

British Columbia Eligible Expenditures

Corporation Capital Tax Act

This bulletin provides information and guidelines pertaining to British Columbia eligible expenditures (BCEE), as provided in section 13 of the *Corporation Capital Tax Act* (CCTA) and section 21 of the regulations to the Act.

Corporations, which are not banks, trust companies, or credit unions, may claim a deduction from their BC paid up capital in respect of eligible expenditures. The amount claimed must be net of the aggregate of amortization, depreciation, and other charges incurred in computing income or loss. Financial statements must be prepared in accordance with generally accepted accounting principles.

There are four categories of eligible expenditures:

- BC exploration and development expenditure
- BC research expenditure
- Eligible property
- Eligible tourism property

Land does not qualify for the BCEE deduction. Corporations claiming a BCEE deduction must complete and submit Schedule D with their return.

The information in this bulletin is provided for your convenience and guidance and is not a replacement for the legislation. The *Corporation Capital Tax Act* and Regulations can be found on the web at www.gov.bc.ca/sbr

In this issue...

- ***BC exploration and development expenditure***
- ***BC research expenditure***
- ***Eligible property***
- ***Eligible tourism property***
- ***4 year tax holiday for eligible expenditures***
- ***Deduction of eligible property and eligible tourism property when usage does not commence at time of acquisition***
- ***Partnerships***
- ***Wind-ups and amalgamations***
- ***Government assistance***

BC EXPLORATION AND DEVELOPMENT EXPENDITURE

Eligible BC exploration and development expenditures are expenditures made by a corporation for the purposes of exploration or development of oil, gas or mining properties located in British Columbia. These expenditures must be capitalized and only the amount included on the corporation's balance sheet at the end of its taxation year may be claimed. Expenditures incurred to purchase, lease or acquire property are not eligible for the deduction. Expenditures claimed under subsection 10 (c) of the CCTA by corporations solely engaged in exploration are not eligible for this deduction.

BC RESEARCH EXPENDITURE

Eligible BC research expenditures are expenditures made by a corporation for the purpose of research and development activities carried out in British Columbia. The expenditures must be included on the corporation's balance

sheet as deferred development costs at the end of the corporation's taxation year for which the claim is being made. To qualify as deferred development costs, the costs must meet the criteria set out in the CICA Handbook paragraph 3450.21.

ELIGIBLE PROPERTY

The cost of eligible property is deductible from BC paid up capital if the eligible property meets all of the following criteria:

- a) is a building, a part of a building, machinery or equipment;
- b) must be new or previously unused for any purpose (including rentals) before
 - i. it was acquired by the corporation or
 - ii. it was leased by the corporation, as lessor, under an operating lease;
- c) must be acquired by the corporation subsequent to March 31, 1992;
- d) must be recorded on the balance sheet and owned by the corporation from the date of acquisition to the end of the taxation year for which the deduction is being made; and
- e) is used primarily for one or more of the following eligible purposes in British Columbia
 - Manufacturing or processing goods for sale or lease,
 - Exploring or drilling for petroleum or natural gas,
 - Operating a petroleum or natural gas well,
 - Prospecting or exploring for or developing a mineral resource,
 - Extracting minerals from a mineral resource,
 - Logging activities (does not include road building, transporting logs, or transporting logging equipment),
 - Processing ore from mineral to primary metal stage,
 - Farming (including seedling cultivation for reforestation) and fishing,
 - Storing grain,
 - Extracting and producing industrial minerals, or
 - Producing or processing steam or all-electrical energy for sale.

Real estate development is not listed as an eligible purpose, therefore, costs associated with

the acquisition and improvement of land do not qualify for a BCEE deduction. Similarly, administrative functions related to the eligible purposes listed above do not qualify for the deduction.

