Canada Revenue Agency   Agence du revenu du Canada

Canada

T2 Corporation – Income Tax Guide

2006

More Ways to Serve You!

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The law allows Statistics Canada to access business taxpayer information collected by the Canada Revenue Agency (CRA). Statistics Canada can now share with provincial or territorial statistical agencies, for research and analysis purposes only, data concerning business activities carried out in their respective province or territory.

This guide uses plain language to explain the most common tax situations. If you need help after you read this guide, call our Business Enquiries line at **1-800-959-5525.**

La version française de cette publication est intitulée T4012, GUIDE T2 – DÉCLARATION DE REVENUS DES SOCIÉTÉS.

NOTE: In this publication, the text inserted between square brackets represents the regular print information.

What's new

My Business Account

MY BUSINESS ACCOUNT, CRA's new online service, provides convenient and secure access to a growing range of personalized business account information and services. In fall 2007, MY BUSINESS ACCOUNT will also offer access for third parties and a full range of business options.

Visit **www.cra.gc.ca/mybusinessaccount** to find out more about this exciting addition to our suite of electronic services for business.

Two-dimensional (2D) bar codes

Beginning in fall 2006, the newest versions of CRA-certified software will produce two-dimensional (2D) bar codes for computer-generated returns. The 2D bar codes will contain the identification information and financial data and will be printed on the first page of the T2 RSI, RETURN AND SCHEDULE INFORMATION. Corporations will still have to submit the complete T2 RSI and not just the first page containing the bar codes. When we receive the T2 RSI, we will retrieve the information from the 2D bar codes using a bar code scanner, instead of keying the information manually into our processing system. Scanning the 2D bar codes will ensure more accurate and efficient processing of the T2 CORPORATION INCOME TAX RETURN. See page 39 [10].

2006 federal, provincial and territorial budgets

Details about changes introduced in the 2006 federal and various provincial/territorial budgets are outlined with a dotted line [in red] in this guide.

Also outlined with a dotted line [in red] are the changes announced in prior years that have not become law yet.

Small business deduction

The small business deduction rate will be increased to 16.5%, effective January 1, 2008, and to 17%, effective January 1, 2009. See page 292 [53].

Business limit

The business limit will be increased from $300,000 to $400,000, effective January 1, 2007. See page 301 [54].

General tax reduction

The general tax reduction will be increased to 7.5%, effective January 1, 2008, to 8%, effective January 1, 2009, and to 9%, effective January 1, 2010.

For tax years that begin after May 1, 2006, corporations will benefit from the general tax reduction only on the taxable income that is subject to the general income tax rate of 38%.

See pages 306 [56] and 342 [63].

Corporate surtax

The corporate surtax will be eliminated for **all** corporations, effective January 1, 2008. See page 325 [60].

Investment tax credit expenditure limit

For tax years that end after 2006, the $2 million expenditure limit used in the calculation of a refundable investment tax credit (ITC) on qualifying expenditures for scientific research and experimental development (SR&ED) of a Canadian- controlled private corporation (CCPC) will begin to be reduced when the its taxable income for the previous tax year reaches $400,000 and will become nil at $600,000. See page 358 [66].

Carry-forward period for non-capital losses and investment tax credits

The carry-forward period for non-capital losses, farm losses, and restricted farm losses incurred and investment tax credits earned, in tax years ending after 2005, will be 20 years. See pages 237 [43] to 251 [45], and 355 [65].

Federal capital tax

The federal capital tax (Part I.3) on the taxable capital employed in Canada by large corporations will be zero percent, effective January 1, 2006. See pages 52 [13] and 376 [68].

Filing of a return by a large corporation

For the 2006 and subsequent tax years, if the taxable capital employed in Canada of a corporation and its related corporations is over $10 million, it will be required to file the required returns or it may be subject to a penalty. See page 52 [13].

Minimum tax on financial institutions

Effective July 1, 2006, the minimum tax (Part VI) on financial institutions will apply to taxable capital employed in Canada in excess of $1 billion. See page 392 [71].

Capital cost allowance

To qualify for the 100% capital cost allowance rate provided under Class 12, the cost limit of certain property such as small tools, kitchen utensils, and medical or dental instruments acquired after May 1, 2006, will be increased from $200 to $500. Electronic communication devices and electronic data processing equipment acquired after May 1, 2006, will be excluded from this class. See page 200 [38].

Eligibility for the new 50% rate in Class 43.2 will be extended to cogeneration systems that use a type of biomass referred to as "spent pulping liquor," used in the pulp and paper industry, acquired on or after November 14, 2005, that have not been used or acquired for use before that date. See page 181 [35].

Apprenticeship job creation tax credit

This is a new credit introduced to encourage employers to hire new apprentices in eligible trades. This measure will provide eligible employers with a non-refundable tax credit equal to 10% of the salaries and wages paid to qualifying apprentices after May 1, 2006, to a maximum credit of $2,000 per year, per apprentice. Where two or more related employers employ an apprentice, only one employer will be able to claim the $2,000 limit. The amount of the credit will be added to the corporation's investment tax credit pool and be available to reduce taxes payable for the tax year. An unused amount may be carried back 3 years and forward 20 years. See page 350 [64].

Eligible dividends

An eligible dividend will be any dividend paid after 2005 to a resident of Canada by a Canadian corporation that is designated by that corporation to be an eligible dividend. A corporation's capacity to pay eligible dividends will depend mostly on its status.

If a corporation is a Canadian-controlled private corporation (CCPC) or a deposit insurance corporation, it will be able to pay eligible dividends only to the extent of its taxable income that has not benefited from the small business deduction or any other special tax rate. A CCPC will be able to elect to forego the small business deduction in exchange for being able to pay eligible dividends without giving up any other benefits of CCPC status.

A corporation resident in Canada that is neither a CCPC nor a deposit insurance corporation will be able to pay eligible dividends in any amount unless it has any taxable income that benefited from the small business deduction. In this case, the corporation will have to reduce this taxable income by paying out regular dividends before it can pay an eligible dividend.

A penalty will apply (Part III.1 tax) if a corporation represents dividends as eligible dividends that exceed its capacity to pay such dividends. In the case of a CCPC, the penalty will apply on the eligible dividends that exceed its taxable income that has not benefited from the small business deduction. In the case of a non-CCPC, the penalty will apply to the eligible dividends that exceed its taxable income that has benefited from the small business deduction. The penalty will be equal to 20% of the excess eligible dividend.

The corporation will advise the dividend recipient that it is an eligible dividend in writing when the dividend is paid.

Donations of publicly listed securities and ecologically sensitive land

For gifts of certain securities and ecologically sensitive land made after May 1, 2006, the capital gains inclusion rate will be zero. See page 173 [33].

Non-deductibility of interest

For tax years beginning on or after April 1, 2007, interest charged under the *Excise Tax Act* (GST) and the *Air Travellers Security Charge Act* will no longer be deductible for income tax purposes. See page 149 [29].

Withholding of refunds and rebates

Effective April 1, 2007, the payment of refunds and rebates will be withheld until all required returns, of which the Minister of National Revenue has knowledge, have been filed. See page 522 [94].

Offset of credit amounts

Effective April 1, 2007, any refund the corporation may be entitled to will be automatically applied to any outstanding liabilities on the same or related Business Number account. Any difference will be refunded if all required returns for the account have been filed. See page 521 [93].

Prince Edward Island tax rate

The lower rate of Prince Edward Island tax will be gradually decreased to 1%, effective April 1, 2010. See page 422 [76].

Nova Scotia tax on large corporations

The Nova Scotia tax on large corporations will be completely eliminated by 2012. See page 427 [77].

Nova Scotia energy efficiency tax credit

Effective July 1, 2006, corporations will be able to earn a new non-refundable credit equal to 25% of eligible capital investments on renewable energy sources or energy efficiency investments. The credit claimed cannot exceed 50% of a large corporation's capital tax payable in a tax year. An unclaimed credit may be carried forward seven tax years. See page 430 [78].

Nova Scotia manufacturing and processing investment tax credit

Expenditures incurred after May 9, 2006, will not be eligible to be added to the capital cost of qualified property and an unused credit cannot be carried forward to a tax year ending after December 31, 2009. See page 433 [78].

Nova Scotia film industry tax credit

Effective July 1, 2006, if more than 50% of the production is made outside of the Halifax area, all the salaries on the production will be at the 40% tax credit rate instead of only the portion of salaries incurred in the prescribed geographic area. See page 435 [78].

New Brunswick tax rate

The higher rate of New Brunswick income tax will be reduced to 12%, effective January 1, 2007. See page 439 [79].

New Brunswick tax on large corporations

The New Brunswick tax on large corporations will be completely eliminated by 2009. See page 441 [79].

Manitoba tax rate

The higher rate of Manitoba income tax may be reduced to 13%, effective July 1, 2008. See page 449 [81].

Manitoba small business deduction rate

The small business deduction rate will change to 11%, effective January 1, 2007. See page 449 [81].

Manitoba manufacturing investment tax credit

This credit will be extended for another three years for qualified property acquired before July 1, 2009.

Qualified property that was classified as Class 43.1 and is now reclassified as Class 43.2, as a result of the 2005 federal budget, will continue to qualify for this credit. See page 451 [81].

Manitoba refundable manufacturing investment tax credit

The refundable portion of the investment tax credit that you are entitled to claim in a tax year will increase to 35% for a tax year ending after March 6, 2006. See page 453 [81].

Manitoba co-operative education tax credit (including the co–op graduates hiring incentive)

The credit earned for work placements that end after March 6, 2006, will become fully refundable, but must first be applied against total taxes payable. The carry-back and carry-forward provisions will no longer apply on a credit earned after March 6, 2006.

In addition, Manitoba introduced the co-op graduates hiring incentive as part of this credit. An employer can claim this credit for hiring co-op graduates in full-time employment in Manitoba and retaining them for at least one year. The students must have graduated after March 6, 2006, and before 2009, from a recognized post-secondary co-operative education program in a field related to the employment. This credit is fully refundable.

A corporation that is exempt under section 149 of the federal INCOME TAX ACT will be eligible to claim this credit.

See page 455 [82].

Manitoba odour-control tax credit

This credit will be extended to eligible expenditures made before January 1, 2010.

For 2006 and later tax years, anaerobic digesters will be eligible capital property for this credit. Also, corporations will be able to earn this credit if odour control is a significant, but not necessarily the primary, purpose for acquiring the eligible capital property.

Agricultural corporations will be eligible for a new refundable portion of the odour-control tax credit. The maximum refund that a corporation can claim is the lesser of, the tax credit which exceeds the credit claimed in the current year; and the property tax paid net of government assistance received or receivable on Manitoba farmland used by the corporation in the business of farming, for the calendar year that ended in a tax year after March 6, 2006.

See page 458 [82].

Multi-tiered partnerships (Manitoba)

A corporation that is a member of a tiered partnership will be eligible for the Manitoba investment tax credit, research and development tax credit, and the odour-control tax credit on the eligible expenditures incurred by the tiered partnership.

Saskatchewan tax rate

Effective July 1, 2006, the lower rate of Saskatchewan income tax will be reduced to 4.5%.

The higher rate of Saskatchewan income tax will gradually decrease to 12%, effective July 1, 2008. See page 463 [83].

Saskatchewan business limit

The Saskatchewan business limit will gradually increase to $500,000, effective July 1, 2008. See page 463 [83].

Saskatchewan manufacturing and processing profits tax reduction

This reduction will gradually decrease to 2%, effective July 1, 2008. See page 466 [84].

Saskatchewan manufacturing and processing tax credit

This credit is no longer available. Line 629 on Schedule 5, TAX CALCULATION SUPPLEMENTARY – CORPORATIONS, has been removed.

Saskatchewan manufacturing and processing investment tax credit

The credit earned on qualified property acquired after April 6, 2006,will be fully refundable, but must first be applied against total taxes payable.

The credit earned on qualified property acquired after October 27, 2006 will be reduced to 5%.

Any unused non-refundable credits that have not expired prior to April 7, 2006, may be carried forward ten years.

See page 468 [84].

Saskatchewan royalty tax rebate

The Saskatchewan royalty tax rebate will be phased out. Effective January 1, 2007, the carry-forward period for any outstanding royalty tax rebate balances will be limited to seven years. See page 471 [84].

Saskatchewan qualifying environmental trust tax credit

This tax credit will gradually decrease to 12% effective July 1, 2008. See page 471 [85].

British Columbia two-year tax holiday for new small businesses

This credit is no longer available. Lines 879 and 655 on Schedule 5, TAX CALCULATION SUPPLEMENTARY – CORPORATIONS, have been removed.

British Columbia royalty and deemed income rebate

British Columbia intends to eliminate its royalty and deemed income rebate and harmonize with the federal taxation of the resource sector, effective for tax years starting after 2006. See page 476 [85].

British Columbia film and television tax credit

The additional basic tax credit will be extended to productions that start principal photography before April 1, 2008.

Effective February 22, 2006, the definition of "designated Vancouver area" will be changed for the purpose of determining the regional tax credit. The change will include Pitt Meadows for the regional credit by moving the eastern boundary of the designated Vancouver area. See page 484 [87].

British Columbia production services tax credit

The additional production services tax credit will be extended to productions that start principal photography before June 1, 2008.

Effective February 22, 2006, the definition of "designated Vancouver area" will be changed for the purpose of determining the regional tax credit. The change will include Pitt Meadows for the regional credit by moving the eastern boundary of the designated Vancouver area. See page 491 [88].

Yukon mineral exploration tax credit

For expenses incurred between April 1, 2006 and March 31, 2007, the maximum credit payable will be $300,000. See page 501 [90].

Northwest Territories tax rate

The higher rate of Northwest Territories income tax will be reduced to 11.5%, effective July 1 2006. See page 504 [90].

Do you have an income tax problem?

If you have a problem, you can call 1-800-959-5525 for service in English and 1-800-959-7775 for service in French.

If your problem is not resolved to your satisfaction, call the Problem Resolution Program co-ordinator listed in the government section of your telephone book.

If you have an income tax problem relating to a return for a non-resident corporation, call the International Tax Services Office at one of the telephone numbers listed under the heading "Non-resident corporations" on page 45 [11].

Your opinion counts

We review this guide each year. If you have any comments or suggestions to help us improve our publications, we would like to hear from you.

Please send your comments to:

Taxpayer Services Directorate
Canada Revenue Agency
750 Heron Road
Ottawa ON K1A 0L5

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* See the first page of each chapter for more detailed content listings.

Before you start

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This guide

In this guide, we give you basic information on how to complete the T2 CORPORATION INCOME TAX RETURN. This return is used to calculate federal income tax and credits. Corporations that have a permanent establishment (see page 400 [72]) in any province or territory other than Quebec, Ontario, or Alberta also use this return to calculate provincial and/or territorial income taxes and credits. Corporations with a permanent establishment in Quebec, Ontario, or Alberta must file a separate provincial return.

When we mention parts, sections, subsections, paragraphs, and subparagraphs, we are referring to the INCOME TAX ACT AND REGULATIONS of Canada, unless otherwise specified. This guide does not replace the INCOME TAX ACT and its regulations.

We also refer to information circulars (ICs) and interpretation bulletins (ITs) that we publish to give you more technical information.

Many of our publications, including forms, schedules, ICs, and ITs, are available on our Web site at **www.cra.gc.ca/forms.** You can also get printed versions by calling 1-800-959-2221. A table at the end of this guide lists the forms by number.

Canadian Agricultural Income Stabilization (CAIS) Program

The Canada Revenue Agency (CRA) is not involved in administering the CAIS program for corporations. For more information on CAIS, please visit **www.agr.gc.ca/caisprogram.**

Our service pledge

The CRA will process 90% of T2 corporation income tax returns within 60 days.

Who has to file a T2 return?

Resident corporations

All corporations – including non-profit organizations, tax-exempt corporations, and inactive corporations – have to file a T2 return for every tax year, even if there is no tax payable. The only exception to this rule is a corporation that was a registered charity throughout the year.

Non-resident corporations

A non-resident corporation may be subject to Canadian income tax if, at any time in the year, one of the following situations applies:

- it carried on business in Canada;
- it had a taxable capital gain; or
- it disposed of taxable Canadian property.

A non-resident corporation has to file a return in a number of situations, including:

- when it has to pay Part I tax in the current year or would have to pay it except for a tax treaty;
- when it has made an election to pay Part I tax on the net amount of timber royalty income or rental income from real property under subsection 216(4);
- when a corporation is subject to tax under Part XIV (known as branch tax); or

- when it has made an election to pay Part I tax on the net amount of acting services under subsection 216.1(1).

This requirement applies even if any profits or gain(s) realized are claimed by the corporation to be exempt from Canadian income tax due to the provisions of a tax treaty.

The meaning of "business" is defined in section 248 and the extended meaning of "carrying on business [in Canada]" is defined in section 253.

The references to taxable capital gain do not include any gain resulting from the disposition of shares that are listed on a prescribed stock exchange (other than taxable Canadian property).

Non-resident corporations claiming treaty exemption

If you carried on a "treaty-protected business" in Canada, had a taxable capital gain, or disposed of a "taxable Canadian property" that was "treaty-protected property" during the year (as defined in section 248), you have to complete the following lines on your return:

- lines 001 to 082 of pages 2 to 8 [1];

- lines 164, 170, and 171 of pages 11 to 13 [2];
- lines 280 to 289 of pages 19 and 20 [3]; and
- lines 780 to 990, if applicable, of pages 46 to 51 [8].

For each of the questions asked at lines 164, 170, and 171 on pages 11 to 13 [2] of the return to which your response is YES, complete the appropriate form or schedule and attach it to your return. In addition, you have to complete Schedule 91, INFORMATION CONCERNING CLAIMS FOR TREATY-BASED EXEMPTIONS.

Services rendered in Canada (withholding amount)

A non-resident corporation is subject to a 15% withholding under Regulation 105 on any fee or other amount paid to it for services rendered in Canada (regardless of whether the services are provided by an employee of the corporation or are sub-contracted to another party). This withholding is held on account of any potential tax liability that the corporation may have to Canada. The corporation's tax liability is determined upon the assessment of its Canadian income tax return.

However, instead of the withholding under Regulation 105, a corporation related to a non-resident actor is subject to a 23% withholding tax under Part XIII on all amounts received for the provision in Canada of the acting services of the actor in a film or video production. This withholding tax represents the final tax liability for these acting services. The corporation may elect not to be taxed under Part XIII at the 23% rate by filing, for the year, a return of income under Part I.

A non-resident corporation that has received a waiver of this withholding tax from the CRA still has to file a return.

Dispositions of taxable Canadian property (certificates of compliance)

A non-resident corporation that disposes of taxable Canadian property must notify the CRA and get a certificate of compliance under section 116. For details, see IC 72-17, PROCEDURES CONCERNING THE DISPOSITION OF TAXABLE CANADIAN PROPERTY BY NON-RESIDENTS OF CANADA – SECTION 116.

A non-resident corporation that has a taxable capital gain or disposed of taxable Canadian property, including a corporation that may have received a certificate of compliance from the CRA, has to file a return.

In what format can you file your return?

Corporation Internet Filing

Most corporations can file their return electronically using the Internet. You must use CRA-approved software that has been certified for Corporation Internet Filing. For information on your eligibility, available software, and more, visit our Web site at **www.cra.gc.ca/corporation-internet.**

You can also use one of three formats to file your paper return by mail or in person.

Using our preprinted returns

We print two different returns.

T2 Corporation Income Tax Return

The T2 CORPORATION INCOME TAX RETURN has fifty one [eight] pages. Any corporation can use it.

T2 Short Return

The T2 SHORT RETURN is three [two] pages plus a Schedule 1, a Schedule 8, and a Schedule 50. It is a simpler version of the T2 CORPORATION INCOME TAX RETURN. Two categories of corporations are eligible to use this return:

1. You can use this return if the corporation meets **all** of the following conditions:
   - it is a Canadian-controlled private corporation (CCPC);
   - this year, it has either a nil net income or a loss for income tax purposes;
   - it has a permanent establishment in only one province or territory (see page 400 [72]);

- it is not claiming any refundable tax credits (other than a refund of instalments it paid); and
- it did not receive or pay out any taxable dividends.

2. You can also use this return if the corporation is a tax-exempt corporation (such as a non-profit organization) that has a permanent establishment in only one province or territory.

If the corporation does not fit into either of the above categories, you have to file a regular T2 return.

Using T2 RSI, Return and Schedule Information

If you are filing your return in the T2 RSI format, you must use certified software. We certify software to ensure that it meets our specifications. Only CRA-certified software generates the T2 RSI in an acceptable format.

Beginning in fall 2006, the newest versions of CRA-certified software will produce two-dimensional (2D) bar codes on the first page of the T2 RSI. These 2D bar codes will contain the identification information and financial data needed to assess your return. We will use bar code scanners to capture the information into our processing systems. However, you will still have to submit the complete T2 RSI and not just the first page containing the bar codes.

The paper quality and print legibility of your T2 RSI have to meet our standards. You have to print your T2 RSI on paper that is as durable as the 32M paper we use to print our forms. The print quality has to be clear and dark enough to read and photocopy easily. As well, the T2 RSI has to be printed on separate pages and on one side only.

If the T2 RSI you file was not generated by software that we certified or does not meet our requirements, we will send it back to you to re-file the return, either in an approved format or using our preprinted forms.

Generally, in addition to the T2 RSI, certified software produces a client copy of the T2 return, which looks like a CRA pre-printed T2 return. Keep the client copy for your files and send the T2 RSI to us.

Using facsimile returns

The T2 facsimile return (which is not to be confused with a client's copy produced by an approved T2 software) is an exact copy of our pre-printed T2 return. These returns have to meet our standards of format, legibility, and paper quality. However, you can print them on separate pages, instead of on the back and the front of each sheet.

Reference

IC 97-2, CUSTOMIZED FORMS (only available electronically)

When do you have to file your return?

File your return within six months of the end of each tax year. The tax year of a corporation is its fiscal period.

When the corporation's tax year ends on the last day of a month, file the return by the **last** day of the sixth month after the end of the tax year.

When the last day of the tax year is not the last day of a month, file the return by the **same** day of the sixth month after the end of the tax year.

Examples

Tax year-end	Filing deadline
March 31	September 30
June 30	December 31
August 31	February 28
September 23	March 23
October 2	April 2

When the T2 filing deadline falls on a Saturday, Sunday, or statutory holiday, we will consider the return filed on time if you deliver, mail, or transmit it on the first business day after the filing deadline.

If you hand-deliver your return to a tax services office or tax centre, we will date-stamp it and consider it filed on that day.

If you either mail your return first-class or use an equivalent delivery service, we consider the date of the postmark when determining if it was filed on time.

Penalties may apply if you file your return late. See page 51 [12] for details.

Note

You must file a return no later than three years after the end of a tax year to receive a tax refund.

Where do you file your return?

Where you file your paper return depends on where the corporation is located.

Resident corporations

Deliver your return to your tax services office, or mail it to one of the following tax centres:

Corporations served by tax services offices in:	Tax centre
British Columbia, Yukon, Regina	Tax Centre Surrey BC V3T 5E1

Corporations served by tax services offices in:	Tax centre
Alberta, Manitoba, Northwest Territories, Saskatoon, London, Windsor, and Thunder Bay	Tax Centre Winnipeg MB R3C 3M2
Sudbury/Nickel Belt, Toronto Centre, Toronto East, Toronto West, Toronto North, and Barrie	Tax Services Office/Tax Centre Sudbury ON P3A 5C1
Montréal, Laval, Ottawa, Sherbrooke, Rouyn-Noranda, North-Eastern Ontario, and Nunavut	Tax Centre Shawinigan-Sud QC G9N 7S6
Québec, Chicoutimi, Rimouski, Trois-Rivières, Outaouais, and Montérégie-Rive-Sud	Tax Centre Jonquière QC G7S 5J1

Corporations served by tax services offices in:	**Tax centre**
Nova Scotia, New Brunswick, Newfoundland and Labrador, Kingston, Peterborough, and St. Catharines	Tax Centre St. John's NL A1B 3Z1
Prince Edward Island, Belleville, Hamilton, and Kitchener/Waterloo	Tax Centre Summerside PE C1N 6A2

Non-resident corporations

The International Tax Services Office in Ottawa assesses and reassesses returns that non-resident corporations file. If the corporation is non-resident, send the returns and related correspondence to:

International Tax Services Office
2204 Walkley Road
Ottawa ON K1A 1A8

If you have questions about non-resident returns, visit our Web site at **www.cra.gc.ca/tax/nonresidents/business** or call the International Tax Services Office at one of the following telephone numbers:

Long distance from Canada and the United States	1-800-561-7761, ext. 9144
Long distance from outside Canada and the United States	613-954-9681*
Fax number	613-952-3845

* We accept collect calls.

Film and television production industry

Film Services Units provide services to Canadian and non-resident corporations claiming film tax credits, and to non-resident corporations providing services in Canada in the film and television production industry. For more information, including the location and contact numbers for the Film Services Unit serving your area, see our Web site at **www.cra.gc.ca/tax/nonresidents/film/menu-e.html.**

Note

Your return may be an election to file a Canadian return under section 216.1. If so, send your return to the applicable Film Services Unit. Write "Actor's election" at the top of page 1 of the return.

When do corporations pay income tax?

Corporations have to pay income tax in monthly instalments when the total of Part I, Part I.3, Part VI, Part VI.1, and Part XIII.1 taxes payable for either the previous year or the current year is more than $1,000.

The balance of tax the corporation owes for a tax year is due within either two or three months of the end of that tax year, depending on the circumstances of the corporation.

Interest and penalties apply to late payments. To be on time, you have to make instalment payments and other payments on or before the due date either by mailing a cheque payable to the Receiver General for Canada, or by paying directly through a Canadian financial institution. You may be able to make arrangements with your financial institution to make your payments electronically. Visit our

Web site at **www.cra.gc.ca/eservices/payments** or contact your financial institution for more information.

We consider the payment to have been made on the day we receive it, and not on the day you mail it. Your payment due date may fall on a Saturday, Sunday, or a statutory holiday. If so, we will consider the payment as being received on time for calculating instalment interest and penalty if we receive the payment on the first business day after the due date.

Note

Sometimes, interest and penalties on late payments can be waived or cancelled. For more information, see "Waiving penalties and interest" on page 58 [13].

Instalment due dates

Instalment payments for Parts I, I.3, VI, VI.1, and XIII.1 tax are due on the last day of every complete month of a corporation's tax year. The first payment is due one month minus a day from the starting date of the corporation's tax year. The rest of the payments are due on the same day of each month that follows.

Balance due date

Generally, all corporation taxes (with the exception of Part III and Part XII.6) are due **two** months after the end of the tax year. However, the tax is due **three** months after the end of the tax year if the following conditions apply:

- the corporation is a CCPC throughout the tax year;
- the corporation claims the small business deduction for the tax year, or was allowed the small business deduction in the previous tax year; **and either**
- the corporation's taxable income for the previous tax year does not exceed its business limit for that tax year (if the corporation **is not associated** with any other corporation during the tax year); **or**
- the total of the taxable incomes of **all** the associated corporations for their last tax year ending in the previous calendar year does not exceed the total of their business limits for those tax years (if the corporation **is associated** with any other corporation during the tax year).

The business limits are provided at "Line 410 – Business limit" on page 301 [54]. For more information about allocating the business limit among associated corporations, see Schedule 23 on page 113 [23].

Note

For determining balance due dates, the taxable income for the preceding year of corporations and associated, subsidiary, and predecessor corporations means taxable income before applying loss carrybacks.

Special rules apply to determine the **balance due date** of a new corporation formed after an amalgamation or of a parent corporation after it receives the assets of a subsidiary corporation that is winding-up. For more information, visit **www.cra.gc.ca/tax/business/topics/corporations/payments** or see Guide T7B Corp, CORPORATION INSTALMENT GUIDE.

References

Sections 125 and 157

Penalties

What happens if you file your return late?

If you file your return late, a penalty applies. The penalty is **5%** of the unpaid tax that is due on the filing deadline, **plus 1%** of this unpaid tax for each complete month that the return is late, up to a maximum of **12** months.

The corporation will be charged an even larger penalty if we issued a demand to file the return under subsection 150(2), and if we assessed a failure to file penalty for the corporation in any of the three previous tax years. The penalty is **10%** of the unpaid tax when the return was due, **plus 2%** of this unpaid tax for each complete month that the return is late, up to a maximum of **20** months.

References

Subsections 162(1) and 162(2)

Non-resident corporations

A non-resident corporation can be subject to an alternative failure to file penalty calculation equal to whichever is greater:

- $100; or
- $25 for each complete day that the return is late, up to a maximum of **100** days.

This penalty applies if the amount calculated is more than the amount of penalty usually applied under subsections 162(1) and (2), as discussed on page 51 [above].

Reference

Subsection 162(2.1)

Large corporations

A penalty may apply to large corporations that have gross Part I.3 tax, large corporation tax for the provinces of Nova Scotia and New Brunswick, or Part VI tax payable. The penalty applies if they do not file, as required, the following:

- T2 Corporation Income Tax Return;
- Schedule 33, Part I.3 Tax on Large Corporations;
- Schedule 34, Part I.3 Tax on Financial Institutions;

- Schedule 35, Part I.3 Tax on Large Insurance Corporations;
- Schedule 38, Part VI Tax on Capital of Financial Institutions;
- Schedule 342, Nova Scotia Tax on Large Corporations; and
- Schedule 361, New Brunswick Tax on Large Corporations.

The penalty is **0.25%** of the combined amount that is payable under the large corporations schedules listed above for each complete month that the return is late, up to a maximum of **40** months. This penalty applies separately for each late-filed schedule, in addition to any other penalty.

Part I.3 tax will be zero percent, effective January 1, 2006.

For the 2006 and subsequent tax years, a large corporation will be required to file the T2 CORPORATION INCOME TAX RETURN and, if applicable, a Schedule 38, PART VI TAX ON CAPITAL OF FINANCIAL INSTITUTIONS. If a corporation fails to file these returns, a penalty will be charged for each complete month that the returns are late, up to a maximum of 40 months. The penalty will be calculated as follows:

- 0.0005% of the corporation's taxable capital employed in Canada at the end of tax year; and
- 0.25% of the Part VI tax payable by the corporation (before the deductions in subsection 190.1(3).

A corporation will be required to identify itself as a large corporation by answering YES to the question at line 233 on page 16 [2] of the return and filing the applicable Part I.3 return.

Notes

A corporation is a large corporation if the total taxable capital employed in Canada at the end of the tax year by it and its related corporations is over $10 million.

A corporation with a permanent establishment in either Nova Scotia or New Brunswick that is a "large corporation" as defined under provincial legislation, is required to file either a Schedule 342, NOVA SCOTIA TAX ON LARGE CORPORATIONS or a Schedule 361, NEW BRUNSWICK TAX ON LARGE CORPORATIONS. See "Nova Scotia tax on large corporations" on page 427 [77] or "New Brunswick tax on large corporations" on page 441 [79].

Reference

Section 235

What happens if you do not report income?

A penalty will be charged if a corporation does not report an amount of income on its return for a tax year, and if it failed to report income in any of the three previous tax years. The penalty is **10%** of the amount of unreported income in the year that is subject to the penalty.

Reference

Subsection 163(1)

False statements or omissions

A penalty will be charged if a corporation, either knowingly or under circumstances of gross negligence, makes a false statement or omission on a return. The penalty is the greater of either **$100** or **50%** of the amount of understated tax.

Reference

Subsection 163(2)

Note

If a corporation is charged a penalty for making a false statement or omission under subsection 163(2), the corporation cannot be charged a penalty on the same amount for failing to report income under subsection 163(1).

Misrepresentation in tax matters by a third party

A penalty will be charged if a person counsels or assists another person in filing a false return or knowingly allows a taxpayer to submit false tax information.

References

IC 01-1, THIRD-PARTY CIVIL PENALTIES

Section 163.2

Other penalties

A corporation can also be charged penalties for:

- not providing information on an authorized form;

- not filing Form T106, Information Return of Non-Arm's Length Transactions With Non-Residents (see page 129 [26]);
- not filing the T5013 Summary, Partnership Information Return (see page 125 [25]);
- not filing Form T1134-A, Information Return Relating to Foreign Affiliates that are not Controlled Foreign Affiliates, Form T1134-B, Information Return Relating to Controlled Foreign Affiliates, Form T1135, Foreign Income Verification Statement, Form T1141, Information Return in Respect of Transfers or Loans to a Non-Resident Trust, and Form T1142, Information Return in Respect of Distributions From and Indebtedness to a Non-Resident Trust (see "Foreign Property" on page 131 [26]); or
- late or incomplete instalment payments.

References

Sections 162 and 163.1

Waiving penalties and interest

Sometimes, failure to file penalties or interest charges may be waived if the reason for filing late or not paying an amount when it is due may be beyond the taxpayer's control. The types of situations in which a penalty or interest charge may be waived include:

- natural or human-made disasters, such as floods or fires;
- civil disturbances or disruptions in services, such as postal strikes;
- serious illness or accident suffered by the person who is responsible for filing the corporation's return; and
- the corporation receiving the wrong information, either in a letter from us or in one of our publications.

If your corporation is in one of these situations, let us know about the problem and try to file your return and pay any amount of tax owing as soon as possible. If you need an extension for filing a return because of extraordinary circumstances, or if you think there is a valid reason for cancelling a penalty or interest charge, send us a letter explaining why it was impossible for you to file your return or make the payment on time.

Requests to waive or cancel penalties or interest made in a calendar year after 2004 will only be considered for a tax year that ended 10 calendar years or less before the calendar year of the request.

References

Subsection 220(3.1)

IC 92-2, GUIDELINES FOR THE CANCELLATION AND WAIVER OF INTEREST AND PENALTIES

Voluntary disclosures program

Under the Voluntary disclosures program, you can correct inaccurate information or disclose previously omitted information. You will not be penalized or prosecuted if you make a full disclosure before we start any enforcement action or investigation against you. You will only have to pay the taxes owing plus interest.

For more details get Information Circular 00-1, VOLUNTARY DISCLOSURES PROGRAM (INCOME TAX ACT), or call the Voluntary disclosures officer in the Enforcement Division of your tax services office. If you wish, you can discuss your situation first on a no-name or hypothetical basis.

For more information about fairness and clients' rights, visit our Web site at **www.cra.gc.ca/fairness.**

Reference

IC 00-1, VOLUNTARY DISCLOSURES PROGRAM

What happens after you have filed your return?

After we receive your return, we send it to Corporation Services of the responsible tax centre for processing. A list of the tax centres can be found on page 43 [11].

When we assess the return, we mail the corporation a NOTICE OF ASSESSMENT and, if necessary, an explanation of any changes we made to the return.

As soon as you receive the assessment notice, compare it to your copy of the corporation's return. Contact us if you need us to clarify or explain any part of the assessment.

How to authorize the release of information to third parties

If you would like us to release details about any T2 return or other returns to an independent representative, such as an accountant, you can either send us a signed letter of authorization, or complete Form RC59, BUSINESS CONSENT FORM.

If you choose to write a letter of authorization, specify the tax year and the person or people authorized to receive the information. To cancel an authorization that was previously given, notify us in writing immediately.

If you choose to use Form RC59, you can get it from our Web site at **www.cra.gc.ca/forms,** or by calling 1-800-959-2221. You can use this form to give an authorization, to cancel one that you previously granted, or to change the information currently on file with us.

You have to submit a separate authorization each time you give or cancel a third-party authorization.

When can we reassess your return?

Within certain time limits, we can reassess your return or make additional assessments of tax, interest, and penalties. These time limits vary, depending on the type of corporation and the nature of the reassessment.

Normal reassessment period

We can usually reassess a return for a tax year:

- within **three** years of the date we mailed the original NOTICE OF ASSESSMENT for the tax year, if the corporation was a CCPC at the end of the year; **or**
- within **four** years of the date we mailed the original NOTICE OF ASSESSMENT for the tax year, if the corporation **was not** a CCPC at the end of the year.

Extended reassessment period

The normal reassessment period can be extended for an extra three years for any of the following reasons:

- if you want to carry back a loss or credit from a later tax year;
- when a non-arm's length transaction involving the corporation and a non-resident affects the corporation's tax;
- if the corporation pays an amount or receives a refund of foreign income or profits tax;
- when a reassessment of another taxpayer's tax for any of the above reasons affects the corporation's tax;
- if a reassessment of another tax year (it must be a prior tax year if the reassessment relates to a loss or credit carryback) for any of the above reasons affects the corporation's tax; or
- if the reassessment results from a non-resident corporation's allocation of revenue or expenses for the Canadian business or from a notional transaction, such as "branch advance," between the non-resident corporation and its Canadian business.

Unlimited reassessment period

We can reassess a return **at any time** if:

- the corporation has made a misrepresentation because of neglect, carelessness, wilful default, or fraud in either filing the return or supplying information required by the INCOME TAX ACT;
- the corporation filed Form T2029, WAIVER IN RESPECT OF THE NORMAL REASSESSMENT PERIOD, with a tax services office before the normal reassessment period expires;
- the reassessment is a carryback of losses or certain tax credits and deductions where a prescribed form requesting the amendment has been filed on time; or
- a court instructs us to reassess.

Note

If you want to revoke a waiver that was previously filed to extend the normal reassessment period for a certain tax year, file Form T652, NOTICE OF REVOCATION OF WAIVER, at your tax services office. The revocation will take effect six months after you file Form T652.

References

Subsections 152(3.1), 152(4), and 152(4.1)

IC 75-7, REASSESSMENT OF A RETURN OF INCOME

How to request a reassessment

Send reassessment requests to the tax centre that serves the corporation. In your request, state the name of the corporation, the Business Number, the tax year, and any details that apply. Include any relevant supporting information, such as revised financial statements and schedules.

