CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

CFE CANDIDATE NUMBER:

Common Final Examination
September 23, 2016 – Day 3

Total examination time: 4 hours.

Further details on the examination can be found on the next page.

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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.
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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 (80 minutes)
Case #2 (70 minutes)
Case #3 (90 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 enacted as at December 31, 2015.

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 2016

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

Case #1 **(Suggested time: 80 minutes)**

Play Canada Inc. (PCI) was incorporated in 2014 by Sarah and Sam Wright. The Wrights live in Toronto and work at PCI's office and warehouse, also located in Toronto. Their three young sons love building-block sets. The expense of constantly purchasing new sets inspired their business plan of renting out building-block sets for a fixed monthly fee.

The Wrights strongly believe that gaining customers' trust by providing quality service and safe products is the key to ensuring PCI's growth. PCI has grown rapidly since its inception. Customers' requests are made online and sets are delivered and returned via Canada Post, with customers assuming the shipping costs. PCI rents out an average of 90,000 sets per month, but keeps approximately 120,000 sets on hand to allow for periods of higher-than-usual activity.

It is August 2016, and Sarah and Sam have come to Marwick and Associates (Marwick) for assistance. You, CPA, work at Marwick, a firm that specializes in advising small business owners. Your manager has asked you to draft a report to the Wrights, addressing their needs.

PCI wants advice regarding the sanitization process used on the building-block sets. Each returned set is thoroughly cleaned, using a Health-Canada-approved solution and process that kills 99.99% of germs. Sarah has always overseen the sanitization process, managing a team of trained employees who operate the specialized equipment at the warehouse. The sanitization team works hard and no product safety incidents have been reported by clients. A recent customer survey indicated that customers are very satisfied with how blocks are maintained like new.

However, as the business grows, both Sam and Sarah have had less time for their children. Sarah wonders if outsourcing the sanitization process is a viable option (Appendix I). Outsourcing would allow Sarah to work part-time so she can spend more time at home caring for their children. Her time in the business would all be spent performing on-site quality control checks at the outsourcer.

The Wrights are also considering whether PCI should provide different pricing options. They would like to know which alternative maximizes cash flows (Appendix II).

The Wright family is also considering some other changes (Appendices III and IV).

(CONTINUED ON PAGE 3)

APPENDIX I
INFORMATION ABOUT OUTSOURCING SANITIZATION PROCESS

Clean Crew (CC), a small private firm specializing in sanitizing toys and household products, is located in Newmarket, 50 kilometres north of Toronto, and has been in business for two years. CC has a reputation for providing high quality services to its customers. Recently, CC accepted contracts from several prominent clients, including hospitals and other health care facilities and a large chain of indoor playgrounds. CC's quoted price for its sanitization service is $0.21 per set.

The process that CC uses is similar to PCI's process, and guarantees the elimination of 99.99% of germs. CC will ship the sets to and from PCI's warehouse in Toronto at an extra charge of $8,000 per month, regardless of volume.

PCI employs eight full-time employees in the sanitization department, at an average salary of $30,000 per year, including benefits. If sanitization is outsourced, these employees would be laid off. The Wrights heard about negative repercussions from other companies after laying off their employees. The Wrights think that they may be able to reduce the negative impact by paying severance of three months' salary, which is more than the one week of salary per year of service required by law. PCI would also offer re-employment counselling to these employees. The estimated costs of counselling are $5,000 in total.

The sanitization equipment cost $250,000 in 2014. PCI's sanitization process requires annual repairs and maintenance of $20,000, which is expected to maintain the equipment for the foreseeable future. If PCI decides to outsource, this equipment could be sold for $65,000.

The cleaning solution used in PCI's sanitization process costs $0.056 per set cleaned, costing roughly $60,000 in 2015. The current staff level is appropriate for the current cleaning volume, but an employee must be hired for every additional 25,000 sets per month cleaned, at an annual cost of $30,000 per employee.

(CONTINUED ON PAGE 4)

APPENDIX II
PRICING ALTERNATIVES

Customers currently pay a $25 monthly fee, borrowing an average of three sets per month, of the maximum eight sets per month. PCI has an average of 30,000 monthly customers, who generate yearly revenues of around $9,000,000. The following alternatives are being considered.

