Capital Tax Issues

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December 1996

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Prepared for the
Technical Committee on Business Taxation

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Abstract

This paper examines the history of federal capital taxes beginning with the "temporary" capital tax on financial institutions introduced in May 1985 (Part VI tax). A second federal capital tax was introduced in April 1989 and has become known as the Large Corporations Tax.

The application of federal capital taxes is examined using a Chartered Bank for illustration of the Part VI tax and a manufacturing company for illustration of the Large Corporations Tax.

The rules used for computation of federal capital taxes are compared to the rules for provincial capital taxes. The paper also includes a comprehensive summary of the rules for computing capital tax under the various provincial regimes.

The potential for economic distortions that may result from the imposition of federal capital taxes is considered as well as the effect of capital taxes on investment and business decisions. Common techniques that are used to minimize federal and provincial capital taxes are also discussed.

The paper concludes with the following recommendations:

- effort should be made to harmonize federal and provincial capital taxes;
- federal capital tax rates should not be increased due to the potential distortions and inequities noted in the paper;
- consideration should be given to an alternative minimum corporate tax at the federal level in order to eliminate or reduce federal capital taxes.

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This paper has been prepared to assist the Technical Committee in its examination of the Canadian tax system.

The paper examines the history and application of federal capital taxes and compares the federal rules to the capital tax regimes imposed by various provinces. It also considers economic issues and the role capital taxes may play in business decisions and investment planning, and the effect of changing the mix of capital taxes and income taxes. The paper also sets out planning ideas that have been used to reduce the burden of capital taxes. Finally, the paper offers suggestions on ways that federal capital taxes might be improved.

Basic Model for Capital Tax

Appendix A provides a detailed comparison of the federal and provincial rules for computing capital tax. Capital taxes have been part of the provincial corporate tax system for nearly 50 years.[1] Although unfortunately there are many differences in the rules of the various jurisdictions, a basic model for capital tax may be stated as follows:

> CAPITAL – including shareholders' equity and specific items of debt and reserves
>
> LESS:
>
> Investment allowance – including investments in other corporations and specific other investments
>
> LESS:
>
> Stated deduction or threshold
>
> EQUALS:
>
> Taxable capital

Taxable capital x relevant capital tax rate = capital tax

History of Federal Capital Taxes

The federal taxation of corporate capital began with the Income Tax Act imposing a capital tax on the capital of financial institutions under Part VI, and other "large corporations," including financial institutions, under Part I.3. The history of these two federal capital taxes is discussed below.

[1] Quebec first imposed capital taxes in 1947.

Capital Tax on Financial Institutions

The federal government first introduced capital taxes on corporations in its Budget of May 23, 1985. Then Finance Minister Michael Wilson proposed a two-year temporary tax on the capital of large banks and trust companies, effective in 1986. Mr. Wilson's Budget speech stated: "The purpose of this measure is to ensure that they (large banks and trust companies) bear an appropriate part of the tax load at a time when deficit reduction is a high priority." The deficit was projected to balloon to $36 billion for fiscal 1984-85, a jump of 40 percent from its level two years earlier.

Although Mr. Wilson alluded to the possibility that these institutions were not bearing a fair share of the tax load, it seems that a deficit reduction motive was the driving force behind the proposed legislation. Deficit reduction, together with a targeted group of taxpayers that did not register high in public sympathy were likely the main factors contributing to the origins of this tax.

In 1985, when the first federal capital tax was introduced, capital taxes had been an integral part of the provincial corporate tax system for nearly 40 years. Capital taxes had the attraction of being relatively simple to understand and administer. They could also be targeted to entities that were considered "large" in terms of their capital base. It was not lost on the politicians of the day that "large" would be equated with "able to pay" in the minds of the public.[2]

The imposition of this federal tax commenced January 1, 1986 at a rate of 1 percent and applied to the taxable capital employed in Canada in excess of $300 million. The Part VI tax applied to banks and regulated trust and loan corporations. Initially, the capital tax was deductible in computing income under former paragraph 20(1)(nn). Since its introduction, this Part VI capital tax has been amended several times, most notably as follows:

1. For 1988 taxation years, the temporary tax became permanent. The rates were then 1 percent on capital between $200 million and $300 million, and 1.25 percent on capital in excess of $300 million. At the same time, the tax became creditable against Part I tax otherwise payable rather than deductible in computing income.
2. For taxation years ending after February 20, 1990, the Part VI tax was extended to life insurance corporations carrying on business in Canada and to holding corporations all or substantially all of the assets of which are shares or debt of related financial institutions.
3. For 1992 and subsequent taxation years, the credit system was effectively reversed by providing a credit under Part VI in respect of a corporation's tax payable under Part I (except for surtaxes that have been offset by the Large Corporations Tax under Part I.3).
4. An additional temporary surtax was imposed on life insurance corporations for taxation years ending after February 25, 1992 and commencing before 1996. This additional tax applies at rates that vary from 0.5 percent to 1.0 percent for tranches of taxable capital employed in

[2] A cynic might compare the levy of capital taxes on chartered banks to the levy of service charges by those same institutions, which began in earnest in the mid-1980s. Service charges have a similar appeal in terms of being simple, easy to administer and potentially major sources of funds.

Canada between $10 million and $300 million, and at 0.25 percent for taxable capital over $300 million.

5. The February 27, 1995 Budget proposed an additional temporary 0.15 percent tax on capital of financial institutions other than life insurance corporations for capital employed in Canada in excess of an "enhanced deduction" of $400 million (Bill C-36, first reading May 17, 1996). This is proposed for taxation years that end after February 27, 1995.
6. The March 6, 1996 Budget proposes to extend the additional 0.15 percent tax discussed above to October 31, 1997. It also proposes to extend the temporary surtax on life insurance corporations noted above to the end of 1998.

In reviewing the above amendments and proposed amendments to the capital tax on financial institutions, it should be noted that the capital tax became a *minimum* tax for financial institutions in 1988 with the introduction of a credit against Part I tax, rather than an *additional* tax as first introduced in 1985. The capital taxes imposed under Part VI and Part I.3, although creditable against Part I tax and surtaxes, function as minimum taxes but not as minimum income taxes.[3] A corporation may have significant accounting income but no taxable income and little or no taxable capital, in which case it will pay no federal tax.

For example, a corporation with large tax losses carried forward may have significant income in a current year. It will have accounting income but no taxable income. Also, it may have a deficit in shareholders' equity and no taxable capital. Although the federal capital taxes are not minimum income taxes, they are creditable against Part I tax and surtaxes, which puts them between a minimum income tax and a pure add-on tax.

The frequency of the amendments and proposed amendments to increase the tax base and the tax rate clearly indicate that capital taxes have become an attractive and important source of revenue for the federal government.

Large Corporations Tax

The federal Budget of April 27, 1989 extended the capital tax levy to virtually all corporations for taxation years ending after June 1989. Because the capital deduction was set at $10 million, this tax of 0.175 percent on taxable capital employed in Canada has become known as the "Large Corporation Tax" (LCT). In his Budget speech, Mr. Wilson again referred to the need to levy taxes and reduce the deficit. He also stated that the LCT would "ensure that all large corporations pay at least a minimum amount of tax each year." Again, the use of the term "large corporations" carried the connotation that these corporations are able to pay this new tax regardless of their financial position. The LCT was initially creditable against the 3 percent corporate surtax and, in 1992, the credit was effectively reversed with the LCT now reduced by the surtax.

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[3] This observation was made by Robert Couzin in a Canadian Tax Foundation 1991 Conference Report paper, "Tax Options for Competitiveness," page 7:17.

The LCT was increased to 0.2 percent effective January 1, 1991. A few limited exceptions to the LCT are provided in subsection 181(3) including deposit insurance corporations and certain co-operatives.

The Budget of February 27, 1995 (Bill C-36) proposed that the LCT be increased to 0.225 percent for taxation years ending after the Budget date and prorated for taxation years that straddle February 27, 1995. As with the Part VI tax, the federal government has tended to ratchet up the LCT, with the latest proposal resulting in a LCT that is 29 percent higher six years after its inception.

Application of Federal Capital Taxes

The capital taxes imposed under Parts VI and I.3 are applied in a similar manner, with specific rules to deal with the computation of taxable capital and investment allowances for life insurance corporations, non-life insurance corporations, other financial institutions (other than insurance corporations) and other (non-financial) corporations. Except where there are noteworthy issues that relate to insurance corporations, this paper will deal primarily with the rules as they relate to financial institutions other than insurance corporations (using a chartered bank for examples) and non-financial institutions (using a manufacturing company for examples).[4]

Part VI Tax

The computation of capital under Part VI as it would apply, for example, to a bank, consists of the sum of the following at the end of its taxation year:

1. amount of its capital stock;
2. amount of its retained earnings, contributed surplus and any other surplus;
3. amount of its reserves not deducted in computing its income, with reserves defined to mean its reserves, provisions and allowances (except for depreciation and depletion) and including provisions for deferred taxes; and
4. amount of its long-term debt – basically subordinated indebtedness evidenced by obligations issued for a term not less than five years.

Less:

1. amount of its deferred tax debits; and
2. amount of its deficit deducted in computing shareholders' equity.

