

Draft – For Discussion Only



Eon Labs Ltd

International restructuring

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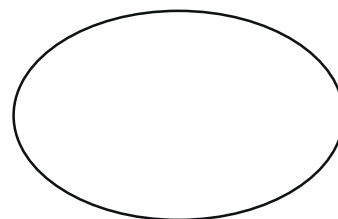
Legend

Term	Definition
ACB	Adjusted Cost Base
Act	Income Tax Act (Canada)
Axon Enigma	Axon Enigma GP Ltd
Axon Global	Axon Global Funds LP
Axon Fund	Axon Funds (US) LP
BVI	British Virgin Islands
Canada-UAE Treaty	Convention Between Government of Canada and Government of United Arab Emirates
Canada-USA Treaty	Convention Between Canada and the United States of America
CCPC	Canadian-Controlled Private Corporation
Chen	Chen Li
Eventually Holdings	Eventually Holdings Inc
Eon	Eon Labs Ltd.

Legend (cont.)

Term	Definition
FMV	Fair Market Value
Future Ltd	Future Limited Partner
PUC	Paid-Up Capital
Victor	Victor Walter Hogrefe Tabasz
Vector Capital Partners	Vector Capital Partners Pvt Ltd
WHT	Withholding Tax
135 BC	1351746 BC Ltd.
127 BC	1273410 BC Ltd.

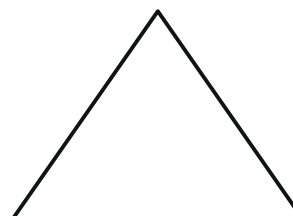
Legend



Individual



Corporation



Partnership

Facts and Assumptions

Below are the facts we have relied on in the proposed structure. Please review these and let us know if any update is required.

In respect of Eon:

- Eon is a Canadian fintech company and has developed its own proprietary trading platform software. Eon's platform software is used to trade cryptocurrencies on behalf of cryptocurrency investors.
- All of Eon's cryptocurrency traders are based out of Eon's headquarters in Vancouver, Canada.
- Eon's management team is also based out of Eon's headquarters in Vancouver, Canada
- Eon is a corporation formed in the Province of British Columbia, Canada.
- Eon has filed its last Canadian corporate tax return, on the basis that it is a CCPC.
- Eon has authorized share structure as follows:
 - Class A Common Voting shares ("Class A CS") without Par Value and without special rights and restrictions.
 - Class B Common Non-Voting shares ("Class B CS") without Par Value and without special rights and restrictions.
- Eon has outstanding share capital as follows:
 - 30,000 Class A CS to Victor
 - 970,000 Class A CS to 135 BC
- Eon does not have any office outside Canada.
- Chen is a Canadian tax resident and sole shareholder of 135 BC.
- Victor is a US citizen and a tax resident of Canada as per the Canada-USA Treaty .
- The ACB and PUC of Class A Common shares of Eon held by Victor is [\$300].

Facts and Assumptions (cont.)

In respect of UAE Co:

- Victor owns 100% shares of newly incorporated corporation in the UAE i.e. [TBC] (“UAE Co”).
- UAE Co does not hold any assets and is an inactive corporation.
- The FMV of UAE Co is [nil].

In respect of the following entities (“collectively referred to as the “Fund”):

- Jon is the sole shareholder of Vector Capital Partners.
- Axon Enigma is a corporation formed in BVI.
- Eventually Holdings is a corporation formed in BVI.
- Future Ltd is a partnership formed in BVI.
- Axon Global is a partnership formed in BVI.
- Axon Fund is a limited partnership formed in the state of [Delaware]. Axon Enigma is the General Partner of Axon Fund.
- Axon Capital Group is the investment manager to Axon Fund.
- All amounts are assumed to be in Canadian dollars, unless indicated otherwise.

Objectives

Our comments below have considered the following objectives for Eon and its shareholders:

- Eon wishes to expand its fintech business outside of Canada. This is motivated by a business need to operate within a jurisdiction that has an accommodative cryptocurrency regulatory framework.
- The shareholders of Eon want to ensure that their future business structure remains tax-efficient, both from a corporate tax perspective, as well as with respect to the repatriation of profits to shareholders.
- Eon would wish to avoid triggering adverse Canadian tax consequences from a tax restructuring.

Recommendations

Based on our comments contained herein, we would recommend the following:

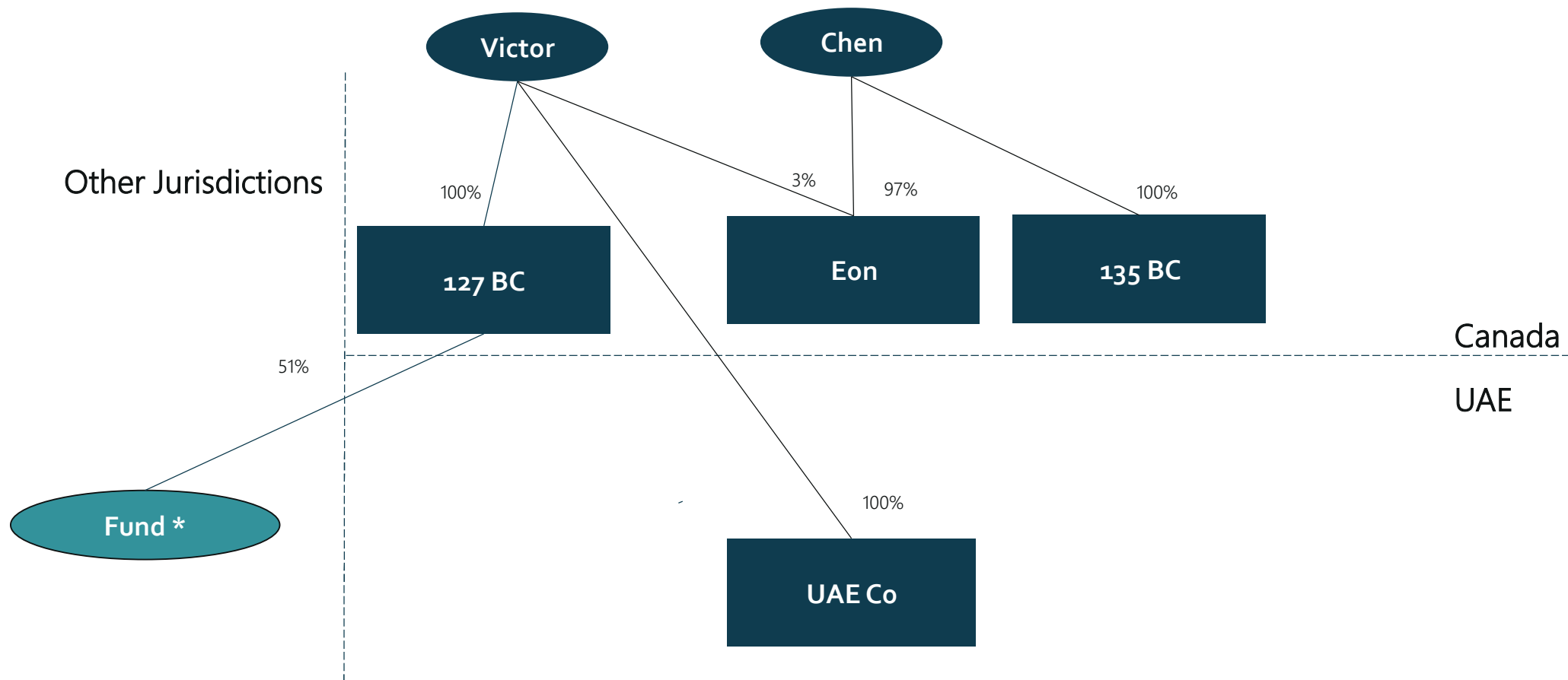
- The ownership in UAE Co should be restructured to be held by Eon in Canada. This transfer may be achieved on a tax-deferred basis in Canada.
- Eon should review and finalize a licensing arrangement, for the use of its Intellectual Property outside of Canada. Further transfer pricing analysis will be required to determine the appropriate characterization and quantum of pricing.

