Information for Corporations
2000

T2 Corporation – Income Tax Guide

T4012(E) Rev. 01

La version française de cette publication est intitulée *Guide T2 – Déclaration de revenus des sociétés.*

Proposed legislation

The following are highlights of some of the proposed changes that will affect corporations. These changes must receive Royal Assent before they become law. For details on these and other changes, see the parts of the guide outlined in red.

Inclusion rate for dispositions of capital property

It is proposed that, for dispositions of capital property made after February 27, 2000, and before October 18, 2000, the rate be reduced for capital gains and capital losses from 75% to 66 2/3%. For dispositions made after October 17, 2000, the rate is reduced from 66 2/3% to 50%.

Personal-use property

It is proposed that the $1,000 rule on personal-use property will not apply when personal-use property is acquired by donors after February 27, 2000, as part of an arrangement in which the property is gifted to a qualified donee, such as a registered charity.

Ecologically-sensitive land

It is proposed that, for gifts of ecologically-sensitive land made after February 27, 2000, and before October 18, 2000, the income inclusion rate on capital gains arising from such gifts will be reduced from 75% to 33 1/3%. For gifts of ecologically-sensitive land made after October 17, 2000, the inclusion rate is reduced from 33 1/3% to 25%. The donor will be required to file two certificates obtained from the Minister of the Environment.

Tax rate reduction

It is proposed to reduce, within five years, the effective general income tax rate from 28% to 21% (after the 10% abatement). The rate will be reduced from 28% to 27% (after the 10% abatement) for taxation years that end after December 31, 2000. This rate reduction will be prorated for taxation years that straddle that date. For details see item 98.

The surtax will remain at 4% of the 28% general income tax rate.

Accelerated rate reduction for small business

It is proposed to reduce the effective general income tax rate from 28% to 21% by providing a deduction of 7% from tax otherwise payable effective for taxation years that end after December 31, 2000, on active business income between $200,000 and $300,000 earned by a Canadian controlled private corporation (CCPC), from a business carried on in Canada. This rate reduction will be prorated for taxation years that straddle that date. For details see item 97.

Manufacturing and processing tax reduction for producers of steam for sale

It is proposed to extend the manufacturing and processing tax reduction to all corporations that produce steam for sale. The reduction will be phased-in beginning January 1, 2000, at the following rate: 3% in 2000, 5% in 2001, and 7% in 2002. The reduction will be prorated for taxation years that straddle calendar years.

Non-resident-owned investment corporations (NROs)

It is proposed to repeal the NRO provisions for elections made after February 27, 2000. Existing NROs will be entitled to retain their status until the end of their last taxation year that begins before 2003. In addition, existing NROs will not be permitted to issue new shares or increased their debt levels.

Do you have an income tax problem?

We are always looking at ways to make it easier for you to file your corporation return, deduct and send in your remittances, and resolve any problems you may have.

If you have a problem, you can call our national 1-800 network at ~~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 of Canada section of your local telephone directory.

Your Opinion Counts

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

Please send your comments to:

Client Services Directorate
Canada Customs and Revenue Agency
~~Place Vanier, Tower A~~
~~Ottawa ON K1A 0L5~~

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2000 and following taxation years

In this guide, we give you basic information on how to complete the *T2 Corporation Income Tax Return* (2000 and later taxation years). Please note that the guide does not replace the *Income Tax Act* and its regulations.

When we mention parts, sections, subsections, paragraphs, and subparagraphs, we are referring to the *Income Tax Act*.

In this guide, we also refer to information circulars (IC) and interpretation bulletins (IT) that we publish to give you more technical information. All references to ICs and ITs in this guide refer to the latest versions, which are available from tax services offices and tax centres.

Many of our publications are available from our Internet site at: **www.ccra.gc.ca/t2return/**

All forms and schedules referred to in this guide are available from this Internet site.

You can also get the printed versions of the forms and schedules from your tax services office or tax centre. A table that shows the form numbers is found at the end of this guide.

This guide uses plain language to explain the most common income tax situations. If you need help after reading it, please contact your tax services office or tax centre.

Our service pledge

The Canada Customs and Revenue Agency (CCRA) will process 90% of all T2 initial assessed returns within 90 days.

1
Who has to file a T2 return?

All corporations—including non-profit organizations, tax-exempt corporations, and inactive corporations—have to file a T2 return for every taxation 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 has to file a return in a number of situations, including:

- when it pays tax on taxable income it earns in Canada under section 115;
- where 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); and
- when a corporation is subject to tax under Part XIV (known as branch tax).

A non-resident corporation may be subject to Canadian income tax and must file a return if, at any time in the year, one of the following situations apply:

- it carried on business in Canada,
- it had a taxable capital gain,
- it disposed of taxable Canadian property,
- it has to pay Part I tax in the current year because it met one of the above situations for a previous year (or would have resulted in a Part I tax liability except for a tax treaty).

This requirement applies even if any profits or gain(s) realized are claimed by the corporation to be exempt from Canadian 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 above 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 corporation 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 page 1;
- lines 164, 170, and 171 of page 2;
- lines 280 to 289 of page 3; and
- lines 780 to 990, as applicable, of page 8.

In addition, you have to complete Schedule 91, *Information Concerning Claims for Treaty-based Exemptions*, and tick the "yes" or "no" box of lines 164, 170, and 171 on page 2. For each "yes" response, fill out the appropriate form or schedule and include it with the return.

Services rendered in Canada (withholding tax)

A non-resident corporation is subject to a 15% withholding tax under Regulation 105 on any fee or other amounts paid to them for services rendered in Canada (including those services provided by employees of the corporation or by subcontractors).

Any non-resident corporation that has received a waiver of this withholding tax from the CCRA is, nonetheless, required to file a return.

Dispositions of taxable Canadian property (certificates of compliance)

A non-resident corporation that disposes of taxable Canadian property (TCP) must notify the CCRA and obtain a certificate of compliance under section 116. For further details, see Information Circular 72-17, *Procedures Concerning the Disposition of Taxable Canadian Property by Non-residents of Canada – Section 116*.

A non-resident corporation that has realized a taxable capital gain or disposed of TCP, including a corporation that may have received a certificate of compliance from the CCRA, is required to file a return.

2 In what format can you file your return?

You can use three formats to file a corporation income tax return.

Using our preprinted returns

We print two different returns.

T2 Corporation Income Tax Return
The *T2 Corporation Income Tax Return* is eight pages long. It is used by most corporations.

T2 Short return
The *T2 Short* return is two pages long 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;
   - it has either a **nil** income for income tax purposes this year, or a **loss** this year;
   - it has a permanent establishment in only one province or territory (see item 129);
   - 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.

Each return package has two copies of the return; keep one copy for your files, and send the other copy to us.

Using computer-printed returns

If you are filing your return for the 2000 taxation year, you must use software that has been approved for filing 2000 returns. We will test and approve all commercial software packages to ensure that they meet our specifications. Your approved software will generate Form T2 RSI, *Return and Schedule Information*.

The paper quality and print legibility of your computer-printed returns have to meet our standards. Get a printed copy of the approved Form T2 RSI from the software supplier, and make sure that your equipment can produce copies of equal quality. The print quality has to be clear and dark enough to read and photocopy easily.

You have to print Form T2 RSI on paper that is as durable as the 32M paper we use to print our forms. We will accept no-carbon-required paper, as long as you send us the copy that does not mark the following page.

If Form T2 RSI you file does not have a valid CCRA software approval code 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 printed forms.

Facsimile returns

These returns are exact copies of our T2 return. They 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 – Returns and Information Slips*

3
When do you have to file your return?

Be sure to file your return within six months of the end of each taxation year. The taxation year of a corporation is its fiscal period.

When the corporation's taxation 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 taxation year.

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

Examples

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

If you hand-deliver the 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 the return first-class or use an equivalent delivery service, we consider the date of the postmark on the envelope as the day you filed the return.

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

Penalties may apply if you file the return late. See item 6 for details.

> **Note**
> You must file a return no later than three years after the end of a taxation year in order to receive a tax refund.

4
Where do you file your return?

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

Resident corporations

Deliver the 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~~
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, and Toronto North	Tax Services Office/Tax Centre ~~Sudbury ON P3A 5C1~~
Montréal, Laval, Ottawa, Sherbrooke, Rouyn-Noranda, North-Eastern Ontario, Nunavut	Tax Centre ~~Shawinigan-Sud QC G9N 7S6~~
Québec, Chicoutimi, Rimouski, Trois-Rivières, Outaouais, and Montérégie-Rive-Sud	Tax Centre ~~Jonquière QC G7S 5J1~~
Nova Scotia, New Brunswick, Newfoundland, Labrador, Kingston, Peterborough, St. Catharines	Tax Centre ~~St. John's NF 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, call the International Tax Services Office at one of the following telephone numbers:

In the Ottawa area	~~954-9681~~
Long-distance from Canada and the United States	~~1-800-267-5177~~
Long-distance from outside Canada and the United States	~~(613) 954-9681*~~

*We accept collect calls.

5
When do corporations pay income tax?

Corporations have to pay income tax in monthly instalments. The balance of tax the corporation owes for a taxation year is due within either two or three months of the end of that taxation 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, or by paying directly at a Canadian financial institution.

Keep in mind that we consider the payment to have been made on the day we receive it, and not on the day you mail it.

Note
Sometimes, interest and penalties on late payments can be waived or cancelled. For more information, see the section called "Waiving penalties and interest" in item 6.

Instalment due dates

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

Balance due date

Generally, the balance of tax payable is due **two** months after the end of the taxation year. However, the tax is due **three** months after the end of the taxation year if **all** of the following conditions apply:

- The corporation is a Canadian-controlled private corporation throughout the taxation year.
- The corporation claims the small business deduction for the taxation year, or was allowed the small business deduction in the previous taxation year.
- The corporation's taxable income before the application of any loss carrybacks for the previous taxation year does not exceed its business limit for that taxation year, if the corporation **is not associated** with any other corporation during the taxation year.

If the corporation **is associated** with any other corporation during the taxation year, the total of the taxable incomes of all the associated corporations before the application of any loss carrybacks, for their last taxation year ending in the previous calendar year, does not exceed their business limits for that taxation year.

Notes
For a taxation year shorter than 51 weeks, prorate the business limit based on the number of days in the taxation year divided by 365. See items 29 and 95 for more information.

Large Canadian-controlled private corporations that have taxable capital employed in Canada of $15 million or more will have their business limit reduced to nil. For more information, see item 96.

For more information, see the *Corporation Instalment Guide.*

Reference
Section 157

6
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 late-filing penalty for the corporation in any of the three previous taxation 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 late filing penalty calculation equal to the greater of the following amounts:

- $100,
- $25 time the number of days, not exceeding 100, from the day on which the return was required to be filed to the day on which the return is filed.

This penalty is applicable where the amount calculated exceeds the amount of penalty usually applied under subsections 162(1) and (2), as discussed 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 schedules:

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

Reference
Section 235

What happens if you don't report income?

A penalty will be charged if a corporation does not report an amount of income on its return for a taxation year, and if it failed to report income in any of the three previous taxation 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 either **$100** or **50%** of the amount of understated tax, whichever is more.

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 where a person makes or furnished, or cause another person to make or furnish, a statement that the person knows, or would reasonably be expected to know but for circumstances amounting to culpable conduct, is a false statement that could be used by another person for a purpose of the *Act*.

Reference
Section 163.2

Other penalties

A corporation can also be charged penalties for:

- not providing information on an authorized form as required by the *Income Tax Act* and its regulations;
- not filing Form T106, *Information Return of Non-Arm's Length Transactions With Non-Residents* (see item 43);
- not filing the T5013 Summary, *Partnership Information Return* (see item 38);
- not filing Forms T1134A, *Information Return Relating to Foreign Affiliates That are not Controlled Foreign Affiliates*; T1134B, *Information Return Relating to Controlled Foreign Affiliates*; T1135, *Foreign Income Verification Statement*; T1141, *Information Return in Respect of Transfers or Loans to a Non-Resident Trust*; and T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-resident Trust* (see item 44); or
- late or deficient instalment payments.

Reference
Subsection 162(5)

Waiving penalties and interest

Sometimes, late-filing penalties or interest charges may be waived in situations where the corporation clearly does not deserve them. 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 the corporation is in one of these situations, let us know about the problem and try to file the 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 charges, send us a letter explaining why it was impossible for you to file the return or make the payment on time.

References
Subsection 220(3.1)
IC 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*

7
What happens once you have filed your return?

After we receive your return, we send it to Corporation Services of the responsible tax centre for processing. Item 4 lists these tax centres.

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 your tax services office 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 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 taxation 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 your tax services office or tax centre. 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 form each time you give or cancel an authorization. With the form, you can ask that this authorization not only apply to prior taxation years, but also to the year after the year for which the form is dated. For example, you can use a consent form dated in 2000 to give authorization up to and including the 2001 taxation year.

8
When can we reassess your return?

Within certain time limits, we can reassess your return or make additional assessments of tax, interest, or 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 taxation year:

- within **three** years of the date we mailed either the original *Notice of Assessment* or the notification that no tax was payable for the taxation year, if the corporation was a Canadian-controlled private corporation at the end of the year; **or**
- within **four** years of the date we mailed either the original *Notice of Assessment* or the notification that no tax was payable for the taxation year, if the corporation was **not** a Canadian-controlled private corporation 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 taxation year;
- when a non-arm's length transaction between 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; or
- if a reassessment of another taxation year (it must be a prior taxation year if the reassessment relates to a loss or credit carryback) for any of the above reasons affects the corporation's tax.

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
- the 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 taxation 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 taxation year, and any details that apply. Be sure to 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 taxation year, file whichever of the following schedules apply:

- Schedule 4, *Corporation Loss Continuity and Application*, to request the carryback of a loss;
- Schedule 31, *Investment Tax Credit – Corporations*, to request the carryback of an investment tax credit;
- 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 42, *Calculation of Unused Part VI Tax Credit and Unused Part I Tax Credit*, to request the carryback of Part I tax credit; and
- Schedule 37, *Calculation of Unused Part I.3 Tax Credit and Unused Surtax Credit*, to request the carryback of surtax credit.

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

Reference
Subsection 152(6)

9
How do you make an appeal?

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 shall:

- 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 a balance of undeducted 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 CCRA's or the Tax Court of Canada's impartial review, unless the corporation or a related corporation is liable for tax under Part I.3. 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 164(1.1)

Appealing loss determinations

The objection and appeal process does not usually apply to disputed loss amounts, 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.

Only if the corporation asks us, 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*

10
Books and records or electronic records

You have to keep the corporation's books and records or electronic records, in case we need to verify the income or loss you reported on the return. Keep books and records or electronic records, including related accounts and vouchers, for at least six years from the end of the last taxation year to which they relate. If you filed a return late, keep books and records or electronic records for six years from the date you filed the return.

Do not destroy the books and records or electronic records any earlier unless we give you written permission.

If your corporation dissolves, you have to keep books and records or electronic records until two years after the date the corporation is dissolved. Be sure to keep books and records or electronic records that relate to an objection or appeal notice until the objection or appeal process is finished, and the time for filing any appeal has expired.

Keep all receipts and documents that you do not have to file with the return in an orderly manner, in case we need to see them to support a claim, or in case we select the return for further review or audit.

References
Subsections 230(4), 230(4.1), 230(5), and 230(6)
Regulation 5800
IC 78-10, *Books and Records Retention/Destruction*

Chapter 1 – Page 1 of the T2 return

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"Identification" area

Be sure to accurately complete page 1 of your return, so we can properly identify the corporation and process the return more quickly.

11
Line 001 – Business Number (BN)

The Business Number 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. Enter "0001" unless we have advised you to use a different program account identifier. You will find the corporation's Business Number on previous assessment notices, instalment receipts, or remittance forms.

On **line 001**, enter your Business Number for income tax purposes.

> **Note**
> If you are a non-resident corporation requiring a BN, please consult the guide entitled *The Business Number and your Canada Customs and Revenue Agency Accounts* on our Web site at: **www.ccra.gc.ca**

12
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 we were notified?

To answer this question, tick either the *yes* or *no* box. If you answer *yes*, also answer line 004 by indicating *yes* or *no* if you have a copy of the articles of amendment available.

13
Lines 010 to 018 – Address of head office

Line 010 – Has the address changed since the last time we were notified?

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

Lines 011 to 018

If you answered *yes* at line 010, enter the complete head office address of the corporation, including the street number, street, city, province, territory, or state, and postal code in the appropriate area. If applicable, complete line 017.

14
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 the address changed since the last time we were notified?

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

Lines 021 to 028

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

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

15
Lines 031 to 038 – Location of books and records

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

16
Lines 040 and 043 – Type of corporation at the end of the taxation year

Line 040

Tick the box that accurately describes the corporation type **at the end of the taxation year.** Because the corporation type determines whether or not the corporation is entitled to certain rates and deductions, make sure to tick the correct box. 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 taxation 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 taxation 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 directly or indirectly by any combination of persons described in the two preceding conditions;
- if, on the assumption that all of its shares which are owned by any non-resident person or public corporation 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.

Proposed legislation
It is proposed to amend the definition of Canadian-controlled private corporation (CCPC) in subsection 125(7) to ensure that a corporation controlled by a Canadian resident corporation that lists its shares on a prescribed stock exchange outside Canada is not a CCPC for taxation years that begin after 1999.

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 taxation 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 taxation 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. These types of corporations do not qualify as public corporations for the purpose of 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 non-resident-owned investment corporations and Crown corporations.

Line 043 – If the type of corporation changed during the taxation year, please 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 Canadian-controlled private corporation throughout the taxation year, at any time in the taxation year, or at the end of the taxation year.

17
Lines 060 to 065 – To which taxation year does this return apply?

Lines 060 and 061 – Taxation year start and taxation year end

In the spaces provided, enter the first and last days of the taxation year. If the particular time of day applies, enter the hours and minutes to specify the time. The corporation's taxation year is its fiscal period. A fiscal period cannot be longer than 53 weeks (371 days). The taxation year of a new corporation cannot be longer than 53 weeks from the date it

was either incorporated or formed as a result of an amalgamation.

The first day of this taxation year has to be the day after the last day of the preceding taxation year. Make sure the financial statements you attach to the return match the taxation 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 from the Minister of National Revenue 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 the Minister's 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 taxation 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**
> Effective September 30, 1996, a corporation that becomes bankrupt must obtain 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 taxation 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 acquisition of control when, during the taxation year, a person or group of persons acquired control of the corporation.

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

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

If control is acquired up to seven days after the end of an established taxation year, generally, a corporation can choose to extend the taxation 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 the return for the taxation year ending immediately before control was acquired and enter the hours and minutes that specify the time of day at line 065.

18
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.

19
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 attach Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, to the return. See chapters 2 and 3 for what other schedules to attach to your return.

If you do not file Schedule 24, it may delay the processing of your return.

For more information on Schedule 24, see item 36.

> **Note**
> Keep in mind that the taxation year of a new corporation cannot be longer than 53 weeks from the date it was incorporated.

20
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 attach Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, to your return.

If you do not file Schedule 24, it may delay the processing of the return.

For more information on Schedule 24, see item 36.

> **Note**
> Keep in mind that the taxation year of a new corporation cannot be longer than 53 weeks from the date it was amalgamated.

21
Line 072 – Has there been a windup of a subsidiary under section 88 during the current taxation year?

To answer this question, tick either the *yes* or *no* box. If you answer *yes*, you have to attach Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, to your return.

