

Connecting with our clients



In the September 2006 *Tax Notes* issue we informed you that a new Alberta *Fuel Tax Act* (Bill 35) was passed by the Legislature in April of this year and that it would not be proclaimed until new Fuel Tax Regulations were approved. For ease of administration and interpretation, the new Act consolidated the changes that had been patched into the old Act over its 19-year life and aligned actual administrative practices within the Act. There were few changes to the Act.

In the following months, Tax and Revenue Administration (TRA) began the extensive Regulations development process. Once we had a regulations framework in place, TRA launched consultations with our stakeholders. We invited input on the proposed regulations from many taxpayer groups, hosted group meetings, and met with individual companies. We

set up a special email address as a channel for input.

Your input has helped us to fill out the framework into a document that will simplify compliance with the new *Fuel Tax Act*.

In this issue we also update our readers about interprovincial tax avoidance schemes that we are investigating, the Alberta Royalty Tax Credit program in the wake of the Alberta Government's discontinuation of the program, and much more. I invite you to read on and inform yourselves about what's new or different in Alberta's corporate and commodity tax environment.

Jane Clerk, Assistant Deputy Minister – Tax and Revenue Administration

Key Issues to be Addressed in the new Fuel Tax Regulations

The September 2006 issue of Tax Notes summarized Alberta's new Fuel Tax Act. Development of the Fuel Tax Regulation to support the new Act is well underway. Read the summary of key provisions in the proposed Regulation on page 2.

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Disclaimer: *This newsletter is intended to keep Tax and Revenue Administration clients informed about corporate and commodity tax-related matters. Tax Notes does not replace the legislation or regulations.*

Key Issues to be Addressed in the new Fuel Tax Regulations

Prescribed Fuels

The Government recently announced that the tax exemption for ethanol will be eliminated as a result of the proposed \$209 million producer credit program for biofuels. Like gasoline and diesel, biodiesel and ethanol will be taxable at nine cents per litre when imported into Alberta or removed from a registered terminal or refinery in Alberta. Biodiesel and ethanol will be defined to meet the standard for use as motive fuel.

It is also proposed that kerosene, bunker fuel, methanol and condensate will be taxable at nine cents per litre only when used by a consumer to generate motive power in an internal combustion or turbine engine. The consumer will have to file a tax return and pay the tax directly to Tax and Revenue Administration (TRA) in this circumstance.

Tax Remittance

Rules for remittance of tax are substantially the same. Direct remitters' (formerly agent collectors) tax returns and remittances must be received by TRA by the 28th day

Timing

The Regulation should be presented to the Minister for consideration early in the new year. The target date for implementation is April 1, 2007.

Additional information and new registration forms will be mailed out in early 2007.

following the month in which the transaction occurred.

Some direct remitters may sell fuel to each other tax out in limited circumstances. Those who will qualify either:

- operate a refinery in Alberta other than solely refining biodiesel and ethanol, or
- acquire, manufacture in, or import into, Alberta a total of 500 million litres of clear fuel annually.

This provision levels the playing field among like industry players and helps ensure fuel is taxed when it first enters the distribution chain.

Those direct remitters mentioned above will file a generic fuel tax return. Other activity-based direct remitters, such as importers, will file a return specific to the activity conducted.

Tax Refunds/Rebates/Farm Fuel Distribution Allowance

These programs are essentially the same, but will qualify tour boat operators for a rebate when the new legislation is proclaimed into force.

The current 30-day grace period upon application for a fuel tax exemption certificate will be removed. A fuel tax exemption certificate will be required prior to any purchases of marked fuel.

Tax exempt fuel use (TEFU) and prescribed rebate off-road percentages (PROP) programs will be clarified in the regulation and the process explained step by step in a TEFU guide to be issued.

Registration

The new legislative framework requires most industry players upstream from the retail level to register with TRA. Those wishing to sell fuel (including marked) exempt from tax to consumers will have to register and follow the standards set out in the Act, Regulation and by the Minister. Retailers who sell only clear taxable fuel do not have to register.

