

Question #1: Employment Income (15 Marks)

Ms. Duff has been employed for the past three years as an interior designer in Vancouver by a national furniture store, Pacific Broyhill Ltd, at an annual salary of \$72,000. Given limited advancement opportunities at Pacific Broyhill, Ms. Duff accepted a position as Editorial Design Director with Toronto's publicly-traded design magazine, Beautiful Homes Inc. (BHI) effective August 1, 2010 at an annual salary of \$108,000.

Other Information:

$$\begin{aligned} \text{BHI Salary} &: 5/12 \times 108,000 = 45,000 \\ \text{Broyhill Salary} &: 72,000 \times 7/12 = 42,000 \end{aligned}$$

1. Because the job required frequent travel to the various homes being staged and photographed for the magazine, BHI provided Ms. Duff with a company-owned vehicle on August 1, 2010. The car cost \$51,000 and Ms. Duff has driven the vehicle a total of 58,000 kilometers, of which 6,500 kilometers were for personal use. Ms. Duff reimbursed her employer \$50 per month for her personal use of the automobile. *benefit*
2. There was no pension plan at Pacific Broyhill; however, at BHI Ms. Duff contributed a total of \$2,500 to the company's registered pension plan. The employer also contributed \$2,500. *deduction*
3. Ms. Duff attended an important furniture showcase in Los Angeles in November. She paid \$1,625 for airfare and \$3,650 for accommodation. In addition, she paid \$4,600 for meals and entertainment as she courted various furniture and upholstery designers to lend their new creations to Beautiful Homes Inc. for staging purposes.. Upon her return, BHI reimbursed her for all of the conference expenses.
4. Ms. Duff was very successful at BHI. Her beautifully staged homes, with borrowed instead of purchased furniture, was the talk of the design world and magazine subscriptions soared since her take-over of the Director's position. As a result Ms. Duff received a \$75,000 bonus, half paid in December 2010 and the other half due in February 2011.
5. At BHI, Ms. Duff had been given options to buy 5000 shares of her employer's stock at a price of \$15 per share. At the time the options were granted, the shares had a fair market value of \$10 per share. On December 15, 2010, when the shares had a fair market value of \$20 per share, Ms. Duff exercised her option and purchased 1000 shares.
6. On October 1, 2010, Ms. Duff received a \$250,000 loan from BHI to purchase a home in Toronto. The loan requires annual interest payments at a rate of 1% but Ms. Duff won't pay the interest until January 30, 2011. The prescribed rates for 2010 were as follows:

~~1st quarter: 90 days @ 2%~~
~~2nd quarter: 91 days @ 3%~~

~~3rd quarter: 92 days @ 3%~~
 4th quarter: 92 days @ 2% Oct. Nov. Dec.

The anticipated prescribed rate for the first quarter of 2011 (90 days) will be 1%.

→ only use this in 2011 em. income calculation

Required:

Calculate Ms. Duff's minimum net employment income for the year ending December 31, 2010.

Show all your calculations to obtain full marks!

$$\begin{aligned} \text{Total Salary} &= 7/12 \times 108,000 = 42,000 \\ &+ 7/12 \times 72,000 = 42,000 \\ &\underline{\hspace{10em}} \\ &87,000 \end{aligned}$$

Solution to Question #1: 5 months available

1. $\frac{6500}{58,000} = 11.2\%$ personal use, so she qualifies for standby reduction

standby: $\frac{6500}{1667 \times 5} (2\% \times 51,000 \times 5) = 3977.20$

2. deduction of RPPC: (2500)

operating benefit: lesser of the two:

3. Expenses: \$1625 airfare
+ 3650 occ.
+ (5 x 4600)

① $1/2 \times 3977.20 = 1988.60$

② $0.24 \times 6500 = 1560$

\$7575

∴ total car benefit = $1560 + 3977.20 = 5537.20 - 250 = 5287.20$
Reduce her paid portion of \$50 x 5 = 250

- gave her an allowance (benefit) of 9875, so net benefit she can claim $9875 - 7575 = 2300$
($9875 = 1625 + 3650 + 4600$)

4. Only count bonus that was received during 2010, and claim the rest half in 2011 income taxes. So, only \$37,500 bonus is included in this year net em. income.

5. Stock option. $(20 - 15) \times 1000 = \5000 taxable benefit.

6. Imputed interest - $(250,000 \times 2\% \times 92/365) = 1260.27$

If she had paid some interest during 2010, then we would deduct that amount from the benefit of 1260.27, however she paid no int in 2010, so the total taxable benefit would be \$1260.27.