Alternative 1: Customers have two options: current monthly flat fee or a “pay as you play”

The Wrights estimate that 75% of current customers would continue with PCI’s current plan and that the remaining 25% would switch to “pay as you play.” The Wrights anticipate that adding this option may attract some new customers as well.

Alternative 1 would not require purchasing additional building-block sets but would add administration costs of approximately $50,000 annually. The anticipated pricing structure, estimated monthly “pay as you play” volumes and yearly revenue are as follows:

	Small sets	Medium sets	Large sets	Total
Monthly volume	5,000	5,000	4,000	
Rental price per set	$3	$8	$15	
Yearly revenue	$180,000	$480,000	$720,000	$1,380,000

Alternative 2: Customers have three options: current monthly flat fee, Junior-Builder plan, or Master-Builder plan

Under Alternative 2, customers could choose the current plan, or choose from two other pricing options (below). The Wrights estimate that 50% of current customers would continue with PCI’s current plan.

	Junior-Builder	Master-Builder
Monthly fee	$15	$45
Size available	Small sets only	All sizes
Maximum per month	8 sets	Unlimited sets
Number of customers expected	8,000 current customers and 2,000 new customers	7,000 current customers
Average rental rate	2 sets per month	8 sets per month

The Junior-Builder plan would target families of younger children just starting to play with building blocks. These families only rent smaller sets and rent less frequently. The Master-Builder plan would target families of children who use their building blocks daily and complete sets quickly. The Master-Builder plan would require buying more building-block sets, for $125,000 annually.

(CONTINUED ON PAGE 5)

APPENDIX III
PLANS TO MOVE

The Wright family plans to move to Newmarket, 60 kilometres away from PCI, in December 2016, as they want to have a large property as their sons grow older. This will result in a longer commute for Sam, who will continue to work at the PCI office in Toronto. However, the Wrights believe the move will be better overall for their family, especially if PCI outsources sanitization to CC as this will minimize Sarah's commute to CC's location.

The move would also have the added benefit of being closer to their cottage, which was purchased by Sam and Sarah in 2005 for $250,000.

The Wrights' current home, which cost $600,000 in 2008, can be sold for $825,000. Due to a tremendous increase in popularity of the area, the cottage is now worth $750,000. Real estate commissions on either property would be 5%.

Sam and Sarah hope they can deduct all their moving costs on their personal tax returns. They expect to incur the following costs:

Costs to renovate Toronto home before sale	$15,000
Professional movers	10,000
Utility hook-ups and disconnections	200
Legal fees for purchase of new home	2,000
Travel expenses for house-hunting trip	350

(CONTINUED ON PAGE 6)

APPENDIX IV
DETAILS OF THE WRIGHT FAMILY'S POTENTIAL INVESTMENTS

Last month, Sarah's uncle passed away and left Sarah $200,000 in his will. Sam and Sarah have decided to use this money to finance their children's university education, which is expected to happen in about 10 years. They have identified three potential investments and would like your advice on the most appropriate option, given their objective. The potential options are as follows:

	Option 1 – real estate	**Option 2 – Government of Canada ten-year bond**	**Option 3 – commodity mutual fund**
Amount	$200,000	$200,000	$200,000
Description	Four acres of land in northern Ontario, in "cottage country."	10-year bonds guaranteed by the Government of Canada.	Assets in this mutual fund include shares of mining companies whose mines are currently being developed in South Africa.
Other information	The land is currently zoned for a single-family dwelling. Hopefully, it will be rezoned to allow subdivision into eight, half-acre lots. Each lot could then be sold for an estimated $50,000.	Interest rate is 2.1% per annum.	Once developed, these mines will produce copper, diamonds and zinc. The anticipated return on the mutual fund is 29% per annum.
Beta	Not available	0	4.5

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Case #2 **(Suggested time: 70 minutes)**

In 2000, Roger Gardner incorporated Dogani Inc. (DI). In 2010, Roger's children, Gale, Louis and Marc took over ownership from Roger.

DI's top-selling product, Stop Barking (SB), is a collar that releases a spray to condition a dog to stop barking. Considered the most humane solution on the market for nuisance barking, its effectiveness has been demonstrated by DI's researchers and is supported by customer feedback. DI's other products include vitamins and invisible fencing for pets.

In early January 2015, DI received a significant order from the Royal Canadian Mounted Police (RCMP) for a modified version of SB for its police dogs, called SB2. In late 2015, the Ontario Provincial Police indicated that they would also be interested in ordering the SB2.

