QUESTION 1

Part A - Part I Tax Payable

The required calculations to determine Part I federal Tax Payable are as follows:

Net Income For Tax Purposes	$908,450
Dividends ($223,600 + $101,400)	(325,000)
Taxable Income	$583,450
Base Amount Of Part I Tax [(38%)($583,450)]	$221,711
Federal Tax Abatement [(10%)($583,450)]	(58,345)
Small Business Deduction (Note One)	(42,500)
Additional Refundable Tax On Investment Income (Note Two)	10,670
General Rate Reduction	
YOU ARE NOT RESPONSIBLE FOR GRR	(22,542)
Part I Federal Tax Payable	$108,994

Note One The small business deduction is 17 percent of the least of the following three amounts:

1.	Active Business Income	$423,400
2.	Taxable Income (no adjustments)	$583,450
3.	Allocated Annual Business Limit [(1/2)($500,000)]	$250,000

The lowest of these figures is the Company's $250,000 share of the annual business limit. This gives a small business deduction of $42,500 [(17%)($250,000)].

Note Two The aggregate investment income of $160,050 is calculated as follows:

Canadian Source Interest	$ 48,300
Taxable Capital Gains	111,750
Aggregate Investment Income	$160,050

The ITA 123.3 refundable tax (ART) is 6-2/3 percent of the lesser of:

1.	Aggregate Investment Income	$160,050

Part B - Part IV Tax Payable

The required calculation of the Part IV Tax Payable on the portfolio investment dividends is as follows:

Part IV Tax on Wholly owned Divs = 100% x its Div Refund of zero =	0
Part IV Tax on Portfolio Divs [($101,400)(1/3)]	$33,800

Part C - RDTOH Balance

The calculation of the ending balance in the Refundable Dividend Tax On Hand account is as follows:

RDTOH, End Of The Preceding Year	$ 39,400
Dividend Refund For The Preceding Year	Nil
Opening Balance	$ 39,400
Refundable Portion Of Part I Tax (26 2/3% x 160,050)	42,680
Part IV Tax (See Part B)	33,800
RDTOH Balance - December 31, 2014	$115,880

Part D - Dividend Refund

The dividend refund for the year would be $21,867, the lesser of:

- One-third of taxable dividends paid [($65,600)(1/3)] = $21,867
- Ending RDTOH Balance (Part C) = $115,880

Part E - Total Federal Tax Payable

The required calculation to determine federal Tax Payable is as follows:

Part I Tax (See Part A)	$108,994
Part IV Tax (See Part B)	33,800
Dividend Refund (See Part E)	(21,867)
Federal Tax Payable	$120,927

QUESTION 2

PLEASE NOTE THAT I CHANGED THE INDIVIDUAL DIVIDEND TAX RATE TO 20% IN THE QUESTION

Most was explained in class re Pros and Cons of incorporating….. and estate planning for part 3 of question. The number crunching part is:

NOT INCORPORATED:

Cash after taxes = $150,000 – (40% x 150,000) = $90,000

INCORPORATE:

Cash after taxes = $150,000 – (20% x 150,000) = $120,000

INCORPORATE AND PAY DIVIDEND:

Company cash after taxes =	$120,000
Less div to net 60k = 60k/80% = 75k	(75,000)
Cash left in company	$45,000
Plus after tax cash for Mr. Rich	$60,000
Total	$105,000

INCORPORATE AND PAY SALARY:

NI before salary		$150,000
Less gross salary to net 60k = 60/60%= 100k		(100,000)
NI		50,000
Corp. Taxes	20%	(10,000)
Cash left in company		$40,000
Plus after tax cash for Mr. Rich		$60,000
Total		$100,000

CONCLUSION: INCORPORATE AND PAY A DIVIDEND BUT……… Salary better for RRSP, But salary costs wage levies….etc…..

We also discussed estate planning advice for part 3 of question

SOLUTION QUESTION 3

Part A - Tax Consequences Of Transfer

With respect to the land, the $220,000 elected value will be both the proceeds of disposition to Ms. Bond and the adjusted cost base to the corporation. As the elected value is equal to Ms. Bond's adjusted cost base, there will be no tax consequences resulting from the transfer.