[4] The insurance industry has had extensive consultations with the federal government on the application of Part VI tax. The March 6, 1996 federal budget announced a continuation of the additional capital tax on life insurance companies until the end of 1998 as part of a number of changes to the taxation of life insurance companies to take effect in the 1996 taxation year.

The calculation of taxable capital, investment allowances and other amounts under Part VI are to be made without use of the equity or consolidated methods of accounting. This will limit the calculation for retained earnings of a bank, for example, to unconsolidated earnings from its banking business. It is also required that the amounts reflected in the balance sheet presented to the Superintendent of Financial Institutions are to be used for calculation of the taxable capital, investment allowance and other amounts under Part VI.

Taxable capital of a financial institution under Part VI is its capital less an investment allowance. The investment allowance is the total of the carrying value of any stock or debt of a related financial institution owned at the end of the year. Since the rules noted above do not allow the use of the equity or consolidated methods of accounting, the carrying value would represent the cost of the investment reduced by any write-downs taken by the taxpayer. The rules in Part VI also allow a financial institution to include in the carrying value calculation any surplus it has contributed to the related financial institution.

It should be noted that the inclusion of long-term debt issued for a term not less than five years could influence financial institutions to finance their business with shorter-term obligations. For example, there may be a disincentive for longer-term deposit liabilities. Most financial institutions match the term of their obligations with the term of their investments (e.g. consumer or commercial loans). This potential bias will likely be minimized with the term of obligations driven by market forces rather than tax minimization.

Large Corporations Tax

Under Part I.3, the capital of a non-financial institution for LCT purposes consists of the sum of the following at the end of the taxation year:

1. amount of its capital stock;
2. amount of its retained earnings, contributed surplus and any other surplus;
3. amount of its reserves except to the extent they were deducted in computing income (except for depreciation and depletion) and including provisions for deferred tax;
4. amount of all loans and advances to the corporation;
5. amount of all debt represented by bonds, debentures, notes, mortgages, bankers' acceptances or similar obligations;
6. amount of dividends declared but not paid;
7. amount of all other debt (except in respect of a lease) that has been outstanding for more than 365 days at year end; and
8. a *pro rata* share of a partnership's capital items if the taxpayer is a member of a partnership at year end.

Less:

1. amount of its deferred tax debits;
2. amount of its deficit deducted in computing shareholders' equity; and
3. amount of patronage payments deducted from income in the year or the following 12 months to the extent they can reasonably be regarded as included in the capital items above.

The first three items above for inclusion in capital under Part I.3 for non-financial institutions are identical to the Part VI rules for financial institutions. However, items 4, 5 and 6, which include all bonds, debentures, notes, mortgages, bankers' acceptances and similar obligations, all loans and advances and other debts outstanding for more than 365 days, go far beyond the Part VI inclusion of subordinated debt and debt issued for at least a five-year period. In addition, item 6, dealing with unpaid dividends, is not mentioned in the Part VI rules, nor is item 8, dealing with partnerships. This latter omission from the Part VI rules may be based on the provision under the statutes governing financial institutions that prohibits them from carrying on business through a partnership.[5] There seems, however, to be a contention that all loans and any debt outstanding for one year and one day are capital to a manufacturer, for example, but are not capital to a bank. The inclusion of five-year debt as capital for banks but one-year-plus-one-day debt for manufacturers may be due to the desire for some element of simplicity in dealing with financial institutions such as banks.

The rule regarding non-acceptance of the equity or consolidated method of accounting in determining capital or investment allowances under Part VI also applies under Part I.3. For a taxpayer such as a manufacturing company, the amounts reflected in a balance sheet presented to the shareholders of the corporation are to be used. Where a balance sheet was not prepared in accordance with GAAP or where no balance sheet was prepared, the amounts that would have been reflected in a GAAP balance sheet are to be used. In a roundabout way this rule requires non-financial institutions to use amounts calculated under GAAP but modified, for example, to exclude equity and consolidated accounting.

The investment allowance rules under Part I.3 for non-financial institutions for LCT purposes are likewise broader than those under Part VI. The allowance is the carrying value at the end of the year of an asset that is:

1. a share of another corporation;
2. a loan or advance to another corporation (except for a financial institution);
3. a bond, debenture, note, mortgage or similar obligation of another corporation (except for a financial institution);
4. a long-term debt of a financial institution;
5. a loan or advance to or a bond, debenture, note, mortgage or similar obligation of a partnership, all members of which were other non-exempt corporations;

[5] Bank Act, Section 421.

6. an interest in a partnership; or
7. a dividend payable to the corporation at the end of the year on a share of another corporation.

Many of these items in the investment allowance parallel the items in the inclusion of capital. For example, a loan from another corporation is included in capital and a loan to another corporation is included in the investment allowance.

Such parallel treatment eliminates the "double counting" where large corporations invest in each other. The investment allowance is a dollar-for-dollar deduction from capital as opposed to the prorating of investments over total assets as required in the rules for many of the provinces that tax capital. Shares in all corporations and loans to all corporations qualify, however, in the investment allowance. Therefore, an investment in a foreign corporation,[6] which is clearly not subject to LCT if it does not carry on business in Canada, would qualify for the investment allowance.

Unlike many of the provincial capital tax systems, the LCT rules do not allow items such as term deposits and bankers' acceptances as investments for the investment allowance. The inclusion of all shares including shares of foreign corporations, would seem to present the perverse opportunity for large corporations to hold non-qualifying assets such as cash, bank term deposits and bankers' acceptances in a foreign corporation and have the investment in the shares of the foreign corporation qualify for investment allowance purposes. This would be a simple way to have these investments qualify if they could not be used otherwise to pay down debt included in capital, or if the taxpayer preferred to retain the non-qualifying investments.

Comparison of Federal Capital Taxes and Provincial Capital Taxes

All of the provinces impose a capital tax on banks and trust and loan corporations. In addition, capital taxes are imposed by the provinces of Ontario, Quebec, Manitoba, Saskatchewan and British Columbia on all corporations with a permanent establishment (or in the case of Quebec an "establishment") in their jurisdictions.[7]

The five provinces that tax capital of all corporations have similar although not identical rules for computing capital and the investment allowance. The provincial rules allocate taxable capital by formula among provinces where a corporation has a permanent establishment in more than one province.

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[6] Revenue Canada's view on the meaning of the term "corporation" can be found in Interpretation Bulletin IT-343R.

[7] Ontario, Corporations Tax Act, RSO 1990, c. C40; Quebec, Taxation Act, RSQ, c. 1-3, as amended; Manitoba, The Corporation Capital Tax Act, RSM 1988; Saskatchewan, The Corporation Capital Tax Act, SS 1979-80; British Columbia, Corporation Capital Tax Act, SBC 1990 c. 4.

The current rates that apply to taxable capital for these provinces are as follows:

Ontario	0.30 percent
Quebec	0.64 percent
Manitoba	0.30 percent (additional surcharge of 0.20 percent over $10 million)
Saskatchewan	0.60 percent
British Columbia	0.30 percent

The provincial rules, while similar to the federal LCT rules, do have several noteworthy differences[8] as follows:

Calculation of Capital

1. Federal LCT and B.C. rules do not allow equity accounting in calculating capital or investment allowances but the other four provinces do allow equity accounting. Equity accounting permits a shareholder corporation to include the earnings of an investee corporation in its income (and therefore its retained earnings) and increase the carrying cost of the investment by the same amount.
2. Federal LCT, B.C. and Quebec rules ignore the difference between the accounting value of depreciable assets and the undepreciated capital cost, but the Ontario, Manitoba and Saskatchewan rules adjust capital for this difference. In so doing, these three provinces replace accounting depreciation with tax depreciation.
3. All jurisdictions except B.C. include in capital reserves deducted from income but not allowed for tax purposes.
4. The federal LCT rules include outstanding cheques as capital but none of the provinces have this provision.

Investment Allowance

One of the major differences in calculating investment allowance is that all of the provinces prorate the eligible investments as follows:

$$\frac{\text{total eligible investments}}{\text{total assets}} \times \text{capital}$$

Where total assets exceed capital (which is often the case), investment allowance is diluted for provincial purposes. For LCT purposes, there is a direct dollar-for-dollar reduction of capital for eligible investments.

[8] See Appendix A for a comprehensive table comparing the federal and provincial rules for calculating paid-up capital and investment allowance.

In computing investment allowance, the provinces allow several items that are not allowed for federal LCT purposes, as follows:

1. term deposits and bankers' acceptances with banks and guaranteed investment certificates of trust companies – all provinces; and
2. trade accounts receivable outstanding for extended periods – allowed by B.C., Saskatchewan, Manitoba, Ontario.

Economic and Policy Issues

Simplicity

Capital taxes have the appearance of being simple to understand and administer in comparison to income taxes. In reality, capital taxes are becoming increasingly complex. The federal legislation has developed separate rules for industry groups in Part VI and Part I.3. For example, Part VI has different definitions of capital for (1) financial institutions other than a life insurance corporation; (2) life insurance corporations resident in Canada; and (3) life insurance corporations not resident in Canada. Part I.3 has different definitions of capital for (1) non-financial institutions; (2) financial institutions other than insurance corporations; (3) insurance corporations resident in Canada that carried on a life insurance business; (4) insurance corporations resident in Canada that did not carry on a life insurance business; and (5) insurance corporations not resident in Canada that carried on business in Canada.

