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Chapter Two Test Item File Problems

TIF PROBLEM TWO - 1
Procedures And Administration - Essay Questions

1. An individual can request that an employer reduce the amounts withheld for income taxes. What conditions must be met for this request to be granted? Provide an example of a situation where this request would be granted.

2. In some situations, an employee may request an increase in the amounts that are withheld for future income taxes. What circumstances might lead an employee to make such a request?

3. Under what circumstances must an individual make income tax instalment payments during the current year?

4. If an individual is required to make quarterly instalment payments on their income taxes, how is the required amount of the instalments determined?

5. By making all instalments on the basis of the CRA's instalment reminder, the taxpayer is assured that no interest will be assessed for deficient instalments. However, this may not be the best alternative for making instalment payments. Explain why this is true.

6. One of your clients has received his instalment notice and has asked your advice as to whether he should make the payments. Provide the requested advice.

7. How is interest on late instalments calculated?

8. On April 30 of the current year, her filing due date, Nicole Houde finds that she has a significant net tax owing. She will not be able to pay this until the beginning of July. She doesn't want to file her return until she has the funds available to pay the balance. What advice would you give Ms. Houde in this regard?

9. Under what circumstances must a corporation make income tax instalment payments during its current taxation year?

10. If a corporation that is not a small CCPC is required to make instalment payments on their income taxes, how are the required amounts determined?

11. If a corporation that is a small CCPC is required to make quarterly instalment payments on their income taxes, how are the required amounts determined?

12. A corporation's balance due date is not the same as its return due date. Explain how these dates differ.

13. The normal reassessment period is 3 years for individuals and CCPCs and 4 years for other corporations. Indicate two situations where a reassessment can occur outside the normal reassessment period.

14. Cases can be heard by the Tax Court of Canada using either the general or the informal procedures. How do these two procedures differ?

15. Briefly describe the difference between tax evasion and tax avoidance.

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TIF PROBLEM TWO - 2
Procedures And Administration - True Or False

1. If an individual believes that the amount of income taxes withheld by his employer is greater than the amount that he will have to pay in a particular year, he can make a request to the CRA to have his source deductions reduced.

   True or False?

2. Because the taxation year of an individual must be based on the calendar year, all individuals will have the same filing due date.

   True or False?

3. If an individual dies after October in a particular taxation year, his legal representatives must file his tax return by the later of his normal filing due date and six months after the date of his death.

   True or False?

4. If quarterly instalments must be paid by an individual, they can be calculated as one-quarter of the net tax owing for the preceding year.

   True or False?

5. If an individual is required to make income tax instalment payments, one acceptable pattern of payments is to base each payment on one-quarter of the estimated Tax Payable for the current taxation year.

   True or False?

6. The interest rate applicable on refunds to individuals is 4 percentage points less than the interest rate applicable on amounts owing to the CRA.

   True or False?

7. The penalty for an individual making insufficient instalment payments is 5 percent of the total unpaid tax at the filing date, plus 1 percent per month.

   True or False?

8. Without regard to whether an individual's filing due date is April 30 or June 15, any balance of tax owing must be paid by April 30.

   True or False?

9. All corporations must file their tax returns no later than six months after the end of their fiscal year, and pay any balance of tax owing no later than three months after the end of their fiscal year.

   True or False?

10. The notice of objection for a corporation must be filed within 90 days from the date of mailing of the notice of assessment.

    True or False?

11. Tax avoidance involves deliberately ignoring a specific provision in the *Income Tax Act*.

    True or False?

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12. The GAAR provisions are not applicable to gifts to adult children.

True or False?

13. Interest and penalties may be waived or reduced in extraordinary circumstances, such as those involving natural disasters or serious illness.

True or False?

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TIF PROBLEM TWO - 3
Procedures And Administration - Multiple Choice

Individual Filing Requirements

1. Which of the following statements is **NOT** correct?

   A. If an individual has business income during the year, the due date for their income tax return is June 15 of the following year.
   B. An income tax return may be required of an individual, without regard to their age.
   C. If an individual has no Taxable Income for the year, they do not have to file an income tax return.
   D. If an individual sells a capital property during the year, they are required to file an income tax return, even if there is no gain or loss on the transaction.

2. Which of the following statements is correct?

   A. When an individual dies in a year, an income tax return must be filed for that year within 6 months of the date of death.
   B. Only residents of Canada are required to file Canadian income tax returns.
   C. An individual with business income during the year must pay any balance owing by June 15 of the following year.
   D. A self employed individual with a net business loss for the year does not have to file an income tax return for the year.

3. With respect to the filing of an individual income tax return, which of the following statements is correct?

   A. An individual is required to file an income tax return if their only source of income is business income, even if no tax is payable.
   B. An individual is required to file an income tax return if they have reached the age of 18 by the end of the year.
   C. If an individual has disposed of a capital property during the year, they are required to file an income tax return, even if no tax is payable.
   D. An individual is not required to file an income tax return if no tax is payable for the year.

4. For the 2017 taxation year, John Bookman had a taxable capital gain of $45,000 and a net business loss of $45,000, resulting in a Taxable Income of nil. Which of the following statements is correct?

   A. John is not required to file a tax return for 2017.
   B. John must file a tax return on or before June 15, 2018.
   C. John must file a tax return on or before December 31, 2018.
   D. John must file a tax return on or before April 30, 2018.

