



Canada Revenue  
Agency

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du Canada

Canada

# Business and Professional Income

Includes Forms  
T2124 and T2032

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## 2005



More Ways to Serve You!

**NOTE:** In this publication, the text inserted between square brackets represents the regular print information.

# Before You Start

## Is this guide for you?

Use this guide if you are a **self-employed businessperson** or a **professional**. It will help you calculate the business or professional income you will report on your 2005 income tax return. **Self-employed commission sales persons** should also use this guide to determine the income to report in 2005.

You are considered to be self-employed if you have a business relationship with a payer and you also have the right to determine where, when, and how your work is done. For more information, see our pamphlet RC4110, EMPLOYEE OR SELF-EMPLOYED.

## Forms and publications

At the end [In the middle] of this guide, you will find two copies of Form T2124, STATEMENT OF BUSINESS ACTIVITIES, and Form T2032, STATEMENT OF PROFESSIONAL ACTIVITIES. The forms can help you calculate your income and expenses for income tax purposes. We

encourage you to use them. However, we will continue to accept other types of financial statements.

You have to complete a separate form for each business or professional activity you operate. For more information, see Interpretation Bulletin IT-206, SEPARATE BUSINESSES.

Throughout the guide, we also refer to other forms and publications. If you need more copies of Form T2124, Form T2032, or any other forms or publications, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca). You may want to bookmark this address for easier access to our site in the future. You can also order forms and publications by calling us at **1-800-959-2221**.

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

## What's New for 2005?

**Emergency Medical Service Vehicles** – For 2005 and subsequent taxation years, the definition "automobile" in subsection 248(1) of the Act is amended to exclude clearly marked Emergency Medical Services vehicles used to carry paramedics and their emergency medical equipment.

### Do you need more information?

This guide explains the most common tax situations. If you need more information about businesses or professional activities, call our Business Enquiries line at **1-800-959-5525**.

### "Point. Click. It's that quick!"

That's all it takes to get tax information when you need it. Visit **[www.cra.gc.ca](http://www.cra.gc.ca)** today and find out how easy managing your taxes can be.

CRA wants to decrease the demand for paper. It is our practice to send out this guide to you, if you declared business income in either of the previous two years. However, the accessibility of the Internet continues to increase. In the future, we encourage you to view this guide on our Website at **[www.cra.gc.ca/E/pub/tg/t4002](http://www.cra.gc.ca/E/pub/tg/t4002)**, as well as print the parts you need.

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

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# Chapter 1 – General Information

This chapter has general information for all businesses (including self-employed commission sales) and professional activities. It also provides information specifically for partnerships.

## **Business and business income**

A business is an activity that you intend to carry on for profit and there is evidence to support that intention. A business includes:

- a profession;
- a calling;
- a trade;
- a manufacture;
- an undertaking of any kind; and
- an adventure or concern in the nature of trade (for more details, see Interpretation Bulletin IT-459, ADVENTURE OR CONCERN IN THE NATURE OF TRADE).

Business income includes income from any activity you do for profit. For example, income from a service business is business income. However, you do not include employment income as business income.

### **Note**

Include all your income when you calculate it for tax purposes. If you fail to report all your income you may be subject to a penalty of 10% of the amount you failed to report after your first omission.

A different penalty may apply if you knowingly or under circumstances amounting to gross negligence participate in the making of a false statement or omission in your tax return. In such a case the penalty is 50% of the tax attributable to the omission or false statement (minimum \$100).

### **You were asking?**

- Q.** When does a business start? Can I deduct the costs I incur before and during the start of a business?
- A.** We look at each case on its own merits. Generally, we consider that a business starts whenever you start some significant activity

that is a regular part of the business or that is necessary to get the business going.

For example, suppose you decide to start a merchandising business and you buy enough goods for resale to start the business. At this point, we would consider that the business has started. You can usually deduct expenses you have incurred from that date to earn the business income. You could still deduct the expenses even if, despite all your efforts, the business ended. On the other hand, assume you review several different business prospects in the hope of going into a business of some kind. In this case, we would not consider that the business has started, and you could not deduct any of the costs you incur.

For more details about starting a business, see Interpretation Bulletin IT-364, COMMENCEMENT OF BUSINESS OPERATIONS.

The law allows Statistics Canada to access business information collected by the Canada Revenue Agency (CRA). Statistics Canada can now share with provincial statistical agencies, for research and analysis purposes only, data concerning business activities carried on in their respective province.

## How do you report your business income?

### Fiscal period

You report your business income based on a fiscal period. A **fiscal period** is the time covered from the day your business starts its business year to the day your business ends its business year. For an existing business, the fiscal period is usually 12 months. A fiscal period cannot be longer than 12 months. However, it can be shorter than 12 months in some cases, such as when a new business starts or when a business stops.

Self-employed individuals generally have to use a December 31 year-end. If you are an eligible individual, you may be able to use an alternative method of reporting your business income that allows you to keep a fiscal period that does not end on December 31. If your fiscal year-end is not December 31, you will need the guide RC4015, RECONCILIATION OF BUSINESS INCOME FOR TAX PURPOSES to calculate the amount of business income to report on your 2005 income tax return. The publication includes Form T1139, RECONCILIATION OF 2005 BUSINESS INCOME FOR TAX PURPOSES.

If you filed Form T1139 with your 2004 income tax return, generally you have to file that form again for 2005.

## **Accrual method**

In most cases, as a self-employed person, you report business income by using the accrual method of accounting. With this method, you:

- report your income in the fiscal period you earn it, regardless of when you receive the income; and
- deduct expenses in the fiscal period you incur them, whether you paid them in that period or not. **Incur** usually means you either paid or will have to pay the expense.

As we said earlier, income from professional activities is business income. Therefore, you report it using the accrual method. Chapter 2 has more details about professionals.

## **Cash method**

If you are a self-employed commission sales agent, you can use the cash method of reporting your income and expenses, as long as it accurately shows your income for the year. Under this method, you:

- report income in the year you receive it; and
- deduct expenses in the year you pay them.

## **Business records**

You have to keep records of all your transactions to support your income and expense claims. Here are some benefits of keeping complete and organized records:

- When you earn income from many places, good records help you identify the source of the income. Unless you keep proper records, you may not be able to prove that some income is not from your business, or that it is not taxable.
- Keeping good records will remind you of expenses you can deduct when it is time to do your income tax return.



- Good records will keep you better informed about the past and present financial position of your business.
- Good records can help you budget, spot trends in your business, and assist to get help from banks and other lenders.
- Good records can prevent problems you may run into if we audit your income tax returns.

## **Income records**

Keep track of the gross income your business earns. Gross income is your total income before you deduct the cost of goods sold and expenses. Your income records should show the date, amount, and source of the income. Record the income whether you received cash, property, or services.

Support all income entries with original documents. Original documents include sales invoices, cash register tapes, receipts, patient cards, fee statements, contracts, and so on.

Here is an example of how to record your income.


## Sales Journal – Month of June

	<b>Date</b>	<b>Particulars</b>	<b>Cash sales (1) *</b>	<b>Credit sales (2) *</b>	<b>Sales returns (3) *</b>
1	June 1	Daily sales	146.00	27.00	
2	June 2	Daily sales	167.00	36.25	26.00
3	June 3	Daily sales	155.02	19.95	10.01
4	June 4	Daily sales	147.00	29.95	



\* Does not include goods and services tax/harmonized sales tax (GST/HST) or provincial sales tax (PST).

## Sales Journal – Month of June

	Date	Total sales (4) *	GST/HST (7%)/(15%) (5) **	PST (7%) (6)	Payment on account (7)
1	June 1	173.00	12.11	12.11	10.00
2	June 2	177.25	12.41	12.41	
3	June 3	164.96	11.55	11.55	32.40
4	June 4	176.95	12.39	12.39	

\* Does not include goods and services tax/harmonized sales tax (GST/HST) or provincial sales tax (PST).

\*\* If you sell to a resident in one of the participating provinces, GST and PST are replaced by HST at 15%. For more information on HST, see guide RC4022, GENERAL INFORMATION FOR GST/HST REGISTRANTS.

On June 1, you examine the sales invoices and cash register tapes. You find that you had cash sales of \$146 and sales on account of \$27.

In the sales journal, you record the cash sales in column 1 and credit sales in column 2. Since there were no merchandise returns on June 1, leave column 3 blank. Column 4 then shows the total of your cash sales plus credit sales minus any merchandise returned for the day. In columns 5 and 6, show the total GST and PST or HST you charged on your sales.

In column 7, keep track of any cash received on previous credit sales. Do not include the amount in the daily sales figures, since you would have included it in the sales figures on the day the sale took place.

## **Expense records**

Always get receipts or other vouchers when you buy something for your business. When you buy merchandise or services, the receipts have to show:

- the date of the purchase;
- the name and address of the seller or supplier;
- the name and address of the buyer; and
- a full description of the goods or services.

Here is an example of how to record your expenses.

### Expense Journal – Month of June


<b>Date</b>	<b>Particulars</b>	<b>Cheque No.</b>	<b>Bank</b>	<b>GST*</b>
June 1	XYZ Radio	407	374.50	24.50
June 1	Smith Hardware	408	27.47	1.80
June 2	City of Ottawa	409	160.50	10.50
June 3	Andy's Accounting	410	267.50	17.50
June 5	Wholesale Supply Inc.	411	1,871.58	122.44
June 5	Ed's Used Cars	412	1,605.00	105.00



### Expense Journal – Month of June

<b>Date</b>	<b>Purchases</b>	<b>Legal &amp; Acct.</b>	<b>Adv.</b>
June 1			350.00
June 1			
June 2			
June 3		250.00	
June 5	1,749.14		
June 5			

## Expense Journal – Month of June



<b>Date</b>	<b>Fees</b>	<b>Repairs</b>	<b>Capital items</b>
June 1			
June 1		25.67	
June 2	150.00		
June 3			
June 5			
June 5			1,500.00

- \* If you reside in one of the participating provinces, GST is replaced by HST. For more information on HST, see guide RC4022, GENERAL INFORMATION FOR GST/HST REGISTRANTS.

## **You were asking?**

- Q.** What should I do if there is no description on a receipt?
- A.** When you buy something, make sure the seller describes the item. However, sometimes there is no description on the receipt, as with a cash register tape. In this case, you should write what the item is on the receipt or in your expense journal.
- Q.** What should I do if a supplier does not give me a receipt?
- A.** When you buy something, make sure you ask for a receipt. Sometimes, however, suppliers may not provide receipts. In this case, write the information in your records. Show the name and address of the supplier, the date you made the payment, the amount you paid, and the details of the transaction.

Keep a record of the properties you bought and sold. This record should show who sold you the property, the cost, and the date you bought it. This information will help you calculate your claim for capital cost allowance and other amounts.



If you sell or trade a property, show the date you sold or traded it and the amount of the payment or credit from the sale or trade-in.

## **Your record books**

Keep a record of your daily income and expenses. We do not issue record books or suggest any type of book or set of books. There are many record books and bookkeeping systems available. For example, you can use a book that has columns and separate pages for income and expenses.

Keep your books, along with your duplicate deposit slips, bank statements, and cancelled cheques. Keep separate records for each business you run. If you want to keep computerized records, make sure they are clear and easy to read.

### **Note**

Do not send your records with your income tax return. However, keep them in case we ask to see them later.

If you do not keep the necessary information and you do not have any other proof, we may have to determine your income using other methods. We may also reduce the expenses you deducted.

## **Time limits**

Depending on the situation, keep your books and records, and related vouchers for the following lengths of time:

- if you file your return on time, a minimum of six years after the end of the tax year to which they relate;
- if you file your return late, six years from the date you file that income tax return; and
- if you file an objection or appeal, until either the issue is settled and the time for filing any further appeal expires, or the six-year period mentioned above has expired, whichever is later.

These retention periods do not apply to certain records. For more details, see Information Circular 78-10, BOOKS AND RECORDS RETENTION/DESTRUCTION, and its Special Release.

If you want to destroy your books, records and related vouchers before the minimum six-year period is over, you must first get written permission from the Director of your tax services office. To do this, either use Form T137, REQUEST FOR DESTRUCTION OF BOOKS AND RECORDS, or prepare your own written request. For more information see guide RC4409, KEEPING RECORDS or visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca).

## **Instalment payments**

As a self-employed person, you may have to make instalment payments for 2006. Your 2006 instalment payments are due on March 15, June 15, September 15, and December 15. In most cases, if you have to pay by instalments, we will send you a notice telling you how much to pay.

You may have to pay interest and a penalty if you do not pay the full instalment amount you owe on time.

For more information and to see how to calculate your instalments, see the pamphlet P110, PAYING YOUR INCOME TAX BY INSTALMENTS.

## **Note**

If any of the dates mentioned on page 25 [above] fall on a Saturday, Sunday or statutory holiday, you have until the next business day to make your instalment payments.

## **Dates to remember**

**February 28, 2006** – If you have employees, file your 2005 T4 Summary and T4A Summary forms. Also, give your employees their copies of the T4 and T4A slips.

**March 15, 2006** – Make your first 2006 instalment payment.

**March 31, 2006** – Most partnerships will file a partnership information return by March 31, 2006. However, there are exceptions. See the T4068, GUIDE FOR THE PARTNERSHIP INFORMATION RETURN and Information Circular 89-5, PARTNERSHIP INFORMATION RETURN, and its Special Release.

**April 30, 2006** – Pay any balance owing. File your 2005 income tax return if the expenditures of the business are mainly the cost or capital cost of tax shelter investments.

**June 15, 2006** – Make your second 2006 instalment payment. File your 2005 income tax return if you have self-employment income or if you are the spouse or common-law partner of someone who does, unless the expenditures of the business are mainly the cost or capital cost of tax shelter investments. Remember in every case to pay any balance owing by April 30, 2006, to avoid interest charges.

**September 15, 2006** – Make your third 2006 instalment payment.

**December 15, 2006** – Make your fourth 2006 instalment payment.

### **Note**

If any of the dates mentioned on page 26 [above] fall on a Saturday, Sunday, or a statutory holiday, you have until the next business day to file your return or make your payments.

## **What is a partnership?**

A partnership is usually the relationship between persons who carry on a business in common with the belief they will make a profit. You can have a partnership without a written agreement. Therefore, to determine if you are a partner, determine the type and extent of your

involvement in the business. See the laws of your province or territory to help you decide if you are a partner in a certain business.

When you form, change, or dissolve a relationship that may be a partnership, consider:

- whether the relationship is a partnership;
- the special rules about capital gains or losses and the recapture of capital cost allowance that apply when you give properties to a partnership;
- the special rules that apply when you dissolve a partnership; and
- the special rules that apply when you sell or dispose of your interest in a partnership.

For more details about partnerships, see Interpretation Bulletin IT-90, **WHAT IS A PARTNERSHIP?**

### **Reporting partnership income**

A partnership does not pay income tax on its income and does not file an income tax return. Instead, each partner files an income tax return

to report his or her share of the partnership's net income or loss. This requirement remains whether the share of income was received in cash or as a credit to a capital account in the partnership.

### **Goods and services tax/harmonized sales tax (GST/HST) rebate**

If you are a partner of a partnership and you claim expenses on your income tax return, you may be able to get a rebate for any GST/HST you paid on the expenses.

The rebate is available to you as long as you meet **both** these conditions:

- you are a partner of a GST/HST-registered partnership; and
- on your income tax return, you deduct expenses incurred to earn partnership income for which the partnership did not repay you.

We base the rebate on the amount of the expenses subject to GST/HST that you deduct on your income tax return. Examples of expenses subject to GST/HST are vehicle costs, meals, and entertainment. You can also get a GST/HST rebate for capital cost allowance (CCA) you claim on certain types of property (e.g., if you

claim CCA for a vehicle you bought to earn partnership income, and you paid GST/HST when you bought the vehicle). Use the chart "Other amounts deductible from your share of net partnership income (loss)" on page 9 [2] of Form T2124 or Form T2032 to claim expenses for which the partnership did not reimburse you and any other deductible amounts. For more information, see page 119 [24].

For more details about the GST/HST rebate, see guide RC4091, GST/HST REBATE FOR PARTNERS, which includes Form GST370, EMPLOYEE AND PARTNER GST/HST REBATE APPLICATION.

## **Partnership losses**

A partnership can have a loss. However, apply the loss carry-over rules to each partner and not to the partnership. For example, when you complete your own income tax return, combine your share of the partnership non-capital losses with any other non-capital losses you have in the year. Apply this amount against your income.

The loss carry forward period for non-capital losses, foreign tax credits and certain losses of life insurers, arising in taxation years ending after March 22, 2004 is 10 years.



## **Partnerships that have to file a partnership information return**

A partnership with six or more partners at any time in the fiscal period has to file a partnership information return. If a partnership has five partners or less throughout the whole fiscal period and one or more of its partners is another partnership, it also has to file a partnership information return. There are other situations where you have to file a partnership information return. For more information, see the T4068, **GUIDE FOR THE PARTNERSHIP INFORMATION RETURN**.

If you are a partner of a partnership that has to file a partnership information return, you should get two copies of a T5013 slip, **STATEMENT OF PARTNERSHIP INCOME**, from the partnership. If you do not receive this form, contact the person who prepares the forms for the partnership.

On your income tax return, report the gross partnership income and your share of the net partnership income or loss. You will get these amounts from your T5013 slip. Attach a copy of your T5013 slip to your income tax return. Do not attach the partnership's income and expense statement.

You may need to adjust your share of the net partnership income or loss shown on your T5013 slip. Do this to deduct any business expenses you incur for which the partnership did not repay you and for any other deductible amounts. If this is your situation, read "Line 9943 – Other amounts deductible from your share of net partnership income (loss)" on page 119 [24]. You may also have expenses related to the business use of your home. For more information, see page 120 [24].

The T4068, GUIDE FOR THE PARTNERSHIP INFORMATION RETURN has more details about the partnership information return.

### **Partnerships that do not have to file a partnership information return**

Generally, partnerships that have five partners or less throughout the whole fiscal period, and that have no partner who is another partnership, do not have to file a partnership information return. For more information, see the T4068, GUIDE FOR THE PARTNERSHIP INFORMATION RETURN.

If you are a partner of a partnership that does not have to file a partnership information return, calculate the partnership's income and expenses using the same rules you would use for a proprietorship. Calculate the partnership's income and expenses as if the partnership was a separate person. Some rules for capital cost allowance and eligible capital expenditures on partnership-owned property are different. These rules are explained below.

### **Capital cost allowance (CCA)**

A partnership can own depreciable property and claim CCA on it. As an individual partner, you cannot claim CCA on property the partnership owns.

From the capital cost of depreciable property, subtract any investment tax credit allocated to the individual partners. We consider this allocation to be made at the end of the partnership's fiscal period. You also reduce capital cost by any type of government assistance. See Chapter 4 for more details about CCA and the adjustments to capital cost.

Any taxable capital gain or recapture from the sale of property the partnership owns is included in the income of the partnership. Also, any allowable capital or terminal loss from the sale of partnership-owned property is the loss of the partnership. For more details about capital gains and losses, as well as recapture and terminal losses, see Chapter 4.

### **Eligible capital expenditures**

A partnership can own eligible capital property and deduct an annual allowance. Any income from the sale of eligible capital property the partnership owns is income of the partnership. For more details about eligible capital expenditures, see Chapter 5.

### **Limited partnership**

A limited partnership is a partnership that gives its limited partners responsibilities that are similar to those given to shareholders of a corporation. A limited partner's liability as a partner of the partnership is limited, as opposed to that of a general partner who has unlimited liability.

