



Ecole de gestion
TELFER
 School of Management



Mid-Term Exam #1 (2 hours)

ADM 3345 – Tax I
 September 29, 2012

Please identify your section: Section A or Section B

Student Name: / / _____

Student I.D.: _____

Question #1	18 / 18	
Question # 2	24 / 26	
Question # 3	16 / 16	
Total:	58 / 60	97 / 100 100

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 I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in _____

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Great!

Question #1: Employment Income (18 Marks)

Sonia Jackson has been employed in Halifax as a loan supervisor for East Coast Trust Inc. for the last three years. Because East Coast Trust was such a large company, employees worked on specific duties, and Sonia felt she had little opportunity to diversify and use her many skills. Sonia tendered her resignation from East Coast Trust effective June 30/12 and on July 1, 2012, Sonia began working in Toronto for Beacon Financial Services Ltd., a Canadian-controlled private company specializing in providing financial services for retired executives. Sonia earned an annual salary of \$105,000 at East Coast Trust, but her salary at Beacon Financial is \$90,000 annually. However, Sonia is positive she can prove herself and earn promotions and raises shortly.

In April 2012, prior to leaving East Coast Trust, Sonia exercised options to purchase 5,000 shares of East Coast Trust at \$15.00 per share. At the time the option was granted, the shares had a fair market value of \$11.50 per share and at the time Sonia exercised her options, the shares were valued at \$16.00 per share. Sonia still owns these shares.

There is extensive travel involved with Sonia's work with Beacon Financial. The company has provided Ms. Jackson with a \$40,000 company car. Between July 1 to December 31, Sonia drove the vehicle a total of 25,000 kilometers, of which 15,000 kilometers were clearly related to her work at Beacon Financial. The operating costs of the car during this period were \$5,000 and were paid for by the company. Because of extensive repairs resulting from a manufacturer's recall, the car had to be at the dealership's repair centre for the entire months of October and November 2012.

At the time of her move to Toronto, Beacon Financial Services provided Ms. Jackson with a \$200,000 interest-free loan in order to purchase a personal residence in Toronto. While there was no pension plan at East Coast Trust, there is one at Beacon Financial. Ms. Jackson contributed \$3,000 to the company's registered pension plan.

The company sent Ms. Jackson to an important conference on *Taxes and Retirement* in Los Angeles in October. She paid \$1,125 for airfare and \$2,650 for accommodation. Sonia also spent \$600 for meals and entertainment while she networked with conference attendees. Upon her return, Beacon Financial Services reimbursed Sonia for all the conference expenses.

Ms. Jackson was very successful at Beacon Financial Services. Word spread about her knowledgeable and caring service and she was able to attract several new clients. As a result Ms. Jackson earned a \$50,000 bonus from Beacon Financial Services, half paid in December 2012 and the other half due in February 2013. She also won a \$500 gift certificate to Cutter's Restaurant in Don Mills. In December, Beacon Financial Services held a Christmas Office Party. The CEO dressed up as Santa and distributed gifts to all the employees. Ms. Jackson's gift was a *Kobo Glo* e-reader valued at \$150.00.

Because of her excellent performance, in September Beacon Financial Services offered Ms. Jackson the option of acquiring 1,000 shares per year of Beacon Financial Services stock at \$20 per share. At the time, these shares had a fair market value of \$14 per share. On December 1st, when Beacon shares were valued at \$22 per share, Ms. Jackson exercised her option and purchased 1,000 shares. She plans to hold these shares for an indefinite period of time.

Question #1 Continued

During the year, Ms. Jackson earned \$1,200 in interest on cash investments and \$2,300 in dividends from stocks in which she had invested:

The prescribed interest rates for 2012 were as follows:

- 1st quarter: 90 days @ 2%
- 2nd quarter: 91 days @ 2%
- 3rd quarter: 92 days @ 2%
- 4th quarter: 92 days @ 2%

Note 2:

Assumptions

- ① East Corp is publicly traded/owned => (employee stock option benefit when options are exercised. If this not case deduct 5000 from below.)
- ② BFS Ltd. is private, don't include benefit. If this not true - add 1000 shares (22-20) = \$2000 to calc. below (not sure if assumption correct)

Required:

Calculate (on the next page) Ms. Jackson's minimum net employment income for the year ending December 31, 2012.

