Chapter One Test Item File ProblemsTIF PROBLEM ONE - 1Introduction - Essay QuestionsProvide brief answers to each of the following questions:
1. Indicate three disadvantages of a tax system that uses progressive rates.
2. A regressive tax is one that taxes high income individuals at lower effective rates. Explain
why a sales tax levied at a flat rate of 8 percent can be regressive.
3. The Canadian income tax system is often used to achieve various economic objectives.
Give three examples that illustrate this point.
4. Distinguish between horizontal equity and vertical equity as these terms are used in describing tax systems.
5. The government pays a "child tax benefit" to the parents of children who are under 18
years of age. The payments are reduced by a percentage of income in excess of a specified
level. What objectives are achieved by this benefit system?
6. What is the meaning of "taxation year" as the phrase is used in the Income Tax Act.
7. Under what circumstances will a person who is not resident in Canada be required to pay
Canadian income taxes?
8. What are the components of Net Income For Tax Purposes?
9. ITA 3(b) states that a taxpayer should “determine the amount, if any”, by which taxable
capital gains exceeds allowable capital losses. In this context, what is the meaning of the
phrase “the amount, if any”?
10. What is the difference between tax avoidance and tax deferral?
11. What is income splitting? Under what circumstances will it provide tax benefits to an individual?
12. Contributions to a Registered Retirement Savings Plan can be deducted to reduce the
taxes of an individual in the year that they are made. However, these contributions will be
subject to tax when they are withdrawn from the plan. What type of tax planning is involved in this arrangement?
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TIF PROBLEM ONE - 2Introduction - True Or False1. A value added tax is a tax levied on the increase in value of a commodity or service that has
been created by the taxpayer’s stage of the production or distribution cycle.
True or False?
2. A partnership can be a taxable entity for income tax purposes.
True or False?
3. A partnership can be a taxable entity for GST purposes.
True or False?
4. In general, provincial income taxes are based on a specified percentage of federal tax payable.
True or False?
5. The federal government does not collect personal or corporate taxes for Ontario or Quebec.
True or False?
6. A sales tax is a regressive tax even when it is applied at a single rate on all transactions.
True or False?
7. A major advantage of progressive tax rates is that their use encourages economic growth.
True or False?
8. Tax expenditures are less costly to administer than direct funding programs.
True or False?
9. Part I of the Income Tax Act is the largest and most important part.
True or False?
10. The citation ITA 61(4)(b)(ii) would be read Paragraph 61, Subparagraph 4, Section b, Subsection ii.
True or False?
11. An income tax is payable for each taxation year on the Taxable Income of every person
resident in Canada at any time in the year.
True or False?
12. Any taxpayer can choose the calendar year as their taxation year.
True or False?
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TIF PROBLEM ONE - 3Introduction - Multiple ChoiceCanadian Tax System1. Which of the following is not a taxable entity for Canadian income tax purposes?
A. Darklyn Ltd., a Canadian resident corporation.
B. Ms. Sarah Bright, a Canadian resident.
C. Walters and Walters, a group of CMAs operating as a partnership.
D. The Martin family trust.
2. With respect to provincial income taxes, other than those assessed in Quebec, which of
the following statements is not correct?
A. Each province can apply different rates to as many brackets for individuals as it
wishes.
B. The federal government collects the provincial income tax for individuals for every
province except Quebec.
C. Each province can establish its own tax credits to apply against Tax Payable for individuals.
D. Each province can establish rules for determining the Taxable Income of individuals.
Tax Policy Concepts3. Which of the following can be considered an advantage of an income tax system based on
progressive rates?
A. A progressive rate system is simpler to administer.
B. A progressive rate system provides greater stability in the context of changing economic conditions.
C. A progressive system discourages tax evasion.
D. A progressive system encourages greater effort on the part of individuals.
4. Which of the following statements with respect to using tax expenditures rather than program spending is not correct?
A. It is more costly to administer tax expenditures as opposed to program spending.
B. Tax expenditures reduce the visibility of government actions.
C. Tax expenditures leave fewer decisions in the hands of the private sector, thereby
providing for more efficient allocation of resources.
D. Tax expenditures reduce the impact of progressive rates on higher income taxpayers.
5. Which of the following would not be considered a desirable characteristic of a tax system?
A. Balance between sectors.
B. Inelasticity.
C. Neutrality.
D. Flexibility.
6. Which of the following would be considered a desirable characteristic of an effective tax
system?
A. Inelasticity.
B. Lack of international competitiveness.
C. Simplicity.
D. Ambiguity.
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7. We should not have a tax system which encourages investment in particular assets or in
particular areas of the country. This statement reflects which of the following qualitative
characteristics of an effective tax system?
A. Neutrality.
B. Horizontal equity.
C. Simplicity.
D. Elasticity.
8. Taxpayers who earn $100,000 in dividends should pay the same amount of tax as taxpayers who earn $100,000 in capital gains. This statement reflects which of the following
qualitative characteristics of an effective tax system?
A. Vertical equity.
B. Neutrality.
C. Elasticity.
D. Horizontal equity.
Income Tax Reference Materials9. With respect to the structure of the Income Tax Act, which of the following statements is
correct?
