

SASKATCHEWAN ROYALTY TAX REBATE

This discussion of the Saskatchewan Royalty Tax Rebate was originally prepared by Saskatchewan Finance in July 1978, and most recently revised in October 2001. It was condensed from the Saskatchewan Royalty Tax Rebate Regulations and from the 1974 and 1975 Saskatchewan Royalty Tax Rebate for Individuals Remission Regulations. This description is intended as a guide only and is not a substitute for the Regulations.

BACKGROUND

The Saskatchewan Royalty Tax Rebate (RTR) was established in 1975 by an amendment to The Income Tax Act of Saskatchewan. The RTR was introduced in response to the federal government's November 18, 1974 Budget which announced that Crown royalties and similar taxes levied after May 6, 1974 could no longer be deducted as a business expense for income tax purposes.

Under the Canada-Saskatchewan Tax Collection Agreement, Saskatchewan's income tax system utilizes the federal definition of taxable income. As a result, the federal government's decision to make Crown royalties and similar taxes non-deductible also applied provincially. In order to ensure that Crown royalties and similar taxes continued to be deductible in the provincial income tax system, the Saskatchewan Royalty Tax Rebate came into effect on May 7, 1974.

In 1976, further amendments to The Income Tax Act of Saskatchewan were implemented. These amendments were designed to bring the Province's income tax system closer to the situation that existed prior to May 7, 1974 when Crown royalties and similar taxes were fully deductible.

Calculation of the Royalty Tax Rebate

The 1976 amendments to The Income Tax Act (Saskatchewan) and the introduction of the Saskatchewan Royalty Tax Rebate Regulations made four changes to the RTR for the 1976 and subsequent taxation years:

1. The calculation of "adjusted attributed Canadian royalties and taxes" takes into account the Resource Allowance permitted under paragraph 20(1)(v.1) of the Income Tax Act (Canada).
2. The application procedures for the RTR by individuals and corporations were brought into greater uniformity.
3. A "Depletion Adjustment Factor" was introduced to adjust for the higher maximum earned depletion allowed when Crown royalties and taxes became nondeductible for income tax purposes.

4. Royalty Tax Credits in excess of Saskatchewan income tax payable in the taxation year (before deduction of the Rebate and after the subtraction of any provincial foreign tax credits) may be carried forward to subsequent taxation years.

For the purposes of calculating their Royalty Tax Rebate for the year, corporations and individuals must make two deductions in determining their "adjusted attributed Canadian royalties and taxes".

1. Resource Allowance

The Resource Allowance, as specified by paragraph 20(1)(v.1) of the Income Tax Act (Canada), came into effect January 1, 1976. It is equal to 25 per cent of gross income after operating costs and capital cost allowances have been deducted. While it bears no direct relationship to Crown royalties and taxes actually paid, the Resource Allowance nevertheless provides a form of partial deductibility of Crown royalties and taxes for income tax purposes. By subtracting the Resource Allowance from the amount of Crown royalties and taxes for the calculation of the "adjusted attributed Canadian royalties and taxes", the difference is the amount of Crown royalties and taxes which remain non-deductible. The RTR, therefore, applies to the amount of non-deductible Crown royalties and taxes in excess of the Resource Allowance.

2. Depletion Adjustment Factor (DAF)

The Saskatchewan Royalty Tax Rebate is adjusted to account for the higher maximum earned depletion allowed when royalties and taxes became non-deductible for income tax purposes. Earned depletion may be claimed up to a maximum of 25 per cent of resource profits. Resource profits and hence, the maximum earned depletion which may be deducted in any taxation year differ when Crown royalties and taxes cannot be fully claimed as an expense. Consequently, Royalty Tax Rebate applicants are required to compare their actual earned depletion in a taxation year with the maximum earned depletion deduction that would have been permitted if all Crown royalties and taxes in excess of the Resource Allowance were deducted from resource profits.

The general formula for calculating the Depletion Adjustment Factor is:

$$\text{DAF} = D - (0.25)(P - R)$$

where DAF is the Depletion Adjustment Factor;

D is the earned depletion claimed by the taxpayer under section 65 of the Income Tax Act (Canada);

P is the taxpayer's resource profits; and,

R is the amount of non-deductible Crown royalties and taxes in excess of the Resource Allowance.

If the taxpayer's DAF is positive (that is, if the actual earned depletion deduction exceeds the maximum deduction that would have existed if Crown royalties and taxes were fully deductible) then the difference must be subtracted from the amount of Crown royalties and taxes in excess of the Resource Allowance for the calculation of the taxpayer's "adjusted attributed Canadian royalties and taxes" for the taxation year. If the DAF is zero or negative, no deduction is made.