If you do not file Schedule 24, it may delay the processing of your return.

For more information on Schedule 24, see item 36.

22
Line 076 – Is this the final taxation 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 one 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 *Articles 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.

23
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 taxation year ending on the date of dissolution.

The responsible representative has to obtain a clearance certificate from the tax services office before distributing any of the corporation's property under his or her control. By obtaining the certificate, the responsible representative will avoid being personally liable for the unpaid taxes, interest, and penalties. Remember to include Schedule 100, *Balance Sheet Information*, with the final return, which shows how the assets were distributed.

> **Notes**
> If a corporation wants to be dissolved permanently, it should apply to its applicable incorporating body to have its charter stricken from their records, in addition to filing a final return. Otherwise, we will consider the company to still exist, 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 or federal Crown and cannot be issued to the corporation or its representatives.

References
Subsection 159(2)
IC 82-6, *Clearance Certificate*

24
Lines 080 to 082 – Is the corporation a resident of Canada?

To answer this question, tick either the *yes* or *no* box.

If the corporation is not a resident of Canada, give the country of residence on line 081. Non-resident corporations have to mail their returns to the International Tax Services Office. See item 4 for detailed information on address and telephone 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 *yes*, provide Schedule 91, *Information Concerning Claims for Treaty-based Exemptions.*

See item 1 for more information about the filing obligations of non-resident corporations.

25
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 following boxes of 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 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; or
  - 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 apply:

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

If you have to file an information return for any taxation year, you will have to file a return for all future taxation years. Form T1044 has to be filed in the six months following the end of the fiscal period. Refer to the *Income Tax Guide to the Non-Profit Organization (NPO) Information Return.*

References
Subsection 149(12)
Guide T4117, *Income Tax Guide to the Non-Profit Organization (NPO) Information Return*
IT-83, *Non-Profit Organizations – Taxation of Income from Property*
IT-409, *Winding-Up of a Non-Profit Organization*
IT-496, Non-Profit Organizations

Box 2 – Exempt under 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, if it meets all the following conditions:

- the corporation must be constituted exclusively for carrying on or promoting scientific research and experimental development;
- no part of the corporation's income may be payable to or otherwise available for the personal benefit of any proprietor, member, or shareholder;
- the corporation must not have acquired control of any other corporation;
- the corporation must not carry on any business during the period for which exemption is claimed;
- the corporation must, in each period for which it claims exemption, have expended in Canada an aggregate of amounts that are either:
  - expenditures on scientific research and experimental development directly undertaken by it or on its behalf; or
  - payments to an association, university, college, or research institution to be used for scientific research and experimental development.

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 the insurance of residences of farmers or fishermen, or 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 2 of the T2 return

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Attachments

On pages 2 and 3, we have listed the most common schedules you may have to attach to your return. Follow the instructions on page 2 by completing the required schedules.

26
Financial statements

Each corporation should include complete financial statement information for the taxation year of the return using the *General Index of Financial Information (GIFI)*.

> **Note**
> Certain non-resident corporations are not required to file using GIFI. Refer to the GIFI guide for more information.

GIFI schedules include:

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

When preparing the first return of a new corporation, make sure to 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 applicable
- 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 taxation year, the return should include Schedule 100 showing the corporation's financial position at the end of the taxation year.

The GIFI is included in all tax preparation software packages certified by the Canada Customs and Revenue Agency and in most accounting software. The above 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.

For more information on the GIFI, you can obtain the *General Index of Financial Information (GIFI) for Corporations* available from our Internet site at:
www.ccra.gc.ca/t2return/
or your local tax services office.

We have organized the remaining schedules 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 now print the majority of schedules, and we have provided a complete list at the end of this guide. You can get them from your tax services office or tax centre. 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.

Information schedules

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

27
Schedule 9, *Related and Associated Corporations*

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

- the names and the country of residence (if other than Canada) of related or associated corporations;
- the Business Number of the Canadian corporations;
- the type of relationship;
- details of any intercompany shareholdings; and
- the book value of capital stock.

Complete the appropriate columns and attach Schedule 9 to the return.

Reference
Section 251

28
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 taxation year. Indicate the class and the percentage of voting shares that non-resident shareholders owned. If the percentage varied throughout the year, indicate the highest percentage of ownership by non-residents during that year.

29
Schedule 23, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Business Limit*

For more details about **associated** status, see the section called "When is a corporation associated?" in item 30.

All **Canadian-controlled private corporations** (CCPC) that are associated have to file Schedule 23. This schedule is used to:

- identify all the associated corporations to establish:
  - the one-month extension of the date that the balance of tax is due (see item 5); and
  - the calculation of the business limit reduction; and
- allocate the $200,000 business limit for the small business deduction (see item 95).

Notes
For taxation years ending in 2000 and subsequent, agreement Schedule 23 need only be filed by one of the associated/related corporations for a calendar year; however if an agreement is not already on file with the Agency at the time we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will request one.

If the corporation's taxation year is shorter than 51 weeks, prorate the business limit based on the number of days in the taxation year divided by 365.

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

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

For the first taxation year ending in the calendar year, prorate the business limit allocated to the first taxation year ending in the calendar year based on the number of days in the first taxation year divided by 365.

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

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

Prorate the business limit as determined above based on the number of days in the second or later taxation year divided by 365.

Make sure the total of the business limits of all associated corporations for any second or later taxation years that end in the same calendar year is not more than $200,000.

Example
A Co. and B Co. are associated in 2000.

A Co.'s taxation year runs from January 1, 2000, to June 30, 2000.

The business limit allocated to A Co. for its June 30, 2000, taxation year is $80,000.

On November 1, 2000, C Co. becomes associated with A Co. and B Co. C Co.'s taxation year ends on December 31, 2000. A Co. and B Co. decide to adopt December 31, 2000, as their year-ends, to match C Co.'s year-end.

The corporations decide to allocate a $150,000 business limit to C Co. for the December 31, 2000, year-end. Because the total of their business limits cannot be more than $200,000, the corporations allocate $25,000 each to A Co. and B Co.

Question
What is A Co.'s business limit for each of the two taxation years ending in the 2000 calendar year?

Answer
Taxation year ending June 30, 2000:

Because the taxation year is shorter than 51 weeks, A Co. prorates the business limit as follows:

$$\$80,000 \times \frac{182 \text{ days}}{366 \text{ days}} = \$39,781$$

Taxation year ending December 31, 2000:

A Co. uses the $25,000 business limit allocated in this taxation year, because it is less than the $80,000 business limit allocated in its first taxation year ending in 2000. A Co. prorates it as follows:

$$\$25,000 \times \frac{184 \text{ days}}{366 \text{ days}} = \$12,568$$

Reference
Subsection 125(5)

30
Schedule 49, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Expenditure Limit*

All **Canadian-controlled private corporations** that are associated and have scientific research and experimental development expenditures have to file Schedule 49. These corporations use this form to:

- identify all the associated corporations and establish:
  - the 35% investment tax credit rate and the 100% refundable investment tax credit rate on qualifying scientific research and experimental development (SR&ED) expenditures (see item 118);
  - the 40% refundable investment tax credit rate (see item 118); and
- allocate the expenditure limit for the 35% investment tax credit rate on qualifying SR&ED expenditures (see item 118).

  Note
  For taxation years ending in 2000 and subsequent, agreement Schedule 49 need only be filed by one of the associated/related corporations for a calendar year; however if an agreement is not already on file with the Agency at the time we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will request one.

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

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

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

Reference
Subsection 127(10.6)

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 influence 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 five conditions at any time in the taxation 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.

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.

Therefore, 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. AB Co. is related to XY Co.'s controlling shareholder, Billy. (AB Co. is related to Billy because Billy's brother controls that corporation.)

Therefore, 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.

Therefore, 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.

Therefore, One Co. and Two Co. are associated.

References
Subsections 256(1), 256(1.1), and 256(5.1)
Section 251
IT-64, *Corporations: Association and Control – After 1988*

31 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 can elect not to be associated with either of the other corporations. 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 taxation year.

For taxation years ending in 2000 and subsequent, agreement Schedule 28 need only be filed by one of the associated/related corporations for a calendar year; however if an agreement is not already on file with the Agency at the time we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will request one.

Reference
Subsection 256(2)

32 Schedule 11, *Transactions With Shareholders, Officers, or Employees*

A corporation that had transactions with shareholders, officers, or employees has to give the following information on Schedule 11:

column 100 – relationship code:

- 1 – shareholder,
- 2 – officer,
- 3 – employee;

column 200 – amount of payments the corporation made or amounts credited to the account of shareholders, officers, or employees that were not part of their authorized remuneration. Payments could include many things such as:

- rental payments for the rental of property including real property,
- royalty payments,
- repayment of corporate debt owing to the recipient, and
- credits to the account of the shareholder/director/officer/employee;

column 300 – amount of reimbursement of expenses the corporation made or amounts credited to the account of shareholders, officers, or employees;

column 400 – amount of loans or indebtedness to officers, employees, shareholders, or persons connected with a shareholder that were not repaid by the end of the taxation year;

column 500 – amount of assets the corporation sold to or purchased from shareholders, officers, or employees, including those for which an election was made under section 85 (no distinction needs to be made between assets sold or purchased);

column 550 – indicate by answering *yes* or *no*, if section 85 applies to assets sold or purchased.

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 item 43 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.

33
Schedule 44, *Non-Arm's Length Transactions*

Complete Schedule 44, if you make a section 85 election for a transaction between corporations not dealing at arm's length, and if all or substantially all of the assets of a corporation (the transferor) are disposed of to another corporation (the transferee). Give the name and Business Number of the transferor, and the date of the transaction.

Generally, we consider **all or substantially all** to be at least 90%. You have to value 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)

34
Schedule 14, *Miscellaneous Payments to Residents*

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

column 300 – royalties for which you have not filed a T5 slip, *Statement of Investment Income*;

column 400 – research and development fees;

column 500 – management fees;

column 600 – technical assistance fees;* and

column 700 – similar payments.

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

Give the names and addresses of each recipient in columns 100 and 200. List only the payments that were more than $100.

35
Schedule 15, *Deferred Income Plans*

Complete Schedule 15 to indicate the amounts you deducted from your income for payments you made to deferred income plans. Schedule 15 must show:

column 100 – type of plan. Enter one of the following corresponding codes:

- 1 – Registered Pension Plan (RPP),
- 2 – Registered Supplementary Unemployment Benefit Plan (RSUBP),
- 3 – Deferred Profit Sharing Plan (DPSP),
- 4 – Employees Profit Sharing Plan (EPSP);

column 200 – amount of contribution claimed as a deduction for each plan;

column 300 – registration number we assigned to an RPP, an RSUBP, or a DPSP;

columns 400 and 500 – name and address of the trust governed by an EPSP; and

column 600 – if the trust is not resident in Canada, use the corresponding code below to state who filed the T4PS slip, *Statement of Employees Profit-sharing Plan Allocations and Payments*, for the last calendar year:

- 1 – trustee,
- 2 – employer.

36
Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*

Complete Schedule 24 if the corporation is filing its first return after incorporation or amalgamation, or by parent corporations filing for the first time after winding-up a subsidiary corporation under section 88. Complete Schedule 24 as follow:

Part 1 – Type of operation

Field 100 – When you are filing for the first time after incorporation or amalgamation, tick the box corresponding to the type of operation.

Part 2 – First year of filing after amalgamation

When you are filing for the first time after amalgamation, give the following information:

column 200 – name of predecessor corporations; and

column 300 – Business Number of predecessor corporations.

Part 3 – First year of filing after wind-up of subsidiary corporation(s)

When you are filing for the first time after the winding-up of a subsidiary under section 88, give the following information:

column 400 – name of subsidiary corporations;

column 500 – Business Number of subsidiary corporations;

column 600 – commencement date of wind-up; and

column 700 – official date of wind-up.

Note
Deductions, losses, and tax credits transferred from a predecessor corporation or a subsidiary are generally established in corresponding schedules. For example, a foreign business income tax credit is established on Schedule 21, *Federal Foreign Income Tax Credits and Federal Logging Tax Credit*.

Reference
IT-126, *Meaning of "Winding-up"*

37
Form T5004, *Statement of Tax Shelter Loss or Deduction*

If you are claiming a loss or deduction from an interest in a tax shelter you purchased after August 31, 1989, file Form T5004 with your return.

Beginning with tax shelters purchased in 1989, 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.

Reference
IC 89-4, *Tax Shelter Reporting*

38
T5013 Slip, *Statement of Partnership Income*

If you are a member of a partnership, attach to the 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 taxation 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 the *Guide for the Partnership Information Return.*

Except where an election is filed under subsection 249.1(4), for the taxation year that includes the first day of the first fiscal period of a business that begins after 1994, 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.

39
Form T1044, *Non-Profit Organization (NPO) Information Return*

Form T1044 is the annual information return for organizations claiming non-profit status under paragraphs 149(1)(l) or 149(1)(e). Your organization will only file this return if it meets one of the filing requirements explained in item 25.

Your organization has to file the return within six months after its fiscal period end. For help completing this return, see the publication called *Income Tax Guide to the Non-Profit Organization (NPO) Information Return* (T4117).

Reference
Subsection 149(12)

40
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 taxation year.

In columns 100 and 200, enter the name and mailing address of the non-resident discretionary trust. In column 300, enter the name of its trustee.

41
Schedule 25, *Investment in Foreign Affiliates*

If the corporation is resident in Canada and holds shares in one or more foreign affiliates, as defined in subsection 95(1), complete Schedule 25 giving the following information:

column 100 – name of foreign affiliate;

column 200 – equity percentage held, as defined in subsection 95(4), for each foreign affiliate;

column 300 – state, by using the appropriate code, which ones are:

- 1 – controlled foreign affiliates, and
- 2 – other foreign affiliates.

42
Schedule 29, *Payments to Non-Residents*

Corporations that are making certain payments to non-residents have to file the appropriate information return under the *Income Tax Regulations*.

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

- 1 – royalties;
- 2 – rents;
- 3 – management fees/commissions;
- 4 – technical assistance fees (see item 34 for details);
- 5 – research and development fees;

- 6 – interest;
- 7 – dividends;
- 8 – film payments:
  - – a motion picture film, or
  - – a film or videotape for use in connection with television; or
- 9 – other services.

In columns 100 to 400, enter the names and addresses of the payees, the type of payments (using corresponding codes), and the amount.

References
Subsections 212(13) and (13.2)
Regulations 102, 105, and 202(1)

43
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 activities between Canadian corporate taxpayers and certain non-resident persons under section 233.1.

File Form T106 if :

- you were either resident in Canada or carried on business in Canada at any time in the taxation year; and
- you entered into transactions with non-residents with whom you were not dealing at arm's length at any time in the year.

Form T106 is comprised of the T106 Summary and the T106 Supplementary. File a separate T106 Supplementary 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 taxation year.** You can send Form T106 in the same envelope as the return, but **do not** attach them to each other.

You can also file it at the following address:

Other Programs Unit
Employer Services Division
Ottawa Technology Centre
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)

44
Foreign property

Foreign affiliates

A corporation resident in Canada, of which a non-resident corporation or trust 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 taxation year. The resident corporation must file **either** Form T1134A, *Information Return Relating to Foreign Affiliates That are not Controlled Foreign Affiliates,* or Form T1134B, *Information Return Relating to Controlled Foreign Affiliates.* A separate form has to be filed for each foreign affiliate.

Forms T1134A and T1134B contain more information about filing.

Transfers and loans to non-resident trusts

A corporation that has made transfers or loans to a specified foreign trust, or to a non-resident corporation that is controlled by the specified foreign trust, has to file, with respect to the trust, 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.

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, the corporation has to complete and file Form T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-resident Trust.*

A separate form is required to be filed for each non-resident trust. Form T1142 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.*

Form T1135 contains more information.

Penalties

There are substantial penalties for not completing and filing forms T1134A, T1134B, T1135, T1141, and T1142 by the due date.

References
Sections 233.1 to 233.6
Subsections 162(7), 162(10), and 162(10.1)

45
Industry Canada – Schedules 80 and 81

The Canada Customs and Revenue Agency (CCRA) and Industry Canada have jointly developed two schedules designed specifically to be filed with the T2 return. The first, Schedule 80, *Industry Canada – Annual Return – Canada Business Corporation Act,* is a combination of Industry Canada's Form 22, *Annual Return,* and Form 3, *Notice of Change of Registered Office.* The second, Schedule 81, *Notice of Change of Directors, Canada Business Corporation Act,* is a

revised version of Industry Canada's Form 6, *Notice of Change of Directors*.

It is very important to note that only schedules 80 and 81 can be filed with the T2 return. The CCRA will not accept prescribed Forms 3, 6, and 22 as part of the T2 return submission. If you decide to use these forms to satisfy filing requirements, please forward them to Industry Canada in the usual manner.

To facilitate the filing of this information with the T2 return, Industry Canada has harmonized the filing date for the annual return to coincide with that of the T2 return, within six months of the corporation's taxation year-end.

The CCRA will collect and forward the $50 annual filing fee required by Industry Canada. An Industry Canada remittance form has been included as part of Schedule 80 to provide corporations the option of paying their annual Industry Canada return fee with the T2 return. If you choose to take advantage of this option, please note that only the payment of the fee to Industry Canada should be recorded and submitted with the schedule. The appropriate CCRA remittance form should be used when remitting income tax payments.

If a change of registered office address and/or directors coincides with the filing of the T2 return, they may be reported using Schedules 80 and 81. In all other cases, Industry Canada requires notification of these changes within 15 days using Forms 3 and 6. It is also important to note that where required by the *Canada Business Corporation Act*, the director(s) or shareholder(s) must authorize the changes being reported in Schedules 80 and 81.

Once you file Schedules 80 and 81 (if applicable), we will pass this information to Industry Canada, along with the following information from your return:

- corporation name,
- Business Number,
- taxation year-end,
- head office address,
- mailing address,
- major business activity, and
- name, position, and telephone number of the signing officer.

If any information for Industry Canada is missing, representatives from Industry Canada will contact you for clarification.

You can get these schedules from any tax services office or tax centre. For those clients who use software packages to prepare their T2 return, Schedules 80 and 81 will be part of these packages.

46
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.

47
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 have listed all of these schedules on pages 2 and 3. You will find details about each of these schedules in the following chapters.

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Attachments

Refer to Chapter 2 to complete this section.

"Additional information" box

Be sure to provide all the information we request in the "Additional information" box.

48
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 taxation year and has not earned any income, 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 taxation year.

49
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*.

50
Line 282 – What is the corporation's major business activity?

Only complete if *yes* is indicated at line 281.

Enter the corporation's major commercial or professional activity.

Be sure to include enough detail to both support the type of deductions claimed (e.g., 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.

The following 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 broker-operator working for another trucking company.

51
Line 283 – If the major activity involves the resale of goods, indicate whether it is wholesale or retail

Tick one of these boxes if the corporation's business involves the resale of goods.

52
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 above 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 each product or service represents.

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.

53
Schedule 1, *Net Income (Loss) for Income Tax Purposes*

If your net income or loss **after income tax and extraordinary items** on your income statement is different from your net income or loss for income tax purposes, complete Schedule 1.

Enter net income or loss after income tax and extraordinary items on line A, page 1 of Schedule 1. Add the taxable items and the non-allowable expenses listed at lines 101 to 199 and subtract from this the non-taxable items and eligible expenses listed at lines 401 to 499. Enter the net income or loss for income tax purposes on line 300 of your return.