5. John Barron is self-employed and plans to file his 2017 tax return on June 15, 2018. His balance-due day is:

   A. April 30, 2017.
   B. April 30, 2018.
   C. June 15, 2018.
   D. June 15, 2017.

6. Bunly Im is a self-employed hairdresser. Which of the following dates are correct for the date by which his tax return for a year must be filed (1st item) and his payment due date (2nd item)?

   A. April 30, April 30.
   B. June 15, April 30.
   C. April 30, June 15.
   D. June 15, June 15.

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7. Ms. Deveco's 2017 income tax return is due on April 30, 2018. While she is too busy to file her tax return on that date, she remits a cheque to the government for $10,000, her estimated amount of net tax owing on that date. She has never filed a late return before. She prepares and files her tax return on May 31, 2018. At this time, the return shows that her actual net tax owing was $9,800. Assuming that the interest rate applicable to late payment of taxes is one-half percent per month without daily compounding, how much will she owe in penalties and interest on the late filing?

   A. $ 49.
   B. $490.
   C. $588.
   D. $637.
   E. Nil.

8. Mr. Finlay, a retired individual whose only source of income was pension receipts, dies on August 15, 2017. By what date must Mr. Finlay's final tax return be filed?

   A. April 30, 2018.
   B. February 28, 2018.
   C. February 15, 2018.
   D. December 31, 2017.
   E. None of the above.

9. Ms. Ali, a self-employed music teacher with business income, dies on November 15, 2017. What is the latest filing date for her 2017 income tax return?

   A. April 30, 2018.
   B. May 15, 2018.
   C. May 30, 2018.
   D. June 15, 2018.

10. Mr. Khan, a self-employed construction contractor, dies on April 1, 2017. What is the latest filing date for his final tax return?

    A. April 30, 2018.
    B. June 15, 2018.
    C. October 1, 2018.
    D. December 31, 2018.

11. Ms. Loren dies on February 1, 2018. All of her income is from employment activities and she does not have a spouse or common-law partner. What is the latest date for filing her 2017 income tax return?

    A. April 30, 2018.
    B. June 15, 2018.
    C. August 1, 2018.
    D. June 30, 2018.

12. Greta died on September 10, 2017. She has never reported any business income. By what date must her final tax return be filed?

    A. April 30, 2018.
    B. April 30, 2019.
    C. March 10, 2018.
    D. June 15, 2018.

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Individual Instalments

13. Which of the following individuals did **NOT** have to pay instalments in 2017?

    A. Jane Austen, who had business income of $50,000 in both 2015 and 2017 and a $1,000 business loss in 2016.
    B. Charlotte Bronte, who realized capital gains of $3,500 in 2016 and $4,000 in 2017. Her only other income during the years 2015 through 2017 was $5,000 in employment income.
    C. George Eliot, who had rental income of $50,000 in the years 2015 through 2017 and a net allowable capital loss of $50,000 in 2016.
    D. Emily Bronte, who received spousal support payments of $20,000 per year in each of the years 2015 through 2017.

14. Ms. Marston has net tax owing for 2015 of $4,500, net tax owing for 2016 of $8,000, and estimated net tax owing for 2017 of $7,500. If she wishes to pay the minimum total amount of instalments for the 2017 taxation year, her first payment on March 15 will be for what amount?

    A. Nil.
    B. $1,125.
    C. $1,875.
    D. $2,000.

15. Jason Marks has to pay his tax by instalments as a result of his significant investment income. His net tax owing in 2015 was $13,600. In 2016, it was $15,000. His estimate for 2017 is $17,000. If he decides to pay his 2017 tax instalments according to the prior year option, how much should he pay on September 15, 2017?

    A. $3,400.
    B. $3,750.
    C. $4,250.
    D. $6,500.

16. All of the following people will have to pay tax by instalments this year, except:

    A. Jane White, who received a one-time bonus of $60,000 last year and, because her employer had not deducted enough tax, found herself with net tax owing of $8,200.
    B. Karen Phillips, who has started to earn investment income, which resulted in net tax owing of $3,100 last year. Her investment income is expected to be even greater this year.
    C. Blake Fortin, who established a sole proprietorship two years ago. Blake had a very successful first year and, as result, he had net tax owing that year of $85,000. Business dropped in his second year, resulting in net tax owing of only $1,500. This year, business has picked up again and he expects to have net tax owing of $53,000.
    D. Terri Jones, who has had net taxable capital gains on real estate in excess of $40,000 in each of the last two years, and who expects to have similar gains this year.

17. Larry Short has self-employment income of $62,000 in 2017. Prior to this year, he was employed full-time and his employer's withholdings more than covered his tax liability for the year. Larry estimates that, based on his self-employment income, his net tax owing for 2017 will be $8,000. Which of the following statements is true?

    A. Larry must file his return for 2017 by April 30, 2018.
    B. Larry should pay instalments in 2017.
    C. Larry must pay his income tax for 2017 by June 15, 2018.
    D. If Larry has as much income in 2018 as he had in 2017, he will have to pay instalments during 2018.

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18. Individuals are required to pay instalments:

    A. When net tax owing is over $3,000 for any one of the past two years.
    B. When net tax owing is over $3,000 for the current year and both of the two prior years.
    C. When net tax owing is over $3,000 for the current year and one of the two prior years.
    D. When net tax owing is over $3,000 for the current year only.

