***Canadian Tax Principles, 2022-2023* (Byrd/Chen)**

**Chapter 5 Capital Cost Allowance**

**Note to Instructors: The solutions to the Chapter 5 Test Bank questions only contemplate federal income tax and GST/HST legislation that had become law as of December 31, 2021.**

5.1 Online Exercises

1) The calculation of amortization expense under accounting rules such as ASPE or IFRS and the determination of CCA to be claimed for income tax purposes can be viewed as somewhat similar.However, there are some differences that arise in how the amounts are determined. Describe the similarities and differences between the procedures used to calculate amortization expense for accounting purposes and those procedures used to establish the amount of CCA to be claimed for income tax.

Answer: The basic **similarity** between amortization and CCA is that both are directed towards allocating the cost of a depreciable property over periods of time. Amortization requires that this allocation period be based upon the useful life of the property. In contrast, CCA procedures often use periods that are longer or shorter than the actual life of the property. For example, CCA allocates the cost of some Class 12 property to just one year, even though the properties last considerably longer. Alternatively, the period of write-off for a property subject to declining balance methods (e.g., Class 8) have an unlimited write off period.

The **objectives** of amortization and CCA are different in that amortization matches amortization expense with the related revenues in order to present fairly the results of operations of a business. In contrast, the tax policy behind CCA is simply to recognize a portion of cost as an annual expense for the purposes of reducing income tax payable.

As far as **methods** are concerned, CCA is generally limited to the use of straight line or declining balance methods with the added complications required to apply the AccII, the available for use rules, the short fiscal period rules, new rules for zero emission vehicles and new rules for complete expensing for CCPCs to name some of the more common secondary rules that must be considered in determining annual CCA. In contrast, amortization calculations can use a much wider range of methods and, in addition, the accountant has discretion as to the choice of methods for particular types of depreciable property.

A final difference is in **the application** of the methods chosen. The CCA rules determine the maximum amount that will be allowed as a deduction for each class. However there is no requirement to actually claim that maximum amount. This can provide flexibility such as where a business wishes to minimize a loss by claiming little or no CCA in a particular taxation year. In contrast, accounting amortization must determine the amount to be deducted on a consistent basis from year to year, without being influenced by the level of income being experienced by the enterprise. In other words in accounting annual amortization must be claimed each year irrespective of the performance of the business.

Type: ES

Topic: CCA and depreciable property (income tax vs accounting)

2) For accounting purposes, the cost of an asset is generally equal to its acquisition cost. This cost would include the basic invoice cost, delivery and installation costs, and other expenditures required to make the asset available for use by the business. Indicate some of the reasons why the capital cost of a property for income tax purposes may differ from the cost for accounting purposes.

Answer: The capital cost of a property for income tax purposes would, in many cases, contain all of the same component costs used for accounting purposes. However, there may be differences and some of them are caused by the factors described below:

**Automobiles Costing more than $34,000 or $59,000 in 2022** — For income tax purposes, the deductible cost of passenger automobiles is limited to $34,000 or $59,000 in 2022 in the case of zero-emission passenger vehicles, exclusive of GST/HST & PST. Previously the prescribed amounts were $30,000 and $55,000. For accounting purposes, there is no similar restriction.

**Government Assistance** — Under the provisions of ITA 13(7.1), government assistance (e.g. loans, grants, credits etc) to assist in the purchase of depreciable property must reduce the capital cost for CCA purposes. Under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, such assistance can either be deducted in a manner similar to the income tax rules or treated as a deferred charge.

**Property Acquired in Non-Arm's Length Transactions** — When a depreciable property is purchased in a non-arm's length transaction, the ITA requires the use of FMV without regard to the actual price established between the buyer and seller. For accounting purposes, the actual price established between the buyer and seller would be used and, if that amount was different than the FMV, a significant difference between the accounting and tax values could arise.

Type: ES

Topic: CCA and depreciable property (income tax vs accounting)

3) Each depreciable property is allocated to a single prescribed Class that contains all of the property of that Class. However, in certain situations depreciable property may be required to be placed in a separate prescribed class on a mandatory or elective basis resulting in multiple classes of the same class number. What are some examples of this type of situation?

Answer: The examples that are listed in the text are as follows:

• Separate businesses must have separate Classes for each business.

• Each rental property with a cost of $50,000 or more must be allocated to a separate class.

• Each passenger vehicle with a cost in excess of $34,000 in 2022 must be allocated to a separate class.

• Each zero-emission passenger vehicle with a cost in excess of $59,000 in 2022 must be allocated to a separate class. if an election is filed to exclude the property from Class 54 (ITR 1103(2j)

• Eligible non-residential buildings that have been elected upon.

• Qualifying depreciable property subject to technological obsolescence that is elected upon.

Type: ES

Topic: CCA separate classes

4) Briefly explain why it is important to take care in allocating depreciable property to the appropriate CCA class.

Answer: Mistakes in classification can have a dramatic impact upon income or loss depending on the different CCA rates applicable to the correct class versus the class chosen in error. For example, if a $100,000 depreciable property is placed in Class 1 (4%/6%/10% declining balance CCA) when it should have been placed in Class 10 (30% declining balance CCA), the maximum CCA claim would be $4,000 as opposed to the $30,000 that would have been available had the correct class been chosen. Alternatively, an understatement of income tax owing would arise if a Class 10 depreciable property were mistakenly added to Class 1.

Type: ES

Topic: CCA misclassification error

5) Each non-zero-emission passenger vehicle with a cost in excess of $30,000 must be placed in a separate Class 10.1. Passenger vehicles with a cost of $30,000 or less are placed in Class 10. Briefly describe the differences between the rules applicable to Class 10.1, and those applicable to Class 10.

Answer: The differences are as follows:

• The addition to Class 10.1 requires a passenger vehicle with a cost in excess of $34,000 beginning in 2022. There is no dollar limit on depreciable property added to Class 10

• In the year of disposition, one-half of the normal CCA that could have been claimed had the property not been disposed of can be claimed with respect to Class 10.1. CCA can only be claimed on Class 10 in the normal manner. If there are no properties remaining in the class at the end of the year then no CCA can be claimed.

• In the year of disposition, no recapture or terminal loss is allowed with respect to Class 10.1. Recapture or terminal losses apply with respect to Class 10.

Type: ES

Topic: CCA Class 10.1

6) Patents with a limited life are normally included in Class 44 where they are subject to declining balance CCA calculations at a 25% rate. However, a taxpayer can elect not to include the limited life patent in Class 44 in which case Class 14 would then apply. Class 14 applies a straight-line approach determining annual CCA based on the remaining legal life of the patent. Under what circumstances would this election be desirable?

Answer: The election could be useful if the patent is acquired near the end of its legal life. For example, if only three years remained, the annual CCA claim would equal one-third of the cost, resulting in larger CCA claims than would be the case using Class 44's 25% declining balance rate.

Type: ES

Topic: CCA patents

7) Prior to November 21, 2018 the half year rule applied to most depreciable property acquired but as of November 20, 2018 until December 31, 2027 most depreciable property will be eligible for the AccII. What will be the effect of this change on the maximum CCA that can be claimed for the current 2022 taxation year?

Answer: Under the half-year rule, one-half of net additions for the year were deducted from the base for calculating CCA for that year. Under the AccII, one-half of the net additions are added to the base for calculating CCA for the year. This has the effect of tripling the amount of CCA that can be claimed with respect to most depreciable property purchased in 2022. This change however does not affect the total CCA that can be claimed with respect to each depreciable property. The AccII simply allows a larger proportion of the cost of depreciable property to be claimed in the year of purchase (assuming that the property has passed the available for use rules).

Type: ES

Topic: CCA AccII rules

8) If a taxpayer has decided, in a particular taxation year, to deduct less than the maximum available CCA, a decision will be required to select the appropriate class from which CCA will be claimed. What is the general tax planning basis for making this decision? Explain your conclusion.

Answer: In years in which a taxpayer deducts less than maximum CCA, the CCA that is deducted should usually be taken from the class or classes with the lowest CCA rates. The reason for this is that taking the deduction from a low rate class will leave a larger balance(s) in high rate classes. As a consequence, the application of these higher rates will result in a larger maximum CCA deduction in future years.

Type: ES

Topic: CCA tax planning

9) When a depreciable property is sold, there may be no immediate income tax consequences. Identify the circumstances necessary to achieve this result.

Answer: As listed in the text, the conditions are as follows:

• The POD is less than the ACB (i.e., capital cost) of the property. This avoids any capital gain.

• There are additional properties in the class and the UCC balance on the last day of the taxation year is positive. This avoids any potential terminal loss.

• The UCC balance is not negative on the last day of the taxation year. This avoids the possibility of recapture.

Type: ES

Topic: CCA calculations

10) When there is a disposition of depreciable property, there may be recapture, a terminal loss or no income tax implications. What conditions are required to result in (1) recapture and (2) a terminal loss.

Answer: (1) Recapture occurs when the UCC balance on the last day of the taxation year is negative. Recapture is not dependent upon their being property in the class at that time and, (2) A terminal loss requires two conditions - the first is that the UCC balance on the last day of the taxation year is positive and the second that there are no properties remaining in that class on the last day of the taxation year.

Type: ES

Topic: CCA - recapture and/or terminal loss

11) When there is a disposition of depreciable property, there may be recapture or a terminal loss. How are recapture and terminal losses treated for income tax purposes. including their affect upon UCC of the class to which they relate?

Answer: Recapture and terminal loss arise in connection with a source of income that is either a business or property (e.g. rental buildings). Recapture is added to either property or business income and terminal loss is deducted from either property or business income. In both cases the UCC balance of the particular class is reset to nil on the first day of the following taxation year.

Type: ES

Topic: CCA - recapture and/or terminal loss

12) When a depreciable property is sold, the income tax consequences are usually quite different than the consequences for accounting purposes. Describe the differences between accounting and income tax when depreciable property is sold.

Answer: For accounting purposes the carrying value of a particular asset is compared to the sale proceeds. If the sale proceeds exceed the carrying value, an accounting gain is recorded. Alternatively, if the sale proceeds are less than the carrying value, an accounting loss is recognized. These accounting gains and losses are included in the accounting income for the year.

The income tax consequences can be much more complex. In general, the disposition of depreciable property results in a reduction to the CCA class of an amount equal to the lesser of the capital cost and the POD. If the POD do not exceed the capital cost, if the property is not the last property in the class, and if the deduction of the POD or capital cost does not create a negative balance in the class, the only income tax consequence will be a reduced UCC balance that will result in a lower CCA claim for the year. However, there are several other possible outcomes that can be described as follows:

**POD exceed Capital Cost(i.e., ACB)** — If the POD exceed the capital cost of the property, the excess will be a capital gain, one-half of which will be a taxable capital gain.

**Last property in the class** — If the property disposed of is the last property in the class and on the last day of the taxation year the UCC balance is positive there will be a terminal loss equal to that positive UCC balance. The terminal loss represents a deduction in the year from either business or property income.

**Negative UCC balance in the class** — If the reduction to the UCC caused by a disposition of depreciable property results in a negative UCC balance that still exists on the last day of the taxation year that negative amount represents a recapture which is added to either business or property income for the year of the disposition. Both recapture and terminal loss resets the UCC balance to nil on the first day of the next taxation year.

Type: ES

Topic: CCA and depreciable property (income tax vs accounting)

13) When a taxpayer acquires depreciable property such as a photocopier, the property can either be classified as Class 8 property along with all other Class 8 properties or an election can be filed to include the property in a separate Class 8. What is the advantage of electing to include a photocopier to a separate Class 8?

Answer: If an election is filed to include a photocopier in a separate Class 8, it will be subject to CCA at a 20% rate, even if its expected life is very short (e.g., two or three years). The benefit of an election is that if the property is disposed of for an amount less than its UCC the remaining positive UCC balance can be deducted as a terminal loss in the year of disposition. Alternatively, if an election is not made an amount that would have been a terminal loss will likely result in a reduction in the UCC balance only. The result would be a smaller CCA claim rather than a large terminal loss.

Type: ES

Topic: CCA separate classes

14) Describe the type of properties or expenditures that are included in Class 14.1 and give two examples.

Answer: Class 14.1 was established to include capital expenditures that are largely intangible property and other types of property that do not fit within other classes of depreciable property. Examples of Class 14.1 property include:

• goodwill;

• Licenses, patents, trademarks and franchises with unlimited lives;

• purchased customer lists,

• expenses of incorporation over $3,000.

• the cost of certain government rights;

Type: SA

Topic: CCA Class 14.1

15) Describe the tax treatment of purchased goodwill.

Answer: ITA 13(34)(a) deems each business to own goodwill and since there is no cost of that goodwill (e.g. internally generated goodwill) the cost would be nil. The rules of the ITA make the following adjustments with respect to goodwill:

**Additions**

• Amounts paid for goodwill on the purchase of a business.

• Capital expenditures that are not identifiable with a specific property.

**Deductions**

• Amounts received for goodwill disposed of on the sale of a business.

Type: ES

Topic: CCA Class 14.1

16) CCA is analogous to the accounting term amortization that allocates the cost of depreciable property to current and future taxation years.

Answer: TRUE

Explanation: CCA is analogous to the accounting term amortization that allocates the cost of depreciable property to current and future taxation years.

Type: TF

Topic: CCA and depreciable property (income tax vs accounting)

17) The capital cost of depreciable property is reduced by government assistance received or receivable where it is provided to defray the costs of depreciable property.

