

GROUP 4 PRESENTATION

MARCH 26, 2015

FOUR GUYS

Four Guys is a partnership that operates a smallwares wholesale firm. The partners are Yusuf Traders Ltd., Simon Tours Inc., Raphael Real Estate Ltd., and Jonathan Jigalo Inc. They share profits equally.

The partnership net business income for tax purposes of \$620,000 before a \$94,000 optional deduction of CCA (Tax depreciation) for its year ended December 31, 2014.

Yusuf Traders Ltd. is a Canadian-controlled private corporation owned by Mr. Yusuf. The company operates an import/export business and earns trading commissions from a wide range of customers. For years, it has earned a modest profit (\$30,000 last year, after a reasonable salary to Yusuf). However, his years of hard work and world travelling, establishing international contacts have finally paid off, and he expects this year's profits to be \$250,000 and future years' profits to continue at least at this level.

Simon Tours Inc. is owned by Mr. Simon. The company has suffered major losses over the past years even after earnings have been allocated from the partnership, because Simon was off climbing mountains around the world. Currently, the company has unused non-capital losses of \$600,000, of which \$300,000 will expire in two years. The company appears to have its losses under control and is not in serious financial difficulty, although cash flow has been tight.

The partnership has been seeking to acquire a new warehouse building. Coincidentally, Raphael (the shareholder of Raphael Inc.) personally owns a warehouse property, which will be vacated by its tenant in six months. The property has appreciated in value and is worth \$80,000 more than its original cost. He is willing to sell the property to the partnership, as he could use the cash to strengthen Raphael Inc. However, he needs all the cash he can get and is not anxious to pay tax on the sale.

Jonathan Jigalo Inc. is owned by Jonathan. The company runs a website for unemployed men seeking any kind of work. Jonathan has amassed a fortune from flow throughs from the partnership and from his website fees and royalties. He expects this growth in his wealth to continue and really want to ensure that the fortune he amassed is there for the next generation. He is now 45 years old, married with an 18 year old and a 10 year old child.

The partnership and the 4 partners have December 31 fiscal year ends.

FOR ANY TAX ANALYSIS USE THE FOLLOWING TAX RATES:

CORPORATION (COMBINED FEDERAL AND PROVINCIAL):

20% on active business income eligible for the Small Business Deduction

37% on active business income not eligible for the Small business Deduction

PERSONAL TAX RATES (COMBINED FEDERAL AND PROVINCIAL):

50% for Yusuf, Raphael and Jonathan

25% for Simon

Required:

1. Determine the minimum and maximum business income for tax purposes that might be earned by the partnership (Four Guy) for the current year and allocated to the partners.
2. Which amount of income from the partnership would Yusuf Traders and Simon Tours prefer? Explain.
3. Estimate the tax liability of Yusuf Traders for the current year.
4. If you owned Yusuf Traders, would you recommend that Four Guys be incorporated? Explain.
5. How would the incorporation of the partnership affect Simon Tours Inc.?
6. What can Raphael do to avoid tax on the sale of the warehouse property to the partnership and generate the maximum amount of cash to help Raphael Real Estate Inc.?
7. Suggest some estate planning opportunities for Jonathan to consider. He wants to make sure that his assets are protected and that his kids' future is financially secure.