A. The major components of the Income Tax Act are called Divisions.
B. The current Income Tax Act has Sections numbers 1 through 260, reflecting the fact
that there are 260 Sections in the Act.
C. All Parts of the Income Tax Act have Divisions.
D. All Parts of the Income Tax Act contain at least one Section.
10. Of the following publications, indicate the one that is not a legislative source.
A. Income Tax Act.
B. Interpretation Bulletins.
C. Income Tax Application Rules.
D. International Tax Treaties.
E. Income Tax Regulations.
11. Of the following publications, indicate the one that is not published by the CRA.
A. Interpretation Bulletins.
B. Information Circulars.
C. Dominion Tax Cases.
D. Income Tax Technical News.
12. There are a number of common areas of litigation involving the CRA. Indicate which type
of transaction is least likely to be in dispute.
A. Arm’s length versus non-arm’s length transactions.
B. Capital versus income transactions.
C. Unreported revenues from business transactions.
D. Establishment of fair market value.
E. The deductibility of farm losses against other sources of income.
13. Where would an individual find the formula for determining the prescribed rate?
A. The Income Tax Act.
B. The Income Tax Regulations.
C. A CRA Interpretation Bulletin.
D. A CRA Information Circular.
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14. Which of the following statements is not correct?
A. Most major income tax changes are introduced in the annual Federal Budget.
B. A federal election can prevent passage of draft legislation.
C. Proposed changes in tax law are usually introduced to parliament in the form of a Notice of Ways and Means Motion.
D. When there is a conflict between the Canadian Income Tax Act and an international
agreement, the terms of the Canadian Income Tax Act prevail.
Liability For Tax15. With respect to the calculation of Net Income For Tax Purposes, which of the following
statements is not correct?
A. Subdivision e deductions are subtracted from the total of all positive sources of income.
B. Allowable capital losses for the year can only be deducted to the extent of taxable capital gains for the year.
C. Business losses can be netted against employment income in determining the positive
amounts to be included under ITA 3(a) and 3(b).
D. Property losses can only be deducted after the subtraction of Subdivision e deductions.
Tax Planning16. Providing employees with private health care benefits involves what type of tax planning?
A. Tax evasion.
B. Tax deferral.
C. Income splitting.
D. Tax avoidance.
17. Making contributions to an RRSP always involves what type of tax planning?
A. Tax avoidance and tax deferral.
B. Tax deferral.
C. Tax avoidance.
D. Income splitting.
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TIF PROBLEM ONE - 4Introduction - Exam ExercisesExam Exercise One - 1 (Taxable Entities For Income Tax Purposes)Which of the following entities could be required to file an income tax return?
Sally Forbes (an individual)
Forbes Boutique (an unincorporated business)
Forbes and Delaney (a partnership)
The Forbes family trust (a trust)
Forbes Enterprises Ltd. (a corporation)
The Forbes Foundation (an unincorporated charity)
Exam Exercise One - 2 (Taxable Entities For GST Purposes)Which of the following entities could be required to file a GST return?
Sally Forbes (an individual)
Forbes Boutique (an unincorporated business)
Forbes and Delaney (a partnership)
The Forbes family trust (a trust)
Forbes Enterprises Ltd. (a corporation)
The Forbes Foundation (an unincorporated charity)
Exam Exercise One - 3 (Federal And Provincial Taxes Payable)Joan Smith has Taxable Income of $37,500. For the current year her federal tax rate is 15
percent, while the corresponding provincial rate is 8.2 percent. Determine Ms. Smith’s
combined federal and provincial tax payable, before consideration of any available credits
against Tax Payable.
Exam Exercise One - 4 (Regressive Taxes)Samantha Taylor has Taxable Income for the current year of $625,000, of which $216,000 is
spent on goods and services that are subject to Harmonized Sales Tax (HST) at a rate of 13
percent. Her sister, Martha Taylor, is a part-time student living in the same province and has
Taxable Income of $12,000. During the current year, as a result of using some of her savings,
she spends $21,400 on goods and services that are all subject to HST.
Determine the effective sales tax rate as a percentage of the income of the two sisters.
Exam Exercise One - 5 (Non-Resident Liability For Tax)Ms. Michelle Walker, a U.S. citizen, has Canadian employment income of $42,000 and U.S.
employment income of $40,000 Canadian. She lives in Seattle, Washington and is a resident
of the United States for the entire year. Ms. Walker does not believe that she is subject to taxation in Canada. Is she correct?
Explain your conclusion.
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Exam Exercise One - 6 (Net Income For Tax Purposes)Ms. Sonia Nexus is a computer specialist with net employment income of $66,000. During
the current year she has:
a taxable capital gain on the sale of land of $13,500,
an allowable capital loss on the sale of shares of $24,000,
interest income of $10,250,
net rental losses of $6,750, and
a loss from her unincorporated business of $28,000.
In addition, she makes spousal support payments of $14,000 and makes a deductible contribution to her RRSP of $3,000 (these are Subdivision e deductions). Determine her minimum
Net Income For Tax Purposes for the current year and indicate the amount and type of any loss
carry overs that are available at the end of the year. Show all of your calculations.
