

**TUTORIAL: FINAL REVIEW**

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**Q1**

Jonathan Campbell graduated from the University of Alberta in early 2020 at the age of 48 and was married to his lovely wife, whom he met on Tinder, Andrea Steele. Upon graduation, he immediately applied for a number of jobs and accepted a position as a financial planner in the Ottawa office of Oxford Associates Ltd. Oxford Associates Ltd. is a large Canadian controlled private corporation employing more than two hundred people.

Prior to accepting employment with Oxford Associates, Jonathan had lived in Red Deer, Alberta with his wife and four children. At the end of 2020, their ages were 5, 10, 12, and 15 with the 15-year-old child having a prolonged physical handicap, which qualifies him for the disability tax credit. Once he had signed the contract with the company, plans were made to sell the house they owned in Red Deer. In early 2020, Mr. Campbell was terminated by his previous employer, a public accounting firm.

Upon his acceptance of his new employment job, the happy family have moved to Ottawa on July 16, and moved into an apartment for Jonathan's work. However, with little work experience as he had been heavily relying on his wife since they got married, the banks were reluctant to provide him a mortgage at favorable terms. His current employer, Oxford Associates, stepped in and agreed to an interest-free housing loan of \$200,000 beginning on August 1, 2020. Assume that the prescribed interest rates for such benefits are 2 percent in each of the first two quarters of 2020 and 1 percent in the third and fourth quarters.

During 2020, Mr. Campbell's salary amounted to \$70,000, of which \$15,000 was from the old employer and the remainder was from the new employer. He paid dues to his professional association in the amount of \$1,650 for the year. Mrs. Steele is a stockbroker and had a salary and commissions of \$263,500 in 2020. Mr. Campbell had a net employment income of \$38,000 and had no other income during the 2019. His pension adjustment was \$1,500. Mr. Campbell had also a rental property income of \$12,500 in 2019.

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As both spouses must spend considerable time at work, full time child care is required. As a consequence, their payments for child care amount to \$250 per week for 49 weeks of the year. With respect to the other three weeks, all of the children attend a summer camp with a special program for the disabled during the month of June. The cost of this camp is \$3,000 per child, or a total of \$12,000 for the three weeks.

In late May 2020, Andrea Steele was convicted of insider trading activities and sentenced to 2 months in prison. She immediately begins servicing the sentence on September 1<sup>st</sup>, 2020.

During 2018, Mr. Campbell received stock options from Oxford Associates to acquire 1,000 shares of its common stock. The option price is \$5.00 per share and, at the time the options are issued, the shares are trading at \$4.50 per share. In June 2020, the shares have increased in value to \$7.00 per share and Mr. Campbell exercises his options. At the end of the year, he sold the shares for \$20 each.

As a result of the move, Mr. Campbell sold the following items rather than move them from Alberta:

	<b>PROCEEDS</b>	<b>COST</b>
Painting	\$1,100	\$1,800
Antique car	\$1,000	\$870
Moby Dick Book	\$1,580	\$999
Coin Collection	\$1,300	\$890

In 2017, he sold his only personal property of a diamond ring that was sold for only \$2,000, which originally cost him \$10,000.

He received a \$40,000 severance package from his old employer in Alberta and was working there since 1990.

During a period of three months from February to April 2020, Mr. Campbell was unable to work as he accidentally got injured at work while trying to fix the printer. During this period, he received CSST payments of \$120 per day.

Mr. Campbell has also decided to sell chicken eggs as a part-time job to earn additional income in order for him to splurge on restaurants. However, due to poor weather conditions, caused by the climate change, he has sustained a loss of \$7,000 throughout the year.

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Mr. Campbell had a previous wife called Barbara, whom he divorced in 2020 without telling his current wife Andrea as he did not want her to divorce him. As part of this divorce settlement, he is required to pay annual spousal support of \$200 per month and \$100 for child support every two months. They have one child, Anthony Campbell. Mr. Campbell paid \$1,200 in total to Barbara for such support this year. He has filed a written settlement from his friend, a notary, that the support is to be considered spousal support in its entirety. The divorce agreement was signed on January 31, 2020 and only took effect on March 1, 2020.

