Exam Question Book

84 main questions plus 84 variants, all our own, none official. Every option has a reason.

How to use

1. Work chapter by chapter at real exam pace (45 questions in 70 minutes).
2. When marking, read the reason for all four options: why the wrong ones are wrong is tested more often than why the right one is right.
3. For every miss, do its variant the same day and again three days later.

Chapter 1 · Self–Employment & Form T2125 Self–employment and small business

Items marked ′ are variants on the same point: do one when you miss the main question.

1. Marcus signs an agreement titled 'Independent Contractor Agreement' with a logistics firm. The firm sets his daily shift from 8:00 a.m. to 4:00 p.m., provides the delivery van and pays for all fuel and repairs, prohibits him from hiring helpers or working for other clients, and pays him a fixed hourly wage regardless of delivery volume. If the CRA reviews this arrangement, what is the most likely outcome?

a. The CRA will recharacterize the relationship as employment based on the four–factor test, and the logistics firm will be liable for unremitted source deductions, penalties, and interest.
b. The CRA will respect the self–employed status because both parties voluntarily signed a written independent contractor agreement.
c. The CRA will classify Marcus as self–employed for income tax purposes so he can deduct expenses, while charging only the firm for employer EI.
d. The CRA will recharacterize the relationship as employment, but only Marcus is liable for the unpaid employer portion of CPP and EI because he signed the contract.

1′. Elena provides home daycare services in her own residence. She sets her own operating hours and fee schedule, purchases all toys and food at her own expense, bears the financial loss if enrollment drops, and serves six different families independently. How will the CRA most likely classify Elena under RC4110?

a. As an employee of the six families, because residential childcare is automatically deemed employment by occupation name.
b. As operating a personal service business, which prohibits her from deducting any food or toy supplies.
c. As self–employed, because she controls the work, supplies her own space and materials, and bears the chance of profit and risk of loss.
d. As self–employed only if each parent signs a notarized waiver of employer CPP and EI obligations before the tax year ends.

2. Clara operates a sole proprietorship providing residential landscaping services (she is not a farmer, fisher, or self-employed commission sales agent). In December 2026, she completes a $4,000 landscaping job and invoices the client, who pays her on January 18, 2027. She also receives a $600 repair bill in December 2026 for her lawn equipment and pays it in January 2027. How must Clara report these items for the 2026 tax year?

a. She may elect to use the cash method on Form T2125 and report both the $4,000 revenue and the $600 expense in the 2027 tax year.
b. She must use the accrual method, including the $4,000 earned revenue and deducting the $600 incurred repair expense in the 2026 tax year.
c. She must include the $4,000 revenue in 2026 under the accrual method, but she cannot deduct the $600 repair expense until cash is paid in 2027.
d. She can file Form T1139 to shift her fiscal period end to January 31, 2027, so that the cash receipts match the invoice dates without CRA approval.

2′. Gavin is a self-employed grain farmer who properly reported his farm income using the cash method in 2025. In 2026, he wants to switch to the accrual method, and another farmer friend who still uses the cash method prepays a three-year supply contract covering 2026, 2027, and 2028. Under section 28 of the Income Tax Act, which statement is correct?

a. Gavin needs CRA concurrence to leave the cash method, and a cash-method farmer cannot fully deduct in the year paid a prepayment covering two or more later years.
b. Gavin needs CRA approval to first enter the cash method, but he can switch back to the accrual method at any time simply by checking a box on his return.
c. Both farmers must use the accrual method starting in 2026 because the cash method now applies only to commissioned sales agents.
d. A cash-method farmer can deduct 100% of a five-year prepaid expense in the year of payment because cash accounting has no anti-distortion rules.

3. Nadia is considering starting a boutique consulting business. In February 2026, while still deciding whether to launch, she spends $1,200 on exploratory market research seminars. On May 1, 2026, she signs her first client contract, leases an office desk for $3,000 for the rest of the year, and spends $800 (all considered reasonable) taking clients out for business meals. How much can Nadia deduct as current operating expenses on Form T2125 for 2026?

a. $5,000, because all expenditures were incurred in the same calendar year that the business began generating revenue.
b. $4,600, consisting of the $1,200 exploratory seminars, the $3,000 desk lease, and 50% of the $800 client meals.
c. $3,400, consisting of the $3,000 desk lease incurred after the business commenced plus 50% ($400) of the reasonable client meals.
d. $3,800, consisting of the $3,000 desk lease and 100% of the $800 client meals because the meal amount already passed the section 67 reasonableness test.

3′. Victor is a self-employed long-haul truck driver who incurs $2,000 in eligible meal expenses during eligible travel periods in 2026. Of that $2,000, the CRA determines that $200 was excessive and unreasonable under section 67, leaving $1,800 as the reasonable amount. He also pays $1,500 in legal fees to defend against a personal criminal charge unrelated to his trucking business. What total deduction can Victor claim for these two items?

a. $900, calculated as 50% of the $1,800 reasonable meal expenses, with $0 for the personal legal fees.
b. $1,440, calculated as 80% of the $1,800 reasonable meal amount for a long-haul truck driver, and $0 for the personal criminal defence legal fees.
c. $1,600, calculated as 80% of the full $2,000 actual meal receipts regardless of reasonableness.
d. $2,940, consisting of $1,440 for meals plus $1,500 for the legal fees because losing his personal liberty would stop him from driving.

4. In 2026, a sole proprietor earns $52,000 in net business income (below the 2026 YMPE of $74,600) and calculates $5,771.50 in total self-employed CPP contributions on Schedule 8. How is this CPP amount reported on the proprietor's T1 return, and why?

a. The entire $5,771.50 is claimed as a business expense on Form T2125 Part 4, because a self-employed person acts as their own employer and pays it to earn income.
b. The entire $5,771.50 goes on Line 31000 as a non-refundable credit at the lowest bracket rate, since every CPP amount an individual pays counts as an employee contribution.
c. Schedule 8 splits it: the employee-equivalent base half goes to Line 31000 as a credit; the employer-equivalent base half plus enhanced parts go to Line 22200 as a deduction.
d. It is split via Schedule 13: half is added to tax payable on Line 42120 and the other half is claimed as a credit on Line 31217, as with voluntary EI premiums.

4′. Hannah is a 67–year–old self–employed consultant who is already receiving a CPP retirement pension and has no employment income. She wants to stop making CPP contributions on her self–employed earnings starting in July 2026. How does she make this election?

a. She must give Form CPT30 to each of her clients before July 2026, otherwise she cannot stop contributing on her self–employed earnings for 2026.
b. She cannot stop contributing until she turns 70 because self–employed CPP contributions are mandatory at all ages once net income exceeds $3,500.
c. She must pay the full year's CPP upfront and file Form T1139 the following year to request a refund of the employer half.
d. She enters the month her contributions stop directly on Schedule 8 when filing her 2026 return, as long as the return is filed by the filing deadline.

5. Liam is a full–time salaried employee whose spouse operates a sole proprietorship in British Columbia. Liam has a net tax owing of $4,200 for the 2026 tax year (and also owed $3,800 in 2025). He files his 2026 T1 return and pays his $4,200 balance on June 10, 2027. Which of the following statements accurately describes Liam's filing, interest, and instalment status?

a. Filed on time with no late–filing penalty since his spouse is self–employed, but interest runs on the $4,200 from May 1, 2027, and his owing in both years is above the $3,000 instalment threshold.
b. Neither interest nor a late–filing penalty applies because both the filing deadline and the payment deadline are extended to June 15 for spouses of self–employed individuals.
c. He faces both a late–filing penalty and interest from May 1, 2027, because the June 15 filing extension applies only to the spouse who personally runs the business, not to a salaried spouse.
d. His return is on time and interest starts May 1, 2027, but he only needs to make a single annual instalment payment on December 31 because his spouse operates in British Columbia.

5′. Owen is a self–employed IT consultant in Vancouver (not a farmer or fisher) whose net tax owing was $4,500 in 2025 and is projected to be $5,000 in 2026. What are the required instalment payment due dates for Owen during the 2026 tax year?

a. April 30, 2026, and June 15, 2026, matching the individual payment and filing deadlines.
b. March 15, June 15, September 15, and December 15.
c. December 31, 2026, as a single lump–sum instalment payment.
d. No instalments are required in 2026 because the federal threshold for self–employed professionals is $6,000 of net tax owing.

6. In 2026, Priya incurs a net business loss of $45,000 from her sole proprietorship. In the same year, she has $18,000 of employment income and no other income sources. After offsetting her 2026 employment income, how is the remaining $27,000 loss classified and what are its carryback and carryforward rules?

a. It becomes a net capital loss that can be carried back 3 years and carried forward indefinitely, but only against taxable capital gains.

b. It cannot offset the $18,000 employment income in 2026; the full $45,000 must be carried forward up to 20 years strictly against future business income from the same sole proprietorship.

c. It becomes a non-capital loss that can be carried back 3 tax years or carried forward up to 7 tax years against business income only.

d. It becomes a non-capital loss that can be carried back 3 tax years or carried forward up to 20 tax years to offset income from any source.

6′. Kevin has an unused net capital loss from selling shares in 2024 and a current-year business profit of $60,000 reported on Form T2125 in 2026. He has no capital gains in 2026. Can Kevin use his 2024 net capital loss to reduce his 2026 self-employed business income?

a. No, because net capital losses can only offset capital gains and cannot be mixed with or used to offset business income.

b. Yes, up to 50% of the net capital loss can be converted into a non-capital loss after two years.

c. Yes, provided he files Form T2125 Part 5 to claim the loss as a partner adjustment.

d. No, because capital losses expire after 3 tax years if they are not used against employment or business income in that period.

7. Dr. Lin is a self-employed dentist in Vancouver. At her December 31, 2026 fiscal year-end, she has completed stage-one dental procedures for several patients that have not yet been billed; the cost of her time and materials for this work-in-progress (WIP) is $9,000, and its fair market value is $14,000. Her bookkeeper finds a 2016 tax return showing a section 34 election to exclude WIP. How must Dr. Lin report her income and WIP on her 2026 Form T2125?

a. She reports professional income in Part 3B and may exclude 100% of the WIP in 2026 under the section 34 billed-basis election because dentists are designated professionals.

b. She reports Part 3B professional income and includes the year-end WIP at $9,000 (lower of cost and fair market value), since the section 34 election and its transition have ended.

c. She reports business income in Part 3A and must include the year-end WIP at its full fair market value of $14,000, since dental work is not a profession.

d. She reports professional income in Part 3B and must include only 20% of the WIP ($1,800) in 2026 under the five-year transitional bring-back rule for former electors.

7′. Tariq earns income from two separate unincorporated activities in 2026: he works as an independent IT architecture consultant (a profession involving specialized knowledge) and he also runs an online retail store selling computer accessories with year-end merchandise inventory. How must Tariq complete Form T2125 for 2026?

a. He combines both activities onto a single Form T2125 under Part 3A because IT consulting is not one of the six traditional designated professions.

b. He files one Form T2125 using Part 3B for both activities and values the retail computer accessories as unbilled work-in-progress.

c. He completes two T2125 forms: Part 3A for the store, with closing inventory, and Part 3B for the consulting, with WIP at the lower of cost and fair market value.

d. He reports the retail store on Form T2125 Part 3A and reports the IT consulting directly on Line 10400 as employment income because IT consultants cannot use Part 3B.

Chapter 2 · Business–Use–of–Home, Vehicle Expenses & CCA

Self–employment and small business

Items marked ′ are variants on the same point: do one when you miss the main question.

8. Maya is a self–employed Speech therapist who rents a treatment room at a commercial clinic where she conducts all in–person patient sessions. Each evening, she spends six to eight hours in a spare room at home updating patient charts, billing, and holding video consultations with parents. Can Maya deduct business–use–of–home expenses on Form T2125?

a. No, because the rented clinic room is her principal place of business and video consultations do not count as meeting clients in person at home.

b. Yes, because spending six to eight hours every evening on charts and billing in that room proves substantial and regular business use of her home.

c. Yes, because holding regular video consultations with parents in a spare room satisfies the gateway test for meeting clients at home.

d. No, unless she elects the temporary flat–rate method based on the number of days she worked from home.

8′. Liam is a self–employed business coach who has no outside office and performs all his research, preparation, and client coaching from a dedicated home study using video calls. He never meets clients face to face at home. Is Liam eligible to claim business–use–of–home expenses?

a. No, because conducting coaching sessions by video call automatically disqualifies any home office claim.

b. No, because a taxpayer must satisfy both the principal place of business test and the in–person client meeting test simultaneously.

c. Yes, because his home study is his principal place of business, which satisfies the first gateway test without needing in–person client meetings.

d. Yes, but only for utilities and internet, because self–employed individuals cannot deduct mortgage interest or property tax.

9. Noah operates a sole proprietorship solely from a dedicated room in his home. Before claiming business-use-of-home expenses, his 2026 business net income on Form T2125 is $2,400. His prorated home office share of utilities, home insurance, property tax, and mortgage interest totals $3,100, and he also made regular mortgage principal repayments during the year. How should Noah report his 2026 business-use-of-home deduction?

a. Deduct both the $3,100 pool and the prorated share of mortgage principal repayments in 2026, even though this creates a business loss for the year.
b. Leave out the principal, deduct $2,400 of the $3,100 to bring net income to $0, and carry the other $700 forward to later years of the same business.
c. Deduct the full $3,100 in 2026 to create a $700 business loss that offsets other income, while leaving out the mortgage principal repayments.
d. Exclude both mortgage interest and mortgage principal, because neither is deductible on a self-employed return; deduct only the other costs.

9′. Chloe is a self-employed bookkeeper whose sole office is a shared dining table used partly for business and partly for family meals. Which rule governs how she calculates and claims her home expenses on Form T2125?

a. She prorates eligible expenses (including mortgage interest and property tax) first by the area ratio and then by the business-use time ratio, and cannot use them to create a business loss.
b. Because the dining table is not used exclusively for business, she is completely barred from claiming any home office expenses even though her home is her principal place of business.
c. She may deduct the full cost of renovating the kitchen and replacing all house windows as current home office expenses.
d. She can prorate only by floor area without adjusting for personal dining hours, and any excess over net income can be applied against employment income from another employer.

10. Victor is a self-employed surveyor who kept a full calendar-year logbook in his first year of business. In 2026, he wants to use the simplified logbook method and also claim vehicle expenses, equipment CCA, and home office expenses on Form T2125. Which procedure complies with CRA requirements?

a. Keep a one-month sample logbook that stays within 20% of the base-year percentage, and deduct home office expenses before any vehicle expenses.
b. Skip the logbook entirely in 2026, deduct vehicle loan interest without any monthly cap, and keep the receipts for three years after filing.
c. Keep a continuous three-month sample within 10% of the base year, keep records six years, and claim vehicle costs and CCA before home office expenses in Part 7.
d. Treat daily drives from home to his regular rented surveying office as business kilometres, and deduct that share on Line 9945 with home costs.

10′. After establishing a base-year vehicle logbook two years ago, a self-employed contractor relocated her business premises and shifted to a completely different client territory in 2026. How does this affect her vehicle expense documentation and interest deduction?

a. She can still rely on the old base-year percentage forever, and her vehicle loan interest is prorated before applying the federal monthly limit.
b. Her driving pattern changed materially, so she needs a new full-year logbook, and her loan interest is first capped at the monthly limit and then prorated.
c. She may use a flat unverified estimate for 2026 mileage because the CRA is required to accept post-filing estimates when an office moves.
d. She only needs to keep her vehicle logbook and purchase invoices for one year after filing the 2026 return.

11. Elena, a self-employed architect, sells her luxury passenger vehicle in 2026. The vehicle had been placed in its own separate Class 10.1 pool when purchased in a prior year and remained in Class 10.1 at the end of 2025. When she disposes of this Class 10.1 vehicle in 2026, what is the tax treatment?

a. She must calculate recapture if the sale proceeds exceed UCC, or claim a terminal loss if proceeds are less than UCC, and can claim no CCA in 2026.
b. No recapture and no terminal loss arise, and since the car was in Class 10.1 at the end of 2025, she may claim half the normal CCA in 2026.
c. She pools the sale proceeds with her other business trucks in Class 10 to reduce the combined undepreciated capital cost.
d. She may deduct any shortfall between the original purchase price and the sale price as a capital loss against business income.

11′. In 2026, a self-employed GST-registered consultant purchases a non-zero-emission passenger vehicle for $132,000 before taxes for business use. How is the capital cost base for CCA determined in 2026?

a. It goes into its own Class 10.1 at $39,000 plus the GST and PST computed on that $39,000, less any GST recovered as an input tax credit.
b. The full $132,000 purchase price goes into Class 10 and is depreciated at 30%, because the car is used to earn business income.
c. The vehicle enters Class 54 because all passenger vehicles costing over $100,000 qualify for the higher Class 54 ceiling.
d. It goes into Class 10.1 at a flat $39,000, and no sales tax of any kind may ever be added on top of that capped amount.

12. In 2026, a self-employed carpenter purchases a hand power tool costing under $500, a heavy workshop cabinet costing over $500, and pays for leasehold improvements to his rented workshop. How should these three capital additions be classified for CCA purposes?

a. Both the tool under $500 and the cabinet over $500 go into Class 8, while leasehold improvements go into Class 12.
b. The tool under $500 goes into Class 12 but is reduced by the half-year rule, the cabinet goes into Class 50, and leasehold improvements go into Class 8.
c. All three items must be pooled into a single CCA class so that the carpenter can claim a higher depreciation rate on the cabinet than on the tool.
d. Class 12 for the tool (100%, no half-year rule), Class 8 for the cabinet, and Class 13 for the leasehold improvements, written off straight-line over the lease.

12′. A small business disposes of the last remaining piece of equipment in its Class 8 pool during 2026. At year-end, no assets remain in Class 8, but there is still a positive undepreciated capital cost (UCC) balance left in the pool. How is this remaining balance treated?

a. It must be added back to business income as recapture.
b. It is deducted in full as a terminal loss, which can be used to offset income from any source.
c. It is treated as a capital loss that can only offset taxable capital gains.
d. It is forfeited under s.20(16.1) because terminal losses are disallowed for all CCA classes.

13. In March 2026, a self-employed electrical contractor in British Columbia buys a passenger pickup truck priced at $132,000 (before taxes) from a GST-registered dealer for business use. What are the federal Select Luxury Items Tax and the BC Provincial Sales Tax (PST) payable on this purchase?

a. Federal luxury tax of $6,400 and BC PST of $19,800 (at the 15% tier for $125,000 to under $150,000).
b. Federal luxury tax of $0 (repealed in 2025) and BC PST of $19,800.
c. Federal luxury tax of $13,200 (10% of total price) and BC PST calculated at the basic 7% tier.
d. Only the higher of the federal luxury tax or BC PST applies, because the two taxes offset each other on commercial vehicles.

13′. A BC business owner is comparing the provincial PST tiers on passenger vehicles purchased from a GST-registered dealer in 2026. Which statement correctly describes the BC PST rate thresholds and the federal luxury tax scope in 2026?

a. Ordinary passenger vehicles under $55,000 are taxed at 12%, while vehicles of $150,000 and over are taxed at 10%.
b. ZEVs use the same $55,000, $56,000 and $57,000 starting points as gas cars, and the luxury tax still covers aircraft and vessels in 2026.
c. Dealer sales of ordinary cars start at 7% under $55,000 and reach 20% at $150,000, and the vehicle luxury tax still applies above $100,000.
d. The federal Select Luxury Items Tax on vehicles is 20% of the entire purchase price once the price exceeds $100,000.

14. In 2026, a proprietor acquires three new capital assets that become available for use before 2027: general computer hardware (Class 50), manufacturing machinery, and a new manufacturing building. Given the 2026 legislative status (Bill C-15 enacted, Bill C-31 not yet enacted), how do the first-year CCA rules apply?

a. All three assets—including the manufacturing building—receive enacted 100% immediate expensing in 2026, and the machinery enters Class 53.
b. None of the assets qualify for enhanced first-year depreciation because the Accelerated Investment Incentive was permanently phased out before 2026.
c. Class 50 hardware gets the enacted first-year write-off, the machinery goes to Class 43 with the RIIP enhancement, and the building's expensing is not yet law.
d. The manufacturing building receives enacted 100% expensing under Bill C-15, whereas Class 50 computer hardware is still awaiting royal assent in Bill C-31.

14′. A small manufacturer buys new processing equipment in 2026 and wants to know why she cannot put it into Class 53 or simply multiply by a flat 30% half-year rule without checking acquisition dates. Which explanation is accurate for the 2026 tax year?

a. Class 53 took only 2016—2025 acquisitions; 2026 machinery goes to Class 43 at 30%, and the restored RIIP first-year rule must be checked by acquisition and use dates.
b. Class 53 is still open in 2026, and the taxpayer is required by law to claim the maximum possible CCA every year.
c. New manufacturing machinery acquired in 2026 must be placed in Class 13 and depreciated straight-line over the building lease.
d. She can place two machines in Class 43 and claim the full enhanced rate on one machine while claiming 0% on the other machine within the same class pool.

Chapter 3 · GST/HST: Registration, ITCs and the Quick Method

Self-employment and small business

Items marked ′ are variants on the same point: do one when you miss the main question.

15. Elena operates two activities in Vancouver: she exports custom software solely to foreign clients ($85,000 in 2026) and rents out a residential condo on a long-term lease ($28,000 in 2026). How do the GST/HST registration and input tax credit (ITC) rules apply to her two activities?

a. Neither activity collects GST from customers, so both are exempt supplies and Elena cannot register or claim any ITCs.

b. Both activities are included in the $30,000 threshold, and once registered, Elena can claim ITCs on expenses for both the software export and the residential rental.

c. The export is a zero-rated supply that counts toward the $30,000 threshold and earns full ITCs, while the long-term residential rental is exempt with no ITCs.

d. The software export is an exempt supply and the residential rental is a zero-rated supply, so only the condo expenses qualify for ITCs.

15′. Marcus runs a neighbourhood pharmacy in Victoria that sells prescription drugs and basic groceries, along with a licensed daycare centre in the adjacent unit. Which statement correctly describes his eligibility to claim input tax credits (ITCs)?

a. Prescription drugs and basic groceries are zero-rated, so their inputs earn ITCs, while daycare is an exempt supply that earns no ITCs.

b. Because neither prescription drugs nor daycare services charge GST at the counter, neither activity qualifies for any ITCs.

c. Daycare services are zero-rated supplies that generate full ITC refunds, whereas prescription drugs are exempt supplies.

d. Once Marcus registers for GST/HST through his pharmacy, he can also claim 100% of the GST paid on toys and supplies used exclusively in the daycare.

16. Kevin is an unregistered sole proprietor in Burnaby who does freelance copywriting and weekend event photography. In Q1 and Q2 of 2026, his combined revenues were $6,000 per quarter. In Q3 (July to September 2026), copywriting brings in $19,000 and photography brings in $15,000, with the invoice that pushed his Q3 combined total past $30,000 issued on September 12, 2026. When does Kevin cease to be a small supplier, and what must he do?

a. He remains a small supplier because neither copywriting ($19,000) nor photography ($15,000) exceeded $30,000 on its own in Q3.

b. He ceases to be a small supplier on September 12, 2026, must charge GST on the invoice that crossed $30,000, and must register within 29 days.

c. He ceases to be a small supplier on October 31, 2026, and begins charging GST on his first supply in November 2026.

d. He ceases to be a small supplier on October 1, 2026, and does not need to charge GST on the September 12 invoice.

16′. Nadia is an unregistered consultant in Kelowna. Her quarterly taxable revenues are $8,000 in Q1, $9,000 in Q2, $8,500 in Q3, and $7,000 in Q4 (ending December 31, 2026), bringing her four-quarter cumulative total to $32,500 without any single quarter exceeding $30,000. When must Nadia start charging GST?

a. On the exact date in Q4 when her cumulative four-quarter revenue crossed $30,000, with no buffer period.

b. On January 1, 2027, which is the very first day after the calendar quarter in which she exceeded the threshold.

c. She remains exempt from registration as long as fewer than 30 sales were made through a digital platform during the year.

d. On her first taxable supply made after January 31, 2027, with registration completed within 29 days of that effective date.

17. A GST/HST registrant in Surrey is preparing its Q2 2026 return and evaluating the simplified method for claiming ITCs. It holds two tax-included receipts: an $85 restaurant supply receipt (showing only vendor name, date, and total paid) and a $620 printer invoice (showing vendor name, date, total paid, GST amount, and vendor registration number, but omitting the buyer's name and payment terms). Which receipt supports a valid ITC under 2026 rules, and what are the dual thresholds for the simplified ITC method?

a. Only the $85 receipt; the simplified method needs prior-year worldwide taxable sales of $1,000,000 or less and Canadian taxable purchases of $4,000,000 or less.

b. Neither receipt is valid because any receipt over $30 requires a GST registration number and any invoice over $150 requires the buyer's name.

c. Both receipts are valid; the simplified ITC method requires taxable sales of $400,000 or less and waives the need to keep invoices.

d. Only the $620 invoice is valid; the simplified ITC method requires prior-year taxable sales of $1,500,000 or less and purchases of $6,000,000 or less.

17′. While closing her 2026 books, a regular-method registrant (whose annual sales have always been under $300,000) discovers an unclaimed $540 equipment invoice from May 2024 that lists all required high-tier details. How should she claim this missed ITC, and what is the statutory time limit?

a. She must forfeit the ITC, because unclaimed input tax credits expire at the end of the fiscal year in which the expense was incurred.

b. She must file an amended 2024 GST34 return because missed ITCs cannot be added to a later period's Line 106.

c. She can include the unclaimed ITC directly on Line 106 of her current 2026 return, as general registrants have a 4-year time limit to claim ITCs.

d. She cannot claim it in 2026 because the ITC time limit for all registrants is strictly 2 years.

18. Clara is an IT consultant in Vancouver (permanent establishment and all clients in BC) who validly elected the quick method before 2026. In 2026, her pre-tax consulting revenue is $100,000 plus $5,000 GST collected. She paid $600 GST on routine software subscriptions and bought a new work laptop for $2,000 plus $100 GST and $140 BC PST. What amounts should Clara report on Line 101 and Line 109 (net tax) of her 2026 Form GST34?

a. Line 101: $100,000; Line 109: $3,200.

b. Line 101: $105,000; Line 109: $2,780.

c. Line 101: $105,000; Line 109: $3,240.

d. Line 101: $105,000; Line 109: $3,380.

18′. Which of the following self-employed professionals in British Columbia (each having $220,000 in tax-included annual revenue and operating continuously for 3 years) is ELIGIBLE to elect the GST/HST quick method?

a. A self-employed bookkeeper and tax-return preparer serving small businesses.
b. A freelance graphic and web designer serving corporate clients.
c. An independent legal counsel practicing contract law.
d. An actuarial consultant providing pension valuations.

19. In 2026, a Vancouver freelance writer using the quick method collects $6,000 GST on $120,000 of pre-tax revenue. On Form GST34, her quick-method remittance on Line 103 is $4,536 ($126,000 × 3.6%), reduced by the $300 1% credit on Line 107, for net tax remitted of $4,236. She also paid $18,900 (consisting of $18,000 pre-tax plus $900 GST) for deductible operating expenses. How does using the quick method instead of the regular method affect her net taxable business income on Form T2125?

a. Her T2125 net income increases by $864, because she adds $1,464 in unremitted GST and $300 in government assistance, while deducting $900 more in tax-included expenses.
b. Her T2125 net income is unchanged, because GST/HST is a consumption tax that never enters income tax calculations.
c. Her T2125 net income increases by $1,764, because she must add the $1,464 differential plus the $300 credit, while still deducting operating expenses at their $18,000 pre-tax amount.
d. Her T2125 net income decreases by $900, because only the unrecovered GST on expenses is adjusted on Form T2125.

19′. An Ontario management consultant (13% HST; quick-method service remittance rate 8.8%) has $100,000 in pre-tax revenue ($113,000 including HST) and $20,000 in pre-tax taxable operating expenses in 2026. Based on the chapter's break-even rule of thumb (roughly 23.5%—24.4% of revenue), which method produces a lower GST/HST bill before the 1% credit?

a. The regular method is lower, at $9,944, compared with $10,400 payable under the quick method for the same year.
b. Both methods result in the exact same $10,400 remittance because 8.8% of $113,000 equals $10,400.
c. The quick method, at $9,944 versus $10,400, because her purchases are 20% of revenue, below the roughly 23.5% break-even.
d. The regular method is always lower in HST provinces, because the HST rate there is higher than the 5% GST rate.

20. Sam begins driving part-time for a commercial ridesharing platform in Surrey, BC in 2026, earning $21,000 in passenger fares for the year. His expenses include $3,150 in fuel (GST included), $1,050 in platform service fees plus $52.50 GST, $1,800 in auto insurance, and $900 in car-loan interest. How do the GST/HST rules apply to Sam under the regular method?

a. Sam does not need to register because his $21,000 revenue is below the $30,000 small supplier threshold.

b. Sam must register from day one; his GST collected is $1,050 ($21,000 × 5%), and his ITCs include 5/105 of fuel, insurance, and loan interest.

c. He registers from day one; output tax is $1,000 ($21,000 × 5/105) and ITCs are $202.50 (fuel $150 plus fee GST $52.50), none on insurance or interest.

d. Sam must register only if he completes at least 30 trips and exceeds $2,800 on the platform, and platform fees never carry claimable GST.

20′. A registered graphic designer in Victoria, BC buys a computer workstation for her studio for $3,000, paying $150 in federal GST (5%) and $210 in BC PST (7%). She also works part-time delivering restaurant meals by bicycle ($9,000 annual income, her only other activity, with total combined revenues of $26,000 before voluntary registration). How should the $150 GST and $210 PST be treated, and did the meal delivery alone require day-one registration?

a. Both the $150 GST and $210 PST are claimed on Line 106 as ITCs ($360 total), and restaurant meal delivery requires day-one registration just like ridesharing.

b. Only the $150 GST goes on Line 106 (the $210 PST is added to the asset's cost), and meal delivery does not trigger the day-one rideshare rule.

c. Neither tax can be claimed on Line 106 because capital equipment is excluded from ITCs in British Columbia.

d. The $210 PST is claimed on Line 106 while the $150 GST is expensed on Form T2125, and meal delivery is an exempt supply.

21. David is a self-employed architect (sole proprietor) in Vancouver who files his GST/HST return annually and has a December 31, 2026 fiscal year-end. He owes $4,800 in net GST for 2026. What are the statutory deadlines for David to pay the $4,800 net GST and to file his 2026 Form GST34 without incurring interest or late-filing penalties?

a. Both the payment and the return are due on March 31, 2027 (three months after fiscal year-end).

b. Both the payment and the return are due on June 15, 2027.

c. The payment is due on April 30, 2027, and the return is due on June 15, 2027.

d. The return is due on April 30, 2027, and the payment is due on June 15, 2027.

21′. A small design corporation in Richmond, BC has a December 31, 2026 fiscal year-end and $420,000 in annual taxable supplies. It files its GST/HST return annually. When are the corporation's 2026 GST34 return and net tax payment due?

a. Both the GST34 return and the net tax payment are due on March 31, 2027 (three months after the December 31 fiscal year-end).

b. The payment is due on April 30, 2027, and the return is due on June 15, 2027.

c. Both the return and the payment are due on January 31, 2027 (one month after year-end).

d. The return is due on June 30, 2027 (six months after year-end, matching the T2 corporate income tax filing deadline).

Chapter 4 · Ridesharing, Delivery, and Short-Term Rentals: Gig Economy Taxes and Digital Platform Reporting Rules Self-employment and small business

Items marked ′ are variants on the same point: do one when you miss the main question.

22. In 2026, Leo earned $9,500 from passenger ridesharing and $12,000 from restaurant food delivery through digital apps in British Columbia. He has no other business income and his total gross revenue of $21,500 is well below $30,000. Which statement correctly describes Leo's GST/HST registration and collection obligations?

a. He does not need to register for or collect GST/HST on either activity because his combined four-quarter revenue is under the $30,000 small supplier threshold.

b. He must register for GST/HST from his first dollar of ridesharing revenue, and once registered, he must also collect GST/HST on his $12,000 food delivery revenue.

c. He must register and collect GST/HST only on the $9,500 ridesharing fares, while the $12,000 food delivery revenue remains exempt until delivery fees alone exceed $30,000.

d. He is only required to register and collect GST/HST starting at the end of the month following the quarter in which his combined revenue exceeds $2,800.

22′. In 2026, Clara worked exclusively as an independent food delivery courier in the first half of the year, earning $18,000 without registering for GST/HST. On September 1, 2026, she began accepting passenger ridesharing trips and earned $1,400 from ridesharing and $4,000 from food delivery during the rest of the year. How does starting passenger ridesharing affect her GST/HST obligations?

a. She remains a small supplier for the entire 2026 year because her total revenue of $23,400 is below $30,000.

b. She must register effective September 1, 2026 and retroactively pay GST/HST on the $18,000 earned from delivery in the first half of the year.

c. She registers effective September 1, 2026, and from then on collects GST/HST on both her ridesharing fares and the $4,000 of later delivery revenue.

d. She must collect GST/HST only on the $1,400 ridesharing fares while keeping the $4,000 delivery revenue outside the GST/HST system.

23. Tariq operates solely as a food delivery courier and is not registered for GST/HST. In Q1 and Q2 of 2026, he earned $5,000 per quarter. In Q3 of 2026, after earning $27,000 from regular app deliveries between July 1 and August 19, he signed and completed a $6,500 catering delivery contract on August 20, bringing his Q3 revenue to $33,500. When does Tariq cease to be a small supplier, and on which supplies must he start collecting GST/HST?

a. He ceases to be a small supplier on October 31, 2026, and must collect GST/HST starting November 1, 2026.
b. He ceases to be a small supplier retroactive to July 1, 2026, and must remit GST/HST on the entire $33,500 earned in Q3.
c. He stops being a small supplier on August 20, 2026, must charge GST/HST on the whole $6,500 contract, and must register effective no later than that day.
d. He ceases to be a small supplier on August 20, 2026, but only has to collect GST/HST on the $3,500 portion of the contract that exceeded the $30,000 mark.

23′. Sonia is an unregistered food delivery courier. Her quarterly gross delivery revenues were $8,000 in Q4 2025, $7,500 in Q1 2026, $8,500 in Q2 2026, and $7,200 in Q3 2026 (ended September 30, 2026), bringing her four-quarter cumulative total to $31,200 without any single quarter exceeding $30,000. By what date does Sonia lose her small supplier status and need to begin collecting GST/HST?

a. At the end of October 31, 2026; she must charge GST/HST on supplies made on or after November 1, 2026.
b. She loses her small supplier status on the exact day in Q3 2026 when her cumulative four-quarter revenue crossed $30,000.
c. She loses her small supplier status on September 30, 2026, and must start collecting GST/HST on October 1, 2026.
d. She remains a small supplier for all of 2026 because her 2026 calendar-year revenue from Q1 to Q3 is only $23,200.

24. In 2026, Owen completed 22 passenger ridesharing trips on a digital platform, earning $640 in total consideration before stopping for the rest of the year. Owen believes the platform will not report his 2026 earnings to the CRA under the Reporting Rules for Digital Platform Operators (DPI) because he had fewer than 30 transactions and earned less than $2,800. Why is Owen's belief incorrect?

a. The under–30–and–$2,800 exclusion covers only sellers of goods, so his ridesharing activity must be reported to the CRA by January 31, 2027.
b. The $2,800 exclusion threshold was repealed for the 2026 tax year and replaced by a universal $500 threshold for all platform sellers.
c. Ridesharing platforms are exempt from Part XX reporting, and instead report driver earnings only when a driver's annual fares exceed the $30,000 GST/HST threshold.
d. The platform only withholds his record if he pays a $500 opt–out fee before December 31, 2026.

24′. During 2026, two individuals used digital platforms: Priya sold 18 used household items for a total of $1,900 on a marketplace app, while Sam rented out his cottage for two weekends (2 transactions) for a total of $1,900 on a short–term accommodation app. Under the Part XX Reporting Rules for Digital Platform Operators (DPI), whose 2026 activity must the respective platform operator report to the CRA by January 31, 2027?

a. Neither Priya nor Sam, because both had fewer than 30 transactions and received no more than $2,800 during the calendar year.
b. Both Priya and Sam, because any transaction over $500 on a digital platform is reportable under Part XX.
c. Priya only, because selling tangible goods is always reportable whereas real property rentals under $30,000 are excluded.
d. Sam only, because the <30 transactions and ⩽$2,800 exclusion applies exclusively to the sale of goods, not to real property rentals.

