ESSAY. Write your answer in the space provided or on a separate sheet of paper.

1) The major source of federal revenues is the personal income tax. Indicate three other types of taxes that contribute to federal revenues.

Answer: The other sources of federal revenues that are shown in Figure 1-1 of the text are:

- Corporate income taxes.
- Non-resident income taxes.
- GST.
- Customs and import duties.
- Other excise taxes.
- EI premiums.

2) What is the meaning of "person" when the term is used in the *Income Tax Act*?

Answer: In the *Income Tax Act*, the term "person" can refer to an individual, a corporation, or a trust.

3) Briefly describe the procedures used in calculating provincial income taxes for individuals in provinces other than Quebec.

Answer: Provincial income taxes on individuals are calculated by applying a provincial rate schedule to the same Taxable Income figure that is used to calculate the federal income tax for individuals. Provincial credits are then applied to the resulting figure. The provincial brackets may differ from the federal brackets. In addition, provincial credits may be different than the federal credits.

4) The Canadian income tax system is often used to achieve various economic objectives. Give three examples that illustrate this point.

Answer: There are many examples that could be used here. The text divides them into resource allocation (e.g., public health care), distribution effects (e.g., federal GST credit), stabilization effects (e.g., deficit reduction), and fiscal federalism (e.g., allocations to various levels of government).

5) Provide an example of how taxation policy can be used to influence resource allocation.

Answer: Examples provided in the text are as follows:

- Tax revenues are used to provide public goods and services.
- Excise taxes are used to discourage the consumption of alcohol and tobacco products. There are, of cours many other examples that could be cited.

6) The government pays a Canada Child 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?

Answer: The Canada Child Benefit system is designed to assist families with children. It would appear that the government is encouraging people to have children. The fact that the benefits are reduced as income increases suggests that it is also designed to assist lower income families care for these children.

7) Indicate three disadvantages of a tax system that uses progressive rates.

Answer: There are a number of possibilities here. They include:

- Progressive rates increase the complexity of the system.
- Progressive rates are unfair to individuals with highly variable income streams.
- Progressive rates are unfair to single income family units.
- Progressive rates lead to pressure for various types of tax concessions.
- Progressive rates discourage high income individuals from making additional efforts.
- Progressive rates encourage tax evasion.

8) 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.

Answer: While the sales tax rate is the same for all individuals without regard to their income level, lower income individuals normally spend a higher percentage of their total income. Since the sales tax is levied on the amounts spent, this means that the sales tax paid by lower income individuals represents a larger percentage of their income. As a consequence, they are generally considered to be regressive in nature.

9) Distinguish between horizontal equity and vertical equity as these terms are used in describing tax systems.

Answer: Horizontal equity is achieved when taxpayers in similar economic circumstances are subject to similar levels of taxation. Vertical equity is achieved when taxpayers in different economic circumstances are subject to taxes in a different manner.

10) What are some of the factors that have led to the entrenched use of tax expenditures as opposed to program spending?

Answer: The reasons that are listed in the text are as follows:

• It is less costly to administer tax expenditures than it is to administer government funding programs.

• More decisions are left to the private sector so that funds may be allocated more efficiently.

• Tax expenditures reduce the visibility of certain government actions. This is particularly beneficial if sor stigma is attached to the programs. For example, a child tax benefit system is more acceptable than increas social assistance payments.

• Tax expenditures reduce the progressivity of the tax system. As many of the tax expenditures, such as ta shelters, are more available to higher income taxpayers, they serve to reduce effective tax rates in the high brackets.

11) While the Sections of the *Income Tax Act* are numbered 1 through 260, there are actually more than 260 Sections. Explain why this is the case.

Answer: This situation reflects the fact that when a new Section is added, it has been more convenient to attach a decimal designation to the new Section, as opposed to renumbering all of the Sections that follow the new Section. As an example, over several years, the Department of Finance has added six new Sections after Section 12. They have been numbered Section 12.1 through Section 12.6. If they had used whole numbers for these new Sections, it would have been necessary to renumber all of the remaining Sections in the Act each time a new Section was added.

12) What purposes are served by Canada's international tax treaties?

Answer: The purposes of these treaties are as follows:
• They attempt to avoid double taxation of taxpayers who may have reason to pay taxes in more than one jurisdiction.
• They try to prevent international evasion of taxes.

13) List four non-legislative sources of income tax information.

Answer: The required four items can be selected from the following:

- CRA Web Site
- Interpretation Bulletins
- Income Tax Folios
- Information Circulars
- Income Tax Technical News
- CRA News Releases, Tax Tips, and Fact Sheets
- CRA Guides
- CRA Pamphlets
- Advance Income Tax Rulings
- Technical Interpretations

14) What is the meaning of "taxation year" as the phrase is used in the *Income Tax Act*?

Answer: For individuals and inter vivos trusts, the taxation year is equal to the calendar year. In contrast, corporations can always use a fiscal period. A fiscal period can end on any date, with the only constraint being that it cannot exceed 53 weeks for a corporation. With respect to testamentary trusts, prior to 2016, like corporations, they could always use a non-calendar fiscal year. In 2016 and subsequent years, their use of non-calendar fiscal periods is significantly restricted (see Chapter 19).

15) Under what circumstances will a person who is not resident in Canada be required to pay Canadian income taxes?

Answer: The circumstances that would result in a non-resident person having to pay income taxes in Canada are a follows:

- The non-resident person earns employment income in Canada.
- The non-resident person carried on a business in Canada.
- The non-resident person has a gain on the disposal of a taxable Canadian property.

16) What is the importance of residence in Canadian income taxation?

Answer: As stated in the text, residence is the cornerstone of Canadian income taxation. If a person is considered a resident of Canada in a given year, that person will be subject to Canadian income tax for that year on all sources of income. Alternatively, if the person is a non-resident, Canadian Part I tax will only apply to Canadian employment income, Canadian business income, and gains on the disposition of Taxable Canadian Property.

17) When an individual leaves Canada, the CRA may take the position that he has retained his residence status. What are the primary factors that the CRA will consider in determining whether such an individual has, in fact, ceased to be a Canadian resident?

Answer: As stated in S5-F1-C1, the primary factors that will be considered by the CRA are as follows:

- Whether the individual is continuing to maintain a dwelling in Canada.
- Whether the spouse or common-law partner of the individual remains in Canada.
- Whether the individual has dependants who remain in Canada.

18) List three factors that would be considered in the determination of whether or not an individual is a resident of Canada.

Answer: The main factors here would be:

- Does the individual have a dwelling in Canada?
- Does the individual's spouse or common-law partner live in Canada?
- Do the dependants of the individual live in Canada? Other factors that could be mentioned include:
- Owning personal property in Canada (such as furniture, clothing, automobiles, and recreational vehicle
- Social ties with Canada (such as memberships in Canadian recreational and religious organizations).
- Economic ties with Canada (such as employment with a Canadian employer and active involvement in Canadian business, and Canadian bank accounts, retirement savings plans, credit cards, and securities acc
- Hospitalization and medical insurance coverage from a province or territory of Canada.
- A driver's license from a province or territory of Canada.
- A vehicle registered in a province or territory of Canada.
- A seasonal dwelling place in Canada or a leased dwelling place.
- Holding a Canadian passport.
- Membership in Canadian unions or professional organizations.

19) If an individual leaves Canada for a temporary absence, this raises the question of whether he was a Canadian resident during the period of absence, particularly if some residential ties have been retained. What are the major factors that are considered in determining whether an individual continues to be a Canadian resident during a temporary absence?

Answer: As noted in the text, S5-F1-C1 identifies the following factors:

Intent - The issue here is whether the individual intended to permanently sever residential ties with Canada. If, for example, the individual has a contract for employment, if and when he returns to Canada, this could be viewed as evidence that he did not intend to permanently depart. Another factor would be whether the individual complied with the rules related to permanent departures (i.e., as noted in Chapter 8, there is a deemed disposition of an individual's property at the time of departure from Canada, resulting in the need to pay taxes on any gains).

Frequency Of Visits - If the individual continues to visit Canada on a regular and continuing basis, particularly if other secondary residential ties are present, this would suggest that he did not intend to permanently depart from Canada.

Residential Ties Outside Of Canada - A further consideration is whether or not the individual establishes residential ties in another country. If someone leaves Canada and travels for an extensive period of time without settling in any one location, it will be considered as evidence that he has not permanently departed from Canada.

20) One of your friends is leaving Canada and would like to know when he will no longer be considered a Canadian resident. Briefly explain the rules related to terminating an individual's status as a Canadian resident.

Answer: A Canadian resident normally becomes a non-resident on the latest of the following days:

- on leaving Canada,
- when a spouse and/or dependants leave Canada, and
- on becoming a resident of another country.

21) For the current year, Jane Doe is deemed to a Canadian resident because she sojourned in Canada for 210 days. Also for the current year, Jack Fawn, a long-time resident of Manitoba, was considered a part year resident for the first 210 days, after which he permanently departed from Canada. Explain how these two individuals will be taxed in Canada.

Answer: As a sojourner, Jane would be assessed Canadian income taxes on her world wide income for the entire ye she would not be considered a resident of a province, she would be assessed an additional federal income 48 percent of her basic federal tax otherwise payable.

In contrast, Jack would only be assessed Canadian income taxes on his world wide income for the 210 day prior to his departure from Canada. In addition, he would be assessed provincial income tax in the province of Manitoba for this 210 day period.

22) It is possible that an individual could be considered resident in more than one country. In such situations, "tie-breaker" rules are used to avoid the individual being subject to taxation in both countries. List and describe three factors that would be considered in implementing the tie-breaker rules.

Answer: The required three items could be selected from the following:

Permanent Home - If the individual has a permanent home available in only one country, the individual will be considered a resident of that country. A permanent home means a dwelling , rented or purchased, that is continuously available at all times. For this purpose, a home that would only be used for a short duration would not be considered a permanent home.

Centre of Vital Interests - If the individual has permanent homes in both countries, or in neither, then thi test looks to the country in which the individual's personal and economic relations are greatest. Such relations are virtually identical to the ties that are examined when determining factual residence for individuals.

Habitual Abode - If the first two tests do not yield a determination, then the country where the individua spends more time will be considered the country of residence.

Citizenship - If the tie-breaker rules still fail to resolve the issue, then the individual will be considered a resident of the country where the individual is a citizen.

Competent Authority - If none of the preceding tests resolve the question of residency then, as a last resort, the so-called "competent authority procedures" are used. Without describing them in detail, these procedures are aimed at opening a dialogue between the two countries for the purpose of resolving the conflict.

23) Are enterprises that are incorporated in Canada always considered to be resident in Canada? Explain your conclusion.

Answer: If an enterprise is incorporated in Canada after April 26, 1965, it will always be considered resident in Can However, if it is incorporated in Canada prior to April 27, 1965, it will only be considered resident in Cana those situations where it either:

• carried on business in Canada at any time after that date; or
• was resident in Canada at any time after that date (as measured by the location of the mind and management of the corporation).

24) Limon Inc. was incorporated in the U.S. five years ago. However, all of the directors of the corporation are Canadian residents, holding all of their meetings in Montreal. How would Limon Inc. be taxed?

