Reference Sheet

Months & Days per Month

January – 31 days
February – 28 days
March – 31 days
April – 30 days
May – 31 days
June – 30 days
July – 31 days
August – 31 days
September – 30 days
October – 31 days
November – 30 days
December – 31 days

Question 1

ABC Co is incorporated in Bermuda. Its shareholders live in Canada. Is it a Canadian resident for federal tax purposes?

- **Yes**
- No

Yes, corporations are resident in Canada if they are incorporated there and if their shareholders are resident in Canada.

Question 2

BCD Limited has a permanent establishment in Alberta, Ontario, and New Brunswick. It earns all of its revenue from New Brunswick and all of its employees are in Ontario. Where will it pay provincial taxes?

- Alberta, Ontario, and New Brunswick
- **New Brunswick and Ontario**
- New Brunswick

A corporation pays provincial taxes where its revenue and payroll is located. So it will pay tax in New Brunswick and Ontario.

Question 3

CRA publications have the force of law.

- True
- **False**

False, the CRA does not publish law, they publish interpretations of the law. The Department of Finance and the Department of Justice publish documents which are binding law.

Question 4

CDE Incorporated has a February 28, 2019 year end. What is the due date to file their corporate tax return?

- April 30, 2019
- **August 31, 2019**
- May 31, 2019
- December 31, 2019

The deadline is August 31, 2019, six months after the corporation's fiscal year end.

Question 5

DEF Ltd. has a February 28, 2019 year end. They are associated with 1 other corporation and both are CCPCs. Their combined incomes is $600,000. What is the deadline to pay their taxes owing?

- **April 30, 2019**
- May 31, 2019
- August 31, 2019
- December 31, 2019

The deadline is two months after year end because, even though they are CCPCs, the income of the associated group is more than $500,000.

Question 6

EFG Inc. has a value of $300,000. The corporation has common shares outstanding and preferred shares outstanding. The preferred shares have a fixed redemption value (their fair market value) of $100,000. What is the value of the common shares?

$200,000 – the common shares will have the residual value of the corporation. If the preferred shares have used up $100,000 of the corporation's value, the remainder belongs to the common shares.

Question 7

Mr. A owns 50% of the common shares of A Co. Mr. A's shares are voting. Mr. B. owns the remaining 50% of the common shares of A Co. Mr. B's shares are non-voting. Who has control of A Co?

Mr. A has control of A Co, because he owns the majority of the voting shares.

Question 8

Mr. A1 and Mr. A2 are spouses. Their child, who is 5 years old, owns 100% of the outstanding common shares of A Co. Who controls A Co for purposes of association?

Mr. A1, Mr. A2, and the child all simultaneously have control. The parents are each deemed to own the shares owned by their child.

Question 9

Mr. and Mrs. A are spouses. They each own 1/3 of the shares of B Co. Mr. B owns the remaining 1/3 of the shares. Who controls B Co?

Mr. A and Mrs. A are considered to be a related group that controls B Co.

Question 10

Mr. Z owns 50% of the outstanding common shares of Z Corp. Mr. Y owns the remaining 50%. Mr. Z owns stock options worth an additional 10% of the common shares of Z Corp. For purposes of association, who has control of Z Corp?

Mr. Z has control, because he has stock options that if exercised would give him voting control, we presume he already has control.

Question 11

A Co is a Canadian corporation that is not listed on a public stock exchange. It is owned 50% by a public corporation and 50% by Individuals resident in Canada. Is A Co. a CCPC?

Yes, A Co is private and is not controlled by non-residents or public corporations, or a combination of those two groups.

Question 12

ABC Co. has $2,000,000 in taxable income. $100,000 is foreign, $900,000 is interest income, and $1,000,000 is active. There are no associated corporations. They operate in a province where the tax rate is 8% on all income.

Calculate their corporate taxes owing

760,000	2,000,000 x 38% Basic federal tax
(190,000)	(2,000,000 – 100,000) x 10% provincial abatement
(95,000)	$500,000 x 19% Small business deduction
(78,000)	$600,000 x 13% General Rate Reduction
96,003	$900,000 x 10 2/3% Additional Refundable Tax
<u>$152,000</u>	$1,900,000 x 8% provincial taxes
645,003	Total federal Part I taxes owing.

<u>Small Business Deduction</u>
19% of the lesser of:

- Business limit of 500,000 - $0 already used = $500,000
- Active business income - $1,000,000
- Taxable income less foreign source income - $2,000,000 – 100,000 = 1,900,000

<u>General Rate Reduction</u>
13% multiplied by:

- 2,000,000 Taxable income
- (500,000) Less: income on which the small business deduction is based
- <u>(900,000)</u> Less: aggregate investment income
- 600,000 x 13%

<u>Additional Refundable Tax</u>
10 2/3% of the lesser of:

- Aggregate investment income - 900,000
- Taxable income less income on which small business deduction is based – 2,000,000 – 500,000 = 1,500,000.