19. One way to ensure that no interest will be assessed for late instalments is:

    A. To pay the amounts provided by the CRA in their instalment reminder on or before the required dates.
    B. To pay the lowest amount calculated using the 3 alternative calculations on or before the required dates.
    C. To pay the estimated tax owing for the current year on the first instalment due date.
    D. To pay the average of the three amounts calculated using the 3 alternative calculations on or before the required dates.

Interest and Penalties

20. Dora Chen has determined that her minimum tax instalments for 2017 are $8,000 per quarter. She also owes $30,000 on her credit card, which carries an interest rate of 20%. She has destroyed her credit card, so no more can be put on it. Dora is unable to pay both the entire instalment amounts and her credit card balance, but she does have $8,000 in cash each quarter for her debts. Which of the following would be the best choice for Dora from a financial planning perspective?

    A. Dora should pay off her credit card balance before making instalment payments.
    B. Dora must make all her instalment payments, even if it means she cannot pay anything off on her credit card this year.
    C. Dora should split her payments equally between the credit card balance and the instalment liability, in order to show the CRA that she is trying her best to meet her obligations to them.
    D. Dora should pay her first two instalments and then make payments on her credit card balance.

21. Lang Lang Ltd., a CCPC eligible for the small business deduction, has a March 31 year end. Due to the death of the owner/manager, the tax return for the year ended March 31, 2016 was not filed until May 12, 2018. The unpaid tax on March 31, 2016 was $15,500. Lang Lang Ltd. has never filed a return late before. What is the total late file penalty that the corporation is required to pay? (Do not include any interest payable.)

    A. $775
    B. $2,635
    C. $1,860
    D. $3,720

22. Which of the following scenarios will result in a penalty being charged by the CRA?

    A. A taxpayer pays less than the required amount of instalments.
    B. A taxpayer who is owed a refund files their tax return late.
    C. A taxpayer who has a balance owing files their tax return late, with the payment enclosed.
    D. A taxpayer who has a balance owing files their tax return on time, but does not include a payment.

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Corporate Filing Requirements

23. Which of the following statements with respect to corporations is **NOT** correct?

    A. Corporate income tax returns must be filed within 6 months of the end of the taxation year.
    B. All corporations must file their income tax returns electronically.
    C. If the corporation is a CCPC, the due date for any balance owing is three months after the end of the taxation year.
    D. If a corporation has foreign operations, it can determine its Canadian tax liabilities on the basis of financial statements prepared in the corporation's functional currency.

24. For corporations, the filing deadline for tax returns is:

    A. April 30.
    B. the fiscal year end.
    C. three months after the fiscal year end.
    D. three months after the fiscal year end if the small business deduction is claimed, otherwise two months after the fiscal year end.
    E. six months after the fiscal year end.

25. PS Swim Inc. has a year end of November 30. It is a small CCPC. For its 2017 taxation year, its income tax return is due on:

    A. January 31, 2018.
    B. February 28, 2018.
    C. April 30, 2018.
    D. May 31, 2018.
    E. None of the above.

26. For its 2017 taxation year, its first year of operation, PS Swim Inc. filed its return three months late. The unpaid tax at the due date for the return was $2,500. This amount was not paid until the return was filed. What would its penalty be?

    A. Nil.
    B. $75.
    C. $125.
    D. $200.
    E. $500.

27. The balance due date for a corporation is:

    A. April 30 of the following year.
    B. The same as the filing deadline.
    C. Three months after the end of the fiscal year, or two months after the end of the fiscal year if the corporation is a small CCPC.
    D. Two months after the end of the fiscal year, or three months after the end of the fiscal year if the corporation is a small CCPC.

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Corporate Instalments

28. A Canadian public company has Tax Payable of $62,000 in 2015, $95,000 in 2016, and $75,000 in 2017. The company would like to minimize its 2017 instalments. What would its instalments be?

    A. One monthly payment of $5,167 per month, followed by eleven monthly payments of $8,167 per month.
    B. Twelve payments of $5,167 per month.
    C. Twelve payments of $6,250 per month.
    D. Two monthly payments of $5,167 per month, followed by ten monthly payments of $8,467 per month.

29. PP Ltd., a client of your firm, has a November 30 year end and has requested you to advise them on what its monthly instalments for the 2017 tax year will be. Its taxes payable for its November 30, 2015 and November 30, 2016 years were $13,800 and $13,200, respectively. Its estimated taxes payable for the November 30, 2017 year are $14,400. PP Ltd. wants to pay the lowest amount possible, without incurring interest penalties. What would its instalments be?

    A. Twelve payments at $1,200 per month.
    B. Twelve payments at $1,100 per month.
    C. Twelve payments at $1,150 per month.
    D. Two monthly payments at $1,200 each, followed by ten monthly payments at $1,140 each.
    E. None of the above.

30. A Canadian public corporation had federal taxes payable in 2015 and 2016 exceeding $3,000. One correct option it has with respect to its 2017 instalments is to pay:

    A. equal instalments, on a quarterly basis, based on its 2016 federal taxes payable.
    B. on a monthly basis, instalments equal to 1/12th of its estimated 2017 federal taxes payable.
    C. one lump-sum payment, within three months of its 2017 year end.
    D. on a monthly basis, instalments equal to 1/12th of its 2015 federal taxes payable.

