

memo

Date: September 21, 2016
To: John Doe
From: Allan Madan, CPA, CA
Subject: US Reorganization

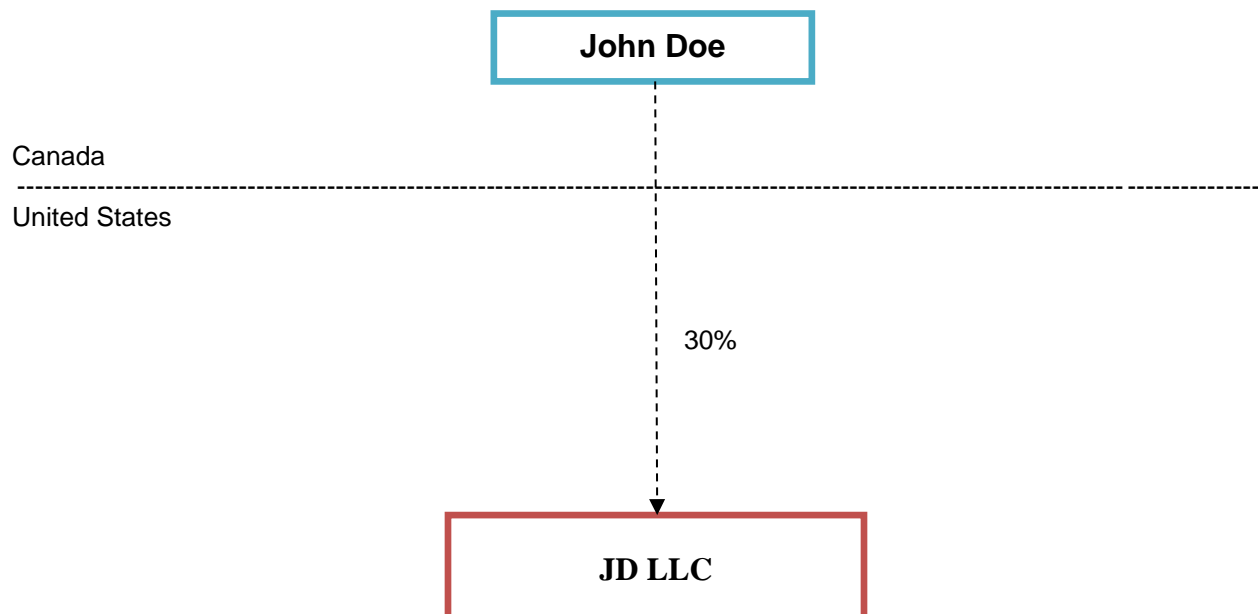
The purpose of this memorandum is to outline the reorganization of your US business structure in order to eliminate double taxation between Canada and the US.

Facts

- John Doe owns 30% of JD LLC which is a US Limited Liability Company.
- JD LLC provides custom matting and framing solution in the State of Georgia.
- John Doe is a resident of Canada

Initial investment set up

Prior to the reorganization, John Doe owned 30% of JD LLC.



After the structure above was established, it was determined that the structure would result in double taxation between Canada and the United States for the following reasons:

- The United States recognizes JD LLC as a partnership. Thus, business income from this LLC will be taxed on an individual level (i.e. on the US personal tax return of John Doe)
- Canada recognizes JD LLC as a foreign corporation. Thus, any cash or in kind distributions made by JD LLC to John Doe will be treated as a foreign dividend taxable to John Doe. The mismatch of income types between the two countries results in double taxation.