International restructuring considerations

The Canadian tax rules generally function to limit the transfer of corporate or personal assets out of the Canadian tax system. For example:

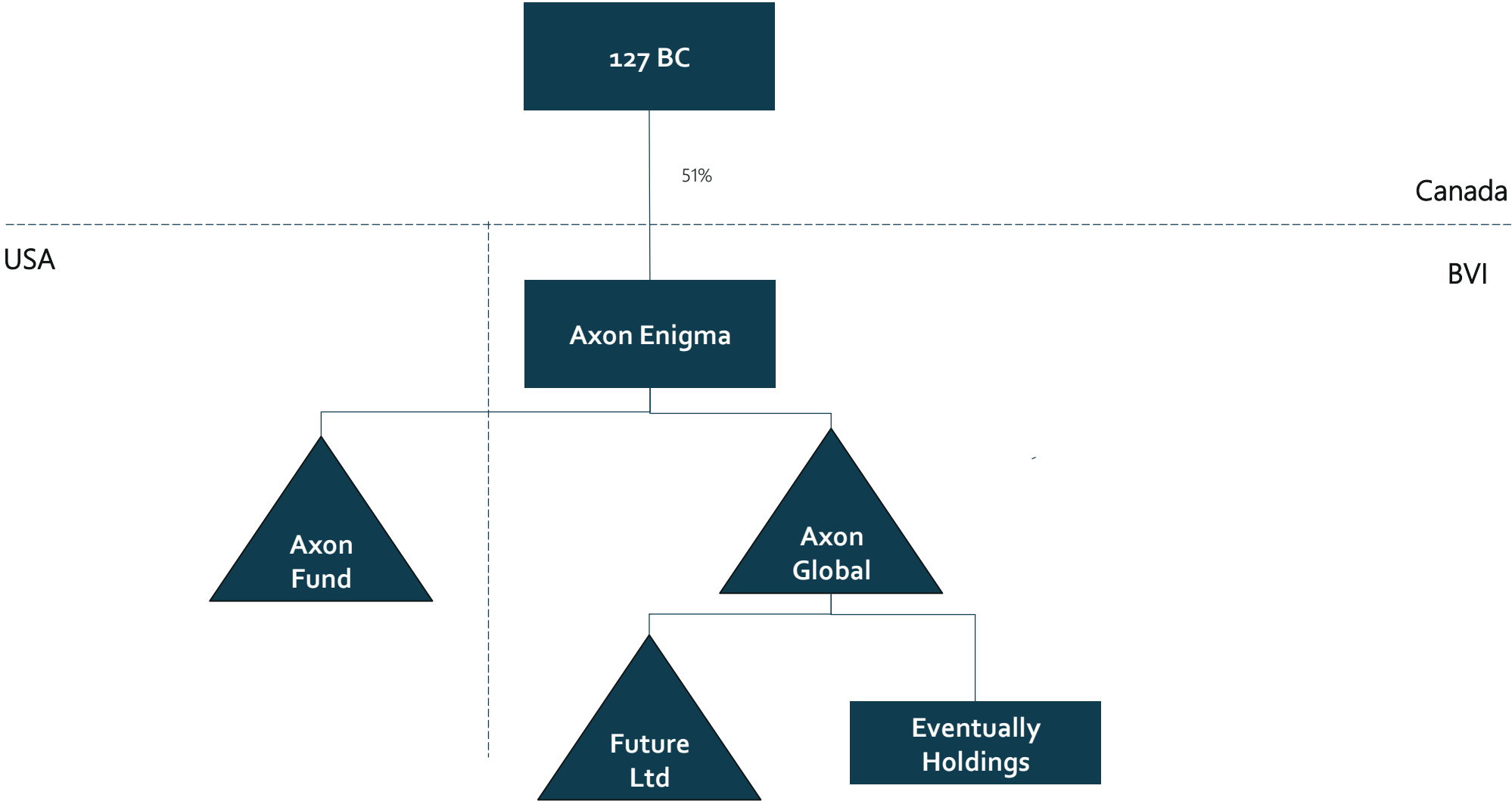
- Subsection 128.1(1)(b) of the Act deems any individual or corporation who ceases to be a Canadian tax resident, to have disposed of most worldwide assets for FMV, immediately before ceasing tax residency.
 - For example: If Victor or Chen ceased to be Canadian tax resident, they should therefore be deemed to have disposed of their shares of 127BC, Eon and 135BC (among other assets). Where any gains are triggered, these should be taxable in the year of departure from Canada.
 - Similarly, a migration of Eon out of Canada, should attract the above implications, with any gains being taxable to Eon immediately before departure.
- Further, where dividends are paid to any non-resident shareholder of Eon, these should be subject to a maximum WHT of 25%, pursuant to subsection 212(1) of the Act.
- Finally, any transfer of assets from Eon to related non-residents, should be deemed to occur at FMV, pursuant to subsection 251(1)(a) of the Act.