25. In 2026, Elena is a full-time ridesharing driver with net self-employment income of $50,000 and no employment income. For 2026, the Year's Maximum Pensionable Earnings (YMPE) is $74,600, the basic exemption is $3,500, and the combined self-employed base and first additional CPP rate on this tier is 11.9% (producing a total contribution of $5,533.50). How is Elena's $5,533.50 CPP contribution treated on her 2026 T1 income tax return, and does she owe second additional CPP (CPP2)?

a. The entire $5,533.50 is claimed as an income deduction on line 22200, and she also owes CPP2 on all of her net earnings above the $3,500 exemption.

b. The entire $5,533.50 is claimed on line 31000 as a non-refundable credit at the lowest rate, since every CPP amount is an employee-type contribution; no CPP2 is due.

c. She deducts the full $5,533.50 as a business expense on Form T2125 before arriving at her net self-employment income, and no CPP2 is payable for 2026.

d. Schedule 8 splits it: the employee half of the base contribution is a line 31000 credit, the rest is a line 22200 deduction, and no CPP2 is due below the $74,600 YMPE.

25′. In 2026, Gavin earned $85,000 in net self-employment income from his delivery business, reaching the Year's Additional Maximum Pensionable Earnings (YAMPE) of $85,000 (above the $74,600 YMPE). When Gavin completes Schedule 8 for his 2026 T1 return, how are the enhanced portion of his first-tier CPP (introduced since 2019) and his entire second-tier CPP2 contribution treated for tax purposes?

a. Both the enhanced first-tier CPP portion and 100% of the CPP2 contributions are claimed only as non-refundable tax credits on line 31000.

b. Both the enhanced first-tier portion and all CPP2 are deducted on line 22200; only the base portion is split between line 22200 and line 31000.

c. All base CPP, enhanced CPP, and CPP2 contributions are split evenly 50/50 between line 22200 and line 31000.

d. CPP2 contributions are non-deductible and non-creditable because they apply only to earnings between $74,600 and $85,000.

26. Kevin started driving rideshare full-time in 2025. His net tax owing was under $3,000 in 2023 and $500 in 2024 (while still an employee), jumped to $5,200 in 2025, and is projected to be $5,600 in 2026. In February 2026, Kevin receives a Form INNS1 instalment reminder from the CRA showing very low suggested payments for March and June 2026 (based on his 2024 tax year), followed by an August 2026 reminder with larger payments for September and December 2026 (based on his 2025 tax year). Which statement is correct regarding Kevin's 2025 and 2026 instalment obligations?

a. He was required to pay quarterly instalments in both 2025 and 2026, and he will be charged instalment interest for 2026 unless he recalculates and pays $1,400 in each of March, June, September, and December 2026.

b. No instalments were due for 2025; 2026 instalments are due because 2026 and 2025 both exceed $3,000, and paying the INNS1 reminder amounts on time avoids interest.

c. He is exempt from 2026 instalments because his 2024 net tax owing ($500) was below $3,000, and both prior years must exceed $3,000 to trigger instalments.

d. Because the CRA does not send instalment reminders until after an audit, Kevin must calculate his own safe-harbour quarterly payments in 2026 or face an automatic late penalty like in the United States.

26′. A Canadian ridesharing driver who also has U.S. tax filing obligations compares the tax instalment rules in both countries. Which statement accurately contrasts the Canadian personal tax instalment system (outside Quebec) with the U.S. estimated tax system as explained in the lecture?

a. In Canada, the threshold is indexed to inflation each year, whereas in the U.S. the IRS mails Form INNS1 reminders in February and August.

b. In Canada, a single year with net tax owing over $1,800 triggers instalments across all provinces, whereas the U.S. requires two consecutive years over $3,000.

c. In both Canada and the U.S., taxpayers can wait for an official reminder letter before making any quarterly payment without incurring interest or penalties.

d. Canada uses a fixed $3,000 two-year test and CRA mails INNS1 reminders; in the U.S., taxpayers self-calculate under safe-harbour rules or face penalties.

27. In January 2026, Devon purchased a new sedan for $46,000 (plus tax) and used it 75% of the time in 2026 for commercial passenger ridesharing and 25% for personal driving. His friend Maya purchased an identical $46,000 sedan in January 2026 and used it 80% for restaurant food delivery and 20% for personal driving. Under the common filing practice described in the lecture, how are Devon's and Maya's vehicles classified for Capital Cost Allowance (CCA) in the year of acquisition?

a. Devon's car is excluded from the passenger–vehicle rules and goes to Class 10 with no cost cap; Maya's delivery car stays under the Class 10 / 10.1 rules.

b. Both Devon's and Maya's cars are placed in Class 10.1 because any sedan costing more than the passenger vehicle ceiling is subject to the luxury vehicle cap regardless of whether it carries passengers or food.

c. Both Devon's and Maya's cars are excluded from the 'passenger vehicle' definition because both are used more than 50% on digital gig platforms, placing both in Class 10 without a cost cap.

d. Devon's car is placed in Class 10.1 in 2026, but if his ridesharing use rises to 90% in 2027, the classification retroactively changes to Class 16 back to 2026.

27′. In 2026, Arthur bought a vehicle and used it 40% for passenger ridesharing, 35% for food delivery, and 25% for personal trips during the year of acquisition. In 2027, he stopped food delivery and used the vehicle 85% for passenger ridesharing. Does Arthur's vehicle qualify for the 'passenger vehicle' exclusion (exempting it from Class 10.1 cost limits), and why?

a. Yes, because his combined commercial platform use in 2026 was 75% (40% ridesharing plus 35% delivery), which exceeds the 50% threshold.

b. Yes, starting in 2027, because his passenger ridesharing use exceeded 50% in 2027, which reclassifies the vehicle out of the passenger vehicle rules.

c. No, because in the 2026 acquisition year ridesharing was only 40% of use, not over 50%, and later changes in use do not reclassify the car.

d. No, because any vehicle used for any amount of food delivery is automatically locked into Class 10.1 regardless of its purchase price.

28. In January 2027, Carlos, a GST/HST–registered ridesharing driver in Surrey, BC, receives his annual DPI information copy from his platform for the 2026 calendar year. The DPI copy reports total consideration paid or credited of $61,400, broken down by calendar quarter, whereas Carlos's own bookkeeping ledger shows gross fare revenue (excluding GST) of $57,800. Upon checking the column notes on the DPI copy, he sees that $3,600 of the $61,400 consists of customer tips paid through the app. How should Carlos reconcile and report these figures?

a. Overwrite his ledger and report $61,400 as GST–taxable gross fare revenue on both Form T2125 and his GST/HST return so his numbers match the CRA's computer system.

b. Report only $57,800 on Form T2125 and omit the $3,600 in tips entirely, because tips are non–taxable gifts for both GST/HST and income tax.

c. Reconcile quarter by quarter, charge 5% GST only on the $57,800 of fares, and report the $3,600 of tips as income on the T2125 'Other income' line.

d. Deduct the $3,600 difference as a platform commission expense on Form T2125 and file a Voluntary Disclosures Program application for 2026.

28′. In January 2027, Jasmine receives her 2026 annual DPI information copy from her food delivery platform. Why does the DPI copy break down consideration, fees, commissions, and taxes into four separate calendar quarters rather than showing only a single annual total, and what is the primary tax risk if she fails to check how the platform categorizes tips on that statement?

a. Quarterly figures show where a gap arises, and unless tips are separated from delivery fees she may misreport income or charge GST on tips.

b. Quarterly breakdowns are used to calculate quarterly CPP2 deductions at source, and tips must be separated because tips are subject to double GST/HST.

c. Quarterly breakdowns determine whether she had fewer than 30 transactions per quarter to qualify as an excluded seller, and tips are tax–free up to $2,800.

d. Quarterly breakdowns are required by WorkSafeBC to bill the courier for injury insurance, and tips are deducted on line 22200.

Chapter 5 · Sole Proprietor or Incorporate Self-employment and small business

Items marked ′ are variants on the same point: do one when you miss the main question.

29. Liam and Chloe run a home-renovation business in Surrey, BC that earns $58,000 in net profit in 2026. They spend every dollar of profit each year on their mortgage and family groceries, leaving nothing retained in the business. A friend tells them to incorporate immediately to get the 11% small business tax rate. Based on 2026 rules, what is the true tax and cost outcome if they incorporate?

a. They will permanently save the difference between their personal marginal tax rate and the 11% corporate rate on the entire $58,000.

b. Almost no deferral, since no profit stays in the company, while added costs such as the $43.39 BC annual report and T2 fees leave them worse off.

c. Their corporation will be classified as a personal services business (PSB) and taxed at 45% because its net profit is under $100,000.

d. They can skip filing a T2 return in any year they withdraw all profits as salary and leave corporate taxable income at zero.

29′. Nora is a self-employed graphic designer in Burnaby, BC earning $55,000 net profit in 2026. She withdraws 100% of her earnings every month to pay rent and living expenses. Why does incorporating her business in 2026 fail to reduce her overall annual cost?

a. Because the small business deduction (SBD) is only available once corporate active business income exceeds $500,000.

b. Because the dividend tax credit (DTC) is disallowed for corporations earning less than $100,000 in BC.

c. Because the CRA imposes a 5% surtax whenever a shareholder withdraws all corporate profits within the same fiscal year.

d. Deferral only exists on profit left in the company; withdrawing it all brings personal tax anyway, plus T2 and annual filing costs.

30. Devon incorporates a BC company in 2026 to sign a full-time software contract with a single non-associated tech firm in Vancouver, earning $140,000. Devon has no other clients, employs no other workers, and performs duties identical to the tech firm's regular employees. How will the CRA tax the retained income inside Devon's corporation in 2026?

a. As a personal services business at 45% (28% federal + 5% PSB tax + 12% BC), with no SBD and no general rate reduction.
b. At the 11% combined small business corporate rate because the $140,000 income is well below the $500,000 federal business limit.
c. At the 27% combined general corporate rate because PSB income still qualifies for the 13% federal general rate reduction (GRR).
d. At 53.5% directly on the T2 corporate return to match the top BC personal marginal tax rate.

30′. Tariq owns 100% of a BC IT firm that derives all of its revenue in 2026 from a single long-term contract with one large bank. However, Tariq's corporation employs six full-time software engineers throughout the entire year to deliver the project. How is the corporation's income treated for tax purposes in 2026?

a. It is automatically taxed at 45% as a personal services business (PSB) because 100% of its revenue comes from a single client.
b. It falls outside the PSB rules because it has more than five full-time employees all year, so the 11% small business rate can apply.
c. It avoids the 5% federal PSB surtax but is still barred from claiming the small business deduction, paying 27% instead.
d. It qualifies for the 11% rate only if the client bank is an associated corporation of Tariq's firm.

31. Elena and her spouse Sam are both listed as directors of their BC corporation, although only Sam manages the finances. In 2026, the corporation fails to remit payroll source deductions and GST/HST before ceasing operations. Under ITA s.227.1, which statement accurately describes Elena's personal liability?

a. Elena has zero personal liability because incorporation provides absolute limited liability protection against all corporate debts and taxes.
b. Elena is automatically exempt because she was a passive spouse who did not manage the company's daily bank accounts.
c. She is jointly liable with the corporation for the unremitted amounts, unless she shows due diligence or has been off the board for over two years.
d. Elena is personally liable for the unremitted amounts for up to ten years after she resigns as a corporate director.

31′. Victor formally resigned as a director of a struggling BC corporation on March 1, 2024. When the corporation collapsed later on, it owed commercial trade suppliers $80,000 and owed the CRA $25,000 in unremitted payroll source deductions. If the CRA attempts to assess Victor personally on June 15, 2026, what is the legal result?

a. He owes neither: limited liability covers the $80,000 trade debt, and more than two years have passed since he resigned as a director.
b. Victor must pay both the $80,000 commercial supplier debt and the $25,000 CRA payroll tax debt personally.
c. Victor is protected from the CRA payroll tax debt immediately upon resigning, without any waiting period.
d. Victor remains personally liable for the $25,000 payroll tax debt because there is no statutory time limit on director's liability.

32. A newly incorporated BC bakery selects September 30, 2026 as its first corporate tax year–end. Assuming it qualifies for the standard CCPC balance–due extension, how do its T2 filing deadline and tax balance–due date compare?

a. Both the T2 return and the tax balance are due on April 30, 2027, matching the personal T1 tax deadline.
b. The T2 return is due two months after year–end, while the tax balance is due six months after year–end.
c. Both the T2 return and the tax balance are due six months after year–end (March 31, 2027).
d. The T2 is due six months after year–end, but the balance is due two months after (three for an eligible CCPC).

32′. Hannah incorporated a BC holding company in 2025, opened a bank account, and then left the company completely inactive with $0 revenue throughout its 2026 tax year. Which statement is correct regarding the company's 2026 T2 Corporation Income Tax Return?

a. She does not need to file a T2 return because the corporation had zero revenue and no active operations in 2026.
b. She must still file a T2 within six months of year–end, because every resident corporation files yearly unless it falls in a narrow exempt group.
c. She only needs to pay the $43.39 BC Annual Report fee, which automatically replaces the federal T2 tax return for inactive companies.
d. She can report the inactive corporation's status on her personal T1 Form T2125 instead of filing a separate T2 return.

33. Sophia is opening a single neighbourhood bakery that will operate exclusively in Vancouver, BC, with no plans to expand outside the province. She notices online federal incorporation costs $200 while BC provincial incorporation costs $380 ($350 base + $30 name approval). Which option actually results in lower initial registration government fees for her BC-only business, and why?

a. BC incorporation at $380, because a federal company operating in BC must also pay $380 for extra-provincial registration ($580 in total).
b. Federal incorporation at $200 total, because federal registration automatically includes provincial registration in all ten provinces at no extra cost.
c. Federal incorporation, because only federal corporations qualify for the 9% federal small business tax rate.
d. BC provincial incorporation, because federal corporations are barred from claiming the BC 2% small business rate.

33′. An e-commerce brand plans to operate warehouses in three provinces and wants nationwide corporate name protection across Canada. Aside from initial registration fees, how do the ongoing annual corporate maintenance filing fees compare between federal incorporation (online) and BC provincial incorporation?

a. Both federal and BC corporations pay an identical $30 annual maintenance fee.
b. A federal corporation pays $380 every year, while a BC corporation pays $200 every year.
c. A federal corporation pays $12 per year online for its Annual Return, while a BC corporation pays $43.39 per year for its Annual Report.
d. Neither jurisdiction charges any annual fee at all, as long as the corporation files its T2 return on time with the CRA.

34. After building a successful manufacturing business in BC for five years, Owen sells the business to an arm's-length buyer in 2026 and realizes a $1,000,000 capital gain. Under 2026 rules, in which scenario can Owen shelter the gain using the $1,275,000 lifetime capital gains exemption (LCGE)?

a. He operates as a sole proprietor and sells the manufacturing equipment, inventory, and goodwill directly to the buyer.
b. He sells shares of his corporation that has held 60% of its assets in passive stock portfolios and only 40% in active business assets.
c. He incorporates the business one month before the sale and immediately sells the newly issued shares without meeting the 24-month holding period requirement.
d. He sells qualified small business corporation shares (QSBCS) of a CCPC meeting the 90%+ active business asset test and 24-month holding period requirement.

34′. For the 2026 tax year (after indexation resumed), what are the maximum lifetime capital gains exemption (LCGE) limit and the corresponding maximum taxable capital gains deduction for disposing of qualified small business corporation shares (QSBCS)?

a. An exemption limit of $1,016,836 and a deduction limit of $508,418.
b. An exemption limit of $500,000 and a deduction limit of $250,000.
c. An exemption limit of $1,275,000 and a corresponding deduction limit of $637,500.
d. An exemption limit of $1,250,000 with no indexation adjustment in 2026.

35. A profitable BC CCPC has accumulated a large investment portfolio inside the corporation and also wants to pay dividends to the founder's adult family members who do not work in the business. Under the anti-avoidance rules governing corporations, what happens when the corporation's passive investment income exceeds $50,000 and reaches $150,000?

a. The business limit shrinks from $50,000 of passive income and hits zero at $150,000, and dividends to non-working relatives face TOSI.
b. The corporation's $500,000 business limit is untouched until passive investment income exceeds $10 million.
c. The corporation is reclassified as a personal services business (PSB) and taxed at 45% on all active income.
d. Dividends paid to family members who do not work in the business are always taxed at the 11% corporate small business rate.

35′. Which three anti-avoidance mechanisms does the Income Tax Act use to prevent taxpayers from artificially splitting income or hoarding investment assets inside a CCPC to abuse the 11% small business rate?

a. Extra-provincial registration fees, mandatory GIFI schedules, and the 53-week year-end rule.
b. Dividend gross-up, dividend tax credit (DTC), and the federal abatement of 10 percentage points.
c. The passive income grind ($50,000 to $150,000), the tax on split income (TOSI), and the personal services business (PSB) rules.
d. The lifetime capital gains exemption (LCGE), the section 85 rollover, and the three-month balance-due extension.

Chapter 6 · T2 Return & Small Business Deduction Corporate tax (T2)

Items marked ′ are variants on the same point: do one when you miss the main question.

36. Design Co. is a private corporation incorporated in British Columbia with a regular December 31 year-end. Until June 30, 2026, 100% of its shares were owned by Ms. Lin, a Canadian resident. On July 1, 2026, Ms. Lin sold 55% of the voting shares to an investor who resides in Singapore. Which statement accurately describes the tax consequences for Design Co. in 2026?

a. The corporation remains a CCPC for all of 2026 because it was a CCPC on the first day of its fiscal period, so its full $500,000 business limit applies at 11% for the entire calendar year.

b. It stops being a CCPC on July 1 with a deemed year-end just before; the short year before the sale keeps a prorated limit at 11%, and later years pay 27%.

c. Because Ms. Lin still resides in Canada and manages daily operations, the corporation remains a CCPC, and only the Singapore investor's 55% share of corporate profit is taxed at 27%.

d. The corporation loses CCPC status retroactively to January 1, 2026, so its entire 2026 income from January 1 to December 31 is taxed at 27% on a single T2 return.

36′. Tech Co. is a Canadian private corporation whose voting shares are held 60% by two Canadian residents and 40% by a public corporation listed on a designated stock exchange. However, under a unanimous agreement and debt covenant, the public corporation has the legal and practical power to appoint a majority of the board of directors. Does Tech Co. qualify as a CCPC for 2026?

a. Yes, because Canadian residents hold more than 50% of the voting shares, which satisfies the de jure control test.

b. Yes, because none of Tech Co.'s own shares are listed on a designated stock exchange.

c. Yes, but its $500,000 federal business limit must be reduced by 40% to reflect the public corporation's ownership share.

d. No, because control includes de facto control, and a public corporation that can appoint most of the board controls it in fact.

37. Roaster Co., an unassociated CCPC in British Columbia with no passive income and taxable capital under $1,000,000, was incorporated on March 1, 2026 and chose December 31, 2026 as its first fiscal year-end (a 306-day tax year). Its 2026 active business income in Canada and taxable income are both $460,000. What is its prorated business limit and how much of its income is taxed at the 27% combined general rate?

a. The limit is $419,178 ($500,000 × 306 ÷ 365), so that amount is taxed at 11% and the remaining $40,822 at the 27% general rate.
b. The business limit remains $500,000 because the $500,000 threshold is an annual cap that is never prorated for a newly incorporated CCPC, leaving $0 taxed at 27%.
c. The business limit remains $500,000, but the 11% combined tax rate is prorated by 306 ÷ 365 to 9.22% on the entire $460,000.
d. The first $419,178 is completely tax-free under the prorated small business deduction, and only the remaining $40,822 pays the 11% small business rate.

37′. Bakery Co., an unassociated CCPC in BC, had a 73-day short tax year in 2026 due to an approved change of fiscal year-end. During this 73-day period, it earned $120,000 of Canadian active business income (equal to its taxable income), with no business limit reductions. What is its federal small business deduction (SBD) for this 73-day tax year?

a. $22,800, calculated as 19% of the full $120,000 of active business income earned in the short year.
b. $95,000, calculated as 19% of the full $500,000 statutory business limit for the year.
c. $19,000, because the limit is prorated to $100,000 ($500,000 × 73 ÷ 365), the least of the four amounts.
d. $9,000, calculated as 9% of the $100,000 prorated business limit for the 73 days.

38. Manufacturing Co. is an unassociated CCPC in Richmond, BC. In its preceding tax year, it had $26,000,000 of taxable capital employed in Canada and $80,000 of adjusted aggregate investment income (AAII). In 2026, it earned $700,000 of active business income in Canada. Under the current 2026 rules (and comparing them with the old taxable capital rule for tax years starting before April 7, 2022), what is its reduced business limit for 2026?

a. $150,000 under current 2026 rules, because the $200,000 taxable capital reduction and the $150,000 passive income reduction are added together ($350,000 total reduction).
b. $350,000 under current 2026 rules, because only the $150,000 passive income reduction applies to manufacturing corporations.
c. $300,000 now, taking the greater $200,000 capital reduction over the $150,000 passive one; the pre-2022 rule ($15,000,000 cap) would give $0.
d. $500,000 under current 2026 rules, because the corporation had zero passive income in the current 2026 tax year.

38′. Holding Co., an unassociated CCPC, had $12,000,000 of taxable capital employed in Canada and $90,000 of adjusted aggregate investment income (AAII) in its preceding tax year. Under the current 2026 tax-year rules, what is its reduced federal business limit for 2026?

a. $275,000, by subtracting both the $25,000 taxable capital reduction and the $200,000 passive income reduction from $500,000.

b. $300,000, because the $200,000 passive income reduction is greater than the $25,000 taxable capital reduction, and only the greater applies.

c. $475,000, because the corporation can elect to apply the smaller $25,000 taxable capital reduction.

d. $0, because any AAII above $50,000 immediately eliminates the entire $500,000 business limit.

39. In Surrey, BC, Mr. Wang owns 100% of the shares of Renovation Co. (2026 taxable active business income of $380,000) and his spouse, Mrs. Wang, owns 100% of the shares of Cleaning Co. (2026 taxable active business income of $260,000). Neither spouse holds any shares in the other's corporation, and there is no third corporation. How does the small business deduction apply for 2026, and what changes if Mr. Wang acquires 30% of the common shares of Cleaning Co.?

a. They are already associated because Mr. and Mrs. Wang are married, so they must share one $500,000 business limit on Schedule 23 regardless of cross-ownership.

b. Unassociated now, each with its own $500,000 limit; at 30% cross-ownership they become associated and share one limit on Schedule 23, leaving $140,000 at 27%.

c. Even if Mr. Wang acquires 30% of Cleaning Co., they remain unassociated because 30% is less than the 50% voting control threshold.

d. Once associated, both corporations can still claim 100% of the $500,000 business limit each by filing separate Schedule 9 forms without filing Schedule 23.

39′. Alpha Corp. (100% owned by Sister A) and Beta Corp. (100% owned by Sister B) have no cross-ownership between the sisters, so they would not normally be associated. However, both Alpha Corp. and Beta Corp. are associated with a third corporation, Gamma Corp. Gamma Corp. files a Schedule 28 election not to be associated with Alpha and Beta for purposes of connecting them. What is the statutory price of filing this Schedule 28 election?

a. Investment income received from Gamma Corp. that would otherwise be treated as active business income can no longer qualify for the small business deduction.

b. Alpha Corp. and Beta Corp. must each pay a flat $1,000 election penalty under ITA s.162(7.2) for every year the election stays in force.

c. Alpha Corp. and Beta Corp. both lose their CCPC status for the year and can no longer claim the BC 2% small business rate on any income.

d. There is no tax cost at all, because Schedule 28 is purely an informational form, filed in the same way as the Schedule 50 shareholder list.

40. Timber Co. is an unassociated CCPC in BC with a fiscal year starting November 11, 2025 and ending November 10, 2026. Its 2025 and 2026 corporate tax payable are both $18,000, its taxable income is $160,000 (claiming the SBD each year), and its taxable capital is $2,000,000. However, it remitted its August 2026 GST return two months late. When is its 2026 balance-due day, when is its T2 filing deadline, and how must it pay instalments for its next tax year starting November 11, 2026?

a. Balance-due day is May 10, 2027, T2 filing deadline is May 10, 2027, and no instalments are required because its taxable income is under $500,000.

b. Balance-due day is January 10, 2027 (2 months), T2 filing deadline is May 31, 2027, and it qualifies for quarterly instalments starting February 11, 2027.

c. Balance due February 10, 2027; T2 due May 10, 2027; the late GST payment removes quarterly status, so monthly instalments start December 10, 2026.

d. Balance-due day is February 10, 2027, T2 filing deadline is May 10, 2027, and its first monthly instalment is due December 31, 2026 because instalments are always due on the last day of each calendar month.

40′. Logistics Co. has a March 31, 2026 fiscal year-end. Its total Part I corporate tax payable was $2,400 in 2025 and $9,600 in 2026. It is not a CCPC because it is controlled by a non-resident parent company. What are its 2026 balance-due day, its 2026 T2 filing deadline, and was it required to make tax instalments during its 2026 tax year?

a. Balance due May 31, 2026 (no CCPC extension), T2 due September 30, 2026, and no instalments for 2026 because 2025 tax was $2,400.

b. Balance-due day is June 30, 2026 (3 months after year-end), T2 filing deadline is September 30, 2026, and monthly instalments were required in 2026 because 2026 tax exceeded $3,000.

c. Balance-due day and T2 filing deadline are both September 30, 2026, and quarterly instalments were required in 2026.

d. Balance-due day is May 31, 2026, T2 filing deadline is December 31, 2026, and instalments were required because the two-year average tax exceeded $3,000.

41. Two BC corporations both have a December 31, 2025 year-end (filing deadline June 30, 2026) and both file their T2 returns exactly 4 full months late on November 2, 2026. Corp X had $40,000 of total 2025 tax but paid the full $40,000 through instalments before the filing deadline (unpaid tax on June 30, 2026 is $0). Corp Y had $40,000 of total 2025 tax, paid $10,000 before the filing deadline (leaving $30,000 unpaid on June 30, 2026), and is a first-time late filer. What are the late-filing penalties for Corp X and Corp Y?

a. Corp X pays $3,600 (9% of $40,000 total tax) and Corp Y also pays $3,600 (9% of $40,000 total tax).
b. Corp X pays $1,000 and Corp Y pays $5,100 (the maximum 17% penalty on $30,000 unpaid tax).
c. Corp X pays $0 and Corp Y pays $5,400 (18% repeat-offender rate on $30,000 unpaid tax).
d. Corp X pays $0, since nothing was unpaid at the deadline, and Corp Y pays $2,700 (9% of its $30,000 unpaid tax).

41′. Repair Co. had $20,000 of unpaid corporate tax on its T2 filing deadline and filed its return 6 full months late. The CRA had issued a formal demand to file, and Repair Co. had already been assessed a late-filing penalty on a prior T2 return within the preceding 3 tax years. What late-filing penalty applies?

a. $2,200, calculated at the standard rate of 5% plus 1% per month for 6 months (11% of $20,000).
b. $4,400, calculated at the repeat-offender rate of 10% plus 2% per full month for 6 months (22% of the $20,000 unpaid tax).
c. $10,000, because any repeat late filing automatically triggers a flat 50% penalty regardless of how many months late the return is.
d. $3,400, because late-filing penalties for corporations are always capped at 17% of unpaid tax.

42. In June 2026, a qualifying CCPC with a permanent establishment in British Columbia acquires and puts into use $1,000,000 (net of assistance) of eligible new manufacturing and processing equipment, and later pays a dividend to its individual shareholder out of active business income that was taxed at the 11% small business rate. Which statement correctly describes both the 2026 BC Manufacturing and Processing Investment Tax Credit and the personal dividend gross-up on that dividend?

a. A refundable 15% BC credit of $150,000 (within the $2,000,000 annual cap shared with associates), and a 15% gross-up with a 9/13 federal dividend credit.
b. The corporation deducts an extra $150,000 expense on Schedule 1 instead of a tax credit, and the shareholder grosses up the dividend by 38% with a 6/11 federal dividend tax credit.
c. The 15% BC credit can be claimed by any public corporation even before the equipment is available for use, and the dividend is tax-free to the shareholder because the corporation already paid 11% tax.
d. The BC credit is capped at $500,000 of expenditures per corporation without association sharing, and the non-eligible dividend is grossed up by 19% to match the federal SBD rate.

42′. Why does the lecture describe the Small Business Deduction (SBD) as a tax deferral rather than a permanent tax reduction under Canada's corporate–personal tax integration system?

a. Because the CRA requires every CCPC to repay its accumulated SBD in cash to the federal government at the end of its tenth fiscal year.

b. Because the SBD is a refundable tax credit that must be added back to taxable income on Schedule 1 in the following tax year.

c. Because the low–taxed profit is later paid out as non–eligible dividends, grossed up 15% with a 9/13 credit, so total tax ends up roughly as if earned personally.

d. Because integration guarantees that corporate retention followed by dividend distribution produces the exact same tax to the penny as paying a salary in every province and every year.

Chapter 7 · Passive Investment Income in a CCPC Corporate tax (T2)

Items marked ′ are variants on the same point: do one when you miss the main question.

43. In its 2026 tax year, Pinecrest Manufacturing Ltd., a Canadian-controlled private corporation (CCPC), reports the following passive and capital items: (1) $30,000 of Canadian term-deposit interest; (2) a $100,000 capital gain ($50,000 taxable capital gain) from selling a factory building used actively in its manufacturing business until the sale; and (3) $25,000 of eligible portfolio dividends from Canadian public corporations (deductible under s.112). What are Pinecrest's aggregate investment income (AII) and adjusted aggregate investment income (AAII) for 2026?

a. AII is $80,000 and AAII is $55,000.
b. AII is $55,000 and AAII is $80,000.
c. AII is $80,000 and AAII is $105,000.
d. AII is $105,000 and AAII is $55,000.

43′. In 2026, Oakridge Logistics Inc., a CCPC, earns $40,000 of net rental income from a warehouse leased to an unrelated tenant, realizes an $80,000 capital gain ($40,000 taxable capital gain) from selling delivery trucks used exclusively in its active freight business, and receives $15,000 of taxable dividends from public Canadian corporations. What are Oakridge's AII and AAII for 2026?

a. AII is $55,000 and AAII is $80,000.
b. AII is $80,000 and AAII is $95,000.
c. AII is $80,000 and AAII is $55,000.
d. AII is $40,000 and AAII is $40,000.

44. Westbrook Design Ltd. is a CCPC operating solely in British Columbia with a December 31 year-end, no associated corporations, and taxable capital well below $10,000,000. In 2025, Westbrook had adjusted aggregate investment income (AAII) of $80,000 and active business income of $500,000. In 2026, Westbrook has AAII of $20,000 and active business income of $500,000. By how much is Westbrook's 2026 small business deduction business limit reduced, and how much additional combined federal and BC corporate tax does it pay on its 2026 active business income because of that reduction?

a. The 2026 business limit is reduced by $0, and additional tax is $0, because 2026 AAII of $20,000 is below the $50,000 threshold.
b. The 2026 business limit is reduced by $150,000, and additional combined federal and BC corporate tax is $24,000.
c. The 2026 business limit is reduced by $400,000, and additional combined federal and BC corporate tax is $64,000.
d. The 2026 business limit is reduced by $150,000, and additional combined corporate tax is $9,000 because BC does not parallel the federal passive income grind.

44′. Northshore Engineering Inc. is a BC CCPC with a December 31 year-end and no associated corporations. In 2025, it sold an idle rental lot and reported adjusted aggregate investment income (AAII) of $110,000. In 2026, it has $0 of passive income and $500,000 of active business income. What is Northshore's remaining small business deduction business limit for 2026, and how much additional combined federal and BC tax does it owe in 2026 as a result of the 2025 AAII?

a. The remaining 2026 business limit is $200,000, and additional combined tax is $48,000.

b. The remaining 2026 business limit is $500,000, and additional combined tax is $0, because passive income returned to zero in 2026.

c. The remaining 2026 business limit is $0, and additional combined tax is $80,000, because $110,000 multiplied by 5 exceeds $500,000.

d. The remaining 2026 business limit is $200,000, and additional combined tax is $18,000, reflecting only the 6% federal rate difference.

45. Summit Holdings Ltd. (a CCPC) owns 15% of the voting shares of Valley Supply Inc. (a CCPC), representing 15% of the fair market value of all issued shares of Valley Supply. The remaining 85% of Valley Supply is owned by an unrelated individual, so the two corporations are not associated. In 2026, Valley Supply pays a total non-eligible dividend of $200,000 out of active business income taxed at the small business rate and receives a $0 dividend refund. Summit Holdings receives its 15% share ($30,000). How much Part IV tax does Summit Holdings owe on the $30,000 dividend?

a. $11,500, because the two corporations are not associated and all dividends from non-associated corporations are taxed at 38⅓%.

b. $1,725, being 15% of the $11,500 Part IV tax that a portfolio dividend of this size would attract.

c. $0, because the >10% votes and >10% value test makes Valley Supply connected, and it got no dividend refund.

d. $9,200, calculated at the 30⅔% refundable Part I tax rate because the dividend was non-eligible.

45′. Harbour Ventures Inc. (a CCPC) holds shares of Cascade Tech Ltd. (a CCPC) that carry 12% of the voting rights, but because of a large class of preferred shares held by other investors, Harbour's shares represent only 8% of the total fair market value of all issued shares of Cascade Tech. The owners of the two companies are siblings. In 2026, Harbour receives a $100,000 eligible dividend from Cascade Tech, which received no dividend refund on the payment. How much Part IV tax must Harbour Ventures pay?

a. $0, because the owners are siblings and the voting-share stake is above the 10% threshold.

b. $38,333, because the 8% value stake fails the connected test, so full 38⅓% Part IV tax applies.

c. $30,667, at the 30⅔% refundable rate, because the value stake is below the 10% threshold.

d. $0, because eligible dividends a CCPC receives from another CCPC are exempt from Part IV tax.

46. At the end of its 2026 tax year (before calculating any dividend refund), Maple Ridge Consulting Ltd., a CCPC, has an eligible RDTOH (ERDTOH, line 530) balance of $15,000 and a non–eligible RDTOH (NERDTOH, line 545) balance of $23,000. Which of the following statements about a 2026 dividend payment correctly states the resulting dividend refund?

a. Paying a $60,000 eligible dividend yields a refund of $23,000, drawing $15,000 from ERDTOH and $8,000 from NERDTOH.

b. Paying a $60,000 non–eligible dividend yields a refund of $15,000 drawn from ERDTOH first, leaving NERDTOH untouched.

c. Paying a $100,000 non–eligible dividend yields a refund of $38,000: all $23,000 of NERDTOH first, then all $15,000 of ERDTOH.

d. Paying a $100,000 non–eligible dividend yields a refund of only $23,000, because non–eligible dividends can never access ERDTOH.

46′. At the end of 2026, Bayside Properties Inc., a CCPC that earns only rental and interest income, has an ERDTOH balance of $0 and a NERDTOH balance of $30,667. The corporation also has a general rate income pool (GRIP) balance of $80,000 from prior years' high–rate business income. In 2026, Bayside pays an $80,000 dividend and designates the entire amount as an eligible dividend. How much dividend refund will Bayside receive for 2026?

a. $0, because an eligible dividend can only trigger a refund out of ERDTOH, which has a zero balance.

b. $30,667, because the corporation has sufficient GRIP to support the $80,000 eligible dividend designation.

c. $24,533, calculated as 30⅔% of the $80,000 dividend paid.

d. $15,333, because half of NERDTOH can be refunded when GRIP is reduced to zero.

47. On June 1, 2026, Cedar Creek Holdings Ltd., a CCPC owned equally by two shareholders, files Form T2054 and pays a $150,000 dividend for which it elects under s.83(2) to treat the full amount as a capital dividend. Upon assessment, the CRA determines that Cedar Creek's capital dividend account (CDA) balance immediately before the dividend became payable was only $100,000 due to an earlier unrecorded capital loss. If no s.184(3) election is made to treat the excess as a separate taxable dividend, what is the tax consequence?

a. The corporation owes a penalty capped at $500 per year under s.83(4), and the $50,000 excess is automatically added to the shareholders' T5 slips.

b. The corporation owes Part III.1 tax of $10,000 (20% of the $50,000 excess), and the shareholders have no personal liability for this corporate tax.

c. The whole $150,000 election fails because a s.83(2) election must be made for the full amount, so all of it is taxed.

d. Part III tax of $30,000 (60% of the $50,000 excess) is due from the election date; each shareholder is liable up to $15,000.

47′. On March 15, 2026, Silver Birch Ltd., a private corporation, verified with the CRA via Schedule 89 that its capital dividend account (CDA) balance was $80,000. On March 20, 2026, it filed Form T2054 and paid an $80,000 capital dividend to its sole shareholder. In October 2026 (within the same tax year), Silver Birch sold publicly traded shares and realized a $60,000 capital loss ($30,000 non-allowable half). What is the Part III tax consequence for the March 20, 2026 capital dividend?

a. The corporation owes $18,000 of Part III tax (60% of $30,000) because CDA is calculated at the end of the tax year.
b. The corporation owes $0 of Part III tax because the CDA balance is tested immediately before the dividend becomes payable, not at year-end.
c. The corporation must file a s.184(3) election within 90 days of year-end to reclassify $30,000 as an ordinary dividend.
d. The $30,000 non-allowable capital loss reduces the corporation's life insurance CDA component and triggers a 20% penalty.