## **Investment tax credit**

The investment tax credit (ITC) lets you subtract, from the taxes you owe, part of the cost of some types of property you acquired or expenditures you incurred. You may be able to claim this tax credit in 2005 if you bought qualifying property, incurred qualified expenditures, or were allocated renounced Canadian exploration expenses. You may also be able to claim the credit if you have unused ITCs from years before 2005. For more details about ITCs, see Form T2038(IND), INVESTMENT TAX CREDIT (INDIVIDUALS).

## **Chapter 2 – Income From Business or Profession**

### **Sole proprietorships**

If you are a sole proprietor, complete all the applicable areas and lines on Form T2124, STATEMENT OF BUSINESS ACTIVITIES, or Form T2032, STATEMENT OF PROFESSIONAL ACTIVITIES.

## Partnerships

The details of your business or professional activities that you have to give us depend on the type of your partnership. If you are a partner of a partnership that **has** to file a partnership information return, complete Form T2124 or Form T2032 as follows:

- Complete the "Identification" area.
- Enter the amount of income shown in box 18 of your T5013 slip, STATEMENT OF PARTNERSHIP INCOME, on line 9369, "Net income (loss) before adjustments."
- Complete the "Other amounts deductible from your share of net partnership income (loss)" chart found on page 9 [the 2nd page] of either form to claim any expenses for which the partnership did not reimburse you and any other deductible amounts. Also, complete the "Calculation of business-use-of-home expenses" chart if applicable. For more information, see page 120 [24].
- Enter your share of the net income or loss from the business on line 9946, "Your net income (loss)." If you did not make any adjustments to the amount in box 18 of your T5013 slip, the amount

you enter on line 9946 will be the same as the amount you entered on line 9369.

If you are a partner of a partnership that **does not** have to file a partnership information return, complete Form T2124 or Form T2032 as follows:

- Complete the "Identification" area.
- Calculate the business income for all partners.
- Calculate the business part of expenses for all partners.
- Complete the "Other amounts deductible from your share of net partnership income (loss)" chart to claim any expenses for which the partnership did not reimburse you and any other deductible amounts. Also, complete the "Calculation of business-use-of-home expenses" chart if applicable. For more information, see page 120 [24].
- Complete the "Details of other partners" chart.

To see if your partnership has to file a partnership information return, read "What is a partnership?" on page 27 [8]. We explain how to

complete each of the lines on Form T2124 and Form T2032 later in this chapter, as well as in Chapter 3 on page 58 [13].

## **"Identification" area on Form T2124 and Form T2032**

Complete all the lines that apply to your business or professional activities.

Indicate the period your business year covered, which is your fiscal period. For an explanation of fiscal period, see page 12 [5].

Enter the **industry code** that corresponds to your business from the appendix on page 221 [45]. If more than one code describes your business, or if your business has more than one activity, use the code that most closely describes your main business activity. For example, you might operate a bookstore. However, the store might also sell postage stamps. You would still use industry code 451210 (for books or stationery) and not 491110 (for postal services).

If you did not prepare Form T2124 or T2032, enter the name and address of the person or firm that prepared it for you.



Enter your 15-digit Business Number that CRA assigned in the appropriate area.

If you have a tax shelter, enter the identification number on the appropriate line. If you are claiming a deduction or losses for 2005, attach to your income tax return any applicable T5003 and T5013 information slips and a completed Form T5004, STATEMENT OF TAX SHELTER LOSS OR DEDUCTION. For more information on tax shelters, see Information Circular 89-4, TAX SHELTER REPORTING.

If your business or professional activities are a partnership, identify your percentage of the partnership and enter the partnership filer identification number if applicable.

## **Form T2124, Statement of Business Activities**

This section explains how to complete the "Income" area on Form T2124.

## **Sales, commissions, or fees**

Your sales include all sales, whether you receive or will receive money, something the same as money (such as credit units that have a notional monetary value), or something from bartering. Bartering occurs when two people agree to exchange goods or services without using money. Interpretation Bulletin IT-490, BARTER TRANSACTIONS, has more details.

If you usually deduct goods and services tax/harmonized sales tax (GST/HST), provincial sales tax (PST), or returns and allowances directly from sales when they take place, you can show your net sales (after GST/HST, PST, and returns and allowances) on the first line of Form T2124. Otherwise, show GST/HST, PST, and returns and allowances separately on the appropriate lines of the form. If you used the quick method option to calculate your GST/HST, reduce the gross sales by the quick method remittance rate. For information on the quick method, see our guide RC4058, QUICK METHOD OF ACCOUNTING FOR GST/HST.

If you are a self-employed commission salesperson, enter the commissions you received on this line.

### **Line 8000 – Net sales, commissions, or fees**

Enter your net sales, commissions, and fees after deducting any GST/HST, PST, and any returns, allowances, and discounts, if these have been included in your sales.

### **Line 8290 – Reserves deducted last year**

Include any reserves you deducted for 2004. For more details, see "Allowable reserves" on page 104 [21].

### **Line 8230 – Other income**

Enter the total income you received from other sources. Some examples of other income you would report on this line are:

- a recovery of an amount you wrote off as a bad debt in a previous year;
- the value of vacation trips or other prizes awarded to you because of your business activities;

- payments for land you leased for petroleum or natural gas exploration. For more information, see Interpretation Bulletin IT-200, SURFACE RENTALS AND FARMING OPERATIONS; and
- grants, subsidies, incentives, or assistance you get from a government, government agency, or non-government agency. For more information, see Interpretation Bulletin IT-273, GOVERNMENT ASSISTANCE – GENERAL COMMENTS.

### **Note**

Do not include in income any rebate, grant, or assistance you receive, but subtract that amount from the applicable expense it relates to. If the rebate, grant, or assistance relates to a depreciable asset, subtract the amount you received from the asset's capital cost. This will affect the amount of capital cost allowance (CCA) you can claim for that asset. See Chapter 4 for information about CCA. If the asset qualifies for the investment tax credit, this reduction to the capital cost will also affect your claim for the investment tax credit. See Form T2038(IND), INVESTMENT TAX CREDIT (INDIVIDUALS), for details. If you cannot apply the rebate, grant, or assistance you must reduce a particular expense or an asset's capital cost, include the total on line 8230, "Other income."

This amount must be included in income to the extent that it was not used to reduce the cost of a property or the amount of an outlay or expense.

### **Line 8299 – Gross income**

Enter your gross income, which is your net sales (line 8000) plus any reserves deducted last year, and any other income.

### **Calculation of cost of goods sold**

Complete this area if your business buys goods for resale or makes goods for sale. Claim the cost of the goods you buy or make for sale in the fiscal period in which you sell them. To calculate your cost of goods sold, you need to know the following:

- the value of your inventory at the start of your fiscal period;
- the value of your inventory at the end of your fiscal period; and
- the cost of your purchases (net of discounts) for the fiscal period.

## **Line 8300 – Opening inventory and Line 8500 – Closing inventory**

Enter your opening and closing inventory on the appropriate lines. These amounts must include raw materials, goods in process, and finished goods. The way you value your inventory is important when you determine your income. For income tax purposes, we accept the following two methods:

- Value your entire inventory at its fair market value. Use either the price you would pay to replace an item or the amount you would get if you sold an item.
- Value individual items in your inventory at either their fair market value or their cost, whichever is less. Cost is the price you incur for an item. Cost also includes any expenses you incur to bring the item to the business location and to put it in a condition so that you can use it in the business. When you cannot easily tell one item from another, you can value the items as a group.

Once you have chosen a method for valuing your inventory, you have to use that method consistently.

See page 133 [26] for the meaning of **fair market value**.

If this is your first year of reporting business income, you can choose either method to value your inventory. In your first year of business, you will not have an amount to enter on line 8300. If this is not your first year of business, continue to use the same method you used in past years. The value of your inventory at the start of a fiscal period has to be the same as the value of your inventory at the end of the preceding fiscal period.

Do an actual stock count at the end of each fiscal period, unless you use a perpetual inventory system. Under this system, you do periodic stock counts and keep a written record of each count. Remember to keep your inventory records with your other books and records.

For more information about valuing inventory, see Interpretation Bulletin IT-473, INVENTORY VALUATION, and its Special Release.

Businesses that are adventures or concerns in the nature of trade must value their inventory at the cost to the taxpayer.

## **Inventory value of an artistic endeavour**

An artistic endeavour occurs when you are in the business of creating paintings, murals, original prints, etchings, drawings, sculptures, or similar works of art. An artistic endeavour does not include reproducing works of art.

When you calculate your income from an artistic endeavour, you can choose to value your closing inventory at nil. To do this, show your closing inventory as "nil" on line 8500. Your choice stays in effect for each following year, unless you request a change from CRA and we allow the change. This option may not be used if you did not create the work of art or you are in the business of reproducing works of art.

For more information, see Interpretation Bulletin IT-504, VISUAL ARTISTS AND WRITERS.

## **Gifts of inventory by an artist**

If you donate a work of art you created, you may not have to report a profit on your donation for income tax purposes. To benefit from this tax treatment, your gift must fall under the definition of gifts of



certified cultural property. For more information about gifts and donations, see P113, GIFTS AND INCOME TAX pamphlet.

**Line 8320 – Purchases during the year (net of returns, allowances, and discounts)**

The cost of goods you buy to resell or use in manufacturing other goods includes costs such as delivery, freight, and express charges. Enter the amount of your net purchases during the year (your total purchases, minus any discounts you received).

Sometimes, you might use goods you bought for the business for personal use. When this happens, you have to subtract the cost of these goods from your total purchases for the year. Do this before you enter the amount of the purchases.

**Line 8360 – Subcontracts**

Enter all the costs of hiring outside help to perform tasks related to the goods you sell.

## **Line 8340 – Direct wage costs**

Include the remuneration you paid to employees who work directly in the manufacture of your goods. Do not include:

- indirect wages (see line 9060);
- a salary paid to yourself or a partner (see "Details of equity" on page 128 [25] ); and
- withdrawals you may have made from the business (see "Details of equity" on page 128 [25] ). For more information on salaries and wages, see line 9060 on page 95 [20].

## **Line 8519 – Gross profit**

Enter your gross profit, which is your gross income (line 8299) minus your cost of goods sold.

## **Form T2032, Statement of Professional Activities**

This section explains how to complete the "Income" area on Form T2032.

As mentioned in Chapter 1, professional activities are business activities. Usually, you calculate your income from professional activities using the same rules as for a business. However, some aspects of professional activities are different from those of other types of businesses. Some of these differences are discussed in this section.

### **Professional fees**

Your professional income includes all fees you receive for goods or services you provide, whether you receive or will receive money, something the same as money (such as credit units that have a notional monetary value), or something from bartering. Bartering occurs when two people agree to exchange goods or services without using money. For more information, see Interpretation Bulletin IT-490, BARTER TRANSACTIONS.

As a professional, generally your income includes the value of your work-in-progress (WIP). WIP is goods or services that you have not yet completed at the end of your fiscal period.

Your professional fees for the current year are the total of:

- all amounts you receive during the year for professional services, whether you provide the services during the current year or after your current year-end;

**plus**

- all amounts receivable at the end of the current year for professional services you provided during the current year;

**minus**

- all amounts receivable at your previous year-end.

### **Note**

If you usually deduct GST/HST and PST directly from your professional fees when you earn them, you can show your net professional fees (after GST/HST and PST) on the first line of Form T2032. Otherwise, show GST/HST and PST separately on the appropriate line. If you used the quick method option to calculate your GST/HST, reduce the gross professional fees by the quick

method remittance rate. For more information on the quick method, see our guide RC4058, QUICK METHOD OF ACCOUNTING FOR GST/HST.

## **Election to exclude your WIP**

You can choose to exclude your WIP when you calculate your income if you are one of the following types of professionals:

- an accountant;
- a dentist;
- a lawyer (including a notary in Quebec);
- a medical doctor;
- a chiropractor; or
- a veterinarian.

If you did not choose to exclude your WIP in any previous year, you can do so in 2005. You do not need a special form to do this. Attach a letter to your income tax return telling us that you want to exclude your WIP.

You can also use Form T2032 to exclude your WIP by doing the following:

- On the "Work-in-progress, end of the year" line, write the amount you included as "Work-in-progress, end of year" in your professional fees.
- On the "Work-in-progress, start of the year" line, write the amount of your WIP at the start of the year, if you excluded it at the end of last year.

Make this election when you file the original income tax return to which it relates. We will not accept an election when you file an amended return.

For partnerships, an authorized partner must choose to exclude the partnership's WIP on behalf of all partners.

The choice to exclude WIP stays in effect for each following year, unless you file an application and CRA permits you to make the change.

For more information about excluding WIP, see Interpretation Bulletin IT-457, ELECTION BY PROFESSIONALS TO EXCLUDE WORK IN PROGRESS FROM INCOME.

### **Line 8000 – Adjusted professional fees**

Enter your professional fees plus your WIP for the start of the year if you excluded it at the end of last year, minus any GST and PST, or HST included in your fees, and your WIP at the end of the year if you elect to exclude it.

### **Line 8290 – Reserves deducted last year**

Include in your 2005 income any reserves you deducted for 2004. For more details, see "Allowable reserves" on page 104 [21].

### **Line 8230 – Other income**

Enter the total income you received from other sources. Some examples of other income you would report on this line are:

- a recovery of an amount you wrote off as a bad debt in a previous year;

- the value of vacation trips or other prizes awarded to you because of your professional activities; and
- grants, subsidies, incentives, or assistance you get from a government, government agency, or non-government agency. For more information, see Interpretation Bulletin IT-273, GOVERNMENT ASSISTANCE – GENERAL COMMENTS, and read the note on page 42 [11] of this guide.

### **Line 8299 – Gross income**

Enter your gross income. This amount includes your adjusted professional fees (line 8000) plus any reserves deducted last year, and any other income. The following example summarizes this chapter. Since the rules for calculating business and professional income are similar, our example focuses on a business.

#### **Example**

Cathy is the sole proprietor of a fashion boutique that has a December 31 fiscal year-end. She rents the premises where the store is located. Cathy entered the following in her sales journals for 2005:



Total sales (excluding PST and GST, or HST)	\$ 189,000
Returned items	\$ 1,000
Inventory at the start of 2005	\$ 36,500
Inventory at the end of 2005	\$ 30,000
Purchases (including freight, etc.)	\$ 88,000

Cathy completes the "Income" and "Cost of goods sold" sections of Form T2124 as shown on pages 56 and 57 [this page].

**Income**

Sales, commissions, or fees 189,000 00 a

**Minus** – Goods and services tax/harmonized sales tax (GST/HST) and provincial sales tax (if included in sales above)

– Returns, allowances, and discounts (if included in sales above)

1,000 00

**Total of the above two lines**

1,000 00



1,000 00 b

**Net sales, commissions, or fees**

(line a minus line b)

8000	188,000	00
8290		
8230		

Reserves deducted last year

Other income

**Gross income** (total of the above three lines) –

Enter on the appropriate line of your income tax return

8299 188,000 00 c

## Calculation of cost of goods sold (enter business part only)

Opening inventory (include raw materials, goods in process, and finished goods)

<b>8300</b>	<b>36,500</b>	<b>00</b>
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Purchases during the year (net of returns, allowances, and discounts)

<b>8320</b>	<b>88,000</b>	<b>00</b>
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Subcontracts

<b>8360</b>		
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Direct wage costs

<b>8340</b>		
-------------	--	--

Other costs

<b>8450</b>		
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**Total of the above five lines**

	<b>124,500</b>	<b>00</b>
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**Minus** – Closing inventory  
(include raw materials, goods in process, and finished goods)

<b>8500</b>	<b>30,000</b>	<b>00</b>
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**Cost of goods sold**

<b>8518</b>	<b>94,500</b>	<b>00</b>
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**Gross profit (line c minus line d)**

	<b>94,500</b>	<b>00</b>	d
<b>8519</b>	<b>93,500</b>	<b>00</b>	e

## **Chapter 3 – Expenses**

This chapter discusses the more common expenses you incur to earn income from your business (including self-employed commission sales) or professional activities. Incur means that you paid or will have to pay the expense.

As a rule, you can deduct any reasonable current expense you incur to earn business income. The expenses you can deduct include any GST/HST you incur on these expenses. However, since you cannot deduct personal expenses, enter only the business part of expenses on the form.

In addition, you cannot claim expenses you incur to buy capital property.

### **Current or capital expenses?**

Renovations and expenses that extend the useful life of your property or improve it beyond its original condition are usually capital expenses. However, an increase in a property's market value because of an expense is not a major factor in deciding whether the expense is

capital or current. To decide whether an amount is a current expense or a capital expense, consider your answers to the questions on the following chart.

## **CRITERIA**

### **Does the expense provide a lasting benefit?**

#### **Capital expenses**

A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.

#### **Current expenses**

A current expense is one that usually recurs after a short period. For example, the cost of painting the exterior of a wooden house is a current expense.

## **CRITERIA**

**Does the expense maintain or improve the property?**

### **Capital expenses**

The cost of a repair that improves a property beyond its original condition is probably a capital expense. If you replace wooden steps with concrete steps, the cost is a capital expense.

### **Current expenses**

An expense that simply restores a property to its original condition is usually a current expense. For example, the cost of repairing wooden steps is a current expense.

## **CRITERIA**

**Is the expense for a part of a property or for a separate asset?**

### **Capital expenses**

The cost of replacing a separate asset within that property is a capital expense. For example, the cost of buying a compressor for use in your business operation is a capital expense. This is the

case because a compressor is a separate asset and is not a part of the building.

### **Current expenses**

The cost of repairing a property by replacing one of its parts is usually a current expense. For instance, electrical wiring is part of a building. Therefore, an amount you spend to rewire is usually a current expense, as long as the rewiring does not improve the property beyond its original condition.

## **CRITERIA**

**What is the value of the expense?** (Use this test only if you cannot determine whether an expense is capital or current by considering the three previous tests.)

### **Capital expenses**

Compare the cost of the expense to the value of the property. Generally, if the cost is of considerable value in relation to the property, it is a capital expense.

## **Current expenses**

This test is not a determining factor by itself. You might spend a large amount of money for maintenance and repairs to your property all at once. If this cost was for ordinary maintenance that was not done when it was necessary, it is a maintenance expense, and you deduct it as a current expense.

## **CRITERIA**

**Is the expense for repairs to used property that you acquired to put it in suitable condition for use?**

## **Capital expenses**

The cost of repairing used property that you acquired to put it in a suitable condition for use in your business is considered a capital expense even though in other circumstances it would be treated as a current operating expense.

## **Current expenses**

Where the repairs were for ordinary maintenance of a property that you already had in your business, the expense is usually current.



## **CRITERIA**

**Is the expense for repairs made to an asset in order to sell it?**

### **Capital expenses**

The cost of repairs made in anticipation of the sale of a property or as a condition of sale is regarded as a capital expense.

### **Current expenses**

Where the repairs would have been made anyway, but a sale was negotiated during the course of the repairs or after their completion, the cost is regarded as current.

For more information, see Chapter 4 of this guide and Interpretation Bulletin IT-128, CAPITAL COST ALLOWANCE – DEPRECIABLE PROPERTY.

### **Note**

When you claim the GST/HST you paid on your business expenses as an input tax credit, reduce the amounts of the business expenses you show on Form T2124 or Form T2032 by the amount of the input tax credit. Do this when the GST/HST for which you are claiming the input tax credit was paid or became payable. Similarly, subtract any

other rebate, grant, or assistance from the expense to which it applies. Enter the net figure on the proper line. Any such assistance you claim for the purchase of depreciable property used in your business will affect your claim for capital cost allowance. If you cannot apply the rebate, grant, or assistance you received to reduce a particular expense, or to reduce an asset's capital cost, include the total on line 8230, "Other income," on Form T2124 or Form T2032. See "Grants, subsidies, or other incentives or inducements" on page 169 [33].

