



CPA

CHARTERED
PROFESSIONAL
ACCOUNTANTS
CANADA

CFE CANDIDATE NUMBER:

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**Common Final Examination
September 12, 2023 – Day 1
(Booklet #1 – JRP Version 1)**

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

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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 examination 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**. All financial tables in the case with ten lines or more have been preloaded into the spreadsheets that follow Sheet 1. Those spreadsheets are in read-only mode. You must copy and paste the financial information into your Sheet 1, where you can then do all your calculations. 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 the examination software or, in the event of computer failure, the CPA Canada writing paper provided.

Rough-note paper is available in a separate booklet, which also includes a copy of the Capstone 1 case for reference only, and will not be evaluated. Rough notes, and any other notations made in the examination booklets will not be evaluated.

The CPA Canada Handbooks, the *Income Tax Act* and the *Excise Tax Act* are available in the examination software throughout the entire examination. These materials provide the standards in effect and tax laws substantively enacted as at December 31, 2022.

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 examination questions as presented even though the circumstances described in the examination questions may not be reflective of the current environment.

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Common Final Examination, 2023

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Toronto, Ontario M5V 3H2

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

It is July 23, 2025, and you, CPA, are still working at Quinton and Sparks Consulting LLP (QSC). J.R. Pets Inc. (JRP) has again engaged QSC to assist with its strategic analysis and planning.

In 2023, JRP moved forward with the option to invest in the deluxe dog camp, Bonheur des Animaux au Lac Agathe Camp (BALA). JRP did not move forward with any of the other potential strategic investments that were considered during 2023. Also, the store manager who exploited JRP's required training reimbursement program was let go, and the manufacturers who were impacted by this fraud were made aware of what had occurred. Since then, JRP has increased the level of documentation required before managers and employees are reimbursed for the training programs they report as being complete.

After a prolonged period of growth, both the Canadian and global economies began to decline in early 2025. Given a historically high inflation rate, central banks around the world have begun to increase interest rates. As a result, the disposable income of Canadians has declined and so has consumer spending.

Since 2023, JRP has not changed its mission, vision, or core values.

At the last board meeting, JRP's directors agreed that, for any future investments, preference will be given to those that provide JRP with the highest annualized return on investment (ROI). However, all four JRP board members remain risk averse, and would therefore like to ensure as much as possible the reliability of the return earned from any future strategic investments JRP makes.

For any new strategic investments, JRP currently has \$500,000 of investment capital available. Also, a reputable bank has offered to provide JRP with a term loan of up to \$7 million. The potential loan's term is 10 years and it has an interest rate of prime plus 3%. Principal and interest payments are payable monthly until the loan matures.

JRP's board has asked you, CPA, to review the information that has been provided and draft a report in which you analyze and make a recommendation for each proposal presented. The board would also like you to comment on JRP's overall strategic direction and on how each proposal could influence that direction. For this engagement, please ignore any tax implications within your analysis and recommendations.

INDEX OF APPENDICES

	Page
Appendix I – Board Meeting with CPA in Attendance	4
Appendix II – Industry Update	10
Appendix III – Expansion of Premium Dog Camps	11
Appendix IV – Pet Pharmacies	12
Appendix V – Pet Fresh Partnership	13
Appendix VI – Pet Pharmaceutical Distribution Agreement	14
Appendix VII – Training+ Course.....	15

APPENDIX I
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Julia: Thank you, CPA, for coming today.

As you all know, JRP is at a critical point in its development. Prior to this year, the growth of our pet shops was already stagnant, and now with the recent economic downturn, our profit margins have declined as many of our customers have moved away from purchasing high-priced specialty products and services.

Elaine: That's right, Julia. The downturn in the economy has made everyone more cautious with their spending—especially on products they deem nonessential. The next several years could be tough for business. We simply don't know how long this downturn will last, so we need to be cautious when making investments. The lower the risk, the better.

Steve: It will be a challenge, but I am confident that with the right decisions, we can help protect JRP and ensure that the company thrives well into the future. On that note, our investment in BALA has been a huge success so far. Last year, during its first full year of operations, BALA surpassed our initial performance expectation.

Gord and Irene's contributions have been instrumental to BALA's early success. I don't think we could have managed without them. Gord recently asked whether he could speak with the board. He's here today to discuss a new investment opportunity with us.

Richard: Excellent. Send him in.

Gord joins the meeting.

