

Capital Tax - General Information and Special Cases

References: section 60, 62.1, 63, 64, 65, 66.1, 68, 69, 72, subsections 58(2), 61(5), 66(1), 66(4), 71(1)

Application

This bulletin replaces Interpretation Bulletin L-7R published April 22, 1980 and sets out the policy of the Corporations Tax Branch.

The bulletin provides general information with respect to capital tax. It is provided as a guide to taxpayers and is not intended as a substitute for the legislation. Any references to legislation are to the provisions of the Corporations Tax Act (Ontario) (CTA) and its Regulations, unless otherwise noted.

General Information

General

- The following table summarizes six current bulletins which contain general guidelines to assist corporations in calculating capital tax payable under Part III:

Current IT	Capital Tax Issue
3011R	Capital Tax - General Information and Special Cases
3012R	Capital Tax - Paid-up Capital Inclusions - Shareholders' Equity Accounts
3013R	Capital Tax - Paid-up Capital Inclusions - Liabilities and Deferred Credits
3014	Capital Tax - Treatment of Leases
3015R	Capital Tax - Deductions from Paid-up Capital
3016R	Capital Tax - Numerical Example

Corporations Subject to Capital Tax

- Generally, every corporation which is subject to Ontario corporation income tax is also subject to capital tax. Even if a corporation does not have to pay income tax for any particular year because of losses incurred or other reasons that reduce taxable income or income tax payable to NIL, it may still be required to pay capital tax. Corporations which are exempt from capital tax are discussed in paragraphs 5 to 10 of this bulletin.

Capital Tax Rate

- Subsection 66(1) establishes the capital tax rate for corporations to be 3/10 of 1%. This general rate is not applicable to financial institutions.
- Small business corporations may be exempt from capital tax under section 68 or be eligible for a reduction in capital tax under section 69. These sections do not apply to financial institutions.

Small Business Exemption

5. To qualify for exemption from capital tax, a corporation must either satisfy a total assets and gross revenue test or have taxable paid-up capital below a certain threshold. The following table summarizes the criteria that a corporation must satisfy to qualify for exemption from capital tax:

If the taxation year...	Neither total assets nor gross revenue exceeds...	Taxable paid-up capital does not exceed...
Commences after September 30, 2001	\$3,000,000	\$5,000,000
Ends after December 31, 2000 and commences before October 1, 2001	\$1,500,000	\$2,000,000
Ends prior to January 1, 2001	\$1,000,000	\$2,000,000

6. Generally, a small corporation would not have to compute its taxable paid-up capital to determine if it is exempt from tax. The corporation may use the total assets and gross revenue from its unconsolidated financial statements. However, in determining both total assets and gross revenue, corporations should include their share of total assets and gross revenues of any partnerships in which they have an interest.
7. For this purpose, the financial statements should be those prepared for reporting to shareholders, owners or partners and, as required by subsection 75(6), should be in agreement with the books of the corporation. For a discussion of financial statement requirements, refer to Information Bulletin 4002.

Small Business Exemption - Effect of Associated Corporations

8. In determining whether a corporation that is a member of an associated group of corporations, partnership, or connected partnership is exempt from capital tax, the aggregate taxable paid-up capital of the associated group of corporations must be considered. This includes any share of partnership or connected partnership taxable paid-up capital allocated to the members of the group or related persons of the group. For taxation years commencing after September 30, 2001, the associated corporation is exempt from capital tax if the aggregate taxable paid-up capital of the associated group of corporations does not exceed \$5,000,000 (\$2,000,000 for taxation years ending before October 1, 2001).
9. For purposes of computing the aggregate taxable paid-up capital of the associated group of corporations, the taxable paid-up capital of a member that is a non-resident corporation is computed as if the corporation was resident in Canada in accordance with Division B of Part III, irrespective of whether the corporation is subject to tax under the CTA.

Other Corporations Exempt From Capital Tax - Section 57(1), 71(1)

10. Subsection 71(1) exempts a number of special types of corporations from paying capital tax. Examples of exempt corporations are:
- a family farm/fishing corporation (refer to Interpretation Bulletin 3018)
 - a condominium and co-operative housing corporation
 - a credit union (see paragraph 23), and
 - a corporation referred to in subsection 57(1) including:
 - crown corporations (unless prescribed)
 - boards of trade
 - chambers of commerce
 - registered charities
 - non-profit corporations, and
 - labour organizations.

