CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CFE CANDIDATE NUMBER: | | | | | | | |

Common Final Examination
May 26, 2021 – Day 1
(Booklet #1 – DHC Version 2)

Total examination time: 4 hours.
Further details on the examination can be found on the next page.

GENERAL INSTRUCTIONS BEFORE THE EXAMINATION

1. Fill in your 7-digit candidate number on the booklets. The examination booklets (or paper response, as instructed) must be submitted before leaving the examination room. They must NOT BE REMOVED from the examination room. If these items are not received, the response may not be accepted.
2. Follow the instructions provided. Instructions must not be removed from the examination room.
3. Sign the Policy Statement and Agreement Regarding Examination Confidentiality below.

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- Refer to unauthorized material or use unauthorized equipment during testing;
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I further agree to report to CPA Canada any situations where there is a material risk of compromising the integrity of the examination.

I affirm that I have had the opportunity to read the *CPA Examination Regulations* and I agree to all of its terms and conditions.

In addition, I understand that failure to comply with this Policy Statement and Agreement will result in the invalidation of my results, and may result in my disqualification from future examinations, expulsion from the profession and possible legal action.

_____ _____

CANDIDATE NAME (Please print) SIGNATURE

Examination Details

The examination consists of:

Booklet #1 – Linked Case (240 minutes) (this booklet)
Booklet #2 – Capstone 1 case (for reference) and rough notes

The case should be answered using the software provided, which includes a word processor and spreadsheet for inputting your response. The main body of your response should be in the word processor file. Only supporting calculations should appear in the spreadsheet file, in **Sheet 1**. You are responsible for clearly explaining all your calculations.

Answers or part answers will not be evaluated if they are recorded on anything other than on the computer or the CPA Canada writing paper provided. Rough-note paper is available in the second booklet, which also includes a copy of the Capstone 1 case. Rough notes, and any other notations made in the examination booklets, will not be evaluated.

The CPA Canada Handbooks and the *Income Tax Act* are available in *Folio Views* throughout the entire examination. *Folio Views* provides the standards in effect and tax laws substantively enacted as at December 31, 2020.

A tax shield formula and other relevant tax information are available at the end of this booklet.

Candidates are instructed to consider and respond to the case as presented and ignore the potential impacts of COVID-19.

Common Final Examination, May 2021

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto, Ontario M5V 3H2

Case **(Suggested time: 240 minutes)**

It is April 2023, and Irene Mallik, your boss at Wilson Consulting Group, assigns you to another engagement with Distinct Hotels Corporation (DHC).

Since 2020, Canadians' per capita disposable income has increased slightly, and consumer confidence is moderate. A strengthening Canadian dollar has increased travel costs and reduced the number of international visitors to Canada. Interest rates are expected to continue to increase for at least another two years.

The number of leisure travellers is expected to increase by only 2% annually, even for boutique hotels. Leisure travellers, both domestic and international, are increasingly price sensitive. The number of travellers booking with companies such as Airbnb and VRBO continues to increase, at the expense of traditional hotel accommodations. This increase is attributed to families looking for accommodations that include kitchen facilities and more living space at reasonable prices.

The number of business travellers is expected to increase by 6% annually. Recent studies show that face-to-face meetings are still preferred over teleconferencing. Also, a growing number of businesses are willing to pay a premium for hotels that are small, unique, and cater to the needs of business travellers.

On June 20, 2020, after receiving a substantial inheritance, Kelvin and Alyson's son, Jonathan Chung, purchased $3 million of newly issued DHC common shares. Jonathan now owns 8% of DHC and each of the other shareholders own 23%.

Although the Board of Directors (the board) remains committed to branding itself as an operator of boutique hotels that are upscale or luxurious, in 2021, the vision was revised:

"*We make guests feel welcome and special by providing attentive, personalized, and exceptional service in a unique and luxurious setting*."

The mission was also revised:

"We are operators of unique boutique hotels built with a welcoming and luxurious atmosphere, providing each guest with attentive and caring service beyond expectations."

DHC's core values remain unchanged.

Irene asks you to draft a report for DHC's board, highlighting the significant changes in DHC's situation and evaluating the major decisions facing DHC, with a strategic focus. For each proposal, you are to advise the board of any significant factors the board may not have considered and identify any additional information it must obtain before making decisions. The report should also include any other significant issues you identify.