Julia: Welcome, Gord. First off, thanks for your hard work at BALA. You've both made us proud!

Gord: You're very welcome, Julia. Honestly, it is both Irene's and my pleasure. We love operating BALA. It's been incredible so far.

I want to propose to the board that JRP open two additional premium dog camps. After the early success of BALA, it makes sense to expand now and get a foothold in two new markets before our competitors do. I have identified properties that would be ideal for BALA-type dog camps: one in Ontario and the other in Nova Scotia.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Elaine: As the “humanization of pets” trend continues, demand for BALA’s premium boarding service has been driven by pet parents who want the best for their pets. As well, the number of pet owners continues to increase, and this could help drive demand even higher.

Richard: I like the idea of opening new dog camps in Ontario and Nova Scotia, since BALA’s location in Quebec has helped build JRP’s brand in that province.

Julia: There is no doubt that BALA has been a success, but this expansion might be premature. BALA has only been open for a little over a year and a half. Plus, the expansion will force Gord to divide his attention between all three dog camps.

Gord, have the luxury grooming and spa treatment rooms opened at BALA yet?

Gord: Unfortunately, no. But we’re getting closer. Irene and I felt it was important to solidify the camp’s base operations before we turned our attention to the grooming and treatment rooms.

Elaine: Gord, I also understand that Irene has made quite a name for herself as a pet trainer. We have received rave reviews from BALA’s customers about Irene’s training tips.

Gord: Irene has a gift for dog training. In fact, we should consider selling training courses since there is clearly a demand for it. I have left some information with Elaine about this additional opportunity.

Finally, I wanted to mention that the expansion of JRP’s dog camps is very important to me and Irene. Although we both love operating BALA, we want a greater challenge. If JRP’s board chooses not to expand the dog camp operation, I have found another company that Irene and I will go and work with. This company has also offered to buy BALA from JRP for \$6 million.

Julia: Okay, Gord. Thanks for the information. We will speak with you soon.

Gord leaves the meeting.

Steve: The success of BALA or any future expansion depends on Gord and Irene. And so, we will either need to sell it or agree to expand into Nova Scotia and Ontario.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

- Elaine: I agree, Steve. I also think it's important to point out that BALA's occupancy rate is lower this year than it was at the same time last year. Plus, we have begun to receive comments from customers that our fees are too high, and because of that, they may not return to use BALA's services again.
- Julia: Okay, next up, a veterinarian friend of mine suggested that we install a pet pharmacy at each of our current JRP stores. In addition to offering pet medicine products, each pharmacy would be staffed by a certified pet pharmacist who would not only prescribe pharmaceutical products but also provide advice, and even perform basic medical checkups and preventive care procedures. Offering this type of service directly in our stores will give JRP a competitive advantage.
- Steve: It's an interesting idea, but I worry about the risks. What if a pet gets sick because one of our pharmacists provided poor care or an improper medicine? Not only could this hurt our reputation, but we could potentially be held liable.
- Richard: While that is a real concern, we could get insurance to protect ourselves, so I think it's a great idea. Pet owners care deeply about the health of their pets, so this type of service should provide a steady source of revenue—the same thing can't be said for luxury services or products. People become more cautious with spending when their disposable income drops.
- Steve: By offering this service, JRP would enter a new regulatory environment. This would complicate our operations and potentially increase costs. Plus, more regulations are bound to be issued.
- Julia: You're not wrong, Steve. If we move forward with this proposal, we will need to be careful. However, with our experience, I'm confident that our pharmacies will be able to provide goods and services of high quality that meet all industry standards. JRP has never had a problem with meeting regulations in the past. My veterinarian friend even mentioned that she could help us find and hire our first few certified pet pharmacists.
- Richard: Okay, moving on, I want to discuss another investment opportunity. Pet Fresh is an up-and-coming German company that offers a subscription-based service so that pet owners can have premium pet product boxes delivered directly to their homes. Pet Fresh is seeking a partnership with JRP that would allow them to expand their operations into Canada.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Elaine: If these pet product boxes contain food products, I'm concerned. It will be a challenge to ensure that the food stays fresh during shipping. We would need to ensure that Pet Fresh adheres to JRP's strict quality requirements.

Richard: The boxes do contain food products. In fact, customers can choose from a range of food, treats, and toy options. Each box is different from the last, so the pet gets a variety of healthy food, and because this is an exclusive offering, each box contains only the best, most luxurious products. Despite the additional expense, Pet Fresh's German customers love the convenience of not having to make regular visits to the pet store.

