CHARTERED
PROFESSIONAL
ACCOUNTANTS
CANADA

CFE CANDIDATE NUMBER:

Common Final Examination
September 15, 2017 – Day 3

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 and the USB key. The exam booklets and the USB key (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. Sign the Policy Statement and Agreement Regarding Exam Confidentiality below.
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CANDIDATE NAME (Please print) SIGNATURE

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Examination Details

The examination consists of:

Booklet #1 – (this booklet)
- **Case #1 (90 minutes)**
- **Case #2 (80 minutes)**
- **Case #3 (70 minutes)**

Booklet #2 – Rough notes

Times noted above are guidelines. Candidates are responsible for managing the time allocation.

The cases should be answered in Securexam. Each case has an answer tab and a spreadsheet tab in Securexam. Make sure that you answer each case in the right tabs. The main body of your response should be in the answer tab. Only supporting calculations should appear in the spreadsheet tab. You are responsible for clearly explaining all your calculations, as outlined in the Securexam tutorial.

Answers or part answers will not be evaluated if they are recorded on anything other than Securexam or the CPA Canada writing paper provided.

The CPA Canada Handbooks and the Income Tax Act, in the form of searchable PDF files, are available within Securexam throughout the entire examination. Securexam provides the standards in effect and tax laws substantively enacted as at December 31, 2016.

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

Rough-note paper is available in a separate booklet. Rough notes, and any other notations made in the exam booklet, will not be evaluated.

Common Final Examination, September 2017

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

<u>Case #1</u> **(Suggested time: 90 minutes)**

When a friend gave up her job to look after her aging mother, Victoria and Isaac Green decided to create a for-profit daytime care centre for seniors, with a mission "*to provide a safe, engaging space for older adults needing care, to improve their lives and lighten their caretakers' task*." In 2015, the Greens incorporated the Elder Care Centre and Spa Inc. (ECCS), and they spent the year getting ready and making capital purchases. The Centre was ready in December 2015 and opened for business on January 1, 2016.

In early January 2017, ECCS obtained a $100,000 loan from its bank, with principal repayable in 2020 and 4% interest due annually. The bank requires a copy of ECCS's 2016 year-end financial statements, to be prepared in accordance with ASPE and reviewed by a CPA. Financial statements for 2015 are not required.

It is now January 20, 2017, and you, CPA, are the senior on the review engagement for ECCS's first year of operations ended December 31, 2016. The engagement letter has been signed, and you have been provided with general information about ECCS (Appendix I) and the draft financial statements (Appendix II). David, your manager, asks you to prepare a planning memo that discusses some of the general considerations for the review engagement. Your memo should address the significant aspects of the business on which the engagement team should focus, materiality, as well as specific review procedures relevant to this engagement.

David mentions that the accounting records are reliable, however, there is concern about the accounting treatment of the crowdfunding contributions, and he would like you to address this issue.

David also mentions that the Greens would like help calculating ECCS's net income for tax purposes for the 2016 corporate tax return. ECCS filed a return for 2015, opting not to claim any CCA during this period, which had no operational activity.

David asks you to also prepare a before-tax, three-year cash flow projection. The Greens would also like you to discuss performance measures that should be put in place to determine how well ECCS is meeting its mission and values.

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APPENDIX I
BACKGROUND ON ECCS

ECCS is open approximately 260 days per year. All clients have access to the library, games room, garden, theatre, craft room, nap room, and café, where lunch is served daily. Some rooms are much busier than others. Spa services are available for an additional fee. A nurse is on site at all times.

Currently, ECCS can accommodate 30 clients daily; 20 spaces are reserved for the 20 member-clients who purchased annual memberships at $1,000 per month, paid on the first of each month, and 10 spaces are open to drop-in clients at $50 per day, paid on the day of their visit.

Providing an affordable alternative to the working middle-class, bringing enjoyment to older adults, and being trusted by the caretakers are all things the Greens value. ECCS considers it important to cater to clients who need ad-hoc care in addition to those needing daily care. ECCS's fees are lower than those for comparable in-home care. They are also lower than retirement or nursing home fees.

