

## **Section 86.1 Information for Canadian Shareholders of Air Products and Chemicals, Inc. and Additional Information for Québec Income Tax Filers**

Where a Canadian shareholder of the share(s) of a foreign company receives a distribution of shares (“spin-off shares”) from the company as a result of an eligible corporate reorganization (“spin-off”), section 86.1 of the federal Canadian *Income Tax Act* (the “Act”) may permit such a spin-off share distribution to pass on a rollover basis (e.g., taxation of any gains is deferred) to the shareholder, provided the shareholder complies with certain filing requirements specified in section 86.1 of the Act. This memo provides a basic overview of the election requirements pursuant to section 86.1 of the Act as they may apply to the October 1, 2016 Air Products and Chemicals, Inc. spin-off of the shares of Versum Materials, Inc., which has been approved by the Canada Revenue Agency (the “CRA”) as eligible for Canadian federal income tax purposes, but offers no accounting or tax guidance, as a specialist should be consulted for those purposes. Additional information to Quebec income tax filers is provided in a separate section below.

### **Basic Overview – Section 86.1 Election Requirements**

In order for the spin-off shares on an eligible distribution to pass on a rollover basis to the shareholder, paragraph 86.1(2)(f) of the Act requires the taxpayer to provide the following documentation and information to the CRA:

1. a letter addressed to the CRA stating that the shareholder wishes section 86.1 of the Act to apply to the spin-off share distribution that has been approved by the CRA (a letter is used because there is currently no prescribed form for this specific election);
2. the letter must be filed with the shareholder’s income tax return, within the prescribed filing time, for the taxation year in which the distribution took place;
3. the letter must state the following information about the original shares (i.e., the shares of Air Products and Chemicals, Inc.) the shareholder owned immediately before the distribution of the spin-off shares (i.e., the shares of Versum Materials, Inc.) to the shareholder:
  - a. The number of the original shares owned immediately before the distribution;
  - b. The cost amount of the original shares to the shareholder (e.g. the price the shareholder paid on acquisition of the shares) immediately before the distribution; and
  - c. The fair market value of the original shares immediately before the distribution (see below);
4. the letter must state the following information about the original shares (i.e., the shares of Air Products and Chemicals, Inc.) and the spin-off shares (i.e., the shares of Versum Materials, Inc.) the shareholder owned immediately after the distribution of the spin-off shares to the shareholder:
  - a. The number of the original shares owned immediately after the distribution;
  - b. The fair market value of the original shares immediately after the distribution (see below);
  - c. The number of the spin-off (distributed) shares received on the distribution; and
  - d. The fair market value of the spin-off shares immediately after the distribution (see below).

## **A Summary of the Transaction and the Numerical Reporting Thereof**

Air Products and Chemicals, Inc.'s 2016 spin-off transaction affecting the Canadian shareholders involved:

1. The receipt of one spin-off Versum Materials, Inc. share for each two original shares of Air Products and Chemicals, Inc.
2. Fractional shares of Versum Materials, Inc. were not issued. Instead, Air Products and Chemicals, Inc. aggregated and sold these share in the open market at prevailing rates and the net cash proceeds for the fractional shares were then distributed pro rata to each Air Products and Chemicals, Inc. shareholder who was entitled to fractional shares.

The following fair market values were determined using the Volume-Weighted Average Price and can be assigned to the new Air Products and Chemicals, Inc. shares and the spin-off (Versum Materials, Inc.) shares for reporting purposes.

The fair market value of the Air Products and Chemicals, Inc. shares immediately after the distribution:	US \$140.38
--	-------------

The fair market value of the Versum Materials, Inc. shares immediately after the distribution:	US \$26.34
--	------------

In summary, based on the above information, the fair market value of one Air Products and Chemicals, Inc. share immediately after the distribution was US \$140.38 and the total fair market value of the shareholder's property relating to owning each Versum Materials, Inc. share immediately after the distribution was US \$26.34. This is the basis for electing a tax-deferral of any gains on the Air Products and Chemicals, Inc. shares (e.g. in relation to original cost of the shares) under section 86.1 of the Act.

This means that for Canadian income tax purposes, a shareholder's existing adjusted cost base ("ACB") in an Air Products and Chemicals, Inc. share would be allocated proportionately to the resulting shares. For example, a shareholder who owned 25 shares of Air Products and Chemicals, Inc. would have received 12 Versum Materials, Inc. share (i.e., 1 Versum Materials, Inc. share for every 2 shares of Air Products and Chemicals, Inc.) and cash of approximately US \$13.17 in lieu of fractional shares of 0.5 (i.e., 0.5 x US \$26.34). Where the 25 Air Products and Chemicals, Inc. Common Shares had an averaged ACB per share of US \$100.00, the ACB to the shareholder, immediately after the spin-off of the 25 shares of Air Products and Chemicals, Inc., 12 shares of Versum Materials, Inc. and the 0.5 fractional shares would have been allocated as follows:

	Per Share	Total			
Adjust cost base ("ACB") of Air Product and Chemicals, Inc. Shares	25	2,500			
	# of shares after distribution	Volume-Weighted Average Price on 10/3/2016	Total FMV at 10/3/2016	% of FMV at 10/3/2016	Allocated ACB
Air Products and Chemicals, Inc.	25	140.38	3,509.50	91.42%	2,285.57
Versum Materials, Inc.	12	26.34	316.08	8.23%	205.85
Fractional Shares	0.5	26.34	13.17	0.34%	8.58
			3,838.75	100.00%	2,500.00

#### **Additional Information for Quebec Income Tax Filers**

Quebec income tax filers who wish to take advantage of the section 86.1 rollover and of its equivalent for Quebec income tax purposes for the Air Products and Chemicals, Inc. distribution, should enclose, in their Quebec income tax return, a copy of the section 86.1 election letter addressed to the CRA and also a separate sheet addressed to Revenue Quebec explaining that the enclosed letter to the CRA is in compliance with paragraph (f) of section 578.1 of the *Taxation Act* (Quebec) and sets out the information required by the second paragraph of section 578.3 of the *Taxation Act* (Quebec). In addition, Quebec filers should enclose a copy of the attached CRA letter which confirms the eligibility of the Air Products and Chemicals, Inc. 2016 spin-off.



MR. DANIEL BELLEFONTAINE  
ERNST&YOUNG, LLP  
215-2<sup>ND</sup> STREET S.W., SUITE 2200  
CALGARY, AB  
T2P 1M4

February 21, 2017

**RE: Spin-off of Versum Materials, Inc. by Air Products and Chemicals, Inc.**

Dear Sir,

We are replying to your correspondence dated *February 10, 2017*, in which you submitted information with regard to the tax treatment of the spin-off undertaken on **October 1st, 2016** by *Air Products and Chemicals, Inc.* of its subsidiary *Versum Materials, Inc.*

Based on the information that you provided, the distribution meets the requirements of paragraph 86.1(2)(e) of the Canadian Income Tax Act (the Act). Since you have provided all of the information required under this paragraph, shareholders will be entitled to elect under section 86.1 of the Act in respect of the distribution.

We also acknowledge receipt of your consent to publish the fact that you have provided the information required to meet the conditions of paragraph 86.1(2)(e) of the Act.

However, if IRS reviews the distribution at a later date and determines the distribution taxable, we will reverse our decision.

Should you have any questions, please do not hesitate to contact me at 418 634-3261.

Yours truly,

Vasile-Cornel Cozma  
International Auditor  
Eastern Quebec Tax Services Office