



October 13, 2026

Income Tax Rulings Directorate
Legislative Policy and Regulatory Affairs Branch
Canada Revenue Agency
[Address of the Income Tax Rulings Directorate per the current version of IC70-6]

Re: Advance income tax ruling request - proposed reorganization of the capital of Pacific Crest Millwork Ltd (estate freeze) - subsections 86(1), 86(2), 15(1), section 74.4 and section 245

Dear Sirs/Mesdames,

1. Taxpayers and authorized representative

We act for the taxpayers named below and submit this request for an advance income tax ruling on their behalf as their authorized representative. A signed authorization in respect of each taxpayer is enclosed. All correspondence in respect of this request should be directed to the undersigned at the address shown on this letterhead.

Taxpayer	Identification	Tax services office / tax centre
Pacific Crest Millwork Ltd (the "Corporation")	Business Number [BN], incorporated in 1996, head office in Vancouver, British Columbia, mailing address [address]	[TSO] / [tax centre]
Mr C (the "Freezor")	Social insurance number [SIN], date of birth [date], mailing address [address]	[TSO] / [tax centre]
The [Name] Family Trust (the "Trust")	To be settled; trust account number to be obtained, trustees [names], mailing address [address]	[TSO] / [tax centre]

The Corporation's taxation year end is [date]. The Trust has not yet been settled and will have a December 31 taxation year end. To our knowledge none of the taxpayers has previously requested a ruling on the issues raised in this request.

2. Statutory provisions on which rulings are requested

Rulings are requested in respect of the following provisions of the Income Tax Act, RSC 1985, c 1 (5th Supp) (the "Act"). All statutory references in this letter are to the Act unless otherwise stated.

- Subsections 86(1), 86(2), 86(2.1) and 86(3), being the reorganization of capital rules relied upon for the proposed share exchange.
- Subsection 15(1), being the shareholder benefit rule, in respect of the subscription by the Trust for new common shares.
- Section 74.4, being the corporate attribution rule, including paragraph 74.4(2)(c) and subsection 74.4(4), read with subsection 74.5(9).

- Section 245, being the general anti-avoidance rule.

3. Facts

1. The Corporation was incorporated in 1996 by the Freezor and has since carried on a custom millwork business from premises in Vancouver, British Columbia. 2. The Corporation is a Canadian-controlled private corporation and, to the best of the taxpayers' knowledge, has been one at all material times. 3. The Corporation's taxable income is approximately \$1,400,000 per annum.
4. The fair market value of the issued shares of the Corporation is approximately \$9,000,000, as stated by the Freezor and to be supported by the independent valuation referred to in paragraph 8 below.
5. The authorized and issued capital of the Corporation is presently [description of authorized classes], of which [number] common shares are issued and outstanding, all of which are owned by the Freezor. 6. The adjusted cost base to the Freezor of those common shares is \$[ACB] and their paid-up capital is \$[PUC]. These amounts are not yet confirmed and will be provided before the ruling is issued.
7. The Freezor holds the common shares as capital property and not as inventory or on income account; supporting representations are addressed in the firm's notes below. 8. An independent valuation of the common shares as at [date] has been commissioned from [valuator] and will be filed in support of this request.
9. The Freezor was born on [date] and is 64 years of age. 10. The Freezor is resident in Canada for the purposes of the Act and resides in British Columbia. 11. The Freezor has a spouse, [name]. 12. The Freezor has two adult children, [names], each of whom is actively engaged in the millwork business of the Corporation on a full-time basis. 13. [Number] grandchildren of the Freezor are living, of whom [number] are under 18 years of age.
14. Neither the Corporation nor the Freezor is under examination by the Canada Revenue Agency in respect of the issues raised in this request, and no objection or appeal is outstanding in respect of those issues. 15. None of the proposed transactions described in Part 4 has been implemented as at the date of this letter.
16. [Statement of whether all or substantially all of the assets of the Corporation are used in an active business carried on principally in Canada at the date of this letter, with the supporting balance sheet figures.]