During 2020, Mr. Campbell's brother Matthew passed away and received \$15,000 in death payments related to that death from his father.

During the year, Mr. Campbell incurred the following moving expenses:

- |  |         |
|--|---------|
| a) Cost to move household effects  | \$5,000 |
| b) House hunting trip prior to moving  | \$1,500 |
| c) Travel costs, including meals and lodging for the family  | \$1,000 |
| d) Legal fees – purchase of the Ottawa property  | \$500   |
| e) Living expenses in Ottawa for two days as their home was not ready to move into when the family arrived | \$1,200 |
| f) Legal fees and real estate commission on the sale of his old property in Alberta                        | \$600   |

Oxford Associates reimbursed him with a lump-sum payment of \$5,000 without requesting any back-up receipts.

In late 2020, Mr. Campbell earned \$5,000 in interest on his investments made in the UK, but he only received \$3,500 as the country withheld the difference of taxes. He also contributed \$25,000 into his RRSP in March of 2020. As he has plans of saving for his children's education, he contributed \$12,000 in a RESP account for them.

**Required** Calculate Mr. Campbell's Net Income for Tax Purposes. You must indicate any Nil items.

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### Q2

Mr. Andrew is the primary Controller of Drums Corp., a company that specializes in the production and sale of drum sticks. His employment income for the year ended 2020 was \$76,300 and Old Age Security benefits of \$7,400. Mr. Andrew also received an eligible dividend of \$1,000 which was not taken into account in his net employment income.

Mr. Andrew, 67 years of age, lives with his wife, Arlene (who has Net Income For Tax Purposes of \$7,000), 30 years of age, and his 3 children:

A. Eric, 25 years old, Net Income for Tax Purposes: \$14,800.

B. Martha, 21 years old, Net Income for Tax Purposes: \$5,500.

Mr. Andrew followed the maximum CPP and EI claims and is thus eligible for its maximum tax credit.

During 2020, Mr. Andrew and his spouse have adopted a child by the name of Alex. The adoption process began in January 2020. They later traveled to China to discuss their adoption options and view available children. The cost of this trip amounted to \$4,250. The couple returns to China to pick up their new son and returns happily to Canada on March 17<sup>th</sup>, 2020. The cost of this trip is \$6,420. Additional expenses paid during the first week of March 2020 were \$1,600 paid to the Chinese orphanage and \$3,200 paid to a Canadian adoption agency. Legal and administration fees to settle the adoption case amounted during the adoption period were \$2,700, and document translation fees totaled to \$250. After arrival in Canada, an additional \$2,500 in medical expenses were incurred for the child prior to the end of 2020.

During the last six years, Mr. Andrew and his family lived in an apartment. To accommodate a larger family (with the adoption of Alex), he found a fitting opportunity to purchase his first home. The cost of the home was \$600,000.

Mr. Andrew had donated \$10,000 to the Canadian Cancer Society in 2020. During 2020, Mr. Andrew also made contributions to federal political parties totaling \$800.

In June 2020, Mr. Andrew got into an automobile accident. As a result, his neck was damaged and has limited mobility and has great difficulty climbing stairs. In early July 2020, he spent \$8,500 installing a ramp to replace the steps to the front door and \$2,000 for a snow removal contract as he was no longer able to shovel the snow.

Mr. Andrew also lives with Nicole, his 47-year-old paraplegic sister who qualified for the disability tax credit. Nicole has no income of her own. Mr. Andrew's other sister, Emily, was involved in an almost-fatal car accident last year. This car accident caused her to

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lose a limb and damaged her eyesight. As such, Emily, whom Mr. Andrew supports financially and morally, lives in a home for disabled individuals run by the Government of Canada. Emily's income for 2020 amounts to \$18,905.

Of his three children, Mr. Andrew's son, Eric, was the only one who pursued higher education. He is a full-time student at a Canadian university for 8 months of the year. Mr. Andrew has paid Eric's tuition for 2020 amounting to \$11,450 and in return, Eric has agreed to transfer the maximum credit possible to his father. Eric only paid \$350 for books this year as he bought most of them used, and paid residence fees of \$6,000.