Current Structure

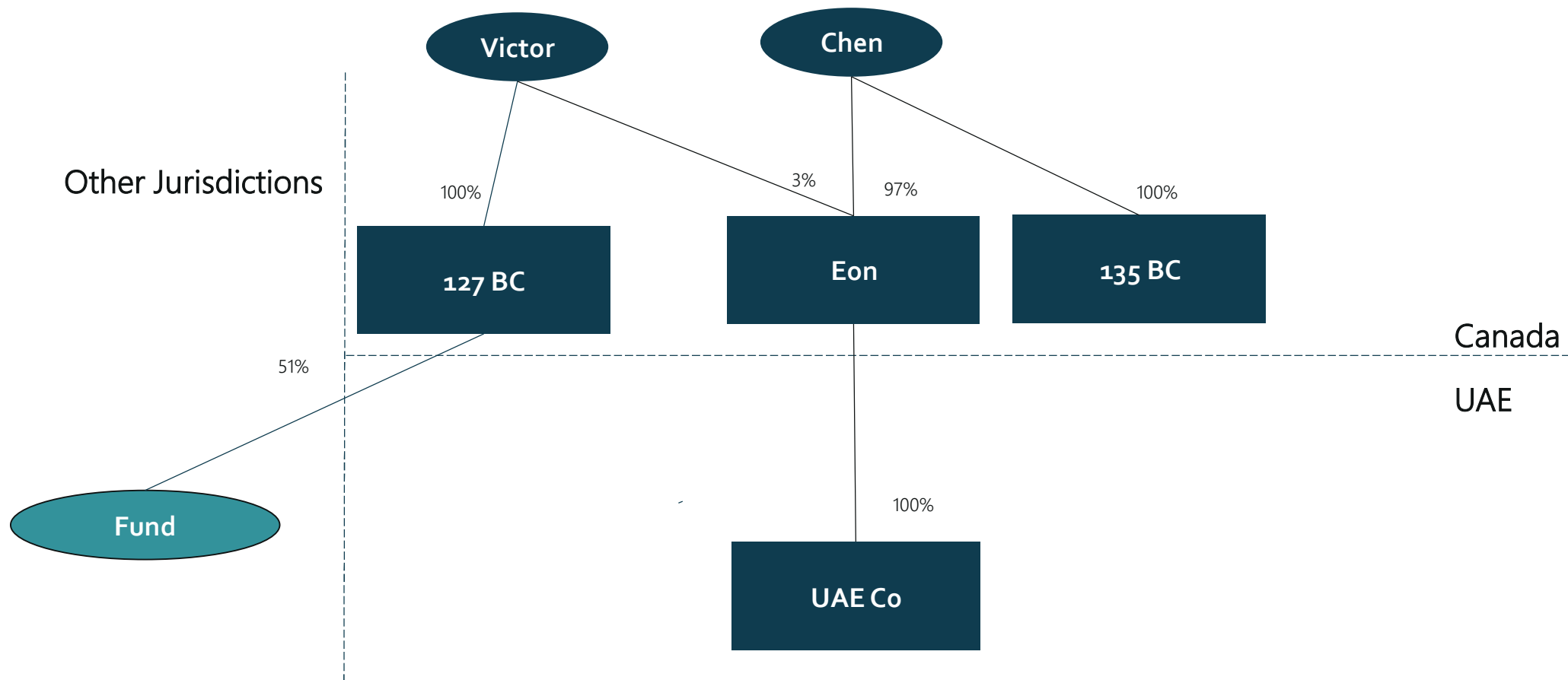


See next slide for Fund's structure*

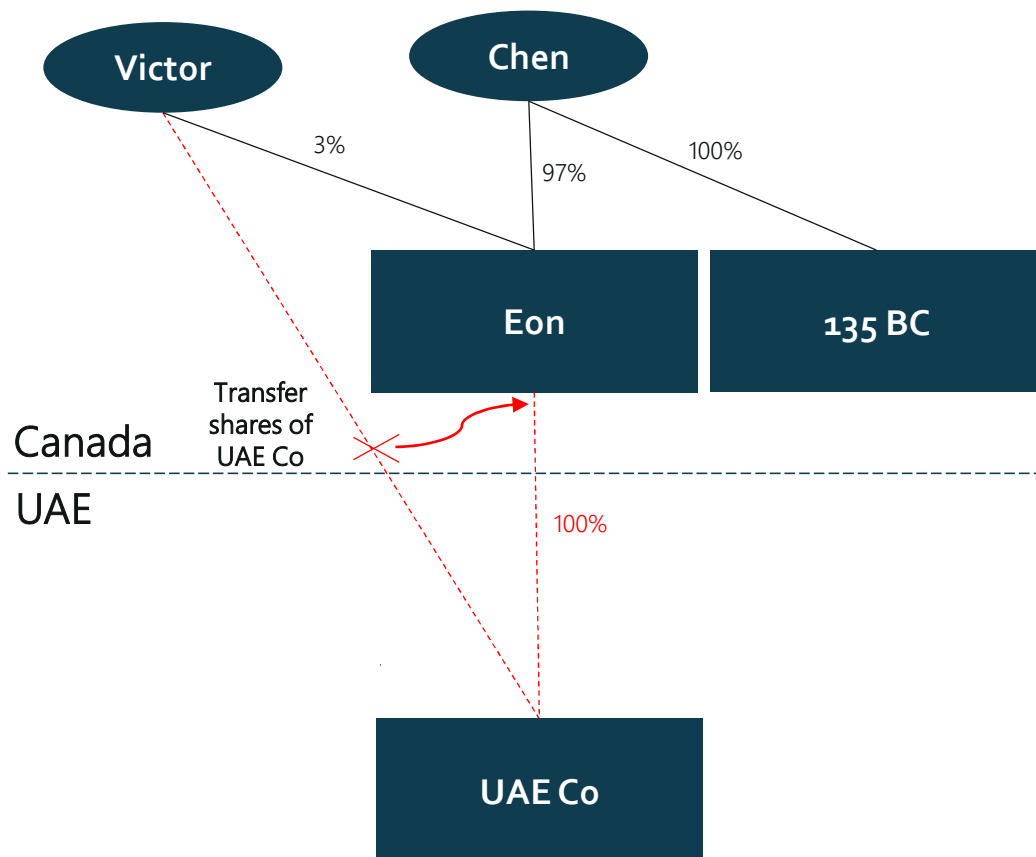
Current Structure for Fund



Final Structure



Proposed Structure



Transaction Steps

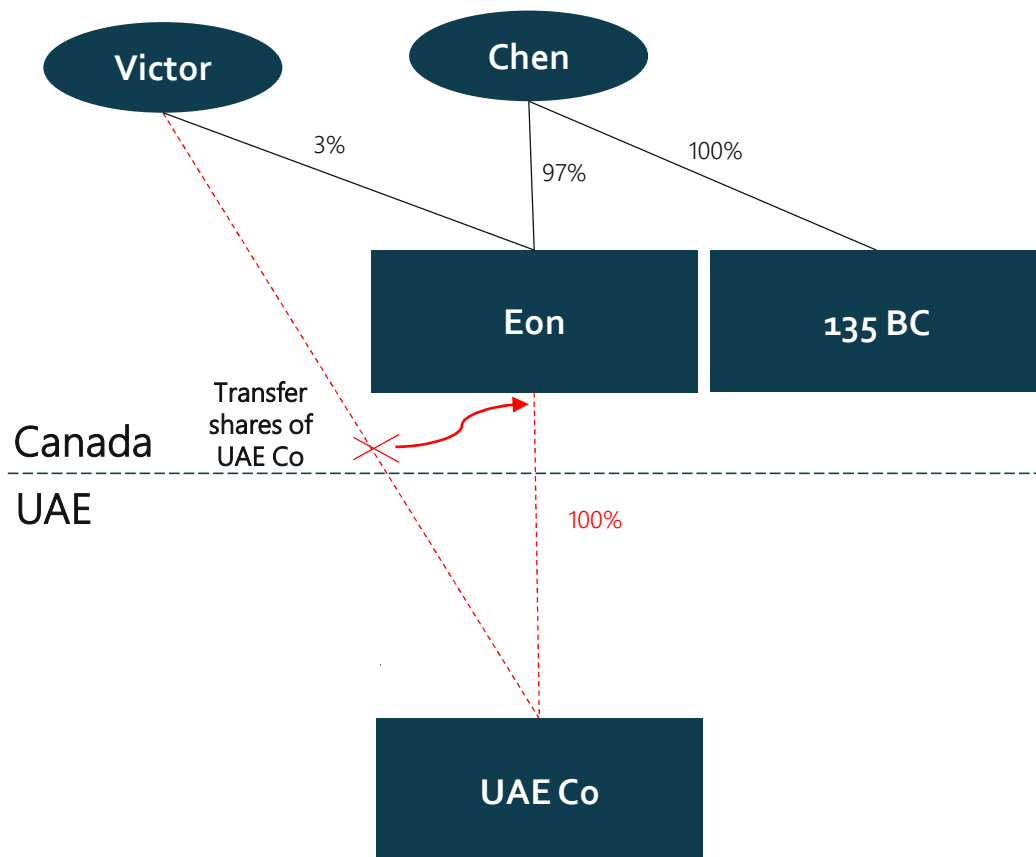
Step 1: Restructuring UAE Co ownership

- Victor should transfer [100%] of the shares of UAE Co to Eon in exchange for [1] new Class A CS of Eon.
- Victor and Eon will jointly election under subsection 85(1) of the Act, for the transfer to take place on a tax-deferred basis. The elected value of transfer of UAE Co shares by Victor should be equal to the ACB of [\$300].

Canadian Tax Considerations:

- Where subsection 85(1) applies to the transfer, the gain on disposition of UAE Co shares should be nil where the elected proceeds of [\$300] is equal to the ACB of [\$300]. The disposition should be reported by Victor on Schedule 3 of Victor's T1 . The shares of UAE Co acquired by Eon should have ACB of [\$300].
- For the transfer of UAE Co shares to be pursuant to ss85(1), there is a requirement to file *Form T2057 - Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation* ("T2057") which is due by the earlier of:
 - T1 Income Tax and Benefit Return ("T1") due date for Victor or
 - T2 Corporation Income Tax Return ("T2") of Eon.

Proposed Structure



Transaction Steps (Cont.)