**Enter business part only** means that any of the following are not included as part of your expenses:

- salary or wages (including drawings) paid to self, partner(s), or both;
- cost of saleable goods or services that you, your family, or your partners and their families used (including items such as food, home maintenance, or business properties);
- donations to charities and political contributions;
- interest and penalties you paid on your income tax;

- life insurance premiums;
- the part of any expenses that can be attributed to non-business use of business property and
- most fines and penalties imposed after March 22, 2004 under the law of Canada or a province or a foreign country.

## **Prepaid expenses**

A prepaid expense is an expense you pay for ahead of time. Under the accrual method of accounting, claim any expense you prepay in the year or years in which you get the related benefit. For example, suppose your fiscal year-end is December 31, 2005. On June 30, 2005, you prepay the rent on your store for a full year (July 1, 2005, to June 30, 2006). You can only deduct one-half of this rent as an expense in 2005. You deduct the other half as an expense in 2006.

For more information, see Interpretation Bulletin IT-417, PREPAID EXPENSES AND DEFERRED CHARGES.

## **Line 8521 – Advertising**

You can deduct expenses for advertising, including ads in Canadian newspapers and on Canadian television and radio stations. You can also include on this line any amount you paid as a finder's fee.

Certain restrictions apply to the amount of the expense you can deduct for advertising in a periodical. You can deduct all the expense if your advertising is directed to a Canadian market and the original editorial content in the issue is 80% or more of the total non-advertising content in the issue.

You can deduct 50% of the expense if your advertising in a periodical is directed to a Canadian market and the original editorial content in the issue is less than 80% of the total non-advertising content in the issue.

Also, you cannot deduct expenses for advertising directed mainly to a Canadian market when you advertise with a foreign broadcaster.

## **Line 8590 – Bad debts**

You can deduct an amount for a bad debt if you:

- determine that an account receivable is a bad debt in the year; and
- had already included the receivable in income.

For more information, see Interpretation Bulletin IT-442, BAD DEBTS AND RESERVES FOR DOUBTFUL DEBTS.

## **Line 8760 – Business tax, fees, licences, dues, memberships, and subscriptions**

You can deduct any annual licence fees and business taxes you incur to run your business. You can also deduct annual dues or fees to keep your membership in a trade or commercial association. You cannot deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities.

## **Line 9275 – Delivery, freight, and express**

You can deduct the cost of delivery, freight, and express incurred in the year that relates to your business.

## **Line 9224 – Fuel costs**

You can deduct the cost of fuel (including gasoline, diesel, and propane), motor oil, and lubricants used in your business. For information about claiming the fuel used in your motor vehicle, see "Line 9281 – Motor vehicle expenses" on page 75 [16]. The cost of fuel related to business use of work space in your home has to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 120 [24].

## **Line 8690 – Insurance**

You can deduct all ordinary commercial insurance premiums you incur on any buildings, machinery, and equipment you use in your business. For more information about claiming your motor vehicle insurance costs, see "Line 9281 – Motor vehicle expenses" on page 75 [16]. The insurance costs related to business use of work space in your home have to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 120 [24].

In most cases, you cannot deduct your life insurance premiums.

## **Line 8710 – Interest**

You can deduct the interest you incur on money you borrow to run your business. However, some limits can apply.

There is a limit on the interest you can deduct on money you borrow to buy a passenger vehicle. See "Line 9281 – Motor vehicle expenses" on page 75 [16].

There is also a limit on the amount of interest you can deduct for vacant land. Usually, you can only deduct interest up to the amount of income that remains after you deduct all other expenses. You cannot use any remaining amounts of interest to create or increase a loss. Also, you cannot deduct interest from other sources of income.

You can deduct the fee you pay to reduce the interest rate on your loan. You can also deduct any penalty or bonus a financial institution charges you to pay off your loan before it is due. Treat the fee, penalty, or bonus as prepaid interest (see "Prepaid expenses" on page 65 [14] ) and deduct it over the remaining original term of your loan. For example, if the term of your loan is five years and in the

third year you pay a fee to reduce your interest rate, treat this fee as a prepaid expense and deduct it over the remaining term of the loan.

You can deduct certain fees you incur when you get a loan to buy or improve your business property. These fees include:

- application, appraisal, processing, and insurance fees;
- loan guarantee fees;
- loan brokerage and finder's fees; and
- legal fees related to financing.

You deduct these fees over a period of five years. Deduct 20% in 2005 and 20% in each of the four following years. The 20% limit is reduced proportionally for fiscal periods of less than 12 months.

However, if you repay the loan before the end of the five-year period, you can deduct the remaining financing fees then. The number of years for which you can deduct these fees is not related to the term of your loan.

If you incur standby charges, guarantee fees, service fees, or any other similar fees, you may be able to deduct them in full for the year



you incur them. To do so, they have to relate only to that year. For more information, see Interpretation Bulletin IT-341, EXPENSES OF ISSUING OR SELLING SHARES, UNITS IN A TRUST, INTERESTS IN A PARTNERSHIP OR SYNDICATE, AND EXPENSES OF BORROWING MONEY.

You may be able to deduct interest expenses for a property that you used for business purposes, even if you have stopped using the property for such purposes because you are no longer in business.

You can deduct interest you paid on a loan made against an insurance policy, as long as the insurer did not add the interest you paid to the adjusted cost base of the insurance policy. To claim the interest you paid for 2005, have the insurer verify the interest before June 16, 2006, on Form T2210, VERIFICATION OF POLICY LOAN INTEREST BY THE INSURER.

You can choose to capitalize interest on money you borrow:

- to buy depreciable property;
- to buy a resource property; or
- for exploration and development.

When you choose to capitalize interest, add the interest to the cost of the property or exploration and development costs instead of deducting the interest as an expense.

The interest related to business use of work space in your home has to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 120 [24].

### **Line 8960 – Maintenance and repairs**

You can deduct the cost of labour and materials for any minor repairs or maintenance done to property you use to earn income. However, you cannot deduct the value of your own labour.

You cannot deduct costs you incur for repairs that are capital in nature. However, you may be able to claim capital cost allowance (CCA). For more information about CCA, see Chapter 4.

The maintenance and repairs related to business use of work space in your home have to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 120 [24].

## **Line 8871 – Management and administration fees**

You can deduct management and administration fees incurred to operate your business, including bank charges. Do not include on this line employees' salaries, property taxes, or rents paid. You can claim these amounts elsewhere on the appropriate form.

## **Line 8523 – Meals and entertainment**

The maximum part you can claim for food, beverages, and entertainment expenses is 50% of either the amount you incur or an amount that is reasonable in the circumstances, whichever is less.

These limits also apply to the cost of your meals when you travel or go to a convention, conference, or similar event. However, special rules can affect your claim for meals in these cases. For more details, see "Line 9200 – Travel" on page 97 [20] and "Convention expenses" on page 102 [21].

These limits do not apply if:

- Your business regularly provides food, beverages, or entertainment to customers for compensation (for example, a restaurant, hotel, or motel).
- You bill your client or customer for the meal and entertainment costs, and you show these costs on the bill.
- You include the amount of the meal and entertainment expenses in an employee's income or would include them if the employee did not work at a remote or special work location. In addition, the amount is not paid or payable in respect of a conference, convention, seminar, or similar event.

The special work location must be at least 30 kilometres from the closest urban centre that has a population of 40,000 or more people.

- You incur meal and entertainment expenses to provide a Christmas party or similar event, and you invite all your employees from a particular location. However, you are limited to six of these events each year.

- The meal and entertainment expenses you incur are for a fund-raising event that was mainly for the benefit of a registered charity.
- You provide meals to an employee housed at a temporary work camp constructed or installed specifically for the purpose of providing meals and accommodation to employees working at a construction site. In addition, the employee cannot be expected to return home daily.

Entertainment expenses include tickets and entrance fees to an entertainment or sporting event, gratuities, cover charges, and room rentals such as for hospitality suites.

For more information, see Interpretation Bulletin IT-518, FOOD, BEVERAGES, AND ENTERTAINMENT EXPENSES.

### **Line 9281 – Motor vehicle expenses**

You can deduct expenses you incur to run a motor vehicle you use to earn business income. Complete "Chart A – Motor vehicle expenses" on page 22 [4] of Form T2124 or Form T2032 to help you calculate the amount of motor vehicle expenses you can deduct. If you are a partner in a partnership and you incur personal motor vehicle

expenses for the business, those expenses must be claimed on line 9943, "Other amounts deductible from your share of net partnership income (loss)," on Form T2124 or Form T2032. For more information, see page 119 [24].

## **Keeping records**

You can deduct motor vehicle expenses only when they are reasonable and you have receipts to support them. To get the full benefit of your claim for each vehicle, keep a record of the total kilometres you drive and the kilometres you drive to earn business income. For each business trip, list the date, destination, purpose, and number of kilometres you drive. Record the odometer reading of each vehicle at the start and end of the fiscal period.

If you change motor vehicles during the fiscal period, record the dates of the changes and the odometer reading at the time you buy, sell, or trade the vehicle.

## What type of vehicle do you own?

The kind of vehicle you own can affect the expenses you deduct. For income tax purposes, there are three types of vehicles:

- motor vehicles;
- automobiles; and
- passenger vehicles.

If you own or lease a passenger vehicle, there can be a limit on the amounts you can deduct for capital cost allowance (CCA), interest, and leasing costs.

We explain the CCA limits on page 162 [32], the interest limits on page 87 [18], and the leasing costs on page 89 [19].

**Motor vehicle** – This is an automotive vehicle designed or adapted for use on highways and streets. A motor vehicle does not include a trolley bus or a vehicle designed or adapted to be operated only on rails.

**Automobile** – This is a motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers.

An automobile **does not** include:

- an ambulance;
- clearly marked police and fire emergency-response vehicles;
- a motor vehicle you bought to use more than 50% as a taxi, a bus used in the business of transporting passengers, or a hearse in a funeral business;
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business;
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers;
- a van, pick-up truck, or similar vehicle that seats no more than the driver and two passengers which, in the tax year you bought or leased, was used more than 50% to transport goods and equipment to earn income;



- a van, pick-up truck, or similar vehicle that, in the tax year you bought or leased, was used 90% or more to transport goods, equipment, or passengers to earn income; and
  - a pick-up truck that, in the tax year you bought or leased, was used more than 50% to transport goods, equipment, or passengers while earning or producing income at a remote work location or at a special work site that is at least 30 kilometers from the nearest community having a population of at least 40,000 persons.
- 
- a clearly marked Emergency Medical Service vehicle used to carry paramedics and their emergency medical equipment.
- 

**Passenger vehicle** – This is an automobile you bought after June 17, 1987. A passenger vehicle is also an automobile that you leased under an agreement you entered into, extended, or renewed after June 17, 1987.

Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA, interest, and leasing.

To help you determine what type of vehicle you have, see the chart on page 84 [18]. The chart does not cover every situation, but it gives some of the main definitions.

The chart is for a vehicle you buy or lease after June 17, 1987, and use to earn business income.

### **Deductible expenses**

The types of expenses you can claim on line 9281 include:

- licence and registration fees;
- fuel costs;
- insurance;
- interest on money borrowed to buy a motor vehicle;
- maintenance and repairs; and
- leasing costs.

You can also claim CCA, but you enter this amount on line 9936. For information about CCA, see Chapter 4.

## Business use of a motor vehicle

If you use a motor vehicle for business and personal use, you can deduct only the part of the expenses that you paid to earn income. However, you can deduct the full amount of parking fees related to your business activities and supplementary business insurance for your motor vehicle. To support the amount you can deduct, keep a record of the total kilometres you drive and the kilometres you drive to earn income.

### Example

Paul owns a hardware store that has a December 31 year-end. He has a van that he uses for the business. Paul noted the following for 2005:

Kilometres driven to earn business income	27,000
<hr/>	
Total kilometres driven	30,000
<hr/>	
Expenses:	
Licence and registration fees	\$ 100
<hr/>	
Gas and oil	\$ 2,400
<hr/>	

Insurance	\$ 1,900
Interest	\$ 800
Maintenance and repairs	\$ 200
Total expenses for the van	<u>\$ 5,400</u>

Paul calculates the expenses he can deduct for his van for 2005 as follows:

$$\frac{27,000 \text{ (business kilometres)}}{30,000 \text{ (total kilometres)}} \times \$5,400 = \$4,860$$

30,000 (total kilometres)

The deductible **business** part of Paul's van expenses is \$4,860. He also has business parking fees of \$40 and a supplementary business insurance cost of \$100. He can claim \$5,000 on line 9281 of Form T2124.

## Joint ownership

If you and another person own or lease a passenger vehicle, the limits on capital cost allowance, interest, and leasing still apply. As a joint

owner, the total amount you and any other owners deduct cannot be more than the amount that one person owning or leasing the vehicle could deduct.

### **More than one vehicle**

If you use more than one motor vehicle for your business, keep a separate record for each vehicle that shows the total and business kilometres you drive, and the cost to run and maintain each vehicle. Calculate each vehicle's expenses separately.

For more information, see Interpretation Bulletin IT-521, MOTOR VEHICLE EXPENSES CLAIMED BY SELF-EMPLOYED INDIVIDUALS.

## Vehicle definitions

Type of vehicle	Seating (includes driver)	Business use in year bought or leased	Vehicle definition
Coupe, sedan, station wagon, sports car, or luxury car	1 to 9	1% to 100%	passenger
Pickup truck used to transport goods or equipment	1 to 3	more than 50%	motor
Pickup truck (other than above)*	1 to 3	1% to 100%	passenger
Pickup truck with extended cab used to transport goods, equipment, or passengers	4 to 9	90% or more	motor

## Vehicle definitions

<b>Type of vehicle</b>	<b>Seating (includes driver)</b>	<b>Business use in year bought or leased</b>	<b>Vehicle definition</b>
Pickup truck with extended cab (other than above)*	4 to 9	1% to 100%	passenger
Sport utility used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Sport utility (other than above)	4 to 9	1% to 100%	passenger
Van or minivan used to transport goods or equipment	1 to 3	more than 50%	motor

<b>Vehicle definitions</b>			
<b>Type of vehicle</b>	<b>Seating (includes driver)</b>	<b>Business use in year bought or leased</b>	<b>Vehicle definition</b>
Van or minivan (other than above)	1 to 3	1% to 100%	passenger
Van or minivan used to transport goods, equipment, or passengers	4 to 9	90% or more	motor
Van or minivan (other than above)	4 to 9	1% to 100%	passenger

\* A vehicle in this category that is used more than 50% to transport goods, equipment, or passengers while earning or producing income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community having a population of 40,000 persons is considered a **motor vehicle**.



## Interest

You can deduct interest on money you borrow to buy a motor vehicle, automobile, or passenger vehicle you use to earn income. Include the interest as an expense when you calculate your allowable motor vehicle expenses.

When you use a passenger vehicle to earn income, there is a limit on the amount of interest you can deduct. Complete "Chart B – Available interest expense for passenger vehicles" on page 24 [4] of Form T2124 or Form T2032 to calculate the amount of interest you can deduct.

### Example

On May 1, 2005, Cathy bought a car that she uses to earn business income. Cathy's fiscal year ends on December 31. The car is a passenger vehicle. Cathy borrowed money to buy her car, and the interest payable in 2005 was \$1,500.

Her available interest expense is whichever is less:

- the total interest payable in 2005, which is \$1,500; or
- $\$10 \times 245 \text{ days} = \$2,450$ .

Cathy can claim an interest expense of \$1,500.

She also recorded the following information for 2005:

Kilometres driven to earn business income	25,000
<hr/>	
Total kilometres driven	30,000
<hr/>	
Expenses:	
Gasoline and oil	\$ 1,330
<hr/>	
Interest expense	\$ 1,500
<hr/>	
Insurance	\$ 750
<hr/>	
Licence and registration fees	\$ 70
<hr/>	
Repairs and maintenance	\$ 100
<hr/>	
Total car expenses	<u>\$ 3,750</u>

Cathy calculates the expenses she can deduct for her car for 2005 as follows:

$$\frac{25,000 \text{ (business kilometres)} \times \$3,750}{30,000 \text{ (total kilometres)}} = \$3,125$$

## **Leasing costs**

You can deduct amounts you incur to lease a motor vehicle you use to earn income. Include these amounts on line 9281.

When you use a passenger vehicle to earn income, there is a limit on the amount of the leasing costs you can deduct. To calculate your eligible leasing costs, complete "Chart C – Eligible leasing costs for passenger vehicles" on page 25 [4] of Form T2124 or Form T2032.

The lease agreement for your passenger vehicle may include items such as insurance, maintenance, and taxes. In this case, include them as part of the lease charges on line 1 when you complete Chart C.

### **Note**

Generally, leases include taxes (GST and PST, or HST), but not items such as insurance and maintenance. You have to pay these amounts separately. Include the taxes on line 1 when you complete

Chart C, and list the items such as insurance and maintenance on the appropriate lines of "Chart A – Motor vehicle expenses."

The following example will show you how to calculate your eligible leasing costs. Use Chart C on page 25 [4] of Form T2124 to help you complete the following example.

### Example

Amy owns a toy store. Her business has a December 31 fiscal year-end. On February 1, 2005, she started leasing a car that is a passenger vehicle. The PST rate for her province is 8%. Amy entered the following for 2005:

Monthly lease payment	\$ 500
<hr/>	
Lease payments for 2005	\$ 5,500
<hr/>	
Manufacturer's suggested list price	\$ 33,000
<hr/>	
Number of days in 2005 she leased the car	334
<hr/>	
GST and PST on \$30,000	\$ 4,500
<hr/>	
GST and PST on \$35,294	\$ 5,294
<hr/>	

GST and PST on \$800	\$	120	
Total lease charges incurred in Amy's 2005 fiscal period for the vehicle	\$	5,500	<b>1</b>
Total lease payments deducted in fiscal periods before 2005 for the vehicle	\$	0	<b>2</b>
Total number of days the vehicle was leased in 2005 and previous fiscal periods		334	<b>3</b>
Manufacturer's list price	\$	33,000	<b>4</b>
The amount on line 4 or \$40,588 (\$35,294 + \$5,294), whichever is more (\$40,588 × 85%)	\$	34,500	<b>5</b>
$(\$920 \times 334) \div 30$	\$	10,243	<b>6</b>
$(\$34,500 \times \$5,500) \div \$34,500$	\$	5,500	<b>7</b>

Amy's eligible leasing cost is either line 6 or 7, whichever amount is less. In this case, her allowable claim is \$5,500.

## **Repayments and imputed interest**

When you lease a passenger vehicle, you may have a repayment owing to you, or you may have imputed interest. If this is your situation, you will not be able to use the chart.

Imputed interest is interest that would be owing to you if interest were paid on money deposited to lease a passenger vehicle. You calculate imputed interest for leasing costs on a passenger vehicle only if **all** the following apply:

- one or more deposits were made for the leased passenger vehicle;
- the deposit is, or the deposits are, refundable; and
- the total of the deposits is more than \$1,000.

For more information, see Interpretation Bulletin IT-521, MOTOR VEHICLE EXPENSES CLAIMED BY SELF-EMPLOYED INDIVIDUALS.

