

Practice Examination

Chapter 4 (Tax Payable For Individuals)

Instructions To Students

Create An Examination Environment

Your text and the accompanying Study Guide provide you with a large number of Exercises and Self Study Problems for which solutions are provided. These problems are designed to assist you with understanding the content of each Chapter. In contrast, the goal of this Practice Examination is to allow you to evaluate your ability to write the examinations in your tax course.

To get maximum benefits from this Practice Examination, you should write it under examination conditions. It is designed as a 90 minute examination and it should be written within that time constraint. You should make an effort to set aside 90 minutes of time during which you will not be interrupted. You should also pick a location where you will not be distracted by extraneous influences.

Materials To Be Used

The materials that you use while writing this Practice Examination should be consistent with the materials that will be available during the examinations that you will be writing in your tax course. These vary from course to course, and include the following possibilities:

- you may be allowed to bring a copy of the *Income Tax Act* into the examination room,
- you may be provided with the list of “Rates and Other Data” that is found in the front of your *Canadian Tax Principles* textbook and as a .PDF file on your Student CD-ROM,
- you may be allowed to bring a “cheat sheet” with various notes into the examination room, or
- you may be allowed to bring your *Canadian Tax Principles* textbook into the examination room.

You should determine, either from your course outline or directly from your instructor, which of these approaches applies in your situation. You should write this Practice Examination using only the materials permitted for your examination.

Types Of Questions

Different instructors use alternative types of questions on their examinations. This examination includes essay questions, true or false questions, and multiple choice questions. However, the majority of the marks on this examination are allocated to problems that are similar to the Exercises and Self Study Problems that are available in your *Canadian Tax Principles* text.

This content may not be consistent with the types of questions used by the instructor in the course you are taking (e.g., an instructor might choose to have an examination that contains only multiple choice questions, or only one comprehensive question). You should take this into consideration when you are evaluating your results on this examination.

How To Use The Marking Guides

For each question on this Practice Examination, we have provided information as to how marks would be allocated. In some cases, this allocation is very straightforward. For example, if a 12 mark question consists of 6 multiple choice questions, 2 marks will be allocated to each correct answer.

However, in other situations the allocation process is more complex. Consider, for example, an employment income calculation that has 11 separate components (i.e., salary, RPP contributions and so forth). If 15 grading marks were assigned to this problem, the marking guide could assign 1.36 marks (15 marks divided by 11 components) to each line or, alternatively, award more than one mark to some components. Both of these approaches can be awkward.

To resolve this problem, the marking guides that we provide in these more complex situations will be based on “grading points”. In the preceding example, 11 grading points would be assigned to this question — one for each component in the calculation. These “grading points” would then be converted into the relevant mark. Continuing the example, if you had 8 of 11 components in the calculation correct, this result would be converted to a mark as follows:

$$[(8 \div 11)(15\%)] = 10.9\%$$

In the solution that we have provided for this Practice Examination, these grading points have been identified with **highlighting** the appropriate number or word.

Practice Examination On Tax Payable For Individuals

Examination Content

The content of this examination, along with the marks and times for each question, are found in the following table.

Question	Type Of Question Or Subject	Marks	Time In Minutes
1	Essay Question	10	9.0
2 - 7	True Or False Questions	9	8.1
8 - 14	Multiple Choice Questions	21	18.9
15	Personal Tax Credits	10	9.0
16	Charitable Donations Tax Credit	15	13.5
17	Medical Expenses Tax Credit	20	18.0
18	Education Related Tax Credits	15	13.5
Total		100	90.0

Question 1 (10 Marks)

List five tax credits that can, under certain circumstances, be transferred to either a parent or a spouse. For each of the items listed, indicate whether the transfer would be to a parent or a spouse.

Questions 2 Through 7 (9 Marks)

2. In general, provincial Tax Payable is calculated by multiplying one or more rates times the same Taxable Income that is used in the calculation of federal Tax Payable.

True or False?

3. If two individuals are legally married, they can each claim the spousal tax credit.

True or False?

4. It is possible to claim the tax credit for an infirm dependant over 17, even if that individual does not qualify for the disability tax credit.

True or False?

5. In determining the medical expenses tax credit, the individual cannot include the medical expenses of dependants who are over 17 years of age unless they qualify for the disability tax credit.

True or False?

6. The tax credit for charitable donations is limited to 75 percent of the taxpayer's Tax Payable.

True or False?

7. If a taxpayer cannot use the age, disability, or pension credits, they can be transferred to a common-law partner.

True or False?