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APPENDIX II
DRAFT FINANCIAL STATEMENTS

Elder Care Centre and Spa Inc.
Income Statement
For the year ended December 31, 2016

	Note		
Revenue			
Membership fees	1	$	240,000
Drop-in fees	2		78,000
Spa services	3		96,000
Grant	4		60,000
Crowdfunding	5		65,000
			539,000
Operating expenses			
Advertising and promotion	6		16,000
Depreciation			30,000
Food and beverages	7		57,600
Insurance			20,200
Interest on loan payable to friend	5		6,000
Interest on mortgage	5		8,700
Salaries and wages			
Salaries – owners			100,000
Salaries – nurse			50,000
Wages – spa	8		52,000
Wages – part-time staff	9		71,000
Supplies			4,650
Utilities and property tax	10		23,400
			439,550
Income before taxes		$	99,450

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APPENDIX II (continued)
DRAFT FINANCIAL STATEMENTS

Elder Care Centre and Spa Inc.
Balance Sheet
As at December 31, 2016

	Note		
Assets			
Cash		$	49,850
Food and beverage inventory			1,200
Supplies inventory			2,500
Prepaid expenses			6,300
Property and equipment, net	5		570,000
Total assets		$	629,850
Liabilities and shareholders' equity			
Liabilities			
Accounts payable and accrued liabilities		$	22,000
Deferred revenue	5		20,000
Loan from friend	5		200,000
Mortgage	5		278,400
			520,400
Shareholders' equity			
Common shares	5		10,000
Retained earnings			99,450
			109,450
Total liabilities and shareholders' equity		$	629,850

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APPENDIX II (continued)
DRAFT FINANCIAL STATEMENTS

Elder Care Centre and Spa Inc.
Notes Related to Draft Financial Statements

1. All 20 of the full-time, annual memberships were sold immediately. Renovations just started at ECCS and are planned to be completed in December 2017 at a total cost of $100,000. These renovations will increase the number of full-time spots to 25 and are expected to have a useful life of 20 years.

2. Drop-in spaces were approximately 60% utilized in 2016 and are expected to be 80% utilized in 2017 and going forward. The renovations will increase the number of drop-in spaces to 15.

3. Spa services are charged out at $80 per hour. Spa use is expected to increase by 3% per year going forward.

4. ECCS obtained a five-year operating grant from the provincial government, which has certain conditions (Appendix III). The Greens would like to know if ECCS will need to repay any of the 2016 grant amount and whether any subsequent grant amounts may need to be repaid.

5. In 2015, costs of $600,000 were incurred: $150,000 for land; $405,000 for the building; $25,000 for equipment; and $20,000 for furniture.

   Those costs were covered by a number of sources:

   - Upon incorporation, the Greens contributed $10,000 in total for 1,000 Class A common shares.
   - A friend of Victoria loaned $200,000 to the corporation. Interest is accruing at 3% annually, and the principal and cumulative interest are payable on December 31, 2025, as outlined in the agreement.
   - ECCS obtained a $305,000 fixed, 3% interest rate mortgage for the land and building from its bank. Mortgage payments are as follows for the first four years:

Year	Principal Payments	Interest Payments	Total Payments
2016	$26,600	$8,700	$35,300
2017	$27,400	$7,900	$35,300
2018	$28,200	$7,100	$35,300
2019	$29,100	$6,200	$35,300

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APPENDIX II (continued)
DRAFT FINANCIAL STATEMENTS

Elder Care Centre and Spa Inc.
Notes Related to Draft Financial Statements

- In early 2016, the community responded well to a one-time crowdfunding request, contributing $85,000. Two types of contributions were possible:

Contribution	Benefit Received by Contributor	Total Funds Raised
$20	None	$45,000
$200	Voucher for one-hour spa service, with a value of $80	$40,000

- Contributions of $20 were recorded directly to crowdfunding revenue when received.
- Contributions of $200 were fully recorded as deferred revenue when received. One-half of the 200 vouchers originally issued have been used to date, and the amount was transferred to crowdfunding revenue during the year.

6. Included in this amount is a contribution to a political party for $2,500, meals and entertainment of $1,500 and a $500 golf club membership. In future years, ECCS expects to spend one-half of the amount it spent in 2016 on advertising and promotion.

7. Food and beverages relate to the lunch served to clients each day.

8. Spa employees earn $40 per hour.

9. After the renovations, the total of “wages – part-time staff” is expected to increase by 25% in 2018, and then remain at that level.