Answer: Limon Inc. is a U.S. resident because it was incorporated in that country. It is also a Canadian resident under the mind and management test. In such dual residency cases, the tie-breaker rule in the Canada/U.S. tax treaty indicates that the taxes will be assessed in the country of incorporation. That means that Limon Inc. would be subject to U.S. income taxes.

25) What are the components of Net Income For Tax Purposes?

Answer: The components of Net Income For Tax Purposes are employment income, business and property income, net taxable capital gains, other sources of income, and other deductions from income.

26) 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"?

Answer: The phrase "the amount, if any" is used throughout the *Income Tax Act* to indicate that only positive amounts should be considered. In the context of ITA 3(b), the requirement that negative amounts be ignored, in effect, prevents the deduction of current year allowable capital losses in excess of current year taxable capital gains in the determination of Net Income For Tax Purposes.

27) What is the difference between tax avoidance and tax deferral?

Answer: Tax avoidance is a form of tax planning in which the taxpayer, through means that are within the boundaries of tax legislation, arranges his affairs in a manner that allows him to receive benefits without the payment of taxes. Tax planning to achieve tax deferral involves either the delayed recognition of income, or the accelerated recognition of deductions. The payment of tax is delayed, as opposed to permanently avoided.

28) What is income splitting? Under what circumstances will it provide tax benefits to an individual?

Answer: Income splitting involves efforts to share the total income accruing to an individual with family members or other related parties. It will only benefit a taxpayer who is in a high tax bracket in those circumstances where there are family members or other related parties who are in lower tax brackets.

29) 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?

Answer: The basic type of tax planning that is involved in Registered Retirement Savings Plans is tax deferral – a tax savings results from making contributions that will have to be paid back at a later point in time. There may also be an element of avoidance in that, after retirement, an individual may be in a lower tax bracket than he was during his working years. If this is the case, there will be an absolute reduction in taxes. (This assumes that the basic rate structure is unchanged.)

30) Your client, a government employee, would like to reduce his taxes. He is trying to decide whether he should co
$5,000 to an RRSP this year. He has an RRSP as does his wife, a part time employee at a day care centre.

Briefly describe the basic goals of tax planning. What advice would you give your client regarding his RRSP contribution? Explain your conclusion.

Answer: The basic goals of tax planning can be summarized as follows:

- Tax avoidance - To permanently avoid the payment of some amount of tax.
- Tax deferral - To delay the recognition of certain types of income or accelerate the timing of certain ded
- Income splitting - To have a family or other related group's aggregate taxable income allocated as evenl possible among the members of the group.

He should contribute the $5,000 to the spousal RRSP. By contributing to an RRSP he will be deferring taxe contributing to a spousal RRSP he is also income splitting and there may be possible tax avoidance if his s taxed at a lower rate when the funds become taxable to her.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

31) 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.

Answer: ✔ True False

32) A partnership can be a taxable entity for income tax purposes.

Answer: True ✔ False

33) A partnership can be a taxable entity for GST purposes.

Answer: ✔ True False

34) In general, provincial income taxes for individuals are based on a specified percentage of federal tax payable.

Answer: True ✔ False

35) The federal government does not collect personal or corporate taxes for Ontario or Quebec.

Answer: True ✔ False

36) A sales tax is a regressive tax even when it is applied at a single rate on all transactions.

Answer: ✔ True False

37) A major advantage of progressive tax rates is that their use encourages economic growth.

Answer: True ✔ False

38) Tax expenditures are less costly to administer than direct funding programs.

Answer: ✔ True False

39) Part I of the Income Tax Act is the largest and most important part.

Answer: ✔ True False

40) The citation ITA 61(4)(b)(ii) would be read Paragraph 61, Subparagraph 4, Section b, Subsection ii.

Answer: True ✔ False

41) Any taxpayer can choose the calendar year as their taxation year.

Answer: ✔ True False

42) If there is a conflict between an international tax treaty and Canadian tax legislation, the Canadian tax legislation will prevail.

Answer: True ✓ False

43) 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.

Answer: ✓ True False

44) Canadian citizens are required to file a Canadian income tax return, without regard to where they currently live.

Answer: True ✓ False

45) When an individual is absent from Canada for some period of time, the length of their absence is an important factor in determining whether they continued to be a Canadian resident during the period of their absence.

Answer: True ✓ False

46) If an individual moves to Canada and is here less than 183 days prior to the end of the year, that individual will be subject to Part I tax on their worldwide income for the entire year.

Answer: True ✓ False

47) The residency of a trust depends on the country in which the central management and control of the trust takes place, not where the beneficiaries reside.

Answer: ✓ True False

48) If an individual leaves Canada, the three most significant factors in determining whether he has ceased to be a re are:

- Whether he continues to own a dwelling in Canada.
- Whether he is accompanied by his spouse or common-law partner.
- Whether he maintains social ties in Canada.

Answer: True ✓ False

49) If an individual returns to Canada after an absence of less than two years, S5-F1-C1 indicates that, in general, he will be considered to have retained Canadian residency during his absence.

Answer: True ✓ False

50) A part year resident for the current year is an individual who either establishes residency in Canada during the current year or, alternatively, terminates residency in Canada during the current year.

Answer: ✓ True False

51) A sojourner is any individual who has been present in Canada for 183 consecutive days in one year.

Answer: True ✓ False

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

52) Which of the following types of taxes is not currently in use by the federal government of Canada?

A) Custom Duties B) Excise Taxes C) Transfer Tax D) Head Tax

Answer: D

53) Which of the following is NOT a taxable entity for Canadian income tax purposes?
A) Ms. Sarah Bright, a Canadian resident.
B) Walters and Walters, a group of CPAs operating as a partnership.
C) Darklyn Ltd., a Canadian resident corporation.
D) The Martin family trust.

Answer: B

54) Which of the following could be required to file a GST return?
A) The Chan Foundation (a registered charity)
B) Chan's Clothing Store (an unincorporated business)
C) Min Chan (an individual)
D) All of the above could be required to file a GST return.

Answer: D

55) Which of the following forms of taxation provides the largest component of federal government taxation revenues?
A) Goods and services tax
B) Employment insurance premiums
C) Corporate income tax
D) Personal income tax

Answer: D

56) With respect to provincial income taxes, other than those assessed in Quebec, which of the following statements is NOT correct?
A) The federal government collects the provincial income tax for individuals for every province except Quebec.
B) Each province can establish its own tax credits to apply against Tax Payable for individuals.
C) Each province can establish rules for determining the Taxable Income of individuals.
D) Each province can apply different rates to as many brackets for individuals as it wishes.

Answer: C

57) Which of the following groups of entities are all subject to taxation on income?
A) Individuals, trusts and corporations
B) Individuals, proprietorships and corporations
C) Individuals, partnerships and corporations
D) Proprietorships, corporations and trusts

Answer: A

58) Income tax is calculated for which of the following groups of jurisdictions?
A) Provincial, federal, and international
B) Municipal, provincial, and international
C) Municipal, federal, and international
D) Municipal, provincial, and federal

Answer: A

59) Which of the following statements with respect to Canadian tax policy is NOT correct?
A) Extremely high rates of tax will always encourage individuals to work harder so that they will have more after tax income.
B) A progressive tax system is unfair to individuals with incomes that fluctuate significantly from year to year.
C) The economic burden of a particular tax may not fall on the same group that has the legal liability to pay the tax.
D) The inability to harmonize the GST in some provinces has increased the complexity of tax compliance.

Answer: A

60) Which of the following goals is NOT a current economic policy objective of the Canadian tax system?
A) Economic stabilization such as stimulating the economy or creating jobs.
B) Ensure fairness in the allocation of resources to different levels of government.
C) Redistribute income and wealth among taxpayers.
D) Ensure the continued provision of public goods.

Answer: B

61) Which of the following can be considered an advantage of an income tax system based on progressive rates?
A) A progressive system encourages greater effort on the part of individuals.
B) A progressive rate system provides greater stability in the context of changing economic conditions.
C) A progressive rate system is simpler to administer.
D) A progressive system discourages tax evasion.

Answer: B

62) Which of the following statements accurately describes a regressive tax?
A) A tax that is shifted to consumers through price increases on the goods purchased.
B) A tax which results in lower effective tax rates for higher income taxpayers.
C) A tax in which the same effective rate applies to all levels of income.
D) A tax which results in higher effective tax rates for higher income taxpayers.

Answer: B

63) Which of the following statements with respect to using tax expenditures rather than program spending is NOT correct?
A) Tax expenditures leave fewer decisions in the hands of the private sector, thereby providing for more efficient allocation of resources.
B) It is more costly to administer tax expenditures as opposed to program spending.
C) Tax expenditures reduce the visibility of government actions.
D) Tax expenditures reduce the impact of progressive rates on higher income taxpayers.

Answer: B

64) Which of the following would NOT be considered a desirable characteristic of a tax system?
A) Neutrality.
B) Balance between sectors.
C) Flexibility.
D) Inelasticity.

Answer: D

65) Which of the following would be considered a desirable characteristic of an effective tax system?
A) Ambiguity.
B) Simplicity.
C) Inelasticity.
D) Lack of international competitiveness.

Answer: B

66) "We should not have a tax system which encourages investment in particular assets or in specific areas of the country." This statement reflects which of the following qualitative characteristics of an effective tax system?
A) Neutrality.
B) Simplicity.
C) Elasticity.
D) Horizontal equity.

Answer: A

67) "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) Elasticity.
C) Horizontal equity.
D) Neutrality.

Answer: C

68) Which of the following statements with respect to tax reference materials is correct?
A) Income Tax Folios are a legislative source of guidance.
B) Interpretation Bulletins are gradually being replaced by Information Circulars.
C) Income Tax Regulations are gradually being replaced by Income Tax Folios.
D) The *Income Tax Act* is the most important source of information for dealing with matters related to the federal income tax.

Answer: D

69) With respect to the structure of the *Income Tax Act*, which of the following statements is correct?
A) All Parts of the *Income Tax Act* have Divisions.
B) The major components of the Income Tax Act are called Divisions.
C) All Parts of the *Income Tax Act* contain at least one Section.
D) The *Income Tax Act* has Parts numbered I through XVII, reflecting the fact that there are 17 Parts in the Act.

Answer: C

70) Of the following publications, indicate the one that is NOT a legislative source.
A) Income Tax Regulations.
B) Income Tax Application Rules.
C) Income Tax Folios.
D) *Income Tax Act*.
E) International Tax Treaties.

Answer: C

71) Of the following publications, indicate the one that is NOT published by the CRA.
A) Information Circulars.
B) Income Tax Technical News.
C) Dominion Tax Cases.
D) Income Tax Folios.

Answer: C

72) 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) Establishment of fair market value.
B) Capital versus income transactions.
C) Unreported revenues from business transactions.
D) The deductibility of farm losses against other sources of income.
E) Arm's length versus non-arm's length transactions.

Answer: C

73) Where would an individual find the formula for determining the prescribed rate?
A) A CRA Income Tax Folio.
B) The Income Tax Regulations.
C) A CRA Information Circular.
D) The *Income Tax Act.*

Answer: B

74) Which of the following statements is NOT correct?
A) A federal election can prevent passage of draft legislation.
B) When there is a conflict between the Canadian *Income Tax Act* and an international agreement, the terms of the Canadian *Income Tax Act* prevail.
C) Proposed changes in tax law are usually introduced to parliament in the form of a Notice of Ways and Means Motion.
D) Most major income tax changes are introduced in the annual Federal Budget.