## **Line 8810 – Office expenses**

You can deduct the cost of office expenses. These include small items such as pens, pencils, paper clips, stationery, and stamps. Office

expenses do not include items such as calculators, filing cabinets, chairs, and desks. These are capital items. For more information, see Chapter 4.

### **Line 8811 – Supplies**

You can deduct the cost of items consumed indirectly to provide the business's goods or services (e.g., drugs and medication used in a veterinary operation, or scripts required for an actor to portray a role).

### **Line 8860 – Legal, accounting, and other professional fees**

Deduct the fees you incurred for external professional advice or services, including consulting fees.

You can deduct accounting and legal fees you incur to get advice and help in keeping your books and records. You can also deduct fees you incur for preparing and filing your income tax and GST/HST returns.

You can deduct accounting or legal fees you paid to have an objection or appeal prepared against an assessment for income tax, Canada Pension Plan or Quebec Pension Plan contributions, or Employment Insurance premiums. However, the full amount of these deductible

fees must first be reduced by any reimbursement of these fees that you have received. Enter the difference on line 232 of your income tax return. If you received a reimbursement in 2005 for the types of fees that you deducted in a previous year, report the amount you received on line 130 of your 2005 income tax return.

You cannot deduct legal and other fees you incur to buy a capital property. Instead, add these fees to the cost of the property. For more details about capital property, see Chapter 4.

For more details, see Interpretation Bulletin IT-99, LEGAL AND ACCOUNTING FEES.

### **Line 9180 – Property taxes**

You can deduct property taxes you incurred for property used in your business. For example, you can deduct property taxes for the land and building where your business is situated. The property tax related to business use of work space in your home has to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 120 [24].



## **Line 8910 – Rent**

You can deduct rent incurred for property used in your business. For example, you can deduct rent for the land and building where your business is situated. The rent expense related to business use of work space in your home has to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 120 [24].

## **Line 9060 – Salaries, wages, and benefits**

You can deduct gross salaries you pay to employees. Do not include on this line salaries and wages described on line 8340, "Direct wage costs," or line 8360, "Subcontracts," or salaries and drawings of the owner(s) of the business. Salaries or drawings paid or payable to you or your partners are not deductible. For more information, see "Details of equity" on page 128 [25].

As the employer, you can deduct your part of Canada Pension Plan or Quebec Pension Plan contributions, Employment Insurance premiums, and workers' compensation amounts payable on employees' remuneration.

You can also deduct any premiums you pay for an employee for a sickness, an accident, a disability, or an income insurance plan.

You can deduct the salary you pay to your child, as long as you meet **all** these conditions:

- you pay the salary;
- the work your child does is necessary for earning business or professional income; and
- the salary is reasonable when you consider your child's age, and the amount you pay is what you would pay someone else.

Keep documents to support the salary you pay your child. If you pay your child by cheque, keep the cancelled cheque. If you pay cash, have the child sign a receipt.

Instead of cash, you may pay your child with a product from your business. When you do this, claim the value of the product as an expense and add to your gross sales an amount equal to the value of the product. Your child has to include the value of the product in his or her income.

You can also deduct the salary you pay to your spouse or common-law partner. When you pay your spouse or common-law partner a salary, use the same rules that apply to paying your child.

Report the salaries you pay to your children and spouse or common-law partner on T4 slips, the same as you would for other employees. However, you cannot claim as an expense the value of board and lodging you give to your dependent children and spouse or common-law partner.

### **Line 9200 – Travel**

You can deduct travel expenses you incur to earn business and professional income. Travel expenses include public transportation fares, hotel accommodations, and meals.

In most cases, the 50% limit applies to the cost of meals, beverages, and entertainment when you travel. We discuss this limit in "Line 8523 – Meals and entertainment" on page 73 [16].

The 50% limit also applies to the cost of food and beverages served and entertainment enjoyed when you travel on an airplane, train, or bus when the ticket price does not include such amounts.

### **Line 9220 – Telephone and utilities**

You can deduct expenses for telephone and utilities, such as gas, oil, electricity, and water, if you incurred the expenses to earn income. The expenses for utilities that are related to business use of work space in your home have to be claimed on line 9945, "Business-use-of-home expenses." For more information, see page 120 [24].

### **Line 9270 – Other expenses**

There are expenses you can incur to earn income, other than those listed on Form T2124 and Form T2032. We cover some of them in the following sections. Enter, on this line, the total of other expenses you incurred to earn income, as long as you did not include them on a previous line. You do not have to list these expenses on the form.

## **Disability-related modifications**

You can deduct outlays and expenses you incur for eligible disability-related modifications made to a building in the year you paid them, instead of having to add them to the capital cost of your building.

Eligible disability-related modifications include changes you make to accommodate wheelchairs, such as:

- installing hand-activated power door openers;
- installing interior and exterior ramps; and
- modifying a bathroom, elevator, or doorway.

You can also deduct expenses paid to install or get the following disability-related devices and equipment:

- elevator car-position indicators (such as braille panels and audio indicators);
- visual fire-alarm indicators;
- telephone devices to help people who are hard of hearing; and
- listening devices for group meetings.

In addition, you may be able to deduct expenses for disability-specific computer software and hardware attachments.

### **Computer and other equipment leasing costs**

If you lease computers, cellular telephones, fax machines, and other equipment, you can deduct the percentage of the lease costs that reasonably relates to earning your business income. You can also deduct the percentage of air time expenses for a cellular telephone that reasonably relates to earning your business income.

If you buy a computer, cellular telephone, fax machine, or other such equipment, you cannot deduct the cost. You can deduct capital cost allowance and interest you paid on money you borrowed to buy this equipment that reasonably relates to earning your business income. For more information on capital cost allowance, see Chapter 4.

### **Leasing costs**

Deduct the lease payments you incurred in the year for property used in your business. If you lease a passenger vehicle, see "Line 9281 – Motor vehicle expenses" on page 75 [16].

If you entered a lease agreement after April 26, 1989, you can choose to treat your lease payments as combined payments of principal and interest. However, you and the person you are leasing from have to agree to treat the payments this way. In this case, we consider that you:

- bought the property rather than leased it; and
- borrowed an amount equal to the fair market value (FMV) of the leased property.

You can deduct the interest part of the payment as an expense. You can also claim capital cost allowance on the property.

You can make this choice as long as the property qualifies and the total FMV of all the property subject to the lease is more than \$25,000. Digging equipment that you lease with an FMV of \$35,000 is property that qualifies. However, office furniture and automobiles often do not qualify.

To treat your lease this way, file **one** of these forms with your income tax return for the year you make the lease agreement:

- Form T2145, Election in Respect of the Leasing of Property; or
- Form T2146, Election in Respect of Assigned Leases or Subleased Property.

## **Convention expenses**

You can deduct the cost of going to a maximum of two conventions a year. The conventions have to:

- relate to your business or professional activity; and
- be held by a business or professional organization within the geographical limits of where the sponsor of the convention usually does business.

This second limit may not apply if an organization from another country sponsors the convention and the convention relates to your business or professional activity.

Sometimes, convention fees include the cost of food, beverages, or entertainment. However, the convention organizer may not show these amounts separately on your bill. For each day the organizer provides



food, beverages, or entertainment, subtract \$50 from the total convention fee.

You can deduct this daily \$50 amount as a meal and entertainment expense. However, the 50% limit applies to the daily \$50 amount. We discuss the 50% limit on "Line 8523 – Meals and entertainment" on page 73 [16].

### **Example**

Cathy attended a two-day convention in May 2005 that cost her \$600. The organizer did not indicate what part of the \$600 fee was for food and entertainment. Her convention expense is \$500 [ $\$600 - (\$50 \times 2)$ ].

Cathy could also claim a meal and entertainment expense of \$50 ( $\$50 \times 2 \times 50\%$ ).

Food, beverages, or entertainment at a convention do not include incidental items such as coffee and doughnuts available at meetings or receptions at the convention.

For more information, see Interpretation Bulletin IT-131, CONVENTION EXPENSES.

### **Allowable reserves**

You can deduct an amount for a reserve, contingent account, or a sinking fund as long as the INCOME TAX ACT allows it. The amount you deduct has to be reasonable. You can find details about allowable reserves in the following publications:

- Interpretation Bulletin IT-154, Special Reserves;
- Interpretation Bulletin IT-442, Bad Debts and Reserves for Doubtful Debts;
- the T4037, Capital Gains guide and Form T2017, Summary of Reserves on Disposition of Capital Property; and
- the T4011, Preparing Returns for Deceased Persons guide.

### **Private health services plan (PHSP)**

You can deduct premiums paid or payable to a private health service plan (PHSP) if you meet the following conditions:

- your **net income** from self-employment (excluding losses and PHSP deductions) for the current or previous year is more than 50% of your **total income**,\* or  
your **income from sources other than self-employment\*\*** is \$10,000 or less for the current or previous year;
- you are actively engaged in your business on a regular and continuous basis, individually or as a partner; and
- the premiums are paid or payable to insure yourself, your spouse or common-law partner, or any member of your household.

\* For the purpose of this claim, calculate your **total income** as follows:

- the amount from line 150 of your 2004 or 2005 income tax return, whichever applies, before you deduct any amounts for PHSPs;  
**minus**
- the amounts you entered on lines 207, 212, 217, 221, 229, 231, and 232 on your 2004 or 2005 income tax return, whichever applies.

**\*\* For the purpose of this claim, calculate your **income from sources other than self-employment** as follows:**

- the amount from line 150 of your 2004 or 2005 income tax return, whichever applies, before you deduct any amounts for PHSPs;  
**minus**
- the amounts you entered on lines 135, 137, 139, 141, 143 (excluding business losses which reduced the net amount reported on those lines), 207, 212, 217, 221, 229, 231, and 232 on your 2004 or 2005 income tax return, whichever applies.

You cannot claim a deduction for PHSP premiums if another person deducted the amount, or if you or anyone else claimed the premiums as a medical expense. For your premiums to be deductible, your PHSP coverage has to be paid or payable under a contract with one of the following:

- an insurance company;
- a trust company;
- a person or partnership in the business of administering PHSPs;

- a tax-exempt trade union of which you or the majority of your employees are members; or
- a tax-exempt business organization or tax-exempt professional organization of which you are a member.

For more information on PHSPs, see Interpretation Bulletin IT-339, MEANING OF "PRIVATE HEALTH SERVICES PLAN."

## **Definitions**

For the purposes of this claim, the following definitions apply:

- **Qualified employees** are arm's length, full-time employees who have three months service since they last became employed with a business carried on by you, a business in which you are a majority interest partner, or a business carried on by a corporation affiliated with you. Temporary or seasonal workers are not qualified employees.
- **Arm's length employees** are, generally, employees who are not related to you and not carrying on your business with you, for

example, as your partners. See the definition of "Non-arm's length transaction" on page 133 [27].

- **Insurable persons** are people to whom coverage is extended and who are either:
  - qualified employees;
  - people who would be qualified employees if they had worked for you for three months; or
  - people carrying on your business (including yourself and your partners).

### **How to calculate your maximum deduction for PHSPs**

The following sections explain how to calculate your maximum PHSP deduction based on whether you had employees and whether you insured them throughout the year or part of the year. Find the section that describes your situation.

## If you did not have any employees throughout 2005

Your PHSP deduction is restricted by a dollar limit on an annual basis. The limit is a maximum of:

- \$1,500 for yourself;
- \$1,500 for your spouse or common-law partner and household members 18 years of age or older at the start of the period when they were insured; and
- \$750 for household members under the age of 18 at the start of the period.

The maximum deduction is also limited by the number of days the person was insured. Calculate your allowable maximum for the year by using the following formula:

$$\frac{A}{365} \times (B + C), \text{ where:}$$

A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees;

- B equals  $\$1,500 \times$  the number of household members 18 years of age or older insured during that period; and
- C equals  $\$750 \times$  the number of household members under the age of 18 insured during that period.

### **Example 1**

Edwin was a sole proprietor who ran his business alone in 2005. He had no employees and did not insure any of his household members. Edwin paid \$2,000 for PHSP coverage in 2005. In his case, the coverage lasted from July 1 to December 31, 2005, a total of 183 days. Edwin's maximum allowable PHSP deduction is calculated as follows:

$$\frac{183 \times \$1,500}{365} = \$752$$

Even though Edwin paid \$2,000 in premiums in 2005, he can only deduct \$752 because the annual limit is \$1,500 and he was only insured for about half of the year. If he had been insured for the entire year, his deduction limit would be \$1,500.



## **Example 2**

Bruce was a sole proprietor who ran his business alone in 2005. He had no employees. From January 1 to December 31, he insured himself, his wife, and his two sons. Bruce paid \$1,800 to insure himself, \$1,800 to insure his wife, and \$1,000 for each of his sons. One of his sons was 15 years old and the other turned 18 on September 1. Bruce's PHSP deduction is limited to the following amounts:

- for himself – \$1,500;
- for his wife – \$1,500;
- for his 15-year-old son – \$750; and
- for the son who turned 18 – \$750. The \$750 limit applies because he did not turn 18 until after the insured period started.

### **If you had employees throughout 2005**

If you had at least one qualified employee throughout all of 2005, and at least 50% of the insurable persons in your business were qualified employees, your claim for PHSP premiums is limited in a different

way. Your limit is based on the lowest cost of **equivalent coverage** for each of your qualified employees. See the definition of **qualified employees** on page 107 [22].

Use the following steps to calculate your maximum allowable claim for the PHSP premiums paid or payable for yourself, your spouse or common-law partner, and your household members.

For each of your qualified employees, do the following calculation:

$X \times Y = Z$ , where:

X equals the amount you would pay to provide yourself, your spouse or common-law partner, and your household members with coverage equivalent to that provided to a particular employee and his or her spouse or common-law partner and household members;

Y equals the percentage of the premium you pay for that particular employee; and

Z equals your limit based on that particular employee.

## **Example**

You have one qualified employee. To provide yourself with coverage equivalent to his, you pay a premium of \$1,800. You pay 60% of your employee's premium. Your deduction limit for yourself is \$1,080, calculated as follows:

$$\text{\$1,800 (amount X)} \times 60\% \text{ (amount Y)} = \text{\$1,080 (amount Z)}.$$

The maximum you can claim is \$1,080 if you had only one qualified employee.

If you had more than one qualified employee, you have to do the  $X \times Y = Z$  calculation for each employee. Your limit is then the least amount you calculate for each and every employee.

## **Example**

You have three qualified employees, Jack, Jill and Sue. The following table shows how much you would pay for coverage equivalent to each of theirs and the percentage of each employee's premium that you pay.

Name of employee	Cost of equivalent coverage for yourself	% of the employee's premium you pay
Jack	\$1,500	20%
Jill	\$1,800	50%
Sue	\$1,400	40%

You have to do three calculations:

For Jack:  $\$1,500 \times 20\% = \$300$

For Jill:  $\$1,800 \times 50\% = \$900$

For Sue:  $\$1,400 \times 40\% = \$560$

Your limit is \$300, the least of the amounts calculated for the three employees.

**Note**

If you have a qualified employee with no coverage, you cannot claim your PHSP premiums as a deduction from self-employment income. However, you may be able to claim them as medical expenses.

If you had employees throughout 2005, but the number of **arm's length** employees you insured was less than 50% of all the insurable persons in your business, your maximum allowable deduction is the **lesser** of the following two amounts:

### **Amount 1**

Determine this amount by using the following formula:

$$\frac{A}{365} \times (B + C), \text{ where:}$$

- A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees;
- B equals  $\$1,500 \times$  the number of household members 18 years of age or older insured during that period; and
- C equals  $\$750 \times$  the number of household members under the age of 18 insured during that period.

## **Amount 2**

If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the  $X \times Y = Z$  formula on page 113 [this page]. If you did not have at least one qualified employee, the limit in amount 1 will apply.

### **If you had employees for part of the year**

For the part of the year when you had at least one qualified employee and your insurable arm's length employees represented at least 50% of all the insurable persons in your business, calculate your limit **for that period** the same way as in the previous section "If you had employees throughout 2005."

For the rest of the year when you had no employees or when your insurable arm's length employees represented less than 50% of all of the insurable persons in your business, your deduction limit for that remaining period is the **lesser** of the following two amounts:

## Amount 1

Determine this amount by using the following formula:

$$\frac{A}{365} \times (B + C), \text{ where:}$$

- A is the number of days during the period of the year when you insured yourself and household members, if applicable, but insured less than 50% of your employees;
- B equals  $\$1,500 \times$  the number of household members 18 years of age or older insured during that period; and
- C equals  $\$750 \times$  the number of household members under the age of 18 insured during that period.

## Amount 2

If you had at least one qualified employee, amount 2 is the lowest cost of equivalent coverage for each qualified employee, calculated by using the  $X \times Y = Z$  formula on page 113 [23]. If you did not have at least one qualified employee, the limit in amount 1 will apply.

## **Undeducted premiums**

If you deduct only a part of your PHSP premium on line 9270, and you paid the premium in the year, you can include the undeducted balance in the calculation of your non-refundable medical expense tax credit. For details, see "Line 330" in your GENERAL INCOME TAX AND BENEFIT GUIDE.

## **Line 9935 – Allowance on eligible capital property**

If you buy a property such as goodwill or a franchise for your business, you might be able to claim an annual allowance. For more information, see Chapter 5 on page 204 [41].

## **Line 9936 – Capital cost allowance**

If you use a property you own such as a building, a motor vehicle, or equipment in your business, you might be able to claim capital cost allowance. For more information, see Chapter 4 on page 130 [26].



## **Line 9369 – Net income (loss) before adjustments**

Enter on this line the gross income minus the deductible expenses. If you are a partner in a partnership, this amount is the net business income of all partners.

On line **h** of Form T2124 or line **e** of Form T2032, show your share of line 9369, "Net income (loss) before adjustments." This is the amount left after you subtract the amounts the other partners are responsible for reporting as specified in the partnership agreement. In the chart "Details of other partners" on Form T2124 or Form T2032, show the full names and addresses of the other partners, as well as a breakdown of their shares of net income or loss from line 9369 and their percentages of the partnership.

## **Line 9943 – Other amounts deductible from your share of net partnership income (loss)**

Enter the total of any extra expenses you incurred to earn your share of the partnership income (loss), such as the business part of allowable motor vehicle expenses. These expenses must not have been claimed anywhere else on the form. Claim these amounts only if

the partnership did not repay you for them. The limits discussed earlier in this chapter also apply to these expenses.

Complete the chart "Other amounts deductible from your share of net partnership income (loss)" on page 9 [2] of Form T2124 or Form T2032 to list the other amounts you can deduct from your share of the partnership's net income or loss.

### **Line 9945 – Business-use-of-home expenses**

You can deduct expenses for the business use of a work space in your home, as long as you meet **one** of these conditions:

- it is your principal place of business; or
- you use the space only to earn your business income, and you use it on a regular and ongoing basis to meet your clients, customers, or patients.

You can deduct a part of your maintenance costs such as heating, home insurance, electricity, and cleaning materials. You can also deduct a part of your property taxes, mortgage interest, and capital cost allowance. To calculate the part you can deduct, use a

reasonable basis such as the area of the work space divided by the total area of your home.

If you use part of your home for both your business and personal living, calculate how many hours in the day you use the rooms for your business, then divide that amount by 24 hours. Multiply the result by the business part of your total home expenses. This will give you the household cost you can deduct. If you run the business for only part of the week or year, reduce your claim accordingly. For more information, see Interpretation Bulletin IT-514, WORK SPACE IN HOME EXPENSES.

