Canada Revenue Agency
Agence du revenu du Canada

T2 Corporation – Income Tax Guide

2005

Canada

Visually impaired persons can get our publications in braille, large print, or etext (computer diskette), or on audiocassette by visiting our Web site at **www.cra.gc.ca/alternate** or by calling 1-800-267-1267 weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

The law allows Statistics Canada to access business taxpayer information collected by the CRA. Statistics Canada can now share with provincial or territorial statistical agencies, for research and analysis purposes only, data concerning business activities carried out in their respective province or territory.

This guide uses plain language to explain the most common tax situations. If you need help after you read this guide, call our Business Enquiries line at **1-800-959-5525**.

In this publication, we use the name "Canada Revenue Agency" and the acronym "CRA" to represent the Canada Customs and Revenue Agency. This reflects recent changes in the structure of the Agency.

La version française de cette publication est intitulée T4012, *Guide T2 – Déclaration de revenus des sociétés*.

What's new

Item numbers

Item numbers in this guide and the T2 return have been removed. References to item numbers in this guide have been replaced with references to page numbers and to the line number on the return if applicable.

Accelerated tax reduction

For 2005 and subsequent taxation years, the accelerated tax reduction is no longer available. Consequently, any reference to this reduction in this guide has been removed. Line 637, *Accelerated tax reduction*, has been removed from the T2 corporation return.

Non-resident-owned investment corporations

Generally, the last taxation year in which a corporation could be a non-resident-owned investment corporation (NRO) was a taxation year beginning in 2002. As transitional relief, a corporation could elect to be treated as an NRO in its first non-NRO year to allow it to recover refundable tax on dividends it paid out in its first non-NRO year. Since a corporation can no longer qualify as an NRO, all references to NROs in this guide have been removed. Line 804, *Allowable refund for non-resident-owned investment corporations*, has been removed from the T2 corporation return.

Syncrude Remission Order

The *Syncrude Remission Order* expired on December 31, 2003. Consequently, the remission under this Order is no longer available for taxation years that begin after December 31, 2003. References to this deduction will be removed next year from this guide. Line 815, *Royalties deductible under Syncrude Remission Order* and Line 816, *Tax remitted under Syncrude Remission Order* will also be removed next year from the T2 corporation return.

2005 federal, provincial and territorial budgets

The following changes were announced in the 2005 federal and various provincial/territorial budgets or in a subsequent legislative amendment. Details on these changes are outlined in red in this guide.

Corporate surtax

The surtax will be eliminated for small and medium-sized corporations as of January 1, 2008. See page 55.

Capital cost allowance

Capital cost allowance rates will be better aligned with the useful life of assets. As part of this continuing review, CCA rates will be adjusted for hydrocarbon transmission pipelines and related pumping and compression equipment; combustion turbines generating electricity; electricity transmission and distribution equipment; and cables for telecommunications infrastructure. See page 32.

Agricultural co-operatives

The deduction in a taxation year by an agricultural co-operative corporation for patronage dividends paid in the form of tax deferred co-operative shares issued after 2005 and before 2016 will be restricted to no more than 85% of its income for that year attributable to business done with members. See page 38.

Scientific research and experimental development (SR&ED) investment tax credit

For purposes of this credit, the expression "in Canada" will include the "exclusive economic zone" of Canada. See page 39.

Newfoundland and Labrador film and video industry tax credit

This credit is extended and the maximum credit is increased. See page 70.

Prince Edward Island tax rate

The lower rate of Prince Edward Island tax rate is reduced to 6.5% effective April 1, 2005. See page 71.

Prince Edward Island manufacturing and processing tax credit

This credit is eliminated effective April 1, 2005. See page 71.

Nova Scotia business limit

The Nova Scotia business limit is increased to $350,000 effective April 1, 2005 and to $400,000 effective April 1, 2006. See page 71.

Nova Scotia film industry tax credit

This credit is increased and extended for an additional 10 years and introduces a frequent film bonus. See page 72.

New Brunswick tax rate

The lower rate of New Brunswick income tax is reduced to 2% effective July 1, 2005, to 1.5% effective July 1, 2006, and to 1% effective July 1, 2007. See page 73.

New Brunswick business limit

The New Brunswick business limit is increased to $450,000 effective July 1, 2005, to $475,000 effective July 1, 2006, and to $500,000 effective July 1, 2007. See page 73.

Manitoba tax rate

The higher rate of Manitoba income tax is reduced to 14.5% effective July 1, 2006, and to 14% effective July 1, 2007. See page 74.

Manitoba small business deduction

The small business deduction rate is changed effective January 1, 2006 and January 1, 2007. See page 74.

Manitoba manufacturing investment tax credit

This credit was previously called the Manitoba manufacturing and processing tax credit.

After March 8, 2005, qualifying property includes used buildings, machinery, and equipment made available for use in manufacturing or processing goods for sale or lease. See page 74.

Manitoba refundable manufacturing investment tax credit

For taxation years ending after March 8, 2005, 20% of the Manitoba manufacturing investment tax credit is refundable. See page 75.

Manitoba research and development tax credit

After March 8, 2005, the amount of the credit is equal to 20% of eligible expenditures. See page 75.

Manitoba co-operative education tax credit

This credit is extended to December 31, 2008. See page 75.

Manitoba film and video production tax credit

This credit is significantly enhanced. See page 76.

British Columbia business limit

The British Columbia business limit is increased to $400,000 effective January 1, 2005. See page 77.

British Columbia tax rate

The higher rate of British Columbia income tax is reduced to 12% effective July 1, 2005. See page 77.

British Columbia film and television tax credit

The basic tax credit is increased. See page 79.

British Columbia production services tax credit

This credit is increased. See page 81.

British Columbia mining exploration tax credit

This credit is extended to December 31, 2016. See page 81.

Northwest Territories investment tax credit

This credit is re-introduced, effective January 1, 2005. See page 83

Nova Scotia tax on large corporations

Starting July 1, 2005, and over a four-year period, the large corporation tax rate for all related corporations with a taxable capital of under $10 million will be decreased from 0.6% to 0.4% and from 0.3% to 0.2% if the taxable capital is $10 million or more. See page 84.

Do you have an income tax problem?

If you have a problem, you can call 1-800-959-5525 for service in English and 1-800-959-7775 for service in French.

If your problem is not resolved to your satisfaction, call the Problem Resolution Program co-ordinator listed in the government section of your telephone book.

If you have an income tax problem relating to a return for a non-resident corporation, call the International Tax Services Office at one of the telephone numbers listed under the heading "Non-resident corporations" on page 9.

Your opinion counts

We review this guide each year. If you have any comments or suggestions to help us improve our publications, we would like to hear from you.

Please send your comments to:

Client Services Directorate
Canada Revenue Agency
750 Heron Road
Ottawa ON K1A 0L5

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2005 and later taxation years

In this guide, we give you basic information on how to complete the *T2 Corporation Income Tax Return* for 2005 and later taxation years.

When we mention parts, sections, subsections, paragraphs, and subparagraphs, we are referring to the *Income Tax Act and Regulations* of Canada, unless otherwise specified. This guide does not replace the *Income Tax Act* and its regulations.

We also refer to information circulars (ICs) and interpretation bulletins (ITs) that we publish to give you information that is more technical.

Many of our publications, including forms, schedules, ICs, and ITs are available on our Web site at: **www.cra.gc.ca/forms**

You can also get printed versions by calling 1-800-959-2221. A table at the end of this guide lists the forms by number.

Our service pledge

The Canada Revenue Agency (CRA) will process 75% of T2 corporation income tax returns within 50 days, and 90% of returns within 90 days.

Who has to file a T2 return?

Resident corporations

All corporations—including non-profit organizations, tax-exempt corporations, and inactive corporations—have to file a T2 return for every taxation year, even if there is no tax payable. The only exception to this rule is a corporation that was a registered charity throughout the year.

Non-resident corporations

A non-resident corporation may be subject to Canadian income tax if, at any time in the year, one of the following situations applies:

- it carried on business in Canada;
- it had a taxable capital gain; or
- it disposed of taxable Canadian property.

A non-resident corporation has to file a return in a number of situations, including:

- when it has to pay Part I tax in the current year or would have to pay it except for a tax treaty;
- when it has made an election to pay Part I tax on the net amount of timber royalty income or rental income from real property under subsection 216(4);
- when a corporation is subject to tax under Part XIV (known as branch tax); or
- when it has made an election to pay Part I tax on the net amount of acting services under subsection 216.1(1).

This requirement applies even if any profits or gain(s) realized are claimed by the corporation to be exempt from Canadian income tax due to the provisions of a tax treaty.

The meaning of "business" is defined in section 248 and the extended meaning of "carrying on business [in Canada]" is defined in section 253.

The above references to taxable capital gain do not include any gain resulting from the disposition of shares that are listed on a prescribed stock exchange (other than taxable Canadian property).

Non-resident corporations claiming treaty exemption

If you carried on a "treaty-protected business" in Canada, had a taxable capital gain, or disposed of a "taxable Canadian property" that was "treaty-protected property" during the year (as defined in section 248), you have to complete the following lines on your return:

- lines 001 to 082 of page 1;
- lines 164, 170, and 171 of page 2;
- lines 280 to 289 of page 3; and
- lines 780 to 990, if they apply, of page 8.

For each of the questions asked at lines 164, 170, and 171 on page 2 of the return to which your response is *Yes*, complete the appropriate form or schedule and attach it to your return. In addition, you have to complete Schedule 91, *Information Concerning Claims for Treaty-based Exemptions*.

Services rendered in Canada (withholding tax)

A non-resident corporation is subject to a 15% withholding tax under Regulation 105 on any fee or other amount paid to it for services rendered in Canada (including those services provided by employees of the corporation or by subcontractors). This amount is held on account of the final tax liability pending the filing of the corporation income tax return.

However, instead of the withholding tax under Regulation 105, a corporation related to a non-resident actor is subject to a 23% withholding tax under Part XIII on all amounts received for the provision in Canada of the acting services of the actor in a film or video production. This withholding tax represents the final tax liability for these acting services. The corporation may elect not to be taxed under Part XIII at the 23% rate by filing, for the year, a return of income under Part I.

A non-resident corporation that has received a waiver of this withholding tax from the CRA still has to file a return.

Dispositions of taxable Canadian property (certificates of compliance)

Generally, a non-resident corporation that disposes of taxable Canadian property must notify the CRA and get a certificate of compliance under section 116. For details, see IC 72-17, *Procedures Concerning the Disposition of Taxable Canadian Property by Non-residents of Canada – Section 116.*

A non-resident corporation that has a taxable capital gain or disposed of taxable Canadian property, including a corporation that may have received a certificate of compliance from the CRA, has to file a return.

In what format can you file your return?

Corporation Internet Filing

Most corporations can file their return electronically using the Internet. You must use CRA-approved software that has been certified for Corporation Internet Filing.
For information on your eligibility, available software, and more, visit our Web site at:
www.cra.gc.ca/corporation-internet

You can also use one of three formats to file your paper return by mail or in person.

Using our preprinted returns

We print two different returns.

T2 Corporation Income Tax Return
The *T2 Corporation Income Tax Return* has eight pages. Any corporation can use it.

***T2 Short* return**
The *T2 Short* return is two pages plus a Schedule 1, a Schedule 8, and a Schedule 50. It is a simpler version of the *T2 Corporation Income Tax Return*. Two categories of corporations are eligible to use this return:

1. You can use this return if the corporation meets **all** of the following conditions:
   - it is a Canadian-controlled private corporation (CCPC);
   - this year, it has either a nil net income or a loss for income tax purposes;
   - it has a permanent establishment in only one province or territory (see page 67);
   - it is not claiming any refundable tax credits (other than a refund of instalments it paid); and
   - it did not receive or pay out any taxable dividends.
2. You can also use this return if the corporation is a tax-exempt corporation (such as a non-profit organization) that has a permanent establishment in only one province or territory.

If the corporation does not fit into either of the above categories, you have to file a regular T2 return.

Using T2 RSI, *Return and Schedule Information*

If you are filing your return in the T2 RSI format, you must use certified software. We certify software to ensure that it meets our specifications. Only CRA-certified software generates the T2 RSI in an acceptable format.

The paper quality and print legibility of your T2 RSI have to meet our standards. You have to print your T2 RSI on paper that is as durable as the 32M paper we use to print our forms. The print quality has to be clear and dark enough to read and photocopy easily. As well, the T2 RSI has to be printed on separate pages and on one side only.

If the T2 RSI you file was not generated by software that we certified or does not meet our requirements, we will send it back to you to re-file the return, either in an approved format or using our preprinted forms.

Generally, in addition to the T2 RSI, certified software produces a client copy of the T2 return, which looks like a CRA pre-printed T2 return. Keep the client copy for your files and send the T2 RSI to us.

Using facsimile returns

The T2 facsimile return (which is not to be confused with a client's copy produced by an approved T2 software) is an exact copy of our pre-printed T2 return. These returns have to meet our standards of format, legibility, and paper quality. However, you can print them on separate pages, instead of on the back and the front of each sheet.

Reference
IC 97-2, *Customized Forms* (only available electronically)

When do you have to file your return?

File your return within six months of the end of each taxation year. The taxation year of a corporation is its fiscal period.

When the corporation's taxation year ends on the last day of a month, file the return by the **last** day of the sixth month after the end of the taxation year.

When the last day of the taxation year is not the last day of a month, file the return by the **same** day of the sixth month after the end of the taxation year.

Examples **Taxation year-end**	**Filing deadline**
March 31	September 30
June 30	December 31
August 31	February 28
September 23	March 23
October 2	April 2

When the T2 filing deadline falls on a Saturday, Sunday, or statutory holiday, we will consider the return filed on time if you deliver, mail, or transmit it on the first business day after the filing deadline.

If you hand-deliver the return to a tax services office or tax centre, we will date-stamp it and consider it filed on that day.

If you either mail the return first-class or use an equivalent delivery service, we consider the date of the postmark when determining if the return was filed on time.

Penalties may apply if you file the return late. See page 10 for details.

> **Note**
> **You must file a return no later than three years after the end of a taxation year to receive a tax refund.**

Where do you file your return?

Where you file your paper return depends on where the corporation is located.

Resident corporations

Deliver the return to your tax services office, or mail it to one of the following tax centres:

Corporations served by tax services offices in:	**Tax centre**
British Columbia, Yukon, Regina	Tax Centre Surrey BC V3T 5E1
Alberta, Manitoba, Northwest Territories, Saskatoon, London, Windsor, and Thunder Bay	Tax Centre Winnipeg MB R3C 3M2
Sudbury/Nickel Belt, Toronto Centre, Toronto East, Toronto West, Toronto North, and Barrie	Tax Services Office/Tax Centre Sudbury ON P3A 5C1
Montréal, Laval, Ottawa, Sherbrooke, Rouyn-Noranda, North-Eastern Ontario, and Nunavut	Tax Centre Shawinigan-Sud QC G9N 7S6
Québec, Chicoutimi, Rimouski, Trois-Rivières, Outaouais, and Montérégie-Rive-Sud	Tax Centre Jonquière QC G7S 5J1
Nova Scotia, New Brunswick, Newfoundland and Labrador, Kingston, Peterborough, and St. Catharines	Tax Centre St. John's NL A1B 3Z1
Prince Edward Island, Belleville, Hamilton, and Kitchener/Waterloo	Tax Centre Summerside PE C1N 6A2

Non-resident corporations

The International Tax Services Office in Ottawa assesses and reassesses returns that non-resident corporations file. If the corporation is non-resident, send the returns and related correspondence to:

International Tax Services Office
2204 Walkley Road
Ottawa ON K1A 1A8

If you have questions about non-resident returns, visit our Web site at: **www.cra.gc.ca/tax/nonresidents/business** or call the International Tax Services Office at one of the following telephone numbers:

Long-distance from Canada and the United States	1-800-561-7761, ext 9144
Long-distance from outside Canada and the United States	(613) 954-9681*
Fax number	(613) 952-3845

*We accept collect calls.

Film and television production industry

Film Services Units provide services to Canadian and non-resident corporations claiming film tax credits, and to non-resident corporations providing services in Canada in the film and television production industry. For more information, including the location and contact numbers for the Film Services Unit serving your area, see our Web site at **www.cra.gc.ca/tax/nonresidents/film/menu-e.html**.

> **Note**
> Your return may be an election to file a Canadian return under section 216.1. If so, send your return to the applicable Film services unit. Write "Actor's election" at the top of page 1 of the return.

When do corporations pay income tax?

Corporations have to pay income tax in monthly instalments when the total of Part I, Part I.3, Part VI, Part VI.1, and Part XIII.1 taxes payable for either the previous year or the current year is more than $1,000.

The balance of tax the corporation owes for a taxation year is due within either two or three months of the end of that taxation year, depending on the circumstances of the corporation.

Interest and penalties apply to late payments. To be on time, you have to make instalment payments and other payments on or before the due date either by mailing a cheque payable to the Receiver General for Canada, or by paying directly through a Canadian financial institution. You may be able to make arrangements with your financial institution to make your payments electronically. Visit our Web site at **www.cra.gc.ca/eservices/payments** or contact your financial institution for more information.

We consider the payment to have been made on the day we receive it, and not on the day you mail it. Your payment due date may fall on a Saturday, Sunday, or a statutory holiday. If so, we will consider the payment as being received on time for calculating instalment interest and penalty, if we receive the payment on the first business day after the due date.

> **Note**
> Sometimes, interest and penalties on late payments can be waived or cancelled. For more information, see the section called "Waiving penalties and interest" on page 11.

Instalment due dates

Instalment payments for Parts I, I.3, VI, VI.1, and XIII.1 tax are due on the last day of every complete month of a corporation's taxation year. The first payment is due one month minus a day from the starting date of the corporation's taxation year. The rest of the payments are due on the same day of each month that follows.

Balance due date

Generally, all corporation taxes (with the exception of Part III and Part XII.6) are due **two** months after the end of the taxation year. However, the tax is due **three** months after the end of the taxation year if the following conditions apply:

- the corporation is a CCPC throughout the taxation year;
- the corporation claims the small business deduction for the taxation year, or was allowed the small business deduction in the previous taxation year; **and either**
- the corporation's taxable income for the previous taxation year does not exceed its business limit for that taxation year (if the corporation **is not associated** with any other corporation during the taxation year); **or**
- the total of the taxable incomes of **all** the associated corporations for their last taxation year ending in the previous calendar year does not exceed the total of their business limits for those taxation years (if the corporation **is associated** with any other corporation during the taxation year).

The business limits are provided at "Line 410-Business limit" on page 51. For more information about allocating the business limit among associated corporations, see Schedule 23 on page 21.

> **Note**
> For determining balance due dates, the preceding year taxable income of corporations and associated, subsidiary, and predecessor corporations means taxable income before applying loss carry-backs.

Special rules apply to determine the **balance due date** of a new corporation formed after an amalgamation or of a parent corporation after it receives the assets of a subsidiary corporation that is winding-up. For more information, visit **www.cra.gc.ca/tax/business/topics/corporations/payments** or see guide T7B Corp, called *Corporation Instalment Guide*.

References
Sections 125 and 157

Penalties

What happens if you file your return late?

If you file your return late, a penalty applies. The penalty is **5%** of the unpaid tax that is due on the filing deadline, **plus 1%** of this unpaid tax for each complete month that the return is late, up to a maximum of **12** months.

The corporation will be charged an even larger penalty if we issued a demand to file the return under subsection 150(2), and if we assessed a late-filing penalty for the corporation in any of the three previous taxation years. The penalty is **10%** of the unpaid tax when the return was due, **plus 2%** of this unpaid tax for each complete month that the return is late, up to a maximum of **20** months.

References
Subsections 162(1) and 162(2)

Non-resident corporations

A non-resident corporation can be subject to an alternative late-filing penalty calculation equal to whichever is greater:

- $100; or
- $25 multiplied by the number of days, not exceeding 100, from the day on which the return was required to be filed to the day on which the return is filed.

This penalty applies if the amount calculated is more than the amount of penalty usually applied under subsections 162(1) and (2), as discussed above.

Reference
Subsection 162(2.1)

Large corporations

A penalty may apply to large corporations that have gross Part I.3 tax, large corporation tax for the provinces of Nova Scotia and New Brunswick, or Part VI tax payable. The penalty applies if they do not file, as required, the following:

- *T2 Corporation Income Tax Return*;
- Schedule 33, *Part I.3 Tax on Large Corporations*;
- Schedule 34, *Part I.3 Tax on Financial Institutions*;
- Schedule 35, *Part I.3 Tax on Large Insurance Corporations*;

- Schedule 38, *Part VI Tax on Capital of Financial Institutions*;
- Schedule 342, *Nova Scotia Tax on Large Corporations*; and
- Schedule 361, *New Brunswick Tax on Large Corporations*.

The penalty is **0.25%** for each complete month that the return is late, up to a maximum of **40** months. This penalty is calculated on the combined amount that is payable under the large corporation schedules listed above. This penalty applies separately for each late-filed schedule, in addition to any other penalty.

Reference
Section 235

What happens if you do not report income?

A penalty will be charged if a corporation does not report an amount of income on its return for a taxation year, and if it failed to report income in any of the three previous taxation years. The penalty is **10%** of the amount of unreported income in the year that is subject to the penalty.

Reference
Subsection 163(1)

False statements or omissions

A penalty will be charged if a corporation, either knowingly or under circumstances of gross negligence, makes a false statement or omission on a return. The penalty is the greater of either **$100** or **50%** of the amount of understated tax.

Reference
Subsection 163(2)

> **Note**
> If a corporation is charged a penalty for making a false statement or omission under subsection 163(2), the corporation cannot be charged a penalty on the same amount for failing to report income under subsection 163(1).

Misrepresentation in tax matters by a third party

A penalty will be charged if a person counsels or assists another person in filing a false return or knowingly allows a taxpayer to submit false tax information.

Reference
IC 01-1, *Third-Party Civil Penalties*
Section 163.2

Other penalties

A corporation can also be charged penalties for:

- not providing information on an authorized form;
- not filing Form T106, *Information Return of Non-Arm's Length Transactions With Non-Residents* (see page 23);
- not filing the T5013 Summary, *Partnership Information Return* (see page 23);
- not filing Form T1134-A, *Information Return Relating to Foreign Affiliates that are not Controlled Foreign Affiliates,* Form T1134-B, *Information Return Relating to Controlled Foreign Affiliates,* Form T1135, *Foreign Income Verification Statement,* Form T1141, *Information Return in Respect of Transfers or Loans to a Non-Resident Trust,* and Form T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-Resident Trust* (see "Foreign Property" on page 24); or
- late or incomplete instalment payments.

References
Sections 162 and 163.1

Waiving penalties and interest

Sometimes, late-filing penalties or interest charges may be waived in situations where the corporation clearly does not deserve them. The reason for filing late or not paying an amount when it is due may be beyond the taxpayer's control. The types of situations in which a penalty or interest charge may be waived include:

- natural or human-made disasters, such as floods or fires;
- civil disturbances or disruptions in services, such as postal strikes;
- serious illness or accident suffered by the person who is responsible for filing the corporation's return; and
- the corporation receiving the wrong information, either in a letter from us or in one of our publications.

If the corporation is in one of these situations, let us know about the problem and try to file the return and pay any amount of tax owing as soon as possible. If you need an extension for filing a return because of extraordinary circumstances, or if you think there is a valid reason for cancelling a penalty or interest charge, send us a letter explaining why it was impossible for you to file the return or make the payment on time.

Requests to waive or cancel penalties or interest made in a calendar year after 2004 will only be considered for a taxation year that ended 10 calendar years or less before the calendar year of the request.

References
Subsection 220(3.1)
IC 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*

Voluntary disclosures program

Under the Voluntary disclosures program, you can correct inaccurate information or disclose previously omitted information. You will not be penalized or prosecuted if you make a full disclosure before we start any enforcement action or investigation against you. You will only have to pay the taxes owing plus interest.

For more details get Information Circular 00-1, *Voluntary Disclosures Program (Income Tax Act)*, or call the Voluntary disclosures officer in the Appeals Division of your tax services office. If you wish, you can discuss your situation first on a no-name or hypothetical basis.

Reference
IC00-1, *Voluntary Disclosures Program*

What happens after you have filed your return?

After we receive your return, we send it to Corporation Services of the responsible tax centre for processing. A list of the tax centres can be found on page 9.

When we assess the return, we mail the corporation a *Notice of Assessment* and, if necessary, an explanation of any changes we made to the return.

As soon as you receive the assessment notice, compare it to your copy of the corporation's return. Contact us if you need us to clarify or explain any part of the assessment.

How to authorize the release of information to third parties

If you would like us to release details about any T2 return or other returns to an independent representative, such as an accountant, you can either send us a signed letter of authorization, or complete Form RC59, *Business Consent Form*.

If you choose to write a letter of authorization, specify the taxation year and the person or people authorized to receive the information. To cancel an authorization that was previously given, notify us in writing immediately.

If you choose to use Form RC59, you can get it from our Web site at **www.cra.gc.ca/forms**, or by calling 1-800-959-2221. You can use this form to give an authorization, to cancel one that you previously granted, or to change the information currently on file with us.

You have to submit a separate authorization each time you give or cancel a third-party authorization.

When can we reassess your return?

Within certain time limits, we can reassess your return or make additional assessments of tax, interest, and penalties. These time limits vary, depending on the type of corporation and the nature of the reassessment.

Normal reassessment period

We can usually reassess a return for a taxation year:

- within **three** years of the date we mailed the original *Notice of Assessment* for the taxation year, if the corporation was a CCPC at the end of the year; **or**
- within **four** years of the date we mailed the original *Notice of Assessment* for the taxation year, if the corporation **was not** a CCPC at the end of the year.

Extended reassessment period

The normal reassessment period can be extended for an extra three years for any of the following reasons:

- if you want to carry back a loss or credit from a later taxation year;
- when a non-arm's length transaction between the corporation and a non-resident affects the corporation's tax;
- if the corporation pays an amount or receives a refund of foreign income or profits tax;
- when a reassessment of another taxpayer's tax for any of the above reasons affects the corporation's tax;
- if a reassessment of another taxation year (it must be a prior taxation year if the reassessment relates to a loss or credit carry-back) for any of the above reasons affects the corporation's tax; or
- if the reassessment results from a non-resident corporation's allocation of revenue or expenses for the Canadian business or from a notional transaction, such as "branch advance," between the non-resident corporation and its Canadian business.

Unlimited reassessment period

We can reassess a return **at any time** if:

- the corporation has made a misrepresentation because of neglect, carelessness, wilful default, or fraud in either filing the return or supplying information required by the *Income Tax Act*;
- the corporation filed Form T2029, *Waiver in Respect of the Normal Reassessment Period,* with a tax services office before the normal reassessment period expires;
- the reassessment is a carry-back of losses or certain tax credits and deductions where a prescribed form requesting the amendment has been filed on time; or
- a court instructs us to reassess.

Note
If you want to revoke a waiver that was previously filed to extend the normal reassessment period for a certain taxation year, file Form T652, *Notice of Revocation of Waiver*, at your tax services office. The revocation will take effect six months after you file Form T652.

References
Subsections 152(3.1), 152(4), and 152(4.1)
IC 75-7, *Reassessment of a Return of Income*

How to request a reassessment

Send reassessment requests to the tax centre that serves the corporation. In your request, state the name of the corporation, the Business Number, the taxation year, and any details that apply. Include any relevant supporting information, such as revised financial statements and schedules.

To request a carryback of a loss or tax credit to a prior taxation year, file whichever of the following schedules apply:

- Schedule 4, *Corporation Loss Continuity and Application*, to request the carryback of a loss;
- Schedule 21, *Federal Foreign Income Tax Credits and Federal Logging Tax Credit*, to request a carryback to previous years of foreign tax credits on business income;
- Schedule 31, *Investment Tax Credit – Corporations*, to request the carryback of an investment tax credit;
- Schedule 37, *Calculation of Unused Surtax Credit*, to request the carryback of surtax credit; and.
- Schedule 42, *Calculation of Unused Part I Tax Credit*, to request the carryback of Part I tax credit.

You can file these schedules with the return on which you report the loss or earned the credit, or you can forward them separately to the tax centre that serves the corporation.

Reference
Subsection 152(6)

What should you do if you disagree?

You can make a formal objection if you disagree with the amount of tax, interest, or penalties we have assessed or reassessed. You can make an objection by filing Form T400A, *Objection – Income Tax Act*, or by sending a letter to the Chief of Appeals at your tax services office or tax centre. In the letter, explain the reasons for the objection, and outline all the relevant facts. You have **90** days from the date of the assessment or reassessment to file the objection or send the letter.

For a large corporation, the notice of objection has to:

- reasonably describe each issue;
- specify the relief you are seeking, expressed as the amount of a change in the income, taxable income, loss, taxes payable, refundable amounts, and overpayments or balance of unclaimed outlays, expenses, or other amounts of the corporation; and
- provide facts and reasons the corporation relied on for each issue.

Once we receive the objection, an appeals officer at the tax services office or tax centre will impartially review the assessment or reassessment in dispute. The appeals officer will then contact the corporation or its authorized representative to discuss the differences and to try to resolve the dispute.

If the differences in how we interpreted or applied the law are not resolved, the corporation can then appeal the assessment or reassessment to the Tax Court of Canada.

You do not have to pay the disputed amount of tax, interest, or penalty while you are waiting for the outcome of the CRA's or the Tax Court of Canada's impartial review, unless the corporation or a related corporation is liable for tax under Part I.3. However, once the objection or appeal is settled, normal interest charges will apply to any tax, interest, or penalties outstanding. Interest charges are calculated from the balance due date.

Reference
Section 165

A corporation that objects to an assessment will have to pay **50%** of the disputed amount if either it or a related corporation was liable for the large corporations tax under Part I.3 for the year in dispute. The corporation also has to pay the full amount of taxes not in dispute.

Reference
Subsection 225.1(7)

Appealing loss determinations

The objection and appeal process does not usually apply to loss amounts under dispute, because there is no tax, interest, or penalty involved.

However, if a corporation does not agree with losses that we have assessed and wants to appeal, it has to request a loss determination. We officially determine the amount of the loss and confirm it in writing by issuing Form T67AM, *Notice of Determination/Redetermination of a Loss.* Once the corporation has received this form, it can appeal our loss determination.

If the corporation asks, we will make determinations of the following amounts:

- a non-capital loss;
- a net capital loss;
- a restricted farm loss;
- a farm loss; or
- a limited partnership loss.

Send any requests for loss determinations to your tax services office or tax centre.

References
Subsections 152(1.1) and 152(1.2)
IT-512, *Determination and Redetermination of Losses*

Books and records or electronic records

You have to keep the corporation's books and records or electronic records, in case we need to verify the income or loss you reported on the return.

Keep these documents, including related accounts and vouchers, for at least six years from the end of the last taxation year to which they relate. If you filed a return late, keep books and records or electronic records for six years from the date you filed the return. If your corporation dissolves, you have to keep books and records or electronic records until two years after the date the corporation is dissolved.

Permanent records (such as directors' and shareholders' minutes, share register, general ledger or books of final entry, and special contracts or agreements necessary to understand entries in the general ledger or other books of final entry) must be kept for two years after the corporation's date of dissolution.

Do not destroy the books and records or electronic records any earlier unless we give you written permission.

Keep books and records, including electronic records that relate to an objection or appeal notice, until the objection or appeal process is finished and the time for filing any appeal has expired.

Keep all receipts and documents that you do not have to file with the return in an orderly manner, in case we need to see them to support a claim, or in case we select the return for further review or audit.

For more information, see guide RC4409, *Keeping Records*, which is available only on the Internet.

References
Subsections 230(4), 230(4.1), 230(5), and 230(6)
Regulation 5800
IC 78-10, *Books and Records Retention/Destruction*
RC4409, *Keeping Records* (only available electronically)

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Identification

Accurately complete page 1 of your return, so we can properly identify the corporation and process the return more quickly.

Line 001 – Business Number (BN)

The Business Number (BN) is a 15-character number composed of three parts. The first nine digits identify your business. The "RC" identifies the corporation income tax program. The last four digits identify the particular program account.

On **line 001**, enter your BN for income tax purposes. Enter "0001" as the program account identifier unless we have advised you to use a different one. You will find the corporation's BN on previous assessment notices, instalment receipts, or remittance forms.

> **Note**
> If you are a non-resident corporation requiring a BN, see guide RC2, *The Business Number and Your Canada Revenue Agency Accounts,* on our Web site at **www.cra.gc.ca**.

Lines 002 to 004 – Corporation's name

Line 002 – Corporation's name

Enter the full name of the corporation. Do not use abbreviations, and make sure the punctuation is correct.

Line 003 – Has the corporation changed its name since the last time we were notified?

To answer this question, tick either the *Yes* or *No* box. If you answer Y*es*, also answer line 004 by indicating *Yes* or *No* to whether you have a copy of the articles of amendment available.

Lines 010 to 018 – Address of head office

Line 010 – Has the address changed since the last time we were notified?

To answer this question, tick either the *Yes* or *No* box. If you answer *No*, you do not have to complete lines 011 to 018.

Lines 011 to 018

If you answered *Yes* at line 010, enter the head office address of the corporation, including the street number, street, city, province/territory/state, and postal code or zip code in the appropriate area. If it applies, complete line 017.

Lines 020 to 028 – Mailing address

Complete this area if the corporation's mailing address is different from its head office address.

Line 020 – Has the address changed since the last time we were notified?

To answer this question, tick either the *Yes* or *No* box. If you answer *No*, you do not need to complete lines 021 to 028.

Lines 021 to 028

Enter the mailing address of the corporation by completing lines 021 to 028. If it applies, complete line 027.

If the corporation mailing address changes, let the responsible tax centre know in writing as soon as possible.

Lines 030 to 038 – Location of books and records

Line 030 – Has the location of books and records changed since the last time we were notified?

To answer this question, tick either the *Yes* or *No* box. If you answer *No*, you do not need to complete lines 031 to 038.

If this is your **first year** of filing after incorporation or amalgamation, you must tick *Yes* and complete lines 031 to 038.

Lines 031 to 038

Enter the address of the location where the corporation keeps its books and records by completing lines 031 to 038. If it applies, complete line 037.

Lines 040 and 043 – Type of corporation at the end of the taxation year

Line 040

Tick the box that describes the corporation type **at the end of the taxation year**. The corporation type determines whether or not the corporation is entitled to certain rates and deductions. See the following for details.

