

TIF Solution Three - 3

1. A. Veronica earns business income and Jonathon earns employment income. Veronica will be able to deduct more expenses than Jonathon.
2. A. Reimbursement of moving expenses.
3. B. Low rent housing.
4. C. A 20 percent discount on the employer's merchandise is not considered a taxable benefit unless the employee is permitted to purchase the item below the employer's cost.
5. A. The allowance is not taxable to the employee.
6. A. In B, group disability is not a taxable benefit. In C, subsidized meals in employer's facilities do not create a taxable benefit. In D, dental insurance is not a taxable benefit.
7. A. A dental plan plus a leased automobile that would be used only for personal travel by the employee.
8. G. \$3,240.

Standby charge = $[(12)(2\%)(\$20,000)(9,000/20,004)] = \$2,160$

Operating costs - Lesser Of:

- $[(9,000)(\$0.24)] = \$2,160$
- $[(1/2)(\$2,160)] = \$1,080$

Total of \$2,160 and \$1,080 = \$3,240

9. C. \$1,800.

Standby charge = $[(2/3)(12)(\$500)(11/12)(6,000/18,337)] = \$1,200$

Operating costs - Lesser Of:

- $[(6,000)(\$0.24)] = \$1,440$
- $[(1/2)(\$1,200)] = \600

Total of \$1,200 and \$600 = \$1,800

10. I. \$3,959.

Standby charge = $[(10)(2\%)(\$20,000)(11,000/16,670)] = \$2,639$

Operating costs - Lesser Of:

- $[(11,000)(\$0.24)] = \$2,640$
- $[(1/2)(\$2,639)] = \$1,320$

Total of \$2,639 and \$1,320 = \$3,959

11. A. \$1,150.

Standby charge = $[(2/3)(12)(\$500)(11/12)(7,500/18,337)] = \$1,500$

Operating costs - Lesser Of:

- $[(7,500)(\$0.24)] = \$1,800$
- $[(1/2)(\$1,500)] = \750

Total of \$1,500 and \$750, less \$1,100 = \$1,150

12. C. The minimum taxable benefit that Mr. Brown must include in his employment income for the use of this vehicle in 2010 is \$3,401 $[(2\%)(12)(\$31,500)(9,000/20,004)]$, plus \$1,701 $[(1/2)(\$3,401)]$, a total of \$5,102.
13. B. \$960 $[(2\%)(12)(\$40,000)(2,000/20,004)]$.
14. C. Some allowances are taxable, but reimbursements are never taxable.
15. C. \$670.68 $\{[\$80,000][(61/365)(4\% - 2\%) + (184/365)(3\% - 2\%)]\}$.
16. C. An increase of \$4,187.50. This would be calculated as follows:

Employment Income $[(\$31.50 - \$22.00)(500)]$	\$4,750.00
Deduction Under ITA 110(1)(d)	(2,375.00)
Taxable Capital Gain $[(\$38.75 - \$31.50)(500)(1/2)]$	1,812.50
Net Addition To Taxable Income	\$4,187.50

17. B. The increase in Taxable Income is \$3,000 $[(1,000)(\$26 - \$20) - (1/2)(1,000)(\$26 - \$20)]$ in the year of sale.
18. D.

Employment Income $[(10,000)(\$6 - \$3)]$	\$30,000
Deduction Under ITA 110(1)(d.1)	(15,000)
Taxable Capital Gain $[(10,000)(\$7 - \$6)(1/2)]$	5,000
Net Addition To Taxable Income	\$20,000

Since the Company is a Canadian controlled private corporation, this amount is taken into income at the time the shares are disposed of. He is eligible for the stock option deduction, even though the fair market value of the share was greater than the option price at the time of issue, as the shares were held for at least two years.

19. C. The adjusted cost base of the shares is \$60,000 (\$6 per share).
20. D. An increase in employment income of \$1,000 $[(\$17 - \$15)(500)]$. No deduction is available as the fair market value was greater than the option price when the options were granted.
21. B. A taxable capital gain of \$1,750 $[(\$24 - \$17)(500)(1/2)]$.
22. B. If John claims under ITA 8(1)(f) as a commission salesperson, the total eligible expenses would be \$16,000 (one-half of the meals and entertainment of \$14,000, plus 90 percent of the driving costs of \$10,000). However, under this provision he would be limited to his \$5,000 in 2010 commission income. The alternative that would maximize his deduction would be to use ITA 8(1)(h.1). While he could not deduct the meals and entertainment costs under this provision, his deduction would not be limited to his commission income. This would allow a deduction of \$9,000 (90 percent of the driving costs of \$10,000).
23. D. Must receive all remuneration in commissions.