**Assess the Situation**

**1. Draw a Diagram Identifying Stakeholders**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Sheldon (100%) ---->* | AMY LTD |  |  | Sheldon 11.11% ---> | Bert's Corporation | ---> 100% | AMY LTD |  |

**2. Relationships**

* Sheldon and Bert Corp at Arm's length before exchange of shares.
* Sheldon is related to Amy, and Sheldon to Amy ltd is affiliated, will be affiliated to Bert’s corp. after exchange
* Bert Corporation will be affiliated with Sheldon and Amy ltd
* Amy is related to Sheldon
* Amy is affiliated with Amy ltd, and will be affiliated with Bert's corporation

**3. Profile of stakeholders**

* Bert Corporation and Amy corporation is Canadian residents subject to Canadian taxation laws.
* Sheldon, a professor of geology, is Canadian resident also subject to Canadian taxation laws.

**4. Understand the decision maker and his objectives**

* Sheldon would like to know the tax implications of the offer from Bert's corporation - about selling Amy ltd to Bert corp , in exchange of common share of Bert corporation

**5. Identify Past events and create a timeline**

* Past -Sheldon bought Amy ltd shares from stranger in 2011 for $100,000
* Past -Raj and Howard helped Sheldon get the initial deal with Amy ltd
* Sheldon had interests in many businesses.
* Present - Bert corporation is interested to buy out Amy Ltd from Sheldon and he is considering the option

**Identify the Issues**

what are tax implications for Sheldon for selling Amy ltd?

is Amy ltd small business corporation?

Can Sheldon use capital share deduction?

**Analyze the Issues**

Sheldon did not receive any non-share consideration, and as Sheldon and Bert corp. were at arm’s length before the sell and buy of Amy ltd, Sheldon will not control or own more than half of FMV of Bert corp. so S.85.1 would be applied

**Quantitative and Qualitative analysis**

If sheldon doesn’t include his gain from exchange of shares in his current tax return - below calculations will be his tax results.

Proceeds for AMY share (matching to ACB) 100,000

ACB of AMY share -100,000

Total Capital gain $0

ACB of Bert corp. shares received by Sheldon = to ACB of amy ltd shares ($100,000)

The PUC of Bert corp. shares which was received by Sheldon is one hundred which is equal to PUC of AMY ltd.

Bert corp is deemed to have ACB of$100 for Amy ltd acquired. So the ACB is deemed to be lesser of either FMV of AMY Ltd shares before exchange or PUC of amy ltd shares before the exchange that is $100.

Assess the Situation:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| *1. Draw a Diagram Identifying Stakeholders* |  |  |  |  |  |  |  |
|  |  |  | 1. proposed |  |  |  |  |
| Mary (50%) ---> | MARY GEORGE INC. |  |  | MARY GEORGE INC. |  |  |  |
| George (50%) ---> |  | Amar ---> 100% |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  | 2. proposed |  |  |  |  |
|  |  |  | sell the company assets |  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  |  | 3. proposed | Active Inc. |  | MARY GEORGE INC. |  |
|  |  |  | Missy 100% | ---> |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |

2. Relationships

* Mary and George are related, affiliated to MGI
* Sheldon is related to Mary and George
* Missy is related to Mary and George
* Mary and George are related to missy, missy is affiliated to Active inc, so Mary and George are affiliated to Active inc
* Jill is not related or affiliated to anything before buy out option
* Amar is not related or affiliated to anything or anyone before buy out option

**3. Profile of stakeholders**

* Mary: wife of George, owns 50% of MGI , book keeper Canadian resident
* George: husband of Mary, owns 50% of MGI, PE teacher, Canadian resident
* Missy: Daughter of Mary and George, stay at home mom, Canadian resident
* Jill: Canadian resident, not related
* Amar: Canadian resident, not related
* Active Inc.: Canadian resident, affiliated to Missy
* MGI: Canadian resident, qualified small business corporation

**4. Understand the decision maker and his objectives**

* Mary and George - pick one best offer from 3 offers after having better understanding of the offer and tax implications of reach offer
* Pick best offer- as they want to sell the business and retire

**5. Identify Past events and create a timeline**

* Past: 5 years ago - Connie Smith (Mary's mother) sold shares to Mary and George for $60k each
* past Connie’s PUC and ACB were 1000
* present: Mary and George wants to sell business and retire
* present: Mary and George has to pick one offer from 3 in terms of selling the MGI business

**Identify the Issues**

Which offer to pick : Amar’s, Jill’s or active inc. summarize the offers to better understand and tax implications

**Analyze the Issues**

**1. Amar’s offer:**

Offer to pay $500,000 for shares

>He is an arm’s length person so this transaction cost is at adjusted cost base

>$60,000 each as this is their purchase price

Mary and George will report a $190,000 (500/2-60k) capital gain each. However, as Mary has no capital gains exemption, she should first transfer the shares to her husband. As George is her husband this transfer is done at ACB without any immediate tax consequence. Thus, this will mean George will have to claim a capital gain of $380,000. He can use his $866,912 CGE which means he will have a taxable capital gain of 50%> $190,000

**2. Sell assets**

**3) Active Inc. is owned by Missy:**

This transaction is between non-arms length (daughter’s corporation). Although, it is a non-arms person it is done at FMV, not under or over FMV. This is proven by the fact that an arms length person made the same offer at the same price. This means, this will occur at ACB similar to George. To reiterate, Mary and George will report a $190,000 (500/2-60k) capital gain each. Or George can claim the capital gains after transferring from Mary as explained above.

(mention the info about active balances as explained in the case)

**Quantitative and Qualitative analysis**

**Assess the Situation:**

**1. Draw a Diagram Identifying Stakeholders**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| Amy 1000 shares --> | Kat cafe inc | <------ | 100%---> | Blossom Inc. |  |  |

**2. Relationships**

* Amy is affiliated with Kat cafe inc and blossom inc.
* Kat cafe is affiliated with blossom inc and Amy
* Blossom inc is affiliated with kat cafe and Amy
  + >They are sister corporations as they have the same shareholder

**3. Profile of stakeholders**

* Blossom- SIB
* Kat cafe incorporation
* Amy - owns multiple businesses, professor

**4. Understand the decision maker and his objectives**

Amy wants to transfer investments in public corporations to Blossom on tax deferred basis.

**5. Identify Past events and create a timeline**

Past - since 2013, Amy owns 1000 shares of Kat cafe Inc.

**Identify the Issues**

Is the transfer between the two companies possible?

Would the transfer “purify” Kat cafe?

Can Amy get tax deferred on her investment gains?

**Analyze the Issues**

**Quantitative and Qualitative analysis**

* Qualified property under section 85 would include the shares but not real estate. This means under section 85 Amy can transfer the shares to Blossom at fair market value. This will have tax consequences as follows: (explain the capital loss calculations with a transfer at FMV)
* Amy does not need to "purify" the shares of Kat Café as it already meets the definition of a small business, as it's shares are already QSBC shares. The definition of a small business is a private corporation that is not controlled by a public a corp. or a non-resident and earns active business income.
* The investments of a CCPC do not matter as net income for tax purposes is split into 5 group. The first one is active business income, in which the Small Business Deduction is applied to, which Kat Café qualifies for.
* Furthermore, a SBI business is not entitled to the SBD (Blossom)

All in all, Kat Café is already a small business corp. with QSBC shares. There is no need to "purify" its shares. However, Amy can choose to move the shares if she wishes to claim a capital loss on the shares after transferring it at FMV.