Answer: TRUE

Explanation: The capital cost of depreciable property is reduced by government assistance received or receivable where it is provided to defray the costs of depreciable property.

Type: TF

Topic: Government assistance

18) CCA for each class can be calculated using the declining balance method or the straight line method, as long as it is the same method used to calculate amortization for financial statements purposes.

Answer: FALSE

Explanation: The method for calculating CCA for each class is specified in the *Income Tax Regulati*ons and the accounting treatment has no bearing on income tax considerations.

Type: TF

Topic: CCA and depreciable property (income tax vs accounting)

19) A corporation with a June 30 taxation year end begins carrying in business on January 1, 2022. The company purchases Class 8 property for $50,000 on March 1, 2022. The maximum CCA for its taxation year ending June 30, 2022 is $15,000.

Answer: FALSE

Explanation: The maximum CCA for its taxation year ending June 30, 2022 is $7,438 [($50,000)(20%)(1.5)(181/365)].

Type: TF

Topic: CCA calculations

20) If a limited life patent is acquired near the end of its legal life, it will usually be a good idea to elect to include the patent in Class 14.

Answer: TRUE

Explanation: Patents, whether limited or unlimited life, automatically are classified as Class 44 which applies a 25% declining balance CCA. Unlimited life patents can also qualify as Class 14.1 property which only applies a 5% CCA rate. Alternatively, an election can be made to choose Class 14 if the patent has a limited life. Class 14 amortizes the cost of a limited life patent over its remaining life therefore if the patent is near the end of its life, the CCA claims could exceed what would be allowed under Class 44.

Type: TF

Topic: CCA patents

21) The separate class election for photocopiers should be used only if the property is expected to be used for long periods of time.

Answer: FALSE

Explanation: The election should be used when the photocopiers are retired after relatively short periods as it provides for recognition of the terminal losses which would arise in such situations.

Type: TF

Topic: CCA separate classes

22) Recapture of CCA occurs when there is a negative balance in a class on the last day of the taxation year.

Answer: TRUE

Explanation: Recapture of CCA occurs when there is a negative balance in the class on the last day of the taxation year.

Type: TF

Topic: CCA - recapture and/or terminal loss

23) Only one-half of a terminal loss can be deducted in the determination of a taxpayer's net income.

Answer: FALSE

Explanation: Taxpayers can deduct 100% of terminal losses in the determination of their business or property income which affects net income.

Type: TF

Topic: CCA - recapture and/or terminal loss

24) The cost of each rental property owned by a taxpayer must be allocated to a separate CCA Class.

Answer: FALSE

Explanation: In general only rental properties with a cost of $50,000 or more must be included in a separate class.

Type: TF

Topic: CCA separate classes

25) As part of the purchase of a business in 2022, goodwill is purchased for $60,000. There are no other properties in Class 14.1. The maximum CCA that can be claimed in 2022 is $3,000.

Answer: FALSE

Explanation: The maximum CCA that can be claimed is $4,500 [(150%)($60,000)(5%)].

Type: TF

Topic: CCA Class 14.1

26) Of the following pairs of terms, which pair represents terms that are equivalent for accounting and for income tax?

A) Capital Cost and Carrying Value.

B) Amortization and Capital Cost Allowance.

C) Undepreciated Capital Cost and Acquisition Cost.

D) Capital Cost and Amortization.

Answer: B

Type: MC

Topic: CCA and depreciable property (income tax vs accounting)

27) A business expects net income before deducting CCA of $15,000. It would like to reduce this amount to nil after claiming CCA. It can take the required $15,000 in CCA from four different CCA classes, all of which would allow a CCA claim of more than $15,000. If the business wishes to maximize future CCA, the $15,000 should be claimed from:

A) Class 44.

B) Class 10.

C) Class 53.

D) Class 8.

Answer: D

Explanation: A) 25% CCA rate

B) 30% CCA rate

C) 50% CCA rate

D) 20% CCA rate Standard tax planning suggests claiming from the lowest rate class in these circumstances.

Type: MC

Topic: CCA tax planning

28) A taxpayer acquires a rental property several years ago for $562,000, with $112,000 of this amount being the estimated value of the land and the remaining $450,000 attributable to the building. At the beginning of the current year the UCC for the property is $374,561. During the current year, the property is sold for $843,000, with $262,000 of this amount for the land and $581,000 for the building. Which of the following statements is correct?

A) There will be recapture of $75,439 and a capital gain of $131,000.

B) There will be recapture of $75,439 and a capital gain of $281,000.

C) There will be recapture of $187,439.

D) There will be a taxable capital gain of $281,000.

Answer: B

Explanation: B) The recapture is correct and there will be a capital gain of $131,000 on the building and $150,000 on the land for a total capital gain of $281,000.

Type: MC

Topic: CCA calculations

29) Which of the following statements with respect to terminal losses is **NOT** correct?

A) If property remains in a class on the last day of a taxation year, there is no terminal loss.

B) Terminal losses are fully deductible in the determination of either business or property income.

C) Terminal losses reset the UCC on the first day of the next taxation year to nil.

D) A terminal loss occurs when there are no property remaining in the class on the last day of the taxation year and there is a negative UCC balance on that same date.

Answer: D

Explanation: D) The UCC balance would have to be positive on the last day of the taxation year.

Type: MC

Topic: CCA - recapture and/or terminal loss

Use the following information to answer the questions below.

The Nelson Company has a taxation year end of December 31. On January 1 of the current year, the UCC of Class 8 was $80,000. The Nelson Company has a policy of always deducting maximum CCA. Each of the following questions deals with transactions during the current year which involved Class 8 property. Choose the best answer for each question.

30) An additional class 8 property was purchased for $20,000 on April 1, 2022. Maximum CCA for Class 8 is:

A) $4,000

B) $10,000

C) $10,800

D) $32,000

E) $13,000

F) $22,000

G) $25,000

H) $20,000

J) $43,200

K) $52,000

L) $60,800

M) $67,000

N) $72,000

O) $76,000

P) $91,000

Q) $98,000

Answer: F

Explanation: F) $22,000 [20%][$80,000 + (150%)($20,000)]

Type: MC

Topic: CCA calculations

31) A class 8 property with a capital cost of $15,000 was sold for $4,000 on June 30, 2022. Minimum UCC on January 1, 2023 is:

A) $4,000

B) $10,000

C) $10,800

D) $32,000

E) $13,000

F) $22,000

G) $25,000

H) $20,000

J) $43,200

K) $52,000

L) $60,800

M) $67,000

N) $72,000

O) $76,000

P) $91,000

Q) $98,000

Answer: L

Explanation: L) $60,800 [$80,000 - $4,000 - (20%)($80,000 - $4,000)].

Type: MC

Topic: CCA calculations

32) A class 8 property with a capital cost of $15,000 was sold for $26,000 on September 1, 2022. Maximum CCA for Class 8 is:

A) $4,000

B) $10,000

C) $10,800

D) $32,000

E) $13,000

F) $22,000

G) $25,000

H) $20,000

J) $43,200

K) $52,000

L) $60,800

M) $67,000

N) $72,000

O) $76,000

P) $91,000

Q) $98,000

Answer: E

Explanation: E) $13,000 [(20%)($80,000 - $15,000)].

Type: MC

Topic: CCA calculations

33) A class 8 property with a capital cost of $15,000 was sold for $26,000 on September 1, 2022. Minimum UCC on January 1, 2023 is:

A) $4,000

B) $10,000

C) $10,800

D) $32,000

E) $13,000

F) $22,000

G) $25,000

H) $20,000

J) $43,200

K) $52,000

L) $60,800

M) $67,000

N) $72,000

O) $76,000

P) $91,000

Q) $98,000

Answer: K

Explanation: K) $52,000 [$80,000 - $15,000 - (20%)($80,000 - $15,000)].

Type: MC

Topic: CCA calculations

34) A class 8 property with a capital cost of $100,000 was sold on June 30, 2022 for $90,000. Also during the year, a class 8 property was purchased for $60,000. Maximum CCA for Class 8 is:

A) $4,000

B) $10,000

C) $10,800

D) $32,000

E) $13,000

F) $22,000

G) $25,000

H) $20,000

J) $43,200

K) $52,000

L) $60,800

M) $67,000

N) $72,000

O) $76,000

P) $91,000

Q) $98,000

Answer: B

Explanation: B) $10,000 [(20%)($80,000 - $90,000 + $60,000)].

Type: MC

Topic: CCA calculations

35) The last property in the class, with a capital cost of $85,000, was sold on July 15, 2022 for $90,000. This would give rise to:

A) $5,000 Recapture

B) $10,000 Recapture

C) $5,000 Terminal Loss

D) $10,000 Terminal Loss

E) $5,000 Allowable Capital Loss

F) $10,000 Allowable Capital Loss

G) $5,000 Taxable Capital Gain

H) $10,000 Taxable Capital Gain

Answer: A

Explanation: A) Recapture of $5,000. ($80,000 — 85,000). There would also be a $5,000 capital gain which is not among the choices meaning that only "A" is correct.

Type: MC

Topic: CCA calculations

36) The last class 8 property, with a capital cost of $85,000, was sold on August 1, 2022 for $70,000. This would result in:

A) $5,000 Recapture

B) $10,000 Recapture

C) $5,000 Terminal Loss

D) $10,000 Terminal Loss

E) $5,000 Allowable Capital Loss

F) $10,000 Allowable Capital Loss

G) $5,000 Taxable Capital Gain

H) $10,000 Taxable Capital Gain

Answer: D

Explanation: D) $10,000 terminal loss. ($80,000 — 70,000). There can never be a capital loss on depreciable property.

Type: MC

Topic: CCA calculations

37) A class 8 property with a capital cost of $40,000 was sold for $50,000 on September 1, 2022. This would give rise to:

A) $5,000 Recapture

B) $10,000 Recapture

C) $5,000 Terminal Loss

D) $10,000 Terminal Loss

E) $5,000 Allowable Capital Loss

F) $10,000 Allowable Capital Loss

G) $5,000 Taxable Capital Gain

H) $10,000 Taxable Capital Gain

Answer: G

Explanation: G) $5,000 taxable capital gain. (POD $50,000 — ACB 40,000) × 50%

Type: MC

Topic: CCA calculations

38) A class 8 property with a capital cost of $70,000 was sold on October 1, 2022 for $90,000. A class 8 property was also purchased on November 1, 2022 for $100,000. Maximum CCA for Class 8 is:

A) $4,000

B) $10,000

C) $10,800

D) $32,000

E) $13,000

F) $22,000

G) $25,000

H) $20,000

J) $43,200

K) $52,000

L) $60,800

M) $67,000

N) $72,000

O) $76,000

P) $91,000

Q) $98,000

Answer: G

Explanation: G) $25,000 [20%][$80,000 - $70,000 + $100,000 + (1.5)($100,000 - $70,000)].

Type: MC

Topic: CCA calculations

39) A class 8 property with a capital cost of $70,000 was sold on May 1, 2022 for $90,000 and a class 8 property was purchased on May 15, 2022 for $100,000. Minimum UCC on January 1, 2023 is:

A) $4,000

B) $10,000

C) $10,800

D) $32,000

E) $13,000

F) $22,000

G) $25,000

H) $20,000

J) $43,200

K) $52,000

L) $60,800

M) $67,000

N) $72,000

O) $76,000

P) $85,000

Q) $98,000

Answer: P

Explanation: P) $85,000 ($80,000 - $70,000 + $100,000 - $25,000 CCA).CCA base = $80,000 + (1.5)($100,000 - $70,000) = $125,000 @ 20% CCA = $25,000.

Type: MC

Topic: CCA calculations

40) The capital cost of a depreciable property includes a number of capital cost components. Indicate which cost components would **NOT** be considered part of the capital cost.

A) Legal fees incurred to acquire the property.

B) Custom duties paid.

C) Fire and theft insurance on the property.

D) Non-refundable provincial sales taxes.

Answer: C

Explanation: C) All of the capital cost components would be included in the capital cost except C, fire and theft insurance paid for coverage of the property. Such amounts would be considered a current expense and not a capital expenditure to be added to the capital cost.

Type: MC

Topic: CCA capital cost

41) A corporate taxpayer has $5,000 of taxable income in 2022. The management anticipates significant income in 2023. The maximum CCA claim for 2022 in Class 8 is $5,000 and an additional $5,000 for Class 12. To minimize the subsequent year's income taxes, the business should:

A) claim maximum CCA on Class 8 only.

B) claim maximum CCA on Class 12 only.

C) claim maximum CCA on Class 8 and Class 12.

D) claim no CCA for the year.

E) claim $2,500 CCA on Class 8 and $2,500 CCA on Class 12.

Answer: C

Explanation: C) To minimize the subsequent year's taxes, the business should claim maximum combined CCA of $5,000 each on Class 8 and Class 12. This will result in a 2022 non-capital loss of $5,000 that can be applied to the 2023 taxation year.

Type: MC

Topic: CCA calculations

42) During the current year, Denos Corporation incurred costs of $45,000 for leasehold improvements to its newly rented building. The lease was signed in the current year for an initial term of three years plus four successive options to renew the lease, each for an additional one year term. Which one of the following amounts represents the **maximum CCA** claim in the current year?

A) $13,500.

B) $ 8,438.

C) $27,000.

D) $16,876.

Answer: A

Explanation: A) The maximum is limited to the lesser of cost divided by the initial lease term plus one renewal ($45,000 ÷ 4), and cost divided by five years ($45,000 ÷ 5). The resulting $9,000 is subject to the AccII provisions, giving a maximum deduction of $13,500 [(150%)($9,000)].

