

2005 GUIDE TO COMPLETION OF

**THE ALBERTA
CORPORATE
INCOME TAX RETURN**

PART 1 - AT1 AND SCHEDULES 1 THROUGH 11

2005

Alberta

FINANCE
Tax and Revenue Administration (TRA)

This Guide contains information for the completion of the 2005 Alberta Corporate Income Tax Return ([form AT1](#)) and related schedules. The 2005 tax package may also be used to complete Alberta Corporate Income Tax Returns for taxation years ending in 1998 to 2004. Part 1 provides instructions for the completion of the AT1 return and Schedules 1 through 11. [Part 2 of the Guide](#) is for use by corporations whose discretionary deductions, carry forward balances of pools, or loss applications differ for Alberta purposes from those claimed federally. Because of Alberta's response to federal resource tax policy changes from 2003 onwards, Part 2 is also for use from 2003 by corporations with crown charges, Alberta royalty tax credit claims or resource allowance.

This Guide does not substitute for the *Alberta Corporate Tax Act* and Regulations. Should a discrepancy occur in interpretation between the Guides and governing legislation, the legislation takes precedence. The Guides cannot cover all circumstances that affect the completion of the AT1 return. To request forms or to obtain additional information or clarification, please telephone, write, or e-mail:

Edmonton:

TAX AND REVENUE ADMINISTRATION
ALBERTA FINANCE
9811 – 109 Street
EDMONTON AB T5K 2L5
General Enquiries: (780) 427-3044
Fax: (780) 422-3770

Calgary:

TAX AND REVENUE ADMINISTRATION
ALBERTA FINANCE
1100, 715 – 5th Avenue SW
CALGARY AB T2P 2X6
General Enquiries: (403) 297-5200
Fax: (403) 297-5238

Alberta callers outside Edmonton and Calgary may telephone toll free by entering 310-0000, then the applicable general enquiries or fax number shown above.

E-mail: We are also accessible by e-mail at: tra.revenue@gov.ab.ca

NOTE: Tax returns are not processed in the Calgary office. All corporations should file their returns with the Edmonton office.

Unless otherwise stated, all references in this Guide to “the Act” and to section, subsection or paragraph numbers refer to the *Alberta Corporate Tax Act*. References to schedules without the prefix “federal” are references to Alberta schedules. “Federal Act” and “federal regulations” refer to the *Income Tax Act (Canada)* and the regulations under that Act. TRA is Alberta Finance, Tax and Revenue Administration. CRA is Canada Revenue Agency.

Information Circulars, including [CT-2, “Filing Requirements”](#), Interpretation Bulletins and forms mentioned in this guide are available from the TRA offices listed above or on our web site at:

http://www.finance.gov.ab.ca/publications/tax_rebates/corporate/index.html.

CONTENTS

<u>INTRODUCTION</u>	1
<u>Who Must File an Alberta Return?</u>	1
<u>What Must Be Filed for a Return to be Complete?</u>	1
<u>When Does the Alberta Return Have to be Filed?</u>	1
<u>Who Is Exempt from Filing?</u>	1
<u>What Happens if a Corporation Did Not File but Should Have?</u>	2
<u>When Does a Corporation Pay its Alberta Income Tax?</u>	2
<u>What Happens if Tax Is Not Paid on Time?</u>	3
<u>What Happens if Errors Were Made in a Filed Return or if Canada Revenue Agency (CRA) or Another Jurisdiction Reassesses?</u>	3
<u>What Are the Penalties?</u>	4
Late-filed Return	
Late or Deficient Instalments	
Offences and Fines	
Other Penalties	
<u>Objections and Appeals</u>	5
<u>General Anti-Avoidance Rules (GAAR)</u>	6
<u>Collection of Disputed Amounts</u>	6
<u>Records and Books</u>	7
<u>COMPLETING THE ALBERTA CORPORATE INCOME TAX RETURN (AT1)</u>	8
<u>Filing Requirements - Complete Form AT100</u>	8
<u>Completion of Page 1 of the AT1 Return</u>	8
<u>Completion of Page 2 of the AT1 Return</u>	12
<u>SCHEDULES</u>	17
<u>Schedule 1: Alberta Small Business Deduction</u>	17
<u>Schedule 2: Allocation of Income</u>	23
<u>Schedule 4: Alberta Foreign Investment Income Tax Credit</u>	25
<u>Schedule 5: Royalty Tax Deduction (RTD) Claim Amounts</u>	26
<u>Schedule 6: Alberta Royalty Tax Credit (ARTC)</u>	37
<u>Schedule 7: Royalty Tax Credit/Deduction Supplemental Information</u>	41
<u>Schedule 8: Alberta Political Contributions Tax Credit</u>	43
<u>Schedule 10: Loss Carry-back Application</u>	46
<u>Schedule 11: Alberta Manufacturing And Processing Profits Deduction</u>	49
<u>STANDARD INDUSTRIAL CLASSIFICATION CODES</u>	APPENDIX A
<u>LISTING OF PROVINCIAL, STATE AND COUNTRY CODES</u>	APPENDIX B
<u>GO TO PART 2 – SCHEDULES 12 - 21</u>	

INTRODUCTION

Who Must File an Alberta Return?

Generally, a corporation must file an Alberta Corporate Income Tax Return (AT1) for each taxation year during which it had, at any time, a “permanent establishment” in Alberta. However, many corporations are exempt from filing (see “Who is Exempt From Filing” below). For an explanation of “permanent establishment”, please refer to [Interpretation Bulletin CTIB-1, “Taxability of a Corporation in Alberta on the Basis of Permanent Establishment”](#).

What Must Be Filed for a Return to be Complete?

For taxation years ending in 1998, a complete Alberta return consists of:

- form AT1 and all applicable schedules **or** the Alberta Return and Schedule Information (RSI); i.e., the keying summary that is produced for the AT1 return by certified software;
- a copy of the federal T2 return and applicable schedules **or** the federal T2-RSI; **and**
- the corporation’s financial statements **or** the General Index of Financial Information (GIFI).

For taxation years ending in 1999 and subsequent years, corporations can file their returns using either the:

- Alberta RSI; or
- prescribed form AT1 and all applicable schedules.

Under either of the above options, there is no need for the corporation to submit copies of the federal T2 return, the corporation’s financial statements or GIFI to Alberta Finance, Tax and Revenue Administration (TRA).

When Does the Alberta Return Have to be Filed?

The return must be **received** by TRA within six months from the end of the corporation’s taxation year.

Who Is Exempt from Filing?

A corporation is exempt from filing an Alberta return for a year if it:

1. is a Canadian-controlled private corporation throughout the taxation year;
2. has permanent establishments only in Alberta throughout the taxation year;
3. has filed a federal T2 return with the Canada Revenue Agency (CRA) and is reporting **no taxable income** before applying losses carried back from a subsequent year and before deducting any amount relating to the exercise of an option in a subsequent year;

4. is **not** claiming the Alberta royalty tax credit and has not received royalty tax credit instalments for the taxation year;
5. has **no amounts** to report on Schedule 5, Royalty Tax Deduction;
6. has discretionary tax account balances (e.g., undepreciated capital cost, reserves, losses) that throughout the year were the same for Alberta and federal purposes; i.e., the corporation has historically reported the same taxable incomes or losses for Alberta and federal purposes;
7. has gross revenue for the year that does not exceed \$500,000; **and**
8. is **not** entitled to a refund of tax instalments.

Under section 35 of the Act, certain corporations (e.g., crown, pension and non-profit corporations) are exempt from paying tax on their taxable incomes. They are also exempt from filing an Alberta return if they meet **ALL** the above criteria. However, an Alberta return must be filed if the corporation is claiming the Alberta royalty tax credit.

Any corporation that has remitted funds to TRA should check the statement of account received from TRA to confirm it is not entitled to a refund of tax instalments under paragraph 8 above. Refunds of any funds remitted will be held until an Alberta tax return is filed.

What Happens if a Corporation Did Not File but Should Have?

A corporation that does not file a return on time for any taxation year is subject to a late filing penalty.

A corporation might not file an Alberta return if it reasonably believed it was exempt from filing only to discover later that it had taxable income. In this case, TRA will use the corporation's filing date with CRA to determine whether a late filing penalty should be charged in Alberta. Interest is charged on overdue taxes whether or not an Alberta return was initially filed.

Effective December 9, 1998, a corporation is required to file the Alberta return in the case described above within ninety days from the later of the date of determining it was not exempt from filing or six months after the corporation's tax year-end.

When Does a Corporation Pay its Alberta Income Tax?

There are three payment rules under the Act:

1. **No monthly instalments required - all tax due by the end of the third month following the taxation year.** This rule is applicable to **Canadian-controlled private corporations**:
 - a) claiming the Alberta Small Business Deduction (ASBD) and having taxable income of not greater than \$500,000 in the current year;
 - b) that claimed the ASBD and had taxable income of not greater than \$500,000 in the immediately preceding year; or
 - c) whose tax for the year, or whose first instalment base, is not greater than \$2,000.

2. **No monthly instalments required - all tax due by the end of the second month following the taxation year.** This rule applies to corporations, **other than Canadian-controlled private corporations**, whose tax for the current year or whose first instalment base is not greater than \$2,000.
3. **Monthly instalments required - balance of tax due by end of the second month following the taxation year.** This rule is applicable to any corporation not described above.

For a detailed discussion of instalment requirements and the calculation of instalment bases, see [Information Circular CT-3, "Alberta Corporate Tax Instalments"](#).

What Happens if Tax Is Not Paid on Time?

Interest on late or deficient instalments is calculated for the period beginning when the instalment was due and ending at the balance due date (two or three months after the year-end depending on the payment rule applicable to the corporation).

Interest is also charged on any balance owing after the balance due date until it is paid. If the corporation pays the amount owing **in full** within 35 days of the date the notice of assessment was mailed, no further interest charges accrue. If the assessed balance is not paid in full within the 35 days, additional interest is charged on the account balance outstanding from the date of assessment until it is paid in full.

If the tax is not paid by the balance due date, as noted above, and the AT1 return is filed late, the corporation is also subject to a late filing penalty. The penalty assessed can be minimized or eliminated by ensuring the taxes owing are paid by the filing due date.

All interest is compounded daily at a rate determined quarterly. [Interest rates can be found on our Internet site](#) or by telephoning TRA.

For more information about interest calculations, see [Information Circular CT-4, "Interest and Penalties"](#).

What Happens if Errors Were Made in a Filed Return or if Canada Revenue Agency (CRA) or Another Jurisdiction Reassesses?

Effective December 9, 1998, if an error is found by the corporation within the normal reassessment period, the corporation must notify TRA of the error within ninety days from the later of the date of discovering the error, or six months after the corporation's taxation year-end to which the error pertains. This notification may be done either by providing TRA with the correct information or by filing an amended return.

Also effective December 9, 1998, if there has been an assessment action by CRA or another jurisdiction that changes tax balances as described in the following paragraph, the corporation must notify TRA of the federal or other jurisdictional assessment action within ninety days from the later of:

- the date of the assessment action, or

- six months from the corporation's taxation year-end to which the assessment pertains.

Assessment information must be filed with TRA where, as a result of assessing a return or conducting an audit, CRA or another jurisdiction changes the corporation's income, taxable income, allocation of taxable income, losses or amounts payable or refundable.

If the corporation does not file the above information, the normal reassessment period is extended indefinitely.

What are the Penalties?

Late-filed Return

If a corporation, other than one that reasonably believes it is exempt from filing, files its Alberta return late, a penalty applies. The penalty is the sum of:

- a) five per cent of the tax remaining unpaid at the required filing date and of any excess royalty tax credit instalments not repaid as of the required filing date; plus
- b) one per cent of the base amount described in a) for each complete month that the return is late, up to a maximum of twelve months.

What happens if a corporation finds out that it is not exempt from filing yet does not file an Alberta return, or discovers an error, or CRA or another jurisdiction reassesses but the corporation does not notify TRA?