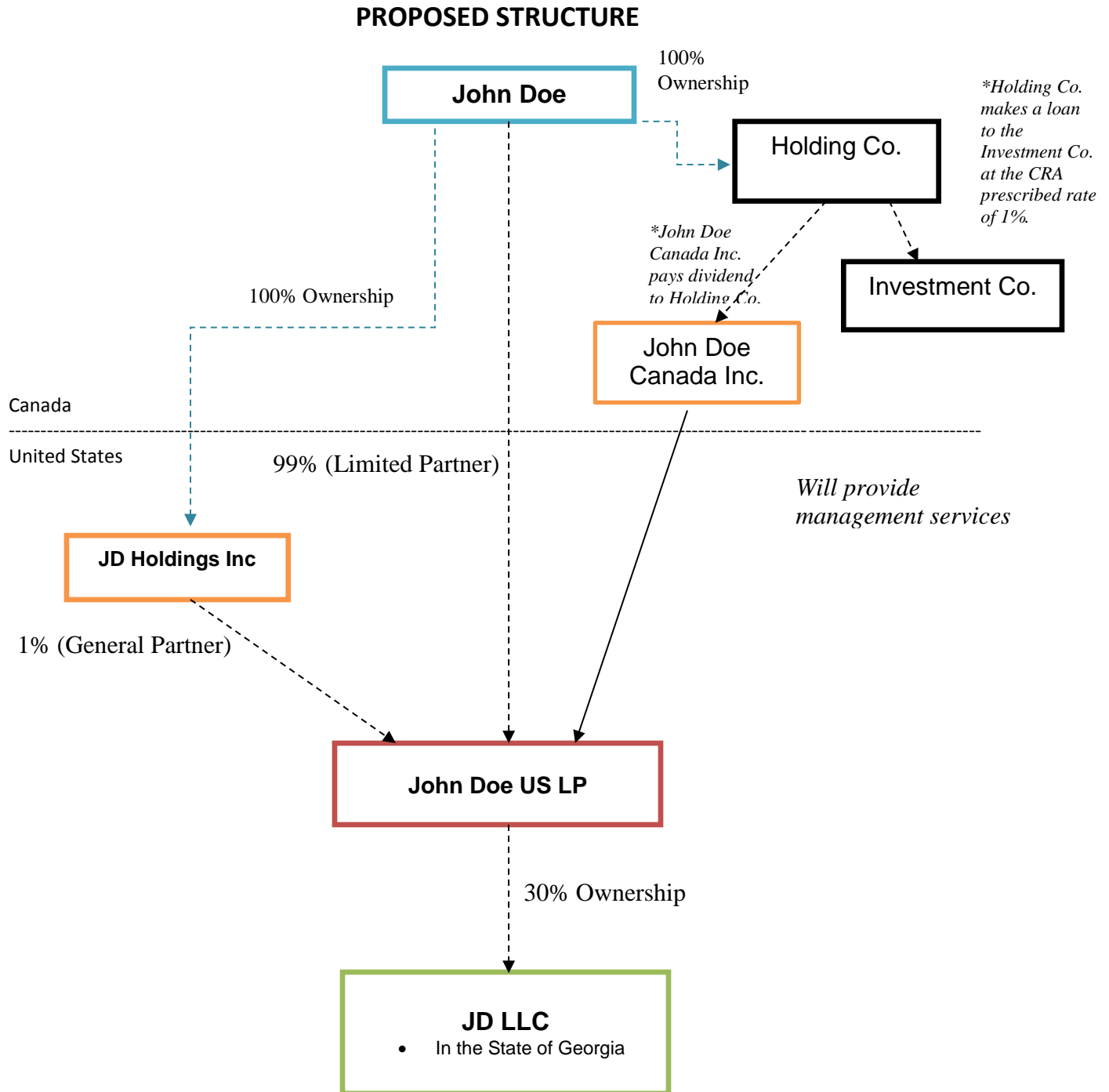
In order to avoid double taxation, we recommend that John transfer his ownership in JD LLC to a newly formed US Limited Partnership (hereinafter called 'John Doe US LP'). This entity is recognized under both the United States and Canada as a partnership and as such, the business income/expense will flow through to Joe under both countries' tax laws.

As partnership by nature requires at minimum, two partners, we recommend incorporating a US C-Corporation that will act as a general partner of the partnership. A general partner is the partner that actively manages the affairs of the partnership and is fully liable for the risk of the partnership.

Structural Relationships

1. The structure consists of six distinct legal entities in addition to John (see Figure 1 for a schematic diagram):
 - a. John Doe US LP to hold 30% ownership in JD LLC
 - b. The JD LLC which will retain ownership of its respective business assets
 - c. JD Holdings Inc., a Georgia C-Corporation, is the general partner.
 - d. John Doe Canada Inc. is a Canadian corporation and will render management services to JD LLC.
 - e. The Holding Co. is the sole shareholder of John Doe Canada Inc.
 - f. The Holding Co. is the Canadian holding company owned solely by John Doe.
 - g. Investment Co. is the Canadian Investment Company.
 - h. John Doe is a limited partner of John Doe U.S. LP

Figure 1: Structure of the Cross Border Limited Partnership



2. John Doe US LP shall purchase John's membership interest in JD LLC.
3. JD Holdings Inc. is the general partner in John Doe US LP, and has exclusive control over the structure. JD Holdings Inc. is the entity that would sign agreements, or conduct other transactions on behalf of the partnership.
4. The director of JD Holdings Inc. is John Doe. As such, John will sign all documents related to the John Doe US LP in his capacity as the director of JD Holdings Inc.
5. The limited partner in John Doe US LP is John Doe. This is a passive investment interest, and the limited partner has no ability to participate in the management of John Doe US LP.
6. The partnership income from John Doe US LP is to be allocated between JD Holdings Inc (general partner) and John based on the partnership interests that each holds as per below:

Name of the entity	Percentage interest in the partnership
JD Holdings Inc	1%
John Doe	99%

Canadian Management Company

7. To minimize overall taxation, we recommend that a Canadian corporation be formed (John Doe Canada Inc. is the Canadian corporation). John Doe Canada Inc. shall charge reasonable management fees to John Doe US LP for rendering management services. This will allow John to take advantage of the Canadian small business corporation tax rate of 15% compared to the high individual tax rate, which could exceed 53%.
8. The fees charged will be for performing various duties including (but not limited to): providing overall management direction for the operation, bookkeeping and other record maintenance duties, hiring contractors, corresponding with lawyers, accountants, etc. The fees charged must be reasonable and be comparable to typical fees charged by third party management companies.