Type: MC

Topic: CCA Class 13

43) On December 1 of the current year, Plen Limited purchased a franchise for $70,000. The franchise has a limited life of 15 years. Which one of the following amounts represents the **maximum** amount of CCA Plen Limited can claim for its current taxation year ending on December 31?

A) $ 396.

B) $ 594.

C) $4,667.

D) $7,000.

Answer: B

Explanation: B) $594, the franchise is Class 14 [(150%)($70,000 ÷ 15)(31/365)].

Type: MC

Topic: CCA Class 14

44) In the current taxation year, a corporation acquired a rental property from its sole shareholder. The building was sold for its FMV of $425,000, but was not allocated to a separate Class 1. The shareholder originally paid $450,000 for the building two years ago. The property was a Class 1 (4%) property to the shareholder. The shareholder has earned rental income on the property since its acquisition. The UCC of the building at the time of the sale was $420,000.

Which one of the following amounts represents the **maximum** CCA that the corporation may claim for this building in the current taxation year?

A) $7,200.

B) $8,500.

C) $16,320.

D) $17,000.

Answer: D

Explanation: D) $425,000 × 4% = $17,000. The AccII provisions do not apply to an acquisition from a non-arm's length person where that person had previously claimed CCA on the property. In addition the half-year rule will also not apply since the transaction occurred between non-arm's length persons and the vendor owned the property for more than one year. As a result neither the half year or AccII will apply to the corporate purchaser.

Type: MC

Topic: CCA calculations

45) ABC Registered, a sole proprietorship, began carrying on a business on September 1, 2022. A calendar based fiscal period ending December 31 was chosen. On October 1, 2022 the proprietorship purchased furniture and fixtures for $40,000. The maximum CCA on the furniture and fixtures for the year ending December 31, 2022 will be:

A) $ 2,673.97.

B) $ 4,010.96.

C) $12,000.00.

D) $ 8,000.00.

Answer: B

Explanation: B) The equipment falls under Class 8, with CCA of 20%.

Taking into account the AccII provisions and the short fiscal period, the CCA is $4,010.96 [(150%)($40,000)(20%)(122/365)].

Type: MC

Topic: CCA calculations

46) Robert bought a rental property ten years ago for $320,000, with $80,000 of the purchase price allocated to the land and $240,000 attributable to the building. Over the ten years of ownership, he claimed CCA such that his UCC at the beginning of the current year for the building was $196,000. Robert sold the property this year for $520,000, with $180,000 of the sale price allocated to the land and $340,000 for the building. Which of the following statements is correct?

A) Robert has recapture of $44,000.

B) Robert has recapture of $124,000.

C) Robert has recapture of $144,000.

D) Robert has a capital gain of $100,000.

Answer: A

Explanation: A) Robert has recapture of $44,000 [($240,000 - $196,000]. The capital gain on the sale of the land was $100,000 ($180,000 - $80,000) and a capital gain on the building of $100,000 ($340,000 - $240,000) which totals $200,000.

D) $100,000 would be the taxable capital gain not the capital gain.

Type: MC

Topic: CCA calculations

47) Sherry owned a rental property. She originally acquired the property for $260,000 with $200,000 of the cost attributed to the building and $60,000 for the land. Over the years, Sherry has claimed CCA of $32,000, such that her UCC at the beginning of the year was $168,000. The rental property is the only property in the class. This year, she sold the property for $214,000, with $160,000 of the sale price attributed to the building and $54,000 for the land. Which of the following statements is correct?

A) Sherry has a terminal loss of $8,000.

B) Sherry has a capital loss of $36,000.

C) Sherry has an allowable capital loss of $4,000.

D) Sherry has recapture of $32,000.

Answer: A

Explanation: A) Sherry has a terminal loss of $8,000 ($168,000 - $160,000).

Type: MC

Topic: CCA - recapture and/or terminal loss

48) Dresses R Us moved into their new rented premises on January 1, 2021. The term of the lease is 10 years without any renewal options. $8,000 of leasehold improvements were completed in January 2021 with further leasehold improvements of $4,500 completed in January 2022. The maximum amount of CCA for 2022 is:

A) $1,475.

B) $1,550.

C) $1,250.

D) $1,300.

Answer: B

Explanation: A) ($8,000/10) + ($4,500/10 × 150%) = $1,475

B) $1,550 ($8,000/10) + ($4,500/9 × 150%) = $1,550

C) ($8,000/10) + ($4,500/10) = $1,250

D) ($8,000/10) + ($4,500/9) = $1,300

Type: MC

Topic: CCA calculations

49) Curt's Consulting Company purchased a laptop computer on February 15, 2022 for $2,000. The laptop was destroyed in a fire on April 30, 2022 and Curt's Consulting received $500 with respect to the loss from the insurance company. It was the only property in the class as all computer equipment has been leased for the last two years. The effect on 2022 business income for the taxation year ending December 31, 2022 is:

A) $550 decrease.

B) $412.50 decrease.

C) $2,000 decrease.

D) $1,500 decrease.

Answer: D

Explanation: A) $2,000 × 50% × 55% = $550

B) $1,500 × 50% × 55% = $412.50

C) insurance proceeds not deducted from UCC

D) $1,500 decrease. This represents a terminal loss equal to the positive UCC balance of $1,500 on the last day of the taxation year ($2,000 purchase - $500 POD equal to the insurance compensation).

Type: MC

Topic: CCA calculations

50) On September 1, 2022 Carla's Company purchased a new computer for $1,600 and desktop publishing software for $400. The maximum CCA claim for 2022 is:

A) $1,650.

B) $1520.

C) $3,000.

D) $1,800.

Answer: B

Explanation: A) ($1,600 +400) × 55% × 150% = $1,650

B) $1,520 ($1,600 × 55% × 150%) + ($400 × 100% × 50%) = $1,520. The computer is Class 50 and the software Class 12. See paragraph 5-84

C) ($1,600 +400) × 100% × 150% = $3,000

D) ($1,600 × 100%) + ($400 × 100% × 50%) = $1,800

Type: MC

Topic: CCA calculations

51) In 2022 Desiderata Design Corp. purchased a new BMW for $42,000. The car is used exclusively for business use. The maximum CCA that can be claimed for 2022 is:

A) $15,300.

B) $18,900.

C) $9,000.

D) $12,600.

Answer: A

Explanation: A) $15,300 ($34,000 maximum × 30% × 150%) = $15,300

B) ($42,000 × 30% × 150%) = $18,900

C) ($30,000 maximum × 30%) = $9,000

D) ($42,000 × 30%) = $12,600

Type: MC

Topic: CCA Class 10.1

52) In 2022 Desiderata Design Corp., purchased a new zero-emission automobile. The list price of the vehicle was $42,000 but was reduced to $37,000 after the dealer applied a $5,000 federal incentive. The vehicle will be used exclusively in the company business. The maximum CCA that can be claimed for 2022 is:

A) $11,100

B) $12,600

C) $37,000

D) $16,650

Answer: C

Explanation: A) $37,000 x 30%

B) $42,000 x 30%

C) [($37,000 x 2 1/3) + $37,000][30%]

D) [($37,000 x 1.5 AccII)(30%)]

Type: MC

Topic: CCA Class 54

53) In 2022 Desiderata Design Corp., purchased a new zero-emission automobile for $70,000 in 2022. The vehicle will be used exclusively in the company business. The maximum CCA that can be claimed for 2022 is:

A) $21,000

B) $17,700

C) $26,550

D) $59,000

Answer: D

Explanation: A) $70,000 x 30%

B) $59,000 x 30%

C) [($59,000 x 1.5 AccII)(30%)]

D) [($59,000 x 2 1/3) + $59,000][30%]

Type: MC

Topic: CCA Class 54

54) Several years ago, Solea Company purchased a Mercedes Benz that is used exclusively for business use. The car is in Class 10.1. On January 1, 2022 the UCC balance is $17,850. On August 1, 2022 the car was sold for $17,000. The company uses a calendar-based taxation year ending December 31. What are the 2022 income tax consequences of the sale of the Class 10.1 vehicle?

A) terminal loss of $850.

B) recapture of $850.

C) CCA deduction of $2,678.

D) CCA deduction of $2,245.

Answer: C

Explanation: A) Terminal loss of $850 ($17,850 - $17,000)

B) Recapture of $850

C) CCA deduction of $2,678 ($17,850 × 30% × 50%). CCA of half of the normal CCA is allowed in the year of disposition. No recapture or terminal loss is allowed.

D) CCA deduction of $2,245 ($17,850 × 30% × 153/365)

Type: MC

Topic: CCA Class 10.1

55) In October of 2019 Solea Company purchased a zero-emission automobile. The list price of the vehicle was $42,000 but was reduced to $37,000 after the dealer applied a $5,000 federal incentive. The vehicle will be used exclusively in the company business. The Company uses a calendar-based taxation year ending December 31. On January 1, 2022 the Class 54 UCC balance was $1,000 because the Company did not always claim maximum CCA. On August 1, 2022 the vehicle is sold for $17,000. There are no other properties in the class at December 31, 2022. What are the income tax consequences of the sale of the vehicle?

A) Terminal Loss of $16,000

B) Recapture of $16,000

C) CCA of $150 and no recapture

D) Capital Gain of $16,000

Answer: B

Explanation: A) $17,000 - $1,000

B) $1,000 - $17,000

C) [($1,000 x 50%)(30%)] Equivalent to the half year CCA in the year of disposition as Class 10.1

D) [(POD $17,000 — UCC $1,000]

Type: MC

Topic: CCA Class 54

56) In October of 2019 Solea Company purchased a zero-emission automobile for $70,000. The vehicle will be used exclusively in the company business. The Company uses a calendar-based taxation year ending December 31. On January 1, 2022 the Class 54 UCC balance was Nil as the Company always claims maximum CCA. On August 1, 2022 the vehicle is sold for $17,000. There are no other properties in the class at December 31, 2022. What are the income tax consequences of the sale of the vehicle?

A) Recapture of $12,357

B) Recapture of $16,000

C) No income tax consequences

D) Capital Gain of $17,000

Answer: A

Explanation: A) [$1,000 — ($17,000)($55,000 ÷ $70,000)] See paragraph 5-136

B) $1,000 - $17,000

D) [(POD $17,000 — UCC $Nil]

Type: MC

Topic: CCA Class 54

57) On January 1, 2022 Jorge purchased two newly constructed rental buildings for $850,000 each. Of the total cost of $850,000 for each building, $100,000 represents the value of the land on which the building is situated and the remaining $750,000 was attributable to each building. One building contains four suites and is rented to students. The other building is rented to a florist business. Each of the buildings is in a separate Class 1. Rental income (before CCA) for 2022 is $30,000. Ignore the rental property restrictions on CCA. The maximum CCA deduction for 2022 is:

A) $90,000.

B) $112,500.

C) $135,000.

D) $60,000.

Answer: B

Explanation: A) ($750,000 + 750,000) × 4% × 150% = $90,000

B) $112,500 ($750,000 × 4% × 150%) + ($750,000 × 6% × 150%)

C) ($750,000 + 750,000) × 6% × 150% = $135,000

D) ($750,000 + 750,000) × 4% = $60,000

Type: MC

Topic: CCA calculations

58) CCC Construction Company purchased three new tools during 2022 as follows:

January 1 $600

March 15 $350

April 30 $470

The maximum CCA that can be claimed in 2022 is:

A) $ 426.

B) $ 590.

C) $2,130.

D) $1,000.

Answer: D

Explanation: A) ($1,420 × 20% × 150%) = $426

B) ($600 × 20% × 150%) + ($350 + 470) × 100% × 50% = $590

C) ($1,420 × 100% × 150%) = $2,130

D) Class 8 ( $600 × 20% × 150%) + Class 12 ( $350 + 470) × 100% = $1,000. Tools costing less than $500 are included in Class 12 and tools costing $500 or more are included in Class 8. The AccII does not apply to Class 12. In addition the old half year rule does also not apply to tools included in Class 12.

Type: MC

Topic: CCA calculations

59) Amazine Inc. purchased Class 8 furniture for $4,000 in 2020. In 2022, this furniture was sold for $1,000. Class 8 UCC was $10,300 at the beginning of 2022 and no Class 8 property was purchased during the year. What is the UCC of this class at the end of 2022?

A) $1,860

B) $7,440

C) $9,300

D) $8,240

Answer: C

Explanation: A) 9,300 × 20% = $1,860

B) 9,300 × 80% = $7,440

C) $10,300 - 1,000 = $9,300. CCA is not deducted until the start of the following year. but additions and dispositions immediately impact the UCC.

D) 10,300 × 80% = $8,240

Type: MC

Topic: CCA calculations

60) Which of the following statements regarding recapture is correct?

A) Recapture occurs when there is a negative UCC balance in a class at the end of the taxation year, whether or not there are properties remaining in the class.

B) Recapture is deductible in the calculation of business or property income.

C) Recapture occurs when there is a positive UCC balance in a class and there are no properties remaining in the class on the last day of the taxation year.

D) Recapture occurs when there is a positive UCC balance in a class at the end of the taxation year, even if there are properties remaining in the class.

Answer: A

Explanation: A) Recapture occurs when there is a negative UCC balance in a class at the end of the taxation year, whether or not there are properties remaining in the class.

Type: MC

Topic: CCA - recapture and/or terminal loss

61) Which of the following properties are **NOT** eligible for CCA in the current year?

