QUESTION 1

Fuzon Ltd. is a Canadian controlled private corporation. It has been in operation for several years and has a December 31 year end.

For the taxation year ending December 31, 2014, its Net Income For Tax Purposes was made up of the following components:

Active Business Income	$423,400
Dividends From Canadian Corporations:	
Wholly-Owned Subsidiary (All Non-Eligible)	223,600
Portfolio Investments (All Eligible)	101,400
Canadian Source Interest	48,300
Taxable Capital Gains [(1/2)($223,500)]	111,750
Net Income For Tax Purposes	$908,450

Dividends paid to Fuzon Ltd. by the wholly-owned subsidiary during 2014 did not result in a dividend refund.

The wholly-owned subsidiary has been allocated one-half of the annual business limit for the small business deduction, with the remainder to be used by Fuzon.

On September 4, 2014, Fuzon paid taxable dividends to its shareholders in the amount of $65,600.

As of the end of the 2013 taxation year, Fuzon had a Refundable Dividend Tax On Hand balance of $39,400. During 2013, Fuzon Ltd. paid no dividends.

Required: For Fuzon's 2014 taxation year, calculate the following items:

A. Federal Part I Tax Payable.

B. Part IV Tax Payable.

C. The balance in the Refundable Dividend Tax On Hand account on December 31, 2014.

D. The dividend refund, if any.

E. Federal Tax Payable (net of any dividend refund).

Show all of the calculations used to provide the required information, including those for which the result is nil.

QUESTION 2

Mr. Rich is a self-employed businessman currently earning $150,000. He is thinking of incorporating his company. He has a wife and 2 kids ages 18 and 15. His wife has no income for the year. The family needs $60,000 of cash after taxes to live comfortably. He is also worried about his family finances if anything was to happen to him. His company has about $1m market value of assets with a cost base of $100,000.

Assume the following tax rates:

Corporation 20%

Individual: Salary 40%, Dividends 25%

Required:

1. Should Mr. Rich incorporate his company. Show him with $$$$$ analysis

2. If he does, should he take a salary or a dividend.

3. What other issues should he consider re:

    Incorporation

    Salary or dividends

    His family's future

QUESTION 3

Several years ago, Ms. Katrina Bond acquired a business location that included land and a building for a total of $950,000. At the time, it was estimated that the value of the land was $220,000 and the value of the building was $730,000.

Ms. Bond operated the business for several years as a sole proprietorship and, during this period, she took CCA on the building. As there were years in which she experienced losses, she did not always take the maximum amount of CCA.

Ms. Bond has finally agreed to take your advice and incorporate the business. She will use ITA 85(1) to transfer the land and building to the new corporation. At the time of the transfer, the building had a UCC of $625,000. Other relevant values were as follows:

Asset	**Tax Cost**	**Appraised Value**	**Elected Amount**
Land	$220,000	$ 510,000	$220,000
Building	625,000	980,000	730,000
Total	$845,000	$1,490,000	$950,000

There is a $400,000 mortgage on the land and building that will be assumed by the new corporation. In addition, the new corporation will issue $500,000 in new debt to Ms. Bond. The remaining consideration will be in the form of common shares with a fair market value of $590,000.

Required:

A. What are the tax consequences of making this transfer at the elected value of $950,000? Your answer should include amounts to be included in Ms. Bond's income as a result of the transfer, as well as the corporation's tax values for the assets.

B. Compute the adjusted cost base of each component of the consideration that Ms. Bond has received from the corporation.

C. Compute the Paid up capital of the corporation's newly issued common shares.

D. What amounts would be included in Ms. Bond's Net Income For Tax Purposes if, at a later point in time, she sells her common shares for $650,000?

E. What amounts would be included in Ms. Bond's Net Income For Tax Purposes if, at a later point in time, the corporation redeems her common shares for $650,000?

QUESTION 4

Kruger Ltd. is a Canadian controlled private corporation that has been in operation for over ten years. Due to increased competition and an inability to adapt to the rapidly changing technological advancements in the industry, it appears unlikely that Kruger Ltd. will be able to earn a satisfactory return on its invested capital in the future. As a consequence, the shareholders have agreed to a liquidation of the Company.

In contemplation of this liquidation, a Balance Sheet has been prepared based on the tax values of its assets and liabilities as at January 1, 2014, the end of the Company's taxation year. This Balance Sheet, after all closing entries, is as follows:

Kruger Ltd.
Balance Sheet
As At January 1, 2014

Inventories (Net Realizable Value And Tax Cost)	$ 35,000
Refundable Dividend Tax On Hand	27,000
Land - Adjusted Cost Base	623,000
Building - Undepreciated Capital Cost	586,000
Total Assets	$1,271,000
Liabilities	Nil
Paid Up Capital	$ 447,000
Capital Dividend Account	215,000
Other Income Retained	609,000
Total Equities	$1,271,000

Other Information:

1. The current fair market value of the Land is $1,243,000.
2. The Building had an capital cost of $775,000. Its fair market value on January 1, 2014 is $1,173,000.
3. The adjusted cost base of the common shares is equal to $447,000, their paid up capital.
4. All of the assets are disposed of on January 1, 2014 at their fair market values. The after tax proceeds are distributed to shareholders on January 20, 2014.

Required:

USING THE APPROPRIATE FEDERAL CORPORATION INCOME TAX RATES THAT YOU HAVE LEARNT IN THIS COURSE:

A. Calculate the amount that will be available for distribution to the shareholders after the liquidation.

B. Determine the components of the distribution to the shareholders, and the amount of taxable capital gains that will accrue to the shareholders as a result of the winding-up of Kruger Ltd. Assume that appropriate elections or designations will be made to minimize the taxes that will be paid by the shareholders.