Practice 16 – Corporation Investment Income Quiz

Questions

1. ABC Inc. earns $10,000 of interest income. Which schedule is used to identify it as investment income?

A. Schedule 3
B. Schedule 4
C. Schedule 7
D. Schedule 50

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2. If $10,000 of interest is incorrectly treated as active small-business income at 12.2%, approximately how much tax is calculated?

A. $1,220
B. $1,950
C. $3,067
D. $5,017

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3. After $10,000 of interest is correctly identified as investment income, approximately what is the initial Ontario CCPC corporate tax?

A. $1,220
B. $1,950
C. $3,833
D. $5,017

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4. Approximately what initial corporate tax rate applies to the $10,000 interest example?

A. 12.2%
B. 19.5%
C. 38⅓%
D. 50.17%

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5. Approximately how much NERDTOH does $10,000 of interest income generate?

A. $1,220
B. $1,950
C. $3,067
D. $3,833

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6. Which rate is used in the example to calculate the refundable portion of investment income?

A. 12.2%
B. 19.5%
C. 30⅔%
D. 38⅓%

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7. ABC Inc. has $3,067 of NERDTOH. Approximately how much non-eligible dividend must it pay to obtain the full refund?

A. $3,067
B. $5,000
C. $8,000
D. $10,000

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8. Which rate is generally used to determine the dividend refund from a taxable dividend paid?

A. 19.5%
B. 30⅔%
C. 38⅓%
D. 50.17%

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9. After ABC Inc. receives the full $3,067 refund on the $10,000 interest example, approximately how much corporate tax remains?

A. $1,220
B. $1,950
C. $3,067
D. $5,017

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10. ABC Inc. realizes a $10,000 capital gain. At a 50% inclusion rate, what amount is taxable in this practice?

A. $2,500
B. $5,000
C. $8,000
D. $10,000

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11. Which schedule is used to report the disposition and calculate the corporation's capital gain?

A. Schedule 3
B. Schedule 4
C. Schedule 6
D. Schedule 7

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12. The $5,000 taxable portion of a $10,000 capital gain is treated as investment income. Approximately how much initial corporate tax results?

A. $975
B. $1,533
C. $2,508
D. $5,017

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13. Approximately how much NERDTOH is generated by the $5,000 taxable capital gain in this example?

A. $975
B. $1,533
C. $2,508
D. $3,067

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14. What happens to the $5,000 non-taxable portion of the $10,000 capital gain?

A. It creates GRIP
B. It is added to the CDA
C. It becomes NERDTOH
D. It is added to taxable income

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15. What is the main benefit of a positive Capital Dividend Account (CDA) balance?

A. It can reduce business income
B. It can create additional CCA
C. It can allow a tax-free capital dividend to a Canadian-resident shareholder
D. It can be used against interest income

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16. What form is generally filed to elect to pay a capital dividend from the CDA?

A. T2054
B. T2125
C. T2209
D. T1135

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17. ABC Inc. receives a $10,000 eligible dividend from TD shares. Which section is generally selected in Schedule 3?

A. s.45
B. s.83
C. s.112
D. s.216

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18. ABC Inc. receives a $10,000 eligible dividend from a non-connected Canadian corporation. Approximately how much Part IV tax applies?

A. $1,950
B. $3,067
C. $3,833
D. $5,017

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19. Part IV tax from a $10,000 eligible dividend received from a non-connected corporation generally creates which account?

A. CDA
B. GRIP only
C. NERDTOH
D. ERDTOH

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20. What additional account is generally increased when a CCPC receives a $10,000 eligible dividend?

A. CDA
B. GRIP
C. Non-capital loss
D. CCA

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21. What is the main purpose of GRIP in this practice?

A. Tracks the corporation's ability to pay eligible dividends
B. Tracks capital losses
C. Calculates CCA
D. Tracks payroll remittances

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22. ABC Inc. receives a $10,000 non-eligible dividend from a non-connected CCPC. Approximately how much Part IV tax applies?

A. $0
B. $1,950
C. $3,067
D. $3,833

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23. Where does the $3,833 Part IV tax from a non-connected non-eligible dividend generally go?