Earned depletion claimed but disallowed for Saskatchewan income tax by the Depletion Adjustment Factor may be carried forward for deduction in future taxation years. When the taxpayer's DAF in a taxation year is greater than zero, the positive amount of the DAF may be accumulated in the Saskatchewan Depletion Adjustment Carryforward account.

When the DAF is less than zero, the negative DAF will reduce the balance in the taxpayer's Saskatchewan Depletion Adjustment Carryforward for the next taxation year. In addition, the taxpayer may add to non-deductible Crown royalties and taxes in the calculation of "adjusted attributed Canadian royalties and taxes" the lesser of the balance in the Saskatchewan Depletion Adjustment Carryforward in the preceding taxation year (that is, prior to the application of the current year's negative DAF) or the absolute value of the Depletion Adjustment Factor (that is, the positive magnitude of the DAF, disregarding that it is a negative number).

In summary, the "adjusted attributed Canadian royalties and taxes" of a taxpayer for a taxation year will equal:

- (a) those Crown royalties and taxes which may not be deducted as a business expense or which are included in income for tax purposes and which exceed the Resource Allowance for the year; plus
- (b) any amounts claimed, to the extent permitted by the DAF, from the taxpayer's Saskatchewan Depletion Adjustment Carryforward when his Depletion Adjustment Factor has a negative value; less

- (c) the taxpayer's Depletion Adjustment Factor when that Factor has a positive value.

An amount from the taxpayer's Saskatchewan Depletion Adjustment Carryforward may only be claimed in those years when the Depletion Adjustment Factor is zero or negative. In addition, if the taxpayer's "adjusted attributed Canadian royalties and taxes" resulting from this calculation is negative, it shall be regarded as equal to zero and the taxpayer will not be eligible for a Saskatchewan Royalty Tax Rebate in that year.

The taxpayer's "adjusted attributed Canadian royalties and taxes" is multiplied by percentage of income allocated to Saskatchewan (as determined under Parts IV and XXVI of the Regulations to the federal Income Tax Act). The effective provincial income tax rate for corporations and the provincial income tax rate times the federal adjusted basic tax rate for individuals will be applied to this result to obtain the taxpayer's available credit for the year. A schedule of federal adjusted basic tax rates based on revised taxable income (that is, taxable income less adjusted attributed Canadian royalties and taxes) appears under section 2(f) of the Saskatchewan Royalty Tax Rebate Regulations. An individual's available credit for the year may be adjusted in those cases where the income tax payable is reduced by the application of General Averaging.

In those cases where a taxpayer has no income in the year, the available credit for the year is determined by multiplying the percentage of income that would have been allocated to Saskatchewan, had income been greater than zero (that is, as determined under Parts IV and XXVI of the Regulations to the federal Income Tax Act) by the taxpayer's "adjusted attributed Canadian royalties and taxes". The effective provincial income tax rate for corporations and the provincial income tax rate times the federal adjusted basic tax rate for individuals will be applied to this result to obtain the available credit for the year.

The taxpayer's Royalty Tax Credit for the year is the sum of available credit for the year plus any Royalty Tax Rebate Carryforward from the preceding taxation year.

A taxpayer's Royalty Tax Rebate is the lesser of Royalty Tax Credit and provincial income tax otherwise payable (before deducting the RTR and after the subtraction of any provincial foreign tax credits) under The Income Tax Act (Saskatchewan). Any Royalty Tax Credits in excess of Saskatchewan income tax may be claimed as a Royalty Tax Rebate Carryforward for subsequent taxation years.

APPLICATION PROCEDURE

The Saskatchewan Royalty Tax Rebate for corporations is administered by Canada Customs and Revenue Agency (CCRA) as a deduction from income tax payable under The Income Tax Act (Saskatchewan). For all taxation years, corporations eligible for

the RTR must submit one copy of the Saskatchewan Royalty Tax Rebate Calculation Form for Corporations (Schedule 400) to their District Office of the CCRA. A second copy must be sent to Saskatchewan Finance, Taxation and Intergovernmental Affairs Branch, 9th Floor, 2350 Albert Street, Regina, Saskatchewan, S4P 4A6. Copies of Schedule 400 may be obtained from CCRA offices or from the CCRA website.

The Saskatchewan Royalty Tax Rebate for individuals is also administered by CCRA with similar application procedures as those for corporations. Copies of the Saskatchewan Royalty Tax Rebate Form for Individuals (T-82) may be obtained from CCRA offices or from the CCRA website.

For further information and forms, please contact:

Canada Customs and Revenue Agency
Toll Free: 1-800-959-8281

<http://www.ccra-ardc.gc.ca>

or

Saskatchewan Finance
Taxation and Intergovernmental Affairs Branch
2350 Albert Street
Regina, SK S4P 4A6

Regina area: 787-6722
Toll Free: 1-800-667-6102 (Option 2)

<http://www.gov.sk.ca/finance>

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