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 2 and 3.

Keep in mind that 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 2. Also, certain items included in income which are not taxable, are not identified on this schedule. In such cases, complete lines 390 to 394, "Other deductions," on page 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%.

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

- Schedule 6, *Summary of Dispositions of Capital Property* (see item 54);
- Schedule 8, *Capital Cost Allowance (CCA)* (see item 55);

- Schedule 10, *Cumulative Eligible Capital Deduction* (see item 56);
- Schedule 12, *Resource-Related Deductions* (see item 57);
- Schedule 13, *Continuity of Reserves* (see item 58);
- Schedule 16, *Patronage Dividend Deduction* (see item 59);
- Schedule 17, *Credit Union Deductions* (see item 60); and
- Form T661, *Claim for Scientific Research and Experimental Development (SR&ED) Expenditures Carried on in Canada* (see item 61).

54 Schedule 6, *Summary of Dispositions of Capital Property*

You have to complete Schedule 6 if you disposed of capital property during the taxation 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**.

Proposed legislation

It is proposed to reduce the inclusion rate for capital gains or losses from 75% to 66 2/3% for dispositions of capital property made after February 27, 2000, and before October 18, 2000, and from 66 2/3% to 50% for dispositions of capital property made after October 17, 2000.

It is also proposed to reduce the inclusion rate for capital gains arising from gifts of ecologically-sensitive land from 75% to 33 1/3% for gifts made after February 27, 2000, and before October 18, 2000, and from 33 1/3% to 25% for gifts made after October 17, 2000.

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 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 taxation 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.

In the case of 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, *Exchanges of Property*
IT-271, *Expropriations – Time and Proceeds of Disposition*

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*
IT-456, *Capital Property – Some Adjustments to Cost Base*

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.

References
IT-84, *Capital Property Owned on December 31, 1971 – Median Rule (Tax-free Zone)*
IT-139, *Capital Property Owned on December 31, 1971 – Fair Market Value*

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 taxation 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.

Reference
IT-353, *Partnership Interest – Some Adjustments to Cost Base*

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

> **Note**
> Generally, after February 21, 1994, interests in a partnership that a limited partner or an inactive partner holds are no longer excepted from 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 adjusted cost base and any related outlays or expenses. A **capital loss** occurs when the proceeds of disposition are less than the adjusted cost base 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 item 55 under the heading "Column 6 – Undepreciated capital cost" 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 taxation 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.

Enter the total amount of gain or loss realized on disposition of shares on line A.

Enter the amount of gain or loss realized on disposition of shares on line A1, for dispositions that occurred before February 28, 2000, on line A2, for dispositions that occurred after February 27, 2000, and before October 18, 2000, or on line A3, for dispositions that occurred after October 17, 2000.

Part 2 – Real estate
In this part, list all real estate disposed of during the taxation 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 item 55 under the heading "Column 6 – Undepreciated capital cost" for details about terminal losses and recaptures.

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

Enter the amount of gain or loss realized on disposition of real estate on line B1, for dispositions that occurred before February 28, 2000, on line B2, for dispositions that occurred after February 27, 2000, and before October 18, 2000, or on line B3, for dispositions that occurred after October 17, 2000.

References
IT-218, *Profits, 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 taxation 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.

Enter the amount of gain or loss realized on disposition of bonds on line C1, for dispositions that occurred before February 28, 2000, on line C2, for dispositions that occurred after February 27, 2000, and before October 18, 2000, or on line C3, for dispositions that occurred after October 17, 2000.

Reference
IT-479, *Transactions in Securities*

Part 4 – Other properties
In this part, describe any capital property disposed of during the taxation 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) apply, 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 item 55 under the heading "Column 6 – Undepreciated capital cost" 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 item 56 for more details.

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

Enter the amount of gain or loss realized on disposition of other properties on line D1, for dispositions that occurred before February 28, 2000, on line D2, for dispositions that occurred after February 27, 2000, and before October 18, 2000, or on line D3, for dispositions that occurred after October 17, 2000.

Part 5 – Personal-use property
In this part, describe any personal-use property you disposed of during the taxation 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 adjusted cost base 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.

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.

Enter the amount of gain realized on disposition of personal-use property on line E1, for dispositions that occurred before February 28, 2000, on line E2, for dispositions that occurred after February 27, 2000, and before October 18, 2000, or on line E3, for dispositions that occurred after October 17, 2000.

Proposed legislation
It is proposed to amend the $1,000 rule so that it will not apply when personal-use property is acquired by donors after February 27, 2000, as part of an arrangement in which the property is gifted to a qualified donee, such as a registered charity.

References
Subsection 46(1)
IT-332, *Personal-Use Property*

Part 6 – Listed personal property
In this part, describe any listed personal property disposed of during the taxation 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; or
- 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 item 72 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.

Determined at the bottom of page 2, the net gain or net loss realized in each period. Enter the net gain or net loss realized on disposition of listed personal property on line F1, for dispositions that occurred before February 28, 2000, on line F2, for dispositions that occurred after February 27, 2000, and before October 18, 2000, or on line F3, for dispositions that occurred after October 17, 2000.

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 adjusted cost base 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.

Enter the amount of business investment loss on line G1, for dispositions that occurred before February 28, 2000, on line G2, for dispositions that occurred after February 27, 2000, and before October 18, 2000, or on line G3, for dispositions that occurred after October 17, 2000.

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 taxation years ending within 60 months of the making of 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 taxation year cannot be more than one of the two following amounts, whichever is less:

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

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

Be sure to add the reserve amount you deducted in a taxation year to income in the following taxation 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 item 58 for details.

References
Subparagraphs 40(1)(a)(ii) and 40(1)(a)(iii)
Subsection 40(1.01)
IT-236, *Reserves – Disposition of Capital Property*

Determining capital gains or capital losses
The total capital gain or loss is determined as follows:

Line H – 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), 131(1)(a) and (b), and 133(7.1)(a) are considered to be capital gains. These paragraphs apply to mortgage investment corporations, mutual fund corporations, and non-resident-owned investment corporations.) If you received any capital gains dividends in the taxation year, enter them on this line;

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 taxation 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;

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

Determining the inclusion rate
You have to calculate the gain or the loss realized in each period on page 3. On **line M**, page 4, determine the inclusion rate for the year. Follow the instructions on the schedule.

Determination of taxable capital gains or allowable business investment losses
Line N – total amount of gain or loss excluding allowable business investment losses (amount from line 890);

minus

line 895 – enter 50% of capital gains realized 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) after February 18, 1997, and before 2002;

line 896 – enter 50% of capital gain realized on donations of ecologically sensitive land after February 27, 2000.

Line P – capital gain or loss for the year. If the amount is a loss, enter it on line 210 of Schedule 4.

Line Q – taxable capital gains. If amount of line P is a gain, multiply it by the inclusion rate determined on line M. Enter the amount of taxable capital gain on line 113 of Schedule 1.

Line R – allowable business investment loss (ABIL). Multiply the amount of line G by the inclusion rate determined on line M. Enter the ABIL on line 406 of Schedule 1.

Reference
Paragraph 38(a.1)

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 taxation years and carry it forward seven taxation 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 seven years in part 2, "Capital Loss," of Schedule 4. See item 69, for more details.

References
Paragraph 39(1)(c)
IT-484, *Business Investment Losses*

55
Schedule 8, *Capital Cost Allowance (CCA)*

Complete Schedule 8 to calculate capital cost allowance.

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).

When a taxation 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**
> Do not include on Schedule 8, capital expenditures (other than first or second term shared-use-equipment) for which you are requesting SR&ED treatment.

Available-for-use rule

The available-for-use rule determines the earliest taxation 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 taxation year that starts at least 358 days after the taxation 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 taxation year that starts at least 358 days after the taxation 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 (e.g., expropriation) that it either acquired before 1990 or had already become available for use.

> **Note**
> If a corporation acquires a property after 1989 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 the return.

References
Subsections 13(26) to 13(32)

CCA rates and classes

The following 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%
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 acquired after 1987	20%
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 $27,000 if acquired after 1999 ($26,000 if acquired after 1997 and before 2000; $25,000 if acquired in 1997; $24,000 if acquired after August 31, 1989, and before 1997; and $20,000 if acquired before September 1989)	30%
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; certain property acquired after August 8, 1989, and before 1993 for use in a business of selling or providing services such as electronic bar-code scanners, and cash registers used to record multiple sales taxes	100%
13	Property that is leasehold interest (the maximum CCA rate depends on the type of the leasehold and the terms of the lease)	N/A
14	Patents, franchises, concessions, and licences for a limited period – the CCA is limited to the lesser of: ■ the capital cost of the property spread out over the life of the property; and ■ the undepreciated capital cost of the property at the end of the taxation 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%
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%
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%

Proposed legislation
It is proposed to include in class 12 video-laser disks acquired after December 12, 1995.

It is also proposed to include in class 43.1 electrical generating equipment using solution gas acquired after February 16, 1999.

It is proposed that the CCA rate applicable to railway cars, locomotives, and certain rail suspension devices currently described in classes 6 and 35 will be increased to 15% from 10% for acquisitions made after February 27, 2000.

A separate class election for manufacturing and processing equipment included in Class 43 costing more than $1,000 is proposed. This measure will apply to property acquired after February 27, 2000.

It is proposed that the CCA rate will be increased to 8% from 4% for the following qualifying assets that are described in Class 1:

- electrical generating equipment of a producer of electrical energy,
- production and distribution equipment of a producer or distributor of heat, and
- distribution equipment of a distributor of water.

Equipment will qualify only if it is acquired after February 27, 2000, and has not been used or acquired for use prior to that date.

A separate class election for combustion turbines and the burner and compressor associated with combustion systems that generate electricity is proposed. This measure will apply to property acquired after February 27, 2000, that has not been used or acquired for use prior to that date.

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 and 10 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, 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. See "Column 6 – Undepreciated capital cost," for more information on terminal losses.

Grandfathering provisions

Some types of property—such as assets in classes 2, 3, 11, 22, 28, 29, and 30—are still eligible for the higher CCA rates that were effective on December 31, 1987. To qualify for the old rates, you have to have acquired the property before 1990, and:

- you have to have acquired the property under a written obligation it entered into before June 18, 1987;
- the property has to be a building, structure, plant facility, or other property that was under construction by or on behalf of the corporation on June 18, 1987; or
- the property has to be machinery or equipment that was a fixed and integral part of property under construction by or on behalf of the corporation on June 18, 1987.

References
Regulation 1100
Schedule II of the Regulations

Completing Schedule 8

This section explains how to complete each column of Schedule 8. Please note that you have to 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 the *Income Tax Act* for a particular class of property, use the regulation number provided in the *Income Tax Act.*

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 taxation year.**

Column 3 – Cost of acquisitions during the year
For each class, enter the total cost of depreciable property you acquired and had available for use in the taxation year. The cost of acquisitions generally means the full cost of acquiring the property, including legal, accounting, engineering, or other fees. **Land is not a depreciable property, and is therefore not eligible for CCA.**

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 sale tax (GST/HST) input tax credit or rebate **received or entitled to be received in the year**;

- any federal investment tax credits used to reduce taxes payable or claimed as a refund in the **preceding taxation year**;
- any reduction of capital cost after the application of section 80;
- any **provincial** investment tax credits received or entitled to be received in the current year; and
- any government assistance received or entitled to receive in the year.

Add to the capital cost of the property, the following amount:

- any depreciable property transferred from an amalgamated or wound-up subsidiary;
- any refund of GST/HST input tax credit previously deducted;
- 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 in 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 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 entitled to receive 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.

When you dispose of a depreciable property for more than its capital cost, a capital gain results. 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, and 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 taxation 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 capital cost allowance. 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 that is available for use during the taxation 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 taxation 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 investment tax credit claimed in the preceding taxation 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 in the *Income Tax Act* for a particular class of property, enter N/A in this column.

Column 10 – Recapture of capital cost allowance
Enter the amount of recapture calculated in column 6. Be sure you include the recapture in 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. Be sure you 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 taxation year is shorter 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; 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 taxation 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*
IT-336, *Capital Cost Allowance – Pollution Control Property*

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

Note
If you want to change the amount of CCA claimed in a taxation year, send a written request within 90 days of the date on the assessment or reassessment notice. Only under certain circumstances can we make adjustments after the 90-day period has expired. For more information, see IC 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 2000 taxation year, the business had no more assets in class 3.

The business's Schedule 8 for its 2000 taxation year looks like this:

	1 Class number 200	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year's CCA schedule) 201	3 Cost of acquisitions during the year (new property must be available for use) See note 1 below 203	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)	7 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) See note 2 below 211	8 Reduced undepreciated capital cost (column 6 **minus** column 7)	9 CCA rate % 212	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) See note 3 below 217	13 Undepreciated capital cost at the end of the year (column 6 **minus** column 12) 220
1.	**3**	**$35,000**			**$30,000**	**$5,000**		**$5,000**	**N/A**		**$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 1998 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. Consequently, the company sold its sewing machine in 2000 for $12,000. At the beginning of 2000, the undepreciated capital cost of the sewing machine was $9,500.

The Schedule 8 for the 2000 taxation year looks like this:

	1 Class number 200	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year's CCA schedule) 201	3 Cost of acquisitions during the year (new property must be available for use) See note 1 below 203	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)	7 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) See note 2 below 211	8 Reduced undepreciated capital cost (column 6 **minus** column 7)	9 CCA rate % 212	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) See note 3 below 217	13 Undepreciated capital cost at the end of the year (column 6 **minus** column 12) 220
1.	**8**	**$9,500**			**$10,000**	**(500)**		**(500)**	**N/A**	**$500**			
2.													
3.													
4.													

The amount in column 10 is the recapture of capital cost allowance.

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 2000 taxation year, a bookstore decided to buy a computer to help keep up with the paperwork, and started using it right away. The computer cost $5,000. The bookstore has to apply the 50% rule when it calculates the amount of CCA it can deduct for 2000.

The bookstore's Schedule 8 for its 2000 taxation year looks like this:

	1 Class number 200	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year's CCA schedule) 201	3 Cost of acquisitions during the year (new property must be available for use) See note 1 below 203	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)	7 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) See note 2 below 211	8 Reduced undepreciated capital cost (column 6 **minus** column 7)	9 CCA rate % 212	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) See note 3 below 217	13 Undepreciated capital cost at the end of the year (column 6 **minus** column 12) 220
1.	**10**	**$10,000**	**$5,000**			**$15,000**	**$2,500**	**$12,500**	**30**			**$3,750**	**$11,250**
2.													
3.													
4.													

56
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 under item 55.

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 capital cost allowance. 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 taxation 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 in your CEC account, you have to complete part 2. Enter the amount you calculated at line 410 on line 108 of Schedule 1.

You do not have to prorate the cumulative eligible capital deduction for a short taxation year.

References
Subsection 14(5)
Paragraph 20(1)(b)
Section 85
IT-143, *Meaning of Eligible Capital Expenditure*

57
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, and
- foreign exploration and development expenses.

Part 1 – Continuity of earned depletion base
Follow instruction on the schedule.

Part 2 – Continuity of mining exploration depletion base
Claim the total of any amounts calculated at lines 115 and 140 of part 1, plus line 170 of part 2, at line 344, "Depletion," of Schedule 1.

Part 3 – Cumulative Canadian exploration expenses
Claim the total of any amounts calculated at lines 245 and 295 at line 341, "Canadian exploration expenses," of Schedule 1.

> **Note**
> Canadian renewable and conservation expenses incurred after December 5, 1996, are deemed to be Canadian exploration expenses. Enter these at line 217 of Schedule 12.

Part 4 – Cumulative Canadian development expenses
Claim the total of any amounts calculated at lines 345 and 395 at line 340, "Canadian development expenses," of Schedule 1.

Part 5 – Cumulative Canadian oil and gas property expenses
Claim the total of any amounts calculated at lines 445 and 495 at line 342, "Canadian oil and gas property expenses," of Schedule 1.

Part 6 – Foreign exploration and development expenses
Claim the total of any amounts calculated at lines 520 and 570 at line 345, "Foreign exploration and development expenses," of Schedule 1.

Schedule 12 gives details for the calculations required.

References
Part XII of the Regulations
Sections 65 and 66

58
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.

By using reserves, you can deduct for tax purposes certain amounts that you include in business income and that are considered unearned.

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 item 54 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-215, *Reserves, Contingent Accounts and Sinking Funds*
IT-442, *Bad Debts and Reserves for Doubtful Debts*

59
Schedule 16, *Patronage Dividend Deduction*

Complete Schedule 16 with the return if 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 sold or services rendered.

This deduction usually applies to co-operative corporations that pay patronage dividends to their member customers. They have to pay amounts that qualify for this deduction either during the taxation year, or in the 12 months that follow the taxation year.

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

If claiming a patronage dividend deduction, you have to complete "Part 4 – Calculation of income from an active business carried on in Canada (ABI)" of Schedule 16. Enter the amount calculated on line 124 on line 400 on the return.

References
Section 135
IT-362, *Patronage Dividends*
IT-493, *Agency Cooperative Corporations*

60
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 item 110.

A credit union can deduct from its income for a taxation 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 taxation year. However, the credit union cannot deduct an amount if it could have deducted it in the previous taxation year.

The **allocation in proportion to borrowing** for a taxation 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)
IT-483, *Credit Unions*

61
Form T661, *Claim for Scientific Research and Experimental Development (SR&ED) Expenditures Carried on in Canada*

We publish a guide called T4088, *Claiming Scientific Research and Experimental Development Expenditures – Guide to Form T661*, which gives details on how to complete Form T661.

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.

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 taxation year you incur SR&ED expenditures. Be sure to file Form T661 whether or not you claim an investment tax credit. 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 taxation year in which the SR&ED expenditures were made, you cannot claim SR&ED expenditures and investment tax credit for that year. For more information, see item 118.

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 (e.g., it has fewer than six members), each partner has to file Form T661 with its return.

References
Subsection 37(1)
Regulation 2900
IC 86-4, *Scientific Research and Experimental Development*
IT-151, *Scientific Research and Experimental Development Expenditures*
T4052, *An Information Guide to the Scientific Research and Experimental Development Tax Incentive Program*
T4088, *Claiming Scientific Research and Experimental Development Expenditures – Guide to Form T661*

Note
For taxation years that begin after March 5, 1996, section 37 limits, in the calculation of SR&ED expenditures incurred in a taxation year, salary or wages of a specified employee of the corporation. In a short taxation year, the amount will be prorated.

References
Subsections 37(9.1), 149(7), and 149(7.1)

Calculating current-year losses

A corporation may not always have net income to report on line 300. Instead, it may have incurred a loss for the year. The following section describes the different types of losses a corporation can incur, and how to calculate these losses.

On line 300, be sure to enter in brackets the net loss for the year.

62
Calculating current-year non-capital loss

To determine the current-year non-capital loss, complete part 1 of Schedule 4, *Corporation Loss Continuity and Application*, 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 item 80);

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

amount deductible as prospector's and grubstaker's shares – paragraph 110(1)(d.2) – 1/4 of the value of any shares received from a corporation on disposition of a right or a mining property, except if the amount is exempt under subparagraph 110(1)(f)(i).

Proposed legislation
It is proposed that, for dispositions made after February 27, 2000, and before October 18, 2000, the deduction permitted in paragraph 110(1)(d.2) be determined as 1/3 of the amount included in income and, for dispositions made after October 17, 2000, the deduction be determined as 1/2 of that amount.