Answer: B

75) Of the following statements related to liability for Canadian income tax, which statement is NOT correct?

A) The Canadian Part I tax is assessed on residents of Canada.
B) As used in the *Income Tax Act*, the term person refers to individuals, trusts, and corporations.
C) The Canadian Part I tax is assessed Canadian employment income earned by a non-resident.
D) Corporations must use the calendar year as their taxation year.

Answer: D

76) An individual is liable for income tax in Canada if he:

A) has lived in Canada at any time during the year.
B) is a resident in Canada.
C) is a citizen of Canada.
D) All of the above are required.

Answer: B

77) Which of the following persons is NOT liable for Canadian income tax under Part I of the *Income Tax Act*?

A) Bunly Im, a resident of the United States who earns interest income in Canada.
B) Pheap Chom, an individual who has resided in Canada for the past 15 years.
C) Phon Im, a resident of the United States who earns employment income in Canada.
D) Chom Incorporated, a Canadian resident corporation.

Answer: A

78) Which of the following types of income earned by a non-resident is NOT subject to Canadian income tax under Part I of the *Income Tax Act*?

A) Employment income earned in Canada
B) Rental income earned in Canada
C) Business income earned in Canada
D) Income from the disposition of Canadian real estate

Answer: B

79) Which of the following is an essential factor in determining whether an individual has ceased to be a resident of Canada?

A) The individual has given up his Ontario driver's licence.
B) The individual has closed his Canadian savings account.
C) The individual has become a resident of another country.
D) The individual has given up his membership in the Canuck Country Club.

Answer: C

80) Ms. Floot has been out of Canada for several years. She is presumed to be a non-resident as long as certain tests are met. Indicate the condition that does NOT have to be met.

A) She did not leave taxable Canadian property in Canada.
B) She did establish permanent residence in another jurisdiction.
C) She did not leave a spouse or other dependants in Canada.
D) She does not return to Canada on a regular or frequent basis.
E) She did not leave personal property or social ties in Canada.

Answer: A

81) All of the following statements are true, except:
   A) An individual who immigrates to Canada during the year is a resident of Canada for tax purposes for the full calendar year.
   B) If an individual is a resident of Canada for part of the calendar year, that individual only has to report his worldwide income during the period of residency for Canadian tax purposes.
   C) Canadian residents must report their worldwide income for tax purposes.
   D) An individual can be a resident of Canada for tax purposes, even if she is not a Canadian citizen.

Answer: A

82) Of the following individuals, who would be a resident or deemed resident of Canada for tax purposes this year?

• Alex is a U.S. citizen who commutes each day to Canada for employment purposes.
• Bob is a U.S. citizen who lives in Canada during the week for employment purposes, but returns to the U.S. on weekends to the house he shares with his wife and children.
• Charles is a Canadian citizen who lived in Toronto until March of last year, at which time he left for a four year mission in Africa under an agreement with the Canadian International Development Agency.
• Dick is a Canadian citizen who goes to school in the U.S. for eight months of each year but returns to Canada to with his parents each summer.

   A) Bob, Charles and Dick.
   B) Alex and Dick.
   C) Bob and Charles.
   D) Alex, Bob and Charles.

Answer: A

83) With respect to the residency of an individual, which of the following statements is NOT correct?
   A) If an individual leaves or enters Canada during the current year, he will be considered a part-year resident for tax purposes.
   B) An individual is considered to be a Canadian resident for tax purposes if he visits for more than 183 days in a calendar year.
   C) To be a resident for tax purposes, an individual must be a Canadian citizen.
   D) An individual is a Canadian resident for tax purposes if his principal residential ties are in Canada.

Answer: C

84) Which of the following factors would NOT be relevant under the Canada/U.S. tax treaty tie-breaker rules for determining the residence of an individual?
   A) The country in which the individual earns business income.
   B) The country in which the individual has a habitual abode.
   C) The country in which the individual is a citizen.
   D) The country in which the individual has a permanent home available to him.

Answer: A

85) Jamal, his wife and two teenage children are all Canadian citizens. For the last 2 years he and his family have been living in Mexico while he works for the Mexican subsidiary of a Canadian company. Jamal still owns his house in Canada. His wife and children stay there for 2 months in the summer and he spends 4 weeks a year there. The rest of the time the house is empty as his wife visits family in Canada regularly. Jamal has no definite plans to return to Canada and loves living in Mexico. However, since his mother-in-law is very ill, it is possible that his wife will have to return to Canada for at least 6 months to nurse her mother. Which of the following statements is correct?

A) Since Jamal owns a house in Canada that is not rented out under a long-term lease he is considered a Canadian resident for income tax purposes.
B) Jamal is considered a non-resident of Canada.
C) Jamal is considered a part-time resident of Canada for the 4 weeks he spends in Canada.
D) If Jamal's wife returns alone to Canada to care for her mother, Jamal is considered a part-time resident of Canada for the 6 months she is in Canada.

Answer: B

86) Of the following individuals, who would be considered a part-year resident of Canada for the current taxation year?

A) Marc is a French citizen who lives in Paris. On March 1 of the current year he begins work as a translator in Ottawa. It is a 1 year assignment.
B) Billy Bob is a U.S. Marshall on loan to the RCMP detachment in Nunavut. It is a 9 month assignment.
C) Helga had lived and worked in Canada for 10 years. She was transferred by her employer to its flagship hotel in Switzerland on March 1 of the current year for a 1 year training assignment. Her husband remained in Canada to complete his MBA.
D) Ravi is a citizen of India, where he was born and lived until moving to Canada on March 1 of the current year with his wife and child. He was transferred by his employer to its Canadian head office.

Answer: D

87) Dominique, a Canadian citizen, lives in Buffalo, NY, USA. Throughout the current year she commutes to Fort Erie, Ontario, Canada, where she is the bartender at the Cross Border Bar. She normally works 7 pm to 3 am Tuesday through Saturday. Dominique is:

A) a non-resident.
B) a part-year resident.
C) a full-time resident.
D) a deemed resident (sojourner).

Answer: A

88) Vanessa moves to Germany on July 15 of the current year. She is 35 and has lived in Canada all of her life. Which one of the following best indicates Vanessa's Canadian residency status for the current year?

A) A full-time resident
B) A part-year resident
C) A non-resident
D) A deemed resident (sojourner)

Answer: B

89) Which of the following corporations would NOT be considered a resident of Canada?

A) Craser Ltd. was incorporated in Ontario in 2010. All of its business activities are in Canada and its management is located in Toronto.
B) Dram Inc. was incorporated in Alberta in 2005. While it has operations in both the U.S. and Canada, its management has always been located in New York.
C) Alor Inc. was incorporated in British Columbia in 2004. While most of its operations are in Canada, management is located in Seattle.
D) Exeter Ltd. was incorporated in Alberta in 1956. However, it has never carried on business in Canada and its management has always been located in Montana.

Answer: D

90) Of the persons described, which one would NOT be considered a Canadian resident?

A) A member of the Canadian armed forces who has, for the last 3 years, been stationed in Germany.
B) A corporation that was incorporated in Winnipeg, but carries on all of its business in North Dakota.
C) A person who lives in Leamington, Ontario and commutes to work each day in Detroit, Michigan.
D) A corporation that was incorporated in North Dakota, but carries on all of its business in southern Manitoba.

Answer: D

91) In which of the following situations is the person considered a non-resident of Canada, in 2020, for income tax purposes?

A) B. Bath, a member of the Canadian Armed Forces, who was stationed in Lahr, Germany from September 1, 2018 to February 1, 2021.
B) N Limited was incorporated in Canada in 1996 and, until May 2019, its manufacturing plant was located in Mississauga, Ontario. In May 2019, it moved all of its operations, including the manufacturing plant, to North Carolina, U.S.A.
C) James Arder, a recently qualified CPA, based in Montreal, accepted a transfer to an office in Sydney, Australia for the period May 1, 2020 to August 31, 2020. James is not married and had lived at his parent's house in Montreal.
D) Karen Cotin, a computer programmer, had been employed by ABC Systems Ltd. in Toronto. In 2019, she accepted a minimum two-year contract with CS Services Inc. in London, England. Her position with CS Services Inc. started October 1, 2019. Before moving to England, where she will join her fiance, Karen terminated the lease on her apartment in Toronto and sold her car.

Answer: D

92) Which of the following statements with respect to the relationship between accounting Net Income and Net Income For Tax Purposes is NOT correct?

A) Accounting Net Income requires that costs be matched with revenues.
B) Both accounting Net Income and Net Income For Tax Purposes value many assets at their historical cost.
C) Net Income For Tax Purposes requires that costs be matched with revenues.
D) Accounting Net Income is determined by applying Generally Accepted Accounting Principles.

Answer: C

93) Which of the following statements accurately describes the *Income Tax Act* view of income?

A) Net income is determined by adding together several different types of income based on an ordering rule.
B) Net income is determined by adding revenue based on recognition at the point of sale and deducting expenses which are determined based on generally accepted accounting principles.
C) Net income is the amount paid to an employee after an employer deducts CPP, EI, income taxes and any other source deductions from employee pay.
D) Net income is the total increase in a taxpayer's net worth for the year.

Answer: A

94) With respect to the determination of Net Income For Tax Purposes, which of the following statements is correct?

A) Allowable capital losses can be deducted to the extent of other positive sources of income.
B) Property losses are deducted from business income before the deduction of RRSP contributions.
C) If not used during the current period, all subdivision e deductions can be carried forward to subsequent periods.
D) If a business loss exceeds all other positive sources of income, Net Income For Tax Purposes is equal to nil.

Answer: D

95) With respect to the calculation of Net Income For Tax Purposes, which of the following statements is NOT correct?

A) Property losses can only be deducted after the subtraction of Subdivision e deductions.
B) Subdivision e deductions are subtracted from the total of all positive sources of income.
C) Allowable capital losses for the year can only be deducted to the extent of taxable capital gains for the year.
D) Business losses can be netted against employment income in determining the positive amounts to be included under ITA 3(a) and 3(b).

Answer: D

96) Minjie Liu has the following sources of income and deductions:

Employment income	$35,000
Interest income	5,000
Taxable dividend income	7,000
Taxable capital gain	5,000
Allowable capital loss	12,000
Subdivision e deductions	2,000

What is Minjie's Net Income for Tax Purposes?

A) $40,000 B) $45,000 C) $49,000 D) $47,000

Answer: B

97) Tanya Turek has the following sources of income and deductions:

Gross employment income	$35,000
Net employment income	34,000
Business loss	14,000
Taxable capital gain	4,000
Allowable capital loss	2,000

What is Tanya's Net Income for Tax Purposes?

A) $24,000 B) $23,000 C) $36,000 D) $22,000

Answer: D

98) Fadel Ghanem has the following sources of income and deductions:

Net employment income	34,000
Property income	6,000
Business loss	54,000
Taxable capital gain	4,000
Allowable capital loss	7,000

What is Fadel's Net Income or Loss for Tax Purposes?