A) A delivery truck is purchased in December of the current year. The purchase price is not paid until January of the following year.

B) An employee owns and uses a truck for employment purposes during December. The employee's December earnings are not paid until January of the following year.

C) A delivery truck is leased during the year on a 3 year lease.

D) A delivery truck is purchased during the year on a 3 year financing term.

Answer: C

Explanation: C) A delivery truck is leased during the year on a 3 year lease. CCA can only be claimed by the owner of the truck which would be the lessor.

Type: MC

Topic: CCA eligibility

62) On September 1, 2022, Lerner Ltd, purchased a franchise for $75,000. The franchise has a limited life of 10 years. Lerner Ltd. has a September 30 taxation year end. The maximum CCA that can be claimed for the year ending September 30, 2022 is:

A) $ 925.

B) $11,250.

C) $ 3,750.

D) $ 7,500.

Answer: A

Explanation: A) [(150%)($75,000/10)] = $11,250 CCA annually. Pro-rate for the number if days owned in the taxation year: 30/365 × $7,500 = $925. This is not the application of the ITR 1100(3) short fiscal period rule but is how Class 14 CCA is determined.

Type: MC

Topic: CCA Class 14

63) Wolfe Ltd. has a December 31 taxation year end. It purchased a Class 10.1 automobile four years ago for $38,000 for use in its business. On January 1, 2022, the UCC for this Class 10.1 was $12,900. In 2022, it was sold for $10,000. What is the effect on its business income for 2022?

A) No effect.

B) Terminal loss of $2,900.

C) Capital loss of $2,900.

D) CCA claim of $1,935.

Answer: D

Explanation: D) [($12,900)(30%)(1/2)] = $1,935 In the year of disposition half of the normal CCA can be claimed as if the vehicle had not been sold. No recapture or terminal loss is allowed.

Type: MC

Topic: CCA Class 10.1

64) Wolfe Ltd. has a December 31 taxation year end. The company purchased a Class 54 automobile in June of 2019. The list price of the vehicle was $43,000 but was reduced to $38,000 after the dealer applied a $5,000 federal incentive. The vehicle will be used exclusively in the company business. On January 1, 2022 the Class 54 UCC balance was $3,000 because the Company did not always claim maximum CCA. The vehicle was sold in 2022 for $10,000. There are no properties remaining in the Class at December 31, 2022. What is the effect on the 2022 business income of the company?

A) Terminal Loss of $7,000

B) Recapture of $7,000

C) CCA of $450

D) Capital Loss of $28,000

Answer: B

Explanation: A) $10,000 - $3,000

B) $3,000 - $10,000

C) [($3,000 x 50%)(30%)] Equivalent to the half year CCA in the year of disposition as Class 10.1

D) [(POD $10,000 — ACB (capital cost $38,000]

Type: MC

Topic: CCA Class 54

65) Wolfe Ltd. has a December 31 taxation year end. The company purchased a Class 54 automobile in June of 2019 for $93,000. The vehicle will be used exclusively in the company business. On January 1, 2022 the Class 54 UCC balance was $3,000 because the Company did not always claim maximum CCA. The vehicle was sold in 2022 for $27,500. There are no properties remaining in Class 54 at December 31, 2022. What is the effect on the 2022 business income of the company?

A) Recapture of $24,500

B) CCA of $450

C) Recapture of $13,263

D) Capital Loss of $27,500

Answer: C

Explanation: A) $3,000 - $27,500

B) [($3,000 x 50%)(30%)] Equivalent to the half year CCA in the year of disposition as Class 10.1

C) [$3,000 — ($27,500)($55,000 ÷ $93,000)]

D) [(POD $27,500 — ACB (capital cost $55,000]

Type: MC

Topic: CCA Class 54

66) Nestor Nerd paid $4,000 on April 1, 2022 to purchase various computer applications software for a business he carries on as a sole proprietorship. The business has a December 31 fiscal period and has been in existence for 3 years. What is the maximum CCA claim that can be made with respect to the software for the 2022 fiscal period?

A) $1,100

B) $1,500

C) $2,000

D) $4,000

Answer: C

Explanation: A) (55%)(1/2)($4,000) = $1,100

B) ($4,000)(100%)(1/2)(9/12) = $1,500

C) [($4,000)(100%)(1/2)] = $2,000 Applications software is included in Class 12 and, as a result, the AccII does not apply. Furthermore the old half year rule continues to apply.

D) ($4,000)(100%) = $4,000

Type: MC

Topic: CCA calculations

67) On January 1, 2022, Don Buchanan purchases a business that he will carry on as a sole proprietor. The purchase price includes $60,000 for goodwill. The business has a fiscal period that ends on December 31 and, for 2022, Don claims the maximum CCA. On January 1, 2023, the business is sold in an arm's length transaction with $82,000 paid for the goodwill. The affect of the sale of the goodwill is to increase net income for 2022 by:

A) $11,000.

B) $13,500.

C) $15,500.

D) $14,000.

Answer: C

Explanation: A) [(1/2)($82,000 - $60,000)] = $11,000

B) [(1/2)($82,000 - $57,000)] = $13,500

C) [(150%)(5%)($60,000)] = $4,500; [($60,000 - $4,500) - $60,000] = ($4,500 Recapture)

[Taxable Capital Gain (1/2)($82,000 - $60,000) + $4,500 Recapture] = $15,500.

D) [1/2)($82,000 - $60,000) + $3,000] = $14,000

Type: MC

Topic: Goodwill

68) Which of the following statements with respect to Class 14.1 is **NOT** correct?

A) If a disposition creates a negative balance in the UCC of the Class at the end of the taxation year, 100% of the negative amount must be included in income.

B) Appraisal costs incurred for valuing intangible property in contemplation of a purchase would be added to the capital cost of the property.

C) The maximum CCA for the year is calculated as 7% of the UCC of the class on the last day of the taxation year.

D) If a business ceases to exist and there is a positive UCC balance in the Class, it can be deducted as a terminal loss in calculating business income.

Answer: C

Explanation: C) The maximum CCA for the year is calculated as 7% of the UCC of the class on the last day of the taxation year. The CCA rate is only 5%.

Type: MC

Topic: CCA Class 14.1

69) Fred commenced carrying on a franchise business as a sole proprietor on November 1, 2022. He paid $50,000 for the franchise rights and can use them for an unlimited number of years. The restaurant's fiscal period is December 31. Maximum CCA was claimed in 2022. The Class 14.1 UCC balance on January 1, 2023 is:

A) $47,500.

B) $49,582.

C) $46,250.

D) $49,373.

Answer: D

Explanation: A) $50,000 - [(5%)($50,000)] = $47,500

B) $50,000 - [(5%)($50,000)(61/365)] = $49,582

C) $50,000 - [(150%)(5%)($50,000)] = $46,250

D) $50,000 - [(150%)(61/365)(5%)($50,000)] = $49,373

Type: MC

Topic: CCA Class 14.1

70) Indicate which of the following items would not be added to Class 14.1.

A) Cost of fines and penalties.

B) Cost of government rights with an unlimited life.

C) Appraisal costs associated with the purchase of intangible property.

D) Cost of amending the articles of incorporation of an existing company.

E) Cost of customer lists.

Answer: A

Explanation: A) All of the items would be added to Class 14.1 except A, the cost of fines and penalties. The ITR description of Class 14.1 ((b)(iv)) specifically excludes expenditures that are denied deductibility by the ITA. Fines and penalties are subject to a general deductibility restriction in ITA 67.6 which is discussed in Chapter 6.

Type: MC

Topic: CCA eligibility

71) For each of the following depreciable property, indicate the appropriate CCA Class.

• Cash registers

• Boats, canoes, and other vessels

• Airplane runways

• Automobile (i.e., passenger vehicle) with a cost of $85,000

• Storage tanks for oil

• Residential rental property acquired in 2017 for $450,000 (Value of land is $100,000)

• Manufacturing and processing equipment acquired in 2022

Answer: The correct classes for each of the depreciable properties would be as follows:

**Depreciable Property Class**

Cash registers 8

Boats, canoes, and other vessels 7

Airplane runways 17

Passenger vehicle with a cost of $85,000\* 10.1 or 54

Power operated movable equipment 38

Storage tanks for oil 6

Rental building\* 1

Manufacturing and processing equipment 53

\*The rental building and the Class 10.1 properties are required to be included in a separate class. There is no separate class however for Class 54 which represents zero-emission passenger vehicles (ZEPV).

Type: ES

Topic: CCA identifying the class

72) In 2022, your company acquired depreciable property for $437,000 to be used in its business. The accountant misclassified the property including it in Class 1 at the end of the year (it was not included in a separate Class 1). Early in 2023, the misclassification was discovered and you learned that the property should have been included in Class 8. What was the impact of this error on your 2022 business income? Assume that the company always claims maximum CCA.

Answer: The impact can be calculated as follows:

Correct CCA [($437,000)(150%)(20%)] $131,100

CCA Claimed [($437,000)(150%)(4%)] ( 26,220)

Understated CCA $104,880

Type: ES

Topic: CCA misclassification error

73) In 2022, the Lardly Company spent $675,000 to acquire a government license with an unlimited life. The Company's accountant misclassified the cost as Class 8. This error was discovered in early 2023. What was the impact of this error on the Company's 2022 business income? Assume that the company always claims maximum CCA

Answer: The government license should have been classified as Class 14.1. The resulting overstatement can be calculated as follows:

Correct maximum CCA [(5%)(150%)($675,000)] $ 50,625

CCA claimed [(20%)(150%)($675,000)] ( 202,500)

Overstated CCA ($151,875)

Type: ES

Topic: CCA misclassification error

74) Bifor Ltd., with a taxation year that ends on December 31 and has a Class 8 UCC balance on January 1, 2023 of $475,000. In 2022, the company purchases a Class 8 property for $150,000 that is eligible for the AccII. The Company also disposes of a Class 8 property for $72,000 which is below the property's capital cost. Determine the maximum Class 8 CCA that Bifor can claim for 2022 including the UCC balance as of January 1, 2023.

Answer: The maximum CCA for 2022 and the January 1, 2023 UCC balance are calculated as follows:

January 1, 2022 UCC $475,000

Add: Acquisitions in the year year $150,000

Deduct: Dispositions in the year ( 72,000) 78,000

Add: AccII Adjustment [(50%)($78,000)] 39,000

CCA Base (December 31, 2022 UCC) $592,000

2022 CCA [(20%)($592,000)] ( 118,400)

AccII Adjustment Reversal ( 39,000)

January 1, 2023 UCC $434,600

Type: ES

Topic: CCA on property eligible for the AccII

75) Sunpeel Ltd., with a taxation year that ends on December 31, has a Class 10 UCC balance on January 1, 2022 of $900,000. In 2022, the company purchases 10 automobiles at a cost of $25,000 each, for a total addition of $250,000. The Company also sells 8 automobiles for total proceeds of $120,000. In no case did the sale price exceed the capital cost of any automobile sold. Determine the maximum Class 10 CCA that Sunpeel can claim for 2022, as well as the January 1, 2023 UCC balance.

Answer: The maximum CCA for 2022 and the January 1, 2023 UCC balance are calculated as follows:

January 1, 2022 UCC $ 900,000

Add: Acquisitions in the year $250,000

Deduct: Dispositions in the year ( 120,000) 130,000

Add: AccII Adjustment [(50%)($130,000)] 65,000

CCA Base (December 31, 2022 UCC) $1,095,000

2022 CCA [(30%)($1,095,000)] ( 328,500)

AccII Adjustment Reversal ( 65,000)

January 1, 2023 UCC $ 701,500

Type: ES

Topic: CCA on property eligible for the AccII

76) Roden Ltd. has a December 31 year end. The Company leases its office space under a lease that was signed on January 1, 2018. The lease term is 5 years, with an option to renew at an increased rent for an additional 2 years. In 2018, the Company spent $74,000 renovating the premises. In 2022, changing needs required the Company to spend another $16,000 renovating the space. Determine the maximum amount of Class 13 CCA that the Company can claim in 2022 and 2023.

Answer: The required CCA calculations for 2023 would be as follows:

On 2018 Improvements ($74,000 ÷ 7) $10,571

On 2022 Improvements [(150%)($16,000 ÷ 5)]\* 4,800

2021 CCA $15,371

\* The CCA would be the lesser of $16,000 divided by the remaining years plus one renewal option of three years (e.g. $16,000/3 = $5,333 before the AccII) and one-fifth of the capital expenditure of $3,200 (before the AccII). The lesser amount is $3,200.

The required CCA calculations for 2023 would be as follows:

On 2018 Improvements ($74,000 ÷ 7) $10,571

On 2022 Improvements ($16,000 ÷ 5) 3,200

2023 CCA $13,771

Type: ES

Topic: CCA Class 13

77) Boker Inc. has a December 31 taxation year end. On March 1, 2022, Boker pays $375,000 to acquire a franchise agreement. The life of the franchise is 5 years. Determine the maximum CCA for 2022 and the UCC balance as of January 1, 2023.

Answer: The required calculations are as follows:

Acquisition Amount $375,000

CCA for 2022 [(150%)($375,000 ÷ 5)(306/365)] ( 94,315)

January 1, 2023 UCC $280,685

Type: ES

Topic: CCA Class 14

78) On January 1, 2022, Cundo Inc. has a Class 53 UCC balance of $750,000. In 2022, additional Class 53 property is purchased for $150,000. There were no dispositions in the year. Determine the maximum Class 53 CCA for 2022, as well as the UCC balance as of January 1, 2023.