Obviously, different rules are necessary to accommodate the unique methods used by financial institutions and insurance corporations in accounting for such items as reserves. When, however, the various provincial rules are layered on to the rules for federal capital taxes and the many differences among the regimes are taken into account, capital taxes become more complex and can no longer be viewed as the simple or straightforward tax they might have been many years ago.

A review of Appendix A demonstrates the absolute need for harmonization of definitions for federal and provincial capital tax applications.

Fairness: Loss Companies and Start-ups

Federal capital taxes under Part VI and Part I.3 are creditable against mainstream Part I tax and surtax, whereas provincial capital taxes are not creditable. Provincial capital taxes are therefore an "additional tax" to the corporate income tax. This feature tends to mitigate the burden of federal capital taxes and is further assisted by the permitted seven-year carry-forward and three-year carry-back of unused Part I tax and surtax for offset against federal capital taxes.

The imposition of federal capital taxes may be viewed as unfair in their application to certain corporations. The most obvious illustration is a corporation that has a large operating loss and no income tax payable, yet it may well have a substantial capital tax liability. At a time when a

corporation is under financial pressure and when funding is likely critical, it seems unfair that it may be subject to heavy capital taxes.

If this operating loss situation is a short-term situation, say, for one or two years, the carry-over credits may alleviate the financial burden. However, since non-capital losses are usually carried back to recoup taxes paid in prior years (thus reducing or eliminating unused Part I tax and surtax), this relief will likely be obtained only in future years, if at all. If it is a longer string of loss years, the capital taxes may be a significant additional cost that is never recouped. Compounding this problem is the likelihood that losses are financed by additional debt or shareholder capital injections that are included as capital. Therefore, although the operating loss will initially reduce capital, it is likely offset by an increase of new debt or share capital financing.

Corporations that invest heavily in long-term projects suffer similar adverse results. Examples would include biotech research corporations, software system developers, telecommunication corporations and real-estate project developers. All of these types of corporations have large capital requirements and, because of initial start-up costs, research expenses or depreciation of capital expenditures, may have little or no accounting or taxable income in the first few years of operation.

The magnitude of the inequitable treatment in these examples depends on the amount of taxable capital of these corporations and the applicable tax rate. For example, if the project was fairly large and required $50 million of capital, the annual federal LCT at 0.225 percent would be $90,000 (after a $10-million capital deduction and assuming no investment allowance). This may be stacked on top of provincial capital tax (e.g. 0.3 percent using the Ontario capital tax rate). Although the federal LCT or the combined federal and provincial capital tax burden in this example is not enormous, they would likely be significant to a corporation suffering from operating losses or undertaking a new, large project.

Fairness: Rates of Return

For profitable corporations, there is an underlying presumption that the federal capital taxes will be offset by a corporation's mainstream Part I tax or surtax. A simple analysis dealing with LCT and the credit against surtax illustrates that this will rarely be the case. For example, consider the case of a large manufacturing corporation that is planning to add a new plant and new equipment to produce a new product:

Assumptions:

Investment in plant and equipment: $20 million

Financed by a combination of new share equity and long-term debt

Result:

Increase in paid-up capital: $20 million

Resulting LCT at 0.225 percent: $45,000

Surtax required to completely offset LCT: $45,000

Taxable income required to generate surtax of $45,000 (at surtax rate of 1.12 percent): $4,018,000

Return Required:

Implicit rate of return required: $\frac{\$\,4{,}018{,}000}{20{,}000{,}000} = 20.09$ percent

This rate of return will produce sufficient taxable income and surtax to offset the resulting LCT.

Note that this return is calculated on taxable income and therefore would be after deduction for capital cost allowance on the depreciable property, which would likely be higher than accounting depreciation. Therefore, the required rate of return on an accounting income basis would likely be higher than calculated in the example above.

How does the required rate of return compare to real-world results? The *Financial Post* annual publication on large Canadian corporations includes calculations of return on invested capital.[9] For the top 10 industrial companies for which information was available in the 1996 *Financial Post* report, only two companies had a return on invested capital in excess of 20 percent. For the top 50 companies, nine had a return on invested capital in excess of 20 percent.

This comparison indicates that a required return in excess of 20 percent is unusually high and would not be achieved or maintained by the majority of large industrial corporations.[10]

It may be concluded from this analysis that the offsetting of LCT by the corporate surtax provides a measure of relief, but the current rate of LCT would require an unrealistically high rate of return on new investment to completely offset the LCT resulting from taxable capital raised to fund new investments.

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[9] The *Financial Post* 1996 FP 500 publication with data for 1995 and 1994. The return on invested capital is defined by FP as net income plus income taxes, minority interests and the interest expense on long-term debt taken as a percentage of the average capital invested at the two latest year ends. Capital invested is defined by FP to equal total assets minus current liabilities, which is equivalent to the LCT definition of paid-up capital of shareholders' equity and long-term debt.

[10] The *Financial Post* return on invested capital would be lower if interest on long-term debt was deducted from the return on capital. Offsetting this is the fact that the LCT allows a reduction for the investment allowance and a deduction of $10 million in computing taxable capital.

A similar analysis of the Part VI tax on financial institutions results in a required rate of return of 5 percent (using a basic Part I tax rate of 28 percent and the top rate of 1.40 percent under Part VI). Although this is a much lower return than required under the LCT rules, most financial institutions would expect a return of less than 5 percent on capital employed (published Return on Assets statistics for large Canadian banks, for example, show pre-tax returns typically less than 2 percent arguably, the exclusion of short-term liabilities such as customer deposits from the capital base for financial institutions significantly improves their ability to earn a 5 percent or better return on capital included in the taxable base).

Investment Decisions: LCT

There is a tendency to conclude that the present capital tax rate under Part I.3 is sufficiently low that capital tax likely does not have a major impact on investment decisions.[11]

Firstly, we should examine investment decisions made by foreign corporations faced with the choice of making an investment in Canada or another country (generally, the United States). With today's highly competitive environment, the investor usually makes a detailed cost/benefit study of the two jurisdictions and invariably this study will include the cost of capital taxes in Canada.

Although two of the major G-7 countries have taxes that bear some resemblance to a capital tax,[12] the United States does not levy a general capital tax on corporations at the federal level.[13] It can be concluded, therefore, that Canadian capital taxes are a negative factor in comparing Canada to its nearest neighbour and can become a significant absolute cost at high levels of capital investment.

Secondly, we should examine the effect of capital taxes on decisions by Canadian corporations to invest in various opportunities that may be available. Although an investment that requires new financing may result in an increase in paid-up capital, there will be an offsetting reduction to the extent that the investment gives rise to an expense in the financial statements of the investor.

The following section examines six investment opportunities and the capital tax effect in the first year assuming the investment is funded by an increase in paid-up capital (stock or debt obligation that is included in paid-up capital) and yields no revenue in the first year:

1. Investment in research and development – may be expensed in full in the year, depending on the nature of the project; if expensed in full it would offset the increase in paid-up capital.
2. Investment in advertising and promotion – likely expensed in full in the year incurred and therefore it would offset the increase in paid-up capital.

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[11] Couzin, p. 7-17.
[12] Germany imposes a tax on net assets and a municipal trade tax on capital of corporations, and Japan levies a tax on fixed assets of corporations.
[13] Some of the U.S. states impose a capital or franchise tax on corporations that is similar to Canadian capital taxes. Also, the U.S. federal system imposes a minimum income tax on corporations.

3. Investment in new hires and additional payroll (non-manufacturing) – same comment as point 2.
4. Investment in new hires and additional payroll (manufacturing) – a large portion of the payroll would likely be spent on production activity resulting in increased inventory, which is an asset rather than an expense and does not qualify for the investment allowance; therefore, only the expensed portion would give rise to an offset against the increase in paid-up capital.
5. Investment in increased working capital items such as accounts receivable and inventory – similar to point 4 above, this would represent an asset rather than an expense and does not qualify for the investment allowance.
6. Investment in plant and facilities – the depreciation on such property would offset the paid-up capital increase but the investment does not qualify for the investment allowance.

Note that the offsetting expense from these investments would be reduced on an after-tax basis by the tax saving associated with the expense.

It can be seen from the above analysis that, in the first year of the investment, some relief from capital tax would be provided by deductions from income. Manufacturing companies, in particular, that typically increase capital in order to invest in additional plants, equipment and labour force, would benefit less from this offset effect than, for example, research (e.g. biotech) companies, marketing and service companies that invest in new expansion.

Techniques to Minimize Federal Capital Taxes

Several planning ideas have evolved to minimize provincial and federal capital taxes. The following is a summary of the more commonly suggested techniques dealing with LCT and Part VI tax:

1. Use available funds prior to year end to reduce liabilities that would otherwise be included in paid-up capital. For LCT purposes, the repayment of any loan or advance prior to year end would reduce paid-up capital. This idea may not be practical for financial institutions under Part VI since it would require repayment of long-term debt, which would likely have other business implications.
2. Liquidate investments such as term deposits, bankers' acceptances and guaranteed investment certificates prior to year end, and reduce debt obligations. These investments do not qualify for investment allowance for LCT or Part VI purposes.
3. Extend trade payables prior to year end in order to create additional funds to reduce debt obligations. For LCT purposes the trade debt should not exceed 365 days since it would then be included in paid-up capital.
4. Factor accounts receivable and use the available cash to reduce debt obligations.