### **Example**

Monique runs a business in her home weekdays from 7:00 a.m. to 5:00 p.m. (10 hours out of a 24-hour day). The business uses an area of 35 square metres. The house is 100 square metres, and the annual household expenses are \$5,800.

The calculation is as follows:

$$10/24 \text{ hours} \times 35/100 \text{ metres} \times \$5,800 \text{ expenses} = \$845.83$$

The business operates 5 days a week, so Monique has to do another calculation:

$$\$845.83 \times 5/7 \text{ days} = \$604.16$$

Monique can deduct a total of \$604.16 for household expenses.

The capital gain and recapture rules will apply if you deduct capital cost allowance on the business-use part of your home and you later sell your home. For more information about these rules, see Chapter 4 on page 130 [26].

If you rent your home, you can deduct the part of the rent and any expenses you incur that relate to the workspace.

The amount you can deduct for business-use-of-home expenses cannot be more than your net income from the business before you deduct these expenses. In other words, you cannot use these expenses to increase or create a business loss. You can deduct the **lesser** of the following amounts:

- any amount you carry forward from 2004, plus the business-use-of-home expenses you incur in 2005; or

- the amount on line j of Form T2124 or line g of Form T2032.

In your next fiscal period, you can use any expense you could not deduct in 2005, as long as you meet one of the two previous conditions. You also use the same rules.

You can use the chart "Calculation of business-use-of-home expenses" on Form T2124 or Form T2032 to calculate your allowable claim for business-use-of-home expenses. The expenses you claim on line 9945 must not be claimed elsewhere on Form T2124 or Form T2032.

To see how to calculate your business-use-of-home expenses, read the following example.

**Example**

Bill runs a book-keeping business out of his home. His business has a December 31 fiscal year-end. Bill recorded the following for 2005:

Total house area (square metres)	180
<hr/>	
Area for business use only (square metres)	18
<hr/>	

Area for personal use (square metres)	162
Net business income (loss) after adjustments	\$ 7,100
Business-use-of-home expenses carried forward from 2004	\$ 150
Bill's home expenses for 2005:	
Heat	\$ 1,200
Electricity	\$ 1,000
Insurance	\$ 650
Maintenance	\$ 350
Mortgage interest	\$ 8,000
Property taxes	\$ 1,800
Water	\$ 300

Bill completes the appropriate sections of Form T2032 as follows:

## Calculation of business-use-of-home expenses

Heat		1,200	00
Electricity		1,000	00
Insurance		650	00
Maintenance		350	00
Mortgage interest		8,000	00
Property taxes		1,800	00
Other expenses		300	00
	<b>Subtotal</b>	<b>13,300</b>	<b>00</b>
<b>Minus</b> – Personal-use part		<b>11,970</b>	<b>00</b>
	<b>Subtotal</b>	<b>1,330</b>	<b>00</b>
<b>Plus</b> – Capital cost allowance (business part only)		<b>0</b>	
– Amount carried forward from previous year		<b>150</b>	<b>00</b>
	<b>Subtotal</b>	<b>1,480</b>	<b>00</b>

1

**Minus** – Net income (loss) after adjustments  
(from line g on page 8 [1] )  
– If negative, enter "0"

---

7,100	00	2
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Business-use-of-home expenses available to carry  
forward (line 1 **minus** line 2) – If negative, enter "0"

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0	
---	--

**Allowable claim** (the lesser of amounts 1 or 2 above)  
– Enter this amount on line 9945 on page 8 [1]

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1,480	00
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## **Line 9946 – Your net income (loss)**

On the relevant lines of your income tax return, enter your total gross (from line 8299 on Form T2124 or Form T2032) and total net (from line 9946 on Form T2124 or T2032) business or professional income or loss. Include the total income or losses from all your businesses and professional activities. If you have a business or professional loss that is more than all your other sources of income, you may have a non-capital loss for the year. To apply this loss against income from previous years, complete and attach a copy of Form T1A, REQUEST FOR LOSS CARRYBACK, to your income tax return. For more details about loss carrybacks, see Interpretation Bulletin IT-232, LOSSES – THEIR DEDUCTIBILITY IN THE LOSS YEAR OR IN OTHER YEARS.

## **Details of other partners**

If you are a partner in a partnership that does **not** have to file a partnership information return (see Chapter 1 for these requirements), complete the chart "Details of other partners" on page 12 [2] on Form T2124 or Form T2032.

If you are a partner in a partnership that **has** to file a partnership information return, do not complete this chart.

**Details of equity (page 13 [2] of Form T2124 and Form T2032)**

If you are a partner in a partnership that **has** to file a partnership information return, do not complete this section.

**Line 9931 – Total business liabilities**

A liability is a debt or obligation of a business. Total business liabilities is the total of all amounts your business or professional activity owes at the end of its fiscal period. This includes:

- accounts payable;
- notes payable;
- taxes payable;
- unpaid salaries, wages, and benefits;
- interest payable;
- deferred or unearned revenues;

- loans payable;
- mortgages payable; and
- any other outstanding balance related to the business.

### **Line 9932 – Drawings in 2005**

A drawing is any withdrawal of cash (including salaries), other assets, or services of a business by the proprietor or partners. This includes such transactions by the proprietor or partners (or family members) as withdrawing cash for non-business use, and using business assets or services for personal use. Include the cost or value of personal use of business assets or services in your drawings for the year.

### **Line 9933 – Capital contributions in 2005**

A capital contribution is cash or other assets you added to the business during its fiscal period. This includes personal funds you added to the business account, business debts you paid with personal funds, and personal assets you transferred to the business.

# Chapter 4 – Capital Cost Allowance (CCA)

## What is capital cost allowance?

You might acquire a depreciable property, such as a building, furniture, or equipment, to use in your business or professional activities. You cannot deduct the cost of the property when you calculate your net business or professional income for the year. However, since these properties wear out or become obsolete over time, you can deduct their cost over a period of several years. The deduction for this is called capital cost allowance (CCA).

## Definitions

To calculate your CCA claim, you will need to know the meaning of the following terms:

### Available for use

You can usually claim CCA on a property only when it becomes available for use.

**Property other than a building** usually becomes available for use on whichever is earlier:

- the date you first use it to earn income;
- the second tax year after the year you acquire the property;
- the time just before you dispose of the property; or
- the time the property is delivered or made available to you and is capable of producing a saleable product or service.

A **building or part of a building** usually becomes available for use on whichever is earlier:

- the date you start using 90% or more of the building in your business;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.

A **building that you are constructing, renovating, or altering** usually becomes available for use on whichever is earlier:

- the date you complete the construction, renovation, or alteration;
- the date you start using 90% or more of the building in your business;
- the second tax year after the year you acquire the building; or
- the time just before you dispose of the building.

### **Capital cost**

This is the amount on which you first claim CCA. The capital cost of a property is usually the total of:

- the purchase price (not including the cost of land, which is usually not depreciable, see "Land" on page 145 [29] );
- the part of your legal, accounting, engineering, installation, and other fees that relates to the buying or construction of the property (not including the part that applies to land);
- the cost of any additions or improvements you made to the property after you acquired it, if you did not claim these costs as a current expense (such as modifications to accommodate persons with disabilities); and

- for a building, soft costs (such as interest, legal and accounting fees, and property taxes) related to the period you are constructing, renovating, or altering the building, if these expenses have not been deducted as current expenses.

## **Depreciable property**

This is any property on which you can claim CCA. You usually group depreciable properties into classes. For example, diggers, drills, and tools that cost \$200 or more belong to class 8. You have to base your CCA claim on a rate assigned to each class of property.

## **Fair market value (FMV)**

FMV is generally the highest dollar value that you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length with each other.

## **Non-arm's length transaction**

A non-arm's length transaction includes a transaction between people who are related, such as members of a family. An example of a

non-arm's length transaction would be the sale of property between a husband and wife, or a parent and child. For more details on non-arm's length transactions, see Interpretation Bulletin IT-419, MEANING OF ARM'S LENGTH.

### **Proceeds of disposition**

Proceeds of disposition generally means the sale price of a property. Usually the proceeds of disposition are the amounts you receive, or that we consider you to have received, when you dispose of your property. This could include compensation you receive for property that someone destroys, expropriates, steals, or damages. Special rules may apply if you dispose of a building for less than both its undepreciated capital cost and for less than your capital cost. If this is the case, see "Special rules for disposing of a building in the year" on page 176 [34] for details.

For more details about proceeds of disposition, see Interpretation Bulletin IT-220, CAPITAL COST ALLOWANCE – PROCEEDS OF DISPOSITION OF DEPRECIABLE PROPERTY, and its Special Release, and Interpretation Bulletin IT-285, CAPITAL COST ALLOWANCE – GENERAL COMMENTS.



## **Undepreciated capital cost (UCC)**

Generally the UCC is the amount left after you deduct CCA from the capital cost of a depreciable property. Each year, the CCA you claim reduces the UCC of the property.

## **How much CCA can you claim?**

The CCA you can claim depends on the type of property you own and the date you acquired it. You group the depreciable property you own into classes. A specific rate of CCA generally applies to each class. We explain the most common classes of property in "Classes of depreciable property" on page 155 [30]. We list most of the classes and their rates in the chart "CCA classes" on page 191 [38].

Base your CCA claim on your fiscal period ending in 2005, and not the calendar year.

## **There are a few other things you should know about CCA:**

- For the most part, use the declining balance method to calculate your CCA. This means that you claim CCA on the capital cost of the

property minus the CCA you claimed in previous years, if any. The remaining balance declines over the years as you claim CCA.

### **Example**

Last year, Nick bought a building for \$60,000 to use in his business. On his tax return for last year, he claimed CCA of \$1,200 on the building. This year, Nick bases his CCA claim on his balance of \$58,800 ( $\$60,000 - \$1,200$ ).

- You do not have to claim the maximum amount of CCA in any given year. You can claim any amount you like, from zero to the maximum allowed for the year. For example, if you do not have to pay income tax for the year, you may not want to claim CCA. Claiming CCA reduces the balance of the class by the amount of CCA claimed. As a result, the CCA available for future years will be reduced.
- In the year you acquire a property, you can usually claim CCA only on one-half of your net additions to a class. We explain this 50% rule in "Column 6 – Adjustment for current-year additions" on page 151 [30]. The available-for-use rules discussed previously in this chapter may also affect the amount of CCA you can claim. For more information, see page 130 [26].

- You cannot claim CCA on most land or on living things such as trees, shrubs, or animals. However, you can claim CCA on timber limits, cutting rights, and wood assets. For more details, see Interpretation Bulletin IT-481, TIMBER RESOURCE PROPERTY AND TIMBER LIMITS, and Interpretation Bulletin IT-501, CAPITAL COST ALLOWANCE – LOGGING ASSETS, and its Special Release.
- If you claim CCA, and you later dispose of the property, you may have to add an amount to your income as a recapture of CCA. Alternatively, you may be able to deduct an additional amount from your income as a terminal loss. For more information, see "Column 5 – UCC after additions and dispositions" on page 149 [29].
- If you receive income from a quarry, sand or gravel pit, or a woodlot, you can claim a type of allowance known as a depletion allowance. For more details, see Interpretation Bulletin IT-373, WOODLOTS, and Interpretation Bulletin IT-492, CAPITAL COST ALLOWANCE – INDUSTRIAL MINERAL MINES.
- If you are a partner in a partnership that gives you a T5013 slip, STATEMENT OF PARTNERSHIP INCOME, you cannot personally claim

CCA. The T5013 slip you receive will have already allocated to you a share of the partnership's CCA on the property.

### **You were asking?**

- Q.** How do I calculate my CCA claim if I start a business and my first fiscal period is from June 1, 2005, to December 31, 2005?
- A.** If your fiscal period is less than 365 days, you have to prorate your CCA claim. Calculate your CCA using the rules we discuss in this chapter. However, base your CCA claim on the number of days in your fiscal period compared to 365 days.

In your case, your fiscal period is 214 days. Suppose you calculate your CCA to be \$3,500. The amount of CCA you can claim is \$2,052 ( $\$3,500 \times 214/365$ ).

For more details, see Interpretation Bulletin IT285, CAPITAL COST ALLOWANCE – GENERAL COMMENTS.

## **How do you make your claim?**

To calculate your 2005 deduction for CCA, and any recaptured CCA and terminal losses, use Area A on page 14 [3] of your Form T2124 or Form T2032. For 2005, you can get information to help you complete Area A from other areas of Form T2124 or Form T2032 and from the same form filed for 2004.

You may have acquired or disposed of buildings or equipment during the fiscal period. If so, complete the applicable Areas B, C, D, or E before completing Area A.

You will find explanations on how to complete Area B and Area C in "Column 3 – Cost of additions in the year" on page 142 [this page]. You will find explanations on how to complete Area D and Area E in "Column 4 – Proceeds of dispositions in the year" on page 146 [29].

### **Note**

Even if you are not claiming a deduction for CCA for 2005, complete the appropriate areas of the form to show any additions and dispositions during the year.

## **Column 1 – Class number**

Enter the class numbers of your properties in this column. If this is the first year you are claiming CCA, read "Column 3 – Cost of additions in the year" before completing column 1. If you claimed CCA last year, you can get the class numbers of your properties from last year's form.

We discuss the more common types of depreciable properties in "Classes of depreciable property" on page 155 [30], and we list most of the classes and their rates in the chart "CCA classes" on page 191 [38].

## **Column 2 – Undepreciated capital cost (UCC) at the start of the year**

If this is the first year you are claiming CCA, skip this column.

Otherwise, enter in this column the UCC for each class at the end of last year. These amounts were included in column 10 last year.

From your UCC at the start of 2005, subtract any investment tax credit you claimed or were refunded in 2004. Also subtract any 2004 investment tax credit you carried back to a year before 2004.

You may have received a GST/HST input tax credit in 2004 for a passenger vehicle you use less than 90% for your business. In this case, subtract the amount of the credit from your beginning UCC. See "Grants, subsidies, or other incentives or inducements" on page 169 [33].

### **Note**

In 2005, you may be claiming, carrying back, or getting a refund of an investment tax credit. If you still have depreciable property in the class, you have to adjust, in 2006, the UCC of the class to which the property belongs. To do this, subtract the amount of the credit from the UCC at the start of 2006. When there is no property left in the class, report the amount of the investment tax credit as income in 2006.

### **Column 3 – Cost of additions in the year**

If you acquire or make improvements to depreciable property in the year, we consider them to be additions to the class in which the property belongs. You should:

- complete Area B and Area C of your Form T2124 or Form T2032, as explained on page 143 [below]; and
- enter, in column 3 of Area A for each class, the figure from column 5 of each class in Area B and Area C.

If a chart asks for the personal part of a property, this refers to the part that you use personally, separate from the part you use for business. For example, if you use 25% of the building you live in for business, your personal part is the other 75%.

Do not include the value of your labour in the cost of a property you build or improve, include the cost of surveying or valuing a property you acquire. Remember that a property usually has to be available for use before you can claim CCA. See the definition of **available for use** on page 130 [26].



If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you spent to replace the property in column 3 of Area A, and also in Area B or C, whichever applies. Include the amount of insurance proceeds considered as proceeds of disposition in column 4 of Area A, and in Area D or E, whichever applies.

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. For more information, see Interpretation Bulletin IT-259, EXCHANGES OF PROPERTY, and Interpretation Bulletin IT-491, FORMER BUSINESS PROPERTY, and its Special Release.

To find out if any of these special situations apply, see "Special situations" on page 165 [32].

### **Area B – Details of equipment additions in the year**

List the details of all equipment (including motor vehicles) you acquired or improved in 2005. Group the equipment into the applicable classes, and put each class on a separate line.

Equipment includes items (such as a cement mixer) and maintenance equipment (such as a snow blower or lawn mower) you acquire to use in your business or professional activities.

Enter on line 9925 the total business part of the cost of the equipment. You will find information about capital cost on page 132 [26].

### **Area C – Details of building additions in the year**

List the details of all buildings you acquired or improved in 2005. Group the buildings into the applicable classes, and put each class on a separate line.

Enter on line 9927 the total business part of the cost of the buildings. The cost includes the purchase price of the building, plus any related expenses that you should add to the capital cost of the building, such as legal fees, land transfer taxes, and mortgage fees. You will find information about capital cost on page 132 [26].

## Land

Most land is not depreciable property. Therefore, you cannot usually claim CCA on its cost. If you acquire a property that includes both land and a building, enter in column 3 of Area C only the cost that relates to the building. To calculate the building's capital cost, you have to split any fees that relate to buying the property between the land and the building. Related fees may include legal and accounting fees.

Calculate the part of the related fees you can include in the capital cost of the building as follows:

$$\frac{\text{building value}}{\text{total purchase price}} \times \begin{array}{c} \text{legal} \\ \text{accounting, or} \\ \text{other fees} \end{array} = \begin{array}{c} \text{the part of the fees} \\ \text{you can include in} \\ \text{the building's cost} \end{array}$$

You do not have to split a fee if it relates specifically to the land or the building. In this case, you would add the amount of the fee to the cost to which it relates, either the land or the building.

## **Area F – Details of land additions and dispositions in the year**

Enter the total cost of acquiring land in 2005 on line 9923. The cost includes the purchase price of the land plus any related expenses that you should add to the capital cost of the land, such as legal fees, land transfer taxes, and mortgage fees.

You cannot claim CCA on land. Do **not** enter this amount in column 3 of Area A.

## **Column 4 – Proceeds of dispositions in the year**

Enter the details of your 2005 dispositions on your Form T2124 or Form T2032, as explained below.

If you disposed of a depreciable property during the 2005 fiscal period, enter in column 3 of the appropriate dispositions area (Area D or E) one of the following amounts, whichever is less:

- your proceeds of disposition, minus any related expenses; or
- the capital cost of the property.

## **Note**

If a chart asks for the personal part of a property, this refers to the part that you use personally, separate from the part you use for business. For example, if you use 25% of the building you live in for business, your personal part is the other 75%.

Enter, in column 4 of Area A for each class, the figure from column 5 of each class in Area D and Area E.

If you received insurance proceeds to reimburse you for the loss or destruction of depreciable property, enter the amount you spent to replace the property in column 3 of Area A, and also in Area B or C, whichever applies. Include the amount of insurance proceeds considered as proceeds of disposition in column 4 of Area A, and in Area D or E, whichever applies.

If you sell a property for more than it cost, you will have a capital gain. You may be able to postpone or defer adding a capital gain or recapture of CCA to income. For more information, see the sections "Capital gains" on page 175 [34] and "Replacement property" on page 182 [36].

If you replaced a lost or destroyed property within a year of the loss, special rules for replacement property may apply to you. See Interpretation Bulletin IT-259, EXCHANGES OF PROPERTY, and Interpretation Bulletin IT-491, FORMER BUSINESS PROPERTY, and its Special Release.

### **Area D – Details of equipment dispositions in the year**

List in this chart the details of all equipment (including motor vehicles) you disposed of in your 2005 fiscal period. Group the equipment into the applicable classes, and put each class on a separate line. Enter on line 9926 the total business part of the proceeds of disposition of the equipment.

### **Area E – Details of building dispositions in the year**

List in this chart the details of all buildings you disposed of in your 2005 fiscal period. Group the buildings into the applicable classes, and put each class on a separate line. Enter on line 9928 the total business part of the proceeds of disposition of the buildings.

## **Area F – Details of land additions and dispositions in the year**

Enter on line 9924 the total of all amounts you received or will receive for disposing of land in the fiscal period.

### **Column 5 – UCC after additions and dispositions**

You cannot claim CCA when the amount in column 5 is:

- negative (see "Recapture of CCA" below); or
- positive, and you do not have any property left in that class at the end of your 2005 fiscal period (see "Terminal loss" on page 150 [below] ).