If a corporation does not file an Alberta return or provide TRA with the amended information as described above within ninety days of the latest of:

- the date of discovery,
- the date of the federal or other jurisdictional assessment action, or
- six months from the corporation's taxation year-end,

TRA may impose a penalty equal to the sum of:

- a) five percent of the total of any increase in tax and reduction in a refundable credit, unpaid at the end of the ninety-day period; plus
- b) one percent of the base amount described in a) for each complete month that the Alberta return is not filed or the amended information not provided, up to a maximum of twelve months.

Late or Deficient Instalments:

A penalty is imposed on corporations making late or inadequate instalments in addition to any interest charged on late or inadequate instalments, as described previously.

The penalty is equal to 50 per cent of the interest payable for such instalments, less the greater of:

- a) \$1,000; or
- b) 25 per cent of the interest that would have been payable had the corporation paid no instalments in the year.

Offences and Fines:

A corporation that fails to file a return or provide information or documents, as and when required, may be liable to a fine, determined by a court, for each day of default.

Other Penalties:

Penalties or fines may be imposed on individuals or corporations that:

- a) make false or deceptive statements;
- b) destroy, alter or dispose of records and books;
- c) make false or deceptive entries;
- d) evade, or attempt to evade, compliance with the Act or payment of taxes; or
- e) conspire with any person to commit any of the above offences.

For more information about penalties and fines, refer to [Information Circular CT-4, "Interest and Penalties"](#).

Objections and Appeals

If a corporation disagrees with an assessment or reassessment, it may file a *Notice of Objection* within 90 days from the date of mailing of the *Notice of Assessment or Reassessment*. [Information Circular CT-8, "Objections and Appeals"](#), provides additional information about filing an objection.

General Anti-Avoidance Rules (GAAR)

If a corporation has entered into an avoidance transaction, TRA may apply GAAR to ultimately deny the tax benefit arising as a result of the transaction or series of transactions.

There are two types of GAAR assessments or determinations that may be issued by TRA:

1. Alberta-initiated GAAR assessments or determinations, and
2. federal GAAR assessments or determinations paralleled by TRA.

If a corporation disagrees with the GAAR assessments or determinations, it may file a provincial *Notice of Objection* within 90 days from the date of mailing of the assessment or determination. Since 2003, the Alberta GAAR Appeal Committee has been disbanded. All objections and appeals pertaining to GAAR are handled through the normal objection and appeals process. [Information Circular CT-16, "Tax Avoidance, General Anti-Avoidance Rules \(GAAR\)"](#), provides information about TRA's GAAR assessments or determinations.

Collection of Disputed Amounts

Legal collection action is not usually taken on unpaid balances that relate to the portion of an assessment or reassessment under objection or first-level appeal to the courts. If an objection has been made to CRA, and the resolution will be paralleled by Alberta, the corporation must also file an Alberta objection to forestall legal collection action by Alberta on the amount in dispute in Alberta.

Records and Books

In general, all records and books, including all supporting documentation, must be kept for at least six years from the end of the taxation year to which they relate. Electronic records and the software required to read them must be kept in an electronically readable format for the same retention period of six years. If a return is filed late, the records and books must be kept for six years from the date the return is filed. Do not destroy the records and books any earlier without written permission from TRA.

Permanent records such as general ledgers, minutes of directors' and shareholders' meetings, share registers, and special contracts must be kept for a period of two years after a corporation is dissolved.

Records and books that relate to an objection or appeal must be kept until the objection or appeal process is concluded and the time for filing any further appeal has expired.

All records and books must be available in Canada unless the corporation receives written permission from TRA to locate them in a designated alternative location.

Requirements regarding the destruction of records and books are explained in [Information Circular CT-13, "Records and Books"](#).

COMPLETING THE ALBERTA CORPORATE INCOME TAX RETURN (AT1)

Filing Requirements – Complete Form AT100

Complete the Filing Requirements area of the form [AT100, “Preparing and Filing the Alberta Corporate Income Tax Return - AT1 and Schedules”](#) to determine if the corporation is exempt from filing an Alberta return for this taxation year. **If all answers to the eight statements are “YES”, then the corporation is exempt from filing the AT1 for the taxation year. If ANY answer to these statements is “NO”, then the corporation must file the AT1 return within six months of its taxation year-end.**

Any corporation that has remitted funds to TRA should check the Statement of Account received from TRA to confirm it is not entitled to a refund of tax instalments under the heading “Who is Exempt from Filing?” Refunds of any funds remitted will be held until an Alberta tax return is filed.

Completion of Page 1 of the [AT1 Return](#)

If you are required to file, be sure to complete lines 010 through 053 as required, so the corporation can be properly identified and the return appropriately processed.

Line 010: Legal Name of Corporation

On this line enter the full legal name of the corporation including any punctuation. This is the registered name of the corporation and may or may not be the same as its operating name.

Line 011: Operating Name of Corporation

On this line enter the operating name of the corporation if different from the legal name.

Lines 012 to 017: Mailing Address of Business

The address to be supplied on lines 012 to 017 is the address to which Statements of Account, Remittance Advices, refunds (if applicable), publications and correspondence are to be mailed. Notices of Assessment will also be mailed to this address if lines 018 to 024 are not completed and a fax number not provided on line 093.

Lines 018 to 024: Alternative Address

Complete these lines if the corporation would like all correspondence relating to an assessment on this Alberta return forwarded to an address other than its normal mailing address on lines 012 to 017. The Notice of Assessment relating to this return will also be forwarded to this address unless line 093 is completed (see below).

Lines 025 to 027: Person to Contact

Provide the name, telephone number and fax number of the person or firm that TRA should contact concerning the contents of the Alberta return. This area can be used in place of a "Letter of Authority" or Alberta Consent form.

Nature of Business

Describe the major business or professional activity of the corporation. If the corporation has several major lines of business, describe each.

Line 028: Standard Industrial Classification (SIC) Code

The SIC code is used to classify the nature of the primary business operations of the corporation. See the list provided in Appendix A at the end of this Guide.

Line 029: Type of Corporation

The type of corporation indicated on the AT1 will normally be the same as the type of corporation indicated on the federal T2 return, line 040. Exceptions are:

1. the AT1 provides a separate category for Alberta professional corporations. An Alberta professional corporation is a Canadian-controlled private corporation representing the incorporated professional practice of an accountant, dentist, lawyer, medical doctor or chiropractor.
2. the AT1 does **not** provide a separate category for corporations controlled by public corporations. If the controlled corporation is itself a public corporation, enter code number 3; if not, enter code number 5 and describe it as a corporation controlled by a public corporation.
3. a corporation that, at the end of the year but not throughout the year, was a Canadian-controlled private corporation should enter code number 5 and describe the change in corporation type that occurred during the year.

Line 030: Special Corporation Status

On line 030 enter the code corresponding to the description if the corporation is described below:

Code Description

1. Investment corporation, described in Section 130 of the federal Act (i.e., a Canadian public corporation meeting the revenue, income, asset and shareholder composition tests of that section);
2. Mutual fund corporation, described in s.131 of the federal Act;
3. Cooperative, described in s.136 of the federal Act;
4. Credit union, described in s. 137 of the federal Act;
5. Corporation exempt from taxation under s. 149 of the federal Act.

Line 031: Windup of Wholly-owned Subsidiary

Check “YES” if there has been a windup of a wholly-owned subsidiary under section 88 of the federal Act during the current taxation year. Otherwise, check “NO”.

Line 034: Alberta Corporate Account Number

Each corporation is identified with a corporate account number. This number can be found on any Notice of Assessment or Reassessment or Statement of Account issued by TRA to the corporation. It also appears on the Certificate of Incorporation if the corporation is registered under the Alberta Business Corporations Act. A corporation can also contact TRA to confirm its Alberta corporate account number. This number should be referred to in all correspondence with TRA.

Line 035: Federal Business Number

The Federal Business Number is the fifteen-character identifier assigned to the corporation by CRA. It is found on Notices of Assessment and Reassessment and Statements of Account issued by CRA.

Lines 036 and 037: Taxation Year

Enter the **year**, **month** and **day** for both the first and last days of the relevant taxation year of the corporation. The first day of this taxation year must be the day immediately following the last day of the preceding year. These dates must be the same as the dates given on the corporation’s federal tax return.

Lines 038 and 039: Taxation Year-end Change

If the corporation’s taxation year-end has changed since the last return was filed in Alberta, check “YES” on line 038; if not, check “NO”.

NOTE: Once established, the taxation year-end may not be voluntarily changed without the approval of CRA. However, a corporation is deemed to have a taxation year-end immediately before it is amalgamated with another corporation or immediately before control of the corporation changes. The requirements for filing a return and paying tax apply to years with deemed year-ends in the same way that they apply to other year-ends. If a corporation’s taxation year-end has changed, check the applicable reason for the change on line 039.

Line 047: Gross Revenue

“Gross Revenue” is the total of:

- a) gross sales or revenue shown on the corporation’s income statement; plus
- b) gross investment, rental and other income not included in gross revenue under a) above.

Enter the total gross revenue figure (to the nearest thousand dollars) on line 047.

Line 048: Total Assets

“Total Assets” is the book value of all assets of the corporation shown on its balance sheet at the end of the taxation year.

Enter the total assets figure (to the nearest thousand dollars) on line 048.

Lines 050 to 053: Final Return

If the corporation will not be required by law to file an Alberta return in any subsequent taxation year, it should indicate that the return is a final return by checking “YES” on line 050. If this is a final return, specify the reason on line 051 (amalgamation, discontinuance of permanent establishment in Alberta, bankruptcy, windup into parent or dissolution of corporation).

If the reason specified is that an amalgamation has occurred, then enter the date of the amalgamation on line 052.

If the reason for the final return is that the corporation has been dissolved, provide the date that operations ceased on line 053.

Line 054: Transfer of Property

If there has been a transfer of property under subsection 85(1), 85(2) or 97(2) of the federal Act during the year, the corporation should indicate so by checking “YES”; otherwise, check “NO”.

Completion of Page 2 of the AT1 Return

All financial information should be reported to the nearest dollar - **do not include cents**. For manually-prepared returns, enter negative amounts in brackets.

Lines 060 and 061:

The Act adopts most of the rules of the federal Act for determining income and taxable income.

Some of the amounts that may be claimed under these rules are discretionary. For example, a corporation may choose to claim none or any portion of the maximum capital cost allowance. It may, but need not, apply losses that are available from other years or claim the same amounts federally and for Alberta purposes from various reserves. Claiming different discretionary amounts for Alberta and federal purposes could result in a difference between Alberta and federal taxable income.

Differences between Alberta and federal taxable income can also arise from 2003 onwards because of differences in the Alberta and federal resource tax regimes.

In past years, some corporations may have claimed different discretionary amounts for Alberta purposes from those for federal purposes. As a result, these corporations have different discretionary tax account balances for Alberta and federally. For example, the undepreciated capital cost balances in one or more classes may differ, or a reserve balance for Alberta purposes at the end of the last taxation year may be greater, or less, than the corresponding reserve balance for federal purposes.

If taxable income for federal purposes is different from taxable income for Alberta purposes, check "YES" on line 060; otherwise, check "NO". Do not check "YES" unless the difference is greater than one dollar.

If the corporation elected to use different discretionary amounts in the current taxation year **or** if the opening balances of the discretionary pools differ for federal and Alberta purposes, check "YES" on line 061; otherwise, check "NO".

If either line 060 or 061 is checked "YES", Schedule 12, "Income/Loss Reconciliation" and supporting schedules must be completed to reconcile federal and Alberta taxable income and/or discretionary pool balances. For information on the completion of Schedule 12 and other supporting schedules see [Part 2 of this Guide](#).

Line 062:

If both lines 060 and 061 are checked "NO", the taxable income reported on line 062 **must** equal federal taxable income (T2 line 360 minus 370). If the amount reported is a loss, it **must** equal the amount from federal Schedule 4, "Loss Continuity and Application", (line 110 plus 310).

