

**QUESTION 1 - Purification - 20 marks**

**Incorporation and organization of Newco**

Newco should be incorporated under ABCA	1	_____
Newco should have a class of common shares and a class of rollover preferred shares	1	_____
Newco will not be a professional corporation	1	_____
Nancy will subscribe for 1 common share of Newco	1	_____
Other		_____

**Rollover of 40 Class A Shares of PC by Nancy to Newco**

Nancy will transfer 40 Class A Shares of PC to Newco	1	_____
As consideration, Newco will issue 99 common shares to Nancy	1	_____
Rollover agreement should have a price-adjustment clause	1	_____
To avoid s.84.1(1), Newco will add \$40 to stated capital account for common shares	1	_____
Nancy and Newco will make a joint election under s.85(1)	1	_____
The agreed amount will be \$40	1	_____
Other		_____

**Rollover of marketable securities by PC to Newco**

PC will transfer the securities to Newco	1	_____
As consideration, Newco will issue preferred shares to PC	1	_____
Shares will be redeemable retractable fixed-value preferred shares with redemption price equal to FMV of securities (i.e., \$200,000)	1	_____
Rollover agreement and articles should have price-adjustment clauses	1	_____
To avoid s. 85(2.1), Newco will add a nominal amount to stated capital account for preferred shares	1	_____
PC and Newco will make a joint election under s.85(1)	1	_____
Agreed amount will equal ACB of marketable securities	1	_____
Other		_____

**Cross redemption/repurchase of shares and set-off**

PC will purchase and cancel 40 Class A Shares held by Newco	1	_____
PC will issue a promissory note for \$200,000 to Newco	1	_____
Newco will redeem preferred shares held by PC	1	_____
Newco will issue a promissory note for \$200,000 to PC	1	_____
The promissory notes will be set off against one another	1	_____
Other		_____

**Conclusion**

Nancy will own 60 Class A Shares of PC	½	_____
PC will own medical practice and related assets	½	_____
Nancy will own all the issued shares of Newco	½	_____
Newco will own marketable securities	½	_____
Other		_____

**QUESTION 2 - Partial Internal Estate Freeze - 20 marks**

**Selection of plan**

Recommendation: partial estate freeze using a s.86 reorganization of capital	1	_____
s.86(1): There must be a reorganization of capital; this can be achieved by amending CWI's articles	1	_____
s.86(1): Paul must hold his CWI shares as capital property	1	_____
s.86(1): Paul must dispose of all his CWI shares	1	_____
s.86(1): Paul must receive other shares of CWI	1	_____
s.86(1): There is no required election	1	_____
Other		_____

**Amendment of CWI's articles**

CWI must amend articles to create freeze shares	1	_____
Freeze shares should be redeemable retractable fixed-value preferred shares with redemption price equal to FMV of Class A Shares (i.e., \$10,000,000)	1	_____
The articles of amendment should change Paul's Class A Shares into preferred shares	1	_____

s.86(2): FMV of preferred shares should not be less than FMV of Class A Shares	1	_____
s.15(1): FMV of preferred shares should not exceed FMV of Class A Shares	1	_____
Articles should have a price-adjustment clause	1	_____
s.86(2.1): PUC of preferred shares should not exceed PUC of Class A Shares	1	_____
Other		_____

**Subscription for new common shares**

Tom should subscribe for 50% of new common shares at nominal price	1	_____
Paul should subscribe for 50% of new common shares at nominal price	1	_____
To avoid argument that Paul has not disposed of all his Class A Shares, CWI should create a new class of voting common shares, for which Paul should subscribe	1	_____
Alternatively, Paul could subscribe for more than 1,000 new Class A Shares	1	_____
Due to s.51(1), this may not be a major concern	1	_____
Other		_____

**Maintenance of voting control**

CWI should create a new class of non-voting common shares for which Tom would subscribe	1	_____
Or CWI should create a class of voting non-participating shares for which Paul would subscribe	1	_____
Other		_____

**Conclusion**

Technical precision	1	_____
Clarity of plan description	1	_____
Other		_____

**QUESTION 3 - Types of Trusts - 30 marks**

**(a) Testamentary spousal trust (11 marks)**

Colleen should create a testamentary spousal trust	1	_____
s.70(6)(b) provides for a testamentary spousal trust	1	_____
Colleen must be a resident of Canada	1	_____
Hotel must be a capital property	1	_____
Hotel must be transferred to trust as a consequence of Colleen's death	1	_____
Trust must be created by Colleen's will	1	_____
Trust must be resident in Canada	1	_____
Hotel must vest indefeasibly in trust	1	_____
Indefeasible vesting must be shown within 36 months of Colleen's death	1	_____
Ralph must be entitled to receive all of the income of the trust before his death	1	_____
No person except Ralph may, before his death, receive or obtain the use of any income or capital of the trust	1	_____
Other		_____

**(b) Bare trust (4 marks)**

Sam should create an agency and bare trust relationship	1	_____
s.104(1) states that, for most purposes of the ITA, "trust" does not include an agency/bare trust	1	_____
There must be an arrangement under which the trust acts as agent for all the beneficiaries with respect to all dealings with all of the trust's property	2	_____
Other		_____

**(c) MINOR TRUST (7 MARKS)**

- Zeke should use a minor trust (a trust for minors) 1 \_\_\_\_\_
- s.104(18) provides for a minor trust 1 \_\_\_\_\_
- Trust must be resident in Canada 1 \_\_\_\_\_
- The income of the trust must not be payable in the year 1 \_\_\_\_\_
- The income must be held in trust for an individual 1 \_\_\_\_\_
- who is under 21 years of age
- The right to the income must have vested otherwise than 1 \_\_\_\_\_
- because of the exercise of, or failure to exercise, a 1 \_\_\_\_\_
- discretionary power
- The right to the income must not be subject to any 1 \_\_\_\_\_
- future condition (other than a condition that the 1 \_\_\_\_\_
- individual live to an age not exceeding 40 years)