In either case, enter "0" in column 10.

### **Recapture of CCA**

If the amount in column 5 is negative, you have a recapture of CCA. Enter your recapture on line 8230, "Other income," of your Form T2124 or Form T2032. A recapture of CCA can happen if the proceeds from the sale of depreciable property are more than the total of:

- the UCC of the class at the start of the period; and
- the capital cost of any new additions during the period.

A recapture of CCA can also occur, for example, when you get a government grant or claim an investment tax credit.

### **Terminal loss**

If the amount in column 5 is positive, and you no longer own any property in that class, you may have a terminal loss. More precisely, you may have a terminal loss when, at the end of a fiscal period, you have no more property in the class but still have an amount which you have not deducted as CCA. You can usually subtract this terminal loss from your gross business or professional income in the year you disposed of the property. Enter your terminal loss on line 9270, "Other expenses," on Form T2124 or Form T2032.

For more information on recapture of CCA and terminal loss, see Interpretation Bulletin IT-478, CAPITAL COST ALLOWANCE – RECAPTURE AND TERMINAL LOSS.



## **Note**

The rules for recapture of CCA and terminal loss do not apply to passenger vehicles in class 10.1. However, to calculate your CCA claim, see the comments in "Column 7 – Base amount for CCA" on page 153 [this page].

## **Column 6 – Adjustment for current-year additions**

In the year you acquire or make additions to a property, you can usually claim CCA on one-half of your net additions (the amount in column 3 minus the amount in column 4). We call this the **50% rule**.

Calculate your CCA claim only on the net adjusted amount. Do not reduce the cost of the additions in column 3 or the CCA rate in column 8. For example, if you acquired a property in your 2005 fiscal period for \$30,000, you would base your CCA claim on \$15,000 ( $\$30,000 \times 50\%$ ).

If you acquired and disposed of depreciable property of the same class in your 2005 fiscal period, the calculation in column 6 restricts your CCA claim. Calculate the CCA you can claim as follows:

- Determine which of the following amounts is less:
  - the proceeds of disposition of your property, minus any related costs or expenses; or
  - the capital cost.
- Subtract the above amount from the capital cost of your addition.
- Enter 50% of the result in column 6. If the result is negative, enter "0."

In some cases, you do not make an adjustment in column 6. For example, in a non-arm's length transaction, you may buy depreciable property that the seller continuously owned from the day that is at least 364 days before the end of your 2005 fiscal period to the day the property was purchased. However, if you transfer personal property, for example, a car or a personal computer, into your business, the 50% rule applies to the particular property transferred.

Also, some properties are not subject to the 50% rule. Some examples are those in classes 13, 14, 23, 24, 27, 29, and 34, as well as some of those in class 12, such as small tools that cost less than \$200.

The 50% rule does not apply when the available-for-use rules discussed on page 130 [26] deny a CCA claim until the second tax year after the year you acquire the property.

If you need more details on the special rules that apply to class 13, see Interpretation Bulletin IT-464, CAPITAL COST ALLOWANCE – LEASEHOLD INTERESTS, and for more details on the 50% rule, see Interpretation Bulletin IT-285, CAPITAL COST ALLOWANCE – GENERAL COMMENTS.

### **Column 7 – Base amount for CCA**

Base your CCA claim on this amount.

For a class 10.1 vehicle you disposed of in your 2005 fiscal period, you may be able to claim 50% of the CCA that would be allowed if you still owned the vehicle at the end of your 2005 fiscal period. This is known as the **half-year rule on sale**.

You can use the half-year rule on sale if, at the end of your 2004 fiscal period, you owned the class 10.1 vehicle you disposed of in

2005. If this applies to you, enter 50% of the amount from column 2 in column 7.

### **Column 8 – Rate (%)**

In this column, enter the rate for each class of property in Area A. For detailed information on certain kinds of property, see "Classes of depreciable property" on page 155 [this page]. For a more complete list of classes and rates, see the chart "CCA classes" on page 191 [38].

### **Column 9 – CCA for the year**

In column 9, enter the CCA you choose to deduct for 2005. The CCA you can deduct cannot be more than the amount you get when you multiply the amount in column 7 by the rate in column 8. You can deduct any amount up to the maximum.

If this is your first year of business, you may have to prorate your CCA claim. See "You were asking?" on page 138 [27].

Add up all the amounts in column 9. Enter the total on line 9936, "Capital cost allowance," on Form T2124 or Form T2032. To find out

how to calculate your CCA claim if you are using the property both for business and personal use, see "Personal use of property" on page 165 [32].

### **Column 10 – UCC at the end of the year**

This is the undepreciated capital cost (UCC) at the end of your 2005 fiscal period. This is the amount you will enter in column 2 when you calculate your CCA claim next year.

Enter "0" in column 10 if you have a terminal loss or a recapture of CCA. There will not be an amount in column 10 for a class 10.1 passenger vehicle you dispose of in the year.

### **Classes of depreciable property**

In this part, we discuss the more common types of depreciable properties. We list most of the classes and their rates in the chart "CCA classes" on page 191 [38].

## **Buildings**

A building may belong to class 1, 3, or 6, depending on what the building is made of and the date you acquired it. You also include in these classes the parts that make up the building, such as:

- electric wiring;
- lighting fixtures;
- plumbing;
- sprinkler systems;
- heating equipment;
- air-conditioning equipment (other than window units);
- elevators; and
- escalators.

### **Note**

Most land is not depreciable property. Therefore, when you acquire property, only include the cost that relates to the building in Area C

and Area A. Enter on line 9923 of Form T2124 or Form T2032 the cost of all land additions in 2005. For more details, see "Area F – Details of land additions and dispositions in the year" on page 146 [29] and "Column 3 – Cost of additions in the year" on page 142 [28].

### **Class 1 (4%)**

Class 1 includes most buildings acquired after 1987, unless they specifically belong in another class. Class 1 also includes the cost of certain additions or alterations you made after 1987 to a class 3 building. For more information, see "Class 3 (5%) below."

### **Class 3 (5%)**

Most buildings acquired before 1988 were added to class 3 or class 6. If you acquired a building before 1990 that does not fall into class 6, you can include it in class 3 if **one** of the following applies:

- You acquired the building under the terms of a written agreement entered into before June 18, 1987.

- The building was under construction by you or for you on June 18, 1987.

Do not transfer property you previously included in class 3 to class 1. However, include in class 1 the cost of any additions or alterations made after 1987 to a class 3 building that exceeds the **lesser** of the following two amounts:

- \$500,000; or
- 25% of the building's capital cost (including the cost of additions or alterations to the building included in class 3, class 6, or class 20 before 1988).

### **Class 6 (10%)**

Include a building in class 6 if you acquired it before 1988 and it is made of frame, log, stucco on frame, galvanized iron, or corrugated iron. If you acquired the building after 1987, it has to be made of frame, log, stucco on frame, galvanized iron, or any corrugated metal. In addition, **one** of the following conditions has to apply:



- The building is used for farming or fishing.
- The building has no footings or other base supports below ground level.

If either of the above conditions applies, you also add the full cost of all additions and alterations to the building to class 6.

If neither of the above conditions applies, include the building in class 6 if **one** of the following conditions applies:

- You acquired the building before 1979.
- You entered into a written agreement before 1979 to acquire the building, and footings or other base supports of the building were started before 1979.
- You started construction of the building before 1979 (or it was started under the terms of a written agreement you entered into before 1979), and footings or other base supports of the building were started before 1979.

For additions or alterations to such a building:

- Add to class 6:
  - all additions made before 1979; and
  - only the first \$100,000 of additions or alterations made after 1978.
- Add to class 3:
  - the part of the cost of all additions or alterations above \$100,000 made after 1978 and before 1988; and
  - the part of the cost of additions or alterations above \$100,000 made after 1987, but only up to \$500,000 or 25% of the cost of the building, whichever is less.
- Add to class 1 any additions or alterations above these limits.

If you need more information, see Interpretation Bulletin IT-79,  
CAPITAL COST ALLOWANCE – BUILDINGS OR OTHER STRUCTURES.

## **Other property – Class 8 (20%)**

Class 8 includes property that is not included in any other class. For example, furniture, appliances, fixtures, machinery, and equipment you use in your business are all in this class.

## **Electronic office equipment and Data network infrastructure equipment – class 8 (20%), class 10 (30%), class 46 (30%) and class 45 (45%)**

Certain types of computer equipment and office equipment can become obsolete before you can fully deduct their cost for income tax purposes. For such property with a cost of \$1,000 or more acquired after April 26, 1993, and before 2005 you can elect to include it in a separate class. The CCA rate will not change but a separate CCA deduction can now be calculated for a five-year period. When all the property in the class is disposed of, the undepreciated capital cost (UCC) is fully deductible as a terminal loss. Any UCC balance remaining in the separate class at the end of the fifth year has to be transferred back to the general class in which it would otherwise belong. To make this election, attach a letter to your income tax return for the tax year in which you acquired the property.

The CCA rate for **computer equipment (and systems software)** acquired after March 22, 2004, has increased from 30% to 45% and will be included in new class 45. The current rule allowing a separate class election is not available for equipment that qualifies for the 45% rate. However, you may elect to have the current rule apply for equipment acquired before 2005.

**Data network infrastructure equipment** acquired after March 22, 2004 (usually included in class 8 at 20%) will be included in a new class 46 with a 30% CCA rate.

### **Passenger vehicles – Class 10.1 (30%)**

Your passenger vehicle can belong to either class 10 or class 10.1. We define a **passenger vehicle** on page 79 [17]. Include your passenger vehicle in class 10 unless it meets a class 10.1 condition. List each class 10.1 vehicle separately.

Include your passenger vehicle in class 10.1 if you bought it in 2005 or 2004 and it cost more than \$30,000. We consider the capital cost of that vehicle to be \$30,000 plus the related GST and PST or HST.

The \$30,000 amount is the capital cost limit for a passenger vehicle. However, to determine the class to which your passenger vehicle belongs, you have to use the cost of the vehicle before you add GST and PST or HST.

### Example

Karim owns a sporting goods retail business. On June 21, 2005, he bought two passenger vehicles to use in his business. The PST rate for his province is 8%. Karim noted these details for 2005:

	<b>Cost</b>	<b>GST</b>	<b>PST</b>	<b>Total</b>
Vehicle 1	\$33,000	\$2,310	\$2,640	\$37,950
Vehicle 2	\$28,000	\$1,960	\$2,240	\$32,200

Karim puts Vehicle 1 in class 10.1, since he bought it in 2005 and it cost him more than \$30,000. Before Karim enters an amount in column 3 of Area B, he has to calculate the GST and PST on \$30,000. He does this as follows:

- GST at 7% of \$30,000 = \$2,100; and
- PST at 8% of \$30,000 = \$2,400.

Therefore, Karim's capital cost is \$34,500 (\$30,000 + \$2,100 + \$2,400). He enters this amount in column 3 of Area B.

Karim puts Vehicle 2 into class 10, since he bought it in 2005 and it did not cost him more than \$30,000.

Karim's capital cost is \$32,200 (\$28,000 + \$1,960 + \$2,240). He enters this amount in column 3 of Area B.

### **Note**

The GST rate is 7%, and we used a PST rate of 8% for this example. Use the appropriate PST rate for your province or territory. In the participating provinces, use HST. For more information on HST, see the RC4022, GENERAL INFORMATION FOR GST/HST REGISTRANTS guide.

### **Small tools – Class 12 (100%)**

You can deduct the full amount of a tool that cost under \$200 by putting it in class 12. The CCA rate for items in this class is 100%. If the tool cost you \$200 or more, add the cost to class 8 on your CCA schedule of Form T2124 or Form T2032.

## Special situations

### Personal use of property

If you buy property for both business and personal use, you can show the business part of the property in Area B or Area C in two ways:

- If your business use stays the same from year to year, enter in Area B or Area C the total cost of the property in column 3, the personal part in column 4, and the business portion in column 5. Enter in column 3 of Area A the amount from column 5 to calculate the CCA you can claim.
- If your business use changes from year to year, enter in Area B or Area C the total cost of the property in column 3 and column 5, and enter "0" in column 4. Enter in column 3 of Area A the amount from column 5 to calculate the CCA you can claim. When you claim CCA, you will have to calculate the allowable part you can claim for business use.

The CCA calculated for the business use of a workspace in your home in Area A of Form T2124 or Form T2032 must be reported on the chart "Calculation of business-use-of-home expenses" on page 10 [2] of the

form used. This CCA must be subtracted from the total amount of the CCA for the year calculated in Area A and must not be included on line 9936, "Capital cost allowance," on page 7 [1] of Form T2124 and Form T2032.

### **Example**

Nadir owns a financial consulting business. He bought a car in 2005 for personal and business use. The car cost \$20,000, including all charges and taxes. Therefore, he includes the car in class 10. His business use varies from year to year. He calculates his CCA on the car for 2005 as follows:

He enters \$20,000 in column 3 and column 5 of Area B. Nadir also enters \$20,000 in column 3 of Area A. By completing the other columns in the chart, he calculates a CCA claim of \$3,000. Because Nadir used his car partly for personal use, he calculates his CCA claim as follows:

$$\frac{12,000 \text{ (business kilometres)}}{18,000 \text{ (total kilometres)}} \times \$3,000 = \$2,000$$

18,000 (total kilometres)



Nadir enters \$2,000 on line 9936, "Capital cost allowance," on his Form T2124.

### **Note**

The capital cost limits on a class 10.1 vehicle (a passenger vehicle) still apply when you split the capital cost between business and personal use. For more details, see "Passenger vehicles – Class 10.1 (30%)" on page 162 [this page].

### **Changing from personal to business use**

If you bought a property for personal use and started using it in your business in your 2005 fiscal period, there is a change in use. You need to determine the capital cost for business purposes.

The fair market value (FMV) of a depreciable property is less than its original cost when you change its use, the amount you put in column 3 of Area B or C is the FMV of the property (excluding the land value if the property is land and a building). If the FMV is more than the original cost of the property (excluding the land value if the property is land and a building) when you change its use, use the following chart to determine the amount to enter in column 3 of Area B or C.

When you start to use your property for business use, you are considered to have disposed of it. If the FMV of the property is greater than its cost, you may have a capital gain. See the T4037, CAPITAL GAINS guide for an explanation of capital gains.

### Capital Cost Calculation

Actual cost of the property	\$		<b>1</b>
FMV of the property	\$		<b>2</b>
Amount from line 1	\$		<b>3</b>
Line 2 <b>minus</b> line 3 (if negative, enter "0")	\$		<b>4</b>
Enter any capital gains deduction claimed for the amount on line 4*			
\$ _____ × 2 =	\$		<b>5</b>
Line 4 <b>minus</b> line 5 (if negative, enter "0")			
\$ _____ × 1/2 =	\$		<b>6</b>
<b>Capital cost:</b> line 1 <b>plus</b> line 6	\$		<b>7</b>

\* Enter the amount that relates to the depreciable property only.

## Note

We consider that you acquire the land for an amount equal to its FMV when you change its use. Include this amount on line 9923, "Total cost of all land additions in the year," in Area F.

## Grants, subsidies, or other incentives or inducements

You may get a grant or subsidy from a government or a government agency to buy depreciable property. When this happens, subtract the amount of the grant from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or C.

You may have paid GST/HST on some of the depreciable property you acquired for your business. If so, you may have also received an input tax credit from us.

The input tax credit is government assistance. Therefore, subtract it from the property's capital cost. Do this before you enter the capital cost in column 3 of Area B or Area C, whichever applies. If you receive an input tax credit for a passenger vehicle you use in your business, use **one** of these methods:

- For a passenger vehicle you use **90% or more** for your business, subtract the amount of the credit from the vehicle's cost before you enter its capital cost in column 3 of Area C.
- For a passenger vehicle you use **less than 90%** for your business, do not make an adjustment in 2005. In 2006, subtract the amount of the credit from your beginning UCC.

You may get an incentive from a non-government agency to buy depreciable property. If this happens, you can either include the amount in income or subtract the amount from the capital cost of the property.

For more details about government assistance, see Interpretation Bulletin IT-273, GOVERNMENT ASSISTANCE – GENERAL COMMENTS and its special release.

### **Non-arm's length transactions**

When you acquire property in a non-arm's length transaction, there are special rules to follow to determine the property's cost. These special rules do not apply if you get the property because of someone's death.

You can acquire depreciable property in a non-arm's length transaction from an individual resident in Canada, a partnership with at least one partner who is an individual resident in Canada, or a partnership with at least one partner that is another partnership. If you pay more for the property than the seller paid for the same property, calculate the cost as follows:

### Capital Cost Calculation

The seller's cost or capital cost	\$		<b>1</b>
The seller's proceeds of disposition	\$		<b>2</b>
Amount from line 1	\$		<b>3</b>
Line 2 <b>minus</b> line 3 (if negative, enter "0")	\$		<b>4</b>
Enter any capital gains deduction claimed for the amount on line 4			
\$ _____ × 2 =	\$		<b>5</b>

Line 4 **minus** line 5 (if negative, enter "0")

\$ \_\_\_\_\_ × 1/2 = \$ \_\_\_\_\_ **6**

**Capital cost:** line 1 **plus** line 6 \$ \_\_\_\_\_ **7**

Enter this amount in column 3 of either Area B or Area C, whichever applies. Do not include the cost of the related land, which you have to include on line 9923, "Total cost of all land additions in the year," in Area F.

You can also buy depreciable property in a non-arm's length transaction from a corporation or from an individual who is not resident in Canada, or a partnership with no partners who are individuals resident in Canada or with no partners that are other partnerships. If you pay more for a property than the seller paid for it, calculate the capital cost as follows:

## Capital Cost Calculation

The seller's cost or capital cost	\$	1
The seller's proceeds of disposition	\$	2
Amount from line 1	\$	3
Line 2 <b>minus</b> line 3 (if negative, enter "0")		
\$ _____ × 1/2 =	\$	4
<b>Capital cost:</b> line 1 <b>plus</b> line 4	\$	5

Enter this amount in column 3 of either Area B or Area C, whichever applies. Do not include the cost of the related land, which you have to include on line 9923, "Total cost of all land additions in the year," in Area F.

If you buy depreciable property in a non-arm's length transaction and pay less for it than the seller paid, your capital cost is the same amount as the seller paid. We consider you to have deducted as CCA the difference between what you paid and what the seller paid.

## Example

Rachel bought a pickup truck from her father, Marcus, in her 2005 fiscal period for \$4,000. Marcus paid \$10,000 for the truck in 1995. Since the amount Rachel paid is less than the amount Marcus paid, we consider Rachel's cost to be \$10,000. We also consider that Rachel has deducted CCA of \$6,000 in the past ( $\$10,000 - \$4,000$ ).

Rachel completes the CCA chart as follows:

- In Area B, she enters \$10,000 in column 3, "Total cost."
- In Area A, she enters \$4,000 in column 3, "Cost of additions in the year," as the addition for her 2005 fiscal period.

There is a limit on the cost of a passenger vehicle you buy in a non-arm's length transaction. The cost is the **lesser** of the following three amounts:

- the FMV when you buy it;
- \$30,000 plus GST and PST, or HST you would pay on \$30,000, if you bought it in 2005, 2004; or
- the seller's cost amount of the vehicle when you buy it.



The cost amount can vary, depending on what the seller used the vehicle for before you bought it. If the seller used the vehicle to earn income, the cost amount will be the UCC of the vehicle when you buy it. If the seller did not use the vehicle to earn income, the cost amount will usually be the original cost of the vehicle.