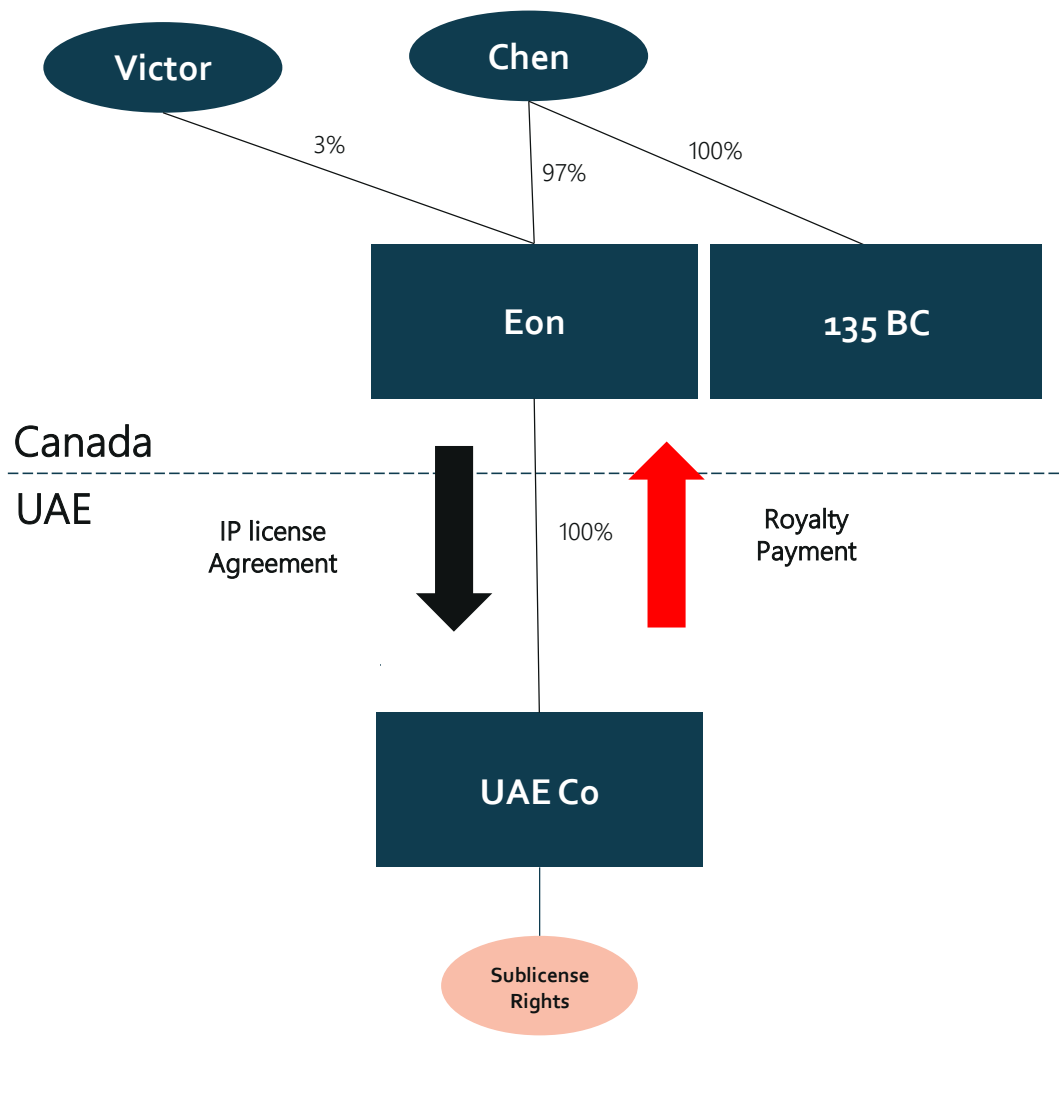
Step 1: Restructuring UAE Co ownership

- Victor should transfer [100%] of the shares of UAE Co to Eon in exchange for [1] new Class A CS of Eon.
- Victor and Eon will jointly election under subsection 85(1) of the Act, for the transfer to take place on a tax-deferred basis. The elected value of transfer of UAE Co shares by Victor should be equal to the ACB of [\$300].

Canadian Tax Considerations:

- The transfer of shares of UAE Co by Victor should be considered as disposition of shares for purposes of the Canada-UAE Treaty. As per Art. 13 of this treaty, gains from sale of shares is taxable in the Canada, unless UAE Co derives its value from UAE immovable property (e.g. UAE real estate). Since UAE Co does not derive its value from immovable property, any gains on disposition should be sourced to Victor in Canada.
- UAE Co should qualify as a Controlled Foreign Affiliate of Victor (and then Eon) under subsection 95(1) of the Act since [100%] of the capital stock of UAE Co is owned by a Canadian resident. Accordingly, Victor (and then Eon) should file *Form T1134 Information Return relating to Controlled and Non-Controlled Foreign Affiliates* ("Form T1134") which is due 10 months from the year end of Victor (and then Eon).
- Future dividends paid from UAE Co to Eon should be limited to WHT of no more than five percent in the UAE, as per Article 10(2)(a) of the Canada-UAE Treaty, since Eon will own more than 10% of the voting shares of UAE Co..

Proposed Structure



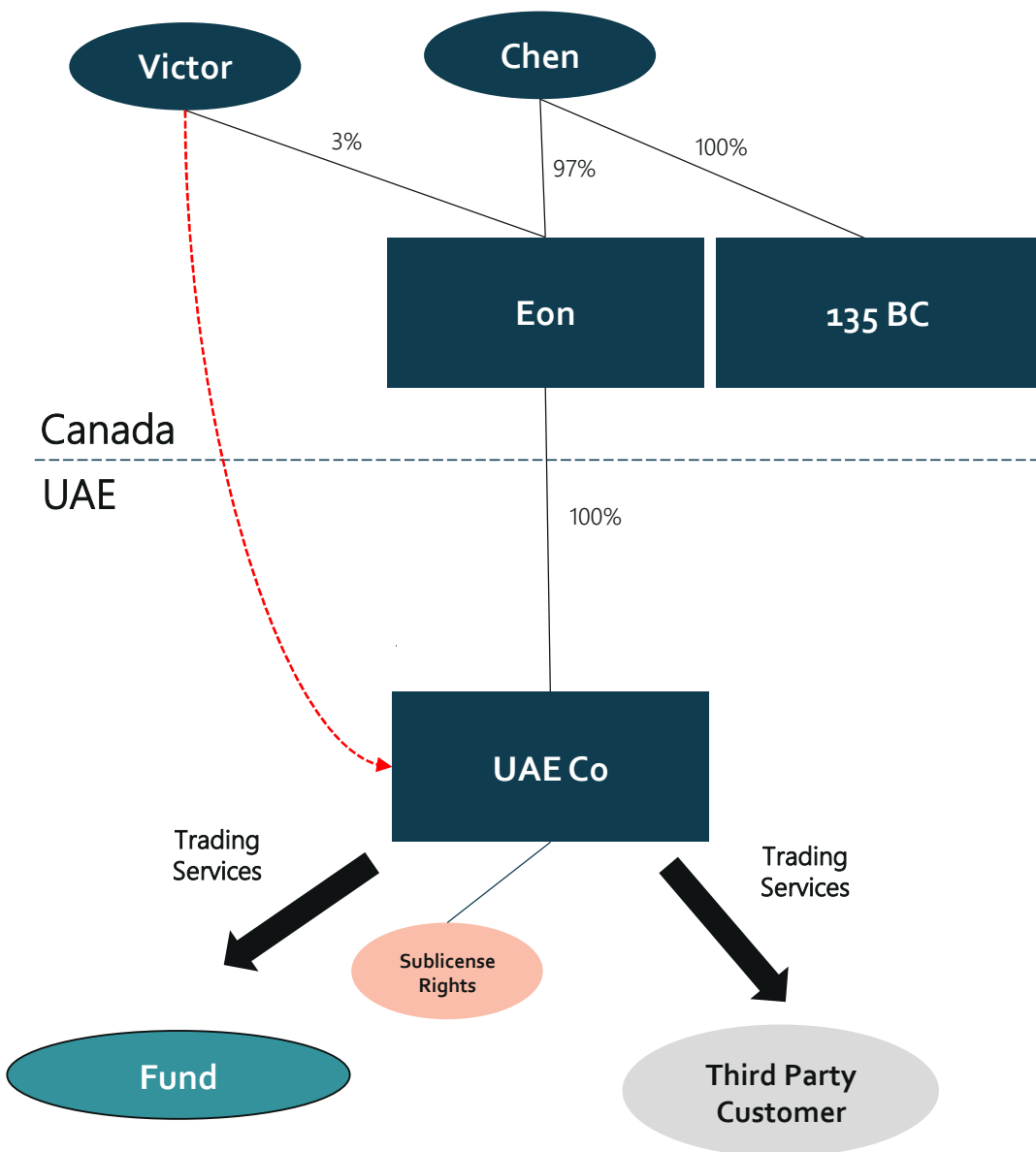
Step 2: Establishment of Intercompany Royalty Arrangement

- Eon will enter into a licensing agreement with UAE Co. The agreement will allow UAE Co to use Eon’s trading platform.
- Eon will continue to develop and maintain the platform software and will receive a royalty payment from UAE Co for the use of the sublease.