Due to the increased product demand and anticipated future expansion, DI's owners decided to construct a new manufacturing facility and warehouse. On November 30, 2015, DI obtained the land for its expansion through an exchange with an unrelated company, Riverview Real Estate Ltd. (RREL), and approached its bank to borrow $2.5 million for the construction (Appendix I).

It is now March 1, 2016, and Gale, DI's CEO, has hired Uptown LLP to perform the first-time audit of DI's financial statements, as required to obtain the loan. You, CPA, work for Uptown LLP. You meet with Gale to discuss DI's financial reporting processes, draft financial statements and some tax-related matters (Appendix II).

The partner asks you to discuss any significant financial reporting issues that will need to be addressed by management. He also asks you to assess the risks related to the audit, suggest an audit approach, and determine materiality, but not to design the procedures yet.

The partner also asks that you address Gale's email (Appendix III).

Finally, Gale wants to make sure DI has the best chance of getting the financing required from the bank to proceed with the construction. She knows the bank will require security and will need to be convinced that DI will be able to make the payments required to pay back the $2.5 million borrowed, along with interest. She is planning to provide information to the bank (Appendix IV). She would like you to comment on whether this information will be useful to the bank, and to know what other information it might require.

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APPENDIX I
DETAILS REGARDING THE EXCHANGE WITH RREL AND BANK FINANCING

DI transferred land located downtown to RREL. In return, DI received land adjacent to its current location in an industrial park. DI had acquired the downtown land several years ago in anticipation of future expansion.

Details regarding the parcels of land are as follows:

Downtown land

Size:	15,000 square feet
DI's acquisition cost:	$400,000
Estimated fair value at November 30, 2015	$500,000

Industrial park land

Size:	15,000 square feet
RREL's acquisition cost:	$390,000
Estimated fair value at November 30, 2015	$500,000

The real estate appraiser engaged to determine the fair values of the properties was unable to complete his work as there have been no land sales for two years, given the depressed real estate market. The estimated value of DI's downtown land was based on the listed sales price for other similar parcels of land. The estimated value of RREL's industrial park land was determined by increasing its acquisition cost for inflation as per the consumer price index.

DI had a new controller start in September 2015. She recorded a gain of $100,000 on the exchange.

Bank financing

DI plans for DI's bank to finance the construction of the new manufacturing facility and warehouse, advancing the funds in four equal quarterly instalments, with the first advance to be made on April 15, 2016. DI will have to provide audited financial statements prepared in accordance with IFRS for the year ended December 31, 2015, and will likely have some covenants to meet.

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APPENDIX II
NOTES FROM MEETING WITH GALE

Shortly after the 2010 change in ownership, a professional services firm was hired by DI to design and document DI's processes and controls. Although Gale is generally satisfied that these processes are being followed, she mentioned that she found a few exceptions. She also recognizes that changes have occurred since the last review, and therefore hired the same professional services firm to take a fresh look at processes and controls, beginning in July 2016. She will ask them to take a closer look at the accounts receivable processes, since collection has slowed down significantly.

According to the draft financial statements for the year ended December 31, 2015, DI reported total assets of $3.9 million, total liabilities of $1.7 million, revenues of $7.8 million, finance (interest) costs of $120,000, pre-tax income of $820,000 and net income of $655,000.

Although DI operates in Canada only, with the construction of the new manufacturing facility, the owners are eager to expand to Europe. In anticipation of this, Louis and his wife attended several exhibitions in Europe during 2015, promoting DI to European distributors. Louis' wife participated in some of the exhibitions but chose to go sightseeing rather than attend other exhibitions. DI paid for all travel-related costs (airfare, hotel, taxis and meals) for Louis and his wife. Gale was not sure how paying for these expenses would affect DI's corporate income taxes.

The other corporate tax issues that Gale raised relate to a researcher hired in 2015. DI agreed to provide this researcher with an interest-free home relocation loan. DI also leased a luxury sport utility vehicle, at a cost of $1,500 per month, for the researcher to use for business purposes only.

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APPENDIX III
EMAIL RECEIVED FROM GALE

From: gale.gardner@dogani.ca
To: partner@uptownllp.ca
Subject: Should we buy instead of manufacturing?