A) Nil B) $12,000 Loss C) $40,000 Income D) $44,000 Income

Answer: A

99) ITA 3(b) requires the taxpayer to "determine the amount, if any, by which taxable capital gains exceed allowable capital losses". The rule that is established by this phrase is:

A) that taxable capital gains are only included in income in a year when there are also allowable capital losses that can be used to reduce the effect on income.
B) that allowable capital losses in excess of taxable capital gains during a year are never deductible from income.
C) that the current year allowable capital losses can only be deducted to the extent that there are taxable capital gains during the current year.
D) that unused allowable capital losses are deductible against any type of income in one of the past 3 years or in a future year.

Answer: C

100) Fred Hopkins has employment income of $45,000, a business loss of $14,000, capital gains of $20,000, capital losses of $12,000, and subdivision e deductions of $3,000. Fred's Net Income For Tax Purposes is equal to:

A) $36,000. B) $50,000. C) $32,000. D) $39,000.

Answer: C

101) Which of the following items would be deducted in converting Net Income For Tax Purposes to Taxable Income?

A) A deduction for the extra costs related to living in prescribed areas of the Canadian north.
B) Current year business losses in excess of other positive sources of income.
C) Current year allowable capital losses in excess of current year taxable capital gains.
D) A deduction for spousal support payments made during the year.

Answer: A

102) Which of the following amounts is NOT deducted in converting Net Income for Tax Purposes to Taxable Income?

A) The lifetime capital gains deduction.
B) The excess of allowable capital losses over taxable capital gains for the year.
C) Losses of other years.
D) An amount related to the exercise or sale of stock options.

Answer: B

103) Which of the following items does not result in tax avoidance?

A) Employer contributions to group disability plans.
B) Use of the lifetime capital gains deduction.
C) Accelerated depreciation (CCA) on rental properties.
D) Employer contributions to private health care plans.

Answer: C

104) Providing employees with private health care benefits involves what type of tax planning?

A) Tax evasion. B) Tax avoidance. C) Income splitting. D) Tax deferral.

Answer: B

105) Making contributions to an RRSP always involves what type of tax planning?

A) Tax avoidance and tax deferral. B) Tax avoidance.
C) Income splitting. D) Tax deferral.

Answer: D

106) Which of the following will always result in tax avoidance?

A) Making use of the lifetime capital gains deduction.
B) Making contributions to a registered retirement savings plan.
C) Making maximum capital cost allowance deductions.
D) Making contributions to an employer's registered pension plan.

Answer: A

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

107) 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)

Answer: Sally Forbes, the Forbes family trust, and Forbes Enterprises Ltd. could be required to file income tax returns. Forbes Boutique, Forbes and Delaney, and the Forbes Foundation are not taxable entities for income tax purposes.

108) 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)

Answer: Under the GST legislation, all of the listed entities could be required to file a GST return. Where only individuals, corporations and trusts can be required to file an income tax return, the definition of a person (i.e., taxable entity) is much broader for GST purposes. As is explained in detail in Chapter 21, whether an entity is required to file a GST return is dependent on the level of commercial activity.

109) 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.

Answer:

Federal Tax Payable [(15%)($37,500)]	$5,625
Provincial Tax Payable [(8.2%)($37,500)]	3,075
Total Tax Payable [(15% + 8.2%)($37,500)]	$8,700

110) Karla Ho has Taxable Income of $26,700. For the current year her federal tax rate is 15 percent and the corresponding provincial rate is 10 percent. Determine Ms. Ho's combined federal and provincial Tax Payable, before consideration of any available credits against Tax Payable.

Answer:

Federal Tax Payable [(15%)($26,700)]	$4,005
Provincial Tax Payable [(10%)($26,700)]	2,670
Total Tax Payable [(15% + 10%)($26,700)]	$6,675

111) 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 r using some of her savings, she spends $21,400 on goods and services that are all subject to HST.

Determine the effective HST rate as a percentage of the income of the two sisters.

Answer: Samantha's HST paid totals $28,080 [(13%)($216,000)]. Based on her Taxable Income of $625,000, this would represent an effective rate of 4.5 percent ($28,080 ÷ $625,000).

Martha's HST paid totals $2,782 [(13%)($21,400)]. On her Taxable Income of $12,000, this would be an effe rate of 23.2 percent ($2,782 ÷ $12,000).

112) Veronica Simms has Taxable Income for the current year of $843,000. Because of her modest life style, only $162,000 of this amount is spent on goods and services that are subject to the Harmonized Sales Tax (HST) at a rate of 13 percent. Her sister is currently attending university on a full time basis and lives in the same city. Her Taxable Income for the current year is $8,000. Because she is able to use savings accumulated during several year employment, she spends $36,000 on goods and services that are subject to HST at 13 percent.

Determine the effective HST rate as a percentage of the income of the two sisters.

Answer: Veronica's HST paid totals $21,060 [(13%)($162,000)]. Based on her Taxable Income of $843,000, this would represent an effective rate of 2.5 percent ($21,060 ÷ $843,000).

Her sister's HST paid totals $4,680 [(13%)($36,000)]. On her Taxable Income of $8,000, this would be an eff rate of 58.5 percent ($4,680 ÷ $8,000).

113) Ms. Michelle Walker, a U.S. citizen, has Canadian employment income of $42,000 and U.S. employment income $40,000 Canadian. She lives in Seattle, Washington and is a resident of the United States for the entire year. Ms. W does not believe that she is subject to taxation in Canada.

Is she correct? Explain your conclusion.

Answer: She is not correct. Under ITA 2(3) she would be subject to Canadian taxes on employment income earned in Canada, but not on her U.S. employment income.

114) Daniel Bourne is a U.S. citizen who lives in Fargo, North Dakota. For many years, he has had a cottage on Manit Lake Winnipeg . In recent years, however, he has made little use of this property and, given this, he has sold the property. While there was a gain of $50,000 on the sale, Daniel assumes that he will not pay Canadian taxes on th amount as he is a U.S. citizen.

Is he correct? Explain your conclusion.

Answer: He is not correct. Under ITA 2(3) he would be subject to Canadian taxes on the gain resulting from a disposition of Taxable Canadian Property.

115) At the end of the current year, Michael Resner departed from Canada in order to take a permanent position in Mexico. He was accompanied by his common-law partner and their children, as well as what personal property he had not sold. Due to the intent of his neighbour to start a pig farm, he was unable to sell his residence at a satisfactory price. However, he was able to rent it for a period of two years. He also retained his membership in the CPA (Chartered Professional Accountants) Alberta. After his departure, would he still be considered a Canadian resident for tax purposes? Explain your conclusion.

Answer: While the situation is not completely clear, it is likely that the CRA would conclude that Mr. Resner is no longer a Canadian resident. By retaining his residence, he has maintained one of the primary residential ties. However, the fact that he was not able to sell the property, accompanied by the long-term lease to a third party, would probably be sufficient evidence that this is not a significant residential tie. The retention of his membership in the Chartered Professional Accountants Association Of Alberta would be viewed as a secondary residential tie. However, it is unlikely that this tie would be sufficient to cause Mr. Resner to be viewed as a Canadian resident.

116) Mary is a Canadian citizen who is employed by a corporation operating in Canada and the U.S. While she has worked for many years in the Canadian office of this organization, she agreed to transfer to the corporation's U.S. head office in New York City. Before leaving , she disposed of her residence and other personal property that she did not wish to move. She canceled her Saskatchewan driver's licence and health care card, and closed a of her Canadian banking and brokerage accounts.

Because her boyfriend remained in Regina, she found herself flying back to Canada at least once a month. After t years, she concluded that between the high cost of living in New York City and the travel required to maintain th relationship with her boyfriend, she would return to Canada. Would Mary be considered a Canadian resident du the two years that she was absent from Canada? Explain your conclusion.

Answer: Mary did, in fact, sever most of her residential ties with Canada. This would suggest that she would not be considered a Canadian resident during the two years she worked in New York City. However, the fact that she returned frequently to visit her boyfriend might lead the CRA to assess her on the basis of being a Canadian resident during this period, but it is not clear that such an assessment would be successful.

117) John Acheever is employed by Research In Limbo. He has worked for a number of years in their office in Kitchener, Ontario. However, he has become convinced that he would have quicker advancement if he transferred to their office in New York City. He requests this transfer and moves to that location in September, 2019. Before leaving he cancels his apartment lease, sells all of the personal property that he does not wish to move, and cancels his Ontario driver's licence. However, he retains his Canadian banking and brokerage accoun because of concerns about the cost of U.S. health care, he does not cancel his Ontario health care card (he changes address to that of his parents in Waterloo, Ontario). He has also left his dog , Bart with his parents.

After the move, he is shocked to realize how much he misses Bart. He finds himself flying back to Kitchener at least twice a month to spend the weekend caring for Bart. By February, 2021, after not being able to find a suitable dog-friendly apartment in New York City, John returns to his position in Kitchener. He has no plans to return to the U.S. Would John be considered a Canadian resident during the 18 months that he was absent from Canada? Explain your conclusion.

Answer: While John severed the great majority of his residential ties with Canada, two factors would suggest that t CRA would likely view him as a Canadian resident during the 18 months that he is absent from the count

• His frequent visits to spend time with his dog.

• Perhaps more importantly, the fact that he claimed a Canadian address to maintain access to the Ontaric care system would be viewed as a very significant factor.

While the answer is not clear cut, our opinion would be that these factors would lead to the conclusion he maintained his Canadian residency. Given the fact that he appears to be defrauding the Ontario health car system, he might be wise to avoid disputing his continued residency.

118) Melissa is a Canadian citizen who has been employed in Vancouver for the last five years. She has accepted a new position in the United States and, as of March 15 of the current year, flies to New Mexico to assume her responsibilities. She has been granted a green card to enable her to work in the U.S. Her husband remains behind with the children until July 1, after the end of their school year. On that date, they fly to New Mexico to join Melissa. Their residence is sold on August 1 of the current year, at which time a moving company picks up their furniture and other personal possessions. The moving company delivers these possessions to their new house in New Mexico on August 15. Explain how Melissa will be taxed in Canada during the current year.

Answer: Melissa would be taxed on her worldwide income for the part of the year that she was resident in Canada. This would be the period January 1 through July 1, the date that her husband and children fly to the U.S. July 1 would be the latest of: the date that Melissa leaves Canada (March 15), the date that Melissa establishes U.S. residency (March 15), and the date that her husband and children depart Canada (July 1). It is unlikely that the fact that her house was not sold until a later date would influence her residence status.

119) Barton Vader is a Canadian citizen who has always lived in London, Ontario. He has a spouse and two school-aged children. As of May 2019, he accepts a new employment position in Akron, Ohio. On October 1, 2019, he moves to Akron to locate housing for his family. In order for his children to finish the school term, his family remains in London until January 1, 2020. When they move, John severs all residential ties with Canada other than the family residence. The residence is placed on the market in January, 2020. However, it has not been sold as of December 31, 2020.

While Barton was scheduled to begin working in the U.S. in early 2020, he is unable to obtain the required reside documents until July 1, 2020.

Explain Barton's Canadian tax status for the years 2019 and 2020.

Answer: For residency purposes, an individual is considered to have ceased being a resident of Canada at the latest three dates:

1. The date the individual leaves Canada.
2. The date the individual's family leaves Canada.
3. The date the individual establishes residency in another country.