To request a carryback of a loss or tax credit to a prior tax year, file whichever of the following schedules apply:

- Schedule 4, Corporation Loss Continuity and Application, to request the carryback of a loss;
- Schedule 21, Federal Foreign Income Tax Credits and Federal Logging Tax Credit, to request a carryback to previous years of foreign tax credits on business income;

- Schedule 31, Investment Tax Credit – Corporations, to request the carryback of an investment tax credit;
- Schedule 37, Calculation of Unused Surtax Credit, to request the carryback of surtax credit; and
- Schedule 42, Calculation of Unused Part I Tax Credit, to request the carryback of Part I tax credit.

You can file these schedules with the return on which you report the loss or earned the credit, or you can forward them separately to the tax centre that serves the corporation.

Reference

Subsection 152(6)

What should you do if you disagree?

You can make a formal objection if you disagree with the amount of tax, interest, or penalties we have assessed or reassessed. You can make an objection by filing Form T400A, OBJECTION – INCOME TAX ACT, or by sending a letter to the Chief of Appeals at your tax services office or tax centre. In the letter, explain the reasons for the objection, and outline all the relevant facts. You have **90** days from the date of the assessment or reassessment to file the objection or send the letter.

For a large corporation, the notice of objection has to:

- reasonably describe each issue;
- specify the relief you are seeking, expressed as the amount of a change in the income, taxable income, loss, taxes payable, refundable amounts, and overpayments or balance of unclaimed outlays, expenses, or other amounts of the corporation; and
- provide facts and reasons the corporation relied on for each issue.

Once we receive the objection, an appeals officer at the tax services office or tax centre will impartially review the assessment or reassessment in dispute. The appeals officer will then contact the corporation or its authorized representative to discuss the differences and to try to resolve the dispute.

If the differences in how we interpreted or applied the law are not resolved, the corporation can then appeal the assessment or reassessment to the Tax Court of Canada.

You do not have to pay the disputed amount of tax, interest, or penalty while you are waiting for the outcome of the CRA's or the Tax Court of Canada's impartial review. However, once the objection or appeal is settled, normal interest charges will apply to any tax, interest, or penalties outstanding. Interest charges are calculated from the balance due date.

Reference

Section 165

A corporation that objects to an assessment will have to pay **50%** of the disputed amount if either it or a related corporation was liable for the large corporations tax under Part I.3 for the year in dispute. The corporation also has to pay the full amount of taxes not in dispute.

Reference

Subsection 225.1(7)

Appealing loss determinations

The objection and appeal process does not usually apply to loss amounts under dispute, because there is no tax, interest, or penalty involved.

However, if a corporation does not agree with losses that we have assessed and wants to appeal, it has to request a loss determination. We officially determine the amount of the loss and confirm it in writing by issuing Form T67AM, NOTICE OF DETERMINATION/REDETERMINATION OF A LOSS. Once the corporation has received this form, it can appeal our loss determination.

If the corporation asks, we will make determinations of the following amounts:

- a non-capital loss;
- a net capital loss;
- a restricted farm loss;
- a farm loss; or
- a limited partnership loss.

Send any requests for loss determinations to your tax services office or tax centre.

References

Subsections 152(1.1) and 152(1.2)

IT-512, DETERMINATION AND REDETERMINATION OF LOSSES

Keeping records

Keep your paper and electronic records for a period of six years from the end of the last tax year to which they relate. However, if you want to destroy them before the period is over, complete Form T137, REQUEST FOR DESTRUCTION OF RECORDS.

For more information, see Guide RC4409, KEEPING RECORDS, which is available only on the Internet.

References

Subsections 230(4), 230(4.1), 230(5), and 230(6)

Regulation 5800

IC 78-10, BOOKS AND RECORDS RETENTION/DESTRUCTION

RC4409, KEEPING RECORDS (only available electronically)

Chapter 1 – Page 1 of the T2 return

Identification

Accurately complete pages 1 to 9 [1] of your return, so we can properly identify the corporation and process the return more quickly.

Line 001 – Business Number (BN)

The Business Number (BN) is a 15-character number composed of three parts. The first nine digits identify your business. The "RC" identifies the corporation income tax program. The last four digits identify the particular program account.

On **line 001,** enter your BN for income tax purposes. Enter "0001" as the program account identifier unless we have advised you to use a different one. You will find the corporation's BN on previous notices of assessment, account statements, or remittance forms.

Note

If you are a non-resident corporation requiring a BN, see Guide RC2, THE BUSINESS NUMBER AND YOUR CANADA REVENUE AGENCY ACCOUNTS, on our Web site at **www.cra.gc.ca.**

Lines 002 to 004 – Corporation's name

Line 002 – Corporation's name

Enter the full name of the corporation. Do not use abbreviations, and make sure the punctuation is correct.

Line 003 – Has the corporation changed its name since the last time you filed your T2 return?

To answer this question, tick either the YES or NO box. If you answer YES, also answer line 004 by indicating YES or NO to whether you have a copy of the articles of amendment. **Do not submit** the articles of amendment with your return. Retain them with your records in case we ask for them later.

Lines 010 to 018 – Address of head office

Line 010 – Has this address changed since the last time you filed your T2 return?

To answer this question, tick either the YES or NO box. If you answer NO, **do not complete** lines 011 to 018.

Lines 011 to 018

If you answered YES at line 010, enter the new head office address of the corporation, including the street number, street, city, province/territory/state, and postal code or zip code in the appropriate area. If it applies, complete line 017.

Lines 020 to 028 – Mailing address

Complete this area if the corporation's mailing address is different from its head office address.

Line 020 – Has this address changed since the last time you filed your T2 return?

To answer this question, tick either the YES or NO box. If you answer NO, **do not complete** lines 021 to 028.

Lines 021 to 028

Enter the new mailing address of the corporation by completing lines 021 to 028. If it applies, complete line 027.

If the corporation's mailing address changes, let the responsible tax centre know in writing as soon as possible.

Lines 030 to 038 – Location of books and records

Line 030 – Has the location of books and records changed since the last time you filed your T2 return?

To answer this question, tick either the YES or NO box. If you answer NO, **do not complete** lines 031 to 038.

If this is your **first year** of filing after incorporation or amalgamation, you must tick YES and complete lines 031 to 038.

Lines 031 to 038

Enter the address of the location where the corporation keeps its books and records by completing lines 031 to 038. If it applies, complete line 037.

Lines 040 and 043 – Type of corporation at the end of the tax year

Line 040

Tick the box that describes the corporation type **at the end of the tax year.** The corporation type determines whether or not the corporation is entitled to certain rates and deductions. See the following for details.

Reference

IT-391, STATUS OF CORPORATIONS

Box 1 – Canadian-controlled private corporation (CCPC)

Tick this box if the corporation meets **all** of the following requirements at the end of the tax year:

- it is a private corporation;
- it is a corporation that was resident in Canada and was either incorporated in Canada or resident in Canada from June 18, 1971, to the end of the tax year;
- it is not controlled directly or indirectly by one or more non-resident persons;

- it is not controlled directly or indirectly by one or more public corporations (other than a prescribed venture capital corporation, as defined in Regulation 6700);
- it is not controlled by a Canadian resident corporation that lists its shares on a prescribed stock exchange outside of Canada;
- it is not controlled directly or indirectly by any combination of persons described in the three preceding conditions;
- if all of its shares that are owned by a non-resident person, by a public corporation (other than a prescribed venture capital corporation), or by a corporation with a class of shares listed on a prescribed stock exchange, were owned by one person, that person would not own sufficient shares to control the corporation; and
- no class of its shares of capital stock is listed on a prescribed stock exchange.

References

Subsections 89(1) and 125(7)

IT-458, CANADIAN-CONTROLLED PRIVATE CORPORATION

Box 2 – Other private corporation

Tick this box if the corporation meets **all** of the following requirements at the end of the tax year:

- it is resident in Canada;
- it is not a public corporation;
- it is not controlled by one or more public corporations (other than a prescribed venture capital corporation, as defined in Regulation 6700);
- it is not controlled by one or more prescribed federal Crown corporations (as defined in Regulation 7100); and
- it is not controlled by any combination of corporations described in the two preceding conditions.

References

Subsection 89(1)

Regulations 6700 and 7100

Box 3 – Public corporation

Tick this box if the corporation is resident in Canada and meets **either** of the following requirements at the end of the tax year:

- it has a class of shares listed on a prescribed Canadian stock exchange; or
- it has elected, or the Minister of National Revenue has designated it, to be a public corporation and the corporation has complied with prescribed conditions under Regulation 4800(1) on the number of its shareholders, the dispersing of the ownership of its shares, the public trading of its shares, and the size of the corporation.

If a public corporation has complied with certain prescribed conditions under Regulation 4800(2), it can elect, or the Minister of National Revenue can designate it, not to be a public corporation.

References

Subsection 89(1)

Regulation 3200

Regulations 4800(1) and 4800(2)

Box 4 – Corporation controlled by a public corporation

Tick this box if the corporation is a Canadian subsidiary of a public corporation. This type of corporation does not qualify as a public corporation for determining the type of corporation.

Box 5 – Other corporation

Tick this box if the corporation does not fall within the other categories. Examples of other corporations include general insurers and Crown corporations.

Line 043 – If the type of corporation changed during the tax year, provide the effective date of the change

Indicate the effective date of the change. Do not include other types of changes in this section, such as the change from active to inactive status.

A change of corporation type may bring significant tax consequences. For example, certain calculations on the return depend on whether the corporation was a private corporation or a CCPC throughout the tax year, at any time in the tax year, or at the end of the tax year.

Lines 060 to 065 – To which tax year does this return apply?

Lines 060 and 061 –Tax year start and tax year-end

The corporation's tax year is its fiscal period. A fiscal period cannot be longer than 53 weeks (371 days).

In the spaces provided, enter the first and last days of the tax year. If the particular time of day applies, enter the hours and minutes to specify the time. The first day of this tax year has to be the day after the last day of the preceding tax year

A **new** corporation may choose any tax year-end as long as its first tax year does not exceed 53 weeks from the date it was either incorporated or formed as a result of an amalgamation.

Make sure the financial statements or the GENERAL INDEX OF FINANCIAL INFORMATION (GIFI) you attach to the return match the tax year of the return.

Note

A professional corporation that is a member of a partnership and that carries on business in Canada has to have a December 31 year-end.

Generally, unless you have received approval to change the fiscal period, the corporation's fiscal period is the same from year to year. To change an established fiscal period, write a letter to your tax services office asking for approval and explaining the reasons for the change.

However, you do not need approval to change the fiscal period in some situations, including the following:

- the corporation has wound-up and you are filing its final return with an abbreviated fiscal period;
- the corporation has to end its tax year at a certain time because it is emigrating to another country, becoming exempt from tax, or ceasing to be exempt from tax; or
- a person or group of persons acquired control of the corporation under subsection 249(4).

Note

A corporation that becomes bankrupt must get our approval to change its fiscal period.

References

IT-179, CHANGE OF FISCAL PERIOD

IT-364, COMMENCEMENT OF BUSINESS OPERATIONS

IT-454, BUSINESS TRANSACTIONS PRIOR TO INCORPORATION

Lines 063 and 065 – Has there been an acquisition of control to which subsection 249(4) applies since the previous tax year?

To answer this question, tick either the YES or NO box. If you answer YES, enter on **line 065** the date the control was acquired.

There is an acquisition of control when, during the tax year, a person or group of persons acquired control of the corporation.

When control is acquired, subsection 249(4) provides that the tax year of the corporation ends immediately before that control is acquired. You do not need the Minister's approval for the changed tax year.

File a return for the tax year that ends immediately before control is acquired. The next tax year starts at the time control is acquired, and the corporation can choose any tax year-end within the next 53 weeks.

If control is acquired up to seven days after the end of an established tax year, generally, a corporation can choose to extend the tax year up to the time control is acquired. In this case, attach a letter to your return that says you are making an election under paragraph 249(4)(c).

Note

The acquisition of control of a corporation is usually considered to occur at the beginning of the day on which the acquisition takes place. However, the particular time of day that the acquisition of control took place will be recognized if the corporation makes an election under subsection 256(9). To elect under subsection 256(9), include a note with your return for the tax year ending immediately before control was acquired and enter the hours and minutes that specify the time of day at line 065.

Line 067 – Is the corporation a professional corporation that is a member of a partnership?

To answer this question, tick either the YES or NO box.

A professional corporation is a corporation that carries on the professional practice of an accountant, dentist, lawyer, medical doctor, veterinarian, or chiropractor.

Line 070 – Is this the first year of filing after incorporation?

To answer this question, tick either the YES or NO box. If you answer YES, you have to file Schedule 24, FIRST TIME FILER AFTER INCORPORATION, AMALGAMATION, OR WINDING-UP OF A SUBSIDIARY INTO A PARENT, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

See chapters 2 and 3 for other schedules you may have to attach to your return.

Note

The tax year of a new corporation cannot be longer than 53 weeks from the date it was incorporated.

If this is your **first year** of filing after incorporation, you must tick YES at line 030 and complete lines 031 to 038.

Line 071 – Is this the first year of filing after amalgamation?

To answer this question, tick either the YES or NO box. If you answer YES, you have to file Schedule 24, FIRST TIME FILER AFTER INCORPORATION, AMALGAMATION, OR WINDING-UP OF A SUBSIDIARY INTO A PARENT, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

> **Note**
>
> The tax year of a new corporation cannot be longer than 53 weeks from the date it was amalgamated.

If this is your **first year** of filing after amalgamation, you must tick YES at line 030 and complete lines 031 to 038.

Line 072 – Has there been a wind-up of a subsidiary under section 88 during the current tax year?

To answer this question, tick either the YES or NO box. If you answer YES, you have to file Schedule 24, FIRST TIME FILER AFTER INCORPORATION, AMALGAMATION, OR WINDING-UP OF A SUBSIDIARY INTO A PARENT, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

Reference

IT-126, MEANING OF "WINDING-UP"

Line 076 – Is this the final tax year before amalgamation?

To answer this question, tick either the YES or NO box.

Predecessor corporations filing their last returns have to answer YES to this question on their final returns.

When two or more corporations amalgamate, each of the predecessor corporations has to file a return for the period ending **immediately before** the effective date of amalgamation. You will find the effective date on the certificate of amalgamation or the letters patent of amalgamation.

Note

We cannot accept returns filed for the period up to the adoptive date of amalgamation, or the date of the shareholders' resolution.

Line 078 – Is this the final return up to dissolution?

To answer this question, tick either the YES or NO box.

You have to answer YES if you are filing your final return for a tax year ending on the date of dissolution.

The responsible representative has to get a clearance certificate from the tax services office before distributing any of the corporation's property under his or her control. By getting the certificate, the responsible representative will avoid being personally liable for the unpaid taxes, interest, and penalties. Include Schedule 100, BALANCE SHEET INFORMATION, with the final return, which shows how the assets were distributed.

Notes

If you want to permanently dissolve your corporation, you should send us your final return. You should also send the articles of dissolution or an application for dissolution to the government body that governs the affairs of your corporation. Otherwise, we will consider the company still exists, and it will have to file a return even if there is no tax payable.

If you intend to dissolve the corporation, you should ensure that the corporation has received all applicable refunds. Once a corporation is dissolved, any refunds revert to the provincial, territorial, or federal Crown and cannot be issued to the corporation or its representatives.

References

Subsection 159(2)

IC 82-6, CLEARANCE CERTIFICATE

Lines 080 to 082 – Is the corporation a resident of Canada?

To answer this question, tick either the YES or NO box.

If you answer NO, give the country of residence on line 081 and file Schedule 97, ADDITIONAL INFORMATION ON NON-RESIDENT CORPORATIONS IN CANADA. Non-resident corporations have to mail their returns to the International Tax Services Office. See page 45 [11] for the address and telephone and fax numbers.

Line 082 – Is the non-resident corporation claiming an exemption under an income tax treaty?

To answer this question, tick either the Yes or No box. If you answer Yes, file Schedule 91, Information Concerning Claims for Treaty-Based Exemptions.

For more information about the filing obligations of non-resident corporations, see page 33 [9].

Line 085 – If the corporation is exempt from tax under section 149

If the corporation is exempt from tax under section 149, you have to tick one of the boxes following this line.

These corporations, which include non-profit organizations, do not usually have to pay any corporate income tax because they are exempted by one of the following paragraphs.

Box 1 – Exempt under paragraph 149(1)(e) or (l)

Tick this box if one of the two following paragraphs applies:

- **Paragraph 149(1)(e)** exempts the following types of organizations, as long as no part of the income of these organizations was payable or otherwise available for the personal benefit of proprietors, members, or shareholders:
  - agricultural organizations;
  - boards of trade; and
  - chambers of commerce.

- **Paragraph 149(1)(l)** exempts a club, society, or association that is not a charity and that is organized and operated solely for:
  - social welfare;
  - civic improvement;
  - pleasure or recreation; or
  - any purpose other than profit.

No part of these organizations' income can be payable to, or otherwise available for the personal benefit of, any proprietor, member, or shareholder, unless the proprietor, member, or shareholder was a club, society, or association that promotes amateur athletics in Canada.

You may have to file Form T1044, NON-PROFIT ORGANIZATION (NPO) INFORMATION RETURN, if the organization meets the definition in paragraph 149(1)(e) or 149(1)(l) and if one of the following conditions applies:

- the organization received or was entitled to receive taxable dividends, interest, rentals, or royalties in the tax year totalling more than $10,000;
- the organization's total assets were more than $200,000 at the end of the immediately preceding tax year; or
- the organization had to file Form T1044 for a preceding fiscal year.

If you have to file an information return for any tax year, you will have to file a return for all future tax years. Form T1044 has to be filed in the six months following the end of the fiscal period. See Guide T4117, INCOME TAX GUIDE TO THE NON-PROFIT ORGANIZATION (NPO) INFORMATION RETURN.

References

Subsection 149(12)

T4117, INCOME TAX GUIDE TO THE NON-PROFIT ORGANIZATION (NPO) INFORMATION RETURN

T1044, NON-PROFIT ORGANIZATION (NPO) INFORMATION RETURN

IT-83, Non-Profit Organizations – Taxation of Income From Property

IT-496, Non-profit Organizations

Box 2 – Exempt under paragraph 149(1)(j)

Tick this box if **paragraph 149(1)(j)** applies. Paragraph 149(1)(j) exempts a non-profit corporation for scientific research and experimental development (SR&ED) if it meets all the following conditions:

- the corporation is constituted exclusively for carrying on or promoting SR&ED;
- no part of the corporation's income is payable to or otherwise available for the personal benefit of any proprietor, member, or shareholder;
- the corporation did not acquire control of any other corporation;
- the corporation did not carry on any business during the period for which exemption is claimed; and

- the corporation must, in each period for which it claims exemption, have spent amounts in Canada that are either:
  - expenditures on SR&ED development directly undertaken by it or on its behalf; or
  - payments to an association, university, college, or research institution to be used for SR&ED.

Box 3 – Exempt under 149(1)(t)

Tick this box if **paragraph 149(1)(t)** applies. Paragraph 149(1)(t) exempts certain insurers who receive at least 20% of their premiums from insuring residences of farmers or fishers, farm property, or property used in fishing.

Box 4 – Exempt under other paragraphs of section 149

Tick this box if the corporation is exempt under any other paragraph of section 149.

In this case, the corporation has to attach to the return all relevant information on this exemption and specify under which paragraph it is exempt.

Chapter 2 – Page 10 [2] of the T2 return

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Attachments

Schedules can be organized into two categories:

- **information schedules,** including general information schedules and those relating to transactions with non-residents; and
- **calculation schedules,** including schedules used to calculate net income, taxable income, deductions, taxes, and credits.

We print most of the schedules, and we provide a complete list at the end of this guide. You can get them by calling 1-800-959-2221. Most of these schedules are also available on our Web site at **www.cra.gc.ca/forms.** For the schedules we do not print, assemble the requested information and label it with the schedule number in the top right-hand corner of each page.

On pages 10 to 19 [2 and 3] of the return, we list the most common schedules you may have to attach to your return. If you respond "Yes" to any of the questions on these pages, attach to your T2 return the schedule that applies.

Financial statements or General Index of Financial Information (GIFI) for Corporations

Each corporation should include complete financial statement information for the tax year of the return using the GENERAL INDEX OF FINANCIAL INFORMATION (GIFI).

Note

Certain non-resident corporations do not have to file using GIFI. For more information, see Guide RC4088, GUIDE TO THE GENERAL INDEX OF FINANCIAL INFORMATION (GIFI) FOR CORPORATIONS.

GIFI schedules include:

- Schedule 100, Balance Sheet Information;
- Schedule 125, Income Statement Information, and, if necessary, Schedule 140, Summary Income Statement; and
- Schedule 141, Notes Checklist. Schedule 141 is a set of questions designed to determine who prepared the financial statements and the extent of their involvement, and to identify the type of information contained in the notes to the financial statements.

Note

Include any notes to the financial statements and the auditor or accountant's report, if they were prepared. You should include this information even if you are filing your return in the T2 RSI format. For more information, see "Using T2 RSI, RETURN AND SCHEDULE INFORMATION," on page 39 [10].

When preparing the first return for a new corporation, attach all of the following documents:

- Schedule 101, OPENING BALANCE SHEET INFORMATION;
- copies of all relevant agreements or the full details on shares issued for anything other than cash consideration, if they apply; and
- if it applies, the closing balance sheet of the proprietorship, partnership, or corporation if the new corporation acquired the assets or business, or assumed the liabilities of a former proprietorship, partnership, or corporation.

If the corporation has been inactive during the tax year, the return should include Schedule 100 showing the corporation's financial position at the end of the tax year.

The GIFI schedules are to be completed with information from the corporation's financial statements. These schedules are laid out with a "column A" where the appropriate GIFI code is entered, and a "column B" where the corresponding dollar amount is entered.

The GIFI is included in all tax preparation software packages certified by the CRA and in most accounting software.

For more information on the GIFI, get Guide RC4088, *General Index of Financial Information (GIFI) for Corporations*.

Information schedules and forms

The following section describes the various general information schedules and forms you may have to complete.

Schedule 9, Related and Associated Corporations

Complete Schedule 9 if the corporation is related to or associated with at least one other corporation.

Reference

Section 251

When is a corporation associated?

Association is based on control. Control can be exerted either **directly or indirectly in any manner.** A person or a group of persons can control a corporation. Keep in mind that, in this context, a **person** can be either an individual or a corporation.

Control includes both DE JURE control and DE FACTO control. **De jure control** is the right of control that depends on a person owning enough shares of a corporation to give that person a majority of the voting power. **De facto control** occurs when a corporation is subject to any direct or indirect influencing that, if exercised, would result in actual control being exerted.

In general, a corporation is associated with another corporation if it meets **one** of the following six conditions at any time in the tax year. Remember that **controlled** means directly or indirectly in any manner.

Condition 1

The corporations are associated if one corporation controls the other.

Example

X Co. Limited owns 100% of the voting shares of Y Co. Limited, which in turn owns 51% of the voting shares of Z Co. Inc.

X Co. Limited is associated with Y Co. Limited, because it exerts direct control over it.

X Co. Limited is associated with Z Co. Inc., because it exerts indirect control over it.

Condition 2

The corporations are associated if both corporations are controlled by the same person or group of persons.

Corporations may be associated because the same group of persons controls both corporations, but the members of this group do not act together and have no other connection to each other.

For tax years ending after March 22, 2004, CCPCs that are associated only because of this definition of a group will not be considered associated when:

- calculating the refundable investment tax credit on eligible SR&ED expenditures;
- calculating the expenditure limit; and
- allocating the expenditure limit.

For this exception to apply, one of the corporations must have at least one shareholder who is not common to both corporations.

The corporations will continue to be associated for all other purposes of the *Income Tax Act*.

Example

Bob owns 40% of the voting shares of ABC Company Ltd. and 30% of the voting shares of XYZ Limited. Ike owns 20% of the voting shares of ABC Company Ltd. and 40% of the voting shares of XYZ Limited.

As a group, Bob and Ike control both companies. ABC Company Ltd. and XYZ Limited are associated.

Condition 3

The corporations are associated if:

- each corporation is controlled by one person;
- that person is related to the person controlling the other corporation; and
- one of those persons owns at least 25% of the issued shares of any class, other than shares of a specified class, of the capital stock of each corporation.

Example

AB Co. owns 100% of the issued share capital of CD Co. It also owns 25% of the Class A shares (other than shares of a specified class) of XY Co, whose controlling shareholder is Billy. Billy's brother controls AB Co.

AB Co., CD Co., and XY Co. are associated.

Condition 4

The corporations are associated if:

- one corporation is controlled by one person;
- that person is related to each member of a group of persons who controls the other corporation; and
- that person owns at least 25% of the issued shares of any class, other than shares of a specified class, of the capital stock of the other corporation.

Example

Buddy controls AY Limited. His two daughters control AZ Inc. Buddy also owns 50% of the Class A preferred shares of AZ Inc.

AY Limited and AZ Inc. are associated.

Condition 5

The corporations are associated if:

- each corporation is controlled by a related group;
- each of the members of one of the related groups is related to all members of the other related group; and
- one or more persons who are members of both related groups, either alone or together, own at least 25% of the issued shares of any class, other than shares of a specified class, of the capital stock of each corporation.

Example

Anne and her two daughters control One Co. Anne and her two sons control Two Co. Anne owns 33% of the common shares in each corporation.

One Co. and Two Co. are associated.

Condition 6

Two corporations that are not associated with each other will be considered associated under subsection 256(2) if they are associated with the same corporation (the third corporation). See Schedule 28, ELECTION NOT TO BE AN ASSOCIATED CORPORATION, on page 119 [24].

References

Subsections 256(1), 256(1.1), 256(5.1), and 256(2)

Section 251

IT-64, CORPORATIONS: ASSOCIATION AND CONTROL

Schedule 23, Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Business Limit

All **CCPCs** that are associated have to file Schedule 23. This schedule is used to:

- identify all the associated corporations to establish:
  - the date the balance of tax is due (see "Balance due date" on page 49 [12]); and
  - the calculation of the business limit reduction; and
- assign a percentage to each of the associated corporations for the allocation of the business limit. The total of all percentages cannot be more than 100%. The maximum business limits are provided on page 301 [54].

Notes

Schedule 23 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 23 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

If the corporation's tax year is shorter than 51 weeks, prorate the business limit allocated in column 6 of Schedule 23 based on the number of days in the tax year divided by 365.

Associated corporations with more than one tax year in a calendar year

Special rules apply to determine the business limit for associated corporations that have more than one tax year ending in the same calendar year.

For the second or later tax years that end in the same calendar year, the business limit is whichever of the following amounts is less:

- the amount allocated to the corporation for the first tax year; or
- the amount allocated to the corporation for the later tax year in question.

Make sure the total of the business limits of all associated corporations for any tax years that end in the same calendar year is not more than the maximum allowable business limit for that calendar year.

If the corporation's tax year is shorter than 51 weeks, prorate the business limit as determined on page 114 [above] based on the number of days in the tax year divided by 365.

Example

A Co. and B Co. are associated in 2006.

A Co.'s tax year runs from January 1, 2006, to June 30, 2006.

The business limit allocated to A Co. for its June 30, 2006, tax year is $100,000.

On November 1, 2006, C Co. becomes associated with A Co. and B Co. The tax year-end for C Co. is December 31, 2006. A Co. and B Co. change their year-ends to match C Co.'s year-end.

The corporations decide to allocate a $190,000 business limit to C Co. for the December 31, 2006 year-end. Because the total of their business limits cannot be more than $300,000, the corporations allocate $55,000 each to A Co. and B Co.

Question

What is A Co.'s business limit for each of the two tax years ending in the 2006 calendar year?

Answer

Tax year ending June 30, 2006:

Because the tax year is shorter than 51 weeks, A Co. prorates the business limit for the number of days in the tax year as follows:

$$\$100{,}000 \times \frac{182 \text{ days}}{365 \text{ days}} = \$49{,}863$$

Note: 365 is not adjusted for the leap year.

Tax year ending December 31, 2006:

Because the tax year is shorter than 51 weeks, A Co. prorates the business limit for the number of days in the tax year. A Co. uses the $55,000 business limit allocated in this tax year, because it is less than the $100,000 business limit allocated in its first tax year ending in 2006.

A Co. prorates the business limit as follows:

$$\$55{,}000 \times \frac{184 \text{ days}}{365 \text{ days}} = \$27{,}726$$

Note: 365 is not adjusted for the leap year.

Reference

Subsection 125(5)

Schedule 49, Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Expenditure Limit

All **CCPCs** that are associated and have scientific research and experimental development (SR&ED) expenditures have to file Schedule 49. These corporations use this form to:

- identify all the associated corporations and establish:
  - the 35% investment tax credit (ITC) rate and the 100% refundable ITC rate on qualifying SR&ED expenditures;
  - the 40% refundable ITC rate; and

- allocate the expenditure limit for the 35% ITC rate on qualifying SR&ED expenditures.

For more details about the ITC, see Line 652 on page 346 [64].

Note

Schedule 49 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 49 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

Associated corporations with more than one tax year in a calendar year

Special rules apply to determine the expenditure limit for associated corporations that have more than one tax year ending in the same calendar year. Prorate the expenditure limit for each tax year ending in the calendar year based on the number of days in the tax year divided by 365.

Be sure that the amount you prorate for each of the tax years is equal to the amount allocated to the corporation for the first tax year ending in the calendar year.

Reference

Subsection 127(10.6)

Schedule 28, Election not to be an Associated Corporation

File Schedule 28 if the corporation elects under subsection 256(2) not to be associated with two other corporations for the purposes of the small business deduction.

Two corporations that are not associated with each other will be considered associated under subsection 256(2) if they are associated with the same corporation (the third corporation).

However, for the purposes of the small business deduction, the third corporation is considered to not be associated with either of the other corporations if:

- it is not a CCPC at the time; or
- it elects, in prescribed form, to not be associated.

When a corporation makes this election, its business limit for the small business deduction is considered to be zero.

Notes

You have to file a new election for each applicable tax year.

Schedule 28 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 28 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

Reference

Subsection 256(2)

Schedule 19, Non-Resident Shareholder Information

Complete Schedule 19 if a non-resident shareholder owned a share of any class of the corporation's capital stock at any time during the tax year.

Schedule 11, Transactions With Shareholders, Officers, or Employees

Complete Schedule 11 if the corporation had transactions with shareholders, officers, or employees.

Do not include transactions the corporation carried out in the ordinary course of business, or any transactions listed on Form T106, INFORMATION RETURN OF NON-ARM'S LENGTH TRANSACTIONS WITH NON-RESIDENTS. See page 129 [26] for details.

If the corporation is involved in a transfer of property under section 85, make sure to file either Form T2057, ELECTION ON DISPOSITION OF PROPERTY BY A TAXPAYER TO A TAXABLE CANADIAN CORPORATION, or Form T2058, ELECTION ON DISPOSITION OF PROPERTY BY A PARTNERSHIP TO A TAXABLE CANADIAN CORPORATION. File

Form T2058 when property is transferred from a partnership. File Form T2057 in all other cases.

Schedule 44, Non-Arm's Length Transactions

Complete Schedule 44 if all or substantially all of the assets of a non-arm's length corporation are transferred to or received by you in the tax year and subsections 85(1), 85(2) or 142.7(3) applied to any of the transactions.

Generally, we consider **all or substantially all** to be at least 90%. You have to evaluate all assets at cost or fair market value.

When this kind of non-arm's length transaction takes place, the instalment requirements of the transferee corporation have to take into account those of the transferor corporation.

Reference

Regulation 5301(8)

Schedule 14, Miscellaneous Payments to Residents

Complete Schedule 14 if you made any of the following payments to residents of Canada:

- royalties for which you have not filed a T5 slip, STATEMENT OF INVESTMENT INCOME;
- research and development fees;
- management fees;
- technical assistance fees; * or
- similar payments.

* Technical assistance fees are payments for technical or industrial services related to producing goods or applying processes, formulae, and expertise in the production process.

List only the payments that were more than $100.

Schedule 15, Deferred Income Plans

Complete Schedule 15 if you deducted from your income payments you made to deferred income plans, such as:

- a registered pension plan (RPP);
- a registered supplementary unemployment benefit plan (RSUBP);
- a deferred profit sharing plan (DPSP); or
- an employees profit sharing plan (EPSP).

Form T5004, Claim for Tax Shelter Loss or Deduction

If you are claiming a loss or deduction from an interest in a tax shelter, file Form T5004 with your return.

The promoter has to prepare Form T5003, STATEMENT OF TAX SHELTER INFORMATION, and send copies to each investor. Attach copy 2 of Form T5003 to your return.

Use the following guidelines to complete your T2 return and schedules:

- for a gift, use line 311, 312, 313, or 314 of the return, whichever applies;
- for a political contribution, use lines 644 and 646 of the return;
- for a limited partnership loss (see page 258 [46]), use lines 600 to 620 of Schedule 4, and line 222 of Schedule 1;
- for a business investment loss, use lines 900 to 950 of Schedule 6; and
- for any other losses or deductions, use lines 700 to 704 of Schedule 1.

Reference

IC 89-4, TAX SHELTER REPORTING

T5013 Slip, Statement of Partnership Income

If you are a member of a partnership, attach to your return a list of all the partnership identification numbers assigned to the partnerships of which you are a member.

Partnerships that have more than five members have to issue information slips to each partner for each fiscal period of the partnership. Corporate partners that receive a T5013 slip have to file it with the return for the tax year in which the fiscal period of the partnership ends.

Notes

Each partnership has to file a T5013 Summary, PARTNERSHIP INFORMATION RETURN, for each fiscal period. However, some partnerships are exempt from this requirement. For more information, see Guide T4068, GUIDE FOR THE PARTNERSHIP INFORMATION RETURN.

Except where an election is filed under subsection 249.1(4), for the tax year that includes the first day of the first fiscal period of a business, partnerships with at least one member who is an individual, a professional corporation, or another affected partnership have to have a December 31 fiscal period end.

Schedule 22, Non-Resident Discretionary Trust

Complete Schedule 22 if the corporation, a foreign affiliate the corporation controls, or any other corporation or trust that did not deal at arm's length with the corporation had a beneficial interest in a non-resident discretionary trust at any time during the tax year.

Schedule 25, Investment in Foreign Affiliates

Complete Schedule 25 if the corporation is resident in Canada and holds shares in one or more foreign affiliates, as defined in subsection 95(1).

Schedule 29, Payments to Non-Residents

Complete Schedule 29 if the corporation paid or credited any of the following amounts to non-residents:

1 royalties;

2 rents;

3 management fees/commissions;

4 technical assistance fees; *

5 research and development fees;

6 interest;

7 dividends;

8 film payments:

- for a motion picture film; or
- for a film or videotape for use in connection with television; or

9 other services.

* Technical assistance fees are payments for technical or industrial services related to producing goods or applying processes, formulae, and expertise in the production process.

If the total amount paid or credited to a payee is less than $100, you do not have to complete this schedule with the information for that payee.

A corporation that makes payments or credits amounts to non-residents under Regulations 202(1) and 105(1) of the *Income Tax Regulations* has to file the applicable information return.

References

Regulations 105(1) and 202(1)

Form T106, Information Return of Non-Arm's Length Transactions With Non-Residents

Form T106 is an annual information return on which you report the corporation's activities with certain non-resident persons under section 233.1.

File Form T106 if:

- at any time in the tax year, you were either a resident in Canada or a non-resident that carried on business (other than as a member of a partnership) in Canada;
- you entered into reportable transactions with a non-resident person with whom you were not dealing at arm's length at any time in the

year and partnerships of which the non-resident person is a member; **and**

- the total reportable transactions exceed CAN $1,000,000.

Form T106 consists of the T106 Summary and the T106 slips. File a separate T106 slips for each non-resident.

On Form T106, report all transactions between you and the non-resident, including those transactions concerning:

- tangible property;
- rents;
- royalties and intangible property;
- services; and
- advances, loans, or other accounts receivable or payable to or from a non-resident (beginning and ending balances including gross increases and decreases).

File Form T106 **within six months of the end of the reporting corporation's tax year.** Send it to the following address:

Ottawa Technology Centre
Validation and Verification Division
Other Programs Unit
875 Heron Road
Ottawa ON K1A 1A2

Note

If you file Form T106 late, the corporation will be subject to penalties.

References

Sections 233.1 and 251

Subsections 162(7) and 162(10)

Foreign property

Foreign affiliates

A corporation resident in Canada, of which a non-resident corporation is a foreign affiliate at any time in the year, must file one of two forms for the affiliate within 15 months after the end of its tax year:

- Form T1134-A, Information Return Relating to Foreign Affiliates That are not Controlled Foreign Affiliates; or
- Form T1134-B, Information Return Relating to Controlled Foreign Affiliates.

A separate form has to be filed for each foreign affiliate.

Forms T1134-A and T1134-B contain more information about filing.

Beneficiaries of non-resident trusts

A corporation may have received, in the year, funds or property from, or been indebted to, a non-resident trust in which it had a beneficial interest. If so, you have to complete and file Form T1142, INFORMATION RETURN IN RESPECT OF DISTRIBUTIONS FROM AND INDEBTEDNESS TO A NON-RESIDENT TRUST.

A separate form has to be filed for each non-resident trust.
Form T1142 contains more information about filing.

Transfers to non-resident trusts

A corporation may have transferred or loaned funds or property to a non-resident trust. If so, you may have to complete and file Form T1141, INFORMATION RETURN IN RESPECT OF TRANSFERS OR LOANS TO A NON-RESIDENT TRUST.

A separate form has to be filed for each non-resident trust. Form T1141 contains more information about filing.