Reference
IT-391, *Status of Corporations*

Box 1 – Canadian-controlled private corporation (CCPC)

Tick this box if the corporation meets **all** of the following requirements at the end of the taxation year:

- it is a private corporation;
- it is a corporation that was resident in Canada and was either incorporated in Canada or resident in Canada from June 18, 1971, to the end of the taxation year;
- it is not controlled directly or indirectly by one or more non-resident persons;
- it is not controlled directly or indirectly by one or more public corporations (other than a prescribed venture capital corporation, as defined in Regulation 6700);
- it is not controlled by a Canadian resident corporation that lists its shares on a prescribed stock exchange outside of Canada;
- it is not controlled directly or indirectly by any combination of persons described in the three preceding conditions;
- if all of its shares that are owned by a non-resident person, by a public corporation (other than a prescribed venture capital corporation), or by a corporation with a class of shares listed on a prescribed stock exchange, were owned by one person, that person would not own sufficient shares to control the corporation; and
- no class of its shares of capital stock is listed on a prescribed stock exchange.

References
Subsections 89(1) and 125(7)
IT-458, *Canadian-Controlled Private Corporation*

Box 2 – Other private corporation

Tick this box if the corporation meets **all** of the following requirements at the end of the taxation year:

- it is resident in Canada;
- it is not a public corporation;
- it is not controlled by one or more public corporations (other than a prescribed venture capital corporation, as defined in Regulation 6700);
- it is not controlled by one or more prescribed federal Crown corporations (as defined in Regulation 7100); and
- it is not controlled by any combination of corporations described in the two preceding conditions.

References
Subsection 89(1)
Regulations 6700 and 7100

Box 3 – Public corporation

Tick this box if the corporation is resident in Canada and meets either of the following requirements at the end of the taxation year:

- it has a class of shares listed on a prescribed Canadian stock exchange; or
- it has elected, or the Minister of National Revenue has designated it, to be a public corporation and the corporation has complied with prescribed conditions under Regulation 4800(1) on the number of its shareholders, the dispersing of the ownership of its shares, the public trading of its shares, and the size of the corporation.

If a public corporation has complied with certain prescribed conditions under Regulation 4800(2), it can elect, or the Minister of National Revenue can designate it, not to be a public corporation.

References
Subsection 89(1)
Regulation 3200
Regulations 4800(1) and 4800(2)

Box 4 – Corporation controlled by a public corporation

Tick this box if the corporation is a Canadian subsidiary of a public corporation. This type of corporation does not qualify as a public corporation for determining the type of corporation.

Box 5 – Other corporation

Tick this box if the corporation does not fall within the other categories. Examples of other corporations include general insurers and Crown corporations.

Line 043 – If the type of corporation changed during the taxation year, provide the effective date of the change

Indicate the effective date of the change. Do not include other types of changes in this section, such as the change from active to inactive status.

A change of corporation type may bring significant tax consequences. For example, certain calculations on the return depend on whether the corporation was a private corporation or a CCPC throughout the taxation year, at any time in the taxation year, or at the end of the taxation year.

Lines 060 to 065 – To which taxation year does this return apply?

Lines 060 and 061 –Taxation year start and taxation year-end

In the spaces provided, enter the first and last days of the taxation year. If the particular time of day applies, enter the hours and minutes to specify the time. The corporation's taxation year is its fiscal period. A fiscal period cannot be longer than 53 weeks (371 days). The taxation year of a **new** corporation cannot be longer than 53 weeks from the date it was either incorporated or formed as a result of an amalgamation.

The first day of this taxation year has to be the day after the last day of the preceding taxation year. Make sure the financial statements or the *General Index of Financial Information (GIFI)* you attach to the return match the taxation year of the return.

> **Note**
> A professional corporation that is a member of a partnership and that carries on business in Canada has to have a December 31 year-end.

Generally, unless you have received approval to change the fiscal period, the corporation's fiscal period is the same from year to year. To change an established fiscal period, write a letter to your tax services office asking for approval and explaining the reasons for the change.

However, you do not need approval to change the fiscal period in some situations, including the following:

- the corporation has wound-up and you are filing its final return with an abbreviated fiscal period;
- the corporation has to end its taxation year at a certain time because it is emigrating to another country, becoming exempt from tax, or ceasing to be exempt from tax; or
- a person or group of persons acquired control of the corporation under subsection 249(4).

> **Note**
> A corporation that becomes bankrupt must get our approval to change its fiscal period.

References
IT-179, *Change of Fiscal Period*
IT-364, *Commencement of Business Operations*
IT-454, Business Transactions Prior to Incorporation

Lines 063 and 065 – Has there been an acquisition of control to which subsection 249(4) applies since the previous taxation year?

To answer this question, tick either the *Yes* or *No* box. If you answer Y*es*, enter on **line 065** the date the control was acquired.

There is an acquisition of control when, during the taxation year, a person or group of persons acquired control of the corporation.

When control is acquired, subsection 249(4) provides that the taxation year of the corporation ends immediately before that control is acquired. You do not need the Minister's approval for the changed taxation year.

File a return for the taxation year that ends immediately before control is acquired. The next taxation year starts at the time control is acquired, and the corporation can choose any taxation year-end within the next 53 weeks.

If control is acquired up to seven days after the end of an established taxation year, generally, a corporation can choose to extend the taxation year up to the time control is acquired. In this case, attach a letter to your return that says you are making an election under paragraph 249(4)(c).

> **Note**
> The acquisition of control of a corporation is usually considered to occur at the beginning of the day on which the acquisition takes place. However, the particular time of day that the acquisition of control took place will be recognized if the corporation makes an election under subsection 256(9). To elect under subsection 256(9), include a note with the return for the taxation year ending immediately before control was acquired and enter the hours and minutes that specify the time of day at line 065.

Line 067 – Is the corporation a professional corporation that is a member of a partnership?

To answer this question, tick either the *Yes* or *No* box.

A professional corporation is a corporation that carries on the professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian, or chiropractor.

Line 070 – Is this the first year of filing after incorporation?

To answer this question, tick either the *Yes* or *No* box. If you answer *Yes*, you have to file Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

See chapters 2 and 3 for other schedules you may have to attach to your return.

> **Note**
> The taxation year of a new corporation cannot be longer than 53 weeks from the date it was incorporated.

If this is your **first year** of filing after incorporation, you must tick *Yes* at line 030 and complete lines 031 to 038.

Line 071 – Is this the first year of filing after amalgamation?

To answer this question, tick either the *Yes* or *No* box. If you answer *Yes*, you have to file Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

> **Note**
> The taxation year of a new corporation cannot be longer than 53 weeks from the date it was amalgamated.

If this is your **first year** of filing after amalgamation, you must tick *Yes* at line 030 and complete lines 031 to 038.

Line 072 – Has there been a wind-up of a subsidiary under section 88 during the current taxation year?

To answer this question, tick either the *Yes* or *No* box. If you answer *Yes*, you have to file Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

Reference
IT-126, *Meaning of "Winding-up"*

Line 076 – Is this the final taxation year before amalgamation?

To answer this question, tick either the *Yes* or *No* box.

Predecessor corporations filing their last returns have to answer *Yes* to this question on their final returns.

When two or more corporations amalgamate, each of the predecessor corporations has to file a return for the period ending **immediately before** the effective date of amalgamation. You will find the effective date on the certificate of amalgamation or the letters patent of amalgamation.

> **Note**
> We cannot accept returns filed for the period up to the adoptive date of amalgamation, or the date of the shareholders' resolution.

Line 078 – Is this the final return up to dissolution?

To answer this question, tick either the *Yes* or *No* box.

You have to answer *Yes* if you are filing your final return for a taxation year ending on the date of dissolution.

The responsible representative has to get a clearance certificate from the tax services office before distributing any of the corporation's property under his or her control. By getting the certificate, the responsible representative will avoid being personally liable for the unpaid taxes, interest, and penalties. Include Schedule 100, *Balance Sheet Information*, with the final return, which shows how the assets were distributed.

> **Notes**
> If you want to permanently dissolve your corporation, you should send us your final return. You should also send the articles of dissolution or an application for dissolution to the government body that governs the affairs of your corporation. Otherwise, we will consider the company still exists, and it will have to file a return even if there is no tax payable.
>
> If you intend to dissolve the corporation, you should ensure that the corporation has received all applicable refunds. Once a corporation is dissolved, any refunds revert to the provincial, territorial, or federal Crown and cannot be issued to the corporation or its representatives.

References
Subsection 159(2)
IC 82-6, *Clearance Certificate*

Lines 080 to 082 – Is the corporation a resident of Canada?

To answer this question, tick either the *Yes* or *No* box.

If you answer *No*, give the country of residence on line 081 and file Schedule 97, *Additional Information on Non-resident Corporations in Canada*. Non-resident corporations have to mail their returns to the International Tax Services Office. See page 9 for the address and telephone and fax numbers.

Line 082 – Is the non-resident corporation claiming an exemption under an income tax treaty?

To answer this question, tick either the *Yes* or *No* box. If you answer *Yes*, file Schedule 91, *Information Concerning Claims for Treaty-based Exemptions.*

For more information about the filing obligations of non-resident corporations, see page 7

Line 085 – If the corporation is exempt from tax under section 149

If the corporation is exempt from tax under section 149, you have to tick one of the boxes following this line.

These corporations, which include non-profit organizations, do not usually have to pay any corporate income tax because they are exempted by one of the following paragraphs.

Box 1 – Exempt under paragraph 149(1)(e) or (l)

Tick this box if one of the two following paragraphs applies:

- **Paragraph 149(1)(e)** exempts the following types of organizations, as long as no part of the income of these organizations was payable or otherwise available for the personal benefit of proprietors, members, or shareholders:
  - agricultural organizations;
  - boards of trade; and
  - chambers of commerce.
- **Paragraph 149(1)(l)** exempts a club, society, or association that is not a charity and that is organized and operated solely for:
  - social welfare;
  - civic improvement;
  - pleasure or recreation; or
  - any purpose other than profit.

No part of these organizations' income can be payable to, or otherwise available for the personal benefit of, any proprietor, member, or shareholder, unless the proprietor, member, or shareholder was a club, society, or association that promotes amateur athletics in Canada.

You may have to file Form T1044, *Non-Profit Organization (NPO) Information Return*, if the organization meets the definition in paragraph 149(1)(e) or 149(1)(l) and if one of the following conditions applies:

- the organization received or was entitled to receive taxable dividends, interest, rentals, or royalties in the taxation year totalling more than $10,000;
- the organization's total assets were more than $200,000 at the end of the immediately preceding taxation year; or the organization had to file Form T1044 for a preceding fiscal year.

If you have to file an information return for any taxation year, you will have to file a return for all future taxation years. Form T1044 has to be filed in the six months following the end of the fiscal period. See the T4117, called *Income Tax Guide to the Non-Profit Organization (NPO) Information Return.*

References
Subsection 149(12)
Guide T4117, *Income Tax Guide to the Non-Profit Organization (NPO) Information Return*
IT-83, *Non-Profit Organizations – Taxation of Income from Property*
IT-496, *Non-profit Organizations*

Box 2 – Exempt under paragraph 149(1)(j)

Tick this box if **paragraph 149(1)(j)** applies.
Paragraph 149(1)(j) exempts a non-profit corporation for scientific research and experimental development (SR&ED), if it meets all the following conditions:

- the corporation is constituted exclusively for carrying on or promoting SR&ED;
- no part of the corporation's income is payable to or otherwise available for the personal benefit of any proprietor, member, or shareholder;
- the corporation did not acquire control of any other corporation;
- the corporation did not carry on any business during the period for which exemption is claimed; and
- the corporation must, in each period for which it claims exemption, have spent amounts in Canada that are either:
  - expenditures on SR&ED development directly undertaken by it or on its behalf; or
  - payments to an association, university, college, or research institution to be used for SR&ED.

Box 3 – Exempt under 149(1)(t)

Tick this box if **paragraph 149(1)(t)** applies.
Paragraph 149(1)(t) exempts certain insurers who receive at least 20% of their premiums from insuring residences of farmers or fishers, farm property, or property used in fishing.

Box 4 – Exempt under other paragraphs of section 149

Tick this box if the corporation is exempt under any other paragraph of section 149.

In this case, the corporation has to attach to the return all relevant information on this exemption and specify under which paragraph it is exempt.

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Attachments

On pages 2 and 3 of the return, we list the most common schedules you may have to attach to your return. If you respond "Yes" to any of the questions on these pages, attach to your T2 return the schedule that applies.

Financial statements or *General Index of Financial Information (GIFI)* for Corporations

Each corporation should include complete financial statement information for the taxation year of the return using the *General Index of Financial Information (GIFI).*

> **Note**
> Certain non-resident corporations do not have to file using GIFI. For more information, see guide RC4088, called *Guide to the General Index of Financial Information (GIFI)* for Corporations.

GIFI schedules include:

- Schedule 100, *Balance Sheet Information*;
- Schedule 125, *Income Statement Information*, and, if necessary, Schedule 140, *Summary Income Statement*; and
- Schedule 141, *Notes Checklist*. Schedule 141 is a set of questions designed to determine who prepared the financial statements and the extent of their involvement, and to identify the type of information contained in the notes to the financial statements.

> **Note**
> Include any notes to the financial statements and the auditor or accountant's report, if they were prepared. You should include this information even if you are filing your return in the T2 RSI format. For more information, see "Using T2 RSI, *Return and Schedule Information,*" on page 8.

When preparing the first return for a new corporation, attach all of the following documents:

- Schedule 101, *Opening Balance Sheet Information*;
- copies of all relevant agreements or the full details on shares issued for anything other than cash consideration, if they apply; and,
- if it applies, the closing balance sheet of the proprietorship, partnership, or corporation if the new corporation acquired the assets or business, or assumed the liabilities of a former proprietorship, partnership, or corporation.

If the corporation has been inactive during the taxation year, the return should include Schedule 100 showing the corporation's financial position at the end of the taxation year.

The GIFI schedules above are to be completed with information from the corporation's financial statements. These schedules are laid out with a "column A" where the appropriate GIFI code is entered, and a "column B" where the corresponding dollar amount is entered.

The GIFI is included in all tax preparation software packages certified by the CRA and in most accounting software.

For more information on the GIFI, get RC4088, *Guide to the General Index of Financial Information (GIFI) for Corporations*.

We have organized the remaining schedules into two categories:

- **information schedules**, including general information schedules and those relating to transactions with non-residents; and
- **calculation schedules**, including schedules used to calculate net income, taxable income, deductions, taxes, and credits.

We print most of the schedules, and we provide a complete list at the end of this guide. You can get them by calling 1-800-959-2221. Most of these schedules are also available on our Web site at **www.cra.gc.ca/forms.** For the schedules we do not print, assemble the requested information and label it with the schedule number in the top right-hand corner of each page.

Information schedules and forms

The following section describes the various general information schedules and forms you may have to complete. However, before we describe these schedules and forms, you should understand **associated** status of a corporation.

When is a corporation associated?

Association is based on control. Control can be exerted either **directly or indirectly in any manner**. A person or a group of persons can control a corporation. Keep in mind that, in this context, a **person** can be either an individual or a corporation.

Control includes both *de jure* control and *de facto* control. ***De jure* control** is the right of control that depends on a person owning enough shares of a corporation to give that person a majority of the voting power. ***De facto* control** occurs when a corporation is subject to any direct or indirect influencing that, if exercised, would result in actual control being exerted.

In general, a corporation is associated with another corporation if it meets **one** of the following five conditions at any time in the taxation year. Remember that **controlled** means directly or indirectly in any manner.

Condition 1

The corporations are associated if one corporation controls the other.

Example
X Co. Limited owns 100% of the voting shares of Y Co. Limited, which in turn owns 51% of the voting shares of Z Co. Inc.

X Co. Limited is associated with Y Co. Limited, because it exerts direct control over it.

X Co. Limited is associated with Z Co. Inc., because it exerts indirect control over it.

Condition 2

The corporations are associated if both corporations are controlled by the same person or group of persons.

Corporations may be associated because the same group of persons controls both corporations, but the members of this group do not act together and have no other connection to each other.

For taxation years ending after March 22, 2004, CCPCs that are associated only because of this definition of a group will not be considered associated when:

- calculating the refundable Investment Tax Credit on eligible SR&ED expenditures;
- calculating the expenditure limit; and
- allocating the expenditure limit.

For this exception to apply, one of the corporations must have at least one shareholder who is not common to both corporations.

The corporations will continue to be associated for all other purposes of the *Income Tax Act*.

Example
Bob owns 40% of the voting shares of ABC Company Ltd. and 30% of the voting shares of XYZ Limited. Ike owns 20% of the voting shares of ABC Company Ltd. and 40% of the voting shares of XYZ Limited.

As a group, Bob and Ike control both companies.
ABC Company Ltd. and XYZ Limited are associated.

Condition 3

The corporations are associated if:

- each corporation is controlled by one person;
- that person is related to the person controlling the other corporation; and
- one of those persons owns at least 25% of the issued shares of any class, other than shares of a specified class, of the capital stock of each corporation.

Example
AB Co. owns 100% of the issued share capital of CD Co. It also owns 25% of the Class A shares (other than shares of a specified class) of XY Co. AB Co. is related to XY Co.'s controlling shareholder, Billy. (AB Co. is related to Billy because Billy's brother controls that corporation.)

CD Co. and XY Co. are associated.

Condition 4

The corporations are associated if:

- one corporation is controlled by one person;
- that person is related to each member of a group of persons who controls the other corporation; and
- that person owns at least 25% of the issued shares of any class, other than shares of a specified class, of the capital stock of the other corporation.

Example
Buddy controls AY Limited. His two daughters control AZ Inc. Buddy also owns 50% of the Class A preferred shares of AZ Inc.

AY Limited and AZ Inc. are associated.

Condition 5
The corporations are associated if:

- each corporation is controlled by a related group;
- each of the members of one of the related groups is related to all members of the other related group; and
- one or more persons who are members of both related groups, either alone or together, own at least 25% of the issued shares of any class, other than shares of a specified class, of the capital stock of each corporation.

Example
Anne and her two daughters control One Co. Anne and her two sons control Two Co. Anne owns 33% of the common shares in each corporation.

One Co. and Two Co. are associated.

References
Subsections 256(1), 256(1.1), and 256(5.1)
Section 251
IT-64, *Corporations: Association and Control*

Schedule 9, *Related and Associated Corporations*

Complete Schedule 9 if the corporation is related to or associated with at least one other corporation.

Reference
Section 251

Schedule 19, *Non-Resident Shareholder Information*

Complete Schedule 19 if a non-resident shareholder owned a share of any class of the corporation's capital stock at any time during the taxation year.

Schedule 23, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Business Limit*

All **CCPCs** that are associated have to file Schedule 23. This schedule is used to:

- identify all the associated corporations to establish:
  - the date the balance of tax is due (see "Balance due date" on page 10); and
  - the calculation of the business limit reduction; and
- assign a percentage to each of the associated corporations for the allocation of the business limit. The total of all percentages cannot be more than 100%. The maximum business limits are provided on page 51.

> **Notes**
> Schedule 23 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 23 is not already on file with us when we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will ask for one.
>
> If the corporation's taxation year is shorter than 51 weeks, prorate the business limit allocated in column 6 of Schedule 23 based on the number of days in the taxation year divided by 365.

Associated corporations with more than one taxation year in a calendar year

Special rules apply to determine the business limit for associated corporations that have more than one taxation year ending in the same calendar year.

For the second or later taxation years that end in the same calendar year, the business limit is whichever of the following amounts is less:

- the amount allocated to the corporation for the first taxation year; or
- the amount allocated to the corporation for the later taxation year in question.

Make sure the total of the business limits of all associated corporations for any taxation years that end in the same calendar year is not more than the maximum allowable business limit for that calendar year.

If the corporation's taxation year is shorter than 51 weeks, prorate the business limit as determined above based on the number of days in the taxation year divided by 365.

Example
A Co. and B Co. are associated in 2005.

A Co.'s taxation year runs from January 1, 2005, to June 30, 2005.

The business limit allocated to A Co. for its June 30, 2005, taxation year is $100,000.

On November 1, 2005, C Co. becomes associated with A Co. and B Co. The taxation year for C Co. ends on December 31, 2005. A Co. and B Co. change their year-ends to December 31, 2005, to match C Co.'s year-end.

The corporations decide to allocate a $190,000 business limit to C Co. for the December 31, 2005 year-end. Because the total of their business limits cannot be more than $300,000, the corporations allocate $55,000 each to A Co. and B Co.

Question
What is A Co.'s business limit for each of the two taxation years ending in the 2005 calendar year?

Answer
Taxation year ending June 30, 2005:

Because the taxation year is shorter than 51 weeks, A Co. prorates the business limit for the number of days in the taxation year as follows:

$$\$100{,}000 \times \frac{182 \text{ days}}{365 \text{ days}} = \$49{,}863$$

Note: 365 is not adjusted for the leap year.

Taxation year ending December 31, 2005:

Because the taxation year is shorter than 51 weeks, A Co. prorates the business limit for the number of days in the taxation year. A Co. uses the $55,000 business limit allocated in this taxation year, because it is less than the $100,000 business limit allocated in its first taxation year ending in 2005.

A Co. prorates the business limit as follows:

$$\$55{,}000 \times \frac{184 \text{ days}}{365 \text{ days}} = \$27{,}726$$

Note: 365 is not adjusted for the leap year.

Reference
Subsection l25(5)

Schedule 49, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Expenditure Limit*

All **CCPCs** that are associated and have scientific research and experimental development (SR&ED) expenditures have to file Schedule 49. These corporations use this form to:

- identify all the associated corporations and establish:
  - the 35% investment tax credit (ITC) rate and the 100% refundable ITC rate on qualifying SR&ED expenditures;
  - the 40% refundable ITC rate; and
- allocate the expenditure limit for the 35% ITC rate on qualifying SR&ED expenditures.

For more details about the ITC, see Line 652 on page 59.

> **Note**
> Schedule 49 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 49 is not already on file with us when we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will ask for one.

Associated corporations with more than one taxation year in a calendar year

Special rules apply to determine the expenditure limit for associated corporations that have more than one taxation year ending in the same calendar year. Prorate the expenditure limit for each taxation year ending in the calendar year based on the number of days in the taxation year divided by 365.

Be sure that the amount you prorate for each of the taxation years is equal to the amount allocated to the corporation for the first taxation year ending in the calendar year.

Reference
Subsection 127(10.6)

Schedule 28, *Election not to be an Associated Corporation*

File Schedule 28 if the corporation elects under subsection 256(2) not to be associated with two other corporations for the purposes of the small business deduction.

Two corporations that are not associated with each other will be considered associated under subsection 256(2) if they are associated with the same corporation (the third corporation). However, for the purposes of the small business deduction, the third corporation is considered to not be associated with either of the other corporations if:

- it is not a CCPC at the time; or
- it elects, in prescribed form, to not be associated.

When a corporation makes this election, its business limit for the small business deduction is considered to be zero.

> **Notes**
> You have to file a new election for each applicable taxation year.
>
> Schedule 28 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 28 is not already on file with us when we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will ask for one.

Reference
Subsection 256(2)

Schedule 11, *Transactions With Shareholders, Officers, or Employees*

Complete Schedule 11 if the corporation had transactions with shareholders, officers, or employees.

Do not include transactions the corporation carried out in the ordinary course of business, or any transactions listed on Form T106, *Information Return of Non-Arm's Length Transactions with Non-Residents*. See page 23 for details.

If the corporation is involved in a transfer of property under section 85, make sure to file either Form T2057, *Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation*, or Form T2058, *Election on Disposition of Property by a Partnership to a Taxable Canadian Corporation*. File Form T2058 when property is transferred from a partnership. File Form T2057 in all other cases.

Schedule 44, *Non-Arm's Length Transactions*

Complete Schedule 44 if you make a section 85 election for a transaction between corporations not dealing at arm's length, and if all or substantially all of the assets of the transferor corporation are received by you (the transferee corporation).

Generally, we consider **all or substantially all** to be at least 90%. You have to evaluate all assets at cost or fair market value.

When this kind of non-arm's length transaction takes place, the instalment requirements of the transferee corporation have to take into account those of the transferor corporation.

Reference
Regulation 5301(8)

Schedule 14, *Miscellaneous Payments to Residents*

Complete Schedule 14 if you made any of the following payments to residents of Canada:

- royalties for which you have not filed a T5 slip, *Statement of Investment Income*;
- research and development fees;
- management fees;
- technical assistance fees;* or
- similar payments.

*Technical assistance fees are payments for technical or industrial services related to producing goods or applying processes, formulae, and expertise in the production process.

List only the payments that were more than $100.

Schedule 15, *Deferred Income Plans*

Complete Schedule 15 if you deducted from your income payments you made to deferred income plans, such as:

- a registered pension plan (RPP);
- a registered supplementary unemployment benefit plan (RSUBP);
- a deferred profit sharing plan (DPSP); or
- an employee's profit sharing plan (EPSP).

Form T5004, *Statement of Tax Shelter Loss or Deduction*

If you are claiming a loss or deduction from an interest in a tax shelter, file Form T5004 with your return.

The promoter has to prepare Form T5003, *Statement of Tax Shelter Information*, and send copies to each investor. Attach copy 2 of Form T5003 to your return.

Reference
IC 89-4, *Tax Shelter Reporting*

T5013 Slip, *Statement of Partnership Income*

If you are a member of a partnership, attach to the return a list of all the partnership identification numbers assigned to the partnerships of which you are a member.

Partnerships that have more than five members have to issue information slips to each partner for each fiscal period of the partnership. Corporate partners that receive a T5013 slip have to file it with the return for the taxation year in which the fiscal period of the partnership ends.

> **Notes**
> Each partnership has to file a T5013 Summary, *Partnership Information Return*, for each fiscal period. However, some partnerships are exempt from this requirement. For more information, see guide T4068, called *Guide for the Partnership Information Return.*
>
> Except where an election is filed under subsection 249.1(4), for the taxation year that includes the first day of the first fiscal period of a business, partnerships with at least one member who is an individual, a professional corporation, or another affected partnership have to have a December 31 fiscal period end.

Schedule 22, *Non-Resident Discretionary Trust*

Complete Schedule 22 if the corporation, a foreign affiliate the corporation controls, or any other corporation or trust that did not deal at arm's length with the corporation had a beneficial interest in a non-resident discretionary trust at any time during the taxation year.

Schedule 25, *Investment in Foreign Affiliates*

Complete Schedule 25 if the corporation is resident in Canada and holds shares in one or more foreign affiliates, as defined in subsection 95(1).

Schedule 29, *Payments to Non-Residents*

Complete Schedule 29 if the corporation paid or credited any of the following amounts to non-residents:

1. royalties;
2. rents;
3. management fees/commissions;
4. technical assistance fees;*
5. research and development fees;
6. interest;
7. dividends;
8. film payments:
   - for a motion picture film; or
   - for a film or videotape for use in connection with television; or
9. other services.

*Technical assistance fees are payments for technical or industrial services related to producing goods or applying processes, formulae, and expertise in the production process.

If the total amount paid or credited is less than $100, you do not have to complete this schedule with the information for that payee.

A corporation that makes payments or credits amounts to non-residents under subsections 202(1) and 105(1) of the *Income Tax Regulations* has to file the applicable information return.

References
Regulations 102, 105, and 202(1)

Form T106, *Information Return of Non-Arm's Length Transactions With Non-Residents*

Form T106 is an annual information return on which you report the activities with certain non-resident persons under section 233.1.

File Form T106 if:

- at any time in the taxation year, you were either resident in Canada or a non-resident that carried on business (other than as a member of a partnership) in Canada;
- you entered into reportable transactions with a non-resident person with whom you were not dealing at arm's length at any time in the year and partnerships of which the non-resident person is a member; and
- the total reportable transactions exceed CAN $1,000,000.

Form T106 consists of the T106 Summary and the T106 slips. File a separate T106 slips for each non-resident.

On Form T106, report all transactions between you and the non-resident, including those transactions concerning:

- tangible property;
- rents;
- royalties and intangible property;
- services; and
- advances, loans, or other accounts receivable or payable to or from a non-resident (beginning and ending balances including gross increases and decreases).

File Form T106 **within six months of the end of the reporting corporation's taxation year.** Send it to the following address:

Ottawa Technology Centre
Validation and Verification Division
Other Programs Unit
875 Heron Road
Ottawa ON K1A 1A2

> **Note**
> If you file Form T106 late, the corporation will be subject to penalties.

References
Sections 233.1 and 251
Subsections 162(7) and 162(10)

Foreign property

Foreign affiliates

A corporation resident in Canada, of which a non-resident corporation is a foreign affiliate at any time in the year, must file one of two forms for the affiliate within 15 months after the end of its taxation year:

- Form T1134-A, *Information Return Relating to Foreign Affiliates That are not Controlled Foreign Affiliates*; or
- Form T1134-B, *Information Return Relating to Controlled Foreign Affiliates*.

A separate form has to be filed for each foreign affiliate.

Forms T1134-A and T1134-B contain more information about filing.

Beneficiaries of non-resident trusts

A corporation may have received, in the year, funds or property from, or been indebted to, a non-resident trust in which it had a beneficial interest. If so, the corporation has to complete and file Form T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-Resident Trust*.

A separate form has to be filed for each non-resident trust. Form T1142 contains more information about filing.

Transfers to non-resident trusts

A corporation may have transferred or loaned funds or property to a non-resident trust. If so, the corporation may have to complete and file Form T1141, *Information Return in Respect of Transfers or Loans to a Non-Resident Trust*.

A separate form has to be filed for each non-resident trust. Form T1141 contains more information about filing.

Ownership of foreign property

If, at any time in the year, the total cost of all specified foreign property the corporation owned or held a beneficiary interest in was more than $100,000, you have to complete and file Form T1135, *Foreign Income Verification Statement*.

For more information, see Form T1135.

Foreign investment entities and non-resident trusts

The 1999 federal budget proposed changes to the existing rules for foreign investment entities (FIEs) and non-resident trusts (NRTs) that, once they become law, will generally be effective for the 2003 taxation year. These proposed rules require a corporation with an interest in an FIE to include an amount from the investment in its income; they will also deem NRTs with a connection to Canada to be resident here and will make a "contributor" to and a "beneficiary" under such trusts jointly and severally liable for the trust's Canadian tax liability. Therefore, any corporation that is a "contributor" or a "beneficiary" with respect to an NRT may be jointly liable with the NRT for the NRT's Canadian tax. For more information about the proposed changes, call us at one of the telephone numbers provided on page 9 of this guide.

Penalties

There are substantial penalties for not completing and filing Forms T1134-A, T1134-B, T1135, T1141, and T1142 by the due date.

References
Sections 233.1 to 233.6
Subsections 162(7), 162(10), and 162(10.1)

Industry Canada – Schedules 80 and 81

Schedule 80, *Industry Canada – Annual Return – Canada Business Corporations Act*, and Schedule 81, *Notice of Change of Directors, Canada Business Corporations Act*, are no longer available.

Instead, you are invited to file Form 22, *Annual Return*, and Form 6, *Notice of Change of Directors*, directly with Corporations Canada (Industry Canada).

You can file Form 22 online for a fee of $20. (There is a $40 fee for filing a paper version.) You can file Form 6 online at no charge.

You should file Form 22 within six months of your taxation year-end. You should file Form 6 within 15 days after the change is made.

All forms are available online at Corporations Canada's Web site at **www.corporationscanada.ic.gc.ca,** under "Online Filing." You can get paper copies of these forms by calling Corporations Canada at 1-866-333-5556.

For more information on how to comply with the filing requirements of the *Canada Business Corporations Act*, visit Industry Canada's Web site at **www.corporationscanada.ic.gc.ca** or call 1-866-333-5556 or (613) 941-9042.

Schedule 50, *Shareholder Information*

Complete Schedule 50 if you are a private corporation and if any shareholder holds 10% or more of your common and/or preferred shares. Give a maximum of the 10 top shareholders and the requested information.

Line 172 – Has the corporation made payments to, or received amounts from, a retirement compensation arrangement in the year?

To answer this question, tick the *Yes* or *No* box. No schedule or form is required.

Calculation schedules

You may also have to use various calculation schedules to complete the rest of your return. We list all of these schedules on pages 2 and 3 of the return. You will find details about each of these schedules in the following chapters.

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Attachments

See Chapter 2 to complete this section.

Additional information

Provide all the information we request in the "Additional information" area of your return.

Line 280 – Is the corporation inactive?

To answer this question, tick the *Yes* or *No* box.

Even if a corporation is inactive, which means it has not operated during the taxation year, it has to file a return. With the return, we need Schedule 100, *Balance Sheet Information*, showing the assets, liabilities, and shareholder's equity at the end of the taxation year.

> **Note**
> An inactive (non-operating) corporation can still generate income and/or expenses in a year. It may pay a monthly service charge to maintain a bank account or it may earn interest or dividends from income-producing assets that it holds. It may also have received income that was previously shown as a payable in the prior year. If this is the case, it will also need to file a Schedule 125, *Income Statement Information,* with the return.

Line 281 – Has the major business activity changed since the last return was filed?

To answer this question, tick the *Yes* or *No* box. First-time filers must indicate *Yes*.

Line 282 – What is the corporation's major business activity?

Complete only if *Yes* is indicated at line 281.

Enter the corporation's major commercial or professional activity.

Include enough detail to support the type of deductions claimed (for example, the manufacturing and processing profits deduction) and to allow an exact industrial classification. If the corporation has several major lines of business, describe each of them.

Here are examples of how to describe your corporation's major activity:

- men's retail clothing store;
- manufacturing of wooden office furniture; or
- single-unit residential building contractor.

If the corporation is involved in trucking, specify if it transports bulk liquids or if the corporation is owner-operator, leased-operator, or a broker-operator working for another trucking company.

Line 283 – If the major activity involves the resale of goods, indicate whether it is wholesale or retail

Tick either the *Wholesale* or *Retail* box if the corporation's business involves the resale of goods.

Lines 284 to 289 – Specify the principal product(s) mined, manufactured, sold, constructed, or services provided, giving the approximate percentage of the total revenue that each product or service represents

Break down the business activity you described on line 282 into the following categories:

- the principal products mined, manufactured, sold, or constructed; and
- the services provided.

Also, give the approximate percentage of the corporation's total revenue that each product or service represents.

Line 291 – Did the corporation immigrate to Canada during the taxation year?

