**PROBLEM FIVE**

Carol Posh is a senior advertising executive with a large Winnipeg company. With winter fast approaching, Posh is seriously considering an offer of employment from Westcoast Promotions Inc. (WPI), a large public company in Vancouver. Although housing costs are high in Vancouver, the climate and opportunities for career advancement would be better.

Posh has received a letter outlining a proposed remuneration package. The package is attractive but she is uncertain of the tax consequences. She has asked you to advise her. WPI recognizes the problem of housing costs and begins its letter with an offer to loan Posh $150,000, interest-free, to help finance a new house. In addition, WPI will reimburse her for 75% of her moving costs.

In addition to an annual salary of $120,000, WPI has offered the following benefits:

1. Posh will be appointed a director of the company’s American subsidiary in California; this will require her to travel to Los Angeles three times a year for board meetings. Posh will be paid a director’s fee of $5,000 directly from the American company. Company policy permits spouses to take these trips as well. When a director takes his or her spouse, all travel expenses are paid for by the company.

2. A luxury automobile will be provided for her personal use, even though she will never require the car for business. The company will pay all of the operating costs—approximately $3,200 per year—as well as the monthly lease cost of $850. Posh will drive the car approximately 20,000 kilometres per year.

3. WPI will include Posh in its group term life insurance program and pay the premium, which provides coverage for $75,000. It will also pay the premiums for a private health plan, a dental plan, and a drug plan.

4. The company has a deferred profit-sharing plan, for which Posh will qualify. The maximum contribution will be made to this plan only when the company’s profit for the year is greater than 12% of the stated balance sheet equity.

5. Posh will be eligible for an annual bonus of up to $40,000, with the actual amount to be based on her productivity. The bonus will be awarded on November 30 of each year (the company’s year-end) but will not be paid until May 31 of the following year. Of the above-mentioned bonus, 25% will be retained in an employee benefit plan for five years. The investment income earned by the plan will be distributed to Posh each year.

6. WPI will provide Posh with a monthly allowance of $800 to cover any expenses she may incur. In addition, she will be reimbursed for travel costs to attend the annual advertising convention in Paris.

7. All WPI employees are entitled to participate in a stock-option plan. The available shares are non-voting but do participate fully in profits. The option price is $12 per share; this price is guaranteed for three years and will then increase to $14 per share. Currently, the shares are trading at $12 per share; they are expected to rise significantly within two years.

8. Posh will be provided with club memberships in the “better” social clubs in the area for relaxation purposes. This will help her be more productive in her work.

**Required:**

Prepare a brief report for Posh.