4. Proposed transactions

1. The Trust will be settled by [settlor], a person who deals at arm's length with the Freezor, with a gold or silver coin or other nominal settlement property. The beneficiaries of the Trust will be the two adult children of the Freezor and their issue. The Freezor and the Freezor's spouse will be expressly excluded from the class of beneficiaries and will not be capable of becoming beneficiaries. The trustees will be [names].
2. The articles of the Corporation will be amended to create (a) a class of redeemable and retractable preferred shares having a fixed aggregate redemption amount, (b) a new class of common shares, and (c) a class of voting shares carrying nominal participation (the "thin voting shares").
3. In the course of that reorganization of the capital of the Corporation, the Freezor will dispose to the Corporation of all of the common shares of the Corporation owned by him, being all of the shares of that class owned by him, and will receive from the Corporation in consideration therefor only preferred shares of the class described in proposed transaction 2(a), having an aggregate redemption amount equal to the fair market value of the exchanged common shares determined immediately before the exchange.

No cash and no property other than those preferred shares will be receivable by the Freezor on the exchange.

4. The share conditions attaching to the preferred shares, and the share exchange agreement, will each contain a price adjustment clause under which the redemption amount is adjusted to the fair market value of the exchanged common shares as finally determined by agreement with the Canada Revenue Agency or by a court.

5. The Freezor will subscribe for [number] thin voting shares for \$[amount]. Together with the votes attaching to the preferred shares, these shares will give the Freezor voting control of the Corporation.

6. The Trust will subscribe for [number] new common shares of the Corporation for an aggregate subscription price of \$[nominal amount], being the fair market value of those shares at that time on the premise that all accrued value of the Corporation is anchored in the retractable preferred shares held by the Freezor.

7. The paid-up capital of the preferred shares will be stated and reduced as required by the Act, and the resulting figures will be reported to the Directorate when the adjusted cost base and paid-up capital in facts 6 are confirmed.

5. Purpose of the proposed transactions

The commercial purposes of the proposed transactions are to fix the Freezor's participation in the Corporation at its present value so that future growth accrues for the benefit of the two adult children who work in the business, to retain voting control with the Freezor while those children demonstrate their ability to manage the business, and to establish an orderly framework for succession in a family enterprise founded in 1996.

The Trust is used so that the allocation of future growth among the children and their issue can be determined in light of their continuing involvement in the business rather than fixed now.

The tax purpose is to cap the Freezor's exposure to the capital gain on the shares of the Corporation that would arise on the deemed disposition at death, and to defer tax on the accrued gain on the exchange itself. We acknowledge below that this is a tax purpose and we do not submit that the proposed transactions fall outside subsection 245(3) on the strength of the commercial purposes alone.

6. Rulings requested

Provided that the preceding statements constitute a complete and accurate disclosure of the relevant facts, the proposed transactions and the purpose of the proposed transactions, and provided that the proposed transactions are completed in the manner described above, we request the Directorate to confirm the following.

Ruling A. Subsection 86(1) will apply to the exchange described in proposed transaction 3, so that the Freezor will be deemed to have disposed of the exchanged common shares for proceeds of disposition equal to the adjusted cost base to him of those shares immediately before the exchange, to have acquired the preferred shares at a cost equal to that same amount, and to realize no capital gain and no capital loss on the exchange.

Ruling B. Subsection 86(2) will not apply to the exchange described in proposed transaction 3.

Ruling C. No amount will be included in the income of the Trust, of any beneficiary of the Trust, or of the Freezor under subsection 15(1) by reason of the subscription by the Trust for new common shares described in proposed transaction 6.

Ruling D. Subsection 74.4(2) will not require any amount to be included in computing the income of the Freezor in respect of the exchange described in proposed transaction 3 for any period throughout which the Corporation is a small business corporation.

Ruling E. Subsection 245(2) will not be applied as a result of the proposed transactions alone to redetermine the tax consequences confirmed in Rulings A to D.

7. Taxpayers' analysis

Ruling A - subsection 86(1).