31. If a Canadian public corporation is experiencing a year-to-year decrease in taxes payable, the most advantageous calculation of instalments that would be allowed is:

    A. monthly, based on the estimated tax for the current year.
    B. quarterly, based on the estimated tax for the current year.
    C. monthly, based on the estimated tax for the immediately preceding year.
    D. quarterly, based on the estimated tax for the immediately preceding year.
    E. monthly, based on the estimated tax for the second preceding year and the immediately preceding year.
    F. quarterly, based on the estimated tax for the second preceding year and the immediately preceding year.

32. Which of the following is **NOT** one of the criteria for a CCPC to be considered a small CCPC eligible to pay instalments on a quarterly basis?

    A. Taxable income cannot exceed $500,000 for the corporation and its associated corporations for the current taxation year and the two previous years.
    B. The corporation has claimed the small business deduction in the current or previous year.
    C. The corporation has a perfect compliance record during the last 12 months.
    D. The corporation and its associated corporations do not have Taxable Capital Employed in Canada that exceeds $10 million for the current or previous year.

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Assessments And Appeals

33. Dora Burch files her 2017 income tax return on March 2, 2018. She receives a nil assessment on June 3, 2018. However, on December 28, 2018, she receives a reassessment indicating that she owes a substantial amount of additional tax. She would like to object to this reassessment. What is the latest date for her to file a notice of objection? (Ignore the effect of leap year if applicable.)

    A. March 2, 2019.
    B. April 30, 2019.
    C. March 28, 2019.
    D. December 28, 2019.

34. Which of the following statements is **NOT** correct?

    A. When the person filing the return has made any misrepresentation due to neglect, carelessness or wilful default, the normal reassessment period can be extended beyond 3 years.
    B. A taxpayer can choose to file a waiver to extend the 3 year time limit.
    C. When a return has been reassessed once, no further reassessments are permitted.
    D. Reassessment can occur outside the normal reassessment period when reassessment within the normal period affects a balance outside of the normal period.

35. Which of the following is **NOT** one of the criteria that must be met before an adjustment to a previous year tax return is permitted?

    A. The CRA must be satisfied that the previous assessment was incorrect.
    B. The change is based on a successful appeal to the courts by another taxpayer.
    C. The taxpayer's return was filed within 3 years of the end of the year to which it relates.
    D. The reassessment must be made within the normal assessment period, or under certain permitted extensions to this period.

36. Tom Arnold filed his 2017 tax return on March 1, 2018. The CRA mailed a notice of assessment to Tom dated May 15, 2018, and Tom received it on May 30, 2018. If Tom disagrees with the notice of assessment, what is the latest date he has to file a notice of objection?

    A. 90 days from March 1, 2018.
    B. 90 days from April 30, 2018.
    C. 90 days from May 15, 2018.
    D. 90 days from May 30, 2018.
    E. None of the above.

37. Minnie Belanger is retired. She filed her 2017 tax return on March 5, 2018. She received a portion of the tax refund claimed and an assessment notice, dated April 19, 2018, which set out the difference between the amount claimed and the amount of the refund. As Minnie disagrees with the notice of assessment, she wishes to file a notice of objection. What is the latest date she has to file a notice of objection?

    A. March 5, 2019.
    B. April 19, 2019.
    C. April 30, 2019.
    D. July 18, 2018.
    E. June 15, 2019.

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38. For a public corporation, which of the following statements is correct with respect to filing a notice of objection?

    A. It must be filed no later than 180 days from the date on the notice of assessment.
    B. It must be filed the later of 90 days after the date on the notice of assessment and one year from the filing date for the return under assessment.
    C. It must be filed the later of 180 days after the date on the notice of assessment and one year from the filing date for the return under assessment.
    D. It must be filed no later than 90 days after the date on the notice of assessment.

39. Marc Mayer filed his 2017 personal tax return on March 1, 2018. Neither he nor his spouse has business income in any year. The CRA mailed a Notice of Assessment to Marc dated May 5, 2018 and Marc received it on May 14, 2018. If Marc disagrees with the Notice of Assessment, he has until which one of the following dates to file a Notice of Objection?

    A. August 3, 2018.
    B. August 12, 2018.
    C. March 1, 2019.
    D. April 30, 2019.

Tax Planning

40. Carice Martin is planning to sell a piece of capital equipment which can be sold for more than its cost. If she waits until after her company's year end to sell it, she is engaging in:

    A. tax evasion.
    B. tax avoidance.
    C. GAAR.
    D. tax planning.

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TIF PROBLEM TWO - 4
Procedures And Administration - Exam Exercises

Exam Exercise Subject Listing For Chapter 2

Number	Subject
1	Individual Due Dates
2	Individual Due Dates
3	Deceased Taxpayer Due Date
4	Deceased Taxpayer Due Date
5	Individual Instalments
6	Individual Instalments
7	Individual Instalments
8	Penalties And Interest (Individuals)
9	Penalties And Interest (Individuals)
10	Corporate Instalments - Regular And Small CCPC
11	Corporate Instalments - Regular And Small CCPC
12	Corporate Instalments - Regular And Small CCPC
13	Corporate Due Dates
14	Corporate Due Dates
15	Corporate Due Dates
16	Notice Of Objection
17	Notice Of Objection

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Exam Exercise Two - 1 (Individual Due Dates)
Mark Brown's 2017 Net Income includes business income. When is his 2017 tax return due? By what date must his 2017 tax liability be paid in order to avoid the assessment of interest on amounts due?