Ownership of foreign property

If, at any time in the year, the total cost of all specified foreign property the corporation owned or held a beneficiary interest in was more than $100,000, you have to complete and file Form T1135, FOREIGN INCOME VERIFICATION STATEMENT.

For more information, see Form T1135.

Foreign investment entities and non-resident trusts

The 1999 federal budget proposed changes to the existing rules for foreign investment entities (FIEs) and non-resident trusts (NRTs) that, once these become law, will generally be effective for tax years that begin after 2002. These proposed rules require a corporation with an interest in an FIE to include an amount from the investment in its income; they will also deem NRTs with a connection to Canada to be resident here and will make a "contributor" to and a "beneficiary" under such trusts jointly and severally liable for the trust's Canadian tax liability. Therefore, any corporation that is a "contributor" or a "beneficiary" with respect to an NRT may be jointly liable with the NRT for the NRT's Canadian tax. For more information about the proposed changes, call us at one of the telephone numbers provided on page 45 [11] of this guide.

Penalties

There are substantial penalties for not completing and filing Forms T1134-A, T1134-B, T1135, T1141, and T1142 by the due date.

References

Sections 233.1 to 233.6

Subsections 162(7), 162(10), and 162(10.1)

Schedule 50, Shareholder Information

Complete Schedule 50 if you are a private corporation and if any shareholder holds 10% or more of your common and/or preferred shares. Give a maximum of the 10 top shareholders and the requested information.

Line 172 – Has the corporation made payments to, or received amounts from, a retirement compensation arrangement in the year?

To answer this question, tick the YES or NO box. No schedule or form is required.

Calculation schedules

You may also have to use various calculation schedules to complete the rest of your return. We list these schedules on pages 10 to 19 [2] of the return. You will find details about each of these schedules in the following chapters.

Chapter 3 – Page 18 [3] of the T2 return

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Attachments

See Chapter 2 to complete this section.

Additional information

Provide all the information we request in the "Additional information" area of your return.

Line 280 – Is the corporation inactive?

To answer this question, tick the YES or NO box.

Even if a corporation is inactive, which means it has not operated during the tax year, it has to file a return. With the return, we need Schedule 100, BALANCE SHEET INFORMATION, showing the assets, liabilities, and shareholder's equity at the end of the tax year.

Note

An inactive (non-operating) corporation can still generate income and/or expenses in a year. It may pay a monthly service charge to maintain a bank account or it may earn interest or dividends from income-producing assets that it holds. It may also have received income that was previously shown as a payable in the prior year. If this is the case, it will also need to file a Schedule 125, INCOME STATEMENT INFORMATION, with the return.

Line 281 – Has the major business activity changed since the last return was filed?

To answer this question, tick the YES or NO box. First-time filers must indicate YES.

Line 282 – What is the corporation's major business activity?

Complete only if YES is indicated at line 281.

Enter the corporation's major commercial or professional activity.

Include enough detail to support the type of deductions claimed (for example, the manufacturing and processing profits deduction) and to allow an exact industrial classification. If the corporation has several major lines of business, describe each of them.

Here are examples of how to describe your corporation's major activity:

- men's retail clothing store;
- manufacturing of wooden office furniture; or
- single-unit residential building contractor.

If the corporation is involved in trucking, specify if it transports bulk liquids or if the corporation is owner-operator, leased-operator, or a broker-operator working for another trucking company.

Line 283 – If the major activity involves the resale of goods, indicate whether it is wholesale or retail

Tick either the WHOLESALE or RETAIL box if the corporation's business involves the resale of goods.

Lines 284 to 289 – Specify the principal product(s) mined, manufactured, sold, constructed, or services provided, giving the approximate percentage of the total revenue that each product or service represents

Break down the business activity you described on line 282 into the following categories:

- the principal products mined, manufactured, sold, or constructed; and
- the services provided.

Also, give the approximate percentage of the corporation's total revenue that each product or service represents.

Line 291 – Did the corporation immigrate to Canada during the tax year?

To answer this question, tick the YES or NO box.

Line 292 – Did the corporation emigrate from Canada during the tax year?

To answer this question, tick the YES or NO box.

Calculating net income or loss

There are several schedules you may have to use to calculate the net income or loss for income tax purposes. This section explains each of those schedules.

Schedule 1, Net Income (Loss) for Income Tax Purposes

Generally, the net income (loss) reported on your financial statements will not be the same as the net income (loss) required for tax purposes. This is because certain income and expenses reported on your financial statements may not be used in the calculation of net income (loss) for tax purposes.

For example, you do not deduct charitable donations when determining net income for tax purposes, as you would to arrive at net income on your financial statement.

Note

Charitable donations are deducted (afterward) from net income for tax purposes to arrive at taxable income.

Use Schedule 1 to reconcile the net income (loss) reported on your financial statements and the net income (loss) required for tax purposes.

Enter net income or loss after income tax and extraordinary items on line A, page 2 [1] of Schedule 1. Add the taxable items and the non-allowable expenses listed on lines 101 to 199 and subtract from this the non-taxable items and eligible expenses listed on lines 401 to 499.

Additions and deductions identified on lines 101 to 127 and 401 to 417 of Schedule 1 are the most common additions and subtractions. For other additions and deductions, see pages 7 to 13 [2 and 3].

Some expenses deducted on your income statement are not allowable for income tax purposes and are not identified on Schedule 1. In this case, use lines 290 to 294, "Other additions," on page 10 [2].

For tax years beginning on or after April 1, 2007, interest charged under the EXCISE TAX ACT (GST) and the AIR TRAVELLERS SECURITY CHARGE ACT will no longer be deductible for income tax purposes. Use the "Other additions" area to identify these interest charges.

Also, certain items included in income that are not taxable are not identified on this schedule. In such cases, complete lines 390 to 394, "Other deductions," on page 13 [3].

Notes

Only complete lines 203 and 302 if you are converting from an accrual basis to a cash basis. Otherwise, these lines should be left blank.

The deductible portion of expenses you incurred for food, beverages, and entertainment is only 50% of whichever is less: the expenditure actually incurred or the amount that would be reasonable in the circumstances. However, a full deduction is allowed for meals provided to an employee at a temporary construction work camp, if certain conditions are met. For more information on this subject, see Guide T4130, EMPLOYER'S GUIDE – TAXABLE BENEFITS or visit our Web site at **www.cra.gc.ca/payroll.**

You may have to use the following schedules to calculate certain amounts on Schedule 1:

- Schedule 6, Summary of Dispositions of Capital Property (on page 153 [this page]);
- Schedule 8, Capital Cost Allowance (CCA) (see page 176 [34]);
- Schedule 10, Cumulative Eligible Capital Deduction (see page 217 [40]);
- Schedule 12, Resource-Related Deductions (see page 220 [40]);
- Schedule 13, Continuity of Reserves (see page 221 [40]);
- Schedule 16, Patronage Dividend Deduction (see page 223 [40]);
- Schedule 17, Credit Union Deductions (see page 225 [41]); and
- Form T661, Claim for Scientific Research and Experimental Development (SR&ED) Carried out in Canada (see page 227 [41]).

The full resource allowance deducted at line 346 under paragraph 20(1)(v.1) is gradually reduced to:

- 75% in 2004;
- 65% in 2005;
- 35% in 2006; and
- 0 after 2006.

You have to prorate these amounts using the number of days in each period in your tax year. The resource allowance will gradually be replaced by the deductibility of crown royalties and mining taxes against income.

Schedule 6, Summary of Dispositions of Capital Property

You have to complete Schedule 6 if you disposed of capital property during the tax year and incurred any **capital losses** or realized any **capital gains.** You also have to complete this schedule if you claim an **allowable business investment loss.**

References

Section 54

IT-170, SALE OF PROPERTY – WHEN INCLUDED IN INCOME COMPUTATION

IT-448, DISPOSITIONS – CHANGES IN TERMS OF SECURITIES

IT-460, DISPOSITIONS – ABSENCE OF CONSIDERATION

Designation under paragraph 111(4)(e)

Answer YES or NO to the question on **line 050,** page 1 [1] of Schedule 6.

You can make a designation under paragraph 111(4)(e) if a person or group of persons has acquired control of the corporation. If you make the designation, capital properties will be considered as having been disposed of immediately before that person or group of persons acquired control of the corporation.

Completing Schedule 6

To help you complete Schedule 6, we have provided the following explanations that briefly set out the type of information we need in each column and each part of the schedule.

Column 1 – Types of capital property

There are six categories of capital property you may have disposed of during the tax year. The categories are:

- shares;
- real estate;
- bonds;
- other properties;
- personal-use property; and
- listed personal property.

The first six parts of Schedule 6 reflect these six categories of capital property.

Column 2 – Date of acquisition

In this column, give the date you acquired the property.

Column 3 – Proceeds of disposition

In this column, indicate the proceeds of disposition. The proceeds of disposition are usually the selling price of the property. However, they can also include compensation the corporation received for property that was destroyed, expropriated, stolen, or damaged.

For a gift or a deemed disposition, the proceeds of disposition are usually the fair market value of the property when its owner or use changes.

References

Section 54

IT-259, EXCHANGE OF PROPERTY

Column 4 – Adjusted cost base

In this column, indicate the cost of the property you used to calculate any capital gain or loss. This amount is called the **adjusted cost base** (ACB). The ACB is the original cost of the property that has been adjusted to reflect certain transactions or occurrences that took place after acquiring the property.

The cost of a capital property may be the actual cost, a deemed cost, or the valuation-day value of the property. The nature of the property and the circumstances under which you acquired it determine which cost of the capital property you should use.

References

Subsections 53(1) and 53(2)

IT-418, CAPITAL COST ALLOWANCE – PARTIAL DISPOSITIONS OF PROPERTY

The cost of property acquired after 1971 is usually the actual cost of acquiring it, including the purchase price plus any related costs, such as commissions, legal fees, and other reasonable expenses. It also includes the cost of additions and improvements to the property.

It does **not** include current expenses, such as maintenance and repair costs.

Reference

IT-128, Capital Cost Allowance – Depreciable Property

Special rules apply when determining the cost of capital property owned on December 31, 1971. According to these rules, tax is not assessed and losses are not allowed for any gain or loss that arose before that date.

When deductions from the cost base of a property (other than a partnership interest) reduce the balance to a negative amount at any time in the tax year, you are considered to have realized a capital gain equal to the amount of the negative balance, and the ACB becomes nil.

You cannot use later additions to the ACB to reduce previous gains on the property that resulted from a negative balance. You can only consider these additions when you determine future gains or losses.

Reference

Subsection 40(3)

Paragraphs 53(1)(e) and 53(2)(c) outline the rules for determining the ACB of a partnership interest.

You have to reduce the ACB of a partnership interest by the amount of any share purchase tax credit, and one-half of any scientific research and experimental development tax credit the partnership allocated to the corporation.

> **Note**
>
> Interests in a partnership that a limited partner or an inactive partner holds are subject to the negative ACB rule.

Column 5 – Outlays and expenses

In this column, enter the amount of outlays and expenses you deducted when calculating a gain or loss. You can deduct most cash outlays the corporation used to put a property into saleable condition when you calculate a gain or loss. You can also deduct expenses incurred when disposing of the property. These expenses include certain fixing-up costs, finder's fees, commissions, surveyor's fees, transfer taxes, and other reasonable expenses incurred to dispose of the property.

Column 6 – Gain (or loss)

In column 6, enter the amount of the gain or loss. To determine this figure, subtract the amounts in columns 4 and 5 from the amount in column 3.

A **capital gain** results when the proceeds of disposition of a capital property are more than the ACB and any related outlays or expenses. A **capital loss** occurs when the proceeds of disposition are less than the ACB and the related outlays and expenses. However, if depreciable property is disposed of, it will result in a **terminal loss,** not a capital loss. See "Column 6 – Undepreciated capital cost" on page 188 [36] for more details about terminal losses.

In certain cases, when you dispose of a building and the land on which it stands, and the building is disposed of for less than its undepreciated capital cost, you may have to reduce the gain on the sale of the land by the terminal loss on the sale of the building.

References

Subsection 13(21.1)

IT-220, CAPITAL COST ALLOWANCE – PROCEEDS OF DISPOSITION OF DEPRECIABLE PROPERTY

Part 1 – Shares

In this part, list the shares disposed of during the tax year. Give the number of shares, the name of the corporation in which the shares were held, and the class of the shares.

Usually, disposing of a share of the capital stock of a corporation will result in a taxable capital gain or an allowable capital loss. However, if the corporation that is disposing of the share is in the business of trading shares, the resulting gain or loss is considered business income or loss.

If a share is converted because of a merger or an amalgamation, section 54 deems a disposition to have occurred.

Part 2 – Real estate

In this part, list all real estate disposed of during the tax year. Give the municipal address of each property.

Dispositions of non-depreciable real property (unless the property is inventory) may result in a capital gain or loss. However, dispositions of depreciable property may result in a capital gain, a recapture of CCA, or a terminal loss. See "Column 6 – Undepreciated capital cost" on page 188 [36] for details about terminal losses and recaptures.

Enter the total amount of gain or loss realized on disposition of real estate on line B.

References

IT-218, Profit, Capital Gains and Losses From the Sale of Real Estate, Including Farmland and Inherited Land and Conversion of Real Estate From Capital Property to Inventory and Vice Versa

IT-478, Capital Cost Allowance – Recapture and Terminal Loss

Part 3 – Bonds

In this part, list all bonds disposed of during the tax year. Give the face value, the maturity date, and the issuer's name for each type of bond.

When you make a capital disposition of a debt obligation, the amount of any realized discount or bonus received is usually considered a capital gain. Similarly, a premium paid is considered a capital loss, either when the obligation matures or on the date you dispose of the obligation. Enter the total amount of gain or loss realized on disposition of bonds on line C.

Reference

IT-479, TRANSACTIONS IN SECURITIES

Part 4 – Other properties

In this part, describe any capital property disposed of during the tax year that you have not already reported in Parts 1, 2, and 3.

Other property includes capital debts established as bad debts, as well as amounts that arise from foreign currency transactions.

When an amount receivable on a capital account becomes a bad debt and you elect on your return to have the provisions of subsection 50(1) applied, a deemed disposition occurs at the end of the year. You are considered to have reacquired the debt immediately afterwards at a cost of nil. This usually allows the corporation to claim a bad debt as a capital loss in the year. Any later recovery of that debt will result in a capital gain.

References

Subsection 50(1)

IT-159, CAPITAL DEBTS ESTABLISHED TO BE BAD DEBTS

Foreign exchange gains or losses from buying or selling capital properties are capital gains or capital losses. Transactions in foreign currency or foreign currency futures that do not form part of the business operations can be considered capital dispositions.

References

Subsection 39(2)

IT-95, FOREIGN EXCHANGE GAINS AND LOSSES

For dispositions of depreciable property, a capital gain results if the proceeds are more than the capital cost. However, losses on depreciable property do not result in capital losses. These losses are **terminal losses.** See "Column 6 – Undepreciated capital cost" on page 188 [36] to find out more about terminal losses.

You have to report dispositions of goodwill and other intangible properties on Schedule 10, CUMULATIVE ELIGIBLE CAPITAL DEDUCTION. See page 217 [40] for more details.

Enter the total amount of gain or loss realized on disposition of other properties on line D.

Part 5 – Personal-use property

In this part, describe any personal-use property you disposed of during the tax year.

Personal-use property of a corporation is property owned primarily for the personal use or enjoyment of an individual who is related to the corporation.

Use the $1,000 rule to determine gains and losses when you dispose of personal-use property. According to this rule, if the ACB is less than $1,000, it is considered to be $1,000. As well, when the proceeds of disposition are less than $1,000, they are considered to be $1,000.

The $1,000 rule will not apply when donors acquire personal-use property as part of an arrangement in which the property is gifted to a qualified donee, such as a registered charity.

You cannot deduct losses on dispositions of personal-use property (other than listed personal property) from your income.

Enter the total amount of gain realized on disposition of personal-use property on line E.

Reference

Subsection 46(1)

Part 6 – Listed personal property

In this part, describe any listed personal property disposed of during the tax year.

Listed personal property is a special category of personal-use property that usually increases in value. The following is a complete list of the different types of listed personal property:

- prints, etchings, drawings, paintings, sculptures, or other similar works of art;
- jewellery;
- rare folios, rare manuscripts, or rare books;
- stamps; and
- coins.

If you incur losses from disposing of listed personal property, you can only deduct these losses from capital gains realized from disposing of listed personal property.

On **line 655,** enter the amount of listed personal property losses from previous years you want to apply against current-year net listed personal property gains. Also, enter this amount on line 530 of Schedule 4, CORPORATION LOSS CONTINUITY AND APPLICATION.

You can apply any unabsorbed losses in the current year to reduce similar net gains realized in the three immediately preceding years, and in the following seven years. See "Part 5 – Listed personal property losses" on page 255 [46] for more details.

On line F, enter the total amount of gains or losses realized on disposition of listed personal property **minus** the amount of line 655.

Part 7 – Property qualifying for and resulting in an allowable business investment loss

Generally, a business investment loss arises from the **arm's length** disposition (or deemed disposition) of:

- shares of a small business corporation; or
- certain debts owed to the corporation by a small business corporation, certain bankrupt corporations, or certain wound-up corporations (these corporations have to deal with the corporation at arm's length).

A small business corporation is defined in subsection 248(1).

If claiming an **allowable business investment loss (ABIL),** complete Part 7 of Schedule 6 giving the following information in the appropriate column:

column 900 – name of small business corporation;

column 905 – type of disposition (shares or debt);

column 910 – date of acquisition of shares or debts;

column 920 – proceeds of disposition;

column 930 – adjusted cost base; and

column 940 – outlays and expenses (for dispositions).

Deduct, from the proceeds of disposition, the ACB plus the outlays and expenses to get the business investment loss. Enter this result in **column 950.**

Enter the total amount of business investment loss on line G.

On line H, enter the ABIL (amount G multiplied by 1/2). Enter this amount on line 406 of Schedule 1.

Capital gains reserve

Often, you will not receive part of the proceeds of disposition, usually for real property, until after the end of the year. In these cases, you can defer part of the capital gain to the year it is due to receive the proceeds by setting up a capital gains reserve. By using reserves, you can spread a capital gain over a maximum of five years.

A corporation that has made a gift of a non-qualifying security to a qualified donee may claim a reserve for any gain realized on this security. A reserve can only be claimed if the donation is not deducted for tax purposes and the donee does not dispose of the security. This reserve can only be claimed in tax years ending within 60 months of making the gift. The reserve must be included in income if any of the following occur:

- the corporation becomes a non-resident or tax exempt; or
- the donee disposes of the security.

The reserve that you can claim in a tax year cannot be more than the lesser of the following two amounts:

A. $$\frac{\text{Capital gain}}{\text{Proceeds of disposition}} \times \text{Amount not due until after the end of the year}$$

and

B.

• for the year of disposition	4/5 of the capital gain
• for the second year	3/5 of the capital gain
• for the third year	2/5 of the capital gain
• for the fourth year	1/5 of the capital gain

Add the reserve amount you deducted in a tax year to income in the following tax year. Add the reserve opening balance and subtract the reserve closing balance on lines 880 and 885 of Schedule 6.

Show the continuity of capital gain reserves on Schedule 13, CONTINUITY OF RESERVES. See page 221 [40] for details.

References

Subparagraphs 40(1)(a)(ii) and 40(1)(a)(iii)

Subsection 40(1.01)

Part 8 – Determining capital gains or capital losses

The amount on line 890 is the total capital gain or loss, which is determined as follows:

line I – total of amounts A to F, excluding amount F if the result is a loss for the year;

add

line 875 – Capital gains dividends (Capital gains dividends under paragraphs 130.1(4)(a) and (b) and 131(1)(a) and (b) are considered to be capital gains. These paragraphs apply to mortgage investment corporations and mutual fund corporations.) If you received any capital gains dividends in the tax year, enter them on this line; and

line 880 – the balance at the beginning of the year of the capital gains reserve from Schedule 13 (this amount should include any amount from the last tax year of predecessor corporations after amalgamation or wind-up);

minus

line 885 – the balance at the end of the year of the capital gains reserve from Schedule 13; and

line 890 – total capital gain or loss (excluding ABIL).

Part 9 – Determining taxable capital gains and total capital losses

line N – total amount of gain or loss excluding ABILs (amount from line 890);

minus

line 895 – total of:

line O – 1/2 of capital gains realized prior to May 2, 2006 on donations of a security listed on a stock exchange, a share or unit of a mutual fund, an interest in a segregated fund, or a prescribed debt obligation made to a qualified donee (other than a private foundation); and

line P – the full amount of capital gains realized after May 1, 2006 on donations of a security listed on a stock exchange, a share or unit of a mutual fund, an interest in a segregated fund, or a prescribed debt obligation made to a qualified donee (other than a private foundation).

and

line 896 – total of:

line Q – 1/2 of capital gain realized prior to May 2, 2006, on donations of ecologically sensitive land; and

line R – the full amount of capital gain realized after May 1, 2006, on donations of ecologically sensitive land.

The capital gains inclusion rate is zero for gifts made after May 1, 2006, to charitable organizations and public foundations of certain publicly listed securities and land certified by Environment Canada to be ecologically sensitive.

line S – line 895 plus 896.

line T – capital gain or loss for the year. This amount is the result of line N minus line S. If the amount is a loss, enter it on line 210 of Schedule 4.

line U – taxable capital gains. If the amount at line T is a gain, multiply it by 1/2. Enter the amount of taxable capital gain on line 113 of Schedule 1.

References

Paragraphs 38(a.1) and 38(a.2)

You can deduct an ABIL from all sources of income for the year. If any balance remains after the year the loss occurs, it becomes part of the non-capital loss. You can carry the non-capital loss back three tax years and carry it forward seven tax years. For an ABIL incurred in tax years ending after March 22, 2004, the carry-forward period is for the ten following tax years.

If you are unable to deduct an ABIL as a non-capital loss within this allowed time frame, the unused part becomes a net capital loss, and you can carry it forward indefinitely to reduce taxable capital gains.

Include all **unused ABIL** after the applicable carry-forward period in Part 2, "Capital losses," of Schedule 4. See page 242 [44], for more details.

References

Paragraph 39(1)(c)

IT-484, BUSINESS INVESTMENT LOSSES

Schedule 8, Capital Cost Allowance (CCA)

Paragraph 20(1)(a) allows a corporation to deduct part of the capital cost of certain **depreciable property** from income it earned in the year from a business or property. This deduction is called **capital cost allowance** (CCA).

Complete Schedule 8 to calculate CCA.

When a tax year is shorter than 12 months, you generally have to prorate the CCA.

Under Part XI of the *Income Tax Regulations*, depreciable property is grouped into prescribed classes. Schedule II of the regulations contains a complete list of these prescribed classes.

A maximum rate is prescribed for each class. Apply the prescribed rate to the undepreciated capital cost of the class at year-end to determine the maximum CCA you can claim. You can deduct any amount up to the maximum that is available for the year.

Note

On Schedule 8, do not include capital expenditures (other than first- or second-term shared-use equipment) for which you are requesting SR&ED treatment.

Disability-related modifications

You can deduct outlays and expenses you incur for eligible disability-related modifications made to a building in the year you paid them, instead of having to add them to the capital cost of your building.

Eligible disability-related modifications include changes you make to accommodate wheelchairs. You can also deduct expenses paid to install or get disability-related devices and equipment.

You can claim this as "Other deductions" on Schedule 1, NET INCOME (LOSS) FOR INCOME TAX PURPOSES.

Available-for-use rule

The available-for-use rule determines the earliest tax year in which you can claim CCA for depreciable property.

When is property available for use?

Property other than a building is considered available for use at the earliest of several dates. The following are some examples of these dates:

- when the corporation first uses the property to earn income;
- the beginning of the first tax year that starts at least 358 days after the tax year during which the corporation acquired the property;
- immediately before the corporation disposes of the property; or

- when the corporation can use the property to either produce a saleable product or perform a saleable service.

A building is considered available for use on the earliest of the following dates:

- when the corporation uses all or substantially all of the building for its intended purpose;
- when construction of the building is completed;
- the beginning of the first tax year that starts at least 358 days after the tax year during which the corporation acquired the property;
- immediately before the corporation disposes of the property; or
- when the corporation acquires a replacement property, if it is replacing one it involuntarily disposed of (for example, expropriation) that it either acquired before 1990 or had already become available for use.

Note

If a corporation acquires a property for a **long-term project,** it can elect to limit the impact of the available-for-use rule. This election is not available for rental buildings. To make this election, send us a completed Form T1031, SUBSECTION 13(29) ELECTION IN RESPECT OF CERTAIN DEPRECIABLE PROPERTIES, ACQUIRED FOR USE IN A LONG TERM PROJECT, with your return.

References

Subsections 13(26) to 13(32)

Election under Regulation 1101(5q)

Line 101 – Is the corporation electing under Regulation 1101(5q)?

To answer this question, tick the YES or NO box.

This election allows you to include certain property usually included in classes 8, 10, and 43 in a separate class. You have to have acquired each property after April 26, 1993, at a capital cost of **at least $1,000.** The types of properties that qualify for this election include general-purpose electronic data-processing equipment and ancillary equipment, manufacturing and processing property, computer software, photocopiers, and electronic communications equipment, such as facsimile transmission devices or telephone equipment.

You can elect to classify a property in a separate class or several properties in one or more than one separate class.

This election can allow you to claim a terminal loss, which is any remaining undepreciated capital cost at the time of disposition of the properties in this class. For more information on terminal losses, see "Column 6 – Undepreciated capital cost."

CCA rates and classes

New CCA classes were introduced as a result of the 2005 federal budget.

Class 43.2 is for certain efficient and renewable energy production equipment acquired after February 22, 2005, and before 2012. The CCA rate for this new class is 50%.

Class 47 is for certain transmission and distribution property of a distributor of electricity acquired after February 22, 2005. The CCA rate for this new class is 8%.

Class 48 is for certain combustion turbines that generate electricity acquired after February 22, 2005. The CCA rate for this new class is 15%.

Class 49 is for certain hydrocarbon transmission pipelines acquired after February 22, 2005. The CCA rate for this new class is 8%.

The 2006 federal budget extended eligibility for the new 50% rate in Class 43.2 to cogeneration systems that use a type of biomass, referred to as "spent pulping liquor," used in the pulp and paper industry, acquired on or after November 14, 2005, that have not been used or acquired for use before that date.

The 2006 federal budget also increased the cost limit to $500 for certain property under Class 12 acquired after May 1, 2006, such as small tools, kitchen utensils, and medical or dental instruments. Electronic communication devices and electronic data processing equipment acquired after May 1, 2006, were excluded from this class.

Completing Schedule 8

This section explains how to complete each column of Schedule 8. Use a separate line for each class of property.

Column 1 – Class number

Identify each class of property with the assigned class number.

Generally, you have to group all depreciable property of the same class together. Then, calculate CCA on the undepreciated capital cost of all the property in that class.

However, sometimes you have to maintain a separate record for each property in the same class. For example, list on separate lines property that you would usually group in the same class but use to earn income from different sources. Also, list on a separate line each Class 10.1 passenger vehicle and property you elected to identify in a separate class under Regulation 1101(5q).

Note

If a class number has not been provided in Schedule II of the INCOME TAX REGULATIONS for a particular class of property, use the subsection provided in Regulation 1101.

Reference

Regulation 1101

Column 2 – Undepreciated capital cost at the beginning of the year

Enter the amount of the undepreciated capital cost at the end of the **preceding tax year.** This is the amount from column 13 of your last tax year's Schedule 8.

Column 3 – Cost of acquisitions during the year

For each class, enter the total cost of depreciable property you acquired in the tax year. Depreciable property is considered to have been acquired when it becomes available for use. See page 178 [34] for more information on the available-for-use rule.

The cost of acquisitions generally means the full cost of acquiring the property, including legal, accounting, engineering, and other fees. **Land is not a depreciable property, and is therefore not eligible for CCA.**

List any acquisitions that are not subject to the 50% rule, separately. See Regulations 1100(2) and (2.2) for more information about these types of acquisitions.

Do not enter section 85 transfers in this column.

References

Regulations 1100(2) and (2.2)

Column 4 – Net adjustments

In some cases, you will have to adjust the capital cost of a property. In column 4, enter the amounts that will either **reduce** or **increase** the capital cost.

Reduce the capital cost of a property by the following amounts:

- any goods and services tax/harmonized sales tax (GST/HST) input tax credit claimed or entitled to be claimed, or rebate **received or entitled to be received in the year;**
- any federal investment tax credits (ITCs) used to reduce taxes payable or claimed as a refund in the preceding tax year;
- any reduction of capital cost after the application of section 80;
- any provincial or territorial ITCs received or entitled to be received in the current year; and
- any government assistance received or entitled to be received in the year.

Add to the capital cost of the property:

- any depreciable property transferred upon amalgamation or upon the wind-up of a subsidiary;
- any repayment of GST/HST input tax credit previously claimed;
- any depreciable property transferred under section 85; and

- any government assistance repaid in the year that previously reduced the capital cost.

Show the amounts that reduce the capital cost in brackets. Do not include them as income.

Note

A corporation that receives an amount of non-government assistance to buy depreciable property has the option of either reducing the capital cost of the property by this amount, or including it in its income.

References

Subsections 13(7.1), 13(7.4), and 13(21)

Paragraph 12(1)(x)

IT-285, CAPITAL COST ALLOWANCE – GENERAL COMMENTS

Column 5 – Proceeds of dispositions during the year

For each class, you usually enter the total proceeds of disposition received or are entitled to be received for property disposed of during the year. However, if you disposed of the property for more than its capital cost, enter the capital cost, not the actual proceeds of disposition.

A capital gain results when you dispose of a depreciable property for more than its capital cost. However, losses on depreciable property **do not result** in capital losses. They may result in terminal losses. See column 6 for more details about terminal losses.

Column 6 – Undepreciated capital cost

To calculate the amount you have to enter in column 6:

- add the amounts in columns 2 and 3;
- either subtract or add the amount in column 4 (subtract if it is a negative amount, or add if it is a positive amount); and
- subtract the amount in column 5.

You cannot claim CCA when the amount in column 6 is:

- positive, and no property is left in that class at the end of the tax year (a **terminal loss**); or
- negative (a **recapture of CCA**).

Terminal loss

A terminal loss results when you dispose of all the property in a particular class and there is an amount of undepreciated capital cost left in column 6. You have to deduct the terminal loss from income. For details, see example 1 under the heading "Schedule 8 examples" that follows.

Recapture of CCA

If the amount in column 6 is negative, you have a recapture of CCA. A recapture of CCA occurs when the proceeds of disposition in column 5 are more than the total of columns 2 and 3, plus or minus the amount in column 4 of that class. You have to add the recapture to income. For details, see example 2 under the heading "Schedule 8 examples" that follows.

The recapture and terminal loss rules do not apply to passenger vehicles in Class 10.1.

Enter the recapture or terminal loss from column 6 in column 10 or 11. In this case, do not complete the rest of the columns for that line.

Column 7 – 50% rule

Generally, property acquired during the tax year is only eligible for 50% of the normal maximum CCA for the year. You can claim full CCA for that property in the next tax year.

To apply the 50% rule, the undepreciated capital cost of the property has to be adjusted. This adjustment is equal to one-half of the net amount of additions to the class (the net cost of acquisitions minus the proceeds of dispositions). Enter this amount in column 7. For details, see example 3 under the heading "Schedule 8 examples" that follows.

When applying the 50% rule, the net amount of additions must take into account some adjustments in column 4 (plus or minus). However, do not reduce the net amount of additions by the ITC claimed in the preceding tax year and included in column 4.

Certain properties acquired through non-arm's-length transfers or butterfly transfers (which occur in the course of certain reorganizations) are exempt from the 50% rule.

References

Regulation 1100(2)

IT-285, CAPITAL COST ALLOWANCE – GENERAL COMMENTS

Column 8 – Reduced undepreciated capital cost

In this column, enter the amount you get when you subtract the amount in column 7 from the amount in column 6.

Column 9 – CCA rate

Enter the prescribed rate that applies, as provided for under Part XI of the Regulations. If a specific rate has not been provided for a particular class of property, enter N/A in this column.

Column 10 – Recapture of capital cost allowance

In column 6, enter the amount of recapture calculated. Be sure you include the recapture as income. Enter the total of amounts in column 10 on line 107 of Schedule 1.

Column 11 – Terminal loss

Enter the terminal loss calculated in column 6. Deduct the terminal loss from income. Enter the total of amounts in column 11 on line 404 of Schedule 1.

Column 12 – Capital cost allowance

To claim the maximum CCA for each class, multiply the amount in column 8 by the rate in column 9, and enter the result in column 12. You do not have to claim the maximum allowable CCA. You can claim any amount up to the maximum.

If the tax year is less than 365 days, prorate the CCA claim for all property except for those classes of property that Regulation 1100(3) excludes. The exceptions in Regulation 1100(3) include:

- Class 14 assets;
- Class 15 assets;
- timber limits and cutting rights;
- industrial mineral mines;
- certified productions;
- Canadian film or video productions; and
- certain mining equipment in classes 28 and 41.

To determine the maximum CCA claim, multiply the maximum CCA for a complete year by the number of days in the tax year divided by 365.

References

Regulation 1100(3)

IT-147, Capital Cost Allowance – Accelerated Write-off of Manufacturing and Processing Machinery and Equipment

IT-285, Capital Cost Allowance – General Comments

The total of all amounts in column 12 is the CCA claim for the tax year. Deduct this amount on line 403 of Schedule 1.

Note

If you want to change the amount of CCA claimed in a tax year, send a written request within 90 days of the date on the NOTICE OF ASSESSMENT or NOTICE OF REASSESSMENT. Only under certain circumstances can we make adjustments after the 90-day period has expired.

For more information, see Information Circular 84-1, REVISION OF CAPITAL COST ALLOWANCE CLAIMS AND OTHER PERMISSIVE DEDUCTIONS.

Column 13 – Undepreciated capital cost at the end of the year

Subtract the amount in column 12 from the amount in column 6 and enter the difference.

When there is a recapture of CCA or a terminal loss for a particular class in the year, the undepreciated capital cost at the end of the year is always nil.

Schedule 8 examples

Example 1

An import-export business decided to sell its warehouse, because it is better to lease instead. The business received $30,000 for the warehouse. At the end of the 2006 tax year, the business had no more assets in Class 3.

The business's Schedule 8 for its 2006 tax year looks like this:

	1 Class number 200	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the endof the year from column 13 of last year's CCA schedule) 201	3 Cost of acquisitions during the year (new property must be available for use) 203
1.	**3**	**$35,000**	
2.			
3.			
4.			

	4 Net adjustments (show negative amounts in brackets) 205	5 Proceeds of dispositions during the year (amount not to exceed the capital cost) 207	6 Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5)
1.		**$30,000**	**$5,000**
2.			
3.			
4.			

	7 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) **211**	8 Reduced undepreciated capital cost (column 6 **minus** column 7)	9 CCA rate % **212**
1.		**$5,000**	**N/A**
2.			
3.			
4.			

	10 Recapture of capital cost allowance **213**	11 Terminal loss **215**	12 Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount) **217**	13 Undepreciated capital cost at the end of the year (column 6 **minus** column 12) **220**
1.		**$5,000**		
2.				
3.				
4.				

The amount in column 11 is a terminal loss.

The import-export business deducts the $5,000 terminal loss from its income (line 404 of Schedule 1).

Example 2

A clothing company bought a sewing machine in 2004 for $10,000. Now, because of the overwhelming success the company has had in the retail end of the business, it has decided to concentrate solely on retailing. As a result, the company sold its sewing machine in 2006 for $12,000. At the beginning of 2006, the undepreciated capital cost of the sewing machine was $9,500.

The company's Schedule 8 for its 2006 tax year looks like this:

	1 Class number 200	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the endof the year from column 13 of last year's CCA schedule) 201	3 Cost of acquisitions during the year (new property must be available for use) 203
1.	**8**	**$9,500**	
2.			
3.			
4.			

	4 Net adjustments (show negative amounts in brackets) **205**	5 Proceeds of dispositions during the year (amount not to exceed the capital cost) **207**	6 Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5)
1.		**$10,000**	**($500)**
2.			
3.			
4.			

	7 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) **211**	8 Reduced undepreciated capital cost (column 6 **minus** column 7)	9 CCA rate % **212**
1.		**($500)**	**N/A**
2.			
3.			
4.			

	10 Recapture of capital cost allowance **213**	11 Terminal loss **215**	12 Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount) **217**	13 Undepreciated capital cost at the end of the year (column 6 **minus** column 12) **220**
1.	**$500**			
2.				
3.				
4.				

The amount in column 10 is the recapture of CCA.

The clothing company includes the $500 recapture in its income (line 107 of Schedule 1). The capital gain is $12,000 minus $10,000, which equals $2,000.

Example 3

In the 2006 tax year, a bookstore bought a photocopier to help keep up with the paperwork, and started using it right away. The copier cost $5,000. The bookstore has to apply the 50% rule when it calculates the amount of CCA it can deduct for 2006.

The bookstore's Schedule 8 for its 2006 tax year looks like this:

	1 Class number 200	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the endof the year from column 13 of last year's CCA schedule) 201	3 Cost of acquisitions during the year (new property must be available for use) 203
1.	**8**	**$10,000**	**$5,000**
2.			
3.			
4.			

	4 Net adjustments (show negative amounts in brackets) **205**	5 Proceeds of dispositions during the year (amount not to exceed the capital cost) **207**	6 Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5)
1.			**$15,000**
2.			
3.			
4.			

	7 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) **211**	8 Reduced undepreciated capital cost (column 6 **minus** column 7)	9 CCA rate % **212**
1.	**$2,500**	**$12,500**	**20**
2.			
3.			
4.			