If either, or both, lines 060 or 061 are checked "YES" and the corporation is not reporting a non-capital loss, enter the taxable income amount obtained from Schedule 12, "Income/Loss Reconciliation", line 090 minus 092, if applicable. If the amount reported is a loss, the corporation must complete Schedule 21, "Calculation of Current Year Loss and Continuity of Losses", to calculate the non-capital loss for the current year on line 021 of that Schedule.

Regardless of whether lines 060 and 061 are checked "YES" or "NO", a corporation carrying back a loss to a previous taxation year must complete Schedule 10, "Loss Carry-back Application".

Line 064:

A corporation that has paid royalties or made similar payments to any provincial or federal government may be entitled to claim the royalty tax deduction (RTD). Schedule 5, "Royalty Tax Deduction", must be completed to claim the deduction and, if claimed, the amount to be entered on line 064 is the amount shown on line 021 of Schedule 5.

Line 065:

A corporation is not required to complete Schedule 2, "Income Allocation Factor", if it has a permanent establishment only in Alberta. In this case, no entry should be made on line 065.

A corporation with taxable income and a permanent establishment in Alberta and elsewhere should complete Schedule 2 and enter the applicable Alberta Allocation Factor on line 065.

Refer to [Interpretation Bulletin CTIB-1, "Taxability of a Corporation in Alberta on the Basis of Permanent Establishment"](#), for more detail about permanent establishments and [Interpretation Bulletin CTIB-3, "Allocating Income Among Permanent Establishments"](#), for an explanation of the income allocation rules.

Line 066:

If the corporation has a permanent establishment only in Alberta, then the Alberta Allocation Factor is equal to one, and the amount taxable in Alberta on line 066 is equal to line 062 minus 064.

If the corporation has a permanent establishment in Alberta and elsewhere, then the amount taxable in Alberta on line 066 is equal to the amount obtained when line 062 minus 064 is multiplied by the Alberta Allocation Factor on line 065. If line 062 minus 064 results in a negative amount, enter "0" on line 066.

Lines 068 to 080:

The basic Alberta tax rate of 15.5% since 1998 has been reduced as follows:

- April 1, 2001 from 15.5 per cent to 13.5 per cent;
- April 1, 2002 from 13.5 per cent to 13 per cent;
- April 1, 2003 from 13 per cent to 12.5 per cent;
- April 1, 2004 from 12.5 per cent to 11.5 per cent;
- April 1, 2006 from 11.5 per cent to 10.0 per cent.

The calculation on line 068 prorates the corporation's amount taxable in Alberta for taxation years straddling the effective date of the tax rate reduction.

The basic Alberta tax may be reduced by those credits and deductions listed on lines 070 to 075 applicable to the corporation. The credits and deductions must be claimed in the same order they are listed on the AT1 and the applicable schedule is required to support each credit or deduction claimed.

The amount entered on line 080 may not be a negative number. If the total credits on line 079 exceed the tax payable on line 068, enter "0" on line 080.

Line 076:

Line 076 is for future use should new programs be added.

Line 082:

The amount entered on line 082 will include the sum of:

- a) cash instalments made for the taxation year prior to filing the AT1,
- b) royalty tax credit instalments credited to the income tax instalment account for the taxation year,
- c) overpayments of the preceding taxation year applied to the current year's income tax account, and
- d) repayments of excess royalty tax credit instalments under subsection 38(8).

Ensure the amount entered on line 082 reconciles with the instalment balance reported on the latest Statement of Account received from TRA, adjusted for any transactions that occurred after the period end date on the statement.

Line 083:

On line 083 enter the amount of Alberta royalty tax credit from line 010 of Schedule 6, "Alberta Royalty Tax Credit".

Line 084:

On line 084 enter the amount from line 012 of Schedule 6, the amount of Alberta royalty tax credit instalments claimed/processed for the taxation year. This amount will include Alberta royalty tax credit instalments credited to the corporation's tax account, any amounts applied to arrears and any amounts received in cash by the corporation.

Line 086:

The Alberta capital gains refund is available to investment corporations and mutual fund corporations.

The provisions in the federal Act specifically applicable to investment corporations and mutual fund corporations are, with modification, incorporated into the Act. A corporation claiming a federal capital gains refund may also claim an Alberta capital gains refund.

The capital gains refund calculation follows the rules of the federal act, except that the Alberta Tax rate should be used instead of the federal rate. There is no Alberta schedule for this deduction.

The Alberta capital gains refund is prorated if a corporation has permanent establishments outside Alberta. A corporation may, after filing the Alberta return, be requested to provide a schedule showing the calculation of the Alberta capital gains refund claimed.

Line 087:

Line 087 is for future use should new programs be added.

Line 090: Balance Unpaid (Overpayment)

Although the deadline for filing the corporation's Alberta return is six months after its taxation year-end, the balance of tax owing is due two to three months after its taxation year-end as noted in the section "When Does a Corporation Pay its Alberta Income Tax?" of this Guide.

If a balance remains unpaid after the expiration of the payment deadline, it should be remitted to TRA as quickly as possible to minimize non-deductible interest charges. Payments are to be made in Canadian funds to the Minister of Finance accompanied by a Remittance Advice.

An overpayment of tax for the current year will be applied first to any outstanding balance for other assessed years. The balance remaining will be refunded unless the corporation requests it be transferred to the subsequent taxation year or another account.

To reduce processing costs, TRA will not collect or refund assessed amounts of less than \$20, unless specifically requested to do so.

Line 091:

If the amount on line 090 is a balance due (i.e., a positive amount) and the corporation's payment accompanies the return, then enter the payment amount on line 091.

Line 092:

If the amount on line 090 is an overpayment (i.e., a negative amount), then indicate on line 092 whether the corporation prefers a refund of the amount, or the overpayment applied to the following year's tax payments.

Line 093:

If the Notice of Assessment is to be provided to the corporation by fax, enter the fax number on line 093. If the assessment does not result in a balance owing, a copy of the Notice of Assessment will be faxed, but **not mailed** to the corporation. If the corporation owes tax, a copy of the Notice of Assessment and Remittance Advice will be sent by mail.

Lines 097, 098 and 099: Certification

The return must be reviewed, signed and dated by a person authorized by the board of directors or other governing body of the corporation.

SCHEDULES

SCHEDULE 1: Alberta Small Business Deduction

The Alberta Small Business Deduction (ASBD) is available only to corporations that were Canadian-controlled private corporations throughout the taxation year. Changes to the ASBD rates and the Small Business Threshold are shown in the following table.

	Alberta Small Business Threshold	Threshold as a Multiple of Base Amount of \$200,000	Alberta Small Business Deduction Rate	Alberta Small Business Tax Rate
Before April 1, 2001	\$200,000	100%	9.5%	6.0%
After March 31, 2001 and before April 1, 2002	\$300,000	150%	8.5%	5.0%
After March 31, 2002 and before April 1, 2003	\$350,000	175%	8.5%	4.5%
After March 31, 2003 and before April 1, 2004	\$400,000	200%	8.5%	4.0%
After March 31, 2004	\$400,000	200%	8.5%	3.0%
After March 31, 2006	\$400,000	200%	7.0%	3.0%

Schedule 1 has been redesigned to incorporate the above changes.

Line 001:

The Act adopts the meaning of “associated corporations” from the federal Act. Therefore, corporations that are associated for purposes of the federal Small Business Deduction are also associated for the ASBD.

Area A on page 2 of Schedule 1, “Agreement Among Associated Corporations”, must be completed if the corporation is associated with one or more Canadian-controlled private corporations.

Area A: Agreement Among Associated Corporations (Page 2 of Schedule 1)

If two or more Canadian-controlled private corporations are associated, the **maximum** Alberta small business threshold each corporation may claim is the portion of the small business threshold (\$200,000 before April 1, 2001; \$300,000 after March 31, 2001 and before April 1, 2002; \$350,000 after March 31, 2002 and before April 1, 2003, and \$400,000 after March 31, 2003) that is allocated to it. The allocated amount may be reduced under certain circumstances.

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

For taxation years ending before December 4, 2002, corporations may choose to use the same allocation as those shown on federal Schedule 023 or a different allocation for Alberta purposes. Where the federal allocation is used, the amounts from federal Schedule 023 must be entered in "Area A" on page 2 of Schedule 1. The amount reported on line 015 for each of the associated corporations is then the same as the business limit determined for federal purposes.

For taxation years ending after December 4, 2002, corporations must allocate the Alberta small business threshold by using the same percentages as those used to allocate the federal business limit shown on federal Schedule 023. The federal percentages are to be entered at column 044 in "Area A" on page 2. Corporations are no longer allowed to use different allocations for Alberta purposes.

Similar to the federal Small Business Deduction rules, the base amount of an associated corporation, finally determined, might be less than the amount allocated to it. Area B on page 2 of Schedule 1 must be completed in this case.

Line 003:

The amount to be entered on line 003 will usually be the amount of active business income determined for the federal deduction (line 400 of the federal T2). A difference will arise if, for instance, the corporation's discretionary deductions for Alberta purposes differ from the amounts claimed for federal purposes and if some part of the deductions are a component of active business income. In this case, the amount to be entered on line 003 will be the amount reported on line 106 on Schedule 12.

The amount to be entered on line 003 excludes income from a personal services business (i.e., income earned as an incorporated employee) and income from a specified investment business, whose principal purpose is to earn income from property (e.g., interest, real estate rentals, dividends, or royalties) with fewer than six full-time employees throughout the year.

Income from property not incidental to an active business carried on by the corporation is also not included in active business income. Under this rule, interest earned on long-term investments would ordinarily be excluded from active business income.

Specified Partnership Income

Specified partnership income is eligible for the small business deduction allocated to a corporation. It is included in the corporation's calculation of active business income for determining the small business deduction the corporation may claim.

The rules for determining the specified partnership income for calculating the ASBD parallel the federal rules. The federal calculation, however, must be adjusted to account for increases to the Alberta small business threshold.

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

If the corporation has specified partnership income and the fiscal period of the partnership ends after March 31, 2001, paragraph (b) of "A" in the definition of "specified partnership income" in subsection 125(7) of the federal Act is to be calculated as the aggregate of the amounts determined by the following formulas:

K/L x P,
K/L x Q,
K/L x R, and
K/L x S

"K" and "L" have the meaning assigned to them in the definition of specified partnership income in subsection 125(7) of the federal Act; and

"P" is the lesser of

- i) \$200,000, and
- ii) the amount obtained when \$548 (\$200,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the years that were before April 1, 2001;

"Q" is the lesser of

- i) \$300,000, and
- ii) the amount obtained when \$822 (\$300,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the years that were after March 31, 2001 and before April 1, 2002;

"R" is the lesser of

- i) \$350,000, and
- ii) the product obtained when \$959 (\$350,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the years that were after March 31, 2002 and before April 1, 2003;

and

"S" is the lesser of

- i) \$400,000, and
- ii) the product obtained when \$1096 (\$400,000 divided by 365) is multiplied by the total of all amounts each of which is the number of days contained in a fiscal period of the partnership ending in the years that were after March 31, 2003.

Line 009:

The amount to be entered on line 009 is the taxable income entered on line 062 of page 2 of the AT1 return **less** the total of:

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

- a) 2.5 times the foreign tax credit deducted from federal tax for foreign business income,
- b) 10/3 of the foreign tax credit deducted from federal tax for foreign non-business income, and
- c) amounts included in the amount taxable in Alberta not subject to Alberta corporate income tax.

Line 015:

The Alberta small business threshold is similar to the federal small business limit and is set at the base amount of \$200,000.

Area B on page 2 of Schedule 1, "Determination of the Value for Line 015", must be completed if the corporation's taxation year is less than 51 weeks or if, in the preceding year, any corporation in the associated group paid the federal Large Corporations Tax.

The amount (a) is \$200,000 if the corporation is not associated with another corporation. Otherwise, the allocated base amount from Area A is used.