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

deduct

section 110.5 – 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 item 89;

add

current year farm loss – the lesser of the net loss from farming or fishing included in the income or the non-capital loss before deducting the farm loss.

If the result after the calculation shown under part 1 of Schedule 4 is negative, enter this result (as positive) on line 110 of Schedule 4 as the current year non-capital loss.

Refer to item 68 about the application of non-capital losses from other years.

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*

63
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.

Under subsection 111(8), a farm loss is any amount that is the corporation's loss from a farming or fishing business. This calculation applies to these two kinds of businesses.

To calculate this kind of loss, complete part 4 of Schedule 4.

The amount of farm loss you can deduct from net income for income tax purposes is A or B, whichever is less:

A. the net loss from farming business for the year; or

B. $2,500 **plus** one of the following amounts, whichever is less:

   (i) (net loss from 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 of Schedule 4; and
- the deductible farm loss you calculated above.

This difference is called the current-year **restricted farm loss**, and you have to enter it on line 410 of Schedule 4.

See item 71 for details on how to apply restricted farm losses to other years.

References
Subsection 31(1)
IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*

64
Calculating current-year limited partnership losses

Complete the box called "Current-year limited partnership losses" in part 7 of Schedule 4 to calculate the loss. This box is used to calculate the deductible amount for the year. The amount that cannot be deducted would 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 (e.g., it has fewer than six members), you have to file the partnership's financial statements with the return to substantiate the corporation's share of the partnership loss for the year. Report the amount in the taxation year during which the partnership's taxation year ends.

The portion of a partnership loss that a limited partner can deduct in determining net income for income tax purposes may be restricted.

Complete the box called "Current year limited partnership losses" as follow:

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 investment tax credits 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 – (column 606 – 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 of Schedule 4 to establish the continuity of losses. See item 74 for details on how to apply limited partnership losses to other years.

References
Subsection 96(2.1)
IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*

65
Calculating current-year farm loss

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

- 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 of Schedule 4 before you deduct the farm loss for the year.

Enter the farm loss calculated on line 310 of Schedule 4.

Keep in mind that the farm loss can also include an amount allocated from a partnership.

See item 70 for details on how to apply farm losses to other years.

Reference
Subsection 111(8)

66
Calculating losses when there is a change in control

Following an acquisition of control, special rules apply for calculating and deducting net capital losses, non-capital losses, and farm losses. 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*

Applying losses

A corporation can carry forward or carry back unused losses and deduct them from income it earned in the current taxation year or in prior taxation years. The following section explains how to keep records of various losses, how to apply these losses to other years, and how to deduct the different types of prior-year losses.

67
Schedule 4, *Corporation Loss Continuity and Application*

Complete Schedule 4, if you are carrying forward losses or have current-year losses of any kind, or are applying any current-year loss to prior-years.

> **Note**
> You can choose whether or not to deduct an available loss from income in a taxation 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

Use Schedule 4 to request carryback of any losses to prior years.

You can use losses in any order, but you have to 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 capital losses, you cannot use other year losses to create or increase a non-capital loss for the taxation year.

In the corresponding part of Schedule 4, enter the amount carried back to prior-years.

If you do not attach your request to the return, you can send it separately to your tax centre.

How to complete Schedule 4

68
Part 1 – Non-capital losses

Determination of current-year non-capital loss

Use this box to establish the current-year non-capital loss. For details on how to complete this part, see item 62.

Continuity of non-capital losses and request for carryback

Use this box 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 three preceding taxation years and for the seven following taxation years.

Complete this box as follows:

Amount of non-capital losses at end of preceding taxation year;

deduct

> **line 100 –** amount of non-capital loss expired after seven taxation years. This amount is the balance of non-capital loss from the eighth preceding year that would otherwise be available.

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

deduct

> **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);
>
> **subsection 111(10)** – amount received as a fuel tax rebate that reduced non-capital loss for a preceding year;

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 taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up, **minus** any expired amount);
>
> **line 110 –** amount of current-year non-capital loss calculated above (see item 62);

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);

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 lines 330 or 335 of Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*);

line 150 – amount of any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change of control).

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 obtained is the closing balance of non-capital losses you carryforward to future years.

Complete part 6 to establish the balance of non-capital losses by year of origin. See item 73, for details.

Election under paragraph 88(1.1)(f)

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

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

69
Part 2 – Capital losses

Continuity of capital losses and request for a carryback

The current-year capital loss is calculated on Schedule 6. See item 54, for more details. Complete this Schedule 4 box 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, if applicable, the balance of preceding year capital losses carried forward.

For a net capital loss from a taxation year beginning before 1990, see the section below called "Adjusting the balance of capital losses from prior-years for different inclusion rates" to establish the amount of capital loss for those years.

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

Complete this box as follows:

Line 200 – amount of capital losses at end of preceding taxation 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 for carryforward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up, including any amount of allowable business investment loss expired as non-capital loss for the predecessor corporation or the subsidiary multiplied by 4/3);

line 210 – amount of the current year capital loss calculated on Schedule 6 (see item 54);

line 220 – amount of the allowable business investment loss included in the amount of non-capital losses expired in the year (multiply this amount by 4/3);

deduct

line 225 – amount of capital losses from prior years used to reduce a net capital gain incurred in the year (to obtain 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 the inclusion rate of 75% and enter the result on line 332 of the return);

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);

line 250 – amount of any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change of control).

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 (75% of these amounts can be applied against taxable capital gains included in income of prior years);

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

Adjusting the balance of capital losses from prior years for different inclusion rates

When the balance of prior-year losses results in **net capital losses** and there is a loss from a taxation year beginning before 1990, you have to determine the inclusion rate of the pre-1990 loss to calculate the real amount of the loss.

After 1989, a net capital loss is 75% of the capital loss. Between 1988 and 1990, the 75% inclusion rate was phased

in. The transitional inclusion rates for previous years are as follows:

Canadian-controlled private corporations throughout the year:

- 50% before 1988;
- 66 2/3% after 1987 and before 1990; and
- 75% after 1989.

Other corporations:

- 50% before July 1988;
- 66 2/3% after June 1988 and before 1990; and
- 75% after 1989.

If the date on which the inclusion rate changes falls within the taxation year, you have to determine the inclusion rate to calculate the real amount of the loss. You have to prorate the inclusion rate based on the number of days in the taxation year before and after the date the rate changes. When you prorate an inclusion rate, make sure to include at least seven decimal places.

Example

The balance of net capital losses from preceding years of Investco includes a net capital loss of $100,000 from 1990. Its 1990 taxation year is from July 1, 1989, to June 30, 1990. Investco has to determine the inclusion rate for that loss to calculate the real amount of the loss. It has to consider the number of days before and after the date of change. The rate calculation is as follows:

Days in taxation year before 1990:	184
Days in taxation year after 1989:	181
Total days in taxation year:	365
Inclusion rate for 1989:	.6666667
Inclusion rate for 1990:	.75

The inclusion rate for Investco's 1990 taxation year is:

$$\frac{184 \times .6666667}{365} = .3360731$$

plus

$$\frac{181 \times .75}{365} = .3719178$$

$$.7079909$$

Investco can now calculate the amount of capital loss by dividing the net capital loss by the inclusion rate.

$100,000 ÷ .7079909 = $141,245

A capital loss of $141,245 has to be used in the balance of capital losses from preceding years.

Proposed legislation

It is proposed to reduce the inclusion rates for capital gains and capital losses. An inclusion rate of 75% will apply to the period in the taxation year preceding February 28, 2000, an inclusion rate of 66 2/3% will apply in the period from February 28, 2000, to October 17, 2000, and 50% will apply after October 17, 2000, to the end of the taxation year.

70
Part 3 – Farm losses

Continuity of farm losses and request for a carryback

Use this box 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 box as follow:

Amount of farm losses at end of preceding taxation year;

deduct

> **line 300** – amount of farm loss expired after ten taxation years (this amount is the balance of farm loss from the eleventh preceding year that would otherwise be available.

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

add

> **line 305** – amount of farm losses transferred from 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 for carryforward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up **minus** any expired amount);
>
> **line 310** – amount of the current-year farm loss previously calculated (see item 65);

deduct

> **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);
>
> **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 lines 340 or 345 of Schedule 3);
>
> **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 350** – any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change of control).

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.

Complete part 6 to establish the balance of farm losses by year of origin. See item 73, for details.

71
Part 4 – Restricted farm losses

Current-year restricted farm loss

Use this box to calculate the current-year restricted farm loss. See item 63, for details on how to complete this part.

Continuity of restricted farm losses and request for a carryback

Use this box 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 incomes for the three preceding taxation years and for the ten following taxation years.

Complete this box as follow:

Amount of restricted farm losses at end of preceding taxation year;

deduct

> **line 400** – amount of restricted farm loss expired after ten taxation years (this amount is the balance of restricted farm loss from the eleventh preceding year that would otherwise be available).

Line 402 – amount of restricted farm losses at beginning of taxation 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 for carryforward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up **minus** any expired amount);

> **line 410** – amount of current-year restricted farm loss calculated above (see item 63);

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);

> **line 450** – amount of any other adjustments not previously mentioned (these adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change 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. See item 73 for details.

72
Part 5 – Listed personal property losses

Continuity of listed personal property loss and request for a carryback

Use this box 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 box as follows:

Amount of listed personal property losses at end of preceding taxation year;

deduct

> **line 500** – amount of listed personal property loss expired after seven taxation 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 beginning of taxation 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 item 54);

deduct

> **line 530** – amount of prior years 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);

> **line 550** – amount of adjustments (these adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change 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. See item 73 for details.

73
Part 6 – Analysis of balance of losses by year of origin

Use this box 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, as applicable.

74
Part 7 – Limited partnership losses

Current-year limited partnership losses

Use this box to calculate the current-year limited partnership losses. For details on how to complete this box, see item 64.

Limited partnership losses from prior taxation years that may be applied in the current-year

Complete this box 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 item 64 earlier in this chapter for details.

Complete this box as follows:

column 630 – partnership identifier;

column 632 – fiscal period ending of the partnership that ends in the corporation's taxation year;

column 634 – amount of the limited partnership losses at the end of the preceding taxation 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 the lesser of the two following amounts:

- **column 634**, or
- **column 636 – 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 taxation years

Limited partnership losses can be carried forward indefinitely to future years. To establish the continuity of those losses, complete this box by entering the following information on each partnership:

column 660 – partnership identifier;

column 662 – limited partnership losses at end of preceding taxation 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 for carryforward at the end of the taxation 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 above;

column 675 – amount of limited partnership losses applies on line 335 of the return (this amount cannot exceed the amount calculated in column 650 above);

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" box

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 taxable income.

75
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. Remember to show the amount of any loss in brackets.

> **Note**
> On Schedule 1, do not deduct charitable donations, taxable dividends, or 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**.

76
Line 311 – Charitable donations

Complete Schedule 2, *Charitable Donations and Gifts*, if, during the taxation 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;
- 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 taxation year, or the 12 months immediately before that taxation year; or
- Her Majesty in right of Canada or a province for gifts made after February 18, 1997, except if made under a written agreement made before that date.

The maximum amount of charitable donations (including gifts to Canada or a province made after February 18, 1997) 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 the total of all amounts, each of which is a taxable capital gain 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 the lesser of:
  - 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 considered to be 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 the five following taxation years.

Complete part 1 of Schedule 2 to calculate the total donations available and the charitable donations closing balance.

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 exceed the lesser of total donations available and the maximum deduction allowable.

Complete part 6 of Schedule 2 to establish the continuity of charitable donations.

You do not have to attach receipts to the 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 purpose of 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 or 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 and mail it to:

Public Works and Government Services Canada
Place du Portage
Phase 3, 11 Laurier Street
Hull QC K1A 0S5

Public Works and Government Services Canada will send a receipt. Be sure to include a note saying that you want your amount applied to this account. The federal government will only use these amounts to service the public debt.

References
Paragraph 110.1(1)(a)
Subsections 110.1(1.1) and 40(1.01)

77
Line 312 – Gifts to Canada or a province

Complete part 3 of Schedule 2 if, during the taxation year:

- you made donations to Canada or to a province before February 19, 1997, or under a written agreement made before that day;
- donations to Canada or a province 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 or to a province.

You can claim a deduction from net income for a gift it made to Canada or to a province. 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 or to a province. 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.

On line 312 enter the amount of gifts to Canada or to a province, that you want to apply against taxable income.

Gift to Canada or a province are considered to be 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 attach receipts to the return. However, you have to 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)

78
Line 313 – Cultural gifts

Complete part 4 of Schedule 2 if, during the taxation year:

- you made cultural gifts;
- 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.

You can claim a deduction from net income for a gift of **certified cultural property** made to designated institutions and public authorities. The most you can deduct is the total gifts made in the current taxation year, and any undeducted gifts from the five previous years.

Deduct charitable donations and gifts to Canada or to a province first. Then, claim cultural gifts. If the amount of cultural gifts is more than net income for the year **minus** charitable donations and gifts to Canada or to a province you claim, you can carry the excess forward for up to five years.

Cultural gifts are considered to be 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 attach receipts to the return. However, you have to keep them, in case we ask for them later. Regulation 3501(1.1) outlines the information that has to appear on the receipt.

Proposed legislation
It is proposed that, for Cultural gifts made after December 20, 2000, a certificate issued by the Cultural Property Export Review Board must be submitted in addition to the receipt containing prescribed information.

References
Paragraph 110.1(1)(c)
Subsection 110.1(1.1)
IT-407, *Dispositions of Cultural Property to Designated Canadian Institutions*

79
Line 314 – Ecological gifts

Since February 28, 1995, 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.

Ecological gifts are gifts of land (including a covenant, an easement, or a servitude) that is certified by the Minister of the Environment to be ecologically sensitive.

If you made a gift of a servitude, covenant, or easement for an ecological land to Her Majesty in right of Canada or a province or a municipality in Canada, or a registered charity of which one of the main purposes is the conservation and protection of Canada's environmental heritage, and that is approved by the Minister for the gift, the donation is equal to the greater of:

- the fair market value of the gift; and
- the amount by which the fair market value of the land to which the gift relates is decreased as a result of the gift.

Complete part 5 of Schedule 2 if, during the taxation year:

- you made certified ecological gifts;
- ecological gifts were transferred from a predecessor corporation after amalgamation, or from a subsidiary corporation after wind-up; or
- you claim ecological gifts.

The maximum deduction you can claim is the total of gifts made during the current taxation year plus the unclaimed gifts from the five previous taxation years.

Deduct charitable donations, gifts to Canada or to a province, and cultural gifts first. Then, claim ecological gifts. If the amount of ecological gifts is more than net income for the year **minus** any charitable donations, gifts to Canada or to a province, and cultural gifts you claim, you can carry the excess forward for up to five years.

Ecological gifts are considered to be deducted 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.

You do not have to attach the receipt and the certificate, "*Certificate for Donation of Ecologically Sensitive Land,*" to the return. However, you have to keep them, in case we ask for them later.

Proposed legislation
It is proposed that, for ecological gifts made after December 20, 2000, a certificate issued by the Minister of the Environment must be submitted in addition to the receipt and the other certificate.

It is also proposed that, for gifts made after February 27, 2000, the fair market value of ecologically sensitive land (including a convenant, an easement or a servitude) and, consequently, the corporate donor's proceeds of disposition, is deemed to be the amount determined by the Minister of the Environment.

References
Paragraph 110.1(1)(d)
Subsections 110.1(5) and 110.1(1.1)

80
Line 320 – Taxable dividends deductible under section 112, 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 items 102 and 123.

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 thereof) 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 from a non-resident-owned investment corporation;
- 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 sections 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 after 1990 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*

81
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 nine-fourths (9/4) of the Part VI.1 tax the corporation has to pay.

On line 325, enter nine-fourths (9/4) of the Part VI.1 tax calculated on line 724 of page 6. See item 126 for details on how to calculate Part VI.1 tax.

Reference
Paragraph 110(1)(k)

82
Line 331 – Non-capital losses of preceding taxation years

On line 331 and on line 130 of Schedule 4, enter any non-capital losses carried forward from previous years to reduce taxable income.

On line 330 of Schedule 3, enter the amount of current-year non-capital loss, and on line 335, enter the prior-years non-capital losses 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 items 62 and 68.

References
Paragraphs 111(1)(a), 186(1)(c), and 186(1)(d)

83
Line 332 – Net-capital losses of preceding taxation years

On line 332, enter the amount of net capital losses from prior years that you apply 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 the current inclusion rate determined on Schedule 6. See item 69 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*)

84
Line 333 – Restricted farm losses of preceding taxation 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 item 71.

Reference
Paragraph 111(1)(c)

85
Line 334 – Farm losses of preceding taxation years

On line 334 of the T2 return and on line 330 of Schedule 4, enter the farm losses you are carrying forward from previous years to reduce taxable income.

On line 340 of Schedule 3, enter the amount of the current-year farm loss and on line 345, enter the prior-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 item 70.

References
Paragraphs 111(1)(d), 186(1)(c), and 186(1)(d)

86
Line 335 – Limited partnership losses of preceding taxation years

Complete the box called "Limited partnership losses from prior taxation years that may be applied in the current-year" in part 7 of Schedule 4 to calculate limited partnership losses that may be applied in the year. For more details, see item 74.

On line 335, enter the deductible amount of limited partnership losses from prior-years that applied against other incomes in the current-year.

Reference
Paragraph 111(1)(e)

87
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 as a deduction from taxable income under paragraph 137(5.2)(c) by that member. Enter such amounts on line 340.

88
Line 350 – Prospector's and grubstaker's shares

You can deduct 1/4 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.

Proposed legislation
It is proposed that, for dispositions made after February 27, 2000, and before October 18, 2000, the deduction permitted in paragraph 110(1)(d.2) be determined as 1/3 of the amount included in income, and for dispositions made after October 17, 2000, the deduction be determined as 1/2 of that amount.

Reference
Paragraph 110(1)(d.2)

89
Line 355 – Section 110.5 additions

You can use foreign tax deductions to reduce Part I tax that you would otherwise have to pay. Under section 110.5, a corporation that cannot deduct its foreign income tax deductions (e.g., 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 item 62 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;
- the share-purchase tax credit; or
- the SR&ED tax credit.

On line 355, enter the amount you added to income under section 110.5.

90
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 applicable, section 110.5 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 taxation year, see items 68 to 74 for details.

91
Line 370 – Income exempt under paragraph 149(1)(t)

Insurers not engaged in any other business except insurance and who earn not less than 20% of their gross premium income (net of reinsurance ceded) from the business of property used in a fishing or farming business, or residence 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).

92
Taxable income for a corporation with exempt income under paragraph 149(1)(t)

Enter on this line, the difference between line 360 **minus** line 370.

References
Subsections 149(4.1) and 149(4.2)

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"Small business deduction" box

Corporations that were **Canadian-controlled private corporations (CCPC)** throughout the taxation 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 SBD is 16% of 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); and
- the reduced business limit (line 425).

In the following section, you will find explanations of each of the above amounts.

Once you have calculated the SBD, enter it on line 430.

93 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 the purpose of determining the refundable portion of Part I tax (see item 100 for details);
- the income from an active business carried on in Canada for the SBD; and
- the specified partnership income for members of a partnership.

