

Reference Sheet

Months & Days per Month

January – 31 days

February – 28 days

March – 31 days

April – 30 days

May – 31 days

June – 30 days

July – 31 days

August – 31 days

September – 30 days

October – 31 days

November – 30 days

December – 31 days

Question 1

Apple Limited amalgamates with Orange Co. The year end of Apple Limited was December 31, 2014 prior to Amalgamation, and Orange Co's year end prior to amalgamation was June 30, 2015. The amalgamation happens on August 31, 2015. When must Apple's next tax return be filed?

February 28th – 6 months after the deemed year end on August 31st.

Question 2

Orange Co is the parent company of Apple Limited. Apple Limited is wound up (pursuant to Section 88(1)) into Orange Co. The year end of Apple Limited was December 31, 2014 prior to the wind up, and Orange Co's year end prior to windup was June 30, 2015. The amalgamation happens on August 31, 2015. When must Orange's next tax return be filed?

December 31st. – Six months after Orange's original due date. The year end doesn't change because there is no change to the parent company in a wind up.

Question 3

Orange Co is the parent company of Apple Limited. Apple Limited is wound up (pursuant to Section 88(1)) into Orange Co. The outstanding shares of Orange Co. include 100 Class B common shares with \$30 of PUC and \$500 in ACB. The shares that Orange Co. owns of Apple Limited are 10,000 Class C common shares with PUC of \$100 and \$200 of ACB.

What will the characteristics be of the shares that exist after the windup?

They will be Orange Co's shares since those don't change

100 Class B Common Shares

\$30 PUC

\$500 ACB

Question 4

Sandsung and Tisheba are arm's length companies that are hoping to amalgamate. Both have significant losses they'd like to use in the new company after the amalgamation, so they're curious whether an acquisition of control will occur during the amalgamation. Sandsung has 2 shareholders and has a fair market value of \$40 million. Tisheba has 1 million shareholders and a fair market value of \$50 million. Does an acquisition of control occur in either Sandsung or Tisheba?

Yes – Sandsung will be acquired because the 'group' of shareholders owning Tisheba acquires control of it. They get their proportionate share of the company's value after the amalgamation, which is greater than Sandsung's shareholder's ownership interest.

Question 5

Samantha is 23, with two children who are 4 & 6 years old. She has an unincorporated business called 'Fruit Scoops' that she earns \$50,000 per year from. She has no other source of income.

Should Samantha incorporate her business? (circle one)

- Yes
- **No**

Samantha likely needs all the income to live and so cannot defer tax by leaving it in a corporation, she also doesn't have sufficient income to income split and no one to split it with.

Question 6

Alex owns 75% of the voting common shares of Liddex Inc. On January 20, 2014 Alex drew a shareholder loan of \$45,000 to fund a personal vacation around the world. The year end of the corporation is June 30th and it is now November 1, 2015. Alex has yet to pay off the loan.

What amount must Alex include into his income because of this loan?

\$45,000

Because the loan was outstanding for two balance sheet dates – June 30, 2014 and June 30, 2015, it must be included in Alex's taxable income 100%.

Question 7

Nathan is 68 years old, is married, with two children in university. His husband, Gowthamm makes \$60,000 per year. Nathan's unincorporated home business earns \$170,000 per year. His business is making safety kettlebells for local gyms. He was sued once last year when a handle flew off a kettlebell and it went through a gym's wall.

Should Nathan incorporate his business? (circle one)

- Yes
- No

Nathan has the potential to income split with his husband and children, and it also would give him some liability protection.

Question 8

Alexis owns 60% of the voting common shares of Lowater Inc. On February 1, 2014 Alexis drew a shareholder loan of \$30,000 to buy a new car. The year end of the corporation is August 31 and it is now September 15, 2015. Alexis has yet to pay off the loan. The prescribed rate is 1%

a) What amount must Alexis include into her income because of this loan?

\$30,000

Because the loan was outstanding for two balance sheet dates – August 31, 2014 and August 31, 2015, it must be included in Alexis's taxable income 100%.

b) Alexis pays back the loan on January 1, 2016. What is the impact on her income from this repayment?

\$30,000 deduction since the loan is repaid

Interest benefit from the date the loan is outstanding.

Each of these is worth a point.

Question 9

Monica has two sons, age 20 and 22. Each of them have been working in her business since they were 16 and now are very involved in different aspects. One of them is a Junior Controller in the accounting office and the other is a site supervisor for their construction crews. They currently each own 1/3 of the Class A common shares outstanding from the corporation. They have traditionally taken all of their compensation in the form of dividends and have not taken salary or wages.

Provide two reasons why the current situation might not be ideal.

Dividends have to be proportionate.

May not always want to split money this way.

They won't be earning RRSP Room

(any of these is accepted, only need two)

Question 10

Argentia Incorporated owns a piece of land they wish to transfer to a sister corporation, Brazilia Limited. The land has a cost of \$20,000 and a fair market value of \$75,000. Argentia and Brazilia have both agreed to use Section 85 to make this transfer. Argentia will take back only shares of Brazilia as consideration and has decided to trigger a \$30,000 gain in order to absorb \$30,000 in gross capital losses they had carried forward.

a) What will be the cost of the shares Argentia receives?

\$50,000

b) What will be the fair market value of the shares Argentia receives?

\$75,000

As a \$30,000 gain is triggered, the cost of the consideration received will increased by \$30,000 over the original cost of the property transferred. $\$20,000 \text{ original cost} + \$30,000 = \$50,000$

The fair market value does not change under a Section 85. The consideration received must equal the asset given up. Therefore, the shares will be worth \$75,000.

Question 11

Michelle owns shares in her private company, Jonoton Inc., which she plans to transfer into a holding company. Her shares of Jonoton have an ACB & PUC of \$1,200 and a FMV of \$3,000. As consideration she'd like to take back a promissory note payable for as much as she can without triggering tax. She'll take back shares of the holding company for the rest of the consideration.

- a) How much will the promissory note payable be for?

\$1,200

- b) What will be the FMV of her share consideration?

\$1,800

Michelle can take back non-share consideration up to the PUC without triggering tax. This means that the highest amount the promissory note can be for is \$1,200.

If Michelle takes \$1,200 in a note, then there is only \$1,800 in FMV available to be assigned to the shares (\$3,000 - \$1,200).

Question 12

Alexis owns 51% of the voting common shares of Lowater Inc. On April 1, 2015 Alexis drew a shareholder loan of \$50,000 to buy a new car. The year end of the corporation is December 31. Alexis paid off the loan on December 30, 2016. The prescribed rate is 1%

- a) What amount must Alexis include into her income because of this loan, assuming no other facts?

Interest inclusion

$50,000 \times 1\% / 12 \text{ months} \times 9 \text{ months} = \$375 \text{ interest in 2015, and } \$500 \text{ of interest in 2016.}$

- b) What amount must Alexis include into her income because of this loan, if she were to take another loan from the corporation on January 3, 2017? Why?

\$50,000 loan included in income

Because it is a series of repayments.

Question 13

An engineer who performs consulting through a sole-proprietorship (unincorporated) earns \$300,000 per year, is married, and has two children age 17 and 21. Discuss one reason why the engineer may wish to incorporate. Support your reason by explaining the benefit to be gained.

Reasons could be **limited liability** – engineering projects do have risk of failure or accidents

Income splitting – wife and at least one adult child he could split income with.

Tax Deferral – if he does not need the \$300,000 per year to live off of, he could defer the tax until it was actually needed and reinvest higher amounts.