48. Which of the following statements accurately describes the rules governing the general rate income pool (GRIP) and eligible dividend designations for a Canadian-controlled private corporation (CCPC) in 2026?

a. GRIP is computed at year-end with a 0.72 general rate factor; eligible dividends above it bear 20% Part III.1 tax, or 30% if inflated.
b. A CCPC must first reduce its low rate income pool (LRIP) to zero on Schedule 54 before it may pay any eligible dividend out of GRIP.
c. GRIP must be calculated immediately before each dividend payment, and any excess eligible dividend designation is taxed at 60% under Part III.
d. A CCPC may treat a dividend as eligible without ever notifying shareholders in writing, as long as it reports the designation on its T2.

48′. In June 2026, Pacific Timber Ltd., a CCPC with a December 31 year-end, pays a $100,000 dividend and records a resolution in its board minutes notifying the shareholder that the entire dividend is an eligible dividend. At that time, its GRIP balance from 2025 was $0, as it expected high-rate income in the second half of 2026. Due to a market downturn, its 2026 year-end GRIP turns out to be only $40,000 (with no abusive tax avoidance). What is the consequence?

a. The entire $100,000 designation attracts the 20% Part III.1 tax, because GRIP was $0 on the June payment date.
b. $60,000 is an excessive designation taxed at 20% ($12,000), removable if the shareholder consents to treat it as non-eligible.
c. A 30% Part III.1 tax ($18,000) applies, since paying an eligible dividend before GRIP is earned is treated as artificial.
d. The corporation owes $36,000 (60% of the $60,000 excess) under Part III unless it files Form T2054 within 90 days.

49. Kootenay Precision Ltd., a stand-alone CCPC, had $12,000,000 of taxable capital employed in Canada in its preceding tax year and $70,000 of adjusted aggregate investment income (AAII) in its tax year ended in the preceding calendar year. Applying the 2026 rules, by how much is Kootenay's $500,000 small business deduction business limit reduced?

a. $125,000, because the $25,000 taxable capital grind and the $100,000 passive income grind are added together.

b. $25,000, because the smaller of the taxable capital grind and the passive income grind is the one that applies.

c. $200,000, because the taxable capital grind phases the business limit out between $10M and $15M of capital.

d. $100,000, the greater of the $25,000 taxable capital grind and the $100,000 passive income grind.

49′. In 2025, Fraser Valley Corp. changed its fiscal year-end with CRA approval, resulting in two tax years ending in the 2025 calendar year: the first had AAII of $35,000 and taxable capital of $4,000,000; the second had AAII of $45,000 and taxable capital of $5,000,000. How is Fraser Valley's 2026 small business deduction business limit affected by the passive income grind?

a. The 2026 business limit is reduced by $0 because only the immediately preceding tax year's AAII ($45,000) is counted, which is under $50,000.

b. The 2026 business limit is reduced by $0 because neither tax year in 2025 individually exceeded the $50,000 AAII threshold.

c. The 2026 business limit is reduced by $150,000 because the AAII of all tax years ending in the preceding calendar year must be totalled ($80,000).

d. The 2026 business limit is reduced by $400,000 because both the AAII ($80,000) and the taxable capital ($9,000,000) of the two tax years are combined.

Chapter 8 · Owner–Manager Compensation: Salary vs. Dividend

Corporate tax (T2)

Items marked ′ are variants on the same point: do one when you miss the main question.

50. Marcus is the sole owner–manager of a British Columbia retail CCPC. Since incorporating three years ago, he has compensated himself exclusively with $100,000 of non–eligible dividends each year and $0 in salary. He has no other income sources. Which statement accurately describes his tax and benefit position for 2026?

a. He accumulates $18,000 of new RRSP contribution room each year, but he does not build any CPP pensionable earnings.

b. He generates no new RRSP room, accumulates no CPP pensionable earnings, and has a $0 earned income base for childcare deductions.

c. He can claim childcare expenses up to two–thirds of his $115,000 grossed–up dividend, though his RRSP room remains zero.

d. His corporation can deduct the $100,000 dividend as an operating expense, saving 11% in combined corporate income tax.

50′. Sonia owns 100% of a BC graphic design CCPC. In 2026, her corporation has $150,000 of pre–tax profit eligible for the small business deduction. She wants to create exactly $12,600 of new RRSP contribution room for 2027 and qualify to deduct her toddler's daycare fees as the lower–income spouse. What must she do?

a. Pay herself $70,000 in non–eligible dividends and retain the remaining profit inside the corporation.

b. Pay herself a $60,870 non–eligible dividend so that the 15% gross–up brings her taxable dividend to $70,000.

c. Leave all $150,000 inside the corporation and transfer 18% of the corporate after–tax profit directly to her RRSP.

d. Pay herself $70,000 in employment salary, which generates $12,600 of RRSP room (18%) and counts as earned income for childcare.

51. A British Columbia CCPC earns $100 of active business income in 2026 that fully qualifies for the federal and BC small business deduction (combined 11% corporate tax rate). It distributes the entire $89 after-tax profit as a non-eligible dividend to its sole shareholder. How is this dividend treated on the shareholder's 2026 personal tax return?

a. Grossed up by 38% to $122.82, with a federal dividend tax credit of 6/11 of the gross-up and a BC credit of 12% of the taxable dividend.
b. Grossed up by 15% to $102.35, with a BC provincial dividend tax credit equal to 1.96% of the $89.00 actual cash dividend received.
c. Grossed up by 15% to $102.35, with a federal dividend tax credit of 9/13 of the gross-up and a BC credit of 1.96% of the $102.35 taxable dividend.
d. Reported at its actual cash amount of $89.00 with no further personal tax payable because corporate integration is exact.

51′. A BC corporation has accumulated income in its General Rate Income Pool (GRIP) that was taxed at the general corporate rate (15% federal plus 12% BC). In 2026, it properly designates and pays an eligible dividend to its shareholder. Which gross-up and dividend tax credit (DTC) rates apply?

a. A 38% gross-up, a federal DTC of 6/11 of the gross-up amount, and a BC DTC of 12% of the grossed-up taxable dividend.
b. A 15% gross-up, a federal DTC of 9/13 of the gross-up amount, and a BC DTC of 1.96% of the grossed-up taxable dividend.
c. A 38% gross-up, a federal DTC of 9/13 of the gross-up amount, and a BC DTC of 12% of the actual cash dividend received.
d. A 27% gross-up matching the combined federal and BC general corporate rate, with a full dollar-for-dollar tax credit.

52. Tariq owns 100% of the voting shares of his BC consulting CCPC. In 2026, the corporation pays him an employment salary of $90,000. Given that the 2026 YAMPE for CPP2 is $85,000, which statutory payroll deductions and employer contributions apply to Tariq's salary?

a. Both employee and employer pay base CPP (5.95% each) up to the YMPE and CPP2 (4% each) from the YMPE to $85,000, with $0 in EI premiums.
b. Both employee and employer pay base CPP, CPP2, and mandatory Employment Insurance (EI) premiums up to the annual Maximum Insurable Earnings.
c. Tariq pays the combined 11.9% CPP personally on his T1 return at year-end, so the corporation does not need a payroll program account (RP).
d. The 4% CPP2 contribution applies to all employment income above the YMPE, including the $5,000 portion above $85,000.

52′. Nadia holds 45% of the voting shares of a BC manufacturing corporation, while two unrelated investors hold the remaining 55%. She works as the general manager and receives a $70,000 salary in 2026. How is her salary treated for Employment Insurance (EI) and CPP purposes?

a. Subject to both CPP and EI because she holds less than 50% of the voting shares and is not in control.
b. Exempt from both CPP and EI because a shareholder with over 40% of the voting shares falls outside payroll rules.
c. Exempt from EI because her stake exceeds 40% of the votes, but she and the corporation each pay 5.95% CPP.
d. The corporation pays only the 5.95% employer CPP share, and Nadia is exempt from the employee CPP share.

53. Victor, age 52, owns 100% of a Surrey restaurant corporation. His spouse, Rosa, age 49, owns non–voting shares (worth 5% of total corporate value) and worked 25 hours per week managing inventory during six prior taxation years from 2018 to 2023, though she did not work at the restaurant in 2026. If the corporation pays Rosa a $40,000 dividend in 2026, how does TOSI apply?

a. The dividend is taxed at the top marginal rate under TOSI because Rosa did not work at least 20 hours per week in 2026.
b. The dividend is excluded from TOSI under the excluded shares rule because a restaurant is not a professional corporation.
c. Taxed at the top marginal rate under TOSI because Victor, the owner, has not yet reached age 65 in 2026.
d. Exempt from TOSI under the excluded business rule, since Rosa worked 20+ hours a week in five prior years.

53′. Arthur turned 65 in 2026. For the past 30 years, he has been the sole active operator of a BC plumbing CCPC. His spouse, Wendy, age 61, has never worked in the business and owns only non–voting shares worth 2% of the company. If the corporation pays Wendy a $35,000 dividend in 2026, how is it taxed?

a. At the top marginal tax rate under TOSI because Wendy has not yet reached age 65 and never worked 20 hours per week.
b. At Wendy's graduated marginal tax rates because Arthur is 65 in 2026 and the income would be exempt from TOSI if received by him.
c. At Wendy's graduated marginal tax rates under the excluded shares exception because plumbing is not a professional corporation.
d. Disallowed as a deduction to the corporation under the s.67 reasonableness test because Wendy performed no services.

54. Liam's wholly owned CCPC has a December 31 taxation year-end. On April 1, 2026, Liam borrows $200,000 interest-free from the corporation to use as a down payment on a personal vacation cottage (not as an employee loan). What is the latest date he can repay the principal to avoid a s.15(2) loan inclusion, and does an interest benefit still apply?

a. Repay by December 31, 2026; if repaid by then, neither the principal nor any deemed interest benefit is included in his income.
b. Repay by December 31, 2027 (not part of a series of loans and repayments); a s.80.4 deemed interest benefit at the prescribed rate still applies.
c. Repay by April 1, 2027 (365 days from the date of the advance); if repaid by then, no s.80.4 interest benefit arises.
d. Repay by February 28, 2027 (the T4A filing deadline); the corporation can deduct the forgone interest as a business expense.

54′. Hannah is the sole shareholder of a BC corporation with a June 30 taxation year-end. On August 10, 2025 (during the corporation's fiscal year ending June 30, 2026), she borrows $150,000 at 1% interest for personal use while the CRA prescribed rate is 3%. Assuming this is not part of a series of loans and repayments, what occurs if she repays the full principal on May 15, 2027?

a. The principal escapes s.15(2) as it was repaid before June 30, 2027, but the 2% rate gap is a s.80.4 benefit.
b. The full $150,000 principal is included in her 2025 income because it was not repaid within 12 months of August 10, 2025.
c. No taxable benefit arises under either s.15(2) or s.80.4 because she paid a positive 1% rate on the loan.
d. Both the $150,000 principal and a 3% deemed interest benefit are taxed as eligible dividends on a T5 slip.

55. A BC corporation purchases an automobile for $50,000 (including taxes) and makes it available to its sole shareholder for all 12 months of 2026. The shareholder drives the car 18,000 km in total during the year, of which 7,000 km is for business and 11,000 km is personal. How is the standby charge calculated, and if the benefit is provided strictly by virtue of shareholding, which slip is used?

a. 2% × $50,000 × 12 months, reduced by multiplying by (11,000 ÷ 20,004), and reported on a T5 slip as a non-eligible dividend.
b. 2/3 × $50,000 × 12 months with no reduction, reported on a T4 slip so that it generates CPP pensionable earnings.
c. Full standby charge of 2% × $50,000 × 12 months ($12,000) with no reduction because business use is not over 50%, reported on a T4A slip.
d. Full standby charge of 2% × $50,000 × 12 months ($12,000), reported on a T4A slip and eligible for the 1.96% BC dividend tax credit.

55′. A corporation leases a vehicle for $900 per month (including taxes) and makes it available to its shareholder–employee for all 12 months of 2026. He drives 24,000 km in total during the year, including 18,000 km for business and 6,000 km for personal use, and keeps no mileage logbook, estimating the split from memory. How is his standby charge determined?

a. 2/3 × $900 × 12 months, reduced by multiplying by 6,000 ÷ (1,667 × 12) because estimated business use exceeds 50%.
b. 2% × $900 × 12 months with no reduction, because he failed to maintain a contemporaneous mileage logbook.
c. $0 standby charge, because business use represents 75% of the total kilometres driven during the year.
d. The full lease standby charge of 2/3 × $900 × 12 months ($7,200), since no logbook supports a reduction.

56. Gavin owns 100% of a BC software CCPC. In 2026, the corporation pays his 19–year–old daughter $65,000 in salary for updating the company website for two hours a month — a task that an arm's–length freelancer would perform for $3,000 a year. What is the tax consequence of this salary payment, and when are payroll remittances normally due?

a. Under s.67, the corporation's deduction is denied for the unreasonable $62,000 excess; regular monthly payroll remittances are due by the 15th of the following month.
b. The $65,000 salary is automatically taxed at the top marginal rate under the Tax on Split Income (TOSI) rules because she worked under 20 hours per week.
c. The entire $65,000 is deductible by the corporation as long as a T4 slip is filed by the last day of February of the following year.
d. The corporation is assessed a 20% Part III.1 penalty tax on the $62,000 excess salary paid to a specified family member.

56′. An owner–managed CCPC in BC hires the owner's spouse as the full–time office and purchasing manager, paying her $45,000 in 2026. Comparable arm's–length managers in the local market earn between $42,000 and $48,000. Which statement correctly describes the deductibility and filing requirements for her remuneration?

a. The $45,000 is non–deductible because salaries paid to a spouse are disallowed unless the owner–manager is at least 65 years old.
b. All $45,000 is deductible because it passes the s.67 reasonableness test; the T4 is due by the end of February.
c. The corporation can report the $45,000 on both a T4 and a T5 so the spouse gets RRSP room and the dividend credit.
d. The corporation must file Form T2054 on the exact day each paycheque to the spouse becomes payable.

Chapter 9 · Shareholder Loans, Section 85 Rollovers, ABILs, Wind-ups

Corporate tax (T2)

Items marked ′ are variants on the same point: do one when you miss the main question.

57. Ms. Gao owns 100% of the shares of Cedar Design Inc., which has a December 31 taxation year-end. On March 1, 2026, she withdraws an $80,000 interest-free loan from the corporation to renovate her principal residence. It is not part of a series of loans and repayments. By what date must she repay the loan so that the $80,000 principal is not included in her 2026 income under ITA s.15(2)?

a. March 1, 2027, which is exactly one year after the date she received the $80,000 loan.

b. December 31, 2027, which is one year after the end of the corporation's 2026 taxation year in which the loan was made.

c. January 30, 2027, which is 30 days after the end of the 2026 calendar year.

d. No fixed deadline applies, because a loan used for a shareholder's principal residence is exempt under s.15(2.4).

57′. Mr. Deng is the sole shareholder of Pacific Supply Ltd., which has a January 31 taxation year-end. On February 1, 2026, he borrows $100,000 from the corporation for personal use (not part of a series of loans and repayments). What is the latest date he can repay the principal to qualify for the one-year repayment exception under ITA s.15(2.6)?

a. February 1, 2027, one calendar year from the date the funds were advanced.

b. January 31, 2027, the end of the corporation's taxation year in which the loan was made.

c. December 31, 2027, one year after the end of the 2026 calendar year.

d. January 31, 2028, which is one year after the corporation's January 31, 2027 taxation year-end.

58. Using the same facts for Ms. Gao (an $80,000 interest-free loan received on March 1, 2026, outstanding for 306 days in 2026, and repaid in full in November 2027), the CRA prescribed rate is 3% for all four quarters of 2026. If she pays no interest to the corporation, what is her 2026 deemed interest benefit under ITA s.80.4, and by what date could she pay interest to eliminate it?

a. Approximately $2,012; she can eliminate the benefit by paying the interest on or before January 30, 2027.

b. $0; because the loan is repaid within the s.15(2.6) window in November 2027, no benefit arises under s.80.4.

c. Approximately $2,012; she can eliminate the benefit by paying the interest at any time before November 2027 when the principal is repaid.

d. $80,000 plus $2,012; both the loan principal and the deemed interest benefit are taxed in 2026.

58′. An employee–shareholder receives an interest–free home relocation loan from his corporation on January 1, 2026, when the CRA prescribed rate is 3%. If the loan remains outstanding for more than five years and prescribed rates fluctuate in future quarters, how does ITA s.80.4(4) and (6) govern the rate used to calculate his deemed interest benefit?

a. The rate is permanently fixed at 3% for the whole life of the loan, even if the quarterly prescribed rate falls below 3%.
b. The rate floats freely with each quarter's prescribed rate with no cap, since only non–shareholder employees get a rate cap.
c. Capped at the 3% rate in force when the loan was made (a lower current rate applies if rates fall), re–locked after five years.
d. No deemed interest benefit is calculated during the first five years, after which the full principal is added to income under s.15(2).

59. Mr. Kuan incorporates his sole proprietorship in 2026 and transfers equipment (FMV $60,000, UCC $22,000), inventory (FMV $30,000, cost $30,000), and internally generated goodwill (FMV $90,000, tax cost $0) to his new corporation under ITA s.85. Total FMV is $180,000 and total tax cost is $52,000. If he takes back a $80,000 promissory note plus common shares and tries to elect at $52,000, what is the immediate tax result?

a. He realizes zero income in 2026 because an s.85 election always defers gain when common shares are included in the consideration.
b. The minimum elected amount is pushed up to the $80,000 boot under s.85(1)(b), triggering $28,000 of immediate gain in 2026.
c. The entire s.85 election becomes invalid and he is taxed on the full $128,000 accrued gain in 2026.
d. The $28,000 excess boot is taxed as a shareholder loan under s.15(2) unless repaid by the end of the next taxation year.

59′. Mr. Kuan makes the s.85 transfer in 2026. As a self–employed individual, his 2026 T1 filing deadline is June 15, 2027. His new corporation chooses May 31, 2027 as its first taxation year–end, making its T2 filing deadline November 30, 2027. Which property CANNOT be included in the s.85 rollover, and what is the filing deadline for Form T2057?

a. Real property held as inventory cannot be rolled over; Form T2057 is due on June 15, 2027.
b. Internally generated goodwill cannot be rolled over; Form T2057 is due on November 30, 2027 with the corporate T2.
c. Real property held as inventory cannot be rolled over; Form T2057 is due on November 30, 2027.
d. Depreciable equipment cannot be rolled over; Form T2057 is due on June 15, 2027.

60. In 2026, Mr. Yuen makes a valid ITA s.50(1) election on an uncollectible $50,000 loan he had advanced to his insolvent small business corporation. In 2019, he had claimed a $30,000 capital gains deduction under s.110.6 (exempting $60,000 of capital gains). What is the allowable business investment loss (ABIL) he can deduct against his 2026 employment income on T1 line 21700?

a. $25,000, calculated as the $50,000 business investment loss multiplied by the 2026 one-half inclusion rate.

b. $33,335, calculated using the 66.67% inclusion rate that older 2024 training examples applied to the loss.

c. $10,000, calculated by subtracting the $30,000 prior deduction from the $50,000 loss and multiplying the remainder by one-half.

d. $0, since s.39(9) cuts the $50,000 loss by twice the prior $30,000 deduction ($60,000), leaving no ABIL.

60′. Suppose Mr. Yuen had NEVER claimed the lifetime capital gains exemption in any prior year, so his $50,000 loss in 2026 produces a $25,000 ABIL. Which rules govern the small business corporation (SBC) timing test for this loss and the carryforward of any unused ABIL?

a. The company must meet the SBC test on the exact day of disposition, and unused ABIL carries forward for 20 years against any income.

b. SBC status at any time in the 12 months before disposal suffices; unused ABIL carries forward 10 years, then becomes a net capital loss.

c. The company must hold 90% active business assets for 24 consecutive months, and any unused ABIL expires completely after 10 years.

d. Selling the worthless shares directly to his spouse triggers the ABIL immediately, with no need for any s.50(1) election.

61. Maple Consulting Inc. winds up in 2026 with $300,000 in cash after paying all liabilities. Its sole shareholder, Mr. Tse, holds common shares with a paid-up capital (PUC) of $1,000 and an adjusted cost base (ACB) of $61,000 (having bought shares at a premium from a former partner). The corporation has a capital dividend account (CDA) balance of $40,000 and makes a timely s.83(2) election. What are Mr. Tse's taxable dividend and his capital loss on the shares (after any stop-loss reduction) on the wind-up?

a. Taxable dividend of $199,000, using the $61,000 ACB instead of PUC, and a capital loss of $0 on the shares.

b. Taxable dividend of $299,000 and capital loss of $60,000, because the CDA balance cannot be elected during a wind-up.

c. Taxable dividend of $259,000 (plus a $40,000 tax-free capital dividend) and a capital loss of $20,000 after stop-loss.

d. Taxable capital gain of $239,000 ($300,000 cash minus the $61,000 ACB) and a deemed dividend of $0.

61′. During its 2026 wind-up, a corporation has an actual CDA balance of $40,000, but the director mistakenly files an s.83(2) capital dividend election for $50,000. What is the tax consequence under ITA s.184, and what relief is available?

a. The entire $50,000 election is voided automatically, and the shareholder must include the whole $50,000 as an ordinary taxable dividend.
b. Part III tax of 3/5 of the $10,000 excess applies, unless within 90 days of assessment the excess is elected to be a taxable dividend.
c. The corporation pays a late-filing penalty of $100 per month, up to a maximum of $8,000, under the s.85(8) rules.
d. The $10,000 excess is automatically deducted from the shareholder's lifetime capital gains exemption in the following year.

62. Mr. Fang is the sole director and liquidator of a corporation winding up in 2026 with $300,000 in cash. Eager to close the books, he distributes the $300,000 to the shareholders first and plans to file the final T2 return and Form TX19 next month. What is the legal consequence under ITA s.159(2) and (3)?

a. He is personally liable for the corporation's unpaid tax, interest and penalties, up to the $300,000 he distributed.
b. There is no personal liability for him as long as he submits Form RC145 within 30 days after distributing the cash.
c. His personal liability is capped at $8,000, the statutory maximum penalty for procedural filing errors by a director.
d. The distribution is void under corporate law, so only the CRA can sue the bank to reverse the wire transfer to shareholders.

62′. Which sequence correctly orders the mandatory steps for winding up and dissolving a corporation and closing its CRA accounts?

a. Distribute remaining cash to shareholders → final T2 (line 078 Yes) → apply for TX19 clearance certificate → CDA election after dissolution.
b. Close BN accounts with RC145 → apply for TX19 clearance certificate → file final T2 return (line 078 Yes) → distribute property to shareholders.
c. Apply for TX19 clearance certificate first → receive certificate → file final T2 return (line 078 Yes) → distribute property and close accounts.
d. Resolution and debts settled → final T2 (line 078 Yes) → TX19 and clearance certificate → distribute, with CDA election → RC145.

63. A corporation ceased operations in 2023 and by the end of 2024 met all four conditions under ITA s.50(1)(b) (insolvent, ceased business, shares had nil fair market value, and reasonably expected to be dissolved without resuming business). The shareholder only remembers to claim an ABIL when preparing his 2026 T1 return. How must this be handled?

a. He can freely make the s.50(1) election on his 2026 T1 return, because a shareholder may pick any year before formal dissolution.
b. He has lost the ABIL permanently, because a late s.50(1) election is never permitted once the 2024 filing deadline has passed.
c. 2024 was the only trigger year; he now needs a late election under s.220(3.2), within ten years and subject to a penalty.
d. He can transfer the worthless shares to his spouse in 2026 for $1 to trigger a fresh 2026 business investment loss, with no election.

63′. Instead of selling its delivery van and computers for cash before winding up under ITA s.88(2), a corporation transfers those capital assets directly to its sole shareholder on the wind-up. How does s.88(2) treat this distribution at the corporate level?

a. The corporation is deemed to dispose of each distributed property at its fair market value, recognizing any resulting recapture or capital gain on its final T2 return.
b. The assets roll over automatically at their undepreciated capital cost (UCC) so that neither the corporation nor the shareholder pays tax on the wind-up.
c. The corporation recognizes no gain, and the fair market value of the van and computers is taxed solely as an employment benefit on a T4 slip.
d. The transfer is ignored for tax purposes until the shareholder eventually sells the van and computers to an arm's-length buyer.

Chapter 10 · Corporate Remuneration, Taxable Benefits & Shareholder Benefits Corporate tax (T2)

Items marked ′ are variants on the same point: do one when you miss the main question.

64. Marco is the sole shareholder and president of a plumbing corporation. During 2026, the corporation paid $18,000 directly to a contractor to renovate the kitchen in Marco's personal residence and recorded the payment as a corporate repair expense. This benefit was not part of any employment compensation package offered to employees. How is this $18,000 treated for tax purposes?

a. It is a shareholder benefit under ITA s.15(1): the corporation cannot deduct the $18,000, and Marco must include $18,000 in his income, reported on a T4A slip under code 028.
b. It is a taxable employment benefit under ITA s.6(1)(a): the corporation can deduct the $18,000 as remuneration, and Marco reports it on a T4 slip subject to CPP and income tax withholdings.
c. It is a shareholder loan benefit under ITA s.80.4: only the prescribed interest on the $18,000 is included in Marco's income and reported on a T4A slip under code 117.
d. Because the corporation is denied the $18,000 deduction under ITA s.18(1)(a), Marco is not required to include the $18,000 in his personal income to avoid double taxation.

64′. Elena owns 100% of the shares of a consulting corporation and also works as its manager. In 2026, the corporation paid $9,500 for a luxury family vacation for Elena and her parents. No other employees receive vacation payments. What are the corporate and personal tax consequences of this $9,500 payment?

a. The corporation deducts the $9,500 as an employee fringe benefit, and Elena includes the $9,500 on her T4 employment slip.
b. The corporation is denied any deduction for the $9,500, and only Elena's parents are taxed on their own shares of the trip.
c. No corporate deduction (it fails the s.18(1)(a) purpose test), and Elena includes $9,500 as a s.15(1) shareholder benefit on a T4A.
d. The corporation can deduct the $9,500 if it withholds CPP, EI and income tax on that amount before the end of February 2027.

65. A British Columbia software corporation hires a senior developer in 2026 at an annual salary of $92,000. Based on the 2026 federal statutory payroll parameters, what is the total employer portion of CPP, CPP2, and EI that the corporation must pay on top of the $92,000 gross salary?

a. $5,769.52, because the employer matches the employee's maximum deductions dollar-for-dollar across CPP, CPP2, and EI.

b. $6,218.75, consisting of $4,230.45 for CPP, $416.00 for CPP2, and $1,572.30 for EI (1.4 times the employee maximum).

c. $5,990.75, because the maximum CPP2 contribution is capped at the 2024 introductory limit of $188.00.

d. $6,427.00, because the $3,500 basic exemption does not apply once an employee's salary exceeds the $85,000 YAMPE ceiling.

65′. When comparing the 2026 federal statutory payroll deduction rules with those of 2024 and 2025 for an employee earning $90,000 per year outside Quebec, which statement is correct?

a. The EI rate fell to 1.63% in 2026, yet the maximum employee EI premium rose to $1,123.07 because MIE rose to $68,900.

b. Because the federal EI rate dropped to 1.63% in 2026, the maximum annual EI premium paid by both the employee and the employer is lower in 2026 than in 2024.

c. The CPP basic exemption was indexed upward in 2026 along with the $74,600 YMPE, which lowers the employee's effective CPP rate.

d. The employer's CPP2 contribution is 1.4 times the employee's $416 contribution, which matches the Employment Insurance multiplier.

66. An employer purchased an automobile for $50,000 (including taxes) and made it available to a regional sales representative for all 365 days of 2026. The employer required her to use the car for work and paid all operating expenses. During 2026, she drove a total of 50,000 km, of which 29,000 km were for business (58%) and 21,000 km were for personal use. Does she qualify for the reduced standby charge and the optional operating expense calculation (one-half of the standby charge)?

a. She qualifies for both the reduced standby charge and the optional operating expense method, since business use was over half.

b. She qualifies for neither the reduced standby charge nor the optional operating expense method, since personal driving topped 20,004 km.

c. No reduced standby charge, since personal driving topped 20,004 km, but the optional half-of-standby method is still open.

d. She gets a reduced standby charge capped at 20,004/20,004, and no operating benefit arises because business driving exceeded 25,000 km.

66′. In 2026, a corporation buys a car for $45,000 (before tax) and makes it available for all 12 months to an employee who is required to use it for work. The employee drives 22,000 km in total during 2026: 10,000 km for business (45%) and 12,000 km for personal use. How are the standby charge and operating expense benefit determined for 2026?

a. The standby charge is cut to 12,000/20,004 of 2% × $45,000 × 12, and the operating benefit is 12,000 km × 34¢.

b. Business use is not over half, so no reduction and no optional method: full $10,800 standby charge, and 34¢ × 12,000 km ($4,080).

c. He may still elect the optional method of $5,400 (half the $10,800 standby charge), as it is lower than the fixed-rate amount.

d. Both benefits are subject to CPP, EI and income tax source deductions, and both are reported on the employee's T4 slip.

67. In February 2026, an engineering firm in British Columbia buys a new non-zero-emission passenger vehicle for $52,000 (before tax) and also reimburses an arm's length engineer who drives her own personal car 6,000 km on firm business during 2026. Which statement accurately states the 2026 federal rules for these two situations?

a. The Class 10.1 cap is $39,000 as announced (ITR text still reads $38,000); the allowance limit is 73¢ for 5,000 km, then 67¢.

b. The Class 10.1 CCA ceiling is $61,000, and the engineer's reimbursement is capped at 34 cents per kilometre for all 6,000 km driven.

c. The Class 10.1 CCA ceiling is $39,000, and the provincial tax-free per-kilometre allowance is 77 cents for the first 5,000 km and 71 cents thereafter.

d. The engineer must include 34 cents per kilometre in her T4 income for the 6,000 km driven, while the firm can deduct up to $1,100 per month in CCA.

67′. Which of the following correctly pairs a 2026 federal automobile parameter with its tax mechanism?

a. 73 cents / 67 cents per km: the rate used to calculate the taxable operating expense benefit when an employee drives a company car for personal use.

b. $61,000: the maximum monthly deductible lease cost for a non-zero-emission passenger vehicle.

c. 34 cents per km: the tax-free allowance rate an employer pays an automobile salesperson for driving a personal vehicle.

d. $1,100 per month (before tax) and $350 per month: the respective ceilings on deductible lease costs and deductible car loan interest for a passenger vehicle in 2026.

68. Riverview Hardware Ltd. has a December 31, 2026 taxation year-end. In December 2026, it accrued a $50,000 bonus to its sole shareholder-employee, Chen, and paid the bonus on July 15, 2027. Also in December 2026, the company gave two non-cash holiday gift baskets worth $450 each—one to Chen and one to an arm's length store clerk who received no other gifts in 2026. What is the correct tax treatment?

a. The $50,000 bonus is deductible in 2026 because it was paid in 2027, and both $450 gift baskets are tax-free under the $500 non-cash gift policy.

b. The bonus is deductible only in 2027, since it was paid after June 29, 2027; the clerk's gift is tax-free but Chen's is fully taxable.

c. The $50,000 bonus is deductible in 2026 because the deadline is six calendar months plus 30 days, while both $450 gift baskets are fully taxable.

d. The $50,000 bonus is non-deductible in both 2026 and 2027 once the 180-day deadline is missed, and Chen's $450 gift is tax-free up to $500.

68′. In 2026, a corporation gives three items to an arm's length employee who has worked there for exactly five years (and never received a service award before): a $400 non-cash birthday gift, a $450 non-cash 5-year long-service plaque and watch, and a $200 cash bonus card. It also gives a $300 non-cash holiday gift to the sole shareholder's spouse who works part-time as a bookkeeper. Which items are taxable benefits in 2026?

a. Only the $200 cash bonus card and the $350 excess of the combined $850 non-cash items given to the arm's length employee are taxable; the spouse's $300 gift is tax-free.

b. All four items are fully taxable because an employer cannot combine the annual gift policy and the long-service award policy in one calendar year.

c. Only the $200 cash bonus card is taxable, because each of the three non-cash gifts is under the $500 threshold, including the spouse's gift.

d. The arm's length employee's $400 gift and $450 service award are tax-free; the $200 cash card and the spouse's $300 gift are taxable.

69. Company X had an average monthly withholding amount (AMWA) of $2,400 two calendar years ago and $2,600 last year. It has paid all payroll deductions on time for the past 12 months, but it filed its quarterly GST/HST return three weeks late four months ago. Separately, Company Y is associated with Company Z; two calendar years ago, Company Y had an AMWA of $4,000 and Company Z had an AMWA of $23,000. Which statement correctly identifies their remitter categories?

a. Company X qualifies as a quarterly remitter because all its payroll remittances were on time, and Company Y is a regular remitter because its own AMWA is under $25,000.

b. If Company X remits a $5,000 payroll deduction five days late for the first time, it faces a flat 10% failure-to-deduct penalty of $500 on the whole amount.

c. Company X is a quarterly remitter, while Company Y and Company Z are Threshold 2 accelerated remitters who must remit four times a month through a financial institution.

d. X loses quarterly status because its late GST/HST filing breaks the perfect compliance history; Y and Z, with combined AMWA of $27,000, are Threshold 1 remitters.

69′. An employer deducted $10,500 in CPP, EI, and income tax from its employees' paycheques in May 2026 (its first offence and not due to gross negligence), but remitted the $10,500 to the CRA six days after the due date. What is the federal late remittance penalty rule for this delay?

a. 7% of the amount above $500, since the late remittance tiers are 3%, 5%, 7% and 10% by days late.

b. 10% on the full $10,500, applied immediately from the first day after the remittance due date.

c. 3% on the full $10,500, because every remittance made within seven days is penalized at a flat 3%.

d. 20% on the full $10,500, because source deductions are held in trust for the Crown and were not remitted.

70. Westcoast Design Ltd. is a regular (non-charitable) employer in British Columbia with no associated corporations. For the 2026 calendar year, its total BC remuneration is $1,300,000. What is its 2026 BC Employer Health Tax (EHT), and how would the EHT change if its sole shareholder also controlled a second BC corporation with $400,000 of 2026 BC remuneration?

a. Standalone EHT is $5,850 (1.95% × $300,000); if associated, the second corporation still pays $0 because its own $400,000 payroll is under the $1,000,000 exemption.

b. Standalone EHT is $25,350 (1.95% × $1,300,000); if associated, the two corporations simply share one $1,000,000 exemption between them and pay 5.85% on the rest.

c. Standalone EHT is $17,550 (5.85% × $300,000); if associated, combined payroll of $1,700,000 removes the exemption, so each pays 1.95% on its full payroll.

d. Standalone EHT is $17,550; if associated, the $1,000,000 exemption is still kept and split between them because neither corporation alone exceeded $1,500,000.

70′. Why does British Columbia's Employer Health Tax (EHT) apply a 5.85% notch rate to a regular employer's BC remuneration between $1,000,000.01 and $1,500,000, while applying 1.95% to total remuneration once payroll exceeds $1,500,000?

a. The 5.85% notch rate phases out the exemption so that at $1,500,000 both formulas give the same $29,250, with no cliff.

b. Employers with payroll over $1,500,000 still keep the $1,000,000 exemption and pay 1.95% only on the part above $1,500,000.

c. 5.85% is the rate for regular employers, while 1.95% is reserved exclusively for registered charities and non–profit organizations.

d. The first $500,000 above $1,000,000 includes federal CPP and EI remittances, which are deducted once payroll exceeds $1,500,000.

Chapter 11 · Tax-Exempt & Non-Profit Organizations (T2, T1044 & T3)

Corporate tax (T2)

Items marked ′ are variants on the same point: do one when you miss the main question.