In Barton's case the latest of the dates would be July 1, 2020, the date on which he receives the required res documents. Given this, Barton would be considered a Canadian resident for the entire 2019 taxation year. In addition, he would be a part year resident for the period January 1, 2020 through June 30, 2020.

120) Mary Sothor is the Canadian ambassador to Tanzania. She was a resident of Canada immediately prior to her appointment as ambassador. Living with her in Tanzania's capital city are her husband and two children. Her husband was born in Canada and was a Canadian resident at the time of their marriage. He is exempt from Tanzanian taxation because he is the spouse of a foreign diplomat. Her 25 year old son was born in Canada and works for a Tanzanian company. His income exceeds $30,000 annually. Her 16 year old son was born in Kenya and is a full time student with no income of his own. Which of these individuals would be considered Canadian residents for tax purposes? Explain your conclusions.

Answer: Under ITA 250(1)(c)(i), Mrs. Sothor would be a deemed Canadian resident because of her position as a Canadian ambassador and the fact that she was a Canadian resident at the time she was appointed to this post. As her husband is exempt from Tanzanian taxation due to his relationship to a deemed resident, he is a deemed resident of Canada under ITA 250(1)(g). Of her two children, the younger son would be a deemed resident under ITA 250(1)(f) as he is a Canadian ambassador's dependent child. However, the older son would not be a deemed resident because his income exceeds the base for the basic personal tax credit for 2020 of $13,229 and he would therefore not be considered a dependant.

121) Ms. Sharon Washton was born 26 years ago in Bahn, Germany. She is the daughter of a Canadian High Commissioner serving in that country. Her father still holds this position. However, Ms. Washton is now working in Prague, Czechoslovakia. The only income that she earns in the year is from her Prague marketing job and is subject to taxes in Czechoslovakia. She has never visited Canada. Determine the residency status of Sharon Washton.

Answer: While Ms. Washton is the child of a Canadian High Commissioner, it appears that she is no longer a dependant of this individual. It would also appear that she has income in excess of the base for the basic personal tax credit for 2020 of $13,229. As a consequence, she would not be considered a deemed resident under ITA 250(1).

122) Nixon Inc. was incorporated as an Ontario corporation in 2011. However, since 2014, all of the Company's business has been carried on outside of Canada. Determine the residency status of Nixon Inc.

Answer: As the Company was incorporated in Canada after April 26, 1965, it would be deemed to be a Canadian resident under ITA 250(4). While the problem does not provide enough information to determine this, it is possible that the Company has dual residency with the country or countries where it does business. This could result in the application of one or more international tax treaties. Note that, in general, where a corporation does business is not relevant to the residency decision.

123) Wolfhowl Ltd. was incorporated in Banff, Alberta in 1961. Despite its Canadian charter, the Company has never carried on business in Canada. However, until 1971, all meetings of the Board of Directors were held in Banff. Since 1971, all board of directors meetings have been held in Wyoming . Determine the residency status of Wolfhowl Ltd.

Answer: As Wolfhowl Ltd. was incorporated in Canada prior to April 27, 1965, it will only be considered to be a Canadian resident if it has carried on business in Canada or become a Canadian resident subsequent to April 26, 1965. As the director's meetings were held in Canada until 1971, this would suggest that the "mind and management" of the Company was in Canada during this period. This would make the Company a Canadian resident subsequent to April 26, 1965.

However, as the mind and management of the corporation is in the United States, it would also be conside resident of that country. In such dual residency situations, the Canada/U.S. tax treaty tie breaker rules indi Company will be considered a resident of the country of incorporation, which in this case would be Canac

124) Acton Enterprises was incorporated in Montana in 1964. Until 2015, all of the company's directors were residents of Bozeman, Montana, with all meetings held in that city. However, in 2015, all of the directors moved to Calgary, Alberta, with all subsequent meetings held in that city. Determine the residency status of Acton Enterprises for the taxation year ending December 31, 2020.

Answer: While Acton Enterprises was not incorporated in Canada, it would appear that the "mind and management" of the Company is now located in Canada. This means that the Company would be considered a Canadian resident for the 2020 taxation year. However, as it was incorporated in the U.S., it would also be considered a resident of that country. In such dual residency situations, the tie breaker rules indicate the residence would be based on the country of incorporation. This would mean that Acton Enterprises would not be a Canadian resident during 2020.

125) Ms. Sonia Nexus is a computer specialist with net employment income of $66,000. During the current year she ha
- 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.

Answer: Ms. Nexus' Net Income For Tax Purposes would be calculated as follows:

Income Under ITA 3(a):		
Net Employment Income	$66,000	
Interest Income	10,250	$76,250
Income Under ITA 3(b):		
Taxable Capital Gains	$13,500	
Allowable Capital Loss	(24,000)	Nil
Balance From ITA 3(a) And (b)		$76,250
ITA 3(c) Deductions:		
Spousal Support		(14,000)
RRSP Contributions		(3,000)
Balance From ITA 3(c)		$59,250
Deductions Under ITA 3(d):		
Net Rental Losses		(6,750)
Business Loss		(28,000)
Net Income For Tax Purposes		$24,500

She has an unused allowable capital loss carry over of $10,500 ($24,000 - $13,500).

126) Harvey Nicastro has current year net employment income of $45,000. In addition, he has the following additiona sources of income, gains, and losses:

- A loss from an unincorporated business of $23,000.
- Interest income of $4,500.
- A taxable capital gain of $13,500.
- An allowable capital loss of $18,200.
- Spousal support paid of $24,000.
- A net rental loss of $14,500.

Determine Harvey's 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.

Answer: Mr. Nicastro's Net Income For Tax Purposes would be calculated as follows:

Income Under ITA 3(a):		
Net Employment Income	$45,000	
Interest Income	4,500	$49,500
Income Under ITA 3(b):		
Taxable Capital Gains	$13,500	
Allowable Capital Loss	(18,200)	Nil
Balance From ITA 3(a) And (b)		$49,500
ITA 3(c) Deductions:		
Spousal Support		(24,000)
Balance From ITA 3(c)		$25,500
Deductions Under ITA 3(d):		
Business Loss		(23,000)
Net Rental Loss		(14,500)
Net Income For Tax Purposes		Nil

At the end of this year, Mr. Nicastro would have an unused allowable capital loss carry over of $4,700 ($1: $18,200). In addition, he would have a non-capital loss carry over of $12,000 ($25,500 - $23,000 - $14,500).

127) 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.

Answer: This transaction clearly involves tax deferral, in that the contribution will be deductible and the earnings on the contribution will accumulate on a tax free basis. However, all of these amounts will be taxable when they are withdrawn from the plan. There may also be tax avoidance. This will happen if Mr. Bronson is taxed at a lower rate when the funds become taxable.

128) Ms. Sarah Bloom convinces her employer to provide her with a private drug plan in lieu of additional salary. What type of tax planning is involved in this transaction? Explain your conclusion.

Answer: This transaction involves tax avoidance. Ms. Bloom can receive this benefit from her employer without being assessed a taxable benefit. Extra salary would be taxable.

129) 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.

Answer: Natasha is involved in income splitting , tax deferral, and possibly tax avoidance. She is getting the deduction from Taxable Income now and her spouse will be taxed on the income in the future. The tax deferral occurs as the contribution is currently deductible and the earnings on the contribution will accumulate on a tax free basis. However, all of these amounts will be taxable when they are withdrawn from the plan. Tax avoidance will occur if John is taxed at a lower rate than is currently applicable to Natasha when the funds become taxable to him.

130) Ms. Tricia Jones makes contributions to a Registered Pension Plan sponsored by her employer. What type of tax planning is involved in this transaction? Explain your conclusion.

Answer: Contributions to a registered pension are deductible in the year in which they are made. They are not taxed until retirement benefits are received under the terms of the plan. This involves tax deferral and, if Ms. Jones is taxed at a lower rate after she retires, tax avoidance has also been accomplished.

131) 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.

Answer: This transaction involves income splitting . It would appear that her daughter is in a lower tax bracket than Mrs. Theil. This means that the income on the Canada Savings Bonds will be taxed at a lower rate than would be the case if the bonds remained in Mrs. Theil's hands.

132) Mr. Norman Rock transfers some dividend paying shares to his 25 year son who is attending university on a full time basis. What type of tax planning is involved in this transaction? Explain your conclusion.

Answer: This transaction involves income splitting . As Norman's son is over 18 years of age, the dividends will be taxed in his name and not attributed back to his father. Provided he is in a lower tax bracket than Norman, this will reduce the family's overall tax burden.

MATCHING. Choose the item in column 2 that best matches each item in column 1.

For each of the key terms listed, indicate the BEST definition of that term, or that none of the definitions apply.

133) Fiscal Period

Answer: G

134) Flat Tax System

Answer: D

135) Part Year Resident

Answer: I

136) Net Income For Tax Purposes

Answer: J

137) Person

Answer: B

138) Regressive Tax System

Answer: E

139) Sojourner

Answer: K

140) Dual Resident

Answer: H

A) A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.

B) A term used in the Income Tax Act to refer to taxable entities.

C) A CRA publication providing their interpretation of various technical issues related to income taxes.

D) A tax on income that is applied at the same rate to all taxpayers, without regard to the level of their income.

E) A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.

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

G) A taxation year that does not exceed 53 weeks.

H) A taxpayer who is considered to be a resident of two countries.

I) An individual who either enters Canada during the year and becomes a resident or, alternatively, an individual who departs from Canada during the year and gives up their Resident status.

J) The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.

K) An individual who is deemed under ITA 250 to be a Canadian resident for the full taxation year as the result of having been temporarily present in Canada for 183 days or more.

For each of the key terms listed, indicate the BEST definition of that term, or that none of the definitions apply.

141) Fiscal Period

Answer: A

142) Flat Tax System

Answer: E

143) Part Year Resident

Answer: I

144) Net Income For Tax Purposes

Answer: B

145) Person

Answer: G

A) A taxation year that does not exceed 53 weeks.

B) The total of net employment income, net business and property income, net taxable capital gains, other sources of income, and other deductions from income.

C) An individual human being.

D) An individual who has a residence in more than one country.

E) A tax on income that is applied at the same rate to all taxpayers, without regard to the level of their income.

F) The total of all positive sources of income, including employment income, business and property income, net taxable capital gains, and other sources of income.

G) A term used in the Income Tax Act to refer to taxable entities.

H) A tax system that applies higher effective rates for individuals with higher incomes and lower effective rates for individuals with lower incomes.

I) An individual who either enters Canada during the year and becomes a resident or, alternatively, an individual who departs from Canada during the year and gives up their Resident status.

J) A CRA publication providing their interpretation of various technical issues related to income taxes.

146) Regressive Tax System
Answer: E

147) Sojourner
Answer: A

148) Dual Resident
Answer: C

A) An individual who is deemed under ITA 250 to be a Canadian resident for the full taxation year as the result of having been temporarily present in Canada for 183 days or more.

B) A taxation year that is longer or shorter than 52 weeks.

C) A taxpayer who is considered to be a resident of two countries.

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

E) A tax system that applies higher effective rates for individuals with lower incomes and lower effective rates for individuals with higher incomes.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

149) Since it came into power in 2015, the Liberal government has made a number of changes in the Canadian tax system. A brief description of three of these changes follows.

