

**Instructions:**

Answer all questions in the answer book provided. Answers put in the question book will not be marked. Show all calculations, if required, whether pertinent to the final answer or not.

There are 90 minutes allotted for this exam. No additional time will be permitted.

All multiple choice questions are worth 3 marks each.

This exam is marked out of 55.

## QUESTION 1

Jim acquired control of Smart Ltd. from an unrelated person on May 15, 2008. The following information relates to the inventory and capital assets owned by Smart Ltd at that time:

	<b>Cost</b>	<b>FMV</b>
<b>Inventory</b>	120,000	100,000
<b>Land</b>	200,000	140,000
<b>Building</b>	100,000	75,000
<b>Marketable securities</b>	20,000	30,000

For its taxation year ended on May 14, 2008, Smart Ltd is required to recognize a capital loss of:

- A) \$85,000
- B) \$80,000
- C) \$60,000
- D) \$50,000

## QUESTION 2

On April 1, 2008, Calm Corp purchased 72% of the voting shares of X Ltd from an unrelated person. The tax position of the fixed assets of X Ltd at that time is summarized below:

	<b>Cost</b>	<b>UCC</b>	<b>FMV</b>
<b>Automobiles (class 10)</b>	100,000	42,000	45,000
<b>Computer equipment (class 45)</b>	64,000	38,000	33,000
<b>Computer software (class 12)</b>	30,000	NIL	5,000
<b>Office furniture (class 8)</b>	80,000	58,000	48,000

The business loss of X Ltd for the year ended March 31, 2008 will be increased by deemed CCA of:

- A) \$7,000
- B) \$10,800
- C) \$15,000
- D) \$23,000

### QUESTION 3

During 2008, Curran Ltd, a public corporation, has net income for tax purposes of \$600,000 including \$100,000 of dividends from taxable Canadian corporation and \$250,000 of manufacturing and processing profits all of which is eligible for the 8.5% M&P deduction. It made \$200,000 of charitable donations during the year. Income earned in a province was 90%.

What is Curran Ltd's taxable income for the year?

- A) \$600,000
- B) \$500,000
- C) \$400,000
- D) \$300,000

### QUESTION 4

Refer to the facts above. What is Curran Ltd's federal tax payable for the year?

- A) \$40,250
- B) \$61,500
- C) \$65,750
- D) \$66,000

### QUESTION 5

Beth owns 55% of the common shares of J Co and Dog (her spouse) owns 55% of the common shares of D Co. Which of the following would NOT make J Co and D Co associated?

- A) If Beth owned 25% of the common shares of D Co
- B) If Dog owned 25% of the common shares of J Co
- C) If a trust for their quintuplet two year old daughters controls T Co and no special elections were made
- D) If J Co and D Co each owned 40% of the shares of R Co, a corporation carrying on a retailing business selling official Dog t-shirts

### QUESTION 6

In which of the following situations are X Ltd and Y Ltd NOT associated:

- A) Rod owns 10% of voting shares of X Ltd and 50% of the voting shares of Y Ltd and Patrick owns 60% of the voting shares of X Ltd and 10% of the voting share of Y Ltd. Rod and Patrick are not related.
- B) The adult son of the controlling shareholder of X Ltd controls Y Ltd and owns 25% of the voting shares of X Ltd.
- C) A mother controls Company X. Her two adult daughters each own 30% of the voting shares of Y Ltd. Her adult son owns 25% of the voting shares of Y Ltd.
- D) A brother and sister each own 30% of the voting shares of X Ltd. A mother and father each own 20% of the shares. The mother and father each own 50% of voting shares of y Ltd.

## QUESTION 7

Mr. Andrews owned Class A special shares of Atlantis Ltd with the following characteristics:

<b>Fair market value</b>	60,000
<b>Cost</b>	20,000
<b>Paid up capital</b>	10,000

These shares were redeemed. Which one of the following best describes the tax consequences of the redemption to Mr. Andrews?

- A) A capital gain of \$40,000
- B) A dividend of \$40,000
- C) A dividend of \$50,000 and a capital gain of \$40,000
- D) A dividend of \$50,000 and a capital loss of \$10,000

## QUESTION 8

Art, the sole shareholder of Art's Variety Inc with a November 30 year end, has decided to wind up the corporation effective December 1. The balance sheet as at that date is anticipated to be as set out below:

<b>ASSETS</b>	
Cash	45,000
Refundable dividend tax on hand	30,000
Land, at cost (FMV \$850,000)	250,000
Building, at UCC (FMV \$780,000; cost \$380,000)	180,000
	<b>505,000</b>
<b>LIABILITIES</b>	
Liabilities	20,000
PUC	5,000
Capital dividend account	10,000
Other surplus	470,000
	<b>505,000</b>

Arts Variety Inc is a CCPC and pays tax at a combined rate of 18%/45%. The amount available for distribution to Art on the windup will be:

- A) \$485,000
- B) \$1,394,000
- C) \$1,557,333
- D) \$1,838,333

## QUESTION 9

At the beginning of its first taxation year, Newco Ltd, a newly-incorporated company, issued 100 common shares to Mr. A for \$10,000. On June 1 of the same year, Newco issued an additional 100 common shares to Mr. B for \$15,000 (which is the fair market value of the shares on that date). On December 31 of the same year, Mr. C acquired all of Mr. A's common shares for \$20,000. At the end of the year (December 31) which is true?

- A) The total PUC of the common shares is \$25,000, ½ of which is attributable to each of Mr. C and Mr. B
- B) The total PUC of the common shares is \$35,000, ½ of which is attributable to each of Mr. C and Mr. B
- C) The total PUC of the common shares is \$25,000, \$10,000 of which is attributable to Mr. C and \$15,000 of which is attributable to Mr. B
- D) The total PUC of the common shares is \$35,000, \$20,000 of which is attributable to Mr. C and \$15,000 of which is attributable to Mr. B

## QUESTION 10

Sylvia is the sole shareholder of Strained Ltd, a taxable Canadian corporation. Sylvia transferred a non-depreciable capital property having an adjusted cost base of \$40,000 and a fair market value of \$50,000 to Strained Ltd in exchange for the following package of consideration:

Cash	3,000
Debt	2,000
Preferred shares (FMV = LSC)	15,000
Common shares (FMV = LSC)	30,000
	50,000

Sylvia and Strained Ltd made a joint election under section 85 electing a transfer price of \$40,000. The cost to Sylvia of the common shares received as consideration is:

- A) \$35,000
- B) \$23,000
- C) \$23,333
- D) \$20,000

## QUESTION 11 (25 MARKS)

We discussed in class the "Fat Tax" that is being implemented in Romania. We also discussed potential merits and downfalls of implementing a similar tax in Canada. Using appropriate references, outline your position on this tax, and whether or not this tax is going to impact the consumer or the supplier.