

HAND-IN ASSIGNMENT 1

You are a senior mechanic in the logging industry. Because of the specialized nature of your work, you are really well paid. Your current employer pays you a basic salary with no special benefits.

Recently, you received an offer of employment from a corporation in the same line of business. The salary offered is lower than what you currently receive but a number of benefits are included in the remuneration package.

You are confused by the offer. You do not like the idea of a reduced salary but realize that the benefits have some value. You also realize that what is really important is the level of disposable income that you have for your family.

You have provided the students of ACCO 695U with the pertinent information (see Exhibits 1 and 2) and has asked them to help you make a decision.

Required:

1. Determine what your net income from employment for tax purposes will remain with your current employer (Exhibit 1).
2. Determine what your net income from employment for tax purposes will be if you accept the offer from the competitor (Exhibit 2).
3. Assuming that you pays tax at a rate of 40%, determine the amount by which your personal disposable income will increase (or decrease) if you accept the new offer.

Exhibit 1: Information regarding current employment and certain other expenditures

1. Your gross salary next year will be \$70,000. From this, the employer will deduct the required income tax, Canada Pension Plan contributions of \$2,426, and Employment Insurance premiums of \$914.
2. It is part of your ordinary duty to work on equipment at locations other than the main repair depot. On average, you are called out of town two or three days each month. On such trips, you must always stay overnight in a hotel. Your contract of employment requires that you pay your own automobile expenses. The company reimburses you for your hotel costs (lodging but not meals). No reimbursement is made for the vehicle.
3. You leases your own car at \$500 per month. You incurred the following additional travel costs in the current year:

Insurance	\$ 1,800
Repairs and maintenance	600
Gasoline	4,200
Meals (out of town)	2,000

During the year, you drove a total of 22,000 kilometres, of which 10,000 were for your employer. You anticipate that travel costs in the future will be about the same as they were this year.

4. You will take possession of your new home in three months, and you are currently shopping for a mortgage. You expect to obtain a \$100,000 mortgage with interest at 4% for a term of five years.
5. You maintain the following insurance policies:

	Premium cost
Term life insurance of \$300,000	\$1,200
Private medical insurance	1,600
House fire insurance	2,000
6. You are an avid golfer and belong to a private club. Your annual membership dues are \$4,200.

Exhibit 2: Information regarding offer of employment with competitor

1. The proposed salary is \$60,000 per year. From that amount, the employer will deduct the required income tax, Canada Pension Plan contributions of \$2,426, and Employment Insurance premiums of \$914.
2. The employer will lease an automobile identical to the one currently used by you. However, the employer's lease cost will be only \$650 per month because of a fleet discount. In addition, the employer will pay the annual insurance cost of \$1,800, the repair and maintenance costs, which are estimated to be \$600 annually, and the gasoline costs of \$4,200. You will be entitled to operate the car for personal use. The number of business kilometres and personal kilometres driven will be the same as they are now. The employer will pay for all out-of-town meals when an overnight stay is required. The cost of meals is expected to be \$2,000 per year.
4. As a senior mechanic, You will be entitled to a low-interest loan (1%) from the employer of up to five years' duration. Such loans can be renewed at the end of term. The maximum loan amount is \$100,000. Assume the prescribed interest rate set by the CRA is currently 2%.
5. The employer maintains a group term life insurance program and a private medical insurance program. At no cost to you, the employer will provide \$300,000 of group term life insurance as well as medical coverage equal to what he currently has. The premium costs to the employer will be as follows:

Life insurance	\$900
Medical insurance	500

These amounts are lower than your current costs because group discounts are available to the employer.
6. The employer has agreed to pay your annual golf club dues of \$4,200. As you do not entertain and deal with customers, the employer derives no benefit from your membership in the club.