Employment Income for Year ending Dec. 31 2010

Salary at BHI	-----	\$45,000.00	2
Salary at Brayhill	---	42,000.00	2
bonus	---	37,500.00	1
Car benefit	---	5287.20	
travel allowance benefit	---	2300.00	
stock option benefit	---	5000.00	1
low int loan benefit	---	1260.27	
Total inflows	---	<u>\$138,347.47</u>	
RPPC deduction		<u>(2500)</u>	
Total outflows	---	(2500)	
Employment income to be taxed for 2010	---	<u>\$135,847.47</u>	

Question #2: Short Answer Questions (2 Marks each = 12 Total Marks)

Question	Answer
<p>2 To be deemed a resident of Canada, an individual must sojourn in Canada for at least what period of time?</p>	<p>183 days</p>
<p>2 Kyle was born and raised in Ontario. Even after graduation, he continued to live in Ontario with his parents until June 2010, earning \$36,000 during that period. But after a terrible fight with his parents, Kyle quit his old job, resigned all his social memberships, packed up all his possessions and moved to British Columbia on July 1, intending never to return. From July 1 - December 31, 2010, Kyle earned another \$40,000 at his new location. On what day did Kyle cease to be a resident of Canada? Assume BC Canada.</p>	<p>He never ceased residency in Canada. He continues to be a resident of Canada, and will be taxed on worldwide income. - he only moved from one province to another province.</p>
<p>1 Jane worked in Alberta for a Canadian development company. On August 1, 2010, the company sent Jane to Indonesia for a 3-year posting. Jane enjoyed her new location so much that she moved her entire family and all their possessions to Indonesia effective November 1, 2010. The company paid Jane a total of \$35,000 From January 1 to July 31, 2010, which she lived in Canada, and another \$25,000 from August 1 to December 31, 2010 while she was in Indonesia. On what date did Jane cease to be a resident of Canada? Answer</p>	<p>Jane was part year resident. She stopped being a Canadian resident on Nov. 1/2010, - the latest date of - moving to Indonesia - her family moves to Indonesia or, - set up residency.</p>
<p>2 When he arrived in Indonesia, Jane's husband began an import/export business of his own in November 2010. He operated the business as a proprietorship and earned \$115,000 in business income during November and December, 2010. How much of this income will be taxed by Canada? * Assume the business is operating in Indonesia.</p>	<p>He will only be taxed on his Canadian income for the remaining of year in Indonesia. - Part year resident. + - Only taxed on world income from Jan - Nov 1</p>
<p>2 International Imports Ltd. was incorporated in Canada in 1950. As it grew, the company moved its operations and management to Seattle, Washington, U.S.A. on January 1, 1975 and since that date has had no further activities in Canada. Does CRA consider this company a Canadian resident for tax purposes? → before 1965</p>	<p>Not automatically a resident (not before 1965), however it operated in Canada any time after 1965, up until 1975, and had mind + management here once, so yes, they are considered a Canadian resident. - tax worldwide.</p>
<p>1 On April 1, 2000, HotHeads, a U.S. recruiting firm established offices in Vancouver, Edmonton, Toronto and Montreal as part of its international expansion. The "mind and management" of the company remains in New York. Would this company be considered a resident of Canada for tax purposes? Yes</p>	<p>No, they were not incorporated in Canada, and currently, their mind/management test isn't in Canada either. - non resident - only taxed on Canadian income.</p>

Question #3: CCA and CEC (23 marks)

→ 1/2 year rule for new businesses.
↳ 3 months of operations.

Doggs Motorcycles Ltd. was incorporated on October 1, 2008 and selected a December 31 year end for the first fiscal year of the company. The company paid incorporation costs totaling \$5,000. Also on October 1, 2008, the company purchased a building for \$250,000 (class 1 - 4%) and \$360,000 of inventory. On November 1, 2008 the company bought out a competitor. The company paid \$150,000 for the existing inventory and \$10,000 for various furniture and equipment (class 8 - 20%). Although only in operation for 92 days, the company realized a 2008 Net Income for Tax Purposes of \$256,275.

Nov. 30, Dec. 31

By March 2009, the company was becoming increasingly successful and acquired an additional \$10,000 of equipment (class 8 - 20%). It also sold some of the existing older class 8 equipment which had originally cost \$8,000 for \$5,000.