5. Rather than reducing debt obligations, an alternative use for LCT purposes would be to hold available cash and non-qualifying investments such as term deposits in a foreign corporation. The shares of the foreign corporation will be eligible for the investment allowance. Assuming the foreign corporation had no permanent establishment in Canada it would not be subject to LCT on its paid-up capital.

6. A trust may be used to hold business assets and liabilities. A simple example of this would be the acquisition of land financed by a mortgage. If a corporation acquires the land, the mortgage will be included in paid-up capital but the land does not qualify for the investment allowance, resulting in an increase in paid-up capital.

   The corporation might create a trust to acquire the land subject to the mortgage. The corporation may be the beneficiary of the trust. Provided the mortgage is not a liability of the corporation (i.e. the mortgagee has recourse only against the land), the paid-up capital of the corporation will not be increased as a result of the real-estate transaction.[14]

Amalgamations and Wind-ups

There may be adverse capital tax consequences when companies are merged. This may occur, for example, on amalgamating a parent and subsidiary or winding-up a subsidiary into a parent company, if the parent's cost in the subsidiary's shares is higher than the amount shown by the subsidiary as shareholders' equity.

This excess cost would often be present when the parent has recently acquired the subsidiary at a price in excess of the net asset value of the subsidiary. Since consolidation accounting is not used for LCT purposes, the parent will have the benefit of the higher cost of shares in computing investment allowance, whereas the subsidiary will use its lower shareholders' equity for computing paid-up capital.

When, however, the parent and subsidiary are amalgamated then the investment is eliminated and the assets of the amalgamated company will be increased to recognize their higher values. The assets that are frequently written up for LCT purposes include goodwill and other depreciable property. Since these assets do not qualify for the investment allowance, the amalgamation will result in higher paid-up capital for the amalgamated company.

[14] For provincial purposes, for example in Ontario, it may be necessary to use a beneficiary in a province that has no provincial capital tax, since Ontario rules may allocate the trust liabilities to a beneficiary.

Example:

(1) Before amalgamation

Parent company

Investment in subsidiary	1,000	
Shareholders' equity	1,000	

Subsidiary company

Business assets – cost	400	(FMV 1,000)
Shareholders' equity	400	

The capital of parent company of 1,000 is reduced by an investment allowance of 1,000 resulting in capital of nil. Subsidiary company capital is 400. Combined capital is 400 for LCT purposes.

(2) After amalgamation

Amalco

Business assets	1,000
Shareholders' equity	1,000

The capital is now 1,000 for LCT purposes and there is no investment allowance. Capital has increased by 600.

Capital Tax Rates and Revenue Raising

Although federal capital tax rates are often viewed as relatively modest, capital taxes have been a very effective mechanism for raising revenue. The following data on federal capital taxes and Part I taxes has been made available by Revenue Canada:

	1993
	(Amounts in $000s)
Part I tax before credits[15]	$17,760
Part I.3 tax before offset against Part I surtax ("gross")	1,176
Part I.3 tax after offset against Part I surtax ("net")	895
Part VI tax before offset against Part I tax ("gross")	495
Part VI tax after offset against Part I tax ("net")	239

The Part I tax before credits noted above represents tax rate raised at the statutory Part I rate of 28 percent (38 percent less 10 percent income earned in a province).

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[15] Part I tax before credits for small business deductions, manufacturing and processing credits, scientific and research tax credits and investment tax credits but after the 10% deduction for income earned in a province.

Tax Policy Issue

It is difficult to estimate the amount of additional revenue that would be raised, for example, by doubling the LCT from 0.225 percent to 0.450 percent. Assuming the credit against LCT for surtax payable would remain intact, some part of an LCT increase would be offset by unutilized surtax payable. For the converse reason, it is difficult to estimate the amount of additional revenue that might be raised by doubling the Part I surtax, for example, from 4 percent to 8 percent. Similarly, the interaction of Part I and Part VI taxes presents a difficulty in measuring the effect of increases in them.

It is likely that an increase in capital taxes would result in a significant overall increase, net of the credit against mainstream tax. Conversely, an increase in Part I tax and surtax would likely be absorbed to a significant extent by capital tax otherwise payable by large corporations and financial institutions.

The above hypothesis points to a disturbing cul de sac that has been created by the federal capital tax system:

1. Capital taxes are an attractive vehicle for raising tax revenue.
2. In order to make capital taxes more palatable, a credit mechanism has been used that offsets federal capital taxes against mainstream corporate income tax.
3. At some point capital tax rates may be sufficiently high that they exceed the mainstream tax credit base. This appears to be the current status since significant net capital taxes have been payable, for example, for 1993 and 1994.[16]
4. Future mainstream corporate income tax rate increases may be partially ineffective for raising significant additional tax revenues since they will be offset to a great extent by the overhang of capital taxes. Income tax *rate* increases would therefore mainly affect smaller corporations.
5. If federal tax revenues are to be increased by way of tax rate increases in the future, the most effective way will be through further increases in capital tax rates.
6. As capital tax rates increase, the inequities and problems of the capital tax system become more pronounced. In addition, the burden of corporate tax will be shifted further to large corporations, financial institutions and those other corporations subject to capital taxes in the future.

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[16] The net liability for federal capital taxes may arise for reasons other than the rate at which capital taxes are levied. For example, loss corporations and start-up corporations, as discussed above, may be subject to capital taxes regardless of the rate levied. Also, corporations that enjoy accelerated tax write-offs may pay little or no Part I tax but still be subject to federal capital tax. However, the discussion above regarding the required rate of return on investment indicates that the current rates of capital tax are sufficiently high that they have outstripped the ability for a full offset by mainstream taxes.

Further increases to capital tax rates may be difficult for the federal government to resist because of the apparent "gearing ratio" of capital taxes and mainstream taxes. For example, using the data for the 1993 taxation year above, and ignoring the offset issue between capital taxes and mainstream taxes, it appears that an increase of one percentage point in LCT (i.e. an increase from the 1993 rate of 0.2 percent to 1.2 percent) would raise additional revenue of $4.5 billion, which is equivalent to a 9.5 percentage point increase in Part I tax (increase from 38 percent to 47.5 percent). This gearing ratio of 1:9.5 makes capital taxes an alluring choice for raising additional tax revenues.

Alternatively, the federal government might consider changing the mix of capital taxes and income taxes with a view to reducing the capital tax rate. Again, ignoring the offset issue between capital taxes and mainstream taxes, if the objective, for example, were to eliminate the LCT and Part VI capital tax rates, the Part I rate would have to increase from 38 percent to approximately 40.5 percent in order to be revenue neutral. This illustrates that as capital taxes become more significant and entrenched in the tax system, it becomes increasingly difficult to reduce their role.

Summary of Potential Distortions

The potential distortions caused by the federal capital taxes described in this paper may be summarized as follows:

1. Canadian capital taxes (federal and provincial) may act as a disincentive to foreign multinationals that compare costs associated with investment in Canada to those associated with investment in another country such as the United States.
2. There is a built-in bias against manufacturing companies that typically invest in plant and equipment funded by debt or equity. Also, manufacturers have less benefit than many other companies from offsets against the capital tax base for investments which are typically made in new plant and equipment plus additional plant labour.
3. Corporations may reduce liabilities at year end or take more extreme measures, such as transferring portfolio investments to foreign corporations or holding business assets in a trust in order to minimize capital taxes.
4. Financial institutions may be influenced to reduce obligations issued for a term of five years or more in order to minimize Part VI tax.
5. Corporations may decide against merging by amalgamation or winding-up due to adverse capital tax consequences.
6. Companies incurring large losses and companies investing in new projects may be subject to substantial capital taxes.

Summary Recommendations

1. In the interests of simplicity, some effort should be made to harmonize the federal LCT and the provincial capital taxes. For example, the LCT rules for the investment allowance should include term deposits, bankers' acceptances and guaranteed investment certificates. This would give an offset against paid-up capital for excess available funds, in a way similar to most provinces, and would eliminate the requirement to reduce liabilities at year end to achieve this result.

2. Tax rates for LCT and Part VI purposes should not be allowed to increase from present levels. Higher rates will increase inequities in application. The inequities noted in this paper include:

   - capital taxes imposed on loss companies;
   - capital taxes imposed on companies involved in large capital projects;
   - bias against manufacturing companies; and
   - difficulty of earning sufficient return to fully utilize the offset against mainstream taxes.

   Higher rates will also increase competitive disadvantages for new investment and lead to greater dependency on capital taxes for raising revenue.

3. Consideration should be given to an alternative minimum corporate tax at the federal level in lieu of the LCT and/or Part VI tax. This would eliminate or reduce inequities and competitive disadvantages. This might be implemented together with a substantial reduction in the rate of capital taxes and perhaps even a phasing out of federal capital taxes.