I received an offer from Sensit Inc. (SI). SI manufactures and sells body rhythm monitors similar to the monitors we use as a component of our SB products. SI quoted a price of $38 per monitor for the 75,000 monitors that DI would normally require for its annual production of SB and SB2. I was also provided with contact information for three SI customers so that I could perform reference checks. The customers commented that there were no quality concerns and that all orders were filled on time.

DI's production manager provided the following details regarding the costs incurred to manufacture 75,000 monitors in house:

	Costs	Note
Direct materials	$ 1,875,000	
Direct labour	937,500	
Overhead	375,000	1
	$ 3,187,500	

Note:

1. Overhead is allocated to production based on direct labour hours. Included in overhead is $75,000 paid to the product line supervisor, who would be laid off if the monitors are purchased from SI. Utility costs of $35,000 could also be avoided.

Partner, please advise us on the offer.

Gale

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APPENDIX IV
PROPOSED INFORMATION FOR THE BANK

Gale is proposing to present the following information to the bank:

- A draft pro-forma statement of financial position for DI, showing total assets of $6.2 million and total liabilities of $4.5 million after the facility is built.
- A letter from Gale's uncle, who Gale considers to be financially stable, who may be willing to provide a personal guarantee for the loan.
- A letter from Gale, stating that she believes the new building will be worth at least $2.8 million and a request for a five-year loan term with annual principal payments of $500,000 plus interest of prime plus 5%.
- An email from a member of the Ontario Provincial Police, indicating interest in ordering a large amount of product from DI.
- An aged listing of accounts receivable and payable and a list of inventory.
- Proof of directors and officers liability insurance.
- Personal tax returns of the three shareholders and corporate tax returns, for the past three years.

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Case #3 **(Suggested time: 90 minutes)**

In April 2016, you treated your spouse to a “date night” of a three-hour “Sophisticated Supper Sampler” tour with Culinary Crawl (CC). The five other couples on the tour were celebrating a special occasion or were tourists. You met Ivy Gilmour, the sole proprietor of CC, who took the group to four high-end restaurants, where you were served a small dinner course. Along the way, she provided interesting details about the history of the buildings, the restaurants, the owners and the food. At the end of the evening, you tipped Ivy and noticed other couples doing the same. Ivy, who had learned that you, CPA, work at a local accounting firm, asked for your business card.

Today is May 9, 2016, and Ivy has come to your office for a meeting:

“First, I need your help determining my business income for my 2015 personal tax return, which was due last week. I’ve calculated CC’s business income but I am not an expert (Appendix I). The only other income I have is the employment income from Cooking Delights Inc. (Appendix II). I have an RRSP contribution of $5,000 and my student loan interest (5%) of $700. A friend told me I could deduct my home office expenses and that I need to have all my house-related receipts. I’ve summarized my household expenses for the full year (Appendix III). My office takes up one of the ten rooms in my house and I use it daily for CC administrative work.

“I started CC in September 2015. I’ve taken many culinary classes and a sommelier course at a local college. I also know many owners and chefs and have contracted with four restaurants to be on my tour for one year. The restaurant owners thought this would promote their businesses and fill some seats on quieter nights. It started with my being out every other night, but now I am out almost every night!

“The current tour has been so popular that I’m considering adding either an additional evening tour with different restaurants, or starting a lunch tour. Here are my notes on those options (Appendix IV). I can only add one for now, so please let me know which one you think would be more profitable.

“Can you analyze, from a qualitative perspective, the pros and cons of my business strategy and the environment in which CC operates, since it would help me orient my business?

“The combination of my day job and the tours has been keeping me quite busy. I would love to do the tours full time. I’d like to know how many customers it would take on my current tour to replace my current employment income.”

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You and Ivy chat about the business operations (Appendix V). Ivy says, “I need to manage my business better, so I have a meeting with a website developer next week. Can you identify some of the control weaknesses in my processes, and suggest functionalities that I should ask to be built into my website to fix these weaknesses? And if you have any other suggestions for other control processes, I am all ears.

“Finally, based on your overall analysis, should I quit my day job?”