To answer this question, tick the *Yes* or *No* box.

Line 292 – Did the corporation emigrate from Canada during the taxation year?

To answer this question, tick the *Yes* or *No* box.

Calculating net income or loss

There are several schedules you may have to use to calculate the net income or loss for income tax purposes. This section explains each of those schedules.

Schedule 1, *Net Income (Loss) for Income Tax Purposes*

If your net income or loss **after income tax and extraordinary items** on your income statement is different from your net income or loss for income tax purposes, complete Schedule 1.

Enter net income or loss after income tax and extraordinary items on line A, page 1 of Schedule 1. Add the taxable items and the non-allowable expenses listed on lines 101 to 199 and subtract from this the non-taxable items and eligible expenses listed on lines 401 to 499. Enter the net income or loss for income tax purposes on line 300 of your return.

Additions and deductions identified on lines 101 to 127 and 401 to 417 of Schedule 1 are the most common additions and subtractions. For other additions and deductions, see pages 2 and 3.

Some expenses deducted on your income statement are not allowable for income tax purposes and are not identified on Schedule 1. In this case, use lines 290 to 294, "Other additions," on page 2. Also, certain items included in income that are not taxable are not identified on this schedule. In such cases, complete lines 390 to 394, "Other deductions," on page 3.

> **Notes**
> Only complete lines 203 and 302 if you are converting from an accrual basis to a cash basis. Otherwise, these lines should be left blank.
>
> The deductible portion of expenses you incurred for food, beverages, and entertainment is only 50% of whichever is less: the expenditure actually incurred or

the amount that would be reasonable in the circumstances. However, a full deduction is allowed for meals provided to an employee at a temporary construction work camp, if certain conditions are met.

Do not deduct charitable donations, taxable dividends, net capital losses, non-capital losses, farm losses, or restricted farm losses from other years. You have to deduct these items from net income for income tax purposes to arrive at taxable income.

You may have to use the following schedules to calculate certain amounts on Schedule 1:

- Schedule 6, *Summary of Dispositions of Capital Property* (see page 28);
- Schedule 8, *Capital Cost Allowance (CCA)* (see page 31);
- Schedule 10, *Cumulative Eligible Capital Deduction* (see page 37);
- Schedule 12, *Resource-Related Deductions* (see page 37);
- Schedule 13, *Continuity of Reserves* (see page 37);
- Schedule 16, *Patronage Dividend Deduction* (see page 38);
- Schedule 17, *Credit Union Deductions* (see page 38); and
- Form T661, *Claim for Scientific Research and Experimental Development (SR&ED) Carried out in Canada* (see page 39).

The full resource allowance deducted at line 346 under paragraph 20(1)(v.1) is gradually reduced to:

- 90% in 2003;
- 75% in 2004;
- 65% in 2005;
- 35% in 2006; and
- 0 after 2006.

You have to prorate these amounts using the number of days in each period in your taxation year. The resource allowance will gradually be replaced by the deductibility of crown royalties and mining taxes against income.

Schedule 6, *Summary of Dispositions of Capital Property*

You have to complete Schedule 6 if you disposed of capital property during the taxation year and incurred any **capital losses** or realized any **capital gains**. You also have to complete this schedule if you claim an **allowable business investment loss**.

References
Section 54
IT-170, *Sale of Property – When Included in Income Computation*
IT-448, *Dispositions – Changes in Terms of Securities*
IT-460, *Dispositions – Absence of Consideration*

Designation under paragraph 111(4)(e)

Answer *Yes* or *No* to the question on **line 050**, page 1 of Schedule 6.

You can make a designation under paragraph 111(4)(e) if a person or group of persons has acquired control of the corporation. If you make the designation, capital properties will be considered as having been disposed of immediately before that person or group of persons acquired control of the corporation.

Completing Schedule 6

To help you complete Schedule 6, we have provided the following explanations that briefly set out the type of information we need in each column and each part of the schedule.

Column 1 – Types of capital property

There are six categories of capital property you may have disposed of during the taxation year. The categories are:

- shares;
- real estate;
- bonds;
- other properties;
- personal-use property; and
- listed personal property.

The first six parts of Schedule 6 reflect these six categories of capital property.

Column 2 – Date of acquisition

In this column, give the date you acquired the property.

Column 3 – Proceeds of disposition

In this column, indicate the proceeds of disposition. The proceeds of disposition are usually the selling price of the property. However, they can also include compensation the corporation received for property that was destroyed, expropriated, stolen, or damaged.

For a gift or a deemed disposition, the proceeds of disposition are usually the fair market value of the property when its owner or use changes.

References
Section 54
IT-259, *Exchanges of Property*

Column 4 – Adjusted cost base

In this column, indicate the cost of the property you used to calculate any capital gain or loss. This amount is called the **adjusted cost base** (ACB). The ACB is the original cost of the property that has been adjusted to reflect certain transactions or occurrences that took place after acquiring the property.

The cost of a capital property may be the actual cost, a deemed cost, or the valuation-day value of the property. The nature of the property and the circumstances under which you acquired it determine which cost of the capital property you should use.

References
Subsections 53(1) and 53(2)
IT-418, *Capital Cost Allowance – Partial Dispositions of Property*

The cost of property acquired after 1971 is usually the actual cost of acquiring it, including the purchase price plus any related costs, such as commissions, legal fees, and other reasonable expenses. It also includes the cost of additions and improvements to the property. It does **not** include current expenses, such as maintenance and repair costs.

Reference
IT-128, *Capital Cost Allowance – Depreciable Property*

Special rules apply when determining the cost of capital property owned on December 31, 1971. According to these rules, tax is not assessed and losses are not allowed for any gain or loss that arose before that date.

When deductions from the cost base of a property (other than a partnership interest) reduce the balance to a negative amount at any time in the taxation year, you are considered to have realized a capital gain equal to the amount of the negative balance, and the ACB becomes nil.

You cannot use later additions to the ACB to reduce previous gains on the property that resulted from a negative balance. You can only consider these additions when you determine future gains or losses.

Reference
Subsection 40(3)

Paragraphs 53(1)(e) and 53(2)(c) outline the rules for determining the ACB of a partnership interest.

You have to reduce the ACB of a partnership interest by the amount of any share purchase tax credit, and one-half of any scientific research and experimental development tax credit the partnership allocated to the corporation.

> **Note**
> Interests in a partnership that a limited partner or an inactive partner holds are subject to the negative ACB rule.

Column 5 – Outlays and expenses

In this column, enter the amount of outlays and expenses you deducted when calculating a gain or loss. You can deduct most cash outlays the corporation used to put a property into saleable condition when you calculate a gain or loss. You can also deduct expenses incurred when disposing of the property. These expenses include certain fixing-up costs, finder's fees, commissions, surveyor's fees, transfer taxes, and other reasonable expenses incurred to dispose of the property.

Column 6 – Gain (or loss)

In column 6, enter the amount of the gain or loss. To determine this figure, subtract the amounts in columns 4 and 5 from the amount in column 3.

A **capital gain** results when the proceeds of disposition of a capital property are more than the ACB and any related outlays or expenses. A **capital loss** occurs when the proceeds of disposition are less than the ACB and the related outlays and expenses. However, if depreciable property is disposed of, it will result in a **terminal loss**, not a capital loss. See "Column 6 – Undepreciated capital cost" on page 34 for more details about terminal losses.

In certain cases, when you dispose of a building and the land on which it stands, and the building is disposed of for less than its undepreciated capital cost, you may have to reduce the gain on the sale of the land by the terminal loss on the sale of the building.

References
Subsection 13(21.1)
IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*

Part 1 – Shares

In this part, list the shares disposed of during the taxation year. Give the number of shares, the name of the corporation in which the shares were held, and the class of the shares.

Usually, disposing of a share of the capital stock of a corporation will result in a taxable capital gain or an allowable capital loss. However, if the corporation that is disposing of the share is in the business of trading shares, the resulting gain or loss is considered business income or loss.

If a share is converted because of a merger or an amalgamation, section 54 deems a disposition to have occurred.

Part 2 – Real estate

In this part, list all real estate disposed of during the taxation year. Give the municipal address of each property.

Dispositions of non-depreciable real property (unless the property is inventory) may result in a capital gain or loss. However, dispositions of depreciable property may result in a capital gain, a recapture of CCA, or a terminal loss. See "Column 6 – Undepreciated capital cost" on page 34 for details about terminal losses and recaptures.

Enter the total amount of gain or loss realized on disposition of real estate on line B.

References
IT-218, *Profits, Capital Gains and Losses From the Sale of Real Estate, Including Farmland and Inherited Land and Conversion of Real Estate From Capital Property to Inventory and Vice Versa*
IT-478, *Capital Cost Allowance – Recapture and Terminal Loss*

Part 3 – Bonds

In this part, list all bonds disposed of during the taxation year. Give the face value, the maturity date, and the issuer's name for each type of bond.

When you make a capital disposition of a debt obligation, the amount of any realized discount or bonus received is usually considered a capital gain. Similarly, a premium paid is considered a capital loss, either when the obligation matures or on the date you dispose of the obligation. Enter the total amount of gain or loss realized on disposition of bonds on line C.

Reference
IT-479, *Transactions in Securities*

Part 4 – Other properties

In this part, describe any capital property disposed of during the taxation year that you have not already reported in parts 1, 2, and 3.

Other property includes capital debts established as bad debts, as well as amounts that arise from foreign currency transactions.

When an amount receivable on a capital account becomes a bad debt and you elect on your return to have the provisions of subsection 50(1) applied, a deemed disposition occurs at the end of the year. You are considered to have reacquired the debt immediately afterwards at a cost of nil. This usually allows the corporation to claim a bad debt as a capital loss in the year. Any later recovery of that debt will result in a capital gain.

References
Subsection 50(1)
IT-159, *Capital Debts Established to be Bad Debts*

Foreign exchange gains or losses from buying or selling capital properties are capital gains or capital losses. Transactions in foreign currency or foreign currency futures that do not form part of the business operations can be considered capital dispositions.

References
Subsection 39(2)
IT-95, *Foreign Exchange Gains and Losses*

For dispositions of depreciable property, a capital gain results if the proceeds are more than the capital cost. However, losses on depreciable property do not result in capital losses. These losses are **terminal losses**. See "Column 6 – Undepreciated capital cost" on page 34 to find out more about terminal losses.

You have to report dispositions of goodwill and other intangible properties on Schedule 10, *Cumulative Eligible Capital Deduction*. See page 37 for more details.

Enter the total amount of gain or loss realized on disposition of other properties on line D.

Part 5 – Personal-use property

In this part, describe any personal-use property you disposed of during the taxation year.

Personal-use property of a corporation is property owned primarily for the personal use or enjoyment of an individual who is related to the corporation.

Use the $1,000 rule to determine gains and losses when you dispose of personal-use property. According to this rule, if the ACB is less than $1,000, it is considered to be $1,000. As well, when the proceeds of disposition are less than $1,000, they are considered to be $1,000.

The $1,000 rule will not apply when donors acquire personal-use property as part of an arrangement in which the property is gifted to a qualified donee, such as a registered charity.

You cannot deduct losses on dispositions of personal-use property (other than listed personal property) from your income.

Enter the total amount of gain realized on disposition of personal-use property on line E.

Reference
Subsection 46(1)

Part 6 – Listed personal property

In this part, describe any listed personal property disposed of during the taxation year.

Listed personal property is a special category of personal-use property that usually increases in value. The following is a complete list of the different types of listed personal property:

- prints, etchings, drawings, paintings, sculptures, or other similar works of art;
- jewellery;
- rare folios, rare manuscripts, or rare books;
- stamps; and
- coins.

If you incur losses from disposing of listed personal property, you can only deduct these losses from capital gains realized from disposing of listed personal property.

On **line 655**, enter the amount of listed personal property losses from previous years you want to apply against current-year net listed personal property gains. Also, enter this amount on line 530 of Schedule 4, *Corporation Loss Continuity and Application*.

You can apply any unabsorbed losses in the current year to reduce similar net gains realized in the three immediately preceding years, and in the following seven years. See "Part 5 – Listed personal property losses" on page 43 for more details.

On line F, enter the total amount of gains or losses realized on disposition of listed personal property **minus** the amount of line 655.

Part 7 – Property qualifying for and resulting in an allowable business investment loss

Generally, a business investment loss arises from the **arm's-length** disposition (or deemed disposition) of:

- shares of a small business corporation; or
- certain debts owed to the corporation by a small business corporation, certain bankrupt corporations, or certain wound-up corporations (these corporations have to deal with the corporation at arm's length).

A small business corporation is defined in subsection 248(1).

If claiming an **allowable business investment loss (ABIL)**, complete part 7 of Schedule 6 giving the following information in the appropriate column:

column 900 – name of small business corporation;

column 905 – type of disposition (shares or debt);

column 910 – date of acquisition of shares or debts;

column 920 – proceeds of disposition;

column 930 – adjusted cost base; and

column 940 – outlays and expenses (for dispositions).

Deduct, from the proceeds of disposition, the ACB plus the outlays and expenses to get the business investment loss. Enter this result in **column 950**.

Enter the total amount of business investment loss on line G.

On line H, enter the ABIL (amount G multiplied by 1/2). Enter this amount on line 406 of Schedule 1.

Capital gains reserve

Often, you will not receive part of the proceeds of disposition, usually for real property, until after the end of the year. In these cases, you can defer part of the capital gain to the year it is due to receive the proceeds by setting up a capital gains reserve. By using reserves, you can spread a capital gain over a maximum of five years.

A corporation that has made a gift of a non-qualifying security to a qualified donee may claim a reserve for any gain realized on this security. A reserve can only be claimed if the donation is not deducted for tax purposes and the donee does not dispose of the security. This reserve can only be claimed in taxation years ending within 60 months of making the gift. The reserve must be included in income if any of the following occur:

- the corporation becomes a non-resident or tax exempt; or
- the donee disposes of the security.

The reserve that you can claim in a taxation year cannot be more than the lesser of the following two amounts:

A. $\dfrac{\text{Capital gain}}{\text{Proceeds of disposition}} \times \text{Amount not due until after the end of the year}$

and

B.	■ for the year of disposition	4/5 of the capital gain
	■ for the second year	3/5 of the capital gain
	■ for the third year	2/5 of the capital gain
	■ for the fourth year	1/5 of the capital gain

Add the reserve amount you deducted in a taxation year to income in the following taxation year. Add the reserve opening balance and subtract the reserve closing balance on lines 880 and 885 of Schedule 6.

Show the continuity of capital gain reserves on Schedule 13, *Continuity of Reserves*. See page 37 for details.

References
Subparagraphs 40(1)(a)(ii) and 40(1)(a)(iii)
Subsection 40(1.01)

Part 8 – Determining capital gains or capital losses

The amount on line 890 is the total capital gain or loss, which is determined as follows:

Line I – total of amounts A to F, excluding amount F if the result is a loss for the year;

add

line 875 – Capital gains dividends (Capital gains dividends under paragraphs 130.1(4)(a) and (b) and 131(1)(a) and (b) are considered to be capital gains. These paragraphs apply to mortgage investment corporations and mutual fund corporations.) If you received any capital gains dividends in the taxation year, enter them on this line; and

line 880 – the balance at the beginning of the year of the capital gains reserve from Schedule 13 (this amount should include any amount from the last taxation year of predecessor corporations after amalgamation or wind-up);

minus

line 885 – the balance at the end of the year of the capital gains reserve from Schedule 13; and

line 890 – total capital gain or loss (excluding ABIL).

Part 9 – Determining taxable capital gains and total capital losses

Line N – total amount of gain or loss excluding ABILs (amount from line 890);

minus

line 895 – enter 1/2 of capital gains realized on donations of a security listed on a stock exchange, a share or unit of a mutual fund, an interest in a segregated fund, or a prescribed debt obligation made to a qualified donee (other than a private foundation); and

line 896 – enter 1/2 of capital gain realized on donations of ecologically sensitive land.

Line P – **capital gain or loss for the year**. This amount is the result of line N minus lines 895 and 896. If the amount is a loss, enter it on line 210 of Schedule 4.

Line Q – **taxable capital gains**. If amount of line P is a gain, multiply it by 1/2. Enter the amount of taxable capital gain on line 113 of Schedule 1.

References
Paragraphs 38(a.1) and 38(a.2)

You can deduct an ABIL from all sources of income for the year. If any balance remains after the year the loss occurs, it becomes part of the non-capital loss. You can carry the non-capital loss back three taxation years and carry it forward seven taxation years. For an ABIL incurred in taxation years ending after March 22, 2004, the carry forward period is for the ten following taxation years. If you are unable to deduct an ABIL as a non-capital loss within this allowed time frame, the unused part becomes a net capital loss, and you can carry it forward indefinitely to reduce taxable capital gains.

Include all **unused ABIL** after the applicable carry forward period in part 2, "Capital Losses," of Schedule 4. See page 41, for more details.

References
Paragraph 39(1)(c)
IT-484, *Business Investment Losses*

Schedule 8, *Capital Cost Allowance (CCA)*

Complete Schedule 8 to calculate **capital cost allowance** (CCA).

Paragraph 20(1)(a) allows a corporation to deduct part of the capital cost of certain **depreciable property** from income it earned in the year from a business or property. This deduction is called CCA.

When a taxation year is shorter than 12 months, you generally have to prorate the CCA.

Under Part XI of the *Income Tax Regulations*, depreciable property is grouped into prescribed classes. Schedule II of the regulations contains a complete list of these prescribed classes.

A maximum rate is prescribed for each class. Apply the prescribed rate to the undepreciated capital cost of the class at year-end to determine the maximum CCA you can claim. You can deduct any amount up to the maximum that is available for the year.

> **Note**
> On Schedule 8, do not include capital expenditures (other than first- or second-term shared-use-equipment) for which you are requesting SR&ED treatment.

Disability-related modifications

You can deduct outlays and expenses you incur for eligible disability-related modifications made to a building in the year you paid them, instead of having to add them to the capital cost of your building. Eligible disability-related modifications include changes you make to accommodate wheelchairs. You can also deduct expenses paid to install or get disability-related devices and equipment.

You can claim this as "Other deductions" on Schedule 1, *Net Income (Loss) for Income Tax Purposes.*

Available-for-use rule

The available-for-use rule determines the earliest taxation year in which you can claim CCA for depreciable property.

When is property available for use?

Property other than a building is considered available for use at the earliest of several dates. The following are some examples of these dates:

- when the corporation first uses the property to earn income;
- the beginning of the first taxation year that starts at least 358 days after the taxation year during which the corporation acquired the property;
- immediately before the corporation disposes of the property; or
- when the corporation can use the property to either produce a saleable product or perform a saleable service.

A building is considered available for use on the earliest of the following dates:

- when the corporation uses all or substantially all of the building for its intended purpose;
- when construction of the building is completed;
- the beginning of the first taxation year that starts at least 358 days after the taxation year during which the corporation acquired the property;
- immediately before the corporation disposes of the property; or
- when the corporation acquires a replacement property, if it is replacing one it involuntarily disposed of (for example, expropriation) that it either acquired before 1990 or had already become available for use.

> **Note**
> If a corporation acquires a property for a **long-term project**, it can elect to limit the impact of the available-for-use rule. This election is not available for rental buildings. To make this election, send us a completed Form T1031, *Subsection 13(29) Election in Respect of Certain Depreciable Properties, Acquired for use in a Long Term Project*, with the return.

References
Subsections 13(26) to 13(32)

Election under Regulation 1101(5q)

Line 101 – Is the corporation electing under Regulation 1101(5q)?

To answer this question, tick the *Yes* or *No* box.

This election allows you to include certain property usually included in classes 8, 10, and 43 in a separate class. You have to have acquired each property after April 26, 1993, at a capital cost of **at least $1,000**. The types of properties that qualify for this election include general-purpose electronic data-processing equipment and ancillary equipment, manufacturing and processing property, computer software, photocopiers, and electronic communications equipment, such as facsimile transmission devices or telephone equipment.

You can elect to classify a property in a separate class or several properties in one or more than one separate class.

This election can allow you to claim a terminal loss, which is any remaining undepreciated capital cost at the time of disposition of the properties in this class. For more information on terminal losses, see "Column 6 – Undepreciated capital cost".

CCA rates and classes

New CCA classes were introduced as a result of the 2005 federal budget.

Class 43.2 is for certain efficient and renewable energy production equipment acquired after February 22, 2005 and before 2012. The CCA rate for this new class is 50%.

Class 47 is for certain transmission and distribution property of a distributor of electricity acquired after February 22, 2005. The CCA rate for this new class is 8%.

Class 48 is for certain combustion turbines that generate electricity acquired after February 22, 2005. The CCA rate for this new class is 15%.

Class 49 is for certain hydrocarbon transmission pipelines acquired after February 22, 2005. The CCA rate for this new class is 8%

.

List of CCA rates and classes

The following chart is a partial list and description of the most common capital cost allowance (CCA) classes. You will find a complete list in Schedule II of the *Income Tax Regulations*.

Class number	Description	CCA rate
1	Most buildings made of brick, stone, or cement acquired after 1987, including their component parts such as electric wiring, lighting fixtures, plumbing, heating and cooling equipment, elevators, and escalators	4%
3	Most buildings made of brick, stone, or cement acquired before 1988, including their component parts as listed in class 1 above	5%
6	Buildings made of frame, log, stucco on frame, galvanized iron, or corrugated metal that are used in the business of farming or fishing, or that have no footings below-ground; fences and most greenhouses	10%
7	Canoes, boats, and most other vessels, including their furniture, fittings, or equipment	15%
8	Property that is not included in any other class such as furniture, calculators and cash registers (that do not record multiple sales taxes), photocopy and fax machines, printers, display fixtures, refrigeration equipment, machinery, tools costing $200 or more, and outdoor advertising billboards and greenhouses with rigid frames and plastic covers	20%
9	Aircraft, including furniture, fittings, or equipment attached, and their spare parts	25%
10	Automobiles (except taxis and others used for lease or rent), vans, wagons, trucks, buses, tractors, trailers, drive-in theatres, general-purpose electronic data-processing equipment (e.g., personal computers) and systems software, and timber-cutting and removing equipment	30%
10.1	Passenger vehicles costing more than $30,000 if acquired after 2000	30%
12	Chinaware, cutlery, linen, uniforms, dies, jigs, moulds or lasts, computer software (except systems software), cutting or shaping parts of a machine, certain property used for earning rental income such as apparel or costumes, and videotape cassettes; certain property costing less than $200 such as kitchen utensils, tools, and medical or dental equipment	100%
13	Property that is leasehold interest (the maximum CCA rate depends on the type of leasehold and the terms of the lease)	N/A
14	Patents, franchises, concessions, and licences for a limited period – the CCA is limited to whichever is less: ■ the capital cost of the property spread out over the life of the property; or ■ the undepreciated capital cost of the property at the end of the taxation year. Class 14 also includes patents, and licences to use patents for a limited period, that you elect not to include in class 44.	N/A
16	Automobiles for lease or rent, taxicabs, and coin-operated video games or pinball machines; certain tractors and large trucks acquired after December 6, 1991, that are used to haul freight and that weigh more than 11,788 kilograms	40%
17	Roads, sidewalks, parking-lot or storage areas, telephone, telegraph, or non-electronic data communication switching equipment	8%
38	Most power-operated movable equipment acquired after 1987 used for moving, excavating, placing, or compacting earth, rock, concrete, or asphalt	30%
39	Machinery and equipment acquired after 1987 that is used in Canada primarily to manufacture and process goods for sale or lease	25%
43	Manufacturing and processing machinery and equipment acquired after February 25, 1992, described in class 39 above	30%
44	Patents and licences to use patents for a limited or unlimited period that the corporation acquired after April 26, 1993 - However, you can elect not to include such property in class 44 by attaching a letter to the return for the year the corporation acquired the property. In the letter, indicate the property you do not want to include in class 44.	25%
45	Computer equipment that is "general-purpose electronic data processing equipment and system software" included in paragraph f of class 10 acquired after March 22, 2004	45%
46	Data network infrastructure equipment that supports advanced telecommunication applications, acquired after March 22, 2004 - It includes assets such as switches, multiplexers, routers, hubs, modems and domain name servers that are used to control, transfer, modulate and direct data, but does not include office equipment such as telephones, cell phones or fax machines, or property such as wires, cables or structures.	30%

Completing Schedule 8

This section explains how to complete each column of Schedule 8. Use a separate line for each class of property.

Column 1 – Class number

Identify each class of property with the assigned class number.

Generally, you have to group all depreciable property of the same class together. Then, calculate CCA on the undepreciated capital cost of all the property in that class.

However, sometimes you have to maintain a separate record for each property in the same class. For example, list on separate lines property that you would usually group in the same class but use to earn income from different sources. Also, list on a separate line each class 10.1 passenger vehicle and property you elected to identify in a separate class under Regulation 1101(5q).

> **Note**
> If a class number has not been provided in Schedule II of the *Income Tax Regulations* for a particular class of property, use the subsection provided in Regulation 1101.

Reference
Regulation 1101

Column 2 – Undepreciated capital cost at the beginning of the year

Enter the amount of the undepreciated capital cost at the end of the **preceding taxation year**.

Column 3 – Cost of acquisitions during the year

For each class, enter the total cost of depreciable property you acquired and had available for use in the taxation year. The cost of acquisitions generally means the full cost of acquiring the property, including legal, accounting, engineering, and other fees. **Land is not a depreciable property, and is therefore not eligible for CCA.**

Do not enter section 85 transfers in this column.

Column 4 – Net adjustments

In some cases, you will have to adjust the capital cost of a property. In column 4, enter the amounts that will either **reduce** or **increase** the capital cost.

Reduce the capital cost of a property by the following amounts:

- any goods and services tax/harmonized sales tax (GST/HST) input tax credit claimed or entitled to be claimed, or rebate **received or entitled to be received in the year**;
- any federal investment tax credits (ITCs) used to reduce taxes payable or claimed as a refund in the preceding taxation year;
- any reduction of capital cost after the application of section 80;
- any provincial or territorial ITCs received or entitled to be received in the current year; and
- any government assistance received or entitled to be received in the year.

Add to the capital cost of the property:

- any depreciable property transferred from an amalgamated or wound-up subsidiary;
- any repayment of GST/HST input tax credit previously claimed;
- any depreciable property transferred under section 85; and
- any government assistance repaid in the year that previously reduced the capital cost.

Show the amounts that reduce the capital cost in brackets. Do not include them as income.

> **Note**
> A corporation that receives an amount of non-government assistance to buy depreciable property has the option of either reducing the capital cost of the property by this amount, or including it in its income.

References
Subsections 13(7.1), 13(7.4), and 13(21)
Paragraph 12(1)(x)
IT-285, *Capital Cost Allowance – General Comments*

Column 5 – Proceeds of dispositions during the year

For each class, you usually enter the total proceeds of disposition received or entitled to be received for property disposed of during the year. However, if you disposed of the property for more than its capital cost, enter the capital cost, not the actual proceeds of disposition.

A capital gain results when you dispose of a depreciable property for more than its capital cost. However, losses on depreciable property do **not** result in capital losses. They may result in terminal losses. See column 6 for more details about terminal losses.

Column 6 – Undepreciated capital cost

To calculate the amount you have to enter in column 6:

- add the amounts in columns 2 and 3;
- either subtract or add the amount in column 4 (subtract if it is a negative amount, or add if it is a positive amount); and
- subtract the amount in column 5.

You cannot claim CCA when the amount in column 6 is:

- positive, and no property is left in that class at the end of the taxation year (a **terminal loss**); or
- negative (a **recapture of CCA**).

Terminal loss
A terminal loss results when you dispose of all the property in a particular class and there is an amount of undepreciated capital cost left in column 6. You have to deduct the terminal loss from income. For details, see example 1 under the heading "Schedule 8 examples" that follows.

Recapture of CCA
If the amount in column 6 is negative, you have a recapture of CCA. A recapture of CCA occurs when the proceeds of disposition in column 5 are more than the total of columns 2 and 3, plus or minus the amount in column 4 of that class. You have to add the recapture to income. For

details, see example 2 under the heading "Schedule 8 examples" that follows.

The recapture and terminal loss rules do not apply to passenger vehicles in class 10.1.

Enter the recapture or terminal loss from column 6 in column 10 or 11. In this case, do not complete the rest of the columns for that line.

Column 7 – 50% rule

Generally, property acquired that is available for use during the taxation year is only eligible for 50% of the normal maximum CCA for the year. You can claim full CCA for that property in the next taxation year.

To apply the 50% rule, the undepreciated capital cost of the property has to be adjusted. This adjustment is equal to one-half of the net amount of additions to the class (the net cost of acquisitions minus the proceeds of dispositions). Enter this amount in column 7. For details, see example 3 under the heading "Schedule 8 examples" that follows.

When applying the 50% rule, the net amount of additions must take into account some adjustments in column 4 (plus or minus). However, do not reduce the net amount of additions by the ITC claimed in the preceding taxation year and included in column 4.

Certain properties acquired through non-arm's-length transfers or butterfly transfers (which occur in the course of certain reorganizations) are exempt from the 50% rule.

References
Regulation 1100(2)
IT-285, *Capital Cost Allowance – General Comments*

Column 8 – Reduced undepreciated capital cost

In this column, enter the amount you get when you subtract the amount in column 7 from the amount in column 6.

Column 9 – CCA rate

Enter the prescribed rate that applies, as provided for under Part XI of the Regulations. If a specific rate has not been provided for a particular class of property, enter N/A in this column.

Column 10 – Recapture of capital cost allowance

In column 6, enter the amount of recapture calculated. Be sure you include the recapture as income. Enter the total of amounts in column 10 on line 107 of Schedule 1.

Column 11 – Terminal loss

Enter the terminal loss calculated in column 6. Deduct the terminal loss from income. Enter the total of amounts in column 11 on line 404 of Schedule 1.

Column 12 – Capital cost allowance

To claim the maximum CCA for each class, multiply the amount in column 8 by the rate in column 9, and enter the result in column 12. You do not have to claim the maximum allowable CCA. You can claim any amount up to the maximum.

If the taxation year is less than 365 days, prorate the CCA claim for all property except for those classes of property that Regulation 1100(3) excludes. The exceptions in Regulation 1100(3) include:

- class 14 assets;
- class 15 assets;
- timber limits and cutting rights;
- industrial mineral mines;
- certified productions; and
- certain mining equipment in classes 28 and 41.

A draft regulation proposes to include Canadian film or video productions in the exceptions in Regulation 1100(3).

To determine the maximum CCA claim, multiply the maximum CCA for a complete year by the number of days in the taxation year divided by 365.

References
Regulation 1100(3)
IT-147, *Capital Cost Allowance – Accelerated Write-off of Manufacturing and Processing Machinery and Equipment*
IT-285, *Capital Cost Allowance – General Comments*

The total of all amounts in column 12 is the CCA claim for the taxation year. Deduct this amount on line 403 of Schedule 1.

> **Note**
> If you want to change the amount of CCA claimed in a taxation year, send a written request within 90 days of the date on the *Notice of Assessment* or *Notice of Reassessment*. Only under certain circumstances can we make adjustments after the 90-day period has expired. For more information, see Information Circular 84-1, *Revision of Capital Cost Allowance Claims and Other Permissive Deductions*.

Column 13 – Undepreciated capital cost at the end of the year

Subtract the amount in column 12 from the amount in column 6 and enter the difference.

When there is a recapture of CCA or a terminal loss for a particular class in the year, the undepreciated capital cost at the end of the year is always nil.

Schedule 8 examples

Example 1
An import-export business decided to sell its warehouse, because it is better to lease instead. The business received $30,000 for the warehouse. At the end of the 2005 taxation year, the business had no more assets in class 3.

The business's Schedule 8 for its 2005 taxation year looks like this:

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Class number	Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year's CCA schedule)	Cost of acquisitions during the year (new property must be available for use)	Net adjustments (show negative amounts in brackets)	Proceeds of dispositions during the year (amount not to exceed the capital cost)	Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5)	50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)	Reduced undepreciated capital cost (column 6 **minus** column 7)	CCA rate %	Recapture of capital cost allowance	Terminal loss	Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount)	Undepreciated capital cost at the end of the year (column 6 **minus** column 12)
	200	201	203	205	207		211		212	213	215	217	220
1.	**3**	**$35,000**			**$30,000**	**$5,000**		**$5,000**	**N/A**		**$5,000**		
2.													
3.													
4.													

The amount in column 11 is a terminal loss.

The import-export business deducts the $5,000 terminal loss from its income (line 404 of Schedule 1).

Example 2
A clothing company bought a sewing machine in 2003 for $10,000. Now, because of the overwhelming success the company has had in the retail end of the business, it has decided to concentrate solely on retailing. As a result, the company sold its sewing machine in 2005 for $12,000. At the beginning of 2005, the undepreciated capital cost of the sewing machine was $9,500.

The company's Schedule 8 for its 2005 taxation year looks like this:

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Class number	Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year's CCA schedule)	Cost of acquisitions during the year (new property must be available for use)	Net adjustments (show negative amounts in brackets)	Proceeds of dispositions during the year (amount not to exceed the capital cost)	Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5)	50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)	Reduced undepreciated capital cost (column 6 **minus** column 7)	CCA rate %	Recapture of capital cost allowance	Terminal loss	Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount)	Undepreciated capital cost at the end of the year (column 6 **minus** column 12)
	200	201	203	205	207		211		212	213	215	217	220
1.	**8**	**$9,500**			**$10,000**	**(500)**		**(500)**	**N/A**	**$500**			
2.													
3.													
4.													

The amount in column 10 is the recapture of CCA.

The clothing company includes the $500 recapture in its income (line 107 of Schedule 1). The capital gain is $12,000 minus $10,000, which equals $2,000.

Example 3
In the 2005 taxation year, a bookstore bought a photocopier to help keep up with the paperwork, and started using it right away. The copier cost $5,000. The bookstore has to apply the 50% rule when it calculates the amount of CCA it can deduct for 2005.

The bookstore’s Schedule 8 for its 2005 taxation year looks like this:

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Class number	Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year’s CCA schedule)	Cost of acquisitions during the year (new property must be available for use)	Net adjustments (show negative amounts in brackets)	Proceeds of dispositions during the year (amount not to exceed the capital cost)	Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5)	50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)	Reduced undepreciated capital cost (column 6 **minus** column 7)	CCA rate %	Recapture of capital cost allowance	Terminal loss	Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount)	Undepreciated capital cost at the end of the year (column 6 **minus** column 12)
	200	201	203	205	207		211		212	213	215	217	220
1.	**8**	**$10,000**	**$5,000**			**$15,000**	**$2,500**	**$12,500**	**20**			**$2,500**	**$12,500**
2.													
3.													
4.													

