

**ELECTIVE (TAXATION)**

*Elective examinations will be 3 hours in length. Candidates will be given 4 hours to complete the examination, providing an extra hour to formulate their responses. The intention is to reduce the time constraint. The examinations will be made up of a mix of objective-format and medium to large-sized, moderately complex cases. The split and length may vary across the Electives to adapt to learning outcomes required.*

*Elective examinations will use larger and more complex cases than those used for Core 1 and Core 2, requiring a minimum of 60 and a maximum of 120 minutes to complete. The assessment of professional skill will continue in a multi-competency environment, always building on prior learnings but greater than 50% of assessment opportunities will be related to the Elective area being examined.*

*Elective cases will require candidates to simulate the “roles” they will play in real life, and therefore access will be provided to the reference tools they would use, where practical to do so. The Board of Examiners will use preloaded forms like tax returns, and provide access to the Tax Act and other tax information, etc. for questions where possible in the Taxation Elective.*

**Fred et Nora Simpson – CASE 2**

**Suggested time: 70 minutes (represents the time judged necessary to complete the simulation)**

Today is December 18, 2015. Fred Simpson received a Notice of Reassessment from Canada Revenue Agency (CRA) last week requesting payment of more than \$22,000 in unpaid taxes, interest, and penalties. He called your firm, Szyslak LLP, in Guelph, Ontario, on the recommendation of a friend. He has never dealt with a professional accounting firm before, and it was obvious that he was upset.

“I’ve always done our tax returns myself,” Fred told you. “For the first time I had someone else prepare our returns last year; I thought the tax people at the mall knew what they were doing.

When Fred and Nora first filed their 2014 returns, they owed \$758 in income taxes, which Fred thought was reasonable, since he has always owed a bit more than comes off his pay, due to the investment income he has earned.

“We don’t have a lot of money,” he continued. “I plan to retire next year, and my wife has never worked. I just don’t understand how we could owe so much tax. It might not seem like much to you, but it’s just one more thing I really don’t need to deal with right now.”

As you, CPA, senior accountant at Szyslak LLP, looked through the documents Fred had brought with him, you saw one T4, two T5s, several medical expenses, and two charitable donation receipts. Fred provided you with his return and Notice of Reassessment (Appendix I), and you took additional notes during your conversation (Appendix II).

Fred explained that he had to withdraw his entire RRSP and sell all his non-registered investments during 2014 to cover renovations to their home after Nora, Fred's wife, was in a car accident. "We didn't have a choice," he told you. "She's confined to a wheelchair and can't get around on her own. We've lived in that house for 40 years and we don't want to move. I cashed in everything I could so we would have enough money for the renovations to the house."

Fred just shook his head as he looked at the reassessment notice from CRA. "Can you explain the difference between the amounts we filed and this notice? How did they come up with these numbers? Is there anything that was missed when we originally filed that would have reduced our taxes? If so, how much would that have saved us? Are there any tax breaks available now that Nora is only able to get around using a wheelchair? Can we refute any of their reassessments, or make any changes of our own? If so, how do we go about doing it and what is the latest date we can respond? I just don't know where to start and I don't know where we are going to get the money."

You told him you would review his information and get back to him as soon as possible. He would also like you to come up with some suggestions on ways to finance the \$22,000, assuming for now that he really owes the money. If you have any suggestions for what to do about the investment his son proposed, or any tax planning suggestions for the pension and Canada Pension Plan (CPP) income he will start to earn next year, he would also appreciate them.

**APPENDIX I  
NOTICE OF REASSESSMENT**

Fred Simpson	555 123 456	2014
	As Filed	Reassessment
Employment income	\$ 67,500	\$ 67,500
Investment income	5,687	5,687
Taxable capital gain	–	31,250
RRSP income	–	90,000
Total income	<u>73,187</u>	<u>194,437</u>
Union dues	1,100	1,100
Taxable income	<u>72,087</u>	<u>193,337</u>
Federal tax payable	12,782	45,386
Non-refundable tax credits	<u>3,842</u>	<u>3,842</u>
Net federal tax payable	8,940	41,544
Net provincial tax payable	<u>3,950</u>	<u>17,403</u>
Total tax payable	<u>12,890</u>	<u>58,947</u>
Tax payments	12,132	37,132
Balance due	758	21,815
Previously filed		<u>758</u>
Balance due on reassessment		21,057
Interest and penalties		<u>1,512</u>
Total balance owing		<u>\$ 22,568</u>