One of the best parts of the proposed partnership is that Pet Fresh will take care of all the operational considerations. Once we make the upfront investment, Pet Fresh will be responsible for product sourcing and the assembly and shipment of the boxes. Another great aspect of Pet Fresh's proposal is their willingness to use JRP's name as the brand on the boxes. This could help JRP gain national exposure!

Julia: We could propose this new service directly to JRP's past and present customers using our customer database.

Richard: Exactly, and we could also advertise this service in our existing JRP stores.

Julia: This partnership is worth looking into.

Elaine: Maybe, but it wouldn't take many incidents before customers lost trust in the safety of our products.

Steve: Our next opportunity came available when PetPharma Co. (PPC), an American pet pharmaceutical developer and manufacturer, contacted me about JRP becoming PPC's exclusive Canadian distributor. PPC has never sold their products in Canada before.

Elaine: Once again, I am concerned about regulation because American standards are different from Canadian standards, and because the pet industry faces increasing regulation. What do we know about PPC?

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Steve: The company is two years old. My preliminary research shows they have become a trusted brand that provides high-quality pet medicines and other pharmaceutical products. Once PPC's products get approved for sale in Canada, I expect our revenue stream from the distribution agreement to steadily grow over time.

Becoming PPC's distributor would allow JRP to build relationships with veterinarians across Canada. Plus, because we would be the exclusive distributor, anyone who wanted PPC products in Canada would need to buy through JRP.

Richard: JRP has never been a distributor before. We know nothing about the logistics involved.

Steve: From what I can tell, it's a straightforward process. First, we would need to lease a warehouse to receive PPC's products. From there, we would ship orders directly to veterinarians and pet pharmacies anywhere in Canada. The staffing requirement would be minimal. Plus, as PPC's distributor, JRP could purchase its products at a discount. We would save about 5% over the best price that we have found for similar pet medicine and pharmaceutical supplies.

Elaine: It sounds interesting, but we should be cautious. I wonder what amount of PPC product sales JRP would need before we begin to earn a return on the initial investment?

Steve: I will provide my preliminary research figures.

Elaine: Finally, as Gord mentioned earlier, we have an opportunity to offer an advanced training program, Training+. Irene is an expert dog trainer, and JRP has yet to offer a dog training service.

Julia: Moving forward with this project would probably help us retain Gord and Irene, but what if they decide to leave JRP?

Richard: I am sure we could find another dog trainer to lead the program.

Julia: Maybe. But isn't there a lot of competition for dog training programs?

Elaine: Indeed, there is. But the Training+ course is different because it goes far beyond the basics and offers an experience for both dogs and dog owners. We could charge a much higher price for this program compared to regular training courses.

APPENDIX I (CONTINUED)
BOARD MEETING WITH CPA IN ATTENDANCE

July 23, 2025

Steve: What kind of experience does Training+ offer?

Elaine: For the duration of the program, both the dogs and dog owners will stay onsite for an exclusive experience that will provide the dog owners with the chance to make friends. And at the end of the program, Irene is confident that each dog will be competent enough to enter obedience competitions. Pet parents will love that!

Steve: I'm not sure, Elaine. There are endless training videos for free online. And what about the dog bite incident that happened at BALA when Irene was demonstrating a training technique? That pet owner left a very bad online review of BALA.

Elaine: That's true, but neither JRP nor Irene can be held responsible for one misbehaved dog. Irene is a master, and she's willing to provide the education necessary to all the other instructors the Training+ program would need. After the first few cohorts of dogs, JRP would have a highly competent group of dog trainers. That could be a huge asset for us going forward.

Julia: Good point, Elaine. Thank you all for your contributions today. CPA, the board looks forward to your report. Meeting adjourned.

APPENDIX II INDUSTRY UPDATE

A number of prominent Canadian economists have recently projected that the sharp increase in inflation is expected to continue for at least the next two years before hitting a plateau in 2028. It could take several years after that before Canada's inflation rate comes down to the historical average. Given this projection, borrowing costs are also expected to continue to increase for the foreseeable future.

The trend of pet parents to treat their pets as family members has continued to intensify. Because of this, many pet owners consider their pet's health important, so if their pets get sick, owners are likely to pay for any necessary medicines or veterinarian visits.

