TAX #1 midterm Feb. 5 2011

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.

BHI Salary : 5/12 × 108,000 = 45,000 5
Broyhill Salary : 72,000 × 7/12 = 42,000

Other Information:

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 6,50 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. deduct

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 fo* 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 he 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 o $15 per share. At the time the options were granted, the shares had a fair market value of $10 pe 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:

3 months each

~~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 cal

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

Show all your calculations to obtain full marks!

Total Salary = 5/12 × 108,000 = 45,000
+ 7/12 × 72,000 = 42,000
87,000

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 % × 51000 × 5) = 3977.20

operating benefit : lesser of the two :

① 1/2 · 3477.20 = 1988.60

② 0.24 × 6500 = 1560

∴ total car benefit = 1560 + 3477.20 = 5537.2 − 250 = 5287.2
reduce her paid portion of $50 × 5 = 250

2. deduction of RPPC : (

3. Expense : $1625 airfare
+ 3650 acc.
+ (.5 × 4600)
$7575
- gave her an allowance(
9875, so net benefit :
claim 9875 − 7575 = 23
(9875 = 1625 + 3650 + 4600)

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

5. Stock option. (20 − 15) × 1000 = $5000 taxable benefit.

6. Imputed interest − (250,000 × 2 % × 92/365) = 1260.27
If she had paid some interest during 2010, then we would deduct that amount fr the benefit of 1260.27, however she paid no int in 2010, so the total taxa benefit would be $1260.27.

Employment Income For Year ending Dec. 31 2010

Salary at BHI	$45,000.00	
Salary at Braymill ...	42,000.00	
bonus ...	37,500.00	
Car benefit ...	5287.20	
travel allowance benefit ...	2300.00	
stock option benefit ...	5000.00	
low int loan benefit ...	1260.27	
Total inflows ...		$138,347.47
RPPC deduction	(2500)	
Total outflows ..		(2500)
Employment income to be taxed for 2010 ...		$135,847.47

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

	Question	**Answer**
2	To be deemed a resident of Canada, an individual must sojourn in Canada for at least what period of time?	183 days
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.	He never ceased res in Canada. He con to be a resident o Canada, and will taxed on worldw income. - he only moved from province to another province.
	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 Januray 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?	Jane was part yea resident. She stop being a canadian on Nov. 1/2010 - the latest date o - moving to indone - her family move to indonesia - set up residency
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.	He will only be on his canadian i for the remaining in indonesia. - Part year resident - Only taxed on income from Jan1
2	International Imports Ltd. was incorporated in Canada in 1950. (↗ before 1965) 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?	Not automatically resident (not befor 1 however it operat in Canada any tir after 1965, up un and had mind + m here once, so yes are considered resident. - tax w
	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 thise company be considered a resident of Canada for tax purposes?	No, they were no incorporated in Canada, and cu their mind/manag test isn't in ca either. - non resid - only taxed on Can in

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

Question #3: CCA and CEC (23 marks)

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 ~~$130,000 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 whic 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 it assets, receiving $300,000 for the building, $8,000 for the equipment and $50,00 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

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

3603.84

* 3487.50 - 262.50 = 3
3225 x 2/3 = 2150
2150 + 262.50 = 2

income i
for 20

Building - 4% - class 1

CCA: (250,000 x 0.04 x 0.50 x 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.
or
$248,740

Equipment / furniture - class 8 (20%)

= 11.7.123

* = 10,000 - 5000 = 5000 ÷ 2 = 2500

i = 12333 × 0.20 = 2466.60

ii = 248740 × 0.04 = 9949.60

Solution to Question #3:

2009

	furniture - 20%	building - 4%
opening bal. UCC	$9833	248,740
Add: Additions	10,000	–
deduct: dispositions, lesser of		
a. capital cost		
b. POD	(5000)	–
UCC before adjustment	14,833	248 740
Deduct ½ net Additions	(2500)*	–
UCC before CCA	12333	248740
CCA	(2466.60)i	(9949.60)ii
Add: ½ net additions	2500	–
UCC end of 2009 / or beg. bal 2010.	$ 12,366.40	$ 238,790.40

CEC for incorporation

2009 beg. bal CEC account	3487.50
2009 CEC - 7%	(244.13)} (3487.50 × 0.07)
2010 beg. bal CEC account	$ 3243.37

* 3243.37 - 244.13

5000 × 2/3 = 200C

2000 + 244.13 :

incom

for 2

Therefore, the total CCA for 2009 amounts to :

2466.60
\+ 9949.60
\+ 244.13
12,660.33

or

246
\+ 995
244
12,66

so they would deduct a total of $12661 of CCA from this incom

Solutin to Question #3 Continued

2010

	furniture - 20%	building - 4%
opening bal UCC	12 366.40	238 790.40
Add: Additions		
Deduct: dispositions		
a) capital cost		
b) POD	(8000)	(250000)
UCC before adjustment	4366.40	(11 209.60)
Deduct ½ net Additions	—	
UCC before CCA	—	
CCA	—	
Add: ½ net additions	—	
recapture		11209.60
terminal loss	(4366.40)	
beg. bal. of 2011	Nil	Nil.

CEC Account 7%

2010 Jan 1 beg bal.	3243.37
2010 disposition (goodwill)	(37.500) → (75% × 50,000)
2010 end bal.	(34 256.63) have to recapture back into N.I.

266.5
144.13 } recapture

[illegible]

Therefore, as the company was boughtout by another company, Doggs Motorcy had experienced a terminal loss in the furniture/equipment of $4366. And also had a recapture of $11210 that will have to be recaptured in N.I. - company also had a recapture in the CEC account, as the goodwill came place. They have to recapture $34257 back into N.I.