Answer: The required calculations are as follows:

January 1, 2022 UCC $ 750,000

Acquisitions in the year 150,000

AccII Adjustment [(100%)($150,000)] 150,000

CCA Base $1,050,000

2022 CCA [(50%)($1,050,000)] ( 525,000)

AccII Adjustment Reversal ( 150,000)

January 1, 2023 UCC $375,000

Note: The normal AccII adjustment is 50% but is increased to 100% for Class 53 property.

Type: ES

Topic: CCA Class 53

79) Fielding Inc. is incorporated on August 1, 2022. On September 15, 2022, the Company acquires Class 10 property for $150,000. The Company has a December 31 taxation year end and no other Class 10 property are acquired or disposed of in 2022. Determine the maximum CCA for the 2022 taxation year.

Answer: The maximum 2022 CCA is $28,295 [(30%)(150%)($150,000)(153/365)].

Type: ES

Topic: CCA calculations

80) Murray's Antiques is a business carried on as a sole proprietorship which commenced May 1, 2022. On June 1, 2022, Class 8 property is purchased for $92,400. The business will have a December 31 fiscal period. No other depreciable properties were acquired prior to December 31, 2022. Determine the maximum CCA that may be claimed for the fiscal period ending December 31, 2022.

Answer: The maximum CCA for the year is $18,607 [(20%)(150%)($92,400)(245/365)].

Type: ES

Topic: CCA calculations

81) Pointer Ltd. has determined that, for the current year, it will have taxable income before claiming maximum CCA of $40,000. It is the policy of the Company to limit CCA to an amount that would reduce taxable income to nil. At the end of the year the UCC balances of all of the company's depreciable property are as follows:

Class 1 (Buildings acquired in 2005) $475,000

Class 8 95,000

Class 10 102,000

Class 10.1 26,000

There have been no additions to or dispositions from any of the classes during the year. From which class(es) should CCA be claimed to reduce taxable income to nil? Explain your conclusion.

Answer: Following the general rule that, when less than the maximum CCA is to be claimed the amounts should be claimed from the Class(es) with the lowest CCA rates, the required calculations would be as follows:

Required total $40,000

Maximum CCA - Class 1 [(4%)($475,000)] ($19,000)

Maximum CCA - Class 8 [(20%)($95,000)] ( 19,000) ( 38,000)

Remaining amount $ 2,000

As they are both 30% declining balance classes, the remaining $2,000 could be claimed from either Class 10 or Class 10.1. It would be advisable to use Class 10.1, as recapture is not possible for this class. In addition, if the Class 10.1 vehicle is going to be disposed of in the near future, it could be better tax planning to take the maximum CCA for Class 10.1 of $7,800 [(30%)($26,000)] and reduce the Class 8 CCA to $13,200 ($40,000 - $7,800 - $19,000). Since there is no recapture for Class 10.1, this could increase future deductions of the other classes. Whether this would be advantageous would depend on the anticipated POD.

Type: ES

Topic: CCA tax planning

82) Sharma Inc. has determined that, for the current year, it will have taxable income before the consideration of CCA of $14,000. At the end of the year the company has the following classes of depreciable property:

Class 1 (Buildings acquired in 2006) $213,000

Class 8 16,000

Class 10 42,000

There have been no additions to or dispositions from any of these classes during the year. It is the policy of the Company to limit CCA claims to an amount that would reduce taxable income to nil. Given this policy, which class(es) should CCA be claimed to reduce taxable income to nil? Explain your conclusion.

Answer: Following the general rule that, when less than the maximum CCA is to be claimed, the amounts deducted should be taken from the Class(es) with the lowest CCA rates, the required calculations would be as follows:

Required Total $14,000

Maximum CCA - Class 1 [(4%)($213,000)] ($8,520)

Maximum CCA - Class 8 [(20%)($16,000)] ( 3,200) ( 11,720)

Remaining amount $ 2,280

The remaining $2,280 would be claimed from Class 10.

Type: ES

Topic: CCA tax planning

83) Barber Ltd. has a Class 10 UCC balance of $423,000. During the current year, a Class 10 property with a capital cost of $42,000 is sold for $51,000. There are no other dispositions during the year and there are multiple properties remaining in Class 10. What are the income tax consequences of the disposition?

Answer: The UCC of the class will be reduced by $42,000 reducing the maximum Class 10 CCA claim for the year and there will also be a taxable capital gain of $4,500 [(1/2)(POD $51,000 - ACB $42,000)].

Type: ES

Topic: Capital gains on depreciable property

84) At the beginning of 2022, Marquee Inc. has two properties in Class 10. that are used in its business The UCC balance in this class is $7,423. The capital cost of each of the two properties is $7,500. On June 30, 2022, one of the properties is sold for $7,950. There are no other additions or dispositions to Class 10 for the taxation year ending December 31, 2022. What are the income tax consequences of the Class 10 property disposition for 2022? In addition, calculate the UCC balance as of January 1, 2023.

Answer: The required information would be calculated as follows:

UCC January 1, 2022 $7,423

Deduct: Dispositions during the year - Lesser of:

• Capital Cost = $7,500

• POD = $7,950 ( 7,500)

Negative UCC Balance ($ 77)

Recapture 77

January 1, 2023 UCC balance Nil

The effect would be an addition to business income of $77 in recapture. There will also be a taxable capital gain of $225 [(1/2)($7,950 - $7,500)].

Type: ES

Topic: CCA - recapture and/or terminal loss

85) On January 1, 2022, Bard Ltd. has a Class 8 UCC balance of $32,400. The Class 8 property are used in the company's business. The only transaction involving Class 8 property in 2022 was a disposition on July 12 of a group of Class 8 property that had a combined capital cost $62,300. The combined POD was $41,800. None of the properties were sold for an amount in excess if their capital cost. The Company's taxation year ends on December 31. What are the income tax consequences of the disposition of the Class 8 properties for the 2022 taxation year? In addition, determine the Class 8 UCC balance as of January 1, 2023.

Answer: The income tax consequences would be as follows:

UCC January 1, 2022 $32,400

Deduct: Dispositions in the year - Lesser of:

• Capital Cost = $62,300

• POD = $41,800 ( 41,800)

Negative UCC Balance ($ 9,400)

Recapture 9,400

January 1, 2023 UCC Nil

There would be an addition to the 2022 business income of $9,400 in recapture.

Type: ES

Topic: CCA - recapture and/or terminal loss

86) At the beginning of 2022, Quest Inc. has two properties in Class 10 that are used in its business. The capital cost of each is $72,000 and the Class 10 UCC balance was $56,472. On June 30, 2022, both of the properties are sold for combined total of $41,500. What are the 2022 income tax consequences of the sale of the two Class 10 properties? In addition, determine the Class 10 UCC balance at January 1, 2023.

Answer: The income tax consequences would be as follows:

UCC January 1, 2022 $56,472

Deduct: Dispositions in the year - Lesser of:

• Capital Cost = $144,000

• POD = $41,500 ( 41,500)

UCC December 31, 2022 $14,972

Terminal Loss ( 14,972)

January 1, 2023 UCC Nil

As there is a positive balance in the class at the end of the year and no remaining property there is a terminal loss of $14,972. This loss is deducted in the calculation of 2022 business income. The terminal loss rules prevent any CCA claim for the same year therefore no CCA can be claimed for 2022 (ITA 20(16)(d)). Finally there are no capital losses allowed on depreciable property with the result that the only income tax consequence is a terminal loss deduction for 2022 of $14,972.

Type: ES

Topic: CCA - recapture and/or terminal loss

87) Farine Ltd. has a December 31 taxation year end. On January 1, 2022, the Company had multiple Class 10 properties. The January 1, 2022 UCC balance is $83,400. The combined capital cost of all existing Class 10 property is $110,000. The following Class 10 transactions occurred in 2022:

• On May 1, 2022, all of the original Class 10 properties are sold for $92,400.

• On June 1, 2022, additional Class 10 property is acquired for $105,000.

• On December 1, 2022, all of the new properties acquired in June are sold for $65,000.

On December 31, 2022, there are no properties remaining in Class 10. What are the income tax consequences of these transactions in 2022? In addition, determine the Class 10 UCC balance at January 1, 2023.

Answer: The income tax consequences would be as follows:

UCC January 1, 2022 $ 83,400

Deduct: May 1 Disposition - Lesser of:

• Capital Cost = $110,000

• POD = $92,400 ( 92,400)

June 1 Acquisitions 105,000

Deduct: December 1 Disposition - Lesser of:

• Capital Cost = $105,000

• POD = $65,000 ( 65,000)

UCC balance December 31, 2022 $31,000

Terminal Loss ( 31,000)

January 1, 2023 UCC Nil

As there is a positive UCC balance in the class on the last day of the taxation and no remaining property, there will be a terminal loss of $31,000. The terminal loss rules prevent any CCA claim for the same year therefore no CCA can be claimed for 2022 (ITA 20(16)(d)). Finally there are no capital losses allowed on depreciable property with the result that the only income tax consequence is a terminal loss deduction for 2022 of $31,000.

Type: ES

Topic: CCA - recapture and/or terminal loss

88) Sherd Inc. disposes of Class 8 property with a capital cost of $183,000 and a carrying value of $92,500 for accounting purposes for $246,000. There are other properties in Class 8 subsequent to the disposition. In addition the UCC of the class prior to the disposition was $1,648,000. Describe briefly the accounting treatment and income tax consequences of the disposition.

Answer: The accounting results would be calculated as follows:

Sale Price $246,000

Carrying Value ( 92,500)

Accounting Gain $153,500

If the accounting gain was included in accounting income it would have to be removed (i.e. deducted) when reconciling accounting income to net income for income tax purposes.

For income tax purposes, there would be a taxable capital gain calculated as follows:

POD $246,000

Less: ACB (e.g.Capital Cost) ( 183,000)

Capital Gain $ 63,000

Inclusion Rate 1/2

Taxable Capital Gain $ 31,500

The capital cost of $183,000 would be subtracted from the UCC, leaving a balance of $1,465,000 ($1,648,000 - $183,000). While the disposition would reduce the maximum CCA for the current and subsequent years, there would be no recapture or terminal loss.

Type: ES

Topic: Depreciable property dispositions - income tax vs. accounting

89) In early 2022, Dortan Ltd. acquires two businesses that together constitute one business. The cost of the first business includes goodwill of $243,000, while the cost of the second business includes goodwill of $317,000. Dortan Ltd. had no Class 14.1 balance as of January 1, 2022, and there were no other Class 14.1 transactions during the year. The company uses a December 31 taxation year end.

In December, 2023, Dortan decides to downside its business and sells part of its business in two separate transactions to different persons. The first transaction results in a partial sale of goodwill for $187,000 and the second transaction results in a partial sale of goodwill for $307,000. Dortan always claims maximum CCA.

Determine the UCC balance at January 1, 2023 and determine the income tax consequences of the dispositions?

Answer: CCA on Class 14.1 for 2022 would be calculated as follows:

January 1, 2022 UCC Nil

2021 Additions ($243,000 + $317,000) $560,000

AccII Adjustment [(50%)($560,000)] 280,000

CCA Base $840,000

2022 CCA [(5%)($840,000)] ( 42,000)

AccII Adjustment Reversal ( 280,000)

January 1, 2023 UCC $518,000

Deduct: Dispositions in the year - Lesser of:

Capital Cost = $560,000 (See Note)

POD

= ($187,000 + $307,000) = $487,000 ( 487,000)

UCC subsequent to the sales $ 31,000

**Note -** The capital cost of the single goodwill property is $560,000, the total of the purchased goodwill. The cost of the remaining single goodwill property after the sale is reduced to $73,000 ($560,000 - $487,000) ITA 13(34)(c)(ii).

There would be no immediate income tax consequences resulting from the dispositions other than a reduced CCA base upon which to claim CCA in the current and subsequent taxation years.

Type: ES

Topic: Goodwill - dispositions

90) Multilink Inc. has a December 31 taxation year end. In January, 2022, Multilink Inc. acquires five photocopiers at a cost of $5,500 each. In December, 2022, two of these photocopiers are upgraded for newer models. The new photocopiers cost $6,000 each, and the Company receives a trade-in allowance for each old photocopier of $2,000. Determine the 2022 income tax consequences as a result of these transactions on the assumption that (1) no election is made to put any of the photocopiers in a separate class and (2) elections are made to place all photocopiers in separate classes?

Answer: Photocopiers would be included in Class 8, a 20% declining balance class. The following table compares the CCA if no election is made with the results if the separate class election is made.

**No Election With Election With Election**

**5 Copiers 2 Copiers 3 Copiers**

January 2022 purchases at $5,500 each $27,500 $11,000 $16,500

Dispositions at $2,000 each ( 4,000) ( 4,000) N/A

Terminal Loss $ 7,000

December 2022 acquisitions at $6,000 12,000 $12,000

AccII Adjustment 17,750 6,000 8,250

CCA Base $53,250 $18,000 $24,750

Class 8 CCA Rate 20% 20% 20%

CCA for 2022 $10,650 $ 3,600 $ 4,950

If no election is made, there will be a deduction for CCA of $10,650. Alternatively, if each photocopier is allocated to a separate class, there will be a deduction for CCA of $8,550 ($3,600 + $4,950) plus a deduction for a terminal loss of $7,000. resulting in total deductions of $15,550 which exceeds the no-election treatment by $4,900 ($3,600 + $4,950 + $7,000 - $10,650).