Notes:

Also calc. 5 days salary

Salary (12/1/12) = 52069.49 = 52069
 100,000 (12/1/12) = 45369.96 = 45370

Show all your calculations to obtain full marks!

Provision
 East Corp 25000 (6/12) = 52900 ✓ 2
 BFS 90000 (6/12) = 45000 ✓ 2
97900

Stock Option Benefit Assume 20% cost (inc. 5 public owned)
 5000 shares x (16-15) = 5000 ✓ 1

Don't include benefit - 60% wk = 60% => qualifies for reduction

addition (1 wage) ✓ 1
 No bonus of 10000 ✓ 1
 - personal allowance 1657 ✓ 1
 (2%) (40000) (4 months) ✓ 1

15 16607 11/12 = 6668
 ① = 37615

12/1/12 (12/1/12) = 1600 ✓ 1
 - (2%) (personal allowance) = 200 ✓ 1
 ② = 1600 ✓ 1

12/1/12 benefit = 37600 - 1600 = 49200 ✓ 1

- ① Contribution to RPP - deduct - (3000) ✓ 1
- ② Interest income receipts - 1000 ✓ 1
 $200000 \times 2\% \times (4/12 + 7/12 + 1/12) = 3916.67$

= 2016.44
 rounded = 2016

③ Bonus paid in 2012 - add to income = 10000 / 2 = 5000 ✓ 1
 total paid in 2012

④ Gift certificates to business = 500 ✓ 1
 + add to income

⑤ Assume 0% RPP. 2 private gifts => with 100000 contribution benefit with 100000 shares sold ✓ 1

Income Summary (see note #4 above)
 ① 97900
 ② 3000
 ③ 4300 Auto.
 ④ 2016
 ⑤ 2016 OIC

⑥ 75000 no Kobo ✓ 1
 ⑦ 500
 Total = \$131 816
 net using Note 1 #3
 131 816 - 62 = 131 754
18

Solution to Question #1:

Question #2: Short Answer Questions (2 Marks each = 26 Total Marks)

<p>Ms. Truesdale is appointed ambassador to Iceland on March 17th, 2011. It is an indefinite posting. She had lived in Canada her entire life prior to the appointment. Ms. Truesdale sold her house in Canada and bought a new one in Iceland. What is her 2012 residency status for Canadian tax purposes?</p>	<p>Deemed (Full Time) Resident ✓ 2</p>
<p>Dr. Ahmed Abbas is offered a prestigious research position at the University of Ottawa. After much consideration, he decides to leave California and accept the position. He moves to Ottawa effective September 1, 2012. Reluctant to change, he plans to stay in Ottawa only for the foreseeable future. What is his 2012 residency status for Canadian tax purposes?</p>	<p>Part Time Resident ✓ ok 2 Sep 1/12 → Dec 31/12</p>
<p>Mr. El-Enza is a very successful realtor. Because of the recession, home builders have had great difficulty in selling their new homes. As a result they have offered a selection of numerous prizes to realtors who sell one of the builders homes. If Mr. El-Enza won a prize, would it be taxable?</p>	<p>Yes ✓ 2</p>
<p>Ms. McMillan has just received a \$350,000 loan at 3.5% from her company for the purpose of purchasing a new home. Bank rates for such a purpose are 5.79% and the prescribed rate is 3.0%. Calculate Mrs. McMillan's imputed interest benefit.</p>	<p>None ✓ 2 3.5% > 3.0%</p>
<p>Mr. Tao received a stock option when he was hired in 2010. The option permits him to purchase up to <u>2,500</u> shares of company stock at <u>\$20</u> per share until December 31, 2015. At the time this benefit was granted, the stock was trading at \$17 per share. In 2012, Mr. Tao exercised his option by purchasing 1,500 shares for \$20 when the stocks were trading at a FMV of \$23.50. As a result, he paid tax on the resulting stock option benefit of \$5,250. He is now considering selling those shares. What is the Adjusted Cost Base (ACB) of his 1,500 shares in the company?</p>	<p>23.50/share Total of 23.5 x 1500 shares = \$35,250 ✓ 2</p>
<p>Mrs. Temple has been Canada's ambassador to Germany since 2005, before which she spent five years as chief advisor to Prime Minister Jean Chretien. Her daughter, Sophie, was born in Germany on September 12, 2011. What is Sophie's residence status?</p>	<p>Deemed (Full Time) Resident - ✓ 2 as per her residence</p>