10. After the renovations, the total of “utilities and property tax” is expected to increase by 15% in 2018, and then remain at that level.

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APPENDIX III
EXTRACTS FROM PROVINCIAL GRANT AGREEMENT

- Beginning on January 1, 2016, ECCS will receive $60,000 per year, for five years. The annual grant is designed to fund operations, and not capital expenditures; i.e., to provide liquidity to ECCS in its start-up phase.
- In the event that ECCS does not need this funding to maintain its operations, a portion of the grant will be clawed back. Therefore, each year, ECCS will have to repay the percentage of that year's grant (Column B) if each individual threshold (Column A) is reached, up to a maximum of 100%:

Column A Threshold	**Column B Repayment of Grant (claw-back)**
If all sources of revenue and other income, excluding this grant, exceed $500,000	30%
If income before taxes, excluding this grant and owners' salaries, exceeds $160,000	40%
If capital expenditures exceed $20,000	30%

- Any repayment required is due by April 15 of the following year.

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Case #2 **(Suggested time: 80 minutes)**

Roxanne Kalpert, who is married and has two sons, aged two and four years old, is a long-time tax client of yours. A work-at-home mom, Roxanne posts videos of baby products on an Internet viewing channel, where she discusses products such as strollers and cribs and demonstrates features of various brands. Roxanne’s business is unincorporated. She receives revenue from advertisements, which are displayed before her video is shown. Her target market is new parents, particularly millennials, who often do a lot of online research before purchasing major items for their children.

Roxanne knows that being a new parent can be difficult and believes her work makes people’s lives easier. Although she does not have a business background, she has been successful in significantly growing her business while interacting with other parents and fulfilling her goal of helping them choose the best products for their needs. She can now make a living from what she enjoys doing. New opportunities have been presented to Roxanne lately, and she must decide whether to pursue them.

Today is February 1, 2017. You, CPA, a sole practitioner, meet with Roxanne at her request.

“CPA, I am so glad to see you! There has been so much going on that I need help with more than just my taxes this time. First, as much as I like helping parents, I have always wanted to write a book. I pitched the idea of a humorous book full of my personal experiences raising my sons, and a publisher is willing to publish it! I think this would be a good opportunity to get my name out there to help increase the popularity of my viewing channel. I have to decide whether to publish a printed book or an e-book. I can’t do both. The publisher gave me some information on each format available (Appendix I). Can you tell me which format looks most profitable? Also, are there any other decision factors I should consider in deciding between the printed book and e-book?

“At the baby products conference this year, I reconnected with a businessman, John, who is interested in investing in my channel. He owns a line of baby products, such as bottles and sippy cups. We have had some heated arguments in the past. For example, he thinks many baby product recalls are unnecessary and are mainly due to misuse of the product. In contrast, I firmly believe babies should be protected even if there is a very small risk of danger. However, John has many years of business experience. He is willing to invest $200,000 for 40% of the channel’s profit. Can you tell me whether this is a fair price? Here is my financial information for 2016 (Appendix II), as well as some industry information (Appendix III).

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"I am worried these new ventures might distract me from my initial goals, my values, and my reasons for starting the viewing channel. This is all happening so fast. I would appreciate knowing what other factors you think I should consider in deciding whether to move forward with the book and whether or not to accept John's investment offer.

"And finally, there are my taxes. I got a letter from the Canada Revenue Agency last week saying they will be auditing my 2015 personal income taxes. What are they likely worried about? Can you give me examples of specific procedures they will likely be doing? And for my 2016 tax filing, I would like you to estimate my federal taxes payable.

"By the way, my husband just accepted a one-year job in the United States starting in June 2017. The boys and I will not be moving with him, and he plans to return to Canada when the year is up. Can you explain to me some of the factors that will impact the determination of his residency status for Canadian tax purposes? I would also like to know how the income he earns in the U.S. will be taxed in Canada."

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APPENDIX I
INFORMATION ON BOOK FORMATS

Printed Book

- The retail price is fixed at $25 per book. At this price, it is estimated that 40,000 copies will be sold, which would be the number of books to be printed for the first edition.