Reduction To Tax Free Savings Account (TFSA) Contributions Limit — The TFSA provision allows non-deductible contributions to be made to a registered account where earnings accumulate on a tax free basis. Withdrawals from these accounts are not taxed. For 2016 and subsequent years, the maximum annual contribution has been reduced from $10,000 to $5,500.

Small Business Tax Rate — For many years, the federal tax rate on active business income earned by Canadian Controlled Private Corporations was 11 percent, 4 percentage points less than the rate applicable to most other corporate income. In 2015, the Conservative government announced that the rate would gradually be reduced to 9 percent. The rate was reduced to 10.5 percent for 2016 but the further planned reductions were cancelled. However, in 2017, the planned reductions were re - instated, with the rate going to 10 percent for 2018 and 9 percent for 2019.

Early Child Educator School Supply Tax Credit — The government introduced a new tax credit equal to 15 percent of eligible expenditures for supplies (e.g ., paper, glue, paint for art projects, etc.). The maximum base for the credit will be $1,000 of eligible supplies in each year. To qualify, the taxpayer must have a certificate or diploma in early childhood education.

Required: Analyze each of the described changes using two of the qualitative characteristics of tax systems that a listed in your text. For your convenience, the list of qualitative characteristics presented in the text is as follows:

- equity or fairness
- neutrality
- adequacy
- elasticity
- flexibility
- simplicity and ease of compliance
- certainty
- balance between sectors

• international competitiveness

Answer: Note — The descriptions of these tax measures are significantly simplified. The objective of this problem is to present the basic ideas so they can be understood by students at this introductory level, while still providing a basis for discussion. It is obvious that there is no definitive solution to this problem. The analysis provided below is intended to be no more than suggestive of possible points that could be made. There are, of course, many alternative solutions.

Repeal Of The Family Tax Cut
Possible comments here would be as follows:
Simplicity And Ease Of Compliance — This was an extremely complex provision that few individuals, other than those working as tax professionals really understood. Elimination of the provision reduces the complexity of the Canadian tax system.
Equity Or Fairness — The family tax cut was widely criticized for providing most of its benefits to middle and upper income Canadians. Lower income individuals rarely benefitted from its provisions. It can be argued that the elimination of the family tax cut improves the fairness of the system.

Reduction In Contributions To Tax Free Savings Accounts
Possible comments here would be as follows:
Adequacy — The reduction in the 22 percent tax bracket to 20.5 percent and several new and expensive programs have increased the government's need for additional revenues. Reducing this limit on the amount of investment income that can be earned tax free will increase revenues.
Balance Between Sectors — As this provision is only available to individuals, the ability to earn tax free investment income reduces taxes for this group of taxpayers. A reduction in the maximum contribution has the effect of increasing taxes for the group. This serves to increase the already heavy tax burden on this group of taxpayers.

Small Business Tax Rate
Possible comments here would be as follows:
Certainty — The fact that the reductions were scheduled, cancelled, and then reinstated has reduced certainty
Neutrality — As changes in the small business rate affect specific taxpayers, the reductions in this rate are not neutral. They favour the shareholders of the corporations that qualify for this rate.

Early Child Educator School Supply Tax Credit
Possible comments here would be as follows:
Simplicity And Ease Of Compliance — The large number of existing tax credits and the fact that new ones are added nearly every year, has greatly increased the complexity of the Canadian tax system. Another addition will exacerbate this problem. Additional complexity is also created by issues such as defining eligible supplies and determining who qualifies for the credit.
Neutrality — This credit results in a benefit related to the costs associated with being a particular type of employee. It is not neutral in that it does not provide similar benefits for the costs associated with other types of employment (e.g ., construction workers cannot deduct the cost of protective clothing).

150) Concerned with her inability to control the deficit, the Minister of Finance has indicated that she is considering the introduction of a head tax. This would be a tax of $200 per year, assessed on every living Canadian resident who, on December 31 of each year, has a head. In order to enforce the tax, all Canadian residents would be required to have a Head Administration Tax identification number (HAT, for short) tattooed in an inconspicuou location on their scalp. A newly formed special division of the RCMP, the Head Enforcement Administration Di (HEAD, for short), would run spot checks throughout the country in order to ensure that everyone has registere received their HAT.

The Minister is very enthusiastic about the plan, anticipating that it will produce additional revenues of $5 billio year. It is also expected to spur economic growth through increased sales of Canadian made toques.

As the Minister's senior policy advisor, you have been asked to prepare a memorandum evaluating this propose
head tax.

Required: Prepare the memorandum.

Answer: There are a large number of possible responses to a question such as this. Some possibilities would include the following:

- Simplicity And Ease Of Compliance — A very good feature of this tax is that it is very simple and prese the taxpayer with no compliance problems. Anyone with a head is taxed and no provisions have been ma any modifications in applicability or amounts to be paid.
- Fairness And Equity — In one sense this is a fair tax in that it applies to every Canadian resident and the amount to be collected from each individual is the same. This could be described as horizontal equity. Ho the tax could also be considered unfair in that it gives no consideration to the individual's ability to pay th either in terms of accumulated wealth or income.
- Regressiveness — Related to fairness is the fact that the tax is regressive. That is, the tax will take a high percentage of income from low income individuals than it will from high income individuals.
- Flexibility And Elasticity — Being a very simple tax, it will be very easy to change the rate at which it is assessed. However, as it is a flat tax based simply on the existence of the individual, it will not respond to changing economic conditions.
- Enforcement And Dependability Of Revenues — Given the presence of a physically visible audit trail (HAT), there should be no enforcement problems. Further, demographic statistics are reasonably predictab making it relatively easy for the government to anticipate the expected levels of revenue.
- Neutrality — Other than decisions related to whether to remain a Canadian resident, the tax appears to b neutral with respect to economic conditions.
- International Competitiveness — It seems unlikely that a $200 tax would be sufficient to influence a dec to either leave Canada or move to Canada. Therefore, the tax could be thought of as being internationally competitive.
- Balance Between Sectors — The tax might be criticized as an additional burden on Canadian individual opposed to Canadian businesses.

There are, of course, other factors that could be considered.

151) Mr. Desmond Morris has spent his entire working life with his current employer, the Alcorn Manufacturing Con In his first years with the Company, he was located in Winnipeg, Manitoba as a production supervisor. More rec he was transferred to the Company's Calgary based subsidiary, where he has served as a manufacturing vice pre until the current year.

Early in the current year, Mr. Morris was asked to move to the United States by April 1 to oversee the constructic new manufacturing operation in Sarasota, Florida. It is expected that when the facility is completed, Mr. Morris v remain as the senior vice president in charge of all of the Florida operations. He does not have any intention of re to live in Canada during the foreseeable future.

On April 1, Mr. Morris left Canada. In preparation for his departure, he had taken care to sell his residence, dispose of most of his personal property, and resign from all memberships in social and professional clubs. However, because Mr. Morris and his wife had three school age dependent children, it was decided that they would remain in Canada until the end of the current school year. As a consequence, Mrs. Morris and the children did not leave Canada until June 30. Until their departure, they resided in a small furnished apartment, rented on a month to month basis.

Required: For purposes of assessing Canadian income taxes, determine when Mr. Morris ceased to be a Canadian resident and the portion of his annual income which would be assessed for Canadian taxes. Explain your conclusions.

Answer: Mr. Morris would fall under the part year resident rules and would only be assessed for Canadian taxes o
worldwide income during the portion of the year prior to his ceasing to be a resident of Canada.

By selling his house, disposing of other personal property, and resigning from various social and professi
clubs, Mr. Morris appears to have done most of the things that would be required to establish that he had made a clean break from Canada as of April 1. However, S5-F1-C1 indicates that, in general, the CRA will view an individual as becoming a non-resident on the latest of three dates:

• The date the individual leaves Canada.
• The date the individual's spouse or common-law partner and dependants leave Canada.
• The date the individual becomes a resident of another country.

Because of the continued presence in Canada of the spouse and dependent children of Mr. Morris, he wou
considered a resident of Canada until June 30, the latest of the relevant dates.

In terms of tax consequences, he would be subject to Canadian taxes on his salary until March 31. He wou
be subject to U.S. taxes on income earned in that country after March 31.

However, he would also be liable for Canadian taxes during the period April 1 through June 30. While he
be eligible for a tax credit for U.S. taxes paid on this income, the fact that Canadian taxes are generally hig
than those in the U.S. would probably result in a liability for Canadian taxes during this period until his fa
departs from Canada.

152) Mr. Valone is a U.S. citizen. However, since obtaining permanent residence status in 2006, he has been employed on a full time basis in London, Ontario. His employer is a Canadian subsidiary of a multi-national corporation that operates in a number of different countries. The head office of the company is in the United Stat

Mr. Valone has been very successful in his position with the Canadian subsidiary. Based on this, he has been offe
promotion which involves a significant increase in salary. However, this promotion is conditional on his moving
company's head office in Philadelphia no later than March 1, 2020. Given the sizable increase in remuneration, M
Valone finds this offer too good to pass up.

As he is a U.S. citizen, he has no difficulty getting the appropriate documentation to establish his residency in the
relinquishes his Canadian driver's licence, as well as his provincial health care card. As required by his employer
his desk in the new work location in the U.S. on March 1.

Mr. Valone and his spouse have two children who are attending a private school in London. The current semeste
school lasts until June 15, 2020. In order to provide continuity in their education, Mrs. Valone decides that she an
children will remain in Canada until the current semester is finished. They depart on June 20, 2020.

The real estate market in London has been somewhat slow of late. As a consequence, the Valone's house is not sold until October 5, 2020.

Required: For purposes of assessing Canadian income taxes, determine when Mr. Valone ceased to be a Canadian resident and the portion of his annual income which would be assessed for Canadian taxes. Explain your conclusions.

Answer: *Solution According To Textbook*

Mr. Valone would be considered a part year resident and would only be assessed for Canadian income ta
worldwide income during the portion of the year prior to his ceasing to be a resident of Canada.

S5-F1-C1 indicates that, in general, the CRA will view an individual as becoming a non-resident on the latest of three dates:

• The date the individual leaves Canada.
• The date the individual's spouse or common-law partner and dependants leave Canada.

Answer: • The date the individual becomes a resident of another country.

While Mr. Valone departed from Canada on March 1, 2020, he will be considered a Canadian resident unt family's departure on June 20, 2020. The fact that his family remained in Canada would lead to this conclu While not essential to this conclusion, the fact that he did not sell his Canadian residence until that date w provide additional support.

His Canadian salary from January 1, 2020 to March 1, 2020 would be subject to Canadian taxes. In additio U.S. salary for the period March 1, 2020 through June 20, 2020 will be subject, first to U.S. taxes, and then subsequently to Canadian taxes. In calculating his Canadian taxes payable, he will receive a credit for the taxes which he has paid on this income. However, because Canadian tax rates at a given income level are usually higher than those which prevail in the U.S., it is likely that he will be required to pay some Canadian income taxes in addition to the U.S. taxes.

Note To Instructors
The preceding solution reflects the content of the text with respect to departures from Canada and students should be evaluated on that basis. However, S5-FI-C1 qualifies the general departure rules as follows:

Paragraph 1.22 - An exception to this will occur where the individual was resident in another country prior to entering Canada and is leaving to re-establish his or her residence in that country. In this case, the individual will generally become a non-resident on the date he or she leaves Canada, even if, for example, his or her spouse or common law partner remains temporarily behind in Canada to dispose of th dwelling place in Canada or so that their dependants may complete a school year already in progress.