Canadian Tax Considerations:

- Pursuant to Art. 12(2) of the Canada-UAE Tax Treaty, UAE WHT on royalty payments should be limited to no more than 10% of the payment. However, where the royalty payment is in respect of the use of computer software or any patent or for information concerning industrial, commercial or scientific experience, WHT should not apply.
- Where a WHT applies, a foreign tax credit may be claimed by Eon, pursuant to subsection 126(1) of the Act. A foreign tax credit reduces Canadian income tax to the lower of the foreign tax, and the Canadian income tax otherwise payable in respect of the foreign income
- Eon’s royalty income *may* be also considered as “Adjusted Aggregate Investment Income for Eon, as per subsection 125(7) of the Act. This would mean that royalties will be subject to higher tax rate of 50.67% in BC out of which 30.67% will be added to Non-Eligible Refundable Dividend Tax On Hand (“NERDTOH”). NERDTOH will be recovered by Eon on future payment on non-eligible dividends to shareholders.

Proposed Structure



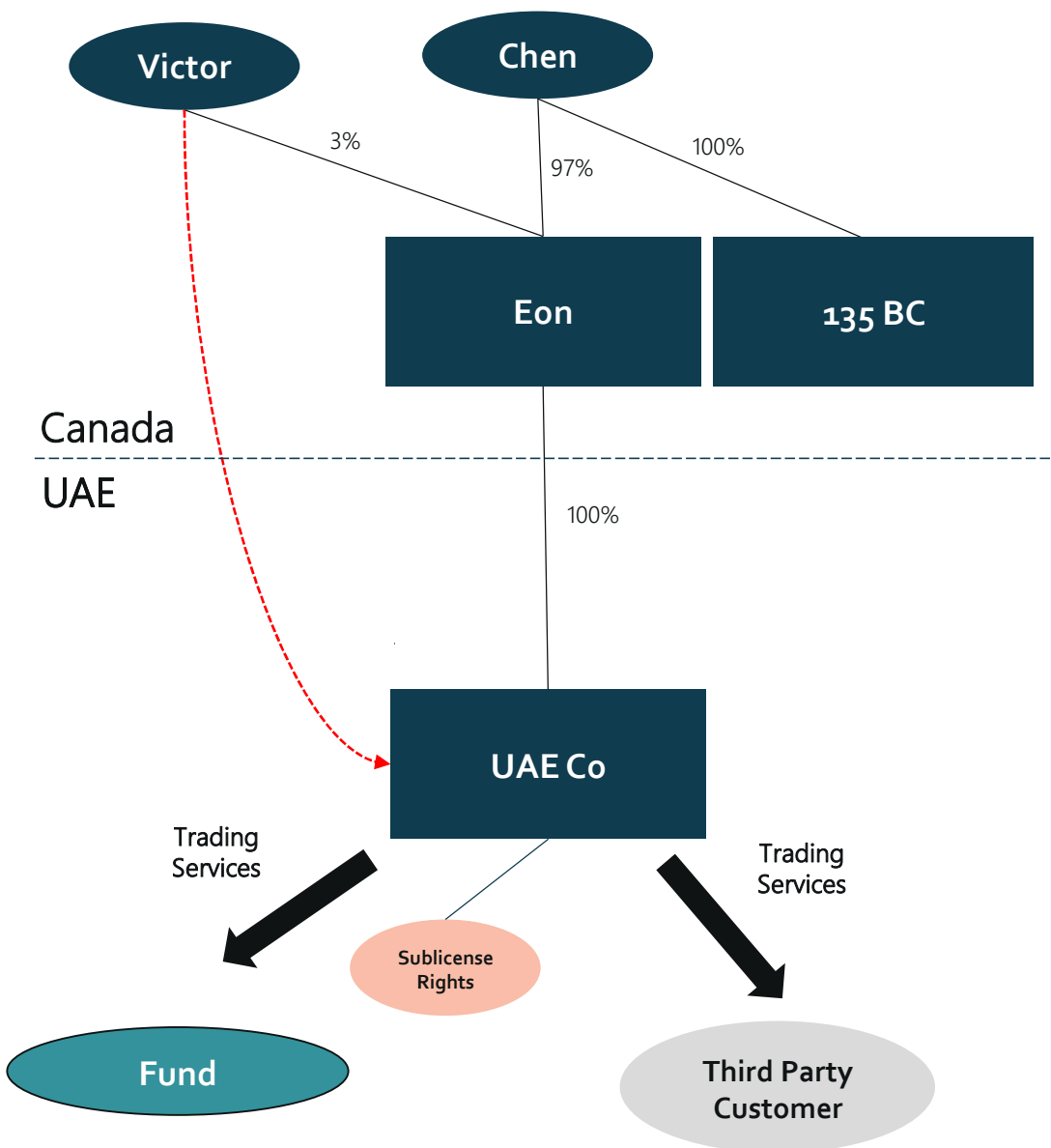
Step 3a: Expansion of business outside of Canada

- UAE Co will develop **new customer** relationships and conclude contracts with customers to provide access to the software platform. Victor will spend up to six months per year in UAE to develop new business for UAE Co.
- As required, UAE Co will hire and develop its own trading team. Where appropriate UAE Co may provide trading services to the Fund.

