



Information Bulletin

CT-3

Issued: April, 1988

Revised: March, 2003

THE CORPORATION CAPITAL TAX ACT

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READER SURVEY

CORPORATION CAPITAL TAX RESOURCE SURCHARGE

This bulletin has been prepared to help corporations determine the Corporation Capital Tax Resource Surcharge. It is a general guide and not a substitute for the legislation.

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

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

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A. DEFINITION OF A RESOURCE CORPORATION

Large resource corporations are subject to a Corporation Capital Tax Resource Surcharge. The Resource Surcharge equals the difference between 3.6% of the corporation's value of Saskatchewan resource sales and its existing Corporation Capital Tax liability.

The Resource Surcharge, for oil and gas corporations, equals the corporation's value of Saskatchewan resource sales multiplied by the applicable rate minus its existing Corporation Capital Tax liability. The resource surcharge rate is 2.0% for all oil and gas wells with a finished drilling date on or after October 1, 2002, and for incremental oil related to new or expanded enhanced oil recovery projects or waterflood projects having a commencement date on or after October 1, 2002. The resource surcharge rate for all other oil and gas wells is 3.6%.

The Corporation Capital Tax Resource Surcharge applies to any corporation which has a value of Saskatchewan resource sales and which has, or would have, a value for taxable paid-up capital in the fiscal year without claiming the deduction for deferred exploration and development expenses. Resource corporation includes any resource corporation which has assets in excess of \$100 million (including assets of all associated corporations). These corporations will be liable for the Resource Surcharge, except where the corporation and all the associated corporations have normal Corporation Capital Tax payable in excess of the Resource Surcharge.

For example, a resource corporation will compute its taxable paid-up capital as follows:

Paid-up Capital		\$50,000,000
Less: Standard Exemption	\$10,000,000	
Investment Allowance	\$20,000,000	
Deferred Exploration and Development Expenses	<u>\$30,000,000</u>	<u>\$60,000,000</u>
Taxable Paid-up Capital		Nil

In the above example, the corporation will not be liable for the existing Corporation Capital Tax. The corporation will, however, be subject to the Resource Surcharge as it would have a value for taxable paid-up capital (\$20,000,000) without claiming the deferred exploration and development expenses permitted in clause 9(1)(d) of *The Corporation Capital Tax Act*.

B. VALUE OF SASKATCHEWAN RESOURCE SALES

For the purposes of determining the Resource Surcharge, a corporation's value of Saskatchewan sales will be defined to include the following resources:

Oil and Natural Gas

Value of resource sales means:

- in the case of Crown oil and gas, the product of:
 - the volume of oil and gas produced during each month in a fiscal year that is subject to Crown royalties pursuant to *The Crown Minerals Act* and the regulations made pursuant to that Act; and
 - the well-head value that is applied to the volume of the oil and gas mentioned above in determining the amount of the Crown royalties payable pursuant to *The Crown Minerals Act* and regulations made pursuant to that Act.
- in the case of freehold oil and gas the product of:
 - the volume of oil and gas produced during each month in a fiscal year that is subject to freehold production taxes pursuant to *The Freehold Oil and Gas Production Tax Act* and the regulations made pursuant to that Act; and

the well-head value that is applied to the volume of the oil and gas mentioned above in determining the amount of the freehold production taxes payable pursuant to *The Freehold Oil and Gas Production Tax Act* and the regulations made pursuant to that Act.

Exemptions for Oil and Gas

Freehold oil and freehold gas as exempted pursuant to section 64 of *The Freehold Oil and Gas Production Tax Regulations, 1995* will not be included in the calculation of total monthly production.

Uranium

Value of resource sales means "gross sales" as determined pursuant to the provisions of Part III of the Crown Mineral Royalty Schedule, 1986 to *The Mineral Disposition Regulations, 1986*.

