

TIF PROBLEM THREE - 3

Employment Income - Multiple Choice

Employee vs. Self-Employed

1. Veronica mows lawns during the summer. In 2010 she was paid directly by homeowners for her work, in some case on the basis of the completed job, in other cases at an hourly rate. Her friend Jonathon does the same work. However, he is paid at an hourly rate by a lawn maintenance company.
 - A. Veronica earns business income and Jonathon earns employment income. Veronica will be able to deduct more expenses than Jonathon.
 - B. Veronica and Jonathon both earn employment income.
 - C. Veronica earns business income and Jonathon earns employment income. Their deductible expenses will be the same.
 - D. Veronica and Jonathon both earn business income.

Employee Benefits

2. Indicate which of the following benefits provided by an employer is not considered part of employment income.
 - A. Reimbursement of moving expenses.
 - B. Travel expenses of the employee's spouse.
 - C. Payments resulting from wage loss replacement plans.
 - D. Premiums paid by an employer on life insurance policies.
 - E. Individual premiums under provincial hospitalization plans.
3. Indicate which of the following benefits provided by an employer is considered part of employment income.
 - A. Subsidized meals provided in employer facilities.
 - B. Low rent housing.
 - C. Transportation to the job in employer vehicles.
 - D. Premiums under private health services plans.
 - E. Uniforms and special clothing.
4. Which of the following is not a taxable benefit?
 - A. A cash Christmas gift to an employee from the employer. All the employees received a cash bonus of \$150.
 - B. Payment of the tuition for an employee completing a general interest degree on a part-time basis.
 - C. A 20 percent discount on the employer's merchandise, available to all employees. The employer's mark-up is 50 percent.
 - D. Low rent housing provided by the employer.
5. Which one of the following benefits received from an employer may not result in a taxable benefit to the employee?
 - A. A reasonable allowance of 45 cents per kilometer for driving on employer business.
 - B. An interest free loan used to acquire shares of the employer.
 - C. Employer paid life insurance premiums for \$20,000 of employee coverage.
 - D. Use of the employer's vehicle which is used 95% for employment purposes.

Employment Income - Multiple Choice

6. In which one of the following lists are **all** items relevant when computing net employment income?
- A. Employee contributions to a registered pension plan; signing bonus on accepting employment; availability of an employer-owned automobile.
 - B. Monthly automobile allowance; group disability insurance paid by the employer; promotional cost incurred in selling the employer's products.
 - C. Subsidized meals in employer's facilities; life insurance paid by the employer; legal fees incurred to collect unpaid salary.
 - D. Tips and gratuities; dental insurance paid by the employer; exercise of options to purchase shares of the employer.
7. An employee has been offered a choice of an increase in salary of \$100,000 or a combination of salary and other benefits with a cost to the employer of \$100,000. Assuming that the employee would buy the listed benefits with his own funds if they were not provided in the benefits package, which of the following packages would be the most advantageous from a tax perspective?
- A. A dental plan plus a leased automobile that would be used only for personal travel by the employee.
 - B. Life insurance plus a leased automobile that would be used only for personal travel by the employee.
 - C. Salary plus life insurance.
 - D. Salary only.

Automobile Benefits

Questions 8 Through 11 Questions 8 through 11 are based on the following information:

The cost of the car is \$20,000 including GST and PST. If the car is leased, the monthly lease payment is \$500 including GST and PST. The car is driven for a total of 26,000 km during 2010 and its operating costs for the year are \$4,000. For each of the **independent** questions 8 through 11, choose one of the following answers. Each answer can be used more than once.

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|-------------|-------------|
| A. \$1,150. | F. \$2,455. |
| B. \$1,650. | G. \$3,240. |
| C. \$1,800. | H. \$3,300. |
| D. \$1,964. | I. \$3,959. |
| E. \$2,250. | J. \$4,752. |
8. Assume the car is purchased. It is available to an employee for the whole year. He drives it for personal purposes for a total of 9,000 km. The minimum taxable benefit is:
9. Assume the car is leased. It is available to an employee for 11 months of the year. He drives it for personal purposes for a total of 6,000 km. The minimum taxable benefit is:
10. Assume the car is purchased. It is available to an employee for 10 months of the year. He drives it for personal purposes for a total of 11,000 km. The minimum taxable benefit is:
11. Assume the car is leased. It is available to an employee for 11 months of the year. He drives it for personal purposes for a total of 7,500 km and reimburses the employer \$1,100 (\$100 per month) for the use of the car. The minimum taxable benefit is:

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12. Mr. Brown's employer provides him with an automobile for his personal use, and pays all operating costs for that vehicle. The vehicle, used by Mr. Brown throughout 2010, cost his employer \$31,500, including GST of \$1,500 (no provincial sales tax was charged on the vehicle purchase). Mr. Brown drove the vehicle 45,000 km during the year, of which 9,000 km were for personal purposes. His employer paid \$7,750 in operating costs for the year. Mr. Brown paid nothing to his employer for the use of the vehicle. Which one of the following amounts represents the **minimum** taxable benefit that Mr. Brown must include in his employment income for the use of this vehicle in 2010?

A. \$2,268.
B. \$4,859.
C. \$5,102.
D. \$5,561.

13. The following facts relate to an employer provided automobile.

Original cost of automobile, including HST of \$4,602	\$40,000
Replacement value of car at time of providing it to employee	\$30,000
Capital cost allowance claimed by employer	\$ 3,000
Personal use kilometers driven by employee during the year	2,000 km
Total kilometers driven by employee during the year	30,000 km
Number of months automobile was made available to employee	12

Which one of the following amounts represents the employee's minimum standby charge in 2010?

