Question 1

Sam owns 40% of the shares of ABC Co. Jake owns 40%, and Jason owns 20%. Sam has all of his shares redeemed (canceled) during the year.

Has an acquisition of control occurred? (circle one)

- **Yes**
- No

Jake owns the majority of remaining shares after the redemption (40/60), where before he did not.

Question 2

Fikus Incorporated manufactures fake plants that are used in office buildings. 51% of their outstanding shares were purchased by Gardenia Limited, who was their primary competitor in this industry. Fikus had $35,000 in capital (50% deductible) and $60,000 in non-capital losses carried forward.

1) How much in capital losses are available after the purchase?

   None – capital losses expire

2) How much in non-capital losses are available after the purchase, if Fikus will continue to manufacture fake plants?

   All of it, $60,000. Since it can be used against income from the same or similar business.

Question 3

Pinkerton Limited is located in Nova Scotia. They are an auto repair shop on high end American muscle cars. They only hire mechanics who have a real passion for the industry, but take on a range of skill levels from beginners to experienced hires. They have never claimed any tax credits before. Which tax program would you recommend they look into for use in their future operations? (circle one)

- Manufacturing & Processing
- Farming, Fishing & Logging
- Scientific Research & Experimental Development
- **Apprenticeship Tax Credit**

The company should look into the Apprenticeship tax credit since they are hiring people who may be eligible for a red seal trade- Mechanics.

Question 4

Jennifer owns 1,000 common shares in KiloCow Inc., which is all the shares the company has issued to date. She bought these shares in 2011 on the incorporation of KiloCow for $5,000 for all 1,000. In 2014, Nancy purchases 300 common shares of KiloCow from Jennifer for $2,000.

a) What is the total ACB of Nancy's shares in KiloCow?

$2,000

b) What is the total PUC of Nancy's shares in KiloCow?

$1,500

Nancy's ACB is what she paid for the shares. The $2,000 given to Jennifer at the time of purchase. The PUC of her shares is what KiloCow was originally paid for them, which is 300/1000 of the $5,000 originally paid by Jennifer since they are 300 of the total 1,000 originally issued shares.

Question 5

Sam is 45 and earns $10,000 from interest on an investment he holds personally. He's also started a new business making jam, but for the most part he's only had losses the last two years. He thinks he'll have one more year of losses and then probably profit after that.

Should Sam incorporate his business? (circle one)

- Yes
- **No**

Sam could benefit from the losses against his other personal income if he doesn't incorporate.

Question 6

Alex owns 75% of the voting common shares of Liddex Inc. On January 1, 2014 Alex drew a shareholder loan of $50,000 to fund a personal vacation around the world. The year end of the corporation is December 31. Consider these two points as separate fact patterns. Do not combine them together.

a) What is the impact on Alex's income in 2014 if Alex has yet to pay off the loan and it is January 2, 2015?

Because the loan is still outstanding, but two balance sheet dates have not passed, Alex will have an interest benefit but the loan will not be included in his income.

b) What is the impact on Alex's income in 2015, if it is now January 6, 2016 and Alex has still not repaid the loan?

Nothing, the total loan must be included in Alex's 2014 income since outstanding for two balance sheet dates. Interest does not apply because loan included in income.

Question 7

Alexis owns 60% of the voting common shares of Lowater Inc. On March 3, 2017 Alexis drew a non-interest bearing shareholder loan of $40,000 to buy a new car. The year end of the corporation is April 30. Alexis pays off the loan on September 15, 2019. The prescribed rate is 1%

Describe the income impacts created by the loan, and when they will occur.

1) **Income inclusion of $40,000 in 2017 since outstanding for two balance sheet dates (April 30, 2017 and April 30, 2018).**
2) **Deduction from Income of $40,000 in 2019 when repaid**
3) **Interest benefit of 1% x $40,000 from date the loan is issued until the date it is repaid. (interest benefit is sufficient).**

Question 8

Monica is 65 years old and earns $200,000 from her business. She has a spouse who earns $30,000 per year, and two children who are active in her corporation who take salary of $100,000 each, though to replace them would cost around $45,000 each if she hired someone who was not family. She's wondering whether salary is still the best option for compensation from her corporation. Her children own 10% of the shares each, and she and her husband own 40% each.