71. A newly formed neighbourhood heritage society is incorporated as a non-share-capital corporation and operates exclusively for civic improvement under ITA s.149(1)(l). It is not a registered charity. A local business owner offers a donation and asks for an official tax receipt, while the society's treasurer believes the society never needs to register with the CRA or file any tax return because it owes no tax. Which statement is correct?

a. The society does not need to register to be tax-exempt under s.149(1)(l), cannot issue official donation receipts, and must still file a T2 return every tax year as a corporation
b. The society must first apply to the CRA for non-profit registration before its income becomes exempt, after which it may issue official donation receipts
c. The society cannot issue official donation receipts, and like a registered charity it is completely exempt from filing a T2 return as long as it has zero tax payable
d. Once the society's articles state a non-profit purpose, its tax-exempt status is permanently guaranteed and it may issue receipts for membership dues

71′. Compare an incorporated registered charity under ITA s.149(1)(f) with an incorporated non-profit organization (NPO) under ITA s.149(1)(l), assuming neither has any tax payable for the year. How do their rules differ regarding official donation receipts and annual T2 returns?

a. Both organizations may issue official donation receipts, and neither has to file a T2 return in any year when its tax payable is zero
b. Neither organization needs CRA registration to be exempt, and both must file a T2 return within 6 months of their tax year-end
c. Only the registered charity may issue donation receipts and skip the T2; the incorporated NPO cannot receipt and must file a T2 yearly
d. The incorporated NPO is exempt from filing a T2 return, whereas the registered charity must file both a T2 return and Form T1044 each year

72. An incorporated community sports association exempt under ITA s.149(1)(l) has never previously been required to file Form T1044. Its total assets had a GAAP book value of $150,000 at the end of the prior fiscal period and $198,000 at the end of the current fiscal period. During the current fiscal period, it received $610,000 in membership dues and government grants, $7,000 in rental income, and $3,500 in bank interest. Must it file Form T1044 for the current fiscal period?

a. No, because neither its rental income ($7,000) nor its interest income ($3,500) individually exceeds the $10,000 threshold
b. Yes, because its combined rental income ($7,000) and interest income ($3,500) exceed the $10,000 passive income threshold
c. Yes, but only because its membership dues and grants of $610,000 push total revenue over $200,000
d. No, because its prior-period total assets of $150,000 and current-period assets of $198,000 are both below $200,000

72′. A non-profit alumni association exempt under ITA s.149(1)(l) has never filed Form T1044 before. Its total assets were $150,000 at the end of the prior fiscal period and $198,000 at the end of the current fiscal period. During the current period, it collected $340,000 in membership dues and fundraising event proceeds, plus $3,000 in bank interest and $3,500 in rental income. Which return(s) must the incorporated association file for the current period?

a. Both a T2 return and Form T1044, because its total receipts including membership dues and event proceeds exceed the $10,000 threshold
b. Neither a T2 return nor Form T1044, because it is a tax-exempt organization and falls below all three of the s.149(12) filing thresholds
c. Form T1044 only, because its current-period assets of $198,000 are close to the $200,000 threshold and an NPO never files a T2 return
d. A T2 (or T2 Short Return) only: the four passive items total under $10,000, prior assets were under $200,000, and it never filed a T1044

73. A residential condominium corporation had $480,000 in total assets at the end of 2025 and earned $14,200 in interest in 2025, properly filing Form T1044 for 2025. After major roof repairs in 2026, its total assets fell to $150,000 at the end of 2026, and its interest income dropped to $3,000 in both 2026 and 2027, with assets remaining at $150,000. What is its Form T1044 filing obligation for 2026 and 2027?

a. It does not need to file Form T1044 for either 2026 or 2027 because both its assets and passive income fell below the thresholds starting in 2026
b. It must file Form T1044 for 2026 because 2025 year–end assets exceeded $200,000, but it may stop filing in 2027 once 2026 year–end assets are $150,000
c. It must file Form T1044 for both 2026 and 2027 (and every future fiscal period as long as it remains an NPO) because of the prior–period asset test and the ratchet rule
d. It is exempt from Form T1044 in all years because residential condominium corporations are excluded under s.149(1)(i)

73′. Which of the following tax–exempt entities is required to file Form T1044 if its prior fiscal period–end total assets had a GAAP book value of $350,000?

a. A registered charity exempt under ITA s.149(1)(f)
b. A residential condominium corporation exempt as a non–profit organization under ITA s.149(1)(l)
c. A corporation exempt under ITA s.149(1)(i) that operates solely to provide low–cost housing for the aged
d. A registered Canadian amateur athletic association

74. An incorporated golf and dining club exempt under ITA s.149(1)(l) has the main purpose of providing dining and sporting facilities to its members. In 2026, it collected $2,100,000 in membership dues, $340,000 in dining revenue, and $58,000 in interest and dividends from an investment account, and it realized a $600,000 capital gain from selling a parcel of idle land that was never used for the golf course or restaurant. How is the club taxed and which return(s) must it file for 2026?

a. All of its revenue and capital gains are completely exempt under s.149(1)(l), so the club only needs to file a nil T2 return together with Form T1044 for the year
b. Because s.149(5) applies, the club loses its s.149(1)(l) status entirely and must report the $2,100,000 dues, $340,000 dining revenue, $58,000 investment income, and $600,000 gain on its T2 return
c. Dues and dining revenue stay exempt; the $58,000 property income and the gain on the idle land are taxed in a deemed trust on a T3; it files T2, T1044 and T3
d. Only the $58,000 of interest and dividend income is taxed on a T3 return, because every capital gain on real estate owned by an NPO club remains fully exempt

74′. Suppose the same incorporated golf and dining club sold a parcel of land that had been used exclusively as the parking lot for members using the golf course and dining room, realizing a $600,000 capital gain, while also earning $58,000 in investment interest and dividends. Under ITA s.149(5), what is taxable on the club's T3 trust return?

a. Only the $58,000 in investment interest and dividends, because the parking lot land was property used exclusively to provide the dining and sporting services
b. Both the $58,000 investment income and the taxable capital gain on the $600,000 parking lot sale, because all real property held by a s.149(5) club is taxed on disposition
c. Only the taxable capital gain on the $600,000 parking lot sale, because investment interest is exempt if held for future course maintenance
d. Neither amount is taxed on a T3 return if the club changes its name to a Cultural Heritage Association while continuing to operate mainly as a member restaurant and golf club

75. An incorporated non-profit organization that validly qualifies for tax exemption under ITA s.149(1)(l) and has $0 tax payable discovers that both its T2 return and its Form T1044 are overdue due to circumstances beyond its control. How are the late-filing penalties calculated for the two forms, and what should the organization do first regarding Form T1044?

a. Both the T2 and the T1044 are penalized at $25 per day up to $2,500 each, so the organization should wait for CRA approval of a relief request before filing either form
b. Both the T2 and the T1044 penalties are based on unpaid tax at the filing deadline (5% plus 1% per month), so the organization owes a $0 penalty on both forms
c. The T2 penalty is 10% plus 2% per month of total assets, while the T1044 penalty is a flat $100 no matter how many days late it is filed, so filing order does not matter
d. The T2 penalty is $0, being based on unpaid tax; the T1044 penalty is $25 a day ($100 to $2,500), so file the T1044 now and attach a relief request

75′. An incorporated association claimed tax-exempt status under ITA s.149(1)(l) and filed its T2 return 12 complete months late, assuming the penalty would be $0 because it reported zero tax. Upon audit within the normal reassessment period, the CRA determines that the association actually operated for profit and made income available for members' personal benefit during that year. What is the tax and penalty consequence?

a. Loss of exempt status applies only prospectively to future years, so the late T2 penalty for the audited year stays at $0 and no tax is reassessed for that year
b. Exempt status can be denied for that year: income is taxed at regular rates, with daily compound interest and the s.162(1) late-filing penalty on the unpaid tax
c. The association is only subject to the $2,500 maximum Form T1044 penalty, which replaces corporate income tax whenever an NPO fails the operational test in a year
d. Because its articles of incorporation still state a non-profit purpose, the CRA cannot reassess corporate tax for that year unless the articles were formally amended

76. A social services organization exempt under ITA s.149(1)(l) has a total 2026 BC calendar-year payroll of $2,600,000, split evenly ($1,300,000 each) between two separate office buildings—one in Richmond and one in Vancouver—that it leases and uses exclusively. What is its 2026 BC Employer Health Tax (EHT) payable, and what would the tax be if both divisions were instead on different floors of the same building?

a. $0 when operating in two separate qualifying locations ($1,500,000 exemption per location), and $32,175 when operating in the same building (2.925% × ($2,600,000 − $1,500,000))
b. $50,700 in both cases, calculated at the 1.95% rate on the full $2,600,000 payroll because total payroll exceeds $1,500,000
c. $32,175 in both cases, because a single legal entity can claim only one $1,500,000 EHT exemption across British Columbia regardless of how many locations it operates
d. $0 in both cases, because each floor of an office building counts as a separate qualifying location as long as it has its own department manager

76′. How do the BC Employer Health Tax (EHT) rules for a charitable or non-profit employer compare with the rules for a general for-profit employer?

a. Both kinds of employer receive the same $1,000,000 exemption, but non-profit employers pay a 1.95% notch rate on the excess instead of 5.85%
b. Non-profits get $1,500,000 per qualifying location, a 2.925% notch rate up to $4,500,000, and need not share the exemption with associated employers
c. Non-profit employers are completely exempt from BC EHT regardless of payroll size, as long as they file Form T1044 federally each year
d. Non-profit employers receive a single $4,500,000 exemption, which must be shared among all of the associated employers in their group

77. At the end of its fiscal period, a non-profit association is performing its annual four-step compliance review to check its ITA s.149(1)(l) status and Form T1044 requirement. When testing the $200,000 asset threshold and the $10,000 passive income threshold under s.149(12), which accounting bases must it use?

a. Current fiscal period-end fair market value for total assets, and only the cash actually received during the period for the passive income items
b. Prior period-end GAAP book value for total assets, and amounts received or receivable in the current period for the four passive income items
c. Prior fiscal period-end appraised replacement value for real estate only, and gross revenue from all sources including membership fees and grants
d. Average monthly asset balances during the current period, and net investment income after deducting all management and custody expenses

77′. Why must an organization claiming exemption under ITA s.149(1)(l) review its operations at the end of every fiscal period rather than relying on its initial articles of incorporation?

a. Because s.149(1)(l) requires the organization to renew a non-profit registration number with the CRA every 12 months

b. Because the $10,000 and $200,000 thresholds in s.149(12) are adjusted for inflation at the end of every calendar year

c. Because exempt status turns on being both organized and operated for non-profit purposes, a fact decided year by year

d. Because any organization whose fiscal period exceeds 6 months automatically converts into a deemed inter vivos trust under s.149(5)

Chapter 12 · Financial Statements, GIFI, and Schedule 1 Tax Reconciliation

Corporate tax (T2)

Items marked ′ are variants on the same point: do one when you miss the main question.

78. An engineering firm with a December 31, 2026 year-end reports net profit after tax of $180,000 on its financial statements (GIFI code 9999). In arriving at that profit, the bookkeeper deducted all of the following expenses: book depreciation of $42,000; client meals and entertainment of $16,000; annual golf club membership dues for a director of $9,500; an increase in the accounting allowance for doubtful accounts of $8,000; charitable donations to registered charities of $5,000; and book income tax expense of $38,000. Schedule 8 capital cost allowance (CCA) for the year is $55,000. What are the firm's net income for tax purposes (Schedule 1 result) and taxable income for 2026?

a. Net income for tax purposes of $230,500 and taxable income of $225,500.

b. Net income for tax purposes of $235,500 and taxable income of $230,500.

c. Net income for tax purposes of $230,750 and taxable income of $225,750.

d. Net income for tax purposes of $197,500 and taxable income of $192,500.

78′. A logistics consultancy with a December 31, 2026 year-end begins its Schedule 1 with net profit after tax of $180,000 in Amount A. Its income statement includes deductions for $42,000 of book amortization, $16,000 of client meals and entertainment, $9,500 of yacht and golf club dues, an $8,000 addition to a general bad debt reserve, $5,000 of charitable donations, and $38,000 of income tax expense. After claiming $55,000 of CCA from Schedule 8, how much total additions must be added back on Schedule 1, and what is the resulting net income for tax purposes before deducting charitable donations to arrive at taxable income?

a. Total Schedule 1 additions of $105,500 and net income for tax purposes of $230,500.

b. Total Schedule 1 additions of $105,750 and net income for tax purposes of $230,750.

c. Total Schedule 1 additions of $110,500 and net income for tax purposes of $235,500.

d. Total Schedule 1 additions of $118,500 and net income for tax purposes of $243,500.

79. Which of the following statements accurately describes the General Index of Financial Information (GIFI) rules for a 2026 corporate tax return?

a. With 40 line items it must report 40 GIFI codes, not subtotals, and enter 0 for any nil validity check item such as 2599 or 9999.

b. A corporation filing with GIFI must still attach its traditional financial statements unless it is an insurer involved in underwriting.

c. A corporation using tax software may file the paper GIFI-Short (T1178) if either its gross revenue or its total assets is under $1,000,000.

d. Items with no exact GIFI match go into the block's total code, and validity check codes with a nil balance may be left blank.

79′. A newly incorporated retail business is preparing its first T2 return for the 2026 tax year without using tax preparation software. Both its gross revenue and its total assets are under $1,000,000. Which combination of GIFI forms and reporting rules applies to this corporation?

a. It is exempt from GIFI because its revenue and assets are each under $1,000,000, so it only needs to mail traditional paper statements.

b. It must file electronically using only the seven validity check subtotal codes and omit Schedule 101 because opening balances are always zero.

c. It only needs to complete Schedule 141 if its financial statements were audited by an external accountant holding a professional designation.

d. It may use the paper GIFI–Short (T1178), must add Schedule 101 for its opening balance sheet, and must enter 0 for nil check items.

80. Under the Income Tax Act rules governing Schedule 1 adjustments in 2026, how do the deductibility limits compare across: (1) regular client meals and entertainment, (2) meals of a long–haul truck driver during an eligible travel period, (3) qualifying meals provided at a temporary work site camp, and (4) membership dues at a recreational or dining club?

a. 50% for regular meals; 80% for long–haul truck driver meals; 50% for work site camp meals; 50% for club membership dues.

b. 50% for regular meals; 100% for long–haul truck driver meals; 80% for work site camp meals; 0% for club membership dues.

c. 50% for regular meals; 80% for long–haul truck driver meals; 100% for work site camp meals; 0% for club membership dues.

d. 0% for regular meals; 50% for long–haul truck driver meals; 80% for work site camp meals; 0% for club membership dues.

80′. A freight and construction company recorded three expenses on its 2026 income statement: (1) meals incurred by its long–haul truck drivers during eligible travel periods, (2) annual fees to maintain a lodge and golf facility used to entertain clients, and (3) qualifying meals provided to workers at a remote temporary work site camp. What portion of each expense must be added back on Schedule 1?

a. Add back 20% of the long–haul truck driver meals, 100% of the lodge and golf facility fees, and 0% of the qualifying temporary work site camp meals.

b. Add back 80% of the long–haul truck driver meals, 50% of the lodge and golf facility fees, and 50% of the temporary work site camp meals.

c. Add back 50% of the long–haul truck driver meals, 100% of the lodge and golf facility fees, and 50% of the temporary work site camp meals.

d. Add back 20% of the long–haul truck driver meals, 50% of the lodge and golf facility fees, and 100% of the temporary work site camp meals.

81. In March 2026, a manufacturing corporation purchases and places into use a new piece of manufacturing and processing machinery (Class 53, or assessed under Class 43 after 2025 where it would have been Class 53 if acquired in 2025) for $200,000. Under the current 2026 rules in the T2 Guide, how much first-year capital cost allowance (CCA) can the corporation claim on this machine, and when does the phase-out begin for this category?

a. It cannot claim immediate expensing because the 2018 Accelerated Investment Incentive (AII) 50% net addition ended before 2024 and completely phases out before 2028.
b. It can claim 100% immediate expensing of $200,000 in 2026, and the phase-out for this manufacturing and processing machinery category only begins for property that becomes available for use after 2029.
c. It can claim 100% immediate expensing of $200,000 in 2026, but the 100% deduction for manufacturing machinery expires for property becoming available for use after 2026 (before 2027).
d. It is limited by the half-year rule under Regulation 1100(2) because reaccelerated investment incentive property (RIIP) only applies to property acquired after 2030.

81′. Which of the following correctly contrasts the 2026 current rules for capital cost allowance (CCA) incentives and Class 10.1 passenger vehicle limits against outdated or unlegislated figures?

a. Class 44/46/50 property acquired after April 15, 2024 gets 100% if available before 2027; the $39,000 Class 10.1 cap is announced, not yet in ITR s.7307(1).
b. Productivity assets in Classes 44, 46, and 50 retain 100% immediate expensing until 2034, and $39,000 is already enacted in the consolidated text of ITR s.7307(1).
c. Clean energy equipment (Class 43.1) loses its 100% first-year deduction after 2026, while the 2018 AII parameters (available for use before 2028) remain the active rule for 2026 returns.
d. Property acquired from a non-arm's length person on a tax-deferred rollover qualifies as RIIP as long as it is placed in use before 2030.

82. For a corporation completing Schedule 6 and Schedule 1 for the 2026 tax year, how are capital gains included in net income for tax purposes under current rules?

a. Two-thirds (2/3) of the capital gain on Schedule 6 is entered on Schedule 1 line 113 because the proposed increase took effect on January 1, 2026.
b. One-half of a regular gain goes to Amount R and line 113; eligible gifts of listed securities generally get 0%, and some s.100(1) dispositions 100%.
c. One-half (1/2) of the capital gain is deducted on Schedule 1 line 401, while the full accounting gain on disposal remains inside GIFI code 9999 without adjustment.
d. Dispositions of partnership interests under s.100(1) where all partnership assets are inventory or depreciable property qualify for a 0% inclusion rate on Schedule 6.

82′. In 2026, a corporation disposes of an interest in a partnership whose assets consist entirely of inventory and depreciable property (with no exception applying under s.100(1)), and in the same year it donates qualifying securities to an eligible donee without receiving any advantage. What capital gain inclusion rates apply to these two transactions, and what is the standard corporate capital gain inclusion rate in 2026?

a. 100% inclusion for the s.100(1) partnership interest disposition, 0% inclusion for the donated securities, and a 2/3 standard corporate inclusion rate.
b. 0% inclusion for the s.100(1) partnership interest disposition, 100% inclusion for the donated securities, and a 1/2 standard corporate inclusion rate.
c. 50% inclusion for both special transactions because all special inclusion rates were repealed in 2026, and a 1/2 standard corporate inclusion rate.
d. 100% for the s.100(1) partnership interest disposition, 0% for the donated securities, and a one-half standard corporate inclusion rate.

83. A corporation is a member of a partnership and also records an accounting warranty reserve on its financial statements. During the 2026 tax year, the partnership allocates a share of taxable capital gains to the corporation. Where must the partnership's allocated taxable capital gains and the corporation's accounting warranty reserve be reported on the T2 return?

a. Report the partnership's allocated taxable capital gains on Schedule 1 line 129, and report the opening and closing accounting warranty reserve on Schedule 13.
b. Report the partnership's allocated taxable capital gains on the corporation's own Schedule 6, and report the opening and closing accounting warranty reserve on Schedule 13.
c. Report the partnership's allocated taxable capital gains on Schedule 1 line 129, and report the opening and closing accounting warranty reserve on lines 414 and 126 of Schedule 1.
d. The partnership capital gains go on the corporation's own Schedule 6; the accounting warranty reserve goes on Schedule 1 lines 414 and 126.

83′. Which statement correctly matches the T2 auxiliary schedule to its specific reporting rule for the 2026 tax year?

a. Schedule 13 is used to reconcile all accounting reserves from the financial statements, while tax-permitted reserves are entered directly on lines 414 and 126 of Schedule 1.
b. Schedule 8 shows RIIP and legacy AII property in separate columns, and a partner's share of partnership capital gains goes to Schedule 6.
c. Schedule 73 is used to claim patronage dividend deductions, while Schedule 16 summarizes a corporate partner's partnership income inclusions.
d. Unlabeled additions on Schedule 1 are reported on page 4 columns 705 and 395 and line 396, while unlabeled deductions are reported on page 3 columns 605 and 295 and line 296.

84. Which of the following accurately describes the role of Schedule 141, financial statement notes, and provincial corporate tax computation in a 2026 T2 filing?

a. Schedule 141 asks about the preparer's designation, connection and any reservation; notes go as text with e-filing; BC uses federal taxable income.
b. Electronic T2 filers do not need to prepare or transmit notes to the financial statements, because GIFI codes replace all narrative disclosures.
c. Schedule 141 only asks for numerical breakdowns of extraordinary items, and British Columbia requires a separate calculation of provincial net income for tax purposes on Schedule 427.
d. If a corporation understates its Schedule 1 add-backs and is reassessed, it only pays simple interest on the unpaid federal tax because Schedule 1 adjustments do not affect provincial tax.

84′. An internal bookkeeper with no professional accounting designation prepares a corporation's 2026 financial statements (including notes to the financial statements) and its electronic T2 return in British Columbia. What must the corporation do regarding Schedule 141, the financial statement notes, and its BC Schedule 427?

a. Skip Schedule 141 because no external accountant was involved, keep the financial statement notes on file without transmitting them, and recalculate BC net income on Schedule 427.
b. Disclose the internal, non-designated preparer on Schedule 141, send the notes as text with the e-filing, and compute BC tax on federal taxable income.
c. Mail a paper copy of the financial statement notes to the CRA after filing electronically, and apply for a separate BC corporate tax number before submitting Schedule 427.
d. Report on Schedule 141 that an external audit with no reservation was performed so the return passes GIFI validity checks, and deduct BC investment tax credits directly on federal Schedule 1.

Answers and option–by–option reasons

Chapter 1 answers and reasons

1 answer a

a. ✓ Correct. The CRA applies the four–factor test (Wiebe Door test: control, tools, chance of profit and risk of loss, integration) to economic substance, not to the contract title. Once the relationship is recharacterized as employment, the payer must pay the unwithheld CPP, EI and income tax and bears penalties and interest.
b. ✗ Wrong. This falls into the trap "a contract that says contractor means self–employed": the CRA does not look at how the contract is worded or what the parties call it, only at the economic substance shown by the four factors.
c. ✗ Wrong. Under this test status is not split by tax type for favorable treatment; all four factors point to employee (the firm controls hours, supplies tools, bears the risk, and the worker is fully integrated), so the whole relationship is classified as employment.
d. ✗ Wrong. The cost of misclassification is asymmetric and falls mainly on the payer (the employer), who must pay the unremitted CPP, EI and income tax plus penalties and interest; the employee is not made to pay the employer share.

1′ answer c

a. ✗ Wrong. You cannot apply a blanket rule by job title; the CRA states that a person who provides daycare in her own home, sets her own fees and hours and bears her own premises and supply costs is generally self–employed.
b. ✗ Wrong. A personal services business targets people who provide what is in substance employment services through a corporate shell; Elena runs her business independently as an individual.
c. ✓ Correct. Under the four–factor test, Elena controls her own work, supplies her own premises and supplies, bears the risk of profit and loss, and is independent of any single payer, so she is a classic self–employed person.
d. ✗ Wrong. Self–employed vs. employee is decided by the economic substance of the four factors; it does not depend on, and is not determined by, a written statement in which the parties waive withholding obligations.

2 answer b

a. ✗ Wrong. The cash method is open only to farmers, fishers and sales agents paid on commission; an ordinary service sole proprietor has no right to choose it.
b. ✓ Correct. Most self–employed people must use the accrual method by default: revenue is recorded in the 2026 fiscal year in which it is earned and expenses are deducted in the fiscal year to which they belong, regardless of when cash actually moves in 2027.
c. ✗ Wrong. The accrual method applies consistently to revenue and expenses; a $600 repair that was incurred and belongs to 2026 is deductible in 2026 without waiting for payment.
d. ✗ Wrong. Form T1139 is the reconciliation of business income to a December 31 year end for an alternative method (non–calendar fiscal period); it is not a tool for avoiding the accrual method.

2′ answer a

a. ✓ Correct. Farmers and fishers can enter the cash method easily, but leaving it requires CRA consent (ITA s.28(3)); also, under the cash method a prepaid expense that relates to a tax year two or more years later cannot be deducted in full when paid and must be spread over the years it relates to.

b. ✗ Wrong. This reverses the direction: a farmer or fisher only needs to compute on the cash basis on the return to choose it, but once the cash method has been used, switching back to the accrual method requires CRA consent.

c. ✗ Wrong. Farmers, fishers and sales agents paid by commission still have the statutory option to use the cash method for the 2026 tax year.

d. ✗ Wrong. The cash method has a specific anti-distortion rule: a prepaid expense that relates to a tax year two or more years later must be spread over the years it relates to and cannot be written off all at once in the year of payment.

3 answer c

a. ✗ Wrong. This combines two traps, "deducting pre-business investigation costs after the fact" and "forgetting the 50% meals rule": the $1,200 of exploratory spending before the formal May 1 start is not deductible, and the $800 of meals must be cut to 50%.

b. ✗ Wrong. This falls into the trap "deducting pre-business investigation costs after the fact": the $1,200 of exploratory pre-business spending in February, while still deciding whether to go ahead, can never be deducted afterwards even if the business later opens.

c. ✓ Correct. The $1,200 of exploratory pre-business expenses before operations formally began on May 1 is not deductible; the $3,000 rent after the start passes the purpose test (s.18(1)(a)) and is fully deductible; the $800 of reasonable meals is cut by the meals and entertainment 50% rule (s.67.1) to $400, for a total of $3,400.

d. ✗ Wrong. Passing the reasonableness test (s.67) is only the first step; meals and entertainment must then also pass the 50% limit in s.67.1 (the lower of the amount paid and the reasonable amount, multiplied by 50%).

3′ answer b

a. ✗ Wrong. This ignores the special percentage for long-haul truck drivers (s.67.1(1.1)): eligible meals of a long-haul truck driver are 80% deductible, not the ordinary 50%.

b. ✓ Correct. First take the lower of the actual and reasonable amounts under the reasonableness test (s.67), which is $1,800, then apply the long-haul truck driver (s.67.1(1.1)) 80% rate to get $1,440; the personal criminal defence legal fees unrelated to the business fail the purpose test (s.18(1)(a)) and are not deductible.

c. ✗ Wrong. The percentage limit in s.67.1 is applied after taking the lower of the amount actually paid and the reasonable amount ($1,800); the unreasonable excess of $200 is removed outright.

d. ✗ Wrong. Defending a personal criminal charge unrelated to the business is a personal expense; it fails the s.18(1)(a) purpose test and cannot be deducted as a business professional fee.

4 answer c

a. ✗ Wrong. The self-employed person's own CPP contributions are never deducted as a business expense on T2125; they are calculated on Schedule 8 and split between two lines of the T1.

b. ✗ Wrong. This falls into the trap of putting all of the CPP on one line: only the employee-equivalent base portion goes to Line 31000 as a credit, while the employer-equivalent portion and the enhanced portion go to Line 22200 as a deduction.

c. ✓ Correct. Self-employed CPP is split in two on Schedule 8: the employee-equivalent base portion is reported on Line 31000 as a non-refundable tax credit (converted at the lowest bracket rate), and the employer-equivalent base portion plus all the enhanced portion is reported on Line 22200 as a deduction (converted at the personal marginal rate).

d. ✗ Wrong. This mixes up forms and line numbers: Schedule 13, Line 42120 and Line 31217 are where the premiums for voluntary EI special benefits for the self-employed are reported, not CPP.

4′ answer d

a. ✗ Wrong. Giving Form CPT30 to an employer is an employee procedure; a purely self-employed person has no employer and no need to give CPT30 to clients, and instead enters the stop-contributing month on Schedule 8.
b. ✗ Wrong. A self-employed person aged 65 to under 70 who is receiving CPP is entitled to elect to stop contributing.
c. ✗ Wrong. Form T1139 is the reconciliation for an alternative fiscal period and has nothing to do with stopping CPP at ages 65 to 70.
d. ✓ Correct. A self-employed person aged 65 to under 70 who is receiving CPP only needs to enter, retroactively on Schedule 8 when filing within the filing deadline, the month the stop takes effect, which is simpler than an employee's CPT30.

5 answer a

a. ✓ Correct. Because a spouse runs a self-employed business, Liam's filing deadline is also extended to June 15, so filing on June 10 carries no late-filing penalty; but the balance-due date is still April 30 and interest runs from May 1; net owing exceeds the $3,000 threshold both in the current year ($4,200) and in one of the two prior years (2025: $3,800), so he must pay quarterly instalments.
b. ✗ Wrong. This falls into the classic trap "treating June 15 as the payment deadline": only the filing deadline is deferred to June 15; the payment deadline for a balance owing is still April 30.
c. ✗ Wrong. The June 15 filing extension in ITA s.150(1)(d) applies both to the self-employed person and to the spouse or common-law partner.
d. ✗ Wrong. A single instalment on December 31 is an exception specific to farming and fishing self-employed people; it is not the rule for an ordinary BC self-employed person or spouse (the ordinary instalment dates are the 15th of March, June, September and December).

5′ answer b

a. ✗ Wrong. April 30 and June 15 are the following year's balance-due and filing deadlines, not the four quarterly instalment dates for the current year.
b. ✓ Correct. Except for farming and fishing, a self-employed person whose net owing exceeds $3,000 ($1,800 in Quebec) in the current year and in one of the two prior years must pay quarterly instalments, on four fixed dates: March 15, June 15, September 15 and December 15.
c. ✗ Wrong. A single December 31 instalment applies only to farmers and fishers; an IT consultant must pay on the four quarterly dates.
d. ✗ Wrong. The statutory net-owing threshold for instalments is $3,000 ($1,800 in Quebec, ITA s.156.1(1)); there is no $6,000 threshold.

6 answer d

a. ✗ Wrong. This makes the mistake of mixing business losses with capital losses: the amount that carries back 3 years, carries forward indefinitely and offsets only capital gains is a net capital loss, whereas the remaining business loss is a non-capital loss.
b. ✗ Wrong. A self-employed business loss is first set against the person's other income of the year (including employment income), and when carried forward it can also offset future income from any source.
c. ✗ Wrong. The statutory carryforward period for a non-capital loss is 20 tax years (ITA s.111(1)(a)), not 7 years, and it can offset income from any source.
d. ✓ Correct. The self-employed business loss is first set against $18,000 of employment income for the year, and the remaining $27,000 becomes a non-capital loss (ITA s.111(1)(a)) that can be carried back 3 tax years or forward 20 tax years against income from any source.

6′ answer a

a. ✓ Correct. A net capital loss and a non-capital loss are two entirely separate rules that cannot be mixed: a net capital loss can offset only capital gains and cannot offset T2125 business income.

b. ✗ Wrong. A net capital loss is never automatically or proportionally converted into a non-capital loss; the two cannot substitute for each other.

c. ✗ Wrong. T2125 Part 5 deals with partnership shares, partner's own expenses and business-use-of-home expenses; a net capital loss cannot be put into the business statement.

d. ✗ Wrong. A net capital loss can be carried back 3 years and carried forward indefinitely (it does not expire after 3 years); the reason it cannot be used here is that it can offset only capital gains.

7 answer b

a. ✗ Wrong. This falls into the historical trap "professionals excluding year-end WIP": ITA s.34, which let six types of designated professionals use billed-basis accounting to exclude WIP, was repealed outright in 2017.

b. ✓ Correct. A dentist has professional income and completes T2125 Part 3B; the former s.34 exclusion election was repealed in 2017 and the five-year transition ended before the 2022 tax year, so under current rules all professionals must include work in progress (WIP) at year end in the year's income at the lower of cost and fair market value ($9,000).

c. ✗ Wrong. A dentist is a professional whose work rests on specialized knowledge and should use Part 3B, not Part 3A, and year-end WIP is included at the lower of cost and fair market value ($9,000), not at the higher fair market value of $14,000.

d. ✗ Wrong. The five-year transition, which brought back 20% each year, ended well before the 2022 tax year; for the 2026 tax year year-end WIP must be included in full in the year's income at the lower of cost and fair market value.

7′ answer c

a. ✗ Wrong. The test for professional income is whether the occupation rests on specialized knowledge as distinct from mere skill; the courts expressly include architects, engineers and IT consultants, and a person with both business and professional income must complete two separate T2125s.

b. ✗ Wrong. A person with both business income and professional income must file two separate T2125s, and online-shop goods are year-end inventory (Part 3A), not the work in progress (WIP) of a professional service.

c. ✓ Correct. A person with both business income (Part 3A, which accounts for year-end inventory cost) and professional income (Part 3B, which includes IT consultants and accounts for year-end WIP at the lower of cost and fair market value) must file two separate Forms T2125, and the online shop must also complete the Part 2 online income information.

d. ✗ Wrong. An independent self-employed IT consultant has professional income, reported on Part 3B of the other T2125 (and ending up on T1 Line 13700), not employment income.

Chapter 2 answers and reasons

8 answer a

a. ✓ Under s.18(12) and Income Tax Folio S4–F2–C2, business–use–of–home expenses must meet one of two alternative thresholds: the space is either the principal place of business, or it is used exclusively to earn business income and regularly and continuously to meet clients in person (face to face). Maya's principal place of business is the commercial clinic, and the CRA is clear that phone or video meetings do not count as meeting in person, so neither threshold is met.

b. ✗ This falls into the trap "mixing up hours worked with video client meetings": spending a lot of time working at home has never been the statutory test; if there is another principal place of business and clients are not met in person at home, no amount of time makes the expenses deductible.

c. ✗ This falls into the trap "mixing up hours worked with video client meetings": the CRA gives "meet clients" its most traditional face–to–face meaning, and phone or video meetings do not count.

d. ✗ This falls into the trap "swapping the employee and self–employed lists": the temporary flat rate method based on days worked (2020–2022) during the pandemic was open only to employees from the start and has long been discontinued; the self–employed never qualified for it.

8′ answer c

a. ✗ This falls into the trap of treating the two alternative thresholds as both required: although video meetings do not satisfy the second threshold of meeting clients in person, as long as the home is the principal place of business there is no need to pass the second threshold.

b. ✗ The two thresholds of s.18(12) are alternatives (meeting either one is enough); both are not required at once.

c. ✓ The two home office thresholds are alternatives: since Liam has no other place of business, the study at home is his principal place of business, which satisfies the first threshold directly with no need to also meet the second in–person requirement.

d. ✗ This falls into the trap "swapping the employee and self–employed lists": once a self–employed person meets the threshold, he can deduct not only utilities but also, proportionally, property tax, home insurance and mortgage interest.

9 answer b

a. ✗ This steps on both the trap "swapping the employee and self–employed lists" and the trap "creating a loss with the home office": mortgage principal is a transfer of equity and can never be deducted, and home office expenses cannot exceed net income before the deduction so as to create a loss.

b. ✓ A self–employed person may deduct, proportionally, utilities, home insurance, property tax and mortgage interest, totaling $3,100, but mortgage principal can never be deducted; subject to the net income limitation, at most $2,400 can be deducted in the year, reducing net income to $0, and the remaining $700 is carried forward to later years for the same business, provided the threshold is still met.

c. ✗ This falls into the trap "creating a loss with the home office": it correctly excludes mortgage principal but breaks the hard limit in s.18(12) that home office expenses cannot create or increase a business loss.

d. ✗ This falls into the trap "swapping the employee and self–employed lists": employees cannot deduct mortgage interest, but a self–employed person can fully deduct mortgage interest proportionally; only mortgage principal cannot be deducted.

9′ answer a

a. ✓ When the workspace is not exclusive (such as a dining table used for work in the day and meals in the evening), the utilities, property tax, home insurance and mortgage interest a self-employed person may deduct must be allocated in two steps: first by workspace area over total home area, then a second reduction by the proportion of time used for business, and the net income limit still applies so that no loss can be created.

b. ✗ "Exclusive use" is only a requirement of the second threshold; since the home is her sole and principal place of business (meeting the first threshold), non-exclusive space can still be claimed, with the time proportion applied after the area proportion.

c. ✗ Spending that raises the value of the whole house, such as replacing windows or renovating the kitchen, is a capital renovation and can never go directly on the home office list as a current expense.

d. ✗ Non-exclusive space must be further reduced by the proportion of business time, and the part beyond the net income limit can only be carried forward against later-year income of the same self-employed business and cannot be set against other income on the spot.

10 answer c

a. ✗ The base year method requires three consecutive months of records with a variance of no more than 10% (not one month and 20%), and vehicle expenses must be computed first and home office expenses last.

b. ✗ The simplified method still requires three consecutive months of sample records, vehicle loan interest must first be capped at the monthly limit (s.67.2) and then multiplied by the business-use ratio, and records must be kept for six years, not three.

c. ✓ The base year method requires, after a full year of records, a three-consecutive-month sample logbook each year with the percentage within 10% of the base year, and records kept for six years; in the T2125 sequence, you first compute vehicle out-of-pocket expenses (Line 9281) and CCA (Line 9936), and last, in Part 7 (Line 9945), the home office expense subject to the net income limit.

d. ✗ Driving from home directly to a fixed workplace is personal commuting, not business kilometres, and vehicle expenses go on Line 9281, not on the home office line, Line 9945.

10′ answer b

a. ✗ After a substantial change in driving pattern the base year is no longer representative and cannot be kept; and loan interest must be capped at the monthly limit first and then multiplied by the business-use ratio.

b. ✓ Once a change of main client group or a move of office location substantially changes the driving pattern, the original base year loses its representativeness and a new complete one-year record must be kept; when computing vehicle loan interest (s.67.2) and lease costs (s.67.3), cap at the federal monthly limit first and then multiply by the business ratio.

c. ✗ Vehicle deductions must be supported by reliable records; you cannot assume the CRA will accept an after-the-fact estimate, and inadequate records may lead to an adjustment or a complete denial.

d. ✗ The logbook and related vouchers must be kept for six years from the end of the relevant tax year, not one year.