Question 13

Is a child related for tax purposes to the newly married spouse of their grandparent?

Yes, it is their grandparent by marriage.

Question 14

Mrs. A owns 75% of A Co. She also has a child, Daughter A. Daugher A owns 30% of B Co. Who is related in this structure? (it may help you to draw it so I have left extra space).

Mrs. A, Daughter A, and A Co. are related. Bo Co is not related

Question 15

Mrs. A1 and her friend Mrs. B each own shares of A Co. Mrs. A1's spouse, Mrs. A2, owns 50% of B Co. The other 50% of the shares of B Co. are owned by Mrs. B's daughter. Who is related in this diagram?

Mrs. A1 and Mrs. A2 are related

Mrs. B and her daughter are related

A Co and B Co are related, because they are each controlled by an unrelated group, and there is a member of each group that is related to a member of the other group.

Question 16

A co. owns 70% of B Co. Are A Co and B Co. associated?

Yes – two corporations are associated when one controls theother.

Question 17

A Co. is owned 80% by Mr. A. B Co. is owned 60% by Mr. B. Mr. A owns 15% of B Co. Are A Co and B Co associated?

No – Someone who controls one corporation must own at least 25% of the other. Mr. A does not own 25% of B Co.

Question 18

A Co. owns shares in a public corporation. A Co receives $40,000 in non-eligible dividends during 2019.

a) How much tax will A Co pay on the dividend?

   $40,000 x 38 1/3% = 15,333

b) What is A Co's NERDTOH balance after the dividend, if the balance before was $30,000

   $30,000 + $15,333 = $45,333

Question 19

A Co. owns 30% of B Co. B Co has an opening ERDTOH balance of $70,000 and pays a total eligible dividend of $80,000 during the year.

a) What is B Co's dividend refund from paying the dividend?

   Lesser of:
   38 1/3% of the eligible dividend paid of $80,000 = **30,664**
   ERDTOH balance $70,000

b) What is A Co's taxes payable on the dividend they receive?

   Their share of the dividend refund $30,664 x 30% = **9,199.**

Question 20

A Co owns investments that produce passive interest income. They earn $500,000 of interest income in 2019.

a) How much tax will A Co pay in 2019 on the interest?

   $500,000 x 45% = 225,000

b) What will A Co's NERDTOH balance be after the interest if their balance before was $5,000?

   $5,000 + 153,335 ($500,000 x 30 2/3%) = 158,335

Question 21

Sam owns 75% of the outstanding voting shares of S Corp. Sam dies in 2018 and leaves his shares to his nephew, Jason.

Has an acquisition of control occurred? (circle one)

- **Yes**
- No

Jason controls the corporation after he inherits the shares, and he did not control before. He has acquired control.

Question 22

Fikus Incorporated manufactures fake plants that are used in office buildings. 83% of their outstanding shares were purchased by Gardenia Limited, who was their primary competitor in this industry. Fikus had $35,000 in capital (50% deductible) and $60,000 in non-capital losses carried forward. If Fikus wants to use the non-capital losses going forward, what rule should they be aware of?

Losses after an acquisition of control are permitted only against income from the same or similar business. Fikus must operate the same or similar business and generate income from it in order to use the losses.

Question 23

Pinkerton Limited is located in Nova Scotia. They are working to develop aeronautical drones that can be used to scan for underwater sea life. This technology isn't available yet so they have hired experts in marine biology, engineers and programmers to help them design it. They have never claimed any tax credits before. Which tax program would you recommend they look into for use in their future operations? (circle one)

- Manufacturing & Processing
- Farming, Fishing & Logging
- **Scientific Research & Experimental Development**
- Apprenticeship Tax Credit

The company should look into the Scientific Research & Experimental Development tax credit since they are developing new technology.

Question 24

Jennifer owns 1,000 common shares in KiloCow Inc., which is all the shares the company has issued to date. She bought these shares in 2011 on the incorporation of KiloCow for $10,000 for all 1,000. In 2014, Nancy purchases 200 common shares of KiloCow from Jennifer for $3,000.

a) What is the total ACB of Nancy's shares in KiloCow?

$3,000

b) What is the total PUC of Nancy's shares in KiloCow?

$2,000

Nancy's ACB is what she paid for the shares. The $3,000 given to Jennifer at the time of purchase. The PUC of her shares is what KiloCow was originally paid for them, which is 1/5 of the $10,000 originally paid by Jennifer since they are 200 of the total 1,000 originally issued shares.