This trend has led to an increase in demand for pet medicines, which has triggered many new pharmaceutical suppliers to enter the market. In the past year, there have been several incidents of pets becoming ill after taking medicine from two of these new market entrants that did not follow the strict requirements set by Health Canada. As a result of these incidents, the regulations around animal medicines have become stricter and penalties for violations have increased.

**APPENDIX III
EXPANSION OF PREMIUM DOG CAMPS**

Prepared by Elaine

So far, BALA has had two main types of customers: dog owners who want a unique vacation that includes their dogs, and dog owners who use BALA as a boarding service while they go on business trips or personal vacations.

The original BALA location cost \$4.8 million, but the combined cost to purchase both new locations is \$6.8 million since the new locations are not quite as big as BALA. Each new location will be able to accommodate only 40 dogs per day, whereas BALA can accommodate 60.

I have put together the following analysis, based on the actual results from BALA's first year of operations (2024):

Description	Current BALA Location (ACTUAL)	Two New Potential Locations (Combined PROJECTION)		
		50%	70%	90%
Occupancy rate	60%	50%	70%	90%
Daily rate per dog	\$ 105	\$ 105	\$ 105	\$ 105
Max number of dogs per day	60	80	80	80
Days open per year	365	365	365	365
Total pet camp fees	\$ 1,379,700	\$ 1,533,000	\$ 2,146,200	\$ 2,759,400
Merchandise sales	500,000	605,500	800,000	1,000,000
Grooming	65,000	77,500	112,000	143,000
Pet owner stays	438,000	497,000	631,300	832,200
Total revenue	2,382,700	2,713,000	3,689,500	4,734,600
Total costs	1,366,540	1,965,100	2,096,000	2,116,920
Net income	\$ 1,016,160	\$ 747,900	\$ 1,593,500	\$ 2,617,680

**APPENDIX IV
PET PHARMACIES**

Prepared by Julia

Because JRP will need to renovate its existing stores to make room for the pet pharmacies, the company will have less shelf space to offer pet supply products. In addition, each renovation will take around three weeks to complete. However, the stores will be able to remain open during this time.

Given the increase in demand for pet medicines and pharmaceutical products, the demand for certified pet pharmacists, a profession newly created in 2024, has recently increased. As this is a new profession, some veterinarian clinics and pet pharmacies are having a difficult time finding and hiring these professionals.

Based on my research and the discussions I've had with my veterinarian friends, I compiled the following estimates for the likely revenue and costs associated with offering pet pharmacies within JRP's stores:

- A pet pharmacy could be opened at each of JRP's existing 20 store locations. The renovation cost is estimated to be \$225,000 per location.
- Each pet pharmacy will employ one certified pet pharmacist at an annual salary of \$120,000.
- Annual administration costs for each pet pharmacy are expected to be \$77,500.
- Each pet pharmacy is expected to generate \$460,000 in revenue each year.
- The cost to obtain the pet pharmaceutical supplies will provide a 50% gross margin.

APPENDIX V
PET FRESH PARTNERSHIP

Prepared by Richard

To enter the partnership agreement, JRP will be required to pay Pet Fresh \$650,000. Pet Fresh will use these proceeds to lease and renovate a facility in Canada where the boxes will be assembled and shipped from. In return, JRP will earn 50% of all profit generated from the new operation.

Pet Fresh has been in operation in Germany for two years. Based on their experience, Pet Fresh's management expects the new partnership with JRP will earn \$1.3 million in revenue annually. The cost of goods sold is estimated to be 40% of revenue. Shipping expenses are currently estimated to be \$300,000 per year, and administration costs will be \$200,000 per year.

However, there is some uncertainty surrounding both the cost of goods sold and the projected shipping expenses. The main component of cost of goods sold is the price of food, and the main component of shipping expenses is the price of fuel. In recent years, the prices of these items have tended to increase from year to year, given factors such as inflation. Therefore, the cost estimates given above for these items could increase. Depending on whether the potential price hikes are moderate or high, we can expect the costs of these items to increase in the following ways next year:

Item	Moderate	High
Cost of goods sold	8%	15%
Shipping expenses	20%	40%

APPENDIX VI
PET PHARMACEUTICAL DISTRIBUTION AGREEMENT

Prepared by Steve

The agreement with PPC will allow JRP to distribute pet pharmaceuticals to veterinarians and pet pharmacies across Canada. A recently introduced regulation requires businesses to have a licence, and a certified pet pharmacist on staff to prescribe pet pharmaceutical products.

