

Combination Questions – 20 total points

1) Employment income cash basis + basic credits - 2 points

In 2012 James earned a \$40,000 salary and a \$5,000 bonus which wasn't paid until February 2013. In 2013 he earned a \$50,000 salary and a \$3,000 bonus which wasn't paid until February 2014. James is married to Silvia. Silvia is a professional artist but has no income in 2012 or 2013.

Calculate James' net taxes owing for 2013.

50,000 salary

5,000 bonus when received in cash

55,000 taxable income

14,455 gross taxes owing $(10,363 + ((55,000 - 43,000) \times .341))$

11,000 Personal Credit

1,117 Employment Credit

11,000 Spousal Credit

23,117 total credits $\times .241 = 5,571.20$

14,455 taxes owing $- 5,571.20 =$ **\$8,883.80 Net Taxes Owing**

2) Taxable Benefits + Credits – 2 points

Jillian earns \$20,000 in salary in 2013, but her employer makes up for the short salary with lots of perks. She's worked there for 2 years so far. Her employer pays \$3,000 on her behalf for medical insurance, paid \$600 for her welder's certification (her employer is a construction company), and also gives her a piece of jewelry every year in December worth \$1,000.

Jillian is single, without children, and made \$2,000 in donations in 2013. She's a regular donor.

Calculate Jillian's net taxes owing for 2013.

20,000 Salary

0 Medical insurance not a benefit

0 Welder's certification not a benefit

500 Jewellery gift in excess of \$500

20,500 Taxable income

$20,500 \times .241 =$ **\$4,940.50 Gross taxes owing**

11,000 Jillian's personal credit

1,117 Employment credit

200 First \$200 of the donation tax credit

$12,317 \times .241 = \$2,968.40$ credits + $(1,800 \text{ remainder of donation} \times .433) = \$3,747.80$ reduction in taxes from credits

$4,940.50 - 3,747.80 = \mathbf{\$1,192.70 \text{ Net Taxes Owning}}$

3) Dividend Question + Misc Income + Administration – 2 points

Jeremy earns \$70,000 in eligible dividends on his shares of XYZ Co. in 2013. He also received \$5,000 in interest income on bonds he owned during the year and won \$1,200 at the casino when he and his friends went for a bachelor party.

Calculate his gross taxes owing before credits.

96,600 taxable dividends $70,000 \times 1.38$ gross up on eligible dividends

5,000 interest income

0 casino winnings not a business – non-taxable

101,600

$25,367 + ((101,600 - 87,000) \times .384) = \mathbf{30,973.40 \text{ gross taxes owing}}$

When will his personal tax return need to be filed by?

April 30, 2014

4) Misc Income & Deductions – 2 points

Roy and Ronda are both 72 and are pseudo retired but still like to stay active. Roy's income in 2013 includes \$60,000 in RRSP withdrawals and \$25,000 in consulting income. Ronda isn't currently earning any form of income. Roy was offered a lucrative consulting position at a newspaper in Ontario so the family moved from PEI to Ontario so he could take the position (Ontario is where he earned the \$25,000). The couple kept no receipts from their move but estimate they drove approximately 1,700 kilometres and the drive took 3 days.

The couple would like to take advantage of any opportunity to minimize their tax bill.

What is the lowest possible taxable income that Roy can report?

60,000 RRSP Income

(30,000) Pension Splitting Deduction for Roy

25,000 Consulting Income

(935) $1,700 \text{ km} \times \0.54 per km simplified deduction (simplified ONLY available because it is a moving expense, and not an expense incurred to earn income)

(306) $3 \text{ meals per day} \times 3 \text{ days of travel} \times 2 \text{ people} \times \$17/\text{meal}$

53,827 taxable income

To get full value was important to consider both the moving expenses and pension splitting.

5) Business Income + CCA – 2 points

Randall purchased a \$20,000 piece of office furniture during 2013. The balance in his UCC pool for furniture at the end of 2012 year was \$30,000 and is amortized at the declining balance rate of 20%. Randall estimates that his net business income for accounting is \$150,000, which includes \$15,000 in accounting amortization of office furniture.

