|  |  |  |
| --- | --- | --- |
|  | A | B |
| Employment Income | 80,000 | 42,000 |
| Rental income (loss) | 12,000 | (8,000) |
| Business income (loss) | (10,000) | (67,000) |
| Capital gains | 18,000 | 34,000 |
| Capital losses | 12,000 | 45,000 |
| Subdivision e deductions | 6,000 | 12,000 |

**BuAd 208 Fall 2020**

**Review questions for Mid Term 1**

Q. 1 For each of the above cases calculate Andre Dawson’s Net Income for Tax Purposes using the section 3 format in chapter 1. Also indicate the amount and how they can be used of any resulting loss carryovers.

Q. 2 Robert (Bob) Gibson is a commission salesperson for Industrial Horticulture (IH), a leading manufacturer of fertilizers and pesticides. During 2020 he earned a base salary of $95,000. Because of recent changes in the agricultural industry Bob only earned commissions of $12,000. The following amounts were withheld from Bob’s pay by his employer:

|  |  |
| --- | --- |
| Federal and Provincial Taxes | $ 24,000 |
| Registered Pension Plan Contributions (Note 1) | 5,000 |
| Payments for Group Disability (Note 2) | 400 |
| Payments for Group Life Insurance (Note 3) | 250 |

Note 1: IH has a company pension plan with the company and the employee making equal payments to the plan.

Note 2: Bob is covered by a comprehensive disability plan which provides income during periods of disability. The premiums for the disability plan are paid entirely by the employees of the company. During the year Bob was forced to take eight weeks off due to an unfortunate auto accident. He received $3,400 in disability payments during this period. Bob has paid in a total of $1,600 since starting with IH.

Note 3: Bob is covered by the company’s group life policy that will pay his family $250,000 in the event of his death. Premiums for the plan are paid by the company at double the amount paid by the employee.

Other Information:

1. For Christmas, IH gave all of the employees of the company memberships in the Cheese of the Month Club. The membership has a fair market value of $200.
2. As his job requires a significant amount of driving, IH provided Bob with a car. From January 1st to April 30th Bob used the company Lexus LS 460, which had been purchased the previous year for $83,000. He drove the Lexus a total of 36,000 km, of which 16,000 could be considered employment usage. On May 1st Bob was in a serious car accident and totaled the Lexus. When he returned to work, on July 1st, he was provided with a brand new Prius that the company was leasing for $380 a month, payments include $65 a month for insurance. From July to December Bob drove the Prius a total of 32,000 km of which 30,000 could be considered employment usage. All operating costs are paid for by the company.
3. During the year Bob incurred the following expenses related to his job as a commission salesperson, none of which were reimbursed by the company:
   1. Travel costs of $14,000, of which $2,500 was for meals while of the road.
   2. Client entertainment, consisting of tickets to sporting events, of $6,000
   3. Other promotional expenses of $2,000
4. During the year IH paid $1,200 for Bob to see a financial planner to discuss financial issues related to his retirement.

Compute Bob’s minimum net employment income for the year.

Q. 3

Lou Brock is a commissioned salesperson and has asked for your help in preparing his 2020 income tax return. He has provided you with the following information:

|  |  |  |  |
| --- | --- | --- | --- |
| Salary |  |  | 35,000 |
| Commissions for employment |  |  | 194,000 |
| Interest on treasury bills |  |  | 1,500 |
| Dividends from Canadian corporations |  |  | 3,750 |
|  |  |  |  |
| Home office expenses (20% of square footage of home) |  |  |  |
| Mortgage interest | 8,800 |  |  |
| Maintenance | 1,500 |  |  |
| Utilities | 2,200 |  |  |
| Property taxes | 2,000 |  |  |
| Insurance | 1,700 |  | 16,200 |
|  |  |  |  |
| Auto expense |  |  |  |
| Operating costs | 6,400 |  |  |
| Maintenance | 900 |  |  |
| CCA (100%) | 5,355 |  |  |
| Interest on car loan | 2,200 |  | 14,855 |
|  |  |  |  |
| Travel expenses |  |  |  |
| Hotels | 7,200 |  |  |
| Airfare | 4,500 |  |  |
| Car Rental | 1,250 |  |  |
| Meals | 3,000 |  | 15,950 |
|  |  |  |  |
| Other expenses |  |  |  |
| Meals with clients , not while travelling | 4,800 |  |  |
| Gifts for clients (promotional expense) | 1,800 |  |  |
| Bribes for government officials | 10,000 |  | 16,600 |

Lou purchased his car two years ago for $60,000. During the year he drove the car 47,310 km, of which 18,924 were personal use. Lou is required by his employer to maintain an office in his home and he received no reimbursements or allowances for any of his expenses.