Schedule 10, *Cumulative Eligible Capital Deduction*

Complete Schedule 10 to calculate the cumulative eligible capital deduction.

Some business-related expenditures are capital in nature. Corporations incur these expenditures, called eligible capital expenditures, to buy intangible capital property, known as **eligible capital property**. Some examples of eligible capital property are:

- goodwill;
- trademarks;
- franchises, concessions, or licences for an unlimited period; and
- patents, and licences to use patents for an unlimited period, that you elect not to include in class 44. For more information on class 44, see the CCA rates and classes chart on page 33.

Expenses you incur for incorporation, reorganization, or amalgamation also qualify as eligible capital expenditures.

Eligible capital expenditures are not deductible in full, and they are not eligible for CCA. However, they may qualify for a partial deduction called a **cumulative eligible capital deduction**.

The cumulative eligible capital (CEC) account is the account you set up to keep track of your eligible capital expenditures. Calculate your CEC account balance on Schedule 10. Each year, you can deduct up to 7% of the balance.

Complete part 1 of Schedule 10 and claim the amount at line 250 on line 405 of Schedule 1.

Show any amount at line 222, “Cost of eligible capital property acquired during the taxation year,” excluding any adjustments, such as government assistance, repayment of government assistance, and section 85 transfers. Enter adjustments at line 226 if they increase the eligible capital cost or at line 246 if they reduce it.

When completing part 1 of Schedule 10, if you have a negative balance on your CEC account, you have to complete part 2. On line 108 of Schedule 1, enter the amount you calculated at line 410. You must prorate the deduction for a short taxation year.

References
Subsection 14(5)
Paragraph 20(1)(b)
Section 85
IT-143, *Meaning of Eligible Capital Expenditure*

Schedule 12, *Resource-Related Deductions*

You have to complete the appropriate part(s) of Schedule 12 if you are claiming any of the following deductions on Schedule 1:

- Canadian development expenses;
- Canadian exploration expenses;
- Canadian oil and gas property expenses;
- depletion;
- foreign exploration and development expenses;
- specified foreign exploration and development expenses; or
- foreign resource expenses.

Schedule 12 gives details for the calculations required.

References
Part XII of the Regulations
Sections 65 and 66

Schedule 13, *Continuity of Reserves*

You have to complete Schedule 13 to show the continuity of all reserves. Indicate, on the appropriate lines, the prior-year and the current-year reserves as well as the reserve transferred from an amalgamation or wind-up. If your corporation or the predecessor corporation deducted a reserve amount last year, add that amount to current-year income and establish a new reserve amount.

Complete Schedule 13 as follows:

Part 1 – Capital gains reserves

Establish the continuity of reserves for each different property. Unlike other reserves, you have to report the total capital gain reserves that you and the predecessor corporation deducted last year. Add the current-year reserve on Schedule 6 to calculate the current-year capital gain. See page 28 for more details.

Part 2 – Other reserves

In this part, establish the continuity of the following reserves:

- reserve for doubtful debts;
- reserve for undelivered goods and services not rendered;
- reserve for prepaid rent;
- reserve for December 31, 1995, income from partnership;
- reserve for returnable containers;
- reserve for unpaid amounts; and
- other tax reserves.

Enter, on line 125 of Schedule 1, the total of the balance of your reserve at the beginning of the year (line 270 of Schedule 13) plus the amount of reserve transferred on wind-up/amalgamation (line 275 of Schedule 13).

Enter, on line 413 of Schedule 1, the balance at the end of the year (line 280 of Schedule 13).

Enter, on line 414 of Schedule 1, the balance at the beginning of the year of reserves from financial statements. Enter, on line 126 of Schedule 1, the balance at the end of the year of reserves from financial statements.

References
IT-152, *Special Reserves – Sale of Land*
IT-154, *Special Reserves*
IT-442, *Bad Debts and Reserves for Doubtful Debts*

Schedule 16, *Patronage Dividend Deduction*

Complete Schedule 16 with the return if claiming a patronage dividend deduction. This deduction is for payments made to customers for allocations in proportion to patronage. An **allocation in proportion to patronage** entitles a customer to receive payment calculated at a rate relating to the quantity, quality, or value of either goods or products sold or services rendered.

Corporations have to pay amounts that qualify for this deduction either during the taxation year, or in the 12 months that follow the taxation year.

Members of certain agricultural co-operative corporations can defer including in income patronage dividends in the form of shares issued after 2005 and before 2016 to the year of their disposal. Also, an eligible agricultural co-operative for a particular taxation year can deduct patronage dividends issued in the form of shares but deductions can be no more than 85% of its income for that year that is attributable to business done with its members.

Corporations other than credit unions and co-operative corporations cannot deduct patronage dividends paid after March 22, 2004, to non-arms length persons.

Parts 1 and 2 of Schedule 16 give details on how to calculate the allowable patronage dividend deduction. Enter this deduction on line 416 of Schedule 1.

If you are claiming a patronage dividend deduction, you also have to complete part 4 of Schedule 16 entitled "Calculation of income from an active business carried on in Canada (ABI)." Enter the amount from line 124 at line 400 of the return.

References
Section 135
IT-362, *Patronage Dividends*

Schedule 17, *Credit Union Deductions*

As a credit union, you may be claiming allocations for bonus interest payments and allocations in proportion to borrowing. If so, provide us with the appropriate information by completing Schedule 17.

Use this schedule to calculate the "additional deduction – credit unions" to reduce Part I tax. For details on this additional deduction, see "Line 628 – Additional deductions – credit unions" on page 57.

A credit union can deduct from its income for a taxation year both the total of all bonus interest payments and the payments it made to its members for allocations in proportion to borrowing. It can also deduct payments made in the 12 months after the end of the taxation year. However, the credit union cannot deduct an amount if it could have deducted it in the previous taxation year.

The **allocation in proportion to borrowing** for a taxation year means an amount a credit union credits to a member that is entitled to, or will receive, this amount.

On Schedule 17, you have to calculate the payment made in proportion to borrowing at a rate that is related to:

- the amount of interest payable by the member on money the member borrowed from the credit union; or
- the amount of money the member borrowed from the credit union.

You have to calculate the bonus interest payment at a rate that is related to:

- the interest payable by the credit union on money standing to the member's credit; or
- the amount of money standing to the member's credit.

The amount the credit union credited to the member has to bear the same rate as the interest or money that the credit union similarly credited to all other members of the credit union of the same class.

Complete the appropriate parts of Schedule 17 to calculate this deduction. Add lines 305 and 315 of Schedule 17 and enter the result on line 315 of Schedule 1.

References
Subsections 137(2) and 137(6)

Form T661, *Claim for Scientific Research and Experimental Development (SR&ED) Carried out in Canada*

We publish guide T4088, called *Claiming Scientific Research and Experimental Development – Guide to Form T661*, which gives details on how to complete Form T661. For more information, see our Web site at **www.cra.gc.ca/sred.**

File a current version of Form T661 if you carry on business in Canada and have incurred expenditures for scientific research and experimental development (SR&ED) you carried on in Canada.

To be a qualified expenditure, the amount has to be for SR&ED carried on "in Canada." For SR&ED expenditures made after February 22, 2005, the expression "in Canada" includes the "exclusive economic zone" (as defined in the *Oceans Act* to generally consist of an area that is within 200 nautical miles from the Canadian coastline), including the airspace, seabed, and subsoil in respect of that zone. For SR&ED expenditures made prior to February 23, 2005, the expression "in Canada" generally includes the 12-nautical-mile territorial sea.

To avoid delays in processing, use the most recent version of Form T661.

Current and capital SR&ED expenditures form a special pool that you can deduct in the current year. You can also carry forward to any future year the expenditures in that pool as long as you have not deducted them before.

Enter the scientific research expenses claimed in the year, on line 411 of Schedule 1.

Form T661 summarizes the costs for all SR&ED projects. You have to complete the form and place it on top of the return for the taxation year you incur SR&ED expenditures. File Form T661 whether or not you claim an investment tax credit (ITC). If you do not file Form T661 and Schedule 31, *Investment Tax Credit – Corporations*, on or before the day that is 12 months after your filing due-date for the taxation year in which the SR&ED expenditures were made, you cannot claim SR&ED expenditures and an ITC for that year. For more information, see "Line 652 – Investment tax credit" on page 59.

When a corporation is a member of a partnership that incurs SR&ED expenditures, the partnership has to file Form T661 along with the T5013 Summary, *Partnership Information Return*. Each partner has to file a T5013 slip, *Statement of Partnership Income*, showing its share of the expenditures. If the partnership is exempt from filing (for example, it has fewer than six members), each partner has to file Form T661 with its return.

References
Subsections 37(1), 149(7), and 149(7.1)
Regulation 2900
IC 86-4, *Scientific Research and Experimental Development*
IT-151, *Scientific Research and Experimental Development Expenditures*
T4052, *An Introduction to the Scientific Research and Experimental Development Program*
T4088, *Claiming Scientific Research and Experimental Development – Guide to Form T661*

Losses

Current-year losses

A corporation may not always have net income to report on line 300. Instead, it may have incurred a loss for the year. The different types of losses a corporation can incur are:

- non-capital loss;
- capital loss;
- farm loss;
- restricted farm loss; and
- limited partnership loss.

The application and continuity of these losses are calculated on Schedule 4, *Corporation Loss Continuity and Application.* Information on how to complete Schedule 4 follows this section.

On line 300, enter in brackets the net loss for the year.

Applying losses

A corporation can apply unused losses and deduct them from income it earned in the current taxation year or in prior taxation years. Schedule 4 is also used to record the various losses (including capital losses determined on Schedule 6) and to indicate how to apply these losses to other years and how to deduct the different types of prior-year losses.

> **Note**
> You can choose whether or not to deduct an available loss from income in a taxation year. You can deduct losses in any order. However, for each type of loss, make sure to deduct the oldest available loss first.

Losses carryback

Use Schedule 4 to request the carryback of any losses to prior years.

You can use losses in any order, but consider the following:

- a current-year non-capital loss or farm loss can reduce any kind of income or taxable dividends subject to Part IV tax for the three preceding years;
- a net capital loss can reduce taxable capital gains included in your income for the three preceding years;
- a restricted farm loss can reduce farming income for the three preceding years; and
- a listed personal property loss can reduce capital gains incurred on listed personal property for the three preceding years.

Except for net capital losses, you cannot use other year losses to create or increase a non-capital loss for the taxation year.

In the corresponding part of Schedule 4, enter the amount carried back to prior years.

If you do not attach your request to the return, you can send it separately to your tax centre.

Calculating losses when there is a change in control

Following an acquisition of control, special rules apply for calculating and deducting net capital losses, non-capital losses, and farm losses. See the following references for details.

References
Subsections 111(4) and 111(5)
IT-302, *Losses of a Corporation – The Effect That Acquisitions of Control, Amalgamations, and Windings-up Have on Their Deductibility – After January 15, 1987*

How to complete Schedule 4, *Corporation Loss Continuity and Application*

Part 1 – Non-capital losses

Determination of current-year non-capital loss

To determine the current-year non-capital loss, you have to complete part 1 as follows:

Net income (loss) for income tax purposes – income from all sources minus losses from business and property, plus or minus the adjustments on Schedule 1;

deduct

> **net capital losses deducted in the year** – net capital losses from **previous years** used to reduce taxable capital gains included in income;
>
> **taxable dividends deductible** – taxable dividends received, deductible under section 112 or 113 or subsection 138(6) (for details, see Line 320 on page 47);
>
> **amount of Part VI.1 tax deductible** – unused Part VI.1 tax deductible in the taxable income calculation; and
>
> **amount deductible as prospector's and grubstaker's shares – paragraph 110(1)(d.2)** – the amount deductible is the value of any shares received from a corporation on disposition of a right or a mining property, except if the amount is exempt from tax in Canada by virtue of one of Canada's tax treaties, multiplied by 1/2.

Subtotal – if the result is positive, enter "0";

deduct

> **section 110.5 or subparagraph 115(1)(a)(vii) – addition for foreign tax deductions** – any amounts added to the taxable income to use foreign tax deductions you could not otherwise deduct from Part I tax. For details, see Line 355 on page 48;

add

> **current-year farm loss** – whichever is less: the net loss from farming or fishing included in the income, **or** the non-capital loss before deducting the farm loss.

If the result after the calculation shown under part 1 is negative, enter this result (as positive) on line 110 as the current-year non-capital loss.

> **Note**
> You cannot use prior-year losses to create or increase a current-year non-capital loss, except with net capital losses of other years.

References
Subsection 111(8)
IT-302, *Losses of a Corporation – The Effect That Acquisitions of Control, Amalgamations and Windings-Up Have on Their Deductibility – After January 15, 1987*

Continuity of non-capital losses and request for carryback

Use this box to establish the continuity of non-capital losses and to carry back a current-year non-capital loss to prior years.

The current-year non-capital loss can reduce any kind of income or taxable dividends subject to Part IV tax for the three preceding taxation years and for the seven following taxation years.

For losses incurred in taxation years ending after March 22, 2004, the carry-forward period is for the ten following taxation years.

Complete this box as follows:

Amount of non-capital losses at the end of the preceding taxation year;

deduct

> **line 100** – amount of non-capital loss expired after seven taxation years. A non-capital loss expires as follows:
>
> - after **seven** taxation years if it arose in a taxation year ending before March 23, 2004;
> - after **ten** taxation years if it arose in a taxation year ending after March 22, 2004.

Line 102 – amount of non-capital losses at the beginning of the taxation year (this is the result of the two preceding lines);

deduct

> **line 140** – amount of debt forgiveness under section 80 that reduces the non-capital losses balance (losses have to be reduced in the order established by section 80); and
>
> **subsection 111(10)** – amount received as a fuel tax rebate that reduced non-capital loss for a preceding year;

add

> **line 105** – amount of non-capital losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation (this amount is the unused non-capital losses available to be carried forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up, **minus** any expired amount); and

line 110 – amount of current-year non-capital loss calculated above ;

deduct

line 130 – amount of non-capital losses applied in the current year to reduce the taxable income (enter this amount on line 331 of the return);

line 135 – amount of prior- and current-year non-capital losses applied to reduce current-year taxable dividends subject to Part IV tax (enter those amounts on line 330 or 335 of Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*); and

line 150 – amount of any other adjustments not previously mentioned

These adjustments would apply to corporations that have undergone a change of control and whose losses that accrued before the change of control are not deductible after the change of control.

Subtotal – this is the amount of non-capital losses available to carry back or carry forward to other years;

deduct

lines 901 to 913 – on the appropriate line, enter the amount of non-capital loss you carry back to prior years against taxable income and taxable dividends subject to Part IV tax;

line 180 – the result is the closing balance of non-capital losses you carry forward to future years.

Complete part 6 to establish the balance of non-capital losses by year of origin.

Election under paragraph 88(1.1)(f)

Further to a winding-up of a subsidiary, the portion of a non-capital loss, restricted farm loss, farm loss, or limited partnership loss incurred by the subsidiary is deemed to be the parent corporation's loss for its taxation year beginning after the commencement of the winding-up.

Paragraph 88(1.1)(f) allows the parent corporation to elect that this loss is deemed to be a loss from its taxation year preceding the year mentioned above.

Tick box 190 if you are making an election under paragraph 88(1.1)(f).

Part 2 – Capital losses

Continuity of capital losses and request for a carry-back

The current-year capital loss is calculated on Schedule 6. See page 28 for more details. Complete this box to establish the continuity and the application of capital losses.

To establish the continuity, you have to enter the amount of **capital losses** and not the amount of **net capital losses** available. The inclusion rate will be used only when the loss is applied. You have to indicate the balance of any preceding-year capital losses carried forward.

The net capital loss can reduce taxable capital gains included as income for the three preceding taxation years and indefinitely for future years.

Complete this box as follows:

line 200 – amount of capital losses at the end of the preceding taxation year;

add

line 205 – amount of capital losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of the issued shares of each class were, immediately before the wind-up, owned by the corporation [this amount is the unused capital losses available to carry forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up, including any amount of the allowable business investment loss (ABIL) expired as non-capital loss for the predecessor corporation or the subsidiary), divided by the inclusion rate for the taxation year in which the ABIL was incurred (see note below)];

line 210 – amount of the current-year capital loss calculated on Schedule 6; and

line 220 – amount of the ABIL included in the amount of non-capital losses expired in the year [divided by the inclusion rate for the taxation year in which the ABIL was incurred (see note below)];

deduct

line 225 – amount of capital losses from prior years used to reduce a net capital gain incurred in the year [to get the net capital losses required to reduce the taxable capital gain included in the net income (loss) for the purpose of current-year tax, multiply the amount on line 225 by 50% and enter the result on line 332 of the return];

line 240 – amount of debt forgiveness under section 80 that reduces the capital losses balance (losses have to be reduced in the order established by section 80); and

line 250 – amount of any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone a change of control and whose losses that accrued before the change of control are not deductible after the change of control).

Subtotal – this is the amount of capital losses available to carry back or carry forward to other years;

deduct

lines 951 to 953 – on the appropriate line, enter the amount of capital loss you carry back to prior years. The net capital loss amount will be calculated at the inclusion rate of the year to which the net capital loss is applied (see note below);

line 280 – the result obtained is the closing balance of available capital losses you carry forward to future years.

Note:
The inclusion rates are:

- 0.75 for taxation years ending before February 28, 2000;

- line M of Schedule 6 (version T2 SCH 6, F 01), *Summary of Dispositions of Capital Property*, for taxation years ending after February 27, 2000, and starting before October 18, 2000; and
- 0.50 for taxation years starting after October 17, 2000.

Part 3 – Farm losses

Calculating current-year farm loss

The current-year farm loss is whichever of the following amounts is less:

- the loss from farming or fishing that is more than the farming or fishing income for the year; or
- the amount of the current-year non-capital loss as calculated in part 1 before you deduct the farm loss for the year.

Enter the farm loss calculated on line 310.

The farm loss can also include an amount allocated from a partnership.

Reference
Subsection 111(8)

Continuity of farm losses and request for a carryback

Use this box to establish the continuity of farm losses and to carry back a current-year farm loss to prior years. (Farm losses include losses from farming and fishing businesses.)

Complete this box as follows:

Amount of farm losses at the end of the preceding taxation year;

deduct

line 300 – amount of farm loss expired after 10 taxation years (this amount is the balance of farm loss from the eleventh preceding year that would otherwise be available).

Line 302 – amount of farm losses at the beginning of the taxation year (this is the result of the two preceding lines);

add

line 305 – amount of farm losses transferred from a predecessor corporation after amalgamation or subsidiary after wind-up where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation (this amount is the unused farm losses available to carry forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up **minus** any expired amount); and

line 310 – amount of the current-year farm loss previously calculated above;

deduct

line 330 – amount of farm losses from prior years you applied in the current year to reduce the taxable income (enter this amount on line 334 of the return);

line 335 – amount of farm losses from the current or previous years applied in the current year to reduce taxable dividends subject to Part IV (enter these amounts on lines 340 or 345 of Schedule 3);

line 340 – amount of debt forgiveness under section 80 that reduces the farm losses balance (losses have to be reduced in the order established by section 80); and

line 350 – any other adjustments not previously mentioned.

These adjustments would apply to corporations that have undergone a change of control and whose losses that accrued before the change of control are not deductible after the change of control.

Subtotal – this is the amount of farm losses available to carry back or carry forward to other years;

deduct

lines 921 to 933 – on the appropriate line, enter the amounts of farm loss you apply to prior years against taxable income and taxable dividends subject to Part IV tax;

line 380 – the result is the closing balance of farm losses to be carried forward to future years.

Complete part 6 to establish the balance of farm losses by year of origin.

Part 4 – Restricted farm losses

Calculating current-year restricted farm loss

If your chief source of income is neither farming nor a combination of farming and another source of income, the loss arising from the farming activity that you can deduct is restricted. An amount of farm loss allocated from a partnership may also be restricted.

Use this box to calculate the current-year restricted farm loss.

The amount of farm loss you can deduct from net income for income tax purposes is A or B, whichever is less:

A. net loss from the farming business for the year; or

B. $2,500 **plus** one of the following amounts, whichever is less:

(i) (net loss from the farming business for the year **minus** $2,500) **divided by** 2; or

(ii) $6,250.

Add to your income on line 233 of Schedule 1 the difference between:

- the actual farm loss you deducted on the financial statements or entered on line 485; and
- the deductible farm loss you calculated above.

This difference is called the current-year **restricted farm loss**, and you have to enter it on line 410.

References
Subsection 31(1)
IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*

Continuity of restricted farm losses and request for a carryback

Use this box to establish the continuity of restricted farm losses and to carry back a current-year restricted farm loss to prior years.

The current-year restricted farm loss can reduce farm income for the 3 preceding taxation years and for the 10 following taxation years.

Complete this box as follows:

Amount of the restricted farm losses at the end of preceding taxation year;

deduct

> **line 400** – amount of restricted farm loss expired after 10 taxation years (this amount is the balance of restricted farm loss from the eleventh preceding year that would otherwise be available).

Line 402 – amount of the restricted farm losses at the beginning of the taxation year (this is the result of the two preceding lines);

add

> **line 405** – amount of restricted farm losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of issued shares in each class were, immediately before the wind-up, owned by the corporation (this amount is the unused restricted farm losses available to carry forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up **minus** any expired amount); and
>
> **line 410** – amount of current-year restricted farm loss calculated above;

deduct

> **line 430** – amount of restricted farm losses applied in the current year to reduce farm income (enter this amount on line 333 of the return);
>
> **line 440** – amount of debt forgiveness under section 80 that reduces the restricted farm losses balance (losses have to be reduced in the order established by section 80); and
>
> **line 450** – amount of any other adjustments not previously mentioned.
>
> These adjustments would apply to corporations that have undergone a change of control and whose losses that accrued before the change of control are not deductible after the change of control.

Subtotal – this is the amount of restricted farm losses available to carry back or carry forward to other years;

deduct

> **lines 941 to 943** – on the appropriate line, enter the amount of loss you carry back to prior years against farm income;

line 480 – the result is the closing balance of restricted farm losses you carry forward to future years.

Complete part 6 to establish the balance of restricted farm losses by year of origin.

Part 5 – Listed personal property losses

Continuity of listed personal property loss and request for a carryback

Use this box to establish the continuity of listed personal property losses and to carry back a current-year listed personal property loss against net capital gains incurred on the same kind of property of the three preceding years.

A listed personal property loss cannot be transferred.

Complete this box as follows:

Amount of listed personal property losses at the end of the preceding taxation year;

deduct

> **line 500** – amount of listed personal property loss expired after seven taxation years (this amount is the balance of listed property loss from the eighth preceding year that would otherwise be available).

Line 502 – amount of listed personal property losses at the beginning of the taxation year (this is the result of the two preceding lines);

add

> **line 510** – amount of listed personal property loss for the current year previously calculated on Schedule 6 (see page 28);

deduct

> **line 530** – amount of prior-year listed personal property losses applied in the current year to reduce the net capital gain incurred in the current year on the same kind of property (enter this amount on line 655 of Schedule 6); and
>
> **line 550** – amount of adjustments (these adjustments would apply to corporations that have undergone a change of control and whose losses that accrued before the change of control are not deductible after the change of control).

Subtotal – this is the amount of listed personal property losses available to carry back or carry forward to other years;

deduct

> **lines 961 to 963** – on the appropriate line, enter the amount of loss you carry back to prior years against listed personal property gains;

line 580 – the result is the closing balance of listed personal property losses you carry forward to future years.

Complete part 6 to establish the balance of listed personal property losses by year of origin.

Part 6 – Analysis of balance of losses by year of origin

Use this box to show by year of origin the balance of losses you can carry forward to future years. Enter each loss by year of origin, starting with the current year, going down to the seventh or the tenth preceding year, whichever applies.

Part 7 – Limited partnership losses

Current-year limited partnership losses

Use this box to calculate the current-year limited partnership losses. This box is used to calculate the deductible amount for the year. The amount that cannot be deducted may be carried to other years.

A corporation that is a limited partner and receives a T5013 slip, *Statement of Partnership Income*, will find the amount of limited partnership loss allocated to it in box 23 of the slip.

If the limited partner does not receive this slip because the partnership is exempt from filing (for example, if it has fewer than six members), you have to file the partnership's financial statements with the return to prove the corporation's share of the partnership loss for the year.

Report the amount in the taxation year during which the partnership's taxation year-ends.

The part of a partnership loss that a limited partner can deduct in determining net income for income tax purposes may be restricted.

Complete this box as follows:

column 600 – partnership identifier;

column 602 – fiscal period ending of the partnership;

column 604 – corporation's share of limited partnership loss from a business (other than a farming business) or from property;

column 606 – corporation's **at-risk amount** at the fiscal period ending of the partnership;

column 608 – total of corporation's share in:

- partnership ITCs for the year,
- partnership's loss from a farming business for the year, and
- partnership's resource expenses for the year;

column 620 – enter the result of:

> **column 604 minus (column 606 minus column 608)**

In general terms, you have to calculate a limited partner's at-risk amount as follows:

> the adjusted cost base of its partnership interest;

plus

> its share of the current-year's income from the partnership;

minus

> all amounts the partner owes to the partnership, and any amount or benefit to which the partner is entitled that is intended to protect it from the loss of its investment.

Interests in partnerships that were operating on a regular and continuous basis on and after February 25, 1986, are exempt from the at-risk rules. However, partnership interests may lose their exempt status if, after February 25, 1986, there has been either a substantial contribution of capital to the partnership, or substantial partnership borrowings.

The difference between the corporation's share of the actual loss of the limited partnership shown on the financial statements and the corporation's at-risk amount is called a **limited partnership loss**. This amount is from column 620. You have to add the total of column 620 to line 222 of Schedule 1. You also have to enter all those losses in column 670 to establish the continuity of losses.

References
Subsection 96(2.1)
IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*

Limited partnership losses from prior taxation years that may be applied in the current year

Complete this box if you want to apply limited partnership losses from preceding years to reduce any kind of income in the current year. However, the deductible amount is limited to the difference between the balance of losses and the corporation's at-risk amount for each limited partnership. See page 44 earlier in this chapter for details.

Complete this box as follows:

column 630 – partnership identifier;

column 632 – fiscal period ending of the partnership that ends in the corporation's taxation year;

column 634 – amount of the limited partnership losses at the end of the preceding taxation year;

column 636 – corporation's at-risk amount;

column 638 – total of corporation's shares in:

- partnership's investment tax credit;
- partnership's business or property losses; and
- partnership's resource expenses;

column 650 – enter whichever of the two following amounts is less:

- **column 634**; or
- **column 636 minus column 638**.

The result is the amount of limited partnership losses from previous years you can apply against other income in the current year.

Continuity of limited partnership losses that can be carried forward to future taxation years

Limited partnership losses can be carried forward indefinitely to future years. To establish the continuity of those losses, complete this box by entering the following information on each partnership:

column 660 – partnership identifier;

column 662 – limited partnership losses at the end of the preceding taxation year;

column 664 – amount of limited partnership losses transferred from a predecessor corporation after amalgamation, or a subsidiary after wind-up, where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation (this amount is the unused limited partnership losses available to carry forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up);

column 670 – amount of current-year limited partnership losses as calculated in column 620 above;

column 675 – amount of limited partnership losses applied on line 335 of the return (this amount cannot be more than the amount calculated in column 650 above); and

column 680 – amount of limited partnership losses carried forward to later years. This is the result of the following calculation:

> **column 662 + column 664 + column 670 – column 675**

Taxable income

The following section explains how to calculate the deductions you may be able to claim to reduce net income. You will use these amounts to arrive at your taxable income.

Line 300 – Net income or (loss) for income tax purposes

On line 300, enter the **net income or loss for income tax purposes**, as you calculated on Schedule 1. If you did not have to make any adjustments to the net income or loss from the financial statements, enter on line 300 the net income or loss from the income statement. Show the amount of any loss in brackets.

> **Note**
> On Schedule 1, do not deduct charitable donations, taxable dividends, net capital losses, non-capital losses, farm losses, or restricted farm losses from other years. You have to deduct these items from net income for income tax purposes to arrive at **taxable income**.

Line 311 – Charitable donations

Complete Schedule 2, *Charitable Donations and Gifts*, if, during the taxation year, you made charitable donations, unused charitable donations were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up, or you claim a deduction for charitable donations made to any of the following organizations:

- registered charities (including registered national arts service organizations);
- registered Canadian amateur athletic associations;
- housing corporations resident in Canada and exempt from Part I tax under paragraph 149(1)(i);
- Canadian municipalities;
- the United Nations or its agencies;
- prescribed universities outside Canada listed in Schedule VIII of the *Income Tax Regulations*;
- charitable organizations outside Canada to which the federal government has made a gift during the corporation's taxation year, or the 12 months immediately before that taxation year; or
- Her Majesty in right of Canada, a province, or territory.

The maximum amount of charitable donations that a corporation can deduct is equal to **75% of its net income** (line 300). This limitation can be increased by the following amounts:

- 25% of the taxable capital gains arising from gifts of capital property (other than for gifts of ecologically-sensitive land or of Canadian cultural property) made in the year and included in taxable income for the year;
- 25% of all taxable capital gains in the year from the disposition in a preceding year of a non-qualifying security of a corporation that is making a gift to a qualified donee; and
- 25% of whichever is less:
  - the amount of recapture, included in the income of the year, arising from the donation of a prescribed class of depreciable property; or
  - the lesser of the capital cost and the proceeds of disposition of the property minus any outlays and expenses made for the purpose of making the disposition.

Charitable donations are deducted in the order they were made (first-in, first-out rule).

If you are reporting nil net income or a loss for the year, you cannot claim donations to create or increase a loss.

However, you can carry forward unused charitable donations and claim them in any of the five following taxation years.

Complete part 1 of Schedule 2 to calculate the total donations available and the charitable donations closing balance.

> **Note**
> On line 255 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone a change of control and whose donations carryforward that accrued before the change of control and after March 22, 2004, are not deductible after the change of control.

Complete part 2 of Schedule 2 to calculate the maximum deduction allowable and to determine the amount to claim for charitable donations including gifts of capital property.

On line 311, enter the amount you want to apply against taxable income. This amount cannot be more than whichever is less:

- the total donations available; or
- the maximum deduction allowable.

Complete part 6 of Schedule 2 to establish the continuity of charitable donations.

You do not have to file receipts with the return. However, you have to keep them in case we ask for them later.

Notes
When a credit union calculates its income for purposes of the 75% limit, it has to add back any amounts it previously deducted for bonus interest payments and payments for allocations in proportion to borrowing.

Where a corporation makes a gift of a non-qualifying security, that gift has to be ignored for the charitable donations deduction. However, if the donee disposes of the security within five years or the security ceases to be a non-qualifying security of the corporation within five years, the corporation will be treated as having made the gift at that later time.

A non-qualifying security includes an obligation of the corporation or a non-arm's length person, a share of the corporation or a share issued by a corporation with which the corporation does not deal at arm's length, and any other security issued by the corporation or a non-arm's length person. Specifically excepted from this definition are obligations, shares, and other securities listed on prescribed stock exchanges and deposits with financial institutions.

If you make a monetary gift to Canada, you can choose to apply it to the Debt Servicing and Reduction Account. If you are sending a cheque, make it payable to the Receiver General for Canada and mail it to:

Public Works and Government Services Canada
Place du Portage
Phase 3, 11 Laurier Street
Hull QC K1A 0S5

Include a note saying that you want your amount applied to this account. Public Works and Government Services Canada will send a receipt.

The federal government will only use these amounts to reduce the public debt.

References
Paragraph 110.1(1)(a)
Subsections 110.1(1.1) and 40(1.01)

Line 312 – Gifts to Canada, a province, or a territory

Complete part 3 of Schedule 2 if, during the taxation year:

- you made donations to Canada, a province, or a territory before February 19, 1997, or under a written agreement made before that day;
- donations to Canada, a province, or a territory were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up; or
- you claim a deduction for donations to Canada, a province, or a territory.

You can claim a deduction from net income for a gift you made to Canada, a province, or a territory. The amount of the deduction is not limited to 75% of net income, as is the case for charitable donations. The most you can deduct is the total gifts you made before February 19, 1997, or made under a written agreement made before that date, and any gifts you have not previously deducted from the five previous years.

Deduct charitable donations first. Then, claim gifts to Canada, a province, or a territory. If the amount of the gift is more than net income for the year **minus** any charitable donations you claim, you can carry the excess forward for up to five years.

Note
On line 355 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone a change of control and whose donations carryforward that accrued before the change of control and after March 22, 2004, are not deductible after the change of control.

On line 312, enter the amount of gifts to Canada, a province, or a territory that you want to apply against taxable income.

Gifts to Canada, a province, or a territory are deducted in the order they were made (first-in, first-out rule).

Complete part 6 of Schedule 2 to establish the continuity of those gifts.

You do not have to file receipts with the return. However, keep them in case we ask for them later. Regulation 3501(1.1) outlines the information that has to appear on the receipt.

References
Paragraph 110.1(1)(b)
Subsection 110.1(1.1)

Line 313 – Cultural gifts

Complete part 4 of Schedule 2 if, during the taxation year:

- you donated cultural gifts;
- cultural gifts were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up; or
- you claim cultural gifts as a deduction.

Note
On line 455 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone a change of control and whose donations carryforward that accrued before the change of control and after March 22, 2004, are not deductible after the change of control.

You can claim a deduction from net income for a gift of certified cultural property made to designated institutions or public authorities. The most you can deduct is the total gifts donated in the current taxation year and any undeducted gifts from the five previous years.

The Cultural Property Export Review Board will issue you a certificate, as well as the receipt containing prescribed information.

Deduct charitable donations and gifts to Canada, a province, or a territory first. Then, claim cultural gifts. If the amount of cultural gifts is more than your net income for the year **minus** charitable donations and gifts to Canada, a province, or a territory you claim, you can carry the excess forward for up to five years.

Cultural gifts are deducted in the order they were made (first-in, first-out rule).

On line 313, enter the amount for cultural gifts you want to apply against taxable income.

Complete part 6 of Schedule 2 to establish the continuity of cultural gifts.

You do not have to file receipts and certificates with the return. However, keep them in case we ask for them later. Regulation 3501(1.1) outlines the information that has to appear on the receipt.