Other \_\_\_\_\_

**(d) Alter ego trust (8 marks)**

- Hilda should use an *alter ego* trust 1 \_\_\_\_\_
- s.248(1) and s.104(4)(a)(ii.1) & (iv)(A) provide 1 \_\_\_\_\_
- for an *alter ego* trust
- Trust must not make election under s.104(4)(a)(ii.1) 1 \_\_\_\_\_
- Trust must be created after 1999 1 \_\_\_\_\_
- Trust must be created during Hilda's lifetime 1 \_\_\_\_\_
- Hilda must be 65 years of age or older when the trust is created 1 \_\_\_\_\_
- Hilda must be entitled to receive all of the income 1 \_\_\_\_\_
- of the trust before her death
- No person except Hilda may, before her death, receive 1 \_\_\_\_\_
- or obtain the use of any income or capital of the trust

Other \_\_\_\_\_

**QUESTION 4 - Rollover/attribution- 20 marks**

**(a) s.85 Rollover (10 marks)**

- Hank should use a s.85(1) rollover 1 \_\_\_\_\_
- Holdco should make and deliver to Hank a promissory 1 \_\_\_\_\_
- note with a principal amount of \$80,000
- s.85(1)(e.2): FMV of Pubco Shares should not be 2 \_\_\_\_\_
- more than principal amount of promissory note
- and FMV of shares issued by Holdco to Hank
- \ Holdco should issue to Hank redeemable 2 \_\_\_\_\_
- retractable fixed-value preferred shares with
- redemption price of \$20,000
- Rollover agreement and articles should have price- 1 \_\_\_\_\_
- adjustment clauses
- s.85(1): Hank and Holdco should file joint 1 \_\_\_\_\_
- election (Form T2057)
- Agreed amount should be ACB of Pubco Shares 1 \_\_\_\_\_
- (i.e., \$80,000)
- s.85(1)(a): Agreed amount will be Hank's proceeds 2 \_\_\_\_\_
- of disposition and Holdco's cost of Pubco Shares
- s.85(2.1): PUC of preferred shares should be nominal 1 \_\_\_\_\_

Other \_\_\_\_\_

**(b) Corporate attribution rule (10 marks)**

- Concern: corporate attribution rule in s.74.4(2) 1 \_\_\_\_\_
- s.74.4(2)(a): attribution will cease to apply when 1 \_\_\_\_\_
- Jill and Bill attain 18 years of age
- s.74.4(2)(b): attribution will cease to apply if 1 \_\_\_\_\_
- Hank becomes a non-resident
- s.74.4(2)(e): Hank's income inclusion will be reduced by any 1 \_\_\_\_\_
- interest paid by Holdco to Hank on promissory note
- s.74.4(2)(f): Hank's income inclusion will be reduced by 5/4 1 \_\_\_\_\_
- of any dividends paid by Holdco to Hank on preferred shares

- s.74.4(2)(g): Hank's income inclusion will be reduced 1 \_\_\_\_\_
- by any dividends paid by Holdco to Jill and Bill and 1 \_\_\_\_\_
- included in their split income
- s.74.4(4): attribution will be avoided if: 1 \_\_\_\_\_
- (a) a trust is created to hold shares of Holdco for Jill and Bill 1 \_\_\_\_\_
- (b) by terms of trust, Jill and Bill may not receive 1 \_\_\_\_\_
- any income or capital of trust while under age 18
- (c) Jill and Bill do not receive any income or capital of the 1 \_\_\_\_\_
- trust and the trust does not deduct, in computing its 1 \_\_\_\_\_
- income, any amount paid or payable to Jill and Bill

Other \_\_\_\_\_

**QUESTION 5 - RPP/RRSP Comparison & Contrast - 10 Marks Comparison**

- Both are intended to provide a retirement income 1 \_\_\_\_\_
- Both are registered with CCRA 1 \_\_\_\_\_
- Contributions to both are deductible within limits 1 \_\_\_\_\_
- Income accrues in both on a tax-deferred basis 1 \_\_\_\_\_
- Benefits paid out of both are taxable 1 \_\_\_\_\_

Other \_\_\_\_\_

**Contrast**

- RPP is generally set up by employer for employees; 1 \_\_\_\_\_
- RRSP may be used by any taxpayer
- RPP is administered by employer; 1 \_\_\_\_\_
- RRSP is generally self-administered or managed

Other \_\_\_\_\_

**Future income splitting**

- s.146(5.1): taxpayer may deduct spousal RRSP contribution 1 \_\_\_\_\_
- s.146(8): a benefit received by a spouse from a 1 \_\_\_\_\_
- spousal RRSP is included in the spouse's income
- s.74.5(12)(a): attribution does not apply to a 1 \_\_\_\_\_
- premium under a spousal RRSP

Other \_\_\_\_\_

**Pitfall**

- s.146(8.3): if spouse receives benefit from spousal RRSP in 2 \_\_\_\_\_
- the year the premium was contributed by the taxpayer or in 2 \_\_\_\_\_
- the following two years, the benefit is included in the 2 \_\_\_\_\_
- contributor's income

Other \_\_\_\_\_

Student: \_\_\_\_\_

<u>Question</u>	<u>Marks</u>
1	_____
2	_____
3	_____
4	_____
5	_____
<b>TOTAL</b>	_____
<b>GRADE</b>	_____