Appendix A

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
PAID-UP CAPITAL INCLUSIONS (applicable share of joint ventures and partnerships should be included)						
1) Capital Paid-up capital stock – include premiums, deduct discounts and exclude subscriptions receivable	Yes	Yes	Yes	Yes[1]	Yes	Yes
2) Surplus Accounts						
(i) Retained earnings (if deficit, deduct)	Yes	Yes	Yes	Yes[2]	Yes	Yes[31]
(ii) Capital surplus	Yes	Yes	Yes	Yes	Yes	Yes
(iii) Contributed surplus	Yes	Yes	Yes	Yes	Yes	Yes
(iv) Appraisal surplus arising from a bona fide appraisal	Yes	No	Yes	Yes	Yes	Yes
(v) Income of subsidiaries recognized on equity basis	No	Yes	Yes	Yes	Yes	No[30]
(vi) Government grants or forgivable loans	Yes	Yes	Yes[3]	Yes	Yes	Yes
(vii) Dividends declared but unpaid	No	No[4]	No, unless over 6 months	No, unless unpaid after 365 days	No, if paid in reasonable time	Yes
(viii) Any other surplus	Yes	Yes	Yes	Yes	Yes	Yes[31]

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
3) Reserves						
(i) Include excess (deduct shortfall) of						
(a) UCC over NBV of depreciable assets excluding appraisals[10]	N/A[34]	Yes	No	Yes	Yes	No
(b) unclaimed federal Sec. 66 resource expenses over NBV of exploration and development expenses	N/A[34]	Yes	No	Yes	Yes	No
(c) cumulative book write-offs of goodwill etc., over cumulative deductions of eligible capital expenditures for tax purposes	N/A[34]	Yes	No	Yes	Yes	No
(d) current scientific research expenditures not deducted for tax purposes over NBV of research and development expense	N/A[34]	Yes	No	Yes	Yes	No
(ii) Deferred income tax credits (deduct debits if booked)	N/A[34]	Yes	Yes	Yes	Yes	Yes
(iii) Special refundable federal taxes charged to retained earnings	N/A[34]	No adjustment	No adjustment	No adjustment	No adjustment	No adjustment

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(iv) The following reserves, if deducted in computing income for book purposes as well as tax purposes:	N/A[34]					
(a) Federal Sec. 20(1)(n) income reserve	N/A[34]	Yes	No	Yes	Yes	Yes[21]
(b) Federal Sec. 40(1)(a)(iii) and 44(1)(e)(iii) reserves	N/A[34]	Yes	No	No	Yes	Yes[21]
(v) Provision for current income, LCT and capital taxes payable	N/A[34]	No	No	No	No	No[27]
(vi) Reserves allowed for income tax purposes but not booked (including reserve for doubtful accounts and other amounts allowed for income tax purposes but not booked)	N/A[34]	No	No	No	No	No
(vii) Include excess (deduct shortfall) of "obligations under a capital lease" over "assets of a capital lease" where lease is treated as a lease for tax purposes	N/A[34]	Yes	No	Yes	Yes	No

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(viii) All other reserves not shown above, unless deductible for income tax purposes (including warranty reserves, deferred income reserve, hold-back payable reserve, write-down reserve on marketable securities, and other amounts deducted for book purposes that exceed amounts deducted for tax purposes)	Generally no adjustment for reserves; follow GAAP treatment[34]	Yes	Yes[46]	Yes	Yes	Yes[21]
4) Loans and Advances (including related interest payable) [20][37]						
(i) Direct or indirect loans or advances from all shareholders or any person related to a shareholder[5]	Yes	Yes	Yes	Yes	Yes	Yes
(ii) Loans from individuals (other than shareholders or any person related to a shareholder)	Yes	Yes, for taxation years ending after May 19, 1993[44]	Yes, for taxation years begin after May 9, 1995[47]	Yes	No, unless secured by property	Yes
(iii) Loans from corporations (other than shareholders or any person related to a shareholder)	Yes	Yes	Yes	Yes	Yes	Yes

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(iv) Loans and advances from governments	Yes	Yes	Yes, for taxation years beginning after May 9, 1995[48]	Yes	Yes, unless guaranteed secured	Yes
(v) Bank loans (a) Bank overdrafts – per f/s	Yes, but deduct o/s cheques used to settle "current a/p" included in f/s balance	Yes, but back-out o/s cheques included in f/s balance	Yes, but back-out o/s cheques included in f/s balance	Yes, but back-out o/s cheques included in f/s balance	Yes, but back-out o/s cheques included in f/s balance	Yes
(b) Operating bank loans not secured by receivables or other property	Yes	Yes	Yes	Yes	Yes	Yes
(c) Secured bank loans	Yes	Yes	Yes	Yes	Yes	Yes
(d) Capital bank loans	Yes	Yes	Yes	Yes	Yes	Yes
(e) Bankers' acceptances or short-term finance	Yes	Yes[24]	Yes[25]	Yes	Yes	Yes[26]
(f) Bankers' acceptances (unsecured) issued to suppliers for purchase of inventory						
i) issued to corporations	Yes	Yes[24]	Yes[25]	Yes	Yes	Yes[26]
ii) issued to shareholders	Yes	Yes[24]	Yes[25]	Yes	Yes	Yes[26]

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(vi) Trade accounts payable to						
(a) shareholder – individual – corporate	No, unless outstanding more than 120 days prior to year end[37]	No[16]	No, unless over 6 months[16]	Yes	Yes	Yes, if[28] outstanding more than 365 days prior to year end
(b) related corporations	No, unless outstanding more than 120 days prior to year end[37]	Yes[9]	No, unless over 6 months	Yes, if over 90 days	Yes	Yes, if[28] outstanding more than 365 days prior to year end
(c) corporations that are not related	No, unless outstanding more than 120 days prior to year end[37]	Yes, if outstanding at least 365 days prior to year end	No, unless over 6 months	Yes, if over 90 days	Yes, if over 90 days	Yes, if[28] outstanding more than 365 days prior to year end
(d) individuals that are not related	No, unless outstanding more than 120 days prior to year end[37]	Yes, if outstanding at least 365 days prior to year end	No, unless over 6 months	No	No	Yes, if[28] outstanding more than 365 days prior to year end
(vii) Bonds, debentures, mortgages and lien notes payable held by another corporation or shareholder	Yes	Yes	Yes	Yes[6]	Yes[14]	Yes
(viii) All secured indebtedness (gross amount) not included elsewhere	Yes	Yes	Yes	Yes[42]	Yes	Yes

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(ix) Unsecured debt held by individuals other than shareholders or persons related to shareholders	Yes	Yes, for year ends after May 19, 1993	No, unless over 6 months	Yes	No	Yes
(x) Obligation under a capital lease as defined by CICA Handbook para. 3065.09, which						
(a) is treated as a lease for income tax purposes[7]	Yes	No	No	No	No	No
(b) is treated as a purchase for income tax purposes	Yes	Yes	Yes	Yes	Yes	Yes
PAID-UP CAPITAL DEDUCTIONS						
1) Earnings deficit	Yes	Yes	Yes	Yes[2]	Yes	Yes[31]
2) Deferred income tax debit, net (if booked)	Yes	Yes	Yes	Yes	Yes	Yes
3) Special refundable federal taxes if disclosed as an asset on the balance sheet	No	Yes	No	No	Yes	No
4) Amounts deducted for income tax purposes in excess of amounts booked, including						
(i) shortfalls identified on page A-1 "Reserves," para. 3(i)(a) to (d)	N/A[34]	Yes	No	Yes	Yes	No

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(ii) deferred expenses of issuing bonds and debentures (excluding any discounts)	N/A[34]	Yes	See 5 below	Yes	Yes	No
(iii) interest and property taxes capitalized in respect of land included in the inventory of a business carried on by the corporation	N/A[34]	Yes	No	Yes	Yes	No
(iv) allowance for doubtful accounts deducted for tax purposes but not booked for accounting purposes	N/A[34]	Yes	No	Yes	Yes	No
5) Fees and discounts pertaining to issue of bonds to the extent they have not reduced income or surplus per the financial statements – Section 1137(b) of *Quebec, Taxation Act*	N/A[34]	N/A	Yes	N/A	N/A	N/A
6) Receivable under a capital lease that is treated as a lease for income tax purposes (if not already reflected in UCC/NBV adjustment)	N/A[34]	Yes	No	Yes	Yes	No

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
GOODWILL ALLOWANCE AND OTHER DEDUCTIONS						
1) Goodwill allowance (based on a formula) Goodwill (if book value of goodwill exceeds its real value) and other intangibles	No	No, for taxation years ending after May 19, 1993 Yes, other than eligible capital expenditures for taxation years ending before May 20, 1993	No	Yes	Yes	No
2) Discounts on certain issues of shares or bonds	No	Yes	See 5 above	Yes	Yes	No
3) Deferred Canadian mining exploration and development expenses that have not yet been deducted for income tax purposes	No[39]	Yes	No	No	Yes	No
INVESTMENT ALLOWANCE CALCULATION						
4) Investment allowance **Eligible investments**						
(a) Term deposits and banker's acceptances with Canadian bank or foreign bank	No	Yes[8]	No[33]	Yes	Yes, if outstanding over 90 days	No
(b) GICs of Canadian or foreign trust companies	No	Yes[8]	No	Yes	Yes, if outstanding over 90 days	No
(c) Federal and provincial government bonds	No	Yes[8]	No	Yes	Yes	No