Mr. Andrew paid the following medical costs during 2020:

For Himself	\$2,100
Arlene	\$12,050
For Eric	\$450
For Martha	\$650

Arlene's medical expenses of \$10,000 are outlined as follows:

Root canals	\$2,000
Psychiatric counseling	\$1,050
Botox treatments	\$1,200
Breast enhancement	\$7,000
Prescription glasses	\$800

Melissa's medical expenses of \$4,500 are outlined as follows:

Physiotherapy	\$500
X-Ray	\$500
Prescription Eyeglasses	\$250
Prescription Drugs	\$3,000

**Required** Determine Mr. Andrew's Taxable Income as well as minimum Federal Tax Payable for the year 2020. Indicate any possible carry over amounts.

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### Q3

Catherine and Francois opened a multi-service shop, known as Catherine & Francois (C&F), in 2020. Their lifelong dream was to offer elders a place where they could buy their groceries, order their canes, apply for a wheelchair, get their haircut and drop their grandchildren off to daycare all at once. The following lists the annual sales and services offered by C&F:

Sales from basic groceries	\$50,000
Sales from health care services	\$51,000
Sales from haircuts	\$20,000
Sales from wheel chairs & canes for elders	\$10,000
Sales from daycare services	\$44,000
<b>Total</b>	<b>\$175,000</b>

The company incurred the following expenditures for the year 2020:

1. Supplies expense, booked to the income statement, amounted to \$12,000.
2. Common income statement items incurred this year were:

Amortization	\$18,000
Salaries/Wages	\$64,000
Interest Expense	\$12,000
3. Of Salaries/Wages, 42% were related to providing exempt supplies.
4. The interest expense was incurred on a three-year \$400,000 principal loan. The interest is compounded semi-annually. The loan began in mid-February of 2020.
5. Purchases of \$31,000 were incurred this year, the first year of operations. \$21,000 of these purchases related solely to the basic groceries. Similarly, \$10,000 were attributed to the purchase of prescription drugs for resale.
6. An "Other Expenses" account which had a balance of \$8,000 can be broken down as follows:

Golf club memberships for hair dressers	\$2,300
Personal living expenses for care professionals	\$2,500
Meals and Entertainment to attract daycare workers	\$200
Electricity and heating for the grocery store	\$1,100

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Electricity and heating for the daycare	\$900
Legal fees for lease of all premises	\$700
Rent for all premises	\$2,000

7. Capital expenditures for the year 2020 amounted to \$270,000 with GST being paid on all amounts. The total can be split among:
- \$10,000 for a cash register, used entirely for the basic groceries.
  - \$25,000 for equipment that will be used 40% in the provision of exempt supplies.
  - \$150,000 for the building that will house all five services.
  - \$50,000 for the land that supports the building that houses all five services.
  - \$33,000 for an automobile. It will be used to deliver the basic groceries to elders as well as transport them their canes and/or wheelchairs when they have been processed and completed.
  - \$2,000 for toys and equipment that will be used 100% for daycare services.
8. Francois and Catherine flew to Las Vegas for a Black Friday sale. The total cost of the trip was \$7,600, with GST being paid on all amounts. They expensed this on their corporation's books, claiming it was an eligible expense.
9. At year-end, Francois went to the municipal government to pay his property taxes of \$300. He always paid his quarterly installments on time.

**Required** Calculate the GST Payable (or Refund) that the Catherine & Francois Corporation will remit or receive for the current year.

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### Q4

#### PART A

Determine all the tax consequences should an individual elect for subsection 45(2), from personal to business, and subsection 45(3), from business to personal.

#### PART B

Rose owns shares in Canadian public company that she acquired several years ago at a cost of \$220,000. The shares have a current fair market value of \$426,000. Rose and her husband, Jack, have three children. Their daughter Katherine is 20 years old, while their sons Jake and Jonathan are respectively 8 and 28 years old.

On December 1<sup>st</sup> of the current year, Rose is considering the following alternatives for disposing of the securities:

- A. Selling the shares to her daughter for \$220,000.
- B. Gifting the shares to her younger son, Jake.
- C. Selling the shares to her older son, Jonathan, for \$500,000.
- D. Selling the shares to her husband for the FMV.

**Required** Indicate the immediate tax consequences to Rose that will result from making each of the transfers described. Indicate the adjusted cost base of the shares to the transferee.