In 2010, the company was so successful it was purchased by a Harley Davidson franchisee. The company sold all its assets, receiving \$300,000 for the building, \$8,000 for the equipment and \$50,000 for goodwill.

In order to minimize its taxes payable, the company annually claims the maximum deductions permitted under tax law.

Required:

Identify any and all tax consequences the company will incur on all its assets (tangible and intangible) from the date of incorporation through 2010.

Show all your calculations and, if required, round decimal points up to the nearest dollar.

2008

$$\begin{aligned}
 * & 3487.50 - 262.50 = 3225 \\
 & 3225 \times 2/3 = 2150 \\
 & 2150 + 262.50 = 2412.50 \\
 & \uparrow \\
 & \text{income inclusion for 2008}
 \end{aligned}$$

CEC for incorporation

2008 addition of CEC incorporation (75% x 5000)	3750
2008 CEC 7% $\frac{92}{365}$	(262.5) CC
2009 Jan. 1 beg. bal CEC account	3487.50

3683.84

Building - 4% - class 1

CCA: $(250,000 \times 0.04 \times 0.50 \times \frac{92}{365})$ → half year rule → short year rule.

CCA = 1260.27 So, 2009 Jan 1 beg bal of UCC = $250,000 - 1260.27 = 248,739.73$
or \$248,740

Equipment / furniture - class 8 (20%)

CCA: $(10,000 \times 0.20 \times 0.5 \text{ (half year rule)} \times \frac{92}{365}) = 167.123$

So, the 2009 Jan 1 beg bal of UCC = $10,000 - 167.12 = 9832.88$ or 9833

Total CCA during 2008 = $262.50 + 1260.27 + 167.12 = 1689.89$ or \$1690 → they can deduct this full amount, since

$$* = 10,000 - 5,000 = 5,000 \div 2 = 2,500$$

$$i = 12,333 \times 0.20 = 2,466.60$$

$$ii = 248,740 \times 0.04 = 9,949.60$$

Solution to Question #3:

2009

	furniture - 20%	building - 4%
Opening bal. UCC	\$ 9,833	248,740
Add: Additions	10,000	-
deduct: dispositions, lesser of a. capital cost b. POC	(5,000)	-
UCC before adjustment	14,833	248,740
Deduct 1/2 net Additions	(2,500)*	-
UCC before CCA	12,333	248,740
CCA	(2,466.60)ii	(9,949.60)ii
Add: 1/2 net additions	2,500	-
UCC end of 2009/or beg. bal 2010.	\$ 12,366.40	\$ 238,790.40

CEC for incorporation

2009 beg. bal CEC account	3,487.50
2009 CEC - 7%	(244.13) (3,487.50 x 0.07)
2010 beg. bal CEC account	\$ 3,243.37

$$* 3,243.37 - 244.13 = 3,000$$

$$3,000 \times 213 = 2,000, 50$$

$$2,000 + 244.13 = 2,244$$

↑
income inclusion
for 2009.

Therefore, the total CCA for 2009 amounts to :	2,466.60	
	+	9,949.60
	+	244.13
	<u> </u>	<u> </u>
	12,660.33	2,467
		+ 9,950
		<u> </u>
		244
		<u> </u>
		12,661

so they would deduct a total of \$12,661 of CCA from their income in 2009.

and CEC income inclusion is \$2,244 for 2009.

Solutin to Question #3 Continued

2010

	<u>furniture - 207.</u>	<u>building - 47.</u>
opening bal. UCC	12 366.40	238 790.40
Add: Additions		
Deduct: dispositions		
a) Capital cost	(8000)	(250,000)
b) PDD		
UCC before adjustment	4366.40	(11 209.60)
Deduct 1/2 net Additions	-	
UCC before CCA	-	
CCA	-	
Add: 1/2 net additions	-	
recapture		11 209.60
terminal loss	(4366.40)	
beg. bal. of 2011	Nil	Nil.

CEC Account 77.

2010 Jan 1 beg bal.	3 243.37
2010 disposition (goodwill)	(37,500) → (75% × 50,000)
2010 end bal.	(34 256.63) have to recapture back into N.I.

~~262.5~~ 244.13 } recapture $\frac{34256.63 - (262.5 \times 100)}{100} = 493$

Therefore, as the company was boughtout by another company, Dogg's motorcycles had experienced a terminal loss in the furniture/eqipment of \$4366. And they also had a recapture of \$11210 that will have to be recaptured in N.I. The company also had a recapture in the CEC account, as the goodwill came into place. They have to recapture \$34257 back into N.I.