	10 Recapture of capital cost allowance **213**	11 Terminal loss **215**	12 Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount) **217**	13 Undepreciated capital cost at the end of the year (column 6 **minus** column 12) **220**
1.			**$2,500**	**$12,500**
2.				
3.				
4.				

List of CCA rates and classes

The following chart is a **partial list** and description of the most common capital cost allowance (CCA) classes. You will find a complete list in Schedule II of the INCOME TAX REGULATIONS.

Class number	Description	CCA rate
1	Most buildings made of brick, stone, or cement acquired after 1987, including their component parts such as electric wiring, lighting fixtures, plumbing, heating and cooling equipment, elevators, and escalators	4%
3	Most buildings made of brick, stone, or cement acquired before 1988, including their component parts as listed in Class 1 above	5%

Class number	Description	CCA rate
6	Buildings made of frame, log, stucco on frame, galvanized iron, or corrugated metal that are used in the business of farming or fishing, or that have no footings below-ground; fences and most greenhouses	10%
7	Canoes, boats, and most other vessels, including their furniture, fittings, or equipment	15%
8	Property that is not included in any other class such as furniture, calculators and cash registers (that do not record multiple sales taxes), photocopy and fax machines, printers, display fixtures, refrigeration equipment, machinery, tools costing $200 or more, and outdoor advertising billboards and greenhouses with rigid frames and plastic covers	20%

Class number	Description	CCA rate
9	Aircraft, including furniture, fittings, or equipment attached, and their spare parts	25%
10	Automobiles (except taxis and others used for lease or rent), vans, wagons, trucks, buses, tractors, trailers, drive-in theatres, general-purpose electronic data-processing equipment (e.g., personal computers) and systems software, and timber-cutting and removing equipment	30%
10.1	Passenger vehicles costing more than $30,000 if acquired after 2000	30%

Class number	Description	CCA rate
12	Chinaware, cutlery, linen, uniforms, dies, jigs, moulds or lasts, computer software (except systems software), cutting or shaping parts of a machine, certain property used for earning rental income such as apparel or costumes, and videotape cassettes; certain property costing less than $200 such as kitchen utensils, tools, and medical or dental equipment	100%
13	Property that is leasehold interest (the maximum CCA rate depends on the type of leasehold and the terms of the lease)	N/A

Class number	Description	CCA rate
14	Patents, franchises, concessions, and licences for a limited period – the CCA is limited to whichever is less: • the capital cost of the property spread out over the life of the property; or • the undepreciated capital cost of the property at the end of the tax year. Class 14 also includes patents, and licences to use patents for a limited period, that you elect not to include in Class 44	N/A
16	Automobiles for lease or rent, taxicabs, and coin-operated video games or pinball machines; certain tractors and large trucks acquired after December 6, 1991, that are used to haul freight and that weigh more than 11,788 kilograms	40%

Class number	Description	CCA rate
17	Roads, sidewalks, parking-lot or storage areas, telephone, telegraph, or non-electronic data communication switching equipment	8%
38	Most power-operated movable equipment acquired after 1987 used for moving, excavating, placing, or compacting earth, rock, concrete, or asphalt	30%
39	Machinery and equipment acquired after 1987 that is used in Canada primarily to manufacture and process goods for sale or lease	25%
43	Manufacturing and processing machinery and equipment acquired after February 25, 1992, described in Class 39 above	30%

Class number	Description	CCA rate
44	Patents and licences to use patents for a limited or unlimited period that the corporation acquired after April 26, 1993 – However, you can elect not to include such property in Class 44 by attaching a letter to the return for the year the corporation acquired the property. In the letter, indicate the property you do not want to include in Class 44	25%
45	Computer equipment that is "general-purpose electronic data processing equipment and system software" included in paragraph f of Class 10 acquired after March 22, 2004	45%

Class number	Description	CCA rate
46	Data network infrastructure equipment that supports advanced telecommunication applications, acquired after March 22, 2004 – it includes assets such as switches, multiplexers, routers, hubs, modems, and domain name servers that are used to control, transfer, modulate and direct data, but does not include office equipment such as telephones, cell phones or fax machines, or property such as wires, cables or structures	30%

Schedule 10, Cumulative Eligible Capital Deduction

Complete Schedule 10 to calculate the cumulative eligible capital deduction.

Some business-related expenditures are capital in nature. Corporations incur these expenditures, called eligible capital expenditures, to buy intangible capital property, known as **eligible capital property.** Some examples of eligible capital property are:

- goodwill;
- trademarks;
- franchises, concessions, or licences for an unlimited period; and
- patents, and licences to use patents for an unlimited period, that you elect not to include in Class 44. For more information on Class 44, see the CCA rates and classes chart on page 210 [38].

Expenses you incur for incorporation, reorganization, or amalgamation also qualify as eligible capital expenditures.

Eligible capital expenditures are not deductible in full, and they are not eligible for CCA. However, they may qualify for a partial deduction called a **cumulative eligible capital deduction.**

The cumulative eligible capital (CEC) account is the account you set up to keep track of your eligible capital expenditures. Calculate your CEC account balance on Schedule 10. Each year, you can deduct up to 7% of the balance.

Complete Part 1 of Schedule 10 and claim the amount at line 250 on line 405 of Schedule 1.

Show any amount at line 222, "Cost of eligible capital property acquired during the tax year," excluding any adjustments, such as government assistance, repayment of government assistance, and section 85 transfers. Enter adjustments at line 226 if they increase the eligible capital cost or at line 246 if they reduce it.

When completing Part 1 of Schedule 10, if you have a negative balance on your CEC account, you have to complete Part 2.

On line 108 of Schedule 1, enter the amount you calculated at line 410. You must prorate the deduction for a short tax year.

References

Subsection 14(5)

Paragraph 20(1)(b)

Section 85

IT-143, MEANING OF ELIGIBLE CAPITAL EXPENDITURE

Schedule 12, Resource-Related Deductions

You have to complete the appropriate part(s) of Schedule 12 if you are claiming any of the following deductions on Schedule 1:

- Canadian development expenses;
- Canadian exploration expenses;
- Canadian oil and gas property expenses;
- depletion;
- foreign exploration and development expenses;
- specified foreign exploration and development expenses; or
- foreign resource expenses.

Schedule 12 gives details for the calculations required.

References

Part XII of the Regulations

Sections 65 and 66

Schedule 13, Continuity of Reserves

You have to complete Schedule 13 to show the continuity of all reserves. Indicate, on the appropriate lines, the prior-year and the current-year reserves as well as the reserve transferred from an amalgamation or wind-up. If your corporation or the predecessor corporation deducted a reserve amount last year, add that amount to current-year income and establish a new reserve amount.

Complete Schedule 13 as follows:

Part 1 – Capital gains reserves

Establish the continuity of reserves for each different property. Unlike other reserves, you have to report the total capital gain reserves that you and the predecessor corporation deducted last year. Add the current-year reserve on Schedule 6 to calculate the current-year capital gain. See page 153 [30] for more details.

Part 2 – Other reserves

In this part, establish the continuity of the following reserves:

- reserve for doubtful debts;
- reserve for undelivered goods and services not rendered;
- reserve for prepaid rent;
- reserve for December 31, 1995, income from partnership;
- reserve for returnable containers;
- reserve for unpaid amounts; and
- other tax reserves.

Enter, on line 125 of Schedule 1, the total of the balance of your reserve at the beginning of the year (line 270 of Schedule 13) plus the amount of reserve transferred on wind-up/amalgamation (line 275 of Schedule 13).

Enter, on line 413 of Schedule 1, the balance at the end of the year (line 280 of Schedule 13).

Enter, on line 414 of Schedule 1, the balance at the beginning of the year of reserves from financial statements.

Enter, on line 126 of Schedule 1, the balance at the end of the year of reserves from financial statements.

References

IT-152, SPECIAL RESERVES – SALE OF LAND

IT-154, SPECIAL RESERVES

IT-442, BAD DEBTS AND RESERVES FOR DOUBTFUL DEBTS

Schedule 16, Patronage Dividend Deduction

Complete Schedule 16 if you are claiming a patronage dividend deduction. This deduction is for payments made to customers for allocations in proportion to patronage. An **allocation in proportion to patronage** entitles a customer to receive payment calculated at a rate relating to the quantity, quality, or value of either goods or products sold or services rendered.

Corporations have to pay amounts that qualify for this deduction either during the tax year, or in the 12 months that follow the tax year.

Members of certain agricultural co-operative corporations can defer including in income patronage dividends in the form of shares issued after 2005 and before 2016 to the year of their disposal. Also, an eligible agricultural co-operative for a particular tax year can deduct patronage dividends issued in the form of shares, but deductions cannot be more than 85% of its income for that year that is attributable to business done with its members.

Corporations other than credit unions and co-operative corporations cannot deduct patronage dividends paid after March 22, 2004, to non-arm's length persons.

Parts 1, 2, and 3 of Schedule 16 give details on how to calculate the allowable patronage dividend deduction. Enter this deduction on line 416 of Schedule 1.

If you are claiming a patronage dividend deduction, you also have to complete Part 5 of Schedule 16 entitled "Calculation of income from an active business carried on in Canada (ABI)." Enter the amount from line 124 at line 400 of the return.

File one completed copy of this schedule with your return.

References

Sections 135 and 135.1

IT-362, PATRONAGE DIVIDENDS

Schedule 17, Credit Union Deductions

As a credit union, you may be claiming allocations for bonus interest payments and allocations in proportion to borrowing. If so, provide us with the appropriate information by completing Schedule 17.

Use this schedule to calculate the "additional deduction – credit unions" to reduce Part I tax. For details on this additional deduction, see "Line 628 – Additional deductions – credit unions" on page 334 [62].

A credit union can deduct from its income for a tax year both the total of all bonus interest payments and the payments it made to its members for allocations in proportion to borrowing. It can also deduct payments made in the 12 months after the end of the tax year. However, the credit union cannot deduct an amount if it could have deducted it in the previous tax year.

The **allocation in proportion to borrowing** for a tax year means an amount a credit union credits to a member that is entitled to, or will receive, this amount.

On Schedule 17, you have to calculate the payment made in proportion to borrowing at a rate that is related to:

- the amount of interest payable by the member on money the member borrowed from the credit union; or
- the amount of money the member borrowed from the credit union.

You have to calculate the bonus interest payment at a rate that is related to:

- the interest payable by the credit union on money standing to the member's credit; or
- the amount of money standing to the member's credit.

The amount the credit union credited to the member has to bear the same rate as the interest or money that the credit union similarly credited to all other members of the credit union of the same class.

Complete the appropriate parts of Schedule 17 to calculate this deduction. Add lines 305 and 315 of Schedule 17 and enter the result on line 315 of Schedule 1.

References

Subsections 137(2) and 137(6)

Form T661, Claim for Scientific Research and Experimental Development (SR&ED) Carried Out in Canada

We publish Guide T4088, CLAIMING SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT – GUIDE TO FORM T661, which gives details on how to complete Form T661. For more information, visit our Web site at **www.cra.gc.ca/sred.**

File a current version of Form T661 if you carry on business in Canada and have incurred expenditures for scientific research and experimental development (SR&ED) you carried on in Canada.

To be a qualified expenditure, the amount has to be for SR&ED carried on "in Canada."

For SR&ED expenditures made after February 22, 2005, the expression "in Canada" includes the "exclusive economic zone" (as defined in the OCEANS ACT to generally consist of an area that is within 200 nautical miles from the Canadian coastline), including the airspace, seabed, and subsoil in respect of that zone.

For SR&ED expenditures made prior to February 23, 2005, the expression "in Canada" generally includes the 12-nautical-mile territorial sea.

To avoid delays in processing, use the most recent version of Form T661.

Current and capital SR&ED expenditures form a special pool that you can deduct in the current year. You can also carry forward to any future year the expenditures in that pool as long as you have not deducted them before.

Enter the scientific research expenses claimed in the year, on line 411 of Schedule 1.

Form T661 summarizes the costs for all SR&ED projects. You have to complete the form and place it on top of the return for the tax year you incur SR&ED expenditures. File Form T661 whether or not you claim an investment tax credit (ITC). If you do not file Form T661 and Schedule 31, INVESTMENT TAX CREDIT – CORPORATIONS, on or before the day that is 12 months after your filing due-date for the tax year in which the SR&ED expenditures were made, you cannot claim SR&ED expenditures and an ITC for that year. For more information, see "Line 652 – Investment tax credit" on page 346 [64].

When a corporation is a member of a partnership that incurs SR&ED expenditures, the partnership has to file Form T661 along with the T5013 Summary, PARTNERSHIP INFORMATION RETURN. Each partner has to file a T5013 slip, STATEMENT OF PARTNERSHIP INCOME, showing its share of the expenditures. If the partnership is exempt from filing (for example, it has fewer than six members), each partner has to file Form T661 with its return.

References

Subsections 37(1), 149(7), and 149(7.1)

Regulation 2900

IC 86-4, SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT

IT-151, SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT EXPENDITURES

T4052, AN INTRODUCTION TO THE SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT PROGRAM

T4088, CLAIMING SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT – GUIDE TO FORM T661

Losses

Current-year losses

A corporation may not always have net income to report. Instead, it may have incurred a loss for the year. The different types of losses a corporation can incur are:

- non-capital loss;
- farm loss;
- restricted farm loss; and
- limited partnership loss.

The application and continuity of these losses are calculated on Schedule 4, CORPORATION LOSS CONTINUITY AND APPLICATION. Information on how to complete Schedule 4 follows this section.

A corporation may also incur a capital loss. These types of losses are determined on Schedule 6, SUMMARY OF DISPOSITIONS OF CAPITAL PROPERTY. For information on how to complete this schedule, see page 153 [30].

Applying losses

A corporation can apply unused losses and deduct them from income it earned in the current tax year or in prior tax years.

Note

You can choose whether or not to deduct an available loss from income in a tax year. You can deduct losses in any order. However, for each type of loss, make sure to deduct the oldest available loss first.

Losses carryback

You can use losses in any order, but consider the following:

- a current-year non-capital loss or farm loss can reduce any kind of income or taxable dividends subject to Part IV tax for the three preceding years;
- a net capital loss can reduce taxable capital gains included in your income for the three preceding years;
- a restricted farm loss can reduce farming income for the three preceding years; and
- a listed personal property loss can reduce capital gains incurred on listed personal property for the three preceding years.

Except for net capital losses, you cannot use other year losses to create or increase a non-capital loss for the tax year.

Use Schedule 4 to request the carryback of any losses to prior years. If you do not attach your request to the return, you can send it separately to your tax centre.

Calculating losses when there is an acquisition of control

Following an acquisition of control, special rules apply for calculating and deducting net capital losses, non-capital losses, and farm losses. You will find more information about these rules on Schedule 4 and at lines 063 and 065 on page 85 [18]. Also, see the following references for details.

References

Subsections 111(4) and 111(5)

IT-302, LOSSES OF A CORPORATION – THE EFFECT THAT ACQUISITIONS OF CONTROL, AMALGAMATIONS, AND WINDINGS-UP HAVE ON THEIR DEDUCTIBILITY – AFTER JANUARY 15, 1987

How to complete Schedule 4, Corporation Loss Continuity and Application

Part 1 – Non-capital losses

Determination of current-year non-capital loss

To determine the current-year non-capital loss, you have to complete Part 1 as follows:

Net income (loss) for income tax purposes – income from all sources minus losses from business and property, plus or minus the adjustments on Schedule 1;

deduct

net capital losses deducted in the year – net capital losses from **previous years** used to reduce taxable capital gains included in income;

taxable dividends deductible – taxable dividends received, deductible under section 112 or 113 or subsection 138(6) (for details, see line 320 on page 278 [50]);

amount of Part VI.1 tax deductible – unused Part VI.1 tax deductible in the taxable income calculation; and

amount deductible as prospector's and grubstaker's shares – paragraph 110(1)(d.2) – the amount deductible is the value of any shares received from a corporation on disposition of a right or a mining property, except if the amount is exempt from tax in Canada by virtue of one of Canada's tax treaties, multiplied by 1/2.

Subtotal – if the result is positive, enter "0";

deduct

section 110.5 or subparagraph 115(1)(a)(vii) – addition for foreign tax deductions – any amounts added to the taxable income to use foreign tax deductions you could not otherwise deduct from Part I tax. For details, see line 355 on page 286 [51];

add

current-year farm loss – whichever is less: the net loss from farming or fishing included in the income, **or** the non-capital loss before deducting the farm loss.

Calculating current-year farm loss

The current-year farm loss is whichever of the following amounts is less:

- the loss from farming or fishing that is more than the farming or fishing income for the year; or
- the amount of the current-year non-capital loss as calculated in Part 1 before you deduct the farm loss for the year.

Enter the farm loss calculated on line 310.

The farm loss can also include an amount allocated from a partnership.

If the result after the calculation shown under Part 1 is negative, enter this result (as positive) on line 110 as the current-year non-capital loss.

Note

You cannot use prior-year losses to create or increase a current-year non-capital loss, except with net capital losses of other years.

References

Subsection 111(8)

IT-302, LOSSES OF A CORPORATION – THE EFFECT THAT ACQUISITIONS OF CONTROL, AMALGAMATIONS AND WINDINGS-UP HAVE ON THEIR DEDUCTIBILITY – AFTER JANUARY 15, 1987

Continuity of non-capital losses and request for carryback

Use this area to establish the continuity of non-capital losses and to carry back a current-year non-capital loss to prior years.

The current-year non-capital loss can reduce any kind of income or taxable dividends subject to Part IV tax for the 3 preceding tax years and for the 7 following tax years.

For losses incurred in tax years ending after March 22, 2004, the carry-forward period is for the 10 following tax years.

For non-capital losses incurred in tax years ending after 2005, the carry-forward period will be for the 20 following tax years.

Complete this area as follows:

Amount of non-capital losses at the end of the preceding tax year;

deduct

line 100 – amount of non-capital loss that has expired.
A non-capital loss expires as follows:

- after **7** tax years if it arose in a tax year ending before March 23, 2004;
- after **10** tax years if it arose in a tax year ending after March 22, 2004.

- after 20 tax years if it arose in a tax year ending after 2005.

Line 102 – amount of non-capital losses at the beginning of the tax year (this is the result of the two preceding lines);

add

line 105 – amount of non-capital losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation (this amount is the unused non-capital losses available to be carried forward at the end of the tax year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up, **minus** any expired amount); and

line 110 – amount of current-year non-capital loss calculated above;

deduct

line 150 – an amount received under **subsection 111(10)** as a fuel tax rebate that reduced non-capital loss for a preceding year, and any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control); and

line 140 – amount of debt forgiveness under section 80 that reduces the non-capital losses balance (losses have to be reduced in the order established by section 80).

deduct

line 130 – amount of non-capital losses applied in the current year to reduce the taxable income (enter this amount on line 331 of the return); and

line 135 – amount of prior- and current-year non-capital losses applied to reduce current-year taxable dividends subject to Part IV tax (enter those amounts on line 330 or 335 of Schedule 3, DIVIDENDS RECEIVED, TAXABLE DIVIDENDS PAID, AND PART IV TAX CALCULATION).

Subtotal – this is the amount of non-capital losses available to carry back or carry forward to other years;

deduct

lines 901 to 913 – on the appropriate line, enter the amount of non-capital loss you carry back to prior years against taxable income and taxable dividends subject to Part IV tax;

line 180 – the result is the closing balance of non-capital losses you carry forward to future years.

Complete Part 6 to establish the balance of non-capital losses by year of origin.

Election under paragraph 88(1.1)(f)

Further to a winding-up of a subsidiary, the portion of a non-capital loss, restricted farm loss, farm loss, or limited partnership loss incurred by the subsidiary is deemed to be the parent corporation's loss for its tax year beginning after the commencement of the winding-up.

Paragraph 88(1.1)(f) allows the parent corporation to elect that this loss is deemed to be a loss from its tax year preceding the year mentioned above.

Tick box 190 if you are making an election under paragraph 88(1.1)(f).

Part 2 – Capital losses

Continuity of capital losses and request for a carryback

The current-year capital loss is calculated on Schedule 6. See page 153 [30] for more details. Complete this part to establish the continuity and the application of capital losses.

To establish the continuity, you have to enter the amount of **capital losses** and not the amount of **net capital losses** available. The inclusion rate will be used only when the loss is applied. You have to indicate the balance of any preceding-year capital losses carried forward.

The net capital loss can reduce taxable capital gains included as income for the three preceding tax years and indefinitely for future years.

Complete this part as follows:

line 200 – amount of capital losses at the end of the preceding tax year;

add

line 205 – amount of capital losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of the issued shares of each class were, immediately before the wind-up, owned by the corporation [this amount is the unused capital losses available to carry forward at the end of the tax year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up, including any amount of the allowable business investment loss (ABIL) expired as non-capital loss for the predecessor corporation or the subsidiary), divided by the inclusion rate for the tax year in which the ABIL was incurred (see note on page 246 [below])];

deduct

line 250 – amount of any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control, and whose losses that occurred after the acquisition of control are not deductible before the acquisition of control); and

line 240 – amount of debt forgiveness under section 80 that reduces the capital losses balance (losses have to be reduced in the order established by section 80);

add

line 210 – amount of the current-year capital loss calculated on Schedule 6; and

line 220 – this amount is the **lesser** of the non-capital losses from a preceding year that have expired in the year and the amount of the ABIL incurred in the same preceding year that is included in the amount of non-capital losses expired in the year [divided by the inclusion rate for the tax year in which the ABIL was incurred (see note on page 246 [below])];

deduct

line 225 – amount of capital losses from prior years used to reduce a net capital gain incurred in the year [to get the net capital losses required to reduce the taxable capital gain included in the net income (loss) for the purpose of current-year tax, multiply the amount on line 225 by 50% and enter the result on line 332 of the return].

Subtotal – this is the amount of capital losses available to carry back or carry forward to other years;

deduct

lines 951 to 953 – on the appropriate line, enter the amount of capital loss you carry back to prior years. The net capital loss amount will be calculated at the inclusion rate of the year to which the net capital loss is applied (see note on page 246 [below]);

line 280 – the result obtained is the closing balance of available capital losses you carry forward to future years.

Note

The inclusion rates are:

- 0.75 for tax years ending before February 28, 2000;
- line M of Schedule 6 (version T2 SCH 6, F 01), SUMMARY OF DISPOSITIONS OF CAPITAL PROPERTY, for tax years ending after February 27, 2000, and starting before October 18, 2000; and
- 0.50 for tax years starting after October 17, 2000.

Part 3 – Farm losses

Continuity of farm losses and request for a carryback

Use this part to establish the continuity of farm losses and to carry back a current-year farm loss to prior years. (Farm losses include losses from farming and fishing businesses.)

Complete this part as follows:

Amount of farm losses at the end of the preceding tax year;

deduct

line 300 – amount of farm loss expired after 10 tax years (this amount is the balance of farm loss from the eleventh preceding year that would otherwise be available).

A farm loss incurred in a tax year ending after 2005 will expire after 20 tax years following the year of loss.

Line 302 – amount of farm losses at the beginning of the tax year (this is the result of the two preceding lines);

add

line 305 – amount of farm losses transferred from a predecessor corporation after amalgamation or subsidiary after wind-up where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation (this amount is the unused farm losses available to carry forward at the end of the tax year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up **minus** any expired amount); and

line 310 – amount of the current-year farm loss previously calculated on page 236 [above];

deduct

line 350 – any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control).

line 340 – amount of debt forgiveness under section 80 that reduces the farm losses balance (losses have to be reduced in the order established by section 80);

line 330 – amount of farm losses from prior years you applied in the current year to reduce the taxable income (enter this amount on line 334 of the return); and

line 335 – amount of farm losses from the current or previous years applied in the current year to reduce taxable dividends subject to Part IV (enter these amounts on line 340 or 345 of Schedule 3).

Subtotal – this is the amount of farm losses available to carry back or carry forward to other years;

deduct

lines 921 to 933 – on the appropriate line, enter the amounts of farm loss you apply to prior years against taxable income and taxable dividends subject to Part IV tax;

line 380 – the result is the closing balance of farm losses to be carried forward to future years.

For farm losses incurred in tax years ending after 2005, the carry-forward period will be for the 20 following tax years.

Complete Part 6 to establish the balance of farm losses by year of origin.

Part 4 – Restricted farm losses

Calculating current-year restricted farm loss

If your chief source of income is neither farming nor a combination of farming and another source of income, the loss arising from the farming activity that you can deduct is restricted. An amount of farm loss allocated from a partnership may also be restricted.

Use this part to calculate the current-year restricted farm loss.

The amount of farm loss you can deduct from net income for income tax purposes is C or F, whichever is less:

C. net loss from the farming business for the year; or

F. $2,500 **plus** one of the following amounts, whichever is less:

(i) (net loss from the farming business for the year **minus** $2,500) **divided by** 2; or

(ii) $6,250.

Add to your income, on line 233 of Schedule 1, the difference between:

- the actual farm loss you deducted on the financial statements or entered on line 485; and
- the deductible farm loss you calculated on page 250 [above].

This difference is called the current-year **restricted farm loss,** and you have to enter it on line 410.

References

Subsection 31(1)

IT-232, LOSSES – THEIR DEDUCTIBILITY IN THE LOSS YEAR OR IN OTHER YEARS

Continuity of restricted farm losses and request for a carryback

Use this part to establish the continuity of restricted farm losses and to carry back a current-year restricted farm loss to prior years.

The current-year restricted farm loss can reduce farm income for the 3 preceding tax years and for the 10 following tax years.

For restricted farm losses incurred in tax years ending after 2005, the carry-forward period will be for the 20 following tax years.

Complete this part as follows:

Amount of the restricted farm losses at the end of preceding tax year;

deduct

line 400 – amount of restricted farm loss expired after 10 tax years (this amount is the balance of restricted farm loss from the eleventh preceding year that would otherwise be available).

A restricted farm loss incurred in a tax year ending after 2005 will expire 20 tax years following the year of loss.

Line 402 – amount of the restricted farm losses at the beginning of the tax year (this is the result of the two preceding lines);

add

line 405 – amount of restricted farm losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of issued shares in each class were, immediately before the wind-up, owned by the corporation (this amount is the unused restricted farm losses available to carry forward at the end of the tax year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up **minus** any expired amount); and

line 410 – amount of current-year restricted farm loss calculated on page 250 [above];

deduct

line 430 – amount of restricted farm losses applied in the current year to reduce farm income (enter this amount on line 333 of the return);

line 440 – amount of debt forgiveness under section 80 that reduces the restricted farm losses balance (losses have to be reduced in the order established by section 80); and

line 450 – amount of any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control).

Subtotal – this is the amount of restricted farm losses available to carry back or carry forward to other years;

deduct

lines 941 to 943 – on the appropriate line, enter the amount of loss you carry back to prior years against farm income;

line 480 – the result is the closing balance of restricted farm losses you carry forward to future years.

Complete Part 6 to establish the balance of restricted farm losses by year of origin.

Part 5 – Listed personal property losses

Continuity of listed personal property loss and request for a carryback

Use this part to establish the continuity of listed personal property losses and to carry back a current-year listed personal property loss against net capital gains incurred on the same kind of property of the three preceding years.

A listed personal property loss cannot be transferred.

Complete this part as follows:

Amount of listed personal property losses at the end of the preceding tax year;

deduct

line 500 – amount of listed personal property loss expired after seven tax years (this amount is the balance of listed property loss from the eighth preceding year that would otherwise be available).

Line 502 – amount of listed personal property losses at the beginning of the tax year (this is the result of the two preceding lines);

add

line 510 – amount of listed personal property loss for the current year previously calculated on Schedule 6 (see page 153 [30]);

deduct

line 530 – amount of prior-year listed personal property losses applied in the current year to reduce the net capital gain incurred in the current year on the same kind of property (enter this amount on line 655 of Schedule 6); and

line 550 – amount of adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control).

Subtotal – this is the amount of listed personal property losses available to carry back or carry forward to other years;

deduct

lines 961 to 963 – on the appropriate line, enter the amount of loss you carry back to prior years against listed personal property gains;

line 580 – the result is the closing balance of listed personal property losses you carry forward to future years.

Complete Part 6 to establish the balance of listed personal property losses by year of origin.

Part 6 – Analysis of balance of losses by year of origin

Use this part to show by year of origin the balance of losses you can carry forward to future years. Enter each loss by year of origin, starting with the current year, going down to the seventh or the tenth preceding year, whichever applies.

Part 7 – Limited partnership losses

Current-year limited partnership losses

Use this part to calculate the current-year limited partnership losses that are deductible for the year. The amount that cannot be deducted may be carried to other years.

A corporation that is a limited partner and receives a T5013 slip, STATEMENT OF PARTNERSHIP INCOME, will find the amount of limited partnership loss allocated to it in box 23 of the slip.

If the limited partner does not receive this slip because the partnership is exempt from filing (for example, if it has fewer than six members), you have to file the partnership's financial statements with the return to prove the corporation's share of the partnership loss for the year.

Report the amount in the tax year during which the partnership's tax year ends.

The part of a partnership loss that a limited partner can deduct in determining net income for income tax purposes may be restricted.

Complete this part as follows:

column 600 – partnership identifier;

column 602 – fiscal period ending of the partnership;

column 604 – corporation's share of limited partnership loss from a business (other than a farming business) or from property;

column 606 – corporation's **at-risk amount** at the fiscal period ending of the partnership;

column 608 – total of corporation's share in:

- partnership ITCs for the year,
- partnership's loss from a farming business for the year, and
- partnership's resource expenses for the year;

column 620 – enter the result of:

column 604 minus (column 606 minus column 608)

In general terms, you have to calculate a limited partner's at-risk amount as follows:

the adjusted cost base of its partnership interest;

plus

its share of the current-year's income from the partnership;

minus

all amounts the partner owes to the partnership, and any amount or benefit to which the partner is entitled that is intended to protect it from the loss of its investment.

Interests in partnerships that were operating on a regular and continuous basis on and after February 25, 1986, are exempt from the at-risk rules. However, partnership interests may lose their exempt status if, after February 25, 1986, there has been either a substantial contribution of capital to the partnership, or substantial partnership borrowings.

The difference between the corporation's share of the actual loss of the limited partnership shown on the financial statements and the corporation's at-risk amount is called a **limited partnership loss.** This amount is from column 620. You have to add the total of column 620 to line 222 of Schedule 1. You also have to enter all those losses in column 670 to establish the continuity of losses.

References

Subsection 96(2.1)

IT-232, LOSSES – THEIR DEDUCTIBILITY IN THE LOSS YEAR OR IN OTHER YEARS

Limited partnership losses from prior tax years that may be applied in the current year

Complete this part if you want to apply limited partnership losses from preceding years to reduce any kind of income in the current year. However, the deductible amount is limited to the difference between the balance of losses and the corporation's at-risk amount for each limited partnership. See earlier in this chapter for details.

Complete this part as follows:

column 630 – partnership identifier;

column 632 – fiscal period ending of the partnership that ends in the corporation's tax year;

column 634 – amount of the limited partnership losses at the end of the preceding tax year;

column 636 – corporation's at-risk amount;

column 638 – total of corporation's shares in:

- partnership's investment tax credit;
- partnership's business or property losses; and
- partnership's resource expenses.

column 650 – enter whichever of the two following amounts is less:

- **column 634**; or
- **column 636 minus column 638**.

The result is the amount of limited partnership losses from previous years you can apply against other income in the current year.

Continuity of limited partnership losses that can be carried forward to future tax years

Limited partnership losses can be carried forward indefinitely to future years. To establish the continuity of those losses, complete this part by entering the following information on each partnership:

column 660 – partnership identifier;

column 662 – limited partnership losses at the end of the preceding tax year;

column 664 – amount of limited partnership losses transferred from a predecessor corporation after amalgamation, or a subsidiary after wind-up, where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation (this amount is the unused limited partnership losses available to carry forward at the end of the tax year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up);

column 670 – amount of current-year limited partnership losses as calculated in column 620 on page 259 [above];

column 675 – amount of limited partnership losses applied on line 335 of the return (this amount cannot be more than the amount calculated in column 650 on page 262 [above]); and

column 680 – amount of limited partnership losses carried forward to later years. This is the result of the following calculation:

column 662 + column 664 + column 670 – column 675

Taxable income

The following section explains how to calculate the deductions you may be able to claim to reduce net income. You will use these amounts to arrive at your taxable income.

Line 300 – Net income or (loss) for income tax purposes

On line 300, enter the **net income or loss for income tax purposes,** as you calculated on Schedule 1. If you did not have to make any adjustments to the net income or loss from the financial statements, enter on line 300 the net income or loss from the income statement. Show the amount of any loss in brackets.

Note

On Schedule 1, do not deduct charitable donations, taxable dividends, net capital losses, non-capital losses, farm losses, or restricted farm losses from other years. You have to deduct these items from net income for income tax purposes to arrive at **taxable income.**

Line 311 – Charitable donations

Complete Schedule 2, CHARITABLE DONATIONS AND GIFTS, if, during the tax year, you made charitable donations, unused charitable donations were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up, or you claim a deduction for charitable donations made to any of the following organizations:

- registered charities (including registered national arts service organizations);
- registered Canadian amateur athletic associations;
- housing corporations resident in Canada and exempt from Part I tax under paragraph 149(1)(i);

- Canadian municipalities;
- municipal or public bodies performing a function of government in Canada (applies to gifts made after May 8, 2000);
- the United Nations or its agencies;
- prescribed universities outside Canada listed in Schedule VIII of the INCOME TAX REGULATIONS;
- charitable organizations outside Canada to which the federal government has made a gift during the corporation's tax year, or the 12 months immediately before that tax year; or
- Her Majesty in right of Canada, a province, or territory.

The maximum amount of charitable donations that a corporation can deduct is equal to **75% of its net income** (line 300). This limitation can be increased by the following amounts:

- 25% of the taxable capital gains arising from gifts of capital property (other than for gifts of ecologically sensitive land or of Canadian cultural property) made in the year and included in taxable income for the year;

- 25% of all taxable capital gains in the year from the disposition in a preceding year of a non-qualifying security of a corporation that is making a gift to a qualified donee; and
- 25% of whichever is less:
  - the amount of recapture, included in the income of the year, arising from the donation of a prescribed class of depreciable property; or
  - the lesser of the capital cost and the proceeds of disposition of the property minus any outlays and expenses made for the purpose of making the disposition.

Charitable donations are deducted in the order they were made (first-in, first-out rule).

If you are reporting nil net income or a loss for the year, you cannot claim donations to create or increase a loss.

However, you can carry forward unused charitable donations and claim them in any of the five following tax years.

Complete Part 1 of Schedule 2 to calculate the total donations available and the charitable donations closing balance.

Note

On line 255 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose donations carryforward that accrued before the acquisition of control and after March 22, 2004, are not deductible after the acquisition of control).

Complete Part 2 of Schedule 2 to calculate the maximum deduction allowable and to determine the amount to claim for charitable donations including gifts of capital property.

On line 311, enter the amount you want to apply against taxable income. This amount cannot be more than whichever is less:

- the total donations available; or
- the maximum deduction allowable.

Complete Part 6 of Schedule 2 to establish the continuity of charitable donations.

You do not have to file receipts with your return. However, you have to keep them in case we ask for them later.

Notes

When a credit union calculates its income for purposes of the 75% limit, it has to add back any amounts it previously deducted for bonus interest payments and payments for allocations in proportion to borrowing.

Where a corporation makes a gift of a non-qualifying security, that gift has to be ignored for the charitable donations deduction. However, if the donee disposes of the security within five years or the security ceases to be a non-qualifying security of the corporation within five years, the corporation will be treated as having made the gift at that later time.

A non-qualifying security includes an obligation of the corporation or a non-arm's length person, a share of the corporation or a share issued by a corporation with which the corporation does not deal at arm's length, and any other security issued by the corporation or a non-arm's length person. Specifically excepted from this definition are obligations, shares, and other securities listed on prescribed stock exchanges and deposits with financial institutions.

If you make a monetary gift to Canada, you can choose to apply it to the Debt Servicing and Reduction Account. If you are sending a cheque, make it payable to the Receiver General for Canada and mail it to:

Public Works and Government Services Canada
Place du Portage
Phase 3, 11 Laurier Street
Hull QC K1A 0S5

Include a note saying that you want your amount applied to this account. Public Works and Government Services Canada will send a receipt.

The federal government will only use these amounts to reduce the public debt.

References

Paragraph 110.1(1)(a)

Subsections 110.1(1.1) and 40(1.01)

Line 312 – Gifts to Canada, a province, or a territory

Complete Part 3 of Schedule 2 if, during the tax year:

- you made donations to Canada, a province, or a territory before February 19, 1997, or under a written agreement made before that day;
- the donations to Canada, a province, or a territory were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up; or
- you claim a deduction for donations to Canada, a province, or a territory.

You can claim a deduction from net income for a gift you made to Canada, a province, or a territory. The amount of the deduction is not limited to 75% of net income, as is the case for charitable donations. The most you can deduct is the total gifts you made before February 19, 1997, or made under a written agreement made before that date, and any gifts you have not previously deducted from the five previous years.

Deduct charitable donations first. Then, claim gifts to Canada, a province, or a territory. If the amount of the gift is more than net income for the year **minus** any charitable donations you claim, you can carry the excess forward for up to five years.

Note

On line 355 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose donations carryforward that accrued before the acquisition of control and after March 22, 2004, are not deductible after the acquisition of control).

On line 312, enter the amount of gifts to Canada, a province, or a territory that you want to apply against taxable income.

Gifts to Canada, a province, or a territory are deducted in the order they were made (first-in, first-out rule).

Complete Part 6 of Schedule 2 to establish the continuity of those gifts.

You do not have to file receipts with your return. However, keep them in case we ask for them later. Regulation 3501(1.1) outlines the information that has to appear on the receipt.