Type: ES

Topic: CCA - separate class election

91) Garick Ltd. has a December 31 year end. In February 2022, the Company acquires three photocopiers at a cost of $23,000 each. Because of their extremely heavy usage, they must be replaced in November, 2022. They are replaced with three new photocopiers at a cost of $21,500 each. The Company received a trade in allowance of $2,500 for each of the replacement photocopiers. Determine the income tax consequences for 2022 if (1) no election is made to put each photocopier in a separate class and (2) if the separate class election is made.

Answer: Photocopiers would be Class 8 property depreciable at a rate of 20% on a declining balance basis. The following table compares the CCA if no election is made with the results if the separate class election is made.

**No Election With Election**

First Purchase [(3)($23,000)] $ 69,000 $69,000

November dispositions [(3)($2,500)] ( 7,500) ( 7,500)

Terminal Loss $61,500

November Purchase [(3)($21,500)] 64,500 $64,500

AccII Adjustment 63,000 32,250

CCA Base $189,000 $96,750

Class 8 CCA Rate 20% 20%

CCA for 2022 $ 37,800 $19,350

If no election is made, there will be a deduction for CCA of $37,800. Alternatively, if each photocopier is allocated to a separate class, there will be a deduction for CCA of $19,350 plus a deduction for a terminal loss of $61,500 resulting in total deductions of $80,850 which exceeds the non-election treatment by $43,050 ($19,350 + $61,500 - 37,800).

Type: ES

Topic: CCA - separate class election

92) Fromor is a Canadian public company with a taxation year that ends on December 31. It is the policy of Fromor Ltd. to claim maximum CCA for all Classes. On January 1, 2022, Fromor had a nil balance in Class 14.1.

Two independent cases follow involving purchases and sales of goodwill. In each case assume that Fromor has no other Class 14.1 transactions in 2022 or 2023

**Case One** - In 2022, Fromor purchases two businesses that are integrated into the company's one business. Goodwill purchases amount to $127,000. for the first business purchase and an additional $186,000 for the second business purchase.

In 2023, Fromor sells off part of its business and, as a consequence, receives a payment for goodwill of $142,000.

**Case Two** - In 2022, Fromor purchases a business which is integrated into its one business. The cost of this business includes a payment for goodwill of $64,000. In addition in 2022 Fromor purchases an unlimited life franchise for $98,000.

In 2022, Fromor sells a portion of its business which includes a sale of goodwill for $85,000.

**Required:** Determine the income tax consequences for 2022 and 2023 in each of the two cases. Your answer should include the January 1, 2024 Class 14.1 UCC balance.

Answer:

***Case One***

For the year ending December 31, 2022, the maximum CCA, as well as the UCC balance for January 1, 2023 for Fromor's Class 14.1 would be as calculated as follows:

January 1, 2022 UCC Balance Nil

2022 Additions ($127,000 + $186,000) $313,000

AccII Adjustment [(50%)($313,000)] 156,500

CCA Base $469,500

2022 CCA [(5%)($469,500)] ( 23,475)

AccII Adjustment Reversal ( 156,500)

January 1, 2023 UCC $289,525

The results for 2023 would be calculated as follows:

January 1, 2023 UCC $289,525

Disposition - Lesser of:

Capital Cost = $313,000

POD = $142,000 ( 142,000)

CCA Base $147,525

2023 CCA [(5%)($147,525)] ( 7,376)

January 1, 2024 UCC $140,149

There would be no immediate income tax consequences resulting from the sale of goodwill, other than a reduction in the UCC. The cost of the single goodwill property is reduced to $171,000 ($313,000 - $142,000). ITA 13(34)

***Case Two***

For the 2022 taxation year, the maximum CCA, as well as the UCC balance for January 1, 2023 for Class 14.1 would be as calculated as follows:

January 1, 2022 UCC Nil

2022 Additions ($64,000 + $98,000) $162,000

AccII Adjustment [(50%)($162,000)] 81,000

CCA Base $243,000

2022 CCA [(5%)($243,000)] ( 12,150)

AccII Adjustment Reversal ( 81,000)

January 1, 2023 UCC $149,850

The results for 2023 would be as follows:

January 1, 2023 UCC $149,850

Disposition - Lesser of:

Capital Cost of Goodwill = $64,000

POD = $85,000 ( 64,000)

CCA Base $ 85,850

2023 CCA [(5%)($85,850)] ( 4,293)

January 1, 2024 UCC $ 81,557

While Fromor would still have a goodwill property its capital cost would be nil.

POD $85,000

Less ACB (i.e., capital cost) of Goodwill ( 64,000)

Capital Gain $21,000

Inclusion Rate 1/2

Taxable Capital Gain $10,500

There would be maximum CCA of $4,293 and a taxable capital gain of $10,500 resulting in a net increase of $6,207 for 2023.

Type: ES

Topic: Goodwill - purchase and sale

93) Shawarma Palace Ltd. was incorporated on January 1, 2020 to carry on a luxury restaurant business. The Company has a December 31 taxation year end and claims the maximum CCA each year.

On February 15, 2020, the Company purchased a new building for use in its business at a cost of $750,000. Of this total, $500,000 is allocated to the building and $250,000 to the land. The building is used exclusively (100%) for non-residential purposes of which 25% is categorized as manufacturing and processing (the preparation of food and drinks). An election was filed to include the building in a separate Class 1.

On March 1, 2020 furnishings for the building are acquired for $225,000. and 10 delivery vehicles are purchased for $27,000 each for a total of $270,000.

In 2021, the Company traded in 4 of the delivery vehicles for more fuel efficient vehicles. The replacement vehicles cost $29,000 each. The company receives a trade-in allowance of $21,000 for each of the vehicles traded in. The Company also purchased a zero-emission luxury automobile for the exclusive use of the Company's CEO at a cost of $89,000. The CEO is not a shareholder no are any members of the CEO's family.

At the end of the 2022 taxation year, mounting losses force the Company to discontinue its business. The depreciable properties are sold in 2022 as follows:

• The building is sold for its original cost of $750,000, with $250,000 of this amount being attributed to the land.

• The furniture is sold for $150,000.

• The 6 remaining vehicles that were purchased in 2020 are sold for a total of $72,000. The 4 vehicles that were purchased in 2020 are sold for a total of $100,000.

• The luxury automobile is sold for $45,000.

**Required:** Determine the maximum CCA that can be claimed in each of the years 2020 through 2022. In your calculations, include and identify the January 1, 2021, January 1, 2022, and January 1, 2023 UCC balances for each class. In addition, determine the income tax consequences resulting from the 2021 and 2022 dispositions.

Ignore GST/HST & PST considerations.

Answer: The maximum CCA for 2020, 2021, and 2022, would be calculated as in the following schedules:

**2020 Class 1 Class 10 Class 8**

Opening UCC Nil Nil Nil

Additions

Class 1 $500,000

Class 10 [(10)($27,000)] $270,000

Class 8 $225,000

AccII adjustment 250,000 135,000 112,500

CCA Base $750,000 $405,000 $337,500

Maximum CCA

Class 1 [(6%)($750,000)]\* ( 45,000)

Class 10 [(30%)($405,000)] (121,500)

Class 8 [(20%)($337,500)] ( 67,500)

AccII Reversal (250,000) (135,000) (112,500)

January 1, 2021 UCC $455,000 $148,500 $157,500

\*As the Class 1 building is being used 100% for non-residential purposes, but less than 90% for M&P and is elected to be included in a separate Class 1, it would qualify for the 6% CCA rate.

The total maximum CCA for 2020 would be $234,000 ($45,000 + $121,500 + $67,500).

**2021 Class 1 Class 10 Class 8 Class 54**

Beginning UCC $455,000 $148,500 $157,500 Nil

Additions

Class 1 Nil

Class 10 [(4)($29,000)] 116,000

Class 8 Nil

Class 54\* $55,000

Class 10 Disposition - Lesser of:

Capital Cost = $108,000

[(4)($27,000)]

POD = $84,000 [(4)($21,000)] Nil ( 84,000) Nil

AccII Adjustment\* Nil 16,000 Nil 128,333

CCA Base $455,000 $196,500 $157,500 $183,333

Maximum CCA

Class 1 [(6%)($455,000)] ( 27,300)

Class 10 [(30%)($196,500)] ( 58,950)

Class 8 [(20%)($157,500)] ( 31,500)

Class 54 [(30%)($183,333)] ( 55,000)

AccII Adjustment Reversal ( 16,000) Nil (128,333)

January 1, 2022 UCC $427,700 $121,550 $126,000 $ Nil

\*The CCA base for the zero-emission luxury car is limited to $55,000. The AccII adjustment for Class 54 is 2 1/3 of $55,000 or $128,333.

The total maximum CCA for 2021 would be $172,750 ($27,300 + $58,950 + 31,500 + $55,000).

**2022 Class 1 Class 10 Class 8 Class 54**

Beginning UCC $427,700 $121,550 $126,000 Nil

Additions Nil Nil Nil Nil

**Disposition**

**Class 1 - Lesser of:**

Capital Cost = $500,000

POD = $500,000 ( 500,000)

**Class 10 - Lesser of:**

Capital Cost = $278,000

{[(6)($27,000)] + [(4)($29,000)]}

POD = $172,000 ( 172,000)

**Class 54 - Lesser of:**

Capital Cost = $55,000

POD = $27,809\* ( 27,809)

**Class 8 - Lesser of:**

Capital Cost = $225,000

POD = $150,000 ( 150,000)

Balance with no remaining property ( $72,300) ( $50,450) ($ 24,000) ( 27,809)

Recapture 72,300 50,450 24,000 27,809

January 1, 2023 UCC Nil Nil Nil Nil

\*The POD are modified for zero-emission passenger vehicles (ZPEV) and are deemed to be equal to $27,809 [($45,000)($55,000 ÷ $89,000)] ITA 13(7)(i).

There would be no CCA for 2022 in any of the classes. There would be recapture in all four Classes totalling of $174,559 ($72,300 + $50,450 + $24,000 + $27,809).

Type: ES

Topic: CCA calculations multiple years

94) Votex Inc. has a taxation year end of December 31. On January 1, 2022, the following information with respect to classes of depreciable property used in the company business is made available:

**Class 1 -** The building in Class 1 were purchased in January, 2011 for $734,000, with $84,000 attributable to the land and $650,000 to the building. The UCC balance on January 1, 2022 is $562,154.

**Class 8 -** The equipment in Class 8 was purchased in January, 2016 for $78,500. The UCC balance on January 1, 2022 is $23,520.

**Class 10** - The vehicles in Class 10 were purchased in June, 2019 for $82,000. The UCC balance on January 1, 2022 is $34,153.

The following transactions occurred in the 2022 taxation year:

**Sale of Equipment** - As the result of an extensive analysis, it is decided that it would be better to sell the existing equipment and to replace it with leased equipment. The old equipment is sold for $32,500.

**Sale of Building** - A similar decision is made with respect to the building. The property is sold for $825,000 and replaced with a leased property. Of the $825,000 sales price, $100,000 is for the land on which the building is situated and $725,000 for the building. The lease term is for 4 years with no options for renewal. A total of $81,000 is spent on leasehold improvements to make the buildings more suitable for the business.

**Sale of Vehicles** - The Class 10 vehicles were sold during the current year and replaced with leased vehicles. The sale proceeds totaled $27,500 with no vehicle being sold for more than its capital cost.

**Sale of Goodwill** - In order to further streamline its business, Votex Inc. sells off a portion of its business to another company. No depreciable property was disposed of in this transaction other than the sale of goodwill for $225,000.

**Required:** Calculate the maximum CCA that can be claimed for the 2022 taxation year for each class. In addition, calculate the January 1, 2023 UCC balances and indicate any other income tax consequences that occur as a result of the transactions described above.

Answer:

***Sale of Equipment***

The income tax tax consequences as a result of the sale of equipment are as follows:

Opening UCC $23,520

Dispositions - Lesser of:

• Capital Cost = $78,500

• POD = $32,500 ( 32,500)

Negative Ending Balance ($ 8,980)

Recapture 8,980

January 1, 2023 UCC Balance Nil

There would be no Class 8 CCA for 2022 as there is no property owned and no positive UCC balance. The sale of the equipment would result in an increase in income of $8,980.

***Sale of the Building***

The income tax consequences of the sale of the buildings can be analyzed as follows:

Opening UCC $562,154

Dispositions - Lesser of:

• Capital Cost = $650,000

• POD = $725,000 ( 650,000)

Negative Ending Balance ($ 87,846)

Recapture 87,846

January 1, 2023 UCC Balance Nil

The sale of the land and buildings would result in taxable capital gains that would be calculated as follows:

**Land Building**

POD $100,000 $725,000

ACB (e.g. Capital Cost for the building) ( 84,000) ( 650,000)

Capital Gain $ 16,000 $ 75,000

Inclusion Rate 1/2 1/2

Taxable Capital Gain $ 8,000 $ 37,500

There would be no Class 1 CCA for this year. The sale of the property (land and building) would increase the company's 2022 income by $133,346 ($87,846 + $8,000 + $37,500).

***Sale of Vehicles***

The income tax consequences of the sale of the vehicles can be analyzed as follows:

Opening UCC Balance $34,153

Dispositions - Lesser of:

• Capital Cost = $82,000

• POD = $27,500 ( 27,500)

Ending Balance with no remaining property $ 6,653

Terminal Loss ( 6,653)

January 1, 2023 UCC Balance Nil

The terminal loss must be deducted in the 2022 taxation year. As a consequence, there will be no Class 10 CCA for the year.

