

Tax Planning: VERTICAL AMALGAMATION (SECTION 87) VS. WINDING-UP (SECTION 88)

Which is the better option?

Here are some factors you should consider before making the decision:

Factors	
Ownership	<p>A vertical amalgamation under Section 87 is possible only if parent owns 100% of the shares.</p> <p>Under Section 88, Parent has to own $\geq 90\%$ of each class of shares</p>
Loss Utilization Timing	<p>Under an amalgamation, although there is a deemed year end, the losses of the subsidiary can be used by the parent immediately</p> <p>Under a wind-up, the parent needs to wait one taxation year</p>
Capital Cost Allowance	<p>In an amalgamation, there is a deemed year end which may reduce the amount of CCA taken</p> <p>However, under a wind-up, because the assets are disposed to the parent @ UCC, the balance before CCA will be NIL, and no CCA will be taken. CCA will be claimed by the parent after the transfer</p> <p>Therefore, consider the timing of when the rollover would be done and how much CCA you can take under both alternatives.</p> <p>For example, if the year-end of both predecessor corporations is December 31, and the restructuring took place on December 31. Under Section 87 CCA will be taken and under Section 88 no CCA will be taken for the year.</p>
Cost	<p>Generally because winding-up procedures need to be followed and the subsidiary needs to be dissolved, it costs more wind-up a corporation (i.e. section 88)</p>