References
Paragraph 110.1(1)(c)
Subsection 110.1(1.1)
IT-407, *Dispositions of Cultural Property to Designated Canadian Institutions*

Line 314 – Ecological gifts

You can deduct from net income an amount for certified ecological gifts made to Canadian municipalities and registered charities that are designated by the Minister of the Environment.

An ecological gift is a gift of land (including a covenant, an easement, or a servitude) that is certified by the Minister of the Environment as ecologically sensitive.

The fair market value of ecologically-sensitive land and, consequently, the corporate donor's proceeds of disposition are deemed to be the amount determined by the Minister of the Environment.

Complete part 5 of Schedule 2 if, during the taxation year:

- you made certified ecological gifts;
- ecological gifts were transferred from a predecessor corporation after amalgamation, or from a subsidiary corporation after wind-up; or
- you claim ecological gifts.

> **Note**
> On line 555 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone a change of control and whose donations carryforward that accrued before the change of control and after March 22, 2004, are not deductible after the change of control.

For ecological gifts, you must get a certificate issued by the Minister of the Environment as well as the receipt and the *Certificate for Donation of Ecologically Sensitive Land*. You do not have to file the receipt and the two certificates with the return. However, keep them in case we ask for them later.

The maximum deduction you can claim is the total of gifts made during the current taxation year plus the unclaimed gifts from the five previous taxation years.

Deduct charitable donations, gifts to Canada, a province, or a territory, and cultural gifts, first. Then, claim ecological gifts. If the amount of ecological gifts is more than your net income for the year **minus** any charitable donations, gifts to Canada, a province, or a territory, and cultural gifts you claim, you can carry the excess forward for up to five years.

Deduct ecological gifts in the order they were made (first-in, first-out rule).

On line 314, enter the amount of ecological gifts you want to apply against taxable income.

Complete part 6 of Schedule 2 to establish the continuity of ecological gifts.

References
Paragraph 110.1(1)(d)
Subsections 110.1(5) and 110.1(1.1)

Line 320 – Taxable dividends deductible under section 112 or 113, or subsection 138(6)

Complete Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*, if you either received **or** paid dividends. For details on how to complete Schedule 3, see parts 3 and 4 of Schedule 3 on page 54 and "Line 712 – Part IV tax payable" on page 64.

When calculating taxable income, you can deduct, under section 112, any of the following types of taxable dividends received:

- dividends from a taxable Canadian corporation, or from a corporation resident in Canada and controlled by the receiving corporation; and
- dividends (or a portion of them) from a non-resident corporation (other than a foreign affiliate) that has carried on business in Canada continuously since June 18, 1971.

The following types of taxable dividends received are not deductible under section 112:

- dividends from a corporation that is exempt from Part I tax;
- dividends on collateralized preferred shares (loss rental plans);
- dividends that are part of a dividend rental arrangement, as defined in subsection 248(1);
- dividends on term preferred shares received by certain financial institutions; and
- dividends on shares guaranteed by a specified financial institution, as described in subsection 112(2.2).

References
Subsections 112(1), 112(2), and 112(2.1) to 112(2.9)

Section 113 contains the authority and the limitations concerning the deduction of dividends received from foreign affiliates.

Subsection 138(6) contains the authority for a life insurer to deduct the taxable dividends received from taxable Canadian corporations, other than dividends on term preferred shares that are acquired in the ordinary course of its business.

On line 320, enter the amount of taxable dividends (as per Schedule 3) deductible from income under section 112, or 113, or subsection 138(6). This amount is the total of column 240 of Schedule 3.

Note
A dividend does not include stock dividends received from a non-resident corporation.

By deducting taxable dividends received from net income or loss amount shown on line 300, you can create or increase a non-capital loss for the year.

Reference
IT-269, *Part IV Tax on Taxable Dividends Received by a Private Corporation or a Subject Corporation*

Line 325 – Part VI.1 tax deduction

A corporation that pays Part VI.1 tax on dividends it paid on taxable preferred shares and short-term preferred shares can deduct three times the Part VI.1 tax the corporation has to pay.

On line 325, enter the Part VI.1 tax times three. For details on how to calculate Part VI.1 tax see "Line 724 – Part VI.1 tax payable on page 66.

Reference
Paragraph 110(1)(k)

Line 331 – Non-capital losses of preceding taxation years

On line 331, enter any non-capital losses carried forward from preceding years to reduce taxable income from line 130 of Schedule 4.

On line 330 of Schedule 3, enter the amount of current-year non-capital losses, and on line 335, enter the non-capital losses from preceding years to be used to reduce dividends subject to Part IV tax.

The total of those two amounts has to be entered as an applied amount on line 135 of Schedule 4. For details, see "How to complete Schedule 4, Part 1 – Non-capital losses" on page 40.

References
Paragraphs 111(1)(a), 186(1)(c), and 186(1)(d)

Line 332 – Net-capital losses of preceding taxation years

On line 332, enter the amount of net capital losses from preceding years that you applied against taxable capital gain incurred in the year. This amount is the capital loss entered on line 225 of Schedule 4 that you multiply by 50%. See "How to complete Schedule 4, Part 2 – Capital losses" on page 41 for details.

Note
A net capital loss can create a non-capital loss in the year you apply it, because the net capital loss is not limited to reducing the taxable income, but to reducing the taxable capital gain in that year.

References
Section 38
Subsections 111(1.1) and 111(8)
Paragraph 111(1)(b)

Line 333 – Restricted farm losses of preceding taxation years

On line 333, enter the amount you want to apply to reduce the current-year farm income. On line 430 of Schedule 4, enter the amount of restricted farm loss used. For details, see page 42.

Reference
Paragraph 111(1)(c)

Line 334 – Farm losses of preceding taxation years

On line 334, enter the farm losses you are carrying forward from preceding years to reduce taxable income from line 330 of Schedule 4.

On line 340 of Schedule 3, enter the amount of the current-year farm loss, and on line 345, enter the preceding years' farm losses that you are using to reduce dividends subject to Part IV tax.

The total of those two amounts has to be entered on line 335 of Schedule 4 as the amount applied. For details, see "How to complete Schedule 4, Part 3 – Farm losses" on page 42.

References
Paragraphs 111(1)(d), 186(1)(c), and 186(1)(d)

Line 335 – Limited partnership losses of preceding taxation years

On line 335, enter the deductible amount of limited partnership losses from preceding years that were applied against other incomes in the current year from part 7 of Schedule 4. See page 44 for more details.

Reference
Paragraph 111(1)(e)

Line 340 – Taxable capital gains or taxable dividends allocated from a central credit union

If a central credit union has made an election under subsection 137(5.1), amounts allocated to a member credit union as taxable dividends or net capital gains may be claimed by that member as a deduction from taxable income under paragraph 137(5.2)(c). Enter these amounts on line 340.

Line 350 – Prospector's and grubstaker's shares

You can deduct 1/2 of the value of any shares received from a corporation after disposition of a right or a mining property, except if the amount is exempt under a tax treaty.

Reference
Paragraph 110(1)(d.2)

Line 355 – Section 110.5 additions and/or subparagraph 115(1)(a)(vii) additions

You can use foreign tax deductions to reduce Part I tax that you would otherwise have to pay. Under section 110.5 and subparagraph 115(1)(a)(vii), a corporation that cannot deduct its foreign income tax deductions (for example, if it has no Part I tax payable for the year) can choose to add an amount to its taxable income. In this way, the corporation can use these otherwise non-deductible foreign tax deductions.

The amount you add to income for this purpose forms part of the non-capital loss. See page 40 for details. However, you cannot add an amount under section 110.5 if that addition increases **any** of the following deductible amounts:

- the small business deduction;
- the manufacturing and processing profits deduction;
- the federal logging tax credit;
- the federal political contribution tax credit;
- the investment tax credit (ITC);
- the share-purchase tax credit; or
- the SR&ED tax credit.

If the corporation is an authorized foreign bank, you cannot add an amount under subparagraph 115(1)(a)(vii) if that addition increases **any** of the following deductible amounts:

- the federal logging tax credit;
- the federal political contribution tax credit; or
- the ITC.

On line 355, enter the amount you added to income under section 110.5 and/or subparagraph 115(1)(a)(vii).

Line 360 – Taxable income

To calculate this amount, subtract all the deductions you entered on lines 311 to 350 from the net income for income tax purposes on line 300. Add, if it applies, section 110.5 or subparagraph 115(1)(a)(vii) additions (line 355). Enter the taxable income on line 360.

If the result is a loss, enter "0" on line 360.

> **Note**
> If you want to carry back a current-year loss to a prior taxation year, see "How to complete Schedule 4" on page 40for details.

Line 370 – Income exempt under paragraph 149(1)(t)

Insurers who are not engaged in any other business except insurance and who earn at least 20% of their gross premium income (net of reinsurance ceded) from the business of property used in a fishing or farming business, or residences of farmers or fishermen, are eligible for an exemption from Part I tax on their taxable income.

On line 370, enter the exempt income if you meet the criteria of paragraph 149(1)(t).

Taxable income for a corporation with exempt income under paragraph 149(1)(t)

Enter on this line the result of line 360 **minus** line 370.

References
Subsections 149(4.1) and 149(4.2)

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Small business deduction

Corporations that were CCPCs throughout the taxation year may be able to claim the small business deduction (SBD). The SBD reduces Part I tax that the corporation would otherwise have to pay.

The SBD is 16% of whichever of the following amounts is less:

- the income from active business carried on in Canada (line 400);
- the taxable income (line 405);
- the business limit (line 410); or
- the reduced business limit (line 425).

The following section explains each of the above amounts.

Once you have calculated the SBD, enter it on line 430.

Line 400 – Income from active business carried on in Canada

Complete Schedule 7, *Calculation of Aggregate Investment Income and Active Business Income*, to determine the following amounts:

- the aggregate investment income and foreign investment income for determining the refundable portion of Part I tax (see "Refundable portion of Part I tax, Lines 440, 445, and 450" on page 53 for details);
- the income from an active business carried on in Canada for the SBD; and
- the specified partnership income for members of a partnership.

Note
If claiming a deduction for patronage dividends on line 416 of Schedule 1, complete part 4 of Schedule 16 to establish active business income carried on in Canada (see page 38 for details).

Active business income

Generally, active business income is income earned from a business source, including any income incidental to the business.

Active business income does not include income from a **specified investment business** or from a **personal services business**. As a result, income from these types of businesses is not eligible for the SBD.

Specified investment business

A specified investment business is a business with the principal purpose of deriving income from property, including interest, dividends, rents, or royalties. It also includes a business carried on by a prescribed labour-sponsored venture capital corporation, the principal purpose of which is to derive income from property.

Except for a prescribed labour-sponsored venture capital corporation, income from a specified investment business is considered to be active business income, and is therefore eligible for the SBD if:

- the corporation employs more than five full-time employees in the business throughout the year; or
- an associated corporation provides managerial, financial, administrative, maintenance, or other similar services to the corporation while carrying on an active business, and the corporation would have to engage more than five full-time employees to perform these services if the associated corporation were not providing them.

Note
The business a credit union carries on, or the business of leasing property other than real property, is not considered specified investment business.

Personal services business

A personal services business is a business that a corporation carries on to provide services to another entity (such as a person or a partnership) that an officer or employee of that entity would usually perform. Instead, an individual performs the services on behalf of the corporation. That individual is called an **incorporated employee**.

Any income the corporation derives from providing the services is considered income from a personal services business, as long as both of the following conditions are met:

- the incorporated employee who is performing the services, or any person related to him or her, is a **specified shareholder** of the corporation; and
- the incorporated employee would, if it were not for the existence of the corporation, reasonably be considered an officer or employee of the entity receiving the services.

However, if the corporation employs more than five full-time employees throughout the year or provides the services to an associated corporation, the income is not considered to be from a personal services business. Therefore, the income is eligible for the SBD.

Specified shareholder

A specified shareholder is a taxpayer who owns, directly or indirectly at any time in the year, at least 10% of the issued shares of any class of capital stock of the corporation or a related corporation.

How to calculate income from an active business carried on in Canada

Generally, to calculate active business income from carrying on a business in Canada, you have to deduct from net income for income tax purposes any of the following amounts that apply:

- taxable capital gains minus allowable capital losses;
- dividends that are deductible from income under sections 112 and 113, and subsection 138(6);
- property income minus property losses;
- property income from an interest in a trust;
- foreign business income;
- income from a specified investment business; and
- income from a personal services business.

Specified partnership income

A corporation that is a member of a partnership has to complete Schedule 7 to calculate its active business income.

The corporate partnership rules impose a limit on the amount of active business income earned by a partnership that is eligible for the SBD. This amount is allocated among all partners.

Specified partnership income is the amount of partnership income eligible for the SBD that is allocated to the corporation. You have to add this income to your active business income.

If the partnership incurs a loss from carrying on an active business, you have to deduct the corporation's share of that loss from its active business income. This is referred to as a **specified partnership loss**.

If the corporation received a T5013 slip, *Statement of Partnership Income*, that shows its share of partnership income or loss, include this form with the return. See page 23 for details.

On line 400, enter the total active business income you calculated on Schedule 7.

References
Subsections 125(1), 125(7), and 248(1)
Section 251
IT-73, *The Small Business Deduction*

Line 405 – Taxable income

The taxable income you use to calculate the SBD is usually the amount entered on line 360. However, if you have claimed a foreign non-business income tax credit, a foreign business income tax credit, or both, you have to reduce the taxable income by:

- ten thirds (10/3) of the amount that would be deductible as a federal foreign non-business income tax credit on line 632, if that credit was determined without the refundable tax on the CCPC's investment income (line 604) and without reference to the corporate tax reduction under section 123.4; and
- three times the amount that would be deductible as a federal foreign business income tax credit (line 636) if that credit were determined without reference to the corporate tax reduction under section 123.4.

You also have to reduce taxable income by any amount that, because of federal law, is exempt from Part I tax.

On line 405, enter your taxable income for the purposes of calculating the SBD.

References
Paragraph 125(1)(b)
Subsection 126(7)

Line 410 – Business limit

The maximum allowable business limit for a corporation that is not associated with any other corporation is:

- $225,000 if the calendar year is 2003;
- $250,000 if the calendar year is 2004; and
- $300,000 if the calendar year is 2005 or later.

For taxation years that straddle a calendar year, the maximum allowable business limit is prorated based on the number of days in each calendar year.

CCPCs that are associated with one or more corporations during the taxation year have to file Schedule 23, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Business Limit*. On this schedule, a percentage of the business limit is allocated to each corporation, and the total of all percentages cannot be more than 100%. See page 21 for details about Schedule 23.

On line 410, enter the business limit for the year. Enter the amount from Schedule 23 for an associated corporation.

> **Notes**
> If the taxation year is shorter than 51 weeks, you have to prorate the business limit, based on the number of days in the taxation year divided by 365, before you enter it on line 410.
>
> If you elect not to be an associated corporation with two other corporations for the small business deduction, you have to file Schedule 28, *Election not to be an Associated Corporation*. For more details, see page 22.

References
Subsections 125(2), 125(3), 125(5), and 256(2)
IT-64, *Corporations: Association and Control*

Line 425 – Reduced business limit

Large CCPCs that have taxable capital employed in Canada of $15 million or more do not qualify for the SBD. The business limit is reduced on a straight-line basis for CCPCs that have taxable capital employed in Canada of between $10 million and $15 million in the preceding year. Similar restrictions apply to any CCPC that is a member of an associated group that has, in total, more than $10 million of taxable capital employed in Canada.

Reference
Subsection 125(5.1)

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Resource deduction

Lines 435 and 438 – Resource deduction

Corporations with taxable resource income can claim this deduction. The rate is:

- 1% effective January 1, 2003;
- 2% effective January 1, 2004;
- 3% effective January 1, 2005;
- 5% effective January 1, 2006; and
- 7% effective January 1, 2007.

You have to prorate these amounts using the number of days in each period in your taxation year.

On lines 435 and 438 on page 5, enter your taxable resource income and resource deduction.

Reference
Section 125.11

General tax reduction

A general tax reduction is available on qualifying income. This reduction is 5% for 2003 and 7% after 2003.

You have to prorate these amounts using the number of days in each period in your taxation year.

The reduction does not apply to income that benefits from preferential corporate tax treatment, such as:

- small business income and Canadian manufacturing and processing income;
- income eligible for the deduction for the generation of electrical energy for sale or the production of steam for sale;
- income eligible for the additional deduction for credit unions;
- investment income subject to the refundable tax provisions; and
- taxable resource income.

The reduction will not apply to a corporation that was throughout the year an investment corporation, a mortgage investment corporation, or a mutual fund corporation.

Reference
Subsection 123.4(1)

General tax reduction for Canadian-controlled private corporations

If you are a CCPC throughout the taxation year, complete this area of page 5 to calculate the reduction. Enter the resulting amount on line 638 on page 7.

Reference
Subsection 123.4(2)

General tax reduction

If you are a corporation other than a CCPC, an investment corporation, a mortgage investment corporation, or a mutual fund corporation, complete this area on page 5 to calculate the reduction. Enter the resulting amount on line 639 on page 7.

Reference
Subsection 123.4(2)

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Refundable portion of Part I tax

Lines 440, 445, and 450

The refundable portion of Part I tax is part of the refundable dividend tax on hand (RDTOH). More information about RDTOH is in the section that follows.

The refundable portion of Part I tax allows a CCPC that has paid Part I tax on investment income to recover part of that tax when the corporation pays taxable dividends to its shareholders. The refundable portion of Part I tax only applies to corporations that are CCPCs throughout the taxation year.

The refundable portion of Part I tax is based on the aggregate investment income and foreign investment income. You have to determine these amounts by completing page 1 of Schedule 7, *Calculation of Aggregate Investment Income and Active Business Income*.

Calculate investment income as follows:

add

- the eligible portion of the taxable capital gains for the year that is more than the total of:
  - the eligible portion of allowable capital losses for the year; and
  - the net capital losses from preceding years which are applied in the year;
- total income from property (including income from a specified investment business) from which the following amounts have been deducted:
  - exempt income;
  - Net Income Stabilization Account (NISA) receipts;
  - taxable dividends deductible after deducting related expenses; and
  - business income from an interest in a trust that is considered property income under paragraph 108(5)(a);

deduct

- total losses for the year from property (including losses from specified investment business).

Follow the instructions on Schedule 7. When requested, enter "0" if the amount is negative.

On lines 440 and 445, enter the amount of aggregate investment income and the amount of foreign investment income that you determined on lines **O** and **P** of Schedule 7.

You can include taxable capital gains and allowable capital losses in a CCPC's net investment income only if you can attribute the gain or loss to a period of time when a CCPC, an investment corporation, a mortgage investment corporation, or a mutual fund corporation held the disposed property.

Calculate the amount of the refundable portion of Part I tax. Enter the amount from line 450 in the space provided in the "Refundable dividend tax on hand" area of your return.

References
Subsections 129(3) and 129(4)
IT-73, *The Small Business Deduction*
IT-269, *Part IV Tax on Taxable Dividends Received by a Private Corporation or a Subject Corporation*

Refundable dividend tax on hand

Lines 460, 465, 480, and 485

The RDTOH account only applies to corporations that were **private** or **subject corporations**, which are defined on page 64.

A CCPC generates RDTOH on both the Part I tax it pays on investment income, and on the Part IV tax it pays on dividends it receives. For any other type of private corporation, only the Part IV tax it pays generates RDTOH.

For more information on taxable dividends deductible under section 112 or 113, or subsection 138(6), see page 47.

For information on Part IV tax and instructions to complete Schedule 3, see page64 126.

All or part of RDTOH at the end of the taxation year is available as a refund **if** the corporation pays taxable dividends to the shareholders during the taxation year.

To calculate the RDTOH at the end of the taxation year, **add** the following amounts:

- the RDTOH balance at the end of the preceding taxation year (minus any dividend refund issued to the corporation in the preceding year);
- the refundable portion of Part I tax from line 450;
- Part IV tax calculated on line 360 of Schedule 3; and
- any balance of RDTOH transferred from a predecessor corporation on amalgamation, or from a wound-up subsidiary corporation.

For the first taxation year of a successor corporation formed as a result of an amalgamation, enter on line 480 all RDTOH balances being transferred from predecessor corporations. Do not include this amount on line 460.

For a parent corporation that wound up a wholly owned subsidiary, enter on line 480 any RDTOH transferred from the subsidiary corporation. On line 460, enter the RDTOH the parent corporation is carrying forward from its preceding taxation year.

> **Note**
> You cannot transfer any RDTOH to a successor or parent corporation if, had the predecessor or subsidiary corporation paid a dividend immediately before the amalgamation or wind-up, subsection 129(1.2) would have applied to that dividend.

On line 485, enter the RDTOH at the end of the taxation year. Also, enter the same amount on line B in the "Dividend refund" area of your return.

References
Subsections 129(3) and 186(5)

Dividend refund

A private or subject corporation may be entitled to a dividend refund for dividends it paid while it was a private or subject corporation, regardless of whether it was a private or subject corporation at the end of the taxation year.

A dividend refund arises if you pay taxable dividends to shareholders, and if there is an amount of RDTOH at the end of the taxation year.

To claim a dividend refund, you have to have made an actual payment to the shareholders, unless the dividend is considered paid (a deemed dividend).

You can make this payment either in cash, or with some other tangible assets at fair market value, including the following:

- stock dividends;
- section 84 deemed dividends; and
- amounts paid as interest or dividends on income bonds or debentures that are not deductible when calculating income.

If you lose your **private** status following a change in control, a deemed year-end occurs. This allows you to claim a dividend refund for any dividends paid during the deemed short year.

You have to complete parts 3 and 4 (if they apply) of Schedule 3 to claim a dividend refund. The dividend refund is equal to whichever of the following amounts is less:

- one third of taxable dividends that you paid in the year while a private or subject corporation; or
- the RDTOH at the end of the taxation year.

The total of taxable dividends paid for the purpose of the dividend refund is equal to the amount on line 460 of Schedule 3. Refundable dividend tax on hand refers to the amount on line 485 in the "Refundable dividend tax on hand" area of your return.

Parts 3 and 4 of Schedule 3

The following explains how to complete parts 3 and 4 of Schedule 3. How to complete parts 1 and 2 is explained on pages 65 and 66.

If you paid taxable dividends during the year, complete part 3 to identify taxable dividends that qualify for the dividend refund.

If the amount of dividends paid includes dividends that do not qualify for the dividend refund, you have to deduct these dividends before completing the calculation in part 3. In this case, complete part 4 of Schedule 3 to identify dividends that do not qualify.

Dividends that do not qualify are:

- dividends paid out of the capital dividend account;
- capital gains dividends;
- dividends paid for shares that do not qualify as taxable dividends, because the main purpose of acquiring the shares was to receive a dividend refund (subsection 129(1.2));
- taxable dividends paid to a controlling corporation that was bankrupt at any time in the year; and
- deemed dividends paid on a small business development bond.

Complete part 3 of Schedule 3 to identify a connected corporation that received taxable dividends that qualify for the dividend refund.

If the dividend refund is more than the amount of Part I tax payable for the year, we deduct the excess from any other taxes owed under the *Income Tax Act*. Any balance left over is available for a refund.

If the total dividends paid during the year is different from the total of taxable dividends paid for the purpose of the dividend refund, complete part 4 of Schedule 3.

References
Section 129
Subsection 186(5)

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Part I tax

Line 550 – Base amount of Part I tax

The basic rate of Part I tax is 38% of taxable income. To determine the base amount of Part I tax, calculate 38% of the taxable income from line 360 of page 3 less income exempt under paragraph 149(1)(t).

On line 550, enter this base amount.

Reference
Section 123

Line 600 – Corporate surtax

Every corporation is subject to the 4% surtax on the federal tax it has to pay.

On page 7, calculate the 4% corporate surtax, and enter it on line 600.

The 4% surtax will be eliminated for small and medium-sized corporations as of January 1, 2008. Such corporations with taxation years that straddle this date will prorate the surtax.

Reference
Section 123.2

Line 602 – Recapture of investment tax credit

Use Schedule 31, *Investment Tax Credit – Corporations*, to calculate the recapture of investment tax credit (ITC)

A corporation that disposed of a property used in scientific research and experimental development (SR&ED), or converted it to commercial use, should report a recapture in its income tax return for the year in which the disposition or conversion occurred.

If you performed the SR&ED and earned the related ITC, the recapture will be whichever is less:

- the ITC earned for the property; or
- the amount determined by applying the percentage you used in calculating the ITC earned on the property to:
  - the proceeds of disposition of the property if you dispose of it to an arm's length person; or
  - in any other case, the fair market value of the property.

If you performed the SR&ED and transferred the qualified expenditures to a non-arm's length party in accordance with an agreement described in subsection 127(13), the recapture will be whichever is less:

- the ITC earned by the transferee on the qualified expenditures for the property that was transferred; or
- the amount determined by the formula:

  $A \times B - C$

  where

  - "A" is the percentage that the transferee used in determining its ITC;
  - "B" is the proceeds of dispositions of the property if you dispose of it to an arm's length person, or in any other case, the fair market value of the property; and
  - "C" is the amount, if any, added to the tax payable under subsection 127(27) for the property. This allows for the situation where you transferred only a portion of the cost of the property in an agreement under subsection 127(13).

If you transferred a portion of the expenditures and claimed a portion of that expenditure for ITC purposes, both calculations will apply.

On line 602, enter the amount of recapture of ITC.

For more information, see guide T4088, called *Claiming Scientific Research and Experimental Development – Guide to Form T661*. Also see our Web site at **www.cra.gc.ca/sred**.

Reference
Subsections 127(27) to (35)

Line 604 – Refundable tax on CCPC's investment income

An additional refundable tax of 6 2/3% is levied on the investment income (other than deductible dividends) of a CCPC. This additional tax is not part of the corporate surtax base.

This additional tax will be added to the refundable dividend tax on hand (RDTOH). The RDTOH pool will be refunded when dividends are paid to shareholders (at a rate of 1/3 of taxable dividends paid).

A CCPC with investment income has to calculate this additional tax on page 7 and enter the amount on line 604.

References
Section 123.3
Subsection 129(3)

Line 608 – Federal tax abatement

The federal tax abatement is equal to 10% of taxable income earned in the year in a Canadian province or territory less income exempt under paragraph 149(1)(t). The federal tax abatement reduces Part I tax payable. Income earned outside Canada is not eligible for the federal tax abatement.

On line 608, enter the amount of federal tax abatement.

Reference
Section 124

Line 616 – Manufacturing and processing profits deduction

Corporations that derive at least 10% of their gross revenue for the year from manufacturing or processing goods in Canada for sale or lease can claim the manufacturing and processing profits deduction (MPPD). The MPPD reduces Part I tax otherwise payable.

The MPPD applies to the part of taxable income that represents Canadian manufacturing and processing profits. Calculate the MPPD at the rate of 7% on income that is not eligible for the small business deduction (SBD).

Use Schedule 27, *Calculation of Canadian Manufacturing and Processing Profits Deduction*, to calculate the manufacturing and processing profits deduction.

There are two ways to calculate Canadian manufacturing and processing profits: a simplified method for small manufacturing corporations, and a basic labour and capital formula for other corporations. These methods are outlined in parts 1 and 2 of Schedule 27.

A corporation's manufacturing labour and capital is based on the labour and capital employed in qualified activities. These activities are discussed in interpretation bulletin IT-145, *Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax*.

Small manufacturing corporations only have to complete part 1 of Schedule 27, and are entitled to calculate the MPPD on their entire adjusted business income. Essentially, a corporation's adjusted business income is its income from an active business it carried on in Canada that is more than its losses from similar businesses. If the corporation is involved in resource activities, it has to reduce the adjusted business income by its net resource income, its refund interest, and a portion of its prescribed resource loss. Schedule 27 shows how to calculate the adjusted business income.

To qualify as a small manufacturing corporation, you have to meet **all** of the following requirements:

- the activities during the year were mainly manufacturing or processing;
- the active business income and that of any associated Canadian corporations was not more than $200,000;
- you were not engaged in any activities specifically excluded from manufacturing and processing, as defined in subsection 125.1(3);
- you were not engaged in processing ore (other than iron ore or tar sands ore) from a mineral resource located outside Canada to any stage that is not beyond the prime metal stage or its equivalent;
- you were not engaged in processing iron ore from a mineral resource located outside Canada to any stage that is not beyond the pellet stage or its equivalent;
- you were not engaged in processing tar sands located outside Canada to any stage that is not beyond the crude oil stage or its equivalent; and
- you did not carry on any active business outside Canada at any time during the year.

Corporations that do not qualify as small manufacturing corporations have to complete part 2 of Schedule 27. In part 2, you will find the basic formula for calculating Canadian manufacturing and processing profits, as well as detailed instructions on how to complete the schedule.

Corporations that produce electricity or steam for sale are allowed the 7% manufacturing and processing tax reduction. Complete parts 10 to 13 of Schedule 27 to calculate this reduction.

On line 616, enter the amount of the manufacturing and processing profits deduction determined in part 9 of Schedule 27.

References
Section 125.1
Regulation 5200
IT-145, *Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax*

Lines 620 and 624 – Investment corporation deduction

A Canadian public corporation that is an **investment corporation**, as defined in subsection 130(3), can claim a deduction from Part I tax that the corporation would otherwise have to pay. This deduction is equal to 20% of the taxable income for the year that is more than the taxed capital gains for the year.

On line 624, enter the investment corporation's taxed capital gains. On line 620, enter the amount of the deduction you are claiming.

References
Section 130

Line 628 – Additional deduction – credit unions

Although a credit union is not generally considered a private corporation, it is eligible for the small business deduction. A credit union can also deduct an extra 16% of its taxable income that was not eligible for the small business deduction.

With this additional deduction, a credit union can pay tax at a reduced rate on income it needs to build up a tax-paid reserve that is equal to 5% of deposits and capital. Provincial and territorial statutes require these reserves. The credit union cannot distribute these reserves to its members.

Use Schedule 17, *Credit Union Deductions*, to claim the additional deduction. Credit unions have to complete the Schedule 17 boxes called "Additional deduction" and "Preferred rate amount at the end of the taxation year" to claim this additional deduction.

The additional deduction is 16% of whichever of the following amounts is less:

- the taxable income for the year; or
- 4/3 of the **maximum cumulative reserve** at the end of the year, **minus** the **preferred-rate amount** at the end of the preceding taxation year;

minus

- the least of lines 400, 405, 410, and 425 of the small business deduction calculation (page 4 of the return).

Generally, a credit union's **maximum cumulative reserve** is equal to 5% of the amounts owing to members, including members' deposits, **plus** 5% of all members' share capital in the credit union.

The **preferred-rate amount** at the end of a taxation year is equal to the total of the preferred rate amount at the end of the preceding year, **plus** 25/4 of the amount of the small business deduction for the year.

On line 628, enter the credit union's additional deduction.

Reference
Section 137

Line 632 – Federal foreign non-business income tax credit

Use Schedule 21, *Federal Foreign Income Tax Credits and Federal Logging Tax Credit*, to calculate this credit.

A federal foreign non-business income tax credit is available to Canadian residents to prevent double taxation of any non-business income earned in a foreign country that was taxed by that foreign country. The credit is also available to authorized foreign banks on their Canadian banking business from sources in a foreign country. This credit reduces Part I tax that the corporation would otherwise have to pay.

Foreign non-business income includes dividends, interest, and capital gains. It does **not** include dividends received from foreign affiliates, or income from operating a business in a foreign country.

Foreign non-business income tax does not include any foreign tax paid on income that is exempt from tax in Canada under an income tax treaty.

As another option, under subsection 20(12), instead of claiming a foreign non-business income tax credit, a corporation can deduct from income all or any part of non-business income tax it paid to a foreign country.

If, after you claim the federal foreign non-business income tax credit, there is any foreign non-business income tax left over, you can claim it as a provincial or territorial foreign tax credit. See page 69 for details.

Under section 110.5 and subparagraph 115(1)(a)(vii), you can also increase your taxable income so that you can use an otherwise non-deductible foreign non-business income tax credit. See "Line 355 – Section 110.5 additions and/or subparagraph 115(1)(a)(vii) additions" on page 48 for details.

To claim this credit, complete part 1 of Schedule 21. Calculate the federal foreign non-business income tax credit for each country separately. Use more than one schedule if more space is required.

Add all the allowable foreign non-business income tax credits in column I on Schedule 21. Then, enter the total allowable credit or a lesser amount on line 632.

References
Subsection 126(1)
IT-270, *Foreign Tax Credit*

Line 636 – Federal foreign business income tax credit

Use Schedule 21, *Federal Foreign Income Tax Credits and Federal Logging Tax Credit*, to calculate this credit.

To prevent double taxation, a corporation that pays foreign tax on income or profits it earned from operating a business in a foreign country can claim a federal foreign business income tax credit. This credit reduces the Part I tax that the corporation would otherwise have to pay.

Unlike foreign non-business income tax, you cannot deduct excess foreign business income tax paid as a provincial or territorial foreign tax credit. However, under section 110.5, you can increase taxable income so as to claim an otherwise non-deductible foreign business income tax credit. See Line 355 on page 48 for details.

To claim this credit, complete part 2 of Schedule 21. Calculate the foreign business income tax credit for each country separately. Use more than one schedule if more space is required.

Add all allowable foreign business income tax credits in column J on Schedule 21. Then, enter the total allowable credits or a lesser amount on line 636.

> **Notes**
> Foreign business income tax does not include any foreign tax paid on income that is exempt from tax in Canada under an income tax treaty.
>
> When calculating income for the year from sources in a foreign country, deduct the maximum amount of foreign exploration and development expense that is deductible on a country-by-country basis.

References
Subsection 126(2)
IT-270, *Foreign Tax Credit*

Continuity of unused federal foreign business income tax credits

Complete part 3 of Schedule 21 if you have a foreign business income tax credit that:

- expired in the current year;
- was transferred from an amalgamation or wind-up;
- was deducted in the current year; or
- was carried back to a prior year.

You have to establish the continuity and the application of the foreign tax credits on business income for each country. Use more than one schedule if more space is required.

Carry back or carry forward of unused credits

You can carry back any unused foreign business income tax credit to the three preceding taxation years, and you can carry the credit forward for seven taxation years.

Credits earned in taxation years ending after March 22, 2004, can be carried forward for ten taxation years.

To claim a carry-back to previous years, complete part 4 of Schedule 21.