11 answer b

a. ✗ This falls into the trap "confusing the luxury car cap with disposition rules": it applies the recapture and terminal loss of ordinary class disposals to Class 10.1, and wrongly thinks no CCA at all can be claimed in the year of disposition.

b. ✓ Class 10.1 is a statutory exception to the disposition rules: each passenger vehicle above the cap forms a class of its own, and on disposition under s.13(2) and s.20(16.1) there is neither recapture nor a terminal loss, and as long as the vehicle was still in Class 10.1 at the end of the prior year, one half of the normal-rate CCA can still be claimed in the year of disposition.

c. ✗ The core rule of Class 10.1 is "one class per vehicle"; it is never combined with other Class 10 vehicles to compute undepreciated capital cost (UCC).

d. ✗ The part of the price above the statutory cap never entered the CCA system, depreciable property does not produce a capital loss, and Class 10.1 expressly prohibits claiming a terminal loss on disposition.

11′ answer a

a. ✓ A passenger vehicle above the statutory cap must go in Class 10.1 on its own, with the cost base being the 2026 cap of $39,000 announced by Finance plus the applicable sales tax calculated on that $39,000 (GST for which an ITC is claimed is no longer included). Note that the consolidation of Income Tax Regulations s.7307 to 2026-07-21 still says $38,000; a vehicle acquired in 2026 is computed at the $39,000 announced by Finance (one acquired in 2025 is still at $38,000).

b. ✗ This falls into the trap "confusing the luxury car cap with disposition rules": however high the business-use percentage, a passenger vehicle above the statutory cap cannot go into Class 10 at the actual purchase price of $132,000, and the excess is permanently excluded from the CCA cost base.

c. ✗ Class 54 applies only to zero-emission passenger vehicles; an ordinary gasoline passenger vehicle above the cap can only go in Class 10.1.

d. ✗ This is the common reporting error flagged in the case: you cannot put the bare $39,000 into the class; the unrecovered sales tax calculated on that $39,000 cap (such as non-refundable PST) should be included in the cost base.

12 answer d

a. ✗ Small tools costing less than $500 belong in Class 12, not Class 8, and improvements to leased premises belong in Class 13, not Class 12.

b. ✗ Small tools under $500 in Class 12 are expressly not subject to the half-year rule (software is), and a workshop tool cabinet belongs in Class 8, not in Class 50 for computer hardware.

c. ✗ Property of different kinds must go into its own statutory CCA class, and even within the same class only one claim amount can be chosen for the whole class in a year; you cannot claim more on one item in the class and less on another.

d. ✓ Tools costing less than $500 go in Class 12 (written off in full in the year and not subject to the half-year rule), general tools and furniture and equipment costing $500 or more go in the residual Class 8, and capital improvements to leased premises (leasehold interest) go in Class 13 and are depreciated straight-line over the lease term.

12′ answer b

a. ✗ Recapture arises when the class's ending UCC is negative after the year's additions and reductions; when the class is empty and there is still a positive undepreciated balance, the result is a terminal loss, not recapture.
b. ✓ When an ordinary CCA class (not Class 10.1) no longer has any property but still has an undepreciated balance (UCC), the remainder can be deducted in full as a terminal loss, and unlike a capital loss, which offsets only capital gains, a terminal loss can offset income from any source.
c. ✗ The remaining UCC after a depreciable property class is emptied is a terminal loss, which can be deducted in full against income from any source and is not subject to the limit that "a capital loss can offset only capital gains".
d. ✗ s.20(16.1) bars a terminal loss only for over-cap passenger vehicles in Class 10.1; ordinary Class 8 property may fully claim a terminal loss.

13 answer a

a. ✓ The federal Select Luxury Items Tax on a passenger vehicle remains in force for the 2026 tax year, with the amount being the lesser of "10% of the total price ($13,200)" and "20% of the amount over $100,000 ($32,000 x 20% = $6,400)", that is, $6,400; for an ordinary passenger vehicle bought from a GST registrant, a price from $125,000 to under $150,000 attracts BC PST at 15%, that is, $132,000 x 15% = $19,800.
b. ✗ This falls into the trap "confusing announced with in force": Budget 2025 and C-15 ended the luxury tax only on aircraft and boats; the luxury tax on vehicles over $100,000 was never ended and $6,400 is still payable in 2026.
c. ✗ The federal luxury tax is the lesser, not the greater, of $13,200 and $6,400; and BC PST of 7% applies to an ordinary passenger vehicle sold by a dealer only below $55,000, while $132,000 falls in the 15% tier.
d. ✗ This is the common reporting error flagged in the case: the federal luxury tax and BC's provincial tiered PST are two independent layers of tax with no offset between them; it is not "one or the other".

13′ answer c

a. ✗ A GST registrant selling an ordinary passenger vehicle charges 7% below $55,000 (private transactions carry rates such as 12%), and 20% from $150,000 (the 10% tier is $57,000 to under $125,000).
b. ✗ For a ZEV the starting points of the first three high tiers are raised to $75,000, $76,000 and $77,000; and the federal luxury tax on aircraft and boats was ended by C-15 after 2025-11-04.
c. ✓ A GST registrant selling an ordinary passenger vehicle: 7% below $55,000, 8% from $55,000 to under $56,000, 9% from $56,000 to under $57,000, 10% from $57,000 to under $125,000, 15% from $125,000 to under $150,000, and 20% from $150,000 (for a ZEV the first three starting points become $75,000, $76,000 and $77,000); and after the aircraft and boat part of the federal luxury tax ended, it still applies to vehicles over $100,000.
d. ✗ The vehicle luxury tax is the lesser of "10% of the total price" and "20% of the amount over $100,000"; it is never 20% of the whole vehicle price.

14 answer c

a. ✗ This falls into the trap "confusing announced with in force": 100% immediate expensing for manufacturing and processing buildings is still in Bill C–31 and not yet law; and Class 53 closed to new additions at the end of 2025.

b. ✗ Bill C–15 received royal assent on 2026–03–26, reversing the phase–out of the Accelerated Investment Incentive (AII) and restoring the enhanced first–year deduction, and it also enacted the full first–year write–off for Classes 44/46/50.

c. ✓ You must keep the three states of 2026 apart: (1) the full first–year write–off for Classes 44/46/50 productive assets acquired from 2024–04–16 and available for use before 2027 is in force through the royal assent of Bill C–15; (2) Class 53 closed to new additions at the end of 2025, and newly purchased manufacturing machinery in 2026 goes into Class 43 (ordinary 30% rate), but if it would have gone in Class 53 had it been acquired in 2025, it can be deducted 100% in the first year as RIIP, with phase–out starting only for property available for use after 2029; (3) 100% immediate expensing for manufacturing and processing buildings is still in Bill C–31 and not yet law, which is "announced, not a current rule", and 2026 filing must follow the current rules.

d. ✗ This reverses the content of the two bills: the full first–year write–off for Classes 44/46/50 productive assets was enacted in Bill C–15, which received royal assent, while 100% immediate expensing for manufacturing and processing buildings is in Bill C–31, which has not.

14′ answer a

a. ✓ Class 53 (50% rate) closed to new additions at the end of 2025, and from 2026 newly purchased eligible manufacturing and processing equipment goes into Class 43 (ordinary 30% rate); at the same time C–15 has restored the Accelerated Investment Incentive/RIIP first–year enhancement rules, so you must first check the asset class, acquisition date and available–for–use date and separate the ordinary rate from the eligible RIIP first–year rule: manufacturing and processing equipment that would have gone in Class 53 can be deducted 100% in the first year (phase–out begins only for property available for use after 2029), so you cannot compute the first year at the ordinary 30% alone.

b. ✗ Class 53 closed to new additions at the end of 2025; and whether to claim CCA is the taxpayer's choice (not claiming, or claiming less than the maximum, is lawful).

c. ✗ Class 13 applies only to capital improvements to leased premises (leasehold interest); newly purchased manufacturing and processing machinery in 2026 should go into Class 43.

d. ✗ Once several properties share the same CCA class, only one claim amount can be chosen for the whole class in a year; you cannot claim more on one item and less on another.

Chapter 3 answers and reasons

15 answer c

a. ✗ Wrong. This falls into the trap "no tax charged to the customer means exempt supply": software exports are zero–rated supplies; although the rate is 0%, they are still taxable supplies, may be registered, and the input tax is refunded in full.

b. ✗ Wrong. Long–term residential rental is an exempt supply; it neither counts toward the $30,000 registration threshold nor allows any input tax credit (ITC) related to it.

c. ✓ Correct. Exports are zero–rated supplies, which are still taxable supplies in substance, count toward the $30,000 worldwide taxable supply threshold, and allow input tax credits (ITCs) in full as usual; long–term residential rental is an exempt supply, outside the tax net, does not count toward the threshold and allows no input tax credit at all.

d. ✗ Wrong. This completely reverses the definitions of zero–rated and exempt supplies: exports are zero–rated supplies (ITC allowed) and long–term residential rental is an exempt supply (no ITC).

15′ answer a

a. ✓ Correct. Prescription drugs and basic groceries are zero-rated supplies; the rate to the customer is 0, but upstream input tax credits (ITCs) are refunded in full; child care services are exempt supplies and no input tax can be claimed.

b. ✗ Wrong. This confuses zero-rated with exempt: although no tax is charged at the counter in either case, prescription drugs and basic groceries are zero-rated taxable supplies, and once registered the input tax is fully refunded.

c. ✗ Wrong. This reverses the two kinds of supply: child care is an exempt supply (no ITC), while prescription drugs and basic groceries are zero-rated supplies (ITC allowed).

d. ✗ Wrong. Even if the pharmacy business makes the person a registrant, purchases used exclusively for exempt supplies (child care) still cannot claim any ITC.

16 answer b

a. ✗ Wrong. This falls into the trap "testing the threshold separately for each business": the $30,000 threshold is measured per person (together with associates), and all taxable businesses held by the sole proprietor must be added together ($19,000 + $15,000 = $34,000).

b. ✓ Correct. Kevin's combined taxable supplies reached $34,000 within a single calendar quarter in Q3, triggering the "over $30,000 in a single quarter" path: there is no grace period; he loses small supplier status from the very transaction on September 12 that crossed the line and must collect tax, and must complete registration within 29 days after the effective date.

c. ✗ Wrong. This falls into the trap "applying the grace period to a single-quarter breach": "effective at the end of the month after the quarter in which the line is crossed (October 31)" applies only to the second path, where the total exceeds $30,000 over four consecutive quarters but no single quarter exceeds $30,000.

d. ✗ Wrong. There is no rule that a single-quarter breach of $30,000 takes effect only at the start of the next quarter; the transaction that crosses the line (September 12) itself must collect GST.

16′ answer d

a. ✗ Wrong. Collecting tax immediately from the transaction that crosses the line is the rule for "over $30,000 within a single calendar quarter"; no quarter of Nadia's exceeded $30,000, so she is on the second path, the cumulative breach over four consecutive quarters.

b. ✗ Wrong. The four-quarter cumulative path gives a one-month grace period: she loses small supplier status at the end of the month after the quarter in which the line is crossed (January 31), not on January 1.

c. ✗ Wrong. "30 transactions and $2,800" is only the exclusion threshold for digital platforms reporting seller information to the CRA; it does not change the taxpayer's own $30,000 GST/HST registration obligation.

d. ✓ Correct. When the total exceeds $30,000 over four consecutive calendar quarters but no single quarter exceeds the line, small supplier status is lost at the end of the month after the quarter in which the line is crossed (Q4, ending December 31), January 31, 2027; tax is collected from the first taxable supply on February 1, and registration must be completed within 29 days after the effective date.

17 answer a

a. ✓ Correct. The lowest tier of ITC documentation is a single invoice under $100 tax-included, which needs only the seller's name, date and total, so the $85 receipt is fully compliant; $500 and over is the high tier and must include the buyer's name, a description of the goods or services and the payment terms, so the $620 invoice with missing items is not compliant. The simplified method for claiming ITCs requires worldwide taxable revenue of not more than $1,000,000 in the prior year (and the current year cumulatively), and Canadian taxable purchases (including imports) of not more than $4,000,000 in the prior year.

b. ✗ Wrong. $30 and $150 are the old thresholds; legislation in June 2024 raised the two tiers to $100 and $500, retroactive to April 20, 2021.

c. ✗ Wrong. The $620 invoice has reached the $500 high-tier threshold, and lacking the buyer's name and payment terms will not stand up on audit; and $400,000 is the quick method threshold, and the simplified method does not remove the duty to keep documents.

d. ✗ Wrong. The $85 receipt is under $100 and is valid without a registration number, while the $620 invoice lacks items required at the high tier; $1,500,000 and $6,000,000 are the thresholds that decide annual, quarterly and monthly reporting periods, not the simplified method threshold.

17′ answer c

a. ✗ Wrong. An ITC is not forfeited if not reported in the current period; a general registrant has a claim period of up to 4 years.

b. ✗ Wrong. A missed ITC does not require amending the old return; as long as the limit has not expired, it can be added directly to line 106 of a later period's return.

c. ✓ Correct. The ITC claim limit for a general registrant is 4 years (only large registrants with threshold amounts over $6,000,000 and listed financial institutions have 2 years), and a missed ITC can be added directly to line 106 of a later reporting period still within the 4-year limit.

d. ✗ Wrong. The 2-year limit applies only to large registrants with threshold amounts over $6,000,000 and listed financial institutions; the limit for an ordinary small registrant is 4 years.

18 answer d

a. ✗ Wrong. This falls into the trap "entering the amount before tax on line 101 under the quick method": entering $100,000 before tax on line 101 and computing $100,000 x 3.6% = $3,600 understates the tax collected.

b. ✗ Wrong. This improperly deducts the $600 GST on everyday software subscriptions under the quick method ($3,780 − $300 − $100 − $600 = $2,780); everyday operating expenses earn no ITC under the quick method.

c. ✗ Wrong. This claims the $140 of BC PST on the new computer as an ITC as well ($3,780 − $300 − $240 = $3,240); BC's 7% PST can never go on line 106.

d. ✓ Correct. Under the quick method, line 101 must show tax-included taxable supplies of $105,000; the BC remittance rate for services is 3.6%, so line 103 = $105,000 x 3.6% = $3,780; the $600 GST on everyday software cannot be claimed, but the new computer is capital property, so its $100 GST (not the $140 PST) can still be claimed on line 106; line 107 holds the 1% credit of $300 on the first $30,000 of tax-included supplies; net tax on line 109 = $3,780 − ($100 + $300) = $3,380.

18′ answer b

a. ✗ Wrong. Bookkeeping, financial consulting, tax consulting and tax return preparation are expressly excluded businesses for the quick method, and the quick method cannot be used even with revenue under $400,000.

b. ✓ Correct. Graphic and web design is not an excluded business, and its tax-included worldwide taxable supplies ($220,000) do not exceed the $400,000 ceiling and it has been operating for a full 365 days, so it fully qualifies for the quick method.

c. ✗ Wrong. The practice of law, accounting and actuarial work are expressly excluded businesses for the quick method and have no right to elect it.

d. ✗ Wrong. Actuarial practice and financial consulting are both expressly excluded businesses for the quick method and may not elect it.

19 answer a

a. ✓ Correct. The quick method links to Form T2125 in three steps: (1) the difference of $1,464 between tax collected and the amount remitted on line 103 ($6,000 – $4,536) is included as business income; (2) the 1% credit of $300 is included in income as government assistance; (3) because everyday expenses earn no ITC, they are deducted at the tax-included amount of $18,900, which is $900 more than under the regular method. Net increase in taxable income = $1,464 + $300 – $900 = $864, exactly equal to the cash she saves on GST ($5,100 – $4,236 = $864).

b. ✗ Wrong. The tax difference left in the pocket under the quick method and the 1% credit are not a tax-free windfall; under the Income Tax Act they are taxable income and must be added to T2125.

c. ✗ Wrong. Because the $900 of GST on everyday expenses cannot be recovered as an ITC under the quick method, that $900 of GST is deducted for income tax along with the expense at the tax-included total ($18,900); otherwise tax already spent would be taxed again.

d. ✗ Wrong. This remembers only the extra $900 deducted at the tax-included amount, but misses the $1,464 difference in retained tax and the $300 of government assistance that must be included in income.

19′ answer c

a. ✗ Wrong. This reverses the numbers of the two methods: under the regular method the amount payable is $13,000 – $2,600 = $10,400, while under the quick method it is $113,000 x 8.8% = $9,944.

b. ✗ Wrong. $113,000 x 8.8% = $9,944; the break-even point for Ontario services is at taxable purchases of about 23.5% of sales (that is, $23,500), not 20%.

c. ✓ Correct. The break-even point for Ontario services is taxable purchases of about 23.5% of sales before tax (1.13R x 8.8% = 0.09944R = 0.13R – 0.13P, so P is about 23.5% of R). This consultant's purchases are 20% ($20,000 / $100,000); quick method = $100,000 x 1.13 x 8.8% = $9,944, regular method = $100,000 x 13% – $20,000 x 13% = $13,000 – $2,600 = $10,400 (purchases are below one quarter of sales), so the quick method ($9,944) saves more than the regular method ($10,400).

d. ✗ Wrong. Whether in a 5% province or a 13%/14%/15% HST province, the break-even point of taxable purchases between the quick method and the regular method for services lies between 23.3% and 24.4% of sales, and below that point the quick method saves more.

20 answer c

a. ✗ Wrong. Self-employed taxi and commercial ridesharing passenger services are a nationwide exception, not subject to the $30,000 threshold, and must register from day one.

b. ✗ Wrong. Two violations: first, ride-share fares are treated as tax-included, so collected tax should be back-calculated as $21,000 x 5/105 = $1,000, not 5% added on top; second, insurance premiums and car loan interest are financial services (exempt supplies), carry no GST themselves, and can never be split out as an ITC.

c. ✓ Correct. A ride-share driver must register from day one; fares are treated as tax-included, so tax collected = $21,000 x 5/105 = $1,000; claimable input tax credits (ITCs) = $3,150 of fuel x 5/105 ($150) + GST on the platform service fee ($52.50) = $202.50; insurance and interest carry no GST and earn no ITC.

d. ✗ Wrong. "30 transactions and $2,800" applies only to the exemption from seller information reporting for sellers of goods on digital platforms (and passenger transportation services have no such exemption at all) and has nothing to do with GST registration; moreover, the GST on the service fee the platform charges the driver is a fully claimable input.

20′ answer b

a. ✗ Wrong. BC's 7% PST ($210) is not a value-added tax and can never go on line 106 as an ITC; and food delivery, errands and shopping on behalf of customers are not "passenger transportation services" and the general $30,000 threshold still applies.

b. ✓ Correct. Of the 12% tax on a BC invoice, only the 5% GST ($150) can be entered on GST34 line 106 as an input tax credit (ITC), and the 7% PST ($210) is added to the asset cost and depreciated for income tax; food delivery is not taxable passenger transportation and does not trigger the day-one mandatory registration rule.

c. ✗ Wrong. Whether under the regular method or the quick method, the 5% federal GST on capital property used in taxable activities may properly be claimed as an ITC.

d. ✗ Wrong. This completely reverses the treatment of GST and PST: the 5% GST ($150) is claimable as an ITC, the 7% PST ($210) is added to cost, and food delivery is a taxable service, not an exempt supply.

21 answer c

a. ✗ Wrong. "Filing and paying together three months after the fiscal year end (March 31)" applies to corporations or registrants whose fiscal year does not end on December 31; a sole proprietor with business income and a December 31 year end is under the special April 30 / June 15 rule.

b. ✗ Wrong. This falls into the trap "a sole proprietor paying tax only on June 15": June 15 is only the deadline for filing the return; the tax must be paid by April 30, or non-deductible interest runs daily from May 1.

c. ✓ Correct. When all three conditions are met (a sole proprietor, fiscal year ending December 31, business income in the year), the GST/HST payment deadline is April 30 of the following year, and the GST34 filing deadline is June 15 of the following year.

d. ✗ Wrong. This reverses the payment date and the filing date: the government requires the tax to be paid in full by April 30, while the return may be filed as late as June 15.

21′ answer a

a. ✓ Correct. "Pay by April 30, file by June 15" applies only to a sole proprietor with a December 31 year end and business income; a corporation lacks the condition of being a sole proprietor and falls back to the general rule of 3 months after the fiscal year end, so both filing and payment are due March 31 of the following year.

b. ✗ Wrong. This is a deadline specific to sole proprietors; the April 30 and June 15 rule does not apply to a corporation.

c. ✗ Wrong. "One month after the end of the reporting period" is the deadline for monthly and quarterly filers; the general rule for annual filers is 3 months after the fiscal year end (March 31).

d. ✗ Wrong. This confuses the T2 corporate income tax filing period (6 months after the fiscal year end) with the GST/HST annual filing period (3 months after the fiscal year end).

Chapter 4 answers and reasons

22 answer b

a. ✗ Wrong. This is the trap "applying the small supplier exemption to ridesharing": commercial ridesharing passenger transport is a taxi business and the $30,000 small supplier exemption does not apply.

b. ✓ Correct. Under the definition of taxi business in s.123(1) of the Excise Tax Act, commercial ridesharing passenger transport has no small supplier threshold and must register and collect GST/HST from the first dollar; and when a person does both ridesharing and delivery, once registered, the delivery income in the same account must bear tax along with it and cannot be handled separately.

c. ✗ Wrong. This is the common mixed-gig misconception of a "split-account exemption": GST/HST registration attaches to the taxpayer and not to a single app, and once registered because of ridesharing, all taxable commercial activities in that name (including delivery income) must collect tax together.

d. ✗ Wrong. This confuses the $2,800 goods exclusion line in the digital platform reporting rules (DPI) with the four-quarter small supplier trigger point; ridesharing must register from the first dollar.

22′ answer c

a. ✗ Wrong. This falls into the trap "applying the small supplier exemption to ridesharing": once the person begins commercial ridesharing passenger transport, that business has no small supplier exemption from the first dollar.

b. ✗ Wrong. Before September 1 she did only pure delivery and had not reached $30,000, a lawful small supplier period; the registration effective date is anchored on September 1, when she began providing rideshare services, and does not retroactively tax the first half-year of delivery income.

c. ✓ Correct. The rideshare business (taxi business) must register and collect tax from the first day it actually provides services (September 1); once a GST/HST registrant, the $4,000 of delivery income that follows in the same account must also collect GST/HST.

d. ✗ Wrong. After a self-employed individual registers for GST/HST, ridesharing and delivery cannot be handled separately; delivery income after the registration effective date must bear tax together.

23 answer c

a. ✗ Wrong. This is the trap "remembering only the four-quarter total and missing a single-quarter breach": losing small supplier status at the end of the month after the quarter (October 31) applies only to the path "over $30,000 across four consecutive quarters but no single quarter over", not to a direct breach of $30,000 within a single quarter.

b. ✗ Wrong. The single-quarter trigger does not reach back to July 1, the start of the quarter; the $27,000 before crossing the threshold remains registration-free income from the small supplier period.

c. ✓ Correct. When taxable supplies within a single calendar quarter exceed the small supplier threshold of $30,000, the single-quarter path applies: there is no grace period, and from the supply that takes him over the threshold (the $6,500 contract on August 20) he must collect GST/HST in full, with the registration effective date no later than that day.

d. ✗ Wrong. When the line is crossed within a single quarter, tax is not collected only on the $3,500 excess over $30,000; GST/HST is collected on the whole supply that takes you over the threshold (the entire $6,500 contract) and on all supplies after it.

23′ answer a

a. ✓ Correct. When the total over four consecutive calendar quarters exceeds $30,000 but no single quarter exceeds it, the four-quarter cumulative trigger applies: small supplier status is lost at the end of the month after the quarter in which the threshold was crossed (Q3 2026, ending September 30), which is October 31, and tax is collected from the first supply starting November 1.

b. ✗ Wrong. This reverses the "single-quarter trigger (effective on the transaction)" and the "four-quarter cumulative trigger": the single quarter of only $7,200 did not break $30,000, and a four-quarter cumulative breach has a grace period of one calendar month (to the end of the next month).

c. ✗ Wrong. For a four-quarter cumulative breach the date status is lost is the "end of the month after" the quarter in which the line is crossed (October 31), not the end of that quarter (September 30).

d. ✗ Wrong. The $30,000 small supplier threshold is tested on a rolling total of four consecutive calendar quarters (including Q4 2025), not by looking at a single calendar year (January to December).

24 answer a

a. ✓ Correct. Under the Reporting Rules for Digital Platform Operators (DPI), the excluded seller exemption for fewer than 30 transactions and not over $2,800 in the year applies only to "sale of goods" and not to personal or rental services (relevant services) such as ridesharing, delivery and short-term rental; as long as he is an active seller who provided services during the year, the platform must report the record to the CRA by January 31 of the following year.

b. ✗ Wrong. The goods exclusion of 30 transactions and $2,800 has not been abolished, and $500 is the penalty each time a seller refuses to give the platform a tax identification number (TIN), not a reporting threshold.

c. ✗ Wrong. Ridesharing is a relevant service expressly covered by Part XX of the Income Tax Act, and DPI information reporting has no $30,000 threshold (ridesharing has none for GST/HST either).

d. ✗ Wrong. DPI is a statutory mandatory third-party information reporting regime; there is no option to pay a fee in exchange for exemption from reporting, and $500 is the statutory penalty for not providing a tax number.

24′ answer d

a. ✗ Wrong. This falls into the trap "applying the goods exclusion to service sellers": short-term rental of real property is not a sale of goods and cannot use the 30 transactions and $2,800 exclusion.

b. ✗ Wrong. A goods seller with fewer than 30 transactions and a total not over $2,800 in the year is an excluded seller, so Priya's goods sales fall within the exclusion; $500 is the penalty for not providing a tax number.

c. ✗ Wrong. This is exactly backwards: goods have an exclusion of 30 transactions and $2,800, while rental of real property has no amount or transaction-count exemption at all under DPI.

d. ✓ Correct. The excluded seller threshold in the DPI rules (fewer than 30 transactions and not over $2,800 in the year) applies only to the sale of goods (Priya meets it and is excluded); rental of real property (including short-term rental), ridesharing and delivery are not covered by this exclusion, and even with only 2 transactions, Sam's activity must be summarized by quarter by the platform and reported to the CRA by January 31 of the following year.

25 answer d

a. ✗ Wrong. This is the trap "treating the whole CPP contribution as an income deduction": self-employed CPP cannot be deducted in full as income; and the second additional CPP contribution (CPP2) applies only to income above the YMPE of $74,600 (up to the YAMPE of $85,000), and her net income of $50,000 does not reach $74,600, so CPP2 is not triggered.

b. ✗ Wrong. The employer-equivalent portion and the enhanced portion are income deductions (line 22200); putting all of it on line 31000 as a credit at the lowest rate would understate the self-employed person's statutory income deduction.

c. ✗ Wrong. A self-employed person's own CPP contributions are calculated on Schedule 8 and then carried to line 22200 and line 31000 of the T1; they cannot be deducted on Form T2125 as a business operating expense.

d. ✓ Correct. ($50,000 – $3,500) x 11.9% = $5,533.50. Schedule 8 splits this money by role: the employee-equivalent base contribution goes to the line 31000 non-refundable credit (tax relief at the lowest rate), while the employer-equivalent base portion plus all the enhanced portion goes to the line 22200 income deduction (tax relief at the marginal rate), so the two lines are not equal; net income of $50,000 does not exceed the 2026 YMPE of $74,600, so CPP2 is not triggered.

25′ answer b

a. ✗ Wrong. Line 31000 receives only the employee-equivalent base CPP contribution (excluding the enhanced portion); the enhanced portion and CPP2 do not go to line 31000.

b. ✓ Correct. Under section 2.3 of the lecture and the glossary rule (Schedule 8 / line 22200 / line 31000): the base-tier CPP contribution is split into two halves (the employer-equivalent portion goes to the line 22200 deduction, the employee-equivalent portion to the line 31000 non-refundable credit), while the portion added after the 2019 CPP enhancement (including all of CPP2) is deducted in full on line 22200 as an income deduction.

c. ✗ Wrong. The 50/50 split applies only to the base-tier contribution; the 2019 enhanced portion and the CPP2 tier added in 2024 are deducted in full as income deductions (line 22200).

d. ✗ Wrong. Self-employed CPP2 contributions between the YMPE ($74,600) and the YAMPE ($85,000) are fully deductible from taxable income on line 22200.

26 answer b

a. ✗ Wrong. 2025 was the first year his owing exceeded $3,000 (the prior two years did not), so no instalments were needed for 2025; and in 2026, paying on time the amounts on the Form INNS1 reminder letter (the no-calculation option) avoids instalment interest.

b. ✓ Correct. Tax instalments require current-year net owing over $3,000 and at least one of the prior two years also over $3,000: for 2025 the prior two years (2023, 2024) did not exceed the threshold, so no instalments were needed; for 2026, since both 2025 and 2026 exceeded $3,000, instalments are required; paying on time the amounts on the Form INNS1 reminder letter (the "no-calculation" option: the February letter covers the March and June instalments, the August letter covers September and December) avoids instalment interest.

c. ✗ Wrong. The condition for the prior two tax years is "at least one" over $3,000 (2024 or 2025), not that both of the prior two years exceeded $3,000.

d. ✗ Wrong. This confuses the Canadian and US rules: the CRA proactively mailing a Form INNS1 reminder letter, with payment per the letter free of interest, is a Canadian mechanism; the taxpayer computing and paying on their own under the safe harbour rules without reminders from the tax authority is the US mechanism.

26′ answer d

a. ✗ Wrong. Canada's $3,000 instalment threshold is a fixed value that has long been unchanged and is not indexed to inflation; and it is the Canada Revenue Agency, not the US IRS, that mails the Form INNS1 reminder letters.
b. ✗ Wrong. $1,800 is Quebec's threshold, while for other provinces it is $3,000, and Canada requires the double breach of the current year plus at least one of the prior two years.
c. ✗ Wrong. The lecture specifically points out that carrying the Canadian habit of "waiting for the reminder letter" over to the US side is the most common mistake for cross-border readers; the US does not rely on the tax authority mailing reminders, and penalties are charged automatically when late.
d. ✓ Correct. Canada's instalment threshold is a fixed, non-indexed $3,000 (current year and at least one of the prior two years over), with the CRA proactively mailing Form INNS1 reminder letters in February and August; in the US the taxpayer computes under the safe harbour rules and pays proactively without reminders from the tax authority, and late payment draws automatic penalties.

27 answer a

a. ✓ Correct. Under the exclusion in the definition of passenger vehicle in s.248(1) of the Income Tax Act, a vehicle used more than 50% in the year of acquisition for carrying passengers as a taxi or rideshare is not a passenger vehicle and is not subject to the Class 10.1 caps on acquisition cost, interest and leasing; although Schedule II of the Income Tax Regulations lists dedicated taxicabs in Class 16 (40%), most filing practice treats ridesharing under Class 10 (30%). By contrast, a vehicle used exclusively for food delivery does not qualify for the taxi exclusion and must still follow the passenger vehicle rules and cost caps, split between Class 10 and Class 10.1.
b. ✗ Wrong. This overlooks the key fork in s.248(1) of the Income Tax Act: a vehicle used more than 50% in the year of acquisition for rideshare passengers is excluded from the definition of passenger vehicle, so Devon's car is not subject to the Class 10.1 acquisition cost cap.
c. ✗ Wrong. The passenger vehicle exclusion targets "taxi use (carrying passengers)", not "using a digital platform"; even if the business-use percentage of Maya's delivery vehicle is 80%, it does not fall within the taxi exception and remains subject to the passenger vehicle rules.
d. ✗ Wrong. Whether a vehicle is excluded from the definition of passenger vehicle is decided "in the year the vehicle is acquired" (and Devon had already reached 75%, above 50%, in the year of acquisition); later changes in use do not retroactively change the classification in the year of acquisition.

27′ answer c

a. ✗ Wrong. The over-50% threshold for exclusion from the definition of passenger vehicle looks only at the "ridesharing passengers (taxi use)" percentage; you cannot add in the 35% of food delivery to make up the number.
b. ✗ Wrong. The lecture states clearly that whether a vehicle is excluded from the definition of passenger vehicle is decided "in the year the vehicle is acquired" (2026); a rise in the use percentage in a later year (2027) does not retroactively change the classification.
c. ✓ Correct. To be excluded from the definition of passenger vehicle, the vehicle must be used more than 50% for rideshare passengers "in the year of acquisition" (most practice uses Class 10 at 30%, uncapped, while the legislation lists dedicated taxicabs in Class 16 at 40%); Arthur's passenger use in the year of acquisition was only 40%, not over half, so he must still follow the passenger vehicle classes and cost caps, split between Class 10 and Class 10.1, and a change of use in the following year does not retroactively change the classification.
d. ✗ Wrong. Section 3.5 of the lecture specifically warns: a vehicle not excluded from the definition of passenger vehicle (including a delivery vehicle) should be split between Class 10 and Class 10.1 by passenger vehicle class and purchase cost cap, and cannot be put into Class 10.1 across the board regardless of price.

28 answer c

a. ✗ Wrong. This is the trap of treating the DPI copy total directly as taxable sales: tips are not subject to GST/HST, and treating $61,400 including tips as fares on which tax is collected would overstate and overpay the 5% GST.
b. ✗ Wrong. Although tips are not subject to GST/HST, they are still taxable income for personal income tax; omitting this $3,600 would understate income tax and create a difference from the DPI data the CRA holds.
c. ✓ Correct. Under the DPI rules the platform reports consideration and fees by calendar quarter, so reconciliation should be done quarter by quarter; tips ($3,600) are not part of the base fares ($57,800) on which 5% BC GST is collected, but they are taxable income for income tax and should be reported separately on the "other income" line of Form T2125.
d. ✗ Wrong. The $3,600 is tip income the customers gave him, not a commission fee deducted by the platform, and the 2026 filing period has not yet passed, so after reconciling clearly he can simply report accurately without using the Voluntary Disclosures Program meant for omissions in past years.

28′ answer a

a. ✓ Correct. The Part XX information return lists consideration, number of transactions and fees by calendar quarter, so only by reconciling quarter by quarter can you find in which quarter the difference lies; also, different platforms either include tips in the total or list them separately, and without first reading the column notes you will either omit or double-report tips for income tax, or wrongly charge GST/HST on tips, which do not bear it.
b. ✗ Wrong. The platform does not withhold CPP or CPP2, and tips bear no GST/HST at all.
c. ✗ Wrong. Food delivery is a personal service and is not under the "30 transactions and $2,800" excluded seller rule for goods, and tips have no $2,800 exemption for income tax.
d. ✗ Wrong. DPI is a federal Part XX rule under the Income Tax Act, not a provincial workers' compensation report (and WorkSafeBC premiums are paid by the platform, not charged to delivery workers), and line 22200 is the self-employed CPP deduction line, not a tips line.

Chapter 5 answers and reasons

29 answer b

a. ✗ This falls into the trap "confusing tax deferral with permanent tax exemption". The 11% small business combined rate produces tax deferral only on profit left in the company undistributed; once all profit is taken out and spent, personal tax must be topped up and the tax saving essentially disappears.
b. ✓ Correct. When profit is all taken out for personal spending, the principle of integration makes the total tax close to that of self-employment and the deferral value approaches zero, but every year there is an extra BC annual maintenance fee of $43.39 and substantial T2 professional filing fees, so net spending actually increases.
c. ✗ A personal services business (PSB) depends on whether the service relationship is in substance the same as that of an employee (incorporated employee), and has nothing to do with whether the company's net profit is under $100,000.
d. ✗ Every resident Canadian corporation must file a T2 Corporation Income Tax Return for every tax year, whether or not taxable income is zero for the year.

29′ answer d

a. ✗ $500,000 is the upper limit of the business limit for the federal and BC small business deduction, not a minimum starting threshold.

b. ✗ The dividend tax credit (DTC) has no minimum threshold of $100,000 of corporate profit.

c. ✗ The 5% additional tax is the tax under s.123.5 of the Income Tax Act on the retained profit of a personal services business (PSB) company, and is not a surtax on ordinary profit withdrawals.

d. ✓ Correct. Tax deferral holds only when profit stays on the company's books undistributed; when all the money is taken out and spent, personal tax is still paid, and together with the fixed corporate annual report fee and T2 accounting fees, the overall result is actually a net loss.

30 answer a

a. ✓ Correct. Devon is an incorporated employee, employs no more than 5 full-time employees and the client is not an associated corporation, so the company is a personal services business (PSB). PSB income loses the small business deduction (SBD) and the 13% general rate reduction (GRR); the federal rate is 28% plus the 5% additional tax (ITA s.123.5), a total of 33%, plus the BC general rate of 12%, for a combined rate as high as 45%, and expense deductions are strictly restricted by ITA s.18(1)(p).

b. ✗ This is the typical reporting error flagged in case one: treating an arrangement with a single client and no employees, a disguised employee, as ordinary active business and wrongly applying the 11% small business rate.

c. ✗ Section 123.4(1) of the Income Tax Act expressly excludes personal services business (PSB) income from the 13% general rate reduction (GRR), and the 5% PSB additional tax is added as well.

d. ✗ 53.5% is the BC top personal marginal rate, whereas the PSB taxable income retained at the corporate level bears a BC combined rate of 45%.

