

Name: MARKING KEY Student Number: _____

Quiz #1A – Thursday lecture (10 marks)

Zephyr McPhee is the CEO of Healthy Grains Inc., a CCPC. One of her employees, Jasmine Rice, does a lot of traveling by car throughout Canada in her role as Chief Rice Salesperson. Zephyr is considering three options that will help Jasmine. (The options are mutually exclusive.)

Question 1

Required: For each option, **explain the tax consequences to Jasmine**. Consider income inclusions only. Show all calculations where appropriate. ITA references are not required. Assume Jasmine expects to drive 42,000 km annually for the company for sales purposes, and that this amount is 75% of the total annual kilometres. *i.e. 56,000 total km; personal use km = 14,000*

OPTION 1

Healthy Grains Inc. will lease a Honda Accord on January 1, 2012 for Jasmine to use. Jasmine will have this car at her disposal throughout 2012. Total monthly lease payments, excluding insurance, are \$447.00.

taxable benefit to Jasmine

standby charge $\frac{A}{B} \times \left(\frac{2}{3} [447.00 \times 12] \right)$

- no operating benefit + (-1)

→ qualifies for reduction

$\frac{14,000}{20,000} \times 3,576$

$= 2,503$

↑ employment income inclusion

OPTION 2

Jasmine will drive her own car (a 1994 Buick LeSabre). However, Healthy Grains Inc. will pay Jasmine \$0.53/km for the first 5,000 km, and \$0.47/km for each km thereafter. Healthy Grains Inc. will issue payment to Jasmine on December 31, 2012, after Jasmine submits a mileage log showing the total km she drove in 2012. Healthy Grains Inc. will pay Jasmine based on the total km she drives in 2012.

→ unreasonable - although it is based solely on the # of km, Jasmine is receiving the allowance for business and personal km (see preamble before 6(1K5(x)))

∴ taxable

$5,000 \text{ km} \times 0.53 = 2,650.00 \checkmark$
 $51,000 \text{ km} \times 0.47 = 23,970.00 \checkmark$
56,000 $26,620.00 \rightarrow$ total income inclusion

- not a reimbursement of actual expenses or losses

OPTION 3

Assume the same facts as in Option 1, except that Jasmine expects to drive 64,000 km for business use. Additionally, Healthy Grains Inc. will also provide Jasmine with a car allowance of \$150 per month because Jasmine visits her local VaccuuShine at the beginning of each workday to get her car washed, waxed, and vacuumed (sometimes samples of rice spill in the car, and Jasmine wants to prevent infestations of bugs, mice, moths, etc.).

3

may have claimed 14,000 personal km - ok - no marks deducted

64,000 bus km

85,333 total km

21,333 total personal km → ∴ will not qualify

$$\text{standby charge} = \frac{2}{3} (497.00 \times 12)$$

$$= 3,576 \text{ income inclusion} \checkmark$$

allowance is taxable (no exception)

$$\therefore 150.00 \times 12 = 1,800 \text{ income inclusion} \checkmark$$

for the reduction in standby charge despite 50% business use

$$\rightarrow \text{TOTAL INCOME INCLUSION} = 3,576 + 1,800 = \underline{\underline{5,376}}$$

Question 2

Are there any tax consequences to Zephyr personally arising from Option 3? (If so, explain briefly)

no ✓

Name: MarkWB Key Student Number: _____

Quiz #1B – Thursday lecture (10 marks)

Zelda Bambam is the CEO of Healthy Grains Inc., a CCPC. One of her employees, Jasmine Rice, does a lot of traveling by car throughout Canada in her role as Chief Rice Salesperson. Zelda is considering three options that will help Jasmine. (The options are mutually exclusive.)

Question 1

Required: For each option, explain the tax consequences to Jasmine. Consider income inclusions only. Show all calculations where appropriate. ITA references are not required. Assume Jasmine expects to drive 42,000 km annually for the company for sales purposes, and that this amount is 75% of the total annual kilometres. *ie. 56,000 total km; personal use km = 14,000*

OPTION 1

Jasmine will drive her own car (a 1994 Buick LeSabre). However, Healthy Grains Inc. will pay Jasmine \$0.53/km for the first 5,000 km, and \$0.47/km for each km thereafter. Healthy Grains Inc. will issue payment to Jasmine on December 31, 2012, after Jasmine submits a mileage log showing the total km she drove in 2012. Healthy Grains Inc. will pay Jasmine based on the total km she drives in 2012.

→ unreasonable - although it is based solely on the # of km, Jasmine is receiving the allowance for business and personal km (see preamble before (11K6Xr))

∴ taxable

$$\begin{array}{r} 5,000 \text{ km} \times 0.53 = 2,650.00 \checkmark \\ 51,000 \text{ km} \times 0.47 = 23,970.00 \checkmark \\ \hline 56,000 \qquad \qquad \qquad 26,620.00 \end{array}$$

- not a reimbursement of actual expenses/leases

↳ total income inclusion

OPTION 2

Healthy Grains Inc. will lease a Honda Civic on January 1, 2012 for Jasmine to use. Jasmine will have this car at her disposal throughout 2012. Total monthly lease payments, excluding insurance, are \$398.00.

taxable benefit to Jasmine

standby charge $\frac{A}{B} \times \left(\frac{2}{3} [398.00 \times 12] \right)$

→ qualifies for reduction

$$\frac{14,000}{20,954} \times 3,184 = \$2,228$$

↑ employment income inclusion

- no operating benefit as it includes

Name: _____ Student Number: _____

may have assumed
14,000 personal km -OK-
no marks deducted.

OPTION 3

Assume the same facts as in Option 2, except that Jasmine expects to drive 64,000 km for business use. Additionally, Healthy Grains Inc. will also provide Jasmine with a car allowance of \$200.00 per month because Jasmine visits her local VaccuuShine at the beginning of each workday to get her car washed, waxed, and vacuumed (sometimes samples of rice spill in the car, and Jasmine wants to prevent infestations of bugs, mice, moths, etc.).

64,000 bus km; 21,333 total km; 21,333 personal km

$$\text{standby charge} = \frac{2}{3}(398.00 \times 12) \\ = 3,184 \checkmark$$

↳ ∴ will not qualify for
the reduction in standby
charge despite 50% busin
use.

car allowance is taxable (no exception)
 $200.00 \times 12 = 2,400.00 \checkmark$

$$\therefore \text{TOTAL INCOME INCLUSION} = \$3,184.00 + \$2,400.00 \\ = \$5,584.00$$

Question 2

Are there any tax consequences to Zelda personally arising from Option 3? (If so, explain briefly)

No ✓