Collector and agent dealer agreements will no longer be needed as the requirements are now set out in the Act and Regulations. Existing agreements will expire on March 31, 2007, if the Act is proclaimed.

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To Contact TRA...

Please direct all questions about *Tax Notes* content to Information Services by [e-mail](#) or by telephoning (780) 427-3044 in the Edmonton area or Alberta toll-free at 310-0000, then enter (780) 427-3044.

ARTC and RCIT Program Update

Exploration and Development Incentive

On September 21, 2006, Energy Minister Greg Melchin announced the Alberta Government would eliminate the Alberta Royalty Tax Credit Program (ARTC) as of January 1, 2007. (For more information, see <http://www.gov.ab.ca/home/index.cfm?Page=1504>.)

The ARTC program was originally established in 1974 in response to the federal budget that made royalties a non-deductible expense for federal tax purposes. To encourage continued exploration and development, the ARTC program provided corporations with a refundable credit, calculated as a percentage of crown royalties paid in a year, on qualifying wells, up to a maximum amount.

What happens now?

Corporations, individuals and trusts can file claims on eligible Alberta Crown Royalties paid, or payable, by them for production **on or before December 31, 2006**. Crown royalties arising after December 31, 2006 are not eligible.

of the taxation year for individuals and trusts. ARTC instalment applications must be received before the end of the corporation's taxation year-end.

All claims must be submitted to Tax and Revenue Administration (TRA) **within three years** of the claimant's tax year-end for corporations and within three years from the end

TRA is currently revising the ARTC and RCIT claims forms and schedules. Revised forms and instructions will be posted on our website.

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Alberta Farm Fuel Benefit (AFFB) Program Changes

Expiring AFFB program registration numbers have been given a grace period. Registration number series 500000 ending with -01 with a December 31, 2006 expiration date will continue to be valid until **December 31, 2007, or until the registrant no longer meets program eligibility requirements**. For more information call Alberta Agriculture and Food at (780) 422-9167 in the Edmonton calling area or 310-0000, followed by (780) 422-9167 Alberta toll-free and ask for a farm fuel representative.

REMINDER TO ALL IFTA CARRIERS:

Alberta IFTA fees change

For the 2007 calendar year, the Alberta International Fuel Tax Agreement (IFTA) Fuel Tax Licence registration fee changes from \$10 to \$15 and the decal fee from \$5 to \$10 per set of two decals for each qualified motor vehicle. For more information, please see information circular [IFTA-2R7](#).

Finance, Tax and Revenue Administration (TRA) to prevent registration processing delays. To assist you, TRA has recently implemented a pilot project to accept payments for IFTA fees by credit or debit card.

Submit applicable registration and decal fees with your annual registration application. Ensure that all outstanding balances have been paid and all required returns filed with Alberta

For more information contact Information Services by [email](#) or telephone at (780) 427-3044 in the Edmonton calling area or Alberta toll-free at 310-0000, then (780) 427-3044.

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DOING IT RIGHT, THE FIRST TIME:

IFTA - WHEN IS THE TAX RETURN DUE?

A number of TRA clients have received a penalty charge after they have filed the IFTA tax return. IFTA licensees are to make sure that we receive your IFTA return and any monies owing by the last day of the month following the reporting quarter. This also includes tax returns where no tax is payable, either due to a credit balance or no mileage reported outside of Alberta. Tax returns can be mailed; however, they must be mailed by the return due date and the postmark date is to be clearly visible.

WORKING WITH ADD-BACKS AND LOSS CARRY-BACKS

Provincial Capital Tax Add-backs

Deducting taxes paid to another Canadian province or territory calculated in relation to a corporation's capital is not allowed for taxation years beginning after March 31, 2001.

Non-deductible taxes include, but are not limited to, provincial financial or large corporations capital taxes and Québec compensation tax, calculated on capital.