Who's deemed
(F) resident

Question	Answer
To be deemed a resident of Canada, an individual must sojourn in Canada for at least what period of time?	183 days ✓2
Mason was born and raised in Ontario. Even after graduation, he continued to live in Ontario with his parents until June 2012, earning \$36,000 during that period. But after a terrible fight with his parents, Mason quit his old job, resigned all his social memberships, packed up all his possessions and moved to British Columbia on July 1, intending never to return. From July 1 - December 31, 2012, Mason earned another \$40,000 at his new location. On what day did Kyle cease to be a resident of Canada?	never ✓2
Ashida worked in Alberta for a Canadian development company. On May 1, 2012, the company sent Ashida to Indonesia for a 3-year posting. When the family visited Ashida, they fell in love with Indonesia. As a result, the entire family and all their possessions moved to Indonesia effective August 1, 2012. The company paid Ashida a total of \$20,000 during the period she lived in Canada and another \$98,000 during the period she was in Indonesia. On what date did Ashida cease to be a resident of Canada?	Never, ✓2 She is on work contract with Canadian employer.
When he arrived in Indonesia in August 2012, Ashida's husband began an import/export business of his own. He operated the business as a proprietorship and earned \$115,000 in business income. How much of this income will be taxed by Canada? <i>Note: case could be made that he intends to return after 7 yrs.</i>	None. He is part time resident ✓2 for Canada tax purposes. 5 mil → emul → August 1st, 2012. After August 1st only Canadian source income is taxed.
International Imports Ltd. was incorporated in Canada in 1950. The company moved its operations and management to Seattle, Washington, U.S.A. on January 1, 1975 and since that date has had no further activities in Canada. Does CRA consider this company a Canadian resident for tax purposes?	Resident. Inc'd ✓2 before 1966 changed after until 1975. Canada Resident.
Beginning on April 1, 2000, HotHeads, a U.S. recruiting firm established offices in Vancouver, Edmonton, Toronto and Montreal as part of its international expansion. The "mind and management" of the company remains in New York. Would the company be considered a resident of Canada for tax purposes?	Resident. ✓2 They established offices & operations. Lic for tax credit for taxes paid to foreign entity (US).
What is the amortization rate for intangible assets in the Cumulative Eligible Capital Account (CEC)?	4.20% ✓ X

under but intention (might not correct) it is presumed should never cease being a resident

I was told this was not on exam. Wild guess... 4.20%.

Question #3: CCA (16 marks)

Magic Wok Ltd. was incorporated on October 1, 2008 and selected a December 31 year end for the first fiscal year of the company. Magic Wok prepares delicious Chinese food for take-out or delivery. It has no eat-in service. Although only in operation for 92 days, the company realized a 2008 Net Income for Tax Purposes of \$56,275.

10
7

For its delivery service, Magic Wok purchased 10 small delivery vehicles on October 1, 2008. Each car cost \$12,000, and are Class 10 assets with a 30% CCA rate.