Subsection 86(1) deems a taxpayer who, in the course of a reorganization of the capital of a corporation, disposes of capital property that was all the shares of a particular class of that corporation owned by the taxpayer and receives property from the corporation that includes other shares of its capital stock, to have disposed of the old shares for proceeds equal to the cost of the new shares and other property receivable, that cost being, where no non-share consideration is receivable, the adjusted cost base of the old shares: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86.

On the proposed transactions the disposition occurs in the course of a reorganization of the capital of the Corporation effected by the amendment of its articles described in proposed transaction 2, the Freezor disposes of all of the shares of the particular class he owns, and the property receivable from the Corporation consists only of other shares of its capital stock.

Because no cash or other non-share consideration is receivable, the amount determined under paragraph 86(1)(a) is nil, the cost of the preferred shares under paragraph 86(1)(b) is the total adjusted cost base of the exchanged common shares, and under paragraph 86(1)(c) the proceeds of disposition of those common shares equal that same cost, with the result that the exchange itself gives rise to no capital gain: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86.

The arithmetic is accordingly proceeds of disposition of \$[ACB] less adjusted cost base of \$[ACB], being nil, once the adjusted cost base in fact 6 is confirmed. Subsection 86(3) provides that subsections 86(1) and 86(2) do not apply in any case where subsection 85(1) or 85(2) applies, and no election under section 85 will be filed in respect of these shares: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86.

We note that the proposition that subsections 85(1) and 85(2) operate only on a filed election rests on the text of section 85, which we will address by supplementary submission rather than assert here.

Subsection 86(2.1) requires a reduction in the paid-up capital of the new shares computed by the formula set out in that subsection: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86. That computation cannot be shown in this letter because the paid-up capital of the exchanged common shares stated in fact 6 is not yet confirmed; the computation will be filed before the ruling is issued.

Subsection 86(4) requires an adjusted cost base reduction where amounts were deducted under paragraph 53(2)(g.1) in respect of the old shares, and we will confirm that no such amounts were deducted: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86.

Ruling B - subsection 86(2).

Paragraph 86(2) deems proceeds and reduces the cost of new shares only where the fair market value of the old shares immediately before the disposition exceeds the total of the cost of any non-share consideration and

the fair market value of the new shares immediately after the disposition, and it is reasonable to regard a portion of that excess, the gift portion, as a benefit that the taxpayer desired to have conferred on a person related to the taxpayer: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86.

On the proposed transactions the Freezor receives no non-share consideration and the preferred shares carry an aggregate redemption amount equal to the fair market value of the exchanged common shares, and are redeemable and retractable at that amount.

The computation is therefore fair market value of the old shares of approximately \$9,000,000, less the cost of non-share consideration of nil, less the fair market value of the new preferred shares of approximately \$9,000,000, leaving an excess of nil.

Where there is no such excess there is no gift portion capable of being regarded as a benefit desired to be conferred on a related person, and neither the deemed proceeds in paragraph 86(2)(c) nor the cost reduction in paragraph 86(2)(e) operates: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86.

We acknowledge that subsection 86(2) tests the fair market value of the new shares immediately after the disposition, so that the conclusion turns on the value of the preferred shares at that moment and not on the redemption amount as drafted: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86. The valuation referred to in fact 8 and the share conditions referred to in proposed transaction 4 will be filed in support.

Ruling C - subsection 15(1). The subscription by the Trust for new common shares at nominal value is a subscription at fair market value if, and only if, all of the accrued value of the Corporation is in fact anchored in the retractable preferred shares held by the Freezor, which is the premise established by the share conditions described in proposed transactions 3 and 4 and supported by the analysis of subsection 86(2) above: Income Tax Act, RSC 1985, c 1 (5th Supp), s 86.

On that premise the Corporation confers nothing of value on the Trust on the subscription. We do not rest this submission on any authority other than the valuation premise just described, and the firm will file a supplementary submission addressing the text of subsection 15(1) and of subsection 15(1.4), together with confirmation of whether any beneficiary of the Trust is or will become a shareholder of the Corporation in his or her own right.