Exam Exercise Two - 2 (Individual Due Dates)
Ms. Jeanine Farrel has 2017 Net Income which includes business income. When is her 2017 tax return due? In addition, indicate when any remaining tax liability must be paid in order to avoid having interest assessed on the amount due.

Exam Exercise Two - 3 (Deceased Taxpayer Due Date)
George Klause dies on March 1, 2018. All of his income during 2017 was earned through his unincorporated accounting practice. By what date must his representatives file his 2017 income tax return? Explain your answer.

Exam Exercise Two - 4 (Deceased Taxpayer Due Date)
Gloria Klump dies on December 1, 2017. Much of her 2017 income resulted from an unincorporated business which she operated. By what date must her representatives file her 2017 income tax return? Explain your answer.

Exam Exercise Two - 5 (Individual Instalments)
At the beginning of 2017, the following information relates to Sarah Elmsley:

Year	Net Tax Owing
2015	$1,800
2016	6,400
2017 (Estimated)	3,600

Indicate whether Ms. Elmsley is required to make instalment payments during 2017. Explain your conclusion and, if your answer is positive, indicate the minimum instalments that will be required and when they are due.

Exam Exercise Two - 6 (Individual Instalments)
Horace Greesom filed his 2016 return on time. At the beginning of 2017, the following information relates to Mr. Greesom:

Year	Taxes Payable	Amounts Withheld
2015	$56,000	$45,000
2016	49,000	46,200
2017 (Estimated)	65,000	45,000

What amounts will be shown on the Instalment Reminder notices for 2017 and when will the amounts be due? Should he pay those amounts? Explain your conclusion.

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Exam Exercise Two - 7 (Individual Instalments)
At the beginning of 2017, the following information relates to Jerry Farrow:

Year	Tax Payable	Amounts Withheld
2015	$83,000	$78,000
2016	76,000	77,000
2017 (Estimated)	63,000	59,000

Is Mr. Farrow required to make instalment payments during 2017? If he is required to make instalment payments, indicate the amounts that would be required under each of the three alternative methods of calculating instalments. Indicate which alternative would be preferable.

Exam Exercise Two - 8 (Penalties And Interest For Individuals)
Despite the fact that her net tax owing has been between $7,000 and $8,000 in the two previous years, and is expected to be a similar amount during 2017, Marsha Fields has made no instalment payments for 2017. While her normal filing date would be April 30, 2018, she does not file her 2017 return or pay the balance owing until August 24, 2018. What penalties and interest will be assessed for the 2017 taxation year?

Exam Exercise Two - 9 (Penalties And Interest For Individuals)
As his Taxable Income in 2016 was nil, Mark Felton did not make any instalment payments during 2017. In completing his return for 2017, he finds that he has tax payable of $22,500. While his normal filing date would be April 30, 2018, he does not file his return or pay the balance owing until September 12, 2018. What penalties and interest will be assessed for the 2017 taxation year? Mark has filed his return on time in all previous years.

Exam Exercise Two - 10 (Corporate Instalments - Regular And Small CCPC)
Lemar Ltd. has a December 31 year end. It is not a small CCPC. For 2015, its taxes payable were $71,500, while for 2016, the amount was $93,600. For 2017, its estimated taxes payable are $114,700. What would be the minimum instalment payments for the 2017 taxation year and when would they be due? How would your answer differ if Lemar Ltd. qualified as a small CCPC?

Exam Exercise Two - 11 (Corporate Instalments - Regular And Small CCPC)
Chemco Inc. has a December 31 year end and is not a small CCPC. For 2015, its taxes payable were $146,300, while for 2016, the amount was $94,650. For 2017, its estimated taxes payable are $52,300. What would be the minimum instalment payments for the 2017 taxation year and when would they be due? How would your answer differ if Chemco Inc. qualified as a small CCPC?

Exam Exercise Two - 12 (Corporate Instalments - Regular And Small CCPC)
Dustin Inc. has a September 30 year end and is not a small CCPC. For its taxation year ending September 30, 2015, its tax payable was $33,500. The corresponding figure for the year ending September 30, 2016 was $93,400. It is estimated that, for the year ending September 30, 2017, its tax payable will be $56,200. What would be the minimum instalment payments for the taxation year that ends on September 30, 2017, and when would they be due? How would your answer differ if Dustin Inc. qualified as a small CCPC?

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Exam Exercise Two - 13 (Corporate Due Dates - CCPC)
The taxation year end for Grange Inc. is March 31, 2017. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending March 31, 2016 of $165,000. Indicate the date on which the corporate tax return for the year ending March 31, 2017 must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 14 (Corporate Due Dates)
The taxation year end for Lawnco Inc. is January 31, 2017. Lawnco Inc. is a Canadian public company and does not qualify for the small business deduction. Indicate the date on which the corporate tax return must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 15 (Corporate Due Dates - CCPC)
The taxation year end for Breyson Ltd. is June 30, 2017. It is a Canadian controlled private corporation that claims the small business deduction and had Taxable Income for the year ending June 30, 2016 of $132,000. Indicate the date on which the corporate tax return for the year ending June 30, 2017 must be filed, as well as the date on which any final payment of taxes is due.

Exam Exercise Two - 16 (Notice of Objection)
Nancy Forth filed her 2017 tax return as was required on April 30, 2018. Her Notice of Assessment dated May 15, 2018 indicated that her return was accepted as filed. On July 12, 2019, she receives a Notice of Reassessment dated July 2, 2019 indicating that she owes additional taxes, as well as interest on the unpaid amounts. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.