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APPENDIX I
TRANSCRIPT OF PREVIOUS BOARD MEETING

Derek: Thank you, Irene and CPA, for attending our board meeting. Since your firm's last engagement with DHC, the only change to management is that, following Doug Mallette's termination, Jonathan became the director of marketing and brand development. First Canadian Hotel Reviews accepted that Doug acted alone, and DHC's rating was not impacted.

The major events since the last engagement are summarized below:

April 1, 2020	Purchased Artists Warehouse Hotel (AWH) for $32 million, in cash and non-voting preferred shares issued to Isabelle, as originally proposed.
April 1, 2020	Signed a 20-year management contract with Huron Heights Hotel (HHH), with all terms and conditions as originally proposed.
May 1, 2020	Converted the Kelowna golf course to semi-private status.
May 21, 2020	Updated DHC's website, at a cost of $980,000.
October 19, 2020	Completed renovations of $11 million to the Nova Scotia hotel, and of $4 million in total to DHC's other properties.
November 2, 2020	Finalized a new loan agreement with Northern Land Loans. The loan of $39 million is repayable in annual payments of $2 million on June 30, bears interest at 7.2%, and matures in 13 years.
February 2, 2021	Sold the Awani Spa licensing rights for $750,000.
May 1, 2021	Declared and paid the dividends on DHC's preferred shares and a $500,000 dividend on common shares.
July 2, 2021	Renewed DHC's line of credit, with the same terms and conditions.
April 3, 2022	Completed renovations of $3 million to the Northern Ontario hotel, aimed at attracting people for health and wellness retreats.
May 1, 2022	Declared and paid the dividends on DHC's preferred shares and a $500,000 dividend on common shares.
August 15, 2022	Established an advisory board, which meets quarterly.
March 2, 2023	Isabelle announced her intent to redeem her preferred shares on May 1, 2023. As agreed, the dividends for 2023 will be declared and paid on that date. Commenced refinancing discussions with the bank.

Derek: Although DHC's results have improved, we are delaying going public until 2025 to allow us to improve certain metrics. We have set targets to do so, including maintaining DHC's average daily rate (ADR) of $440. These targets also include increasing our occupancy rate to 85% and achieving an operating margin of 15%, both by 2024. Our advisory board has also provided suggestions that we should keep in mind. We have several investment proposals to discuss. Kelvin, why don't you start?

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APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Kelvin: I found a great historic property in the Old Montreal district. As one of the city's first banks, it features a unique façade. These kinds of properties are seldom available. The lessor would allow us to convert it to a 50-room boutique hotel. The hotel would appeal to leisure travellers wanting personalized and pampered service. I am excited by this opportunity! There will be no restaurant, but this should not be an issue as there are a variety of excellent restaurants in the area.

Jessica: I like that the property is in a large metropolitan centre.

Alyson: However, it is much smaller than DHC's other hotels.

Jonathan: Since that is the size more commonly found in Europe, it may appeal to international travellers. I already have some ideas for how to market the hotel.

Kelvin: For now, the building owner, RH Holdings (RH), is only willing to lease the property, but might be convinced to sell in the future. I have summarized the lease terms and prepared some rough numbers.

Derek: What if RH gets a great offer for the building from someone else and decides to sell? How will the advisory board react, given their suggestions for how to achieve DHC's objectives?

Kelvin: We need to remember that the advisory board is just that. Its members have no money invested in the company. We do not have to follow their suggestions. DHC did well without it in the past.

Derek: In terms of risk, how does this type of arrangement compare to our management agreement with HHH? CPA, please provide your thoughts. Jessica, do you want to discuss the situation at AWH?

Jessica: Although Isabelle is still involved with AWH, she wants to retire. The hotel has been struggling, with net earnings after tax of $1,315,000 in 2022. Despite our efforts to improve its standards, and getting a five-star rating, both the ADR of $300 and the occupancy rate of 75% were lower than expected. The occupancy rate is in line with other Toronto hotels and the decline is attributable to fewer leisure travellers in that area of Toronto. Isabelle and I suggest remodelling the hotel to appeal to the business traveller. Isabelle compiled some estimates for our consideration.

Derek: I like the idea. I expect the advisory board would support it because of the increase in the percentage of business travellers.