Ruling D - section 74.4. Corporate attribution under subsection 74.4(2) is computed only for a period after the transfer throughout which the corporation was not a small business corporation, that condition being set out in paragraph 74.4(2)(c): Income Tax Act, RSC 1985, c 1 (5th Supp), s 74.4.

The exclusion of the Freezor and his spouse from the class of beneficiaries does not by itself dispose of the question, because the class includes the issue of the two adult children and a person under 18 who does not deal at arm's length with the Freezor is a designated person in respect of him, and a transfer to a trust in which such a person is beneficially interested is treated as a transfer to or for that person's benefit for the purposes of section 74.4. We therefore do not rest Ruling D on the exclusion of the spouse.

Where a minor designated person's only interest is a beneficial interest in shares held by the trust, subsection 74.4(4) treats the benefit purpose as not met, but only if the trust terms bar that person from receiving or obtaining the use of any income or capital of the trust while a designated person and nothing has in fact been received by, or deducted under subsection 104(6) or (12) in respect of, that person: Income Tax Act, RSC 1985, c 1 (5th Supp), s 74.4.

The Trust deed has not yet been settled and we are not in a position to represent that it contains such a bar, so Ruling D is sought on the basis of paragraph 74.4(2)(c) alone.

We acknowledge that paragraph 74.4(2)(c) tests small business corporation status throughout a period, so that attribution may begin for any period in which that status is lost, for example if the Corporation accumulates assets not used in an active business, and that the exception in subsection 74.4(4) is lost if a designated person receives or obtains the use of trust income or capital or if the Trust claims a deduction under subsection 104(6) or (12) in respect of that person: Income Tax Act, RSC 1985, c 1 (5th Supp), s 74.4.

The content of the small business corporation test in subsection 248(1) will be addressed by supplementary submission together with the asset figures referred to in fact 16.

8. General anti-avoidance rule - section 245

We have considered section 245 and provide the following analysis in the three parts the rule requires: a tax benefit, an avoidance transaction, and misuse or abuse. We do not submit that the proposed transactions fall outside the first two parts.

First, we accept that the proposed transactions give rise to a tax benefit within the definition in subsection 245(1), because the exchange defers tax that would otherwise be payable on the accrued gain on shares having a stated fair market value of approximately \$9,000,000 and affects amounts relevant to later computations.

Second, we accept that subsection 245(3) treats a transaction as an avoidance transaction unless it may reasonably be considered that obtaining the tax benefit is not one of the main purposes, and that one of the stated purposes of the proposed transactions, namely capping the Freezor's exposure to the capital gain arising at death, is itself a tax purpose. The taxpayers therefore rest their position on subsection 245(4) rather than on the purpose test.

Third, subsection 245(2) applies to a transaction only if it may reasonably be considered that the transaction would result directly or indirectly in a misuse of the provisions of the Act or in an abuse having regard to those provisions, other than section 245, read as a whole: Income Tax Act, RSC 1985, c 1 (5th Supp), s 245.

On the facts stated, the exchange uses section 86 to produce the result that provision contemplates, namely a reorganization of the capital of a corporation in which the Freezor takes back fixed-value preferred shares with an aggregate redemption amount equal to the fair market value of the common shares exchanged, no cash passes, future growth accrues on shares held for the two adult children who work in the business, and the Freezor retains voting control.

We submit that the result is consistent with the object, spirit and purpose of section 86 and that no misuse or abuse within subsection 245(4) may reasonably be considered to arise: Income Tax Act, RSC 1985, c 1 (5th Supp), s 245.

We acknowledge that subsection 245(4.1) makes a significant lack of economic substance an important consideration tending to indicate misuse or abuse and that subsection 245(4.2) lists factors including that the entire or almost entire purpose of a transaction was to obtain the tax benefit: Income Tax Act, RSC 1985, c 1 (5th Supp), s 245.

The proposed transactions effect a genuine and permanent transfer of future growth in a family operating business to shares held by the Trust, involve no circular flow of funds and no accommodation party, and leave the Freezor with a fixed-value interest he may retract.