> **Note**
> You can use this credit only to reduce Part I tax on income originating from the same foreign country.

Lines 638 and 639 – General tax reduction

Calculate this reduction on page 5.

If you were a CCPC throughout the taxation year, enter the amount on line 638.

If you were a corporation other than a CCPC, an investment corporation, a mortgage investment corporation, or a mutual fund corporation, enter the amount on line 639. See "General tax reduction" on page 52 for details.

Line 640 – Federal logging tax credit

Corporations that have income from logging operations and have paid logging tax to the province of Quebec or British Columbia can claim this credit.

Complete part 5 of Schedule 21, *Federal Foreign Income Tax Credits and Federal Logging Tax Credit*, to calculate this credit. On line 640, enter the credit you calculated on line 580 of Schedule 21 or a lesser amount.

References
Subsection 127(1)
Regulation 700

Lines 644 and 646 – Federal political contribution tax credit

A corporation that made monetary contributions in the year to a registered federal political party or to a candidate confirmed in a federal election may be able to claim this tax credit.

> **Note**
> The *Canada Elections Act* may restrict monetary contributions.

However, a corporation cannot deduct political contributions that qualify for any grant, credit, subsidy, or other form of assistance from other government bodies.

The federal political tax credit is calculated as follows:

- 75% of the first $400 contributed;

plus

- 50% of the next $350 contributed;

plus

- 33 1/3% of the next $525 contributed, to a maximum of **$650**.

An official receipt is one that is signed by the registered agent for the registered party or the official agent of the candidate. We can only accept photocopies if the issuer certifies them as true copies. You do not have to file receipts with the return. However, keep them in case we ask for them later.

On line 646, enter the total amount of qualifying contributions and, on line 644, the amount of the allowable credit.

References
Subsection 127(3)
IC 75-2, *Contributions to a Registered Political Party or to a Candidate at a Federal Election*

Line 648 – Federal qualifying environmental trust tax credit

A corporation that is the beneficiary under a qualifying environmental trust can claim a tax credit equal to Part XII.4 tax payable by the trust on that income.

The sole purpose of a qualifying environmental trust must be for funding the reclamation of a site in Canada that had been used primarily for, or for any combination of:

- the operation of a mine;
- the extraction of clay, peat, sand, shale, or aggregates; or
- the deposit of waste.

On line 648, enter the credit claim up to the amount of Part I tax otherwise payable. On line 792 (page 8), enter any unused amount.

Reference
Section 127.41

Line 652 – Investment tax credit

A corporation can claim ITCs to reduce Part I tax that it would otherwise have to pay, or in some cases this credit may be fully or partially refundable.

Use Schedule 31, *Investment Tax Credit – Corporations*, to calculate the investment tax credit (ITC).

A corporation earns ITCs by applying a specified percentage to the cost of acquiring certain property. However, you first have to reduce the capital cost of the property by any government or non-government assistance you received or will receive for that property. Any goods and services tax/harmonized sales tax (GST/HST) input tax credit or rebate received for property acquired is considered government assistance.

> **Note**
> A specified percentage of provincial or territorial deductions for scientific research and experimental development (SR&ED) in excess of the actual amount of the expenditure are treated as government assistance.

On page 2 of Schedule 31, we list the percentages you have to apply to eligible investments and expenditures.

You may earn an ITC of 20% of the SR&ED qualified expenditure pool at the end of the year.

Generally, this pool will include all qualified expenditures the corporation incurred in the year and any qualified expenditures transferred to the corporation under an agreement in paragraph 127(13)(e) (see Form T1146, *Agreement to transfer Qualified Expenditures Incurred in Respect of Scientific Research and Experimental Development (SR&ED) Contracts Carried on in Canada*). However, amounts the corporation transferred during the year, under paragraph 127(13)(d) (see Form T1146), will reduce this account.

Some CCPCs can claim an additional ITC of 15% on qualified expenditures, up to their expenditure limit.

A CCPC's expenditure limit will be reduced by the reduction to the CCPC's business limit under section 125. In that case, if the CCPC's business limit is nil, its expenditure limit will also be nil.

Investments and expenditures that qualify for ITC

The following investments and expenditures earn an ITC:

A. the cost of acquiring qualified property;

B. the cost of acquiring certified property;

C. qualified expenditures that are part of the SR&ED qualified expenditure pool; and

D. pre-production mining expenditures incurred after 2002.

The following are definitions of investment and expenditure:

A. **Qualified property** (other than certified property or approved project property) includes new prescribed buildings, machinery, or equipment acquired during the year to use in certain activities. See the "Activities that qualify for the investment tax credit" section that follows.

B. **Certified property** includes prescribed buildings or machinery and equipment, other than approved project property, acquired during the year to use in prescribed areas of slow growth in Canada. To find out where these prescribed areas are, see Regulation 4602.

C. **Qualified expenditures for SR&ED** are defined in subsection 127(9). SR&ED is defined in subsection 248(1).

D. **Pre-production mining expenditures** are defined in subsection 127(9).

Activities that qualify for an ITC

You can earn ITCs on qualified property acquired primarily for use in designated activities in specific areas.

The specific areas are Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, the Gaspé Peninsula, and prescribed offshore regions.

Designated activities include, among others, the following:

- manufacturing or processing goods for sale or lease;
- prospecting, exploring, extracting, and developing minerals;
- exploring, drilling, operating an oil or gas well, and extracting oil or natural gas;
- processing ore, iron ore, or tar sands to the prime metal stage only;
- logging;
- farming or fishing; and
- Canadian field processing.

In addition, the following rules apply to certain corporations that lease qualified properties:

- For a corporation with a principal business of leasing property, lending money, or purchasing conditional sales contracts, accounts receivable, or other obligations, property acquired for the purposes of leasing it in the ordinary course of carrying on business in Canada is considered qualified property.
- For a corporation with a principal business of manufacturing property that it sells or leases, property acquired for leasing purposes is considered qualified property only if the corporation manufactures it and leases it in the ordinary course of its business in Canada.
- For a corporation with a principal business of selling or servicing property, property acquired for leasing purposes is considered qualified property only if it is a type of property that the corporation sells or services, and the property is leased in the ordinary course of carrying on business in Canada.

Qualified expenditures for scientific research and experimental development (SR&ED)

You have to file Form T661, *Claim for Scientific Research and Experimental Development (SR&ED) Carried out in Canada*, along with Schedule 31 when making a claim for an ITC on qualified expenditures for SR&ED. See page 39 for more information.

Depending on its taxable income, a CCPC can earn ITCs at the rate of 35% on current and capital SR&ED expenditures, up to the expenditure limit.

The ITC earned at the rate of 20% on SR&ED expenditures that exceed the expenditure limit is not refundable to a CCPC with a taxable income for the preceding year of more than $300,000. Also, a CCPC cannot claim an ITC refund when it is associated with other corporations if the total taxable income of all associated corporations for their preceding year is more than $300,000. For eligible corporations, the ITC is still refundable at the rate of 40% or 100%. See Schedule 31 for details.

When you calculate ITCs earned in the year, you cannot use SR&ED expenditures that you have already used to claim a refund of Part VIII tax.

> **Note**
> You have to identify qualified SR&ED expenditures on Form T661 and Schedule 31 no later than 12 months after the filing due date for the year the expenditures were incurred (without reference to subsection 78(4)).

Reference
Subsections 37(11) and 127(9)

Available-for-use rule

A corporation is not considered to have acquired a property or made capital expenditures for earning an investment tax credit until the property becomes **available for use**.

For more information about the available-for-use rule, see "When is property available for use?" on page 32.

References
Subsections 13(26) to 13(32) and 127(11.2)

Investment tax credit claim

You can deduct the full amount of ITC against federal Part I tax payable. If claiming an ITC for a depreciable property, including shared-use equipment, reduce the capital cost of the property in the next taxation year by the amount of this year's ITC. If claiming an ITC for SR&ED expenditures, other than expenditures for shared-use equipment, reduce the SR&ED expenditure pool in the next taxation year by the amount of this year's ITC. For more information, see Schedule 8, "Column 4 – Net adjustments" on page 34.

> **Note**
> A corporation cannot claim an ITC for an expense or expenditure incurred in the course of earning income if any of that income is exempt. ITCs also cannot be claimed for expenses or expenditures incurred in earning taxable income that is exempt from tax under Part I. This applies to all taxation years.

References
Subsections 13(7.1) and 37(1)

You can carry forward ITCs not previously deducted for ten years, or carry them back three years, to reduce Part I tax. Remember that you can only carry back ITCs to a prior year if you cannot deduct them in the year you earn them.

Special rules restrict the carry forward and carry back of ITCs following an acquisition of control.

> **Note**
> ITCs earned for pre-production mining expenditures cannot be carried back to a taxation year ending before January 1, 2003.

References
Paragraph 127(5)(a)
Subsections 127(9.1) and 127(9.2)

When to complete Schedule 31

Complete and file Schedule 31 with the return if the corporation:

- acquired any qualified property or incurred any expenditures qualifying for ITC purposes;
- is carrying forward unused ITCs from a previous year;
- is transferring unused ITCs from a predecessor corporation on amalgamation, or from a subsidiary corporation on wind-up;
- is applying ITCs against Part I tax;
- is requesting a carryback of unused ITCs to a prior taxation year; or
- is requesting a refund of unused ITCs.

Complete Schedule 31 and enter the amount of the ITC for the current year on line 652.

> **Note**
> Eligibility for an ITC is limited to those expenses or expenditures identified in Schedule 31 filed within 12 months of the filing due date for the taxation year in which the expenses were made or incurred (without reference to subsection 78(4)).

Investment tax credit refund

Certain CCPCs can claim a refund of the unused ITC they earned during the taxation year. The refund rates are as follows:

A. Qualifying corporations can request a 40% refund of the ITC they earned in the taxation year.

B. Most qualifying corporations that have ITCs they earned in the taxation year on SR&ED expenditures can claim:

   - a full refund (100%) of the ITC they earned on the first $2 million of **current** SR&ED expenditures;

   plus

   - 40% of the ITC they earned on any current expenditures that are more than $2 million;

   plus

   - 40% of the ITC they earned on capital expenditures at the rate of 35% or 20%.

Definition

A **qualifying corporation** is a CCPC whose taxable income before the application of the specified future tax consequences (see note on this page), **plus** the taxable incomes of all associated corporations before the application of the specified future tax consequences (for taxation years ending in the same calendar year as the corporation's preceding taxation year) is not more than the total of the business limits of the corporation and the associated corporations for those preceding years. The business limit can be reduced by Part I.3 tax.

Qualifying corporations that claim ITCs at the rate of 35% on qualified SR&ED expenditures have a **maximum expenditure** limit of $2 million to calculate the ITCs.

If the corporation is associated with one or more corporations, you have to allocate the expenditure limit among the associated corporations on Schedule 49, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Expenditure Limit*. See page 22 in this guide for details about Schedule 49.

You have to file Schedule 31 to claim the ITC refund. On line 780 of your return, enter the ITC refund claim calculated on Schedule 31.

> **Note**
> The taxable income mentioned in the definition of "qualifying corporation" is determined before taking into consideration the "specified future tax consequences." These specified future tax consequences include, among others, the carry-back of losses from later years that would have reduced the taxable income for the year in which those losses were applied. This amendment applies to 1996 and later taxation years. For more information, see the definition of "specified future tax consequence" in subsection 248(1).

Corporations may be associated because the same group of persons controls them, but the members of this group do not act together and have no other connection to each other.

For taxation years ending after March 22, 2004, CCPC's that are associated only because of the above definition of a group will not be considered associated for the following calculations:

- the refundable ITC on eligible SR&ED expenditures;
- calculating the expenditure limit; and
- allocating the expenditure limit.

For this exception to apply, one of the corporations must have at least one shareholder who is not common to both corporations.

References
Section 127.1
Subsections 127(5) to 127(12) and 248(1)
Regulations 2902 and 4600
IT-151, *Scientific Research and Experimental Development Expenditures*

Part I tax payable

Part I tax payable for the year is the basic Part I tax **plus** the amount of surtax, the amount of recapture of ITC, and the refundable tax on the CCPC's investment income (line A plus lines B, C, and D), **minus** any allowable deductions and credits (line F).

Enter this amount on line G, and also on line 700 in the "Summary of tax and credits" section on page 8 of your return.

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Summary of tax and credits

In the "Summary of tax and credits" area of your return, summarize the amounts of federal and provincial or territorial tax payable, as well as the credits and refunds claimed to reduce total tax payable.

Federal tax

Line 700 – Part I tax payable

On line 700, enter the amount of Part I tax payable that you determined on line G of page 7.

Line 704 – Part I.3 tax payable

Part I.3 levies a tax on the taxable capital employed in Canada by large corporations, including large financial institutions and large insurance corporations. The Part I.3 tax rate is:

- 0.225% for calendar years 2003 and earlier;
- 0.200% for calendar year 2004;
- 0.175% for calendar year 2005;
- 0.125% for calendar year 2006;
- 0.0625% for calendar year 2007; and
- nil for calendar years 2008 and later.

For taxation years that straddle a calendar year, the rate is prorated based on the number of days in each calendar year.

This rate of tax is applied to the taxable capital employed in Canada that is more than the capital deduction of $10 million for the year. The capital deduction is increased to $50 million effective for taxation years ending in 2004 and later.

Also, under subsection 181.1(4), a corporation can deduct its Canadian surtax payable for the year from the amount of Part I.3 tax payable. This is called the **surtax credit**.

You can deduct unused surtax credit from Part I.3 tax in any of the three preceding and seven following taxation years.

To calculate the balance of unused surtax credits and to carry back any unused surtax credits, file Schedule 37, *Calculation of Unused Surtax Credit*.

If the corporation is a member of a related group, allocate the capital deduction among the members. Use Schedule 36, *Agreement Among Related Corporations – Part I.3 Tax*, to allocate the capital deduction. File this schedule with the return.

> **Notes**
> For this allocation, a CCPC is related only to corporations with which it is also associated.

Schedule 36 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 36 is not already on file with us when we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will ask for one.

File the applicable Part I.3 tax return with the T2 return if there is Part I.3 tax payable, or if there would have been, if not for the deduction of a surtax credit. To calculate Part I.3 tax, use whichever applies:

- Schedule 33, *Part I.3 Tax on Large Corporations*;
- Schedule 34, *Part I.3 Tax on Financial Institutions*; or
- Schedule 35, *Part I.3 Tax on Large Insurance Corporations*.

The following corporations do not have to pay tax under Part I.3:

- bankrupt corporations;
- corporations exempt from tax under section 149 on all their taxable income;
- corporations that were not resident in Canada and did not carry on a business from a permanent establishment in Canada;
- deposit insurance corporations; and
- a corporation described in subsection 136(2) whose principal business is marketing natural products belonging to or acquired from its members or customers.

On line 704, enter the amount of Part I.3 tax payable.

Part I.3 instalment requirements are the same as those for Part I. For more information, see guide T7B Corp, called *Corporation Instalment Guide.*

References
Subsections 181(1) to 181.7
T7B Corp, *Corporation Instalment Guide*

Line 708 – Part II surtax payable

Under Part II, tobacco manufacturers have to pay a surtax equal to 50% of Part I tax on tobacco manufacturing profits for the year.

File Schedule 46, *Part II – Tobacco Manufacturers' Surtax*, and attach it to the return. See the schedule for more details.

On line 708, enter the amount of Part II surtax payable.

Reference
Section 182

Line 712 – Part IV tax payable

Use parts 1 and 2 of Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*, to calculate Part IV tax payable on taxable dividends you received.

Dividends subject to Part IV tax

The following types of dividends are subject to Part IV tax:

- taxable dividends from corporations that are deductible under section 112 when you calculate taxable income; and
- taxable dividends from foreign affiliates that are deductible under paragraphs 113(1)(a), (b), or (d), or subsection 113(2) when you calculate taxable income.

Taxable dividends received are only subject to Part IV tax if the corporation receives them while it is a **private or subject corporation**. Taxable dividends received from a non-connected corporation are subject to Part IV tax.

Taxable dividends received from a **connected corporation** are subject to Part IV tax only when paying the dividends generates a dividend refund for the payer corporation. The Part IV tax rate is 33 1/3%.

Definitions

Private corporation

A private corporation is a corporation that is:

- resident in Canada;
- not a public corporation;
- not controlled by one or more public corporations (other than a prescribed venture capital corporation);
- not controlled by one or more prescribed federal Crown corporations; and
- not controlled by any combination of prescribed federal Crown corporations and public corporations.

Reference
Subsection 89(1)

Subject corporation

A subject corporation is a corporation, other than a private corporation, that is resident in Canada and is controlled by or for the benefit of either an individual other than a trust, or a related group of individuals other than trusts.

Reference
Subsection 186(3)

Connected corporation

A payer corporation is connected to the corporation that receives the dividends (the recipient) if the recipient controls the payer corporation. The payer and recipient corporations are also connected when:

- the recipient owns more than 10% of the issued share capital (with full voting rights) of the payer corporation; and
- the recipient owns shares of the capital stock of the payer corporation with a fair market value of more than 10% of the fair market value of all the issued share capital of the payer corporation.

You determine control of the corporation by considering the actual ownership of shares, without taking into account any rights referred to in paragraph 251(5)(b).

For purposes of Part IV tax, a payer corporation is controlled by a recipient corporation if more than 50% of the payer's issued share capital (having full voting rights) belongs to the recipient, to persons with whom the recipient does not deal at arm's length, or to any combination of these persons.

References
Subsections 186(2) and (4)

Exempt corporations

The following types of corporations are exempt from Part IV tax:

A. a corporation that was bankrupt at any time during the year; or

B. a corporation that, throughout the year, was:

- a prescribed labour-sponsored venture capital corporation;
- a prescribed investment contract corporation;
- an insurance corporation;
- a corporation licensed as a trustee;
- a bank; or
- a registered securities dealer that was throughout the year a member of a prescribed stock exchange in Canada.

Reference
Section 186.1

Exempt dividends

A corporation that is a prescribed venture capital corporation throughout the year does not have to pay Part IV tax on dividends it received from a prescribed qualifying corporation.

References
Section 186.2
Regulation 6704

Dividends not taxable

Any dividends that a corporation received from a capital dividend account are not taxable, as long as the payer corporation made an election under section 83. Therefore, if these non-taxable dividends are included as income, they should be deducted as an adjustment on Schedule 1.

Completing parts 1 and 2 of Schedule 3

In the following section we provide details on how to complete parts 1 and 2 of Schedule 3. Parts 3 and 4 are explained on page 54.

Part 1 – Dividends received during the taxation year

Do not include dividends received from foreign non-affiliates.

column 200 – list all payer corporations from which the corporation received dividends.

If the payer corporation is a connected corporation, complete columns 205, 210, and 220.

column 205 – enter "1" in the box if the payer corporation is a connected corporation;

column 210 – enter the connected corporation's Business Number;

column 220 – enter the taxation year-end of the payer corporation in which the dividend in column 240 was paid;

column 230 – enter the amount of non-taxable capital dividend if under section 83 election (enter the total of this column on line 402 of Schedule 1); and

column 240 – enter the amount of taxable dividends deductible from taxable income under section 112, subsections 113(2) and 138(6), and paragraph 113(1)(a), (b), or (d) (enter the total of this column on line 320 of the return). For more information on these dividends, see page 47.

If the payer corporation is a connected corporation, complete columns 250 and 260.

column 250 – enter the amount of total taxable dividends paid by connected payer corporation for the taxation year as shown in column 220;

column 260 – enter the amount of dividend refund of the connected payer corporation for the taxation year as indicated in column 220; and

column 270 – enter the amount of Part IV tax, based on the following calculations:

- when the taxable dividend subject to Part IV tax is received from a non-connected corporation:

column 270 = column 240 × 1/3

- when the dividend subject to Part IV tax is received from a connected corporation:

$$\textbf{column 270} = \frac{\textbf{column 240} \times \textbf{column 260}}{\textbf{column 250}}$$

If the connected payer corporation's taxation year ends more than three months after the corporation's taxation year, you have to estimate the payer's dividend refund when you calculate the corporation's Part IV tax payable.

Add all Part IV tax, and enter the amount in part 2 of Schedule 3.

If taxable dividends are received, enter the amount in column 240, but if the corporation is not subject to Part IV tax, such as a public corporation, enter "0" in column 270.

> **Note**
> If more than one corporation paid dividends, you have to do a separate calculation for each payer corporation. If dividends were paid in different payer corporations' taxation years, you have to do a separate calculation for each taxation year.

Part 2 – Calculation of Part IV tax payable

Part IV tax otherwise payable on a dividend is reduced by any amount of Part IV.1 tax payable on the same dividend. See page 66 for details.

On line 320 of Schedule 3, enter the amount of Part IV.1 tax you have to pay on taxable dividends received.

You can reduce the amount of dividends subject to Part IV tax by using non-capital losses and farm losses incurred in the taxation year or carried forward from prior years.

On lines 330 to 345 of Schedule 3, enter the amount of available non-capital and farm losses you are using to reduce dividends subject to Part IV tax.

On line 712 of the return, enter the amount of Part IV tax payable on taxable dividends received (line 360 of Schedule 3).

Reference
IT-269, *Part IV Tax on Taxable Dividends Received by a Private Corporation or a Subject Corporation*

Line 716 – Part IV.1 tax payable

Complete Schedule 43, *Calculation of Parts IV.1 and VI.1 Taxes*, to calculate Part IV.1 tax payable.

Part 4 of Schedule 43 – Calculation of Part IV.1 tax

Part 4 gives details on how to calculate Part IV.1 tax.

Public corporations and certain other corporations may be subject to the 10% Part IV.1 tax on dividends they receive on taxable preferred shares. A **restricted financial institution** is also subject to tax on dividends received on **taxable restricted financial institution shares** (see subsection 248(1) for definitions of these terms).

The issuer of taxable preferred shares can elect to pay a 40% tax under Part VI.1 on dividends on taxable preferred shares. This election exempts the holder of these shares from the 10% tax under Part IV.1. See page 66 for details.

Excepted dividends, which are defined in section 187.1, are not subject to Part IV.1 tax. For example, an excepted dividend is one the corporation receives on a share of another corporation in which the corporation had a substantial interest at the time it received the dividend.

On line 716, enter the amount of Part IV.1 tax payable that you calculated on line 340 of Schedule 43.

References
Sections 187.1 to 187.6
Subsection 191.2(1)

Line 720 – Part VI tax payable

You have to complete Schedule 38, *Part VI Tax on Capital of Financial Institutions*, to calculate Part VI tax.

Part VI levies a tax on a financial institution's taxable capital employed in Canada. Part VI tax is 1.25% of the taxable capital employed in Canada that is more than the capital deduction for the year. Also, under subsection 190.1(3), you can deduct Part I tax from Part VI tax payable. This is called the Part I tax credit.

You can deduct any unused Part I tax credits from Part VI tax in any of the three preceding and seven following taxation years.

To calculate the balance of unused Part I tax credits and to carry back this credit, you can use Schedule 42, *Calculation of Unused Part I Tax Credit*.

Financial institutions include banks, trust companies, life insurance corporations, certain holding corporations, and corporations that accept deposits and carry on the business of lending money on the security of real estate or investing in mortgages or hypothecs on real estate.

The capital deduction for the year is $200 million plus whichever amount is less:

- $20 million; or
- 20% of the amount of the taxable capital employed in Canada that is more than $200 million.

File Schedule 38 with the return if you have Part VI tax payable, or would have, if not for the deduction of a Part I tax credit or surtax credit.

If the corporation is a member of a related group, you have to allocate the capital deduction among the members.

Use Schedule 39, *Agreement Among Related Financial Institutions – Part VI Tax*, to allocate the capital deduction. File this agreement with the return.

On line 720, enter the amount of Part VI tax payable that you calculated on line 890 of Schedule 38.

> **Note**
> Schedule 39 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 39 is not already on file with us when we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will ask for one.

References
Sections 190, 190.1, and 190.11 to 190.15

Line 724 – Part VI.1 tax payable

Complete the following schedules if required:

- Schedule 43, *Calculation of Parts IV.1 and VI.1 Taxes*; and
- Schedule 45, *Agreement Respecting Liability for Part VI.1 Tax*.

See the following headings for more details.

Part 1 of Schedule 43 – Calculation of dividend allowance

Calculate the dividend allowance on part 1 of Schedule 43.

Generally, the first $500,000 of dividends paid in the year on taxable preferred shares is exempt from Part VI.1 tax liability. This basic annual exemption is called the **dividend allowance**.

However, the $500,000 basic allowance is reduced if you paid more than $1 million of dividends on taxable preferred shares in the preceding year.

Part 2 of Schedule 43 – Agreement among associated corporations to allocate the dividend allowance

If you are a member of an associated group, you have to allocate the dividend allowance between the members. Part 2 provides an area for this allocation.

Part 3 of Schedule 43 – Calculation of Part VI.1 tax

Complete part 3 of Schedule 43 to calculate Part VI.1 tax. Part VI.1 tax is levied on dividends (other than certain excluded dividends) you paid on short-term preferred shares and taxable preferred shares.

You are subject to a tax of 50% for 2003 (66 2/3% for years before 2003) on dividends you paid on **short-term preferred shares** that are more than the annual dividend allowance.

You are subject to a tax of 25% and/or 40% on dividends you paid on **taxable preferred shares** (other than short-term preferred shares) that are more than any remaining dividend allowance.

See subsection 248(1) for definitions of the terms **short-term preferred shares** and **taxable preferred shares**.

Schedule 45, *Agreement Respecting Liability for Part VI.1 Tax*

Complete Schedule 45 to certify the transfer of Part VI.1 tax liability and send it to us with Schedule 43.

A corporation (the transferor) can transfer all or part of its Part VI.1 tax liability to another corporation (the transferee), if the corporations were related throughout the following taxation years:

- the transferor's taxation year for which it owes Part VI.1 tax; and
- the transferee's taxation year that ends on or before the end of the above-mentioned transferor's taxation year.

You can deduct Part VI.1 tax payable from income. See page 48 for more information. Any Part VI.1 tax that is left over after the taxable income is reduced to zero is part of the non-capital loss for the year. See page 39 for details.

On line 724, enter the amount of Part VI.1 tax payable you calculated on line 270 of Schedule 43.

References
Sections 191, and 191.1 to 191.4

Line 727 – Part XIII.1 tax payable

Every authorized foreign bank is subject to Part XIII.1 tax equal to 25% of its taxable interest expense for the year.

You have to show your calculations on a separate schedule. Identify these calculations as Schedule 92, *Part XIII.1 Tax – Additional Tax on Authorized Foreign Banks*, since we do not print this schedule. For more information, see Part XIII.1 tax.

On line 727 of the return, enter the amount of Part XIII.1 tax payable.

Line 728 – Part XIV tax payable

Every corporation that is non-resident in a taxation year is subject to Part XIV tax, which is commonly known as **branch tax**.

The branch tax rate is 25%, but a tax treaty can reduce this percentage. In addition, a tax treaty may restrict the branch tax to corporations that carry on business in Canada through a permanent establishment in Canada.

You have to complete Schedule 20, *Part XIV – Branch Tax*, to calculate Part XIV tax. On line 728, enter the amount of Part XIV tax payable you calculated on Schedule 20.

> **Note**
> Corporations that are subject to Part XIV tax should file their return with the International Tax Services Office. See "Where do you file your return?" on page 9.

References
Section 219
IT-137, *Additional Tax on Certain Corporations Carrying on Business in Canada*

Provincial and territorial tax

Quebec, Ontario, and Alberta administer their own corporate income tax systems. Corporations that earn income in these provinces have to file separate provincial corporate income tax returns.

All other provinces and territories legislate their corporate income tax provisions, but the CRA administers them. These provinces and territories do not charge income tax on the taxable income of corporations that are exempt from tax under section 149.

If the corporation has a permanent establishment in any province or territory other than Quebec, Ontario, or Alberta, you have to calculate provincial and/or territorial income taxes and credits, as well as federal income taxes and credits, on the return.

Permanent establishment

A permanent establishment in a province or territory is usually a fixed place of business of the corporation, which includes an office, branch, oil well, farm, timberland, factory, workshop, warehouse, or mine. If the corporation does not have a fixed place of business, the corporation's permanent establishment is the principal place in which the corporation's business is conducted.

If the corporation carries on business through an employee or an agent established in a particular place, it is considered to have a permanent establishment in that place if the employee or agent:

- has general authority to contract for the corporation; or
- has a stock of merchandise owned by the corporation from which the employee or agent regularly fills orders received.

See Regulation 400(2) for a complete definition of permanent establishment.

References
Regulations 400(2) and 414
IT-177, *Permanent Establishment of a Corporation in a Province and of a Foreign Enterprise in Canada*

Line 750 – Provincial or territorial jurisdiction

On line 750, give the name of the province or territory where you earned your income. Usually, this is where the corporation has its permanent establishment.

If you earned income in more than one province or territory, write "multiple" on line 750. Corporations with a **multiple jurisdiction** have to file Schedule 5, *Tax Calculation Supplementary – Corporations*, with the return.

> **Note**
> The Newfoundland and Labrador offshore area and the Nova Scotia offshore area are considered provinces.

By completing line 750, you ensure that the income taxes go to the correct province or territory. Complete this line even if no tax is payable, or if the provincial jurisdiction is Quebec, Ontario, or Alberta.

Reference
Subsection 124(4)

Line 760 – Net provincial and territorial tax payable

You have to complete Schedule 5 if:

- there is a permanent establishment in more than one province or territory (whether or not you are taxable); or

- the corporation is claiming provincial or territorial tax credits, or rebates (see page 69 for details).

If there is no taxable income, you only have to complete columns B and D in part 1 of Schedule 5.

If Schedule 5 is not required and the provincial or territorial jurisdiction is not Ontario, Quebec or Alberta, enter the provincial or territorial tax on line 760. For information on the calculation of tax for each province and territory, see the sections that follow in this chapter.

Part 1 of Schedule 5 – Allocation of taxable income

We assess provincial or territorial income taxes on the amount of taxable income allocated to each province or territory. See Regulation 402 for details on how to allocate taxable income.

Generally, to allocate taxable income to each province or territory, you have to use a formula based on gross revenue and salaries and wages. See part 1 of Schedule 5 for details.

You will find the general rules on how to allocate gross revenue in Regulation 402.

Do not include any of the following amounts in gross revenue:

- interest on bonds, debentures, or mortgages;
- dividends on shares of capital stock; or
- rents or royalties from property that are not part of the principal business operations.

Allocate gross salaries and wages paid in the year to the permanent establishment in which those salaries and wages were paid. Do not include in gross salaries and wages any commissions paid to a person who is not an employee.

See Regulations 403 to 413 for details on special methods for allocating taxable income for the following types of businesses:

- insurance corporations (Regulation 403);
- banks (Regulation 404);
- trust and loan corporations (Regulation 405);
- railway corporations (Regulation 406);
- airline corporations (Regulation 407);
- grain elevator operators (Regulation 408);
- bus and truck operators (Regulation 409);
- ship operators (Regulation 410);
- pipeline operators (Regulation 411);
- divided businesses (Regulation 412); and
- non-resident corporations (Regulation 413).

On line 100 of Schedule 5, enter the regulation number that applies to attribute the taxable income.

Dual rates of provincial and territorial income tax

Generally, provinces and territories have two rates of income tax: the **lower rate** and the **higher rate**.

The lower rate applies to eligible income based on either:

- the income eligible for the federal small business deduction; or
- income limits established by the particular province or territory.

The higher rate applies to all other income. For more detailed information on the income eligible for each rate and the rates that apply to each province and territory, see the sections that follow in this chapter.

Example 1
Corporation X earned all of its income for 2005 from its permanent establishment in Newfoundland and Labrador. Corporation X claimed the small business deduction when it calculated its federal tax payable. The income from active business carried on in Canada was $78,000.

The Newfoundland and Labrador **lower rate** of tax is 5%. The **higher rate** of tax is 14%.

Corporation X calculates its Newfoundland and Labrador tax payable as follows:

Taxable income				$90,000
Subtract amount taxed at lower rate:				
Least of lines 400, 405, 410, or 425 in the small business deduction calculation				$78,000
Amount taxed at higher rate				$12,000
Taxes payable at the lower rate:				
$78,000	×	5%	=	$ 3,900
Taxes payable at the higher rate:				
$12,000	×	14%	=	$ 1,680
Newfoundland and Labrador tax payable				$ 5,580

When you allocate taxable income to more than one province or territory, you also have to allocate proportionally any income eligible for the small business deduction.

Example 2
Corporation Y has permanent establishments in both Nova Scotia **and** the Yukon. Its taxation year runs from September 1, 2004, to August 31, 2005.

Corporation Y claimed the small business deduction when it calculated its federal tax payable.

The **lower rate** of tax for Nova Scotia is 5%, and the **higher rate** of tax is 16%.

To calculate its Nova Scotia income tax, Corporation Y does the following calculations:

Taxable income allocated to Nova Scotia (from Schedule 5)	$60,000
Taxable income allocated to the Yukon (from Schedule 5)	$30,000
Total taxable income earned in Canada	$90,000
Least of lines 400, 405, 410, or 425 in the small business deduction calculation	$78,000

Income eligible for the small business deduction attributed to Nova Scotia:

$\frac{\$60{,}000}{\$90{,}000} \times \$78{,}000 =$	$52,000
Taxable income earned in Nova Scotia	$60,000
Subtract: Income eligible for the small business deduction attributed to Nova Scotia	$52,000
Amount taxed at higher rate	$ 8,000
Taxes payable at higher rate: $8,000 × 16% =	$ 1,280
Taxes payable at lower rate: $52,000 × 5% =	$ 2,600
Nova Scotia tax payable	$ 3,880

To calculate its Yukon income tax payable, Corporation Y would repeat the same steps, using the rates that apply.

On the appropriate lines of part 2 of Schedule 5, enter the gross amount of each provincial or territorial tax payable.

Part 2 of Schedule 5 – Provincial and territorial tax credits and rebates

Complete part 2 of Schedule 5 if:

- there is provincial or territorial tax;
- there is a claim for provincial or territorial tax credits or rebates; or
- there is a claim for provincial or territorial refundable tax credits.

On line 255 of Schedule 5, enter the net amount of provincial and territorial tax payable or the net amount of refundable credits. When the result is positive, enter the net provincial or territorial tax payable on line 760 of the return. When the result is negative, enter the refundable provincial or territorial tax credit on line 812. Attach to the return any forms you completed to claim provincial or territorial credits or rebates.