Calculate Randall's adjusted taxable income from his business.

$$\$30,000 \times 20\% = \$6,000$$

$$\$20,000 \times 20\% \times 150\% = \underline{\$6,000}$$

\$12,000 Total CCA in the Year

150,000 Business Income for Accounting

15,000 Add back accounting amortization

(12,000) Deduct tax CCA

153,000 Taxable Business Income

6) Sale of assets + Business Income – 2 points

Samantha purchased a conveyor belt for \$80,000 and claimed CCA over time. Her opening UCC balance for the current year was \$60,000 and she sold the conveyor belt for \$70,000. There are several other pieces of equipment in the M&P Equipment pool.

Samantha's accounting income from her manufacturing business is \$300,000, which includes a \$30,000 gain on the sale of the conveyor belt.

Calculate Samantha's adjusted taxable income from her business.

$$\$60,000 \text{ Opening UCC} - \$70,000 \text{ Lower of cost and proceeds} = (\$10,000) \text{ negative UCC balance.}$$

10,000 Need to recapture negative UCC so is an income inclusion

300,000 accounting income for business

(30,000) to remove accounting gain on sale

10,000 to include taxable recapture on sale

280,000 adjusted taxable income

7) Interest Deductibility + business income – 2 pts

Clarence has business income in 2013 of \$40,000. His interest deductions for the year included \$500 paid to CRA for overdue accounts, \$5,000 paid to the bank for a loan he withdrew to invest in preferred shares with a 3% annual dividend rate, and \$4,000 paid to the bank for a loan he withdrew to pay

dividends of \$20,000 to himself. In 2013, the company had a negative retained earnings balance because the last few years had been difficult ones for the business.

Calculate Clarence's adjusted taxable income from his business.

40,000 business income

500 deductible interest to CRA

0 no adjustment for loan to invest in Preferred Shares, deductible

4,000 non-deductible interest to bank. If no Retained earnings – "Fill the hole" concept doesn't apply

44,500 Taxable income from business

½ points for each income item reported correctly.

8) RRSPs + TFSAs – 2 pts

Joan contributes \$3,600 during 2013 to an RRSP for herself and \$4,000 to an RESP for her son, Nick. She also deposits \$5,000 into a TFSA and earned \$60,000 from her employer during the year.

Calculate Joan's taxable income based on this information.

60,000 taxable salary

(3,600) deductible RRSP contributions

0 no deduction for RESP contributions

0 no deduction for TFSA contributions

56,400 taxable income

½ point for each income item reported correctly.

9) Capital Gains & Losses – 2pts

Jeremy purchases 30 shares of Snappishness Ltd. in December, 2012 for \$20 each. He purchases 10 more shares in February, 2013 for \$5 each. On June 2, 2013 Jeremy sells 15 shares of Snappishness Ltd. for \$3 each. On June 28, 2013, Jeremy purchases 20 more shares of Snappishness Ltd. for \$27 each.

Jeremy also had purchased a rare stamp that he liked the look of in 2007 for \$1,200. He sold it this year to a collector for \$2,600. He's never done anything like this before.

Calculate Jeremy's taxable income from these transactions.

\$0 from the sale of shares – repurchased identical property within 30 days, superficial loss rules

\$700 Taxable capital gain on listed personal property ($2,600 - 1,200 = 1,400 \times 50\%$ taxable)

700 taxable income

10) Gifts, Attribution & Death – 2 pts

Nancy sells a piece of land to her sister. The land cost Nancy \$120,000 to purchase and an appraiser believes it is worth \$160,000. Her sister agrees to pay \$140,000 for the land.

Calculate the proceeds of disposition to Nancy from this sale.

160,000

Calculate the ACB to her sister of the land.

140,000

- A) The proceeds to Nancy will be the fair market value of \$160,000
- B) The ACB of the land to Nancy's sister will be the amount actually paid: \$140,000