References

Paragraph 110.1(1)(b)

Subsection 110.1(1.1)

Line 313 – Cultural gifts

Complete Part 4 of Schedule 2 if, during the tax year:

- you donated cultural gifts;
- the cultural gifts were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up; or
- you claim cultural gifts as a deduction.

Note

On line 455 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose donations carryforward that accrued before the acquisition of control and after March 22, 2004, are not deductible after the acquisition of control).

You can claim a deduction from net income for a gift of certified cultural property made to designated institutions or public authorities. The most you can deduct is the total gifts donated in the current tax year and any undeducted gifts from the five previous years.

The Cultural Property Export Review Board will issue you a certificate, as well as the receipt containing prescribed information.

Deduct charitable donations and gifts to Canada, a province, or a territory first. Then, claim cultural gifts. If the amount of cultural gifts is more than your net income for the year **minus** charitable donations and gifts to Canada, a province, or a territory you claim, you can carry the excess forward for up to five years.

Cultural gifts are deducted in the order they were made (first-in, first-out rule).

On line 313, enter the amount for cultural gifts you want to apply against taxable income.

Complete Part 6 of Schedule 2 to establish the continuity of cultural gifts.

You do not have to file receipts and certificates with your return. However, keep them in case we ask for them later.
Regulation 3501(1.1) outlines the information that has to appear on the receipt.

References

Paragraph 110.1(1)(c)

Subsection 110.1(1.1)

IT-407, DISPOSITIONS OF CULTURAL PROPERTY TO DESIGNATED CANADIAN INSTITUTIONS

Line 314 – Ecological gifts

You can deduct from net income an amount for certified ecological gifts made to Canadian municipalities and registered charities that are designated by the Minister of the Environment.

An ecological gift is a gift of land (including a covenant, an easement, or a servitude) that is certified by the Minister of the Environment as ecologically sensitive.

The fair market value of ecologically sensitive land and, consequently, the corporate donor's proceeds of disposition are deemed to be the amount determined by the Minister of the Environment.

Complete Part 5 of Schedule 2 if, during the tax year:

- you made certified ecological gifts;
- the ecological gifts were transferred from a predecessor corporation after amalgamation, or from a subsidiary corporation after wind-up; or
- you claim ecological gifts as a deduction.

Note

On line 555 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose donations carryforward that accrued before the acquisition of control and after March 22, 2004, are not deductible after the acquisition of control.

For ecological gifts, you must get a certificate issued by the Minister of the Environment as well as the receipt and the CERTIFICATE FOR DONATION OF ECOLOGICALLY SENSITIVE LAND. You do not have to file the receipt and the two certificates with your return. However, keep them in case we ask for them later.

The maximum deduction you can claim is the total of gifts made during the current tax year plus the unclaimed gifts from the five previous tax years.

Deduct charitable donations, gifts to Canada, a province, or a territory, and cultural gifts first. Then, claim ecological gifts. If the amount of ecological gifts is more than your net income for the year **minus** any charitable donations, gifts to Canada, a province, or a territory, and cultural gifts you claim, you can carry the excess forward for up to five years.

Deduct ecological gifts in the order they were made (first-in, first-out rule).

On line 314, enter the amount of ecological gifts you want to apply against taxable income.

Complete Part 6 of Schedule 2 to establish the continuity of ecological gifts.

References

Paragraph 110.1(1)(d)

Subsections 110.1(5) and 110.1(1.1)

Line 320 – Taxable dividends deductible under section 112 or 113, or subsection 138(6)

Complete Schedule 3, DIVIDENDS RECEIVED, TAXABLE DIVIDENDS PAID, AND PART IV TAX CALCULATION, if you either received **or** paid dividends. For details on how to complete Schedule 3, see

Parts 3 and 4 of Schedule 3 on page 319 [58] and "Line 712 – Part IV tax payable" on page 380 [69].

When calculating taxable income, you can deduct, under section 112, any of the following types of taxable dividends received:

- dividends from a taxable Canadian corporation, or from a corporation resident in Canada and controlled by the receiving corporation; and
- dividends (or a portion of them) from a non-resident corporation (other than a foreign affiliate) that has carried on business in Canada continuously since June 18, 1971.

The following types of taxable dividends received are not deductible under section 112:

- dividends from a corporation that is exempt from Part I tax;
- dividends on collateralized preferred shares (loss rental plans);
- dividends that are part of a dividend rental arrangement, as defined in subsection 248(1);

- dividends on term preferred shares received by certain financial institutions; and
- dividends on shares guaranteed by a specified financial institution, as described in subsection 112(2.2).

References

Subsections 112(1), 112(2), and 112(2.1) to 112(2.9)

Section 113 contains the authority and the limitations concerning the deduction of dividends received from foreign affiliates.

Subsection 138(6) contains the authority for a life insurer to deduct the taxable dividends received from taxable Canadian corporations, other than dividends on term preferred shares that are acquired in the ordinary course of its business.

On line 320, enter the amount of taxable dividends (as per Schedule 3) deductible from income under section 112, or 113, or subsection 138(6). This amount is the total of column 240 of Schedule 3.

Note

A dividend does not include stock dividends received from a non-resident corporation.

By deducting taxable dividends received from net income or loss amount shown on line 300, you can create or increase a non-capital loss for the year.

Reference

IT-269, PART IV TAX ON TAXABLE DIVIDENDS RECEIVED BY A PRIVATE CORPORATION OR A SUBJECT CORPORATION

Line 325 – Part VI.1 tax deduction

A corporation that pays Part VI.1 tax on dividends it paid on taxable preferred shares and short-term preferred shares can deduct three times the Part VI.1 tax the corporation has to pay.

For details on how to calculate Part VI.1 tax, see "Line 724 – Part VI.1 tax payable" on page 395 [71].

On line 325, enter the Part VI.1 tax times three.

Reference

Paragraph 110(1)(k)

Line 331 – Non-capital losses of preceding tax years

On line 331, enter any non-capital losses carried forward from preceding years to reduce taxable income from line 130 of Schedule 4.

On line 330 of Schedule 3, enter the amount of current-year non-capital losses, and on line 335, enter the non-capital losses from preceding years to be used to reduce dividends subject to Part IV tax.

The total of those two amounts has to be entered as an applied amount on line 135 of Schedule 4. For details, see "How to complete Schedule 4, Part 1 – Non-capital losses" on page 234 [42].

References

Paragraphs 111(1)(a), 186(1)(c), and 186(1)(d)

Line 332 – Net-capital losses of preceding tax years

On line 332, enter the amount of net capital losses from preceding years that you applied against taxable capital gain incurred in the year. This amount is the capital loss entered on line 225 of Schedule 4 that you multiply by 50%. See "How to complete Schedule 4, Part 2 – Capital losses" on page 242 [44] for details.

> **Note**
>
> A net capital loss can create a non-capital loss in the year you apply it, because the net capital loss is not limited to reducing the taxable income, but to reducing the taxable capital gain in that year.

References

Section 38

Subsections 111(1.1) and 111(8)

Paragraph 111(1)(b)

Line 333 – Restricted farm losses of preceding tax years

On line 333, enter the amount you want to apply to reduce the current-year farm income. On line 430 of Schedule 4, enter the amount of restricted farm loss used. For details, see page 250 [45].

Reference

Paragraph 111(1)(c)

Line 334 – Farm losses of preceding tax years

On line 334, enter the farm losses you are carrying forward from preceding years to reduce taxable income from line 330 of Schedule 4.

On line 340 of Schedule 3, enter the amount of the current-year farm loss, and on line 345, enter the preceding years' farm losses that you are using to reduce dividends subject to Part IV tax.

The total of those two amounts has to be entered on line 335 of Schedule 4 as the amount applied. For details, see "How to complete Schedule 4, Part 3 – Farm losses" on page 246 [44].

References

Paragraphs 111(1)(d), 186(1)(c), and 186(1)(d)

Line 335 – Limited partnership losses of preceding tax years

On line 335, enter the deductible amount of limited partnership losses from preceding years that were applied against other incomes in the current year from Part 7 of Schedule 4. See page 261 [47] for more details.

Reference

Paragraph 111(1)(e)

Line 340 – Taxable capital gains or taxable dividends allocated from a central credit union

If a central credit union has made an election under subsection 137(5.1), amounts allocated to a member credit union as taxable dividends or net capital gains may be claimed by that member as a deduction from taxable income under paragraph 137(5.2)(c). Enter these amounts on line 340.

Line 350 – Prospector's and grubstaker's shares

You can deduct 1/2 of the value of any shares received from a corporation after disposition of a right or a mining property, except if the amount is exempt under a tax treaty.

Reference

Paragraph 110(1)(d.2)

Line 355 – Section 110.5 additions and/or subparagraph 115(1)(a)(vii) additions

You can use foreign tax deductions to reduce Part I tax that you would otherwise have to pay. Under section 110.5 and subparagraph 115(1)(a)(vii), a corporation that cannot deduct its foreign income tax deductions (for example, if it has no Part I tax payable for the year) can choose to add an amount to its taxable income. In this way, the corporation can use these otherwise non-deductible foreign tax deductions.

The amount you add to income for this purpose forms part of the non-capital loss. See page 234 [42] for details. However, you cannot add an amount under section 110.5 if that addition increases **any** of the following deductible amounts:

- the small business deduction;
- the manufacturing and processing profits deduction;
- the federal logging tax credit;
- the federal political contribution tax credit;
- the investment tax credit (ITC);
- the share-purchase tax credit; or
- the SR&ED tax credit.

If the corporation is an authorized foreign bank, you cannot add an amount under subparagraph 115(1)(a)(vii) if that addition increases **any** of the following deductible amounts:

- the federal logging tax credit;
- the federal political contribution tax credit; or
- the ITC.

On line 355, enter the amount you added to income under section 110.5 and/or subparagraph 115(1)(a)(vii).

Line 360 – Taxable income

To calculate this amount, subtract all the deductions you entered on lines 311 to 350 from the net income for income tax purposes on line 300. Add, if it applies, section 110.5 or subparagraph 115(1)(a)(vii) additions (line 355). Enter the taxable income on line 360.

If the result is a loss, enter "0" on line 360.

> **Note**
>
> If you want to carry back a current-year loss to a prior tax year, see "How to complete Schedule 4" on page 234 [42] for details.

Line 370 – Income exempt under paragraph 149(1)(t)

Insurers who are not engaged in any other business except insurance and who earn at least 20% of their gross premium income (net of reinsurance ceded) from the business of property used in a fishing or farming business, or residences of farmers or fishermen, are eligible for an exemption from Part I tax on their taxable income.

On line 370, enter the exempt income if you meet the criteria of paragraph 149(1)(t).

Taxable income for a corporation with exempt income under paragraph 149(1)(t)

Enter on this line the result of line 360 **minus** line 370.

References

Subsections 149(4.1) and 149(4.2)

Chapter 4 – Page 23 [4] of the T2 return

Small business deduction

Corporations that were CCPCs throughout the tax year may be able to claim the small business deduction (SBD). The SBD reduces Part I tax that the corporation would otherwise have to pay.

The current SBD rate is 16%.

For tax years that end after December 31, 2007, the SBD rate will increase, as follows:

- 16.5% effective January 1, 2008; and
- 17% effective January 1, 2009.

The SBD rate will be prorated for tax years that straddle December 31, 2007 and 2008.

The SBD is calculated by multiplying the SBD rate by the least of the following amounts:

- the income from active business carried on in Canada (line 400);

- the taxable income (line 405);
- the business limit (line 410); or
- the reduced business limit (line 425).

The following section explains each of the above amounts.

Once you have calculated the SBD, enter it on line 430.

Line 400 – Income from active business carried on in Canada

Complete Schedule 7, CALCULATION OF AGGREGATE INVESTMENT INCOME AND ACTIVE BUSINESS INCOME, to determine the following amounts:

- the aggregate investment income and foreign investment income for determining the refundable portion of Part I tax (see "Refundable portion of Part I tax, Lines 440, 445, and 450" on page 310 [57] for details);
- the specified partnership income for members of a partnership; and
- the income from an active business carried on in Canada for the SBD.

Note

If claiming a deduction for patronage dividends on line 416 of Schedule 1, complete Part 5 of Schedule 16 to establish active business income carried on in Canada (see page 223 [40] for details).

Active business income

Generally, active business income is income earned from a business source, including any income incidental to the business.

Income from a **specified investment business** or from a **personal services business** is generally not considered active business income and is not eligible for the SBD. The following sections explain when income from these types of businesses may be considered to be active business income and eligible for the SBD.

Specified investment business

A specified investment business is a business with the principal purpose of deriving income from property, including interest, dividends, rents, or royalties. It also includes a business carried on by a prescribed labour-sponsored venture capital corporation, the principal purpose of which is to derive income from property.

Except for a prescribed labour-sponsored venture capital corporation, income from a specified investment business is considered to be active business income, and is therefore eligible for the SBD if:

- the corporation employs more than five full-time employees in the business throughout the year; or
- an associated corporation provides managerial, financial, administrative, maintenance, or other similar services to the corporation while carrying on an active business, and the corporation would have to engage more than five full-time employees to perform these services if the associated corporation were not providing them.

Note

The business a credit union carries on, or the business of leasing property other than real property, is not considered specified investment business.

Personal services business

A personal services business is a business that a corporation carries on to provide services to another entity (such as a person or a partnership) that an officer or employee of that entity would usually perform. Instead, an individual performs the services on behalf of the corporation. That individual is called an **incorporated employee.**

Any income the corporation derives from providing the services is considered income from a personal services business, as long as both of the following conditions are met:

- the incorporated employee who is performing the services, or any person related to him or her, is a **specified shareholder** of the corporation; and
- the incorporated employee would, if it were not for the existence of the corporation, reasonably be considered an officer or employee of the entity receiving the services.

However, if the corporation employs more than five full-time employees throughout the year or provides the services to an associated corporation, the income is not considered to be from a personal services business. Therefore, the income is eligible for the SBD.

Specified shareholder

A specified shareholder is a taxpayer who owns, directly or indirectly at any time in the year, at least 10% of the issued shares of any class of capital stock of the corporation or a related corporation.

How to calculate income from an active business carried on in Canada

Generally, to calculate active business income from carrying on a business in Canada, you have to deduct from net income for income tax purposes any of the following amounts that apply:

- taxable capital gains minus allowable capital losses;
- dividends that are deductible from income under sections 112 and 113, and subsection 138(6);
- property income minus property losses;
- property income from an interest in a trust;

- foreign business income;
- income from a specified investment business; and
- income from a personal services business.

Specified partnership income

A corporation that is a member of a partnership has to complete Schedule 7 to calculate its active business income.

The corporate partnership rules impose a limit on the amount of active business income earned by a partnership that is eligible for the SBD. This amount is allocated among all partners.

Specified partnership income is the amount of partnership income eligible for the SBD that is allocated to the corporation. You have to add this income to your active business income.

If the partnership incurs a loss from carrying on an active business, you have to deduct the corporation's share of that loss from its active business income. This is referred to as a **specified partnership loss.**

If the corporation received a T5013 slip, STATEMENT OF PARTNERSHIP INCOME, that shows its share of partnership income or loss, include this form with the return. See page 125 [25] for details.

On line 400, enter the total active business income you calculated on Schedule 7.

References

Subsections 125(1), 125(7), and 248(1)

Section 251

IT-73, THE SMALL BUSINESS DEDUCTION

Line 405 – Taxable income for the SBD

The taxable income you use to calculate the SBD is usually the amount entered on line 360. However, if you have claimed a foreign non-business income tax credit, a foreign business income tax credit, or both, you have to reduce the taxable income by:

- ten thirds (10/3) of the amount that would be deductible as a federal foreign non-business income tax credit on line 632, if that credit was determined without the refundable tax on the CCPC's investment income (line 604) and without reference to the corporate tax reduction under section 123.4; and

- three times the amount that would be deductible as a federal foreign business income tax credit (line 636) if that credit was determined without reference to the corporate tax reduction under section 123.4.

You also have to reduce taxable income by any amount that, because of federal law, is exempt from Part I tax.

On line 405, enter your taxable income for the purposes of calculating the SBD.

References

Paragraph 125(1)(b)

Subsection 126(7)

Line 410 – Business limit

The maximum allowable business limit for a corporation that is not associated with any other corporation is:

- $250,000 if the calendar year is 2004; and
- $300,000 if the calendar year is 2005 or 2006.

The business limit will increase to $400,000 for 2007 and later calendar years.

For tax years that straddle a calendar year, the rate is prorated based on the number of days in each calendar year.

CCPCs that are associated with one or more corporations during the tax year have to file Schedule 23, AGREEMENT AMONG ASSOCIATED CANADIAN-CONTROLLED PRIVATE CORPORATIONS TO ALLOCATE THE BUSINESS LIMIT. On this schedule, a percentage of the business limit is allocated to each corporation, and the total of all percentages cannot be more than 100%. See page 113 [23] for details about Schedule 23.

On line 410, enter the business limit for the year. Enter the amount from Schedule 23 for an associated corporation.

Notes

If the tax year is shorter than 51 weeks, you have to prorate the business limit, based on the number of days in the tax year divided by 365, before you enter it on line 410.

If you elect not to be an associated corporation with two other corporations for the small business deduction, you have to file Schedule 28, ELECTION NOT TO BE AN ASSOCIATED CORPORATION. For more details, see page 119 [24].

References

Subsections 125(2), 125(3), 125(5), and 256(2)

IT-64, CORPORATIONS: ASSOCIATION AND CONTROL

Line 425 – Reduced business limit

Large CCPCs that have taxable capital employed in Canada of $15 million or more do not qualify for the SBD. The business limit is reduced on a straight-line basis for CCPCs that have taxable capital employed in Canada of between $10 million and $15 million in the preceding year. Similar restrictions apply to any CCPC that is a member of an associated group that has, in total, more than $10 million of taxable capital employed in Canada.

Reference

Subsection 125(5.1)

Line 430 – Small business deduction

Multiply the least of lines 400, 405, 410, and 425 by the SBD rate for the year and enter it at line 430. This amount is also entered on line 9 of page 42 [7] of the return. See the beginning of this chapter for the SBD rates.

Resource deduction

Lines 435 and 438 – Resource deduction

Corporations with taxable resource income can claim this deduction. The rate is:

- 2% effective January 1, 2004;

- 3% effective January 1, 2005;
- 5% effective January 1, 2006; and
- 7% effective January 1, 2007.

For tax years that straddle a calendar year, the rate is prorated based on the number of days in each calendar year.

On lines 435 and 438 on pages 28 and 29 [5], enter your taxable resource income and resource deduction.

Reference

Section 125.11

Chapter 5 – Page 30 [5] of the T2 return

General tax reduction

A general tax reduction is available on qualifying income. This reduction is 7%.

The general tax reduction will increase, as follows:

- 7.5% effective January 1, 2008;
- 8% effective January 1, 2009; and
- 9% effective January 1, 2010.

For tax years that begin on or after May 2, 2006, corporations will benefit from the general tax reduction only on taxable income that is subject to a rate of 38%.

For tax years that straddle a calendar year, the rate is prorated based on the number of days in each calendar year.

The reduction does not apply to income that benefits from preferential corporate tax treatment, such as:

- small business income and Canadian manufacturing and processing income;
- income eligible for the deduction for the generation of electrical energy for sale or the production of steam for sale;
- income eligible for the additional deduction for credit unions;
- investment income subject to the refundable tax provisions; and
- taxable resource income.

The reduction will not apply to a corporation that was, throughout the year, an investment corporation, a mortgage investment corporation, or a mutual fund corporation.

Reference

Subsection 123.4(1)

General tax reduction for Canadian-controlled private corporations

If you are a CCPC throughout the tax year, complete this area of page 30 [5] to calculate the reduction. Enter the resulting amount on line 638 on page 43 [7].

Reference

Subsection 123.4(2)

General tax reduction

Do not complete this area if you are a CCPC, an investment corporation, a mortgage investment corporation, or a mutual fund corporation, and for tax years starting after May 1, 2006, a corporation that has income not subject to the corporation tax rate of 38%.

All other corporations complete this area of page 32 [5] to calculate the reduction. Enter the resulting amount on line 639 on page 43 [7].

Reference

Subsection 123.4(2)

Chapter 6 – Page 33 [6] of the T2 return

Refundable portion of Part I tax

Lines 440, 445, and 450

The refundable portion of Part I tax is part of the refundable dividend tax on hand (RDTOH). More information about RDTOH is in the section that follows.

The refundable portion of Part I tax allows a CCPC that has paid Part I tax on investment income to recover part of that tax when the corporation pays taxable dividends to its shareholders. The refundable portion of Part I tax only applies to corporations that are CCPCs throughout the tax year.

The refundable portion of Part I tax is based on the aggregate investment income and foreign investment income. You have to determine these amounts by completing Parts 1 and 2 of Schedule 7, CALCULATION OF AGGREGATE INVESTMENT INCOME AND ACTIVE BUSINESS INCOME.

Part 1 – Aggregate investment income calculation

The aggregate investment income is the aggregate **world** source income calculated as follows:

add

- the eligible portion of the taxable capital gains for the year that is more than the total of:
  - the eligible portion of allowable capital losses for the year; and
  - the net capital losses from preceding years which are applied in the year;
- total income from property (including income from a specified investment business carried on in Canada other than income from a source outside Canada) from which the following amounts have been deducted:
  - exempt income;
  - Net Income Stabilization Account (NISA) receipts;

- taxable dividends deductible after deducting related expenses; and
- business income from an interest in a trust that is considered property income under paragraph 108(5)(a);

deduct

- total losses for the year from property (including losses from a specified investment business carried on in Canada other than income from a source outside Canada).

On line 440 enter the amount of aggregate investment income that you determined on line **O** of Schedule 7.

You can include taxable capital gains and allowable capital losses in a CCPC's net investment income only if you can attribute the gain or loss to a period of time when a CCPC, an investment corporation, a mortgage investment corporation, or a mutual fund corporation held the disposed property.

Part 2 – Foreign investment income calculation

The foreign investment income is **all** income from only sources outside of Canada calculated as follows:

add

- the eligible portion of the taxable capital gains for the year that is more than:
  - the eligible portion of allowable capital losses for the year;
- total income from property from a source outside Canada from which the following amounts have been deducted:
  - exempt income;
  - taxable dividends deductible after deducting related expenses; and
  - business income from an interest in a trust that is considered property income under paragraph 108(5)(a);

deduct

- total losses for the year from property from a source outside Canada.

On line 445 enter the amount of foreign investment income that you determined on line **L** of Schedule 7.

Calculate the amount of the refundable portion of Part I tax. Enter the amount from line 450 in the space provided in the "Refundable dividend tax on hand" area of your return.

References

Subsections 129(3) and 129(4)

IT-73, THE SMALL BUSINESS DEDUCTION

IT-269, PART IV TAX ON TAXABLE DIVIDENDS RECEIVED BY A PRIVATE CORPORATION OR A SUBJECT CORPORATION

Refundable dividend tax on hand

Lines 460, 465, 480, and 485

The RDTOH account only applies to corporations that were **private** or **subject corporations,** which are defined on page 382 [69].

A CCPC generates RDTOH on both the Part I tax it pays on investment income, and on the Part IV tax it pays on dividends it receives. For any other type of private corporation, only the Part IV tax it pays generates RDTOH.

For more information on taxable dividends deductible under section 112 or 113, or subsection 138(6), see page 278 [50].

For information on Part IV tax and instructions to complete Schedule 3, see page 380 [69].

All or part of the RDTOH at the end of the tax year is available as a refund **if** the corporation pays taxable dividends to the shareholders during the tax year.

To calculate the RDTOH at the end of the tax year, **add** the following amounts:

- the RDTOH balance at the end of the preceding tax year (minus any dividend refund issued to the corporation in the preceding year);
- the refundable portion of Part I tax from line 450;
- Part IV tax calculated on line 360 of Schedule 3; and
- any balance of RDTOH transferred from a predecessor corporation on amalgamation, or from a wound-up subsidiary corporation.

For the first tax year of a successor corporation formed as a result of an amalgamation, enter on line 480 all RDTOH balances being transferred from predecessor corporations. Do not include this amount on line 460.

For a parent corporation that wound up a wholly owned subsidiary, enter on line 480 any RDTOH transferred from the subsidiary corporation. On line 460, enter the RDTOH the parent corporation is carrying forward from its preceding tax year.

Note

You cannot transfer any RDTOH to a successor or parent corporation if, had the predecessor or subsidiary corporation paid a dividend immediately before the amalgamation or wind-up, subsection 129(1.2) would have applied to that dividend.

On line 485, enter the RDTOH at the end of the tax year. Also, enter the same amount on line B in the "Dividend refund" area of your return.

References

Subsections 129(3) and 186(5)

Dividend refund

A private or subject corporation may be entitled to a dividend refund for dividends it paid while it was a private or subject corporation, regardless of whether it was a private or subject corporation at the end of the tax year.

A dividend refund arises if you pay taxable dividends to shareholders, and if there is an amount of RDTOH at the end of the tax year.

To claim a dividend refund, you have to have made an actual payment to the shareholders, unless the dividend is considered paid (a deemed dividend).

You can make this payment either in cash, or with some other tangible assets at fair market value, including the following:

- stock dividends;
- section 84 deemed dividends; and
- amounts paid as interest or dividends on income bonds or debentures that are not deductible when calculating income.

If you lose your **private** status following a change in control, a deemed year-end occurs. This allows you to claim a dividend refund for any dividends paid during the deemed short year.

You have to complete Parts 3 and 4 (if they apply) of Schedule 3 to claim a dividend refund. The dividend refund is equal to whichever of the following amounts is less:

- one third of taxable dividends that you paid in the year while a private or subject corporation; or
- the RDTOH at the end of the tax year.

The total of taxable dividends paid for the purpose of the dividend refund is equal to the amount on line 460 of Schedule 3. Refundable dividend tax on hand refers to the amount on line 485 in the "Refundable dividend tax on hand" area of your return.

Parts 3 and 4 of Schedule 3

The following explains how to complete Parts 3 and 4 of Schedule 3. How to complete Parts 1 and 2 is explained on pages 386 [70].

If you paid taxable dividends during the year, complete Part 3 to identify taxable dividends that qualify for the dividend refund.

If the amount of dividends paid includes dividends that do not qualify for the dividend refund, you have to deduct these dividends before completing the calculation in Part 3. In this case, complete Part 4 of Schedule 3 to identify dividends that do not qualify.

Dividends that do not qualify are:

- dividends paid out of the capital dividend account;
- capital gains dividends;
- dividends paid for shares that do not qualify as taxable dividends, because the main purpose of acquiring the shares was to receive a dividend refund [subsection 129(1.2)];
- taxable dividends paid to a controlling corporation that was bankrupt at any time in the year; and
- deemed dividends paid on a small business development bond.

Complete Part 3 of Schedule 3 to identify a connected corporation that received taxable dividends that qualify for the dividend refund.

If the dividend refund is more than the amount of Part I tax payable for the year, we deduct the excess from any other taxes owed under the *Income Tax Act*. Any balance left over is available for a refund.

If the total dividends paid during the year is different from the total of taxable dividends paid for the purpose of the dividend refund, complete Part 4 of Schedule 3.

References

Section 129

Subsection 186(5)

Chapter 7 – Page 39 [7] of the T2 return

Page

Page

Part I tax

Line 550 – Base amount of Part I tax

The basic rate of Part I tax is 38% of taxable income. To determine the base amount of Part I tax, calculate 38% of the taxable income from line 360 of page 23 [3] less income exempt under paragraph 149(1)(t).

On line 550, enter this base amount.

Reference

Section 123

Line 600 – Corporate surtax

Every corporation is subject to the 4% surtax on the federal tax it has to pay.

The 4% surtax will be eliminated for **all** corporations effective January 1, 2008. Corporations with tax years that straddle this date will prorate the surtax.

On page 39 [7], calculate the 4% corporate surtax, and enter it on line 600.

Reference

Section 123.2

Line 602 – Recapture of investment tax credit

Use Schedule 31, INVESTMENT TAX CREDIT – CORPORATIONS, to calculate the recapture of investment tax credit (ITC).

A corporation that disposed of a property used in scientific research and experimental development (SR&ED), or converted it to commercial use, should report a recapture in its income tax return for the year in which the disposition or conversion occurred.

If you performed the SR&ED and earned the related ITC, the recapture will be whichever is less:

- the ITC earned for the property; or
- the amount determined by applying the percentage you used in calculating the ITC earned on the property to:

- the proceeds of disposition of the property if you dispose of it to an arm's length person; or
- in any other case, the fair market value of the property.

If you performed the SR&ED and transferred the qualified expenditures to a non-arm's length party in accordance with an agreement described in subsection 127(13), the recapture will be whichever is less:

- the ITC earned by the transferee on the qualified expenditures for the property that was transferred; or
- the amount determined by the formula:

  $A \times B - C$

  where

  - "A" is the percentage that the transferee used in determining its ITC;

- "B" is the proceeds of dispositions of the property if you dispose of it to an arm's length person, or in any other case, the fair market value of the property; and
- "C" is the amount, if any, added to the tax payable under subsection 127(27) for the property. This allows for the situation where you transferred only a portion of the cost of the property in an agreement under subsection 127(13).

If you transferred a portion of the expenditures and claimed a portion of that expenditure for ITC purposes, both calculations will apply.

On line 602, enter the amount of recapture of ITC.

For more information, see Guide T4088, CLAIMING SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT – GUIDE TO FORM T661. Also see our Web site at **www.cra.gc.ca/sred.**

Reference

Subsections 127(27) to (35)

Line 604 – Refundable tax on CCPC's investment income

An additional refundable tax of 6 2/3% is levied on the investment income (other than deductible dividends) of a CCPC. This additional tax is not part of the corporate surtax base.

This additional tax will be added to the refundable dividend tax on hand (RDTOH). The RDTOH pool will be refunded when dividends are paid to shareholders (at a rate of 1/3 of taxable dividends paid).

A CCPC with investment income has to calculate this additional tax on page 41 [7] and enter the amount on line 604.

References

Section 123.3

Subsection 129(3)

Line 608 – Federal tax abatement

The federal tax abatement is equal to 10% of taxable income earned in the year in a Canadian province or territory less income exempt under paragraph 149(1)(t). The federal tax abatement reduces Part I tax payable. Income earned outside Canada is not eligible for the federal tax abatement.

On line 608, enter the amount of federal tax abatement.

Reference

Section 124

Line 616 – Manufacturing and processing profits deduction

Corporations that derive at least 10% of their gross revenue for the year from manufacturing or processing goods in Canada for sale or lease can claim the manufacturing and processing profits deduction (MPPD). The MPPD reduces Part I tax otherwise payable.

The MPPD applies to the part of taxable income that represents Canadian manufacturing and processing profits. Calculate the MPPD at the rate of 7% on income that is not eligible for the small business deduction (SBD).

Use Schedule 27, CALCULATION OF CANADIAN MANUFACTURING AND PROCESSING PROFITS DEDUCTION, to calculate the manufacturing and processing profits deduction.

There are two ways to calculate Canadian manufacturing and processing profits: a simplified method for small manufacturing corporations, and a basic labour and capital formula for other corporations. These methods are outlined in Parts 1 and 2 of Schedule 27.

A corporation's manufacturing labour and capital is based on the labour and capital employed in qualified activities. These activities are discussed in interpretation bulletin IT-145, CANADIAN MANUFACTURING AND PROCESSING PROFITS – REDUCED RATE OF CORPORATE TAX.

Small manufacturing corporations only have to complete Part 1 of Schedule 27, and are entitled to calculate the MPPD on their entire adjusted business income. Essentially, a corporation's adjusted business income is its income from an active business it carried on in Canada that is more than its losses from similar businesses. If the corporation is involved in resource activities, it has to reduce the adjusted business income by its net resource income, its refund interest, and a portion of its prescribed resource loss. Schedule 27 shows how to calculate the adjusted business income.

To qualify as a small manufacturing corporation, you have to meet **all** of the following requirements:

- the activities during the year were mainly manufacturing or processing;
- the active business income and that of any associated Canadian corporations was not more than $200,000;
- you were not engaged in any activities specifically excluded from manufacturing and processing, as defined in subsection 125.1(3);
- you were not engaged in processing ore (other than iron ore or tar sands ore) from a mineral resource located outside Canada to any stage that is not beyond the prime metal stage or its equivalent;
- you were not engaged in processing iron ore from a mineral resource located outside Canada to any stage that is not beyond the pellet stage or its equivalent;

- you were not engaged in processing tar sands located outside Canada to any stage that is not beyond the crude oil stage or its equivalent; and
- you did not carry on any active business outside Canada at any time during the year.

Corporations that do not qualify as small manufacturing corporations have to complete Part 2 of Schedule 27. In Part 2, you will find the basic formula for calculating Canadian manufacturing and processing profits, as well as detailed instructions on how to complete the schedule.

Corporations that produce electricity or steam for sale are allowed the 7% manufacturing and processing tax reduction. Complete Parts 10 to 13 of Schedule 27 to calculate this reduction.

On line 616, enter the amount of the manufacturing and processing profits deduction determined in Part 9 of Schedule 27.

References

Section 125.1

Regulation 5200

IT-145, Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax

Lines 620 and 624 – Investment corporation deduction

A Canadian public corporation that is an **investment corporation,** as defined in subsection 130(3), can claim a deduction from Part I tax that the corporation would otherwise have to pay. This deduction is equal to 20% of the taxable income for the year that is more than the taxed capital gains for the year.

On line 624, enter the investment corporation's taxed capital gains. On line 620, enter the amount of the deduction you are claiming.

Reference

Section 130

Line 628 – Additional deduction – credit unions

Although a credit union is not generally considered a private corporation, it is eligible for the small business deduction. A credit union can also deduct an extra 16% of its taxable income that was not eligible for the small business deduction.

With this additional deduction, a credit union can pay tax at a reduced rate on income it needs to build up a tax-paid reserve that is equal to 5% of deposits and capital. Provincial and territorial statutes require these reserves. The credit union cannot distribute these reserves to its members.

Use Schedule 17, CREDIT UNION DEDUCTIONS, to claim the additional deduction. Credit unions have to complete the Schedule 17 boxes called "Additional deduction" and "Preferred rate amount at the end of the tax year" to claim this additional deduction.

The additional deduction is 16% of whichever of the following amounts is less:

- the taxable income for the year; or
- 4/3 of the **maximum cumulative reserve** at the end of the year, **minus** the **preferred-rate amount** at the end of the preceding tax year;

minus

- the least of lines 400, 405, 410, and 425 of the small business deduction calculation (page 23 [4] of the return).

Generally, a credit union's **maximum cumulative reserve** is equal to 5% of the amounts owing to members, including members' deposits, **plus** 5% of all members' share capital in the credit union.

The **preferred-rate amount** at the end of a tax year is equal to the total of the preferred rate amount at the end of the preceding year, **plus** 25/4 of the amount of the small business deduction for the year.

On line 628, enter the credit union's additional deduction.

Reference

Section 137

Line 632 – Federal foreign non-business income tax credit

Use Schedule 21, FEDERAL FOREIGN INCOME TAX CREDITS AND FEDERAL LOGGING TAX CREDIT, to calculate this credit.

A federal foreign non-business income tax credit is available to Canadian residents to prevent double taxation of any non-business income earned in a foreign country that was taxed by that foreign country. The credit is also available to authorized foreign banks on their Canadian banking business from sources in a foreign country. This credit reduces Part I tax that the corporation would otherwise have to pay.

Foreign non-business income includes dividends, interest, and capital gains. It does **not** include dividends received from foreign affiliates, or income from operating a business in a foreign country.

Foreign non-business income tax does not include any foreign tax paid on income that is exempt from tax in Canada under an income tax treaty.

As another option, under subsection 20(12), instead of claiming a foreign non-business income tax credit, a corporation can deduct from income all or any part of non-business income tax it paid to a foreign country.

If, after you claim the federal foreign non-business income tax credit, there is any foreign non-business income tax left over, you can claim it as a provincial or territorial foreign tax credit. See page 412 [74] for details.

Under section 110.5 and subparagraph 115(1)(a)(vii), you can also increase your taxable income so that you can use an otherwise non-deductible foreign non-business income tax credit. See "Line 355 – Section 110.5 additions and/or subparagraph 115(1)(a)(vii) additions" on page 286 [51] for details.

To claim this credit, complete Part 1 of Schedule 21. Calculate the federal foreign non-business income tax credit for each country separately. Use more than one schedule if more space is required.

Add all the allowable foreign non-business income tax credits in column I on Schedule 21. Then, enter the total allowable credit or a lesser amount on line 632.

References

Subsection 126(1)

IT-270, FOREIGN TAX CREDIT

Line 636 – Federal foreign business income tax credit

Use Schedule 21, Federal Foreign Income Tax Credits and Federal Logging Tax Credit, to calculate this credit.

To prevent double taxation, a corporation that pays foreign tax on income or profits it earned from operating a business in a foreign country can claim a federal foreign business income tax credit. This credit reduces the Part I tax that the corporation would otherwise have to pay.

Unlike foreign non-business income tax, you cannot deduct excess foreign business income tax paid as a provincial or territorial foreign tax credit. However, under section 110.5, you can increase taxable income so as to claim an otherwise non-deductible foreign business income tax credit. See Line 355 on page 286 [51] for details.

To claim this credit, complete Part 2 of Schedule 21. Calculate the foreign business income tax credit for each country separately. Use more than one schedule if more space is required.

Add all allowable foreign business income tax credits in column J on Schedule 21. Then, enter the total allowable credits or a lesser amount on line 636.

Notes

Foreign business income tax does not include any foreign tax paid on income that is exempt from tax in Canada under an income tax treaty.