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(d) Bonds, debentures or other securities of any government, utility, municipal or school corporation	Yes, if outstanding at least 120 days prior to year end[35][45]	Yes[8]	Yes[15]	Yes	Yes	Yes[22, 23]
(e) Bonds, debentures and lien notes of other corporations	Yes, if outstanding at least 120 days prior to year end[35]	Yes	Yes[15]	Yes	Yes	Yes[23]
(f) Mortgages due from other corporations	Yes, if outstanding at least 120 days prior to year end[35]	Yes	Yes	Yes	Yes	Yes[23]
(g) Shares in other corporations (greater of book value or cost)	Yes	Yes[17]	Yes	Yes	Yes	Yes[23][29]
(h) Amounts due from a parent corporation with head office outside Canada	Yes, if outstanding at least 120 days prior to year end[35]	Yes, if outstanding at least 120 days prior to year end	No	Yes	Yes	Yes[23]
(i) Amounts due from a related corporation with head office outside Canada	Yes, if outstanding at least 120 days prior to year end[35]	Yes, if outstanding at least 120 days prior to year end	Yes[15a]	Yes	Yes	Yes[23]
(j) Other corporate loans and advances not mentioned above	Yes, if outstanding at least 120 days prior to year end[35]	Yes	Yes[15]	Yes	Yes	Yes[23]
(k) Loans and advances to governments	No	Yes[8]	No	Yes	No, unless secured by property	No

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(l) Shares and bonds of or loans and advances to corporations exempt from capital tax	Yes, if outstanding at least 120 days prior to year end[45]	No	Yes	Yes	Yes	No[23]
(m) Trade accounts receivable from						
(i) related corporation	Yes, if outstanding at least 120 days prior to year end	Yes, if outstanding at least 120 days prior to year end[9]	No	Yes, if over 90 days	Yes, if over 90 days	No
(ii) corporations that are not related	Yes, if outstanding at least 120 days prior to year end	Yes, if outstanding at least 365 days prior to year end	No	Yes, if over 90 days	Yes, if over 90 days or secured by property	No
(iii) individuals	No	No	No	No	No[13]	No
(n) Receivable (from another corporation) under a capital lease as defined by CICA Handbook para. 3065.09 that: [7]	Yes, due from a corporation and outstanding at least 120 days prior to year end					
(i) is treated as a lease for income tax purposes[7]		No	No	No	No	No
(ii) is treated as a sale for income tax purposes		Yes[18]	No	Yes	Yes	Yes
(o) Investment in a ship or aircraft (at carrying value)	Yes[32]	No	No	No	No	No
(p) Security posted pursuant to section 10 of the *Mines Act*	Yes	No	No	No	No	No

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(q) Interests in Mining Reclamation Trusts defined under 248(1) of the ITA	Yes	[49]	[49]	[49]	[49]	[49]
5) B.C. eligible expenditures[36]	Yes[36]	N/A	N/A	N/A	N/A	N/A
Total Assets (for investment allowance formula)						
Inclusions						
(a) Total assets per B/S[19]	Yes[38]	Yes[17]	Yes	Yes	Yes	N/A
(b) Government grants and forgivable loans deducted from fixed assets	Yes[38]	Yes	No adjustment	Yes	Yes	N/A
(c) Excess of UCC over NBV of fixed assets[10]	No adjustment	Yes	No adjustment	Yes[11]	Yes[11]	N/A
(d) Amortization of assets not allowed for income tax purposes	No adjustment	Yes	No adjustment	Yes	Yes	N/A
(e) Federal 20(1)(n) reserve booked	No adjustment	Yes	No adjustment	Yes	Yes	N/A
(f) Federal 40(1)(a)(iii) and 44(1)(e)(iii) reserves booked	No adjustment	Yes	No adjustment	No	Yes	N/A
(g) Reserves not allowed for income tax purposes deducted directly from assets (e.g. contingent and investment reserves)	No adjustment	Yes	Yes, only if it is not a reserve relating to the amortization or depletion of an asset	Yes	Yes	N/A

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

		B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(h)	Non-deductible portion of reserve booked (e.g. doubtful debts)	No adjustment	Yes	Yes, as above	Yes	Yes	N/A
(i)	Excess of equity value of investment in other corporation over cost	No adjustment	No adjustment	No adjustment	No adjustment	No adjustment	N/A
(j)	Excess of cost over equity value of investment where equity value shown in balance sheet	Yes	Yes	Yes	Yes	Yes	N/A
(k)	Proportionate share of assets of joint venture or partnership investment	Yes[38]	Yes	Yes[40]	Yes	Yes	N/A
(l)	Excess of obligations under a capital lease over assets of a capital lease where lease is treated as a lease for income tax purposes	No adjustment	Yes	No	Yes	Yes	N/A
Deductions							
(a)	Goodwill allowance	No adjustment	Yes	No adjustment	Yes	Yes	N/A
(b)	Excess of NBV over UCC of fixed assets[10]	No adjustment	Yes	No adjustment	Yes[11]	Yes[11]	N/A
(c)	Lessor's unearned income (if shown as a liability) under capital leases that are being treated as leases for income tax purposes	No adjustment	Yes	No	Yes	Yes	N/A

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

		B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(d)	Deferred mining exploration and development expenses	No adjustment	Yes	No adjustment	No	Yes	N/A
(e)	Deferred tax debit balance	No adjustment[43]	Yes	No	Yes	Yes	N/A
(f)	Contract hold-backs, deductible for income tax purposes	No adjustment	Yes	No adjustment	Yes	Yes	N/A
(g)	Prepaid expense deductible for income tax purposes	No adjustment	Yes	No adjustment	Yes	Yes	N/A
(h)	Deferred expenditures deductible for income tax purposes	No adjustment	Yes, if deducted for tax purposes	No adjustment	Yes	Yes	N/A
(i)	Discount on shares	No adjustment	Yes	No adjustment	Yes	Yes	N/A
(j)	Discount on debentures, deductible for income tax purposes	No adjustment	Yes	No adjustment	Yes	Yes	N/A
(k)	Investment in joint venture or partnership	Yes[38]	Yes	Yes[40]	Yes	Yes	N/A
(l)	Off balance sheet adjustment (T2S(1)) (e.g. vacation pay not accrued for balance sheet purposes)	No adjustment	Yes	No adjustment	No adjustment	Yes	N/A
(m)	Excess of assets of a capital lease over obligations under a capital lease where a lease is treated as a lease for income tax purposes	No adjustment	Yes	No	Yes	Yes	N/A

Appendix A (Cont'd)

Calculation of Provincial Capital Tax Payable and LCT for Canadian Resident (Non-banking or Trust) Corporations

	B.C.	Ontario	Quebec	Manitoba	Sask.	Federal LCT[41]
(n) Lessor's unearned income (if shown as a liability) under capital leases that are being treated as sales for income tax purposes	No adjustment	Yes	No	Yes	Yes	N/A

NOTES

(1) Including premiums but not including discounts.

(2) Excluding any amount that represents a loss of a subsidiary recognized on an equity basis.

(3) Unless deducted from the cost of the related fixed assets, or used to reduce the amount of amortization, even if reflected as a deferred credit on the balance sheet.

- Included: a loan or grant that is not forgiven (i.e. conditions have not been met and it must be repaid) where the resulting debt exists for more than 6 months or is secured by property of the corporation.
- Excluded: a forgivable loan or grant as well as a forgiven loan or grant that is shown as a reduction of fixed assets or as a deferred credit (as such will affect retained earnings through reduced depreciation or amortization).

(4) Unless unpaid at the end of the year following the year in which they were recorded and owed to a person with whom the corporation was not dealing at arm's length.

(5) Accrued bonuses to officers and employees where such bonuses are in respect of services rendered to the corporation in the individuals' capacity as an officer or employee should be excluded except in Manitoba and Ontario where salary and bonuses (owed to a person with whom the corporation was not dealing at arm's length) are included if outstanding at the end of the year following the year in which they were recorded.

(6) Lien notes are excluded for farm machinery, truck and automobile dealerships if the lien note represents financing by way of wholesale paper secured by a specific charge on new or used motor vehicles or farm equipment inventory.

(7) All the provinces (except for B.C.) currently levying capital tax make adjustments for leases based on the income tax treatment of leases, which reflects the legal rights and obligations of the parties. In law, and therefore for income tax purposes, the only issue to be resolved is whether a particular transaction is a lease or a purchase. There is no concept in law which parallels the classification of a capital lease that has been created for accounting purposes.

Where the accounting criteria results in a lease being treated for accounting purposes in a manner that differs from what is reported in the client's income tax return, it is generally necessary to make the adjustments outlined in this schedule to arrive at paid-up capital and total assets.

(8) Include only those items which have been issued and held by the corporation for at least 120 days before year end. The 120-day rule does not apply to an investment dealer or a broker where these securities are held for sale in the dealer's inventory. The 120-day rule applies to short-term investments in commercial paper, T-bills, government bonds and bankers' acceptances. It appears that bonds, debentures and other securities of municipal and school corporations may not be subject to the 120-day rule; however, where this applies to a particular client situation, more detailed research should be carried out.