**APPENDIX II**  
**NOTES FROM DISCUSSION WITH FRED SIMPSON**

- Fred is 63 years old. Nora is 59. The couple has two children, both in their twenties. George, the oldest, is married and has been on his own since he finished high school. Meredith just finished university last year and is still living at home. She has yet to find a job.
- Fred has always tried to keep his income tax returns simple. He makes sure all donations and medical costs are claimed by the person who actually made the disbursement. “I know someone once told me to be sure to have my wife claim all the expenses since she has the lower income. I’ve done my best to follow that advice.”
- In 2014, both donation receipts were in Nora’s name (\$150 to the Middleton General Hospital and \$500 to the Cancer Foundation). They have donated to the Cancer Foundation for the past three years, ever since Nora’s father passed away from lung cancer. Fred estimates they each contributed about \$500 a year before money started getting tight.
- Most of the medical receipts in 2014 were for Nora. After the accident in July, she was in the hospital for three months, and medical bills amounted to \$12,700. Fred said his benefit plan covered just the basics (about \$3,000). The wheelchair they bought for Nora cost \$8,000 and was not included in the medical expenses claimed.
- To help pay for the home renovations, Fred cashed in investments he got from his dad when he died in 1993. “He had some shares in General Tires (a public company) and I sold them for \$55,000. There were some bonds, too. The bank gave me about \$7,500 for them.” Fred wasn’t sure what you meant when you asked him for the adjusted cost base of the investments. “That lady at the mall didn’t ask me any questions.”
- The family spent close to \$100,000 on the renovations. Fred didn’t want to go to the bank because they had just paid off the mortgage, which is why he decided to liquidate all of their investments instead. They bought the house in 1975 for \$37,000. Fred estimates the market value of the home was about \$425,000 before the renovations were done.
- The couple has been dealing with the same bank since they got married in 1973, and they have always made payments on time. The current market rate is 4.5%.
- Fred didn’t understand why the bank gave him only \$65,000 when he cashed in his RRSP. “I asked them to liquidate the investment. I’m sure there was more than that on the last statement they sent me. They sent me something at the end of the year, but I just filed it because I knew we didn’t have the RRSP anymore.”
- Fred is sure that CRA has made a mistake because the tax payments shown on the Notice of Reassessment are \$25,000 more than the number in the income tax box on his T4.

**APPENDIX II (continued)**  
**NOTES FROM DISCUSSION WITH FRED SIMPSON**

- Nora's tax return was filed showing no income. Fred took all of his tax documentation to the mall at the end of April, but he wasn't sure when it was actually filed. "I didn't have time to sit around and chit chat. I just don't like to leave Nora alone too long. Meredith has been a great help; I don't know what we will do when she moves out."
- Fred picked up the tax return on May 18, 2015, just as the kiosk was being taken down. "The lady called and told me that I owed them \$79 for doing the returns and that I had to get down to the mall right away because they were closing up for the year." He tried calling her back when he received the Notice of Reassessment, but the number was no longer in service.
- He paid the balance owing to CRA at the bank the next day. When the notices of assessment arrived in June, he just put them in a drawer without opening them. "I figured I'd done everything I had to. I didn't think about checking the numbers or anything else."
- The Notice of Reassessment is dated December 3, 2015. Fred received it on December 10, 2015. "I couldn't figure why I was getting a letter from CRA this time of year, so I opened the envelope and almost fell over when I saw the numbers."
- Fred said the friend who referred him to your firm offered to lend him the money if he agreed to pay him back with interest at 8%. His son George has a line of credit with the bank, but Fred is hesitant to ask his son for any money since he isn't sure how soon he can pay it back. "My daughter-in-law isn't quite as supportive of the family as George would like me to think," Fred told you.
- Upon learning that Fred and Nora had liquidated their investments, George suggested that, as a way to earn some investment income, either Fred or Nora could acquire a unit in a business partnership he recently joined. Each unit would cost about \$1,000 and would entitle the partner to one-tenth of the partnership's income. George expects the partnership will lose around \$2,000 in the first year, but will earn income in future years. Fred is not sure whether it is better for him to acquire the unit or for Nora to acquire it, or if they should invest at all.
- Fred has a credit card that he uses for emergencies from time to time. It has a balance of \$978. The last time he used it was in May, when he went to the bank to pay his taxes. It has a \$6,000 credit limit and an annual interest rate of 28%.