Note
If claiming a deduction for patronage dividends on line 416 of Schedule 1, complete part 4 of Schedule 16 to establish "active business income carried on in Canada" (see item 59 for details).

Active business income

Generally, active business income is income earned from a business source, including any income incidental to the business.

Active business income does not include income from a **specified investment business** or from a **personal services business**. Income from these types of businesses is, therefore, not 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 in the following instances:

- when the corporation employs more than five full-time employees in the business throughout the year; or
- when 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 was not providing them.

Note
The business a credit union carries on, and the business of leasing property other than real property, are not considered specified investment businesses.

Personal services business

A personal services business is a business that a corporation carries on to provide services to another entity (i.e., a person or a partnership) that an officer or employee of that entity would usually perform. Instead, the services are performed by an individual on behalf of the corporation providing the services. 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, 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 of $200,000 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 item 38 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*

94
Line 405 – Taxable income

The taxable income you use to calculate the SBD is usually the amount entered on line 360. However, if you have claimed either 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 CCPC's investment income (line 604); and
- ten-fourths (10/4) of the amount you are deducting as a federal foreign business income tax credit (line 636).

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)

95
Line 410 – Business limit

Generally, a corporation's business limit for a taxation year is $200,000, as long as the corporation is not associated with any other corporation.

Canadian-controlled private corporations that are associated with one or more corporations during the taxation year have to file Schedule 23, *Agreement Among Associated Canadian-controlled Private Corporations to Allocate the Business Limit*, to allocate the $200,000 business limit among them. See item 29 for details about Schedule 23.

On line 410, enter the business limit for the year (for an associated corporation, enter on line 410 the business limit you determined on Schedule 23).

> **Notes**
> If the taxation year is shorter than 51 weeks, you have to prorate the business limit based on the number of days in the taxation 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 purposes of the small business deduction, you have to file Schedule 28, *Election not to be an Associated Corporation*. For more details, see item 31.

References
Subsections 125(2), 125(3), 125(5), and 256(2)
IT-64, *Corporations: Association and Control – After 1988*

96
Line 425 – Reduced business limit

Large Canadian-controlled private corporations (CCPC) that have taxable capital employed in Canada of $15 million or more no longer qualify for the SBD. The $200,000 business limit has to be 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. The calculation of the reduction to business limit (amount E) is as follows:

$$\text{Amount C} \times \frac{\text{Amount D}}{\$11{,}250} = \text{Amount E}$$

Amount C = amount from line 410.

Amount D (line 415) = this amount is the gross Part I.3 tax of the preceding taxation year. For associated corporations, this amount is the total gross Part I.3 tax for the corporate group, for their last taxation years ending in the preceding calendar year. In both cases, calculate Part I.3 tax before deducting the surtax credits and increase the tax to reflect a full-year liability if the prior year is shorter than 51 weeks.

The reduced business limit (amount on line 425) is the difference between amount C and amount E.

Reference
Subsection 125(5.1)

"Accelerated tax reduction" box

97
Accelerated tax reduction

Proposed legislation

It is proposed to reduce the effective general corporate income tax rate from 28% to 21% by providing a deduction of 7% from tax otherwise payable effective for taxation years that end after December 31, 2000, on active business income between $200,000 and $300,000 earned by a Canadian-controlled private corporation (CCPC) from a business carried on in Canada. This rate reduction will be prorated for taxation years that straddle that date.

This reduction does not apply to income eligible for the manufacturing and processing deduction, income eligible for the deduction for the generation of electrical energy for sale or for the production of steam for sale, income from resource activities, and income eligible for additional deduction for credit unions.

If you are a Canadian-controlled private corporation throughout the taxation year that claimed the small business deduction, calculate the accelerated tax reduction on page 4 and enter the amount calculated on line 637 on page 7.

If your corporation is involved in partnerships, you may have to use Schedule 70, *Active Business Income for the Purposes of the Accelerated Tax Reduction for Corporations with Specified Partnership Income*, to determine the active business income for the calculation of the accelerated tax reduction. This schedule is a worksheet and does not have to be filed with the return. See the schedule for more details.

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98 "General tax reduction for Canadian-controlled private corporations" box	55
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General tax reduction

Proposed legislation

It is proposed to reduce the effective general corporate income tax rate from 28% to 27% (after the abatement of 10%) by providing a deduction of 1% from tax otherwise payable effective for taxation years that end after December 31, 2000. The reduction does not apply to income that benefits from preferential corporate tax treatment such as the small business 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, and investment income subject to the refundable tax provisions. The reduction will not apply to a corporation that was throughout the year an investment corporation, a mortgage investment corporation, a mutual fund corporation, or a non-resident-owned investment corporation. This rate reduction will be prorated for taxation years that straddle that date.

98
"General tax reduction for Canadian-controlled private corporations" box

If you are a Canadian-controlled private corporation throughout the taxation year, complete the first box of page 5 to calculate the reduction and enter the resulting amount on line 638 on page 7.

99
"General tax reduction" box

If you are a corporation other than a Canadian-controlled private corporation, an investment corporation, a mortgage investment corporation, a mutual fund corporation, or a non-resident-owned investment corporation, complete the second box of page 5 to calculate the reduction and enter the resulting amount on line 639 on page 7.

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“Refundable portion of Part I tax” box

100
Lines 440, 445, and 450

The refundable portion of Part I tax is part of the refundable dividend tax on hand (RDTOH). For more information about RDTOH, see item 101.

The refundable portion of Part I tax allows a Canadian-controlled private corporation (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 taxation 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 page 1 of Schedule 7, *Calculation of Aggregate Investment Income and Active Business Income.*

Calculate investment income as follows:

Add

- the eligible portion of the taxable capital gains for the year that exceeds 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) from which the following amounts have been deducted:
  - exempt income;
  - NISA receipts;
  - taxable dividends deductible after deducting related expenses; and
  - business income (loss) 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 specified investment business).

Follow the instructions on Schedule 7. When requested, enter “0” if the amount is negative.

On lines 440 and 445, enter the amount of aggregate investment income and the amount of foreign investment income that you determined on lines **O** and **P** of Schedule 7.

You can only include taxable capital gains and allowable capital losses in a CCPC’s net investment income 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.

Calculate the amount of the refundable portion of Part I tax. Then, enter the amount from line 450 in the space provided in the “Refundable dividend tax on hand” box.

References
Subsections 129(3) and 129(4)
IT-73, *The Small Business Deduction*
IT-243, *Dividend Refund to Private Corporations*
IT-269, *Part IV Tax on Taxable Dividends Received by a Private Corporation or a Subject Corporation*

“Refundable dividend tax on hand” box

101
Lines 460, 465, 480, and 485

The refundable dividend tax on hand (RDTOH) account only applies to corporations that were **private** or **subject corporations**, as defined in item 123.

A Canadian-controlled private corporation (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 sections 112, or 113, or subsection 138(6), see item 80.

For information on Part IV tax and instructions to complete Schedule 3, see item 123.

All or part of RDTOH at the end of the taxation year is available as a refund **if** the corporation pays taxable dividends to the shareholders during the taxation year.

To calculate the RDTOH at the end of the taxation year, **add** the following amounts:

- the RDTOH balance at the end of the preceding taxation 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 taxation 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 taxation 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 amount of RDTOH at the end of the taxation year. Also, enter the same amount on line B in the "Dividend refund" box.

References
Subsections 129(3) and 186(5)

"Dividend refund" box

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 taxation year.

A dividend refund arises if you pay taxable dividends to shareholders, and if there is an amount of refundable dividend tax on hand (RDTOH) at the end of the taxation 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 one of the following amounts, whichever 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 taxation 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" box.

102
Parts 3 and 4 of Schedule 3

The following explains how to complete parts 3 and 4 of Schedule 3. See item 123 for an explanation on parts 1 and 2.

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 include 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.

Complete part 3 as follow:

column 400 – name of all connected corporations that received dividends;

column 410 – Business Number of the connected corporations;

column 420 – taxation year-end of the connected recipient corporations in which the taxable dividends were received;

column 430 – amount of taxable dividends that qualify for the dividend refund;

line 450 – total taxable dividends paid to other than connected corporations;

line 460 – the result of the addition of:

column 430 + **line 450**

Report this amount in the first field of the box titled "Dividend refund." Calculate the dividend refund by completing this box. If it applies, enter the dividend refund on line 784 of page 8.

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.

When 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.

Complete part 4 as follow:

Line 500 – total dividends paid in the taxation year.

Deduct the following amounts:

line 510 – dividends paid out of capital dividend account;

line 520 – capital gains dividends;

line 530 – dividends paid on shares described in subsection 129(1.2);

line 540 – taxable dividends paid to a controlling corporation that was bankrupt at any time in the year;

line 550 – deemed dividends paid on a small business development bond.

The result should equal the total taxable dividends paid for the purpose of dividend refund of line 460 of Schedule 3.

References
Section 129
Subsection 186(5)
IT-243, *Dividend Refund to Private Corporations*

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"Part I tax" box

103
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 3 less income exempt under paragraph 149(1)(t).

On line 550, enter this base amount.

Reference
Section 123

104
Line 600 – Corporate surtax

Every corporation is subject to a 4% surtax on the federal tax that the corporation otherwise has to pay, unless the corporation was a non-resident-owned investment corporation throughout the year.

On page 7, calculate the 4% corporate surtax, and enter it on line 600.

Reference
Section 123.2

105
Line 602 – Recapture of investment tax credit

A corporation that disposed of a property used in 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. The recapture rules apply to all dispositions or conversions to commercial use occurring after February 23, 1998.

If you performed the SR&ED and earned the related investment tax credit (ITC), the recapture will be determined as the lesser of:

- the ITC earned for the property; and
- the amount determined by applying the percentage which 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 the lesser of:

- the ITC earned by the transferee on the qualified expenditures for the property which were transferred; and
- 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;
  - 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.

For further information on recaptures of ITC credits, and other SR&ED related items, see guide T4088, *Claiming Scientific Research and Experimental Development Expenditures – Guide to Form T661*. You may wish to refer to the instructions available on our Web site entitled "How to calculate the amount of investment tax credit (ITC) recapture when a property is disposed of or converted to commercial use" which may be found under What's New at: **www.ccra.gc.ca/sred/**

On line 602, enter the amount of recapture of ITC.

References
Subsections 127(27) to (35)

106
Line 604 – Refundable tax on CCPC's investment income

For taxation years that end after June 30, 1995, an additional refundable tax of 6 2/3% is levied on the investment income (other than deductible dividends) of Canadian-controlled private corporations (CCPC). This additional tax is not part of the corporate surtax base.

This additional tax will be credited to the refundable dividend tax on hand (RDTOH). The RDTOH pool will be refunded upon payment of dividends 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 7 and enter the amount on line 604.

References
Section 123.3
Subsection 129(3)

107
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

108
Line 616 – Manufacturing and processing profits deduction

Use Schedule 27, *Calculation of Canadian Manufacturing and Processing Profits Deduction*, to calculate the 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).

Complete Schedule 27 to determine Canadian manufacturing and processing profits that are eligible for the MPPD. 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 on 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 25% of its prescribed resource loss included in income under paragraph 12(1)(z.5). 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 the processing of 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 the processing of 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 the processing of 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.

Note
For taxation years that begin after 1996, the definition of "manufacturing or processing" excludes "Canadian field processing."

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 for sale or steam which is used in the generation of electricity for sale are allowed access to the 7% manufacturing and processing tax reduction. The reduction is phased-in beginning January 1, 1999, at the following rates: 1% in 1999, 3% in 2000, 5% in 2001, and 7% in 2002. The rate reductions will be prorated for taxation years that straddle calendar years.

Proposed legislation

It is proposed to extend the manufacturing and processing tax reduction to all corporations that produce steam for sale. The reduction will be phased-in beginning January 1, 2000, at the following rates: 3% in 2000, 5% in 2001, and 7% in 2002. The reduction will be prorated for taxation years that straddle calendar years.

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*

109 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.

References
Section 130
IT-98, *Investment Corporations*

110 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. These reserves are required by provincial statutes. 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 taxation year" to claim this additional deduction.

The additional deduction is 16% of one of the following amounts, whichever is less:

- the taxable income for the year; or
- four-thirds (4/3) of the **maximum cumulative reserve** at the end of the year, **minus** the **preferred-rate amount** at the end of the preceding taxation year;

minus

- the least of lines 400, 405, 410, and 425 of the small business deduction calculation (page 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 taxation 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.

References
Section 137
IT-483, *Credit Unions*

111 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. 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.

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 foreign tax credit. See item 131 for details.

Under section 110.5, you can also increase your taxable income so that you can use an otherwise non-deductible foreign non-business income tax credit. See item 89 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.

> **Note**
> 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.

References
Subsection 126(1)
IT-270, *Foreign Tax Credit*

112
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 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 item 89 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.

> **Note**
> 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. However, you can still carry forward and claim any unused foreign business income tax credit that arises from such income in taxation years ending before July 14, 1990.

Proposed legislation

New rules are proposed for residents of Canada carrying on an oil and gas business in another country that imposes an income or profits tax on business income (other than an oil and gas business). Amounts imposed under a production sharing contract will be treated as foreign taxes paid where the amounts:

- become receivable by the government of the other country or its agent because of an obligation of the taxpayer for the business;
- are calculated by referring to the amount or value of oil and gas produced or extracted, net of operating and capital costs;
- are not royalties under the foreign country's law, payments made in a purely commercial capacity or otherwise creditable foreign taxes; and
- do not exceed, in total, 40% of the corporation's income from the business for the year, less amounts otherwise creditable as foreign taxes.

These provisions apply to taxation years that begin after the earlier of December 31, 1999, and the date selected by the corporation, which cannot be earlier than December 31, 1994.

It is proposed that, for taxation years beginning after December 31, 1999, in calculating income for the year from sources in a foreign country, taxpayers will 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 taxation years, and you can carry the credit forward for seven taxation years. To claim a carryback to previous years, complete part 4 of Schedule 21.

> **Note**
> You can only use this credit to reduce Part I tax on income originating from the same foreign country.

113
Line 637 – Accelerated tax reduction

If you are a Canadian-controlled private corporation throughout the taxation year, calculate this reduction on page 4 and enter the amount on line 637. See item 97 for details.

114
Lines 638 and 639 – General tax reduction

Calculate this reduction on page 5.

If you are a Canadian-controlled private corporation (CCPC) throughout the taxation year, enter the amount on line 638.

If you are a corporation other than a CCPC, an investment corporation, a mortgage investment corporation, a mutual fund corporation, or a non-resident-owned investment corporation, enter the amount on line 639. See items 98 and 99 for details.

115
Line 640 – Federal logging tax credit

Use Schedule 21, *Federal Foreign Income Tax Credits and Federal Logging Tax Credit*, to calculate this credit.

Corporations that have income from logging operations and have paid logging tax to the provinces of Quebec or British Columbia can claim this credit.

To claim this credit, complete part 5 of Schedule 21. On line 640, enter the credit you calculated on line 580 of Schedule 21 or a lesser amount.

References
Subsection 127(1)
Regulation 700

116
Lines 644 and 646 – Federal political contribution tax credit

A corporation that made contributions to a registered federal political party or an officially nominated candidate for election to the House of Commons may be able to claim this tax credit.

However, a corporation cannot deduct political contributions that qualify for any grant, credit, subsidy, or other form of assistance from other government bodies.

You can claim contributions made 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, up to a maximum credit of $500.

For 2000 and later taxation years, a corporation that made, in the year, political contribution to a registered party or to a candidate whose nomination has been confirmed in a federal election or by-election must be monetary.

The deduction cannot exceed $500 and is calculated as follow:

- 75% of the first $200,

plus

- 50% of the next $350,

plus

- 33 1/3% of the next $525.

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 attach receipts to the 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 Political Party or to a Candidate at a Federal Election

117
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 not exceeding Part I tax otherwise payable. On line 792 (page 8) enter the unused balance.

Reference
Section 127.41

118
Line 652 – Investment tax credit

Use Schedule 31, *Investment Tax Credit – Corporations*, to calculate the investment tax credit. A corporation can claim the investment tax credit to reduce Part I tax that it would otherwise have to pay or in some cases this credit may be fully or partially refundable.

A corporation earns investment tax credits 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. Keep in mind that any goods and services tax/harmonized sales tax (GST/HST) input tax credit or rebate received for property acquired is considered government assistance.

Proposed legislation

It is proposed, for taxation years that begin after February 2000, to treat a specified percentage of provincial deductions for SR&ED in excess of the actual amount of the expenditure as government assistance. The specified percentage is based on the provincial tax rates applicable to income earned in the province by a corporation for the year and is:

- the maximum provincial tax rate applicable to active business income, where the corporation's federal ITC expenditure limit (relevant for the purposes of the enhanced ITC rate of 35%) for the year is nil; and
- the provincial tax rate applicable to small business income, in any other case.

On page 2 of Schedule 31, we have listed the percentages you have to apply to eligible investments and expenditures.

You may earn an investment tax credit of 20% of the scientific research and experimental development (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). However, amounts the corporation transferred during the year, under paragraph 127(13)(d), will reduce this account.

Some Canadian-controlled private corporations (CCPC) can claim an additional investment tax credit of 15% on qualified expenditures up to their expenditure limit.

For taxation years starting after 1995, a CCPC's expenditure limit will be reduced by the reduction to the CCPC's business limit under section 125 of the *Income Tax Act.* In that case, if the CCPC's business limit is nil, its expenditure limit will also be nil.

Investments and expenditures that qualify for investment tax credit

The following investments and expenditures earn an investment tax credit:

A. the cost of acquiring qualified property;

B. the cost of acquiring certified property; and

C. qualified scientific research and experimental development (SR&ED) expenditures.

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 heading "Activities that qualify for investment tax credit" 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).

Activities that qualify for investment tax credit

You can earn investment tax credits on qualified property acquired primarily to use for designated activities in specific areas.

The specific areas are Newfoundland, Nova Scotia, Prince Edward Island, New Brunswick, the Gaspé Peninsula, or a prescribed offshore region.

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;
- logging;
- farming or fishing; and
- Canadian field processing.

In addition, the following rules apply to certain corporations that lease qualified properties they acquired after July 13, 1990:

- 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.

Note
The definition of "qualified property" now includes "Canadian field processing" activities excluded from the definition of "manufacturing and processing." This change applies to taxation years starting after 1996.

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) Expenditures Carried on in Canada*, along with Schedule 31 when making claims under subsections 37(1), 127(5) and section 127.1 for qualified SR&ED expenditures. See item 61 for more information.

Depending on its taxable income, a Canadian-controlled private corporation can earn investment tax credits at the rate of 35% on current and capital SR&ED expenditures up to the expenditure limit.

The investment tax credit 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 $200,000. Also, it is not refundable to a CCPC associated with other corporations where the total taxable income of all associated corporations for their preceding year exceed $200,000. For eligible corporations, the investment tax credit is still refundable at the rate of 40% or 100%. Refer to Schedule 31 for details.

When you calculate investment tax credits earned in the year, you cannot use SR&ED expenditures that you have already used to claim a refund of Part VIII tax.

Notes
The latest date you must identify qualified SR&ED expenditures on Form T661 and Schedule 31 is the day that is 12 months after the filing due date for the year the expenditures were incurred (without reference to subsection 78(4)).

For taxation years that begin after March 5, 1996, section 37 limits, in the calculation of SR&ED expenditures incurred in a taxation year, salary or wages of a specified employee. In the case of a short taxation year, the amount will be prorated.