In 2009, Magic Wok acquires 5 more cars at a cost of \$12,500 each (Class 10 -30%). It also sells three of its original cars for total proceeds of \$27,500.

new
S
2

In November of 2010, Magic Wok is so successful that it is being asked to deliver to customers who are further and further away from the original location. To address this issue, the company decides it needs a second location, closer to these customers and, therefore, Magic Wok bought out a competitor in its ideal second location.

Also in 2010, Magic Wok sold 13 of its original cars and 3 of its newer cars for a total of \$128,000. When purchasing replacement vehicles, Magic Wok realized it will need delivery vehicles at the new second location also. Therefore, Magic Wok purchased a total of 25 new cars at a cost \$16,000 each.

25

Magic Wok has become so successful that in 2012 it was purchased by a major restaurant chain. However the large chain was not interested in delivery service and Magic Wok sold all the remaining vehicles for a total of \$268,000.

In order to minimize its taxes payable, the company annually claims the maximum deductions permitted under tax law.

Required:

Identify any and all tax consequences the company will incur on its purchases and dispositions of its delivery vehicles from the date of incorporation through 2011.

Class 10 - 30%

Show all your calculations

120,000 of required, round decimal points up to the nearest dollar.

Calculate each class separately.

100 Dec/8
 10 x 12,000 = 120,000
 120,000 x 30% = 36,000
 120,000 - 36,000 = 84,000
 5 x 12,500 = 62,500
 62,500 x 30% = 18,750
 62,500 - 18,750 = 43,750
 3 x 12,000 = 36,000
 36,000 x 30% = 10,800
 36,000 - 10,800 = 25,200
 25,200 + 43,750 = 68,950
 68,950 + 25,200 = 94,150
 94,150 + 25,200 = 119,350

PTD to page 9.

100 Dec/8
 120,000
 36,000
 84,000
 62,500
 18,750
 43,750
 25,200
 119,350

Solution to Question #3

Solution to Question #3

CLASS 10-30Y

UCC Jan 1/9 115 463
 Purchases 62500 ✓
 7712500
 Less: Dep. exp. - 10000
 - capital cost 36000
 7712000
 - proceeds from dispo. 27600 ✓

Net Additions (62500 - 27600) 34900
 150 463
 Deduct 1/2 net add. 17500
 132963

CCA Exp. 132963 * 3 = 398889 ✓
 added to 39889
 Add 1/2 net add. 17500 ✓
 UCC Dec 31/9 110 574

Nov 2009:
 Deduct CCA Expense
 39889 from Income
 or NIFIP

Nov 2010:

reborn UCC
 or profit gain of
 170000 - 121500 =
 48500
 (6500) tax (capital)
 gain = 3250

UCC Jan 1/10 110 574
 Purchases (excl 6000) = 400000 ✓
 Deduct Dep. - 10000
 Capital cost - 7712000 = 81000
 3711500 = 37500 (121500) ✓
 Proceeds - 122500

Net Additions 400000 - 122500 277500
 UCC before Adj. 388074
 Deduct 1/2 net add. 139250 ✓
 UCC before CCA 248824
 Deduct CCA Expense 248824 * 3 = 746472 ✓
 Add 1/2 net add. 139250 ✓
 UCC Dec 31/10 314127

UCC Jan 1/12 219889
 Deduct Dep. exp. - 10000
 - capital cost 25716000 = 400000
 2712500 = 25000
 476000 ✓
 - proceeds from dispo. 269000 (269000) ✓
 Net. Inv. Remaining with no
 assets left in class (48111) ✓

Add back to UCC to credit
 balance of 0 48111
 UCC Dec 31/12 0

Nov 2011: CCA EXPENSE
 Deduct CCA expense
 894238 from
 income / NIFIP

UCC Jan 1/11 314127
 CCA Exp. 314127 * 3 = 942381 (942381) ✓
 UCC Dec 31/11 219889

Nov 2012:
 - recognize CCA recapture
 of 48111 => add this
 amount to income =>
 back
 Increase in taxable income of
 4811
 16