Annual Non-Tax Filings

9. John Doe US LP, JD Holdings Inc. and John Doe Canada Inc. have annual filing requirements in the State of Georgia. Furthermore, you must obtain a registered agent for each of these entities. It is very important to do this by the filing deadline to keep your entities active under local law, and avoid late filing penalties. Please consult a US legal professional for filing of the appropriate forms.

Annual US Tax Reporting

10. John Doe US LP shall report its share (30%) of the income earned from JD LLC on IRS Form 1065. Specifically, JD LLC shall issue a K1 (partnership income) slip to John Doe US LP. Form 1065 is an information return, which is used to calculate the income that passes through to the partners to report and pay tax on.
11. JD Holdings Inc. will report its percentage (1%) of the partnership's income/loss on Form 1120.

12. John being a non-US resident partner shall provide John Doe US LP with a form W-8ECI as soon as possible to establish that he is a non US resident for the purposes of section 1446.
13. John will file Form 1040NR (“U.S. Nonresident Alien Income Tax Return”), to report US-source income to the IRS.
14. The deadline for the filing requirements are as follows:

Entity	Form - Jurisdiction	Deadline
John Doe US LP	Form 1065 – Federal	March 15
	From 700-Georgia State Partnership Return	March 15
JD Holdings Inc	Form 1120 – Federal	April 15
	From 600-Georgia State Corporate Tax Return	April 15
John Doe	Form 1040NR	June 15
	T1 Personal Tax Return	April 30
John Doe Canada Inc.	Canadian Corporate Tax Return	June 30

15. Extensions are available for the tax reporting forms above. If you do not expect to have the financial information prepared by the deadline, please inform your accountant.

Withholding tax requirement

16. Section 1446 of the Internal Revenue Code requires John Doe US LP to withhold tax on the income allocable to John as non US resident partner. This withholding tax (39.6% of the partnership’s income) will be remitted quarterly to the IRS on behalf of the foreign partners from whom it was withheld. The quarterly payment due dates are 15th day of April, June, September, and December. Form 8813 must be submitted along with the payment.
17. John Doe US LP will prepare Form 8804 (“Annual Return for Partnership Withholding Tax [Section 1446]”) to report total taxes withheld in the US. This form is due by 15th day of the 3rd month following the year end (i.e. March 15).

Holding Co. and Investment Co.

18. The 100 common shares of the Holding Co. will be owned solely by John Doe. The Holding Co. will also be the sole owner of 100 common shares in the capital stock of John Doe Canada Inc.
19. Periodically, John Doe Canada Inc. will pay a dividend to the Holding Co. to protect the retained earnings of John Doe Canada Inc. from potential creditors.
20. The 100 common shares of the Investment Co. will also be owned by the Holding Co.
21. The Holding Co. will make a loan to the Investment Co. at the CRA’s prescribed interest rate of 1% per annum. The Investment Co. will reinvest the loan proceeds into income producing assets. We recommend that the Holding Co. secure this loan by a general securities agreement with the Investment Co.

Other matters

22. The following are our fees for the tax return preparations:

Entity	Form - Jurisdiction	Fees
John Doe US LP	Form 1065 – Federal	\$1,000 - \$1,500
	From 700-Georgia State Partnership Return	
JD Holdings Inc	Form 1120 – Federal	\$400 - \$500
	From 600-Georgia State Corporate Tax Return	
John Doe	Form 1040NR	\$250 - \$300 per individual
	Canadian Personal Tax Return	\$200
	T-Slips	\$100 for first slip and \$50 for each additional slip
John Doe Canada Inc.	Canadian Corporate Tax Return	\$900
Investment Co.	Canadian Corporate Tax Return	\$500-750
Holding Co.	Canadian Corporate Tax Return	\$350
	HST Return	\$150 per return

Sincerely,

Allan Madan, CPA, CA
Madan Chartered Accountant

US Federal Tax Advice

23. To the extent that we may be called upon by you to provide U.S. tax advice, please note that the United States Treasury Department has issued certain Regulations governing our ability to render written advice on federal tax issues, which includes the federal tax treatment of an item of income, gain, loss, deduction or credit, the existence or absence of a taxable transfer of property, or the value of property for federal tax purposes. During the course of our representation of you, we may provide you from time to time with written advice regarding federal tax issues. This written advice may include letters, e-mails, or memoranda. Please note that as a result of such Regulations, any written advice provided to you may not be used or relied upon by you for the purpose of (i) avoiding tax-related penalties that may be imposed by the Internal Revenue Service, or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein, unless the author of such advice should specifically provide in writing that it is intended to be a 'reliance opinion' or a 'covered opinion' as such terms are defined under applicable Treasury Regulations.