

Practice Examination Solution

Chapter 2 (Procedures And Administration)

Examination Summary

The marks you have received on each question can be added in the final column.

Question	Type Of Question Or Subject	Total Marks	Your Mark
1	Essay Questions	20	
2 - 7	True Or False	9	
8 - 14	Multiple Choice	21	
15	Instalments	50	
Total		100	

Solution 1 (20 Marks)

Part A

An individual must file a tax return if any one of the following conditions apply:

- they owe taxes for the year;
- they have a taxable capital gain for the year;
- they have disposed of a capital property during the year; or
- they have an outstanding balance under the home buyers plan or lifelong learning plan legislation (see Chapter 10 for an explanation of these RRSP related balances).

For living individuals, the normal filing date is April 30th of the following calendar year.

However, if the individual or his spouse or common-law partner have business income, the date is extended to June 15th of the following calendar year.

For individuals who die prior to their normal filing date, the required date is the later of:

- the normal filing date and
- six months after the date of death.

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Part B

The procedures can be outlined as follows:

- The first step would be to **contact the CRA** to discuss the changes contained in the reassessment.
- If informal discussions do not resolve the issue, the next step would be a **notice of objection**. This must be filed the **later of**:
 - **one year after the due date** for the return (April 30, 2014) or
 - **90 days after the mailing** of the notice of reassessment (April 10, 2014).
- If there is an adverse decision on the notice of objection, Jane can appeal to the **Tax Court Of Canada**. This has to be done **within 90 days of receiving** the decision on the notice of objection. She can use the **informal** procedure or the **general** procedure.
- Provided she has used the general procedure, a further appeal can be made to the **Federal Court Of Appeal**. This must be done **within 30 days of receiving** the Tax Court Of Canada decision.

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Your Mark = [(# of grading points ÷ 22)(20%)] = ____%

Solutions 2 Through 7 (9 Marks)

2. **True.** As the payments are documented and recurring, amounts withheld by the employer can be reduced.
3. **False.** This individual has until 6 month after the date of date which would be June 29, 2014.
4. **True.** The penalty would be 5 percent, plus one percent for the month of May. Only complete months count in determining this penalty.
5. **False.** Only Canadian controlled private corporations that claim the small business deduction have 3 months. Other corporations only have 2 months.
6. **True.**
7. **False.** The rate is 2 percent higher.

1 grading point for each correct answer. Total 6

Your Mark = [(# of grading points ÷ 6)(9%)] = ____%

Solutions 8 Through 14 (21 Marks)

8. **C.** June 15, 2014.
9. **A.** An individual is required to file an income tax return if their only source of income is business income, even if no tax is payable.
10. **C.** \$504 [(\$5,600)(5% + 4%)].
11. **D.** The return would be due on March 31, 2014, six months after the taxation year end.
12. **A.** October 31, 2013, two months after the year end.

13. **C.** The notice of objection must be filed the later of one year after the due day for the return (April 30, 2015), and 90 days after the day of mailing the notice of assessment (August 10, 2014).
14. **A.** If the informal procedure has been used in the Tax Court Of Canada, no further appeal is allowed.

1 grading point for each correct answer. Total 7

Your Mark = [(# of grading points ÷ 7)(21%)] = ____%

Solution 15 (50 Marks)

Case One

1. The net tax owing for the years 2011 through 2013 would be calculated as follows:

2011	\$5,682 (\$56,742 - \$51,060)
2012	\$6,620 (\$22,785 - \$16,165)
2013	\$3,985 (\$64,457 - \$60,472)

As the net tax owing for the **current year** and **one of the two preceding** years **exceeds \$3,000**, instalment payments are **required**.

2. The three acceptable alternatives would be as follows:

- **Quarterly** instalments of \$996.25 ($\$3,985 \div 4$) based on the current year estimate.
- **Quarterly** instalments of \$1,655.00 ($\$6,620 \div 4$) based on the first preceding year.
- **Two** quarterly instalments of \$1,420.50 ($\$5,682 \div 4$), followed by **two** quarterly instalments of \$1,889.50 [$\$6,620 - (2)(\$1,420.50) \div 2$], for a total of \$6,620.