Area B: Determination Of The Value For Line 015 (Page 2 of Schedule 1)

There are two possible reductions. The first occurs if the corporation has a taxation year of less than 51 weeks. Then the prorated base amount entered in Amount (b) in Area B is:

$$\text{Amount (a) in Area B} \times \frac{\text{\# of days in taxation year}}{365}$$

The second reduction occurs if,

- a) the corporation paid the federal Large Corporations Tax in the preceding taxation year, or
- b) any associated corporation (whether or not a Canadian-controlled private corporation) paid the federal Large Corporations Tax in its last taxation year ending in the preceding calendar year.

Under these circumstances, the **reduction** in the base amount of a taxpayer corporation entered in Amount (c) in Area B is:

$$\text{Amount (a) or (b) in Area B} \times \frac{\text{Gross Part 1.3 tax paid}}{11,250}$$

where:

"Amount (a) or (b) in Area B" is Amount (b) where the corporation has a taxation year shorter than 51 weeks; otherwise it is Amount (a).

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

“Gross Part 1.3 tax paid” is the total Large Corporations Tax to a maximum of \$11,250, before proration for short years and before the credit for federal corporate surtax, paid by the taxpayer corporation in its preceding taxation year and by its associated corporations for their latest tax years ending in the preceding calendar year.

Income Eligible for the Alberta Small Business Deduction:

Only active business income earned in Canada and allocated to Alberta is eligible for the Alberta Small Business Deduction. The Alberta Small Business Allocation Factor on line 21 is derived from the Alberta Allocation Factor in column I of Schedule 2. The Alberta Allocation Factor must be adjusted to remove from it any consideration of jurisdictions outside Canada because the Alberta Small Business Allocation Factor is applied only to income from active businesses carried on in Canada.

Line 019:

If the corporation does not have a permanent establishment outside Alberta, enter “0” on line 019 or leave the line blank. If the corporation has a permanent establishment outside Alberta, enter the amount of “Total Salaries and Wages Paid in Jurisdiction – Outside Canada” from line 127 of federal Schedule 5.

Line 020:

If the corporation does not have a permanent establishment outside Alberta, enter “0” on line 020 or leave the line blank. If the corporation has a permanent establishment outside Alberta, enter the amount of “Gross Revenues Attributable to Jurisdiction – Outside Canada” from line 167 of federal Schedule 5.

Line 021:

Line 021 is the Alberta Small Business Allocation Factor that would be determined if, during the taxation year, the corporation had no permanent establishment in a country other than Canada. For a corporation allocating income under any federal regulation from 402 to 409 or 411, it is equal to the Alberta Allocation Factor on Schedule 2 of the Alberta return, adjusted by removing the “Outside Canada Amounts” on lines 019 and 020. The adjustment is made by reducing the Amount B in the calculation of the Alberta Allocation Factor on Schedule 2 by the amount on line 019, and by reducing the Amount D by the amount on line 020. For a corporation allocating income other than by the federal regulations listed above, manual calculation may be required to remove the “Outside Canada Amounts” for calculating the Alberta small business allocation factor.

SCHEDULE 1: Alberta Small Business Deduction (Cont'd)

Example: Calculation of the Alberta Small Business Allocation Factor

Alberta Allocation Factor (per Schedule 2)

Amount A	\$5
Amount B	\$10
Amount C	\$15
Amount D	\$20
Value on line 019 of Schedule 1	\$2
Value on line 020 of Schedule 1	\$3

$$\text{Alberta Allocation Factor} = (A/B + C/D) \times \frac{1}{2}$$

$$\text{Alberta Allocation Factor} = (5/10 + 15/20) \times \frac{1}{2}$$

$$\text{Alberta Allocation Factor} = (0.50 + 0.75) \times \frac{1}{2}$$

$$\text{Alberta Allocation Factor} = 0.625000$$

$$\text{Alberta Small Business Allocation Factor} = [A/(B - \text{line 019}) + C/(D - \text{line 020})] \times \frac{1}{2}$$

$$\text{Alberta Small Business Allocation Factor} = (5/8 + 15/17) \times \frac{1}{2}$$

$$\text{Alberta Small Business Allocation Factor} = (0.625000 + 0.882353) \times \frac{1}{2}$$

$$\text{Alberta Small Business Allocation Factor} = 0.753676$$

The Alberta Small Business Allocation Factor will never be greater than 10000.

Line 031:

The Alberta Small Business Deduction (ASBD) Rate and the Small Business Threshold have changed as set out in the chart on p. 14, Schedule 1, "Alberta Small Business Deduction". The calculations in Column G determine the ASBD for the portions of the taxation year before and after these changes.

The ASBD available to the corporation for the year is then calculated by adding the amounts in Column G.

The deduction available in a taxation year cannot be greater than the amount determined by multiplying the amount taxable in Alberta on line 066 on page 2 of the AT1 return by the applicable ASBD rate.

For further information, please refer to [Information Circular CT-17, "Alberta Small Business Deduction"](#).

The amount entered on line 031 of Schedule 1 must be entered on line 070 on page 2 of the AT1 to claim the Alberta Small Business Deduction.

SCHEDULE 2: Allocation of Income

A corporation with permanent establishments in Alberta and in other jurisdictions must calculate the portion of its taxable income that is allocated to Alberta. Such a corporation must file a Schedule 2.

The definition of “permanent establishment” is the same in the Act as it is in the federal regulations, **with one important difference**: effective for taxation years beginning after December 4, 2003, the Act states that, if a corporation resident in Canada does not otherwise have a permanent establishment in Canada, it is deemed to have a permanent establishment in the place where it has its registered office or in a place designated in its articles, charter or bylaws as its office or registered office. Therefore, for the most part, the determination of whether or not a corporation has a permanent establishment in Alberta will already have been made while completing the federal tax return. The same determination will apply for the Alberta return.

For additional information about permanent establishment, refer to [Interpretation Bulletin CTIB-1, “Taxability of a Corporation in Alberta on the Basis of Permanent Establishment”](#). For more detail about income allocation, refer to [Interpretation Bulletin CTIB-3, “Allocating Income Among Permanent Establishments”](#).

Line 001: Special Allocation Rule

The following corporations are subject to the special allocation rules provided in sections 403 to 412 of the federal regulations:

- | | | | |
|-------------------------------|----------|----------------------------|----------|
| • insurance corporations | Reg. 403 | • grain elevator operators | Reg. 408 |
| • chartered banks | Reg. 404 | • ship operators | Reg. 410 |
| • trust and loan corporations | Reg. 405 | • bus and truck operators | Reg. 409 |
| • railway corporations | Reg. 406 | • pipeline operators | Reg. 411 |
| • airline corporations | Reg. 407 | • divided businesses | Reg. 412 |

A corporation that conducts one of the businesses listed in federal regulations 403 to 411 in conjunction with another business is a divided business (see below).

If the corporation is subject to any of these regulations, indicate “YES” on line 001 and complete the applicable portion of Area B of Schedule 2.

If the answer on line 001 is “NO”, the corporation should complete only **Area A** of Schedule 2.

All required information for completing Area A or B may be obtained from federal Schedule 5 – “Tax Calculation Supplementary - Corporations” which must accompany the federal T2 return.

Descriptions of the required components of the various formulae in Areas A and B are provided on Schedule 2.

SCHEDULE 2: Allocation of Income (cont'd)

Divided Businesses:

Corporations with divided businesses as described in federal regulation 412 should:

- a) check "YES" on line 001 and proceed to line 106 on page 2 of Schedule 2; calculate the corporate taxable income allocation to Alberta according to federal regulation 412 by allocating the taxable income reasonably considered to be for each type of business that relates to the special allocation rules and/or the general allocation rules. **If the corporation is entitled to claim a royalty tax deduction (see Schedule 5), the taxable income to be allocated must first be reduced by the royalty tax deduction claimed;**
- b) add the taxable income amounts allocated to Alberta and enter that sum on line 106 on page 2 of Schedule 2 as the amount taxable in Alberta;
- c) deduct the royalty tax deduction claimed (see Schedule 5) from the corporation's Alberta taxable income on line 062 of page 2 of the AT1 return and enter the amount on line 108 on Schedule 2 as the calculated taxable income; and
- d) calculate the Alberta Allocation Factor by taking the amount taxable in Alberta on line 106 and dividing it by the calculated taxable income on line 108 and inserting this calculated amount in Column I for Divided Businesses on page 2 of Schedule 2.

Enter the Alberta Allocation Factor calculated in Column I on Schedule 2 on line 065 on page 2 of the AT1 return.

Non-resident Corporations:

Where a corporation is not resident in Canada and federal regulation 413 is applicable, in completing Areas A and B of Schedule 2, the following rules apply:

- a) "Total salaries and wages paid" by the corporation does **not** include salaries and wages paid to employees of a permanent establishment outside Canada.
- b) "Taxable income" is deemed to be taxable income earned in Canada.
- c) "Total gross revenue for the year" of the corporation does not include gross revenue reasonably attributable to a permanent establishment outside Canada.

SCHEDULE 4: Alberta Foreign Investment Income Tax Credit

A corporation may be entitled to claim an Alberta Foreign Investment Income Tax Credit if it received foreign investment income and is entitled to claim a foreign tax credit under the federal Act relating to foreign income or profits tax paid on income from foreign non-business sources. "Foreign investment income" is income earned outside Canada that is not reasonably attributable to the carrying on of the corporation's business.

If the corporation has foreign investment income from more than one foreign country, a **separate calculation** of the Alberta Foreign Investment Income Tax Credit **must** be made for **each** country.

No Alberta Foreign Investment Income Tax Credit is allowed for any taxes paid on income from businesses carried on in a foreign country.

To parallel federal changes, effective June 28, 1999, the Alberta Foreign Investment Income Tax Credit has been extended to authorized foreign banks.

Line 002:

Each country in which the corporation has foreign non-business income should be shown on a separate line in Column A of Schedule 4. The country should be represented by a two-digit country code. Country codes are provided in Appendix B at the end of this Guide.

Line 004:

Net foreign investment income is the amount of income remaining after deduction of expenses incurred in earning such income and which are deductible for federal income tax purposes.

The amount shown on line 004 for each foreign jurisdiction must be the same as the amount of non-business income calculated for each foreign jurisdiction for federal income tax purposes on line 110 of Part 1 in federal Schedule 21.

Line 006:

Foreign investment income tax paid is the amount of tax paid to a foreign country or political subdivision of a foreign country for the net foreign investment income. The amounts on line 006 must be expressed in Canadian dollars and each amount must be the "foreign non-business income tax paid for the year" to the foreign jurisdiction (see line 120 of Part 1 in federal Schedule 21) **less the greater of** any amount deducted for that jurisdiction under subsection 8(2.2) of the Act from the corporation's income or under subsection 20(12) of the federal Act on line 130 of Part 1 in federal Schedule 21.

If the corporation's claim under subsection 20(12) of the federal Act is different from the amount claimed for Alberta purposes, the corporation **must** complete **Schedule 12**. The sum of the amounts claimed in Alberta on line 006 of Schedule 4 should be entered

SCHEDULE 4: Alberta Foreign Investment Income Tax Credit (cont'd)

on line 040 of Schedule 12. The sum of the amounts claimed federally on line 130 in Part 1 of federal Schedule 21 should be entered on line 041 of Schedule 12.

Line 008:

On line 008 enter the amount of foreign tax credit allowable on the federal tax return for foreign non-business income from line 180 on federal Schedule 21.

Line 012:

For each country in Column "A", the allowable credit is calculated on line 012 as the lesser of:

- a) under Column "D": the net foreign investment income multiplied by the Alberta Allocation Factor [as determined on Schedule 2 (if no Schedule 2, use a factor of 1.0)], and the resulting product multiplied by the effective Alberta tax rate for the year; or
- b) under Column "G": the net foreign investment income tax paid [net of the greater of the amount deducted from income under subsection 8(2.2) of the Act or federal subsection 20(12)] minus the federal non-business foreign tax credit, and the resulting difference (a positive amount only) multiplied by the Alberta Allocation Factor from Schedule 2 (if no Schedule 2, use a factor of 1.0).