When calculating income for the year from sources in a foreign country, deduct the maximum amount of foreign exploration and development expense that is deductible on a country-by-country basis.

References

Subsection 126(2)

IT-270, FOREIGN TAX CREDIT

Continuity of unused federal foreign business income tax credits

Complete Part 3 of Schedule 21 if you have a foreign business income tax credit that:

- expired in the current year;
- was transferred from an amalgamation or wind-up;
- was deducted in the current year; or
- was carried back to a prior year.

You have to establish the continuity and the application of the foreign tax credits on business income for each country. Use more than one schedule if more space is required.

Carryback or carryforward of unused credits

You can carry back any unused foreign business income tax credit to the three preceding tax years, and you can carry the credit forward for seven tax years.

Credits earned in tax years ending after March 22, 2004, can be carried forward for 10 tax years.

To claim a carryback to previous years, complete Part 4 of Schedule 21.

Note

You can use this credit only to reduce Part I tax on income originating from the same foreign country.

Lines 638 and 639 – General tax reduction

Calculate this reduction on pages 30 to 33 [5].

If you were a CCPC throughout the tax year, enter the amount on line 638.

If you were a corporation other than a CCPC, an investment corporation, a mortgage investment corporation, a mutual fund corporation, or for tax years starting after May 1, 2006 – a corporation that has income that is not subject to the corporation tax rate of 38% enter the amount on line 639.

See "General tax reduction" on page 306 [56] for details.

Line 640 – Federal logging tax credit

Corporations that have income from logging operations and have paid logging tax to the province of Quebec or British Columbia can claim this credit.

Complete Part 5 of Schedule 21, FEDERAL FOREIGN INCOME TAX CREDITS AND FEDERAL LOGGING TAX CREDIT, to calculate this credit. On line 640, enter the credit you calculated on line 580 of Schedule 21 or a lesser amount.

References

Subsection 127(1)

Regulation 700

Lines 644 and 646 – Federal political contribution tax credit

A corporation that made monetary contributions in the year to a registered federal political party or to a candidate confirmed in a federal election may be able to claim this tax credit.

Note

The CANADA ELECTIONS ACT may restrict monetary contributions.

However, a corporation cannot deduct political contributions that qualify for any grant, credit, subsidy, or other form of assistance from other government bodies.

The federal political tax credit is calculated as follows:

- 75% of the first $400 contributed;

plus

- 50% of the next $350 contributed;

plus

- 33 1/3% of the next $525 contributed, to a maximum credit of **$650.**

An official receipt is one that is signed by the registered agent for the registered party or the official agent of the candidate. We can only accept photocopies if the issuer certifies them as true copies. You do not have to file receipts with your return. However, keep them in case we ask for them later.

On line 646, enter the total amount of qualifying contributions and, on line 644, the amount of the allowable credit.

References

Subsection 127(3)

IC 75-2, CONTRIBUTIONS TO A REGISTERED PARTY, A REGISTERED ASSOCIATION OR TO A CANDIDATE AT A FEDERAL ELECTION

Line 648 – Federal qualifying environmental trust tax credit

A corporation that is the beneficiary under a qualifying environmental trust can claim a tax credit equal to Part XII.4 tax payable by the trust on that income.

The sole purpose of a qualifying environmental trust must be for funding the reclamation of a site in Canada that had been used primarily for, or for any combination of:

- the operation of a mine;

- the extraction of clay, peat, sand, shale, or aggregates; or
- the deposit of waste.

On line 648, enter the credit claim up to the amount of Part I tax otherwise payable. On line 792 (page 46 [8]), enter any unused amount.

Reference

Section 127.41

Line 652 – Investment tax credit

A corporation can claim an investment tax credit (ITC) to reduce Part I tax that it would otherwise have to pay, or in some cases this credit may be fully or partially refundable.

Use Schedule 31, INVESTMENT TAX CREDIT – CORPORATIONS, to calculate the ITC.

A corporation earns ITCs by applying a specified percentage to the cost of acquiring certain property. However, you first have to reduce the capital cost of the property by any government or non-government assistance you received or will receive for that property. Any goods and services tax/harmonized sales tax (GST/HST) input tax credit or rebate received for property acquired is considered government assistance.

Note

A specified percentage of provincial or territorial deductions for scientific research and experimental development (SR&ED) in excess of the actual amount of the expenditure are treated as government assistance.

On page 2 [2] of Schedule 31, we list the percentages you have to apply to eligible investments and expenditures.

You may earn an ITC of 20% of the SR&ED qualified expenditure pool at the end of the year.

Generally, this pool will include all qualified expenditures the corporation incurred in the year and any qualified expenditures transferred to the corporation under an agreement in paragraph 127(13)(e) (see Form T1146, AGREEMENT TO TRANSFER QUALIFIED EXPENDITURES INCURRED IN RESPECT OF SCIENTIFIC

RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED) CONTRACTS CARRIED OUT IN CANADA). However, amounts the corporation transferred during the year, under paragraph 127(13)(d) (see Form T1146), will reduce this account.

Some CCPCs can claim an additional ITC of 15% on qualified expenditures, up to their expenditure limit.

A CCPC's expenditure limit will be reduced by the reduction to the CCPC's business limit under section 125. In that case, if the CCPC's business limit is nil, its expenditure limit will also be nil.

Investments and expenditures that qualify for an ITC

The following investments and expenditures earn an ITC:

A. the cost of acquiring qualified property;

B. the cost of acquiring certified property;

C. qualified expenditures that are part of the SR&ED qualified expenditure pool; and

D. pre-production mining expenditures incurred after 2002.

The following are definitions of investment and expenditure:

A. **Qualified property** (other than certified property or approved project property) includes new prescribed buildings, machinery, or equipment acquired during the year to use in certain activities. See the "Activities that qualify for the investment tax credit" section that follows.

B. **Certified property** includes prescribed buildings or machinery and equipment, other than approved project property, acquired during the year to use in prescribed areas of slow growth in Canada. To find out where these prescribed areas are, see Regulation 4602.

C. **Qualified expenditures for SR&ED** are defined in subsection 127(9). SR&ED is defined in subsection 248(1).

D. **Pre-production mining expenditures** are defined in subsection 127(9).

Apprenticeship job creation tax credit

For the 2006 and subsequent tax years, a corporation will be able to earn an ITC equal to 10% of the eligible salaries and wages paid to eligible apprentices employed in the business in the tax year and after May 1, 2006, to a maximum credit of $2,000, per year, per apprentice.

An "eligible apprentice" is one who is working in a prescribed trade in the first two years of their apprenticeship contract. This contract is registered with Canada or a province or territory under an apprenticeship program designed to certify or license individuals in the trade. A prescribed trade will include the trades currently listed as Red Seal Trades. For more information about these visit **www.red-seal.ca/Site/trades/analist_e.htm.** In addition, the Minister of Finance may in consultation with the Minister of Human Resources and Social Development, prescribe other trades.

"Eligible salaries and wages" are those payable by the employer to an eligible apprentice in respect of the apprentices' employment in Canada in the tax year and during the first 24 months of the apprenticeship. Eligible salaries or wages will not include remuneration based on profits, bonuses, taxable benefits including stock options, and certain unpaid remuneration.

Where two or more related employers employ an apprentice, special rules will apply to ensure that the $2,000 limit is allocated to only one employer.

An unused credit may be carried back 3 years and carried forward 20 years.

Activities that qualify for an ITC

You can earn ITCs on qualified property acquired primarily for use in designated activities in specific areas.

The specific areas are Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, the Gaspé Peninsula, and prescribed offshore regions.

Designated activities include, among others, the following:

- manufacturing or processing goods for sale or lease;

- prospecting, exploring, extracting, and developing minerals;
- exploring, drilling, operating an oil or gas well, and extracting oil or natural gas;
- processing ore, iron ore, or tar sands to the prime metal stage only;
- logging;
- farming or fishing; and
- Canadian field processing.

In addition, the following rules apply to certain corporations that lease qualified properties:

- For a corporation with a principal business of leasing property, lending money, or purchasing conditional sales contracts, accounts receivable, or other obligations, property acquired for the purposes of leasing it in the ordinary course of carrying on business in Canada is considered qualified property.
- For a corporation with a principal business of manufacturing property that it sells or leases, property acquired for leasing purposes is considered qualified property only if the corporation

manufactures it and leases it in the ordinary course of its business in Canada.

- For a corporation with a principal business of selling or servicing property, property acquired for leasing purposes is considered qualified property only if it is a type of property that the corporation sells or services, and the property is leased in the ordinary course of carrying on business in Canada.

Qualified expenditures for scientific research and experimental development (SR&ED)

You have to file Form T661, CLAIM FOR SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED) CARRIED OUT IN CANADA, along with Schedule 31 when making a claim for an ITC on qualified expenditures for SR&ED. See page 227 [41] for more information.

Depending on its taxable income, a CCPC can earn ITCs at the rate of 35% on current and capital SR&ED expenditures, up to the expenditure limit.

The ITC earned at the rate of 20% on SR&ED expenditures that exceed the expenditure limit is not refundable to a CCPC with a taxable income for the preceding year of more than $300,000. Also, a CCPC cannot claim an ITC refund when it is associated with other corporations if the total taxable income of all associated corporations for their preceding year is more than $300,000. For eligible corporations, the ITC is still refundable at the rate of 40% or 100%. See Schedule 31 for details.

When you calculate ITCs earned in the year, you cannot use SR&ED expenditures that you have already used to claim a refund of Part VIII tax.

Note

You have to identify qualified SR&ED expenditures on Form T661 and Schedule 31 no later than 12 months after the filing due date for the year the expenditures were incurred (without reference to subsection 78(4)).

References

Subsections 37(11) and 127(9)

Available-for-use rule

A corporation is not considered to have acquired a property or made capital expenditures for earning an investment tax credit until the property becomes **available for use.**

For more information about the available-for-use rule, see "When is property available for use?" on page 178 [34].

References

Subsections 13(26) to 13(32) and 127(11.2)

Investment tax credit (ITC) claim

You can deduct the full amount of ITC against federal Part I tax payable. If you are claiming an ITC for a depreciable property, including shared-use equipment, reduce the capital cost of the property in the next tax year by the amount of this year's ITC. If you are claiming an ITC for SR&ED expenditures, other than expenditures for shared-use equipment, reduce the SR&ED expenditure pool in the next tax year by the amount of this year's ITC. For more information, see Schedule 8, "Column 4 – Net adjustments," on page 185 [35].

Note

A corporation cannot claim an ITC for an expense or expenditure incurred in the course of earning income if any of that income is exempt. ITCs also cannot be claimed for expenses or expenditures incurred in earning taxable income that is exempt from tax under Part I. This applies to all tax years.

References

Subsections 13(7.1) and 37(1)

You can carry forward ITCs not previously deducted for 10 years, or carry them back 3 years, to reduce Part I tax. Remember that you can only carry back ITCs to a prior year if you cannot deduct them in the year you earn them.

> For credits earned in tax years ending after 2005, the carry-forward period will be for the 20 following tax years.

Special rules restrict the carry forward and carry back of ITCs following an acquisition of control.

Note

ITCs earned for pre-production mining expenditures cannot be carried back to a tax year ending before January 1, 2003.

References

Paragraph 127(5)(a)

Subsections 127(9.1) and 127(9.2)

When to complete Schedule 31

Complete and file Schedule 31 with the return if the corporation:

- acquired any qualified property or incurred any expenditures qualifying for ITC purposes;
- is carrying forward unused ITCs from a previous year;
- is transferring unused ITCs from a predecessor corporation on amalgamation, or from a subsidiary corporation on wind-up;
- is applying ITCs against Part I tax;
- is requesting a carryback of unused ITCs to a prior tax year; or

- is requesting a refund of unused ITCs.

Complete Schedule 31 and enter the amount of the ITC for the current year on line 652.

Note

Eligibility for an ITC is limited to those expenses or expenditures identified in Schedule 31 filed within 12 months of the filing due date for the tax year in which the expenses were made or incurred [without reference to subsection 78(4)].

Investment tax credit refund

Certain CCPCs can claim a refund of the unused ITC they earned during the tax year. The refund rates are as follows:

A. Qualifying corporations can request a 40% refund of the ITC they earned in the tax year.

B. Most qualifying corporations that have ITCs they earned in the tax year on SR&ED expenditures can claim:

- a full refund (100%) of the ITC they earned on the first $2 million of **current** SR&ED expenditures;

plus

- 40% of the ITC they earned on any current expenditures that are more than $2 million;

plus

- 40% of the ITC they earned on capital expenditures at the rate of 35% or 20%.

Definition

A **qualifying corporation** is a CCPC whose taxable income before the application of the specified future tax consequences (see note on page 361 [this page]) **plus** the taxable incomes of all associated corporations before the application of the specified future tax consequences (for tax years ending in the same calendar year as the corporation's preceding tax year) is not more than the total of the business limits of the corporation and the associated corporations for those preceding years. The business limit can be reduced by Part I.3 tax.

Qualifying corporations that claim ITCs at the rate of 35% on qualified SR&ED expenditures have a **maximum expenditure** limit of $2 million to calculate the ITCs. This expenditure limit begins to reduce when the taxable income of the CCPC in the previous tax year reaches $300,000 and becomes nil at $500,000.

For tax years that end after 2006, the $2 million expenditure limit will begin to be reduced when the taxable income of the corporation and its associated corporations for the previous tax year reaches $400,000 and will become nil at $600,000.

If the corporation is associated with one or more corporations, you have to allocate the expenditure limit among the associated corporations on Schedule 49, AGREEMENT AMONG ASSOCIATED CANADIAN-CONTROLLED PRIVATE CORPORATIONS TO ALLOCATE THE EXPENDITURE LIMIT. See page 117 [24] for details about Schedule 49.

You have to file Schedule 31 to claim the ITC refund. On line 780 of your return, enter the ITC refund claim calculated on Schedule 31.

Note

The taxable income mentioned in the definition of "qualifying corporation" is determined before taking into consideration the "specified future tax consequences." These specified future tax consequences include, among others, the carryback of losses from later years that would have reduced the taxable income for the year in which those losses were applied. This amendment applies to 1996 and later tax years. For more information, see the definition of "specified future tax consequence" in subsection 248(1).

Corporations may be associated because the same group of persons controls them, but the members of this group do not act together and have no other connection to each other.

For tax years ending after March 22, 2004, CCPCs that are associated only because of the above definition of a group will not be considered associated for the following calculations:

- the refundable ITC on eligible SR&ED expenditures;

- calculating the expenditure limit; and
- allocating the expenditure limit.

For this exception to apply, one of the corporations must have at least one shareholder who is not common to both corporations.

References

Section 127.1

Subsections 127(5) to 127(12) and 248(1)

Regulations 2902 and 4600

IT-151, SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT EXPENDITURES

Part I tax payable

Part I tax payable for the year is the basic Part I tax **plus** the amount of surtax, the amount of recapture of ITC, and the refundable tax on the CCPC's investment income (line A plus lines B, C, and D), **minus** any allowable deductions and credits (line F).

Enter this amount on line G, and also on line 700 in the "Summary of tax and credits" section on page 44 [8] of your return.

Chapter 8 – Page 44 [8] of the T2 return

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Summary of tax and credits

In the "Summary of tax and credits" area of your return, summarize the amounts of federal and provincial or territorial tax payable, as well as the credits and refunds claimed to reduce total tax payable.

Federal tax

Line 700 – Part I tax payable

On line 700, enter the amount of Part I tax payable that you determined on line G of page 44 [7].

Line 704 – Part I.3 tax payable

Part I.3 levies a tax on the taxable capital employed in Canada by large corporations, including large financial institutions and large insurance corporations. The Part I.3 tax rate is:

- 0.200% for calendar year 2004;
- 0.175% for calendar year 2005; and

Part I.3 tax will be zero percent, effective January 1, 2006.

For tax years that straddle a calendar year, the rate is prorated based on the number of days in each calendar year.

This rate of tax is applied to the taxable capital employed in Canada that is more than the capital deduction of $10 million for the year. The capital deduction is increased to $50 million effective for tax years ending in 2004 and later.

Also, under subsection 181.1(4), a corporation can deduct its Canadian surtax payable for the year from the amount of Part I.3 tax payable. This is called the **surtax credit**.

You can deduct unused surtax credit from Part I.3 tax in any of the three preceding and seven following tax years.

To calculate the balance of unused surtax credits and to carry back any unused surtax credits, file Schedule 37, CALCULATION OF UNUSED SURTAX CREDIT.

If the corporation is a member of a related group, allocate the capital deduction among the members. Use Schedule 36, AGREEMENT AMONG RELATED CORPORATIONS – PART I.3 TAX, to allocate the capital deduction. File this schedule with your return.

Notes

For this allocation, a CCPC is related only to corporations with which it is also associated.

Schedule 36 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 36 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

File the applicable Part I.3 tax return with the T2 return if there is Part I.3 tax payable, or if there would have been, if not for the deduction of a surtax credit. To calculate Part I.3 tax, use whichever applies:

- Schedule 33, Part I.3 Tax on Large Corporations;
- Schedule 34, Part I.3 Tax on Financial Institutions; or

- Schedule 35, Part I.3 Tax on Large Insurance Corporations.

The following corporations do not have to pay tax under Part I.3:

- bankrupt corporations;
- corporations exempt from tax under section 149 on all their taxable income;
- corporations that were not resident in Canada and did not carry on a business from a permanent establishment in Canada;
- deposit insurance corporations; and
- a corporation described in subsection 136(2) whose principal business is marketing natural products belonging to or acquired from its members or customers.

On line 704, enter the amount of Part I.3 tax payable.

Part I.3 instalment requirements are the same as those for Part I. For more information, see Guide T7B Corp, CORPORATION INSTALMENT GUIDE.

References

Subsections 181(1) to 181.7

T7B Corp, CORPORATION INSTALMENT GUIDE

Line 708 – Part II surtax payable

Under Part II, tobacco manufacturers have to pay surtax equal to 50% of Part I tax on tobacco manufacturing profits for the year.

File Schedule 46, PART II – TOBACCO MANUFACTURERS' SURTAX, and attach it to your return. See the schedule for more details.

On line 708, enter the amount of Part II surtax payable.

Reference

Section 182

Line 712 – Part IV tax payable

Use Parts 1 and 2 of Schedule 3, DIVIDENDS RECEIVED, TAXABLE DIVIDENDS PAID, AND PART IV TAX CALCULATION, to calculate Part IV tax payable on taxable dividends you received.

Dividends subject to Part IV tax

The following types of dividends are subject to Part IV tax:

- taxable dividends from corporations that are deductible under section 112 when you calculate taxable income; and
- taxable dividends from foreign affiliates that are deductible under paragraphs 113(1)(a), (b), or (d), or subsection 113(2) when you calculate taxable income.

Taxable dividends received are only subject to Part IV tax if the corporation receives them while it is a **private or subject corporation.** Taxable dividends received from a non-connected corporation are subject to Part IV tax.

Taxable dividends received from a **connected corporation** are subject to Part IV tax only when paying the dividends generates a dividend refund for the payer corporation. The Part IV tax rate is 33 1/3%.

Definitions

Private corporation

A private corporation is a corporation that is:

- resident in Canada;
- not a public corporation;
- not controlled by one or more public corporations (other than a prescribed venture capital corporation);
- not controlled by one or more prescribed federal Crown corporations; and
- not controlled by any combination of prescribed federal Crown corporations and public corporations.

Reference

Subsection 89(1)

Subject corporation

A subject corporation is a corporation, other than a private corporation, that is resident in Canada and is controlled by or for the benefit of either an individual other than a trust, or a related group of individuals other than trusts.

Reference

Subsection 186(3)

Connected corporation

A payer corporation is connected to the corporation that receives the dividends (the recipient) if the recipient controls the payer corporation. The payer and recipient corporations are also connected when:

- the recipient owns more than 10% of the issued share capital (with full voting rights) of the payer corporation; and
- the recipient owns shares of the capital stock of the payer corporation with a fair market value of more than 10% of the fair

market value of all the issued share capital of the payer corporation.

You determine control of the corporation by considering the actual ownership of shares, without taking into account any rights referred to in paragraph 251(5)(b).

For purposes of Part IV tax, a payer corporation is controlled by a recipient corporation if more than 50% of the payer's issued share capital (having full voting rights) belongs to the recipient, to persons with whom the recipient does not deal at arm's length, or to any combination of these persons.

References

Subsections 186(2) and (4)

Exempt corporations

The following types of corporations are exempt from Part IV tax:

A. a corporation that was bankrupt at any time during the year; or

B. a corporation that, throughout the year, was:

- a prescribed labour-sponsored venture capital corporation;
- a prescribed investment contract corporation;
- an insurance corporation;
- a corporation licensed as a trustee;
- a bank; or
- a registered securities dealer that was, throughout the year, a member of a prescribed stock exchange in Canada.

Reference

Section 186.1

Exempt dividends

A corporation that is a prescribed venture capital corporation throughout the year does not have to pay Part IV tax on dividends it received from a prescribed qualifying corporation.

References

Section 186.2

Regulation 6704

Dividends not taxable

Any dividends that a corporation received from a capital dividend account are not taxable, as long as the payer corporation made an election under section 83. Therefore, if these non-taxable dividends are included as income, they should be deducted as an adjustment on Schedule 1.

Completing Parts 1 and 2 of Schedule 3

In the following section we provide details on how to complete Parts 1 and 2 of Schedule 3. Parts 3 and 4 are explained on page 319 [58].

Part 1 – Dividends received during the tax year

Do not include dividends received from foreign non-affiliates.

column 200 – list all payer corporations from which the corporation received dividends.

If the payer corporation is a connected corporation, complete columns 205, 210, and 220.

column 205 – enter "1" in the box if the payer corporation is a connected corporation;

column 210 – enter the connected corporation's Business Number;

column 220 – enter the tax year-end of the payer corporation in which the dividend in column 240 was paid;

column 230 – enter the amount of non-taxable capital dividend if under section 83 election (enter the total of this column on line 402 of Schedule 1); and

column 240 – enter the amount of taxable dividends deductible from taxable income under section 112, subsections 113(2) and 138(6), and paragraph 113(1)(a), (b), or (d) (enter the total of this column on line 320 of your return). For more information on these dividends, see page 278 [50].

If the payer corporation is a connected corporation, complete columns 250 and 260.

column 250 – enter the amount of total taxable dividends paid by the connected payer corporation for the tax year as shown in column 220;

column 260 – enter the amount of dividend refund of the connected payer corporation for the tax year as indicated in column 220; and

column 270 – enter the amount of Part IV tax, based on the following calculations:

- when the taxable dividend subject to Part IV tax is received from a non-connected corporation:

  column 270 = column 240 × 1/3

- when the dividend subject to Part IV tax is received from a connected corporation:

$$\text{column 270} = \frac{\text{column 240} \times \text{column 260}}{\text{column 250}}$$

If the connected payer corporation's tax year ends more than three months after the corporation's tax year, you have to estimate the payer's dividend refund when you calculate the corporation's Part IV tax payable.

Add all Part IV tax, and enter the amount in Part 2 of Schedule 3.

If taxable dividends are received, enter the amount in column 240, but if the corporation is not subject to Part IV tax, such as a public corporation, enter "0" in column 270.

Note

If more than one corporation paid dividends, you have to do a separate calculation for each payer corporation. If dividends were paid in different payer corporations' tax years, you have to do a separate calculation for each tax year.

Part 2 – Calculation of Part IV tax payable

Part IV tax otherwise payable on a dividend is reduced by any amount of Part IV.1 tax payable on the same dividend. See page 390 [below] for details.

On line 320 of Schedule 3, enter the amount of Part IV.1 tax you have to pay on taxable dividends received.

You can reduce the amount of dividends subject to Part IV tax by using non-capital losses and farm losses incurred in the tax year or carried forward from prior years.

On lines 330 to 345 of Schedule 3, enter the amount of available non-capital and farm losses you are using to reduce dividends subject to Part IV tax.

On line 712 of the return, enter the amount of Part IV tax payable on taxable dividends received (line 360 of Schedule 3).

Reference

IT-269, PART IV TAX ON TAXABLE DIVIDENDS RECEIVED BY A PRIVATE CORPORATION OR A SUBJECT CORPORATION

Line 716 – Part IV.1 tax payable

Complete Schedule 43, CALCULATION OF PARTS IV.1 AND VI.1 TAXES, to calculate Part IV.1 tax payable.

Part 4 of Schedule 43 – Calculation of Part IV.1 tax

Part 4 gives details on how to calculate Part IV.1 tax.

Public corporations and certain other corporations may be subject to the 10% Part IV.1 tax on dividends they receive on taxable preferred shares. A **restricted financial institution** is also subject to tax on dividends received on **taxable restricted financial institution shares** (see subsection 248(1) for definitions of these terms).

The issuer of taxable preferred shares can elect to pay a 40% tax under Part VI.1 on dividends on taxable preferred shares. This election exempts the holder of these shares from the 10% tax under Part IV.1. For details, see line 724 on page 395 [71].

Excepted dividends, which are defined in section 187.1, are not subject to Part IV.1 tax. For example, an excepted dividend is one the corporation receives on a share of another corporation in which the corporation had a substantial interest at the time it received the dividend.

On line 716, enter the amount of Part IV.1 tax payable that you calculated on line 340 of Schedule 43.

References

Sections 187.1 to 187.6

Subsection 191.2(1)

Line 720 – Part VI tax payable

You have to complete Schedule 38, PART VI TAX ON CAPITAL OF FINANCIAL INSTITUTIONS, to calculate Part VI tax.

Part VI levies a tax on a financial institution's taxable capital employed in Canada. Part VI tax is 1.25% of the taxable capital employed in Canada that is more than the capital deduction for the year.

The capital deduction for the year is $200 million plus whichever amount is less:

- $20 million; or
- 20% of the amount of the taxable capital employed in Canada that is more than $200 million.

Effective July 1, 2006, the Part VI tax on financial institutions will apply on taxable capital employed in Canada in excess of $1 billion. Corporations with tax years that straddle this date will have to prorate the capital deduction.

If the corporation is a member of a related group, you have to allocate the capital deduction among the members.

Use Schedule 39, AGREEMENT AMONG RELATED FINANCIAL INSTITUTIONS – PART VI TAX, to allocate the capital deduction. File this agreement with your return.

Note

Schedule 39 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 39 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

Under subsection 190.1(3), you can deduct Part I tax from Part VI tax payable. This is called the Part I tax credit. You can deduct any unused Part I tax credits from Part VI tax in any of the three preceding and seven following tax years.

To calculate the balance of unused Part I tax credits and to carry back this credit, you can use Schedule 42, CALCULATION OF UNUSED PART I TAX CREDIT.

Financial institutions include banks, trust companies, life insurance corporations, certain holding corporations, and corporations that accept deposits and carry on the business of lending money on the security of real estate or investing in mortgages or hypothecs on real estate.

File Schedule 38 with your return if you have Part VI tax payable, or would have, if not for the deduction of a Part I tax credit or surtax credit.

On line 720, enter the amount of Part VI tax payable that you calculated on line 890 of Schedule 38.

References

Sections 190, 190.1, and 190.11 to 190.15

Line 724 – Part VI.1 tax payable

Complete the following schedules if required:

- Schedule 43, Calculation of Parts IV.1 and VI.1 Taxes; and
- Schedule 45, Agreement Respecting Liability for Part VI.1 Tax.

See the following headings for more details.

Part 1 of Schedule 43 – Calculation of dividend allowance

Calculate the dividend allowance on Part 1 of Schedule 43.

Generally, the first $500,000 of dividends paid in the year on taxable preferred shares is exempt from Part VI.1 tax liability. This basic annual exemption is called the **dividend allowance.**

However, the $500,000 dividend allowance is reduced if you paid more than $1 million of dividends on taxable preferred shares in the preceding year.

Part 2 of Schedule 43 – Agreement among associated corporations to allocate the dividend allowance

If you are a member of an associated group, you have to allocate the dividend allowance between the members. Part 2 provides an area for this allocation.

Part 3 of Schedule 43 – Calculation of Part VI.1 tax

Complete Part 3 of Schedule 43 to calculate Part VI.1 tax. Part VI.1 tax is levied on dividends (other than certain excluded dividends) you paid on short-term preferred shares and taxable preferred shares.

You are subject to a tax of 50% for 2003 (66 2/3% for years before 2003) on dividends you paid on **short-term preferred shares** that are more than the annual dividend allowance.

You are subject to a tax of 25% and/or 40% on dividends you paid on **taxable preferred shares** (other than short-term preferred shares) that are more than any remaining dividend allowance.

See subsection 248(1) for definitions of the terms **short-term preferred shares** and **taxable preferred shares.**

Schedule 45, Agreement Respecting Liability for Part VI.1 Tax

Complete Schedule 45 to certify the transfer of Part VI.1 tax liability and send it to us with Schedule 43.

A corporation (the transferor) can transfer all or part of its Part VI.1 tax liability to another corporation (the transferee), if the corporations were related throughout the following tax years:

- the transferor's tax year for which it owes Part VI.1 tax; and
- the transferee's tax year that ends on or before the end of the above-mentioned transferor's tax year.

You can deduct Part VI.1 tax payable from income. See page 281 [50] for more information. Any Part VI.1 tax that is left over after the taxable income is reduced to zero is part of the non-capital loss for the year. See page 230 [42] for details.

On line 724, enter the amount of Part VI.1 tax payable you calculated on line 270 of Schedule 43.

References

Sections 191, and 191.1 to 191.4

Line 727 – Part XIII.1 tax payable

Every authorized foreign bank is subject to Part XIII.1 tax equal to 25% of its taxable interest expense for the year.

You have to show your calculations on a separate schedule. Identify these calculations as Schedule 92, PART XIII.1 TAX – ADDITIONAL TAX ON AUTHORIZED FOREIGN BANKS, since we do not print this schedule. For more information, see Part XIII.1 tax.

On line 727 of the return, enter the amount of Part XIII.1 tax payable.

Line 728 – Part XIV tax payable

Every corporation that is non-resident in a tax year is subject to Part XIV tax, which is commonly known as **branch tax.**

The branch tax rate is 25%, but a tax treaty can reduce this percentage. In addition, a tax treaty may restrict the branch tax to corporations that carry on business in Canada through a permanent establishment in Canada.

You have to complete Schedule 20, PART XIV – BRANCH TAX, to calculate Part XIV tax. On line 728, enter the amount of Part XIV tax payable you calculated on Schedule 20.

Note

Corporations that are subject to Part XIV tax should file their return with the International Tax Services Office. See "Where do you file your return?" on page 45 [11].

References

Section 219

IT-137, ADDITIONAL TAX ON CERTAIN CORPORATIONS CARRYING ON BUSINESS IN CANADA

Provincial and territorial tax

Quebec, Ontario, and Alberta administer their own corporation income tax systems. Corporations that earn income in these provinces have to file separate provincial corporation income tax returns.

All other provinces and territories legislate their corporation income tax provisions, but the CRA administers them. These provinces and territories do not charge income tax on the taxable income of corporations that are exempt from tax under section 149.

If the corporation has a permanent establishment in any province or territory other than Quebec, Ontario, or Alberta, you have to calculate provincial and/or territorial income taxes and credits, as well as federal income taxes and credits, on the return.

Permanent establishment

A permanent establishment in a province or territory is usually a fixed place of business of the corporation, which includes an office, branch, oil well, farm, timberland, factory, workshop, warehouse, or mine. If the corporation does not have a fixed place of business, the corporation's permanent establishment is the principal place in which the corporation's business is conducted.

If the corporation carries on business through an employee or an agent established in a particular place, it is considered to have a permanent establishment in that place if the employee or agent:

- has general authority to contract for the corporation; or
- has a stock of merchandise owned by the corporation from which the employee or agent regularly fills orders received.

See Regulation 400(2) for a complete definition of permanent establishment.

References

Regulations 400(2) and 414

IT-177, PERMANENT ESTABLISHMENT OF A CORPORATION IN A PROVINCE

Line 750 – Provincial or territorial jurisdiction

On line 750, give the name of the province or territory where you earned your income. Usually, this is where the corporation has its permanent establishment.

If you earned income in more than one province or territory, write "multiple" on line 750 and file Schedule 5, TAX CALCULATION SUPPLEMENTARY – CORPORATIONS, with your return. See page 403 [below] for instructions on how to complete Schedule 5.

> **Note**
>
> The Newfoundland and Labrador offshore area and the Nova Scotia offshore area are considered provinces.

By completing line 750, you ensure that the income taxes go to the correct province or territory. Complete this line even if no tax is payable, or if the provincial jurisdiction is Quebec, Ontario, or Alberta.

Reference

Subsection 124(4)

Line 760 – Net provincial and territorial tax payable

If your provincial or territorial jurisdiction is not Ontario, Quebec or Alberta, and you do not need to complete Schedule 5, enter your provincial or territorial tax payable on line 760.

If you do need to complete Schedule 5, the net amount of provincial or territorial tax will be calculated on line 255 of the schedule. If this amount is positive enter it on line 760 of the return. If this amount is negative, enter it on line 812 of the return.

The following section explains when and how to complete Schedule 5.

Schedule 5, Tax Calculation Supplementary – Corporations

You have to complete Schedule 5 if:

- there is a permanent establishment in more than one province or territory (whether or not you are taxable); or
- the corporation is claiming provincial or territorial tax credits, or rebates.

Note

The Newfoundland and Labrador offshore area and the Nova Scotia offshore area are considered provinces.

If Schedule 5 is not required and the provincial or territorial jurisdiction is not Ontario, Quebec or Alberta, enter the provincial or territorial tax on line 760. For information on the calculation of tax for each province and territory, see the sections that follow in this chapter.

Part 1 of Schedule 5 – Allocation of taxable income

You must complete Part 1 of Schedule 5 if you had a permanent establishment in more than one province or territory, even if you did not have taxable income. If there is no taxable income, you only have to complete columns A, B and D.

Note

This also applies to corporations with permanent establishments in Ontario, Quebec or Alberta.

We assess provincial or territorial income taxes on the amount of taxable income allocated to each province or territory. See Regulation 402 for details on how to allocate taxable income.

Generally, to allocate taxable income to each province or territory, you have to use a formula based on gross revenue and salaries and wages. See Part 1 of Schedule 5 for details.

You will find the general rules on how to allocate gross revenue in Regulation 402.

Do not include any of the following amounts in gross revenue:

- interest on bonds, debentures, or mortgages;
- dividends on shares of capital stock; or
- rents or royalties from property that are not part of the principal business operations.

Allocate gross salaries and wages paid in the year to the permanent establishment in which those salaries and wages were paid. Do not include in gross salaries and wages any commissions paid to a person who is not an employee.

See Regulations 403 to 413 for details on special methods for allocating taxable income for the following types of businesses:

- insurance corporations (Regulation 403);
- banks (Regulation 404);
- trust and loan corporations (Regulation 405);
- railway corporations (Regulation 406);
- airline corporations (Regulation 407);
- grain elevator operators (Regulation 408);
- bus and truck operators (Regulation 409);
- ship operators (Regulation 410);
- pipeline operators (Regulation 411);
- divided businesses (Regulation 412); and
- non-resident corporations (Regulation 413).

In field 100, enter the regulation number that applies to attribute the taxable income.

Part 2 of Schedule 5 – Provincial and territorial tax credits and rebates

Complete Part 2 of Schedule 5 if:

- there is provincial or territorial tax (and a permanent establishment in more than one province or territory);
- there is a claim for provincial or territorial tax credits or rebates; or
- there is a claim for provincial or territorial refundable tax credits.

Note

Corporations with a permanent establishment in Ontario, Quebec or Alberta must complete the appropriate provincial corporation returns and schedules to report provincial tax and claim provincial credits and rebates.

On line 255 of Schedule 5, enter the net amount of provincial and territorial tax payable or the net amount of refundable credits. When the result is positive, enter the net provincial or territorial tax payable on line 760 of the return. When the result is negative, enter the refundable provincial or territorial tax credit on line 812 of the return.

Attach to your return any forms you completed to claim provincial or territorial credits or rebates.

In the following sections, you will find information about provincial and territorial tax rates, foreign tax credits, and details on the provincial and territorial credits and rebates.

Dual rates of provincial and territorial income tax

Generally, provinces and territories have two rates of income tax: the **lower rate** and the **higher rate.**

The lower rate applies to eligible income based on either:

- the income eligible for the federal small business deduction; or
- income limits established by the particular province or territory.

The higher rate applies to all other income. For detailed information on the income eligible for each rate and the rates that apply to each province and territory, see the sections that follow in this chapter.

Example 1

X Inc. earned all of its income in 2006 from its permanent establishment in Newfoundland and Labrador. X Inc. claimed the small business deduction when it calculated its federal tax payable. The income from active business carried on in Canada was $78,000.

The Newfoundland and Labrador **lower rate** of tax is 5%. The **higher rate** of tax is 14%.

X Inc. calculates its Newfoundland and Labrador tax payable as follows:

Taxable income	$ 90,000
Subtract amount taxed at lower rate:	
Least of lines 400, 405, 410, or 425 in the small business deduction calculation	$ 78,000
Amount taxed at higher rate	$ 12,000
Taxes payable at the lower rate:	
$78,000 × 5% =	$ 3,900

Taxes payable at the higher rate:		
$12,000 × 14% =	$	1,680
Newfoundland and Labrador tax payable	$	5,580

When you allocate taxable income to more than one province or territory, you also have to allocate proportionally any income eligible for the small business deduction.

Example 2

Y Inc. has permanent establishments in both Nova Scotia **and** the Yukon. Its tax year runs from September 1, 2005, to August 31, 2006.

Y Inc. claimed the small business deduction when it calculated its federal tax payable.

The **lower rate** of tax for Nova Scotia is 5%, and the **higher rate** of tax is 16%.