A. \$720.
B. \$960.
C. \$640.
D. \$9,600.

Allowances

14. With respect to the determination of net employment income, which of the following statements is correct?

A. All allowances must be included in income.
B. All reimbursements are taxable.
C. Some allowances are taxable, but reimbursements are never taxable.
D. All allowances must be included in income, but reimbursements are never taxable.

Loans To Employees

15. T. Adams commenced employment at Moana Sales Ltd. on February 1, 2010. He had lived in an apartment until May 2010, at which time he purchased a new house. Under the terms of his employment, he received a housing loan on May 1, 2010 of \$80,000 at a rate of 2 percent. He pays the interest on the loan on a monthly basis. Assume the 2010 prescribed interest rates applicable to employee loans are as follows:

First quarter	5%
Second quarter	4%
Third quarter	3%
Fourth quarter	3%

What is T. Adams' taxable benefit on the above loan for 2010?

A. Nil.
B. \$267.40.
C. \$670.68.
D. \$1,073.97.
E. \$2,147.95.

Employee Stock Options

16. Ms. Joan Hanson is an employee of a Canadian controlled private corporation. During 2009, she receives options to purchase 500 shares of her employer's common stock at a price of \$22 per share. At this time, the estimated per share value of the stock is \$20.50. During 2010, she exercises all of these options. At this time, the estimated market value of the stock is \$31.50 per share. On December 1, 2010, she sells the stock for \$38.75 per share. The net effect of the 2010 transactions on her Taxable Income would be:
- A. An increase of \$1,812.50.
 - B. An increase of \$2,375.00.
 - C. An increase of \$4,187.50.
 - D. An increase of \$4,750.00.
 - E. An increase of \$6,562.50.
17. An employee of a public Canadian corporation receives an option to purchase 1,000 of her employer's common shares at \$20 per share in July, 2009. At this time, the fair market value of the stock is \$19 per share. In March, 2010, when the fair market value is \$26 per share, she exercises the option and immediately sells the shares. By what amount do these transactions increase her Taxable Income?
- A. \$1,000 in 2009.
 - B. \$3,000 in 2010.
 - C. \$3,500 in 2010.
 - D. \$6,000 in 2010.

Questions 18 And 19 Questions 18 and 19 are based on the following information:

Scott Bicycle Manufacturing Ltd. (SBM) is a Canadian controlled private corporation. Brian Mills, one of SBM's employees, was granted stock options on October 11, 2006 for 10,000 shares at \$3 per share. Brian exercised the stock options on September 30, 2007, when the market price was \$6 per share. In June 2010, Brian purchased a new home and sold the shares for \$7 each. The fair market value on October 11, 2006 was \$4 per share.

18. What is the effect of these facts on Brian's Taxable Income?
- A. \$15,000 in 2007.
 - B. \$15,000 in 2010.
 - C. \$30,000 in 2007.
 - D. \$20,000 in 2010.
 - E. None of the above.
19. What is the adjusted cost base to Brian of the SBM shares at the time of sale in June, 2010?
- A. \$30,000.
 - B. \$45,000.
 - C. \$60,000.
 - D. \$70,000.
 - E. None of the above.

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Questions 20 And 21 Questions 20 and 21 are based on the following information:

Mr. Morra commenced employment with Peoples Bank Ltd., a public corporation, on September 1, 2005. On June 30, 2008, he was granted options to purchase 500 shares of Peoples Bank Ltd. stock for \$15 per share. The market value on June 30, 2008 was \$16 per share.

Mr. Morra exercised his options on May 31, 2010, purchasing 500 shares for \$15 per share when the market value was \$17 per share. On September 1, 2011, Mr. Morra sold the shares for \$24 each.

20. What is the effect of the above transactions on Mr. Morra's Taxable Income in 2010?

- A. Nil.
- B. An increase of \$250.
- C. An increase of \$500.
- D. An increase of \$1,000.

21. What is the effect of the above transactions on Mr. Morra's Taxable Income in 2011?

- A. Nil.
- B. An increase of \$1,750.
- C. An increase of \$2,750.
- D. An increase of \$3,500.

Employment Deductions

22. John secured employment as a commissioned salesman in July, 2010. In 2010, he received a base salary of \$60,000, and \$5,000 of commissions. A further \$4,000 of commissions earned in December was paid to him in January, 2011. John worked away from the office negotiating sales contracts, and he is required to pay his own traveling expenses. His employer has signed a Form T2200 certifying that requirement, and certifying that no reimbursements are paid for any expenses John incurs to earn commissions. John incurred the following costs from July through December 2010:

Meals and entertainment for potential customers	\$14,000
Driving costs (90% of driving was for employment purposes):	
Fuel	4,000
Insurance	750
Repairs	2,250
Leasing costs (\$500 per month)	3,000

What is the maximum deduction John may claim for employment expenses in 2010?

- A. \$5,000.
- B. \$9,000.
- C. \$15,000.
- D. \$16,000.

23. Which of the following criteria is not necessary in order for a salesperson to deduct office costs?

- A. Must pay own expenses.
- B. Must carry on duties away from the employer's place of business.
- C. Must not receive an expense allowance which has not been included in income.
- D. Must receive all remuneration in commissions.