Saskatchewan Finance

Revenue Division
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Information Bulletin

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THE CORPORATION CAPITAL TAX ACT

ALLOWABLE DEDUCTIONS

This bulletin has been prepared to help corporations determine various deductions they may be entitled to when calculating taxable paid-up capital. It is a general guide and not a substitute for the legislation.

The changes to this bulletin are indicated by a (|).

The contents of this bulletin are presented under the following sections:

A. Capital Tax Exemptions
B. Investment Allowance
C. Deferred Exploration and Development Expenses
D. Scientific Research and Experimental Development Expenditures
E. Goodwill Allowance
F. Saskatchewan Electronic Tax Service (SETS)

A. CAPITAL TAX EXEMPTIONS

(1) $10 Million Standard Exemption

All corporations are entitled to a deduction of $10 million. This amount is deducted from the total Canadian paid-up capital in arriving at the taxable paid-up capital.

(2) Additional Exemption

An additional exemption is available for all corporations effective the following dates:

- Up to $5 million for corporation taxation years beginning on or after January 1, 2002;
- Up to $7.5 million for corporation taxation years beginning on or after January 1, 2004; and
- Up to $10 million for corporation taxation years beginning on or after January 1, 2005.

Corporations will have the option of deducting the additional exemption in determining taxable paid-up capital.

The additional exemption will apply based upon the proportion of total salaries and wages that is paid in Saskatchewan by a taxable corporation and its associated corporations. If all of the salaries and wages of the corporation and its associated corporations are paid to Saskatchewan residents, then the associated corporation group will receive 100 per cent of the additional exemption. If a lesser proportion of total salaries and wages is paid in Saskatchewan, then the increase in the Corporation Capital Tax exemption will be reduced accordingly.

The Corporation Capital Tax additional exemption will be calculated as follows:

Additional Exemption:

$$A \times \frac{B}{C} = \text{up to } \$10{,}000{,}000$$

Where:

(i) "A" means: (a) $5 million for corporation taxation years beginning on or after January 1, 2002; or
(b) $7.5 million for corporation taxation years beginning on or after January 1, 2004; or
(c) $10 million for corporation taxation years beginning on or after January 1, 2005; and

(ii) "B" means the salaries and wages paid in the fiscal year by the corporation to employees of its permanent establishments in Saskatchewan; and

(iii) "C" means the aggregate of all of the salaries and wages paid in the fiscal year by the corporation and all of its associated corporations.

B. INVESTMENT ALLOWANCE

(1) General

In determining taxable paid-up capital, corporations may claim an investment allowance as a deduction from paid-up capital. This deduction is granted to minimize double-taxation that might result by including the qualified investments in the paid-up capital of the issuing corporations.

The investment allowance is determined using the following formula:

$$\frac{\text{Cost of Eligible Investments}}{\text{Total Assets (as adjusted)}} \times \text{Paid-up Capital (as adjusted)}$$

In no case may the investment allowance exceed the cost of eligible investments used in the numerator of the above fraction.

(2) Cost of Eligible Investments

Investments qualifying for this deduction are:

- loans and advances in the nature of certificates of term deposits, bearer deposit notes, bearer discount notes, swap deposits or banker's acceptance notes with any bank, loan or trust corporation, if they have been outstanding for more than 90 days at the close of the fiscal year;
- bonds and other securities of governments, municipalities and school districts;
- bonds and debentures of other corporations;
- mortgages due from other corporations;
- shares in other corporations (at greater of book value or cost);
- amounts receivable from a related corporation whose head office is outside Canada, if they are outstanding for more that 90 days as at the close of the fiscal year.

Accounts receivable may be claimed for the investment allowance if they are:

- from the corporation's shareholders or from persons (individuals or corporations) related to its shareholders;
- from an unrelated corporation and outstanding for more than 90 days as at the close of the fiscal year;
- a portion of a long-term debt receivable from another corporation; or
- from another corporation and secured by property of that corporation.

Cost is used in all cases except for shares in other corporations for which the greater of book value or cost may be used. Amounts shown on the balance sheet as leases receivable do not qualify for the investment allowance.