- The costs involved for the first edition are as follows:
  - 50% of the retail price goes to the book sellers.
  - $7 per book goes to the publisher, to cover overhead, marketing, and other expenses.
  - The marketing costs include the organization of optional book signing sessions in different cities.
  - A $12,000 fixed amount goes to the distributor, who deals with the book sellers.
  - A $3,000 fixed amount, plus an additional $2 per book, goes to the printer for print setting and printing, respectively.

- Some of the fixed costs would apply again if a second edition had to be printed.

E-book

- E-books are usually priced at 40% of the equivalent printed book version in order to achieve the same sales volume. E-books can't be shared easily between readers, so readers are not willing to pay as much for them. However, the publisher said that I could set a price of my own. Based on his experience, it is possible to sell 20,000 more books if I set the price at 30% of the printed book version price. What impact would the different prices have on my overall book profit?

- The costs involved are as follows:
  - 55% of the retail price goes to the publisher, who is also responsible for sales and distribution.
  - $1 per book goes to the Electronic Media Board as a licensing fee.
  - A $20,000 fixed fee goes to the programmer, who makes the book content compatible with the various e-book platforms.

The publisher explained that although the fixed costs are higher for the e-book, the variable costs are lower because we are not chopping down trees. It is also much easier with the e-book to make changes once it is published, since no re-printing of editions is needed. He is willing to provide free publicity on his website if I go with the e-book format. He noted that the e-book would provide a lot of exposure for me, since the e-book format is gaining in popularity, especially with young readers. However, if I go with the printed book version, distribution will be relatively easy since he is well-established and already has all of the distribution channels in place.

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APPENDIX II
FINANCIAL INFORMATION FOR 2016

- Revenue for 2016 was $270,000, entirely from advertisements on my channel that are displayed prior to the videos being aired, and directly related to the number of times the videos are viewed. I had an exceptionally good year – one video that I posted, showing my sons dancing to a popular song, went viral, getting over 10 million views. As I only have about 90,000 subscribers on my channel, I was very surprised by this. I doubt that I will ever have that kind of ad revenue again, given that viral videos are very rare.

- Expenses for the year were as follows:
  - $53,000 – Attendance at the annual baby products conference, which I have attended for the past several years. Since the conference was held in New York City in 2016, I paid the travel expenses for my parents and in-laws for a luxurious vacation at the same time. If I had been travelling alone, my expenses would have only been $3,000.
  - $12,500 – New video equipment, purchased to improve film quality and make editing easier. I also purchased a video camera in 2015 for $3,500. Per the Canada Revenue Agency website, these are Class 8 assets.
  - $28,500 – Payment to a video editor, who I hired in April 2016. This has improved the quality of my videos, which I believe has contributed to the higher number of subscribers. I plan to continue using the video editor in the future.
  - $10,000 – Payment for a part-time assistant to help with filing and other administrative duties.
  - $6,000 – Home office expenses, including allocation of mortgage interest and utilities for the home office portion.
  - $8,000 – Motor vehicle expenses for my personal car, on which I had my channel's logo painted. The painting cost $1,000 and the remainder is for lease costs, gas, and other maintenance expenses. All of my videos are recorded at my home, but since I'm always promoting my videos, I consider this an advertising cost.

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APPENDIX III
VIEWING WEBSITE INDUSTRY INFORMATION

The average viewing website video earns $0.007 per view in advertising income.

- Valuations of viewing channels are typically performed in one of two ways:
  - EBITDA multiple – 5x earnings before interest, taxes, depreciation and amortization
  - Value per subscriber – $4 per subscriber

- A general manager for a viewing channel can typically earn approximately $75,000 a year. The general manager is responsible for managing the filming and editing, responding to subscriber comments, and researching potential content for new videos.

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Case #3 **(Suggested time: 70 minutes)**

A Toronto-based manufacturer of customized wood windows, World Wide Windows Inc. (W3) caters to the home-renovation market (Appendix I). The company was founded 10 years ago by William, a master craftsman and the sole shareholder. His son Eli and daughter Beth assist with managing W3's operations. General information on W3 is provided in Appendix II and selected financial information is provided in Appendix III.

Due to its reputation for quality workmanship, W3 has grown quickly. Sales have been robust in recent years, and W3 finds itself stretched to meet demand. All divisions are operating at full capacity.