On the assumption that Mr. Valone was a resident of the U.S. prior to his working years in Canada, this ex would mean that he would cease to be a resident of Canada on March 1, 2020, the date that he departs fro Canada.

The textbook does not deal with the residency rules of countries other than Canada. Although this solutio concludes that June 20 is the date residency is terminated in Canada, it is probable that the foreign jurisdic (the U.S.) would consider Mr. Valone to be resident under their own rules effective March 1. In effect, the period between March 1 and June 20 would become a dual residency period. We would not expect students to come to this conclusion, but include this to illustrate the complexities of international issues in taxation.

153) For each of the following persons, indicate how they would be taxed in Canada for the year ending December 31, 2020. Your answer should explain whether the person is a Canadian resident, what parts of their income would be subject to Canadian taxation, and the basis for your conclusions.

Case A — John is a citizen of the U.K. who has landed immigrant status in Canada. He has been employed in Canada for over 15 years. In 2019, he won $1.5 million in a lottery. He has decided to use these funds to spend two years touring Europe and Asia. His wife and children will remain at the family home in New Brunswick. He was not present in Canada during any part of 2020.

Case B — In 2019, Jane's Canadian employer asked her to spend three years working in their Hong Kong office. Her employment contract requires her to return to Canada in 2022. Jane severs all of her residential ties with Canada and moves to Hong Kong in November, 2019. She is not present in Canada during any part of 2020.

Case C — Laura is married to a member of the Canadian armed forces who is serving in Ghana. She is a citizen of Ghana and has never visited Canada. During 2020, because her husband is a member of the Canadian armed forces, she is not subject to taxation in Ghana.

Case D — Martha Mendoza is a U.S. citizen who lives in Buffalo, New York. During 2020 she is employed 5 days per week in Fort Erie, Ontario. Her 2020 salary is $52,000. In addition, she has $2,000 (Canadian) of interest on a savings account with a Buffalo bank.

Case E — Barry Long is a Canadian citizen who has lived and worked in Canada all of his life. When he is offered a significant increase in salary if he accepts a position in Spain, he accepts this position and on March 1, 2020, he moves to Spain. While he immediately establishes residency in Spain, he is not joined by his wife and children until July 1, 2020. As they are unable to sell their Canadian home at an acceptable price, the property is rented under a long-term residential lease.

Answer: *Case A*

John's 2 year tour would be considered a temporary absence from Canada. Given the facts, it appears his i not to permanently sever residential ties with Canada. This position is evidenced by the fact his tour is for limited time and he will not be establishing residency in another country.

John's departure does not appear to be a true departure in that he has not severed any of the primary ties (dwelling, spouse and dependants) the CRA looks to. As a result, examining those ties would not be relev since they are typically used when there is an intention to sever residential ties, but they are not all severe same time.

John will remain a Canadian resident during his tour and would be subject to Canadian tax on his worldw income during 2020.

Case B

Because she has an employment contract that requires her to return to Canada in three years, she will be v as having retained Canadian residence status. Although she has severed her ties with Canada, the require return would show that she does not intend to permanently leave Canada.

Jane will be subject to Canadian tax on her worldwide income during 2020.

Case C

As she is exempt from taxation in Ghana because she is the spouse of a deemed Canadian resident, Laura be a deemed resident of Canada for income tax purposes during 2020 [(ITA 250(1)(g)].

Laura would be subject to Canadian tax on her worldwide income during 2020.

Case D

As noted in S5-F1-C1, commuting from the U.S. for employment purposes does not make an individual a deemed resident under the sojourner rules. Therefore, Martha would not be considered a Canadian reside income tax purposes.

She would be exempted by the Canada/U.S. tax treaty under ITA 2(3) if the amount of employment incom less than $10,000, or if she was physically present in Canada for less than 183 days. Her employment inco more than $10,000 and, because she was working 5 days a week, it appears that she was physically presen Canada for more than 183 days. Given these facts, she would not be exempted from Canadian taxation be of the Canada/U.S. tax treaty.

Martha would be subject to Canadian tax on her 2020 Canadian employment income. She would not be su to Canadian tax on her U.S. savings account interest.

Case E

Residency terminates at the latest of:

- the date the individual leaves Canada;
- the date the individual's family leaves Canada; and

Answer: • the date that individual establishes residency elsewhere.

As Barry's family did not leave Canada until July 1, 2020, Barry would be considered a Canadian resident that date. Provided he has no intention of returning to Canada, he would be subject to Canadian taxes on l worldwide income for the period January 1, 2020 through July 1, 2020. In addition, he would be subject to Canadian tax on his 2020 rental income. As will be discussed in Chapter 20, the tax on the rental income would not be Part I tax. It would be Part XIII tax.

154) Indicate which of the corporations described in the following Cases would be considered residents of Canada for the current year. Explain the basis for your conclusion.

Case A — Bonix Ltd. was incorporated in Canada in 1981. While it operated in Canada for a number of years, all of its operations, management and directors relocated to the United States in 2008.

Case B — Dorad Inc. was incorporated in Ohio in 2003. For several years, all of its directors were residents of Canada, with board meetings being held in Windsor, Ontario. However, in 2008, all of the directors moved to Toledo, Ohio. All Board Of Directors meetings are now held in that city.

Case C — Upton Inc. was incorporated in Delaware in 2008. However, the head office of the corporation is in Halifax, Nova Scotia. All of the directors of the corporation are Canadian residents and all meetings of the board of directors are held in Halifax.

Case D — Carlin Inc. was incorporated in Canada in 2005. However, its directors have always been residents of the United States, with all of the company's Board Of Directors meetings held in that country.

Answer: *Canada/U.S. Tax Treaty Tie Breaker Rule*

In cases of dual residency for corporations, where a corporation could be considered a resident of both cou the Canada/U.S. tax treaty indicates that the corporation will be deemed to be a resident only in the countr which it is incorporated.

Case A

While Bonix is no longer operating in Canada, it was incorporated here and it is deemed a Canadian resid However, as the mind and management of the Company are currently in the United States, the Company a resident of the U.S. Using the tie breaker rule, Bonix will be considered a resident of Canada.

Case B

Dorad Inc. was not incorporated in Canada and its mind and management are not currently located here. Therefore, Dorad would not be considered a resident of Canada.

Case C

The mind and management of Upton Inc. are in Canada and this suggests that the Company is a resident (Canada. However, as Upton Inc. was incorporated in the U.S., it is also a resident of the U.S. Using the tie breaker rule, the Upton Inc. will be considered a resident of the U.S.
and a non-resident of Canada.

Case D

Carlin Inc. was incorporated in Canada which means Carlin is a deemed resident of Canada. However, be the mind and management of the Company are in the United States, it is also a resident of the U.S. Using t breaker rule, Carlin Inc. will be considered a resident of Canada.

155) For each of the following persons, indicate how they would be taxed in Canada for the current year. Your answe explain whether the person is a Canadian resident, what parts of their income would be subject to Canadian taxa and the basis for your conclusions.

A. Molly London was born in Salmon Arm, British Columbia. On October 31, after a very serious dispute with h fiancé, she quit her job, left Salmon Arm and moved all her belongings to San Diego, California. She has vowed t set foot in Canada again.

B. Daryl Bennett is a Canadian citizen living and working in Sault Ste. Marie, Michigan. He has a summer cottag Sault Ste. Marie, Ontario, where he spent July and August. As his only sister lives in Sault Ste. Marie, Ontario, he total of 27 days during the year staying with her in her home.

C. Tweeks Inc. was incorporated in Vermont in 1980 by two U.S. citizens who were residents of Quebec. All of tl directors are residents of Quebec and all meetings of the Board of Directors have been held in Montreal since incorporation.

D. Bordot Industries Ltd. was incorporated in British Columbia on September 29, 1973. However, the directors o corporation have always lived in Blaine,Washington. All of their meetings have been held at a large waterfront property just south of Blaine.

Answer: A. Molly London would be considered a part year resident of Canada until October 31, the date of her dep and would be taxed on her worldwide income for this period. As her presence in Canada during the first p the year was on a full time basis, she would not fall under the sojourning rules.

B. Daryl Bennett would not be considered a Canadian resident. As a result, none of his income would be s to Canadian taxes. He sojourned in Canada for less than 183 days. He would therefore not be considered a deemed resident by the sojourner rule. As his residential ties appear to be in the U.S., he would be a U.S. resident. His Canadian citizenship would not affect his residency status.

C. Under the mind and management rule, Tweeks Inc. would be considered resident in Canada for the ful and would be taxed on its worldwide income for the year. While Tweeks Inc. was not incorporated in Can would appear that its mind and management are located in Quebec. This would result in Tweeks Inc. beir treated as a Canadian resident.

However, as Tweeks was incorporated in the U.S., it would also be considered a resident of that country. (this dual residency, the tie-breaker rules in the Canada/U.S. Tax Treaty would resolve the situation by making the Company a resident of its country of incorporation. This would result in Tweeks being considered a resident of the U.S., and a non-resident of Canada. Its income would be taxed in the U.S.

D. Bordot Industries would be deemed a Canadian resident because it was incorporated in Canada subsec April 26, 1965 [ITA 250(4)(a)].

However, because the mind and management of the Company is in the U.S., it would also be considered a resident of that country. Given this dual residency, the tie-breaker rules in the Canada/U.S. Tax Treaty wc resolve the situation by making the Company a resident of its country of incorporation. This would make Bardot Industries a resident of Canada, with its worldwide income taxed in Canada.

156) Pertinent facts are given for a different individual or corporation in each of the Parts of this problem. For each Part, indicate whether or not this individual or corporation would be considered a Canadian resident for income tax purposes during the current year. Briefly explain your conclusion.

Part A — Dorothy is married to Jack, who is a member of the Canadian armed forces serving in Indonesia. Other than a brief visit to Jack's parents' home in Halifax, she has never been to Canada in her life. Because Jack is a member of the Canadian armed forces, neither he nor his wife is subject to taxation in Indonesia.

Part B — Alice is a U.S. citizen living in Seattle,Washington. While she leaves many of her belongings at her parent's home in that city, she spends at least four days every week living with her boyfriend in Burnaby, British Columbia. They plan to be married at some future date.

Part C — Last year, John transferred to the Cayman Islands office at the request of his Canadian employer. His three year employment contract calls for him to return to work in Canada after its completion. On his departure from Canada, he severed all residential ties with Canada.

Part D — Millicent is a U.S. citizen who, until last year, had lived and worked in Canada as a landed immigrant for over 20 years. Last year, after winning $2 million in an Ontario lottery, she left Canada on a two year pleasure trip that will take her to virtually every country in the world. Her husband and children, all Canadian citizens, continue to live at the family home in Port Hope, Ontario.

Part E — Berkly Management Inc. was incorporated in Alberta in 1963. Until 1986, its only director resided in that province. In that year, the director was replaced by an individual resident in Fresno, California.