Coal

Value of resource sales means:

- in the case of Crown coal, the gross sales of Crown coal as determined pursuant to the provisions of Part II of the Crown Coal Royalty Schedule to *The Coal Disposition Regulations, 1988*. However, the ex-mine cost allowance as determined pursuant to section 5 of the schedule is not deducted in determining the gross sales of Crown coal;
- in the case of freehold coal, the net value of freehold coal as determined pursuant to section 4 of the First Schedule "Freehold Coal Production Tax" to *The Mineral Taxation Act, 1983*. However, the ex-mine cost allowance as determined pursuant to section 5 of this schedule is not to be deducted in determining the net value of freehold coal.

Potash

Value of resource sales means "gross revenue" as determined pursuant to section 5 of *The Potash Production Tax Regulations*.

C. VALUE OF RESOURCE SALES DEDUCTION

Small resource corporations may be entitled to an annual deduction of up to \$2,500,000 from the value of resource sales when calculating the Resource Surcharge.

Eligibility

Small resource corporations with gross assets of less than \$100 million may be entitled to a value of resource sales deduction. Gross assets are generally defined as the balance sheet value of total assets plus any amount written down and deducted from income or undivided profits, where the amount is not deductible under the *Income Tax Act* (Canada) or, if deductible, has not been deducted in computing taxable income for the fiscal year or a previous fiscal year. Gross assets also include reserves deducted pursuant to paragraph 20(1)(n) or subparagraphs 40(1)(a)(iii) or 44(1)(e)(iii) of the *Income Tax Act* (Canada).

Calculation

The value of resource sales deduction is to be deducted from the value of resource sales. The net value of resource sales will then be subject to the applicable Resource Surcharge rate.

The amount that a resource corporation may deduct from its value of resource sales is the lesser of:

- (a) its value of resource sales; and
- (b) the amount A calculated in accordance with the following formula:

$$A = \$2,500,000 \times \frac{B}{C} \times \frac{\text{number of days in fiscal year}}{365}$$

where:

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

D. DETERMINING TAX PAYABLE

The Corporation Capital Tax of a resource corporation equals the sum of the existing Corporation Capital Tax liability and the Resource Surcharge.

An example of the calculation of Corporation Capital Tax payable is calculated below.

Fiscal Year January 1, 2002 - December 31, 2002

- Normal Corporation Capital Tax liability for the fiscal year is \$75,000 (based on taxable paid-up capital allocated to Saskatchewan).
- Corporation Capital Tax Resource Surcharge based on a value of Saskatchewan resource sales \$3 million. The Resource Surcharge is determined as follows:

Resource Surcharge (\$3 million x 3.6%)	\$108,000
Less Capital Tax Payable	<u>75,000</u>
Resource Surcharge Payable	<u>\$ 33,000</u>

The Corporation Capital Tax liability will be \$108,000 which is the sum of the existing Corporation Capital Tax liability and the Resource Surcharge.

E. ELECTIVE DEDUCTIONS

Corporations have the option of deducting unused Canadian exploration and development expenses and the additional exemption in determining taxable paid-up capital.

Corporations have the option of deducting unused Canadian exploration and development expenses for fiscal years ending after March 31, 1999. They also have the option of deducting the additional exemption for fiscal years beginning on or after January 1, 2002.

For further information, please see Information Bulletin CT-2.

F. REPORTING REQUIREMENTS

Annual Returns

A corporation that has taxable paid-up capital or a corporation that is liable for the Resource Surcharge must file a Corporation Capital Tax return within six months of the close of the fiscal year. The return provides details of the calculation of the Resource Surcharge.

Instalment Payments

Corporations are required to make monthly instalments on or before the last day of the month during its fiscal year. If the monthly instalment payments amount to \$400 or less, a corporation is not required to remit monthly instalment payments but may pay the entire tax at the time of filing its return. Refer to Information Bulletin CT-4 for further details on the methods of determining instalments.

G. 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 Corporation Capital Tax 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