Reduction to Capital Tax

11. Effective May 5, 1999, for taxation years ending prior to January 1, 2002, corporations or associated groups of corporations with taxable paid-up capital in excess of \$2,000,000 but less than specified threshold limits receive a reduction from the general rate of capital tax as follows:

Applicable Period (Taxation Year Ending...)	Reduction from the General Rate	Threshold
After May 4, 1999 and before January 1, 2000	1.5%	\$2,400,000
in 2000 calendar year	0.75%	\$2,800,000
After December 31, 2000 and before October 1, 2001	0.5%	\$3,200,000

12. For taxation years straddling more than one period cited in the table above, a reduction amount must be computed for each applicable period and prorated based on the ratio that the number of days in the applicable period is to the total number of days in the taxation year.

Capital Tax Deduction

13. For taxation years ending after September 30, 2001, a deduction from taxable paid-up capital is available equal to the lesser of:

- \$5,000,000, and
- the corporation's taxable paid-up capital for the year.

14. If the corporation is associated with other corporations that have permanent establishments in Canada and the taxable paid-up capital of the associated group is less than \$5,000,000, the deduction is equal to the corporation's taxable paid-up capital.

15. If the taxable paid-up capital of the associated group is greater than \$5,000,000, the deduction is equal to:

$$\$5,000,000 \times \frac{\text{Taxable paid-up capital of the corporation}}{\text{Taxable paid-up capital of the associated group}}$$

16. For taxation years straddling September 30, 2001, the capital tax deduction is prorated based on the ratio of the number of days in the taxation year after September 30, 2001 to the total number of days in the taxation year.

Taxation Years Not Equal to 365 Days

17. Generally, corporations with short taxation years (less than 365 days) are allowed to prorate the capital tax in proportion to the number of days in that year (e.g., newly incorporated corporations and corporations formed as a result of an amalgamation).
18. Proration is not allowed where a corporation, for business reasons, has a floating taxation year (e.g. the taxation year ends on the last Friday in December). For these corporations, the reporting period will be treated as a full taxation year for assessment purposes even though the number of days in the taxation year is either less than or greater than 365 days.
19. Corporations in existence for their full taxation year which maintain an Ontario permanent establishment for only a portion of that year are **not** eligible for proration.

Special Cases

Financial Institutions - Sections 58(2), 61(5), 62.1, 66(1), 66(4), 66.1

20. Effective May 7, 1997, a corporation is considered to be a financial institution for a taxation year for capital tax purposes if at any time during the taxation year it is:
- a bank
 - authorized under the laws of Canada or a province to carry on the business of offering its services as a trustee to the public
 - authorized under the laws of Canada or a province to accept deposits from the public, and carries on the business of lending money on the security of real estate or investing in mortgages on real estate
 - a registered securities dealer
 - a mortgage investment corporation, or
 - a corporation prescribed by section 703 of Regulation 183.
21. Financial institutions pay capital tax on their “adjusted taxable paid-up capital” in accordance with section 62.1, at the rates of tax found in section 66(4). For taxation years (or the part of a taxation year) ending after October 31, 1998, a deposit-taking financial institution is no longer required to pay the surcharge under subsection 66.1(1.1).
22. Tax Legislation Bulletin Number 98-1 issued February 1998 (TLB 98-1) provides a detailed outline of the capital tax treatment of financial institutions. However, TLB 98-1 does not reflect the capital tax deduction outlined in paragraph 13.

Credit Unions - Sections 58(2), 62.1, 66(6), 66(7), 68, 71(1)

23. Effective May 5, 1999, capital tax was eliminated for credit unions. Prior to May 5, 1999, for taxation years ending after December 31, 1997, credit unions were considered to be financial institutions for capital tax purposes. TLB 98-1 discusses the calculation of capital tax for credit unions before May 5, 1999.

Partnerships - Section 61(5)

24. Special rules are provided for the computation of paid-up capital where a corporation has entered into a partnership or joint venture agreement. For details regarding the capital tax computations of corporate members of partnerships, including numerical examples, refer to Interpretation Bulletin Number 3017.

Non-resident Corporations - Sections 60, 63, 64, 65, 66(1)

25. Special rules are provided for the computation of the paid-up capital employed in Canada of corporations that are incorporated outside Canada (subsection 63(1)). For a summary of the special rules applicable in computing Ontario corporations tax for non-residents (income and capital tax) refer to Interpretation Bulletin Number 3010.

Other
Corporations
Subject to
Capital Tax

26. There are no special rules governing the computation of capital tax for the following corporations; therefore, these corporations are treated as ordinary corporations for capital tax purposes:

- mutual fund corporations
- investment corporations
- non-resident-owned investment corporations
- foreign business corporations as defined by subsection 213(3) of the *Income Tax Act* (Canada), and
- co-operative corporations.

For More
Information

For further information, please contact Desk Audit, general tax enquiries

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Ce guide est disponible en français sous le nom « Impôt sur le capital - Renseignements généraux et cas spéciaux n° 3011RF ». Vous pouvez en obtenir un exemplaire en appelant le 1-800-263-7965.