(9) Include only the balance from a related company outstanding for at least 120 days prior to the taxpayer's year end. Obligations of the same nature due to and from the same company may be netted if that company is associated with or affiliated to the taxpayer corporation.

(10) NBV should not include amounts in respect of leased assets which have been recorded in the lessee's financial statements due to accounting concepts of "capital leases" that continue to be treated as leases for income tax purposes. NBV should include the net investment in leased assets (total lease payments receivable less unearned income) that have been recorded in the lessor's financial statements as capital leases that continue to be treated as leases for income tax purposes.

Also note that the NBV of assets "not available for use" should not be included since these assets should not be included in UCC balance.

(11) Excluding appraisal increases to NBV.

(12) If a government grant reduces the cost base of an asset for income tax purposes, Ontario administrative practice is to allow the value of the government grant required to be added to paid-up capital to be "ground down" at a rate equivalent to that used in calculating capital cost allowance on the related asset. Any CCA "claimed" against the government grant will not affect the UCC/NBV adjustment to paid-up capital.

(13) Amounts receivable from individual shareholders or related individuals are included in the investment allowance calculation for Saskatchewan.

(14) Bonds, debentures, etc., held by another corporation are included in paid-up capital for Saskatchewan only if secured by property or guaranteed by any other corporation, financial institution or government. If held by a shareholder, no security is required in order to be included.

(15) The amount of loans or advances to other corporations is deemed not to include commercial paper issued by a corporation, unless it was issued for a period of 120 days or more, or issued for an undetermined period, and was held by the taxpayer for at least 120 days prior to the end of its taxation year.

An anti-avoidance rule exists, whereby no deduction or reduction will be allowed with respect to a loan or an advance granted to another corporation if it has been established that this loan or advance was made as part of a series of loans and repayments with a view to unduly reducing the corporation's paid-up capital.

The Minister of Revenue of Quebec has been paying close attention as to what constitutes a "loan or advance" for the purpose of the investment allowance. In order for an amount to qualify as a "loan or advance" for investment allowance purposes, a debtor-creditor relationship must exist and there must be an actual delivery of money in the form of a loan or advance. Based on this interpretation, a note receivable resulting from the sale of assets (e.g. balance of sale) will generally not qualify for the investment allowance (unless the balance of sale bears interest and is secured by a mortgage on the property sold).

(15a) Only include bonds, loans and/or advances from related corporations with head office outside Canada.

(16) It appears that a position can be taken that accounts payable to an individual shareholder are not required to be included in paid-up capital as they do not represent "a sum or credit advanced or loaned to the corporation." Ontario's administrative practice, however, is to include such amounts in paid-up capital if they have been outstanding for 120 days or more prior to the end of its taxation year.

(17) FAPI of a foreign affiliate is required to be included in the "Cost of Investments" and "Total Assets" for Ontario capital tax purposes.

(18) The net investment in leased assets (total lease payments receivable less unearned income) qualifies for the investment allowance.

(19) Total assets should not include amounts in respect of leased assets that have been recorded in the lessee's financial statements due to accounting concepts of capital leases that continue to be treated as leases for income tax purposes.

(20) Ontario has indicated that its administrative practice regarding both accrued interest and interest payable is to require the amount to be included in paid-up capital only if the amount has been outstanding for 365 or more days prior to the end of the taxation year (similar to an advance or a loan). However, the position with respect to accrued interest does not appear to be justified since it is by definition not yet payable and therefore cannot be "aged."

Revenue Canada takes the position that, for purposes of calculating LCT, interest payable would be included in the capital of a corporation as "other indebtedness" only if it is outstanding for more than 365 days, and that interest receivable would not qualify for inclusion in the investment allowance of a corporation.

Quebec has indicated that accrued interest must be included if it is greater than 6 months, unless the interest is secured, in which case it would be included, regardless of its aging.

(21) During the Revenue Canada Round Table at the 1994 TEI Conference, Revenue Canada provided its comments that where a corporation has deferred revenue in respect of which they could claim a reserve under S.20(1)(n), 20(1)(m), 20(1)(m.1) or 20(1)(m.2), whether the reserve is actually claimed for tax purposes or not, the entire amount of the deferred revenue is to be treated as a loan or advance and included in paid-up capital.

(22) Restricted to issuers that are corporations.

(23) Not available for shares or indebtedness of a corporation that is exempt from tax under section 149 (other than because it is not resident in Canada or does not do business through a permanent establishment in Canada).

At the B.C. Tax Executive Institute Conference, December 1992 Round Table RCT confirmed its position concerning prepaid expenses: "Prepaid expenses which have been paid to another corporation (other than a financial institution) would qualify for inclusion in the calculation of the investment allowance of the payor corporation pursuant to para. 181.2(4)(b) of the Act as an 'advance' to the recipient corporation."

Only loans and advances to a partnership ***all*** the members of which are taxable corporations may be included.

(24) Bankers' acceptances regardless of the term or the purpose for which they are issued are included in paid-up capital.

(25) Bankers' acceptances and similar securities are included in paid-up capital for taxation years ending after May 14, 1992. Prior to this date, you could take the position that such amounts did not have to be included in paid-up capital, although this position was contrary to Revenue Quebec's assessing policy.

(26) Effective for taxation years ending after December 20, 1991.

(27) Revenue Canada's view is that current taxes payable constitute "other indebtedness" of the corporation and would be included in the capital of the corporation to the extent that the taxes payable have been outstanding in excess of 365 days. Also included would be a portion of the tax liability if the current taxation year exceeded 365 days on the basis that income is earned evenly throughout the taxation year. Any taxes payable with respect to a proposed assessment of a prior taxation year would be included in the calculation of the capital of the corporation as the liability for those taxes would be considered to have arisen in that prior year.

In response to a question from the Institute of Chartered Accountants of British Columbia, at their 1992 ICABC/RCT Liaison Committee, Revenue Canada indicated that a corporation's accrual for LCT liability must be added back in the computation of capital, by reason of paragraph 181.2(3)(b).

(28) It is Revenue Canada's view that in those circumstances where a netting of accounts receivable and accounts payable constitute a payment of the trade liabilities that have been outstanding for more than 365 days, only the net amount would be included in the capital of the corporation.

(29) An investment in a mutual fund is included only to the extent that the investment is represented by shares of a mutual fund corporation and not by units of a mutual fund trust.

(30) In part (c) to question #32 at the 1991 Revenue Canada Round Table, the Department stated that <u>undistributed</u> partnership earnings should be included in the capital of each corporate partner (based upon the partner's proportionate entitlement to earnings).

(31) Includes deferred unrealized foreign exchange gains and losses.

(32) An investment in a ship or aircraft shall not be included in the investment allowance unless the income from the operation of the ship or aircraft is exempt under paragraph 81(1)(c) of the Income Tax Act.

(33) Term deposits are not included in "eligible investments." However, for taxation years ending after May 14, 1992, bankers' acceptances (and any similar securities) will be eligible for the investment allowance, subject to the 120-day rule that currently applies to commercial paper (see note 15).

(34) Retained earnings are not adjusted. B.C. capital tax follows GAAP. Therefore, if an amount is included on the right-hand side of the balance sheet it is included except for "current accounts payable" (see note 37).

(35) Loans and advances made within 120 days before the end of the taxation year of the corporation making the loan or advance are not eligible investments. A loan or advance (not an accounts receivable) from an associated corporation with a permanent establishment in B.C. is not subject to the 120-day rules, as long as the taxation year of each corporation ends on the same date; otherwise, it is subject to the 120-day rule. Note that the 120-day rule does not apply to shares.

(36) B.C. eligible expenditures incurred may reduce total paid-up capital "to the extent that they are not written off to retained earnings" and include the following:

- Canadian Development Expenses (CDE as per paragraph 66.2(5)(a) of the Income Tax Act) incurred in B.C. after March 31, 1992, excluding the cost of acquiring the right or licence to store, explore, drill or mine a Canadian mineral resource and rentals or royalties incurred based on production. CDE includes the corporation's share of the above expenditures incurred by a partnership or joint venture of which it is a member.
- Canadian Exploration Expenses (CEE as per paragraph 66.1(6)(a) of the Income Tax Act) incurred in B.C after March 31, 1992. CEE includes the corporation's share of the above expenditures incurred by a partnership or joint venture of which the corporation is a member.
- Costs incurred in acquiring eligible property. Eligible property is property acquired after March 31, 1992 that is either a building or machinery or equipment that has not previously been used or leased. The property must have been acquired for use in B.C. primarily in specific activities that include manufacturing and processing, exploring for and extracting mineral and industrial resources, oil and gas, cutting standing timber, processing ore to past the prime metal stage, farming or fishing, storing grain and producing or processing steam or all-electric energy for sale (i.e. hydroelectric plant).
- B.C. eligible tourism property acquired after March 31, 1992 to be used primarily in prescribed tourism activities. Eligible property is either a building or structure, machinery or equipment or changes to land constructed by the corporation. The property acquired must not have been used or leased prior to acquisition. Prescribed tourism activities include operating a hotel, motel or other lodging facility, an airport facility, a charter business, a prescribed recreation facility or a tour business.
- B.C. research expenditures incurred after March 31, 1992 in respect of scientific research and as described in paragraph 37(1)(a) or subparagraph 37(1)(b)(ii) of the Income Tax Act; substituting references in those provisions from "Canada" to "British Columbia" and from "taxpayer" to "corporation."