All PPC products have been approved for sale within the United States.

The proposed agreement requires JRP to pay an initial \$500,000 to acquire the exclusive distribution rights to PPC's products within Canada. Based on our market research, we expect to sell around \$16.5 million of PPC's products annually. JRP will earn 6% on all of PPC's Canadian product sales throughout the duration of the agreement. The agreement has a five-year term and an option for JRP to extend the contract for an additional five years. JRP's annual fixed costs associated with becoming PPC's Canadian distributor are estimated to equal \$540,000, and JRP expects the project's variable costs to be 2% of PPC's annual Canadian product sales.

**APPENDIX VII
TRAINING+ COURSE**

Prepared by Elaine

Before JRP can begin to offer the Training+ courses, Irene needs to provide training to the other people who will become trainers for the program. The only other startup cost of this potential venture will be advertising to attract pet owners to the program. JRP estimates these upfront costs will total \$100,000.

Irene plans to offer two variations of the Training+ course: one that will last one week and another that will last two weeks. However, there will be no overlap between course types as only one course can effectively operate at any given time.

Course Type	One Week	Two Week
Number of courses offered per year	16	10
Price charged to dog owners	\$2,000	\$3,500
Number of dogs per course	12	12

The variable costs associated with operating the Training+ course are expected to equal 30% of revenue. The total wage expense for the trainers who will operate the program will equal \$6,200 for each week the course is offered. If BALA is no longer available as the location for the Training+ courses, JRP will need to rent the facilities required to operate the training program—a suitable location has been found that will cost the company \$5,600 per week. Lastly, there will be an annual fixed cost of \$130,000 related to the administration of the program.

End of Examination

**CPA COMMON FINAL EXAMINATION
REFERENCE SCHEDULE**

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, and before January 1, 2024, other than those eligible for immediate expensing.

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

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

Selected Prescribed Automobile Amounts

Item	2022	2023
Maximum depreciable cost — Class 10.1	\$34,000 + sales tax	\$36,000 + sales tax
Maximum depreciable cost — Class 54	\$59,000 + sales tax	\$61,000 + sales tax
Maximum monthly deductible lease cost	\$900 + sales tax	\$950 + sales tax
Maximum monthly deductible interest cost	\$300	\$300
Operating cost benefit — employee	29¢ per km of personal use	33¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	61¢ per km	68¢ per km
— balance	55¢ per km	62¢ per km

Individual Federal Income Tax Rates

For 2022:

If taxable income is between	Tax on base amount	Tax on excess
\$0 and \$50,197	\$0	15%
\$50,198 and \$100,392	\$7,530	20.5%
\$100,393 and \$155,625	\$17,820	26%
\$155,626 and \$221,708	\$32,180	29%
\$221,709 and any amount	\$51,344	33%

For 2023:

If taxable income is between	Tax on base amount	Tax on excess
\$0 and \$53,359	\$0	15%
\$53,360 and \$106,717	\$8,004	20.5%
\$106,718 and \$165,430	\$18,942	26%
\$165,431 and \$235,675	\$34,208	29%
\$235,676 and any amount	\$54,579	33%

Selected indexed amounts for purposes of computing income tax

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

Item	2022	2023
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	\$12,719	\$13,521
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	14,398	15,000
Age amount if 65 or over in the year	7,898	8,396
Net income threshold for age amount	39,826	42,335
Canada employment amount	1,287	1,368
Disability amount	8,870	9,428
Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount	2,350	2,499
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	7,525	7,999
Net income threshold for Canada caregiver amount	17,670	18,783
Adoption expense credit limit	17,131	18,210

Other indexed amounts are as follows:

Item	2022	2023
Medical expense tax credit — 3% of net income ceiling	\$2,479	\$2,635
Old age security repayment threshold	81,761	86,912
Annual TFSA dollar limit	6,000	6,500
RRSP dollar limit	29,210	30,780
Lifetime capital gains exemption on qualified small business corporation shares	913,630	971,190

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2023	4	5	5	
2022	1	1	2	3
2021	1	1	1	1

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.

Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
Class 1	4%	For all buildings except those below
Class 1	6%	For buildings acquired for first use after March 18, 2007 and $\geq 90\%$ of the square footage is used for non-residential activities
Class 1	10%	For buildings acquired for first use after March 18, 2007 and $\geq 90\%$ 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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