We further acknowledge that subsection 245(5.1) imposes a penalty computed as $(A + B) \times 25\% - C$ where subsection 245(2) applies to a transaction that was not disclosed in accordance with section 237.3 or 237.4: Income Tax Act, RSC 1985, c 1 (5th Supp), s 245. The taxpayers will address any reporting obligation under those sections separately.

The taxpayers confirm that no transaction other than those described in Part 4 is contemplated as part of the same series as at the date of this letter. In particular, no crystallization of the capital gains deduction, no redemption of the preferred shares and no sale of the business is proposed at this time, and any such transaction will be disclosed to the Directorate if it is contemplated before the ruling is issued.

A supplementary submission containing the references to case law, Canada Revenue Agency publications and Explanatory Notes required for a section 245 analysis, with a statement of whether each reference supports or challenges the ruling sought, will be filed under separate cover so that the Directorate has the complete authority record before it.

9. Required statements and fee

To the best of the taxpayers' knowledge and that of this firm, none of the issues involved in this ruling request is dealt with in a return of any of the taxpayers that is under examination by the Canada Revenue Agency, is under objection by any of the taxpayers, is before the courts, or is the subject of a ruling previously issued by the Directorate. No ruling request on an identical or similar issue has been submitted by or on behalf of any of the taxpayers to any other office of the Canada Revenue Agency.

The taxpayers confirm that the time limit for filing a notice of objection has not expired in respect of any taxation year in which the issues arise and that no appeal is outstanding.

The taxpayers and this firm confirm that, to the best of their knowledge, the facts, proposed transactions and purposes stated above constitute a complete and accurate disclosure of all relevant facts, proposed transactions and purposes, subject only to the bracketed items identified in Part 3, Part 4 and the firm's notes below, which will be completed before the ruling is issued.

We acknowledge that a ruling binds the Canada Revenue Agency only if, among other things, the proposed transactions are completed within the time limit specified in the ruling letter, and we undertake to advise the Directorate of any change in the facts or proposed transactions.

We acknowledge that this request is subject to the hourly fee charged for advance income tax rulings, that the fee is payable whether or not a favourable ruling is issued or the request is withdrawn, and that the fee is based on the time required to process the request. A deposit cheque in the amount of \$[deposit] payable to the Receiver General for Canada is enclosed, and we undertake to pay the balance on invoice. We ask that any question concerning the fee or the processing of this request be directed to the undersigned.

10. Documents enclosed

Enclosures

1. Authorization to represent, signed by the Corporation, by Mr C and by the trustees of the Trust
2. Certificate of incorporation and current articles of the Corporation
3. Draft articles of amendment creating the preferred shares, the new common shares and the thin voting shares, with the proposed share conditions and price adjustment clause
4. Draft share exchange agreement
5. Draft trust deed for the [Name] Family Trust
6. Draft subscription agreements for the new common shares and the thin voting shares
7. Independent valuation of the common shares of the Corporation as at [date]
8. Financial statements of the Corporation for the [number] most recent taxation years and a current statement of assets showing use in an active business
9. Statement of the adjusted cost base and paid-up capital of the exchanged common shares, with the subsection 86(2.1) computation
10. Deposit cheque payable to the Receiver General for Canada

For the firm before sending (remove this section)

Positions that did not pass the citation gate, positions to confirm, and facts the filing still needs:

- P1: What must a request for an advance income tax ruling contain under IC70-6 (the facts, the proposed transactions and their purposes, the issu ... no authority survived the citation check (citation failed the text check). Not relied on in the filing.
- Needed: Whether the exchanged common shares are capital property to Mr C rather than inventory or shares held on income account, which subsection 86(1) requires; a representation and supporting facts are needed.
- Needed: The adjusted cost base and the paid-up capital of the common shares, without which the deemed cost and proceeds under paragraphs 86(1)(b) and (c) and the paid-up capital reduction under subsection 86(2.1) cannot be computed.
- Needed: Confirmation that no amount was deducted under paragraph 53(2)(g.1) in respect of the common shares, for subsection 86(4).
- Needed: Confirmation that the reorganization will be effected by articles of amendment creating the new classes, rather than by share exchange agreement alone, so that the exchange occurs in the course of a reorganization of capital.
- Needed: The independent valuation supporting the approximately \$9,000,000 fair market value, including methodology and effective date, and the fair market value of the preferred shares immediately after the exchange.
- Needed: The dividend entitlement, voting rights, retraction mechanics and redemption terms of the preferred shares, and the value attributed to the thin voting shares.
- Needed: The wording of the price adjustment clause in the share conditions and in the share exchange agreement.