Exam Exercise One - 7 (Tax Planning)Mr. Jack Bronson makes a $5,000 contribution to his Registered Retirement Savings Plan.
What type of tax planning is involved in this transaction? Explain your conclusion.
Exam Exercise One - 8 (Tax Planning)Mr. John Lenonovitz is an unemployed poet. As Mr. Lenonovitz has no known sources of
income, his wife Natasha, a successful painter, has decided to make contributions to an RRSP
in his name, rather than making contributions to her own plan. What type of tax planning is
involved in this decision? Explain your conclusion.
Exam Exercise One - 9 (Tax Planning)Mrs. Janice Theil gives $50,000 in Canada Savings Bonds to her 27 year old, unemployed
daughter. What type of tax planning is involved in this transaction? Explain your conclusion.
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TIF PROBLEM ONE - 5Introduction - Key Term MatchingThe following eight key terms are listed at the end of Chapter 1, “Introduction To Federal Taxation In Canada”:
A. Fiscal Period
B. Flat Tax System
C. Income Tax Regulations
D. Income Tax Technical News
E. Person
F. Regressive Tax System
G. Tax Expenditure
H. Value Added Tax
The following list contains ten potential definitions for the preceding key terms.
1. A taxation year that does not exceed 53 weeks.
2. A tax system that applies higher effective rates for individuals with lower incomes and
lower effective rates for individuals with higher incomes.
3. An irregularly published newsletter prepared by the Income Tax Rulings Directorate.
4. A group of over 500 individual publications which provides the CRA's interpretation of
the various laws that they administer.
5. A term used in the Income Tax Act to refer to taxable entities.
6. Foregone tax revenues due to special exemptions, rate reductions, rebates, and credits
that reduce the amount of tax that would otherwise be payable.
7. A tax based on the value added to a product at each stage of production or distribution by
a particular entity.
8. A tax on Income that is applied at the same rate to all taxpayers, without regard to the level
of their income.
9. A set of rules concerning administration and enforcement of the Income Tax Act.
10. A tax system that applies higher effective rates for individuals with higher incomes and
lower effective rates for individuals with lower incomes.
11. None of the above definitions apply. (This answer can be used more than once.)
Required: For each of the eight key terms listed, indicate the number of the item that
provides the best definition of that term, or that none of the definitions apply. Indicate only
one number for each key term. No marks will be awarded if you indicate more than one
number for any key term.
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TIF PROBLEM ONE - 6Application Of Qualitative CharacteristicsThe city of Elysium is located on an island in the Nirvana River. Because of its very desirable
climate, it has attracted wealthy immigrants from all over the world. These immigrants have
either built palatial new homes on the river waterfront, or moved into luxurious residences,
largely in high-rise buildings in the city’s core.
In general, real estate values on the island are among the highest in the world. In order to
protect their extremely orderly environment, the residents have prevented the development
of any reasonably priced housing. To help maintain this environment the city has a large, well
trained security force.
The economic activity on the island consists of financial services, haute cuisine restaurants,
and retail shops which feature high-end products from all over the world. Because of the high
real estate cost, staff for these operations must live off island and commute on a daily basis.
For residents of the island, the city operates a large heliport. This allows the residents of the
island to quickly access a nearby airport where most maintain at least one private jet.
Until recently, the only other access to the island was via a city operated ferry. This service was
provided free of charge by the city. While it was rarely used by the residents of Elysium, the
staff of the various businesses on the island relied on it for access to their jobs.
Last year, the city completed a four lane bridge to access the island. In order to finance the
tremendous cost of this project, there is a $10 toll for each trip across the bridge. To ensure
that the bridge produces adequate revenues, the city has canceled the ferry service.
Required: Evaluate the $10 toll on the basis of the qualitative characteristics of tax systems
that are listed in your text.
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TIF PROBLEM ONE - 7Net Income For Tax PurposesThe following two Cases make different assumptions with respect to the amounts of income
and deductions of Ms. Leslie Burke for the current taxation year:
Case A Ms. Burke had employment income of $17,000 and net rental income of
$8,500. Her unincorporated business lost $12,300 during this period. As the result of
dispositions of capital property, she had taxable capital gains of $17,400 and allowable capital losses of $19,200. Her Subdivision e deductions for the year totalled
$6,300. Fortunately for Ms. Burke, she won $1,000,000 in a lottery on March 3.
Case B Ms. Burke had employment income of $42,100, interest income of $8,200,
and a loss from her unincorporated business of $51,000. As the result of dispositions
of capital property, she had taxable capital gains of $22,400 and allowable capital
losses of $19,200. Her Subdivision e deductions for the year amounted to $4,200.
Required: For both Cases, calculate Ms. Burke’s Net Income For Tax Purposes (Division B
income). Indicate the amount and type of any loss carry overs that would be available at the
end of the current year.
TIF Problem One - 7Net Income For Tax Purposes10 Canadian Tax Principles 2011/2012 - Test Item File Problems