Exam Exercise Two - 17 (Notice of Objection)
Norman Foster filed his 2017 tax return as was required on June 15, 2018. His Notice of Assessment dated August 28, 2018, indicated that his return was accepted as filed. On March 15, 2019, he receives a Notice of Reassessment dated March 8, 2019 indicating that he owes additional taxes, as well as interest on unpaid amounts. What is the latest date for filing a notice of objection for this reassessment? Explain your answer.

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TIF PROBLEM TWO - 5A
Procedures And Administration - Key Term Matching (Easy)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms were listed at the end of Chapter 2, "Procedures And Administration".

A. Instalment Threshold
B. Net Tax Owing
C. NETFILE
D. Notice Of Assessment
E. Prescribed Rate
F. Source Deductions
G. Tax Avoidance
H. Tax Evasion

The following list contains ten potential definitions for the preceding key terms.

1. An interest rate which changes quarterly and is based on the average interest rate paid on 90 day Treasury Bills during the first month of the preceding quarter.

2. The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.

3. A form that the CRA sends to all taxpayers after they process their returns which describes any changes made to the returns and states the amount of their additional tax payable or their refund.

4. A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.

5. Deliberately ignoring a specific part of the law or willfully refusing to comply with legislated reporting requirements.

6. An electronic filing system that requires the use of an approved software program.

7. Amounts withheld by an employer from the income of employees. The withholdings for income taxes, Canada Pension Plan contributions, and Employment Insurance premiums must be remitted to the government.

8. This ITA 245 provision attempts, in a very generalized manner, to limit the ability of taxpayers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.

9. An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.

10. A formal determination of taxes to be paid or refunded.

11. None of the above definitions apply. (This answer can be used more than once.)

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Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 10) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (11). Explanations are not required.

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 TWO - 5B
Procedures And Administration - Key Term Matching (Moderate)

Note to Instructor There are two versions of this matching problem. The list of key terms is the same in both versions, but the potential definitions given are different.

- Version A is easy, there is only one possible answer for each term.
- Version B is more difficult in that there are additional possible answers that are similar to the correct answers.

The following eight key terms were listed at the end of Chapter 2, "Procedures And Administration".

A. Instalment Threshold
B. Net Tax Owing
C. NETFILE
D. Notice Of Assessment
E. Prescribed Rate
F. Source Deductions
G. Tax Avoidance
H. Tax Evasion

The following list contains 14 potential definitions for the preceding key terms.

1. An interest rate which changes quarterly and is based on the average interest rate paid on 90 day Treasury Bills during the first month of the preceding quarter.

2. An electronic system for filing individual tax returns. While the system can be used by anyone, the return must be transmitted by a registered EFILE service provider using approved software.

3. The undertaking of transactions or arrangements with a view to avoiding or minimizing the payment of taxes.

4. A form that the CRA sends to all taxpayers after they process their returns which describes any changes made to the returns and states the amount of their additional tax payable or their refund.

5. A term used to describe the sum of federal and provincial taxes owing for the year, less amounts withheld for the year.

6. Deliberately ignoring a specific part of the law or willfully refusing to comply with legislated reporting requirements.

7. An electronic filing system that requires the use of an approved software program.

8. Amounts withheld by an employer from the income of employees. The withholdings for income taxes, Canada Pension Plan contributions, and Employment Insurance premiums must be remitted to the government.

9. A term used to describe the sum of the total federal and provincial taxes owing for the year.

10. Amounts withheld by an employer from the income of employees. The amounts withheld are based on the expected income tax liability of the employee for the current year.

11. This ITA 245 provision attempts, in a very generalized manner, to limit the ability of tax-

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payers to avoid tax through certain types of transactions that have no bona fide purpose other than to obtain a tax benefit.

12. An amount of net tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.

13. A formal determination of taxes to be paid or refunded.

14. An amount of total tax owing for individuals or taxes payable for corporations that is used to determine the need to make instalment payments.

15. None of the above definitions apply. (This answer can be used more than once.)

Required: For each of the eight key terms listed (A through H), indicate the number of the item (1 through 14) that provides the **BEST** definition of that term, or, alternatively, that none of the definitions apply (15). Explanations are not required.

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 TWO - 6
Instalment Payments For Individuals

In the three independent cases which follow, assume that Barry Levenor's combined federal and provincial Tax Payable is as follows:

2015	$14,256
2016	15,776
2017 (Estimated)	16,483

The amount Barry's employer withholds for the three independent cases is as follows:

Case 1 $11,800 in 2015, $14,150 in 2016, and $12,400 (estimated) in 2017.

Case 2 $14,920 in 2015, $11,400 in 2016, and $13,226 (estimated) in 2017.

Case 3 $11,220 in 2015, $13,275 in 2016, and $12,873 (estimated) in 2017.

Required:

A. For each of the three cases:

- indicate whether instalments are required for the 2017 taxation year;
- in those Cases where instalments are required, calculate the amount of the instalments that would be required under each of the three acceptable methods; and
- in those cases where instalments are required, indicate which of the three acceptable methods would be the best alternative.