Reference
Subsections 37(9.1), 37(11), and 127(9)

Reduction of regional investment tax credits

The special investment tax credit rates for property acquired and expenditures made in the Atlantic provinces, the Gaspé Peninsula, the adjacent offshore region, and prescribed areas are reduced or eliminated for property acquired and expenditures incurred after 1994. The changes are as follows:

- The rate for qualified property acquired for use in the Atlantic provinces, the Gaspé Peninsula, or the adjacent offshore region is reduced from 15% to 10%.
- The 30% rate for certified property acquired for use in prescribed areas is discontinued.
- The rate for qualified expenditures for scientific research and experimental development to be carried out in the Atlantic provinces or the Gaspé Peninsula is reduced from 30% to 20%.

  Note
  These changes apply for property acquired and expenditures made after 1994. However, SR&ED expenditures incurred, or qualified and certified property acquired under a written agreement entered into before February 22, 1994, is grandfathered. Also, grandfathering applies to property under construction before February 22, 1994.

Reference
Subsection 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**.

See item 55 under the heading "When is property available for use?" for more information about the available-for-use rule.

References
Subsections 13(26) to 13(32) and 127(11.2)

Investment tax credit claim

You can deduct the full amount of the investment tax credit against federal Part I tax payable. If claiming an investment tax credit for a depreciable property, including shared-use equipment, reduce the capital cost of the property in the next taxation year by the amount of this year's investment tax credit. If claiming an investment tax credit for SR&ED expenditures, other than expenditures for shared-use equipment, reduce the SR&ED expenditure pool in the next taxation year by the amount of this year's investment tax credit. For more information, see item 55 under the heading "Column 4 – Net adjustments."

Proposed legislation
Currently an investment tax credit cannot be claimed by a corporation in respect of an expense or expenditure incurred in the course of earning income if any of the income is exempt. It is proposed that an investment tax credit also cannot be claimed in respect of expenses or expenditures incurred in earning taxable income which is exempt from tax under Part I. This will apply to all taxation years.

References
Subsections 13(7.1) and 37(1)

You can carry forward undeducted investment tax credits for ten years, or carry them back three years, to reduce Part I tax. Remember that you can only carry back investment tax credits to a prior-year if you cannot deduct them in the year you earn them.

Please note that special rules restrict the carryforward and the carryback of investment tax credits following an acquisition of control.

References
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 property or incurred any expenditures that qualify for the investment tax credit;
- is carrying forward unused investment tax credits from a previous year;
- is transferring unused investment tax credits from a predecessor corporation on amalgamation, or from a subsidiary corporation on wind-up;
- is applying investment tax credits against Part I tax;
- is requesting a carryback of unused investment tax credits to a prior taxation year; or
- is requesting a refund of unused investment tax credits.

Complete Schedule 31 and enter the amount of the investment tax credit for the current-year on line 652.

Note
Eligibility for an ITC is limited to those expenses or expenditures identified in Schedule 31 and Form T661, if it applies, filed within 12 months of the filing due date for the taxation year in which the expenses were made or incurred (without reference to subsection 78(4)).

Investment tax credit refund

Certain Canadian-controlled private corporations can claim a refund of the unused investment tax credit they earned during the taxation year. The refund rates are as follows:

A. Qualifying corporations can request a 40% refund of the investment tax credit they earned in the taxation year.

B. Most qualifying corporations that have investment tax credits they earned in the taxation year on SR&ED expenditures can claim:

   - a full refund (100%) of the investment tax credit they earned on the first $2 million of **current** SR&ED expenditures;

   plus

   - 40% of the investment tax credit they earned on any current expenditures that are more than $2 million;

   plus

   - 40% of the investment tax credit they earned on capital expenditures at the rate of 35% or 20%.

Definitions

A **qualifying corporation** is a Canadian-controlled private corporation whose taxable income before the application of the specified future tax consequences (see note below), **plus** the taxable incomes of all associated corporations before the application of the specified future tax consequences (for taxation years ending in the same calendar year as the corporation's preceding taxation 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 a maximum of $200,000 but can also be reduced by Part I.3 tax.

Qualifying corporations claiming investment tax credits at the rate of 35% on qualified SR&ED expenditures have to calculate the investment tax credit on a maximum amount of SR&ED expenditures. The maximum **expenditure limit** is $2 million, but can be reduced by ten dollars for every dollar of taxable income of the corporation and associated corporations, before specified future tax consequence, exceeding $200,000. The **reduced business limits** of the corporation and the associated corporations determined on Schedule 23, *Agreement Among Associated Canadian-controlled Private Corporations to Allocate the Business Limit*, for the small business deduction, can also affect a claim for investment tax credits. See Schedule 31 and item 96 for more details.

When a corporation's taxation year is shorter than 51 weeks, you have to prorate the expenditure limit by the number of days in the taxation year divided by 365.

Also, 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 item 30 in this guide for details about Schedule 49.

You have to file Schedule 31 to claim the investment tax credit refund. On line 780 of your return, enter the investment tax credit 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 taxation years. For more information, see the definition of "specified future tax consequence" in subsection 248(1) of the *Income Tax Act*.

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*

119
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 investment tax credit, and the refundable tax on 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" box in page 8.

Chapter 8 – Page 8 of the T2 return

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"Summary of tax and credits" box

In the "Summary of tax and credits" box, 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" area

120
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 7.

References
Items 104 to 121

121
Line 704 – Part I.3 tax payable

Part I.3 of the Act levies a tax on the taxable capital employed in Canada by large corporations, including large financial institutions and large insurance corporations. Part I.3 tax is 0.225% of the taxable capital employed in Canada that is more than the capital deduction of $10 million for the year. Also, under subsection 181.1(4), a corporation can deduct its Canadian surtax from the amount of Part I.3 tax payable. This is called the **surtax credit**.

To calculate the balance of unused surtax credits and to carry back any unused surtax credits file Schedule 37, *Calculation of Unused Part I.3 Tax Credit and Unused Surtax Credit.*

You can deduct unused surtax credit from Part I.3 tax in any of the three preceding and seven following taxation years.

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 the return.

> **Notes**
> For the purposes of this allocation, a Canadian-controlled private corporation is only considered to be related to corporations with which it is also associated.
>
> For taxation years ending in 2000 and subsequent, agreement schedule 36 need only be filed by one of the associated/related corporations for a calendar year; however if an agreement is not already on file with the Agency at the time we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will request one.

File the applicable Part I.3 tax return with the T2 return if there is Part I.3 tax payable, or would have, if not for the deduction of a surtax credit. To calculate Part I.3 tax, you can use three types of returns:

- Schedule 33, *Part I.3 Tax on Large Corporations*;
- Schedule 34, *Part I.3 Tax on Financial Institutions*; and
- Schedule 35, *Part I.3 Tax on Large Insurance Corporations*.

The following corporations do not have to pay tax under Part I.3:

- non-resident-owned investment corporations;
- 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) of the Act 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. See item 5 for details. For more information, see the *Corporation Instalment Guide.*

References
Subsections 181(1) to 181.7
T7B Corp, *Corporation Instalment Guide*

122
Line 708 – Part II surtax payable

Under Part II of the Act, tobacco manufacturers have to pay a surtax equal to 40% of Part I tax on tobacco manufacturing profits for the year.

File Schedule 46, *Part II – Tobacco Manufacturers' Surtax*, and attach it to the return. Refer to the schedule for more details.

On line 708, enter the amount of Part II surtax payable.

Reference
Section 182

123
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 where 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 thereof.

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;
   - a non-resident-owned investment corporation; 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 subject to Part IV tax
Dividends that a corporation received on a small business development bond or on a small business bond are not subject to Part IV tax.

References
Sections 15.1 and 15.2

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. See item 102 for details on parts 3 and 4.

Part 1 – Dividends received during the taxation year
Column 200 – list all payer corporations from which the corporation received the 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 – connected corporation's Business Number;

column 220 – taxation year-end of the payer corporation in which the dividend in column 240 was paid;

column 230 – amount of non-taxable dividend deductible under section 83 (enter the total of this column on line 402 of Schedule 1);

column 240 – amount of taxable dividends deductible from taxable income under section 112, subsections 113(2) and 138(6), and paragraphs 113(1)(a), (b), or (d) (enter the total of this column on line 320 of the return). For more information on these dividends, see item 80.

If the payer corporation is a connected corporation, complete columns 250 and 260.

Column 250 – amount of total taxable dividends paid by connected payer corporation for the taxation year as shown in column 220;

column 260 – amount of dividend refund of the connected payer corporation for the taxation year as indicated in column 220;

column 270 – 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:

  $$\textbf{column 270} = \frac{\textbf{column 240} \times \textbf{column 260}}{\textbf{column 250}}$$

If the connected payer corporation's taxation year ends more than three months after the corporation's taxation 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 (e.g., public corporation), enter "0" in column 270.

> **Note**
> If dividends were paid by more than one corporation, you have to do a separate calculation for each payer corporation. If dividends were paid in different payer corporation's taxation years, you have to do a separate calculation for each taxation 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 item 124 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 taxation 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).

References
Item 99
IT-269, *Part IV Tax on Taxable Dividends Received by a Private Corporation or a Subject Corporation*

124
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 3 of Schedule 43 – Calculation of Part IV.1 tax

Part 3 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. See item 126 for details.

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)

125
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 of the Act 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. Also, 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 taxation 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 VI Tax Credit and 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.

The capital deduction for the year is $200 million, plus A or B, whichever amount is less:

A. $20 million; or

B. 20% of the amount of the taxable capital employed in Canada that is more than $200 million.

File Schedule 38 with the 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.

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 the return.

Part VI instalment requirements are the same as those for Part I. See item 5 for details. For more information, see the *Corporation Instalment Guide.*

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

Additional temporary tax on deposit-taking institutions

A financial institution other than a life insurance corporation that carries on business in Canada at any time in a taxation year has to pay an additional Part VI tax. This tax is equal to 0.15% of the corporation's taxable capital employed in Canada for the year that exceeds the enhanced capital deduction for the year (maximum $400 million) multiplied by the number of days in the year that are before November 2000 and divided by 365.

If the corporation is a member of a related group, you have to allocate the enhanced capital deduction among the members. Use Schedule 41, *Agreement Among Related Deposit-Taking Institutions*, to allocate the enhanced capital deduction. File this agreement with the return.

Calculate the additional tax on Schedule 38. The amount will be included in Part VI tax at line 720.

Part I tax credit cannot reduce this additional tax.

Financial institutions that have to pay this surtax, must include it when they calculate their instalment payments.

Reference
Subsection 190.1(1.2)

Additional tax on life insurance corporations

Every life insurance corporation that carries on business in Canada at any time in a taxation year must pay an additional Part VI tax. The amount must be equal to 1% of the amount by which its taxable capital employed in Canada for the year exceeds its capital allowance for the year.

If the corporation is a member of a related group, you have to allocate the capital allowance among the members. Use Schedule 40, *Agreement Among Related Life Insurance Corporations*, to allocate the capital allowance. File this agreement with the return.

This additional tax is effective until the end of October 2000.

Proposed legislation
It is proposed to extend the additional tax on life insurance corporation until the end of 2000.

Note
For taxation years ending in 2000 and subsequent, agreement schedules 39, 40, and 41 need only be filed by one of the associated/related corporations for a calendar year; however if an agreement is not already on file with the Agency at the time we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will request one.

Reference
Subsection 190.1(1.1)

126
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 basic allowance is reduced if you paid $1 million or more of dividends on taxable preferred shares in the preceding year.

In addition, if you are a member of an associated group, you have to allocate the dividend allowance between the members. Part 1 provides an area for this allocation.

Part 2 of Schedule 43 – Calculation of Part VI.1 tax

Complete part 2 of Schedule 43 to calculate Part VI.1 tax. Part VI.1 tax is levied on dividends you paid on short-term preferred shares and taxable preferred shares.

You are subject to a tax of 66 2/3% on dividends you paid on **short-term preferred shares** that are more than the $500,000 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**.

> **Note**
> For taxation years ending in 2000 and subsequent, agreement schedule 43 need only be filed by one of the associated/related corporations for a calendar year; however if an agreement is not already on file with the Agency at the time we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will request one.

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 taxation years:

- the transferor's taxation year for which it owes Part VI.1 tax; and
- the transferee's taxation year that ends on or before the end of the above-mentioned transferor's taxation year.

You can deduct Part VI.1 tax payable from income. See item 81 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 item 62 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

127
Line 728 – Part XIV tax payable

Every corporation that is non-resident in a taxation year is subject to Part XIV tax, which is commonly known as **branch tax**.

The branch tax rate is 25%, but a reciprocal 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 show how you calculated Part XIV tax. Identify these calculations as Schedule 20, *Part XIV – Branch Tax*, as we do not print this schedule.

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 item 4 in this guide for details.

References
Section 219
IT-137, *Additional Tax on Certain Corporations Carrying on Business in Canada*

"Provincial and territorial tax" area

Quebec, Ontario, and Alberta administer their own corporate income tax systems. Corporations that earn income in these provinces have to file separate provincial corporate income tax returns.

All other provinces and territories legislate their corporate income tax provisions, but the Canada Customs and Revenue Agency administers them. These provinces and territories do not charge income tax on the taxable income of non-resident-owned investment corporations, or on the taxable income of corporations that are exempt from tax under section 149.

Therefore, if the corporation has a permanent establishment in any province or territory other than Quebec, Ontario, or Alberta, you have to calculate provincial and territorial income taxes and credits, as well as federal income taxes and credits, on the return.

128
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. Corporations with a

multiple jurisdiction have to file Schedule 5, *Tax Calculation Supplementary – Corporations*, with the return.

> **Note**
> The Newfoundland offshore area and the Nova Scotia offshore area are considered to be provinces.

By completing line 750, you ensure that the income taxes go to the correct province or territory. Please complete this line even if no tax is payable, or if the provincial jurisdiction is Quebec, Ontario, or Alberta.

Reference
Subsection 124(4)

129
Line 760 – Net provincial and territorial tax payable

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
- claiming provincial or territorial tax credits, or rebates (see item 130 for details).

If there is no taxable income, you only have to complete columns B and D in part 1 of Schedule 5.

A **permanent establishment** in a province or territory is usually a fixed place of business of the corporation, which includes an office, branch, mine, oil well, farm, timberland, factory, workshop, or warehouse. 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 and of a Foreign Enterprise in Canada*

Part 1 of Schedule 5 – Allocation of taxable income

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
- rentals or royalties from property that are not part of the principal business operations.

Be sure to 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);
- chartered 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).

On line 100 of Schedule 5, enter the regulation number applicable to attribute the taxable income.

Dual rates of provincial and territorial income tax

All provinces and territories have two rates of income tax: the **lower rate**, and the **higher rate**. You will find the rates that apply to each province and territory in items 132 through 141.

The **lower rate** applies to the part of taxable income you allocate to a province or territory that is eligible for the federal small business deduction.

The **higher rate** applies to the part of taxable income you allocate to a province or territory that is not eligible for the federal small business deduction.

Example 1
Corporation X earned all of its income in 2000 from its permanent establishment in New Brunswick.

The corporation's taxation year runs from June 1, 1999, to May 31, 2000.

Corporation X claimed the small business deduction when it calculated its federal tax payable.

The **lower rate** of tax for New Brunswick is 6% for 1999 and 4.5% for 2000. The **higher rate** is 17%.

Corporation X calculates its New Brunswick 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 lower rate:	
$78,000 × 6% × 214/366 =	$ 2,736
$78,000 × 4,5% × 152/366 =	1,458
Total taxes payable at lower rates:	$ 4,194
Taxes payable at higher rate:	
$12,000 × 17% =	$ 2,040
New Brunswick tax payable	$ 6,234

If the corporation had not qualified for a federal small business deduction, you would calculate the provincial corporation tax payable as follows:

New Brunswick tax payable:	
$90,000 × 17% =	$ 15,300

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
Corporation Y has permanent establishments in both Saskatchewan **and** Yukon. Its taxation year runs from September 1, 1999, to August 31, 2000.

Corporation Y claimed the small business deduction when it calculated its federal tax payable.

The **lower rate** of tax for Saskatchewan is 8%, and the **higher rate** of tax is 17%.

To calculate its Saskatchewan income tax, Corporation Y does the following calculations:

Taxable income allocated to Saskatchewan (from Schedule 5)		$60,000
Taxable income allocated to Yukon (from Schedule 5)		$30,000
Total taxable income		$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 Saskatchewan:

$60,000/$90,000 × $78,000 =	$52,000	
Taxable income earned in Saskatchewan		$60,000
Subtract: Income eligible for the small business deduction attributed to Saskatchewan		$52,000
Amount taxed at higher rate		$ 8,000
Taxes payable at higher rate: $8,000 × 17% =		$ 1,360
Taxes payable at lower rate: $52,000 × 8% =		$ 4,160
Saskatchewan tax payable		$ 5,520

To calculate its Yukon income tax payable, Corporation Y would repeat the same steps, using the rates that apply.

Enter on the appropriate lines of part 2 of Schedule 5, the gross amount of provincial or territorial tax payable calculated in column H, part 1 of Schedule 5.

130
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 or a claim for provincial or territorial tax credits or rebates to reduce the provincial or territorial income tax otherwise payable. You also have to complete part 2 of Schedule 5 to claim any provincial refundable tax credits.

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 tax payable on line 760 of the return. When the result is negative, enter the refundable provincial tax credit on line 812. Attach to the return any forms you completed to claim provincial or territorial credits or rebates.

You will find information about provincial foreign tax credits for all provinces and territories in item 131. We have also provided details on all other provincial and territorial credits and rebates in items 132 to 141.

131
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 for which you are claiming a credit, you have to do a separate calculation. Calculate a provincial foreign tax credit as the least of:

A. $\text{provincial or territorial tax rate (\%)*} \times \text{foreign non-business income} \times \frac{\text{total taxable income allocated to province or territory}}{\text{total taxable income}}$

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) after deduction under subsection 20(12)

(iii) = federal foreign non-business income tax credit allowed

* If the tax rate has changed during the taxation year, prorate the calculation in A 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.

132 Newfoundland

The **lower** rate of Newfoundland income tax is 5%. This lower rate applies to taxable income earned in Newfoundland 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 that does **not** qualify for the federal small business deduction.

These rates also apply to taxable income earned in the Newfoundland offshore area.

Enter the amount of tax calculated on line 200 or 205 of Schedule 5.

Newfoundland 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*, 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 attach official receipts to the 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 manufacturing and processing profits tax credit

Corporations that have earned taxable income and manufacturing and processing profits in Newfoundland are eligible for this credit.

Schedule 300, *Newfoundland Manufacturing and Processing Profits Tax Credit*, is a worksheet to calculate the credit and does not have to be filed with the return. See the schedule for more details.

On line 503 of Schedule 5, enter the amount of the credit you are claiming.

Newfoundland research and development tax credit

You can claim this credit if there is a permanent establishment in Newfoundland and if you made eligible expenditures for research and development carried out in Newfoundland. The amount of 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 carryback or carryforward provisions.

To claim the credit, file completed Schedule 301, *Newfoundland Research and Development Tax Credit*, with the return. See the schedule for more details.

On line 520 of Schedule 5, enter the amount of credit earned in the year.