30′ answer b

a. ✗ This falls into the trap "treating single client as absolutely equal to PSB", overlooking the statutory exemption for "more than 5 full-time employees throughout the year".

b. ✓ Correct. The definition of a personal services business (PSB) expressly provides that a company that employs more than five full-time employees throughout the year, or whose services are provided to an associated corporation, is exempt from the PSB rules; with 6 full-time employees the exemption is met, and the first $500,000 of active business income gets the 11% small business combined rate.

c. ✗ Once the exemption of more than 5 full-time employees is met, the company is entirely outside the PSB definition, is ordinary active business income, and may enjoy the small business deduction (SBD) and the 11% combined rate as usual.

d. ✗ "More than 5 full-time employees throughout the year" and "services provided to an associated corporation" are in an "or" relationship; meeting either exempts the company from PSB, and both are not required.

31 answer c

a. ✗ This falls into the trap "thinking a limited liability company shields against all personal tax liability". Limited liability protects against business debts, but does not hold for unremitted source deductions and GST/HST.

b. ✗ Even if a nominal director spouse does not handle the money, as long as he or she is in office, he or she bears the same joint liability for unremitted source deductions and GST/HST.

c. ✓ Correct. Under s.227.1(1) of the Income Tax Act, directors in office are personally jointly liable (director's liability) for the company's unremitted source deductions and GST/HST (including interest and penalties); the only defences are to prove due diligence of a reasonably prudent person (s.227.1(3)), or that the director left office more than 2 years ago (s.227.1(4)).

d. ✗ The limitation period for directors under s.227.1(4) of the Income Tax Act is two years from the date the director ceased to be a director, not 10 years.

31′ answer a

a. ✓ Correct. The company's limited liability protects shareholders and directors from personal liability for the $80,000 trade debt; as for the joint liability for $25,000 of source deductions, under ITA s.227.1(4) the limitation period is 2 years from the date the director ceased to be a director, and March 1, 2024 to June 15, 2026 is already more than 2 years.
b. ✗ An ordinary commercial supplier debt is shielded by the company's limited liability, and assessment for source deductions is already beyond the statutory 2-year period after leaving office.
c. ✗ A director who leaves office is not immediately released from the source deduction liability incurred during the term; the limitation period passes only after 2 years since leaving office.
d. ✗ Section 227.1(4) of the Income Tax Act expressly provides the limitation period of 2 years from the date the director ceased to be a director.

32 answer d

a. ✗ Treating the company filing deadline as the same as the personal April 30 is the typical error flagged in item 4 of the self-check list; a company counts forward from its own year-end date.
b. ✗ This reverses the filing deadline and the balance-due date: for companies it is "return late (6 months), balance early (2 or 3 months)".
c. ✗ The T2 return is indeed due 6 months after year end, but the balance must be paid within 2 months after year end (3 months for a qualifying CCPC); waiting until month 6 to pay incurs interest on the balance.
d. ✓ Correct. After the company's year end (any day within 53 weeks after incorporation, ITA s.249.1(1)(a)), the T2 filing deadline is 6 months after year end, but the balance-due date is 2 months after year end (extended to 3 months for a qualifying CCPC), producing the gap of "return late, balance early".

32′ answer b

a. ✗ The lecture states clearly that "the company has little business this year, so I won't file" is not a lawful option; a company with no activity and no profit must still file a T2 every year.
b. ✓ Correct. Whether or not there was activity or profit in the year, every resident Canadian corporation must file a T2 within 6 months after year end for every tax year, with only three exceptions: tax-exempt Crown corporations, Hutterite colonies and registered charities for the full year.
c. ✗ BC's Annual Report ($43.39) is the annual maintenance filing with the Corporate Registry and cannot replace the T2 income tax return filed with the CRA.
d. ✗ A company is a separate taxpayer and must never be merged into the individual's T1 or T2125 for filing.

33 answer a

a. ✓ Correct. If you operate only in BC but choose federal incorporation ($200), you must also complete extra-provincial registration in BC and pay $380 ($350 base fee + $30 name approval), so the first-year registration fees total $580, $200 more than direct BC incorporation ($380).
b. ✗ This falls into the trap "overlooking that federal incorporation with business only in BC needs an added extra-provincial fee". Federal incorporation gives only national name protection, and to operate on the ground in BC you still pay the $380 extra-provincial registration fee.
c. ✗ Whether you incorporate under the federal Canada Business Corporations Act (CBCA) or the BC Business Corporations Act has nothing to do with tax rates; as long as it is a CCPC, a federal and a provincial corporation enjoy exactly the same small business rate.
d. ✗ A federally incorporated CCPC operating in BC is likewise subject to BC's 2% small business rate; the jurisdiction of incorporation does not affect the corporate tax rate.

33′ answer c

a. ✗ $30 is the name approval fee at BC incorporation, not an annual maintenance fee.

b. ✗ $200 and $380 are first-time registration fees, not yearly annual filing maintenance fees.

c. ✓ Correct. A federal corporation filing its Annual Return online each year pays only $12, while a BC company filing its Annual Report each year pays $43.39; when operating in several provinces and needing national name protection, federal incorporation is more valuable.

d. ✗ Filing a T2 with the CRA does not exempt a company from the Corporate Registry's annual maintenance (Annual Return / Annual Report); not paying the annual report fee can cost the company its good standing or even lead to forced dissolution.

34 answer d

a. ✗ This falls into the trap "thinking a sole proprietor selling assets can also use the LCGE". The disposition of the assets (equipment, inventory, goodwill) of a sole proprietorship or partnership business does not qualify for the lifetime capital gains exemption at all.

b. ✗ Qualified small business corporation shares (QSBCS) require over 90% of the company's assets to be used in active business, and shares of a company hoarding 60% passive stock investments do not meet the QSBCS conditions.

c. ✗ QSBCS generally requires conditions such as shares held for 24 months; without meeting them the exemption cannot be enjoyed directly.

d. ✓ Correct. For the 2026 tax year the lifetime capital gains exemption (LCGE) is $1,275,000 (with a corresponding deduction limit of $637,500), and applies only to the disposition of qualified small business corporation shares (QSBCS, which must meet conditions such as being a CCPC, over 90% of assets used in active business and shares held for 24 months).

34′ answer c

a. ✗ $1,016,836 is the old exemption limit before June 25, 2024, not the current figure for the 2026 tax year.

b. ✗ $500,000 is the annual active business income limit for the small business deduction (SBD), the business limit, not the lifetime capital gains exemption amount.

c. ✓ Correct. The lifetime capital gains exemption (LCGE) was raised to $1,250,000 on 2024-06-25, and with indexing restored for the 2026 tax year it rises to $1,275,000, with a corresponding deduction limit of $637,500.

d. ✗ $1,250,000 is the base amount from 2024-06-25 before indexing; with indexing restored for the 2026 tax year it has risen to $1,275,000.

35 answer a

a. ✓ Correct. The government has set three guardrails around the low small business rate: first, the passive income grind, under which passive investment income above $50,000 progressively reduces the $500,000 business limit, reaching zero at $150,000; second, dividends paid to family members who do not actually take part in the business trigger the tax on split income (TOSI) at the top rate; third, the personal services business (PSB) rules.

b. ✗ $10M to $50M is the range of the taxable capital grind, whereas the passive income grind runs from $50,000, reaching zero at $150,000.

c. ✗ Passive income over $150,000 only cuts the $500,000 small business deduction limit to zero (so the income is taxed at the 27% general corporate combined rate); it does not turn the company into a personal services business (PSB) at 45%.

d. ✗ Dividends paid to family members who do not substantially take part in the business trigger the tax on split income (TOSI), taxed at the top personal rate, and never at 11%.

35′ answer c

a. ✗ Extra-provincial registration fees, the GIFI schedule and the 53-week year-end rule are ordinary administrative and filing procedures, not anti-avoidance guardrails that stop abuse of the low rate.

b. ✗ The gross-up, the dividend tax credit and the 10% federal abatement for provinces are the basic mechanisms for calculating normal tax and integration, not guardrails against abuse.

c. ✓ Correct. Section 1.4 of the lecture expressly lists three guardrails around the low active business rate: the passive income grind ($50,000 start, zero at $150,000), the tax on split income (TOSI), and the personal services business (PSB).

d. ✗ The LCGE, the s.85 rollover and the 3-month balance-due extension are all benefits or deferral mechanisms for qualifying taxpayers, not anti-avoidance penalty guardrails.

Chapter 6 answers and reasons

36 answer b

a. ✗ Wrong. The small business deduction (SBD) requires the company to be a Canadian-controlled private corporation (CCPC) throughout the tax year; once a non-resident acquires control mid-year, the whole year cannot be treated as CCPC.

b. ✓ Correct. Under s.125(7) of the Income Tax Act, a company controlled by one or more non-residents is no longer a CCPC; the acquisition of control or a change in CCPC status triggers a deemed year-end (ITA s.249(4), s.249(3.1)); the short tax year before closing can still enjoy the 11% combined low rate (federal 9% + BC 2%) prorated by days, from the tax year after closing the CCPC status is lost and everything is taxed at the 27% combined general rate (federal 15% + BC 12%), and an additional T2 must be filed.

c. ✗ Wrong. A company is a separate taxpayer and its profit is not split into two rate bands by the shareholders' proportions; a non-resident holding 55% of the voting shares already amounts to legal control (de jure control), meeting one of the three negative CCPC conditions, and the whole company loses CCPC status.

d. ✗ Wrong. Losing CCPC status does not retroactively strip CCPC treatment from the period before closing; the deemed year-end cuts the year into two tax years: the earlier short tax year still enjoys the SBD prorated by days, and only the later one is taxed at the general rate.

36′ answer d

a. ✗ Wrong. "Control" in the CCPC definition looks not only at legal control by a voting majority (de jure control) but also at de facto control; you cannot look only at the face shareholding of 60%.

b. ✗ Wrong. Although the company's own shares are not listed, the three negative CCPC conditions also include "not controlled by a public corporation"; meeting any one of the three negative conditions loses CCPC status.

c. ✗ Wrong. CCPC is an on-off switch; there is no rule prorating the small business deduction (SBD) by a public corporation's shareholding.

d. ✓ Correct. Under ITA s.125(7) and the CRA's position, control in the CCPC test includes both legal control (de jure control) and de facto control; although the public corporation holds only 40%, it can in practice steer the board, which constitutes de facto control, so the company is not a CCPC and cannot enjoy the 9% federal low rate, the 2% BC low rate or the three-month balance-due grace period.

37 answer a

a. ✓ Correct. A short tax year of fewer than 51 weeks must reduce the business limit by "days in the tax year / 365" (ITA s.125(5)(b)): $500,000 x 306 / 365 = $419,178. So the first $419,178 gets the 11% combined low rate (federal 9% + BC 2%), and the excess of $460,000 – $419,178 = $40,822 falls under the 27% combined general rate (federal 15% + BC 12%).

b. ✗ Wrong. This is the common trap "not prorating the business limit in a short tax year"; a new company's first year is almost always a short tax year of fewer than 51 weeks, and the $500,000 limit must be reduced by days over 365.

c. ✗ Wrong. What is prorated by days in a short tax year is the business limit, not the rate; the rate remains 11% within the limit and 27% above it.

d. ✗ Wrong. This steps on two traps at once: first, treating the business limit as a tax-free allowance (the $419,178 within the limit must still bear 11% tax), and second, taxing the $40,822 over the limit at 11% (the part over the limit should bear the 27% general rate).

37′ answer c

a. ✗ Wrong. Multiplying $120,000 directly by 19% misses the short tax year limit allocation: the business limit for 73 days is reduced to $500,000 x 73 / 365 = $100,000, which is below the income of $120,000.

b. ✗ Wrong. This neither reduces the short tax year business limit by 73 / 365 nor follows the principle of "the least of four numbers".

c. ✓ Correct. The business limit (line 410) for a 73-day short tax year must be reduced to $500,000 x 73 / 365 = $100,000; taking the least of business income of $120,000, taxable income of $120,000 and the allocated limit of $100,000 gives $100,000, so the federal SBD = $100,000 x 19% = $19,000.

d. ✗ Wrong. $9,000 (9% x $100,000) is the federal tax payable on income within the limit after the SBD, whereas the federal SBD deduction itself should be calculated at 19%, that is, $19,000.

38 answer c

a. ✗ Wrong. This is the typical trap of adding the two reductions. Section 125(5.1) of the Income Tax Act expressly provides that the greater of the two reductions applies (exceeds the greater of), and they are not cumulative.

b. ✗ Wrong. A manufacturing company is equally subject to the taxable capital reduction, and the greater of the two reductions ($200,000) applies, not the lesser ($150,000).

c. ✓ Correct. Under the current 2026 rule (linear reduction from $10,000,000 to $50,000,000, denominator $90,000), the taxable capital reduction is $500,000 x [0.225% x ($26,000,000 – $10,000,000)] / $90,000 = $200,000; the passive income reduction is 5 x ($80,000 – $50,000) = $150,000; the greater of the two reductions ($200,000) applies, so the reduced business limit is $500,000 – $200,000 = $300,000. By contrast, under the old rule for tax years beginning before April 7, 2022 (taxable capital reducing from $10,000,000 to $15,000,000, reaching zero at $15,000,000), $26,000,000 is already above $15,000,000, and the business limit would be directly $0.

d. ✗ Wrong. Both the taxable capital reduction and the passive income reduction look at the numbers of the whole associated group for the "preceding tax year"; whether there was passive income in the current tax year does not affect this year's limit reduction.

38′ answer b

a. ✗ Wrong. This adds the taxable capital reduction of $25,000 and the passive income reduction of $200,000 together; the two reductions must take the greater and cannot be stacked.

b. ✓ Correct. Under the current 2026 rule, the taxable capital reduction is $500,000 x [0.225% x ($12,000,000 – $10,000,000)] / $90,000 = $25,000 (using the old denominator of $11,250 for tax years beginning before April 7, 2022 it would be $200,000); the passive income reduction is 5 x ($90,000 – $50,000) = $200,000. The greater of the two is $200,000, so the reduced business limit is $500,000 – $200,000 = $300,000.

c. ✗ Wrong. The law provides that the greater of the two reductions applies, and the taxpayer cannot choose the smaller reduction.

d. ✗ Wrong. Passive income (AAII) cuts the limit by $5 for each $1 over $50,000, and the $500,000 limit goes to zero entirely only at $150,000; $90,000 cuts only $200,000.

39 answer b

a. ✗ Wrong. This is the high–frequency trap "deeming spouses' separate companies associated"; mere marriage or family relationship without cross–ownership (and without common control or look–through via a third company) does not constitute association.

b. ✓ Correct. When relatives separately control two companies, association (associated corporations) exists only if "one of them holds 25% or more of some class of non–specified shares in both companies". With zero cross–ownership the two are not associated, each enjoys a $500,000 limit, and $380,000 and $260,000 are all taxed at 11% (a total of $70,400); when Mr. Wang holds 30% of the common shares of the other, the 25% threshold is exceeded and association is triggered, so the two must file Schedule 23 together to share one $500,000 limit, and the excess of $140,000 is taxed at 27% (an extra $140,000 x 16% = $22,400).

c. ✗ Wrong. The cross–ownership line for companies controlled by relatives is 25% (of some class of non–specified shares), not 50%.

d. ✗ Wrong. Associated CCPCs must share a single $500,000 limit through Schedule 23, with the allocation percentages totalling no more than 100%; if the total exceeds 100% or the form is not filed, the CRA will adjust directly or allocate on its own.

39′ answer a

a. ✓ Correct. The sixth association rule is look–through via a third company (if A and B are both associated with C, then A and B are deemed associated); if the third company C files Schedule 28 to cut the look–through association, the price is that the investment income flowing from C, otherwise treated as business income, cannot enjoy the small business deduction (SBD).

b. ✗ Wrong. The $1,000 penalty is under ITA s.162(7.2) for "failing to file a T2 electronically when required" and has nothing to do with Schedule 28.

c. ✗ Wrong. The very purpose of filing Schedule 28 is to keep Alpha and Beta not associated so that each enjoys its own CCPC SBD limit; it does not cause loss of CCPC status.

d. ✗ Wrong. Schedule 50 is the shareholder information schedule for holders of 10% or more, while Schedule 28 is a statutory election form with a clear tax cost (after cutting the look–through, the deemed business investment income from that company cannot enjoy the SBD).

40 answer c

a. ✗ Wrong. This confuses the balance–due day with the filing deadline (6 months after year end, which is May 10, 2027); and the threshold for exemption from instalments is tax payable of no more than $3,000, not taxable income of no more than $500,000.

b. ✗ Wrong. This company was a CCPC throughout the year, claimed the SBD and had prior–year taxable income within the limit, so the balance–due day enjoys the 3–month grace (February 10, 2027) rather than 2 months; the year end is not at month end (November 10), so the filing deadline 6 months later is the same day of the sixth month (May 10) rather than month end; and because the late GST payment in August broke the perfect compliance record of the prior 12 months, it cannot pay quarterly.

c. ✓ Correct. First, a qualifying CCPC (a CCPC throughout the year, claiming the SBD, with prior–year taxable income not over the limit) has a balance–due day of 3 months after year end, that is, February 10, 2027; second, the year end of November 10 is not at month end, so the filing deadline is the same day of the sixth month after year end, May 10, 2027; third, tax for both the prior year and the current year ($18,000) exceeds $3,000, so instalments are required; although income and capital qualify, the late GST payment in August broke the perfect compliance history for the prior 12 months, so quarterly eligibility is lost and monthly instalments are required, with the first due date "one month less a day" from the first day of the tax year (November 11), that is, December 10, 2026.

d. ✗ Wrong. The first instalment date is not the end of a calendar month, but "one month less a day" from the start date of the tax year: for a tax year starting November 11, the first instalment date is December 10.

40′ answer a

a. ✓ Correct. A non–CCPC does not get the three–month grace; its balance–due day is 2 months after year end (May 31, 2026); the year end falls on a month end (March 31), so the filing deadline is the end of month 6 (September 30, 2026); the instalment rule is "no instalments if tax for either the prior year or the current year is not over $3,000", and since 2025 tax was only $2,400 (not over $3,000), 2026 is exempt from instalments.

b. ✗ Wrong. This company is not a CCPC, so the balance–due day is only 2 months (May 31), not 3 months; and no instalments are needed as long as tax for either the prior year or the current year is not over $3,000, and 2025 was $2,400, so 2026 does not require instalments.

c. ✗ Wrong. The balance–due day is May 31, not September 30, and a non–CCPC has no eligibility at all for quarterly instalments.

d. ✗ Wrong. The T2 filing deadline is 6 months after year end (September 30), not year end; and the $3,000 threshold is not tested on a two–year average, but on whether tax for either the prior year or the current year is not over $3,000.

41 answer d

a. ✗ Wrong. This takes the base for the late–filing penalty to be the "total tax for the year ($40,000)"; the law says the base for the late–filing penalty is the "unpaid tax" on the filing deadline.

b. ✗ Wrong. 17% is the cap for a first–time offender late for a full 12 months (5% + 1% x 12), whereas here the filing was only 4 full months late (5% + 1% x 4 = 9%); Company X owes no tax on the deadline, so its late–filing penalty is $0, and $1,000 is the penalty for failing to file a T2 electronically when required, unrelated to the late–filing penalty.

c. ✗ Wrong. Company Y is a first–time late filer, to which 5% plus 1% per month (9% in total) applies; only a repeat offender who received a CRA demand to file and had been penalized in the preceding three years gets 10% plus 2% per month (10% + 2% x 4 = 18%).

d. ✓ Correct. Under ITA s.162(1), the base of a first–time late T2 penalty is the "unpaid tax" on the filing deadline, at 5% plus 1% for each full month (up to 12 months, capped at 17%). Company X owes no tax on the deadline, so its late–filing penalty is $0 (although late filing still delays assessment and leaves a poor record); Company Y's unpaid tax is $30,000, 4 full months late at 5% + 4 x 1% = 9%, so the penalty is $30,000 x 9% = $2,700.

41′ answer b

a. ✗ Wrong. 5% plus 1% per month is the first-offence rate; this company received a CRA demand to file and had a late-filing penalty record in the preceding three years, triggering the doubled repeat-offender penalty.

b. ✓ Correct. Under ITA s.162(2), when the CRA has issued a demand to file and the company was penalized for late filing in the preceding three years, the late-filing penalty escalates to 10% of unpaid tax plus 2% for each full month (up to 20 months, capped at 50%). Late by 6 full months is 10% + 2% x 6 = 22%, so the penalty = $20,000 x (10% + 2% x 6) = $4,400.

c. ✗ Wrong. 50% is the cap for a repeat offender late a full 20 months (10% + 2% x 20 = 50%); being late 6 full months is computed at 22%, not flatly at 50%.

d. ✗ Wrong. 17% is only the cap for a first offence (5% + 1% x 12); the cap for the repeat-offender penalty is 50%.

42 answer a

a. ✓ Correct. First, under BC ITA ss.110.1–110.7, a company that is a CCPC throughout the year and has a permanent establishment in BC may claim a 15% refundable tax credit on net expenditures on qualifying new manufacturing and processing property between 2026-04-01 and 2031-03-31 (annual cap $2,000,000, shared by associated companies) in the tax year in which it becomes available for use, that is, $1,000,000 x 15% = $150,000; second, a dividend paid out of low-taxed profit that used the SBD is a non-eligible dividend, which at the personal level is grossed up by 15% (dividend gross-up, ITA s.82(1)(b)) and earns the federal dividend tax credit at 9/13 of the grossed-up amount (ITA s.121), reflecting the integration mechanism between the two levels of tax on company and individual.

b. ✗ Wrong. $150,000 is the amount of an investment tax credit applied directly against tax (and refundable), not an extra expense deduction on Schedule 1; and the gross-up of 38% and credit of 6/11 are the rules for an eligible dividend paid out of profit taxed at the general rate, not the non-eligible dividend rules for profit that used the SBD.

c. ✗ Wrong. The BC manufacturing and processing investment tax credit requires the company to be a CCPC throughout the year and can be claimed only in the tax year the property becomes available for use; and the small business deduction (SBD) merely defers tax to the day of the dividend, and a dividend received by the shareholder is by no means tax-free, but must first be grossed up by 15% into personal income before the credit is deducted.

d. ✗ Wrong. The annual qualifying expenditure cap for the BC manufacturing and processing investment tax credit is $2,000,000 (shared by associated companies), not $500,000; and the gross-up for a non-eligible dividend is 15%, not 19%.

42′ answer c

a. ✗ Wrong. The SBD is a non-refundable reduction of tax, and as long as profit stays in the company undistributed, there is no rule that "after ten years the SBD is refunded to the government in cash".

b. ✗ Wrong. The SBD is a non-refundable tax reduction that can only reduce tax payable to zero and cannot produce a refund, and it is not added back to the company's taxable income on Schedule 1 the next year.

c. ✓ Correct. Under the integration mechanism, a dividend paid from profit that used the SBD and enjoyed the 11% low rate is a non-eligible dividend (grossed up 15%, federal credit 9/13 of the grossed-up amount), while a dividend paid from profit that already bore tax at the 27% general rate is an eligible dividend (grossed up 38%, federal credit 6/11 of the grossed-up amount). The tax the company paid less up front must be made up by the shareholder on the day of the dividend, and the two levels together roughly equal the tax on the individual earning the income directly, so what the SBD really gives is the deferral advantage of pushing the personal-level top-up to the dividend date.

d. ✗ Wrong. Because the federal credit rate is uniform nationwide while provincial rates differ, integration is always only "approximate"; between provinces and years, going the "retain then dividend" route versus paying salary can differ by several percentage points, and any claim that incorporating always saves tax or matches salary to the penny is wrong.

Chapter 7 answers and reasons

43 answer a

a. ✓ Correct. Aggregate investment income (AII) includes net taxable capital gains ($50,000) plus interest ($30,000) and excludes dividends deducted under s.112, for a total of $80,000. Adjusted aggregate investment income (AAII) starts from AII, removes the taxable capital gain on disposing of an active asset (–$50,000) and adds back dividends from a non–connected corporation (+$25,000), giving $30,000 + $25,000 = $55,000.

b. ✗ Wrong. This falls into the 'Mixing up the AII and AAII bases' trap and swaps the two numbers: AII in Schedule 7 Part 1 ($80,000) and AAII in Part 2 ($55,000).

c. ✗ Wrong. In computing AAII it only adds back the $25,000 of portfolio dividends from a non–connected corporation and forgets to remove the $50,000 taxable capital gain on disposing of an owner–used active asset (ITA s.125(7)).

d. ✗ Wrong. In computing AII it wrongly adds the $25,000 of listed–company dividends deducted under s.112. Those dividends fall under Part IV tax and are not part of Part I AII (ITA s.129(4)).

43′ answer c

a. ✗ Wrong. This falls into the 'Mixing up the AII and AAII bases' trap: it applies the two bases the wrong way round, so the results are swapped.

b. ✗ Wrong. In computing AAII it adds back the $15,000 of non–connected dividends but fails to remove the $40,000 taxable capital gain on selling the freight trucks (active assets).

c. ✓ Correct. Aggregate investment income (AII) = net rent $40,000 + taxable capital gain $40,000 = $80,000 (dividends deducted under s.112 are excluded). Adjusted aggregate investment income (AAII) removes the $40,000 taxable capital gain on disposing of an active asset and adds back the $15,000 of non–connected dividends: $40,000 + $15,000 = $55,000.

d. ✗ Wrong. AII must include all taxable capital gains (whether or not the asset was an active asset), and AAII must add back the $15,000 of portfolio dividends from non–connected corporations.

44 answer b

a. ✗ Wrong. This falls into the cross–year timing error within the trap 'Applying the passive income grind to the wrong year, or multiplying the full AAII by 5': the 2026 business limit reduction looks at the tax years ending in the preceding calendar year (the $80,000 for 2025), not the $20,000 for 2026 itself (ITA s.125(5.1)(b)).

b. ✓ Correct. The passive income business limit reduction is based on the AAII of tax years ending in the preceding calendar year (2025): ($80,000 – $50,000) x 5 = $150,000. The BC low–rate limit is cut by the same $150,000, so that $150,000 of operating profit moves from 11% (federal 9% + BC 2%) to 27% (federal 15% + BC 12%), 16% more on each dollar, for $150,000 x 16% = $24,000 of additional tax.

c. ✗ Wrong. This falls into the 'multiply by 5' trap: it multiplies the whole 2025 $80,000 by 5 to get $400,000, forgetting to deduct the $50,000 free threshold first.

d. ✗ Wrong. BC's small business rate is tied directly to the federal small business deduction, so when the federal limit is cut by $150,000, BC cuts it by the same $150,000 (10% more BC tax is $15,000; adding 6% federal is $9,000, for $24,000 in total).

44′ answer a

a. ✓ Correct. The 2025 AAII exceeds $50,000 by $60,000 ($110,000 − $50,000), so the 2026 business limit reduction is $60,000 x 5 = $300,000, leaving a limit of $500,000 − $300,000 = $200,000. The $300,000 of profit that loses the low rate goes from 11% to 27% (a 16% difference), for $300,000 x 16% = $48,000 of additional combined corporate tax.

b. ✗ Wrong. The grind looks at the AAII of the tax years ending in the preceding calendar year (2025). Even if passive income returns to zero in 2026, the one−off 2025 gain still removes $300,000 of limit in 2026.

c. ✗ Wrong. It wrongly multiplies the full $110,000 by 5. Only the amount over $50,000 is multiplied by 5, and the business limit does not reach zero until AAII reaches $150,000.

d. ✗ Wrong. It omits the 10% BC tax difference caused by BC cutting the limit in step (12% general rate less the 2% small business rate).

45 answer c

a. ✗ Wrong. This falls into the trap 'Using the associated test where the connected test applies': Part IV tax asks whether the corporations are connected (ITA s.186(4)), not whether they are associated, which is the test for the small business deduction.

b. ✗ Wrong. For a connected corporation, the proportional flow−through multiplies by the dividend refund the payer (Valley Supply) actually received for paying that dividend, not by 15% of the 38⅓% rate.

c. ✓ Correct. Under ITA s.186(4), a recipient that holds more than 10% of the payer's voting shares and more than 10% of the fair market value of all its shares is connected, with no control or association needed. A dividend from a connected corporation attracts Part IV tax only in proportion to the dividend refund the payer receives for paying it (s.186(1)(b)); since Valley Supply's dividend refund is $0, Summit Holdings' Part IV tax is $0.

d. ✗ Wrong. Taxable dividends between Canadian corporations are fully deducted under s.112 in computing taxable income, so there is no Part I tax (and the 30⅔% rate does not apply); they are governed by the Part IV tax rules only.

45′ answer b

a. ✗ Wrong. This falls into the trap 'Using the associated test where the connected test applies': family relationship is used to decide whether corporations are associated, while the second path to being connected requires both more than 10% of the voting shares and more than 10% of the total market value (ITA s.186(4)).

b. ✓ Correct. Without control (>50% of votes), a corporation is connected only if it holds >10% of the voting shares and >10% of the market value of all shares (ITA s.186(4)). Harbour holds only 8% of total value, so it is not connected, and whether the payer gets a dividend refund does not matter: full Part IV tax at 38⅓% applies, $100,000 x 38⅓% = $38,333.

c. ✗ Wrong. 30⅔% is the refundable portion of Part I tax on interest, rent and other AII; inter−corporate dividends are subject to Part IV tax at 38⅓%.

d. ✗ Wrong. Taxable dividends from a non−connected corporation bear Part IV tax at 38⅓% whether they are eligible or non−eligible dividends (the only difference is whether the amount goes to ERDTOH or NERDTOH).

46 answer c

a. ✗ Wrong. This falls into the trap 'Getting the direction of the dual−pool RDTOH refund backwards': paying an eligible dividend can draw ERDTOH only (up to $15,000) and can never use NERDTOH (ITA s.129(1)).

b. ✗ Wrong. The statutory order for paying a non−eligible dividend is to draw NERDTOH first and use ERDTOH only after NERDTOH is exhausted; the order cannot be reversed.

c. ✓ Correct. Under ITA s.129(1)(a), the refund for a non−eligible dividend is 38⅓% of the dividend paid: $100,000 x 38⅓% = $38,333. NERDTOH ($23,000) is drawn down first, and the rest comes from ERDTOH, but ERDTOH has only $15,000, so the total refund is $23,000 + $15,000 = $38,000, capped by the pool balances, not the $38,333.

d. ✗ Wrong. The one−way restriction applies to eligible dividends (they can draw ERDTOH only); once NERDTOH is exhausted, a non−eligible dividend may continue to draw ERDTOH.

46′ answer a

a. ✓ Correct. Under the dual–pool RDTOH rules (ITA s.129(1)), an eligible dividend can obtain a refund only from the eligible pool (ERDTOH) and cannot use the non–eligible pool (NERDTOH). Because ERDTOH is $0, even with enough GRIP and $30,667 of NERDTOH the dividend refund on this payment is $0.

b. ✗ Wrong. GRIP only keeps the corporation from the 20% Part III.1 tax on an excessive eligible dividend designation; it does not let an eligible dividend draw NERDTOH.

c. ✗ Wrong. The dividend refund rate is 38⅓%, not 30⅔%, and an eligible dividend cannot use NERDTOH, so the refund is $0.

d. ✗ Wrong. The Act has no rule that 'reducing GRIP to zero lets half of NERDTOH be refunded'; to recover NERDTOH, the corporation must pay a non–eligible dividend.

47 answer d

a. ✗ Wrong. This falls into the trap 'Confusing the capital dividend excess with the consequences of late filing': the $500 annual cap is the penalty for filing the T2054 election late (s.83(4)), whereas paying more than the CDA balance triggers 60% Part III tax, and the excess is not automatically converted into a taxable dividend (that requires the 90–day deadline, unanimous shareholder consent and an active s.184(3) election).

b. ✗ Wrong. The 20% Part III.1 tax applies to an excessive eligible dividend designation (more than GRIP), whereas paying more than the CDA triggers 60% (3/5) Part III tax.

c. ✗ Wrong. The part within the CDA balance ($100,000) is still a valid tax–free capital dividend; only the $50,000 excess triggers the 60% Part III tax.

d. ✓ Correct. Under ITA s.184(2), when a capital dividend exceeds the capital dividend account (CDA) balance, the corporation pays Part III tax of 3/5 (60%) of the excess ($50,000 x 60% = $30,000), with interest running from the election date (s.185(2)); recipient shareholders are jointly and severally liable with the corporation in proportion to the dividends received (50% each), up to $30,000 x 50% = $15,000 each (s.185(4)).

47′ answer b

a. ✗ Wrong. This falls into the trap of measuring the CDA balance at year–end: it is GRIP that is computed at year–end, whereas the CDA balance accumulates up to the moment the dividend becomes payable or is paid.

b. ✓ Correct. The capital dividend account (CDA) is a notional account accumulated from the time the corporation last became a private corporation up to the moment the dividend is paid, not a year–end account. Since the CDA did have an $80,000 balance immediately before the March 20, 2026 payment, that capital dividend election is fully valid; a capital loss arising later, in October of the same year, reduces the CDA available for later dividends and does not retroactively make the March payment an excess.

c. ✗ Wrong. Because the March payment was not an excess, there is no Part III tax and no need for the s.184(3) remedial election.

d. ✗ Wrong. The non–allowable half of a capital loss reduces only the CDA component built from capital gains (down to zero), not the component from life insurance proceeds, and it does not trigger a 20% penalty.

48 answer a

a. ✓ Correct. A CCPC's general rate income pool (GRIP, Schedule 53) is computed at the end of the tax year using the 0.72 general rate factor (ITA s.89(1)). A corporation may pay eligible dividends earlier in the year (with written notice to shareholders at or before payment), but if at the year–end look–back the total paid exceeds year–end GRIP, the excess bears 20% Part III.1 tax, or 30% if GRIP was artificially inflated (ITA s.185.1(1)).
b. ✗ Wrong. The low rate income pool (LRIP, Schedule 54) is a blocking pool for non–CCPCs only; a CCPC has GRIP and no LRIP.
c. ✗ Wrong. The account that must be checked immediately before each payment, with 60% Part III tax on the excess, is the capital dividend account (CDA); GRIP is computed at year–end and the excess is taxed at 20% or 30% (Part III.1 tax).
d. ✗ Wrong. Under ITA s.89(14), an eligible dividend must be notified to shareholders in writing at or before payment (one line in the board minutes will do); a late designation can be made within three years but must still be notified to shareholders; there is no eligible dividend that is valid by 'never notifying and merely reporting it on the T2'.

48′ answer b

a. ✗ Wrong. GRIP is settled at year–end. Eligible dividends may be paid earlier in the year as long as year–end GRIP covers them, so $40,000 is valid and only the $60,000 above it is an excessive designation.
b. ✓ Correct. At the year–end look–back, the eligible dividends paid ($100,000) exceed year–end GRIP ($40,000) by $60,000, which is an excessive eligible dividend designation (Schedule 55) bearing 20% Part III.1 tax ($12,000). Because no artificial inflation of GRIP is involved (the 30% tier), the 20% tax can be avoided if the shareholder consents to treat the excess as an ordinary (non–eligible) dividend (ITA s.185.1).
c. ✗ Wrong. Paying early and settling GRIP at year–end is a normal timing mechanism the Act allows. It is not an arrangement to inflate GRIP artificially, so the non–waivable 30% tier does not apply.
d. ✗ Wrong. The 60% Part III tax and Form T2054 relate to the capital dividend account (CDA), not to GRIP or eligible dividends.

49 answer d

a. ✗ Wrong. The two grinds are not added; the reduction is the greater of the two (ITA s.125(5.1)). Taxable capital grind = $500,000 x ($12,000,000 – $10,000,000) / ($50,000,000 – $10,000,000) = $25,000; passive income grind = ($70,000 – $50,000) x 5 = $100,000; $25,000 + $100,000 = $125,000 is the mistaken sum.
b. ✗ Wrong. The two grinds are taken at the greater, not the smaller; $25,000 is the taxable capital grind under the current 2026 $10M–$50M range ($500,000 x $2,000,000 / $40,000,000), not the final reduction.
c. ✗ Wrong. $10M–$15M is the old range from before 2022–04–07 (the old training material still says so): on it, $500,000 x $2,000,000 / $5,000,000 = $200,000. The current 2026 range is $10M–$50M, and the taxable capital grind is only $25,000.
d. ✓ Correct. Passive income grind = ($70,000 – $50,000) x 5 = $100,000; under the current 2026 range of $10M–$50M, the taxable capital grind is $500,000 x ($12,000,000 – $10,000,000) / $40,000,000 = $25,000; the reduction is the greater of the two (ITA s.125(5.1)), so $100,000, leaving a business limit of $400,000.