The deduction that a corporation may claim for the above expenditures is equal to the following:

a) For the first taxation year ending after March 31, 1992, the expenditure incurred between March 31, 1992 and the end of that taxation year multiplied by the number of days in the year to the number of days in the year after March 31, 1992;

b) For each taxation year, other than the taxation year referred to in a) above, ending on or before March 31, 1994, the eligible expenditure incurred in that year; and

c) For each taxation year ending after March 31, 1994, the sum of the eligible expenditure incurred by the corporation during its current taxation year and in its immediately preceding taxation year.

(37) Subsection 9(2) of the B.C. Corporation Capital Tax Act includes in total paid-up capital all liabilities but excludes "current accounts payable." "Current accounts payable" are essentially current liabilities under GAAP that represent employee source deductions, current taxes payable, wages and salaries payable, trade accounts payable, "an amount payable to a creditor if (i) the corporation, partnership or joint venture carries on the business of a retail automobile or truck dealership or a retail farm machinery and equipment dealer, and (ii) the amount is secured by a purchase money security interest in itemized motor vehicle inventory or in itemized farm machinery and equipment inventory," and cheques issued and outstanding for current accounts payable in excess of funds on deposit. Current accounts payable does not include current long-term debt or liabilities that have been outstanding for more than 120 days at year end. "Trade accounts payable" is defined as "amounts owing ... to a creditor for the purchase of merchandise, supplies or services from that creditor in the normal course of business."

Note that if a corporation has an interest in a partnership/joint venture, it is required to include its share of the partnership/joint venture's paid-up capital with the exception of liabilities of the partnership/joint venture to the corporation, to an associated corporation with a permanent establishment in B.C. or to other corporations that have an interest in the partnership/joint venture.

(38) Total assets are defined in subsection 12(1) as "the aggregate of the carrying values of the corporation's assets on its balance sheet at the end of its taxation year, prepared using generally accepted accounting principles other than the equity method of accounting, and includes (a) the amount by which the carrying value of an asset has been reduced by a liability or deferred credit, and (b) where the corporation has an interest in a partnership or joint venture, the proportionate share, within the meaning of section 14.3(2), of the aggregate of the carrying values of the partnership or joint venture assets on the partnership's or joint venture's balance sheet at the end of the taxation year that falls within the corporation's taxation year in respect of which the accounting is made, but does not include (c)†the carrying value of the corporation's investment in any partnership or joint venture referred to in paragraph (b)." The calculation is essentially the same as it is for Ontario capital tax purposes.

(39) Deferred exploration costs are deductible only if the corporation is solely engaged in exploration for a mineral resource, petroleum or natural gas and only to the extent that they have not been deducted already as "B.C. eligible expenditures" (11(1)(c) of the Act). Discussions with the department indicate that these deferred exploration costs are not restricted to expenditures made in B.C. and may also include expenditures made before March 31, 1992. The department has stated that deferred exploration costs should be defined in accordance with GAAP and are cumulative.

(40) Proportionate share (based on profits) that the corporation has in the partnership or joint venture less the amount of the interest shown in the financial statements of the corporation.

(41) Effective January 1, 1993, the 3 percent federal surtax is creditable against any LCT payable (prior to this date, LCT was offset against federal surtax). Accordingly, there will be no additional LCT liability for those corporations that have federal surtax sufficient to reduce LCT. Net LCT paid for a year, that was not offset against the federal surtax, is available to be carried forward to offset federal surtax in the succeeding seven years.

(42) Effective for taxation years ending after April 20, 1994, unsecured debt of a corporation is to be included in the capital tax base.

(43) For taxation years ending on or after April 1, 1992 a corporation was able to reduce its taxable paid-up capital by the deferred tax debit recorded on its financial statements. For years ending on or after April 1, 1993, this deduction is not available.

(44) For taxation years ending before May 20, 1993: no, unless secured by property.

(45) Note that the 120-day rule does not apply to shares.

(46) In a recent case, Revenue Quebec considered an advance on contract as a "loan or advance" rather than considering it a reserve, on the basis that a separate provision had not been set up in the books. Quebec’s Minister of Revenue later stated, at the 1995 Round Table session of the APFF, that advances on contract should be included as an "advance," and not as a provision or reserve. Interpretation Bulletin 1136-1 is to be modified, which should help to clarify the minister's position.

Furthermore, regarding asset write-downs, Quebec’s Minister of Revenue stated at the same Round Table session (1995, APFF, question 6) that the write-down of fixed assets in accordance with GAAP is not included in paid-up capital, since it does not meet the definition of a "provision or reserve."

(47) For taxation years beginning before May 10, 1995: no, unless over six months.

(48) For taxation years beginning before May 10, 1995: no, unless over six months or secured by property of the corporation.

(49) The 1995 B.C. Budget added interests in mining reclamation trusts (within the meaning of ITA 248(1)), as eligible investments for the purposes of the investment allowance for taxation years ending after February 22, 1995. For the treatment of mining reclamation trust interests for other jurisdictions, a tax specialist should be consulted.

Technical Committee on Business Taxation

The Technical Committee was established by the Minister of Finance, at the time of the March 1996 federal budget, to consider ways of:

- improving the business tax system to promote job creation and economic growth,
- simplifying the taxation of businesses to facilitate compliance and administration, and
- enhancing fairness to ensure that all businesses share the cost of providing government services.

The Technical Committee will report before the end of 1997; consultations with the public will follow the release of the report.

The Technical Committee is composed of a panel with legal, accounting and economic expertise in the tax field. The members are:

Mr. Robert Brown
Price Waterhouse
Toronto, Ontario

Mr. James Cowan
Stewart McKelvey Stirling Scales
Halifax, Nova Scotia

Mr. Wilfrid Lefebvre
Ogilvy Renault
Montreal, Quebec

Professor Nancy Olewiler
Department of Economics
Simon Fraser University
Burnaby, British Columbia

Mr. Stephen Richardson
Tory, Tory, Deslauriers & Binnington
Toronto, Ontario

Professor Bev Dahlby
Department of Economics
University of Alberta
Edmonton, Alberta

Mr. Allan Lanthier
Ernst & Young
Montreal, Quebec

Professor Jack Mintz (Chair)
Faculty of Management,
University of Toronto (on leave)
Clifford Clark Visiting Economist
Department of Finance
Ottawa, Ontario

Mr. Norm Promislow
Buchwald Asper Gallagher Henteleff
Winnipeg, Manitoba

The Technical Committee has commissioned a number of studies from outside experts to provide analysis of many of the issues being considered as part of its mandate. These studies are being released as working papers to make the analysis available for information and comment. The papers have received only limited evaluation; views expressed are those of the authors and do not necessarily reflect the views of the Technical Committee.

A list of completed research studies follows. They may be requested from:

Distribution Centre
Department of Finance
300 Laurier Avenue West
Ottawa, Ontario K1A 0G5
Telephone: (613) 995-2855
Facsimile: (613) 996-0518

They are also available on the Internet at http://www.fin.gc.ca/

Technical Committee on Business Taxation Completed Research Studies

☐ **WORKING PAPER 96-1**
Comparison and Assessment of the Tax Treatment of Foreign-Source Income in Canada, Australia, France, Germany and the United States
Brian Arnold (Goodman Phillips & Vineberg)
Jinyan Li and *David Sandler* (University of Western Ontario)

☐ **WORKING PAPER 96-2**
Why Tax Corporations
Richard Bird (University of Toronto)

☐ **WORKING PAPER 96-3**
Tax Policy and Job Creation: Specific Employment Incentive Programs
Ben Cherniavsky (Technical Committee Research Analyst)

☐ **WORKING PAPER 96-4**
The Effects of Taxation on U.S. Multinationals and Their Canadian Affiliates
Jason Cummins (New York University)

☐ **WORKING PAPER 96-5**
The Integration of Corporate and Personal Taxes in Europe: The Role of Minimum Taxes on Dividend Payments
Michael Devereux (Keele University)

☐ **WORKING PAPER 96-6**
International Implications of U.S. Business Tax Reform
Andrew Lyon (University of Maryland)

☐ **WORKING PAPER 96-7**
The Economic Effects of Dividend Taxation
Ken McKenzie (University of Calgary)
Aileen Thompson (Carleton University)

☑ **WORKING PAPER 96-8**
Capital Tax Issues
Peter McQuillan and *Cal Cochrane* (KPMG Toronto)

☐ **WORKING PAPER 96-9**
Compliance Issues: Small Business and the Corporate Income Tax System
Robert Plamondon (Ottawa)

☐ **WORKING PAPER 96-10**
Study on Transfer Pricing
Robert Turner (Ernst & Young, Toronto)

☐ **WORKING PAPER 96-11**
The Interaction of Federal and Provincial Taxes on Businesses
Marianne Vigneault (Bishop's University)
Robin Boadway (Queen's University)

☐ **WORKING PAPER 96-12**
Taxation of Inbound Investment
Gordon Williamson (Arthur Andersen, Toronto)