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APPENDIX I
CALCULATION OF BUSINESS INCOME

September 1 – December 31, 2015
Prepared by Ivy Gilmour

		Note
Sales	$ 24,000	1
Cost of sales – payments to restaurants	(18,000)	2
Computer purchase	(600)	3
Advertising	(2,000)	4
Meals and entertainment	(1,200)	5
Office furniture purchase	(2,500)	3
Office supplies	(600)	
Business insurance (prorated)	(900)	
Interest (18%)	(2,300)	6
Home office	(2,400)	7
	$ (6,500)	

Notes:

1. I charge $100 per person, which I collect in cash at the start of the tour. A few times, a customer hasn't shown up, but I still had to pay the restaurants for their meals.
2. I pay the restaurants a total of $60 per person plus a total in upfront flat fees of $3,000 annually, to guarantee seating in all restaurants.
3. The computer will last for four years, and the office furniture for 10 years.
4. I originally advertised a bit in the newspaper and online, but now manage mostly by word-of-mouth. If I start a new tour or change the restaurants on my current tour, I'll advertise again.
5. These costs are for sampling various restaurants' food selections. As my business's success is dependent on the quality of food and service at the restaurants, I sample three times as many restaurants as I use on the tour.
6. I incurred many expenses upfront and put them on my personal credit cards. As I'm still paying off my student loan and am trying to quickly pay down my mortgage, I haven't managed to pay off my credit cards. I'm not even sure whether I made any of the minimum payments last month.
7. I made an assumption for the household expenses related to the use of my home office.

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APPENDIX II
T4 SLIP – 2015

Canada Revenue Agency / Agence du revenu du Canada

T4

Statement of Remuneration Paid / État de la rémunération payée

Year / Année: 2015

Employer's name – Nom de l'employeur: Cooking Delights Inc.

54 Employer's account number / Numéro de compte de l'employeur:

12 Social insurance number / Numéro d'assurance sociale:

Exempt – Exemption: 28 CPP/QPP (RPC/RRQ), EI (AE), PPIP (RPAP)

10 Province of employment / Province d'emploi: BC

29 Employment code / Code d'emploi:

14	Employment income – line 101 / Revenus d'emploi – ligne 101	65,000.00
22	Income tax deducted – line 437 / Impôt sur le revenu retenu – ligne 437	20,000.00
16	Employee's CPP contributions – line 308 / Cotisations de l'employé au RPC – ligne 308	2,479.95
24	EI insurable earnings / Gains assurables d'AE	49,500.00
17	Employee's QPP contributions – line 308 / Cotisations de l'employé au RRQ – ligne 308	
26	CPP/QPP pensionable earnings / Gains ouvrant droit à pension – RPC/RRQ	53,600.00
18	Employee's EI premiums – line 312 / Cotisations de l'employé à l'AE – ligne 312	930.60
44	Union dues – line 212 / Cotisations syndicales – ligne 212	450.00
20	RPP contributions – line 207 / Cotisations à un RPA – ligne 207	
46	Charitable donations - line 349 / Dons de bienfaisance - ligne 349	
52	Pension adjustment – line 206 / Facteur d'équivalence – ligne 206	
50	RPP or DPSP registration number / N° d'agrément d'un RPA ou d'un RPDB	
55	Employee's PPIP premiums – see over / Cotisations de l'employé au RPAP – voir au verso	
56	PPIP insurable earnings / Gains assurables du RPAP	

Employee's name and address – Nom et adresse de l'employé

Last name (in capital letters) – Nom de famille (en lettres moulées) First name – Prénom Initial – Initiale

Gilmour, Ivy

Vancouver BC

Other information (see over) / Autres renseignements (voir au verso)

Box – Case	Amount – Montant	Box – Case	Amount – Montant	Box – Case	Amount – Montant

T4 (14)

Protected B when completed / **Protégé B** une fois rempli

Return with T4 Summary – À retourner avec le T4 *Sommaire*

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APPENDIX III
SUMMARY OF HOUSEHOLD EXPENSES FOR THE YEAR

Prepared by Ivy Gilmour

Mortgage interest (fixed rate: 3%)	$ 12,000	*
Property taxes	3,500	
House insurance	1,800	
Utilities	6,500	
Internet ($100 per month)	1,200	
Cell phone (of which I use about 50% of the time for CC)	800	
Repairs and maintenance:		
Painting office	500	

* My mortgage is up for renewal soon. The bank is offering a fixed rate of 2.5% or a variable rate of prime plus 1%, both for three years. Prime is currently 1%.

Which one do you think I should choose? Do you have any other advice related to my multiple debts?