Corporations are required to file an AT1 Schedule 12 (Alberta Income/Loss Reconciliation) when the above applies, reporting the non-deductible provincial capital tax amount on line 42.

Application of Loss Carry-Backs

In its calculation of income or loss for a year, a corporation may claim loss carry-back amounts for Alberta purposes different from corresponding

amounts claimed for federal purposes. As the application of loss carry-back is at the discretion of the corporation, Alberta does not process the loss carry-back unless requested by the corporation. A loss carry-back is claimed in Alberta by filing the prescribed form AT1 Schedule 10, "Loss Carry-Back Application" with Tax and Revenue Administration. For more information see information circular [CT-7, "Calculation and Deduction of Losses"](#).

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UNDERSTANDING THE PROCESS:

Payment Made Easy

TRA offers several ways to make corporate or commodity tax payments easier for you. Payments can be made:

- at most financial institutions in Canada, or
- by cheque or money order, payable to the Minister of Finance mailed, couriered or hand-delivered.

Note: If you are sending your payment, or paying at your bank, please remember to attach the original **Remittance Advice**.

If you are a Credit Union customer who uses the CUPS PS service CUAnytime™ and your branch is participating in the program, you have access to real-time payment of your Alberta corporate or commodity taxes. To facilitate this service, CUPS PS has added a new button to the Bill Payment Menu: Alberta

Government Bill Payment. For more information about this service, call your Credit Union branch.

You can also send your payments by

- wire transfer, and
- through the internet payment services provided by major financial institutions in Canada or TelPay for Business.

The effective date of receipt is the date TRA's account is credited. The earliest possible date is the next business day. For more details about this option, contact your financial institution or TelPay for Business.

Whichever method you use to pay your taxes, be sure to make your remittance payable to the Minister of Finance and include clear instructions as to which account and taxation year(s) the funds should be applied.

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Tax Avoidance Schemes

Background

While taxpayers have the right to legitimately arrange their affairs to attract the least amount of tax, aggressive tax planning schemes, which exploit certain technical elements of the law, may be subject to the General Anti-Avoidance Rules (GAAR) designed to address objectionable tax avoidance situations.

An increasing number of provincial tax avoidance schemes have been identified and are eroding Alberta's corporate tax base. These aggressive tax-planning schemes are proposed to clients by accounting and legal firms.

Provincial Schemes

These schemes avoid provincial corporate tax only and were detected by the partnering of the tax administrations of Ontario, Quebec and Alberta with the CRA. This tax avoidance occurs when profitable Alberta corporations reduce taxable income by

claiming interest expense through a complex series of internal financing arrangements and offshore corporations.

Alberta's Approach

Alberta Finance has established a Tax Avoidance Team to identify and audit objectionable Alberta corporate tax avoidance schemes. By leveraging our work and partnering with the other jurisdictions, Alberta Finance will enhance its capacity and effectively challenge objectionable provincial tax avoidance schemes.



your secure online gateway to TRA

The Tax and Revenue Administration Client Self-service System is a secure new Internet system under development that will enable TRA's corporate and commodity tax clients to view their account balances and transaction histories, web file and track returns or claims, and carry out a number of other account management functions during and for some time after normal government office hours.

TRACS is currently in the implementation phase. Plans are for a test roll-out to a limited number of taxpayers/claimants in three programs: Tourism Levy, Tax Exempt Fuel Sales

(TEFS), and the Prescribed Rate Off-road Percentage (PROP) program. The next phases will include the corporate income tax, fuel tax reporting and the International Fuel Tax Agreement programs.

A mail-out of brochures with registration and TRACS information is underway. Once this test roll-out has demonstrated TRACS' reliability, performance, security and efficiencies, additional taxpayers, claimants and programs will be brought online.

Success will be measured by sign-on and take-up rates, stakeholder satisfaction and cost savings. To

ensure these performance standards - functionality, security and reliability - are achieved, a marketing plan has been implemented to work with both the external stakeholders and project management.