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APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Kelvin: The advisory board does not know everything about our business. I am skeptical.

Alyson: Renovations will be costly. We will need to outfit each room with work areas featuring the latest technology and build a business centre, fitness facility, restaurant, and bar. To compete in Toronto's especially competitive market, DHC will also have to provide personalized services, a loyalty program, and a mobile app.

Kelvin: Some of those changes would dramatically change the uniqueness of this hotel.

Jessica: We need to do something. The ADR and occupancy rate have fallen each year since we acquired AWH. If we can renovate while retaining the hotel's charm, it makes sense.

Derek: Sean LeBois said his company would do the renovations for $6 million. I gave Jessica his quote.

Kelvin: The quote is too high. Those renovations should not cost more than $5.7 million. I wish you had asked me about this beforehand. You have put us in an awkward position.

Derek: Who cares if DHC pays him a little extra for this contract? He has spent countless hours helping us out by sitting on our advisory board.

Kelvin: We used LeBois' company for a small job at our Northern Ontario hotel. The work was completed late and some of it was not up to my specifications and needed to be redone.

Derek: Sean knows his company did poorly on that job but that was because of new staff he had hired. He deserves a second chance.

Jonathan: Knowing this proposal was on the agenda, I asked a few large corporations how DHC could obtain their business. They generally set maximum room rates by city, and for Toronto, the rates average $250. The impact on our ADR will depend on the resulting mix of business and leisure travellers. We would also have to provide 30- to 60-day payment terms and guarantee them room availability.

Derek: Let's have CPA review Isabelle's estimates and determine whether the project makes sense for DHC. After the renovations, I would expect operating results at AWH to be comparable with that of our existing properties. We will choose the contractor afterwards. Next on the agenda is Northern Ontario.

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APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Kelvin: I am proposing additional renovations of $13 million to the Northern Ontario hotel.

Jessica: Nothing we have tried has worked so far, including adding a games room and swimming pool. Since 2019, the ADR has only increased by $40 to $300, and the occupancy rate has only increased to 70%.

Kelvin: Our rooms are too small for families and we do not provide enough extra services. Existing rooms would be converted to one-bedroom suites with kitchens and sitting areas. The renovations will reduce the room count to 150. We could provide childcare, children's clubs, and lifeguards at the pool. These changes should improve the ADR and occupancy rate substantially since they better target families, but will also likely appeal to international travellers.

Alyson: Families are not looking for the pampered service that DHC typically offers. I do not support this proposal.

Derek: Given its northern location, we have never been able to overcome the seasonality factor. I am opposed to investing more money in this hotel when the funds could be better spent elsewhere.

Alyson: Are you suggesting that we sell the Northern Ontario hotel?

Derek: Yes, and the advisory board shares that opinion.

Kelvin: How do you know that? The advisory board has never discussed a possible sale of this property.

Derek: I called a few members of the advisory board and asked for their thoughts. We should be able to sell the hotel for $40 million. If we ask that price, Thomas Wong may have even found a buyer.

Kelvin: You have spent a lot of time working on this without our knowledge. Why did I waste time finding ways to renovate the property?

Alyson: I have also been thinking it might be time to sell. In addition to the room size issue, the location is not ideal for a boutique hotel.

Jessica: Selling might negatively impact DHC's eventual initial public offering plans.

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APPENDIX I (continued)
TRANSCRIPT OF PREVIOUS BOARD MEETING

Derek: I am not sure I agree. CPA can assess the risks and benefits of each alternative. Next is an investment proposal from Jonathan.

Jonathan: In 2020, DHC hired Cindy Woodman, a website designer who previously worked with Airbnb. Cindy suggested that DHC develop a new online booking business specializing in luxury, short-term stays. The proposed name for the business is "Luxury Stays" (Luxury). DHC's and Luxury's websites would be linked, and we would promote the luxury services, to be provided by DHC. Cindy and I have put together additional information.

Derek: The advisory board suggested that DHC target the short-term rental market. Luxury's hosts will be primarily boutique hotels and private homeowners. This is a way for us to penetrate this market segment.

Kelvin: I worry about Luxury negatively impacting DHC's image. How will Luxury find the hosts that will list their accommodations? Would we need to inspect every one of them to ensure that they meet DHC's high standards?

