Canadian Income Taxation 2022 2023 (Canadian) 25th edition Buckwold Test Bank

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Canadian Income Taxation 2022 2023 Edition 25 by Buckwold

CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

1) The CEO at Big Co. has decided to sell a piece of capital equipment after the company's year-end to avoid paying capital gains tax this year. Which tax planning method will the CEO be using?
   A) Transferring income to another entity
   B) Shifting income from one time period to another
   C) Converting the nature of income from one type to another
   D) This is a form of tax evasion and is not allowed

2) Which of the following scenarios illustrates unacceptable tax planning?
   A) Property transferred between Stan and Reed (arm's-length parties) is valued at fair market value.
   B) Mr. A transfers his shares to his spouse, and the dividends from the shares are included in Mr. A's income.
   C) Faizan owns two corporations and undertakes legal steps in order to permit loss utilization between the two companies.
   D) Ben transfers property to his child at a value less than fair market value.

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3) The controller of Little Company Ltd. has decided to sell a piece of capital equipment after the company's year-end to avoid paying tax on capital gains this year. The controller is engaging in
   A) tax planning.
   B) tax avoidance.
   C) tax evasion.
   D) GAAR.

4) If Cindy invests $1,000 at 8% and subsequently earns $48 in after-tax income on the investment at the end of the first year, what is Cindy's tax rate?
   A) 4.8%
   B) 8%
   C) 40%
   D) 60%

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5) Which of the following statements regarding the General Anti-Avoidance Rule (GAAR) is true?
   A) The purpose of GAAR is to catch tax evaders.
   B) When an avoidance transaction takes place, the anti-avoidance rule is automatically applied in all circumstances.
   C) A transaction will not be an avoidance transaction if the taxpayer establishes that it is undertaken primarily for bona fide business, investment or family purposes.
   D) Individuals who organize their affairs in order to pay as little tax as possible will automatically be subject to GAAR.

6) The three key factors of cash flow are
   A) the amount of money coming in, the amount of money going out, and timing.
   B) the amount of money coming in, the amount of money going out, and interest rates.
   C) the amount of money coming in, the amount of money saved, and timing.
   D) the amount of money coming in, the amount of money saved, and interest rates.

7) One important skill required for tax planning purposes, referred to as the 'eighth wonder of the world,' is
   A) having a global perspective.
   B) respecting the time value of money.
   C) having perspective.
   D) the ability to speculate.

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8) Rory has run a successful proprietorship for the past four years and has now decided to incorporate the business. Which category of tax planning has Rory applied?
   A) Transferring income from one entity to another
   B) Converting income from one type of income to another
   C) Shifting income from one time period to another
   D) Converting income from one jurisdiction to another

9) The sole shareholder of ABC Co. purchased the shares of the company in 2016 for $25,000 and has recently valued the shares at $150,000. In preparation to sell the company to an arm's-length party, the shareholder decided not to issue the usual annual dividend of $20,000. What type of tax planning is the shareholder engaging in?
   A) Transferring income from one entity to another
   B) Converting income from one type of income to another
   C) Shifting income from one time period to another
   D) Converting income from one jurisdiction to another

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10) XYZ Inc. has chosen to delay the recognition of a discretionary reserve until the following year. What type of tax planning is the shareholder engaging in?
   A) Transferring income from one entity to another
   B) Converting income from one type of income to another
   C) Shifting income from one time period to another
   D) Converting income from one jurisdiction to another

11) What is tax planning?
   A) The legal arranging of transactions to minimize the impact of taxes on cash flow
   B) Making sure the least amount of tax is paid
   C) Filing taxes in an orderly fashion
   D) Avoid the payment of unnecessary taxes at all costs

12) Lee decides to incorporate their business to take advantage of the reduced tax rates for small business corporations. What type of tax planning has Lee engaged in?
   A) Shifting income to another type
   B) Shifting income to another entity
   C) Shifting income to another time period
   D) This is tax avoidance because there is no business reason to incorporate

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13) Tax planning requires skills to minimize taxes payable in a legal fashion. Why is this so important?
   A) The ability to maximize cash flow and reinvest the amounts is extremely desirable.
   B) Tax planning is a desirable employable skill.
   C) Tax planning is something that managers see as a by-product of good business.
   D) Tax planning requires the avoidance of taxes.

14) What is the general anti-avoidance rule (GAAR)?
   A) Avoid paying taxes at all costs.
   B) Non-arm's length transactions are prohibited.
   C) All of taxpayer's transaction amounts must be reasonable.
   D) Taxpayers cannot enter into transactions where the sole purpose is to reduce taxes, without any business purpose.