(3) Total Assets (as adjusted)

Total assets used in the denominator of the fraction are those on the balance sheet, adjusted if necessary as follows:

Total assets may not be reduced by:

- any amount by which an asset is carried in the books of account or on the balance sheet in excess of cost. An example would be shares in a subsidiary corporation which are shown at equity value instead of original cost.

Total assets must be increased by:

- any amount by which the value of an asset has been written down and deducted from income or surplus where such amount is not deductible from income for income tax purposes. An example would be an investment in marketable securities written down to market values.

Total assets must be reduced by:

- $10 million exemption;
- additional exemption as determined in A(2);
- goodwill allowance;
- deferred exploration and development expenses deductible from income under the *Income Tax Act* (Canada);
- scientific research and experimental development expenditures deductible from income under the *Income Tax Act* (Canada).
- any amount by which the value of an asset has been written down and deducted from income or surplus where such amount is deductible, and has been deducted, from income for tax purposes (except a reserve deducted from income under paragraph 20(1)(n) or subparagraphs 40(1)(a)(iii) or 44(1)(e)(iii) of the *Income Tax Act* (Canada) if the amount is also booked).

(4) Paid-up Capital (as adjusted)

Paid-up capital must be reduced by the following before being used in the formula for the investment allowance:

- $10 million exemption;
- additional exemption as determined in A(2);
- goodwill allowance;
- deferred exploration and development expenses deductible from income under the *Income Tax Act* (Canada).
- scientific research and experimental development expenditures deductible from income under the *Income Tax Act* (Canada).

C. DEFERRED EXPLORATION AND DEVELOPMENT EXPENSES

Corporations accumulate expenses incurred by them in exploration and development activities in Canada. These deferred expenses may be carried forward and deducted from income in computing income taxes in future years. As they are available for future deduction for income tax purposes they may be deducted from paid-up capital for capital tax purposes, as elected after March 31, 1999. Note: Deferred exploration and development expenses do not include expenses renounced from another corporation.

For fiscal years ending after March 31, 1999, corporations have the option of deducting unused Canadian exploration and development tax pools in determining taxable paid-up capital. Previously, corporations were required to deduct these unused tax pools.

As an example, assume a mining corporation incurred Canadian exploration and development expenses of $1,000,000 which have been treated as follows:

(1) $400,000 written off in the profit and loss statement with the balance of $600,000 shown as deferred expenses (asset) on the balance sheet;

(2) $200,000 deducted from income in computing income tax with the balance of $800,000 available to reduce future income taxes.

Paid-up capital would be adjusted as follows:

(1)	add $200,000	the difference between the write-off for book purposes ($400,000) and the write-off for income tax purposes ($200,000)
(2)	deduct $800,000	the balance of the deferred expenses available for future income tax purposes.

The net result of the above is a reduction to paid-up capital of $600,000.

D. SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT EXPENDITURES

For fiscal years ending after March 31, 1999, corporations are permitted to deduct unused scientific research and experimental development tax pools in determining taxable paid-up capital. The deduction applies to expenditures that are incurred by the corporation and which are deductible under the *Income Tax Act* (Canada), to the extent the expenses have not already been deducted for income tax purposes.

Eligible scientific research and experimental development expenditures are those expenditures defined in the *Income Tax Act* (Canada).

E. GOODWILL ALLOWANCE

Corporations may claim a deduction from paid-up capital for goodwill and other intangible items, reported as assets, provided the item is an eligible capital expenditure as defined in paragraph 14(5)(b) of the *Income Tax Act* or an item that would have been considered an eligible capital expenditure if the paragraph had been in force when the expenditure was made.

F. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

Saskatchewan Finance has made it possible for corporations to report and remit Corporation Capital Tax (CCT) instalment payments electronically through the use of a standard Internet connection. The Saskatchewan Electronic Tax Service (SETS) offers a secure, fast, easy and convenient alternative to filing instalments in a paper format.

Several E-File services are currently available through SETS such as:

- File and pay CCT instalment payments.
- File an instalment return and post-date the payment to the due date.
- View account balances for each fiscal year end.
- Authorize your accountant to file on your behalf.

Businesses may use SETS to file and pay returns for Provincial Sales Tax and other provincial taxes.

FOR FURTHER INFORMATION

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Information bulletins and publications are available on the Internet at:
www.gov.sk.ca/finance