Jonathan: Luxury would use its new website to recruit hosts. The accommodations could also be inspected, but I doubt that Luxury could charge extra fees to recover inspection costs; they would have to be absorbed. Instead, we could do like other similar businesses, and rely on guest reviews to assess how well the accommodations meet DHC's standards.

Alyson: If customers stay in private homes or non-DHC hotels, could it take away revenue from our DHC hotels?

Jonathan: We do not plan to list DHC's hotels, and as the site will appeal to guests who would not otherwise stay at DHC hotels, that should not be an issue.

Jessica: If we choose to create Luxury, DHC would provide extra services for all bookings, thereby offering "exceptional" service to Luxury's clients. Offering these extra services allows all guests to enjoy a unique experience.

Derek: The initial investment is small and targets a new market segment. I think we should consider it. CPA, please provide your assessment.

CPA: Of course. Our report will be ready for your next meeting.

Derek: Thank you. Meeting adjourned.

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APPENDIX II
ADVISORY BOARD

The advisory board membership consists of:

- George Karpenter (chairperson, and friend of Derek) has spent twenty years working in upscale hotels.
- Warren Gaspari (friend of Derek) has spent fifteen years as a conference manager with a global hotel chain.
- Samina Kalas (friend of Alyson) stays in short-term rentals whenever she travels.
- Shirley Lata (friend of Jessica) has spent eight years making travel arrangements for staff of the large company that she works for.
- Sean LeBois (friend of Derek) owns a business that specializes in hotel furniture and equipment sales, and hotel renovations.
- Laura Smythe (friend of Jessica) is an equity analyst specializing in the hotel industry.
- Thomas Wong (friend of Derek) has ten years of experience promoting tourism publications.
- Dominique Girard (friend of Jonathan) is a hotel and travel writer for Thomas Wong.

The advisory board's mandate is to provide:

- suggestions regarding DHC's strategic direction.
- information regarding trends in the hotel industry.
- advice on preparing to go public.
- advice on operational issues.
- advice on how to improve community relations.

To help DHC achieve its specific objectives and achieve a successful public offering, the advisory board recently made the following suggestions:

- Ensure that all key metrics align with industry averages, with the exception of the operating margin, which should exceed industry averages.
- Increase the number of rooms to 1,000 by 2025.
- Increase the percentage of business travellers to 40%.
- Diversify in order to reduce reliance on hotel revenue.

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APPENDIX III
INTERNAL FINANCIAL STATEMENTS

Distinct Hotels Corporation
Consolidated Statement of Comprehensive Income
For the year ended December 31, 2022
(in thousands of Canadian dollars)

Revenues	
Room revenue	$ 95,204
AWH – room revenue	12,264
Food and beverage	51,410
Golf revenue – annual membership fees	390
Golf revenue – green fees	1,560
Management fees from HHH	1,980
	162,808
Expenses	
Room operating costs	50,458
AWH – room operating costs	6,745
Food and beverage costs	34,959
Golf services costs	1,523
Management salaries and benefits related to HHH contract	1,050
Depreciation and amortization	11,380
Marketing and sales	4,936
Property tax, utilities, and insurance	12,462
Administrative and general	21,668
	145,181
Operating income	17,627
Interest on line of credit	(36)
Interest on long-term debt	(4,835)
Dividends on preferred shares	(1,500)
Income before taxes	11,256
Income taxes	(3,393)
Net income and comprehensive income	$ 7,863

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APPENDIX III (continued)
INTERNAL FINANCIAL STATEMENTS

Distinct Hotels Corporation
Consolidated Statement of Financial Position
As at December 31, 2022
(in thousands of Canadian dollars)

Assets	
Cash and cash equivalents	$ 3,980
Trade receivables	1,370
Inventories	2,370
Prepaid expenses	1,700
	9,420
Property, plant, and equipment, net	146,820
AWH – property, plant, and equipment	41,575
Goodwill – AWH	3,500
Total assets	$ 201,315
Liabilities	
Line of credit	$ 1,200
Trade payables and accrued liabilities	14,985
Income taxes payable	2,120
Contract liability – revenue	6,690
Current portion – Nova Scotia loan	3,000
Current portion – Ontario loan	2,000
	29,995
Long-term debt – Nova Scotia	30,000
Long-term debt – Ontario	33,000
Retractable preferred shares	25,000
Deferred tax liability	6,810
Total liabilities	124,805
Shareholders' equity	
Share capital	13,175
Retained earnings	63,335
	76,510
Total liabilities and shareholders' equity	$ 201,315

