.96% B) 3.89%

C) 15.05% D) None of the above answers are correct

44) Choose the number of the following statements that are correct: 44) _______

1. Many aspects of the prescribed RRIF operate the same as a regular RRIF. It follows the same withdrawal schedule; is taxed on the withdrawals in the same way; and the beneficiary designation on the plan is subject to the same rules

2. A LIF is subject to pension legislation in the applicable jurisdiction.

A) None B) One C) Two

45) With regard to a reverse mortgage, which one of the following statements is true? 45) _______

A) The older an individual is at the time of the mortgage request, the lower the percentage of appraised value that he can typically access.

B) When a reverse mortgage is established, the home owner transfers title of his property to the mortgage company, in return for a lump sum amount.

C) Typically, there are very strict rules as to how the funds from a reverse mortgage can be spent.

D) Interest compounds on interest.

46) Choose the number of the following statements that are correct: 46) _______

1. The owner of the annuity can be an individual or a corporation

2. An immediate annuity is defined as one where the payments begin any time within one year of purchase.

A) None B) One C) Two

47) Tara, age 71, has a 33–year–old son, Andrew, who is fully dependent on her financially because he has had no income for the past four years. If Tara names Andrew as the beneficiary of her RRIF through a named beneficiary designation, and she subsequently dies, which of the following are valid statements related to the transfer of the funds to Andrew, given the current scenario? 47) _______

1. Andrew becomes responsible for any income tax owing based on the amount of the designated benefit.
2. Tara's estate is responsible for the income tax consequence associated with the designated benefit.
3. Andrew can transfer the designated benefit directly to an RRSP, which allows him to defer income tax.
4. Andrew has no opportunity to defer tax on the receipt any of the funds.

A) 2 only. B) 1 and 3 only. C) 1 only. D) 1 and 4 only.

48) Choose the number of the following statements that are correct: 48) _______

1. All tax paid by the RCA is refundable when the RCA makes distributions to its beneficiary.

2. Contributions made by a corporation into an RCA may be deducted in the calculation of the corporation's taxable income for the year the contribution is made.

A) None B) One C) Two

49) With regard to a designated benefit, which of the following statements is/are true? 49) _______

1. The amount of a designated benefit is taxable to the qualified beneficiary.
2. A qualified beneficiary includes the deceased annuitant's spouse or financially dependent child, but does not include financially dependent grandchildren of the deceased.
3. A designated benefit is defined as the amount that a qualified beneficiary elects to transfer from the deceased annuitant's estate to another qualifying plan under which the beneficiary is the annuitant.
4. If a qualifying beneficiary receives the designated benefit directly, he eliminates any opportunity that may be available to defer income tax on the designated benefit.

A) 1 and 3 only. B) 4 only. C) 2 and 3 only. D) 1 only.

50) Choose the number of the following statements that are correct: 50) _______

1. The dividend gross up and capital gains inclusion rate are included in the calculating of an RCA's income

2. An RCA pays an annual tax of 25% on any contributions made to the RCA contributions

A) None B) One C) Two