Compute Lou’s minimum net employment income for the year.

Q. 4

David Ortiz, the Vice-President of Sky Box Incorporated, has asked for your assistance concerning the tax implications of the following amounts:

Salary, gross $140,000

Payroll deductions

Income taxes $42,000

Canada pension plan 2,895

Employment insurance 856

United Way donation 1,000

RPP contributions 6,000 52,499

Net Pay $87,501

Additional information:

1. David receives a gas allowance from of $300 a month from his employer, as he is required to his provide own vehicle and travel for employment. SkyBox has provided David with form T2200. David’s actual auto costs for the year were $3,150 for gas and $1,200 for other operating costs. David purchased a new BMW last year for $64,000 on which the maximum CCA claim would be $4,500. He also spent $200 on employment related parking. David drove a total of 40,000 kilometres, of which 24,000 were employment related.
2. For Christmas Sky Box gave David a $400 gift certificate to Pottery Barn. David also received a signed Tim Tebow helmet worth $2,000 to celebrate 10 years as the Sky Box VP.
3. David used the frequent flyer miles that he earned flying for work for a flight to Mexico with his wife. The flight would have otherwise cost him $800 plus HST of $104.
4. David is taking two programs from the local community college. The first is Leadership for Executives, at a cost of $1,800. The second is Flower Arranging for Beginners at a cost of $900. The full $2,700 was paid by Sky Box.
5. Concerned about his weight, Sky Box paid $720 for a gym membership for David.
6. David paid the following expenses out of his own pocket, and was not reimbursed:

* Meals with customers $1,700
* CPA dues 1,400
* Hotel and travel costs related to employment 2,200

Compute David’s minimum employment income for the year.

Q. 5 In each of the following independent cases, determine the maximum amount of 2020 personal tax credits .Note that employment income over $50,000 will produce the maximum in CPP and EI paid by the employee.

1. Louis Boudreau is a divorced 52 year old computer programmer who lives with his 75 year old mother. Louis earned $60,000 from his employment as well as $5,000 from investments. His mother earns a total of $22,000 a year from her pension and Old Age Security. Louis also gave $1,000 to the local representative of the federal NDP Party.
2. Robin Roberts has net income for tax purposes of $75,000, all of which is from renting out various properties. He lives with his wife Helen and their three kids Sunshine, Moonbeam and Bob, aged 14, 13 and 10 respectively. Helen does not work outside the home and earns no income of her own. Sunshine and Moonbeam have no income of their own while Bob earned $16,000. Last year Sunshine was blinded in an accident and as such qualifies as disabled.
3. Herbert Pennock has net income for tax purposes of $60,000, entirely from employment. He lives with his wife Penny who has NITP of $36,000 from her job at a local grocery store. They have two children, Brian, age 19, and Susan, age 15. Currently Brian is studying Fine Arts at the local community college. Brian attended full time for 8 months of the year and his father paid tuition of $8,000. Brian had net income for the year of $8,000 while Susan had none.
4. Joseph Tinker, 69 years old, is a retired high school teacher who lives with his wife Sandy, age 66. Joseph earned $45,000 this year, $30,000 from his pension, $10,000 from CPP and $5,000 from Old Age Security. Sandy’s only income was $6,000 from Old Age Security and $3,000 in pension income. As he is still extremely physically fit, Joseph volunteered over 300 hours with the local Fire Department during the year. Joseph also donated $1,000 to the Firefighters Rescue Fund, a registered charity. .
5. John Evers is a widowed engineer who lives with his four children, Junior 22, Isaac 19, Karen 16 and Jacob 10, John has net income for tax purposes of $130,000 entirely from his employment. Junior completed his BA in English in April and unable to find work in his field, has been working at Starbucks and had employment income for the year of $14,000. He was in school for 4 full time months during the year and his father paid $3,000 in tuition on his behalf. Last year Isaac suffered a head injury while skiing and, while his doctor does not consider him disabled, he is not capable of supporting himself financially. Isaac had no income during the year although he did take some first year business classes at the local college, he was in school part time for four months of the year at a tuition cost of $800. Both Karen and Jacob attended a two week course on local flora and fauna at the community centre during the summer, the cost was $400 per child for the course. Medical expenses for the family were as follows: John ($1,400), Junior ($0), Isaac ($7,000), Karen ($5,400) and Jacob ($300).