Newfoundland film and video industry tax credit

The Minister of Finance for the Province of Newfoundland 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 taxation 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, 2002;
- applies only to the portion of eligible salaries that does not exceed 25% of the total production costs of an eligible film or video;
- is limited to one million dollars for each eligible project and two million dollars for each eligible corporation, together with all corporations associated with that corporation, of 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 carryback or carryforward provisions.

You do not have to attach the certificate to the return. However, keep it in case we ask for it later. Schedule 302, *Additional Certificate Numbers for the Newfoundland Film and Video Industry Tax Credit*, should be completed when more than one certificate is issued.

On lines 821 and 521 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

133
Prince Edward Island

The **lower** rate of Prince Edward Island income tax is 7.5%. 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 attach official receipts to the 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 the credit you are claiming.

Prince Edward Island manufacturing and processing profits tax credit

Corporations that have earned taxable income and manufacturing and processing profits in Prince Edward Island are eligible for the Prince Edward Island manufacturing and processing profits tax credit. The credit is 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 the return. See the schedule for more details.

On line 529 of Schedule 5, enter the amount of the credit you are claiming.

Prince Edward Island corporate investment tax credit

You can earn this credit on qualified property acquired after December 31, 1992, to reduce Prince Edward Island tax payable.

You can carry back an unused credit to the three previous taxation years from the taxation year that you acquired the property. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you acquired the property.

To claim the credit, file completed Schedule 321, *Prince Edward Island Corporate Investment Tax Credit,* with the return. See the schedule for more details.

On line 530 of Schedule 5, enter the amount of the credit you are claiming.

134
Nova Scotia

The **lower** rate of Nova Scotia income tax is 5%. This lower rate applies to taxable income earned in Nova Scotia that qualifies for the federal small business deduction.

The **higher** rate of income tax is 16%. This rate applies to taxable income earned in Nova Scotia that does **not** qualify for the federal small business deduction.

These rates also apply to taxable income earned in the Nova Scotia offshore area.

On line 215 or 220 of Schedule 5, enter the amount of tax calculated.

Nova Scotia political contribution tax credit

You can claim contributions made to candidates and recognized parties, as defined under the *Elections Act of Nova Scotia*, 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 attach official receipts to the 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 corporate tax reduction for new small businesses

This tax reduction applies to the first three taxation years of qualifying Canadian-controlled private corporations (CCPC) incorporated in Nova Scotia. This tax reduction also applies to a corporation incorporated outside the province but in 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 the return. You do not have to attach 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 ISO 9000 certification tax credit

The Minister of Finance for the Province of Nova Scotia will issue an ISO 9000 tax credit certificate for audit, training, and documentation expenses made after 1993 and before 2001 (by a corporation with a permanent establishment in Nova Scotia).

The tax credit is equal to 25% of the lesser of the following amounts:

- the amount of current-year eligible expenditures; or
- $150,000.

The ISO 9000 tax credit cannot exceed $37,500, and may be deducted from the Nova Scotia provincial tax otherwise payable.

You do not have to attach the certificate with the return. However, keep it in case we ask for it later.

On lines 822, 823, and 557 of Schedule 5, enter the amount of the credit available, the certificate number, and the amount of the credit you are claiming.

Nova Scotia ISO 14000 certification tax credit

The Minister of Finance for the Province of Nova Scotia will issue an ISO 14000 tax credit certificate for certain expenses made after 1995 and before 2001 by a corporation with a permanent establishment in Nova Scotia.

The tax credit is equal to 25% of the lesser of the following amounts:

- the amount of current-year eligible expenditures; or
- $150,000.

The ISO 14000 tax credit cannot exceed $37,500, and may be deducted from the Nova Scotia provincial tax otherwise payable.

You do not have to attach the certificate to the return. However, keep it in case we ask for it later.

On line 824, 825, and 558 of Schedule 5, enter the amount of credit available, the certificate number, and the amount of the credit you are claiming.

Nova Scotia prospectus tax credit

The Minister of Finance for the Province of Nova Scotia will issue a tax credit certificate for eligible expenditures incurred after 1994 and before 2000 (by a corporation with a permanent establishment in Nova Scotia). Eligible expenditures are audit, legal, and printing expenses necessary for the corporation to file a prospectus under the *Securities Act*, or a stock exchange as prescribed by regulation.

The tax credit is equal to 35% of the lesser of the following amounts:

- the amount of eligible expenditures made in the taxation year; or
- $100,000.

The tax credit may be deducted from provincial tax otherwise payable. This credit is not refundable, but can be carried forward to the following seven years.

You do not have to attach the certificate with the return. However, keep it in case we ask for it later.

On lines 826, 827, 828, and 559 of Schedule 5, enter the credit at the end of the preceding taxation year, the credit available in the current taxation year, the certificate number, and the amount of the credit you are claiming.

Nova Scotia research and development tax credit

Use Schedule 340, *Nova Scotia Research and Development Tax Credit*, to calculate the Nova Scotia research and development tax credit.

Credits earned before 1994

You can carry forward any unclaimed credits earned in taxation years ending on or before December 31, 1993, to the seven years following the taxation year in which you made the expenditure. The credit can only be applied to reduce the provincial tax otherwise payable.

To claim the credit, file completed Schedule 340 with the return. For more details, see the schedule.

On line 560 of Schedule 5, enter the amount of credit you are claiming.

Credits earned after 1993

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 amount of the credit is equal to 15% of eligible expenditures incurred after 1993.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

To claim the credit, file completed Schedule 340 with the return. See the schedule for more details.

On line 566 of Schedule 5, enter the amount of credit earned in the year.

Nova Scotia manufacturing and processing investment tax credit

You can earn this credit on qualified property you acquired after December 31, 1996, and before January 1, 2003.

You have to use or lease the qualified property in Nova Scotia primarily for the purpose of manufacturing or processing of goods. The credit is equal to 30% of the qualified property. The credit will be reduced to 15% on January 1, 2001. Projects that were largely completed by that date will qualify for the 30% rate.

You can carry back an unused credit to the three previous taxation years from the taxation year you acquired the property. The credit cannot be carried back to a taxation year ending before January 1, 1997. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you acquired the property.

To claim the credit, file completed Schedule 344, *Nova Scotia Manufacturing and Processing Investment Tax Credit*, with the return. For more details, see the schedule.

On line 561 of Schedule 5, enter the amount of credit 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.

The amount of the credit is equal to the total of the following amounts:

- the lesser of:
  - 32.5% of eligible salaries paid before April 11, 2000; and
  - 16.25% of total production costs of the eligible film incurred before April 11, 2000;

plus

- the lesser of:
  - 35% of eligible salaries in prescribed geographic areas after April 10, 2000, and before 2003; and
  - 17.5% of total production costs of the eligible film incurred after April 10, 2000, and before 2003;

plus

- the lesser of:
  - 30% of eligible salaries not in prescribed geographic areas after April 10, 2000, and before 2003;
  - 15% of total production of the eligible film incurred after April 10, 2000, and before 2003.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

You do not have to attach the certificate with the return. However, keep it in case we ask for it later. Schedule 345, *Additional Certificate Numbers for the Nova Scotia Film Industry Tax Credit*, should be completed when more than one certificate is issued.

On lines 836 and 565 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

135
New Brunswick

The **lower** rate of New Brunswick income tax is 6% for 1999 and 4.5% for 2000. These rates apply to taxable income earned in New Brunswick that qualifies for the federal small business deduction.

The **higher** rate of income tax is 17%. This 17% rate applies to taxable income earned in New Brunswick that does **not** qualify for the small business deduction.

If January 1, 2000, falls within the taxation year, you have to prorate the lower tax rate based on the number of days in the taxation year before and after this date. See example 1 in item 129 for details.

On line 225 of Schedule 5, enter the amount of tax calculated.

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 *Elections Act of New Brunswick*, 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 attach official receipts to the 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 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 research and development tax credit

You can claim this credit if you have a permanent establishment in New Brunswick and if you made eligible expenditures for research and development to be carried out in New Brunswick after February 25, 1994. 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 previous taxation years from the taxation year that you made the expenditure. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made the expenditure.

You may, under the *New Brunswick Income Tax Act*, renounce the research and development tax credit on or before the date by which you are required to file the return for the year.

To claim the credit, file completed Schedule 360, *New Brunswick Research and Development Tax Credit*, with the return. For more details, see the schedule.

On line 577 of Schedule 5, enter the amount of the credit you are claiming.

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 is equal to:

- 40% of New Brunswick eligible labour costs for first-time productions;
- 30% for subsequent productions; and
- 35% of incremental eligible labour costs over a previous year's labour costs.

The credit is subject to the following conditions:

- the tax credit applies to eligible salaries incurred after June 12, 1996, and before December 31, 2001;
- an eligible corporation must, for each eligible project, pay at least 25% of its total salaries and wages to eligible employees;
- the tax credit applies only to that portion of eligible salaries that does not exceed 50% of the total production costs of the eligible project less the amount of production costs funded by the Province;
- the tax credit is limited to one million dollars per eligible project and two million dollars per eligible corporation, together with all corporations associated with that corporation, of all eligible projects begun in any 12-month period.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

You do not have to attach the certificate to the return. However, keep it in case we ask for it later. Schedule 365, *Additional Certificate Numbers for the New Brunswick Film Tax Credit*, should be completed when more than one certificate is issued.

On lines 850 and 595 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

136 Manitoba

The **lower** rate of Manitoba income tax is 9% until June 30, 1999, 8% from July 1, 1999, to December 31, 1999, and 7% after that date. These lower rates apply to:

- taxable income earned in Manitoba 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 17%. This rate applies to taxable income earned in Manitoba that does **not** qualify for the small business deduction.

If July 1, 1999, and/or December 31, 1999, fall within the taxation year, you have to prorate the lower tax rate based on the number of days in the taxation year before and after those dates. See example 1 in item 129 for details.

On line 230 of Schedule 5, enter the amount of tax calculated.

Manitoba political contribution tax credit

You can claim contributions made to registered political parties and registered candidates, as defined under the *Election Finances Act of Manitoba*, 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 attach official receipts to the 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 895 of Schedule 5, enter the total amount of qualifying contributions, and on line 600 enter the amount of the credit you are claiming.

Manitoba manufacturing and processing tax credit

You can earn this credit on qualified property you acquired after March 11, 1992, and before July 1, 2003, to reduce Manitoba tax payable. You have to use the qualified property in Manitoba primarily for the purpose of manufacturing or processing goods for sale or lease.

You can carry back an unused credit to the three previous taxation years from the taxation year that you acquired the property. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you acquired the property.

To claim the credit, file completed Schedule 381, *Manitoba Manufacturing and Processing Tax Credit*, with the return. For more details, see the schedule.

On line 605 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 if you made eligible expenditures for research carried out in Manitoba after March 11, 1992. The amount of the credit is 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 previous taxation years from the taxation year that you made the expenditure. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made the expenditure.

For taxation years that begin after 1995

Qualified expenditures must be identified by the claimant on Schedule 380, *Manitoba Research and Development Tax Credit*, no later than 12 months after the claimant's income tax return is due for the taxation year in which the expenditures were incurred.

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 *Manitoba Income Tax Act*.

To claim the credit, file completed Schedule 380 with the return. For more details, see the schedule.

On line 606 of Schedule 5, enter the amount of the credit you are claiming.

Manitoba film and video production tax credit

The Minister of Finance of Manitoba 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 the lesser of the following amounts:

- 35% of eligible salaries paid after December 31, 1996, and before March 1, 2002, to residents of Manitoba; or
- 22.5% of the total production costs of the eligible film incurred after December 31, 1996, and before March 1, 2002.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

You do not have to attach the certificate to the return. However, keep it in case we ask for it later. Schedule 382, *Additional Certificate Numbers for the Manitoba Film and Video Production Tax Credit*, should be completed when more than one certificate is issued.

On lines 856 and 620 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

137
Saskatchewan

The **lower** rate of Saskatchewan income tax is 8%. This lower rate applies to:

- taxable income earned in Saskatchewan 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 17%. This higher rate applies to taxable income earned in Saskatchewan that does **not** qualify for the federal small business deduction.

On line 235 of Schedule 5, enter the amount of tax calculated.

Saskatchewan manufacturing and processing profits tax reduction

You can claim this reduction if at any time in the taxation year:

- you have a permanent establishment in Saskatchewan;
- you have taxable income earned in Saskatchewan; and
- you had Canadian manufacturing and processing profits earned in Saskatchewan.

You must claim this reduction within three years of the filing due date of the return for the applicable taxation year.

You can reduce the Saskatchewan income tax rate by as much as 7% on Canadian manufacturing and processing profits, as reported on the return.

For taxation years ending on or before December 31, 1999, you have to apply to the province on a form acceptable to the provincial Minister of Finance and supply any information required.

For taxation years ending after December 31, 1999, you have to 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 the 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 tax credit

You can earn this credit on qualified property you acquired after March 31, 1993, and before January 1, 1994, to reduce Saskatchewan tax payable. You have to use the qualified property in Saskatchewan primarily for the purpose of manufacturing or processing goods for sale or lease.

You can carry forward the unclaimed credit to the ten taxation years that follow the taxation year in which you made the purchase.

To claim the credit, file completed Schedule 401, *Saskatchewan Manufacturing and Processing Tax Credit*, with the return. For more details, see the schedule.

On line 629 of Schedule 5, enter the amount of the credit you are claiming.

Saskatchewan manufacturing and processing investment tax credit

You can earn this credit on qualified property acquired after February 16, 1995, 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 9% on qualified properties acquired before March 21, 1997, and a credit of 7% on qualified properties acquired after March 20, 1997, and before March 27, 1999. The rate has been reduced to 6% for qualified property acquired after March 26, 1999.

You can carry back an unused credit to the three previous taxation years from the taxation year in which you acquired the property. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you acquired the property.

To claim the credit, file completed Schedule 402, *Saskatchewan Manufacturing and Processing Investment Tax Credit*, with the 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 if you made eligible expenditures for scientific research and experimental

development carried out in Saskatchewan after March 19, 1998.

The amount of the credit is equal to 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 previous taxation years from the taxation year that you made the expenditures. The credit cannot be carried back to a taxation year ending before March 20, 1998. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made the expenditure.

To claim the credit, file completed Schedule 403, *Saskatchewan Research and Development Tax Credit*, with the return. Refer to 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 taxation 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*.

To claim the rebate, file completed Schedule 400, *Saskatchewan Royalty Tax Rebate Calculation (Corporations)*, with the return. For more details, see the schedule.

On line 632 of Schedule 5, enter the royalty tax rebate you are claiming.

Saskatchewan mining reclamation tax credit

A corporation that is a beneficiary of a mining reclamation 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*.

The mining reclamation trust will issue a letter to the corporation that is a beneficiary.

The credit will reduce provincial tax otherwise payable for the taxation year that ends within the trust's taxation year.

This credit is fully refundable, but must first be applied against taxes payable. There are no carryback or carryforward provisions.

You do not have to file the letter with the 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.

The amount of the credit is equal to 35% of eligible salaries paid after December 31, 1997. Eligible salaries are limited to 50% of the total production cost of the eligible film.

An eligible corporation, located outside Saskatoon or Regina, can apply for an additional credit equal to 5% of total production cost for the eligible film incurred after December 31, 1997.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

You do not have to attach the certificate to the return. However, keep it in case we ask for it later. Schedule 410, *Additional Certificate Numbers for the Saskatchewan Film Employment Tax Credit*, should be completed when more than one certificate is issued.

On lines 860 and 643 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

138
British Columbia

The **lower** rate of British Columbia income tax is 8.5% from January 1, 1999, to June 30, 1999, 5.5% from July 1, 1999, to June 30, 2000, 4.75% from July 1, 2000, to December 31, 2000, and 4.5% effective January 1, 2001. These lower rates apply to:

- taxable income earned in British Columbia 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 tax is 16.5%. This higher rate applies to taxable income earned in British Columbia that does **not** qualify for the federal small business deduction.

If July 1, 1999, or July 1, 2000, fall within the taxation year, you have to prorate the lower tax rate based on the number of days in the taxation year before and after these dates. See example 1 in item 129 for details.

On line 240 of Schedule 5, enter the amount of tax calculated.

British Columbia two-year tax holiday for new small businesses

The Province of British Columbia will issue a certificate of eligibility (FIN 551) to new corporations incorporated after April 30, 1996, and before April 1, 2001, that carry on business in British Columbia during this period. The taxation year for which the deduction is claimed must be the first or second year of operation of the corporation.

You must apply for the certificate within three years after the end of the applicable taxation year-end and must obtain separate certificate for each taxation year. The province may rescind or refuse to issue the certificate of eligibility.

You must be carrying on an active business and be allowed a small business deduction under the federal Act. Credit unions that are eligible for the small business deduction or its equivalent will also be eligible for this reduction.

At least 25% of wages and salaries paid must be paid to employees resident in British Columbia. The tax reduction will be equal to the provincial tax payable at the lower rate before calculating interest and penalties.

A corporation is not eligible for this reduction if:

- it is the result of an amalgamation;
- it is associated with another corporation;
- it was the beneficiary of a trust;
- a newly incorporated corporation is carrying on mainly the same business as a proprietorship or partnership that operated for more than 90 days before incorporation. (If the period of business before incorporation is 90 days or less, and that period began after April 30, 1996, the corporation would be eligible.)

Schedule 424, *British Columbia Two-Year Tax Holiday for New Small Businesses*, is a worksheet to calculate this deduction and does not have to be filed with the return. For more details, see the schedule.

You do not have to attach the certificate of eligibility to the return. However, keep it in case we ask for it later.

On lines 879 and 655 of Schedule 5, enter the certificate number and the amount you are claiming.

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 1/3 of the logging tax paid.

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 any of paragraphs 12(1)(o), 12(1)(z.5), 18(1)(m), 20(1)(v.1), or subsections 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 completed Schedule 420, *British Columbia Royalty and Deemed Income Rebate Calculation and Application (Corporations)*, with the return. For more details, see the schedule.

On line 652 of Schedule 5, enter the rebate or addition you calculated on Schedule 420.

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 British Columbia Legislative Assembly, 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 attach official receipts to the 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 can claim a British Columbia venture capital tax credit to a maximum of $60,000. The British Columbia government issues a certificate called Form TCC 9712 to these corporations.

You have to apply this credit to reduce the British Columbia provincial tax payable for the year to zero. If unclaimed credits remain, you can carry them forward for four taxation years to reduce the British Columbia tax payable.

You do not have to attach the certificate to the return. However, keep it in case we ask for it later.

On lines 880, 881, and 882 of Schedule 5, enter the credit at the end of the preceding taxation year, the credit available in the current year, as reported on Form TCC 9712, and the certificate number. On line 656, enter the credit you are claiming.

British Columbia manufacturing and processing tax credit

A corporation can earn this credit by purchasing qualifying property after March 31, 2000, to reduce British Columbia tax payable. The qualifying corporation must have a permanent establishment in the province at any time during the taxation year.

The non-refundable credit will be available to eligible corporations for purchases of certain machinery, equipment, and buildings for use in manufacturing and processing.

The tax credit is equal to 3% of the total capital cost, including any British Columbia provincial sales tax paid, of eligible purchases made after March 31, 2000. The investment tax credit is earned by purchasing qualifying property to be used in British Columbia in manufacturing and processing goods for sale or lease.

You can carry back unused credits to the three previous taxation years. You can also carry forward unused credits to the ten subsequent taxation years.

To claim the credit, file completed Schedule 426, *British Columbia Manufacturing and Processing Investment Tax Credit*, with the 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 qualified corporation that carry on scientific research and experimental development (SR&ED) in British Columbia, may claim this credit.