49′ answer c

a. ✗ Wrong. This falls into confusing the measurement periods: only the taxable capital grind looks at the 'preceding taxation year' (s.125(5.1)(a)), whereas the passive income grind (s.125(5.1)(b)) totals the AAII of each tax year ending in the preceding calendar year.

b. ✗ Wrong. The $50,000 threshold applies to the total AAII of all tax years ending in the preceding calendar year ($35,000 + $45,000 = $80,000); each short tax year does not get its own $50,000.

c. ✓ Correct. Under ITA s.125(5.1)(b), the E element of the passive income grind measures the total AAII of all taxation years ending in the preceding calendar year. So the AAII of both tax years ending in calendar 2025 must be added ($35,000 + $45,000 = $80,000), cutting the 2026 business limit by ($80,000 – $50,000) x 5 = $150,000.

d. ✗ Wrong. Even adding the two years' AAII to $80,000, only the $30,000 over $50,000 is multiplied by 5 (a $150,000 cut), and the taxable capital grind uses only the preceding tax year (the taxable capital of two tax years is not added).

Chapter 8 answers and reasons

50 answer b

a. ✗ Falls into the 'Treating dividends as earned income' trap. Under ITA s.146(1), earned income for the registered retirement savings plan (RRSP) includes only employment income, self–employment income and net rental income from real property, among others; dividends are not on the list, so no $18,000 of RRSP room is generated.

b. ✓ Correct. Dividends neither create Canada Pension Plan (CPP) pensionable earnings nor count as earned income for RRSP room under ITA s.146(1) or for the child care deduction under ITA s.63(3); living on dividends alone reduces all three qualifications to zero.

c. ✗ Falls into the 'Treating dividends as earned income' trap. The child care deduction is indeed capped at two–thirds of earned income (ITA s.63(3)), but that definition recognizes only employment and self–employment income and does not include dividends or grossed–up dividends.

d. ✗ Confuses the deduction rules for salary and dividends at the corporate level. Salary can be deducted before tax as an operating expense, while a dividend is paid out of after–tax retained profit and is not deductible at the corporate level.

50′ answer d

a. ✗ Falls into the 'Treating dividends as earned income' trap. A non–eligible dividend is not earned income, so paying a $70,000 dividend generates $0 of RRSP room and a $0 child care deduction base.

b. ✗ Falls into the 'Treating dividends as earned income' trap. Whether or not the dividend is grossed up by 15%, dividends are never included in earned income under ITA s.146(1) or s.63(3).

c. ✗ Confuses retained corporate profit with how personal RRSP room is generated. Personal RRSP room must come from 18% of the individual's prior–year earned income; it cannot be created directly from profit retained in the corporation.

d. ✓ Correct. Paying $70,000 of salary is employment income (earned income), which generates RRSP room of 18% x $70,000 = $12,600 for the following year, and also provides the earned income base needed for the child care deduction and a CPP record.

51 answer c

a. ✗ Uses the parameters of an eligible dividend. The 38% gross-up, the federal 6/11 credit and the BC 12% credit apply to eligible dividends paid out of general rate profit, not to a non-eligible dividend from profit that claimed the small business deduction.

b. ✗ Confuses the base for the provincial dividend tax credit. For 2026, BC's 1.96% credit on a non-eligible dividend is applied to the grossed-up taxable dividend ($102.35), not to the actual cash dividend received ($89.00).

c. ✓ Correct. Profit taxed at the small business rate is paid out as a non-eligible dividend, grossed up by 15% under ITA s.82(1)(b) to a taxable dividend of $102.35; the federal dividend tax credit (DTC) is 9/13 of the gross-up (ITA s.121), and the BC credit is 1.96% of the $102.35 taxable dividend.

d. ✗ Misunderstands integration. The individual must first gross up and then claim the credit, and after the credit there is still a second layer of personal tax at the marginal rate; integration is only approximate and does not remove the personal tax.

51′ answer a

a. ✓ Correct. An eligible dividend paid out of GRIP is grossed up by 38%, the federal dividend tax credit is 6/11 of the gross-up (ITA s.121), and the BC provincial credit for 2026 is 12% of the grossed-up taxable dividend.

b. ✗ Uses the ratios of a non-eligible dividend. The 15% gross-up, federal 9/13 and BC 1.96% apply to dividends paid from low-taxed profit that claimed the small business deduction.

c. ✗ Mixes up the federal credit fraction and gets the provincial base wrong. The federal credit for an eligible dividend is 6/11 of the gross-up (not 9/13), and the BC 12% credit is applied to the grossed-up taxable dividend, not the actual cash received.

d. ✗ Invents a gross-up rate. The statutory gross-up for an eligible dividend has been fixed at 38% since the 2012 tax year (ITA s.82(1)(b)); it is not derived from the 27% combined corporate rate.

52 answer a

a. ✓ Correct. Paying salary requires the employee and the corporation to each pay 5.95% base CPP (11.9% in total), and from the YMPE up to the $85,000 YAMPE each pays 4% second additional CPP contribution (CPP2), with nothing above $85,000; and because Tariq controls more than 40% of the voting shares, his employment is uninsurable under Employment Insurance Act s.5(2)(b), so no employment insurance (EI) premiums are due.

b. ✗ Falls into the 'Paying EI as usual for a controlling shareholder' trap. A shareholder who controls more than 40% of the voting shares is in uninsurable employment under Employment Insurance Act s.5(2)(b), pays no EI premiums and cannot collect regular EI benefits.

c. ✗ Confuses a corporate employee with an unincorporated self-employed person. Only a self-employed person with no corporation carries both shares of CPP on his own T1; when a corporation pays salary it must first open a payroll program account (RP), withhold the employee share and match the employer share.

d. ✗ Ignores the CPP2 ceiling. CPP2 is charged at 4% only on income between the YMPE and the YAMPE ($85,000 in 2026); income above the $85,000 YAMPE is not charged.

52′ answer c

a. ✗ Falls into the 'Paying EI as usual for a controlling shareholder' trap. The uninsurable employment threshold in Employment Insurance Act s.5(2)(b) is control of more than 40% of the voting shares, not 50%; Nadia's 45% exceeds the 40% threshold.

b. ✗ Overstates the exemption. Holding more than 40% of the voting shares exempts only employment insurance (EI), not the Canada Pension Plan (CPP); as long as salary is paid, the employee and the employer must each still pay 5.95% CPP.

c. ✓ Correct. Because Nadia controls more than 40% of the voting shares (45% > 40%), she is exempt from EI under Employment Insurance Act s.5(2)(b); but her salary still creates CPP pensionable earnings, and she and the corporation must each pay 5.95% CPP.

d. ✗ Violates the CPP matching rule. When a corporation pays salary, the employee and the employer must each pay a 5.95% share of CPP (11.9% in total); the employee cannot be exempt.

53 answer d

a. ✗ Falls into the 'Mismatching the age and hours tests for TOSI' trap. The excluded business exclusion requires an average of at least 20 hours a week in the current year or in any five prior tax years (not necessarily consecutive); Rosa has six qualifying years, so the exclusion is met even if she does not work this year.

b. ✗ Falls into the 'Mismatching the age and hours tests for TOSI' trap. Excluded shares require the recipient to hold at least 10% of both the votes and the market value; Rosa holds non-voting shares worth only 5%, so the excluded shares exclusion is not met.

c. ✗ Wrongly assumes all exclusion conditions must be met together. Only one of the three TOSI exclusions needs to be met for the dividend to be taxed at the recipient's own marginal rate; although Victor is not yet 65, Rosa has already met the excluded business exclusion.

d. ✓ Correct. Under the excluded business exclusion, a recipient aged 18 or over who worked an average of at least 20 hours a week in the current year or in any five prior tax years is exempt from TOSI; Rosa worked 25 hours a week in each of the last six tax years, so her dividend is taxed at her own marginal rate.

53′ answer b

a. ✗ Falls into the 'Mismatching the age and hours tests for TOSI' trap. The third exclusion (ITA s.120.4(1.1)(c)) looks at whether the owner who generated the income is 65 or over; as long as Arthur is 65 this year, the spouse Wendy's own age is irrelevant.

b. ✓ Correct. Under the owner-aged-65 exclusion in ITA s.120.4(1.1)(c), Arthur, who generated the income, is 65 in 2026, and if he had received the amount himself it would not be subject to TOSI; so paying it to his spouse Wendy is also not subject to TOSI and is taxed at Wendy's own marginal rate.

c. ✗ Falls into the 'Mismatching the age and hours tests for TOSI' trap. Excluded shares require the recipient to hold at least 10% of both the votes and the market value; Wendy holds only 2% non-voting shares, so the excluded shares exclusion is not available.

d. ✗ Confuses the rules for salary and dividends. A dividend is never deductible at the corporate level in the first place, so the s.67 reasonableness test, which applies to salary expense, does not apply.

54 answer b

a. ✗ Gets both the repayment deadline and the interest rule wrong. The deadline is one year after the end of the corporation's tax year in which the loan was made (December 31, 2027), and even if the principal is repaid on time, a zero-interest loan still has a s.80.4 deemed interest benefit.

b. ✓ Correct. Under ITA s.15(2), a shareholder loan repaid within one year after the end of the corporation's tax year in which it was made (December 31, 2026), that is, before December 31, 2027, and not part of a series of loans and repayments, does not have its principal included in income; but interest actually paid (0%) below the CRA prescribed rate (3% for 2026 Q4) still produces a s.80.4 deemed interest benefit on the difference.

c. ✗ Falls into the 'no principal inclusion means no interest benefit' trap, and also wrongly counts the deadline as 365 days from the advance. The rule is one year after the end of the corporation's tax year in which the loan was made (spanning two corporate year-ends), and repaying on time does not remove the s.80.4 interest benefit.

d. ✗ Confuses the slip filing deadline with the loan repayment deadline. The last day of February of the next year is the slip filing deadline, not the s.15(2) repayment deadline, and interest the corporation did not collect cannot be deducted as an expense.

54′ answer a

a. ✓ Correct. The loan was made in the corporation's tax year ending June 30, 2026 and repaid on May 15, 2027, within one year after that year-end (before June 30, 2027), so s.15(2) inclusion of the principal is avoided; but the 2% gap between the 1% actually paid and the 3% prescribed rate is still a deemed interest benefit under s.80.4.

b. ✗ Wrongly counts 'one year after the end of the corporation's tax year' as 12 months from the loan date. The corporation's tax year in which the loan was made ended June 30, 2026, so the grace period runs to June 30, 2027.

c. ✗ Falls into the 'no principal inclusion means no interest benefit' trap. As long as the interest actually paid (1%) is below the CRA prescribed rate (3%), the difference still triggers a s.80.4 deemed interest benefit.

d. ✗ Falls into the slip-mixing trap. Timely repayment already removes the principal inclusion, and the interest benefit is reported on a T4A as ordinary income, never as an eligible dividend on a T5.

55 answer c

a. ✗ Makes both an error in the conditions for the reduction and a slip-mixing error. Business use of 7,000 of 18,000 km is not over 50%, so the reduction by personal kilometres is not available, and a shareholder benefit cannot be reported on a T5 as a dividend.

b. ✗ Confuses the formulas for an owned and a leased car and the reporting form. 2/3 is the factor for the monthly lease payment on a leased car; an owned car uses 2% of the original cost per month; and a benefit given because of shareholder status goes on a T4A, not a T4.

c. ✓ Correct. The standby charge for an owned car is 2% per month x original cost x months available (ITA s.6(1)(e)/(2)); it can be reduced by personal km / (1,667 x 12) only when business use exceeds 50%, and here business use is only 7,000/18,000 (below 50%), so the full $12,000 applies; a taxable benefit received because of shareholder status goes on a T4A (included on line 13000 of the T1) and does not earn the dividend credit.

d. ✗ Falls into the slip-mixing trap. A shareholder benefit reported on a T4A is ordinary income (on line 13000 of the T1), not a dividend, and does not earn the federal or BC dividend tax credit (DTC).

55′ answer d

a. ✗ Ignores the evidence requirement of a mileage log. The standby charge can be reduced only if business use exceeds 50% and a record of personal and business kilometres (a logbook) is kept; an estimate without a log can only be charged in full.

b. ✗ Confuses the formulas for an owned and a leased car. The 2% per month applies to the original cost of an owned car, whereas a leased car is charged at 2/3 x the monthly lease payment.

c. ✗ Misunderstands how the standby charge is relieved. Even with more than half business use and a log, the charge is only reduced in proportion to personal km / (1,667 x months available); as long as there is personal use it never goes straight to $0, and in this case there is no logbook at all.

d. ✓ Correct. The standby charge for a leased car is 2/3 x monthly lease payment x months available (ITA s.6(1)(e)/(2)); the charge can be reduced by personal km / (1,667 x months available) only when business use exceeds 50% and mileage records exist, so without a logbook an estimate gives only the full $7,200.

56 answer a

a. ✓ Correct. Pay to a family member must pass the s.67 reasonableness test; the unreasonable portion ($62,000) above the fair market amount an unrelated person would be paid for the same work ($3,000) is not deductible by the corporation, although the individual may still be assessed on what was received, a double disadvantage; also, regular employer payroll source deductions must be remitted by the 15th of the following month.

b. ✗ Confuses the anti-avoidance rules for salary and dividends. Tax on split income (TOSI) and the 20-hour-a-week exclusion apply to split income such as dividends, whereas salary paid to a family member is governed by the s.67 reasonableness test and the business purpose test.

c. ✗ Wrongly assumes that filing the T4 on time bypasses substantive review. A T4 must indeed be filed by the last day of February of the following year, but a salary to a family member that is nominal or far above fair market value can still be denied by the CRA under s.67.

d. ✗ Mismatches the penalty provision. The 20% Part III.1 penalty tax is aimed specifically at a corporation paying eligible dividends in excess of its general rate income pool (GRIP) balance and does not apply to excess salary.

56′ answer b

a. ✗ Confuses the salary reasonableness test with the TOSI age-65 dividend exclusion. A spouse who really works and is paid fair market salary is always deductible, with no need to wait until the owner is 65.

b. ✓ Correct. The spouse actually provides services and the $45,000 salary is within the fair market range for the same kind of job ($42,000–$48,000), so it passes the business purpose test and the s.67 reasonableness test and the corporation can deduct it in full; the T4 must be issued and filed by the last day of February of the following year.

c. ✗ Violates the rule that slips are mutually exclusive. A T4 and a T5 are two entirely separate slips, and the same money can never be reported on both.

d. ✗ Confuses salary reporting with the capital dividend account (CDA) filing. The same-day T2054 filing requirement applies only when a tax-free capital dividend is paid from the CDA; salary goes through the RP payroll account with monthly remittances and the T4 by the end of February.

Chapter 9 answers and reasons

57 answer b

a. ✗ Falls into the 'Counting the repayment deadline as one year from the loan date' trap; the starting point of the one year in ITA s.15(2.6) is the end of the lending corporation's tax year (2026–12–31), not the day of the loan (2026–03–01).

b. ✓ First, the employee–shareholder home purchase exception in s.15(2.4) covers only 'acquiring (buying)' a dwelling for the person's own use, and renovation is not included; she also holds 100% of the shares and is a specified employee; so only the one–year repayment exception in s.15(2.6) is available, and the deadline is one year after the end of the lending corporation's tax year (2026–12–31), that is, 2027–12–31.

c. ✗ Confuses the deadline for repaying principal with the deadline for paying interest; January 30 of the next year (within 30 days after the end of the calendar year) is the deadline for paying actual interest to reduce the s.80.4 deemed interest benefit.

d. ✗ Misreads the scope of the s.15(2.4) residence exception; the provision says 'buying' a home for the person's own use, and borrowing to renovate an existing home cannot use that exception.

57′ answer d

a. ✗ Falls into the 'one year from the loan date' trap; you must first determine which corporate tax year the loan falls in and then count one year after the end of that tax year.

b. ✗ Counts one year short; 2027–01–31 is merely the end of the corporate tax year in which the loan was made, and s.15(2.6) allows repayment within one year after the end of that tax year.

c. ✗ Wrongly uses the individual's calendar year as the starting point; s.15(2.6) looks at the tax year–end of the lender (the corporation), which is January 31, not December 31.

d. ✓ The corporation's tax year–end is January 31, so a shareholder loan made on February 1, 2026 falls in the corporate tax year ending 2027–01–31; counting one year after that under s.15(2.6) gives a repayment deadline of 2028–01–31.

58 answer a

a. ✓ Because she repays the principal before the 2027–12–31 deadline, the principal is not taxed under s.15(2), and the s.80.4 deemed interest benefit must be computed: $80,000 x prescribed rate 3% x 306/365 = about $2,012; actually paying interest within 30 days after the end of the calendar year (on or before January 30, 2027) reduces it to zero.

b. ✗ Confuses the complementary relationship between s.15(2) and s.80.4; precisely because the one–year repayment exception in s.15(2.6) applies and the principal is not fully taxed, s.80.4 then computes a deemed interest benefit for the period the corporation's funds were used free of charge.

c. ✗ Treats the principal repayment deadline as the interest offset deadline; s.80.4 requires that interest offsetting the benefit be actually paid within 30 days after the end of the calendar year (by January 30 of the next year).

d. ✗ Violates the principle of s.80.4(3)(b) that the same money is not taxed twice, and she repaid the principal in November 2027 (before the 2027–12–31 deadline), so the principal need not be included in her 2026 income.

58′ answer c

a. ✗ Wrongly assumes the home purchase loan rate is both capped and floored and permanently fixed; in fact it is a cap only, with no floor (if rates fall, the lower current rate is used), and it is re–locked every five years.

b. ✗ Overlooks the protection in s.80.4(4), which caps the prescribed rate at the rate at the time of the loan for qualifying home purchase and relocation loans.

c. ✓ Under ITA s.80.4(4) and (6), the rate used to compute the deemed interest benefit on a home purchase or relocation loan is capped at the prescribed rate in force when the loan was made (a lower current rate is used when rates fall); for a term longer than five years, the balance at the end of the fifth year is treated as a new loan and the cap is re–locked at the prescribed rate at that time.

d. ✗ Even in the first five years, an interest–free or low–interest loan still has the s.80.4 deemed interest benefit computed each quarter; there is no five–year holiday.

59 answer b

a. ✗ Falls into the 'Assuming a s.85 transfer is tax-free even with excess boot' trap; although the consideration includes shares, the non-share consideration (boot) of $80,000 exceeds the total tax basis of $52,000, so the elected amount cannot be $52,000.

b. ✓ Correct. Under ITA s.85(1)(b), the floor of the elected amount is the fair market value of the non-share consideration (boot); when the note is $80,000, the $28,000 above the $52,000 tax basis pushes the minimum elected amount up to $80,000, creating an immediate taxable gain of $28,000 in 2026.

c. ✗ Setting the elected amount below the boot does not void the whole section 85 rollover; the law simply raises the elected amount to the $80,000 fair market value of the boot under s.85(1)(b).

d. ✗ Confuses a note owed by the corporation to the shareholder (boot) with a loan owed by the shareholder to the corporation (shareholder loan); the note is consideration payable by the corporation to Mr. Guan, governed by s.85(1)(b) recognition of gain on the transfer, not by s.15(2).

59′ answer a

a. ✓ Correct. Under s.85(1.1), real property held as inventory is not eligible property and cannot be moved into a corporation under s.85; under s.85(6), T2057 must be filed separately by the earliest of the filing due dates of the two parties to the transfer (the earlier of 2027-06-15 and 2027-11-30, that is, 2027-06-15).

b. ✗ Internally generated goodwill is eligible property (it can be rolled at a $0 tax basis by election); also, T2057 is not filed with the T2, and its deadline is the earlier date of the two parties, 2027-06-15, not the corporation's 2027-11-30.

c. ✗ It identifies the ineligible property correctly but picks the later corporate filing date; s.85(6) says to take the earliest of the filing deadlines of the transferor and the transferee corporation (2027-06-15).

d. ✗ Depreciable equipment is eligible property and can be transferred on a deferred basis under s.85.

60 answer d

a. ✗ Falls into the trap of 'forgetting the offset for the lifetime capital gains exemption claimed in earlier years'; it fails to first reduce the loss by twice the prior-year capital gains deduction ($60,000) under s.39(9).

b. ✗ Makes two errors at once: it uses the 66.67% inclusion rate that never took effect, and it ignores the s.39(9) reduction for the lifetime capital gains exemption (LCGE) claimed in earlier years.

c. ✗ Gets the multiplier of the reduction wrong; s.39(9) says the s.110.6 capital gains deduction claimed in earlier years ($30,000) reduces this year's business investment loss at 'twice' the amount (that is, the $60,000 of total gains originally exempted).

d. ✓ Correct. Under ITA s.39(9), a s.110.6 capital gains deduction claimed in earlier years ($30,000) reduces this year's business investment loss (BIL) at twice the amount ($60,000); the $50,000 BIL is cut to $0, so the allowable business investment loss (ABIL) is $0, and the $50,000 loss reverts to an ordinary capital loss that can offset only capital gains.

60′ answer b

a. ✗ Both parts are wrong: for an ABIL it is enough that the corporation met the SBC definition at any time in the 12 months before disposition; and an unused ABIL carries forward only 10 years as a non–capital loss (ordinary non–capital losses are 20 years).

b. ✓ Correct. For an allowable business investment loss (ABIL), it is enough that the corporation met the definition of a small business corporation (SBC) at any time in the 12 months before disposition (selling off the equipment before failure and being left with cash does not affect the status); under s.111, an unused ABIL carries forward 10 years and then becomes a net capital loss, which can thereafter offset only taxable capital gains.

c. ✗ An ABIL does not require a 24–month continuous holding test (the test is at any time in the 12 months before disposition), and an ABIL not used after year 10 becomes a net capital loss that can be carried forward indefinitely rather than expiring entirely.

d. ✗ Under s.39(1)(c), an ABIL requires either a s.50(1) deemed disposition election or a real disposition to a person with whom he deals at arm's length; selling worthless shares to a spouse is a related–party transaction and produces no ABIL.

61 answer c

a. ✗ Falls into the number one trap of 'Using the personal ACB to compute the deemed dividend on a wind–up'; the s.84(2) deemed dividend must be the distribution minus the corporation–level PUC ($1,000), not the personal ACB ($61,000).

b. ✗ Ignores that s.88(2) allows the part of the wind–up dividend not exceeding the CDA balance ($40,000) to be treated as a separate dividend and elected as a tax–free capital dividend under s.83(2), and also misses the $40,000 reduction of the capital loss under the s.112(3)(a) stop–loss rule.

c. ✓ Step one computes the deemed dividend under s.84(2): $300,000 – paid–up capital (PUC) $1,000 = $299,000. Step two carves out $40,000 within the capital dividend account (CDA) balance for a tax–free s.83(2) election, leaving $259,000 as a taxable dividend. Step three computes the disposition of the shares: proceeds of $300,000 less the $299,000 deemed dividend gives $1,000, minus the adjusted cost base (ACB) of $61,000 gives an unadjusted capital loss of $60,000, then the s.112(3)(a) stop–loss rule reduces it by the $40,000 capital dividend received tax–free, for a final recognized capital loss of $20,000 (this is the capital loss itself; the deductible half, the allowable capital loss, is $10,000).

d. ✗ Treats the wind–up distribution as a sale of shares to a third party; on a wind–up, the part above PUC must first be characterized as a deemed dividend under s.84(2), and the deemed dividend is then removed from the proceeds of disposition.

61′ answer b

a. ✗ An excessive election does not automatically void the $40,000 tax–free part that is within the real CDA balance; the penalty targets only the $10,000 excess.

b. ✓ Correct. Under ITA s.184, the part of a capital dividend election that exceeds the capital dividend account (CDA) balance ($10,000) bears 3/5 Part III tax for the corporation; the relief is to make another election within 90 days after the notice of assessment for the excess, treating the excess as a taxable dividend.

c. ✗ Confuses the penalties of different provisions; $100 a month capped at $8,000 is the penalty for s.85 transfer elections or late–filed elections under s.220(3.2), not the Part III tax on an excessive capital dividend under s.184.

d. ✗ There is no automatic offset between an excessive CDA election and the lifetime capital gains exemption (LCGE); the excess triggers 3/5 Part III tax at the corporate level.

62 answer a

a. ✓ Correct. Under ITA s.159(2)(3), before distributing the corporation's property to shareholders, the legal representative must first obtain the clearance certificate with TX19; one who distributes without a certificate is personally and jointly liable for the corporation's unpaid tax, interest and penalties up to the value of the property distributed ($300,000).

b. ✗ RC145 is only the application form in the last step for closing the program accounts under the business number, and it cannot remove the s.159(3) personal liability triggered by distributing property without first obtaining the TX19 clearance certificate.

c. ✗ $8,000 is the maximum penalty for a late election; the cap of personal liability under s.159(3) is 'the value of the property distributed' (as high as $300,000 here), not $8,000.

d. ✗ The tax law does not declare the transfer void under corporate law; instead s.159(3) makes the legal representative who distributed first personally liable to pay the corporation's tax.

62′ answer d

a. ✗ Reverses the two most fatal steps: money cannot be distributed before the TX19 clearance certificate is obtained, and once the corporation is dissolved it no longer exists, so the CDA election must be completed before dissolution.

b. ✗ The order is reversed: the TX19 application must attach the final T2 notice of assessment, so the final T2 must be filed and its notice of assessment received before applying for TX19, and the RC145 closing of accounts comes last.

c. ✗ Before the final T2 is filed and its notice of assessment (including Schedule 100 asset distribution information) is obtained, the TX19 clearance certificate application cannot be completed.

d. ✓ The correct seven statutory steps are: (1) shareholder resolution, (2) realize assets and pay debts, (3) file the final T2 (answer 'Yes' on line 078), (4) apply for the TX19 clearance certificate with three documents including the final T2 notice of assessment, (5) receive the clearance certificate, (6) distribute the remaining property to shareholders and complete the s.83(2) CDA election before dissolution, (7) close the program accounts under the business number with RC145.

63 answer c

a. ✗ Overlooks that the year in which s.50(1) is triggered is unique; the one year in which the four conditions are all met at year–end (2024) is the only year in which the s.50(1) election can be made in the normal way, and it cannot be moved to 2026 at will.

b. ✗ Although he missed the normal filing for 2024, the tax law leaves a late–election relief window under s.220(3.2) of ten calendar years after the end of the tax year, so the loss is not permanent.

c. ✓ A subsection 50(1) election can be made only in the year (2024) in which the four conditions all hold at year–end; since that year has passed, a late election under s.220(3.2) is the only way (the window is ten calendar years after the tax year–end, and the penalty is the lesser of $8,000 and $100 x full months).

d. ✗ Under s.39(1)(c), a transfer of shares to a related person (such as a spouse) cannot trigger a business investment loss (BIL).

63′ answer a

a. ✓ Correct. Under ITA s.88(2), on a winding–up each property distributed to shareholders is deemed disposed of at its fair market value, and the corporation recognizes the resulting income inclusions, recapture of depreciation and capital gains in the year; transferring the van and computers directly to the shareholder is not a tax–free event.
b. ✗ A wind–up of an ordinary small corporation into individual shareholders falls under s.88(2), not a tax–free rollover; the property is deemed disposed of at fair market value, and there is no automatic transfer at undepreciated capital cost (UCC) with no tax.
c. ✗ A liquidation distribution is made to shareholders in their capacity as shareholders; the corporation is deemed to dispose of the assets at market value under s.88(2) and the shareholder is taxed under s.84(2) and the capital gain and loss rules; it is not an employment benefit.
d. ✗ Violates the underlying logic that the corporation and the shareholder are two separate taxpayers; the property is deemed disposed of at fair market value the moment it leaves the corporation on liquidation.

Chapter 10 answers and reasons

64 answer a

a. ✓ Correct. Marco receives the private home renovation as a shareholder (because the corporation is his), not as an employee, so it follows the shareholder benefit (ITA s.15(1)) path: because the expense was not incurred to earn business income (it fails s.18(1)(a)), the corporation cannot deduct the $18,000, while Marco must still include the full $18,000 in income, reported on a T4A slip in code 028 (other income).
b. ✗ Wrong. This is the classic trap of treating a person who is both employee and shareholder always as an employee. If Marco were not a shareholder, the corporation would never renovate his private kitchen, so the factual test points to a shareholder benefit (s.15(1)) rather than a taxable employment benefit (s.6(1)(a)), and the corporation gets no deduction.
c. ✗ Wrong. The corporation directly paying a shareholder's private renovation and recording it as a corporate expense is a benefit conferred directly on a shareholder (s.15(1)); the full $18,000 principal is included in income and reported on a T4A code 028; only the deemed interest benefit (s.80.4) from a shareholder loan is reported under code 117.
d. ✗ Wrong. Whether the corporation can deduct and whether the individual includes the amount are two independent gates; going down the s.15(1) shareholder benefit path means precisely that the corporation cannot deduct and the individual is still taxed on the full amount, so the two levels of tax stack with no integration.

64′ answer c

a. ✗ Wrong. Other employees do not receive this benefit, which shows that Elena received the family holiday cost because she is a shareholder and not because she is an employee, so it cannot be deducted before tax by the corporation as an employee fringe benefit (ITA s.6(1)(a)) and reported on a T4.
b. ✗ Wrong. Under the shareholder benefit rule (ITA s.15(1)), a benefit conferred by the corporation on a shareholder or a person connected to her is included in full in the shareholder's (Elena's) income for the year; it is not shifted to the parents, who hold no shares, to report.
c. ✓ Correct. Paying a private holiday for a shareholder and her parents has nothing to do with earning business income and fails the ITA s.18(1)(a) purpose test, so the corporation cannot deduct it; and under the ITA s.15(1) shareholder benefit rule, the full $9,500 is included in the shareholder Elena's personal income and reported on a T4A code 028.
d. ✗ Wrong. The capacity test looks at the facts, not at the bookkeeping or withholding steps; a private consumption received in the capacity of shareholder cannot be turned into deductible employee remuneration by withholding source deductions after the fact.

65 answer b

a. ✗ Wrong. $5,769.52 is the total of the employee's own three maximum deductions ($4,230.45 + $416 + $1,123.07). The employer does match 1:1 on CPP and CPP2, but on employment insurance (EI) it pays 1.4 times the employee premium ($1,572.30) and cannot be computed 1:1.

b. ✓ Correct. A salary of $92,000 exceeds all three 2026 ceilings: CPP maximum pensionable earnings (YMPE) of $74,600 less the $3,500 basic exemption, times 5.95%, is $4,230.45 (matched 1:1 by the employer); the CPP2 second-tier range of $74,600 to $85,000, or $10,400, times 4% is $416.00 (matched 1:1 by the employer); EI maximum insurable earnings (MIE) of $68,900 times 1.63% gives the employee maximum premium of $1,123.07, and the employer bears 1.4 times, or $1,572.30. The three employer costs total $4,230.45 + $416.00 + $1,572.30 = $6,218.75.

c. ✗ Wrong. This takes the first-year CPP2 limit of $188 from its 2024 launch as the 2026 figure; the 2026 CPP2 second-tier ceiling (YAMPE) is $85,000 and the maximum contribution is $416.00.

d. ✗ Wrong. The CPP $3,500 basic exemption does not disappear because of high pay; first-tier CPP is always capped at ($74,600 − $3,500) x 5.95% = $4,230.45.

65′ answer a

a. ✓ Correct. This is the judgment the lecture stresses: although the EI employee rate fell from 1.66% in 2024 to 1.63% in 2026, the maximum insurable earnings (MIE) rose from $63,200 to $68,900; the two numbers move in opposite directions, and the product, the 2026 employee maximum premium ($1,123.07) and employer maximum premium ($1,572.30), still rises year by year.

b. ✗ Wrong. This is the classic trap of judging whether premiums rise or fall from the rate alone, ignoring the large increase of the maximum insurable earnings (MIE) from $63,200 to $68,900.

c. ✗ Wrong. The CPP basic exemption of $3,500 has been frozen since 1997 and is not indexed, so as the YMPE rises to $74,600, the effective CPP rate is actually creeping up.

d. ✗ Wrong. The 1.4 multiple applies only to employment insurance (EI); the employer match for both CPP and CPP2 is 1:1 ($4,230.45 and $416 respectively).

66 answer c

a. ✗ Wrong. This is the classic trap of 'reducing the standby charge by looking only at business use'. The reduced standby charge (ITA s.6(2)) has two parallel conditions: business use over half, and personal kilometres not over 1,667 km per 30 days (20,004 km a year). Her personal kilometres are 21,000, above the 20,004 limit, so she does not get the reduced standby charge.

b. ✗ Wrong. Personal kilometres of 21,000 exceed 20,004, which does cost her the reduced standby charge (the standby charge is the full 2% x $50,000 x 12 = $12,000); but the optional calculation of the operating expense benefit requires only 'a standby charge exists and business use is over half', and her business use is 58%, so she can still use the optional calculation.

c. ✓ Correct. The reduced standby charge must meet both 'business use over half' and 'personal kilometres not over 1,667 km per 30 days (20,004 km a year)'; she drove 21,000 personal kilometres, so the reduction is lost and the standby charge is the full 2% x $50,000 x 12 = $12,000. The optional calculation of the operating expense benefit requires 'a standby charge and business use over half' (her business use is 29,000 / 50,000 = 58%) and has no 20,004 km condition, so it is still available: half of $12,000 = $6,000, which is lower than the fixed-rate method of 21,000 x 34 cents = $7,140.

d. ✗ Wrong. The tax law has no rule that 'business kilometres over 25,000 remove the operating expense benefit'; also, with A at 20,004, A/B = 20,004/20,004 = 1, which is effectively the full standby charge with no reduction.

66′ answer b

a. ✗ Wrong. Personal kilometres of 12,000 are below 20,004, but business use is only 45%, not over half, so the first condition for the reduced standby charge is not met and the standby charge cannot be cut.

b. ✓ Correct. Both the reduced standby charge and the optional calculation of the operating expense benefit require business use over half; here business use is only 45%, so neither is available. The standby charge on an owned car is the full 2% x $45,000 x 12 = $10,800; the operating expense benefit can use only the fixed-rate method: 12,000 km x 34 cents = $4,080.

c. ✗ Wrong. The optional method (half of the standby charge) requires both a standby charge and business use over half; with business use at only 45% it cannot be used, so the $5,400 calculation does not hold.

d. ✗ Wrong. Taxable benefits from a company car are non-cash benefits and are not insurable earnings, so only CPP and income tax are withheld, and not EI.

67 answer a

a. ✓ Correct. According to the Department of Finance news release of 2026-01-14, the CCA ceiling for a newly purchased Class 10.1 passenger vehicle in 2026 has been announced to rise to $39,000 (but the text of ITR s.7307(1) in the consolidation as of 2026-06-21 still reads $38,000, which must be stated alongside); and the reasonable tax-free per-kilometre allowance for an employee driving a personal vehicle on business is 73 cents/km for the first 5,000 km and 67 cents/km thereafter in the provinces.

b. ✗ Wrong. $61,000 is the CCA ceiling for a Class 54 zero-emission passenger vehicle, not the ordinary passenger vehicle ceiling; 34 cents/km is the fixed rate of the operating expense benefit for an employee driving a company car for personal use, not a mileage allowance for an employee driving a personal vehicle on business.

c. ✗ Wrong. 77 cents / 71 cents is the 2026 tax-free mileage allowance standard for the three territories; for provinces such as British Columbia the standard is 73 cents / 67 cents.

d. ✗ Wrong. This reverses the direction completely: when an engineer drives her own car on the firm's business, the firm paying her a reasonable mileage allowance is tax-free, and she does not owe the firm a 34 cents/km operating expense benefit; also, $1,100 a month is the leasing deduction limit for a leased vehicle, not CCA depreciation on a purchased one.

67′ answer d

a. ✗ Wrong. 73 cents / 67 cents is the reasonable tax-free per-kilometre allowance for an employee driving a personal vehicle on business; the fixed rate for the operating expense benefit when an employee drives a company car for personal use is 34 cents/km.

b. ✗ Wrong. $61,000 is the CCA capital cost ceiling for a Class 54 zero-emission passenger vehicle, whereas the monthly deductible lease limit is $1,100 (before tax).

c. ✗ Wrong. 34 cents/km (31 cents/km for employees of automobile sales or leasing businesses) is the taxable operating expense benefit rate when personal kilometres are driven in a company car, in the direction of inclusion in the employee's income, not a tax-free allowance.

d. ✓ Correct. For the 2026 tax year the leasing deduction limit for a passenger vehicle is $1,100 a month (before tax) and the interest deduction limit on a new vehicle loan is $350 a month, both in force for 2026 and consistent with the text of the regulations.

