

*Test Bank for Canadian Income
Taxation 2026 2027 2026 Canadian
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Corret Answers are located at the end of each chapter.

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

- 1) Which of the following is not considered to be a separate entity for tax purposes in Canada?
 - A) An individual
 - B) A proprietorship
 - C) A corporation
 - D) A trust

- 2) Which of the following attitudes and actions is most likely to help decision-makers develop an efficient approach to taxation?
 - A) Cash flows should be considered from a before-tax perspective when making decisions.
 - B) Functional managers should not be held responsible for the tax effects of decisions within their divisions.
 - C) Tax costs to a business should be regarded as controllable expenses, much like product costs and selling costs.
 - D) All managers should own a copy of the Income Tax Act.

- 3) Which of the following statements is true?
 - A) Dividends paid by a corporation are deductible by that corporation and are a form of property income for the recipient.
 - B) Dividends paid by a corporation are deductible by that corporation and are a form of business income for the recipient.
 - C) Dividends paid by a corporation are not deductible by that corporation and are a form of business income for the recipient.
 - D) Dividends paid by a corporation are not deductible by that corporation and are a form of property income for the recipient.

- 4) When assessing the value of a corporation, the most relevant information that decision-makers normally consider is
 - A) the potential for before-tax profits.
 - B) the potential for after-tax profits.
 - C) the current corporate tax rate.
 - D) cash flow before-tax.

- 5) Income tax is calculated for which of the following jurisdictional groups?
- A) Municipal, provincial, and federal
 - B) Municipal, federal, and foreign
 - C) Provincial, federal, and foreign
 - D) Municipal, provincial, and foreign
- 6) Two investor corporations may not enter jointly into which of the following?
- A) Joint venture
 - B) Partnership
 - C) Separate corporation
 - D) Proprietorship
- 7) Which of the following statements is true?
- A) Cash flow should never be calculated on an after-tax basis.
 - B) The tax cost to a business should be regarded as a cost of doing business.
 - C) Income tax cannot be treated as a controllable cost.
 - D) The value of an enterprise should be based on pre-tax cash flow.
- 8) Logan holds a 7% interest-bearing debt instrument in Glow Co. Glow Co.'s tax rate is 27%, and Logan is in a 45% tax bracket. Which of the following statements is correct?
- A) The after-tax cost of the debt instrument is 5.11% to Glow Co., and the after-tax value to Logan is 3.85%.
 - B) The after-tax cost of the debt instrument is 5.11% to Glow Co., and the after-tax value to Logan is 3.15%.
 - C) The after-tax cost of the debt instrument is 1.89% to Glow Co., and the after-tax value to Logan is 3.15%.
 - D) The after-tax cost of the debt instrument is 7% to Glow Co., and the after-tax value to Logan is 7%.
- 9) Which of the following lists accurately names the five general income categories for tax purposes?
- A) Business, Interest, Employment, Capital Gains, Other
 - B) Business, Property, Employment, Capital Gains, Foreign
 - C) Business, Property, Employment, Capital Gains, Other
 - D) Business, Property, Employment, Investments, Other

- 10) Proprietorships, corporations, partnerships, limited partnerships, joint ventures, and income trusts are all
- A) categories of income for tax purposes.
 - B) tax jurisdictions.
 - C) examples of financial instruments.
 - D) forms of business.
- 11) Which of the following statements regarding taxation within jurisdictions in Canada is true?
- A) Federal and provincial or territorial tax brackets are always identical to one another.
 - B) Only federal taxes apply to individuals while both federal and provincial or territorial taxes apply to corporations.
 - C) Both federal and provincial or territorial taxes apply to Canadian taxpayers.
 - D) Only federal taxes apply to corporations while both federal and provincial taxes apply to individuals.
- 12) Jamie is an employee at ABC Ltd. and is in a 45% tax bracket. ABC Ltd. has a tax rate of 27%. The company has offered Jamie a 10% pay raise. Jamie's current salary is \$50,000. What is after-tax cost of the raise to ABC Ltd.?
- A) \$1,350
 - B) \$2,750
 - C) \$2,858
 - D) \$3,650
- 13) Jesse is an employee at XYZ Ltd. and is in a 45% tax bracket. XYZ Ltd. has a tax rate of 27%. The company has offered Jesse a 10% pay raise. Jesse's current salary is \$50,000. What is after-tax value of the raise to Jesse?
- A) \$1,350
 - B) \$2,250
 - C) \$2,750
 - D) \$5,000

- 14) All cash flow must be considered on an after-tax basis because
- A) companies want a positive cash flow.
 - B) the value to a business must be considered.
 - C) the investor's tax rate is irrelevant.
 - D) decisions that appear favourable on a pre-tax basis may be unfavorable or marginally favourable on an after- tax basis.
- 15) Which of the following is not a separate entity for tax purposes?
- A) Corporation
 - B) Trust
 - C) Partnership
 - D) Individual
- 16) The Canadian income tax system for individuals is considered
- A) progressive.
 - B) regressive.
 - C) flat.
 - D) unfair.
- 17) What is the most significant form of taxation that affects return on investment?
- A) Property Taxes
 - B) Excise Taxes
 - C) Income Taxes
- 18) QWERTY Co. decides to give a 6% raise to its employee Jean, who is currently in the 40% tax bracket. The company is in the 27% tax bracket. What is the after-tax implication for each of the parties in this transaction?
- A) The company has a net after-tax cost of 4.38% and Jean has an after-tax income of 3.6%.
 - B) Both Jean and the company have a 3% after-tax cost/benefit.
 - C) We should only consider the pre-tax amount of 6% to each party.
 - D) Both the company and Jean have an after-tax cost of 4.38%.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

19) Explain what is meant by the statement "tax should be treated as a 'controllable cost'."

20) Blake holds a 5% interest-bearing debt instrument in Day Co. Day Co.'s tax rate is 27%, and Blake is in a 50% tax bracket.

Required:

A) Calculate the after-tax cost (as a percentage) of the debt-instrument to Day Co.

B) Calculate the after-tax value (as a percentage) of Blake's interest income.

21) Tanner holds a 7% interest-bearing debt instrument in Eve Co. Eve Co.'s tax rate is 13%, and Tanner is in a 45% tax bracket.

Required:

A) Calculate the after-tax cost (as a percentage) of the debt-instrument to Eve Co.

B) Calculate the after-tax value (as a percentage) of Tanner's interest income.

Answer Key

Test name: Chapter 01

- 1) B
- 2) C
- 3) D
- 4) B
- 5) C
- 6) D
- 7) B
- 8) A
- 9) C
- 10) D
- 11) C
- 12) D
- 13) C
- 14) D
- 15) C
- 16) A
- 17) C
- 18) A
- 19) Short Answer
- 20) Short Answer
- 21) Short Answer