Canadian Tax Considerations:

- To the extent that UAE Co's income is earned by because of work undertaken by Eon or its shareholders in Canada, subsection 95(2)(b) of the Act may recharacterize this UAE Co business income as Foreign Accrual Property Income ("FAPI") to Eon.
- Where FAPI is earned, Eon must accrue the earnings of UAE Co, as these are earned in UAE Co, not when amounts are distributed as dividends. Where dividends which were previously taxed as FAPI are distributed to Eon, these amounts may be deducted from income, pursuant to subsection 91(5) of the Act.
- Since Eon is a CCPC, FAPI income should be also considered as "Adjusted Aggregate Investment Income for Eon, as per subsection 91(1) and 125(7) of the Act. (see previous comments on tax treatment of FAPI).
- Conversely, where income earned by UAE Co meets the conditions as "active" in the Act, these may be added to UAE Co's "exempt surplus" pool. Dividends paid out of UAE's exempt surplus should be fully deductible to Eon under subsection 113(1)(a) of the Act.

Proposed Structure



Step 3a: Expansion of business outside of Canada

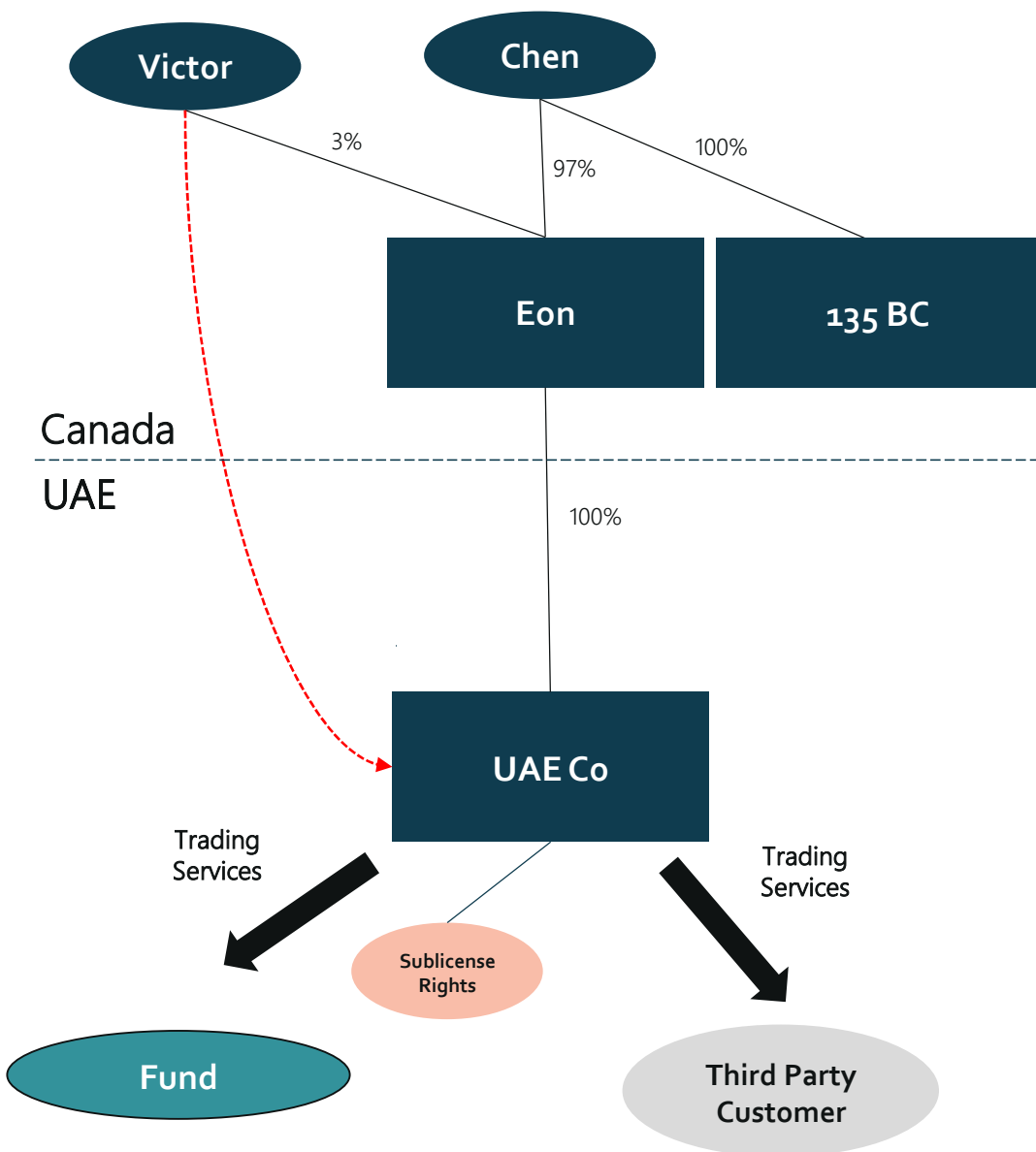
- UAE Co will develop **new customer** relationships and conclude contracts with customers to provide access to the software platform. Victor will spend up to six months per year in UAE to develop new business for UAE Co.
- As required, UAE Co will hire and develop its own trading team. Where appropriate UAE Co may provide trading services to the Fund.

Canadian Tax Considerations: (cont.)

- As per Article 4(1)(ii) of the Canada-UAE Treaty, for UAE Co to be resident of UAE, it must ensure that all its active business income is earned in UAE and substantially all the value of property owned by UAE Co is attributable to such business*.
- To avoid meet the UAE residency test, and avoid triggering FAPI under 95(2)(b), it is generally recommended that Victor dedicate his work time solely to the UAE business. Further, the cost of Victor's compensation should be borne by the UAE Co, and not Eon.

*The CRA generally interprets "substantially all" to mean that at least 90%.