In the following sections, you will find information about provincial and territorial foreign tax credits, as well as details on all other provincial and territorial credits and rebates.

Provincial or territorial foreign tax credits

Every province and territory allows a corporation to claim a foreign tax credit for taxes it paid to another country on foreign **non-business income**.

However, you cannot claim foreign tax credits on the return for the provinces of Quebec, Ontario, and Alberta, because these provinces collect their own income taxes.

For each province or territory for which you are claiming a credit, you have to do a separate calculation. Also, if you paid tax to more than one foreign country you have to do a separate calculation for each country. Calculate a provincial or territorial foreign tax credit as the least of:

A. $$\begin{array}{c}\text{provincial or}\\ \text{territorial}\\ \text{tax rate (\%)*}\end{array} \times \begin{array}{c}\text{foreign}\\ \text{non-business}\\ \text{income}\end{array} \times \frac{\text{taxable income allocated to province or territory}}{\text{total taxable income}}$$

and

B. (i) × [(ii) – (iii)]

where

(i) = $\frac{\text{taxable income allocated to province or territory}}{\text{taxable income allocated to all provinces or territories}}$

(ii) = non-business foreign tax paid [not including tax paid on dividends from a share of a foreign affiliate or foreign non-business income tax deducted under subsection 20(12)]

(iii) = federal foreign non-business income tax credit allowed**

*If the tax rate has changed during the taxation year, prorate the calculation in A above using the two rates. If dual rates of corporate tax apply, always use the higher rate when you calculate the foreign tax credit.

**The word "allowed" should read "deductible" for year-ends after December 31, 2005.

On the appropriate lines of part 2 of Schedule 5, enter the totals of provincial and territorial foreign tax credits.

Newfoundland and Labrador

The **lower rate** of Newfoundland and Labrador income tax is 5%. This lower rate applies to taxable income earned in Newfoundland and Labrador that qualifies for the federal small business deduction.

The **higher rate** of income tax is 14%. This higher rate applies to taxable income earned in Newfoundland and Labrador that does **not** qualify for the federal small business deduction.

These rates also apply to taxable income earned in the Newfoundland and Labrador offshore area.

On line 200 or 205 of Schedule 5, enter the amount of tax calculated.

Newfoundland and Labrador political contribution tax credit

You can claim contributions made to registered political parties, registered district associations, or registered non-affiliated candidates, as defined under the *Elections Act, 1991*, of Newfoundland and Labrador, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500**.

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 891 of Schedule 5, enter the total amount of qualifying contributions, and on line 500, enter the amount of the credit you are claiming.

Newfoundland and Labrador manufacturing and processing profits tax credit

Corporations that have earned taxable income in Newfoundland and Labrador, as well as manufacturing and processing profits are eligible for this credit.

For taxation years ending after March 31, 2003, this credit cannot be claimed unless the corporation has engaged in manufacturing or processing in the taxation year from a permanent establishment in Newfoundland and Labrador.

Schedule 300, *Newfoundland and Labrador Manufacturing and Processing Profits Tax Credit*, is a worksheet to calculate the credit and does not have to be filed with the return. See the schedule for more details.

On line 503 of Schedule 5, enter the amount of the credit you are claiming.

Newfoundland and Labrador direct equity tax credit

You can claim this credit for an investment after March 31, 2004, in eligible shares of a business with which you deal at arm's length.

There are two tax credit rates. For qualifying activities undertaken in the province outside the Northeast Avalon, a 35% rate applies. For qualifying activities undertaken within the Northeast Avalon, a 20% rate applies. In cases where qualifying activities are undertaken in both areas, a reasonable proration applies.

The maximum credit you can claim is $50,000 per year, including any amounts carried back or carried forward.

This credit must be claimed against tax otherwise payable before the Newfoundland and Labrador small business tax holiday. You can carry forward unused credits for seven years or back three years. However, you cannot carry back credits to a year ending before April 1, 2004.

The province of Newfoundland and Labrador will issue Form NLDETC-1, *Newfoundland and Labrador Direct Equity Tax Credit*, for eligible investments. File this form with your T2 return.

To claim the credit, file a completed Schedule 303, *Newfoundland and Labrador Direct Equity Tax Credit.* See the schedule for more details.

On line 505 of Schedule 5, enter the amount of the credit.

Newfoundland and Labrador small business tax holiday

The Province of Newfoundland and Labrador will issue a Small Business Tax Holiday Certificate (NLSBTH) to eligible new businesses incorporated between April 1, 2003 and March 31, 2006, that operate in designated growth sectors of the economy and are not associated with another business.

For businesses located on the Northeast Avalon, the tax holiday will be provided for the new company's first three fiscal years. For those located outside the Northeast Avalon, the tax holiday will apply for the first five years.

You do not have to file the certificate with the return. However, keep it in case we ask for it later.

On lines 832 and 511 of Schedule 5, enter the certificate number and the amount you are claiming.

Newfoundland and Labrador research and development tax credit

You can claim this credit if you have a permanent establishment in Newfoundland and Labrador and if you made eligible expenditures for research and development carried out in Newfoundland and Labrador. The credit is equal to 15% of eligible expenditures.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file a completed Schedule 301, *Newfoundland and Labrador Research and Development Tax Credit*, with the return. See the schedule for more details.

On line 520 of Schedule 5, enter the amount of credit earned in the year.

Newfoundland and Labrador film and video industry tax credit

The Minister of Finance for the province of Newfoundland and Labrador will issue a tax credit certificate to a corporation that produces an eligible film or video in the province.

The amount of the credit is equal to 40% of eligible salaries paid in the taxation year to residents of the province for each eligible film or video.

The tax credit:

- applies to eligible salaries incurred after January 12, 1999, and before January 1, 2005;
- applies only to the portion of eligible salaries that is not more than 25% of the total production costs of an eligible film or video; and
- is limited to $1 million for each eligible project and $2 million for each eligible corporation, together with all corporations associated with that corporation, of all eligible films or videos begun in a 12-month period.

This credit is extended to December 31, 2008. The annual tax credit limit of $1 million for each eligible project and $2 million for each eligible corporation is replaced with a single credit of $3 million for each corporation, effective January 1, 2005.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with the return. However, keep it in case we ask for it later. Schedule 302, *Additional Certificate Numbers for the Newfoundland and Labrador Film and Video Industry Tax Credit*, should be completed if you receive more than one certificate.

On lines 821 and 521 of Schedule 5, enter the certificate number, if there is only one certificate, and the amount of the credit earned in the current year.

Prince Edward Island

The **lower rate** of Prince Edward Island income tax is 7.5%.

Effective April 1, 2005, the **lower rate** of Prince Edward Island income tax is decreased to 6.5%.

This rate applies to:

- taxable income earned in Prince Edward Island that qualifies for the federal small business deduction; and
- a credit union's income that qualifies for the additional deduction under subsection 137(3).

The **higher rate** of income tax is 16%. This rate applies to taxable income that does **not** qualify for the federal small business deduction.

On line 210 of Schedule 5, enter the amount of tax calculated.

Prince Edward Island political contribution tax credit

You can claim contributions made to recognized Prince Edward Island political parties, and to candidates who were officially nominated under the *Elections Act* of Prince Edward Island, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500**.

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 892 of Schedule 5, enter the total amount of qualifying contributions, and on line 525, enter the amount of credit you are claiming.

Prince Edward Island manufacturing and processing profits tax credit

Corporations that have earned taxable income and manufacturing and processing profits in Prince Edward Island are eligible for a credit equal to 8.5% of these profits.

Effective April 1, 2005, this credit is eliminated. However, the credit is available for the number of days within the taxation year that are prior to this date.

Schedule 320, *Prince Edward Island Manufacturing and Processing Profits Tax Credit*, is a worksheet to calculate the credit and does not have to be filed with the return. See the schedule for more details.

On line 529 of Schedule 5, enter the amount of credit you are claiming.

Prince Edward Island corporate investment tax credit

Corporations that have acquired qualified property are eligible for this credit. Apply the credit to reduce the Prince Edward Island tax payable.

You can carry back an unused credit to the three preceding taxation years from the taxation year that you acquired the property. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you acquired the property.

To claim the credit, file a completed Schedule 321, *Prince Edward Island Corporate Investment Tax Credit*, with the return. See the schedule for more details.

On line 530 of Schedule 5, enter the amount of the credit you are claiming.

Nova Scotia

The **lower rate** of Nova Scotia income tax is 5%. This lower rate applies to taxable income earned in Nova Scotia that qualifies for the federal small business deduction.

Effective April 1, 2005, the income threshold eligible for the lower tax rate is increased to $350,000. Effective April 1, 2006, this threshold will increase to $400,000. These amounts will be prorated for taxation years straddling April 1.

The **higher rate** of income tax is 16%. This rate applies to taxable income earned in Nova Scotia that does **not** qualify for the federal small business deduction.

These rates also apply to taxable income earned in the Nova Scotia offshore area.

You can use new Schedule 346, *Nova Scotia Corporation Tax Calculation*, to help you calculate the Nova Scotia tax before the application of credits. You do not have to file it with the return. See the schedule for more details.

On line 215 or 220 of Schedule 5, enter the amount of tax calculated.

Nova Scotia political contribution tax credit

You can claim contributions made to candidates and recognized parties, as defined under the Nova Scotia *Elections Act*, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500**.

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 893 of Schedule 5, enter the total amount of qualifying contributions, and on line 550 enter the amount of the credit you are claiming.

Nova Scotia manufacturing and processing investment tax credit

You could earn this credit by acquiring qualified property before January 1, 2003.

You had to use or lease the qualified property in Nova Scotia primarily for manufacturing or processing goods. The credit was equal to 15% of the qualified property. You can carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you acquired the property.

To claim the credit, you had to file a completed Schedule 344, *Nova Scotia Manufacturing and Processing Investment Tax Credit*, no later than 12 months after your income tax return was due for the taxation year in which the expenditures were incurred. For more details, see the schedule.

On line 561 of Schedule 5, enter the amount of credit you are claiming.

Nova Scotia corporate tax reduction for new small businesses

This tax reduction applies to the first three taxation years of qualifying CCPCs incorporated in Nova Scotia. This tax reduction also applies to a corporation incorporated outside the province, but inside of Canada, if it pays at least 25% of its wages to employees who are resident in the province and its head office is located in the province.

If the qualifying corporation is eligible for a federal small business deduction for the year, it can claim this tax reduction to reduce Nova Scotia income tax otherwise payable.

Schedule 341, *Nova Scotia Corporate Tax Reduction for New Small Businesses,* is a worksheet to calculate the credit and does not have to be filed with the return. You do not have to file the certificate of eligibility that the province issues. However, keep it in case we ask for it later.

On lines 834 and 556 of Schedule 5, enter the certificate number and the amount of the reduction you are claiming.

Nova Scotia film industry tax credit

The Minister of Finance for the province of Nova Scotia will issue a tax credit certificate to a corporation producing an eligible film in the province.

The amount of the credit is equal to the total of the following amounts incurred after April 10, 2000, and before 2006:

- whichever is less:
  - 35% of eligible salaries in prescribed eligible geographic areas; or
  - 17.5% of total production costs of the eligible film;

plus

- whichever is less:
  - 30% of eligible salaries not in prescribed eligible geographic areas; or
  - 15% of total production costs of the eligible film.

Effective January 1, 2005, the amount of the credit will be equal to the total of the following amounts incurred after December 31, 2004, and before 2016:

- whichever is less:
  - 40% of eligible salaries in prescribed eligible geographic areas; or
  - 20% of total production costs of the eligible film;

plus

- whichever is less:
  - 35% of eligible salaries not in prescribed eligible geographic areas; or
  - 17.5% of total production costs of the eligible film.

Also, effective January 1, 2005, production companies that shoot more than two films in the province over a two-year period will be eligible for an additional 5% frequent film bonus on the third and subsequent films.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with the return. However, keep it in case we ask for it later. Schedule 345, *Additional Certificate Numbers for the Nova Scotia Film Industry Tax Credit*, should be completed if more than one certificate is issued.

On lines 836 and 565 of Schedule 5, enter the certificate number, if there is only one certificate, and the amount of the credit earned in the current year.

Nova Scotia research and development tax credit

Use Schedule 340, *Nova Scotia Research and Development Tax Credit*, to calculate the Nova Scotia research and development tax credit.

You can claim this credit if you have a permanent establishment in Nova Scotia and if you made eligible expenditures for research and development carried out in Nova Scotia. The credit is equal to 15% of eligible expenditures.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file a completed Schedule 340 with the return. See the schedule for more details.

On line 566 of Schedule 5, enter the amount of credit earned in the year.

Recapture of Nova Scotia research and development tax credit

A corporation that disposed of a property used in research and development, or converted the property to commercial use, may have to report a recapture of any Nova Scotia research and development tax credit previously calculated on that property. Any recapture will create or increase Nova Scotia tax otherwise payable.

To calculate the recapture, complete Schedule 340, *Nova Scotia Research and Development Tax Credit*. For more details, see Schedule 340.

On line 221 of Schedule 5, enter the amount of recapture calculated.

New Brunswick

The **lower rates** of New Brunswick income tax are:

- 3% from January 1, 2003, to June 30, 2004; and
- 2.5% effective July 1, 2004.

Starting in 2005, the **lower rates** of New Brunswick income tax are decreased as follows:

- 2% effective July 1, 2005;
- 1.5% effective July 1, 2006; and
- 1% effective July 1, 2007.

The income eligible for the lower rates is based on the income eligible for the federal small business deduction. However, the New Brunswick business limit used in calculating the income eligible for the lower rates is:

- $400,000 effective January 1, 2003; and
- $425,000 effective July 1, 2004.

Starting in 2005, the New Brunswick business limit used in calculating the income eligible for the lower rates is increased as follows:

- $450,000 effective July 1, 2005;
- $475,000 effective July 1, 2006; and
- $500,000 effective July 1, 2007.

You have to prorate these amounts using the number of days in each period.

The **higher rate** of New Brunswick income tax is 13% effective January 1, 2003.

This rate applies to all income **not** eligible for the lower rates.

You can use Schedule 366, *New Brunswick Corporation Tax Calculation*, to help you calculate the New Brunswick tax before the application of credits. You do not have to file it with the return. See the schedule for more details.

On line 225 of Schedule 5, enter the amount of tax calculated.

New Brunswick political contribution tax credit

You can claim contributions made to a registered political party, a registered district association, or a registered independent candidate, as defined under the New Brunswick *Elections Act*, as follows:

- 75% of the first $200 contributed;

plus

- 50% of the next $350 contributed;

plus

- 33 1/3% of the next $525 contributed, to a maximum credit of **$500**.

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can accept photocopies only if the issuer certifies them as true copies.

On line 894 of Schedule 5, enter the total amount of qualifying contributions, and on line 575 enter the amount of the credit you are claiming.

New Brunswick non-refundable research and development tax credit

You can claim this credit if you have a permanent establishment in New Brunswick and you made eligible expenditures for research and development to be carried out in New Brunswick before January 1, 2003. The amount of the credit is equal to 10% of eligible expenditures. Apply the credit to reduce New Brunswick tax that you would otherwise have to pay.

You can carry back an unused credit to the three preceding taxation years from the taxation year that you made the expenditure. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made the expenditure.

You may, under the New Brunswick *Income Tax Act*, renounce the full research and development tax credit for eligible expenditures made prior to January 1, 2003, on or before the date by which you are required to file your return for the year.

To claim the credit, file a completed Schedule 360, *New Brunswick Research and Development Tax Credit*, with the return. For more details, see the schedule.

On line 577 of Schedule 5, enter the amount of the credit you are claiming.

New Brunswick refundable research and development tax credit

You can claim this credit if you have a permanent establishment in New Brunswick and you made eligible expenditures for research and development to be carried out in New Brunswick after December 31, 2002. The amount of the credit is equal to 15% of eligible expenditures.

The credit is fully refundable and there are no carry-forward or carry-back provisions.

To claim the credit, file a completed Schedule 360, *New Brunswick Research and Development Tax Credit*, with the return. For more details, see the schedule.

On line 597 of Schedule 5, enter the amount of the credit you are claiming.

Recapture of New Brunswick research and development tax credit

A corporation that disposed of a property used in research and development, or converted it to commercial use, may have to report a recapture of any New Brunswick research and development tax credit previously calculated on that property. Any recapture will create or increase New Brunswick tax otherwise payable.

To calculate the recapture, complete Schedule 360, *New Brunswick Research and Development Tax Credit*.

On line 573 of Schedule 5, enter the amount of recapture calculated.

New Brunswick film tax credit

The Minister of Finance for the province of New Brunswick will issue a tax credit certificate to a corporation producing an eligible film in the province.

The amount of the credit cannot be more than 40% of the amount of eligible salaries paid in the taxation year.

The credit is subject to the following conditions:

- the tax credit applies to eligible salaries incurred before January 1, 2007;
- an eligible corporation must, for each eligible project, pay at least 25% of its total salaries and wages to eligible employees; and
- the tax credit applies only to that portion of eligible salaries that is not more than 50% of the total production costs of the eligible project less the amount of production costs funded by the province.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with the return. However, keep it in case we ask for it later. Schedule 365, *Additional Certificate Numbers for the New Brunswick Film Tax Credit*, should be completed if more than one certificate is issued.

On lines 850 and 595 of Schedule 5, enter the certificate number, if there is only one certificate, and the amount of the credit earned in the current year.

Manitoba

The **rates** of Manitoba income tax are:

- 15.5% effective January 1, 2004; and
- 15% effective January 1, 2005.

Starting in 2006, the **rates** of Manitoba tax are as follows:

- 14.5% effective July 1, 2006; and
- 14% effective July 1, 2007.

Note
The 2004 version of this guide indicated that the 14.5% rate was effective for January 1, 2006, because this rate had been originally introduced in the 2004 Manitoba budget. The effective date of July 1, 2006, was confirmed in the 2005 Manitoba budget.

Corporations may be eligible for a small business deduction to reduce part of the tax otherwise payable. The small business deduction rates are:

- 10.5% effective January 1, 2004; and
- 10% effective January 1, 2005.

Starting in 2006, the small business deduction rates are as follows:

- 10.5% effective January 1, 2006;
- 10% effective July 1, 2006;
- 10.5% effective January 1, 2007; and
- 10% effective July 1, 2007.

The Manitoba small business deduction is similar to the federal small business deduction; however, the business limit used in calculating the income eligible for the Manitoba small business deduction is:

- $360,000 effective January 1, 2004; and
- $400,000 effective January 1, 2005.

You have to prorate these amounts using the number of days in each period.

You can use Schedule 383, *Manitoba Corporation Tax Calculation*, to help you calculate your Manitoba tax before the application of credits. You do not have to file it with the return. See the schedule for more details.

On line 230 of Schedule 5, enter the amount of tax calculated.

Manitoba manufacturing investment tax credit

This credit was previously called the Manitoba manufacturing and processing tax credit.

You can earn this credit on qualified property you acquired before July 1, 2006, to reduce Manitoba tax payable. You have to use the qualified property in Manitoba primarily for manufacturing or processing goods for sale or lease.

The definition of qualified property has been extended to include new equipment, under class 43.1 of Part XI of the federal *Income Tax Regulations*, purchased between April 22, 2003, and June 30, 2006.

After March 8, 2005, qualifying property includes used buildings, machinery, and equipment made available for use in manufacturing or processing goods for sale or lease.

You can carry back an unused credit to the three preceding taxation years (ending after April 22, 2003, for class 43.1) from the taxation year that you acquired the property. For taxation years ending before 2004, you can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you acquired the property. For credits earned in taxation years ending after 2003, the carry-forward period is extended to ten years.

To claim the credit, file a completed Schedule 381, *Manitoba Manufacturing and Processing Tax Credit*. To claim a credit for qualified property acquired after March 8, 2005, file this schedule no later than 12 months after your income tax return is due for the taxation year in which the expenditures were incurred. For more details, see the schedule.

On line 605 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba refundable manufacturing investment tax credit

After March 8, 2005, you can claim 20% of the investment tax credit you are entitled to claim in a taxation year as a refundable credit.

To claim the credit, file a completed Schedule 381, *Manitoba Manufacturing Investment Tax Credit*, no later than 12 months after your income tax return is due for the taxation year in which the expenditures were incurred. For more details, see the schedule.

On line 621 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba research and development tax credit

You can claim this credit if you have a permanent establishment in Manitoba and you made eligible expenditures for research carried out in Manitoba. The amount of the credit is equal to 15% of eligible expenditures.

After March 8, 2005, the amount of the credit is 20% of eligible expenditures.

Apply the credit to reduce Manitoba tax that you would otherwise have to pay.

You can carry back an unused credit to the three preceding taxation years from the taxation year that you made the expenditure. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made the expenditure. The carry-forward period is extended to 10 years for credits earned in taxation years ending after 2003.

You must identify the qualified expenditures on Schedule 380, *Manitoba Research and Development Tax Credit*, no later than 12 months after your income tax return is due for the taxation year in which the expenditures were incurred.

You may renounce the research and development tax credit for an eligible expenditure incurred during the year, in whole or in part, under subsection 7.3(7) of the *Income Tax Act* (Manitoba).

To claim the credit, file a completed Schedule 380 with the return. For more details, see the schedule.

On line 606 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba co-operative education tax credit

You can claim this credit if you are an employer who provides a work placement for a student enrolled in a qualifying post-secondary co-operative education program.

The work placement must start after April 22, 2003, and end on or before the end of a taxation year and before 2006.

This credit is extended to December 31, 2008.

The credit for each qualifying work placement is whichever is less:

- $1000; and
- 10% of the salary paid to the employee.

The credit will be nil if the student under the work placement has had five previous qualifying work placements.

You can carry back an unused credit to the three preceding taxation years (ending after April 22, 2003) from the taxation year that you earned the credit. You can also carry forward the unclaimed credit to the 10 taxation years that follow the taxation year in which you earned the credit. Unused credits may be carried forward on amalgamation or wind-up.

The Province of Manitoba will issue a completed work placement certificate to each corporation or partnership for the qualifying work placement.

To claim the credit, file a completed Schedule 384, *Manitoba Co-operative Education Tax Credit*, with the return. For more details, see the schedule.

On line 603 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba odour-control tax credit

You can earn this credit on eligible expenditures made after April 19, 2004, and before January 1, 2007, to reduce Manitoba income tax payable.

Eligible expenditures consist of the capital costs of depreciable capital properties that become available for use in the year and were acquired for the purpose of preventing, reducing, or eliminating nuisance odours that arise or may arise from the use or production of organic waste. The properties must be not used and must not have been acquired for any use by anyone before. Eligible expenditures are either prescribed by regulation or approved by the Minister.

The credit is non-refundable and is equal to 10% of the eligible expenditures.

You can carry back an unused credit to the three preceding taxation years (ending after April 19, 2004) from the taxation year in which you earned the credit. You can also carry forward the unclaimed credit to the ten taxation years that follow the taxation year in which you earned the credit. Unused credits may be carried forward on amalgamation or wind-up.

The corporation may be the beneficiary of a trust or a member of a partnership at the end of the trust's or partnership's taxation year. If so, it may include its proportionate allocation or share of the trust/partnership's eligible expenditures in computing its odour-control tax credit.

To claim the credit, file a completed Schedule 385, *Manitoba Odour- Control Tax Credit*, with the return.

For corporations with taxation years ending on or after June 16, 2005, you can claim this credit no later than 12 months after your income tax return is due for the taxation year in which the expenditures were incurred. For more details, see the schedule.

You cannot claim this credit on eligible expenditures used in calculating any other credit

On line 607 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba film and video production tax credit

The Minister of Industry, Economic Development and Mines of Manitoba will issue a tax credit certificate to a corporation that produces an eligible film, video, or equivalent new media production in the province.

The credit is equal to 35% of eligible salaries paid for work performed on an eligible film before March 1, 2008. There is a frequent filming incentive of 5% on the third eligible film, for corporations that produce three eligible films in two years. There is a 5% incentive on eligible salaries paid for work performed in Manitoba on productions where at least 50% of filming days take place 40 kilometres outside of Winnipeg. Principal photography on an eligible film must commence after April 19, 2004, to qualify for the rural and northern incentive. For applications received on or before April 19, 2004, corporations are not eligible for this credit if they hold or are associated with a corporation that holds a CRTC broadcast licence.

For productions that begin principal photography after March 8, 2005, the credit is increased to 45% and the pre-production period is extended.

Retroactive to April 20, 2004, serial productions and producers are recognized for the frequent filming incentive and the boundary for the rural and northern incentive is reduced to 35 kilometres outside of Winnipeg.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with the return. However, keep it in case we ask for it later. Schedule 382, *Additional Certificate Numbers for the Manitoba Film and Video Production Tax Credit*, should be completed if more than one certificate is issued.

On lines 856 and 620 of Schedule 5, enter the certificate number, if there is only one certificate, and the amount of the credit earned in the current year.

Saskatchewan

The **lower rates** of Saskatchewan income tax are:

- 6% before January 1, 2004;
- 5.5% in 2004; and
- 5% after December 31, 2004.

Income eligible for this lower rate is based on income eligible for the federal small business deduction. The Saskatchewan business limit is $300,000.

If the taxation year includes a date with a rate change, you have to prorate the tax calculation using the number of days before and after this date.

The **higher rate** is 17%. This rate applies to all income **not** eligible for the lower rate.

You can use Schedule 411, *Saskatchewan Corporation Tax Calculation*, to help you calculate your Saskatchewan tax before the application of credits. You do not have to file it with the return. See the schedule for more details.

On line 235 of Schedule 5, enter the amount of tax calculated.

Saskatchewan political contribution tax credit

You can claim contributions made to qualifying political parties or election candidates as follows:

- 75% of the first $400 contributed;

plus

- 50% of the next $350 contributed;

plus

- 33 1/3% of the next $525 contributed, to a maximum of **$650.**

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 890 of Schedule 5, enter the total amount of qualifying contributions, and on line 624, enter the amount of the credit you are claiming.

Saskatchewan manufacturing and processing profits tax reduction

You can claim this reduction if at any time in the taxation year:

- you had a permanent establishment in Saskatchewan;
- you had taxable income earned in Saskatchewan; and
- you had Canadian manufacturing and processing profits.

The profits from producing or processing electrical energy or steam for sale may be included with Canadian manufacturing and processing profits for this tax reduction.

You must claim this reduction within three years of the filing due date of the return for the applicable taxation year.

You can reduce the Saskatchewan income tax rate by as much as 7% on Canadian manufacturing and processing profits, as reported on the return.

You can calculate the reduction on Schedule 404, *Saskatchewan Manufacturing and Processing Profits Tax Reduction*. Schedule 404 is a worksheet to calculate the reduction and does not have to be filed with the return. For more details, see the schedule.

On line 626 of Schedule 5, enter the amount of reduction you are claiming.

Saskatchewan manufacturing and processing tax credit

You can carry forward any unclaimed credits earned on qualified property you acquired before January 1, 1994, to the 10 years following the taxation year in which you acquired the property. The credit can be applied only to reduce the provincial tax otherwise payable.

To claim the credit, file a completed Schedule 401, *Saskatchewan Manufacturing and Processing Tax Credit*, with the return. For more details, see the schedule.

On line 629 of Schedule 5, enter the amount of the credit you are claiming.

Saskatchewan manufacturing and processing investment tax credit

You can earn this credit to reduce Saskatchewan tax payable.

You have to use the qualified property in Saskatchewan primarily for manufacturing or processing goods for lease or sale.

You are eligible for a credit of 7% on qualified property acquired after March 31, 2004, and 6% on qualified property acquired prior to April 1, 2004.

You can carry back an unused credit to the three preceding taxation years from the taxation year in which you acquired the property. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you acquired the property.

To claim the credit, file a completed Schedule 402, *Saskatchewan Manufacturing and Processing Investment Tax Credit*, with the return. For more details, see the schedule.

On line 630 of Schedule 5, enter the amount of the credit you are claiming.

Saskatchewan research and development tax credit

You can claim this credit if you have a permanent establishment in Saskatchewan, and you made eligible expenditures for scientific research and experimental development carried out in Saskatchewan.

The credit is 15% of eligible expenditures. The credit may be applied to reduce Saskatchewan tax that you would otherwise have to pay.

You can carry back an unused credit to the three preceding taxation years from the taxation year that you made the expenditures. You can also carry forward the unclaimed credit to the 10 taxation years that follow the taxation year in which you made the expenditure.

To claim the credit, file a completed Schedule 403, *Saskatchewan Research and Development Tax Credit*. See the schedule for more details.

On line 631 of Schedule 5, enter the amount of credit you are claiming.

Saskatchewan royalty tax rebate

This rebate is available to corporations that, in the taxation year, had both taxable income earned in Saskatchewan and attributed Canadian royalties and taxes, as defined in paragraph 2(1)(a) of the *Saskatchewan Royalty Tax Rebate Regulations*.

To claim the rebate, file a completed Schedule 400, *Saskatchewan Royalty Tax Rebate Calculation (Corporations)*, with the return. For more details, see the schedule.

On line 632 of Schedule 5, enter the royalty tax rebate you are claiming.

Saskatchewan qualifying environmental trust tax credit

A corporation that is a beneficiary of a qualifying environmental trust located in Saskatchewan can claim a tax credit equal to 17% of income that is subject to tax under Part XII.4 of the federal *Income Tax Act*.

The qualifying environmental trust will issue a letter to the corporation that is a beneficiary.

The credit will reduce provincial tax otherwise payable for the taxation year that ends within the trust's taxation year.

This credit is fully refundable, but must first be applied against taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the letter with the return. However, keep it in case we ask for it later.

On line 641 of Schedule 5, enter the amount of the credit earned.

Saskatchewan film employment tax credit

The Minister of Finance of Saskatchewan will issue a certificate to a corporation that produces an eligible film in the province.

The amount of the credit is equal to 35% of eligible salaries. Eligible salaries are limited to 50% of the total production cost of the eligible film.

An eligible corporation, located outside Saskatoon or Regina, can apply for an additional credit equal to 5% of the total production cost for the eligible film.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with the return. However, keep it in case we ask for it later. Schedule 410, *Additional Certificate Numbers for the Saskatchewan Film Employment Tax Credit*, should be completed if more than one certificate is issued.

On lines 860 and 643 of Schedule 5, enter the certificate number, if there is only one certificate, and the amount of the credit earned in the current year.

British Columbia

The **lower rate** of British Columbia income tax is 4.5%, effective January 1, 2001.

Income eligible for this lower rate is based on income eligible for the federal small business deduction. The British Columbia business limit is $300,000, effective April 1, 2002, to December 31, 2004.

Effective January 1, 2005, the business limit to which the lower rate of corporate tax may be applied is increased from $300,000 to $400,000. The business limit will be prorated for taxation years that straddle this date.

The **higher rate** of British Columbia income tax is 13.5%, from January 1, 2002 to June 30, 2005. This rate applies to all income **not** eligible for the lower rate.

Effective July 1, 2005, the **higher rate** of British Columbia income tax is 12%. If July 1, 2005, falls within the taxation year, you have to prorate the higher tax rate based on the number of days in the taxation year before and after this date.

You can use Schedule 427, *British Columbia Corporation Tax Calculation*, to help you calculate your British Columbia tax before the application of credits. You do not have to file it with the return. See the schedule for more details.

On line 240 of Schedule 5, enter the amount of tax calculated.

British Columbia two-year tax holiday for new small businesses

The province of British Columbia will issue a certificate of eligibility (FIN 551) to new corporations incorporated after April 30, 1996, and before April 1, 2001, that carry on business in British Columbia during this period. The taxation year for which the deduction is claimed must be the first or second year of operation of the corporation.

You must apply for the certificate within three years after the end of the applicable taxation year-end, and you must get a separate certificate for each taxation year. The province may rescind or refuse to issue the certificate of eligibility.

You must be carrying on an active business and be allowed a small business deduction under the federal *Income Tax Act*.

> **Note**
> Effective for taxation years ending on or after April 1, 2002, credit unions will no longer be eligible for this tax reduction

At least 25% of wages and salaries paid must be paid to employees resident in British Columbia. The tax reduction will be equal to the provincial tax payable at the lower rate before calculating interest and penalties.

A corporation is not eligible for this reduction if:

- it is the result of an amalgamation;
- it is associated with another corporation;
- it was the beneficiary of a trust; or
- a newly incorporated corporation is carrying on mainly the same business as a proprietorship or partnership that operated for more than 90 days before incorporation. (If the period of business before incorporation is 90 days or less, and that period began after April 30, 1996, the corporation would be eligible.)

Schedule 424, *British Columbia Two-Year Tax Holiday for New Small Businesses*, is a worksheet to calculate this deduction and does not have to be filed with the return. For more details, see the schedule.

You do not have to file the certificate of eligibility with the return. However, keep it in case we ask for it later.

On lines 879 and 655 of Schedule 5, enter the certificate number and the amount you are claiming.

British Columbia logging tax credit

Corporations that have paid a **logging tax** to British Columbia on income they earned from logging operations for the year can claim a British Columbia logging tax credit. The credit is equal to one-third of the logging tax paid indicated on Form FIN 542, *Logging Tax Return of Income*.

On line 651 of Schedule 5, enter the amount of the credit you are claiming.

British Columbia royalty and deemed income rebate

A corporation that is subject to British Columbia income tax and that has income affected by paragraph 12(1)(o), 12(1)(z.5), 18(1)(m), or 20(1)(v.1), subsection 69(6) or 69(7) of the federal *Income Tax Act*, can be eligible for this rebate.

This rebate allows a deduction for Crown royalties and deemed income, and replaces the federal resource allowance. Use the adjusted taxable income to recalculate any provincial taxes payable. The difference between the British Columbia tax that you would otherwise have to pay, and the recalculated British Columbia tax payable, may result in an amount receivable or payable.

To claim the rebate, file a completed Schedule 420, *British Columbia Royalty and Deemed Income Rebate Calculation and Application (Corporations)*, with the return. For more details, see the schedule.

On line 652 of Schedule 5, enter the rebate or addition you calculated on Schedule 420.

British Columbia political contribution tax credit

You can claim contributions made to recognized British Columbia political parties, recognized British Columbia constituency associations, or to candidates for an election to the Legislative Assembly of British Columbia, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500**.

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can accept photocopies only if the issuer certifies them as true copies.

On line 896 of Schedule 5, enter the total amount of qualifying contributions, and on line 653, enter the amount of the credit you are claiming.