#### PART C

Anthony sells a depreciable asset to his son for cash of \$165,000, an amount equal to the fair market value of the asset. The asset has a capital cost of \$97,000. It is the only assets in its CCA class. The UCC balance for the class is \$69,000

#### PART D

Mr. Hot is 60 years of age and his wife, Mrs. Cold, is 52. They have one daughter, Warm, who is 29 years old. On May 1<sup>st</sup> of the current year, Mr. Hot owns the following properties:

**Rental property** Mr. Hot owns a rental building that was acquired at a cost of \$550,000 (\$100,000 of which is allocated to the land). On May 1<sup>st</sup> of the current year, its UCC is \$270,000 and its fair market value is estimated to be \$970,000 (the estimated value of the land is unchanged at \$100,000).

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**Wonderful Inc.** Mr. Hot owns 2,500 shares of Wonderful Inc, a Canadian public company. These shares have a cost of \$275,000 and a current fair market value of \$425,000. Mr. Hot has never owned more than 1 percent of the outstanding shares of this company.

**Farm Land** Mr. Hot owns farm land with a cost of \$525,000 and a current fair market value of \$750,000. The land is farmed on a full time basis by Mr. Hot's daughter, Warm.

**Hot Inc.** Mr. Hot owns 100 percent of the voting shares of Hot Inc., a Canadian controlled private corporation. The company was established with an investment of \$155,000 and it is estimated that the current fair market value of the shares is \$227,000. Hot Inc. is not a qualified small business corporation for purposes of the lifetime capital gains deduction.

**Required** Assuming that no elections are made and that normal deemed disposition values apply, explain the tax consequences to Mr. Hot for the current year if he dies on May 1<sup>st</sup> of the current year, leaving all his property to his spouse and daughter.

### PART E

For a number of years, Bob has owned several rental properties. On January 1<sup>st</sup>, 2020, he marries Charlene and, on the following day, as part of their pre-nuptial agreement, he gifts one of these properties to her. At the time of the gift, the relevant information on the property is as follows:

	Land	Building
Original cost	\$52,000	\$170,000
FMV – Date of transfer	102,000	214,000
UCC – Date of transfer	N/A	97,000

During 2020, there was a net rental loss on the property of \$7,400 and no CCA was deducted on the building.

On January 1, 2021, after concluding that other investments would provide a better return, Charlene sells the rental property for \$346,000. At this time, an appraisal indicates that the market value of the land is unchanged at \$102,000.

**Required** Determine the tax effects associated with the transfer and subsequent sale of the property for both Bob and Charlene assuming that Bob does not elect out of ITA 73(1).

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### PART F

Mercedes starts a new business on January 1 of the current year. During the first year of operations, quarterly sales were as follows:

<u>Calendar Quarter</u>	<u>Taxable Sales</u>
January, February, March	\$18,000
April, May, June	14,000
July, August, September*	35,000
October, November, December	37,000

\*Consists of a sale of \$15,000 on July 15<sup>th</sup>, and a sale of \$20,000 on September 27

**Required** At what point in time will Mercedes have to begin collecting GST? At what point will she be required to register?

### PART G

During 2020, Mr. Joe Panini had net employment income of \$72,500. This included commissions of \$12,000 and taxable benefits of \$9,000. He also had net rental income of \$1,400, eligible dividend income of \$200, and interest of \$2,600. In 2019, his income consisted of the following: \$90,000 of net employment income. Not included in the net employment income was a \$30,000 bonus, of which \$11,000 would be claimed in 2019 and the rest in February 2020. Additionally, Mr. Panini paid unions dues of \$1,000. Net rental income totaled to \$45,000, while net taxable capital gains totaled to \$1,000. During 2019, Mr. Panini was not a member of a Registered Pension Plan or Deferred Profit Sharing Plan. At the end of 2019, his unused deduction room amounted to \$20,000. Mr. Panini was terminated by his previous employer, but luckily found a new job in Montreal. His now ex-employer awarded him a retiring allowance package of \$53,000 which was all rolled over into his RRSP. No other contributions were made to his RRSP during the year. Mr. Panini had worked for his ex-employer since 1983.

**Required** Determine the tax implications of this transaction.