ELIGIBLE TOURISM PROPERTY

The cost of eligible tourism property is deductible from BC paid up capital if the eligible tourism property meets all of the following criteria:

- a) is a building, a structure, a part of a structure, machinery, equipment or changes to land;
- b) must be new or previously unused for any purpose before
 - i. it was acquired by the corporation or
 - ii. it was leased by the corporation, as lessor, under an operating lease;
- c) must be acquired by the corporation subsequent to March 31, 1992;
- d) must be recorded on the balance sheet and owned by the corporation from the date of acquisition to the end of the taxation year for which the deduction is being made; and
- e) is used primarily in the prescribed tourism activities in British Columbia listed below (see Section 21 of the CCTA Regulations for more detailed information)
 - Operation of an accommodation facility,
 - Operation of an airport facility,
 - Operation of a recreation facility,
 - Operation of a tour business, or
 - Operation of a charter business.

4 YEAR TAX HOLIDAY FOR ELIGIBLE EXPENDITURES

Eligible expenditures incurred after March 31, 1999, qualify as a deduction from BC paid up capital the year they are incurred and for 3 subsequent taxation years. The expenditures must continue to be recorded on the balance sheet and only the carrying value on the balance sheet, not the total amount of the expenditure, may be claimed in the first year and in each of the three subsequent year ends. Furthermore, expenditures must continue to meet the criteria set out in this bulletin for all the years the BCEE deduction is being claimed. Expenditures incurred prior to April 1, 1999, qualify for a 2 year tax holiday.

DEDUCTION OF ELIGIBLE PROPERTY AND ELIGIBLE TOURISM PROPERTY WHEN USAGE DOES NOT COMMENCE AT TIME OF ACQUISITION

Effective for taxation years ending on or after March 16, 2001, a BCEE deduction will be allowed in a taxation year prior to its actual usage of the eligible property or eligible tourism property provided it has not been used for any other purpose prior to its use for an eligible purpose.

PARTNERSHIPS

A corporation with an interest in a partnership may include its proportionate share of eligible expenditures. The corporation's proportionate share of eligible expenditure amounts is calculated on the same basis as its share of income or loss from the partnership.

The eligible expenditure amounts are those included in the balance sheet of the partnership at the end of its taxation year that falls within the taxation year end of the corporation. If the taxation year end of the partnership does not fall within the taxation year of the corporation then the proportionate share of eligible expenditure amounts is determined using the taxation year end of the partnership immediately prior to that of the corporation's.

If in its first taxation year a partnership acquires BCEE, a corporation with an interest in that partnership may only claim its proportionate share of those eligible expenditures in the corporation's taxation year that includes the first partnership year end.

WIND-UPS AND AMALGAMATIONS

To qualify as BC exploration and development expenditures and BC research expenditures, the costs must be incurred by the corporation making the claim. Eligible property and eligible tourism property must be new at the time the property is acquired in order to qualify for the deduction. Therefore, assets acquired by a corporation in a wind up do not qualify for the BCEE deduction as they would not have been incurred by the corporation, in the case of exploration and development and research expenditures, or new at the time of acquisition, in the case of property and tourism property.

A new corporation formed through an amalgamation may claim the eligible expenditures of its predecessor corporations. The deduction is limited to the unused tax holiday year(s) carried over from the predecessor corporation.

GOVERNMENT ASSISTANCE

Where a corporation deducts investment tax credits or other forms of government assistance such as grants from the cost of an asset, it is required to include the amount netted against the asset as a deferred credit in computing total paid up capital. Consequently, in claiming a BCEE deduction, the corporation would be able to claim the cost of the asset before deducting any government assistance, but net of amortization, depreciation and other charges.

NEED MORE INFO?

This bulletin is provided for convenience and guidance.

For further information, please contact:

**Ministry of Small Business and Revenue
Income Tax Branch
PO Box 9444 Stn Prov Govt
Victoria BC V8W 9W8**

**Telephone: 250 953-3082
Fax: 250 356-0434**

**Information is also on the web at
www.gov.bc.ca/sbr While there, you can
subscribe to our free electronic update
service.**