Proposed Structure



Step 3a: Expansion of business outside of Canada

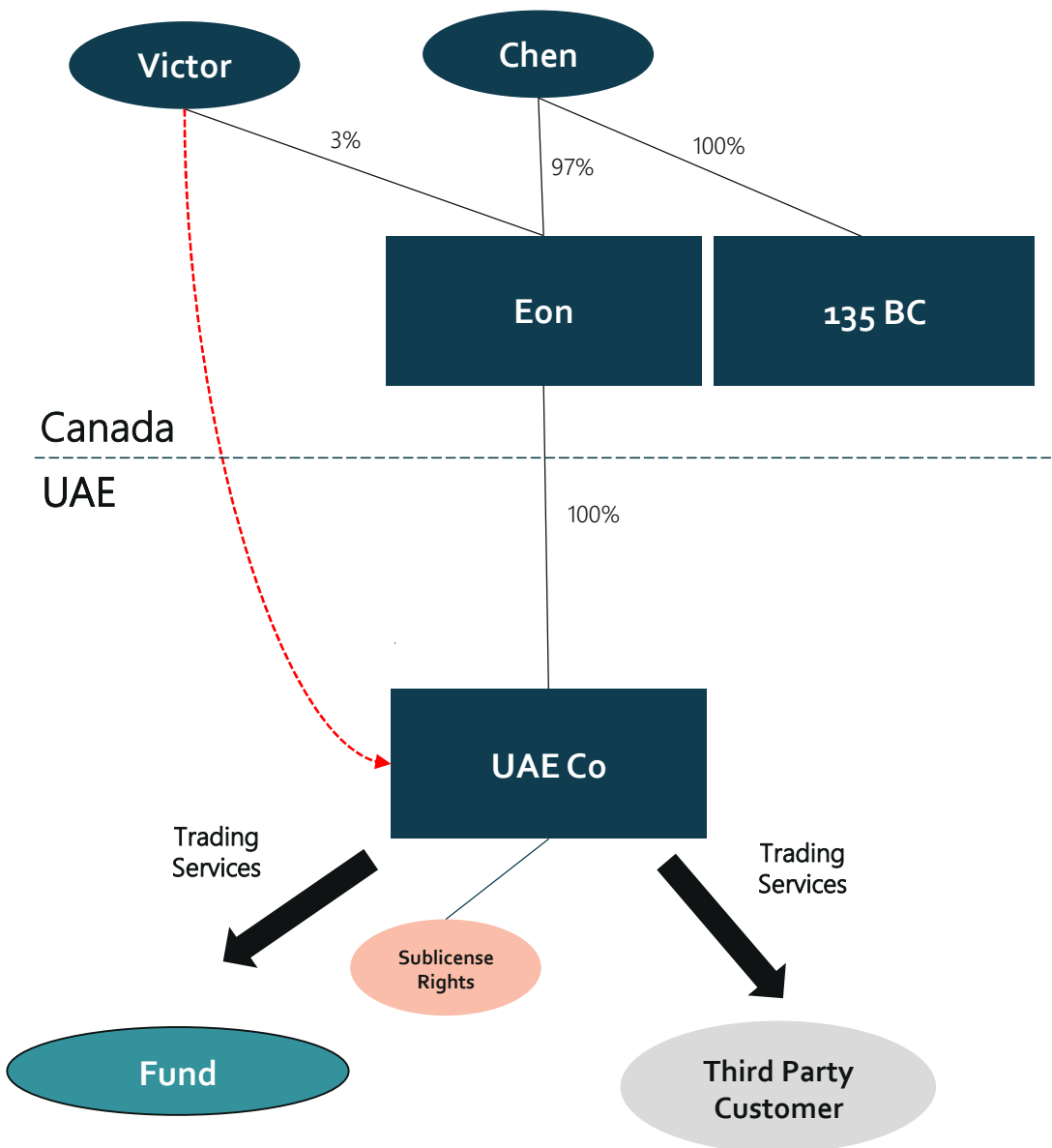
- UAE Co will develop **new customer** relationships and conclude contracts with customers to provide access to the software platform. Victor will spend up to six months per year in UAE to develop new business for UAE Co.
- As required, UAE Co will hire and develop its own trading team. Where appropriate UAE Co may provide trading services to the Fund.

Canadian Transfer Pricing Considerations:

- The proposed structure will result in UAE Co. becoming the wholly owned subsidiary of Eon. Consequently, any transaction between the Eon and UAE Co. will be considered as non-arm's length. Hence, licensing of intellectual property by Eon to UAE Co. will be considered as non-arm's length transaction and thereby trigger Canadian transfer pricing regulations.
- The Canadian transfer pricing regulations are a set of rules designed to ensure that cross border transactions between non-arm's length entities ("related affiliates") are conducted on an arm's length basis. Tax authorities have the power to adjust the pricing of non-arm's length transactions if they are deemed inconsistent with arm's length conditions. This can lead to double taxation and potential penalties in certain cases.
- Eon being the Canadian entity should conduct a benchmarking study to ensure that the IP is licensed at arm's length to UAE Co. Ideally, a benchmarking study will aid in determining an appropriate IP charge and ensuring a robust documentation substantiating the charge determination.

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Proposed Structure



Step 3a: Expansion of business outside of Canada

- UAE Co will develop **new customer** relationships and conclude contracts with customers to provide access to the software platform. Victor will spend up to six months per year in UAE to develop new business for UAE Co.
- As required, UAE Co will hire and develop its own trading team. Where appropriate UAE Co may provide trading services to the Fund.

Canadian Transfer Pricing Considerations:

- Further, Eon should prepare and make available contemporaneous transfer pricing documentation at the time tax returns are filed by Eon.
- Additionally, there may be transfer pricing implication from UAE standpoint. Victor being the key employee of UAE Co. as well as having controlling interest in the entity holding the Fund, may trigger UAE Transfer Pricing Regulations.
- An analysis of transfer pricing implication from UAE perspective may be required. A regional transfer pricing expert will help to address any related concern. We can help connect you with our local advisory or transfer pricing expert for a comprehensive analysis.

*The CRA generally interprets "substantially all" to mean that at least 90%.

Foreign Reporting Requirements



Entity	Reporting Requirement*	Due Date
Eon	Form T1134 - Information Return Relating to Controlled and Non-Controlled Foreign Affiliates	Due October 31 ^{st**}
Eon	Form T106 - Information Return of Non-Arm's Length Transactions with Non-Residents	Due June 30 th
Victor	Form T1134 - Information Return Relating to Controlled and Non-Controlled Foreign Affiliates	Due October 31 st
127BC	Form T1134 - Information Return Relating to Controlled and Non-Controlled Foreign Affiliates	Due 10 th months after fiscal year-end.

* Subject to reporting thresholds.

**Only required for Eon after transfer of UAE Co shares from Victor.

Our comments herein are based on the provisions of the Income Tax Act (Canada) the (“Act”) and the Income Tax Regulations (the “Regulations”) as they presently read, proposed amendments to the Act and the Regulations announced by the Department of Finance, and our understanding of the current administrative practices and policies of the Canada Revenue Agency (the “CRA”), all of which are amended from time to time.

Our comments depend upon the accuracy and completeness of the facts and assumptions as provided by our client and stated herein. Any inaccuracy or incompleteness of such facts and assumptions could adversely affect the comments provided by us in this letter. We have relied on the accuracy of such facts and information as provided by our client. In preparing our advice.



Thank you!

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