Modified from **Chapter 4 Tax Credits Question (based on prior year text question)**

Phil Cousteau is 47 years old and earned $170,000 as an accountant in 2020. His employer withheld maximum CPP and EI contributions. Other information pertaining to 2020 is as follows:

1. Mr. Cousteau’s spouse Claire is 45 years old and blind. She has Net Income for Tax Purposes in 2020 of $9,000, all of which is interest on investment she inherited from her mother.
2. Phil and Claire have two children, a 15 year old daughter, Haley, and a 19 year old son, Manny. Both Haley and Manny live at home. Haley earned $800 during 2020 babysitting.
3. Manny has a disability that is not severe enough for his doctor to sign off on the T2201 form. Manny inherited investments from his grandmother and received $15,000 in interest income from them during 2020.
4. Phil’s brother, Cameron, lives in the basement of Phil’s Toronto home. Cameron is 50 years old and his only income for 2020 was EI benefits payments totalling $3,000. Phil also supports his 85 year old father, Jay, who is physically infirm and lives in a retirement home. Jay had Net Income for Tax Purposes of $9,000 for 2020.
5. During 2020, the following amounts were deducted from Phil’s pay:

Group Life Insurance Premiums 600

Registered Pension Plan 1,200

United Way Donations 1,500

1. During 2020, Phil paid the following amounts of eligible medical expenses:

Himself $ 650

Claire 1,940

Haley 860

Manny 1,250

Cameron 480

Jay 990

1. Claire also made a $500 donation to their church during 2020.

**Required:**

Calculate the maximum amount of 2020 federal personal tax credits that are available to Phil Cousteau.

Michael “Punchy” Pool, age 53, is a widowed father of three. In 2020 he had net income for tax purposes of $280,000, made up of $260,000 in employment income from his job as a lawyer and $20,000 from investment income. The following additional information relates to the 2020 taxation year:

1. Punchy’s eldest child is Michael Junior, age 23. Junior graduated from University last year with a BA in Sociology and being unable to find work in his field was forced to move back in with his father. He has $27,000 in unused tuition credits carried over from prior years. As his father won’t give him an allowance, Junior works part time at Starbucks to earn beer money. In 2020 he earned $11,000. Junior also had medical expenses during the year of $2,200, entirely paid for by his father.
2. The second child is Rebecca, age 19. Rebecca is currently attending UCLA, at a tuition cost of $34,000 for the year. During the year, Rebecca earned $5,000 from an on campus job. She also had medical costs of $100, which she paid for herself.
3. The youngest child is Timothy, age 14. Tim was in an accident when he was five and he now has some mobility difficulty that while it qualifies as an infirmity does not meet the requirements for a disability. During the year Tim had income of $3,000 from investments he inherited from his grandfather. Punchy spent $8,000 on medical expenses for Tim during 2020.
4. Punchy volunteers with both the local fire department and the local search and rescue. In 2019 he volunteered 210 hours with the fire department and 244 hours with search and rescue.
5. Punchy donated $20,000 to the Heart and Stroke Foundation of BC in 2020. The Heart and Stroke Foundation is a registered Canadian charity.
6. Wanting to cover all bases, Punchy contributed $500 to the Conservative Party of Canada, $500 to the Liberal Party of Canada and $500 to the New Democratic Party of Canada. All three are registered federal political parties.

Calculate the maximum federal tax credits available to Punchy. Assume that all available transfers are made.