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15) Fred decides that it is better if his corporation pays him a dividend rather than a salary. What type of tax planning is Fred using?

A) Shifting income to another entity
B) Shifting income to another type
C) Shifting income to another time period
D) Hiding income to avoid paying taxes

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

16) Quinn's proprietorship earned $160,000 in pre-tax profits this year. Quinn does not require personal funds from the business.

Personal tax rates (federal plus provincial) in Quinn's province are:

On the first $50,000	20%
On the next $50,000	30%
On the next $56,000	40%
On the next $66,000	45%
On income over $222,000	50%

(All rates are assumed for this question.)

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The combined federal and provincial rate of tax for Canadian-controlled private corporations in Quinn's province is 13% on the first $500,000 of income.
Quinn has been considering incorporating the business.

Required:

A. Calculate the after-tax profits for the business as i) a proprietorship, and ii) a corporation. Show all calculations.
B. Name the type of tax planning that Quinn would be engaging in if the company were incorporated.

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17) List the three key factors of cash flow.

18) Ahmad has $10,000 to invest and wants to put the funds in a one-year investment earning an annual interest rate of 12%. Ahmad is in a 42% tax bracket.

Required:

a) Calculate the total value of Ahmad 's investment, after-tax, at the end of the year.
b) Calculate the tax liability of the investment.

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19) Match each of the following terms with the most accurate example. Use each example only once.

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TERMS:

Tax evasion
Tax planning
Tax avoidance

EXAMPLES:

A. An individual is seeking a beneficial outcome, and therefore, legally arranges transactions to minimize the impact on cash flow from taxes owing.
B. A business is seeking a beneficial outcome, and therefore, does not report a portion of revenue earned during the year.
C. Two unrelated companies take steps to become related solely for the purpose of loss utilization.

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Answer Key

Test name: Chapter 02

1) B
By choosing to sell the capital equipment in the following year, the CEO is shifting the tax liability from the sale into the next year. When permitted (in only specific circumstances), the choice to recognize income in a later time period may reduce or defer a tax cost.

2) D
Property transferred from a parent to a child is required to be valued at fair market value to recognize any taxable gains.

3) A
This example is an acceptable form of tax planning in the context of the business purpose test.

4) C
Investment income = $80 ($1,000 × 8%)
$80 × (1 - x) = $48
x = 40%.

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5) C
This CRA quote speaks to the business purpose or economic reality test used to distinguish those planning activities which are acceptable from those which are not.

6) A
The principles of cash flow are money coming in, money going out, and timing.

7) B
The skills required for tax planning include the ability to apply the eighth wonder of the world, (compound interest), anticipate, be flexible, speculate, have perspective, and a global approach.

8) A
This is an example of shifting income from the entity of ‘individual' to the entity of ‘corporation'.

9) B
The choice to not pay a dividend and to leave the value in the shares is an example of converting property income (dividends) into a capital gain.

10) C

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When permitted (in only specific circumstances), the choice to recognize income in a later time period may reduce or defer a tax cost.

11) A
Tax planning involves legally structuring a bona fide business transaction to pay the least amount of tax.

12) B
By arranging business activity into a corporation, Lee is shifting income to another entity. This is tax planning, because nothing in the act prohibits the incorporation of a business, and there are many business reasons for a business to be run as a corporation.

13) A
The cash flow generated by good tax planning must be used wisely and invested to further increase returns.

14) D
The general anti-avoidance rule says that transactions which fail the business purpose test and are contrary to the spirit of the law must be rejected.

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15) B
Since dividends have a lower tax rate to the shareholder, Fred is shifting income to another type to reduce his taxes.

16) Short Answer

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A) After-tax profits as a proprietorship:

$160,000.00		$160,000.00
Less Tax:		
$50,000.00	20%	$10,000.00
$50,000.00	30%	$15,000.00
$56,000.00	40%	$22,400.00
$4,000.00	45%	$1,800.00
After-tax profits:		$110,800.00

After-tax profits

as a corporation:

$160,000.00		$160,000.00
Less Tax:		
$160,000.00	13%	$ 20,800.00
After-tax profits:		$139,200.00

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B) Transferring income from one entity to another (individual to corporation)

17) Short Answer
Three key factors of cash flow

1. Amount of money coming in
2. Amount of money going out
3. Timing

18) Short Answer
a) $10,000 + (($10,000 × 12%) × (1 - .42)) = $10,696
b) $10,000 × .12 × .42 = $504

19) Short Answer

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A. **Tax planning**

B. **Tax evasion**

C. **Tax avoidance**

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