The effective Alberta tax rate for the year is equal to the Alberta tax payable on line 068 on the AT1 divided by the amount taxable in Alberta on line 066 on the AT1.

Line 020:

The credit that may be claimed is the lesser of

- a) line 014 - the total of all the amounts in Column H; or
- b) line 018 - the amount of tax payable after deducting the Alberta Small Business Deduction calculated on Schedule 1 and the Alberta Manufacturing and Processing Profits Deduction available until March 31, 2001, calculated on Schedule 11.

The amount entered on line 020 on Schedule 4 must be entered on line 072 on page 2 of the AT1 to claim the Alberta Foreign Investment Income Tax Credit.

SCHEDULE 5: Royalty Tax Deduction (RTD) ([links on next page](#))

Schedule 7 must be completed prior to completing Schedule 5.

Schedule 5 must be completed if a corporation is carrying forward Attributed Canadian Royalty Income (ACRI) or pool balances from the immediately preceding taxation year, or is reporting additions to the ACRI or pool balances for the current taxation year.

If a corporation does not have a permanent establishment in Alberta at some time in a taxation year, then the attributed royalty income or pool balances available for carry forward at the end of the taxation year are deemed to be nil.

The RTD is available to corporations with ACRI or pool balances carried forward from the immediately preceding taxation year or who are reporting additions in the year.

Additions to attributed royalty income or pool balances include A-B and the amount cannot be a negative amount.

- A includes royalties, lease rentals (non-deductible portion only), mineral taxes or similar charges received by, or paid or payable to, any provincial government or federal government (or their agents) for the acquisition, development or ownership of a Canadian resource property or the production of petroleum, natural gas, sulphur or other minerals and which are denied a deduction for those charges in calculating Alberta taxable income under paragraphs 12(1)(o) and 18(1)(m) of the federal Act.
- B includes resource allowance claimed in calculating Alberta taxable income.

2003 Clarification of the Rules to Calculate the Royalty Tax Deduction:

The *Corporate Tax Amendment Act, 2003*, received Royal Assent on December 4, 2003. While there has been no change in policy with respect to the royalty tax deduction (RTD), the rules have been rewritten to clarify the calculation of the RTD.

The RTD reflects the Alberta government's policy that royalties are a business expense and should be fully deductible in the calculation of taxable income for Alberta purposes. To the extent that a company's crown royalties exceed its resource allowance, the excess, referred to as "attributed Canadian royalty income" (ACRI) in the former legislation, may be claimed as a deduction in the taxation year. If taxable income is insufficient to fully offset the excess, the balance, referred to as "attributed royalty income carry forward" in the former legislation, may be carried forward for deduction in a subsequent year.

Carry forward amounts may be transferred, or successored, from one owner to another on the acquisition of all, or substantially all, the Canadian resource properties by purchase, amalgamation, merger, windup or other means. However, carry forward amounts may only be successored twice. In addition, once an amount has been successored, the ability to claim the RTD in a year for the successored amount is

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

limited to the income from the properties that gave rise to the successored amount. A change in control of the corporation also triggers the successor rules.

These RTD policies have not changed. However, by defining the pools separately, the new legislation clarifies that unsuccessored and successor pool amounts must be tracked separately. The amendments to clarify these provisions are in force for taxation years beginning on, or after, December 4, 2003.

The terms “attributed Canadian royalty income” and “attributed royalty income carry forward” are not used in the revised legislation. Effective for the first taxation year beginning on, or after, December 4, 2003, companies must separate their “attributed royalty income carried forward” from the immediately preceding year into unsuccessored, first successor and second successor pools. After that time, separate calculations of the RTD claim amounts and pool amounts available to be carried forward are required for each pool.

As with the former legislation, the additions to the unsuccessored pool are the same as the previous ACRI. Also as with the former legislation, maximum claim amounts for first and second successor pools are restricted to the amount of the resource income from the properties associated with the respective pools. The company's RTD for the year is the total of its RTD claim amounts from all three types of pools. The total RTD for the year cannot exceed the corporation's taxable income for the year.

Separate first or second successor pools must be set up each time a company undergoes a change in control or acquires all, or substantially all, the Canadian resource properties of another company. Successor pools do not have to be established in all cases; for example, when certain amalgamations or windups of subsidiaries occur.

Schedule 5 was redesigned to reflect the above clarification of the rules. Corporations with taxation years commencing before December 4, 2003 may complete Schedule 5 using form [AT176.9801](#). Corporations with taxation years commencing on, or after, December 4, 2003 must complete **Schedule 5** using form [AT176.0412](#).

[AT176.0412](#): Tax Years Commencing on, or after, December 4, 2003

Line 100: Change of Control

If there was a change of control that triggered the immediately preceding taxation year-end, check “Yes”; otherwise, check “No”.

Line 200: Successored Pools

If the corporation has successored pools to report, check “Yes”. Go to Area D on page 2 of Schedule 5 and complete it following the instructions below. Otherwise, check “No” and do **not** complete Area D on page 2 of Schedule 5.

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

Area A: Calculation of the Unsuccessored Pool Balances (Lines 001 to 017)

Line 001:

Enter on line 001 the amount from line 061 of Schedule 7. This amount will typically include proceeds from the sale of production reserved to the Crown and any amounts paid, or payable, for crown royalties, freehold mineral taxes, crown lease rentals (non-deductible portion), bonuses and similar payments. It will **not** include the deductible portion of crown lease and licence rentals on non-producing properties (up to the federally prescribed amount of \$2.50 per year per hectare). See sections 20(6)(a) to (e) of the Act for further details.

Line 005: Resource Allowance

Enter on line 005 the amount of the resource allowance applicable to section 20(6)(g) of the Act. From 2003 to 2006, because of differences in the Alberta and federal resource tax regimes, this will **not** be the amount of resource allowance claimed in the taxation year for federal purposes on line 346 of federal Schedule 1, but will be 100 per cent of the resource allowance. As the amount of resource allowance for Alberta purposes is different, enter on line 005 the amount from line 024 of Schedule 12.

Line 007: Reimbursements

On line 007 enter only the amount of reimbursements, received in the taxation year from other taxpayers pursuant to contract, corresponding to those crown charges included on line 001 of Schedule 5.

Line 009: Additions to Unsuccessored Pool Balances during the Year

Enter on line 009 the total crown charges incurred by the corporation during the year **less** the total of the resource allowance claimed and the reimbursements reported on line 007 of Schedule 5.

Line 011: Carry-forward Pool Balances at End of the Preceding Taxation Year

Enter on line 011 the unsuccessored pool balance carried forward from the end of the immediately preceding taxation year. This carry-forward amount is obtained from line 045 of Area C. Complete Area C now. See instructions below.

Line 013: Net Amount Available for Unsuccessored Pool

Enter on line 013 the amount obtained when the combined additions to the unsuccessored pool for the current taxation year is added to the unsuccessored pool balance at the end of the immediately preceding taxation year.

Line 015: Taxable Income

Enter on line 015 the Alberta taxable income from line 062 on page 2 of the AT1.

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

Line 016: Royalty Tax Deduction Claim Amount

Enter on line 016 the RTD claim amount for the unsuccessored pool. This amount cannot exceed Alberta taxable income less total RTD claim amounts for all successored pools, if any.

Line 017: Pool Amount Available to Carry Forward to the Next Taxation Year

The unsuccessored pool amount available for carry forward to the next year will be the difference between the amount in the Net Amount available for the unsuccessored pool on line 013 and the RTD claim amount on line 016).

Line 026: Transfer of Resource Pools during the Year

Enter 1 on line 026 where resource pools have been transferred from the corporation during the taxation year because of an acquisition by purchase, amalgamation, merger, windup or other means of all, or substantially all, the Canadian resource property. Do not enter 1 on line 026 where the transfer has occurred because of an amalgamation, merger or windup involving either a parent and its wholly-owned subsidiary, or two wholly-owned subsidiaries to which any of subsections 87(1.1), 87(1.2) and 88(1) of the federal Act apply.

Enter 2 on line 026 where control of the corporation has changed or where the corporation ceases to be exempt from tax.

Enter 3 on line 026 where resource pools have not been transferred during the year or where the transfer has occurred because of an amalgamation, merger or windup to which any of subsections 87(1.1), 87(1.2) or 88(1) of the federal Act apply.

Line 027: Name of the Person Acquiring the Resource Pools

Identify the person who has acquired the resource pools by reporting his/her legal name on this line. If the corporation completing this return is the entity acquiring the resource pools, put its name on this line.

Area B: Calculation of the Royalty Tax Deduction

Line 021:

The amount claimed as the RTD on this line is the sum of the RTD claim amounts from all the corporation's unsuccessored and successored pools. Enter the amount from line 021 on line 064 of page 2 of the AT1.

Area C: Carry-forward for Unsuccessored Pool Amounts (Lines 031 to 045)

Lines 031 to 041 are to be completed only if unsuccessored pools have been transferred to the corporation during the year.

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

Line 031: Predecessor's Name

Enter on line 031 the names of all predecessor corporations that transferred unsuccessored pool amounts to the corporation. Transfers of this sort can **only** occur in amalgamations, mergers or windups to which any of subsections 87(1.1), 87(1.2) or 88(1) of the federal Act apply.

Line 033: Alberta Corporate Account Number

For each corporation whose name was entered on line 031, enter on line 033 its corresponding Alberta Corporate Account Number.

Line 035: Date of the Event

On line 035 enter the dates on which the amalgamations, mergers or windups occurred that resulted in the transfers of unsuccessored pools.

Line 037: Carry-forward Amount Transferred

Enter on line 037 each unsuccessored pool amount transferred from a predecessor corporation.

Line 041: Total Amount Transferred

Enter on line 041 the sum of all unsuccessored pool amounts transferred from predecessor corporations.

Line 043: Corporation's Carry-forward from the Preceding Taxation Year

Enter on line 043 the sum of the corporation's unsuccessored pool amounts carried forward from its immediately preceding taxation year.

Line 045: Total Unsuccessored Pool Amounts Available

Enter on line 045 the sum of all unsuccessored pool amounts transferred from predecessor corporations during the taxation year and the pool amount carried forward from the corporation's immediately preceding taxation year.

Area D: Calculation of Successored Pool Balances (Lines 101 to 140)

Upon transfer of all, or substantially all, of the Canadian resource properties to a corporation from another person by way of an amalgamation, merger or windup to which subsections 87(1.1), 87(1.2) or 88(1) of the federal Act do not apply, unsuccessored and first successored pools of the other person become respectively first and second successored pools of the corporation.

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

When control of a corporation changes, its unsuccessored and first successored pools become, in the new taxation year, respectively its first and second successored pools.

Second successor pools cannot be further successored. Any second successored pool balances available for carry forward are deemed to be nil to the transferee.

Area D facilitates the tracking of each second successored pool information by transferor and by date of the event.

Lines 101 to 115: Second Successored Pool Information

When completing lines 101 to 113, enter on a separate row the relevant information for each second successored pool.

Line 101: Name of Transferor

For each second successored pool, enter on line 101 the name of the transferor or, where a change of control has occurred, the name of the corporation.

Line 103: Date of the Event

Enter on line 103 the date on which the transfer or change of control took place.

Line 105: Pool Amounts Carried Forward from Preceding Taxation Year

Enter on line 105 the amount for each second successored pool balance carried forward from the immediately preceding taxation year. Unless there was a change of control in the immediately preceding taxation year, the amounts entered on line 105 should agree with the closing balances for those pools in that year. For any row in which line 105 has been completed, skip to line 109 leaving line 107 blank.