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APPENDIX IV
COMPARISON TO INDUSTRY BENCHMARKS

	DHC		Boutique Hotel Segment	
	2022	**2019**	**2022**	**2019**
Rev/PAR (Occupancy rate × ADR)	$343	$280	$328	$262
Occupancy rate	78%	70%	80%	78%
Average daily rate (ADR)	$440	$400	$410	$335
Percentage of business travellers	15%	10%	35%	30%
Current ratio	0.3	0.2	0.7	0.8
Debt to equity	1.6	2.2	2.1	2.6
Total debt to assets	0.6	0.7	0.7	0.7
Return on equity	10%	8%	12%	11%
Operating margin	11%	9%	14%	16%
Profit margin	5%	3%	6%	8%

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APPENDIX V
INFORMATION REGARDING MONTREAL HOTEL

Summary of the proposed lease agreement:

- Lease payments are $50,000 per year plus 16% of room revenues, paid monthly.
- Term is for 15 years with an option to renew for five additional years, with the rent to be determined at that time.
- RH will pay for building insurance, utilities, and property taxes.
- RH will pay 50% of the cost of initial renovations, to a maximum of $5 million. DHC expects renovations to cost a total of $15 million. All renovations must first be approved by RH.
- RH has the right to sell the building at any time, provided that DHC is given 90 days' notice of lease termination. DHC will have the right of first refusal.

Financial estimates are:

- an ADR of $750 and occupancy rate of 80%.
- room operating costs equal to 55% of room revenue.
- administrative and general expenses (including marketing and sales) equal to 13% of room revenue.

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APPENDIX VI
ARTISTS WAREHOUSE HOTEL PROPOSAL

Isabelle prepared the following post-renovation earnings forecast for Jessica.

	Note	
ADR	1, 3	$290
Estimated occupancy	2	85%
Number of rooms	4	120
Room revenue		$ 10,796,700
Food and beverage sales – 65% of room revenue	5	7,017,855
Room operating costs – 55% of room revenue	5	(5,938,185)
Food and beverage costs – 50% of food and beverage revenue	5	(3,508,928)
Marketing, property, and administration costs – fixed		(5,000,000)
Operating margin		3,367,442
Less taxes (27%)		(909,209)
		$ 2,458,233

Notes:

1. The ADR used reflects a reduction from the current $300 to $290, to reflect the expected rate reduction required to attract more business travellers.
2. Estimated occupancy assumes a 10% increase.
3. Assumes that 45% of guests are business travellers.
4. Renovations will include the addition of a restaurant and bar. To do so, the number of rooms will decrease from 150 to 120 but we will gain new revenue from the bar and restaurant.
5. These are my best estimates.

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APPENDIX VII
NORTHERN ONTARIO HOTEL PROPOSAL

The following information has been gathered regarding the Northern Ontario hotel:

- For the year ended December 31, 2022, total revenue was $16,726,125 and pre-tax profit was $1,338,090.
- As at December 31, 2022, the carrying amount of the hotel's net assets was $40 million.
- After renovations:
  - revenue is expected to be $21.9 million (150 rooms × 365 days × $500 ADR × 80% occupancy).
  - a pre-tax profit of $2,628,000 is expected. Included in this calculation is a depreciation expense of $4.9 million.

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APPENDIX VIII
LUXURY STAYS PROPOSAL

Highlights of the business model are as follows:

- Hosts will pay Luxury a commission of 10% of booking revenue, and guests will pay Luxury a separate commission of 3% of booking revenue.
- Luxury will offer additional, personalized services as requested by guests, which will make it unique in this segment of the rental market. The services will include amenities that are normally provided in DHC hotels, such as maid and laundry services, grocery shopping, dog walking and childcare, but will go even further to include things such as chefs preparing meals onsite, personal trainer sessions, massages and physiotherapy. All services will be booked through the Luxury website. These services will be priced at cost plus 25% and will be provided by DHC.
- On the website, guests can search accommodation listings by location, date, property type, amenities, and price.
- Luxury will need to offer at least 1,200 accommodations across five major cities to provide the kind of selection that will attract guests.
- Although the focus will initially be on the Canadian market, once the model proves successful, expansion to accommodations outside Canada will be possible.