Today is February 3, 2018. You, CPA, an external consultant, were recently hired by William. As W3 continues to grow, William wants a better understanding of the factors that impact W3's profitability, including the company's strengths and weaknesses and the opportunities and threats in its external environment. He wonders which factors are the most important to ensure the long-term success of W3.

Recently, Beth's division has been showing poor performance. William provides you with variance information for both divisions (Appendix IV) and would like you to explain the source of the significant variances, as he is puzzled by how one division can be doing well while the other division is not.

William would also like you to prepare an analysis of whether the current responsibility centre for each division and the transfer pricing policy are appropriate.

In addition, William asks you to assess W3's financial performance using ratio analysis, as he is unsure how W3 is performing financially.

Finally, Beth is considering acquiring new automated installation equipment to improve her division's performance, and William would like to know your thoughts on the proposal (Appendix V), ignoring any tax and financial reporting implications for now.

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APPENDIX I
CANADIAN HOME-RENOVATION MARKET

Due to low interest rates, and predictions of continued low rates in the short term, house sales have remained very strong. This, along with the entry of many first-time buyers, has fuelled the home-renovation market. Renovation has become the fastest growing segment of residential investment and is expected to stay robust.

However, competition in the home-renovation market has also increased, as barriers to entry are low. In order to obtain high levels of customer satisfaction, timely delivery and quality workmanship is vital. To be successful, the company must control costs through efficient operations; this is especially important due to the recent increase in the price of wood.

While there are a number of large companies in W3's industry, there are also many small- to medium-sized companies, such as W3. All players in the industry use similar production processes.

Average annual performance measures for W3's industry are as follows:

Current ratio	1.5
Debt-to-equity ratio	0.9
Inventory turnover	17 times
Net profit margin	4%
Return on equity	10%

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APPENDIX II
GENERAL INFORMATION ON W3

William is the president of W3, and Eli and Beth both report directly to William.

Eli is in charge of the manufacturing division, which is managed as a cost centre. Manufacturing involves custom cutting various types of wood to precise specifications. It also requires gluing and nailing the wood together in preparation for adding the glass sheeting. The main materials required for the division are wood products, which, because of construction industry demands, have become increasingly difficult to source. Eli was happy that he found another supplier at the beginning of 2017, who offered wood at a significantly cheaper price. The quality of the wood is lower, so there has been more scrappage, but that has been more than offset by the savings from lower prices. The cost of labour for wood-cutting tradespeople has also increased in the past several years due to a labour shortage. In an attempt to cut costs, Eli has recently hired unskilled workers who require more training.

Beth is in charge of the window installation division, which is managed as a profit centre. Her division's tasks involve transporting the finished windows to the worksite and installing them. In 2017, her workers have had more trouble installing the windows, as the frames are cracking during the installation process. As a result, they have had to use more materials, and her workers have often had to work overtime to ensure they can meet the promised installation timelines.

Currently, the manufacturing division transfers all of its windows to the installation division and does not sell any of its products externally. Similarly, the installation division sources windows solely from the manufacturing division. The transfer price is set at the actual cost of the windows manufactured.

W3 had the following ratios in 2016 and 2015:

	2016	**2015**
Current ratio	4.8	4.8
Debt-to-equity ratio	0.62	0.65
Inventory turnover	21	20
Net profit margin	5%	4%
Return on equity	11%	8%

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APPENDIX III
SELECTED UNAUDITED FINANCIAL INFORMATION FOR W3

	As at December 31, 2017
Cash	$ 1,334,911
Accounts receivable	132,000
Inventory (Note 1)	880,000
Equipment, net	3,897,234
Buildings, net	9,823,178
Total assets	$ 16,067,323
Accounts payable	$ 121,000
Line of credit (Note 2)	330,000
Long-term debt (Note 2)	6,050,000
Shareholder's equity (Note 3)	9,566,323
Total liabilities and shareholder's equity	$ 16,067,323

	For the year ended December 31, 2017
Revenues	$ 22,000,000
Cost of goods sold (Note 4)	16,500,000
Other expenses	4,279,045
Net income	$ 1,220,955

Notes:

1. Beginning inventory for 2017 was $704,000.
2. Any additional debt to be obtained by W3 must be approved by the bank.
3. Beginning shareholder's equity for 2017 was $8,345,368.
4. Because windows are not manufactured until an order is received, sales in units equals production in units.