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APPENDIX IV
EXPANSION OPPORTUNITIES

	Lunch tour	Additional evening tour
Market	▪ Business lunch crowd and tourists	▪ Similar to current tour
Size of tour group expected	▪ Six customers per day from Monday to Friday ▪ For the three weeks before Christmas, this number would probably double	▪ Similar to current tour and on the same days of the week as for current tour
Staffing	▪ I would need to hire a guide at approximately $20 per hour	▪ I would need to hire a guide at approximately $20 per hour
Pricing	▪ I would take customers to three restaurants over two hours, so would set the price at $50 per person ▪ Preliminary restaurant discussions suggest a $25 per person cost of sale, with upfront flat fees totalling $2,000 annually	▪ Same pricing and costing as for current tour
Advertising	▪ Same strategy of initial advertising as for current tour	▪ Same strategy of initial advertising as for current tour
Business insurance	▪ 20% incremental increase	▪ 30% incremental increase

(CONTINUED ON PAGE 18)

APPENDIX V
DESCRIPTION OF OPERATIONS
AUDIO-RECORDED CONVERSATION WITH IVY

- The current tour is offered every night except Mondays, 50 weeks per year. I am confident that the recently achieved average of 40 customers per week will continue. The $3,000 annual flat fee guarantees 12 seats at each restaurant until 48 hours before the tour. After that, the restaurants can let other customers take those seats.

- To book a tour, customers call my cell phone directly. I scribble down their contact information and tour date on a stack of post-it notes that I carry in my purse. I once had 14 people show up for a tour, so I must not have transferred two names into my manual reservation book. The restaurants were not impressed and everything was delayed that night.

- I call the restaurants 48 hours before a tour to confirm the expected number of customers. There have been a few arguments about this. One restaurant tried to claim that I called after the 48-hour deadline one day, so they wanted to charge for all 12 seats instead of for the seven customers on the tour. Another time, a restaurant claimed that I had said there would be eight customers, but I had told them five. Again, they wanted to charge me for the other three seats.

- On tour nights, customers meet me outside the first restaurant, where I collect the cash payments. I admit that I sometimes mix up the business's money with my personal money. When I return home, it takes extra time to reconcile the cash against my reservation book. I don't worry too much though, as it all ends up in one bank account.

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End of Exam

(CONTINUED ON PAGE 20)

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

	2015	2016
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	27¢ per km of personal use	26¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	55¢ per km	54¢ per km
— balance	49¢ per km	48¢ per km

3. INDIVIDUAL FEDERAL INCOME TAX RATES

For 2015

If taxable income is between			Tax on base amount	Tax on excess
\$0	and	\$44,701	\$0	15%
\$44,702	and	\$89,401	\$6,705	22%
\$89,402	and	\$138,586	\$16,539	26%
\$138,587	and	any amount	\$29,327	29%

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%

(CONTINUED ON PAGE 21)

4. SELECTED INDEXED AMOUNTS FOR PURPOSES OF COMPUTING INCOME TAX

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

	2015	**2016**
Basic personal amount	$11,327	$11,474
Spouse, common-law partner, or eligible dependant amount	11,327	11,474
Amount for children under 18	N/A	N/A
Age amount if 65 or over in the year	7,033	7,125
Net income threshold for age amount	35,466	35,927
Canada employment amount	1,146	1,161
Disability amount	7,899	8,001
Infirm dependants 18 & over	6,700	6,788
Net income threshold for infirm dependants 18 & over	6,720	6,807
Adoption expense credit limit	15,255	15,453

Other indexed amounts are as follows:

	2015	**2016**
Medical expense tax credit — 3% of net income ceiling	$2,208	$2,237
Annual TFSA dollar limit	10,000	5,500
RRSP dollar limit	24,930	25,370
Lifetime capital gains exemption on qualified small business corporation shares	813,600	824,176

5. PRESCRIBED INTEREST RATES (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2016	1	1	1	
2015	1	1	1	1
2014	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 22)

6. MAXIMUM CAPITAL COST ALLOWANCE RATES FOR SELECTED CLASSES

Class 1……………………………….	4%	for all buildings, except those below
Class 1……………………………….	6%	for new non-residential buildings acquired after March 18, 2007
Class 1……………………………….	10%	for new manufacturing and processing buildings acquired 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 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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