Luxury will require an initial investment of $7 million, and annual operating costs of $4 million are expected.

After conducting market research, the following financial forecast was developed.

	2023	2024	2025	2026
Number of nights booked	20,000	80,000	120,000	170,000
Average revenue per night	$300	$350	$370	$380
Commission revenue	$780,000	$3,640,000	$5,772,000	$8,398,000

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End of Examination

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CPA COMMON FINAL EXAMINATION REFERENCE SCHEDULE

1. PRESENT VALUE OF TAX SHIELD FOR AMORTIZABLE ASSETS

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018

$$= \frac{CdT}{(d+k)}\left(\frac{1+1.5k}{1+k}\right)$$

Notation for above formula:
C = net initial investment
T = corporate tax rate
k = discount rate or time value of money
d = maximum rate of capital cost allowance

2. SELECTED PRESCRIBED AUTOMOBILE AMOUNTS

	2020	**2021**
Maximum depreciable cost — Class 10.1	$30,000 + sales tax	$30,000 + sales tax
Maximum depreciable cost — Class 54	$55,000 + sales tax	$55,000 + sales tax
Maximum monthly deductible lease cost	$800 + sales tax	$800 + sales tax
Maximum monthly deductible interest cost	$300	$300
Operating cost benefit — employee	28¢ per km of personal use	27¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	59¢ per km	59¢ per km
— balance	53¢ per km	53¢ per km

3. INDIVIDUAL FEDERAL INCOME TAX RATES

For 2020

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$48,535	$0	15%
$48,536	and	$97,069	$7,280	20.5%
$97,070	and	$150,473	$17,230	26%
$150,474	and	$214,368	$31,115	29%
$214,369	and	any amount	$49,644	33%

For 2021

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$49,020	$0	15%
$49,021	and	$98,040	$7,353	20.5%
$98,041	and	$151,978	$17,402	26%
$151,979	and	$216,511	$31,426	29%
$216,512	and	any amount	$50,141	33%

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4. SELECTED INDEXED AMOUNTS FOR PURPOSES OF COMPUTING INCOME TAX

Personal tax credits are a maximum of 15% of the following amounts:

	2020	2021
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins	$12,298	$12,421
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins	13,229	13,808
Age amount if 65 or over in the year	7,637	7,713
Net income threshold for age amount	38,508	38,893
Canada employment amount	1,245	1,257
Disability amount	8,576	8,662
Canada caregiver amount for children under age 18	2,273	2,295
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,276	7,348
Net income threshold for Canada caregiver amount	17,085	17,256
Adoption expense credit limit	16,563	16,729

Other indexed amounts are as follows:

	2020	2021
Medical expense tax credit — 3% of net income ceiling	$2,397	$2,421
Annual TFSA dollar limit	6,000	6,000
RRSP dollar limit	27,230	27,830
Lifetime capital gains exemption on qualified small business corporation shares	883,384	892,218

5. PRESCRIBED INTEREST RATES (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2021	1			
2020	2	2	1	1
2019	2	2	2	2

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for late or deficient income tax payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

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6. MAXIMUM CAPITAL COST ALLOWANCE RATES FOR SELECTED CLASSES

Class 1…….	4%	for all buildings except those below
Class 1…….…	6%	for buildings acquired for first use after March 18, 2007 and ≥ 90% of the square footage is used for non-residential activities
Class 1…….	10%	for buildings acquired for first use after March 18, 2007 and ≥ 90% of the square footage is used for manufacturing and processing activities
Class 8…….	20%	
Class 10……..	30%	
Class 10.1……	30%	
Class 12……..	100%	
Class 13……..	n/a	Straight line over original lease period plus one renewal period (minimum 5 years and maximum 40 years)
Class 14……..	n/a	Straight line over length of life of property
Class 14.1……..	5%	For property acquired after December 31, 2016
Class 17……..	8%	
Class 29……..	50%	Straight-line
Class 43……..	30%	
Class 44……..	25%	
Class 45……..	45%	
Class 50……..	55%	
Class 53……..	50%	
Class 54……..	30%	

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