Example

Building ACB = $1,000,000

After time UCC = $600,000

Proceeds = $2,000,000

Tax Consequence:

* Recapture Depreciation: $400,000 Taxable Income
* Capital Gain $2M-$1M = $1M; $500k taxable (Taxable Capital Gain TCG)

Need to add $900,000 to income

Other case: Terminal Loss when proceeds < Original Cost

Equipemnt:

* ACB: $100,000
* UCC: $ 40,000
* Proceeds: $20,000

Terminal Loss: Proceeds-UCC = deduction

Loss on sale of depreciated asset is not allowed.

Never a capital loss on the sale of a depreciable asset

Sale of non-depreciable asset – ex:land

CCA = Capital Cost Allowance = Depreciation for Tax

[UCC for tax = Un-Depreciated Capital Cost - Net Book value depreciated amount]

CDA Account: Company sells an asset, half is capital gain the other half goes in Capital Dividend Account. At any point, money in CDA can be distributed to shareholders tax free – no tax consequence to shareholders. If company sell and gets a loss, depletes CDA therefore better to pay it out as soon as there is a balance. Only applies to provate companies, not public.

**Q1**

Mr. Haddit. is the sole shareholder of Fedup Ltd. He has had it with Fedup and wants to

retire.

A sale of the assets of Fedup Ltd. took place on January 2, 2015. The assets and liabilities of

Fedup Ltd. at that time were as follows:

Fair Market Value

Inventory (cost $200,000) $300,000

Accounts receivable (face value $500,000) 450,000

Equipment (cost $100,000; UCC $70,000) 30,000

[terminal loss]

Land (cost $400,000) 700,000

Building (cost $300,000; UCC $230,000) 500,000 Recapture $70k; cap gain $200/2 in CDA

Goodwill (cost $0; CEC $0) 100,000

Liabilities 6,000

An examination of the corporate tax return for the year ended December 31, 2014 showed the following:

* Fedup Ltd. is a Canadian-controlled private corporation.
* The Paid-up capital (Capital stock) of the corporation is $10,000.
* The corporation has a Capital dividend account balance of $20,000 and a balance in its refundable dividend tax on hand (RDTOH) account of $9,000.

Determine the amount available for distribution to the shareholder after the sale of the assets

and the after tax cash available to Mr.Haddit

Please note that Mr. Haddit has utilized $200,000 of his lifetime CGD lifetime limit.

**Assume the following combined federal and provincial tax rates**

**(including all applicable tax credits):**

Corporation:

* Active Business eligible for SBD 20%
* Active Business not eligible for SBD 40%
* Investment income 46 2/3 %
* RDTOH rate 26 2/3%

Individual:

* 50% for income other than dividends
* 35% on eligible dividends
* 40% on non-eligible dividends

Q1-Answer

RDTOH: When a company has passive income, goes in the RDTOH account. Refunded when payed in dividend



RDTOH had opening balance $9,000

Addition of 26 2/3% of investment income, fully refundable.

Investment income is $250,000, add $66,667, making a total of $75,667



Dividend refund: lesser of:

1/3 Taxable dividend paid (1/3 of M+)

Ending RDTOH Balance ($75,667) <- (WILL ALWAYS BE LESS ON AN EXAM)



Tax consequence for shareholder



Possible capital gain for shareholder: Since company is redeeming your shares (can happen when many shareholders at different ACB; since distribution is even some SHs can get capital gains)

Cash available from company – dividend – ACB

$2,007,000 - $1,997,000-$10,000 = $0

Non eligible Dividend since a private company (Public companies are eligible)

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Q2 From Chapter 19 P5

[Screwed up rollover that results in tax consequences – max cash you can ake on a rollover is cost]

Robert Blackwell owns 100% of the outstanding shares of Black Inc., a qualified small business corporation. The shares have a paid-up capital (PUC) and an adjusted cost base of $50,000 and a fair market value of $1,000,000. In order to make full use of his lifetime capital gains exemption, Robert uses Section 85 of the *Income Tax Act* to transfer these shares to Holdings

Ltd. at an elected value of $850,000.As consideration he receives a note for $700,000 and preferred shares with a fair market value and a legal stated capital of $300,000. Robert owns all of the shares of Holdings Ltd.

**Required:** What are the tax consequences of this transaction for Robert