3. The **best alternative** would be quarterly instalments of \$996.25 based on the current year estimate.

The instalments would be due on **March 15**, **June 15**, **September 15**, and **December 15**, 2013.

Case Two

1. The net tax owing for the years 2011 through 2013 would be calculated as follows:

2011	\$3,316 (\$56,742 - \$53,426)
2012	Nil (\$22,785 - \$23,486)
2013	\$5,031 (\$64,457 - \$59,426)

As the net tax owing for the **current year** and **one of the two preceding** years **exceeds \$3,000**, instalment payments are **required**.

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2. The three acceptable alternatives would be as follows:
 - Quarterly instalments of \$1,257.75 ($\$5,031 \div 4$), based on the current year estimate.
 - Quarterly instalments of Nil.
 - Two quarterly instalments of \$829.00 ($\$3,316 \div 4$) based on the second preceding year. No further instalments would be required as the net tax owing in the preceding year is nil.
3. As the net tax owing for 2012 was nil, using this year as the instalment base would be the best alternative.
The instalments would be due on March 15, June 15, September 15, and December 15, 2013, if instalments were paid.

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Case Three

1. The net tax owing for the years 2011 through 2013 would be calculated as follows:

2011	Nil	($\$56,742 - \$57,101$)
2012	\$3,302	($\$22,785 - \$19,483$)
2013	\$6,409	($\$64,457 - \$58,048$)

As the net tax owing for the current year and one of the two preceding years exceeds \$3,000, instalment payments are required.

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2. The three acceptable alternatives would be as follows:
 - Quarterly instalments of \$1,602.25 ($\$6,409 \div 4$) based on the current year estimate.
 - Quarterly instalments of \$825.50 ($\$3,302 \div 4$) based on the first preceding year.
 - As there was no net tax owing in 2011, the first two quarterly instalments would be nil, followed by two quarterly instalments of \$1,651 [$(\$3,302 - \text{Nil}) \div 2$].
3. The best alternative would be the one used by the CRA in its quarterly Instalment Reminders as it provides some tax deferral. No instalments would be required on March 15 or June 15. The two instalments of \$1,651 would be required on September 15 and December 15, 2013.

Case Four

1. As the corporation's tax payable for both the current and the preceding year exceeds \$3,000, instalments are required.
2. The three acceptable alternatives would be as follows:
 - Monthly instalments of \$5,371.42 ($\$64,457 \div 12$) based on the current year estimate.
 - Monthly instalments of \$1,898.75 ($\$22,785 \div 12$) based on the first preceding year.
 - Two monthly instalments of \$4,728.50 ($\$56,742 \div 12$) based on the second preceding year, followed by 10 monthly instalments of \$1,332.80 [$((\$22,785 - 2)(\$4,728.50)) \div 10$], a total of \$22,785.
3. The best alternative would be monthly instalments of \$1,898.75, a total of \$22,785.
The instalments would be due on the last day of each month, beginning in January, 2013.

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Case Five

1. As the corporation's tax payable for both the **current** and the **preceding year** exceeds **\$3,000**, instalments are **required**. As the corporation qualifies as a small CCPC, the instalments will be quarterly.
2. The three acceptable alternatives would be as follows:
 - **Quarterly** instalments of \$16,114.25 ($\$64,457 \div 4$) based on the current year estimate.
 - **Quarterly** instalments of \$17,890.00 ($\$71,560 \div 4$) based on the preceding year.
 - **One** quarterly instalment of \$14,185.50 ($\$56,742 \div 4$), followed by **three** quarterly instalments of \$19,124.83 [$(\$71,560 - \$14,185.50) \div 3$], a total of \$71,560.
3. The **best alternative** would be four quarterly instalments of **\$16,114.25**, for a total of \$64,457.

The instalments are due on **March 31**, **June 30**, **September 30**, and **December 31**, 2013.

23**Summary Of Maximum Grading Points Available**

Case 1 =	30
Case 2 =	25
Case 3 =	28
Case 4 =	23
Case 5 =	23
<u>Total</u> =	<u>129</u>

Your Mark = [(# of grading points ÷ 129)(50%)] = ____%