To calculate its Nova Scotia income tax, Y Inc. does the following calculations:

Taxable income allocated to Nova Scotia (from Schedule 5)	$ 60,000
Taxable income allocated to the Yukon (from Schedule 5)	$ 30,000
Total taxable income earned in Canada	$ 90,000
Least of lines 400, 405, 410, or 425 in the small business deduction calculation	$ 78,000
Income eligible for the small business deduction attributed to Nova Scotia: $\frac{\$60,000}{\$90,000} \times \$78,000 =$	$ 52,000
Taxable income earned in Nova Scotia	$ 60,000
Subtract: Income eligible for the small business deduction attributed to Nova Scotia	$ 52,000
Amount taxed at higher rate	$ 8,000

Taxes payable at higher rate:	
$8,000 × 16% =	$ 1,280
Taxes payable at lower rate:	
$52,000 × 5% =	$ 2,600
Nova Scotia tax payable	$ 3,880

To calculate its Yukon income tax payable, Y Inc. would repeat the same steps, using the rates that apply.

On the appropriate lines of Part 2 of Schedule 5, enter the gross amount of each provincial or territorial tax payable.

Provincial or territorial foreign tax credits

Every province and territory allows a corporation to claim a foreign tax credit for taxes it paid to another country on foreign **non-business income.**

However, you cannot claim foreign tax credits on the return for the provinces of Quebec, Ontario, and Alberta, because these provinces collect their own income taxes.

For each province or territory for which you are claiming a credit, you have to do a separate calculation. Also, if you paid tax to more than one foreign country you have to do a separate calculation for each country.

Calculate a provincial or territorial foreign tax credit as the least of:

$$\text{A.}\quad \text{provincial or territorial tax rate (\%)}^{*} \times \text{foreign non-business income} \times \frac{\text{taxable income allocated to province or territory}}{\text{total taxable income}}$$

and

B. (i) × [(ii) – (iii)]

where

$$(i) = \frac{\text{taxable income allocated to province or territory}}{\text{taxable income allocated to all provinces or territories}}$$

(ii) = non-business foreign tax paid [not including tax paid on dividends from a share of a foreign affiliate or foreign non-business income tax deducted under subsection 20(12)]

(iii) = deductible federal foreign non-business income tax credit

* If the tax rate has changed during the tax year, prorate the calculation in A on page 413 [above] using the two rates. If dual rates of corporate tax apply, always use the higher rate when you calculate the foreign tax credit.

On the appropriate lines of Part 2 of Schedule 5, enter the totals of provincial and territorial foreign tax credits.

Newfoundland and Labrador

The **lower rate** of Newfoundland and Labrador income tax is 5%. This lower rate applies to taxable income earned in Newfoundland and Labrador that qualifies for the federal small business deduction.

The **higher rate** of income tax is 14%. This higher rate applies to taxable income earned in Newfoundland and Labrador that does **not** qualify for the federal small business deduction.

These rates also apply to taxable income earned in the Newfoundland and Labrador offshore area.

On line 200 or 205 of Schedule 5, enter the amount of tax calculated.

Newfoundland and Labrador political contribution tax credit

You can claim contributions made to registered political parties, registered district associations, or registered non-affiliated candidates, as defined under the *Elections Act*, 1991, of Newfoundland and Labrador, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500.**

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 891 of Schedule 5, enter the total amount of qualifying contributions, and on line 500, enter the amount of the credit you are claiming.

Newfoundland and Labrador manufacturing and processing profits tax credit

Corporations that have earned taxable income in Newfoundland and Labrador, as well as manufacturing and processing profits, are eligible for this credit.

For tax years ending after March 31, 2003, this credit cannot be claimed unless the corporation has engaged in manufacturing or processing in the tax year from a permanent establishment in Newfoundland and Labrador.

Schedule 300, NEWFOUNDLAND AND LABRADOR MANUFACTURING AND PROCESSING PROFITS TAX CREDIT, is a worksheet to calculate the credit and does not have to be filed with your return. See the schedule for more details.

On line 503 of Schedule 5, enter the amount of the credit you are claiming.

Newfoundland and Labrador direct equity tax credit

You can claim this credit for an investment after March 31, 2004, in eligible shares of a business with which you deal at arm's length.

There are two tax credit rates. For qualifying activities undertaken in the province outside the Northeast Avalon, a 35% rate applies. For qualifying activities undertaken within the Northeast Avalon, a 20%

rate applies. In cases where qualifying activities are undertaken in both areas, a reasonable proration applies.

The maximum credit you can claim is $50,000 per year, including any amounts carried back or carried forward.

This credit must be claimed against tax otherwise payable before the Newfoundland and Labrador small business tax holiday. You can carry forward unused credits for seven years or back three years. However, you cannot carry back credits to a year ending before April 1, 2004.

The province of Newfoundland and Labrador will issue Form NLDETC-1, NEWFOUNDLAND AND LABRADOR DIRECT EQUITY TAX CREDIT, for eligible investments. File this form with your T2 return.

To claim the credit, file a completed Schedule 303, NEWFOUNDLAND AND LABRADOR DIRECT EQUITY TAX CREDIT. See the schedule for more details.

On line 505 of Schedule 5, enter the amount of the credit.

Newfoundland and Labrador small business tax holiday

The province of Newfoundland and Labrador will issue a Small Business Tax Holiday Certificate (NLSBTH) to eligible new businesses incorporated between April 1, 2003, and March 31, 2006, that operate in designated growth sectors of the economy and are not associated with another business.

For businesses located on the Northeast Avalon, the tax holiday will be provided for the new company's first three fiscal years. For those located outside the Northeast Avalon, the tax holiday will apply for the first five fiscal years.

You do not have to file the certificate with your return. However, keep it in case we ask for it later.

On lines 832 and 511 of Schedule 5, enter the certificate number and the amount you are claiming.

Newfoundland and Labrador research and development tax credit

You can claim this credit if you have a permanent establishment in Newfoundland and Labrador and if you made eligible expenditures for research and development carried out in Newfoundland and Labrador. The credit is equal to 15% of eligible expenditures.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file a completed Schedule 301, NEWFOUNDLAND AND LABRADOR RESEARCH AND DEVELOPMENT TAX CREDIT, with your return. See the schedule for more details.

On line 520 of Schedule 5, enter the amount of credit earned in the year.

Newfoundland and Labrador film and video industry tax credit

The Minister of Finance for the province of Newfoundland and Labrador will issue a tax credit certificate to a corporation that produces an eligible film or video in the province.

The amount of the credit is equal to 40% of eligible salaries paid in the tax year to residents of the province for each eligible film or video.

The tax credit:

- applies to eligible salaries incurred after January 12, 1999, and before January 1, 2009; and
- is limited to $1 million for each eligible project and $2 million for each eligible corporation. Effective January 1, 2005, these annual limits are replaced with a single credit of $3 million for each eligible corporation, together with all corporations associated with that corporation, for all eligible films or videos begun in a 12-month period.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with your return. However, keep it in case we ask for it later.

If there is only one certificate, enter the certificate number on line 821 of Schedule 5. If there is more than one certificate, complete Schedule 302, ADDITIONAL CERTIFICATE NUMBERS FOR THE NEWFOUNDLAND AND LABRADOR FILM AND VIDEO INDUSTRY TAX CREDIT, and file it with your return.

On line 521 of Schedule 5, enter the amount of the credit earned in the current year.

Prince Edward Island

The **lower rate** of Prince Edward Island income tax is 6.5%, effective April 1, 2005. Prior to this date, the lower rate was 7.5%.

Starting in 2006, the lower rate will be decreased as follows:

- 5.4% effective April 1, 2006;
- 4.3% effective April 1, 2007;
- 3.2% effective April 1, 2008;
- 2.1% effective April 1, 2009; and
- 1% effective April 1, 2010.

These rates will be prorated for tax years that straddle these dates.

This rate applies to:

- taxable income earned in Prince Edward Island that qualifies for the federal small business deduction; and
- a credit union's income that qualifies for the additional deduction under subsection 137(3).

The **higher rate** of income tax is 16%. This rate applies to taxable income that does **not** qualify for the federal small business deduction.

On line 210 of Schedule 5, enter the amount of tax calculated.

Prince Edward Island political contribution tax credit

You can claim contributions made to recognized Prince Edward Island political parties, and to candidates who were officially nominated under the ELECTIONS ACT of Prince Edward Island, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500.**

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 892 of Schedule 5, enter the total amount of qualifying contributions, and on line 525, enter the amount of credit you are claiming.

Prince Edward Island manufacturing and processing profits tax credit

This credit was eliminated on April 1, 2005. However, the credit is available for the number of days within the tax year that are prior to this date.

Corporations that had taxable income and manufacturing and processing profits that were earned in the tax year prior to April 1, 2005, in Prince Edward Island, are eligible for a credit equal to 8.5% of these profits.

Schedule 320, PRINCE EDWARD ISLAND MANUFACTURING AND PROCESSING PROFITS TAX CREDIT, is a worksheet to calculate the credit and does not have to be filed with your return. See the schedule for more details.

On line 529 of Schedule 5, enter the amount of credit you are claiming.

Prince Edward Island corporate investment tax credit

Corporations that have acquired qualified property are eligible for this credit. Apply the credit to reduce the Prince Edward Island tax payable.

You can carry back an unused credit to the three preceding tax years from the tax year that you acquired the property. You can also carry forward the unclaimed credit to the seven tax years that follow the tax year in which you acquired the property.

To claim the credit, file a completed Schedule 321, PRINCE EDWARD ISLAND CORPORATE INVESTMENT TAX CREDIT, with your return. See the schedule for more details.

On line 530 of Schedule 5, enter the amount of the credit you are claiming.

Nova Scotia

The **lower rate** of Nova Scotia income tax is 5%.

Effective April 1, 2005, the income eligible for the lower tax rate is determined using the Nova Scotia business limit of $350,000. Effective April 1, 2006, the business limit is $400,000.

These amounts are prorated for tax years straddling these dates.

The **higher rate** of income tax is 16%. This rate applies to taxable income earned in Nova Scotia that does **not** qualify for the lower rate.

These rates also apply to taxable income earned in the Nova Scotia offshore area.

You can use Schedule 346, NOVA SCOTIA CORPORATION TAX CALCULATION, to help you calculate the Nova Scotia tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 215 or 220 of Schedule 5, enter the amount of tax calculated.

Nova Scotia tax on large corporations

A provincial tax is levied on the taxable capital of large corporations that have a permanent establishment in Nova Scotia, except for:

- corporations mentioned in subsection 181.1(3) of the federal INCOME TAX ACT; and
- banks, credit unions, trust and loan companies.

The Nova Scotia tax on large corporations will be completely eliminated by 2012.

A capital deduction of $5 million is available to a corporation that is not a member of a related group and has taxable capital employed in

Canada of less than $10 million. If the corporation is a member of a related group, a capital deduction of $5 million to be allocated among members of the related group is available as long as the combined taxable capital of all members of the related group is less than $10 million.

Use Schedule 343, NOVA SCOTIA TAX ON LARGE CORPORATIONS – AGREEMENT AMONG RELATED CORPORATIONS, to allocate the capital deduction. File this agreement with your return.

Note

Schedule 343 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 343 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

The tax rates of a corporation when the Nova Scotia taxable capital of all related corporations is less than $10 million are as follows:

- 0.6% effective April 1, 2004;
- 0.55% effective July 1, 2005;

- 0.50% effective July 1, 2006;
- 0.45% effective July 1, 2007; and
- 0.40% effective July 1, 2008.

If the taxable capital of all related corporations is $10 million or more, then all the corporations in the group will be subject to the following tax rates:

- 0.3% effective April 1, 2004;
- 0.275% effective July 1, 2005;
- 0.250% effective July 1, 2006;
- 0.225% effective July 1, 2007; and
- 0.200% effective July 1, 2008.

The tax rates of a corporation when the Nova Scotia taxable capital of all related corporations is less than $10 million will decrease, as follows:

- 0.3% effective July 1, 2009;

- 0.2% effective July 1, 2010;
- 0.1% effective July 1, 2011; and
- 0% effective July 1, 2012.

If the taxable capital of all related corporations is $10 million or more, the tax rates for all the corporations in the group will decrease, as follows:

- 0.15% effective July 1, 2009;
- 0.1% effective July 1, 2010;
- 0.05% effective July 1, 2011; and
- 0% effective July 1, 2012.

Nova Scotia energy efficiency tax credit

This is a non-refundable tax credit equal to 25% of eligible capital investments on renewable energy sources or energy efficiency investments made by a corporation in any given year, after June 30, 2006. The credit can be used to reduce up to a maximum of 50% of the provincial capital tax payable in a tax year. Any unused credit can be carried forward seven tax years.

The tax is prorated based on the number of days in the year when the tax year straddles these dates.

Corporations that are liable to pay the Nova Scotia tax on large corporations have to file Schedule 342, NOVA SCOTIA TAX ON LARGE CORPORATIONS. Use this schedule to also calculate and claim the Nova Scotia energy efficiency tax credit.

A penalty applies to large corporations that have to pay this tax and do not file the required return on time. For details, see "Penalties" on page 51 [13].

Instalment payment requirements are the same as for Part I tax. For details, see "Instalment due dates" on page 48 [12].

The provincial capital tax cannot be reduced by any tax credits, except the new energy efficiency tax credit (see page 430 [above]); however, you can deduct the capital tax payable when calculating federal income for tax purposes.

On line 765, enter the provincial tax on large corporations payable.

Nova Scotia political contribution tax credit

You can claim contributions made to candidates and recognized parties, as defined under the Nova Scotia ELECTIONS ACT, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500.**

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 893 of Schedule 5, enter the total amount of qualifying contributions, and on line 550 enter the amount of the credit you are claiming.

Nova Scotia manufacturing and processing investment tax credit

This credit is earned on qualified property you acquired before January 1, 2003. The qualified property has to be used or leased in Nova Scotia primarily for manufacturing or processing goods. The credit is equal to 15% of the total capital cost of the qualified property.

A corporation can add expenditures made after January 1, 2003, to the total capital cost of qualified property if more than 50% of the expected total capital cost of the qualified property is incurred before January 1, 2003.

Expenditures incurred after May 9, 2006, are not eligible to be added to the capital cost of qualified property.

You can carry forward the unclaimed credit to the seven tax years that follow the tax year in which you acquired the property.

You cannot carry forward an unused credit to a tax year ending after December 31, 2009.

To claim the credit, file a completed Schedule 344, NOVA SCOTIA MANUFACTURING AND PROCESSING INVESTMENT TAX CREDIT. The capital cost of qualified property must be identified on this schedule and filed no later than 12 months after the income tax return is due for the tax year in which the costs were incurred. For more details, see the schedule.

On line 561 of Schedule 5, enter the amount of credit you are claiming.

Nova Scotia corporate tax reduction for new small businesses

This tax reduction applies to the first three tax years of qualifying CCPCs incorporated in Nova Scotia. This tax reduction also applies to a corporation incorporated outside the province, but inside of Canada, if it pays at least 25% of its wages to employees who are resident in the province and its head office is located in the province.

If the qualifying corporation is eligible for a federal small business deduction for the year, it can claim this tax reduction to reduce Nova Scotia income tax otherwise payable.

Schedule 341, NOVA SCOTIA CORPORATE TAX REDUCTION FOR NEW SMALL BUSINESSES, is a worksheet to calculate the credit and does not have to be filed with your return. You do not have to file the certificate of eligibility that the province issues. However, keep it in case we ask for it later.

On lines 834 and 556 of Schedule 5, enter the certificate number and the amount of the reduction you are claiming.

Nova Scotia film industry tax credit

The Minister of Finance for the Province of Nova Scotia will issue a tax credit certificate to a corporation producing an eligible film in the province.

Effective January 1, 2005, the amount of the credit is equal to the total of the following amounts incurred after December 31, 2004, and before 2016:

- whichever is less:
  - 40% of eligible salaries in prescribed eligible geographic areas; or
  - 20% of total production costs of the eligible film;

plus

- whichever is less:
  - 35% of eligible salaries not in prescribed eligible geographic areas; or
  - 17.5% of total production costs of the eligible film.

Effective July 1, 2006, if more than 50% of the production is made outside of the Halifax area, all the salaries on the production will be at the 40% tax credit rate instead of only the portion of salaries incurred in the prescribed geographic area.

Also, effective January 1, 2005, production companies that shoot more than two films in the province over a two-year period are eligible for an additional 5% frequent film bonus on the third and subsequent films.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with your return. However, keep it in case we ask for it later.

If there is only one certificate, enter the certificate number on line 836 of Schedule 5. If there is more than one certificate, complete Schedule 345, ADDITIONAL CERTIFICATE NUMBERS FOR THE NOVA SCOTIA FILM INDUSTRY TAX CREDIT, and file it with your return.

On line 565 of Schedule 5, enter the amount of the credit earned in the current year.

Nova Scotia research and development tax credit

You can claim this credit if you have a permanent establishment in Nova Scotia and if you made eligible expenditures for research and development carried out in Nova Scotia. The credit is equal to 15% of eligible expenditures.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To calculate and claim the credit, file a completed Schedule 340, NOVA SCOTIA RESEARCH AND DEVELOPMENT TAX CREDIT, with your return. See the schedule for more details.

On line 566 of Schedule 5, enter the amount of credit earned in the year.

Recapture of Nova Scotia research and development tax credit

A corporation that disposed of a property used in research and development, or converted the property to commercial use, may have to report a recapture of any Nova Scotia research and development tax credit previously calculated on that property. Any recapture will create or increase Nova Scotia tax otherwise payable.

To calculate the recapture, complete Schedule 340, NOVA SCOTIA RESEARCH AND DEVELOPMENT TAX CREDIT. See the schedule for more details.

On line 221 of Schedule 5, enter the amount of recapture calculated.

New Brunswick

The **lower rates** of New Brunswick income tax are:

- 2.5% effective July 1, 2004;
- 2% effective July 1, 2005;
- 1.5% effective July 1, 2006; and
- 1% effective July 1, 2007.

The income eligible for the lower rates is determined using the New Brunswick business limit:

- $425,000 effective July 1, 2004;
- $450,000 effective July 1, 2005;

- $475,000 effective July 1, 2006; and
- $500,000 effective July 1, 2007.

You have to prorate these amounts using the number of days in each period.

The **higher rate** of New Brunswick income tax is 13%.

Effective January 1, 2007, the higher rate will be decreased to 12%.

This rate applies to all income **not** eligible for the lower rates.

You can use Schedule 366, NEW BRUNSWICK CORPORATION TAX CALCULATION, to help you calculate the New Brunswick tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 225 of Schedule 5, enter the amount of tax calculated.

New Brunswick tax on large corporations

A provincial tax is levied on the taxable capital of large corporations that have a permanent establishment in New Brunswick, except for:

- corporations mentioned in subsection 181.1(3) of the federal INCOME TAX ACT; and
- financial institutions.

The New Brunswick tax on large corporations tax will be completely eliminated by 2009.

A $5 million capital deduction on taxable capital is available to corporations. If the corporation is a member of a related group, the capital deduction has to be allocated between the members.

Use Schedule 362, NEW BRUNSWICK TAX ON LARGE CORPORATIONS – AGREEMENT AMONG RELATED CORPORATIONS, to allocate the capital deduction. File this agreement with your return.

Note

Schedule 362 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 362 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

New Brunswick tax on large corporations is equal to 0.3% of taxable capital allocated to the province of New Brunswick.

The tax rate will decrease over the next four years, as follows:

- 0.25% effective January 1, 2006;
- 0.20% effective January 1, 2007;
- 0.10% effective January 1, 2008; and
- 0% effective January 1, 2009.

The tax is prorated based on the number of days in the year when the tax year straddles these dates.

Corporations that are liable to pay the New Brunswick capital tax on large corporations have to file Schedule 361, *New Brunswick Tax on Large Corporations*.

A penalty applies to large corporations that have to pay this tax and do not file the required return on time. For details, see "Penalties" on page 51 [13].

Instalment payment requirements are the same as for Part I tax. For details, see "Instalment due dates" on page 48 [12].

The provincial capital tax cannot be reduced by any tax credits; however, you can deduct the capital tax payable when calculating federal income for tax purposes.

On line 765, enter the provincial tax on large corporations payable.

New Brunswick political contribution tax credit

You can claim contributions made to a registered political party, a registered district association, or a registered independent candidate, as defined under the New Brunswick *Elections Act*, as follows:

- 75% of the first $200 contributed;

plus

- 50% of the next $350 contributed;

plus

- 33 1/3% of the next $525 contributed, to a maximum credit of **$500.**

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can accept photocopies only if the issuer certifies them as true copies.

On line 894 of Schedule 5, enter the total amount of qualifying contributions, and on line 575 enter the amount of the credit you are claiming.

New Brunswick non-refundable research and development tax credit

You can claim this credit if you have a permanent establishment in New Brunswick and you made eligible expenditures for research and development to be carried out in New Brunswick before January 1, 2003. The amount of the credit is equal to 10% of eligible expenditures. Apply the credit to reduce New Brunswick tax that you would otherwise have to pay.

You can carry back an unused credit to the three preceding tax years from the tax year that you made the expenditure. You can also carry forward the unclaimed credit to the seven tax years that follow the tax year in which you made the expenditure.

You may, under the New Brunswick INCOME TAX ACT, renounce the full research and development tax credit for eligible expenditures made prior to January 1, 2003, on or before the date by which you are required to file your return for the year.

To claim the credit, file a completed Schedule 360, NEW BRUNSWICK RESEARCH AND DEVELOPMENT TAX CREDIT, with your return. For more details, see the schedule.

On line 577 of Schedule 5, enter the amount of the credit you are claiming.

New Brunswick refundable research and development tax credit

You can claim this credit if you have a permanent establishment in New Brunswick and you made eligible expenditures for research and development to be carried out in New Brunswick after December 31, 2002. The amount of the credit is equal to 15% of eligible expenditures.

The credit is fully refundable and there are no carry-forward or carry-back provisions.

To claim the credit, file a completed Schedule 360, NEW BRUNSWICK RESEARCH AND DEVELOPMENT TAX CREDIT, with your return. For more details, see the schedule.

On line 597 of Schedule 5, enter the amount of the credit you are claiming.

Recapture of New Brunswick research and development tax credit

A corporation that disposed of a property used in research and development, or converted it to commercial use, may have to report a recapture of any New Brunswick research and development tax credit previously calculated on that property. Any recapture will create or increase New Brunswick tax otherwise payable.

To calculate the recapture, complete Schedule 360, NEW BRUNSWICK RESEARCH AND DEVELOPMENT TAX CREDIT.

On line 573 of Schedule 5, enter the amount of recapture calculated.

New Brunswick film tax credit

The Minister of Finance for the province of New Brunswick will issue a tax credit certificate to a corporation producing an eligible film in the province.

The amount of the credit cannot be more than 40% of the amount of eligible salaries paid in the tax year.

The credit is subject to the following conditions:

- the tax credit applies to eligible salaries incurred before January 1, 2007;

- an eligible corporation must, for each eligible project, pay at least 25% of its total salaries and wages to eligible employees; and
- the tax credit applies only to that portion of eligible salaries that is not more than 50% of the total production costs of the eligible project less the amount of production costs funded by the province.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with your return. However, keep it in case we ask for it later.

If there is only one certificate, enter the certificate number on line 850 of Schedule 5. If there is more than one certificate, complete Schedule 365, ADDITIONAL CERTIFICATE NUMBERS FOR THE NEW BRUNSWICK FILM TAX CREDIT, and file it with your return.

On line 595 of Schedule 5, enter the amount of the credit earned in the current year.

Manitoba

The **rates** of Manitoba income tax are:

- 15.5% effective January 1, 2004;
- 15% effective January 1, 2005;
- 14.5% effective January 1, 2006; and
- 14% effective January 1, 2007.

Effective July 1, 2008, the tax rate may be decreased to 13%.

Corporations may be eligible for a small business deduction to reduce part of the tax otherwise payable. The small business deduction rates are:

- 10.5% effective January 1, 2004; and
- 10% effective January 1, 2005.

Effective January 1, 2007, the small business deduction rate will change to 11%. This replaces the rates previously announced in the 2005 budget.

The income eligible for the small business deduction rate is determined using the Manitoba business limit:

- $360,000 effective January 1, 2004; and
- $400,000 effective January 1, 2005.

You have to prorate these amounts using the number of days in each period.

You can use Schedule 383, MANITOBA CORPORATION TAX CALCULATION, to help you calculate your Manitoba tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 230 of Schedule 5, enter the amount of tax calculated.

Manitoba manufacturing investment tax credit

You can earn this credit on qualified property you acquired before July 1, 2006, to reduce Manitoba tax payable.

This credit is extended for another three years for qualified property acquired before July 1, 2009.

You have to use the qualified property in Manitoba primarily for manufacturing or processing goods for sale or lease.

The definition of qualified property has been extended to include new equipment, under Class 43.1 of Part XI of the federal *Income Tax Regulations*, purchased between April 22, 2003, and June 30, 2009.

Note

Qualified property under Class 43.1 that was moved under Class 43.2 as a result of the 2005 federal budget continues to qualify for this credit.

After March 8, 2005, qualifying property includes used buildings, machinery, and equipment made available for use in manufacturing or processing goods for sale or lease.

You can carry back an unused credit to the three preceding tax years (ending after April 22, 2003, for Class 43.1) from the tax year that you acquired the property. For tax years ending before 2004, you can also carry forward the unclaimed credit to the seven tax years that follow the tax year in which you acquired the property. For credits earned in tax years ending after 2003, the carry-forward period is extended to ten years.

To claim the credit, file a completed Schedule 381, MANITOBA MANUFACTURING INVESTMENT TAX CREDIT. To claim a credit for qualified property acquired after March 8, 2005, file this schedule no later than 12 months after your income tax return is due for the tax year in which the expenditures were incurred. For more details, see the schedule.

On line 605 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba refundable manufacturing investment tax credit

For a tax year ending after March 8, 2005, you can claim 20% (2% of qualified property) of the investment tax credit you are entitled to claim in a tax year as a refundable credit.

For a tax year ending after March 6, 2006, the refundable portion of the investment tax credit you are entitled to claim in a tax year will increase to 35% (3.5% of qualified property).

To claim the credit, file a completed Schedule 381, MANITOBA MANUFACTURING INVESTMENT TAX CREDIT, no later than 12 months after your income tax return is due for the tax year in which the expenditures were incurred. For more details, see the schedule.

On line 621 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba research and development tax credit

You can claim this credit if you have a permanent establishment in Manitoba and you made eligible expenditures for research carried out in Manitoba.

After March 8, 2005, the amount of the credit is equal to 20% of eligible expenditures. Prior to this date the amount of the credit was equal to 15% of eligible expenditures.

Apply the credit to reduce Manitoba tax that you would otherwise have to pay.

You can carry back an unused credit to the three preceding tax years from the tax year that you made the expenditure. You can also carry forward the unclaimed credit to the seven tax years that follow the tax year in which you made the expenditure. The carry-forward period is extended to ten years for credits earned in tax years ending after 2003.

You may renounce the research and development tax credit for an eligible expenditure incurred during the year, in whole or in part, under subsection 7.3(7) of the INCOME TAX ACT (Manitoba).

To claim the credit, file a completed Schedule 380, MANITOBA RESEARCH AND DEVELOPMENT TAX CREDIT, with your return. You must identify the qualified expenditures no later than 12 months after your income tax return is due for the tax year in which the expenditures were incurred. For more details, see the schedule.

On line 606 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba co-operative education tax credit (including the co-op graduates hiring incentive

You can claim this credit if you are an employer who provides a work placement for a student enrolled in a qualifying post-secondary co-operative education program.

The work placement must start after April 22, 2003, and end on or before the end of a tax year and before 2009.

The credit for each qualifying work placement is whichever is less:

- $1,000; and

- 10% of the salary paid to the employee.

The credit will be nil if the student under the work placement has had five previous qualifying work placements.

The credit for work placements that end prior to March 7, 2006, is non-refundable. You can carry back an unused credit to the three preceding tax years (ending after April 22, 2003) from the tax year that you earned the credit. You can also carry forward the unclaimed credit to the ten tax years that follow the tax year in which you earned the credit. Unused credits may be carried forward on amalgamation or wind-up.

The credit earned for work placements that end after March 6, 2006, will become fully refundable, but must first be applied against total taxes payable. The carry-back and carry-forward provisions will no longer apply to a credit earned after March 6, 2006.

Co-op graduates hiring incentive

You can now claim a credit if you are an employer that has hired and retained for at least one year, co-op graduates in full-time employment in Manitoba. The students must have graduated after March 6, 2006, and before 2009, from a recognized post-secondary co-operative education program in a field related to the employment.

The credit is equal to 5% of the wages and salaries paid to the graduate in each of the first two full years of employment, to a maximum of $2,500 for each year, where the employment commences within 18 months of graduation.

This credit is fully refundable but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

The Province of Manitoba will issue a "Proof of Credit" certificate to the corporation or partnership for each qualifying work placement or qualifying employment.

To claim the credit, file a completed Schedule 384, MANITOBA CO-OPERATIVE EDUCATION TAX CREDIT, with your return. For more details, see the schedule.

On line 603 of Schedule 5, enter the amount of the non-refundable credit you are claiming.

For 2006 and later tax years, on line 622 of Schedule 5 enter the amount of the refundable credit you are claiming.

A corporation that is exempt under section 149 of the federal INCOME TAX ACT is also eligible to claim this credit. Along with Schedule 384, the exempt corporation will also have to complete Schedule 5, TAX CALCULATION SUPPLEMENTARY – CORPORATIONS and file a T2 CORPORATION INCOME TAX RETURN.

Manitoba odour-control tax credit

You can earn this credit on eligible expenditures made after April 19, 2004, and before January 1, 2007, to reduce Manitoba income tax payable.

This credit is extended to eligible expenditures made before January 1, 2010.

Eligible expenditures consist of the capital costs of depreciable capital properties that become available for use in the year and were acquired for the purpose of preventing, reducing, or eliminating nuisance odours that arise or may arise from the use or production of organic waste. The properties must be unused and must not have been acquired for any use by anyone before. Eligible expenditures are either prescribed by regulation or approved by the Minister.

For 2006 tax years, anaerobic digesters are eligible capital property for this credit. Also, you may still be able to earn this credit if odour control is a significant, but not necessarily your primary, purpose for acquiring the eligible capital property.

The credit is non-refundable and is equal to 10% of the eligible expenditures.

You can carry back an unused credit to the three preceding tax years (ending after April 19, 2004) from the tax year in which you earned the credit. You can also carry forward the unclaimed credit to the ten tax years that follow the tax year in which you earned the credit. Unused credits may be carried forward on amalgamation or wind-up.

The corporation may be the beneficiary of a trust or a member of a partnership at the end of the trust's or partnership's tax year. If so, it may include its proportionate allocation or share of the trust/partnership's eligible expenditures in computing its odour-control tax credit.

You cannot claim this credit on eligible expenditures used in calculating any other credit

Agricultural corporations will be eligible for a new refundable portion of the odour-control tax credit. The maximum refund that a corporation can claim is the lesser of, the tax credit which exceeds the credit claimed in the current year; and the property tax paid net of government assistance received or receivable on Manitoba farmland used by the corporation in the business of farming, for the calendar year that ended in a tax year after March 6, 2006.

To claim the credit, file a completed Schedule 385, MANITOBA ODOUR – CONTROL TAX CREDIT, with your return. For corporations with tax years ending on or after June 16, 2005, you can claim this credit no later than 12 months after your income tax return is due for the tax year in which the expenditures were incurred. For more details, see the schedule.

On line 607 of Schedule 5, enter the amount of the credit you are claiming.

For 2006 and later tax years, if you are an agricultural corporation, enter the refundable credit you are claiming on line 623 of Schedule 5.

Manitoba film and video production tax credit

The Minister of Industry, Economic Development and Mines of Manitoba will issue a tax credit certificate to a corporation that produces an eligible film, video, or equivalent new media production in the province.

The credit is equal to 45% of eligible salaries paid for work performed on an eligible film where principal photography begins after March 8, 2005. Prior to this date, the credit was equal to 35% of eligible salaries paid for work performed on an eligible film.

There is a frequent filming incentive of 5% on the third eligible film, for corporations that produce three eligible films in two years. This also applies to serial productions.

There is a 5% incentive on eligible salaries paid for work performed in Manitoba on productions where at least 50% of filming days take place 35 kilometres outside of Winnipeg.

Principal photography on an eligible film must commence after April 19, 2004, to qualify for the rural and northern incentive. For applications received on or before April 19, 2004, corporations are not eligible for this credit if they hold or are associated with a corporation that holds a CRTC broadcast licence.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with your return. However, keep it in case we ask for it later.

If there is only one certificate, enter the certificate number on line 856 of Schedule 5. If there is more than one certificate, complete

Schedule 382, ADDITIONAL CERTIFICATE NUMBERS FOR THE MANITOBA FILM AND VIDEO PRODUCTION TAX CREDIT, and file it with your return.

On line 620 of Schedule 5, enter the amount of the credit earned in the current year.

Saskatchewan

The **lower rates** of Saskatchewan income tax are:

- 5.5% in 2004; and
- 5% after December 31, 2004.

Effective July 1, 2006, the lower rate of Saskatchewan income tax will be reduced to 4.5%.

Income eligible for this lower rate is determined using the Saskatchewan business limit of $300,000.

Starting in 2006, the Saskatchewan business limit will increase as follows:

- $400,000 effective July 1, 2006;
- $450,000 effective July 1, 2007; and
- $500,000 effective July 1, 2008.

The **higher rate** of income tax is 17%. This rate applies to all income **not** eligible for the lower rate.

Starting in 2006, the higher rate will decrease as follows:

- 14% effective July 1, 2006;
- 13% effective July 1, 2007; and
- 12% effective July 1, 2008.

If the tax year includes a date with a rate change, you have to prorate the tax calculation using the number of days before and after this date.

You can use Schedule 411, SASKATCHEWAN CORPORATION TAX CALCULATION, to help you calculate your Saskatchewan tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 235 of Schedule 5, enter the amount of tax calculated.

Saskatchewan political contribution tax credit

You can claim contributions made to qualifying political parties or election candidates as follows:

- 75% of the first $400 contributed;

plus

- 50% of the next $350 contributed;

plus

- 33 1/3% of the next $525 contributed, to a maximum of **$650.**

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 890 of Schedule 5, enter the total amount of qualifying contributions, and on line 624, enter the amount of the credit you are claiming.

Saskatchewan manufacturing and processing profits tax reduction

You can claim this reduction if at any time in the tax year:

- you had a permanent establishment in Saskatchewan;
- you had taxable income earned in Saskatchewan; and
- you had Canadian manufacturing and processing profits.

The profits from producing or processing electrical energy or steam for sale may be included with Canadian manufacturing and processing profits for this tax reduction.

You must claim this reduction within three years of the filing due date of the return for the applicable tax year.

You can reduce the Saskatchewan income tax rate by as much as 7% on Canadian manufacturing and processing profits, as reported on your return.

Starting in 2006, you can reduce the Saskatchewan income tax rate on Canadian manufacturing and processing profits as follows:

- 4% effective July 1, 2006;
- 3% effective July 1, 2007; and
- 2% effective July 1, 2008.

If the tax year includes a date with a rate change, you have to prorate the tax calculation using the number of days before and after this date.

You can calculate the reduction on Schedule 404, SASKATCHEWAN MANUFACTURING AND PROCESSING PROFITS TAX REDUCTION. Schedule 404 is a worksheet to calculate the reduction and does not have to be filed with your return. For more details, see the schedule.

On line 626 of Schedule 5, enter the amount of reduction you are claiming.

Saskatchewan manufacturing and processing investment tax credit

You can earn this credit to reduce Saskatchewan tax payable.

You have to use the qualified property in Saskatchewan primarily for manufacturing or processing goods for lease or sale.

You are eligible for a credit of 7% on qualified property acquired after March 31, 2004, and 6% on qualified property acquired prior to April 1, 2004.

The credit will be reduced to 5% on qualified property acquired after October 27, 2006.

You can carry back an unused credit to the three preceding tax years from the tax year in which you acquired the property. You can also carry forward the unclaimed credit to the seven tax years that follow the tax year in which you acquired the property.

Any unused non-refundable credits that have not expired prior to April 7, 2006, may be carried forward ten years.

The credit earned on qualified property acquired after April 6, 2006, is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

Corporations that are exempt under section 149 of the federal *Income Tax Act* are not eligible for the refundable credit.

To claim the credit, file a completed Schedule 402, *Saskatchewan Manufacturing and Processing Investment Tax Credit*, with your return. For more details, see the schedule.

On line 630 of Schedule 5, enter the amount of the credit you are claiming.

Saskatchewan research and development tax credit

You can claim this credit if you have a permanent establishment in Saskatchewan, and you made eligible expenditures for scientific research and experimental development carried out in Saskatchewan.

The credit is 15% of eligible expenditures. The credit may be applied to reduce Saskatchewan tax that you would otherwise have to pay.

You can carry back an unused credit to the three preceding tax years from the tax year that you made the expenditures. You can also carry forward the unclaimed credit to the ten tax years that follow the tax year in which you made the expenditures.

To claim the credit, file a completed Schedule 403, SASKATCHEWAN RESEARCH AND DEVELOPMENT TAX CREDIT. See the schedule for more details.

On line 631 of Schedule 5, enter the amount of credit you are claiming.

Saskatchewan royalty tax rebate

This rebate is available to corporations that, in the tax year, had both taxable income earned in Saskatchewan and attributed Canadian royalties and taxes, as defined in paragraph 2(1)(a) of the SASKATCHEWAN ROYALTY TAX REBATE REGULATIONS.