Provide two factors that affect how her compensation is structured.

Dividends must be prorata – not very flexible the way she has it set up now. Would be better to split more income with her spouse who is in a low bracket.

Salary must be reasonable – current salary to children is not ideal, will cause issues.

Question 9

Argentia Incorporated owns a piece of land they wish to transfer to a sister corporation, Brazilia Limited. The land has a cost of $15,000 and a fair market value of $45,000. Argentia and Brazilia have both agreed to use Section 85 to make this transfer. Argentia will take back shares of Brazilia as consideration and would like to minimize tax on the transfer, and also take as much non-share consideration as they are allowed.

a) What is the elected amount Argentia should choose to minimize tax?

$15,000 the cost of the land.

b) How much in non share consideration can Argentia take as consideration?

$15,000 the cost of the land.

c) What will be the cost of the shares Argentia receives, if they take the maximum non-share consideration?

$0 – if all of the cost is taken up by the non-share consideration, the shares with have no cost basis. (15,000 cost – 15,000 non-share consideration = 0)

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

$30,000 – the shares will receive whatever fair market value remains after allocating to the non-share consideration what it is worth. (45,000 - $15,000 = 30,000)

Question 10

Michelle owns unincorporated assets from a business she started. She'd like to incorporate those assets using a Section 85 reorganization. As consideration she plans to take back only shares of the newly created corporation.

The assets are as follows:

	Original Cost	UCC	Fair Market Value
Cash	$2,000	N/A	$2,000
Inventory	$8,000	N/A	$9,000
Equipment	$2,500	$1,000	$2,000
Land	$8,000	N/A	$12,000

a) What elected amount should Michelle choose for each asset she plans to roll into the corporation using section 85?

   a. Cash — N/A should not use S.85. Don't need tax deferral on cash.

   b. Inventory — $8,000 the cost basis

   c. Equipment — $1,000 the UCC

   d. Land — $8,000 the cost basis

b) What will be the FMV of her share consideration received under the S.85 agreement.?

$23,000 the combined FMV of all the assets rolled over. This excludes the cash since it should not be subject to S. 85.

Question 11

Diamond Daye is opening a business and needs to take out a bank loan in order to fund the start up costs. Diamond is deciding whether to take out the loan personally, or in a corporation. Diamond's business is related to reading people's fortunes, and is concerned that customers may sue if they make rash changes in lifestyle as a result of her fortunes.

She's wondering if incorporation is a good structure for her to use for this business. Please respond with yes or no, and also WHY.

- (1 point for right answer, 1 point for reason).
- Reasons could be **limited liability** – Seems there may be liability risks related to being sued.
- **Tax Deferral** – Because of the small business deduction, a corporation would have more after tax cash available to pay off the debt if the loan is taken at the corporate level.

1) Carol has decided to have a trust settled for the benefit of herself, her good friend Marilyn, and her two dogs, Ike and Sykes. The trust was created on December 20, 2014.

    a. What is the latest date that Carol can choose as the year end for her trust?

December 31, 2014

    b. If that date is chosen, what is the due date to file her trust tax return?

March 31, 2015

    c. If that date is chosen, what is the due date to pay the taxes owing by the trust?

March 31, 2015

    d. If the trust document were written exactly as the opening paragraph to this question, what classification of beneficiary would the dogs be considered?

Specific – because they are named

e. If the trust earned $150,000 in taxable income from interest in 2014 and allocated none of it to beneficiaries, what would be the taxes owing within the trust?

$150,000 x 45% = $67,500, taxed at highest personal tax rate

f. If the trust earned $200,000 in non-eligible dividends and allocated 100% to income beneficiaries, what would be the taxes owing within the trust?

$0 allocations from trust income result in a deduction to the trust. No taxes will be owed if all income is allocated