For more details on non-arm's length transactions, see Interpretation Bulletin IT-419, MEANING OF ARM'S LENGTH.

## **Capital gains**

If you sell a property for more than it cost, you may have a capital gain. List the dispositions of all your properties on Schedule 3, CAPITAL GAINS (OR LOSSES) IN 2005.

You will find a copy of this schedule in your GENERAL INCOME TAX AND BENEFIT GUIDE package. For details on how to calculate your taxable capital gain, see the T4037, CAPITAL GAINS guide.

You may be a partner in a partnership that gives you a T5013 slip, STATEMENT OF PARTNERSHIP INCOME. If the partnership has a capital

gain, it will allocate part of that gain to you. The gain will show on the partnership's financial statements or on your T5013 slip.

### **Note**

You cannot have a capital loss when you sell depreciable property. However, you may have a terminal loss. For an explanation of terminal losses, see "Column 5 – UCC after additions and dispositions" on page 149 [29].

### **Special rules for disposing of a building in the year**

If you disposed of a building in the year, special rules may apply that make the proceeds of disposition an amount other than the actual proceeds of disposition. This happens when you meet **both** of the following conditions:

- you disposed of the building for an amount less than both its cost amount, as calculated on page 177 [below], and its capital cost to you; and
- you, or a person with whom you do not deal at arm's length (see the definition on page 133 [27] ), owned the land that the building is on, or the land next to it, which was necessary for the building's use.

To calculate the cost amount:

- If the building was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before you disposed of the building.
- If more than one property is in the same class, you have to calculate the cost amount of each building as follows:

$$\frac{\text{capital cost of the building}}{\text{capital cost of all property in the class not previously disposed of}} \times \text{UCC of the class} = \text{cost amount of the building}$$

### **Note**

If any property in the class of the building that was acquired at non-arm's length was previously used for a purpose other than gaining or producing income, or if the part of a property used for gaining or producing income has changed, the capital cost of such property has to be recalculated to determine the cost amount of the property.

If you disposed of a building under these conditions, and you or a person with whom you do not deal at arm's length disposed of the land in the same year, calculate your deemed proceeds of disposition as shown in Calculation A below [on the next page].

If you, or a person with whom you do not deal at arm's length, did not dispose of the land in the same year as the building, calculate your deemed proceeds of disposition as shown in Calculation B on page 181 [the next page].

**Calculation A**  
**Land and building sold in the same year**

FMV of the building when you disposed of it	\$	1
FMV of the land just before you disposed of it	\$	2
Line 1 plus line 2	\$	3
Seller's adjusted cost base of the land	\$	4

Total capital gains (without reserves) from any disposition of the land (such as a change in use) in the three-year period before you disposed of the building (by you, or a person not dealing at arm's length with you, to you or to another person not dealing at arm's length with you)	\$	<b>5</b>
Line 4 minus line 5 (if negative, enter "0").	\$	<b>6</b>
Line 2 or line 6, whichever amount is less	\$	<b>7</b>
Line 3 minus line 7 (if negative, enter "0").	\$	<b>8</b>
Cost amount of the building just before you disposed of it	\$	<b>9</b>
Capital cost of the building just before you disposed of it	\$	<b>10</b>
Line 9 or line 10, whichever amount is less	\$	<b>11</b>
Line 1 or line 11, whichever amount is more	\$	<b>12</b>

**Deemed proceeds of disposition for the building**

Line 8 or line 12, whichever amount is less (enter this amount in column 3 of Area E and in column 4 of Area A on either Form T2124 or Form T2032). \$ **13**

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**Deemed proceeds of disposition for the land**

Proceeds of disposition of the land and building \$ **14**

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Amount from line 13 \$ **15**

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Line 14 minus line 15 (include this amount on line 9924 of Area F on either form). \$ **16**

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If you have a terminal loss on the building, include it on line 9270, "Other expenses," on either form.

**Calculation B**  
**Land and building sold in different years**

Cost amount of the building just before you disposed of it	\$	<b>1</b>
FMV of the building just before you disposed of it	\$	<b>2</b>
Line 1 or line 2, whichever amount is more	\$	<b>3</b>
Actual proceeds of disposition, if any	\$	<b>4</b>
Line 3 minus line 4	\$	<b>5</b>
Line 5 \$ _____ × 1/2 =	\$	<b>6</b>
Amount from line 4	\$	<b>7</b>
<b>Deemed proceeds of disposition for the building</b>		
Line 6 plus line 7 (enter this amount in column 3 of Area E and in column 4 of Area A)	\$	<b>8</b>

If you have a terminal loss on the building, include it on line 9270, "Other expenses," on either Form T2124 or Form T2032.

Ordinarily, you can deduct the full amount of a terminal loss but only part of a capital loss. Calculation B ensures that you use the same factor to calculate a terminal loss on a building as you use to calculate a capital loss on land. As a result of this calculation, you add part of the amount on line 5 to the actual proceeds of disposition from the building (see "Terminal loss" on page 150 [29] ).

### **Replacement property**

In a few cases, you can postpone or defer adding a capital gain or recapture of CCA to income. You might sell a business property and replace it with a similar one, or your property might be stolen, destroyed, or expropriated and you replace it with a similar one. You can defer tax on the sale proceeds which you reinvest in replacement property within a reasonable period of time. To defer reporting the capital gain or recapture of CCA, you must acquire and you, or a person related to you, must use the new property for the same or similar purpose as the one that you are replacing.

If you need more details, see Interpretation Bulletin IT-259, EXCHANGES OF PROPERTY, and Interpretation Bulletin IT-491, FORMER BUSINESS PROPERTY, and its Special Release.



You can also defer a capital gain or recapture of CCA when you transfer property to a corporation or a partnership. For more information, see:

- Information Circular 76-19, Transfer of Property to a Corporation Under Section 85;
- Interpretation Bulletin IT-291, Transfer of Property to a Corporation Under Subsection 85(1);
- Interpretation Bulletin IT-378, Winding-up of a Partnership; and
- Interpretation Bulletin IT-413, Election by Members of a Partnership Under Subsection 97(2).

The following example summarizes this chapter.

### **Example**

When Cathy bought her new car in May 2005, it cost \$16,000 including all charges and taxes. Therefore, she includes the car in class 10. She was allowed a \$1,000 credit when she traded in her old car (which was also in class 10). Her UCC on the old car at the

start of 2005 was \$1,000. Cathy knows that her personal use of the car will vary each year.

Cathy has a desk, calculator, filing cabinets, and shelves in her store. These are class 8 depreciable properties. The UCC of these properties at the start of 2005 is \$5,000. She did not buy any class 8 properties in 2005.

Therefore, she completes Form T2124 as follows:

## Area A – Calculation of capital cost allowance (CCA) claim

1 Class number	2 Undepreciated capital cost (UCC) at the start of the year	3 Cost of additions in the year (see Areas B and C on pages 17 and 18 [below] )
10	1,000	16,000
8	5,000	

4 Proceeds of dispositions in the year (see Areas D and E on pages 19 and 20 [below] )	5 * UCC after additions and dispositions (col. 2 <b>plus</b> col. 3 <b>minus</b> col. 4)
1,000	16,000
	5,000

<b>6</b>	<b>7</b>	<b>8</b>
Adjustment for current-year additions ( $1/2 \times$ (col. 3 <b>minus</b> col. 4)) If negative, enter "0"	Base amount for CCA (col. 5 <b>minus</b> col. 6)	Rate %
7,500	8,500	30
	5,000	20

\* If you have a negative amount in this column, add it to income as a recapture on line 8230, "Other income," on page 4 [1]. If no property is left in the class and there is a positive amount in the column, deduct the amount from income as a terminal loss on line 9270, "Other expenses," on page 7 [1]. Recapture and terminal loss do not apply to a class 10.1 property. For more information, read Chapter 4 of the "Business and Professional Income" guide

<b>9</b>		<b>10</b>	
CCA for the year (col. 7 × col. 8 or an adjusted amount)		UCC at the end of the year (col. 5 <b>minus</b> col. 9)	
2,550		13,450	
1,000		4,000	
<b>3,550</b>			

▲

**Total CCA claim for the year** (enter this amount, **minus** any personal part and any CCA for business-use-of-home expenses, on line 9936 on page 7 [1] **\*\***)

**\*\*** For information on CCA for "Calculation of business-use-of-home expenses", read Chapter 4 – Special Situations of the "Business and Professional Income" guide

## Area B – Details of equipment additions in the year

1 Class number	2 Property details
10	Passenger Vehicle

3 Total cost		4 Personal part (if applicable)		5 Business part (column 3 minus column 4)	
16,000		Varies		16,000	
<b>Total equipment additions in the year</b>				<b>9925</b>	16,000

## Area D – Details of equipment dispositions in the year

1 Class number	2 Property details
10	Passenger Vehicle

3 Proceeds of disposition (should not be more than the capital cost)		4 Personal part (if applicable)		5 Business part (column 3 <b>minus</b> column 4)	
1,000		N/A		1,000	
<b>Total equipment dispositions in the year</b>				<b>9926</b>	1,000

**Note:** If you disposed of property from your business in the year, see Chapter 4 in the "Business and Professional Income" guide for information about your proceeds of disposition.

Since Cathy used the car partly for personal use, she calculates the amount to include on line 9936 for her car as follows:

$$\frac{25,000 \text{ (business kilometres)}}{30,000 \text{ (total kilometres)}} \times \$2,550 = \$2,125$$

The most that Cathy can claim for CCA for 2005 is \$2,125 for her car and \$1,000 for the class 8 properties. She wants to claim the most CCA allowed to her in 2005. She enters \$3,125 on line 9936 on Form T2124.



## CCA classes

The following is a list of commonly used assets in a business.

<b>Class</b>	<b>Rate (%)</b>	<b>Description</b>
1	4	Most buildings you bought after 1987, including components such as wiring, plumbing, heating, and cooling systems.
3	5	Most buildings including components that you bought after 1978 and before 1988. However, you may have to include part of the cost of additions made after 1987 in class 1. For more details, see Interpretation Bulletin IT-79, CAPITAL COST ALLOWANCE – BUILDINGS OR OTHER STRUCTURES.
6	10	Frame, log, stucco on frame, galvanized iron, or corrugated metal buildings that do not have any footings below the ground. Class 6 also includes fences and greenhouses.

<b>Class</b>	<b>Rate (%)</b>	<b>Description</b>
7	15	Canoes, rowboats, and most other vessels and their motors, furniture, and fittings. For more details, see Interpretation Bulletin IT-267, CAPITAL COST ALLOWANCE – VESSELS.
8	20	Property that you did not include in any other class. Some examples are fixtures, furniture, machinery, photocopiers, refrigeration equipment, telephones, and tools costing \$200 or more. Class 8 also includes outdoor advertising signs you bought after 1987.
9	25	Aircraft, including furniture or equipment attached to the aircraft, and spare parts.
10	30	Automobiles, except those you use as a taxi or in a daily rental business, including vans, trucks, tractors, wagons, and trailers. General-purpose electronic data-processing equipment (commonly called computer

<b>Class</b>	<b>Rate (%)</b>	<b>Description</b>
10 Cont'd	30 Cont'd	hardware) and systems software acquired before March 23, 2004. See also class 45.
10.1	30	A passenger vehicle. See page 162 [32] for the capital cost limits.
12	100	China, cutlery, kitchen utensils that cost under \$200, linen, uniforms, dies, jigs, moulds, cutting or shaping parts of a machine, tools and medical or dental instruments that cost under \$200, computer software (except systems software), and video cassettes bought after February 15, 1984, that you rent and do not expect to rent to any one person for more than 7 days in a 30-day period.
13		Leasehold interest – You can claim CCA on a leasehold interest, but the maximum rate depends on the type of leasehold interest and the terms of the lease.

<b>Class</b>	<b>Rate (%)</b>	<b>Description</b>
14		<p>Patents, franchises, concessions, or licences for a limited period. Your CCA is whichever of the following amounts is less:</p> <ul style="list-style-type: none"> <li>• capital cost of the property spread out over the life of the property; or</li> <li>• UCC of the property of that class at the end of the taxation year.</li> </ul>
16	40	Taxis, vehicles you use in a daily car-rental business, coin-operated video games or pinball machines acquired after February 15, 1984, and freight trucks acquired after December 6, 1991, that are rated higher than 11,788 kilograms.
17	8	Roads, parking lots, sidewalks, airplane runways, storage areas, or similar surface construction.

<b>Class</b>	<b>Rate (%)</b>	<b>Description</b>
22	50	Most power-operated, movable equipment you bought before 1988 that you use for excavating, moving, placing, or compacting earth, rock, concrete, or asphalt.
38	30	Most power-operated, movable equipment you bought after 1987 and use for excavating, moving, placing, or compacting earth, rock, concrete, or asphalt.
45	45	Computer equipment and systems software acquired after March 22, 2004. The current rule allowing a separate class election is not available for equipment that qualifies for the 45% rate. However, you may elect to have the current rule apply for equipment that is acquired before 2005.

<b>Class</b>	<b>Rate (%)</b>	<b>Description</b>
46	30	Data network infrastructure equipment acquired after March 22, 2004 (usually included in class 8).

### **Note**

You can choose to keep an outdoor advertising sign and any property you would usually include in class 38 in a separate class. To do this, attach a letter to your income return for the year you bought the property. In the letter, list the properties you are including in a separate class.

## **Summary of Chapters 2 to 4 – Completed Form T2124**

In this section, we summarize our discussion about income, expenses, and capital cost allowance, by showing you what the completed Form T2124 would look like for Cathy's business and recapping the information we have so far.

Total sales (does not include GST and PST, or HST)	\$ 189,000
Returned items	\$ 1,000
Inventory at the start of her 2005 fiscal period	\$ 36,500
Inventory at the end of her 2005 fiscal period	\$ 30,000
Purchases (including freight, etc.)	\$ 88,000
Meals and entertainment expenses	\$ 50
Motor vehicle expenses	\$ 3,125
Convention expenses	\$ 500
Capital cost allowance	\$ 3,125
<b>Cathy also entered these expenses in her expense journals:</b>	
Accounting fees	\$ 750
Advertising	\$ 2,800
Business tax	\$ 550

Business insurance	\$ 1,600
Interest on business loan	\$ 5,300
Maintenance	\$ 800
Office supplies	\$ 2,700
Rent of store	\$ 10,800
Salaries (full and part-time help)	\$ 19,000
Travelling (except car)	\$ 350
Utilities on store	\$ 3,500

Therefore, the calculation of Cathy's net business income on her Form T2124 would look like this:



**Income**

Sales, commissions, or fees

189,000	00	a
---------	----	---

**Minus** – Goods and services tax/harmonized sales tax (GST/HST) and provincial sales tax (if included in sales above)

--	--

– Returns, allowances, and discounts (if included in sales above)

1,000	00
-------	----

**Total of the above two lines**

1,000	00
-------	----



1,000	00	b
-------	----	---

**Net sales, commissions, or fees**

(line a minus line b)

8000	188,000	00
8290		
8230		

Reserves deducted last year

Other income

**Gross income** (total of the above three lines) –

Enter on the appropriate line of your income tax return

8299	188,000	00	c
------	---------	----	---

## Calculation of cost of goods sold (enter business part only)

Opening inventory (include raw materials, goods in process, and finished goods)

<b>8300</b>	<b>36,500</b>	<b>00</b>
-------------	---------------	-----------

Purchases during the year (net of returns, allowances, and discounts)

<b>8320</b>	<b>88,000</b>	<b>00</b>
-------------	---------------	-----------

Subcontracts

<b>8360</b>		
-------------	--	--

Direct wage costs

<b>8340</b>		
-------------	--	--

Other costs

<b>8450</b>		
-------------	--	--

**Total of the above five lines**

	<b>124,500</b>	<b>00</b>
--	----------------	-----------

**Minus** – Closing inventory  
(include raw materials, goods in process, and finished goods)

<b>8500</b>	<b>30,000</b>	<b>00</b>
-------------	---------------	-----------

**Cost of goods sold**

<b>8518</b>	<b>94,500</b>	<b>00</b>
-------------	---------------	-----------



**Gross profit (line c minus line d)**

<b>8519</b>	<b>93,500</b>	<b>00</b>
-------------	---------------	-----------

d  
e

## Expenses (enter business part only)

Advertising

<b>8521</b>	<b>2,800</b>	<b>00</b>
-------------	--------------	-----------

Bad debts

<b>8590</b>		
-------------	--	--

Business tax, fees, licences, dues, memberships,  
and subscriptions

<b>8760</b>	<b>550</b>	<b>00</b>
-------------	------------	-----------

Delivery, freight, and express

<b>9275</b>		
-------------	--	--

Fuel costs (except for motor vehicles)

<b>9224</b>		
-------------	--	--

Insurance

<b>8690</b>	<b>1,600</b>	<b>00</b>
-------------	--------------	-----------

Interest

<b>8710</b>	<b>5,300</b>	<b>00</b>
-------------	--------------	-----------

Maintenance and repairs

<b>8960</b>	<b>800</b>	<b>00</b>
-------------	------------	-----------

Management and administration fees

<b>8871</b>		
-------------	--	--

Meals and entertainment (allowable part only)

<b>8523</b>	<b>50</b>	<b>00</b>
-------------	-----------	-----------

Motor vehicle expenses (not including CCA)  
(see Chart A on page 22 [4] )

<b>9281</b>	<b>3,125</b>	<b>00</b>
-------------	--------------	-----------

Office expenses

<b>8810</b>	<b>2,700</b>	<b>00</b>
-------------	--------------	-----------

Supplies

<b>8811</b>		
-------------	--	--

Legal, accounting, and other professional fees

<b>8860</b>	<b>750</b>	<b>00</b>
-------------	------------	-----------

Property taxes	<b>9180</b>		
Rent	<b>8910</b>	<b>10,800</b>	<b>00</b>
Salaries, wages, and benefits (including employer's contributions)	<b>9060</b>	<b>19,000</b>	<b>00</b>
Travel	<b>9200</b>	<b>350</b>	<b>00</b>
Telephone and utilities	<b>9220</b>	<b>3,500</b>	<b>00</b>
Other expenses	<b>9270</b>	<b>500</b>	<b>00</b>
<b>Subtotal</b>		<b>51,825</b>	<b>00</b>
Allowance on eligible capital property	<b>9935</b>	<b>3,125</b>	<b>00</b>
Capital cost allowance (from Area A on page 14 [3] )	<b>9936</b>		
<b>Total business expenses</b> (total of the above three lines)	<b>9368</b>	<b>54,950</b>	<b>00</b>
		<b>54,950</b>	<b>00</b> f

<b>Net income (loss) before adjustments</b> (line e minus line f)	<b>9369</b>	<b>38,550</b>	<b>00</b>	g
<b>Net income (loss) before adjustments</b> (line e minus line f)	<b>9369</b>	<b>38,550</b>	<b>00</b>	g
Your share of line g above		<b>38,550</b>	<b>00</b>	h
<b>Minus</b> – Other amounts deductible from your share of net partnership income (loss) (from the chart on page 9 [below] )	<b>9943</b>			i
<b>Net income (loss) after adjustments</b> (line h minus line i)		<b>38,550</b>	<b>00</b>	j
<b>Minus</b> – Business-use-of-home expenses (from the chart on page 11 [below] )	<b>9945</b>			
<b>Your net income (loss)</b> (line j minus line 9945) (enter on the appropriate line of your income tax return)	<b>9946</b>	<b>38,550</b>	<b>00</b>	

# Chapter 5 – Eligible Capital Expenditures

## What is an eligible capital expenditure?

You may buy property that does not physically exist but gives you a lasting economic benefit. Some examples are goodwill, franchises, concessions, or licences for an unlimited period. We call this kind of property **eligible capital property**. The price you pay to buy this type of property is an **eligible capital expenditure**.