***Leasehold Improvements***

The leasehold improvements must be included in Class 13 and are subject to straight line write-off over the life of the lease. However, the minimum life that may be used is 5 years, resulting in a 2022 CCA maximum claim of $24,300 [(1.5)($81,000 ÷ 5)] and a January 1, 2023 Class 13 UCC of $56,700.

***Sale of Goodwill - Class 14.1***

The income tax consequences of the sale of goodwill can be calculated as follows:

Opening UCC Balance Nil

Disposition - Lesser of:

• Capital Cost = Nil

• POD = $225,000 Nil

December 31, 2022 and January 1, 2023 UCC Balance Nil

There would be a taxable capital gain resulting from the sale of goodwill. It would be calculated as follows:

POD $225,000

Less: ACB (e.g. Capital Cost) Nil

Capital Gain $225,000

Inclusion Rate 1/2

Taxable Capital Gain $112,500

***Summary of CCA and UCC Results (Not Required)***

The maximum CCA for the 2022 taxation year and the January 1, 2023 UCC balances can be summarized as follows:

**Maximum CCA UCC**

Class 1 Nil Nil

Class 13 $24,300 $56,700

Class 8 Nil Nil

Class 10 Nil Nil

Class 14.1 Nil Nil

In addition, the following income tax consequences resulted from the transactions described above:

Class 8 Recapture 8,980

Class 1 Recapture $ 87,846

Taxable Capital Gain on the Land 8,000

Taxable Capital Gain on the Building 37,500

Class 10 Terminal Loss ( 6,653)

Taxable Capital Gain on sale of Goodwill 112,500

Total Increase in 2022 net income $248,173

Type: ES

Topic: CCA - multiple disposition of depreciable property

95) Ken's Kouriers is a business carried on as a sole proprietorship which provides courier services within the city of Halifax. It has a taxation year that ends on December 31 and plans to claim the maximum CCA each year.

Ken's Kouriers commenced business on May 1, 2020 by acquiring a new building for $326,000 with $53,000 for the land and $273,000 attributable to the building. The building will be used 100% of the time for business purposes other than manufacturing, an election has been made to include the building in a separate Class 1 to take advantage of the higher CCA rate.

Furnishings for the building are purchased on June 1, 2020 for $85,000.

In addition on June 1, 2020, the business purchases 12 delivery vehicles to be used by its couriers. The cost of these vehicles is $23,000 each for a total of $276,000.

In 2021, the business trades in 5 of its old delivery vehicles for more fuel efficient vehicles. The replacement vehicles cost $27,000 each. The company receives a trade-in allowance of $16,000 for each old delivery vehicle. Also during 2021, the Company purchases a luxury zero-emission automobile to be used by Ken, the sole proprietor. The cost of the automobile is $103,000.

In 2022, Ken and five of his drivers are charged with smuggling counterfeit goods. Ken's Kouriers is closed down the business ceases to exist on December 31, 2022. Before closing, Ken sells all of the business property for the following amounts:

• The building is sold for $342,000, with $53,000 of this amount for the land and $289,000 for the building.

• The remaining 7 delivery vehicles that were purchased in 2020 are sold for a total of $73,000. The 5 delivery vehicles that were purchased in 2021 are sold for a total of $62,500. The amount received for each delivery vehicle was less than its capital cost.

• The furniture is sold for $12,300.

• The luxury automobile is sold for $63,800.

**Required:** Determine the maximum CCA that can be claimed in each of 2020, 2021 and 2022. In your calculations, include and identify the UCC balances for January 1 of 2021, 2022 and 2023.

In addition, indicate any other income tax consequences resulting from the dispositions in 2021 and 2022. Ignore GST/HST & PST considerations.

Answer: The maximum CCA for the 3 years are shown in the table below:

**2020 Class 1 Class 10 Class 8**

Opening Balance Nil Nil Nil

Additions

Class 1 $273,000

Class 10 [(12)($23,000)] $276,000

Class 8 $85,000

AccII Adjustment 136,500 138,000 42,500

CCA Base $409,500 $414,000 $127,500

Maximum 2020 CCA

Class 1 [(6%)($409,500)(245 ÷ 365)]\* (16,492)

Class 10 [(30%)($414,000)(245 ÷ 365)] ( 83,367)

Class 8 [(20%)($127,500)(245 ÷ 365)] (17,116)

AccII Reversal (136,500) (138,000) (42,500)

January 1, 2021 UCC $256,508 $192,633 $67,884

\*As the Class 1 building is being used 100% for non-residential purposes that is not manufacturing, and an election is made to include the building in a separate Class 1 the CCA is increased by two percentage points from 4% to 6%.

The total maximum CCA for 2020 would be $116,975 ($16,492 + $83,367 +$ 17,116).

**2021 Class 1 Class 10 Class 8 Class 54**

Beginning UCC $256,508 $192,633 $67,884 Nil

Additions

Class 1 Nil

Class 10 [(5)($27,000)] 135,000

Class 8 Nil

Class 54\* $55,000

Class 10 Disposition - Lesser of:

Capital Cost = $115,000

POD = $80,000 Nil ( 80,000) Nil

AccII Adjustment Nil 27,500 Nil 128,333

CCA Base $256,508 $275,133 $67,884 $183,333

Maximum 2021 CCA

Class 1 [(6%)($256,508)] ( 15,390)

Class 10 [(30%)($275,133)] ( 82,540)

Class 8 [(20%)($67,884)] ( 13,577)

Class 54 [(30%)($183,333)] \* ( 55,000)

AccII Adjustment Reversal ( 27,500) Nil ( 128,333)

January 1, 2022 UCC $241,118 $165,093 $54,307 $ Nil

\*The CCA base for a Class 54 zero-emission vehicle that is a ZEPV is limited to $55,000. The AccII adjustment is equal to 2 1/3 of $55,000 or $128,333. This adjustment ensures that the first year maximum CCA claim equals 100% of $55,000.

The total maximum CCA for 2021 would be $166,507 ($15,390 + $82,540 + $13,577 + $55,000).

**2022 Class 1 Class 10 Class 8 Class 54**

Beginning UCC $241,118 $165,093 $54,307 Nil

Additions Nil Nil Nil Nil

Dispositions - Lesser of:

$289,000 Vs. $273,000 ( 273,000)

$296,000 Vs. $135,500 ( 135,500)

$55,000 Vs. $34,068\* ( 34,068)

$85,000 Vs. $12,300 ( 12,300)

Balance With No Remaining Assets ( $31,882) $ 29,593 $42,007 ( 34,068)

Recapture 31,882 34,068

Terminal Losses ( 29,593) ( 42,007)

January 1, 2023 UCC Nil Nil Nil Nil

\*The POD are modified for zero-emission passenger vehicles (ZPEV) and are deemed to be equal to $34,068 [($63,800)($55,000 ÷ $103,000)] ITA 13(7)(i).

With respect to the Class 10.1 automobile, one-half of the normal CCA can be claimed in the year of disposition. Since the final year is not a short fiscal period, this amount would be $2,475 [(1/2)(30%)($16,500)].

No CCA can be claimed on any class. There would be recapture of $65,950 ($31,882 + $34,068) for Class 1 and 54 and terminal losses of $29,593 for Class 10 and $42,007 for Class 8.

There would also be a taxable capital gain on the building of $8,000 [(1/2)(POD $289,000 - ACBV $273,000)].

Type: ES

Topic: CCA calculations multiple years

96) The following information relates to the Fortin Ltd.'s depreciable properties. Fortin's taxation year end is December 31.

**Class 1** - In 2022, a new office building was purchased for $623,000. Of this total, the value of the land is $145,000 and $478,000 is attributable to the building. The building will be used 100% for business purposes none of which involve manufacturing. An election was filed to include the building in a separate Class. 1.

**Class 3** - The January 1, 2022 UCC was $798,000. In 2022, one of the warehouses in this class burned to the ground. It had a capital cost of $150,000. Insurance proceeds were $185,000.

**Class 8 -** The January 1, 2022 UCC was $346,000. In 2022, the Company purchased additional acquired Class 8 property of $105,000. In addition Class 8 property with a capital cost of $83,000 was sold for $75,000.

**Class 10** - The January 1, 2022 UCC was $150,000. In 2022, 3 delivery vans were purchased for $25,000 each. In addition, a delivery van with a capital cost of $42,000 was sold for $18,000.

**Class 10.1 -** The January 1, 2022 UCC was $17,850. The only property in this Class was the CEO's $350,000 Bentley. At the instructions of the Company's directors, who felt this automobile was excessively extravagant, it was sold for $275,000 in 2022. The CEO is not a shareholder of the Company nor are any of their family members.

**Class 13 -** The January 1, 2022 UCC was $37,500, reflecting leasehold improvements of $50,000 that were made in 2020, the year in which the lease began. The leasehold improvements were made on a property leased as office space for company business. The initial lease term was for 8 years, with an option to renew for a period of 2 years. Additional improvements, costing $40,000, were made in 2022.

**Class 50 -** The January 1, 2022 UCC was $23,000. In 2022, there were additions to this Class with a capital cost of $18,000.

**Class 53 -** The January 1, 2022 UCC was $63,000. The total capital cost of the properties was $84,000. The Company found that its manufacturing operations were not profitable and all of the manufacturing properties were sold in 2022 for $51,000. None of the properties were sold for amounts in excess of their capital cost.

Fortin Aluminum always claims maximum CCA on each Class of depreciable property.

**Required:** Calculate the maximum CCA that can be claimed by Fortin for each class of property for its 2022 taxation year and determine the UCC for each class as of January 1, 2023. In addition, determine any other income tax consequences with respect to these depreciable properties. Ignore GST/HST & PST considerations.

Answer:

**Note To Instructor -** Although the replacement property rules (covered in Chapter 8) might be considered relevant as a building was burned down and a new building was purchased, we have specified that a warehouse was disposed of, and an office building was purchased, to purposefully avoid this issue.

***Class 1***

As it is a new building, is going to be used 100% for business purposes, and an election has been filed to include the building in a separate Class, it is eligible for an additional two percentage points resulting in a CCA rate of 6%. 2022 CCA and UCC at January 1, 2023 is determined as follows:

January 1, 2022 UCC Nil

Additions $478,000

AccII Adjustment [(50%)($478,000)] 239,000

CCA Base $717,000

2022 CCA [(6%)($717,000)] ( 43,020)

AccII Adjustment Reversal ( 239,000)

January 1, 2023 UCC $434,980

***Class 3***

The 2022 CCA and January 1, 2023 UCC are determined as follows:

January 1, 2022 UCC $798,000

Dispositions - Lesser of:

Capital Cost = $150,000

POD = $185,000 ( 150,000)

CCA Base $648,000

2022 CCA [(5%)($648,000)] ( 32,400)

January 1, 2023 UCC $615,600

There would also be a taxable capital gain of $17,500 [(1/2)(POD $185,000 - ACB $150,000)].

***Class 8***

The 2022 CCA and January 1, 2023 UCC is determined as follows:

January 1, 2022 UCC $346,000

Additions $105,000

Dispositions - Lesser of:

• Capital Cost = $83,000

• POD = $75,000 ( 75,000) 30,000

AccII Adjustment [(50%)($30,000)] 15,000

CCA Base $391,000

2022 CCA [(20%)($391,000)] ( 78,200)

AccII Adjustment Reversal ( 15,000)

January 1, 2023 UCC Balance $297,800

***Class 10 - Vehicles***

The 2022 CCA and January 1, 2023 UCC are determined as follows:

January 1, 2022 UCC $150,000

Additions [(3)($25,000)] $75,000

Disposition of Truck - Lesser of:

• Capital Cost = $42,000

• POD = $18,000 ( 18,000) 57,000

AccII Adjustment [(50%)($57,000)] 28,500

CCA Base $235,500

2022 CCA [(30%)($235,500)] ( 70,650)

AccII Adjustment Reversal ( 28,500)

January 1, 2023 UCC Balance $136,350

***Class 10.1***

Both recapture and terminal losses are not recognized in Class 10.1, however, in the year of disposition, one-half of the normal CCA can be claimed. As a result 2022 CCA is $2,678 [(1/2)(30%)($17,850)]. The January 1, 2023 UCC balance would be nil.

***Class 13***

The 2020 leasehold improvements are depreciated on a straight line basis over 10 years, the original term of the lease (8 years), plus the first renewal of two years. The 2022 CCA and January 1, 2023 UCC are determined as follows:

January 1, 2022 UCC $37,500

Additions 40,000

CCA Base $77,500

2022 CCA:

• 2020 Improvements ($50,000 ÷ 10) ($5,000)

• 2022 Improvements Including AccII

Adjustment [(150%)($40,000 ÷ 8)] ( 7,500) ( 12,500)

January 1, 2023 UCC Balance $65,000

***Class 50***

The 2022 CCA and January 1, 2023 UCC are determined as follows:

January 1, 2022 UCC $23,000

Additions 18,000

AccII Adjustment [(50%)($18,000)] 9,000

CCA Base $50,000

2022 CCA [(55%)($50,000)] ( 27,500)

AccII Adjustment Reversal ( 9,000)

January 1, 2023 UCC $13,500

***Class 53***

The 2022 CCA and January 1, 2023 UCC are calculated as follows:

January 1, 2022 UCC $63,000

Disposition - Lesser of:

• Capital Cost = $84,000

• POD = $51,000 ( 51,000)

Ending Balance (No remaining properties) $12,000

2022 Terminal Loss ( 12,000)

January 1, 2023 UCC Balance Nil

After all of the Class 53 property has been sold there is still a $12,000 UCC balance. This results in a 2022 terminal loss that will be deducted in full from the business income of Fortin Ltd. The terminal loss will cause the UCC balance to reset to nil.

