

# Practice Examination

## Chapter 10 (Retirement Savings)

### Instructions To Students

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#### 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 Retirement Savings

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### 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 Questions	10	9.0
2 - 7	True Or False	9	8.1
8 - 14	Multiple Choice	21	18.9
15	RRSP Contributions	40	36.0
16	Chapter 10 Exercises	20	18.0
Total		100	90.0

### Question 1 (10 Marks)

- A. List five items that would be included in Earned Income as it is defined for RRSP purposes.
- B. What is a spousal RRSP? Under what circumstances will a withdrawal by a registrant be taxed in the hands of his/her spouse?

### Question 2 Through 7 (9 Marks)

2. While RPP and RRSP arrangements usually provide tax deferral, they cannot provide any tax reduction or avoidance.

True or False?

3. Dividends that are earned in an RRSP will be taxed as ordinary income when they are withdrawn from the plan by the registrant.

True or False?

4. An individual cannot transfer his RRSP assets to a RRIF prior to the year in which he turns 71 years old.

True or False?

5. While contributions to profit sharing plans are not deductible, earnings accumulate on a tax free basis within the plan.

True or False?

6. Only employers can establish and contribute to a Deferred Profit Sharing Plan.

True or False?

7. A bonus arrangement in which payments occur more than three years after they are earned by the employee will result in the employer not being able to deduct the compensation until it is paid.

True or False?

**Question 8 Through 14 (21 Marks)**

8. With respect to defined benefit RPPs, which of the following statements is not correct?
- A. The employer guarantees the benefit that will be received, without regard to the earnings of the assets in the plan.
  - B. The employer's contributions to such plans must be treated as a taxable benefit by employees.
  - C. The employer can deduct the contributions made to the plan.
  - D. The employee contributions to such plans can be deducted by the employee in the determination of their Net Income For Tax Purposes.
9. Which of the following items is not a qualified investment for a self-administered RRSP?
- A. A mortgage on the individual's principal residence.
  - B. Guaranteed investment certificates issued by a Canadian bank.
  - C. Shares of a private company owned by the registrant.
  - D. Debt issued by a foreign government.
10. Which of the following items would not be a component of Earned Income for RRSP purposes?
- A. Net rental income.
  - B. Spousal support received.
  - C. Royalties on a purchased copyright.
  - D. Net business losses.
11. Which of the following statements about the Home Buyers' Plan is correct?
- A. The maximum withdrawal is \$25,000 per individual.
  - B. All amounts must be repaid within 15 years of the year of withdrawal.
  - C. If contributions are made within 90 days of any Home Buyers' Plan withdrawal, they cannot be deducted.
  - D. A qualifying home must be purchased in the year of withdrawal.
12. With respect to a situation where an individual departs from Canada, which of the following statements is not correct?
- A. Any Home Buyer's Plan balance must be repaid before the due date of the tax return for the year of departure.
  - B. Any Lifelong Learning Plan balance must be repaid before the due date of the tax return for the year of departure.
  - C. If an RRSP is collapsed subsequent to the individual's departure from Canada, the payments to the registrant will be subject to Part XIII tax.
  - D. The departure will automatically result in the collapse of the individual's RRSP, with the fair market value of the assets in the plan being included in the individual's Net Income For Tax Purposes in the year of departure.
13. On January 1 of the current year, an individual is 72 years old and his spouse is 58. The fair market value of the assets in his RRIF is \$975,000. What is the minimum withdrawal that he must make in this year.
- A. There is no minimum withdrawal, only a maximum.
  - B. \$54,167.
  - C. \$30,469.
  - D. Not determinable from the information provided.

14. There are a number of tax free transfers of amounts contained in registered savings plans. Which of the following is not a tax free transfer?
- A. Registered Pension Plan to a different Registered Pension Plan.
  - B. Profit Sharing Plan to a Registered Pension Plan.
  - C. Registered Pension Plan to a Registered Retirement Savings Plan.
  - D. Deferred Profit Sharing Plan to a Registered Pension Plan.

### Question 15 (40 Marks)

During 2012, Mr. Robert Sparks had the following amounts of income and deductions under the various Subdivisions of Division B of the *Income Tax Act*:

Net employment income	\$60,000
Income (Loss) from business	( 16,000)
Income from property (Interest on term deposits)	6,000
Taxable capital gains	7,500
Allowable capital losses	( 10,500)
Subdivision e deductions (Child care costs)	( 3,000)

Mr. Sparks' Unused RRSP Deduction Room carried forward from 2012 was nil and there were no undeducted contributions in his RRSP account.

#### Required:

- A. Calculate his 2012 Net Income For Tax Purposes and any carry overs available to him.
- B. Calculate the maximum deductible contribution Mr. Sparks can make to his RRSP for the 2013 taxation year for the following **independent** Cases:

**Case 1** During 2012, he is a member of a money purchase Registered Pension Plan (RPP) in which he has contributed \$1,000 and his employer has contributed \$1,500.

**Case 2** During 2012, he is a member of a Deferred Profit Sharing Plan (DPSP) in which his employer has contributed \$1,500 per employee.

**Case 3** During 2012, he is not a member of a RPP or DPSP. Assume that in addition to the preceding information, he also has net rental income of \$140,000. He has contributed \$1,500 to his wife's RRSP in August, 2013.

### Question 16 (20 Marks)

Provide the information required by each of the following Exercises.

- A. Babs Earnest has \$15,000 in pre tax income that she does not currently require to maintain her life style. Her marginal tax rate on ordinary income is 43 percent. On eligible dividends, her marginal rate is 27 percent. Assume her marginal tax rates will be the same for the next four years.

As four years from now she is planning to use these funds for an extended vacation, she is going to invest the \$15,000 in preferred shares that pay eligible dividends at a rate of 4 percent. She does not anticipate any gain or loss on the disposition of the securities.

She has asked your advice as to whether it would be better to contribute the funds to her RRSP, or her TFSA with the intention of withdrawing the funds from either plan at the end of four years, or alternatively, invest the funds outside of both her RRSP and TFSA. Which alternative will provide more funds for her extended vacation?

- B. During 2011, John Trump makes a \$10,000 contribution to a new RRSP in which he is the registrant. His wife, Mrs. Ifana Trump also makes a \$10,000 contribution to his RRSP in 2011. In 2012, Mrs. Trump does not make any further contribution to her husband's RRSP. However, Mr. Trump makes a \$12,000 contribution. During 2013, Mr. Trump withdraws \$15,000 from his RRSP. How will this withdrawal be taxed?
- C. Barton Blake's employer sponsors both a money purchase RPP and a DPSP. During the current year, his employer contributes \$3,200 to the RPP and \$700 to the DPSP on behalf of Mr. Blake. Mr. Blake also contributes \$3,200 to the RPP. Calculate the amount of the Pension Adjustment that will be included on Mr. Blake's T4 for the current year.

**END OF EXAMINATION**