Line 107: Pool Amounts Acquired during the Taxation Year

Do not complete line 107 if, in the same row, line 105 has been completed. Where during the taxation year, either control of the corporation has changed or it has acquired all, or substantially all, of the Canadian resource properties of another person other than by way of an amalgamation, merger or windup to which subsections 87(1.1), 87(1.2) or 88(1) of the federal Act apply, enter on line 107 all first successored pool amounts converted into second successored pool amounts by either the transfer or change of control.

Line 109: Corresponding Property Income

Enter on line 109 amounts equal to any part of the corporation's income for the year if no deduction were allowed under section 65, 66, 66.1, 66.2, 66.4, 66.5 or 66.7 of the federal Act that may be reasonably regarded as attributable to production of petroleum, natural gas, related hydrocarbons, sulphur, metals or other minerals from properties if or which an amount was included in the corporation's second successored pools.

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

Line 111: RTD Claim Amounts

An RTD claim amount cannot exceed the lesser of the available second successored pool amount and its corresponding property income, for each second successored pool.

Line 113: Pool Amounts Available For Carry-forward to the Subsequent Year

Second successored pool amounts that can be carried forward to the subsequent taxation year will be those amounts not claimed as RTD claim amounts in the current taxation year.

Line 115: Aggregate of Carry-forward Pool Amounts

Enter on line 115 the sum of all amounts on line 113.

Lines 121 to 133: First Successored Pool Information

Lines 121 to 133 are to be completed in the same way as lines 101 to 115. All references in those lines to first and second successored pool amounts should be read respectively as references to unsuccessful and first successored pool amounts.

Line 135: Total of Carry-forward First Successor Pool Amounts

Enter on line 135 the total of all amounts on line 133.

Line 140: Total RTD Claim Amount for the Successored Pools

Enter on line 140 the total RTD claim amounts for all successored pools.

[AT176.9801](#): Tax Years Commencing before December 4, 2003

Area A: Calculation of the Royalty Tax Deduction (Lines 001 to 025)

Line 001:

On line 001 enter the amount from line 061 of Schedule 7, except when it includes any crown charges listed in paragraphs 12(1)(o) and 18(1)(m) of the federal Act reimbursed by another taxpayer according to contract. Deduct the reimbursed crown charges from the amount on line 061 of Schedule 7 and enter the difference obtained on line 001.

This difference will typically include proceeds from the sale of production reserved to the Crown and any amounts paid, or payable, for crown royalties, freehold mineral taxes, crown lease rentals (non-deductible portion), bonuses and similar payments. It will **not** include the deductible portion of crown lease and licence rentals on non-producing properties (up to the prescribed amount of \$2.50 per year per hectare).

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

Line 005: Resource Allowance

Usually, the amount to be reported on line 005 will be the resource allowance claimed under paragraph 20(1)(v.1) of the federal Act on line 346 of federal Schedule 1. The exception is for taxation years ending after 2002 because of differences in the Alberta and federal resource tax regimes. As the resource allowance claimed for Alberta purposes is different, enter on line 005 the amount claimed on line 024 of Schedule 12.

Line 009: Additions to ACRI

Enter on line 009 the sum of crown charges, net of reimbursements incurred by the corporation during the year, **less** resource allowance claimed.

Line 011: Attributed Canadian Royalty Income (ACRI) Carry-forward

ACRI is the unused attributed Canadian royalty income not previously included in prior royalty tax deduction claims. Corporations are entitled to carry forward any unused ACRI from previous taxation years.

ACRI carry-forward may also be transferred from a person or corporation (the "predecessor") to another corporation (the "successor") under the following circumstances:

- a) acquisition by purchase, amalgamation, merger, windup or other means (other than as described in (b) below), of all, or substantially all, the Canadian resource properties of the predecessor;
- b) amalgamation of either a parent corporation and its wholly-owned subsidiary or two wholly-owned subsidiaries as described in subsection 87(1.1) of the federal Act, or the windup of a subsidiary pursuant to subsection 88(1) of the federal Act; or
- c) a change in control as described in subsection 66.7(10) of the federal Act.

The amount of ACRI that may be transferred is the amount determined at the end of the predecessor's taxation year for the year of sale, taking into consideration any Royalty Tax Deduction (RTD) by the predecessor in that year.

Under circumstance a) above, the ACRI transferred from the predecessor becomes successored ACRI and must be streamed to the properties acquired. The successored ACRI not previously claimed may be deducted as an RTD by the successor in a taxation year. However, the deduction is limited to the production income from the acquired properties for the year, similar to the limits in the federal Act relating to successored federal resource pools. Unlike the federal rules that permit any number of successions of resource pool balance, however, the RTD rules permit the transfer of ACRI to a first and second successor only.

For a transfer under circumstance b) above, the successor corporation is treated as the predecessor corporations (i.e., as a continuation of each of the predecessor

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

corporations) for the RTD. Since the successoring rules do not apply to this transfer, no further income-based limits are imposed in calculating the RTD.

Where control of a corporation is acquired under circumstance c) above, that corporation is considered to be a successor to itself. Therefore, as in circumstance a), the successoring rules apply. Circumstance c) only arises where control of a corporation has been acquired by a person or group of persons after December 4, 2002.

To calculate a carry-forward of ACRI, the corporation must complete Area B of Schedule 5 (see instructions below).

Line 021: Royalty Tax Deduction (RTD)

The RTD is normally the lesser of the amount on line 013 or the corporation's taxable income for the year as reported on line 062 on page 2 of the AT1.

Where there is attributed royalty income transferred from a predecessor that becomes first or second attributed royalty income, refer to the limitation in calculating RTD as described under Line 011, circumstances a) and c).

To claim the RTD, the amount entered on line 021 on Schedule 5 must be entered on line 064 on page 2 of the AT1.

Line 023:

If a corporation (the predecessor) has transferred all, or substantially all, of its Canadian resource properties to another corporation (the successor) during the taxation year, the predecessor must deduct the ACRI that would have been available to it for carry-forward to future years on line 023. The ACRI carry-forward of the predecessor is then transferred to the successor corporation.

Line 025:

A corporation whose ACRI exceeds its taxable income may carry forward the excess to the next taxation year. If a corporation has no taxable income but has ACRI, Schedule 5 should be filed to establish the carry-forward. The carry-forward expires in a taxation year during which a corporation has no permanent establishment in Alberta. The streaming of successored properties requires that unsuccessful ACRI carry-forward be segregated from successored ACRI carry-forward for proper calculation of the royalty tax deduction. Since the deduction of successored ACRI is limited to production income from associated successored properties, successored ACRI must itself be segregated.

SCHEDULE 5: Royalty Tax Deduction (RTD) (cont'd)

Lines 031 to 045: Area B - Attributed Canadian Royalty Income (ACRI) Carry-forward

This section must be completed if the corporation is claiming ACRI carry-forward:

- from a predecessor corporation, when the successor corporation has acquired all, or substantially all, the predecessor's Canadian resource properties as described in circumstance a) under line 011;
- on an amalgamation or windup as described in circumstance b) under line 011;
- on a change in control as described in circumstance c) under line 011; or
- from the preceding taxation year of the corporation.

The predecessor's name, Alberta corporate account number (if applicable), the date of the sale, amalgamation, windup or change in control, and the amount of the ACRI carry-forward transferred to the corporation during the year must be entered in lines 031 to 037 of Area B. Enter the total of all transfers on line 041.

The amount that may be transferred as described in circumstance a) under line 011 is limited to the amount the predecessor would have been entitled to carry forward in the year of sale. For a corporate predecessor, this will be the amount deducted on line 023 of Schedule 5.

Enter the ACRI carry-forward from the corporation's preceding taxation year on line 043. On line 045 and 011 of **Schedule 5**, enter the total of lines 041 and 043.

SCHEDULE 6: Alberta Royalty Tax Credit (ARTC)

Schedule 7 must be completed prior to completing Schedule 6.

A corporation may claim an Alberta royalty tax credit (ARTC) for a taxation year if it had qualifying Alberta crown royalty. For more information about the Alberta royalty tax credit see [Information Circular CT-18, "Alberta Royalty Tax Credit"](#) and [Interpretation Bulletin CTIB-2, "Alberta Royalty Tax Credit Technical Issues"](#).

Filing:

Schedule 6 must be filed by any corporation claiming ARTC and by any corporation to which ARTC instalments were credited or paid during the taxation year. **The application for ARTC must be filed within three years after the end of the applicable taxation year.**

Line 002: Associated Corporations

Corporations are associated for purposes of the ARTC if they are associated for purposes of the federal Act and each incurs Alberta crown royalty. The Alberta crown royalty is described below under line 004. If the corporation is associated with one or more corporations that incur Alberta crown royalty check "YES" on line 002; otherwise, check "NO".

The applicable crown royalty shelter must be shared among associated corporations. The crown royalty shelter is described below under line 006. To allocate the applicable crown royalty shelter among associated corporations, complete the "Alberta Royalty Tax Credit: Agreement Among Associated Corporations" on page 2 of Schedule 6. See details for completing this agreement below.

Line 004: Alberta Crown Royalty

The corporation's Alberta crown royalty for a taxation year is:

- the sum of all amounts for the year (other than amounts prescribed by federal regulation 1211) **receivable by, paid or payable to, the province of Alberta** as a royalty, tax (except municipal or school tax), lease rental or bonus for the acquisition, development or ownership of Canadian resource properties or the production of petroleum, natural gas, sulphur or other minerals, **less**
- any reimbursements of those amounts received from other taxpayers pursuant to contract.

Offset (compensatory) royalties are included in the calculation of Alberta crown royalty.

Royalties paid or payable for an oil sands lease **are not included** in the calculation of Alberta crown royalty unless the lease is a prescribed lease as defined in section 5.3 of the Alberta Regulations.

SCHEDULE 6: Alberta Royalty Tax Credit (ARTC) (cont'd)

Royalties paid, or payable, for a right or interest in a restricted resource property **are not included** in the calculation of Alberta crown royalty **except** under certain circumstances when the corporation is an exempt corporation. A restricted resource property is generally any right or interest in the production of a petroleum or natural gas well in Alberta:

1. owned by either an above-limit corporation or partnership on August 24, 1982 and having a finished drilling date on or before that date; or
2. disposed of by either a restricted corporation or partnership after both its finished drilling date and April 7, 1986.

For information on exempt corporations, above-limit corporations or partnerships and restricted corporations or partnerships refer to section 26 of the Act.

The Alberta crown royalty entered on line 004 is determined by adding lines 003, 033 and 097 on Schedule 7 and subtracting line 095 on Schedule 7.

Line 006: Crown Royalty Shelter

The crown royalty shelter is the maximum amount of Alberta crown royalty on which the corporation may claim ARTC in a year. The crown royalty shelter for 1998 and subsequent years is \$2,000,000 prorated for taxation years of less than 365 days.

If the corporation is associated, then enter on line 006 that portion of the crown royalty shelter allocated to it on page 2 of Schedule 6. Otherwise, enter on line 006 \$2,000,000 prorated, if necessary, for a taxation year less than 365 days.

Line 008: Weighted Average Rate

The weighted average rate is determined by converting the quarterly specified rates applicable to the taxation year into an annual rate. This is done by weighting them according to the period of the taxation year over which they were applicable. The specified rate for a quarter is determined by a formula set out in section 5.2 of the Regulations and is a function of the royalty tax credit reference price. The minimum specified rate is 25 percent, attained when the reference price is \$210 or more. The maximum rate is 75 percent, attained when the reference price is \$100 or less.

[Information about the specified quarterly rates](#) for the calculation of ARTC is available on the Internet or by telephoning TRA at one of the numbers given at the front of this Guide.

The weighted average rate can be calculated in the space provided at the bottom of page 1 of Schedule 6. Enter on line 008 the weighted average rate calculated.

SCHEDULE 6: Alberta Royalty Tax Credit (ARTC) (cont'd)

Line 010: Calculating the Royalty Tax Credit

The corporation's royalty tax credit for its taxation year is the weighted average rate determined for that taxation year, multiplied by the lesser of its Alberta crown royalty or its crown royalty shelter for the year. Enter this amount on line 010.