The elected value and proceeds of disposition for the building is its original cost, an amount that is in excess of its UCC. This will result in Ms. Bond having to report recapture of $105,000 ($730,000 - $625,000). However, with the elected value at Ms. Bond's original cost for the building, both the capital cost and the UCC will be the elected value of $730,000.

Part B - Adjusted Cost Base Of The Consideration

The adjusted cost base of all consideration received by Ms. Bond will be the total elected value of $950,000. It will be allocated as follow:

Total Elected Value	$950,000
Total Non-Share Consideration	
($400,000 Old Debt + $500,000 New Debt)	(900,000)
Adjusted Cost Base Of Common Shares	$ 50,000

Part C - PUC Of The New Shares PLEASE IGNORE THIS PART. CALCULATION OF PUC IS NOT EXAMINABLE

Part D - Sale Of Common Shares

The increase in Net Income For Tax Purposes from a sale of the shares for $650,000 would be as follows:

Proceeds Of Disposition	$650,000
Adjusted Cost Base	(50,000)
Capital Gain	$600,000
Inclusion Rate	1/2
Taxable Capital Gain	$300,000

As Taxable Income consequences are not required, the effect of the lifetime capital gains deduction has not been considered.

Part E - Tax Consequences Of Redemption

The tax consequences of a redemption for $650,000 would be as follows:

Proceeds From Redemption	$650,000
PUC	(50,000)
ITA 84(3) Deemed Dividend (Non-Eligible)	$600,000

SOLUTION QUESTION 4

Part A - Funds Available For Distribution

The taxable capital gains and active business income (recapture) at the corporate level can be calculated as follows:

Asset	**Taxable Capital Gains**	**Active Business Income**
Inventories	Nil	Nil
Taxable Capital Gains:		
On Land [(1/2)($1,243,000 - $623,000)]	$310,000	Nil
On Building [(1/2)($1,173,000 - $775,000)]	199,000	
Recapture On Building ($775,000 - $586,000)		$189,000
Totals	$509,000	$189,000

Taxable Income will be $698,000 ($509,000 + $189,000). Tax Payable on this amount will be calculated as follows:

Federal Tax On Business Income [(11%)($189,000)]	$ 20,790
Federal Tax On Investment Income [(28% + 6-2/3%)($509,000)]	176,453
Part I Tax Payable	$197,243

The balance in the RDTOH is calculated as follows:

Balance Prior To Asset Dispositions	$ 27,000
Addition - The Least Of:	
• [(26-2/3%)($509,000)] = $135,733	135,733
Ending RDTOH	$162,733

The amount available for distribution to the shareholders, after the payment of taxes at the corporate level, can be calculated as follows:

Fair Market Values:	
Inventories	$ 35,000
Land	1,243,000
Building	1,173,000
Gross Proceeds	$2,451,000
Tax Payable	(269,083)
Dividend Refund (Note)	162,733
Funds Available For Distribution	$2,344,650

Note The dividend refund is equal to the balance in the RDTOH account. As will be shown in a subsequent calculation, the taxable dividends paid on the winding-up will be well in excess of the amount required to use the full balance in the RDTOH account.

With respect to the capital dividend account, the final balance is calculated as follows:

Balance Before Dispositions	$215,000
Disposition Of Land	310,000
Disposition Of Building	199,000
Ending Balance	$724,000

Part B - Components Of Distribution

Assuming an election has been made to declare the maximum capital dividend, the taxable dividend component of the total distribution to the shareholders can be calculated as follows:

Distribution To Shareholders	$2,344,650
Paid Up Capital	(447,000)
ITA 84(2) Deemed Dividend	$1,897,650
Capital Dividend (Balance In Account)	(724,000)
Deemed Dividend Subject To Tax (Non-Eligible)	$1,173,650

Part B - Capital Gain

With respect to capital gains, ITA 54 indicates that the proceeds of disposition for purposes of determining any capital gain on the disposition of shares does not include any amount paid out as ITA 84(2) dividends. Given the preceding calculation, the capital gain to the shareholders would be calculated as follows:

Actual Distribution To Shareholders	$2,344,650
ITA 84(2) Deemed Dividend	(1,897,650)
Deemed Proceeds Of Disposition	$ 447,000
Adjusted Cost Base For Shares	(447,000)
Capital Gain	Nil