B. For those Cases where instalments are required, indicate the dates on which the payments will be due.

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TIF PROBLEM TWO - 7
Instalment Payments For Individuals

For the three years 2015, 2016, and 2017, Mr. George Grafton provides the following information on his combined federal and provincial taxes payable, along with information on withholdings by his employer:

Year	Taxes Payable	Taxes Withheld
2015	$31,500	$29,800
2016	14,600	6,200
2017 (Estimated)	27,400	24,300

In January, 2017, you are asked to provide tax advice to Mr. Grafton. He has asked you whether it will be necessary for him to pay instalments in 2017 and, if so, what the minimum amounts that should be paid are, along with the dates on which these amounts are due.

Required: Provide the information requested by Mr. Grafton. Be sure to show all required calculations.

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TIF PROBLEM TWO - 8
Instalment Payments For Corporations

For the taxation year ending December 31, 2015, a corporation's combined federal and provincial Tax Payable is $103,680. The corresponding figure for 2016 is $122,220. For the year ending December 31, 2017, it is estimated that combined federal and provincial Tax Payable will be $113,220.

Case One The taxpayer is a publicly traded corporation.

Case Two The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were $110,520, instead of the $122,220 given in the problem.

Case Three The taxpayer is a small CCPC.

Case Four The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were $110,520, instead of the $122,220 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2017. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2017. If instalments must be paid, indicate the dates on which they are due.

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TIF PROBLEM TWO - 9
Instalment Payments For Individuals

For the three years ending December 31, 2017, George Shivraj had combined federal and provincial Tax Payable as follows:

2015	$13,500
2016	16,200
2017 (Estimated)	18,400

Using this information consider the following three independent cases.

Case One Mr. Shivraj's employer withholds $11,200 in 2015, $12,900 in 2016, and $15,100 in 2017.

Case Two Mr. Shivraj's employer withholds $9,200 in 2015, $10,300 in 2016, and $14,900 in 2017.

Case Three Mr. Shivraj's employer withholds $10,100 in 2015, $16,300 in 2016, and $14,700 in 2017.

Required: For each of the preceding independent Cases, calculate the minimum instalment payments that are required to be made towards the settlement of the taxes payable for the year ending December 31, 2017. Show all required calculations.

If instalments must be paid, include in your answer the date that each instalment is due. Note that, in answering this question, you should state a conclusion on whether or not instalments are required, even if the amount of the instalments is nil. You should also state the basis for your conclusion.

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TIF PROBLEM TWO - 10
Instalment Payments For Corporations

For the three taxation years ending December 31, 2017, a corporation's combined federal and provincial tax payable are as follows:

Year Ending December 31	Taxes Payable
2015	$ 86,500
2016	101,400
2017 (Estimated)	94,600

Case One The taxpayer is a small CCPC.

Case Two The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were $92,100, instead of the $101,400 given in the problem.

Case Three The taxpayer is a publicly traded corporation.

Case Four The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were $92,100, instead of the $101,400 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2017. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2017. If instalments must be paid, indicate the dates on which they are due.

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TIF PROBLEM TWO - 11
Instalment Payments For Individuals

For the three years ending December 31, 2017, Gloria Sloan had combined federal and provincial Tax Payable as follows:

2015	$23,600
2016	25,400
2017 (Estimated)	27,200

Using this information consider the following three independent cases.

Case One Ms. Sloan's employer withholds $23,100 in 2015, $21,100 in 2016, and $23,300 in 2017.

Case Two Ms. Sloan's employer withholds $24,100 in 2015, $18,600 in 2016, and $23,700 in 2017.

Case Three Ms. Sloan's employer withholds $19,100 in 2015, $20,200 in 2016, and $24,300 in 2017.

Required:

A. For each of the three cases:

- indicate whether instalments are required for the 2017 taxation year. Show all of the calculations required to make this decision;
- in those cases where instalments are required, indicate the amount of the instalments that would be required under the approach used in the CRA's instalment reminder; and
- in those cases where you have calculated the instalments required under the CRA's instalment reminder, indicate whether you believe there is a better approach and calculate the required instalments under that approach.

B. For those Cases where instalments are required, indicate the dates on which the payments will be due.

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TIF PROBLEM TWO - 12
Instalment Payments For Corporations

For the taxation year ending December 31, 2015, a corporation's combined federal and provincial Tax Payable is $57,600. The corresponding figure for 2016 is $67,900. For the year ending December 31, 2017, it is estimated that combined federal and provincial Tax Payable will be $62,900.

Case One The taxpayer is a publicly traded corporation.

Case Two The taxpayer is a publicly traded corporation. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were $61,400, instead of the $67,900 given in the problem.

Case Three The taxpayer is a small CCPC.

Case Four The taxpayer is a small CCPC. Assume that its combined federal and provincial taxes payable for the year ending December 31, 2016 were $61,400, instead of the $67,900 given in the problem.

Required: For each of the preceding independent Cases, provide the following information:

1. Indicate whether instalments are required during 2017. Provide a brief explanation of your conclusion.
2. Calculate the amount of instalments that would be required under each of the acceptable methods available.
3. Indicate which of the available methods would best serve to minimize instalment payments during 2017. If instalments must be paid, indicate the dates on which they are due.

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TIF PROBLEM TWO - 13
Third Party Civil Penalties

For each of the following independent cases, indicate whether you believe any penalty would be assessed under ITA 163.2 on any of the parties involved. Explain your conclusion.