Questions 8 Through 14 (21 Marks)

8. Which of the following items is not a deduction in the determination of Taxable Income?
- A. Home relocation amount.
 - B. One-half the employment income inclusion resulting from the exercise of stock options.
 - C. Eligible medical expenses.
 - D. Loss carry overs from a previous taxation year.
9. With respect to tax payable, which of the following statements is not correct?
- A. A resident of Canada who does not live in a province will be assessed a surtax on federal Tax Payable.
 - B. An individual will be assessed provincial income taxes by the province in which he resides on the last day of the taxation year.
 - C. In general, provincial Tax Payable is calculated using the same Taxable Income that is used to calculate federal Tax Payable.
 - D. Provincial taxes are calculated as a percentage of federal Tax Payable.
10. Of the following statements about tax credits, which one is not correct?
- A. They reduce tax by the same amount, without regard to the individual's marginal tax rate.
 - B. Any unused charitable donation tax credit can be carried forward for 5 years.
 - C. It is possible to claim both the eligible dependant tax credit and the child tax credit for the same individual.
 - D. Tax credits are deducted in the determination of Taxable Income.
11. Johann Bach is 54 years old and his spouse, Maria is 67. Maria qualifies for the disability tax credit. Johann has 2013 Net Income For Tax Purposes of \$109,000, while Maria has 2013 Net Income For Tax Purposes of \$8,200. Johann's income is all derived from his investments. What is the maximum amount of tax credits that Johann can claim for 2013?
- A. \$2,387
 - B. \$3,236
 - C. \$4,570
 - D. \$3,110
12. Which of the following statements is not correct with respect to an individual who qualifies for the eligible dependant tax credit? The individual must be:
- A. related by blood, marriage, adoption, or common-law relationship.
 - B. under 18 at some time during the year.
 - C. residing in Canada unless they are a child of the taxpayer.
 - D. living with the taxpayer in a self-contained domestic establishment.
13. For an individual who is over 65, which of the following types of pension income does not qualify for the pension income credit?
- A. A periodic payment from an employer sponsored pension plan.
 - B. A payment from the Canada Pension Plan.
 - C. An annuity payment out of a Registered Retirement Savings Plan.
 - D. A payment out of a Registered Retirement Income Fund.

14. Which of the following tax credits is refundable to the taxpayer?

- A. The goods and services tax credit.
- B. The disability supplement tax credit.
- C. The political contributions tax credit.
- D. The caregiver tax credit.

Question 15 (10 Marks)

Alexandra Borat is 42 years old and divorced from her husband. Her Net Income For Tax Purposes for 2013 is \$84,000. She has retained the family home and both of the children of the marriage live with her. Her son is 23 years old and suffers from mental impairment. He does not qualify for the disability tax credit. Her daughter is 14 years old and in good health. Her son has no income during 2013, while her daughter has Net Income For Tax Purposes of \$4,300. Determine Ms. Borat's maximum federal tax credits for 2013.

Question 16 (15 Marks)

Kumar Singh has 2013 Net Income For Tax Purposes of \$92,000. After receiving a large inheritance from his uncle's estate, he donates \$110,000 to the Canadian Kidney Foundation. He has made smaller donations to this organization for several years and, as a consequence, he does not qualify for the first-time donor's super tax credit.

He chooses to claim \$23,000 of his donation in 2013. In 2014, his income remains at \$92,000 and he makes no further donations. Determine Mr. Singh's charitable donations tax credit for 2013, as well as the base for the maximum allowable charitable donations tax credit for 2014. Until what year can he claim any unused portions of his 2013 donation?

Question 17 (20 Marks)

Mr. Kevin Bhomic has a spouse and a 19 year old dependent son. Mr. Bhomic's 2013 Net Income For Tax Purposes is \$117,000. For 2013, Mr. Bhomic's spouse has no income and his son has Net Income For Tax Purposes of \$7,200. During 2013, Mr. Bhomic and his spouse have medical expenses of \$2,842. His son has medical expenses of \$8,200 which Mr. Bhomic paid. Determine Mr. Bhomic's medical expenses credit for 2013.

Question 18 (15 Marks)

At the beginning of 2013, David Fu has a carry forward of education related credits from 2012 of \$675 [(15%)($\$4,500$)]. During 2013, he is in full time attendance at a Canadian university for 8 months of the year. His tuition fees total \$7,350 for the year. His Taxable Income for 2013 is \$32,800. Other than education related tax credits, his only tax credit is his basic personal credit. Determine David's total education related tax credits and any available carry forwards.

END OF EXAMINATION