

Final Assignment
BADM 4230
Due August 27, 2021

Tax rates and general information:

<u>Individuals:</u>	<u>Personal tax rate</u>	<u>CGE Room</u>	<u>Occupation</u>
George (Father) 55 years old	50%	\$866,912	High School Phys Ed Teacher
Mary (Mother) 55 years old	50%	\$0	Bookkeeper
Sheldon (Son) 32 years old	50%	\$866,912	Professor -Geology
Amy (Daughter in Law) 35 yrs. old	50%	\$866,912	Professor-Microbiology
Leonard (Son in Law) 35 yrs. old	50%	\$866,912	Professor-Engineering
Missy (Daughter) 32 years old	25%	\$866,912	Stay at Home Mom

Dividend Gross up rates:

Eligible Dividends: 38%

Non-Eligible Dividends: 15%

Dividend Tax credit is assumed equal to the Gross up.

Corporations:

CCPC eligible for the Small Business Deduction: 13%

CCPC not eligible for the Small Business Deduction: 50.67%

Corporations not eligible for Small Business Deduction: 28%

Corporations classified as a Personal Service Business: 33%

Guidance: You may submit your solution in either Word or Excel. You have some flexibility in how you assemble the information. If you wish to use the assigned format for each individual identifiable tax situation, you may do so. You will need to assess the situations using the format that was been utilized on the Midterm Assignment.

The assignment will be out of 100 marks. In this assignment there are three scenarios. To earn full marks, you will need to elaborate correctly on things such as the relationships and the profiles of the *relevant* stakeholders. That is because these details influence the required answers for each scenario.

The assignment will be made available to you on the first day of exams. It must be submitted to the drop box on Courselink by the deadline to be accepted. The assignment is due at on April 27, 2021 at 11:59 pm EST. **LATE ASSIGNMENTS WILL NOT BE ACCEPTED.** It may be submitted earlier than the deadline.

This is an individual assignment. Any references used must be properly credited. **Turnitin** software will be used in the evaluation of this assignment. Assignments where academic misconduct is indicated will not be marked and the matter will be prosecuted according to university policy.

The same family has come to you seeking further advise on other tax issues. They were so pleased with your earlier work they felt they had to get further advice on some other tax matters.

The family group has numerous business interests. They are looking for tax advice on several separate tax issues. They have provided you with all the relevant information for you to review the family's financial affairs. The information below summarizes that information provided to you. Information explaining the family relationships and other relevant information for you to use in the completion of your assignment is included above.

Your assignment is to address the tax implications of the situations described below. You will utilize the format prescribed to you earlier.

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Sheldon has decided to move on after being bought out of Firecracker Inc. by his friends. He plans on spending his time touring Canada on a train. Firecracker was not his only business interest. He would like to understand the tax implications of an offer he received regarding shares of another company he owns. Sheldon owns all the issued shares of Amy Ltd. His friends Raj and Howard helped to initiate the deal where Sheldon acquired the Amy Ltd. shares.

He acquired the shares for \$100,000 from a stranger in 2011. The shares of Amy Ltd. have a PUC of \$100. A widely held Canadian public company, Bert Corp, is interested in acquiring Amy Ltd. from Sheldon. Sheldon is considering a proposal to sell his shares to Bert Corp in exchange for common shares of Bert Corp. The common shares of Bert Corp have the same value, \$900,000 as the Amy Ltd. shares.

Mary would like to discuss another tax issue. She advises you that Mary George Inc. (MGI) is an active business corporation whose common shares are owned equally by Mary and George (50% each).

They acquired the shares for \$60,000 each five years ago from Connie Smith, (Mary's mother) and are now interested in selling the business and retiring. Connie's PUC and ACB were \$1,000. Connie reported a taxable capital gain of \$59,500 and claimed a capital gain deduction of \$59,500.

Mary and George have received the following three offers, and they would like to know which offer they should accept:

- 1) Amar has offered to buy 100% of the shares for \$500,000 cash.
- 2) Jill has offered to buy all the assets at their fair market value, and to assume all the liabilities. Mary and George have already decided they do not want to keep the corporation going after the asset sale.
- 3) Active Inc. has offered to buy 100% of the shares for \$500,000 cash. Active Inc. is owned by Missy, their daughter. Active Inc. has no GRIP pool, no RDTOH, or CDA balance.

Mary has used up her capital gains deduction on a previous business and does not have any capital loss carryforwards from previous years. George has not used any of his capital gains deduction and has no cumulative net investment loss. The shares of MGI are qualified small business corporation shares for both Mary and George.

MGI uses tax depreciation rates for its financial reporting, and its latest balance sheet is as follows:

Assets	Cost	Fair Market Value
Cash and receivables	\$ 300,000	\$ 300,000
Inventory	106,000	106,000
Equipment	80,000	90,000
Less: accumulated CCA	(20,000)	
Building	225,000	400,000
Less: accumulated CCA	(90,000)	
Land	<u>150,000</u>	200,000
Total assets	\$ 751,000	
Liabilities and Equity		
Accounts payable	\$ 350,000	\$ 350,000
Common shares (paid-up capital)	1,000	
Retained earnings	<u>400,000</u>	
Total liabilities and equity	\$ 751,000	

MGI does not have any capital dividend account, general rate income pool, or RDTOH balances.

They would like you to summarize each offer clearly so they can understand the implications of each offer and make the appropriate recommendation.

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Amy also wanted some advice as well. Since 2013, Amy has owned all 1,000 Class A shares issued by Kat Cafe Inc., a corporation in the business of manufacturing and selling cat treats in Canada. Amy also owns all the shares of Blossom Inc., a corporation that is considered a specified investment business.

Kat Cafe has been profitable since its incorporation, and now has sizable investments in addition to its business assets. Based on the market value of the assets, 56% of the assets were used in the business throughout the corporation's fiscal period ended November 30, 2020, and the other 44% consisted of investments. By January 2021, as a result of changes in the market, the proportion of assets used in the business had declined to 45% and has remained at that percentage.

Amy would like to transfer the investments in public corporations to Blossom on a tax deferred basis. She is an avid reader and has read extensively about tax deferred rollovers such as covered in sections 85 and section 86 in her spare time. She has also read about the Capital Gains Deduction, QSBC shares and Small Business Corporations. The consideration paid by Blossom will be in notes and Class B shares redeemable at the holder's option for \$1 each. The legal capital of each issued share will be \$1. She feels the transfer should purify Kat Cafe so its shares would qualify as QSBC shares.

The investments held by Kat Cafe are as follows:

	Cost	Fair Market Value
Shares of public corporations	\$ 155,000	\$ 100,000
Property:		
Land	50,000	125,000
Building (rental property)	285,000	600,000

The building is included in Class 1, which has an undepreciated capital cost of \$215,000.

Do you agree with Amy's assessment the transfer of assets to Blossom would in fact purify the shares of Kat Café? If you do not agree with her assessment, then it would be appropriate to advise Amy of what steps she may need to purify the Kat Café shares.