- Needed: Confirmation that no election under section 85 will be filed in respect of the exchanged shares, and the text of section 85 for the submission that subsections 85(1) and 85(2) operate only on a filed election (not supported on the present authority record).
- Needed: The text of subsection 15(1) and subsection 15(1.4) and whether any beneficiary of the Trust is or will become a shareholder of the Corporation in his or her own right; the subsection 15(1) ruling is presently supported only by the valuation premise and not by retrieved authority on subsection 15(1) itself.
- Needed: Whether any issue of the adult children is currently under 18 or may be born during the relevant period, and whether the trust deed will bar a designated person from receiving or obtaining the use of income or capital while a designated person, for subsection 74.4(4).
- Needed: Whether all or substantially all of the assets of the Corporation are used in an active business carried on principally in Canada at each relevant time, and the definition of small business corporation in subsection 248(1) (not supported on the present authority record).
- Needed: Confirmation that Mr C has a spouse and that Mr C is resident in Canada, both of which bear on the designated person and residence conditions in section 74.4.
- Needed: Whether any further transaction, including a crystallization of the capital gains deduction, a redemption of the preferred shares, a sale of the business or a further freeze, is contemplated as part of the same series, for subsections 245(3), 245(4.1) and 245(4.2).
- Needed: The case law, Canada Revenue Agency publications and Explanatory Notes to be cited in the section 245 submission, including the leading decision on the clarity required before the rule applies, which is not in the present authority record and must be cited from the reported decision.
- Needed: Current mailing address, business number, social insurance number, taxation year ends, tax services office and tax centre for each taxpayer, and the identity of the settlor and trustees of the Trust.
- Needed: The current ruling fee rate, deposit requirement and Directorate mailing address under the current version of IC70-6.

Yours faithfully,

[Name], [Credential]

Authorities cited in this letter

CRA Information Circular IC70-6, Advance Income Tax Rulings and Technical Interpretations (Information Circular IC70-6), "IC70-6R12 Advance

CRA administrative position

Withheld: citation failed the text check

• WITHHELD

Income Tax Act, RSC 1985, c 1 (5th Supp), s 245 Statute

• VERIFIED

"Subsection (2) applies to a transaction only if it may reasonably be considered that the transaction (a) would, if this Act were read without reference to this section, result directly or indirectly in a misuse of the provisions of any one or more of (i) this Act... or (b) would result directly or indirectly in an abuse having regard to those provisions, other than this section, read as a whole."

Canada Trustco Mortgage Co. v. Canada, 2005 SCC 54 Court decision

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Income Tax Act, RSC 1985, c 1 (5th Supp), s 86 Statute

• VERIFIED

*"Subsections 86(1) and 86(2) do not apply in any case where subsection 85(1) or 85(2) applies."***Income Tax Act, RSC 1985, c 1 (5th Supp), s 15** Statute

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Income Tax Act, RSC 1985, c 1 (5th Supp), s 74.4 Statute

• VERIFIED

*"in computing the income of the individual for any taxation year that includes a period after the loan or transfer throughout which... (c) the corporation was not a small business corporation, the individual shall be deemed to have received as interest in the year the amount, if any, by which"***Income Tax Act, RSC 1985, c 1 (5th Supp), s 74.5** Statute

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

CRA Interpretation Bulletin IT-511R, Interspousal and Certain Other Transfers and Loans of Property

CRA administrative position

• CPA TO CONFIRM

Corroborating authority; not independently text-checked for this letter.

Draft prepared for the signing professional's review. Verify every fact and figure, complete the placeholders, attach the enclosures listed, and remove the section headed "For the firm" before filing.