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Corporate Tax Planning

Co-Editors: Mark Brender,* Brian R. Carr,** Michael R. Smith,*** and Christopher J. Steeves****

STRATEGIES FOR TROUBLED TIMES, AGAIN

*Christopher J. Steeves**** and Kathryn Walker******

This article addresses income tax issues associated with the various strategies that corporations can employ in response to economic difficulties, focusing on debt-restructuring techniques and tax consequences for debtors. First, the article discusses the tax effects of the most fundamental debt-restructuring issues—interest deductibility and the deductibility of planning costs. Second, considering the out-of-court approaches to debt restructuring, the article examines the tax consequences that may arise where a debtor company and its creditors are able to agree on accommodations that will provide some financial relief for the debtor. Third, the article comments on the potential for the debt-parking rules to apply in the context of the assignment of debt by a creditor. Fourth, the article examines the tax implications of a debt-for-equity exchange, pursuant to which an outstanding debt is exchanged for shares in the debtor corporation. Fifth, the article presents the key tax issues that emerge where a debtor corporation sells assets as a way to mitigate debt pressure. Finally, the article considers tax questions relevant to the statutory (in-court) debt-restructuring options offered by corporate-law statutes, such as the Canada Business Corporations Act, and insolvency statutes, such as the Companies' Creditors Arrangement Act.

KEYWORDS: DEBT RESTRUCTURING ■ INTEREST DEDUCTION ■ DEBT FORGIVENESS ■ DEBT PARKING ■ DEBT FOR EQUITY EXCHANGE ■ ASSET SALE

* Of Osler Hoskin & Harcourt LLP, Montreal (e-mail: mbrender@osler.com).

** Of Thorsteinssons LLP, Toronto (e-mail: bcarr@thor.ca).

*** Of Deloitte LLP, Calgary (e-mail: michaesmith@deloitte.ca).

**** Of Fasken Martineau DuMoulin LLP, Toronto (e-mail: csteeves@fasken.com).

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