We consider franchises, concessions, or licences with a limited period to be depreciable properties, not eligible capital properties. For details about depreciable properties, see Chapter 4 on page 130 [26].

## What is an annual allowance?

You cannot deduct the full cost of an eligible capital expenditure, since it is a capital cost and gives you a lasting economic benefit. However, you can deduct part of its cost each year. We call the amount you can deduct your **annual allowance**.

## **What is a cumulative eligible capital (CEC) account?**

This is the bookkeeping record you establish to determine your annual allowance. You also use your CEC account to keep track of the property you buy and sell. We call the property in your CEC account your eligible capital property. You base your annual allowance on the balance in your account at the end of your fiscal period. Keep a separate account for each business.

## **How to calculate your annual allowance**

### **CEC account**

Complete the following chart to calculate your annual allowance and the balance in your CEC account at the end of your 2005 fiscal period.

**Calculating your annual allowance and CEC account balance at the end of your 2005 fiscal period**

Balance in the account at the start of your 2005 fiscal period	\$	<u>1</u>
<hr/>		
Eligible capital expenditures you made or incurred in your 2005 fiscal period _____ × 75%	\$	<u>2</u>
<hr/>		
Line 1 <b>plus</b> line 2	\$	<u>3</u>
<hr/>		
All the amounts you received or are entitled to receive from the sale of eligible capital property in your 2005 fiscal period	\$	<u>4</u>
<hr/>		
All the amounts that became receivable in your 2005 fiscal period from the sale of eligible capital properties before June 18, 1987	\$	<u>5</u>
<hr/>		
Line 4 <b>plus</b> line 5	\$	<u>6</u>
<hr/>		
Line 6 × 75%	\$	<u>7</u>
<hr/>		



**CEC account balance**

Line 3 minus line 7 \$ 8

---

**Annual allowance**

7% × line 8 \$ 9

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**CEC account balance at the end of your 2005  
fiscal period**

Line 8 minus line 9 \$ 10

---

**Note**

An eligible capital expenditure is reduced by the amount of any assistance received or receivable from a government for the expenditure. Also, an amount forgiven (or entitled to be forgiven) on government debt reduces your CEC account. Special conditions may apply to non-arm's length transactions. For additional information, see Interpretation Bulletin IT-123, TRANSACTIONS INVOLVING ELIGIBLE CAPITAL PROPERTY.

You can deduct an annual allowance if there is a **positive** balance (line 8) in your CEC account at the end of your 2005 fiscal period.

You do not have to claim the full amount of the maximum annual allowance for a given year. You can deduct any amount you want, up to the maximum allowable of 7%. If your fiscal period is less than 365 days, you have to prorate your claim. Base your claim on the number of days in your fiscal period compared to 365 days.

If there is a **negative** balance in your CEC account, see "Sole proprietor – Sale of eligible capital property in the 2005 fiscal period" on page 209 [42] and "Partnership – Sale of eligible capital property in the 2005 fiscal period" on page 213 [42]. The following is an example of how to calculate the maximum annual allowance and account balance.

### **Example**

John started a business on January 1, 2005. John's business has a December 31 year-end. During 2005, he bought a franchise for \$16,000. He calculates his maximum annual allowance of \$840 for 2005 as follows:

## John's CEC account

Balance at the start of John's 2005 fiscal period	\$	0	1
John's eligible capital expenditure: franchise cost for the 2005 fiscal period			2
		\$16,000 × 75%	
Line 1 <b>plus</b> line 2	\$	12,000	3
John has not sold any eligible capital property during the 2005 fiscal period. Therefore, he will not have any amounts on lines 4 to 8.			
John's maximum annual allowance on eligible capital property is 7% × line 3	\$	840	9
Balance at the end of 2005 (line 3 <b>minus</b> line 9)	\$	11,160	10

### Sole proprietor

#### Sale of eligible capital property in the 2005 fiscal period

When you sell eligible capital property, you have to subtract part of the proceeds of disposition from your CEC account.

You have to do this calculation if you sold eligible capital property:

- in your 2005 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due to you in your 2005 fiscal period.

For 2005, the amount you have to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property you sell in your 2005 fiscal period; and
- the amount of any proceeds that become due to you in your 2005 fiscal period from eligible capital property you sold before June 18, 1987.

There may be a negative amount (excess) in your CEC account after you subtract the required amount. In this case, you will have to include part of the negative amount in your business income.

Multiply by  $\frac{2}{3}$  the part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, add whichever is less, the excess or annual allowances deducted. This is

the amount to include in your business income. The following example shows how to calculate the amount to include in your business income.

### Example

Carol started her business on January 1, 1999, with a **December 31 year-end**. In 1999, Carol bought a client list for \$10,000. Carol sold her business on September 1, 2005. She sold her client list for \$15,000 and she does not have any other eligible capital property in her business. She deducted annual allowances each year as follows:

1999	\$	525
<hr/>		
2000		488
<hr/>		
2001		454
<hr/>		
2002		422
<hr/>		
2003		393
<hr/>		
2004		365
<hr/>		
<b>Total</b>	\$	<b>2,647</b>

The amount included in Carol's business income on line 8230, "Other income," on Form T2124 is the total of amounts A and C:

**Calculation of amount A:**

The lesser of i) or ii):

i) Excess amount calculated as follows:

Proceeds of disposition: \$15,000

$\$15,000 \times 75\%$  \$ 11,250

**Plus:** total annual allowances deducted 2,647

\$ 13,897

**Minus:** 75% of eligible capital expenditures

$\$10,000 \times 75\%$  \$ 7,500

Excess amount \$ 6,397 **i**

ii) Total annual allowances deducted \$ 2,647 **ii**

The lesser of i) or ii): \$ 2,647 **A**

### Calculation of amount B:

Excess amount	\$ 6,397		
<u>Minus: total annual deductions taken</u>	<u>2,647</u>	\$ 3,750	<b>B</b>

### Calculation of amount C:

Line B $\times$ 2/3		\$ 2,500	<b>C</b>
<u>Line A plus line C</u>		<u>\$ 5,147</u>	

The amount to be included in Carol's business income on line 8230, "Other income," is \$5,147.

## Partnership

### Sale of eligible capital property in the 2005 fiscal period

When the partnership sells eligible capital property, it has to subtract part of the proceeds of disposition from its CEC account.

The partnership has to do this calculation if it sold eligible capital property:

- in its 2005 fiscal period; or
- before June 18, 1987, and the proceeds of disposition become due in its 2005 fiscal period.

For 2005, the amount the partnership has to subtract is 75% of the **total** of these amounts:

- the proceeds of disposition of all the eligible capital property the partnership sells in its 2005 fiscal period. The total proceeds of disposition have to be included even if the partnership will not receive the entire amount in 2005; and
- the amount of any proceeds that become due in the partnership's 2005 fiscal period from eligible capital property it sold before June 18, 1987.

The partnership's CEC account may have a negative amount (excess) after it subtracts the required amount. In this case, the partnership will have to include part of the negative amount in its business income.



Multiply by 2/3 the part of the negative amount in your CEC account that exceeds the annual allowances deducted. To that result, add the lesser of the excess and annual allowances deducted. This is the amount to include in your business income. The following example shows how to calculate the amount to include in your business income.

If you, as a partner in the partnership, have made the capital gains election by filing Form T664, ELECTION TO REPORT A CAPITAL GAIN ON PROPERTY OWNED AT THE END OF FEBRUARY 22, 1994, with your 1994 income tax return for your partnership interest, you will have reported the capital gain accrued to February 22, 1994. In this case, the adjusted cost base of your partnership interest has not changed as a result of the election. Rather, you have created a special account called your **exempt capital gains balance (ECGB)**. Your ECGB expired after 2004. If you did not use all of your ECGB by the end of 2004, you can add the unused balance to the adjusted cost base of your shares of, or interest in, the flow-through entity.

You have to include the business income that results from the sale of the eligible capital property on line 8230, "Other income," on Form T2124 or Form T2032.

## **Example**

You and your partner have operated a telephone sales business since January 1, 1994. Your partnership agreement states that you and your partner will share the business profits equally. The business has a **December 31 year-end**. You and your partner paid a total of \$10,000 for a client list when you started the business. The business has no other eligible capital property. You and your partner sell the business on September 1, 2005. The proceeds of disposition of the client list are \$15,000. As a partner of the partnership, you made the capital gains election in 1994 on your partnership interest and your current ECGB is nil. In previous years, the partnership claimed \$2,647 as annual allowances on eligible capital property.

### **Calculation of amount to include in business income – Sale of client list on September 1, 2005**

The amount to include in the partnership's business income on line 8230, "Other income," on Form T2124 is the total of amounts A and C:

## Calculation of amount A:

The lesser of i) or ii):

i) Excess amount calculated as follows:

Actual proceeds of disposition: \$15,000

$\$15,000 \times 75\%$  \$ 11,250

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**Plus:** total annual allowances deducted 2,647

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\$ 13,897

**Minus:** 75% of Eligible capital expenditures

$(\$10,000 + \text{ECGB}^*) \times 75\%$  \$ 7,500

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Excess amount \$ 6,397 **i**

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ii) Total annual allowances deducted \$ 2,647 **ii**

---

The lesser of i) or ii) \$ 2,647 **A**

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### Calculation of amount B:

Excess amount	\$ 6,397		
<hr/>			
<b>Minus:</b> total annual allowances deducted	\$ 2,647	\$ 3,750	<b>B</b>
<hr/>			

### Calculation of amount C:

Line B $\times$ 2/3		\$ 2,500	<b>C</b>
<hr/>			
Line A <b>plus</b> line C		\$ 5,147	
<hr/>			

According to this example, you should include \$5,147 on line 8230, "Other income" of form T2124 or T2032.

\* The amount of ECGB used in this calculation refers to any balance remaining in this account after December 31, 2004.

## Election

Under certain conditions, you can elect to treat the disposition of an eligible capital property (other than goodwill) as a capital gain in your CEC account if you sold your interest in a property such as a

franchise, concession, or licence that has an unlimited life. You can elect to deem the proceeds of disposition of the eligible capital property, to be equal to its original cost.

You can then declare a capital gain equal to your actual proceeds of disposition minus the cost of acquisition. Report the details on the "Real estate, depreciable property and other properties" line of Schedule 3, CAPITAL GAINS (OR LOSSES) IN 2005. This election will benefit you if you have unused capital losses to apply against the capital gain.

The election is available if you meet the following conditions:

- You disposed of an eligible capital property other than goodwill.
- The cost of the eligible capital property can be determined.
- The proceeds of disposition exceed the cost.
- You do not have an exempt gains balance.

File your election by attaching a note to your income tax return.

## **Replacement property**

If you sell an eligible capital property and replace it with another one for the same or similar use, you can postpone all or part of any gain on the sale. This happens if you acquire a replacement eligible capital property within a certain period of time. To do this, you have to replace the property no later than one year after the end of the tax year in which you sell the original property. For more details, see Interpretation Bulletin IT-259, EXCHANGES OF PROPERTY.

For more information about eligible capital expenditures, see Interpretation Bulletin IT-123, TRANSACTIONS INVOLVING ELIGIBLE CAPITAL PROPERTY, and Interpretation Bulletin IT-143, MEANING OF ELIGIBLE CAPITAL EXPENDITURE, and its Special Release.

# Appendix – Industry Codes

## Professions

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Architect (except landscape)	541310
Architect (landscape)	541320
Bookkeeping services	541215
Chartered or certified accountant	541212
Dentist	621210
Engineer	541330
Lawyer	541110
Notary	541120
Physician (general practice), surgeon, or specialist	621110
Psychologist	621330
Veterinarian	541940

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**Professions (continued)**

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Other health practitioner	621390
Other legal services	541190
Other professional, scientific, or technical services	541000
Other social service practitioner	624000

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**Services – Agricultural or animal services**

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Animal specialty or livestock services	115210
Crop services	115110
Other agricultural services	115000

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**Services – Transportation or storage**

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Air transport	481000
Bus transport (school or employee)	485410

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**Services – Transportation or storage (continued)**

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Interurban and rural transit	485210
Storage or warehousing	493100
Taxi	485310
Truck transport	484000
Urban transit	485110
Water transport	483000
Other transportation service	480000

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**Services – Communications or utilities**

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Courier services	492110
Flyer delivery	541870
Postal services	491110

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**Services – Communications or utilities (continued)**

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Public utilities	221000
Telecommunications	517000

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**Services – Finance, insurance, or real estate**

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Financial services (excluding banks and finance companies)	523000
Insurance agent or broker (independent)	524210
Insurance company	524100
Lessors of non-residential buildings (except mini-warehouses)	531120
Lessors of other real estate property	531190
Lessors of residential buildings and dwellings	531111
Lessors of self-storage mini-warehouses	531130
Lessors of social housing projects	531112

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**Services – Finance, insurance, or real estate (continued)**

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Offices of real estate agents and brokers	531210
Offices of real estate appraisers	531320
Real estate property managers	531310
Other activities related to real estate	531390

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**Services – Business services**

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Advertising	541800
Computer programmer or analyst	541510
Consultation – environment	541620
Consultation – management	541610
Consultation – science and technology	541690
Data processing, storing, and related services	518210
Employment agency	561300

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**Services – Business services (continued)**

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Exterminators, janitors, and chimney cleaners	561700
Internet service and search engine suppliers	518110
Publishing	511000
Other business services	561000

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**Services – Health or social services**

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Babysitting or child-care (your own home)	624410
Educational services	610000
Health or social services (other than child care)	620000
Tutors	611690

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**Services – Entertainment or recreation**

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Agents and representatives – artists, athletes, and other public figures	711410
Entertainment or stage company	711100

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**Services – Entertainment or recreation (continued)**

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Film or video production services	512110
Gambling operation	713200
Independent athletes and trainers (coach)	711218
Independent artists, authors, and interpreters (performers)	711510
Movie or motion picture film presenter	512130
Sports promoter	711319
Sports teams and clubs	711211
Ski facilities, golf courses, marinas, bowling centres, and fitness centres	713900
Other amusements or recreation	710000

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**Services – Accommodation, food, or beverage services**

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Bed and breakfast, cabins, and tourist rooms	721190
Campgrounds, hunting, fishing, and vacation camps	721210
Canteens, mobile food services	722330
Catering	722320
Full-service restaurant	722110
Hotel, motor-hotel, motel, or resort	721110
Limited service restaurant, take-out, and drive-in	722210
Rooming and boarding houses	721310
Tavern, bar, or nightclub	722410

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**Services – Repairs and maintenance**

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Automotive exhaust system repair	811112
Automotive glass replacement shops	811122

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**Services – Repairs and maintenance (continued)**

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Auto painting or body repairs	811121
Car washes	811192
Furniture refinishing or repairing	811420
General automotive repair	811111
Home and garden equipment and appliances repair and maintenance	811410
Shoe repair shops	811430
TV, radio, stereo, computer, or camera repairs	811210
Other repairs	811000

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**Services – Personal or household services**

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Barber or beauty shop	812110
Carpet cleaning service	561740

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**Services – Personal or household services (continued)**

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Funeral services	812200
Home cleaning services	561722
Homemaker services	624120
Laundry or dry cleaning	812300
Other personal or household services	810000

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**Services – Other services**

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Business, religious, or social organization	813000
Janitorial services (except window cleaning)	561722
Machine or equipment rental leasing	532000
Miscellaneous building or dwelling services	561700
Photography	541920
Travel services	561510
Vehicle rental or leasing	532110

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**Sales – Household goods stores**

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Appliances, TV, radio, or stereo repairs	443110
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Household accessories	442200
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Household furniture and appliances	442110
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**Sales – Food or beverage stores**

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Baked goods, candy, or nuts	445290
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Beer, wine, or liquor	445310
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Convenience stores	445120
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Groceries	445110
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Meat, fish, fruits, or vegetables	445200
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Supermarket	445110
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Other food stores	445000
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**Sales – Automotive**

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Auto parts or accessories store	441310
Automobile sales	441100
Recreational vehicle sales	441210
Service station (with convenience store)	447110
Other service station	447190

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**Sales – Other retail stores**

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Bookstores and news dealers	451210
Cameras and photographic supplies	443130
Florists	453110
General merchandise	452000
Gifts, novelties, and souvenirs	453220
Hardware	444130

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**Sales – Other retail stores (continued)**

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Jewellery or watch sales or repairs	448310
Lawn and garden supplies	444220
Musical instruments	451140
Office supplies and stationery stores	453210
Paint or wallpaper	444120
Pharmacies or drugstores	446110
Records, CDs, or pre-recorded tapes	451220
Sewing, needlework, and piece goods	451130
Shoes or clothing	448000
Sporting goods or bicycles	451110
Toys, hobbies, and games	451120
Other merchandise	440000

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**Sales – Direct sales**

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Cosmetics	454390
Electronic shopping and mail order	454110
Food or beverages	454390
Fuel dealers	454310
Household goods	454390
Newspaper delivery	454390
Vending machine operators	454210
Other direct sales	454390

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**Wholesales**

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Agents and brokers	419100
Apparel and dry goods	414100
Beverages	413200

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**Wholesales (continued)**

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Building materials and supplies	416000
Drugs	414510
Farm products	411100
Food	413100
Machinery, equipment, and related supplies	417000
Personal and household goods	414000
Petroleum products	412110
Tobacco	413310
Vehicles, parts, and accessories	415000
Other products	410000

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## Construction

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Acoustical work	238310
Asphalt paving (driveways and parking lots)	238990
Buildings (including development)	236000
Electrical installation	238210
Engineering construction	237000
Excavating or grading	238910
Fence installation	238990
Finish carpentry	238350
Glass or glazing	238150
Hardwood flooring installation	238330
Heating, air conditioning, or other duct/sheet metal work	238220
Home renovations	236110

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**Construction (continued)**

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Insulation	238310
Masonry	238140
Mechanical specialty work	238220
Painting or decorating	238320
Plastering or drywalling	238310
Plumbing	238220
Resilient flooring or carpet installation	238330
Shingling	238160
Siding installation	238170
Site work	238910
Structural or related work	238100
Terrazzo or tile work	238340

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**Construction (continued)**

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Other construction services	230000
Other exterior close-in work	238190
Other interior or finishing work	238390
Other trade work	238990

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**Manufacturing**

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Beverages	312100
Chemicals or chemical products	325000
Clothing	315000
Computer or electronic products	334000
Electrical equipment, appliances, and components	335000
Fabricated metal products	332000
Food	311000

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**Manufacturing (continued)**

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Furniture or fixtures	337000
Leather or leather products	316110
Non-metallic mineral products	327000
Paper products	322000
Plastic	326100
Primary metal	331000
Printing	323100
Refined petroleum and coal products	324100
Rubber	326200
Textile products	314000
Textile yarn or fabric	313000
Tobacco	312220

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**Manufacturing (continued)**

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Transportation equipment	336000
Wood products	321000
Other manufacturing	300000

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**Natural resource industries**

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Forestry support services	115310
Hunting and trapping	114210
Logging	113310
Mining (except oil and gas)	212000
Oil and gas extraction	211110
Quarry or sand pit	212300
Support activities for mining or oil and gas extraction	213110

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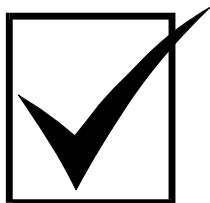
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