You can claim the credit on expenditures incurred in the taxation year for SR&ED carried in the province. The expenditures have to be incurred after August 31, 1999, and before September 1, 2004, and at a time the corporation has a permanent establishment in the province.

British Columbia SR&ED refundable tax credit
A refundable tax credit may be claimed by a qualifying corporation that is a Canadian-controlled private corporation (CCPC).

The amount of the credit is equal at 10% of the lesser of the following amounts:

- the SR&ED qualified expenditures for the taxation year; and
- the expenditure limit for the taxation year.

The refundable credit cannot be claimed in the same taxation year that the British Columbia two-year tax holiday is claimed.

To claim the credit, file completed Form T666, *British Columbia Scientific Research and Experimental Development Tax Credit*, with the return. 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
A non-refundable tax credit may be claimed by other qualifying corporations and CCPCs with SR&ED qualified expenditures in excess of their expenditure limit.

The annual non-refundable tax credit for a taxation year is 10% of the SR&ED qualified for that year less the total of the following amounts:

- 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 can carry back an unused credit to the three previous taxation years from the year the expenditures were incurred. The credit cannot be carried back to a taxation year ending before September 1, 1999. You can also carry forward the unclaimed credit to the seven taxation year that follow the taxation year in which the expenditures were incurred.

To claim the credit, file completed Form T666 with the return. For more details, see Form T666.

On line 659 of Schedule 5, enter the amount of 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. The recapture rules apply to all dispositions or conversions to commercial use occurring after March 31, 2000. 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 mining reclamation tax credit

A corporation that is a beneficiary of a mining reclamation 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 taxation year that ends within the trust's taxation year.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

On line 670 of Schedule 5, enter the amount of the credit earned.

British Columbia film and television tax credit

The Ministry of Small Business, Tourism and Culture of British Columbia will issue an eligibility certificate for all credits for which a production is eligible.

An eligible production corporation can claim three different credits:

- The **basic tax credit** that is equal to one of the following amounts:
  - in the case of a production that is an inter-provincial co-production, 20% of the qualified British Columbia labour expenditures for that taxation 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 British Columbia labour expenditures for the taxation year for the production.
- The **regional tax credit** that is equal to one of the following amounts:
  - 12.5% of the qualified British Columbia labour expenditures for the production for the taxation year; or
  - in the case of 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 British Columbia labour expenditures for the qualified episodes done in British Columbia, outside of the designated Vancouver area.
- The **training tax credit** that is equal to the lesser of:
  - 3% of the qualified labour expenditures for the production for the taxation year; or
  - 30% of the payments made to the trainees in the taxation year while they are participating in the approved training program on the production.

To claim these credits, an eligible production corporation has to be a Canadian corporation and have a permanent establishment in British Columbia, and its activities must primarily be the carrying on of a film or video production business through a permanent establishment in Canada.

The production must start principal photography after March 31, 1998, and before April 1, 2003, to be eligible.

These credits cannot be claimed for the same year that the British Columbia two-year tax holiday for new small businesses is claimed.

These credits are fully refundable but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

To claim these credits, attach the following on top of the return for the year:

- eligibility certificate(s) (BTC, RTC, TTC);
- if applicable, certificate of completion, and a copy of the audited statement of production costs and notes provided to the Ministry of Small Business, Tourism and Culture;
- a complete copy of Form T1196, *BC Film and Television Tax Credit*, for each film or video production.

On line 671 of Schedule 5, enter the amount you are claiming.

British Columbia production services tax credit

The Ministry of Small Business, Tourism and Culture of British Columbia will issue an accreditation certificate to a corporation that has a permanent establishment in British Columbia during the taxation year and that throughout the taxation year primarily carried on a film or video production business or a film or video production services business.

The production services tax credit is equal to 11% of the corporation's accredited, qualified British Columbia labour expenditures for the taxation year.

To be eligible, the accredited production corporation must begin the principal photography after May 31, 1998, and before June 1, 2003, and before the end of the taxation year.

The production services tax credit cannot be claimed for an accredited production if the film and television tax credit is claimed for that production.

The credit cannot be claimed for the same year that the British Columbia two-year tax holiday for new small businesses is claimed.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provision.

To claim the credit, attach the following on top of the return for the year:

- accreditation certificate,
- completed Form T1197, *BC Production Services Tax Credit*, for each film or video production.

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 taxation year.

The expenditures have to be incurred after July 31, 1998, and before August 1, 2003, for the purpose of determining the existence, location, extent, or quality of a mineral resource in British Columbia.

The credit is equal to 20% of the amount by which:

- total qualified mining exploration expenses incurred in the taxation year,

is more than

- total assistance for amounts included in the expenses for the taxation year.

The credit cannot be claimed for the same year that the British Columbia two-year tax holiday for new small businesses is claimed.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

To claim the credit, file completed Schedule 421, *British Columbia Mining Exploration Tax Credit*, with the return. For more details, see the schedule.

On line 673 of Schedule 5, enter the amount of credit you are claiming.

139 Yukon

The **lower** rate of Yukon income tax is 6%. This lower rate applies to taxable income earned in the Yukon that qualifies for the federal small business deduction.

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, 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 attach official receipts to the 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 does not have to be filed with the 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.

The expenses have to be incurred after March 31, 1999, and before April 1, 2001, for the purpose of determining the existence, location, extent, or quality of a mineral resource in the Yukon.

The credit is equal to 22% of the amount, if any, by which:

- the total eligible mineral exploration expenses incurred in the taxation year;

is more than

- the total amount of assistance received or receivable for the taxation year.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carryback or carryforward provisions.

To claim the credit, file Schedule 441, *Yukon Mineral Exploration Tax Credit*, with the 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 if you incurred qualified expenditures in the year and after June 30, 2000, 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 (after June 30, 2000); 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 carryback or carryforward provisions.

To claim the credit, file Schedule 442, *Yukon Research and Development Tax Credit*, with the return. For more details, see the schedule.

On line 698 of Schedule 5, enter the amount of the credit calculated on Schedule 442.

140
Northwest Territories

The **lower** rate of the Northwest Territories income tax is 5%. 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%. This rate applies to taxable income that does **not** qualify for the small business deduction.

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 attach official receipts to the 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

The Minister of Finance of the Northwest Territories will issue a certificate to eligible corporations that have made investment in businesses that carry on business in the Northwest Territories. The funds received by the eligible business must be used for start-up operations or to expand or acquire an existing business.

You can deduct an amount issued under the *Risk Capital Investment Tax Credits Act*, up to an annual maximum of $30,000 less any tax credits that may be deducted under the federal Act.

You can carry back an unused credit to the three previous taxation years from the taxation year in which you made investments. The credit cannot be carried back to a taxation year ending before September 25, 1998. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made investments.

You do not have to attach the certificate to the return. However, keep it in case we ask for it later.

To claim the credit, file completed Schedule 460, *Northwest Territories Investment Tax Credit*, with the return. For more details, see the schedule.

On line 705 of Schedule 5, enter the amount of credit you are claiming.

141 Nunavut

The **lower** rate of Nunavut income tax is 5%. 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 14%. This rate applies to taxable income 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 attach official receipts to the 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.

Northwest Territories investment tax credit on investments made before April 1, 1999

To claim this credit, file completed Schedule 460, *Northwest Territories Investment Tax Credit*, with the return. For more details, see item 140 and the schedule.

On line 734 of Schedule 5, enter the amount of the credit you are claiming.

Nunavut investment tax credit

The Minister of Finance of Nunavut will issue a certificate to eligible corporations that have made investment in businesses that carry on business in Nunavut. The funds received by the eligible business must be used for start-up operations or to expand or acquire an existing business.

You can deduct an amount issued under the *Risk Capital Investment Tax Credits Act*, up to an annual maximum of $30,000 less any tax credits that may be deducted under the federal Act.

You can carry back an unused credit to the three previous taxation years from the taxation year in which you made investments. The credit cannot be carried back to a taxation year ending before September 25, 1998. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which you made investments.

You do not have to attach the certificate to the return. However, keep it in case we ask for it later.

To claim the credit, file completed Schedule 480, *Nunavut Investment Tax Credit*, with the return. For more details, see the schedule.

On line 735 of Schedule 5, enter the amount of credit you are claiming.

142 Line 760 – Net provincial and territorial tax payable

On line 760, enter the net amount of provincial or territorial tax (positive amount) calculated on line 255 of Schedule 5. If the amount on line 255 is negative, enter it on line 812 of the return.

143 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. This tax applies for taxation years ending after March 31, 1997, for New Brunswick, and for taxation years ending after March 31, 1997, and beginning before April 1, 2002, for Nova Scotia. The tax is prorated based on the number of days in the year, when the taxation year straddles one of those dates.

This tax does not apply to corporations mentioned in subsection 181.1(3) of the federal *Income Tax Act*. Also, it does not apply to financial institutions in New Brunswick and to banks, credits unions, or trusts and loan companies in Nova Scotia.

Instalment payment requirements are the same as for Part I tax. For details, see item 5.

The provincial capital tax cannot be reduced by any tax credits.

> **Note**
> A penalty applies to large corporations that have to pay this tax and do not file the required return on time. For more details, see item 6.

Nova Scotia tax on large corporations

A capital deduction of $5,000,000 is available to a corporation that is not a member of a related group and has taxable capital of less than $10,000,000. Where the corporation is a member of a related group, a capital deduction of $5,000,000 to be allocated among members of the related group is available provided the combined taxable capital of all members of the related group is less than $10,000,000.

Use Schedule 343, *Nova Scotia Tax on Large Corporations – Agreement Among Related Corporations*, to allocate the capital deduction. File this agreement with the return.

The provincial capital tax on Nova Scotia large corporations is 0.5% of taxable capital of a corporation if the Nova Scotia taxable capital of all related corporations is less than $10,000,000. If it is $10,000,000 or more, then all corporations in the group will be subject to a 0.25% rate.

Corporations that are liable to pay the Nova Scotia tax on large corporations have to file Schedule 342, *Nova Scotia Tax on Large Corporations*, with Schedule 33, 34, or 35.

On line 765, enter the provincial tax on large corporations payable. You can deduct the provincial tax on large corporations payable when calculating federal income for tax purposes.

> **Note**
> For taxation years ending in 2000 and subsequent, agreement schedule 343 need only be filed by one of the associated/related corporations for a calendar year; however if an agreement is not already on file with the Agency at the time we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will request one.

New Brunswick tax on large corporations

A capital deduction of $5,000,000 is available to corporations on taxable capital. 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 the return.

New Brunswick tax on large corporations is equal to 0.3% of taxable capital allocated to the Province of New Brunswick.

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*, and attach it to Schedule 33, *Part I.3 Tax on Large Corporations*.

On line 765, enter the provincial tax on large corporations payable. You can deduct the provincial tax on large corporations payable when calculating federal income for tax purposes.

> **Note**
> For taxation years ending in 2000 and subsequent, agreement schedule 362 need only be filed by one of the associated/related corporations for a calendar year; however if an agreement is not already on file with the Agency at the time we assess any of the returns for a taxation year ending in the calendar year of the agreement, we will request one.

"Other credits" area

144
Line 780 – Investment tax credit refund

On line 780, enter the amount of the investment tax credit refund. See item 118 for details.

145
Line 784 – Dividend refund

On line 784, enter the amount of the dividend refund, which you calculated in the "Dividend refund" box in page 6. See item 102 for details.

146
Line 788 – Federal capital gains refund

Investment corporations (see section 130) and **mutual fund corporations** (see section 131) have to provide 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 the lesser of:

- 21% 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;
- the refundable capital gains tax on hand at the end of the year.

> **Proposed legislation**
> The proposed change for the capital gains inclusion rate will affect the percentage for the calculation of the federal capital gains refund.
>
> The percentage of 21% will be reduced to 18.7% for taxation years ending after February 27, 2000, and before October 18, 2000, and to 14% for taxation years ending after October 17, 2000.

Complete the appropriate lines on Schedule 18, and enter on line 788 of the return the federal capital gains refund. See item 152 later in this chapter for 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

147
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 item 117 for more information.

148
Line 796 – Canadian film or video production tax credit refund

A fully refundable tax credit is available to qualified corporations that produce an admissible film or video production certified by the Minister of Canadian Heritage to be a Canadian film or video production.

The tax credit is equal to the lesser of the following amounts:

- 25% of qualified labour expenditures for the year for the production;
- 48% of production costs for the year net of assistance.

To claim the credit, file the following items on top of the return for the year:

- Canadian film or video production certificate (or a copy),
- if applicable, certificate of completion (or a copy), and a copy of the audited statement of production costs and notes provided to the Canadian Audio-Visual Certification Office (CAVCO); and
- a completed copy of Form T1131, *Claiming a Canadian Film or Video Production Tax Credit*, for each film or video production.

Enter on line 796, the amount of the credit from line 520 of Form T1131. If you are submitting more than one of these forms, add the amounts from line 520 of all the forms and enter the total on line 796.

Proposed legislation

It is proposed that qualified labour expenditures do not include an amount which is also claimed as an expenditure for SR&ED under section 37. This will apply for expenditures made after November 30, 1999.

It is proposed that we will refund all of part of a claim for a Canadian film or video production tax credit for a taxation year to a qualified corporation, prior to the issuance of the notice of assessment for that year. This will apply for 1999 and subsequent taxation years.

References
Section 125.4
Regulation 1106

149
Line 797 – Film or video production services tax credit refund

A fully refundable tax credit is available to eligible production corporation for a film or video production certified by the Minister of Canadian Heritage to be an accredited production.

The credit is equal to 11% of qualified Canadian labour expenditures for the year for the production net of any assistance.

To claim the credit, attach the following items on top of the return for the year:

- an accredited film or video production certificate (or a copy); and
- a completed copy of Form T1177, *Claiming a Film or Video Production Services Tax Credit*, for each accredited production.

Enter on line 797, the amount of the credit from line 520 of Form T1177. If you are filing more than one of these forms, add the amounts from line 520 of all the forms and enter the total on line 797.

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.

Proposed legislation

It is proposed that eligible corporations do not include those which are, at any time in the year, tax-exempt, controlled by one or more tax-exempt entities, or prescribed labour-sponsored venture capital corporations. This will apply after November 30, 1999.

It is proposed that we will refund all or part of a claim for a film or video production services tax credit for a taxation year to an eligible production corporation prior to the issuance of the notice of assessment for that year. This will apply for 1999 and subsequent taxation years.

References
Section 125.5
Regulation 9300

150
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 attach these information slips to the return, unless you are a non-resident corporation. However, keep them in case we ask for them later.

On lines 800 and 801, enter the amount of the refund you are claiming and 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-Resident Persons Performing Services in Canada*

151
Line 804 – Allowable refund for non-resident-owned investment corporations

A non-resident-owned investment corporation that is paying taxable dividends to its shareholders has to show how it calculated its claim for an allowable refund. Calculate a separate allowable refund for each taxable dividend the corporation paid during the year.

Identify this calculation as Schedule 26 in the top right-hand corner of the page. You have to clearly indicate the recipient of the dividend and the country of residence. We do not print this schedule. Be sure to give the corporation's non-resident remitter number on the schedule.

On line 804, enter the amount of the total allowable refund.

Note that pending legislation may affect the allowable refund.

Reference
Section 133

152
Line 808 – Provincial and territorial capital gains refund

Investment corporations (see section 130) and **mutual fund corporations** (see section 131) have to provide Schedule 18, *Federal and Provincial or Territorial Capital Gains Refund*, with the return, complete with information mentioned at item 146 above.

These corporations have to calculate the provincial and territorial capital gains refund, under provincial or territorial income tax acts.

Complete page 2 of Schedule 18, and enter the provincial and territorial capital gains refund on line 808.

Reference
Sections 130 and 131

153
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). For more information, see items 132 to 141.

154
Lines 815 and 816 – Royalties deductible and tax remitted under *Syncrude Remission Order*

The *Syncrude Remission Order* allows a deduction in computing income of amounts paid as royalties. However, this deduction is only allowable for federal income tax purposes. Enter the eligible amount at line 815.

Calculate the federal tax payable before *the Syncrude Remission Order* deduction (amount enter at line 815). Calculate the federal tax payable after the *Syncrude Remission Order* deduction. Enter the difference at line 816.

155
Line 840 – Tax instalments paid

The *Corporation Instalment Guide* gives you more details about how to make payments and how to calculate instalments.

Make all cheques or money orders payable to the Receiver General, and send them with Form RC98, *Business Remittance Voucher – Interim Payments.*

If you do not have a remittance form, use the copy of Form RC100, *Business Remittance Voucher – Interim Payments*, that we have provided at the end of the *Corporation Instalment Guide.* Be sure to include the corporation's name, address, and Business Number on the form. Also, be sure to enter the taxation year-end and the payment amount in the correct boxes.

Remember to review every statement of account you receive from us to make sure that we have applied your instalment payments to the correct taxation year. If we did not allocate a payment correctly, contact your tax centre immediately.

On line 840, report all of the instalment payments you made for the taxation year. Keep in mind that, 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 taxation year being assessed when we process the return.

> **Note**
> In addition to the interest that you have to pay for late or deficient instalment payments, a penalty may apply on the interest payable. See the *Corporation Instalment Guide* for more details.

References
Sections 157 and 163.1

"Payment or refund" area

156
Line 894 – Refund code

If entitled to a refund, enter one of the following codes at 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.

> **Note**
> Keep in mind that 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.

If you enter **1** or do not enter a code, we will send you a cheque for the amount of the overpayment.

If you enter **2**, we will transfer the overpayment to the next year's instalment account, as well as any refund interest that has accumulated from the assessment date.

If you enter **3,** we will apply the overpayment to other tax liabilities (e.g., an expected debit from a reassessment), or to a different account. Attach a letter to the return providing instructions.

157
Line 896

Tick the appropriate box. For details, see item 5.

158
Line 898 – Enclosed payment

On line 898, enter the amount of any payment you are sending with the return. 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, and attach it to the return.

Note
If you or your representative do not have a bank account at a financial institution in Canada, you or your representative 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.

159
Balance unpaid or overpayment

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.

"Direct Deposit Request" box

160
Lines 910 to 918

Direct deposit has replaced cheques as the federal government's standard method of issuing payments. It has a number of advantages over the traditional method of payment. It offers a safe, convenient, dependable, and time-saving way of receiving payments, and saves our Government money through reduced fees and postage.

You can have the corporation's refund deposited directly into the corporation's account at a financial institution.

To **start** direct deposit, or to **change** information you already provided to us, complete the "Direct Deposit Request" at the bottom of page 8. You don't have to complete this area if you already have direct deposit service and the information you previously provided hasn't changed.

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 we cannot deposit a payment into a designated account, we will mail a cheque to you at the address we have on file.

You can also use Form T2-DD, *Direct Deposit Request Form for Corporations.*

"Certification" box

161
Lines 950 to 959

Lines 950 to 956 – Complete those lines by providing 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, please provide the full name and surname along with the telephone number of a contact person. This contact person will be responsible for answering queries related to this return.

"Language of correspondence" box

162
Line 990

Please indicate in which official language you would like to receive your correspondence.

Appendices

List of federal and provincial corporate schedules

The Canada Customs and Revenue Agency prints the following schedules, which are available at your tax services office or tax centre.

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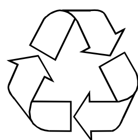

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