***Other Income Tax Consequences***

In addition to CCA, there are additional income tax consequences:

Taxable Capital Gain on Class 3 Building $17,500

Terminal Loss on Class 53 Property ( 12,000)

Total net increase $ 5,500

***Summary of the results (Not Required)***

The maximum CCA for 2022 and the January 1, 2023 UCC balances are summarized as follows:

**Maximum CCA UCC**

Class 1 $43,020 $434,980

Class 3 32,400 615,600

Class 8 78,200 297,800

Class 10 70,650 136,350

Class 10.1 2,678 Nil

Class 13 12,500 65,000

Class 50 27,500 13,500

Class 53 Nil Nil

Type: ES

Topic: CCA calculations - comprehensive

97) For its taxation year ending December 31, 2022, Martin's Enterprises Ltd. has determined that its 2022 net and taxable income would be $53,000 before any deduction for CCA.

On January 1, 2022, the Company has the following UCC balances:

Class 1 (Building acquired in 2005) $876,000

Class 8 220,000

Class 10 95,000

Class 10.1 (Porsche - Cost $110,000) 16,500

Class 10.1 (Cadillac - Cost $45,000) 16,500

In 2022, the Company purchased Class 10 property for $122,000 and sold Class 10 property that cost $118,000 for $87,000. None of the Class 10 properties were sold for amounts in excess of their capital cost. There were Class 10 property remaining on December 31, 2022.

There were no purchases or sales of property in Class 1, 8 or 10.1 in 2022. The Company plans to sell the Porsche in January, 2023 and estimates a sale price of $75,000.

During the preceding three taxation years of 2019, 2020 and 2021, the Company's total taxable income was only $39,000.

**Required:**

A. Calculate the maximum 2022 CCA that can be claimed by the Company. Your answer should include the maximum CCA for each class.

B. As Martin's Enterprises' income tax advisor, indicate how much CCA you would advise the Company to claim for 2022, and the specific classes from which it should be claimed. Provide a brief explanation of the reasons for your recommendation. In determining your solution, ignore the possibility that 2022 loss carry forwards can be carried forward to subsequent taxation years.

Answer:

***Part A***

2022 CCA is calculated as follows:

**Class 1 Class 8**

Opening UCC and CCA Base $876,000 $220,000

CCA Rate 4% 20%

Maximum 2022 CCA $ 35,040 $ 44,000

**Class 10.1 Porsche Cadillac**

Opening UCC and CCA Base $16,500 $16,500

CCA Rate 30% 30%

Maximum 2022 CCA **(Class 10.1 = $15,300)** $ 4,950 $ 4,950

Opening UCC - **Class 10** $95,000

Additions $122,000

Dispositions - Lesser of:

• Cost = $118,000

• POD = $87,000 ( 87,000) 35,000

AccII Adjustment [(50%)($35,000)] 17,500

CCA Base $147,500

CCA Rate 30%

Maximum 2022 CCA $ 44,250

This gives a maximum amount for CCA of $133,190 ($35,040 + $44,000 + $4,950 + $4,950 + $44,250) for the 2022 taxation year.

***Part B***

Since the Company only has net and taxable income before CCA of $53,000, the business may wish to deduct less than the maximum CCA. However, there is no question that the business will wish to deduct the $53,000 that is required to reduce 2022 taxable income to nil.

Further, it would be advisable to deduct an additional $39,000 for a total of $92,000 ($53,000 + $39,000). This would create a 2022 non-capital loss of $39,000 ($53,000 - $92,000), which could then be carried back to claim refunds of income taxes paid in the three preceding years. If we ignore the possibility of loss carry forwards, no additional CCA would be claimed in 2022.

Assuming the 2022 CCA claim is limited to $92,000, it would normally be claimed in the class or classes with the lowest CCA rates. This would leave the unused amounts in classes with higher rates which, in turn, would maximize the amount that could be claimed in subsequent profitable years.

This means that the maximum amounts would be claimed from Class 1 and Class 8, for a total of $79,040. Given this, an additional deduction of $12,960 ($92,000 - $79,040) would be required. As they are both 30% declining balance classes, this amount could be claimed from either of Class 10 or Class 10.1. Since the Porsche will be sold for an estimated $75,000, the maximum of $4,950 should be claimed from the Class 10.1 for the Porsche as there would be no recapture for this class since it is Class 10.1. The remaining amount of $8,010 could be claimed from Class 10 or a combination of the other Class 10.1 property and Class 10

The total deduction can be summarized as follows:

Class 1 (Maximum Available) $35,040

Class 8 (Maximum Available) 44,000

Class 10.1 - Porsche 4,950

Other Class 10.1 & Class 10 8,010

Total 2022 CCA $92,000

This $92,000 CCA deduction would reduce 2022 taxable income to nil. In addition, it would create a 2022 non-capital loss of $39,000 that could be carried back to the three preceding taxation years,

Note that if there were immediate plans to sell the building for more than its opening UCC, this could affect the choice of Classes to be claimed from as any additional CCA taken on Class 1 in 2022 would have to be added to income as recapture in the taxation year in which the building would be sold.

Type: ES

Topic: CCA tax planning

98) For its taxation year ending December 31, 2022, Axel Ltd. has estimated that its net and taxable income, before any deductions for CCA, will be $42,000. The company will only claim sufficient CCA to reduce taxable income to nil.

On January 1, 2022 the Company has the following UCC balances:

Class 1 (Two buildings no separate class) $462,000

Class 13\* 94,500

Class 10 139,000

\*This balance reflects leasehold improvements made in January of 2020 at a total cost of $126,000. The original term of the lease was 4 years. However, there are two available renewal options, each allowing the Company to renew for a period of two years.

In 2022, Class 10 property was purchased for $76,000 and Class 10 property with a capital cost of $68,000 was sold for $58,000. There remain Class 10 property at December 31, 2022.

There were no purchases or sales or property in either Class 1 or Class 8 in 2022. However, the Company has received an unsolicited offer to purchase one of its buildings which it is considering.

**Required:**

A. Calculate the maximum 2022 CCA for each class.

B. As Axel's income tax advisor, indicate the maximum CCA for each class, how much CCA should actually be claimed and the specific classes from which it should be claimed. Provide a brief explanation of the reason for your recommendation. In providing this advice, ignore any loss carryovers that can be carried either back or forward.

Answer:

***Part A***

Since there are two buildings in Class 1, the CCA rate is 4% (Note that the ability to claim either the 6% or 10% rate is dependent upon the buildings being elected to be included in a separate Class 1). The maximum 2022 CCA would be determined as follows:

**Class 1 Class 13**

Opening UCC and CCA Base $462,000 $94,500

CCA Rate 4% See Note

Maximum 2022 CCA $ 18,480 $21,000

**Note -** CCA on Class 13 would be calculated by dividing the leasehold expenditure cost by the number of years remaining in the initial lease plus the first renewal period. The result is CCA of $21,000 [$126,000 ÷ (4 + 2)] per year.

**Class 10**

Opening Balance $139,000

Additions $76,000

Lesser of POD and Capital Cost ( 58,000) 18,000

AccII Adjustment [(50%)($18,000)] 9,000

CCA Base $166,000

CCA Rate 30%

Maximum 2022 CCA $ 49,800

This results in maximum CCA for 2022 of $89,280 for the 2022 taxation year ($18,480 + $21,000 + $49,800).

***Part B***

Since the Company only expects net and taxable income before the consideration of CCA of $42,000 and the problem states that loss carry overs should not be considered, maximum CCA would not be claimed since it would result in a loss carryover (e.g. a non-capital loss). Only $42,000 in CCA should be claimed in order to reduce taxable income to nil.

With respect to the classes from which the claim should be made the general rule is that CCA claims should be made from the classes with the lowest CCA rates. By leaving the classes with higher rates for future years.

Taking this approach, the recommended CCA claims would be as follows:

Class 1 (Maximum Available) $18,480

Class 13 (Maximum Available) 21,000

Class 10 ($42,000 - $18,840 - $21,000) 2,520

Total recommended 2022 CCA $42,000

This amount of CCA would reduce 2022 net and taxable income to nil.

Note that the effective Class 13 rate is 16.7% since costs are amortized over 6 years.

Note that if Axel plans to accept the offer to sell the building and the purchase price is more than the Class 1 opening UCC, this could affect the choice of classes to choose from since any additional CCA claimed from Class 1 would be added to income as recapture in the taxation year in which the building is sold.

Type: ES

Topic: CCA tax planning

99) The following information relates to Andorn Ltd. for its 2022 taxation year ending December 31:

1. The Company has the following UCC balances on January 1, 2022:

Class 1 (A single building purchased in 2009) $478,695

Class 8 243,000

Class 10 126,000

Class 13 127,500

2. In 2022, the building was sold for $650,000 with $125,000 paid for the land and $500,000 for the building. The capital cost of the building was $545,000 and the cost and ACB of the land $80,000.

The building was subsequently replaced in 2022 with a new building at a cost of $620,000 for the building and $125,000 for the land.

The old building was used 100% for business office space and an election had been made to include the building in a separate Class 1. The new replacement building is also used 100% for business office space and is elected to be included in a separate Class 1.

3. In 2022, the Company purchased office furnishings for $74,000. Older furnishings with a capital cost of $56,000 were traded in for the new furnishings. The Company received a trade in allowance of $17,000.

4. In 2022 the Company also purchased a Tesla (zero-emission) to be used by the president of the Company. The cost of the automobile was $93,000. The president drives it 23,000 kilometers during the year, of which 5,750 kilometers are for employment purposes. Any automobile benefit would be a taxable employee benefit.

5. Andorn conducts some of its business out of a building which it leases. The lease was signed in early 2020 and had an initial lease term of 7 years. There is also one renewal option for 3 years. Andorn spent $150,000 on leasehold improvements in 2020.

6. The Company purchased a limited life franchise for $62,000 August 1, 2018. At the time of purchase the remaining legal life was exactly 8 years.

7. Company policy is to claim the maximum annual CCA.

**Required:** Calculate the 2022 maximum CCA for each class of property. In addition, identify any other income tax consequences that may have resulted from dispositions of depreciable property in 2022. Ignore the effect of the replacement property rules with respect to the building as these rules are only discussed beginning in Chapter 8.

Answer:

***Class 1***

The calculations related to the old building that was replaced are as follows:

Opening UCC Balance $478,695

Disposition - Lesser of:

POD = $525,000

Capital Cost = $545,000 ( 525,000)

Negative Ending Balance = Recapture ($ 46,305)

There is also a taxable capital gain from the sale of the land of $22,500 [50%)(POD $125,000 - ACB $80,000)].

Since the replacement building is new, used 100% for non-residential purposes and elected to be in a separate Class 1, it qualifies for the enhanced CCA rate of 6% for business other than manufacturing. The maximum CCA on the new building would be as follows:

Opening UCC Balance Nil

Additions $620,000

AccII Adjustment [(50%)($620,000)] 310,000

CCA Base $930,000

Rate 6%

2022 Maximum CCA $ 55,800

***Class 8***

2022 maximum CCA would be calculated as follows:

Opening Class 8 Balance $243,000

Additions 74,000

Disposals: Lesser of:

Capital Cost = $56,000

POD = $17,000 ( 17,000)

AccII Adjustment [(50%)($74,000 - $17,000)] 28,500

CCA Base $328,500

Rate 20%

2022 Maximum CCA $ 65,700

***Class 10***

2022 maximum CCA would be calculated as follows:

Opening UCC Balance and CCA Base $126,000

Rate 30%

2022 Maximum CCA $ 37,800

***Class 54***

The Tesla qualifies as a zero-emission passenger vehicle (ZEPV) since its cost exceeds $59,000. The Tesla would be included in Class 54 which is not a separate class as it is for Class 10.1. The kilometers driven for personal purposes would affect the taxable employment benefit but would not impact what the Company could claim as CCA.

Opening UCC Balance Nil

Additions $59,000

AccII Adjustment [(2 1/3)($59,000)] 137,667

CCA Base $196,667

Rate 30%

2022 Maximum CCA $59,000

***Class 13***

Class 13 is a straight-line class which amortizes leasehold expenditures over the number of years remaining in the initial leases term plus the first renewal option. In this case, the term of the lease and one renewal totals 10 years. The maximum CCA for 2022 would be $15,000 ($150,000 ÷ 10).

***Class 14***

The limited life franchise would be a Class 14 property which applies a straight line basis over the remaining legal life. Although this franchise was purchased on August 1, 2018 this would only impact the year of purchase and the last year of its life. The 2022 maximum CCA would be for complete year and would equal $7,750 ($62,000 ÷ 8).

***Summary (Required)***

The total maximum CCA for 2022 is summarized as follows:

Class 1 $ 55,800

Class 8 65,700

Class 10 37,800

Class 54 59,000

Class 13 15,000

Class 14 7,750

Total 2022 CCA $241,050

***Other Income Tax Consequences***

In addition to CCA, there would also be a taxable capital gain on the land of $22,500 and recapture with respect to the old Class 1 building of $46,305.

Type: ES

Topic: CCA calculations - comprehensive