The amount entered on line 010 must be entered on line 083 on page 2 of the AT1.

Line 012: Royalty Tax Credit Instalments

To apply for royalty tax credit instalments, please complete Form [AT158](#), Royalty Tax Credit Instalment Application. Instructions for completing the form are provided in Form [AT2196](#), Alberta Royalty Tax Credit Instalment Application Instructions.

A corporation that has applied for, and been granted, royalty tax credit instalments during the taxation year must include the amount of the instalments received in the year on line 012. The amount entered on line 012 will include royalty tax credit instalments applied to prior years' arrears, amounts credited to the current year's tax instalment account, and any amounts received in cash by the corporation. The amount entered on line 012 must also be entered on line 084 on page 2 of the AT1.

Any repayments of excess royalty tax credit instalments under subsection 38(8) of the Act should be entered on line 082 of page 2 of the AT1 return and **should not be netted** against amounts reported on line 012 of Schedule 6.

Interest is charged on excess royalty tax credit instalments. To minimize interest charges, excess instalments should be repaid as soon as they are identified.

Line 016: Alberta Royalty Tax Credit Due (Repayable)

The amount reported on line 016 is the difference between royalty tax credit determined on line 010 and the royalty tax credit instalments claimed in the taxation year on line 012.

If an adjustment is made to Alberta crown royalties for a particular taxation year, corporations must notify TRA of the changes or file an amended Alberta return.

Agreement Among Associated Corporations

Page 2 of Schedule 6 is the "Agreement Among Associated Corporations for the Royalty Tax Credit". This agreement must be completed when two or more associated corporations have each incurred Alberta crown royalty in the taxation year.

The name, Alberta corporate account number, and crown royalty shelter allocation for each associated corporation must be provided on the agreement. The sum of the allocated crown royalty shelters cannot exceed the lesser of:

SCHEDULE 6: Alberta Royalty Tax Credit (ARTC) (cont'd)

- a) \$2,000,000, or
- b) the amount obtained when \$2,000,000 is prorated for the number of days in the taxation year for the associated corporation with the longest taxation year.

The amount allocated to the corporation on line 034 of the agreement is entered on line 006 on page 1 of Schedule 6. The crown royalty shelter allocated to a corporation associated in a taxation year cannot exceed the proportion of \$2,000,000 that the number of days in the corporation's taxation year bears to 365.

SCHEDULE 7: Royalty Tax Credit/Deduction Supplemental Information

Corporations that have Attributed Canadian Royalty Income (ACRI) or are claiming the Alberta royalty tax credit (ARTC) must complete and file Schedule 7 with the applicable Schedules 5 and/or 6. Schedule 7 provides a reconciliation of the relevant financial statement information for ACRI pool amount and ARTC. As the amounts calculated on Schedule 7 are used as inputs to complete Schedules 5 and/or 6, it is essential that Schedule 7 be completed prior to completing Schedules 5 and/or 6.

There may be adjustments to the amount of Alberta crown royalty relating to prior taxation years that are included in the Alberta crown royalty reported in the current year. Schedule 7 provides a separate area, Area B, to deal with these prior year adjustments. See the completion instructions below under Area B. Area B is designed so that only the amounts of ACRI pool amounts and Alberta crown royalty for the current year are reported respectively on line 009 of Schedule 5 and line 004 of Schedule 6. Reporting of Alberta crown royalty in the taxation year to which the production relates is important to ensure that the proper ARTC rate and crown royalty shelter availability are used.

Lines 003 to 017: Income Statement Items Not Deductible for Tax Purposes

All crown payments reflected in the income statement of the corporation that are not deductible in calculating Alberta taxable income because of paragraphs 12(1)(o) and 18(1)(m) of the federal Act should be entered on the applicable lines 003 to 017.

Lines 025, 027 and 029: Balance Sheet Items Eligible for Alberta Royalty Tax Deduction

The non-deductible portion of crown lease rental payments on non-producing properties, capitalized during the taxation year on the balance sheet, are eligible for inclusion in the royalty tax deduction and should be entered on line 025 of Schedule 7. Other similar amounts should be entered on line 029 and details provided on line 027.

Lines 033 to 037: Partnerships

If the corporation is a member of a partnership that owns Canadian resource properties, Area A on page 2 of Schedule 7 must be completed. Enter the totals from Area A on lines 033, 035 and 037.

Line 051: Total Adjustments for Production in Prior Taxation Years

If the corporation has made adjustments in the current taxation year relating to prior taxation years, Area B on page 2 of Schedule 7 must be completed according to the instructions given below. Enter the total of all such adjustments from Area B on line 051 to remove the prior year's adjustments from the current year. TRA will use the Area B adjustments to reassess the applicable Schedules 5 and/or 6 for the prior taxation years to which the adjustments relate.

SCHEDULE 7: Royalty Tax Credit/Deduction Supplemental Information (cont'd)

Line 061:

On line 061 enter the sum of lines 021, 031 and 041, minus the amount on line 051. Enter the amount from line 061 also on line 001 of **Schedule 5**.

Area A: Partnership Income Tax Information

Corporations with interests in partnerships that have oil and gas activities must complete Area A. A separate line must be completed for each partnership interest held by the corporation during the taxation year. For each partnership interest enter on lines 071 to 081:

- the name of the partnership,
- the corporation's percentage interest in the partnership,
- the partnership's fiscal year-end (ending in the corporation's taxation year),
- the corporation's share of the partnership's crown royalties divided between those eligible and ineligible for Alberta royalty tax credit, and
- the corporation's share of other crown payments made by the partnership during its fiscal period.

Enter the total of amounts in columns 077, 079 and 081 on lines 033, 035 and 037, respectively, on page 1 of **Schedule 7**.

Area B: Adjustments to Alberta Crown Royalty for Prior Taxation Years

Adjustments made to Alberta crown royalties during the corporation's current taxation year that relate to prior taxation years must be excluded from the current taxation year's Alberta royalty tax credit (ARTC).

For each prior taxation year affected by the adjustments to Alberta crown royalties use a separate row in Area B. Use two rows in Area B to report adjustments relating to the same prior taxation year where sources of the adjustments are different (i.e., Department of Energy or operator).

The adjustments to eligible Alberta crown royalties must be shown as either increases (line 087) or decreases (line 089) to the eligible Alberta crown royalties for the prior years to which the adjustments relate. Report the net adjustments made to crown royalties for prior years that are not eligible for the ARTC on line 091.

Total the amounts in each of columns 087, 089, 091 and 093. Include the totals on lines 095 and 097 in the calculation of line 004 of **Schedule 6**. **On line 051 on page 1 of Schedule 7**, enter the amount on line 101.

TRA will reassess the prior years' Schedules 5 and/or 6 based on the adjustments shown in Area B.

SCHEDULE 8: Alberta Political Contributions Tax Credit

A corporation is entitled to deduct from its tax payable a portion of the contributions made within the taxation year to one or more of the following entities or persons registered with the Chief Electoral Officer of the Province of Alberta under the *Election Finances and Contributions Disclosure Act of Alberta*:

- a) a registered political party;
- b) a registered constituency association; and/or
- c) a registered candidate.

Contributions made under that Act to registrants who are candidates under the *Senatorial Selection Act of Alberta* or parties nominating candidates under the *Senatorial Selection Act of Alberta* are also eligible for the Alberta political tax credit.

The credit cannot be claimed for contributions made to municipal candidates or to federal parties, constituencies or candidates.

Lines 002 to 008:

On a separate row for each donation made to a political party, constituency association or candidate registered in Alberta, enter the following:

- name of the party, constituency association or candidate;
- official receipt number;
- date of the donation (from the receipt); and
- amount of the donation.

Proof of payment must be retained by the corporation and, if requested, made available to TRA.

Lines 010 to 015:

Add the amounts in line 008 and enter that sum on line 010.

Enter Alberta political contributions made by the corporation through a partnership in 2003 or earlier calendar years on line 012. This amount can be obtained from box 37 of federal form T5013.

Enter Alberta political contributions made by the corporation through a partnership in 2004 or later calendar years on line 013. This amount can be obtained from box 37 of federal form T5013.

Enter on line 015 the sum of the amounts on lines 010, 012 and 013.

Complete only one of Sections A, B and C:

- Section A where all political contributions for the taxation year were made in 2004 or later calendar years.

SCHEDULE 8: Alberta Political Contributions Tax Credit (cont'd)

- Section B where all political contributions for the taxation year were made in 2003 or earlier calendar years.
- Section C where the corporation's taxation year begins in 2003 and ends in 2004 and if qualifying donations were made in both the 2003 and 2004.

Section A:

Complete Section A if all political contributions for the taxation year were made **on or after January 1, 2004**. Enter the total Alberta political contributions on line 040. This is the sum of the amounts on lines 010 and 013 where the dates of the donations are January 1, 2004 or later.

Calculate in Section A a total for line 047.

The maximum allowable credit is the lesser of the amount on line 047 or \$1,000. Enter this amount on line 049 and also on line 025.

Section B:

Complete Section B if all political contributions for the taxation year were made prior to January 1, 2004. Enter the total Alberta political contributions on line 014. This is the sum of the amounts on lines 010 and 012 where the dates of the donations are prior to January 1, 2004.

Calculate in Section B a total for line 022.

The maximum allowable credit is the lesser of the amount on line 022 or \$750. Enter this amount on line 024 and also on line 025.

Section C:

Complete section C if the corporation's taxation year begins in the calendar year 2003 and ends in the calendar year 2004, it made qualifying donations in both calendar years, and it is claiming the contributions in the 2004 taxation year.

Enter the total Alberta political contributions made in the 2004 on line 051. This is the sum of line 013 and the applicable amounts from column 008.

On line 052, enter the total Alberta political contributions made in the taxation year. This is the sum of lines 010, 012 and 013.

Calculate in Section C the maximum allowable credit on line 078. Enter this amount on line 025.

SCHEDULE 8: Alberta Political Contributions Tax Credit (cont'd)

Lines 025, 026 and 030:

The maximum allowable credit is the **lesser** of the:

- line 025: amount calculated in one of the above sections; or
- line 026: Alberta tax payable less certain claimed deductions.

The amount entered on line 025 is taken from the completed section. If Section A was completed, enter the amount from line 049; Section B, from line 024; Section C, from line 078.

The amount entered on line 026 is the basic Alberta tax payable less the sum of the Alberta small business deduction, Alberta manufacturing and processing profits deduction and Alberta foreign investment income tax credit.

Enter on line 030 the lesser of the amounts on lines 025 and 026. The calculated amount of Alberta political contributions tax credit on line 030 must be entered on line 074 on page 2 of the AT1 return.

For more information, see [Information Circular CT-19, "Alberta Political Contributions Tax Credit"](#).

SCHEDULE 10: Loss Carry-back Application

A corporation that incurs a loss in the current taxation year and wants to carry back the loss to previous taxation years must complete Schedule 10. Schedule 10 can either be submitted with the AT1 return for the loss year or filed separately within six months of the end of the taxation year in which the loss occurred. If Schedule 10 is not filed with the AT1, the identification section on lines 052 through 074 of the form must be completed.

When carrying back a loss, Schedule 10 must be filed even if the corporation is exempt from filing its AT1 return.

Non-capital, farm, restricted farm, listed personal property and capital losses may be carried back to the extent permitted a maximum of three taxation years preceding the loss year.

For the calculation of losses please refer to [Information Circular CT-7, "Calculation and Deduction of Losses"](#). The application of losses is at the corporation's discretion. **Therefore, the application of losses for federal purposes does not automatically result in the application of losses for Alberta purposes.** Corporations must ensure that they file a Schedule 10 with TRA to apply losses for Alberta purposes.

If the losses determined for Alberta purposes are different from the federal losses, the corporation must complete **Schedule 21**, "Calculation of Current Year Loss and Continuity of Losses", and **Schedule 12**, "Income/Loss Reconciliation".