68 answer b

a. ✗ Wrong. This steps into two traps at once: first, the 180th day after the year-end of 2026-12-31 is June 29, 2027, so payment on July 15 is past the 180-day deadline of the unpaid remuneration rule (ITA s.78(4)) and the bonus cannot be deducted in 2026; second, the CRA's $500 non-cash gift policy expressly excludes shareholders and relatives (non-arm's length exclusion), so Chen's $450 gift basket is fully taxable.

b. ✓ Correct. Under the ITA s.78(4) unpaid remuneration rule, the 180th day after the 2026-12-31 year-end is June 29, 2027; payment on July 15 cancels the corporation's 2026 deduction and moves it to 2027, the year of actual payment. Under the CRA gifts and awards policy, a non-cash gift of up to $500 to an arm's length clerk is tax-free, but shareholders and relatives are expressly excluded, so Chen's $450 is fully taxable.

c. ✗ Wrong. The deadline in ITA s.78(4) is exactly 'the 180th day after the end of the tax year' (June 29 of the next year for a December 31 year-end), not six months plus 30 days; also, the $450 non-cash gift basket received by an arm's length clerk is tax-free within the $500 limit.

d. ✗ Wrong. The consequence of missing the 180-day deadline is that the deduction is denied in the year of accrual (2026) and moves to the year of actual payment (2027); it is not permanently non-deductible; also, the shareholder Chen does not get the $500 exemption.

68′ answer d

a. ✗ Wrong. On one hand, the $500 non-cash long-service award given every five years and the $500 annual non-cash gift limit do not use each other up, so the arm's length employee's $400 and $450 are both tax-free; on the other, the shareholder's spouse is a non-arm's length person to whom the $500 policy does not apply, so the $300 is fully taxable.

b. ✗ Wrong. The general gift limit ($500) and the five-year long-service award limit ($500) do not use each other up, and each may be used once in the same year.

c. ✗ Wrong. This misses the core exclusion in the CRA gift policy (non-arm's length exclusion): any gift received by a shareholder or his relatives (including a spouse) is a taxable benefit from the first dollar.

d. ✓ Correct. For an arm's length employee, the annual $500 non-cash gift limit and the $500 non-cash long-service award limit every five years do not use each other up, so the $400 and $450 are both tax-free, but cash and near-cash ($200) are always a taxable benefit; for the shareholder's spouse, a non-arm's length employee is expressly excluded from the $500 policy, so the $300 is fully taxable.

69 answer d

a. ✗ Wrong. It falls into traps on both sides: first, the perfect compliance history required of a quarterly remitter covers the last 12 months of payroll remittances, GST/HST payments, and on-time filing of T4s and GST/HST returns, so one late GST/HST filing loses quarterly status; second, the AMWA of associated corporations must be combined ($4,000 + $23,000 = $27,000, at least $25,000), so both Y and Z become accelerated remitters.

b. ✗ Wrong. This confuses the failure to deduct penalty (always 10%) with the late remittance penalty (a tiered penalty: 3% for 1-3 days, 5% for 4-5 days, 7% for 6-7 days, 10% for more than 7 days). Five days late falls under the 5% tier, not 10%.

c. ✗ Wrong. Company X has already lost quarterly status because of its late GST/HST filing; and the combined AMWA of Y and Z is $27,000, which makes them Threshold 1 accelerated remitters ($25,000-$99,999.99, twice a month); Threshold 2 begins only at $100,000 or more.

d. ✓ Correct. Besides requiring an AMWA below $3,000 in the previous one or two years, a quarterly remitter must have a perfect compliance history for the last 12 months (including payroll remittances, GST/HST payments and on-time filing of T4s and sales tax returns); Company X's late GST/HST filing loses it quarterly status and it can only remit as a regular remitter (by the 15th of the next month). Also, the AMWA of associated corporations from two years earlier must be combined, so Y and Z together at $27,000 fall in the $25,000-$99,999.99 band, and every company in the group (including Y with only $4,000) becomes a Threshold 1 accelerated remitter.

69′ answer a

a. ✓ Correct. Late remittance attracts the four–tier late remittance penalty: 3% for 1–3 days late, 5% for 4–5 days, 7% for 6–7 days, and 10% for more than 7 days or not remitted; in ordinary cases that are not knowing or grossly negligent, the penalty applies only to the part above $500. Six days late corresponds to 7%.

b. ✗ Wrong. 10% is the failure to deduct penalty, or the top tier for remitting more than 7 days late or not at all; six days late attracts 7%.

c. ✗ Wrong. 3% applies only to remittances 1–3 days late (or where a Threshold 2 accelerated employer pays on time but not through a financial institution); 6–7 days is 7%.

d. ✗ Wrong. The 20% penalty is triggered only on a second violation in the same calendar year that is knowing or in circumstances amounting to gross negligence.

70 answer c

a. ✗ Wrong. First, remuneration between $1,000,000.01 and $1,500,000 is subject to the 5.85% notch rate, not 1.95%; second, associated employers must share the $1,000,000 exemption, and once combined remuneration exceeds $1,500,000, the whole group has no exemption.

b. ✗ Wrong. A single corporation with $1,300,000 does not exceed $1,500,000 and still has the $1,000,000 exemption, so tax is 5.85% x ($1,300,000 – $1,000,000) = $17,550; and with the second corporation's $400,000 added, the associated group's combined remuneration is $1,700,000 (above $1,500,000), the exemption of the whole group goes to zero and cannot be shared as a $1,000,000 exemption.

c. ✓ Correct. A single corporation's BC remuneration of $1,300,000 falls in the $1,000,000.01–$1,500,000 band and is computed at the notch rate: 5.85% x ($1,300,000 – $1,000,000) = $17,550; when associated with the second corporation, the group's combined remuneration is $1,300,000 + $400,000 = $1,700,000, above the $1,500,000 threshold, and under the BC Employer Health Tax (EHT) rules the whole associated group has no exemption, each paying 1.95% on its full remuneration.

d. ✗ Wrong. This is the common misconception of 'splitting payroll across corporations to avoid tax': BC EHT provides that where the associated group's combined remuneration exceeds $1,500,000, the whole group has no exemption, looking at the group's combined total and not at whether a single corporation exceeds $1,500,000.

70′ answer a

a. ✓ Correct. The 5.85% notch rate exists to phase out the $1,000,000 exemption smoothly between $1,000,000 and $1,500,000: at $1,500,000 the notch rate gives 5.85% x ($1,500,000 – $1,000,000) = $29,250, and the full 1.95% also gives 1.95% x $1,500,000 = $29,250, so the two segments join exactly, with no cliff.

b. ✗ Wrong. Once remuneration exceeds $1,500,000, the $1,000,000 exemption disappears entirely, and 1.95% is applied to the full BC remuneration.

c. ✗ Wrong. The exemption for charitable and non–profit employers is $1,500,000 and their notch rate is 2.925%; 1.95% is the full–amount rate for a general employer above $1,500,000.

d. ✗ Wrong. BC Employer Health Tax is assessed on BC remuneration for the calendar year and has nothing to do with federal income tax and source deductions (CPP/EI).

Chapter 11 answers and reasons

71 answer a

a. ✓ A non–profit organization (NPO) under s.149(1)(l) need not register federally or provincially to be tax–exempt, but it cannot issue tax–deductible receipts for donations or membership fees; also, as a resident corporation, it must file a T2 corporation income tax return every tax year even if tax payable is zero.

b. ✗ This confuses a non–profit organization with a registered charity: only a registered charity exempt under s.149(1)(f) must apply to the CRA for registration and obtain the power to issue donation receipts.

c. ✗ This falls into the 'Skipping the T2 because there is no tax' trap: a corporation that is a registered charity throughout the year is indeed not required to file a T2, but a non–profit organization that is a corporation is not on the list of exceptions to T2 filing and must file a T2 or a T2 Short Return every year, even with zero tax.

d. ✗ Section 149(1)(l) looks at the two verbs 'organized and operated' (exclusively organized and operated), which is a year–by–year factual test, not a permanent guarantee; and a non–profit organization cannot issue tax–deductible receipts for either donations or membership dues.

71′ answer c

a. ✗ A non–profit organization (NPO) can neither issue donation receipts nor skip the T2 just because tax is zero.

b. ✗ A registered charity must be registered with the CRA to obtain its status, and a corporation that is a registered charity throughout the year need not file a T2.

c. ✓ Correct. A registered charity, after CRA registration review, is exempt under s.149(1)(f), can issue donation receipts and need not file a T2; an incorporated non–profit organization need not register and cannot issue receipts, but must still file a T2 (or T2 Short Return) within 6 months after the end of each tax year.

d. ✗ This reverses the treatment of the two completely: a registered charity is exempt from both the T2 and Form T1044, whereas a non–profit corporation must file a T2 and must also file a T1044 when the s.149(12) conditions are met.

72 answer b

a. ✗ The passive income threshold in s.149(12) looks at the 'total' of the four items of taxable dividends, interest, rent and royalties, not at whether any single item exceeds $10,000.

b. ✓ Correct. In deciding condition one for the non–profit organization information return (Form T1044), add up the four items of taxable dividends, interest, rent and royalties received or receivable in the period (membership fees and grants are not counted); here rent of $7,000 plus interest of $3,500 already exceeds the $10,000 threshold, so a T1044 must be filed within 6 months after the end of the fiscal period.

c. ✗ This falls into the 'T1044 income mixing' trap: membership fees, fundraising, government grants and event income are not counted in the s.149(12) $10,000 passive income test at all, and $200,000 is the threshold for total assets at the end of the prior period, not an income threshold.

d. ✗ The three triggers in s.149(12) are 'or', not 'and'; even if assets do not exceed $200,000, Form T1044 must be filed if the four passive items total more than $10,000.

72′ answer d

a. ✗ Membership fees and event income ($340,000) are not counted in the $10,000 passive income test; counting only interest of $3,000 and rent of $3,500, the total does not exceed $10,000, so Form T1044 is not required.

b. ✗ Although Form T1044 is not triggered, it is a resident corporation (an incorporated association) and must file a T2 every year even if it is exempt and has zero tax.

c. ✗ Condition two looks at whether total assets at the end of the prior period exceeded $200,000 (here only $150,000 at the end of the prior period), so no T1044 is needed; but as a corporation it must still file a T2.

d. ✓ Correct. Membership fees and event income are not counted in the passive income threshold; interest of $3,000 and rent of $3,500 total less than $10,000, total assets at the end of the prior period of $150,000 do not exceed $200,000, and a T1044 was never filed, so no Form T1044 is required; but as a resident corporation it must still file a T2 or a T2 Short Return on time.

73 answer c

a. ✗ This violates both condition two (for 2026 the test looks at the 2025 year–end assets of $480,000) and the condition three ratchet rule (once filed, always required).

b. ✗ This falls into the 'Assuming the ratchet can be reversed' trap: although 2026 year–end assets fell to $150,000, condition three provides that as long as a filing obligation existed in any earlier fiscal period, filing must continue every year in 2027 and after.

c. ✓ Correct. Under s.149(12), for 2026 not only did the prior period–end (2025 year–end) assets of $480,000 exceed $200,000, but the non–profit organization information return (Form T1044) was also already filed for 2025; under the one–way ratchet rule, filing must continue for 2026, 2027 and every later fiscal period, however far the amounts fall.

d. ✗ Most residential condominium management corporations fall under s.149(1)(l) and are governed by s.149(12); the s.149(1)(i) exception applies only to corporations operated solely to provide low–cost housing for the aged.

73′ answer b

a. ✗ A registered charity is one of the exceptions expressly listed in s.149(12) from filing Form T1044.

b. ✓ Correct. A residential condominium management corporation is usually exempt under s.149(1)(l), and when its total assets at the end of the prior fiscal period ($350,000) exceed $200,000, it must file Form T1044 under s.149(12).

c. ✗ A corporation exempt under s.149(1)(i) and operated solely to provide low–cost housing for the aged is an exception from filing T1044 listed in Guide T4117.

d. ✗ A registered Canadian amateur athletic association is exempt from filing Form T1044, as is a registered national arts service organization.

74 answer c

a. ✗ This falls into the 'club entirely exempt' trap: a club whose main purpose is to provide dining, recreational or sporting facilities triggers the s.149(5) deemed inter vivos trust, and investment income and gains on idle land must be reported and taxed on a T3.

b. ✗ This falls into the 'club entirely taxed' trap: s.149(5) does not remove the tax exemption of membership fees and dining income under s.149(1)(l); instead it treats the property as held by an inter vivos trust and taxes on a T3 only the property income and the capital gains on property not used for services.

c. ✓ Correct. Under s.149(5), a club whose main purpose is to provide dining, recreational or sporting facilities to its members is deemed to hold its property in an inter vivos trust: membership fees and dining income stay exempt, but the $58,000 of property income and the taxable capital gain on idle land not used to provide such services must be reported and taxed on a T3; also, because it is a corporation and its passive income exceeds $10,000, it must file all three returns, the T2, T1044 and T3, in the year.

d. ✗ Section 149(5) expressly provides that taxable capital gains from disposing of property not used to provide dining, recreational or sporting facilities are also taxed in the deemed inter vivos trust.

74′ answer a

a. ✓ Correct. Under the s.149(5) deemed inter vivos trust rule, only the taxable capital gain on disposing of property 'not used to provide dining, recreational or sporting services' is taxed; land used throughout as the members' services parking lot is needed to provide the services, so its capital gain is outside the deemed trust's taxable range, and only the $58,000 of property income is taxed on a T3.

b. ✗ The test is whether the property was used to provide dining, recreational or sporting services, not that all real property is taxed.

c. ✗ This is exactly backwards: property income in the deemed inter vivos trust (interest and dividends of $58,000) must be taxed, whereas the capital gain on the parking lot land used to provide services is exempt.

d. ✗ The test in s.149(5) is the organization's 'main purpose', not its name; an organization called a 'cultural association' that mainly runs a members' restaurant and golf course also triggers the deemed trust.

75 answer d

a. ✗ The T2 is not penalized at $25 a day, and for a T1044, which is penalized by the day, one must never wait for the CRA's reply before filing, or the penalty keeps accumulating daily up to the $2,500 cap while waiting.
b. ✗ Only the T2 s.162(1) late-filing penalty uses the tax unpaid at the deadline as its base; the late penalty on Form T1044 is a fixed amount calculated at $25 a day and has nothing to do with whether tax is owing.
c. ✗ 10% plus 2% for each full month (up to 20 months) is the proportion under s.162(2) for a repeat T2 offence, applied to 'unpaid tax', not to total assets; and $100 is only the minimum floor of the T1044 penalty, not a fixed amount.
d. ✓ Correct. A late T2 is penalized under s.162(1) on the tax unpaid at the deadline (5% plus 1% for each full month, up to 12 months), so a truly zero-tax exempt corporation computes $0 (but if its exempt status is later denied retroactively, the penalty runs from the original deadline); Form T1044 carries a basic penalty of $25 a day (minimum $100, maximum $2,500); the correct practice is to file the form first to stop the daily count and at the same time attach a letter invoking the taxpayer relief provisions to request a waiver.

75′ answer b

a. ✗ Exempt status is a year-by-year factual determination, and the CRA may retroactively deny exemption for that year within the normal reassessment period; it does not apply only to future years.
b. ✓ Correct. Once the facts show that the organization was run for profit or that its income was available for the personal benefit of members, the CRA may retroactively deny exempt status for that year within the normal reassessment period, taxing all income at ordinary corporate rates and adding interest compounded daily at the prescribed rate; the tax unpaid at the deadline is then no longer zero, so the s.162(1) late T2 penalty (5% plus 1% per full month, up to 12 months) has a base and runs from the original deadline.
c. ✗ $2,500 is only the cap of the penalty for filing the T1044 information return late; it can never replace the corporate income tax, interest and late T2 penalty owing after exempt status is lost.
d. ✗ Section 149(1)(l) requires being 'exclusively organized and operated' for the purpose; however well the articles are written, actual operation that departs from the non-profit purpose also loses exempt status for that year.

76 answer a

a. ✓ Under BC Employer Health Tax (EHT), a non-profit employer gets a $1,500,000 exemption for each qualifying location it uses exclusively; two separate office buildings each paying $1,300,000 do not exceed the limit, so tax is $0; if two internal departments of the same legal entity are on different floors of the same building, they count as one qualifying location with a single $1,500,000 exemption, falling in the $1,500,000.01–$4,500,000 notch rate band, taxed at 2.925% x ($2,600,000 – $1,500,000) = $32,175.
b. ✗ $50,700 (1.95% x $2,600,000) is the method for a general employer above $1,500,000; a non-profit employer not only gets a $1,500,000 exemption for each qualifying location, but a single location must exceed $4,500,000 before the full amount is taxed.
c. ✗ This falls into the 'one BC Employer Health Tax exemption per entity' trap: unlike federal income tax, where a taxpayer gets one limit, a BC non-profit employer with several exclusively used qualifying locations in the province gets a $1,500,000 exemption for each qualifying location.
d. ✗ According to the BC Ministry of Finance, the internal departments of the same legal entity in the same building count as only one qualifying location and can share only one $1,500,000 exemption.

76′ answer b

a. ✗ The exemption of a non–profit employer is raised to $1,500,000 (not $1,000,000), and its notch rate is 2.925% (half of 5.85%), not 1.95%.

b. ✓ Correct. BC's three preferential treatments of charitable and non–profit employers (Employer Health Tax, EHT) are: the exemption for each qualifying location is raised from $1,000,000 to $1,500,000; the notch band is extended to $1,500,000.01–$4,500,000 and the notch rate is halved to 2.925% (5.85% for general employers); and other employers associated with the non–profit employer need not share the exemption with it.

c. ✗ A non–profit employer is not exempt from BC EHT without limit: payroll of a single qualifying location between $1,500,000.01 and $4,500,000 is taxed at 2.925%, and above $4,500,000 the full amount is taxed.

d. ✗ $4,500,000 is the upper limit of the notch rate band, not an exemption, and associated employers need not share the exemption with a non–profit employer.

77 answer b

a. ✗ Both bases are wrong: the asset threshold looks at the 'book value' as at the end of the 'prior fiscal period' under generally accepted accounting principles (not the fair value of the current period), and passive income includes amounts 'received or receivable' (not only cash actually received).

b. ✓ Under s.149(12) and Guide T4117, the asset threshold looks at whether the book value under generally accepted accounting principles (GAAP) at the end of the prior fiscal period exceeds $200,000; the passive income threshold looks at whether the total of the four items of taxable dividends, interest, rents and royalties received or receivable in the current fiscal period (that is, accrual receivables also count) exceeds $10,000.

c. ✗ The asset test uses the GAAP book value of total assets, not just the appraised replacement value of real estate, and membership fees and other non–passive income are not counted in the $10,000 threshold.

d. ✗ The statute looks at the book value of total assets at the end of the prior fiscal period and the total of the four passive income items received or receivable in the current period; they do not use average monthly balances or the net after deducting management fees.

77′ answer c

a. ✗ A non–profit organization (NPO) does not need to register with the CRA in the first place, so there is no non–profit registration number to renew every year.

b. ✗ The $10,000 and $200,000 thresholds in s.149(12) have not been adjusted since 1993 and there is no indexation mechanism.

c. ✓ Correct. Section 149(1)(l) requires the organization to be 'exclusively organized and operated' for a non–profit purpose, which is a year–by–year factual determination and not a one–time certificate; at the end of each fiscal period it must self–check its constating purpose, whether actual operation has departed from it, whether there is any form of personal benefit to any member and whether it is still not a charity.

d. ✗ 6 months is the filing deadline; a corporation's fiscal period can be up to 53 weeks and for other entities up to 12 months; only a club whose main purpose is to provide dining, recreational or sporting facilities triggers the s.149(5) deemed inter vivos trust.

Chapter 12 answers and reasons

78 answer b

a. ✗ Falls into the trap 'Missing the add-back of a charitable donation on Schedule 1': in computing net income for tax purposes, it forgets to add back the $5,000 charitable donation already deducted in the books (adding back $5,000 too little gives $230,500), and then deducts the $5,000 again in computing taxable income to get $225,500, which deducts the same donation twice.

b. ✓ Correct. Start from Schedule 1 Amount A ($180,000) and add back book depreciation of $42,000 (s.18(1)(b)), half of the meals and entertainment of $8,000 (s.67.1), the full golf club dues of $9,500 (s.18(1)(l)), the increase in the bad debt reserve of $8,000 (s.18(1)(e)), the charitable donation of $5,000 and the book income tax expense of $38,000 (additions total $110,500), then subtract the Schedule 8 capital cost allowance (CCA) of $55,000, giving net income for tax purposes = $180,000 + $110,500 – $55,000 = $235,500; finally, on the main T2 form deduct the charitable donation of $5,000 from net income for tax purposes to get taxable income of $230,500.

c. ✗ Falls into the trap 'Deducting only 50% of club dues as meals and entertainment': the $9,500 of golf club dues was added back only by half (adding back $4,750 too little), ignoring that dues for golf and recreational clubs are 100% non-deductible under s.18(1)(l).

d. ✗ It misses the add-back of the book income tax expense of $38,000 ($235,500 – $38,000 = $197,500): because GIFI code 9999 is net income after income tax, corporate income tax itself is not deductible under tax law and must be added back in full on Schedule 1.

78′ answer c

a. ✗ Falls into the trap 'Missing the add-back of a charitable donation on Schedule 1': it leaves out the $5,000 charitable donation add-back ($110,500 – $5,000 = $105,500), forgetting that a donation must first be added back on Schedule 1 and deducted only when computing taxable income.

b. ✗ Falls into the trap 'Deducting only 50% of club dues as meals and entertainment': the $9,500 of yacht and golf club dues was added back at 50% (adding back $4,750 too little), contrary to s.18(1)(l), under which none of it may be deducted.

c. ✓ Correct. The Schedule 1 add-backs are: book amortization of $42,000 + 50% of meals and entertainment ($8,000) + 100% of yacht and golf club dues ($9,500) + the increase in the bad debt reserve of $8,000 + the charitable donation of $5,000 + the book income tax expense of $38,000 = $110,500; net income for tax purposes = $180,000 + $110,500 – $55,000 (CCA) = $235,500.

d. ✗ It added back the $16,000 of client meals and entertainment in full at 100% (adding back $8,000 too much): reasonable meals and entertainment are 50% deductible under s.67.1(1), so only half, $8,000, is added back (the full add-back of meals and entertainment misconception).

79 answer a

a. ✓ Correct. The General Index of Financial Information (GIFI) strictly forbids reporting only subtotals and totals (40 items on the financial statements require 40 codes), and all validity check items (2599 total assets, 3499 total liabilities, 3620 shareholders' equity or 3575 partners' capital, 8299 total revenue, 9368 total expenses and 9999 net income, plus 9659/9898 where there is farming activity) must be entered as 0 even when the amount is zero, or the return cannot pass electronic validation.

b. ✗ This reverses the general rule and the only exception: when GIFI is used, traditional financial statements are no longer filed with the return; only insurance companies involved in underwriting (life, deposit, property and casualty) must still attach traditional statements because GIFI has no insurance-specific items (the reversed-exception trap).

c. ✗ It is wrong on two conditions: first, the paper short form T1178 (GIFI-Short) applies only to corporations that 'do not use software'; second, gross revenue and total assets must 'each' be under $1,000,000, not one or the other (the short-form threshold confusion trap).

d. ✗ Falls into the trap 'Leaving GIFI mandatory codes blank, or reporting only subtotals': when no item exactly matches, the generic item at the start of the block (which stands for a catch-all of the same kind, not a total) should be used, and a mandatory code with a zero amount must be entered as 0 and not left blank.

79′ answer d

a. ✗ Revenue and assets each under $1,000,000 is not an exemption from GIFI; it only allows a corporation that does not use software to use the paper GIFI short form (Form T1178) (the short form mistaken for an exemption trap).
b. ✗ A new corporation must attach Schedule 101 (opening balance sheet information) in its first year, and GIFI strictly forbids reporting only a few subtotal or total codes (the trap of missing the first-year schedule and reporting subtotals only).
c. ✗ Schedule 141 (additional information) applies to all filing corporations and asks who mainly handled the financial information, whether that person holds an accounting designation, whether the person is related to the corporation and whether there was a reservation; statements prepared internally by someone without a designation must be reported truthfully as well (the trap of thinking no audit means no Schedule 141).
d. ✓ Correct. A corporation that does not use software and has gross revenue and total assets each under $1,000,000 may use the paper short form Form T1178 (GIFI-Short); a new corporation must attach Schedule 101 for the opening balance sheet in its first year; and all validity check codes with a zero amount must be entered as 0.

80 answer c

a. ✗ The last two items are wrong: meals at a qualifying temporary work site camp are 100% deductible, and dues for recreational or dining clubs are 0% deductible under s.18(1)(l) (100% added back) (the trap of deducting club dues at 50% as meals and entertainment).
b. ✗ It reverses the percentages for the qualifying travel meals of long-haul truck drivers (80% deductible) and meals at a temporary work site camp (100% deductible) (the swapped special rates trap).
c. ✓ Correct. Under s.67.1(1), ordinary meals and entertainment are deducted at 50% of the lesser of the actual expense and a reasonable amount (50% added back); qualifying travel meals of long-haul truck drivers are deducted at 80% (20% added back); meals at a qualifying temporary work site camp are 100% deductible (no add-back); and dues (including initiation fees) for a club whose main purpose is to provide dining, recreational or sporting facilities are completely non-deductible under s.18(1)(l) (0% deductible, 100% added back).
d. ✗ It lowers all the statutory deductible percentages across the board: reasonable ordinary meals and entertainment are 50% deductible, not 0%, long-haul truck driver travel meals are 80% deductible, and meals at a temporary work site camp are 100% deductible (the shifted percentages trap).

80′ answer a

a. ✓ Correct. Note that the question asks for the 'added back' percentage: qualifying travel meals of long-haul truck drivers are 80% deductible, so 20% is added back on Schedule 1; lodge and golf facility fees are completely non-deductible under s.18(1)(l), so 100% is added back; meals at a qualifying temporary work site camp are 100% deductible, so 0% is added back.
b. ✗ It steps into two pits: first, it treats the 80% deductible for long-haul truck drivers as the add-back percentage (it should be 20% added back); second, it treats lodge and golf fees, which are 100% non-deductible under s.18(1)(l), and work site camp meals, which are 100% deductible, both at 50% (reversed deduction and add-back directions, plus the trap of deducting club dues at half).
c. ✗ It ignores the two statutory special cases under s.67.1: qualifying travel meals of long-haul truck drivers need only 20% added back (80% deductible), and qualifying temporary work site camp meals have 0% added back (100% deductible), neither being added back at the 50% for ordinary meals (the ignored statutory exception trap).
d. ✗ Falls into the trap 'Deducting only 50% of club dues as meals and entertainment', and wrongly treats the work site camp meals, which are 100% deductible, as 100% added back.

81 answer b

a. ✗ Falls into the 'old AII dates' trap: in the old exam basis, the 2018 Accelerated Investment Incentive (AII, 50% net addition before 2024, usable before 2028) is entirely void for the 2026 tax year; the current rules have been restored and updated to the reaccelerated investment incentive property (RIIP) and the immediate expensing parameters.

b. ✓ Correct. Under the current 2026 tax year T2 guide rules (different from the old AII exam basis), manufacturing and processing machinery acquired and put into use in 2026 (Class 53, or judged as Class 43 where property acquired after 2025 would be Class 53 if acquired in 2025) qualifies for immediate expensing, and the whole $200,000 can be deducted at 100% in the first year, and the phase-down for this category (and for Class 43.1 clean energy equipment) begins only for property available for use after 2029.

c. ✗ It confuses the phase-down timetables of different asset classes: 'available before 2027 for 100%, with only the half-year rule exemption for property available after 2026' is the deadline for productivity assets (Classes 44, 46 and 50), not the post-2029 phase-down for manufacturing and processing machinery (Class 53) and clean energy equipment (Class 43.1) (the class phase-down year confusion trap).

d. ✗ It misremembers the time window of the current reaccelerated investment incentive property (RIIP): RIIP applies to eligible property acquired after 2024 and available for use before 2034 (with the 50% net addition available before 2030), not only after 2030 (the RIIP years reversed trap).

81′ answer a

a. ✓ Correct. Productivity assets (Classes 44, 46 and 50) acquired after 2024-04-15 and available for use before 2027 qualify for 100% first-year immediate expensing, and those available only after 2026 keep just the half-year rule exemption; also, the increase of the Class 10.1 passenger vehicle CCA ceiling for vehicles acquired after 2026-01-01 from $38,000 to $39,000 has only been announced, in a Department of Finance news release, while the last line of the current consolidation of ITR s.7307(1) still reads $38,000.

b. ✗ It is wrong in two places: 'available before 2034' is the deadline for the half-year rule exemption for reaccelerated investment incentive property (RIIP), whereas 100% immediate expensing for Classes 44, 46 and 50 lasts only for property available before 2027; also, the last line of the current consolidation of ITR s.7307(1) still reads $38,000, and $39,000 has not yet been written into the body of the consolidated regulations (the trap of treating announced as enacted).

c. ✗ Falls into the 'old AII dates' trap: the 100% first-year deduction for Class 43.1 clean energy equipment begins to phase down only for property available for use after 2029 (not after 2026), and the 2018 AII dates are void for the 2026 tax year, with the RIIP parameters applying now.

d. ✗ It violates the three qualification red lines for RIIP: reaccelerated investment incentive property (RIIP) requires that no one has previously claimed CCA or a terminal loss on the property, that it was not transferred to the corporation on a tax-deferred rollover, and that it was not previously owned or acquired by the corporation or a non-arm's length person (the RIIP related-party rollover ban trap).

82 answer b

a. ✗ Falls into the trap 'Using the cancelled two-thirds capital gains inclusion rate': the proposal to raise the capital gains inclusion rate from 1/2 to 2/3 was formally cancelled after its effective date was postponed to 2026-01-01, so any exam basis or template written with 2/3 is out of date for the 2026 tax year.

b. ✓ Correct. The current T2 guide expressly provides that if Amount P on Schedule 6 (summary of dispositions of capital property) is a gain, it is still entered at one-half (P x 1/2) in Amount R and on Schedule 1 line 113 (the 2/3 proposal was cancelled); special inclusion rates remain: donations of certain securities or ecologically sensitive land to a qualified donee generally carry a 0% inclusion rate, whereas the disposition of an interest in a partnership whose assets are all inventory, depreciable property or resource property under s.100(1) can be included at 100%.

c. ✗ It mixes up the two-step replacement of an accounting gain on disposal and the taxable capital gain under tax law: a disposal gain recorded in the books but not taxed is a deduction (booked but not taxed), so the book disposal gain should first be subtracted on Schedule 1, and then the taxable capital gain computed on Schedule 6 (P x 1/2) added back on Schedule 1 line 113 (the replacement relationship between book and tax gains on disposal trap).

d. ✗ It swaps the objects of the 0% and 100% inclusion rates: the 0% inclusion rate applies to donations of certain securities or ecologically sensitive land to a qualified donee, whereas the disposition of an interest in a partnership whose assets are all inventory, depreciable property or resource property under s.100(1) is included in full at 100% (the swapped special inclusion rates trap).

82′ answer d

a. ✗ Falls into the trap 'Using the cancelled two-thirds capital gains inclusion rate': the first two special inclusion rates are right, but the proposal to raise the standard corporate capital gains inclusion rate to 2/3 was cancelled, and the current 2026 standard inclusion rate is still 1/2.

b. ✗ It swaps the inclusion rates of the two special rules: a disposition of such a partnership interest under s.100(1) is included at 100%, whereas a donation of certain securities to a qualified donee (with no benefit received) carries a 0% inclusion rate (the swapped special inclusion rates trap).

c. ✗ It wrongly assumes the special inclusion rates were repealed: the current 2026 T2 guide still keeps the 0% inclusion rate for donations of qualifying securities or ecologically sensitive land and the 100% inclusion rate for dispositions of partnership interests under s.100(1) (the invented repeal trap).

d. ✓ Correct. Under s.100(1), where all of the partnership's assets are inventory, depreciable property or resource property (with no exception), a disposition of the partnership interest is included in full at 100%; a donation of certain securities or ecologically sensitive land to a qualified donee (with no benefit or advantage received) carries a 0% inclusion rate; and an ordinary corporate capital gain, after the 2/3 proposal was cancelled, is still entered at 1/2 (P x 1/2) in Amount R on Schedule 6 and on Schedule 1 line 113 for the 2026 tax year.

83 answer d

a. ✗ It steps into both pits of 'Misplaced schedule entries: accounting reserves on Schedule 13 and partnership gains on line 129': taxable capital gains allocated by a partnership must never be entered on Schedule 1 line 129, and accounting reserves from the financial statements must never be entered on Schedule 13.

b. ✗ The first half is correct and the second half steps into the 'accounting reserves on Schedule 13' trap: the continuity of reserves schedule (Schedule 13) holds only reserves allowed by tax law, and the opening and closing accounting reserves on the financial statements must go through Schedule 1 lines 414 and 126.

c. ✗ The second half is correct and the first half steps into the 'partnership gains on line 129' trap: taxable capital gains or allowable capital losses allocated by a partnership to a corporate partner cannot be entered on Schedule 1 line 129 and must be entered on the corporation's own Schedule 6.

d. ✓ Correct. Under the T2 guide rules: first, taxable capital gains or allowable capital losses allocated by a partnership to a corporate partner are not entered on Schedule 1 line 129 but the corporation's share is entered on the corporation's own summary of dispositions of capital property (Schedule 6); second, the continuity of reserves schedule (Schedule 13) holds only reserves expressly allowed by tax law, and the opening and closing accounting reserves on the financial statements go directly through Schedule 1 lines 414 and 126.

83′ answer b

a. ✗ Falls into the trap 'accounting reserves on Schedule 13' and states the two channels the wrong way round: Schedule 13 holds only tax–permitted reserves, whereas the opening and closing accounting reserves on the financial statements go through Schedule 1 lines 414 and 126.

b. ✓ Correct. The capital cost allowance schedule (Schedule 8) shows the current reaccelerated investment incentive property (RIIP) and the legacy Accelerated Investment Incentive (AII) in separate columns 4 and 5; also, a corporation's share of capital gains or losses allocated as a partner of a partnership (which requires Schedule 73) must be entered on the corporation's own Schedule 6 and not on Schedule 1 line 129.

c. ✗ It swaps the functions of two schedules: Schedule 16 is the patronage dividend deduction, whereas Schedule 73 is the summary of income inclusions of a partnership member (the swapped schedule numbers trap).

d. ✗ It reverses the page and line numbers of 'other additions' and 'other deductions' on Schedule 1: unlabeled additions go through column 605, column 295 and line 296 'other additions' on page 3, while unlabeled deductions go through column 705, column 395 and line 396 'other deductions' on page 4 (the swapped addition and deduction line numbers trap).

84 answer a

a. ✓ Correct. Schedule 141 (additional information) puts the preparer's identity, professional designation, independence (whether related to the corporation) and any reservation expressed into the return; when e-filing the T2, the notes to the financial statements that have been prepared must still be submitted as text with the transmission (leaving them out makes the filing incomplete); and net income for tax purposes is one nationwide set without provincial recalculation, so BC's Schedule 427 directly uses the taxable income base computed federally to compute provincial tax.

b. ✗ It misunderstands 'electronic filers no longer mail paper notes': 'no need to mail paper' does not mean 'no need to prepare or submit'; as long as the notes to the financial statements have been prepared, they must be submitted as text with the transmission when e-filing, and leaving them out makes the filing incomplete (the omitted notes trap).

c. ✗ Both are wrong: first, Schedule 141 does not ask for numbers but about people (who handled the financial information, whether they hold an accounting designation, whether related, whether there was a reservation and who prepared the T2); second, BC does not recalculate net income for tax purposes on Schedule 427, but shares the federal taxable income (the double misconception of the use of Schedule 141 and provincial recalculation).

d. ✗ It is wrong in two places: first, when understated Schedule 1 add-backs cause taxable income to be understated, interest on the additional tax is computed at the prescribed rate 'compounded daily', not simple interest (and if there is a misrepresentation, reassessment is still possible outside the normal reassessment period); second, every adjustment on Schedule 1 changes both the federal tax and the provincial tax figures (the trap of ignoring compound interest and the provincial tax link).

84′ answer b

a. ✗ All three are wrong: Schedule 141 must be filled in even if the statements were prepared internally by someone without a designation; the notes to the financial statements, once prepared, must be submitted as text with the transmission when e-filing; and BC does not recalculate net income for tax purposes on Schedule 427 (the all-wrong violation trap).

b. ✓ Correct. Schedule 141 requires truthful disclosure of the identity of the person who handled the financial information, the absence of a professional designation and any connection with the corporation (so the CRA can tell at a glance an internally prepared return from externally audited statements); the notes to the financial statements that have been prepared must be submitted as text with the electronic transmission; and BC's Schedule 427 computes provincial tax directly on the federal taxable income base without separately recalculating net income for tax purposes.

c. ✗ A corporation filing the T2 electronically need not mail a paper copy of the statements or paper notes (sending them as text with the transmission is enough), and BC's Schedule 427 is filed with the federal T2, with no separate provincial tax number needed (the redundant procedure trap).

d. ✗ A false answer on Schedule 141 is a misrepresentation (GIFI validity checks look at the three equations and seven mandatory codes and do not require an external audit), and a provincial investment tax credit is deducted on the provincial schedule after the provincial tax is computed, not on federal Schedule 1 (the false disclosure and misplaced credit trap).