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APPENDIX IV
2017 COST VARIANCE INFORMATION

W3 uses standard costing. The following is the 2017 cost variance between standard and actual amounts for each division:

	Manufacturing ($) Favourable/ (Unfavourable)	**Installation ($) Favourable/ (Unfavourable)**
Direct materials price variance	268,800	90,816
Direct materials efficiency variance	(179,200)	(120,064)
Direct labour rate variance	627,648	(105,141)
Direct labour efficiency variance	(624,732)	(50,877)
Variable indirect cost variance	(501)	(1,463)
Fixed indirect cost variance	(1,199)	1,443
Total division cost variance	**90,816**	**(185,286)**

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APPENDIX V
NEW EQUIPMENT ACQUISITION

Specialized equipment is used to remove old windows and install new ones.

The new equipment will cost $1.5 million if purchased. It is expected to last 12 years, with a salvage value of $60,000 at that time. Beth estimates the annual incremental net cash inflows from using the new equipment will be approximately $265,000 before taxes. W3's weighted average cost of capital is 12%.

The vendor for the new equipment provided three options. W3 can a) purchase the equipment outright; b) finance the purchase cost with the vendor over 12 years, which would result in an annual payment of $150,000; or c) lease the equipment for an annual rent of $250,000. The lease would be for one year, with an option to renew, with the same terms, for additional one-year periods. The lease option provides for maintenance and repairs of the equipment at no charge to W3.

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End of Exam

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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

$$= \frac{CTd}{(d+k)}\left(\frac{2+k}{2(1+k)}\right) = \frac{CdT}{(d+k)}\left(\frac{1+0.5k}{1+k}\right)$$

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

	2016	2017
Maximum depreciable cost — Class 10.1	$30,000 + sales tax	$30,000 + sales tax
Maximum monthly deductible lease cost	$800 + sales tax	$800 + sales tax
Maximum monthly deductible interest cost	$300	$300
Operating cost benefit — employee	26¢ per km of personal use	25¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	54¢ per km	54¢ per km
— balance	48¢ per km	48¢ per km

3. INDIVIDUAL FEDERAL INCOME TAX RATES

For 2016

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$45,282	$0	15%
$45,283	and	$90,563	$6,792	20.5%
$90,564	and	$140,388	$16,075	26%
$140,389	and	$200,000	$29,029	29%
$200,001	and	any amount	$46,316	33%

For 2017

If taxable income is between			Tax on base amount	Tax on excess
$0	and	$45,916	$0	15%
$45,917	and	$91,831	$6,887	20.5%
$91,832	and	$142,353	$16,300	26%
$142,354	and	$202,800	$29,436	29%
$202,801	and	any amount	$46,965	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:

	2016	**2017**
Basic personal amount	$11,474	$11,635
Spouse, common-law partner, or eligible dependant amount	11,474	11,635
Age amount if 65 or over in the year	7,125	7,225
Net income threshold for age amount	35,927	36,430
Canada employment amount	1,161	1,178
Disability amount	8,001	8,113
Infirm dependants 18 & over	6,788	6,883
Net income threshold for infirm dependants 18 & over	6,807	6,902
Adoption expense credit limit	15,453	15,670

Other indexed amounts are as follows:

	2016	**2017**
Medical expense tax credit — 3% of net income ceiling	$2,237	$2,268
Annual TFSA dollar limit	5,500	5,500
RRSP dollar limit	25,370	26,010
Lifetime capital gains exemption on qualified small business corporation shares	824,176	835,716

5. PRESCRIBED INTEREST RATES (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2017	1	1	1	
2016	1	1	1	1
2015	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.

(CONCLUDED ON PAGE 23)

6. MAXIMUM CAPITAL COST ALLOWANCE RATES FOR SELECTED CLASSES

Class 1…………………………………	4%	for all buildings except those below
Class 1…………………………………	6%	for non-residential buildings acquired for first use after March 18, 2007
Class 1…………………………………	10%	for manufacturing and processing buildings acquired for first use after March 18, 2007
Class 8…………………………………	20%	
Class 10……………………………..	30%	
Class 10.1…………………………...	30%	
Class 12……………………………..	100%	
Class 13……………………………..	Original lease period plus one renewal period (minimum 5 years and maximum 40 years)	
Class 14……………………………..	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%	

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