The capital gains inclusion rates for Alberta parallel the federal inclusion rates. The capital loss section of Schedule 10 has been redesigned to address the inclusion rate changes of February 28, 2000 and October 18, 2000.

Lines 002 to 010: Non-Capital Losses

On line 002 enter the current year's non-capital loss – the amount on line 037 of Schedule 21. To apply the current year's non-capital loss to reduce Alberta taxable income in any of the three preceding taxation years, complete lines 004, 006 and 008. Enter the difference obtained when B is subtracted from A on line 010.

Lines 012 to 020: Farm Losses

On line 012 enter the current year's farm loss, the amount on line 077 of Schedule 21. To apply the current year's farm loss to reduce Alberta taxable income in any of the three preceding taxation years, complete lines 014, 016 and 018. Subtract B from A and enter the difference on line 020.

Lines 023 to 040: Other Losses

If the other loss is a restricted farm loss, put a check mark in the box on line 023. On line 032 enter the current year's restricted farm loss, the amount on line 097 of Schedule 21.

SCHEDULE 10: Loss Carry-back Application (cont'd)

If the other loss is from listed personal property put a check mark in the box on line 025. On line 032 enter the current year's loss from listed personal property, the amount on line 117 of Schedule 21.

To apply the loss to any of the three preceding taxation years, complete lines 034, 036 and 038. Subtract B from A and enter the difference on line 040.

Lines 042 to 050: Capital Losses

Line 042: Gross Amount

On line 042, enter the **gross amount** of the capital loss available to be carried back, the amount on line 057 of **Schedule 21**.

Lines 043, 045, and 047: Inclusion Rates

To determine the amount of capital loss applied in a preceding taxation year, the gross amount of the capital loss carried back must be multiplied by the capital gains inclusion rate applicable to the year in which the loss is applied. For capital gains or losses that arise from dispositions prior to February 28, 2000, the inclusion rate is three-quarters. For capital gains or losses that arise from dispositions after February 27, 2000 but before October 18, 2000, the inclusion rate is two-thirds. For capital gains or losses that arise from dispositions after October 17, 2000, the inclusion rate is one-half.

Where a corporation's preceding taxation year includes at least two of these periods, and where there were capital dispositions in more than one of these periods, then an effective inclusion rate must be used for the year. The effective inclusion rate is a blending of the rates in effect for the various capital transactions throughout the year.

Calculation of the effective inclusion rate for a preceding taxation year (losses are negative amounts):

1. Add together all the gross capital gains and losses realized in the preceding taxation year (**amount A**).
2. Calculate the total gross gains and losses realized in a particular period in that preceding taxation year by adding together all gross capital gains and losses resulting from dispositions in that period.
3. To the total in the period corresponding to the start of the corporation's preceding taxation year, add the opening balance of that year's capital gains reserve.
4. Subtract from the total obtained for each period the portion of that preceding year's closing balance for the capital gains reserve attributable to it because those gains were realized in that period.
5. Multiply each resulting total by its applicable inclusion rate to obtain for each period the total net gain or loss.
6. Add these totals together (**amount B**).
7. The effective inclusion rate for the preceding taxation year is then amount B divided by amount A.

SCHEDULE 10: Loss Carry-back Application (cont'd)

The net capital loss that can be applied to a preceding taxation year is the gross amount of capital loss multiplied by the inclusion rate for the corresponding preceding year of application. If the corporation is carrying back a loss to the:

- **first** preceding year, enter the inclusion rate line at **043**.
- **second** preceding year, enter the inclusion rate on line **045**.
- **third** preceding year, enter the inclusion rate on line **047**.

Enter the inclusion rate as a decimal value, using 6 decimal places (e.g., 0.123456)

Lines 044, 046, and 048: Amount of Loss Applied

If the corporation is carrying back a capital loss to the:

- **first** preceding year, enter the gross amount of the loss on line 044 and multiply it by the inclusion rate on line **043**.
- **second** preceding year, enter the gross amount of the loss on line 046 and multiply it by the inclusion rate on line **045**.
- **third** preceding year, enter the gross amount of the loss on line 048 and multiply it by the inclusion rate on line **047**.

Enter the result in each case in the Amount of Loss Applied column.

Add the amounts on lines 044, 046, and 048 and enter the total in the blank field at Row B immediately below line 048. Row B represents the gross value of all current year capital losses applied to prior years. The value at Row B must not exceed the value on line 042.

Line 50: Value of Current Year's Loss Available for Carry-forward

Subtract the amount at Row B from the amount on line 042 to determine the gross amount of any unused capital losses the corporation has available to carry forward.

SCHEDULE 11: Alberta Manufacturing and Processing Profits Deduction (Available only until March 31, 2001)

A corporation is entitled to claim an Alberta Manufacturing and Processing Profits Deduction if it has “Alberta manufacturing and processing profits” (a defined term) in the year. In the interest of simplicity and efficiency, the Alberta Manufacturing and Processing Profits Deduction has been structured based on the federal Manufacturing and Processing Profits Deduction.

To be eligible for the deduction, the corporations must derive ten percent or more of their gross revenue for the year from the manufacturing and processing of goods for sale or lease. Refer to [Information Circular CT-20, “Alberta Manufacturing and Processing Profits Deduction”](#), for a more detailed discussion of the eligibility for the deduction, the meaning of “manufacturing” and “processing”, and for a discussion of the activities specifically excluded under the Alberta legislation. Income that is eligible for the Alberta Small Business Deduction does not qualify for the Alberta Manufacturing and Processing Deduction.

Once eligibility for the deduction is established, the calculation of the base for the deduction depends on whether the corporation is a “small manufacturing corporation” or not. See below under the heading “Small Manufacturing Corporations” for a discussion of the criteria.

The Alberta Manufacturing and Processing Profits Deduction is available only until March 31, 2001. For taxation years ending after that date, the available deduction is prorated to reflect the proportion of the corporation’s taxation year that falls within the eligible period.

Completing Schedule 11

Line 001: Adjusted Business Income

Adjusted business income has the same meaning as under the federal program. Normally, the amount of adjusted business income for Alberta purposes will be the same as that determined on federal Schedule 27.

However, in its computation of income, a corporation may have, for instance, claimed a different amount of capital cost allowance or other discretionary expense for Alberta purposes from that claimed for federal purposes. If such a variation in claims affects adjusted business income, a schedule reconciling the two adjusted business incomes should be submitted, together with calculations supporting the difference in expense claims.

If the corporation is not taxable at the federal level and has not claimed the federal manufacturing and processing profits deduction in the year, a complete calculation of adjusted business income, done in accordance with instructions on federal Schedule 27, should be attached.

SCHEDULE 11: Alberta Manufacturing and Processing Profits Deduction (cont'd)

If the corporation's adjusted business income for Alberta purposes differs from the federal amount, the corporation **must complete lines 110 through 116 on Schedule 12 - Income/Loss Reconciliation.**

Calculation of Alberta Manufacturing and Processing Profits

The method of determining the amount to be inserted on line 003 is dependent on whether or not the corporation qualifies as a "small manufacturing corporation".

Small Manufacturing Corporations

A small manufacturing corporation meets the following criteria:

- a) its activities during the taxation year were primarily manufacturing or processing in Canada of goods for sale or lease;
- b) the aggregate of its active business income, net of losses, for the taxation year and the active business incomes of its associated Canadian corporations for
- c) their taxation years ending in or coinciding with the taxation year does not exceed \$200,000;
- c) the corporation was not engaged in any of the excluded activities set out in [Information Circular CT-20, "Alberta Manufacturing and Processing Profits Deduction"](#); and
- d) the corporation did not carry on any active business outside of Canada during the year.

If the corporation does qualify as a small manufacturing corporation, its entire adjusted business income on line 003 is held to be Alberta manufacturing and processing profits.

If the associated group's active business income exceeds \$200,000, the corporation is **not considered to be a small manufacturing corporation** and the corporation should complete Schedule 11 as another corporation - see below for discussion.

Corporations Other than Small Manufacturing Corporations

Corporations other than small manufacturing corporations must complete lines 031 through 042 on page 2 of Schedule 11.

Lines 031 and 037:

The calculations of Cost of Capital and Cost of Labour are described in Parts 4 and 6, respectively, of federal Schedule 27. Amounts determined for purposes of the federal manufacturing and processing profits deduction should be transcribed to lines 031 and 037. If the corporation was not taxable federally and did not claim the federal deduction, the amounts to be inserted on lines 031 and 037 should be calculated in accordance with the instructions on Parts 4 and 6 of the federal form. The calculations

SCHEDULE 11: Alberta Manufacturing and Processing Profits Deduction (cont'd)

supporting these amounts should be retained by the corporation and may be requested by Tax and Revenue Administration for review.

Lines 035 and 041:

A corporation that has permanent establishments in Alberta only and that had taxable income for federal purposes will have determined the relevant amounts on

Parts 5 and 7 of federal Schedule 27. If the corporation was not taxable federally, the amounts to be inserted on lines 035 and 041 should be supported by calculations made in accordance with instructions on Parts 5 and 7 of federal Schedule 27.

A corporation that operates outside Alberta will need to calculate its cost of Alberta manufacturing and processing capital and labour independently from calculations on federal Schedule 27.

“Qualified activities” is defined in clause 22.2(1)(i) of the Act. The definition borrows from the federal definition of “qualified activities”, but requires that the activities be connected with manufacturing and processing in Alberta and that they be performed in Alberta.

Partnerships

If the corporation is a member of a partnership, the amounts inserted on lines 031 and 037 include the corporation’s share of the Cost of Capital and Cost of Labour calculated for the partnership for its fiscal period ending in, or coinciding with the taxation year of the corporation. Amounts determined for lines 035 and 041 accordingly take into account the portion of this share of partnership costs that is related to qualified activities in Alberta of the partnership.

Calculation of the Deduction

A deduction of 1 percent is available on that portion, if any, that the manufacturing and processing profits exceed the amount on which the corporation is entitled to claim the Alberta Small Business Deduction.

Lines 007 through 021:

The deduction is allowed on the lesser of two constraints:

- a) Alberta manufacturing and processing profits in excess of income eligible for Alberta Small Business Deduction; and
- b) where the corporation is a Canadian-controlled private corporation, the portion of the Amount Taxable in Alberta that is not attributable to Canadian and foreign

SCHEDULE 11: Alberta Manufacturing and Processing Profits Deduction (cont'd)

investment income and that is not income eligible for the Alberta Small Business Deduction.

Line 013: Aggregate Investment Income

Aggregate investment income is defined in subsection 129(4) of the federal Act. The corporation will have used these amounts in its calculation of the federal manufacturing and processing profits deduction on the federal return. Alternatively, the amounts may be obtained from line 440 of the federal return, form 200. A negative amount on this line should not be included in the amount inserted on line 013 of Alberta Schedule 11.

019 and 021:

For corporations with permanent establishments in Alberta only, the amount to be entered on line 019 is simply the sum of amounts on lines 011 and 013. For other corporations, the sum of amounts on lines 011 and 013 is multiplied by the Alberta allocation factor from the AT1 Schedule 2 Alberta Income Allocation Factor. The amount on line 019 is then subtracted from Amount Taxable in Alberta (line 009) to arrive at the second constraint for the deduction, line 021.

Line 023:

The total Alberta Manufacturing and Processing Profits Deduction is the lesser of the amounts on lines 007 and 021 and this amount is multiplied by 1 percent. The amount is then further prorated based on the corporation's portion of the taxation year prior to April 1, 2001 to give effect to the elimination of the Alberta Manufacturing and Processing Profits Deduction on April 1, 2001.

The amount reported on line 023 must be entered on line 071 on page 2 of the AT1 return.

Go to:

- [AT1 Guide, Part 2](#) – Schedules 12 to 21
- [Appendix A](#) – Standard Industrial Classification Codes
- [Appendix B](#) – Listing of Provincial, State and Country Codes
- [AT1 Form](#)
- [Corporate Tax Publications](#)
- [Corporate Tax Forms](#)