British Columbia small business venture capital tax credit

Corporations investing in shares of a registered venture capital corporation or eligible business corporation can claim a British Columbia venture capital tax credit. The British Columbia government issues a certificate called Form SBVC 10 to these corporations.

Apply this credit first to reduce the British Columbia provincial tax payable for the year to zero. If unclaimed credits remain, you can carry them forward for four taxation years to reduce the British Columbia tax payable.

You do not have to file the certificate with the return. However, keep it in case we ask for it later.

On Schedule 5, line 880, enter the unclaimed tax credit, if any, at the end of the preceding taxation year. On line 881, enter the tax credit amount available in the current year as reported on Form SBVC 10. On line 882, enter the nine-digit certificate number from Form SBVC 10. On line 656, enter the tax credit amount you are claiming.

British Columbia manufacturing and processing tax credit

A corporation could have earned this credit by purchasing qualifying property before July 31, 2001, to reduce British Columbia tax payable.

You can carry forward unused credits to the 10 following taxation years.

To claim the credit, file a completed Schedule 426, *British Columbia Manufacturing and Processing Tax Credit*, with the return. For more details, see the schedule.

On line 660 of Schedule 5, enter the amount of the credit you are claiming.

British Columbia scientific research and experimental development tax credit

A qualifying corporation that carries on scientific research and experimental development (SR&ED) in British Columbia can claim this credit.

You can claim the credit on expenditures incurred in the taxation year for SR&ED carried on in the province. The expenditures have to be made before September 1, 2009, and when the corporation has a permanent establishment in the province.

British Columbia SR&ED refundable tax credit

A qualifying corporation that is a CCPC may claim this refundable tax credit.

The amount of the credit is equal to 10% of whichever of the following amounts is less:

- the SR&ED qualified BC expenditure for the taxation year; or
- the expenditure limit for the taxation year.

The refundable credit cannot be claimed in the same taxation year that the British Columbia two-year tax holiday is claimed.

To claim the credit, file a completed Form T666, *British Columbia Scientific Research and Experimental Development Tax Credit*, with the return. You must file this form no later than 18 months after the end of the tax year in which the qualified expenditures are incurred. For more details, see Form T666.

On line 674 of Schedule 5, enter the amount of the refundable credit you are claiming.

British Columbia SR&ED non-refundable tax credit

Other qualifying corporations, and CCPCs with SR&ED qualified expenditures that are more than their expenditure limit, may claim a non-refundable tax credit.

The annual non-refundable tax credit for a taxation year is 10% of the SR&ED qualified BC expenditure for that year less the total of:

- the amount of refundable credit for that year; and
- any amount renounced for that year.

The credit may be deducted against the income tax payable for that year. You must claim the maximum tax credit available in the year it is earned. You can carry back an unused credit to the three preceding taxation years from the year the expenditures were incurred. You can also carry forward the unclaimed credit to the ten taxation years that follow the taxation year in which the expenditures were incurred.

To claim the credit, file a completed Form T666 with the return. You must file this form no later than 18 months after the end of the tax year in which the qualified expenditures are incurred. For more details, see Form T666.

On line 659 of Schedule 5, enter the amount of the non-refundable credit you are claiming.

Recapture of British Columbia SR&ED tax credit

A corporation that disposed of a property used in SR&ED or converted it to commercial use, may be required to report a recapture of any British Columbia SR&ED tax credit previously calculated on that property. Any recapture will create or increase British Columbia tax otherwise payable.

To calculate the recapture, complete Form T666, *British Columbia Scientific Research and Experimental Development Tax Credit*. For more details, see Form T666.

On line 241 of Schedule 5, enter the amount of recapture calculated.

British Columbia qualifying environmental trust tax credit

A corporation that is a beneficiary of a qualifying environmental trust located in British Columbia is eligible for a tax credit equal to the Part XII.4 tax the trust paid on that income.

The credit will reduce the provincial tax otherwise payable for the taxation year that includes the trust's taxation year.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 670 of Schedule 5, enter the amount of the credit earned.

British Columbia film and television tax credit

The Ministry of Tourism, Sports and the Arts of British Columbia is the certifying authority for the British Columbia Film and Television tax credit program. British Columbia Film receives and reviews all tax credit certificate applications and recommends to the certifying authority if a production company and production are eligible for the applied tax credits.

To claim these credits, an eligible production corporation must be a British Columbia controlled corporation and its activities must primarily be carrying on a film or video production business through a permanent establishment in British Columbia.

The film and television tax credit cannot be claimed if the production services tax credit is claimed for that production.

These credits are fully refundable but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

An eligible production corporation can claim these different credits:

- The **basic tax credit** is equal to one of the following amounts:
  - for a production that is an inter-provincial co-production, 20% of the qualified BC labour expenditure for that taxation year for the production multiplied by the percentage of the copyright in the production that is beneficially owned by the corporation; or
  - in any other case, 20% of the qualified BC labour expenditure for the taxation year for the production.

To be eligible, the production must start principal photography after March 31, 1998, and before April 1, 2008.

- The **additional basic tax credit** is equal to one of the following amounts:
  - for a production that is an inter-provincial co-production, 10% of the qualified BC labour expenditure for that taxation year for the production multiplied by the percentage of the copyright in the production that is beneficially owned by the corporation; or
  - in any other case, 10% of the qualified BC labour expenditure for the taxation year for the production.

Only BC labour expenditures incurred after December 31, 2004 are eligible for this credit.

The **additional basic tax credit** can only be claimed if the production starts principal photography after December 31, 2004, and before April 1, 2006, and the corporation is eligible for the basic tax credit.

Transition rules apply to a film or video production intended for television broadcast as a series, where principal photography begins before January 1, 2005 or continues after April 1, 2006. Corporations should consult British Columbia Bulletin CIT 009-SRI for further guidance on the transition rules.

- The **regional tax credit** where principal photography begins after March 31, 1998, and before April 1, 2003, and where at least 85% of the total principal photography days in British Columbia are outside of the designated Vancouver area, is equal to one of the following amounts:
  - 12.5% of the qualified BC labour expenditure; or
  - for a production that is intended for television broadcast as a series and that comprises a cycle of at least three episodes, the credit is 12.5% of the qualified BC labour expenditure for the qualified episodes done in British Columbia, outside of the designated Vancouver area.

  For productions that started principal photography after March 31, 1998, and before April 1, 2003, the regional tax credit can be claimed with the basic tax credit or on its own.

- The **regional tax credit** where principal photography begins after March 31, 2003, and before April 1, 2008, is equal to one of the following amounts:
  - 12.5% of the qualified BC labour expenditure for the production for the taxation year, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are outside of the designated Vancouver area; or
  - for a production that is intended for television broadcast as a series and that comprises a cycle of at least three episodes, where principal photography of at least three episodes is done outside of the designated Vancouver area, the credit is 12.5% of the qualified BC labour expenditure for the qualified episodes done in British Columbia, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are outside of the designated Vancouver area.

The credit is prorated for the number of days of principal photography done in British Columbia outside the designated Vancouver area over the total number of days of principal photography performed in British Columbia.

For productions that start principal photography after March 31, 2003, and before April 1, 2008, the regional tax credit can only be claimed if the corporation is claiming the basic tax credit.

- The **training tax credit** is equal to whichever is less:
  - 3% of the qualified BC labour expenditure for the production for the taxation year; or
  - 30% of the payments (net of assistance) made to the trainees in the taxation year while they are participating in the approved training program on the production.

For productions that started principal photography after March 31, 1998, and before April 1, 2003, the training tax credit can only be claimed if either the basic tax credit or the regional tax credit is claimed. For productions that start principal photography after March 31, 2003, and before April 1, 2008, the training tax credit can only be claimed if the corporation is claiming the basic tax credit.

- The **digital animation or visual effects tax credit** for productions where principal photography begins after March 31, 2003, and before April 1, 2008, is equal to 15% of BC labour expenditure directly attributable to prescribed digital animation or visual effects activities.

The digital animation or visual effects tax credit can only be claimed if the corporation is claiming the basic tax credit.

To claim these credits, attach the following **on top** of the return for the year:

- the eligibility certificate(s);
- if it applies, the completion certificate, and a copy of the audited statement of production costs and notes provided to British Columbia Film; and
- a completed copy of Form T1196, *British Columbia Film and Television Tax Credit*, for each film or video production.

On line 671 of Schedule 5, enter the amount you are claiming.

British Columbia production services tax credit

The Ministry of Tourism, Sports and the Arts of British Columbia is the certifying authority of the British Columbia Production Services Tax Credit program. British Columbia Film receives and reviews all tax credit certificate applications and recommends to the certifying authority if a production company and production are eligible for the applied tax credits.

To claim these credits, the corporation must have a permanent establishment in British Columbia during the taxation year and throughout the taxation year, must have primarily carried on a film or video production business or a film or video production services business.

The production services tax credit cannot be claimed if the film and television tax credit is claimed for that production.

These credits are fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

An accredited production corporation can claim these different credits:

- The **production services tax credit** is equal to 11% of the corporation's accredited qualified BC labour expenditure for the taxation year. To be eligible, the production must start principal photography after May 31, 1998, and before June 1, 2008.
- The **additional production services tax credit** is equal to 7% of the corporation's accredited qualified BC labour expenditure for the taxation year. To be eligible, the production must start principal photography after December 31, 2004, and before April 1, 2006. Only BC labour expenditure incurred after December 31, 2004, are eligible for this credit.

The **additional production services tax credit** can only be claimed if the corporation is claiming the production services tax credit.

- The **regional production services tax credit** where principal photography begins after March 31, 2003, and before June 1, 2008, is equal to 6% of the accredited qualified BC labour expenditure for the production for the taxation year, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are done outside of the designated Vancouver area.

  The credit is prorated for the number of days of principal photography done in British Columbia outside the designated Vancouver area over the total number of days of principal photography performed in British Columbia.

  The regional tax credit can only be claimed if the corporation is claiming the production services tax credit.

The **digital animation or visual effects production services tax credit** where principal photography begins after March 31, 2003, and before June 1, 2008, is equal to 15% of accredited qualified BC labour expenditure directly attributable to prescribed digital animation or visual effects activities. The digital animation or visual effects production services tax credit can only be claimed if the corporation is claiming the production services tax credit.

To claim these credits, attach the following **on top** of the return for the year:

- the accreditation certificate; and
- a completed Form T1197, *BC Production Services Tax Credit*, for each film or video production.

On line 672 of Schedule 5, enter the amount of credit you are claiming.

British Columbia mining exploration tax credit

A corporation that has incurred qualified mining exploration expenses in British Columbia may qualify for the British Columbia mining exploration tax credit. The corporation must have maintained a permanent establishment in the province at any time in the taxation year.

The expenditures have to be incurred after July 31, 1998, and before January 1, 2017, for determining the existence, location, extent, or quality of a mineral resource in British Columbia.

Any flow-through mining expenditure renounced under subsection 66(12.6) of the federal *Income Tax Act* does not qualify for the credit.

Effective for expenses incurred after March 31, 2003, this credit has been extended to partnerships. Taxpayers who are active members of a partnership, other than specified members (such as limited partners), can each claim their proportionate share of the partnership's tax credit. To claim your proportionate share of the partnership's tax credit, file a completed Schedule T1249, *British Columbia Mining Exploration Tax Credit Partnership Schedule*, with the return. For more details, see the schedule.

The credit is equal to 20% of the amount by which:

- total qualified mining exploration expenses incurred in the taxation year;

are more than

- total assistance for amounts included in the total qualified mining exploration expenses for the taxation year.

The credit cannot be claimed for the same year that the British Columbia two-year tax holiday for new small businesses is claimed.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file a completed Schedule 421, *British Columbia Mining Exploration Tax Credit*, with the return. For more details, see the schedule. Members of a partnership must also file a completed Schedule T1249.

On line 673 of Schedule 5, enter the amount of credit you are claiming.

British Columbia book publishing tax credit

You can claim this credit if you are a recipient of a Book Publishing Industry Development Program (BPIDP) contribution after March 31, 2002, and before April 1, 2007.

The recipient must be a Canadian-controlled corporation carrying on business primarily through a permanent establishment in British Columbia with book publishing as its principal business.

You are eligible for a credit of 90% of the BPIDP contributions received in the taxation year. The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 886 and line 665 of Schedule 5, enter the amount of the BPIDP contribution received in the taxation year and the amount of the credit you are claiming. You must claim this credit no later than 18 months after the end of the tax year.

Yukon

The **lower rate** of Yukon income tax is 6% prior to January 1, 2005, and 4% from that date. This lower rate applies to taxable income earned in the Yukon that qualifies for the federal small business deduction. However, effective January 1, 2007, the Yukon business limit will be $400,000 rather than the federal business limit. You will have to prorate these amounts using the number of days in each period.

The **higher rate** of tax is 15%. This higher rate applies to taxable income earned in the Yukon that does **not** qualify for the small business deduction.

On line 245 of Schedule 5, enter the amount of tax calculated.

Yukon political contribution tax credit

You can claim contributions made to a registered political party or to a candidate for an election to the Yukon Legislative Assembly, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500**.

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 897 of Schedule 5, enter the total amount of qualifying contributions, and on line 675 enter the amount of the credit you are claiming.

Yukon manufacturing and processing profits tax credit

Corporations that have earned taxable income and manufacturing and processing profits in the Yukon are eligible for this credit.

Schedule 440, *Yukon Manufacturing and Processing Profits Tax Credit*, is a worksheet to calculate the credit, and it does not have to be filed with the return. For more details, see the schedule.

On line 677 of Schedule 5, enter the amount of the credit you are claiming.

Yukon mineral exploration tax credit

A Canadian corporation that has incurred eligible mineral exploration expenses in the Yukon may qualify for the Yukon mineral exploration tax credit. The corporation must have maintained a permanent establishment in the Yukon at any time in the year.

The expenses have to be incurred before April 1, 2007, for determining the existence, location, extent, or quality of a mineral resource in the Yukon.

The credit is equal to 25% of the amount, if any, by which:

- the total eligible mineral exploration expenses incurred in the taxation year;

is more than

- the total amount of assistance received or receivable for the taxation year.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file Schedule 441, *Yukon Mineral Exploration Tax Credit*, with the return. For more details, see the schedule.

On line 697 of Schedule 5, enter the amount of the credit earned.

Yukon research and development tax credit

You can claim this credit if you have a permanent establishment in the Yukon at any time in the year and you incurred qualified expenditures in the year for scientific research and experimental development carried on in the Yukon.

The credit is equal to the total of the following amounts:

- 15% of eligible expenditures incurred in the year; and
- 5% of eligible expenditures included above paid or payable to the Yukon College.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file Schedule 442, *Yukon Research and Development Tax Credit*, with the return. For more details, see the schedule.

On line 698 of Schedule 5, enter the amount of the credit calculated on Schedule 442.

Northwest Territories

The **lower rate** of Northwest Territories income tax is 4%. This lower rate applies to taxable income earned in the Northwest Territories that qualifies for the federal small business deduction.

The **higher rate** of the Northwest Territories income tax is 14% effective January 1, 2004, and 12% before that date. This rate applies to taxable income earned in the Northwest Territories that does **not** qualify for the small business deduction.

On line 250 of Schedule 5, enter the amount of tax calculated.

Northwest Territories political contribution tax credit

You can claim contributions made to a candidate for an election to the Northwest Territories Legislative Assembly. The allowable political contribution tax credit is equal to:

- 100% of the first $100 contributed;

plus

- 50% of the next $800 contributed, to a maximum credit of **$500**.

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can accept photocopies only if the issuer certifies them as true copies.

> **Note**
> Contributions to a political party do **not** qualify for this credit.

On line 898 of Schedule 5, enter the total amount of qualifying contributions, and on line 700, enter the amount of the credit you are claiming.

Northwest Territories investment tax credit

The Minister of Finance of the Northwest Territories will issue a certificate to eligible corporations that have made investment in businesses that carry on business in the Northwest Territories. The funds received by the eligible business must be used for start-up operations or to expand or acquire an existing business.

You can deduct an amount issued under the *Risk Capital Investment Tax Credits Act*, up to an annual maximum of $30,000, less any tax credits that may be deducted under the federal *Income Tax Act*.

This credit expired December 31, 2003, and is continued again for investments made from January 1, 2005, to December 31, 2007. No credit is available for investments made during the 2004 calendar year.

You can carry back an unused credit to the three preceding taxation years from the taxation year in which you made investments. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made investments.

You do not have to file the certificate with the return. However, keep it in case we ask for it later.

To claim the credit, file a completed Schedule 460, *Northwest Territories Investment Tax Credit*, with the return. For more details, see the schedule.

Corporations that have a permanent residence in Nunavut but made investments eligible for the investment tax credit before April 1, 1999, can also claim this credit. For more details, see the section below for Nunavut.

On line 705 of Schedule 5, enter the amount of credit you are claiming.

Nunavut

The **lower rate** of Nunavut income tax is 4%. This lower rate applies to taxable income earned in Nunavut that qualifies for the federal small business deduction.

The **higher rate** of Nunavut income tax is 12%. This rate applies to taxable income earned in Nunavut that does **not** qualify for the small business deduction.

On line 260 of Schedule 5, enter the amount of tax calculated.

Nunavut political contribution tax credit

You can claim contributions made to a candidate for an election to the Nunavut Legislative Assembly. The allowable political contribution tax credit is equal to:

- 100% of the first $100 contributed;

plus

- 50% of the next $800 contributed, to a maximum credit of **$500**.

You do not have to file official receipts with the return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

> **Note**
> Contributions to a political party do **not** qualify for this credit.

On line 899 of Schedule 5, enter the total amount of qualifying contributions, and on line 725, enter the amount of the credit you are claiming.

Nunavut investment tax credit

The Minister of Finance of Nunavut will issue a certificate to eligible corporations that have invested in businesses that carry on business in Nunavut. The funds received by the eligible business must be used for start-up operations or to expand or acquire an existing business.

You can deduct an amount issued under the *Risk Capital Investment Tax Credits Act*, up to an annual maximum of $30,000, less any tax credits that may be deducted under the federal *Income Tax Act*.

You can carry back an unused credit to the three preceding taxation years from the taxation year in which you made investments. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made investments.

You do not have to file the certificate with the return. However, keep it in case we ask for it later.

To claim the credit, file a completed Schedule 480, *Nunavut Investment Tax Credit*, with the return. For more details, see the schedule.

On line 735 of Schedule 5, enter the amount of credit you are claiming.

Northwest Territories investment tax credit on investments made before April 1, 1999
Corporations that made investments eligible for the investment tax credit before April 1, 1999, can claim the Northwest Territories investment tax credit. To claim this credit, file a completed Schedule 460, *Northwest Territories Investment Tax Credit*, with the return. For more details, see the section above for the Northwest Territories and the schedule.

On line 734 of Schedule 5, enter the amount of the credit you are claiming.

Line 760 – Net provincial and territorial tax payable

On line 760, enter the net amount of provincial or territorial tax (positive amount) calculated on line 255 of Schedule 5. If the amount on line 255 is negative, enter it on line 812 of the return.

Line 765 – Provincial tax on large corporations

A provincial tax is levied on taxable capital of certain large corporations that have a permanent establishment in Nova Scotia or New Brunswick.

In Nova Scotia, this tax applies for taxation years beginning before April 1, 2006. The tax is prorated based on the number of days in the year when the taxation year straddles this date.

This tax does not apply to corporations mentioned in subsection 181.1(3) of the federal *Income Tax Act*. Also, it does not apply to financial institutions in New Brunswick and to banks, credit unions, or trusts and loan companies in Nova Scotia.

Instalment payment requirements are the same as for Part I tax. For details, see "Instalment due dates" on page 10.

The provincial capital tax cannot be reduced by any tax credits.

> **Note**
> A penalty applies to large corporations that have to pay this tax and do not file the required return on time. For more details, see "Penalties" on page 10.

Nova Scotia tax on large corporations

A capital deduction of $5 million is available to a corporation that is not a member of a related group and has taxable capital of less than $10 million. If the corporation is a member of a related group, a capital deduction of $5 million to be allocated among members of the related group is available as long as the combined taxable capital of all members of the related group is less than $10 million.

Use Schedule 343, *Nova Scotia Tax on Large Corporations – Agreement Among Related Corporations*, to allocate the capital deduction. File this agreement with the return.

The provincial capital tax on Nova Scotia large corporations is 0.5% of taxable capital of a corporation if the Nova Scotia taxable capital of all related corporations is less than $10 million. This rate is increased to 0.6% effective April 1, 2004.

Starting July 1, 2005, and over a four-year period, this rate will be reduced from 0.6% to 0.4% as follows:

- 0.55% effective July 1, 2005;
- 0.50% effective July 1, 2006;
- 0.45% effective July 1, 2007; and
- 0.40% effective July 1, 2008.

If the taxable capital of all related corporations is $10 million or more, then all corporations in the group will be subject to a 0.25% rate. This rate is increased to 0.3% effective April 1, 2004.

Starting July 1, 2005, and over a four-year period, this rate will be reduced from 0.3% to 0.2% as follows:

- 0.275% effective July 1, 2005;
- 0.250% effective July 1, 2006;
- 0.225% effective July 1, 2007; and
- 0.200% effective July 1, 2008.

Corporations that are liable to pay the Nova Scotia tax on large corporations have to file Schedule 342, *Nova Scotia Tax on Large Corporations*, with Schedule 33, 34, or 35.

On line 765, enter the provincial tax on large corporations payable. You can deduct the provincial tax on large corporations payable when calculating federal income for tax purposes.

> **Note**
> Schedule 343 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 343 is not already on file with us when we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will ask for one.

New Brunswick tax on large corporations

A capital deduction on taxable capital of $5 million is available to corporations. If the corporation is a member of a related group, the capital deduction has to be allocated between the members.

Use Schedule 362, *New Brunswick Tax on Large Corporations – Agreement Among Related Corporations*, to allocate the capital deduction. File this agreement with the return.

New Brunswick tax on large corporations is equal to 0.3% of taxable capital allocated to the province of New Brunswick.

Corporations that are liable to pay the New Brunswick capital tax on large corporations have to file Schedule 361, *New Brunswick Tax on Large Corporations*, and attach it to Schedule 33, *Part I.3 Tax on Large Corporations*.

On line 765, enter the provincial tax on large corporations payable. You can deduct the provincial tax on large corporations payable when calculating federal income for tax purposes.

> **Note**
> Schedule 362 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 362 is not already on file with us when we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will ask for one.

Other credits

Line 780 – Investment tax credit refund

On line 780, enter the amount of the investment tax credit refund. See page 59 for details.

Line 784 – Dividend refund

On line 784, enter the amount of the dividend refund, which you calculated in the "Dividend refund" area on page 6 of your return. See page 54 for details.

Line 788 – Federal capital gains refund

Investment corporations (see section 130) and **mutual fund corporations** (see section 131) have to file Schedule 18, *Federal and Provincial or Territorial Capital Gains Refund*, with their returns. Schedule 18 has to contain the following information:

- details about the refundable capital gains tax on hand;
- details of the capital gains redemption for the year; and
- a calculation of the federal capital gains refund for the year.

Use 28% as the percentage to determine the refundable capital gains tax on hand.

The federal capital gains refund for the year is whichever is less:

- 14% of the total of:
  - the capital gains dividends paid in the period starting 60 days after the commencement of the year and ending 60 days after the end of the year; and
  - the capital gains redemption for the year; or
- the refundable capital gains tax on hand at the end of the year.

Complete the appropriate lines on Schedule 18, and enter on line 788 of the return the federal capital gains refund. See the next page for details on the provincial or territorial capital gains refund.

> **Note**
> If a corporation is established and maintained mainly to benefit non-residents, it does not qualify as a mutual fund corporation, and it cannot claim the capital gains refund.

References
Sections 130 and 131

Line 792 – Federal qualifying environmental trust tax credit refund

On line 792, enter the amount of federal qualifying environmental trust tax credit refund that was not used in the Part I tax calculation. See page 58 for more information.

Line 796 – Canadian film or video production tax credit refund

A fully refundable tax credit is available to qualified corporations that produce an eligible production certified by the Minister of Canadian Heritage to be a Canadian film or video production.

For expenditures incurred before November 14, 2003, the credit is equal to 25% of qualified labour expenditures for the year for the production. The qualified labour expenditure cannot be more than 48% of the total cost of a production. The tax credit is therefore limited to 12% of the total cost of a production, less any assistance.

For expenditures incurred after November 13, 2003, the credit is equal to 25% of qualified labour expenditures for the year for the production. The qualified labour expenditure cannot be more than 60% of the total cost of a production. The tax credit is therefore limited to 15% of the total cost of a production, less any assistance. Under the new rules, labour expenditures in respect of non-residents of Canada (other than Canadian citizens) will not be eligible for the credit.

For more information, see our Web site at **www.cra.gc.ca/ftc**.

To claim the credit, attach the following items to the top of the return for the year:

- the Canadian Film or Video Production Certificate (Part A) issued by the Canadian Audio-Visual Certification Office (CAVCO), or a copy;
- if it applies, a Certificate of Completion (Part B) issued by CAVCO, or a copy, and a copy of the audited statement of production costs and notes provided to CAVCO; and
- a completed Form T1131, *Claiming a Canadian Film or Video Production Tax Credit*, for each film or video production.

On line 796, enter the amount of the credit from line 520 or line 620 of Form T1131. If you are filing more than one of these forms, enter the cumulative total.

> **Note**
> We may refund all or part of a claim for a Canadian film or video production tax credit for a taxation year to a qualified corporation, before we issue the *Notice of Assessment* for that year, provided certain conditions are met.

References
Section 125.4
Regulation 1106
RC4164, *Claiming a Canadian Film or Video Production Tax Credit – Guide to Form T1131*

Line 797 – Film or video production services tax credit refund

A fully refundable tax credit is available to eligible production corporations for a film or video production certified by the Minister of Canadian Heritage to be an accredited production.

Eligible production corporations do not include those that, at any time in the year, are tax-exempt, are controlled by one or more tax-exempt entities, or are prescribed labour-sponsored venture capital corporations.

The credit is equal to 16% of qualified Canadian labour expenditures for the year. For expenditures incurred before February 19, 2003, the 11% rate is used.

> **Note**
> Qualified Canadian labour expenditure is net of any assistance.

For more information, see our Web site at **www.cra.gc.ca/ftc**.

To claim the credit, attach the following items to the top of the return for the year:

- an Accredited Film or Video Production Certificate, or a copy; and
- a completed Form T1177, *Claiming a Film or Video Production Services Tax Credit*, for each accredited production.

On line 797, enter the amount of the credit from line 520 and 620 of Form T1177. If you are filing more than one of these forms, enter the cumulative total.

If a credit is claimed for the Canadian film or video production tax credit, then a credit cannot be claimed for the film and video production services tax credit.

> **Note**
> We may refund all or part of a claim for a film or video production services tax credit for a taxation year to an eligible production corporation, before we issue the *Notice of Assessment* for that year, provided certain conditions are met.

References
Section 125.5
Regulation 9300

Lines 800 and 801 – Tax withheld at source

This is the amount shown as "income tax deducted" on any NR4, T4A, or T4A-NR information slips you may have received. You do not have to file these information slips with the return, unless you are a non-resident corporation. However, keep them in case we ask for them later.

On lines 800 and 801, enter the amount of the refund you are claiming and the total payments on which tax has been withheld.

References
IC 77-16, *Non-Resident Income Tax*
IC 75-6, *Required Withholding From Amounts Paid to Non-Resident Persons Performing Services in Canada*

Line 808 – Provincial and territorial capital gains refund

Investment corporations (see section 130) and **mutual fund corporations** (see section 131) have to file Schedule 18, *Federal and Provincial or Territorial Capital Gains Refund*, with the return, complete with information mentioned on page 85.

These corporations have to calculate the provincial and territorial capital gains refund according to provincial and territorial income tax acts.

Complete page 2 of Schedule 18, and enter the provincial and territorial capital gains refund on line 808.

Reference
Sections 130 and 131

Line 812 – Provincial and territorial refundable tax credits

On line 812, enter the amount of provincial and territorial refundable tax credits calculated on line 255 of Schedule 5 (negative amount).

Lines 815 and 816 – Royalties deductible and tax remitted under *Syncrude Remission Order*

The *Syncrude Remission Order* allows a deduction in computing income of amounts paid as royalties. However, this deduction is allowable only for federal income tax purposes. Enter the eligible amount at line 815.

Calculate the federal tax payable before and after the *Syncrude Remission Order* deduction. Enter the difference at line 816.

Line 840 – Tax instalments paid

Guide T7B Corp, called *Corporation Instalment Guide,* gives you more details about how to make payments and how to calculate instalments.

We offer these payment options:

- Visit our Web site at **www.cra.gc.ca/electronicpayments** for information on paying by telephone or through Internet banking, or contact your financial institution to see if it offers these services.
- Make your payment free of charge at your financial institution in Canada by presenting the personalized remittance Form RC160, *Business Remittance Voucher – Interim Payments*, to the teller. The teller will return the top part of the form to you as a receipt.
- Write your full 15 digit Business Number (e.g. 12345 6789 RC0001) on the back of your cheque or money order made payable to the Receiver General for Canada, and mail it with the remittance voucher to the address shown below:

  Canada Revenue Agency
  875 Heron Road
  Ottawa ON K1A 1B1
  CANADA

Review every statement you receive from us to make sure that we have applied your instalment payments to the correct taxation year. If we did not allocate a payment correctly, contact your tax centre immediately.

On line 840, report all of the instalment payments you made for the taxation year. If there is a discrepancy between the amount you report on the return and the amount in the instalment account, we will use the amount in your instalment account for the taxation year being assessed when we process the return.

> **Note**
> In addition to the interest that you have to pay for late or deficient instalment payments, a penalty may apply on the interest payable. See guide T7B Corp, *Corporation Instalment Guide* for more details.

References
Sections 157 and 163.1

Refund or payment

Your overpayment or balance unpaid is the difference you get after subtracting all the credits on lines 780 to 840 from the total tax payable on line 770.

If your total tax payable (line 770) is less than your total credits (line 890), enter the difference on the **overpayment** line.

If your total payable (line 770) is more than your total credits (line 890), enter the difference on the **balance unpaid** line.

> **Note**
> After we process your return and apply any interest and/or penalty charges, if the total amount owing at that time is $2 or less, you will not be required to pay that amount. If an amount of $2 or less is owed to you, the amount will not be paid, however, it will be applied to any existing liability you may have.

Line 894 – Refund code

If entitled to a refund, enter one of the following codes on line 894:

- enter "**1**" if you want us to refund the overpayment;
- enter "**2**" if you want us to transfer the overpayment to next year's instalment account; or
- enter "**3**" if you want us to apply the overpayment to another liability.

> **Note**
> We will first apply the overpayment to any outstanding tax the corporation owes. Then, we will direct any amount left over according to the code you enter.

If you enter "**1**," or do not enter a code, we will refund the amount of the overpayment.

If you enter "**2**," we will transfer the overpayment to the next year's instalment account, as well as any refund interest that has accumulated from the assessment date.

If you enter "**3**," we will apply the overpayment to other tax liabilities (such as an expected debit from a reassessment) or to a different account. Attach a letter to the return giving instructions.

Line 896 – If the corporation is a Canadian-controlled private corporation throughout the taxation year, does it qualify for the one-month extension of the date the balance of tax is due?

Tick the appropriate box. See "Balance due date" on page 10.

Line 898 – Enclosed payment

On line 898, enter the amount of any payment you are sending with the return. Do not enter an amount on this line if you sent your payment to us electronically (see below). Do not include this payment amount in the instalment total you recorded on line 840.

Make the cheque or money order payable to the Receiver General for Canada, and attach it to the return.

The Canadian Payments Association sets a maximum value of $25 million for any cheque or other paper-based payment instrument cleared through the banking system. Clients are encouraged to make arrangements with their financial institutions for payments of large amounts.

> **Note**
> You or your representative may not have a bank account at a financial institution in Canada. If so, either of you can make your payment using:
>
> - an international money order drawn in Canadian dollars;
> - a bank draft in Canadian funds drawn on a Canadian bank (available at most foreign financial institutions); or
> - a cheque drawn in the currency of the country in which the financial institution is located. We will use the currency rate in effect at the time of cashing your cheque.

Electronic payment of balance owing

You can pay your corporation's 2005 balance owing electronically by using your financial institution's telephone or Internet banking services. Most financial institutions allow a corporation to schedule a future-dated payment. For more information about this option, visit our Web site at **www.cra.gc.ca/electronicpayments** or contact your financial institution.

Direct deposit request

Lines 910 to 918

Direct deposit offers a safe, convenient, and dependable way of receiving payments, and it removes the potential loss of credit interest if a cheque is delayed in the mail.

To **start** direct deposit to the corporation's account at a financial institution, or to **change** information you already gave us, complete the "Direct deposit request" at the bottom of page 8. You do not have to complete this area if you already have direct deposit service and the information you gave before has not changed.

You can also use Form T2-DD, *Direct Deposit Request Form for Corporations*.

Your direct deposit request will stay in effect until you change the information or cancel the service. However, if your financial institution advises us that you have a new account, we may deposit your payments into the new account. If, for any reason, we cannot deposit a payment into a designated account, we will mail a cheque to you at the address we have on file at the time of the original payment.

> **Note**
> The CRA must generate all large-value refunds ($25 million or more) through the Large Value Transfer Service (LVTS). To avoid potential delays, clients have to be registered for direct deposit and be registered on the LVTS. If you are expecting a large-value refund, arrange for direct deposit and contact your tax centre to make the necessary arrangements.

Certification

Lines 950 to 959

Lines 950 to 956 – Complete these lines by giving the required information in the appropriate spaces. Be sure that the person who signs and dates the return is an authorized officer of the corporation.

Line 957 – Tick the appropriate box.

Lines 958 and 959 – If you answer *No* to line 957, provide the first and last names and telephone number of a contact person. This contact person is responsible for questions from and to CRA related to this return.

> **Note**
> You may want to authorize someone to discuss your corporation income tax return for any year with the CRA. If so, complete Form RC59, *Business Consent Form*.

Language of correspondence

Line 990

Indicate in which official language you would like to receive your correspondence.

Appendices

List of federal and provincial or territorial corporate schedules and forms

We provide the following schedules and forms, on our Web site at **www.cra.gc.ca/forms**. You can also get a printed copy by calling 1-800-959-2221.

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