

Practice Examination Solution

Chapter 10 (Retirement Savings)

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	10	
2 - 7	True Or False Questions	9	
8 - 14	Multiple Choice Questions	21	
15	RRSP Contributions	40	
16	Chapter 10 Exercises	20	
Total		100	

Solution 1 (10 Marks)

A. The required 5 items could be selected from the following:

- Employment income computed without the deduction of RPP contributions.
- Taxable (deductible) support payments.
- Net business income (loss).
- Net rental income (loss).
- Royalties, provided the taxpayer is the author, inventor, or composer.
- Income (loss) earned as an active partner.
- CPP disability benefits.
- Supplementary unemployment benefits.

1 grading point for each correct answer to a maximum of 5. If more than 5 listed, deduct 1 grading point for each extra item.

B. A spousal RRSP is an RRSP to which the registrant's spouse has made a contribution. If the registrant's spouse has made a contribution in either the current year, or in the two preceding years, the withdrawal (to the extent of all contributions made by the spouse) will be taxed in the hands of the spouse.

1 grading point for each highlighted item. Total 8

Your Mark = [(# of grading points ÷ 13)(10%)] = ____%

Solutions 2 Through 7 (9 Marks)

2. **False.** If the taxpayer is in a lower tax bracket when payments or withdrawals are made, the use of RPP and RRSP arrangements can result in tax reduction.
3. **True.** All withdrawals from an RRSPs are treated as ordinary income.
4. **False.** An individual can transfer his RRSP assets to a RRIF at any age.
5. **False.** Amounts earned on profit sharing plan balances are subject to tax within the plan.
6. **True.** Only employers can establish and make contributions to a DPSP.
7. **False.** This would be a salary deferral arrangement and, while the employer can deduct the compensation when it is earned, the employee will have to included it in income at that time. It cannot be deferred until it is received.

1 grading point for each correct answer. Total 6

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

Solutions 8 Through 14 (21 Marks)

8. **B.** The employer's contributions to such plans must be treated as a taxable benefit by employees.
9. **C.** Shares of a private company owned by the registrant.
10. **C.** Royalties on a purchased copyright.
11. **A.** The maximum withdrawal is \$25,000 per individual.
12. **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. **C.** \$30,469 [$\$975,000 \div (90 - 58)$]
14. **B.** Profit Sharing Plan to a Registered Pension Plan.

1 grading point for each correct answer. Total 7

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

Solution 15 (40 Marks)**Part A**

Mr. Sparks' Net Income For Tax Purposes would be calculated as follows:

Income Under ITA 3(a):		
Net Employment Income	\$60,000	
Income From Property	6,000	\$66,000
Income Under ITA 3(b):		
Taxable Capital Gains	\$ 7,500	
Allowable Capital Losses (Maximum)	(10,500)	Nil
Balance From ITA 3(a) And (b)		\$66,000
Subdivision e Deductions		(3,000)
Balance From ITA 3(c)		\$63,000
Deductions Under ITA 3(d):		
Business Loss		(16,000)
Net Income For Tax Purposes		\$47,000

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Mr. Sparks' Net Income For Tax Purposes is \$47,000 and he has a net capital loss carry over of \$3,000 (\$7,500 - \$10,500).

Part B - Case 1

Mr. Sparks' Earned Income would be calculated as follows:

Net Employment Income	\$60,000
Add Back RPP Contributions	1,000
Business Loss	(16,000)
2012 Earned Income	\$45,000

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Given this, his maximum deductible RRSP contribution would be calculated as follows:

Unused Deduction Room Carried Forward From 2012	Nil
Annual Addition - Lesser Of:	
• 2013 RRSP dollar limit = \$23,820	
• 18% of 2012 Earned Income of \$45,000 = \$8,100	\$8,100
Less 2012 PA (\$1,000 + \$1,500)	(2,500)
Maximum Deductible RRSP Contribution	\$5,600

Part B - Case 2

Mr. Sparks' Earned Income would be calculated as follows:

Net Employment Income	\$60,000
Business Loss	(16,000)
2012 Earned Income	\$44,000

Given this, his maximum deductible RRSP contribution would be calculated as follows:

Unused Deduction Room Carried Forward From 2012	Nil
Annual Addition - Lesser Of:	
• 2013 RRSP dollar limit = \$22,820	
• 18% of 2012 Earned Income of \$44,000 = \$7,920	\$7,920
Less 2012 PA	(1,500)
Maximum Deductible RRSP Contribution	\$6,420

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Part B - Case 3

Mr. Sparks' Earned Income would be calculated as follows:

Net Employment Income	\$ 60,000
Business Loss	(16,000)
Net Rental Income	140,000
2012 Earned Income	\$184,000

Given this, his maximum deductible RRSP contribution would be calculated as follows:

Unused Deduction Room Carried Forward From 2012	Nil
Annual Addition - Lesser Of:	
• 2013 RRSP dollar limit = \$23,820	
• 18% of 2012 Earned Income of \$184,000 = \$33,120	\$23,820
Less 2012 PA	Nil
2013 RRSP Deduction Limit	\$23,820
Less 2013 Contribution to Spousal RRSP	(1,500)
Maximum Deductible RRSP Contribution	\$22,320

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1 grading point for each highlighted item. Total 40

Your Mark = [(# of grading points ÷ 40)(40%)] = ____%

Question 16 (20 Marks)**Part A**

The required information is as follows:

Funds Invested Inside RRSP

Deductible Contribution	\$15,000
Dividends Received [(4)(4%)(15,000)]	2,400
Balance After Five Years	\$17,400
Tax Payable On Withdrawal [(43%)(17,400)]	(7,482)
Available For Vacation - RRSP	\$9,918

Funds Invested Inside TFSA

Initial Investment [(\$15,000)(1 - .43)]	\$8,550
Dividends Received [(4)(4%)(8,550)]	1,368
Available For Vacation - TFSA	\$9,918

Invested Outside RRSP And TFSA

Initial Investment [(\$15,000)(1 - .43)]	\$8,550
After Tax Dividends [(4)(4%)(8,550)(1 - .27)]	999
Available For Vacation - Outside Both Plans	\$9,549

The after tax funds from both the RRSP and TFSA are equal and \$369 (\$9,918 - \$9,549) greater than the after tax funds from investing outside of both plans. Since the goal is to remove the funds in 4 years, it would be more advantageous to use the TFSA as withdrawals are added back to the TFSA contribution room. In addition, with the assumption that Bab's tax rate stays the same, the RRSP contribution will not result in the withdrawal being taxed at a lower rate.

Part B

As a spousal contribution was made in 2011, one of the two years prior to 2013, income attribution will apply. However, it will only apply to the extent of the \$10,000 contribution made by Mrs. Trump. This means that \$10,000 of the withdrawal will be taxed in the hands of Mrs. Trump, with the remaining \$5,000 taxed in the hands of Mr. Trump.

Part C

The Pension Adjustment will be calculated as follows:

Employer's RPP Contribution	\$3,200
Employer's DPSP Contribution	700
Employee's RPP Contribution	3,200
PA For The Current Year	\$7,100

1 grading point for each highlighted item. Total 33

Your Mark = [(# of grading points ÷ 33)(20%)] = ____%