A. CDA
B. ERDTOH

C. NERDTOH
D. GRIP

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24. What is the main difference between eligible and non-eligible dividends received from non-connected Canadian corporations in this practice?

A. Only eligible dividends have Part IV tax
B. Only non-eligible dividends have Part IV tax
C. Both can have the same Part IV tax, but they generally create different RDTOH accounts
D. Neither is deductible under s.112

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25. ABC Inc. owns 100% of CDE Inc. and receives a $10,000 ordinary taxable dividend. How are the corporations treated for this dividend?

A. Non-connected
B. Connected
C. Foreign affiliates
D. Public corporations

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26. CDE pays ABC a $10,000 taxable dividend. CDE receives no dividend refund. What is ABC's normal Part IV tax in this simple connected-company example?

A. $0
B. $1,950
C. $3,067
D. $3,833

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27. When could ABC have Part IV tax on a dividend received from connected CDE?

A. Whenever CDE earns business income
B. When CDE's dividend payment generates a dividend refund for CDE
C. Whenever ABC owns more than 50% of CDE
D. Connected-company dividends always have 38⅓% tax

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28. ABC Inc. has $1,000 of NERDTOH. Approximately how much non-eligible dividend is required to recover the full $1,000?

A. $1,000
B. $1,533
C. $2,609
D. $3,833

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29. ABC Inc. has $1,000 of ERDTOH. What does it generally need to pay to recover the refund in this simplified example?

A. Approximately $2,609 eligible dividend, with sufficient GRIP
B. $1,000 capital dividend
C. $1,000 salary
D. $2,609 interest expense

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30. Which statement correctly compares a non-capital loss and a net capital loss?

A. Both can only offset capital gains
B. A non-capital loss can generally be carried back 3 years and forward 20 years; a net capital loss generally applies against taxable capital gains and can be carried back 3 years and forward indefinitely
C. Both expire after 3 years
D. Capital losses can always be deducted against active business income

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Answers

#	Answer	Key Point
1	**C**	Schedule 7 identifies investment income.
2	**A**	$10,000 × 12.2% = $1,220.
3	**D**	Initial investment-income tax is approximately $5,017.
4	**D**	Approximately 50.17%.
5	**C**	$10,000 × 30⅔% ≈ $3,067.

#	Answer	Key Point
6	**C**	30⅔% generates the refundable portion.
7	**C**	$8,000 × 38⅓% ≈ $3,067.
8	**C**	Dividend refund rate is approximately 38⅓%.
9	**B**	$5,017 − $3,067 = $1,950.
10	**B**	50% of $10,000 = $5,000.
11	**C**	Schedule 6 reports capital dispositions.
12	**C**	$5,000 × ~50.17% ≈ $2,508.
13	**B**	$5,000 × 30⅔% ≈ $1,533.
14	**B**	Non-taxable portion creates CDA in this example.
15	**C**	CDA can support a tax-free capital dividend.
16	**A**	T2054 is used for the capital-dividend election.
17	**C**	Canadian intercorporate dividend: generally s.112.
18	**C**	$10,000 × 38⅓% ≈ $3,833.
19	**D**	Eligible dividend Part IV tax generally creates ERDTOH.
20	**B**	Eligible dividends received generally increase GRIP.
21	**A**	GRIP supports eligible-dividend designations.
22	**D**	Same 38⅓% Part IV tax in this example.
23	**C**	Non-eligible dividend Part IV tax generally enters NERDTOH.
24	**C**	Same immediate Part IV rate; different RDTOH account.
25	**B**	100% ownership makes the corporations connected.
26	**A**	No payer dividend refund → normally no Part IV tax here.
27	**B**	Connected-company Part IV tax follows the payer's dividend refund.

#	Answer	Key Point
28	**C**	$1,000 ÷ 38⅓% ≈ $2,609.
29	**A**	ERDTOH is generally recovered through eligible dividends; GRIP limits eligible designation.
30	**B**	Non-capital and net capital losses have different usage rules.

Suggested passing score

24/30 = 80%

For this practice, I would emphasize **Questions 5–9, 14–16, 18–29**. Those test the main concepts students need to retain: **NERDTOH, ERDTOH, GRIP, CDA, Part IV tax, and how the corporation eventually uses each account.**