The Saskatchewan royalty tax rebate will be phased out. Effective January 1, 2007, the carry-forward period for any outstanding royalty tax rebate balances will be limited to seven years.

To claim the rebate, file a completed Schedule 400, SASKATCHEWAN ROYALTY TAX REBATE CALCULATION (CORPORATIONS), with your return. For more details, see the schedule.

On line 632 of Schedule 5, enter the royalty tax rebate you are claiming.

Saskatchewan qualifying environmental trust tax credit

A corporation that is a beneficiary of a qualifying environmental trust located in Saskatchewan can claim a tax credit equal to 17% of income that is subject to tax under Part XII.4 of the federal INCOME TAX ACT.

Starting in 2006, the amount of the tax credit will be equal to:

- 14% effective July 1, 2006;
- 13% effective July 1, 2007; and
- 12% effective July 1, 2008.

The qualifying environmental trust will issue a letter to the corporation that is a beneficiary.

The credit will reduce provincial tax otherwise payable for the tax year that ends within the corporation's tax year.

This credit is fully refundable, but must first be applied against taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the letter with your return. However, keep it in case we ask for it later.

On line 641 of Schedule 5, enter the amount of the credit earned.

Saskatchewan film employment tax credit

The Minister of Finance of Saskatchewan will issue a certificate to a corporation that produces an eligible film in the province.

Effective January 1, 2006, the amount of the credit is equal to 45% of eligible salaries. Prior to this date, the amount of the credit was equal to 35%. Eligible salaries are limited to 50% of the total production cost of the eligible film.

An additional 5% credit towards salaries of Saskatchewan residents, when hired in 6 out of 10 key positions in films with budgets of 3 million dollars or more, is also available, effective January 1, 2006.

An eligible corporation, located more than 40 kilometres from Saskatoon or Regina can apply for an additional credit equal to 5% of the total production cost for the eligible film.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the certificate with your return. However, keep it in case we ask for it later.

If there is only one certificate, enter the certificate number on line 860 of Schedule 5. If there is more than one certificate, complete Schedule 410, ADDITIONAL CERTIFICATE NUMBERS FOR THE SASKATCHEWAN FILM EMPLOYMENT TAX CREDIT, and file it with your return.

On line 643 of Schedule 5, enter the amount of the credit earned in the current year.

British Columbia

The **lower rate** of British Columbia income tax is 4.5%, effective January 1, 2001.

Income eligible for this lower rate is determined using the British Columbia business limit of $400,000, effective January 1, 2005. Prior to this date, the British Columbia business limit was $300,000, which was in effect April 1, 2002, to December 31, 2004.

The business limit will be prorated for tax years that straddle these dates.

The **higher rate** of British Columbia income tax is 12%, effective July 1, 2005. Prior to this date, the higher rate was 13.5%, which was in effect from January 1, 2002, to June 30, 2005. This rate applies to all income **not** eligible for the lower rate.

If July 1, 2005, falls within the tax year, you have to prorate the higher tax rate based on the number of days in the tax year before and after this date.

You can use Schedule 427, BRITISH COLUMBIA CORPORATION TAX CALCULATION, to help you calculate your British Columbia tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 240 of Schedule 5, enter the amount of tax calculated.

British Columbia logging tax credit

Corporations that have paid a **logging tax** to British Columbia on income they earned from logging operations for the year can claim a

British Columbia logging tax credit. The credit is equal to one-third of the logging tax payable and paid as indicated on Form FIN 542, LOGGING TAX RETURN OF INCOME.

On line 651 of Schedule 5, enter the amount of the credit you are claiming.

British Columbia royalty and deemed income rebate

A corporation that is subject to British Columbia income tax and that has income affected by paragraph 12(1)(o), 12(1)(z.5), 18(1)(m), or 20(1)(v.1), subsection 69(6) or 69(7) of the federal INCOME TAX ACT, can be eligible for this rebate.

This rebate allows a deduction for Crown royalties and deemed income, and replaces the federal resource allowance. Use the adjusted taxable income to recalculate any provincial taxes payable. The difference between the British Columbia tax that you would otherwise have to pay, and the recalculated British Columbia tax payable, may result in an amount receivable or payable.

To claim the rebate, file a completed Schedule 420, British Columbia Royalty and Deemed Income Rebate Calculation and Application (Corporations), with your return. For more details, see the schedule.

On line 652 of Schedule 5, enter the rebate or addition you calculated on Schedule 420.

As a consequence of the federal government's initiative to re-introduce full deductibility of provincial resource royalties for federal and provincial income tax purposes, British Columbia intends to eliminate its royalty and deemed income rebate and harmonize with the federal taxation of the resource sector, effective for tax years starting after 2006.

British Columbia political contribution tax credit

You can claim contributions made to recognized British Columbia political parties, recognized British Columbia constituency associations, or to candidates for an election to the Legislative Assembly of British Columbia, as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500.**

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 896 of Schedule 5, enter the total amount of qualifying contributions, and on line 653, enter the amount of the credit you are claiming.

British Columbia small business venture capital tax credit

Corporations investing in shares of a registered venture capital corporation or eligible business corporation can claim a British

Columbia venture capital tax credit. The British Columbia government issues a certificate called Form SBVC 10 to these corporations.

Apply this credit first to reduce the British Columbia provincial tax payable for the year to zero. If unclaimed credits remain, you can carry them forward for four tax years to reduce the British Columbia tax payable.

You do not have to file the certificate with your return. However, keep it in case we ask for it later.

On Schedule 5, line 880, enter the unclaimed tax credit, if any, at the end of the preceding tax year. On line 881, enter the tax credit amount available in the current year as reported on Form SBVC 10. On line 882, enter the nine-digit certificate number from Form SBVC 10. On line 656, enter the tax credit amount you are claiming.

British Columbia manufacturing and processing tax credit

Corporations may no longer file a claim for the British Columbia manufacturing and processing tax credit. This credit was earned on qualifying property purchased before July 31, 2001.

Any unused credits may be carried forward for up to ten tax years after the tax year in which they were earned.

To claim a carryforward, file a completed Schedule 426, BRITISH COLUMBIA MANUFACTURING AND PROCESSING TAX CREDIT, with your return. For more details, see the schedule.

On line 660 of Schedule 5, enter the amount of the credit you are claiming.

British Columbia scientific research and experimental development tax credit

A qualifying corporation that carries on scientific research and experimental development (SR&ED) in British Columbia can claim this credit.

You can claim the credit on expenditures incurred in the tax year for SR&ED carried on in the province. The expenditures have to be made before September 1, 2009, and when the corporation has a permanent establishment in the province.

British Columbia SR&ED refundable tax credit

A qualifying corporation that is a CCPC may claim the refundable tax credit.

The amount of the credit is equal to 10% of whichever of the following amounts is less:

- the SR&ED qualified BC expenditure for the tax year; or
- the expenditure limit for the tax year.

To claim the credit, file a completed Form T666, BRITISH COLUMBIA SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT TAX CREDIT, with your return. You must file this form no later than 18 months after the end of the tax year in which the qualified expenditures are incurred. For more details, see Form T666.

On line 674 of Schedule 5, enter the amount of the refundable credit you are claiming.

British Columbia SR&ED non-refundable tax credit

Other qualifying corporations, including CCPCs with SR&ED qualified expenditures that are more than their expenditure limit, may claim a non-refundable tax credit.

The annual non-refundable tax credit for a tax year is 10% of the SR&ED qualified BC expenditure for that year less the total of:

- the amount of refundable credit for that year; and
- any amount renounced for that year.

The credit may be deducted against the income tax payable for that year. You must claim the maximum tax credit available in the year it is earned. You can carry back an unused credit to the three preceding tax years from the year the expenditures were incurred. You can also carry forward the unclaimed credit to the ten tax years that follow the tax year in which the expenditures were incurred.

To claim the credit, file a completed Form T666 with your return. You must file this form no later than 18 months after the end of the tax year in which the qualified expenditures are incurred. For more details, see Form T666.

On line 659 of Schedule 5, enter the amount of the non-refundable credit you are claiming.

Recapture of British Columbia SR&ED tax credit

A corporation that disposed of a property used in SR&ED, or converted it to commercial use, may be required to report a recapture of any British Columbia SR&ED tax credit previously calculated on that property. Any recapture will create or increase British Columbia tax otherwise payable.

To calculate the recapture, complete Form T666, British Columbia Scientific Research and Experimental Development Tax Credit. For more details, see Form T666.

On line 241 of Schedule 5, enter the amount of recapture calculated.

British Columbia qualifying environmental trust tax credit

A corporation that is a beneficiary of a qualifying environmental trust located in British Columbia is eligible for a tax credit equal to the Part XII.4 tax the trust paid on that income.

The credit will reduce the provincial tax otherwise payable for the tax year that includes the trust's tax year.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 670 of Schedule 5, enter the amount of the credit earned.

British Columbia film and television tax credit

The Ministry of Tourism, Sport and the Arts of British Columbia is the certifying authority for the British Columbia film and television tax credit program. British Columbia Film receives and reviews all tax credit certificate applications and recommends to the certifying authority if a production company and production are eligible for the applied tax credits.

The film and television tax credits are for domestic productions with qualifying levels of Canadian content. To claim these credits, an eligible production corporation must be a British Columbia controlled corporation and its activities must primarily be carrying on a film or video production business through a permanent establishment in British Columbia.

The film and television tax credit cannot be claimed if the production services tax credit is claimed for that production.

These credits are fully refundable but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

An eligible production corporation can claim these different credits:

- The **basic tax credit** is equal to one of the following amounts:
  - for a production that is an inter-provincial co-production, 20% of the qualified BC labour expenditure for that tax year for the production multiplied by the percentage of the copyright in the production that is beneficially owned by the corporation; or

- in any other case, 20% of the qualified BC labour expenditure for the tax year for the production.

To be eligible, the production must start principal photography after March 31, 1998, and before April 1, 2008.

- The **additional basic tax credit** is equal to one of the following amounts:
  - for a production that is an inter-provincial co-production, 10% of the qualified BC labour expenditure for that tax year for the production multiplied by the percentage of the copyright in the production that is beneficially owned by the corporation; or
  - in any other case, 10% of the qualified BC labour expenditure for the tax year for the production.

Only BC labour expenditures incurred after December 31, 2004, are eligible for this credit.

The **additional basic tax credit** can only be claimed if the production starts principal photography after December 31, 2004, and before April 1, 2006, and the corporation is eligible for the basic tax credit.

The additional basic tax credit is extended to productions that start principal photography before April 1, 2008.

Transition rules apply to a film or video production intended for television broadcast as a series, where principal photography begins before January 1, 2005. Consult British Columbia Bulletin CIT 009-SR1 for further information on the transition rules.

- The **regional tax credit** where principal photography begins after March 31, 1998, and before April 1, 2003, and where at least 85% of the total principal photography days in British Columbia are outside of the designated Vancouver area, is equal to one of the following amounts:
  - 12.5% of the qualified BC labour expenditure; or
  - for a production that is intended for television broadcast as a series and that comprises a cycle of at least three episodes, the credit is 12.5% of the qualified BC labour expenditure for the qualified episodes done in British Columbia, outside of the designated Vancouver area.

For productions that started principal photography after March 31, 1998, and before April 1, 2003, the regional tax credit can be claimed with the basic tax credit or on its own.

- The **regional tax credit** where principal photography begins after March 31, 2003, and before April 1, 2008, is equal to one of the following amounts:
  - 12.5% of the qualified BC labour expenditure for the production for the tax year, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are outside of the designated Vancouver area; or
  - for a production that is intended for television broadcast as a series and that comprises a cycle of at least three episodes, where principal photography of at least three episodes is done outside of the designated Vancouver area, the credit is 12.5% of the qualified BC labour expenditure for the qualified episodes done in British Columbia, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are outside of the designated Vancouver area.

Only BC labour expenditures incurred after December 31, 2002 are eligible for this credit.

The credit is prorated for the number of days of principal photography done in British Columbia outside the designated Vancouver area over the total number of days of principal photography performed in British Columbia.

Effective February 22, 2006, the definition of "designated Vancouver area" is changed for purposes of determining the regional credit. The change will include Pitt Meadows for the regional credit by moving the eastern boundary of the designated Vancouver area.

For productions that start principal photography after March 31, 2003, and before April 1, 2008, the regional tax credit can only be claimed if the corporation is claiming the basic tax credit.

- The **training tax credit** is equal to whichever is less:
  - 3% of the qualified BC labour expenditure for the production for the tax year; or

- 30% of the payments (net of assistance) made to the trainees in the tax year while they are participating in the approved training program on the production.

For productions that started principal photography after March 31, 1998, and before April 1, 2003, the training tax credit can only be claimed if either the basic tax credit or the regional tax credit is claimed.

For productions that start principal photography after March 31, 2003, and before April 1, 2008, the training tax credit can only be claimed if the corporation is claiming the basic tax credit.

- The **digital animation or visual effects tax credit** for productions where principal photography begins after March 31, 2003, and before April 1, 2008, is equal to 15% of BC labour expenditure directly attributable to prescribed digital animation or visual effects activities.

The digital animation or visual effects tax credit can only be claimed if the corporation is claiming the basic tax credit.

To claim these credits, attach the following **on top** of your return for the year:

- the eligibility certificate(s);
- if it applies, the completion certificate, and a copy of the audited statement of production costs and notes provided to British Columbia Film; and
- a completed copy of Form T1196, BRITISH COLUMBIA FILM AND TELEVISION TAX CREDIT, for each film or video production.

You must claim these credits no later than 36 months after the end of the tax year.

On line 671 of Schedule 5, enter the amount you are claiming.

British Columbia production services tax credit

The Ministry of Tourism, Sport and the Arts of British Columbia is the certifying authority of the British Columbia production services tax credit program. British Columbia Film receives and reviews all tax credit certificate applications and recommends to the certifying authority if a production company and production are eligible for the applied tax credits.

The production services tax credits are available to both domestic and foreign producers and there is no Canadian content requirement.
To claim these credits, the corporation must have a permanent establishment in British Columbia during the tax year, and throughout the tax year, must have primarily carried on a film or video production business or a film or video production services business.

The production services tax credit cannot be claimed if the film and television tax credit is claimed for that production.

These credits are fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

An accredited production corporation can claim these different credits:

- The **production services tax credit** is equal to 11% of the corporation's accredited qualified BC labour expenditure for the tax year. To be eligible, the production must start principal photography after May 31, 1998, and before June 1, 2008.

- The **additional production services tax credit** is equal to 7% of the corporation's accredited qualified BC labour expenditure for the tax year. To be eligible, the production must start principal photography after December 31, 2004, and before April 1, 2006.

Only BC labour expenditures incurred after December 31, 2004, are eligible for this credit.

The additional production services tax credit is extended to productions that start principal photography before June 1, 2008.

The **additional production services tax credit** can only be claimed if the corporation is claiming the production services tax credit.

- The **regional production services tax credit** where principal photography begins after March 31, 2003, and before June 1, 2008, is equal to 6% of the accredited qualified BC labour expenditure for the production for the tax year, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are done outside of the designated Vancouver area.

The accredited qualified BC labour expenditure must be incurred after December 31, 2002.

The credit is prorated for the number of days of principal photography done in British Columbia outside the designated Vancouver area over the total number of days of principal photography performed in British Columbia.

> Effective February 22, 2006, the definition of "designated Vancouver area" is changed for purposes of determining the regional credit. The change will include Pitt Meadows for the regional credit by moving the eastern boundary of the designated Vancouver area.

The regional tax credit can only be claimed if the corporation is claiming the production services tax credit.

- The **digital animation or visual effects production services tax credit** where principal photography begins after March 31, 2003, and before June 1, 2008, is equal to 15% of accredited qualified BC labour expenditure directly attributable to prescribed digital animation or visual effects activities. The digital animation or visual effects production services tax credit can only be claimed if the corporation is claiming the production services tax credit.

To claim these credits, attach the following **on top** of your return for the year:

- the accreditation certificate; and
- a completed Form T1197, BRITISH COLUMBIA PRODUCTION SERVICES TAX CREDIT, for each film or video production.

You must claim these credits no later than 36 months after the end of the tax year.

On line 672 of Schedule 5, enter the amount of credit you are claiming.

British Columbia mining exploration tax credit

A corporation that has incurred qualified mining exploration expenses in British Columbia may qualify for the British Columbia mining exploration tax credit. The corporation must have maintained a permanent establishment in the province at any time in the tax year.

The expenditures have to be incurred after July 31, 1998, and before January 1, 2017, for determining the existence, location, extent, or quality of a mineral resource in British Columbia.

Any flow-through mining expenditure renounced under subsection 66(12.6) of the federal INCOME TAX ACT does not qualify for the credit.

Effective for expenses incurred after March 31, 2003, this credit has been extended to partnerships. Taxpayers who are active members of a partnership, other than specified members (such as limited partners), can each claim their proportionate share of the partnership's tax credit. To claim your proportionate share of the partnership's tax credit, file a completed Schedule T1249, BRITISH COLUMBIA MINING EXPLORATION TAX CREDIT PARTNERSHIP SCHEDULE, with your return. For more details, see the schedule.

The credit is equal to 20% of the amount by which:

- the total qualified mining exploration expenses incurred in the tax year;

is more than

- the total assistance for amounts included in the total qualified mining exploration expenses for the tax year.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file a completed Schedule 421, BRITISH COLUMBIA MINING EXPLORATION TAX CREDIT, with your return. You must claim this credit no later than 36 months after the end of the tax year. For more details, see the schedule. Members of a partnership must also file a completed Schedule T1249.

On line 673 of Schedule 5, enter the amount of credit you are claiming.

British Columbia book publishing tax credit

You can claim this credit if you are a recipient of a Book Publishing Industry Development Program (BPIDP) contribution after March 31, 2002, and before April 1, 2007.

The recipient must be a Canadian-controlled corporation carrying on business primarily through a permanent establishment in British Columbia with book publishing as its principal business.

You are eligible for a credit of 90% of the BPIDP contributions received in the tax year. The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 886 and line 665 of Schedule 5, enter the amount of the BPIDP contribution received in the tax year and the amount of the credit you are claiming. You must claim this credit no later than 18 months after the end of the tax year.

Yukon

The **lower rate** of Yukon income tax is 6% prior to January 1, 2005, and 4% from that date. Income eligible for this lower rate is determined using the Yukon business limit of $300,000.

Effective January 1, 2007, the Yukon business limit will be $400,000. You will have to prorate these amounts using the number of days in each period.

The **higher rate** of tax is 15%. This higher rate applies to taxable income earned in the Yukon that does **not** qualify for the small business deduction.

On line 245 of Schedule 5, enter the amount of tax calculated.

Yukon political contribution tax credit

You can claim contributions made to a registered political party or to a candidate for an election to the Yukon Legislative Assembly. The maximum credit you can claim is **$500** and is calculated as follows:

- 75% of the first $100 contributed;

plus

- 50% of the next $450 contributed;

plus

- 33 1/3% of the amount contributed that is more than $550.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 897 of Schedule 5, enter the total amount of qualifying contributions, and on line 675, enter the amount of the credit you are claiming.

Yukon manufacturing and processing profits tax credit

Corporations that have earned taxable income and manufacturing and processing profits in the Yukon are eligible for this credit.

Schedule 440, YUKON MANUFACTURING AND PROCESSING PROFITS TAX CREDIT, is a worksheet to calculate the credit, and it does not have to be filed with your return. For more details, see the schedule.

On line 677 of Schedule 5, enter the amount of the credit you are claiming.

Yukon mineral exploration tax credit

A Canadian corporation that has incurred eligible mineral exploration expenses in the Yukon may qualify for the Yukon mineral exploration tax credit. The corporation must have maintained a permanent establishment in the Yukon at any time in the year.

Note

A corporation that is a member of a partnership and that has a permanent establishment in the Yukon, may be eligible to claim its appropriate portion of the Yukon mineral exploration tax credit earned on eligible mineral exploration expenses incurred by the partnership in the Yukon in the year.

The expenses have to be incurred before April 1, 2007, for determining the existence, location, extent, or quality of a mineral resource in the Yukon.

The credit is equal to 25% of:

- the total eligible mineral exploration expenses incurred in the tax year;

less

- the total amount of assistance received or receivable for the tax year.

For expenses incurred between April 1, 2006 and March 31, 2007, the credit will be the lesser of:

- 25% of the total eligible mineral exploration expenses incurred less the total amount of assistance received or receivable in the tax year; and
- $300,000.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file Schedule 441, YUKON MINERAL EXPLORATION TAX CREDIT, with your return. For more details, see the schedule.

On line 697 of Schedule 5, enter the amount of the credit earned.

Yukon research and development tax credit

You can claim this credit if you have a permanent establishment in the Yukon at any time in the year and you incurred qualified expenditures in the year for scientific research and experimental development carried on in the Yukon.

The credit is equal to the total of the following amounts:

- 15% of eligible expenditures incurred in the year; and
- 5% of eligible expenditures included above paid or payable to the Yukon College.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file Schedule 442, YUKON RESEARCH AND DEVELOPMENT TAX CREDIT, with your return. For more details, see the schedule.

On line 698 of Schedule 5, enter the amount of the credit calculated on Schedule 442.

Northwest Territories

The **lower rate** of Northwest Territories income tax is 4%. This lower rate applies to taxable income earned in the Northwest Territories that qualifies for the federal small business deduction.

The **higher rate** of the Northwest Territories income tax is 14% effective January 1, 2004, and 12% before that date. This rate applies to taxable income earned in the Northwest Territories that does **not** qualify for the small business deduction.

Effective July 1 2006, the higher rate is reduced from 14% to 11.5%.

On line 250 of Schedule 5, enter the amount of tax calculated.

Northwest Territories political contribution tax credit

You can claim contributions made to a candidate for an election to the Northwest Territories Legislative Assembly. The allowable political contribution tax credit is equal to:

- 100% of the first $100 contributed;

plus

- 50% of the next $800 contributed, to a maximum credit of **$500.**

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

Note

Contributions to a political party do **not** qualify for this credit.

On line 898 of Schedule 5, enter the total amount of qualifying contributions, and on line 700, enter the amount of the credit you are claiming.

Northwest Territories investment tax credit

You can claim this credit if you had a permanent establishment in the Northwest Territories at anytime in the year and made an investment eligible for the investment tax credit under the RISK CAPITAL INVESTMENT TAX CREDITS ACT.

The maximum credit you can claim in a tax year is $30,000 less any tax credits that may be deducted under the federal INCOME TAX ACT.

This credit expired December 31, 2003, and is continued again for investments made from January 1, 2005, to December 31, 2007. No credit is available for investments made during the 2004 calendar year.

You can carry back an unused credit to the three preceding tax years from the tax year in which you made investments. You can also carry forward the unclaimed credit to the seven tax years that follow the tax year in which you made investments.

The Minister of Finance of the Northwest Territories will issue a certificate to eligible corporations. You do not have to file the certificate with your return. However, keep it in case we ask for it later.

To claim the credit, file a completed Schedule 460, NORTHWEST TERRITORIES INVESTMENT TAX CREDIT, with your return. For more details, see the schedule.

Corporations that have a permanent residence in Nunavut but made investments eligible for the investment tax credit before April 1, 1999, can also claim this credit. For more details, see the following section for Nunavut.

On line 705 of Schedule 5, enter the amount of credit you are claiming.

Nunavut

The **lower rate** of Nunavut income tax is 4%. This lower rate applies to taxable income earned in Nunavut that qualifies for the federal small business deduction.

The **higher rate** of Nunavut income tax is 12%. This rate applies to taxable income earned in Nunavut that does **not** qualify for the small business deduction.

On line 260 of Schedule 5, enter the amount of tax calculated.

Nunavut political contribution tax credit

You can claim contributions made to a candidate for an election to the Nunavut Legislative Assembly. The allowable political contribution tax credit is equal to:

- 100% of the first $100 contributed;

plus

- 50% of the next $800 contributed, to a maximum credit of **$500.**

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

Note

Contributions to a political party do **not** qualify for this credit.

On line 899 of Schedule 5, enter the total amount of qualifying contributions, and on line 725, enter the amount of the credit you are claiming.

Nunavut investment tax credit

You can claim this credit if you had a permanent establishment in Nunavut at anytime in the year and made an investment eligible for the investment tax credit under the RISK CAPITAL INVESTMENT TAX CREDITS ACT.

The maximum credit you can claim in a tax year is $30,000 less any tax credits that may be deducted under the federal INCOME TAX ACT.

You can carry back an unused credit to the three preceding tax years from the tax year in which you made investments. You can also carry forward the unclaimed credit to the seven tax years that follow the tax year in which you made investments.

The Minister of Finance of Nunavut will issue a certificate to eligible corporations. You do not have to file the certificate with your return. However, keep it in case we ask for it later.

To claim the credit, file a completed Schedule 480, NUNAVUT INVESTMENT TAX CREDIT, with your return. For more details, see the schedule.

On line 735 of Schedule 5, enter the amount of credit you are claiming.

Northwest Territories investment tax credit on investments made before April 1, 1999

Corporations that made investments eligible for the investment tax credit before April 1, 1999, can claim the Northwest Territories investment tax credit. To claim this credit, file a completed

Schedule 460, NORTHWEST TERRITORIES INVESTMENT TAX CREDIT, with your return. For more details, see the section for the Northwest Territories and the schedule.

On line 734 of Schedule 5, enter the amount of the credit you are claiming.

Line 765 – Provincial tax on large corporations

A provincial tax is levied on taxable capital of certain large corporations that have a permanent establishment in Nova Scotia or New Brunswick.

If the corporation is liable for the provincial tax on large corporations in Nova Scotia, on line 765, enter the tax as calculated on Schedule 342, NOVA SCOTIA TAX ON LARGE CORPORATIONS. For more details, see "Nova Scotia tax on large corporations" on page 427 [77].

If the corporation is liable for the provincial tax on large corporations in New Brunswick, on line 765, enter the tax as calculated on Schedule 361, NEW BRUNSWICK TAX ON LARGE CORPORATIONS. For more details, see "New Brunswick tax on large corporations" on page 441 [79].

Other credits

Line 780 – Investment tax credit refund

On line 780, enter the amount of the investment tax credit refund. See page 346 [64] for details.

Line 784 – Dividend refund

On line 784, enter the amount of the dividend refund, which you calculated in the "Dividend refund" area on page 38 [6] of your return. See page 317 [58] for details.

Line 788 – Federal capital gains refund

Investment corporations (see section 130) and **mutual fund corporations** (see section 131) have to file Schedule 18, FEDERAL AND PROVINCIAL OR TERRITORIAL CAPITAL GAINS REFUND, with their returns. Schedule 18 has to contain the following information:

- details about the refundable capital gains tax on hand;
- details of the capital gains redemption for the year; and
- a calculation of the federal capital gains refund for the year.

Use 28% as the percentage to determine the refundable capital gains tax on hand.

The federal capital gains refund for the year is whichever is less:

- 14% of the total of:
  - the capital gains dividends paid in the period starting 60 days after the commencement of the year and ending 60 days after the end of the year; and
  - the capital gains redemption for the year; or
- the refundable capital gains tax on hand at the end of the year.

Complete the appropriate lines on Schedule 18, and enter on line 788 of the return the federal capital gains refund. See page 520 [the next page] for details on the provincial or territorial capital gains refund.

Note

If a corporation is established and maintained mainly to benefit non-residents, it does not qualify as a mutual fund corporation, and it cannot claim the capital gains refund.

References

Sections 130 and 131

Line 792 – Federal qualifying environmental trust tax credit refund

On line 792, enter the amount of federal qualifying environmental trust tax credit refund that was not used in the Part I tax calculation. See page 345 [63] for more information.

Line 796 – Canadian film or video production tax credit refund

A fully refundable tax credit is available to qualified corporations that produce an eligible production certified by the Minister of Canadian Heritage to be a Canadian film or video production.

For expenditures incurred before November 14, 2003, the credit is equal to 25% of qualified labour expenditures for the year for the production. The qualified labour expenditure cannot be more than 48% of the total cost of a production. The tax credit is therefore limited to 12% of the total cost of a production, less any assistance.

For expenditures incurred after November 13, 2003, the credit is equal to 25% of qualified labour expenditures for the year for the production. The qualified labour expenditure cannot be more than 60% of the total cost of a production. The tax credit is therefore limited to 15% of the total cost of a production, less any assistance. Under the new rules, labour expenditures in respect of non-residents of Canada (other than Canadian citizens) will not be eligible for the credit.

For more information, see our Web site at **www.cra.gc.ca/ftc.**

To claim the credit, attach the following items to the top of your return for the year:

- the Canadian Film or Video Production Certificate (Part A) issued by the Canadian Audio-Visual Certification Office (CAVCO), or a copy;

- if it applies, a Certificate of Completion (Part B) issued by CAVCO, or a copy, and a copy of the audited statement of production costs and notes provided to CAVCO; and
- a completed Form T1131, CLAIMING A CANADIAN FILM OR VIDEO PRODUCTION TAX CREDIT, for each film or video production.

On line 796, enter the amount of the credit from line 520 or line 620 of Form T1131. If you are filing more than one of these forms, enter the cumulative total.

Note

We may refund all or part of a claim for a Canadian film or video production tax credit for a tax year to a qualified corporation, before we issue the NOTICE OF ASSESSMENT for that year, provided certain conditions are met.

References

Section 125.4

Regulation 1106

Line 797 – Film or video production services tax credit refund

A fully refundable tax credit is available to eligible production corporations for a film or video production certified by the Minister of Canadian Heritage to be an accredited production.

Eligible production corporations do not include those that, at any time in the year, are tax-exempt, are controlled by one or more tax-exempt entities, or are prescribed labour-sponsored venture capital corporations.

The credit is equal to 16% of qualified Canadian labour expenditures for the year. For expenditures incurred before February 19, 2003, the 11% rate is used.

Note

Qualified Canadian labour expenditure is net of any assistance.

For more information, see our Web site at **www.cra.gc.ca/ftc.**

To claim the credit, attach the following items to the top of your return for the year:

- an Accredited Film or Video Production Certificate, or a copy; and
- a completed Form T1177, CLAIMING A FILM OR VIDEO PRODUCTION SERVICES TAX CREDIT, for each accredited production.

On line 797, enter the amount of the credit from line 520 and 620 of Form T1177. If you are filing more than one of these forms, enter the cumulative total.

If a credit is claimed for the Canadian film or video production tax credit, then a credit cannot be claimed for the film and video production services tax credit.

Note

We may refund all or part of a claim for a film or video production services tax credit for a tax year to an eligible production corporation, before we issue the NOTICE OF ASSESSMENT for that year, provided certain conditions are met.

References

Section 125.5

Regulation 9300

Lines 800 and 801 – Tax withheld at source

This is the amount shown as "income tax deducted" on any NR4, T4A, or T4A-NR information slips you may have received. You do not have to file these information slips with your return, unless you are a non-resident corporation. However, keep them in case we ask for them later.

On line 800, enter the total amount of income tax deducted from all your information slips and, on line 801, enter the total payments on which tax has been withheld.

References

IC 77-16, NON-RESIDENT INCOME TAX

IC 75-6, REQUIRED WITHHOLDING FROM AMOUNTS PAID TO NON-RESIDENTS PROVIDING SERVICES IN CANADA

Line 808 – Provincial and territorial capital gains refund

Investment corporations (see section 130) and **mutual fund corporations** (see section 131) have to file Schedule 18, FEDERAL AND PROVINCIAL OR TERRITORIAL CAPITAL GAINS REFUND, with their return, complete with information mentioned on page 512 [92].

These corporations have to calculate the provincial and territorial capital gains refund according to provincial and territorial income tax acts.

Complete page 2 [2] of Schedule 18, and enter the provincial and territorial capital gains refund on line 808.

Reference

Sections 130 and 131

Line 812 – Provincial and territorial refundable tax credits

On line 812, enter the amount of provincial and territorial refundable tax credits calculated on line 255 of Schedule 5 (negative amount).

Line 840 – Tax instalments paid

On line 840, report all of the instalment payments you made for the tax year. If there is a discrepancy between the amount you report on the return and the amount in the instalment account, we will use the amount in your instalment account for the tax year being assessed when we process the return.

For information on how to make payments and calculate instalments visit our Web site at **www.cra.gc.ca** or see Guide T7B Corp, CORPORATION INSTALMENT GUIDE.

Refund or payment

Your overpayment or balance unpaid is the difference you get after subtracting all the credits on lines 780 to 840 from the total tax payable on line 770.

If your total tax payable (line 770) is less than your total credits (line 890), enter the difference on the **overpayment** line.

If your total payable (line 770) is more than your total credits (line 890), enter the difference on the **balance unpaid** line.

Note

After we process your return and apply any interest and/or penalty charges, if the total amount owing at that time is $2 or less, you will not be required to pay that amount. If an amount of $2 or less is owed to you, the amount will not be paid; however, it will be applied to any existing liability you may have.

Line 894 – Refund code

If entitled to a refund, enter one of the following codes on line 894:

- enter **"1"** if you want us to refund the overpayment;
- enter **"2"** if you want us to transfer the overpayment to next year's instalment account; or
- enter **"3"** if you want us to apply the overpayment to another liability (such as an expected debit from a reassessment) or to a different account. Attach a letter to your return giving instructions.

Note

We will first apply the overpayment to any outstanding tax the corporation owes. Then, we will direct any amount left over according to the code you enter.

Effective April 1, 2007, if you choose either of the first two options, we will automatically apply the overpayment to any outstanding liabilities the corporation owes on the same or related Business Number account. Then, we will refund or transfer the excess overpayment according to the code you enter. We will do this only if all the required returns have been filed on the account.

If you enter **"3,"** we will hold the overpayment on your account and allocate it according to your instructions.

If you do not enter a code, we will apply the overpayment to any outstanding liabilities the corporation owes and then refund the excess overpayment.

Effective April 1, 2007, the payment of refunds and rebates will be withheld until all required returns, of which the Minister of National Revenue has knowledge, have been filed.

Line 896 – If the corporation is a Canadian-controlled private corporation throughout the tax year, does it qualify for the one-month extension of the date the balance of tax is due?

Tick the appropriate box. See "Balance due date" on page 49 [12].

Line 898 – Enclosed payment

On line 898, enter the amount of any payment you are sending with your return. Do not enter an amount on this line if you made your payment at your financial institution in Canada or sent your payment to us electronically (see following section). Do not include this payment amount in the instalment total you recorded on line 840.

Make the cheque or money order payable to the Receiver General for Canada, and attach it to your return.

The Canadian Payments Association sets a maximum value of $25 million for any cheque or other paper-based payment instrument cleared through the banking system. Clients are encouraged to make arrangements with their financial institutions for payments of large amounts.

Note

You or your representative may not have a bank account at a financial institution in Canada. If so, either of you can make your payment using:

- an international money order drawn in Canadian dollars;
- a bank draft in Canadian funds drawn on a Canadian bank (available at most foreign financial institutions); or
- a cheque drawn in the currency of the country in which the financial institution is located. We will use the currency rate in effect at the time of cashing your cheque.

Payment of balance owing at your financial institution

You can also make your payment, **free of charge,** at your financial institution in Canada. You will have received a Form RC160, INTERIM PAYMENTS REMITTANCE VOUCHER after all your instalment payments have been made for the year, which shows the tax year-end. Use the form to remit your balance due date payment, if applicable.

Present the part of your statement that displays your remittance voucher with your payment to the teller. The teller will return the top part to you as a receipt. You must have an original voucher from the CRA for your financial institution to accept the payment. Photocopies are not accepted.

Electronic payment of balance owing

You can pay your corporation's 2006 balance owing electronically by using your financial institution's telephone or Internet banking services. Most financial institutions allow a corporation to schedule a future-dated payment. For more information about this option, visit our Web site at **www.cra.gc.ca/electronicpayments** or contact your financial institution.

Direct deposit request

Lines 910 to 918

Direct deposit offers a safe, convenient, and dependable way of receiving payments, and it removes the potential loss of credit interest if a cheque is delayed in the mail.

To **start** direct deposit to the corporation's account at a financial institution, or to **change** information you already gave us, complete the "Direct deposit request" at the bottom of page 48 [8]. You do not have to complete this area if you already have direct deposit service and the information you gave before has not changed.

You can also use Form T2-DD, DIRECT DEPOSIT REQUEST FORM FOR CORPORATIONS.

Your direct deposit request will stay in effect until you change the information or cancel the service. However, if your financial institution advises us that you have a new account, we may deposit your payments into the new account. If, for any reason, we cannot deposit a payment into a designated account, we will mail a cheque to you at the address we have on file at the time of the original payment.

Note

The CRA must generate all large-value refunds ($25 million or more) through the Large Value Transfer Service (LVTS). To avoid potential delays, clients have to be registered for direct deposit and be registered on the LVTS. If you are expecting a large-value refund, arrange for direct deposit and contact your tax centre to make the necessary arrangements.

Certification

Lines 950 to 959

Lines 950 to 956 – Complete these lines by giving the required information in the appropriate spaces. Be sure that the person who signs and dates the return is an authorized officer of the corporation.

Line 957 – Tick the appropriate box.

Lines 958 and 959 – If you answer NO to line 957, provide the first and last names and telephone number of a contact person. This contact person is responsible for **all matters related to the processing** of this year's return.

Note

Please complete Form RC59, BUSINESS CONSENT FORM if you wish to authorize a representative to discuss your corporation income tax return for any year with the CRA.

Language of correspondence

Line 990

Indicate in which official language you would like to receive your correspondence by entering the appropriate code:

- 1 for English; or
- 2 for French.

Appendices

List of federal and provincial or territorial corporate schedules and forms

We provide the following schedules and forms, on our Web site at **www.cra.gc.ca/forms.** You can also get a printed copy by calling 1-800-959-2221.

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