Part F — Lorris Ltd. was incorporated in Wisconsin in 1983. Until 1992, all of the directors of the corporation lived in Kenora, Ontario. During this period, the Board of Directors meetings were held in that city. Beginning in 1992, all of the directors have been residents of Green Bay, Wisconsin and all of the Board of Directors meetings have been held in Green Bay.

Answer: *Part A*

As she is exempt from taxation in Indonesia because she is related to a deemed resident, Dorothy would b deemed resident of Canada for income tax purposes during the current year under ITA 250(1)(g).

Part B

As she is present in Canada on a temporary basis for more than 183 days per year, she would be considere sojourner. Under ITA 250(1)(a), this would make her a Canadian resident for income tax purposes for all c current year.

Part C

Because he has an employment contract that requires him to return to Canada, he will be a Canadian resid income tax purposes during the current year. Although he has severed his ties with Canada, the requirem return would show that he does not intend to permanently leave Canada.

Part D

Millicent would be a Canadian resident for income tax purposes during the current year. An individual is considered to have departed from Canada until the latest of the departure date, the date of departure for t spouse and children, and the date on which residence is established in a different country. As her family is in Canada and Millicent will not be establishing residency in another country, she will remain a Canadian resident during her trip.

Part E

ITA 250(4)(c) indicates that a corporation is resident in Canada if it was incorporated in Canada prior to A 1965 and carried on business, or was resident in Canada, in any year ending after April 26, 1965. However mind and the management of the company is in the U.S., it is also a resident of that country. In cases of du residency for corporations, where a corporation could be considered a resident of both countries, the Canada/U.S. tax treaty indicates that the corporation will be deemed to be a resident only in the country in which it is incorporated. Given this, Berkley Management would be a resident of Canada.

Part F

The company was not incorporated in Canada and the mind and management of the company is not in Ca Lorris Ltd. is not a resident of Canada.

157) The 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, or state that no carry overs are available.

Answer: *Case A*

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$17,000	
Net Rental Income	8,500	$25,500
Income Under ITA 3(b):		
Taxable Capital Gains	$17,400	
Allowable Capital Losses	(19,200)	Nil
Balance From ITA 3(a) And (b)		$25,500
Subdivision e Deductions		(6,300)
Balance From ITA 3(c)		$19,200
Deduction Under ITA 3(d):		
Business Loss		(12,300)
Net Income For Tax Purposes (Division B Income)		$ 6,900

In this Case, Ms. Burke has an unused allowable capital loss carryover of $1,800 ($17,400 - $19,200). The lc winnings are not subject to tax.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$42,100	
Interest Income	8,200	$50,300
Income Under ITA 3(b):		
Taxable Capital Gains	$22,400	
Allowable Capital Losses	(19,200)	3,200
Balance From ITA 3(a) And (b)		$53,500
Subdivision e Deductions		(4,200)
Balance From ITA 3(c)		$49,300
Deduction Under ITA 3(d):		
Unincorporated Business Loss		(51,000)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Ms. Burke's Net Income For Tax Purposes (Division B income) is nil. There would be an unus

Answer: business loss carry over of $1,700 ($49,300 - $51,000).

158) The following two Cases make different assumptions with respect to the amounts of income and deductions that are available to Carl Suzak, a Canadian resident, for the current year.

Case A — Carl had employment income of $126,100, as well as income from an unincorporated business of $14,1
rental property owned by Carl experienced a net loss of $4,600. Dispositions of capital property during the curre
had the following results:

Capital Gains	$56,400
Capital Losses	72,300

In compliance with the terms of his divorce agreement, Carl paid deductible spousal support of $600 per month f
entire year. In addition to the preceding items, Carl had a winning lottery ticket which resulted in his receiving a prize of $562,000.

Case B — Carl had employment income of $89,000, interest income of $3,100, and net rental income of $8,600. Ca
operated an unincorporated business. Unfortunately, during the current year, it experienced a net loss of $187,40
Dispositions of capital property during the current year had the following results:

Capital Gains	$46,200
Capital Losses	26,300

Also during the current year, Carl made deductible contributions of $8,600 to his RRSP.

Required: For each Case, calculate Carl'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.

Answer: *Case A*

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$126,100	
Business Income	14,100	$140,200
Income Under ITA 3(b):		
Taxable Capital Gains [(1/2)($56,400)]	$28,200	
Allowable Capital Losses [(1/2)($72,300)]	(36,150)	Nil
Balance From ITA 3(a) And (b)	$140,200	
Spousal Support Payments [(12)($600)]		(7,200)
Balance From ITA 3(c)		$133,000
Deduction Under ITA 3(d):		
Net Rental Loss		(4,600)
Net Income For Tax Purposes (Division B Income)		$128,400

In this Case, Carl has an unused allowable capital loss carry over of $7,950 ($28,200 - $36,150). The lottery winnings would not be included in income.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$89,000	
Interest Income	3,100	
Net Rental Income	8,600	$100,700

Answer: Income Under ITA 3(b):

Taxable Capital Gains		
[(1/2)($46,200)]	$23,100	
Allowable Capital Losses		
[(1/2)($26,300)]	(13,150)	9,950
Balance From ITA 3(a) And (b)		$110,650
Deductible RRSP Contribution		(8,600)
Balance From ITA 3(c)		$102,050
Deduction Under ITA 3(d):		
Unincorporated Business Loss		(187,400)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Carl has an unused business loss carry over of $85,350 ($102,050 - $187,400).

159) Karla Gomez is a Canadian resident who lives in Toronto. In the following two Cases, different assumptions are made with respect to the amounts and types of income she will include in her tax return for the current year. Information is also provided on the deductions that will be available to her for the year.

Case One — Karla had net employment income of $62,350. Unfortunately, her unincorporated flower shop suffer net business loss of $115,600. In contrast, she had a very good year in the stock market, realizing the following ga losses:

Capital Gains	$97,650
Capital Losses	5,430

Also during the current year, Karla made deductible contributions of $4,560 to her RRSP.

Case Two — Karla had net employment income during the year of $45,600, as well as net business income of $27,310 and a net rental loss of $4,600. As part of a divorce agreement from a previous year, Karla paid spousal support of $600 per month to her former common-law partner, Lucretia Smart for the entire year. She realized th following results in the stock market during the year:

Capital Gains	$31,620
Capital Losses	41,650

While Karla does not gamble on a regular basis, she enjoys the ambiance of the local casino. Given this, two or th times a year, she spends an evening dining and gambling with friends there. In March of this year, she got very l winning $46,000 by hitting a slot machine jackpot.

Required: For each Case, calculate Karla's Net Income For Tax Purposes (Division B income) for the current year. Indicate the amount and type of any loss carry overs that would be available at the end of the year.

Answer: *Case One*

The Case One solution would be calculated as follows:

Income Under ITA 3(a):		
Net Employment Income		$62,350
Income Under ITA 3(b):		
Taxable Capital Gains		
[(1/2)($97,650)]	$48,825	
Allowable Capital Losses		
[(1/2)($5,430)]	(2,715)	46,110
Balance From ITA 3(a) And (b)		$108,460
Subdivision e Deduction:		
Deductible RRSP Contribution		(4,560)
Balance From ITA 3(c)	$103,900	

Answer: Deduction Under ITA 3(d):

Net Business Loss		(115,600)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Karla has an unused business loss carry over of $11,700 ($103,900 - $115,600).

Case Two

The Case Two solution would be calculated as follows:

Income Under ITA 3(a):		
Net Employment Income	$45,600	
Net Business Income	27,310	$72,910
Income Under ITA 3(b):		
Taxable Capital Gains		
[(1/2)($31,620)]	$15,810	
Allowable Capital Losses		
[(1/2)($41,650)]	(20,825)	Nil
Balance From ITA 3(a) And (b)		$72,910
Subdivision e Deduction:		
Spousal Support Payments [(12)($600)]		(7,200)
Balance From ITA 3(c)		$65,710
Deduction Under ITA 3(d):		
Net Rental Loss		(4,600)
Net Income For Tax Purposes (Division B Income)		$61,110

In this Case, Karla has an unused allowable capital loss carry over of $5,015 ($20,825 - $15,810). As Karla's gambling activity does not appear to be substantial enough to be considered a business, the $46,000 in winnings would not be taxable.

160) The following four Cases make different assumptions with respect to the amounts of income and deductions of Kirsten for the current year:

	Case A	Case B	Case C	Case D
Employment Income	$75,660	$107,380	$60,710	$43,420
Income (Loss) From Business	(15,990)	(10,920)	(80,990)	(60,060)
Rental Income (Loss)	7,020	15,860	3,380	(23,790)
Taxable Capital Gains	41,080	20,280	15,080	30,030
Allowable Capital Losses	(16,120)	(30,420)	(13,910)	(32,110)
Subdivision e Deductions	(5,330)	(7,020)	(15,080)	(7,280)

Required: For each Case, calculate Kirsten'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, or state that no carry overs are available.

Answer: *Case A*

The Case A solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$75,660	
Rental Income	7,020	$ 82,680
Income Under ITA 3(b):		
Taxable Capital Gains	$41,080	
Allowable Capital Losses	(16,120)	24,960
Balance From ITA 3(a) And (b)		$107,640

Answer:		
Subdivision e Deductions		(5,330)
Balance From ITA 3(c)		$102,310
Deduction Under ITA 3(d):		
Business Loss		(15,990)
Net Income For Tax Purposes (Division B Income)		$ 86,320

In this Case, Kirsten has no loss carry overs at the end of the year.

Case B

The Case B solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$107,380	
Rental Income	15,860	$123,240
Income Under ITA 3(b):		
Taxable Capital Gains	$20,280	
Allowable Capital Losses	(30,420)	Nil
Balance From ITA 3(a) And (b)		$123,240
Subdivision e Deductions		(7,020)
Balance From ITA 3(c)		$116,220
Deduction Under ITA 3(d):		
Business Loss		(10,920)
Net Income For Tax Purposes (Division B Income)		$105,300

In this Case, Kirsten has an allowable capital loss carry over of $10,140 ($20,280 - $30,420).

Case C

The Case C solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income	$60,710	
Rental Income	3,380	$64,090
Income Under ITA 3(b):		
Taxable Capital Gains	$15,080	
Allowable Capital Losses	(13,910)	1,170
Balance From ITA 3(a) and (b)		$65,260
Subdivision e Deductions		(15,080)
Balance From ITA 3(c)		$50,180
Deduction Under ITA 3(d):		
Business Loss		(80,990)
Net Income For Tax Purposes (Division B Income)		Nil

In this Case, Kirsten would have a business loss carry over in the amount of $30,810 ($50,180 - $80,990).

Case D

The Case D solution would be calculated as follows:

Income Under ITA 3(a):		
Employment Income		$43,420
Income Under ITA 3(b):		
Taxable Capital Gains	$30,030	
Allowable Capital Losses	(32,110)	Nil
Balance From ITA 3(a) And (b)		$43,420

Answer:	Subdivision e Deductions	(7,280)
	Balance From ITA 3(c)	$36,140
	Deduction Under ITA 3(d):	
	Business Loss	(60,060)
	Rental Loss	(23,790)
	Net Income For Tax Purposes (Division B Income)	Nil

Kirsten would have a carry over of business and rental losses in the amount of $47,710 ($36,140 - $60,060 - $23,790) and of allowable capital losses in the amount of $2,080 ($30,030 - $32,110).