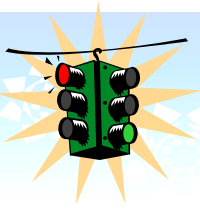
For your convenience - Tax Notes to your desktop

You can have the convenience of the next issue of *Tax Notes* arriving at your desktop as soon as it is published.

[Subscribe](#) to this Tax and Revenue Administration newsletter.

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Cautionary Note:

You have **not** automatically filed provincially when you e-file your federal corporate income tax return

You've e-filed your corporate income tax return with the Canada Revenue Agency (CRA). Now you can relax because you have met both the federal and Alberta corporate tax return requirements, right?

Not so.

You are required to file your Alberta Corporate Income Tax return manually. For more information contact Information Services by [email](#) or telephone at (780) 427-3044 in the Edmonton calling area or Alberta toll-free at 310-0000, then (780) 427-3044.

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Corporate Tax Changes

Changes to the *Alberta Corporate Tax Act* were introduced through the *Alberta Corporate Tax Amendment Act, 2006*. The following are highlights of some of the changes made.

- Effective April 1, 2006, the Alberta corporate tax rate was lowered from 11.5 to 10 per cent. Concurrently, the small business deduction rate was reduced from 8.5 to 7 per cent so that the effective tax rate on eligible small business income remains at 3 per cent.
- A time limit to submit a waiver request for interest and penalties has been introduced. The time limit is 10 years from the end of the taxation year in question.
- A provision to write off small amounts of tax or refunds was created. Amounts of \$20 or less owing or refundable will not be acted upon, unless the taxpayer specifically requests a refund.
- The added Section 12.1, applicable from January 1, 2003 to December 31, 2006, provides a special rule for "reimbursements" of non-deductible crown charges. This rule provides for the transfer of non-deductible crown charges between taxpayers, when certain conditions are met. The section was added as a result of the removal of the reference to section 80.2 of the federal *Income Tax Act* (Canada) and provides similar results as the federal section before the federal changes to that section.
- Changes introduced through federal Bill 33, with respect to GAAR provisions and TCP (taxable Canadian properties) gains distributions from mutual fund trusts, were paralleled.
- Various other items were addressed, including:
 - ▶ clarifying that insurance companies that claim policy reserves for their insurance business are required to pay insurance corporations tax on premiums issued.
 - ▶ allowing the communication of tax information to the Chief Electoral Officer to be used solely for the purposes of ensuring associated corporations are complying with the requirements of the *Election Finances and Contributions Disclosure Act*.

The following additional changes have been announced, but are not yet in force:

- The amount of income eligible for the small business deduction will be increased to \$500,000, phased in by 2009.
- The ARTC and RCIT programs for corporations, individuals and trusts will be discontinued effective January 1, 2007.
- In the spring of 2007, provisions will be proclaimed requiring large corporations to file Notices of Objection with the Province.

RECENT PUBLICATION UPDATES

Information circulars, special notices, forms and other publications are available online at http://www.finance.gov.ab.ca/publications/tax_rebates/index.html

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| Information Circular CT-17R4, Alberta Small Business Deduction | New Web Pages – Frequently Asked Questions (FAQs) for IFTA and Corporate Income Tax |
| Tobacco Tax Act series of information circulars TTA-1 to TTA-8 , incl. | Information Circular IFTA-1R6, Overview of IFTA |
| Alberta Corporate Tax Act Special Notice Vol. 5 No. 21, Discontinuance of Alberta Royalty Tax Credit (ARTC) and Royalty Credit for Individuals and Trusts (RCIT) Programs | Information Circular IFTA-2R7, Alberta International Fuel Tax Licensing and Reporting Requirements |
| Software Certified for AT1 Returns | Information Circular TL-1R1, Overview of Tourism Levy Act |
| Information Circular TEFU-2R3, Prescribed Rebate Off-Road Percentages | |

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