Case A

A newly acquired client, who is self-employed, brings to his accountant a listing of his business expenses. The client also provides the accountant with a figure for his total revenue. He instructs his accountant to prepare an income statement and his tax return based on this information. The accountant has a quick look at the expenses. The expenses seem to be related to the type of business of the client and nothing stands out as obviously unreasonable. After the client's income statement is prepared, it reflects $80,000 of revenue and $55,000 of expenses and the income tax return is filed on that basis.

Upon audit, the CRA finds a large proportion of the expenses claimed cannot be substantiated by adequate documentation and may not have been incurred. Furthermore, the reported revenue is only half of actual revenue.

Case B

A company is selling units in a limited partnership tax shelter. The company had acquired software for $50,000 on the open market and transferred it to the limited partnership on the same day for $10,000,000. The prospectus prepared by the company states that the fair market value of the software is $10,000,000 and is supported by an appraisal. The tax shelter is registered with the CRA and is available as an investment opportunity in the current year. The company's gross entitlements are $2,000,000.

The CRA reviews the tax shelter and determines that the fair market value of the software on the day of transfer into the limited partnership is $50,000. The appraisal supporting the $10,000,000 value was prepared by an independent appraiser. However, it was not prepared using normal valuation principles. The appraiser informed the CRA that all his calculations were based on the assumptions and other relevant facts provided to him by the company. The appraiser was paid $75,000 for the appraisal.

Case C

An accountant relies on the financial statements prepared by another professional accountant to report his client's self-employment income on the client's tax return. The statements did not look obviously unreasonable. The CRA conducts an audit and discovers that the income statement contained material misrepresentations.

Case D

An accountant has prepared a tax return for a new client. While, the accountant has known the individual for some time, this is the first time that he has done any work for him.

In preparing the new client's tax return he is given a T4 slip which reports $40,000 in income. The client indicates that this is his only source of income.

You are surprised by this as you know that the client lives a home that is worth at least $2 million, has an expensive cottage in Huntsville, and drives a $275,000 Bentley. When the accountant asks the client about this, he indicates that, several years ago, he received a large inheritance from his parents.

The accountant does not ask any further questions and prepares and files the return. When the taxpayer is audited it is discovered that he has over $400,000 in unreported income.

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Case E

A taxpayer approaches a tax return preparer to prepare and file his tax return. Prior to this, the tax return preparer and his firm did not provide any services to the taxpayer and they did not know each other.

The taxpayer provides the tax return preparer with a T4 slip indicating that the taxpayer has $32,000 of employment income, which represents his sole source of income.

The taxpayer tells the tax return preparer that he made a charitable donation of $20,000 but forgot the receipt at home. The taxpayer asks that the tax return preparer prepare and e-file the tax return without obtaining the receipt as it is April 29. The tax return preparer does so in order to avoid late filing the return.

Case F (Requires Basic GST Knowledge)

An annual GST return filer informs her accountant that she has not kept records of the GST paid or payable on her business purchases for the year. The accountant informs her that he will make an input tax credit claim for GST paid based on the financial statements of her business. The amounts on the financial statements are reasonable and have been incurred.

The income statement includes a large amount for wages and interest expense on which GST is not paid. The cost of sales includes a large proportion of purchases that are zero-rated on which GST is not paid. The accountant applies a factor of 5/105 to all expenses shown in the income statement. This results in an overstatement of input tax credits reported on the GST return.

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Chapter Three Test Item File Problems

TIF PROBLEM THREE - 1
Employment Income - Essay Questions

1. Explain how a bonus arrangement can be used to defer the taxes paid by an employee.

2. List and briefly describe the major factors that will be considered in determining whether an individual is working as an employee or as an independent contractor.

3. The tax consequences of being classified as an employee rather than as an independent contractor can be significant. As a result, it is not uncommon to find controversy and, in some cases, litigation resulting from the need to make this distinction. Explain the importance, from the point of view of an employee, of the distinction between being classified as an employee versus being classified as a self-employed independent contractor.

4. Briefly described the advantages to an employer of hiring independent contractors, as opposed to hiring employees.

5. Tax planning considerations are very significant in deciding the kinds of benefits that will be provided to employees. Explain why salary payments are considered the basic benchmark with which other types of employee compensation will be compared.

6. List two types of employee benefits that involve tax deferral and two types of benefits that involve tax avoidance.

7. London Wholesalers employs over 50 full time salespeople, all of whom are provided with a company car. While the cars are used primarily for business purposes, all of the sales staff drive them at least 20,000 kilometers per year for personal reasons. As controller of the Company you are aware that there is tax legislation in effect which can create substantial taxable benefits that could accrue to these salespeople because they have the use of a company car.

   Indicate some of the ways in which the Company and the sales staff might legitimately reduce the amount of the taxable benefit associated with having the use of a company car.

8. Because of the formula used to calculate the taxable benefit when an employer owned vehicle is provided to an employee, the amount of the benefit can exceed the value of the vehicle. Explain this statement.

9. What is the difference between an allowance and a reimbursement?

10. An employee may be paid a monthly amount for using his own automobile in employment related activities. Alternatively, he may be paid a reasonable amount based on the number of kilometers driven. From the point of view of both the employer and the employee, explain the tax treatment that will be given to these two alternatives.

11. Briefly explain the tax consequences resulting from being a member of an employer sponsored group disability insurance plan.

12. List the factors that will have to be considered in determining whether a particular low interest or interest free loan is an effective form of employee compensation.

13. Briefly describe the calculation of the taxable benefit that is assessed on loans to employees that are not considered to be housing loans.

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