Canada Revenue Agency | Agence du revenu du Canada

# T2 Corporation – Income Tax Guide

# 2010

T4012(E) Rev. 11

Canada

## Is this guide for you?

In this guide, we give you basic information on how to complete the *T2 Corporation Income Tax Return*. This return is used to calculate federal income tax and credits. Corporations that have a permanent establishment in any province or territory other than Quebec or Alberta also use this return to report provincial and/or territorial income taxes and credits. Corporations with a permanent establishment in Quebec or Alberta must file a separate provincial return.

If you have a visual impairment, you can get our publications in braille, large print, or etext (CD or diskette), or MP3 by going to **www.cra.gc.ca/alternate** or by calling **1-800-959-2221**.

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

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

La version française de cette publication est intitulée T4012, *Guide T2 – Déclaration de revenus des sociétés*.

# What's new?

## Fall update

Nova Scotia issued a press release on December 6, 2010, announcing changes to the residency requirements for the Nova Scotia film industry tax credit and the Nova Scotia digital media tax credit, as well as removal of the total production cap for the Nova Scotia Film Industry Tax Credit. Changes are to be effective for productions starting on or after December 1, 2010.

## My Business Account

You can now use the Instalment payment calculator service to calculate your instalment payments and view their due dates.

To learn more about the growing list of services available in My Business Account, go to **www.cra.gc.ca/mybusinessaccount**.

## 2010 federal, provincial, and territorial budgets

New items such as changes introduced in the 2010 federal and various provincial/territorial budgets are outlined in colour in this guide. This guide may contain changes that had not yet become law at the time of printing.

## Interest on overpaid taxes

Effective July 1, 2010, the prescribed rate of interest for amounts owing to corporations is equal to the average yield of three-month Government of Canada Treasury Bill sold in the first month of the preceding quarter, rounded up to the nearest percentage point. For periods before to July 1, 2010, the prescribed rate of interest for amounts owing to corporations included an additional two percentage points.

## Online notices

The *Income Tax Act*, *Excise Tax Act*, *Excise Act, 2001*, *Air Travellers Security Charge Act*, Canada Pension Plan, and *Employment Insurance Act* are amended to allow notices to be issued electronically when authorized by the taxpayer. Taxpayers will be notified by email when a new electronic notice is available on My Business Account. This does not apply to notices that are specifically required to be served personally or by registered or certified mail. The CRA will announce the phase-in of this service.

## Refunds under Regulation 105 and section 116

For applications for refunds in income tax returns filed after March 4, 2010, the refund of overpayment of tax is permitted if the overpayment relates to the assessment of a payer or a purchaser for a required withholding under Regulation 105 or section 116, respectively, and the non-resident taxpayer files the return no more than two years after the date of that assessment.

## Section 116 and taxable Canadian property (TCP)

In determining whether a property is a TCP of a taxpayer after March 4, 2010, the definition of taxable Canadian property was amended to exclude shares of corporations, and certain other interests, that do not derive their value principally from real or immovable property situated in Canada (including Canadian resource property and timber resource property). See page 7.

## Information reporting of tax avoidance transactions

The Department of Finance has released a draft legislative proposal to implement a new reporting requirement for certain tax avoidance transactions. See page 13.

## Foreign investment entities

The 2010 federal budget announced that the outstanding proposal regarding the foreign investment entities will be replaced. The new measure will apply for tax years that end after March 4, 2010, but the existing provision continues to apply. Certain special rules will apply for taxpayers who have complied with the outstanding proposals. See page 27.

## International financial reporting standards (IFRS)

The Canadian Accounting Standards Board (AcSB) is adopting IFRS for all publicly accountable enterprises effective January 1, 2011. See page 30. To determine if a corporation has to use the IFRS, go to **www.cica.ca/ifrs** and **www.acsbcanada.org/strategic-planning/publicly-accountable/index.aspx**.

For additional information relating to your income tax return and IFRS, go to **www.cra.gc.ca/tx/bsnss/tpcs/frs/menu-eng.html**.

## Capital cost allowance (CCA)

Satellite and cable set-top boxes acquired after March 4, 2010, and that have not been used before March 5, 2010, are included in Class 30 and eligible for a new 40% declining balance CCA rate. Previously, satellite boxes were included in Class 8 and were eligible for a 20% declining balance, and cable boxes were included in Class 10 and eligible for a 30% declining balance.

Accelerated CCA for Clean Energy Generation – For heat recovery equipment (Class 43.2), restrictions that require the recovered heat to be reused in a process of the same type that generated it has been removed. Specified distribution equipment that is part of a district energy system used by the taxpayer to provide district heating or cooling through the use of thermal energy (Class 43.1 and 43.2) is eligible for the current 30% or 50% respective declining balance rate. Both changes apply to eligible assets acquired after March 3, 2010. See page 36.

## Canadian renewable and conservation expenses – Principal-business corporations

For tax years ending after 2004, the definition of "principal-business corporation" is amended to include corporations whose principal business is producing fuel, or generating energy, or distributing energy using Class 43.1 of Class 43.2 property.

The amendments clarifies that flow-through share eligibility extends to investors in such corporations for the transfer of Canadian renewable and conservation expenses.

## Newfoundland and Labrador small business income tax rate

Effective for tax years beginning on or after April 1, 2010, the small business income tax rate is reduced from 5% to 4%. See page 76.

## Nova Scotia small business income tax rate

Effective January 1, 2011, the small business income tax rate will be reduced from 5% to 4.5%. This rate will be pro-rated for tax years that straddle January 1, 2011. See page 79.

## New Brunswick film tax credit

The credit is extended to eligible salaries incurred before January 1, 2020. Effective January 1, 2010, an additional 10% regional bonus is available for eligible productions that take place more than 50 kilometers from Moncton, Fredericton, or Saint John. See page 82.

## Manitoba research and development tax credit

The refundable credit will not be limited to the R&D carried on under contract with a research institute in Manitoba. For in-house R&D expenditures incurred after 2010, 25% of the tax credit amount will be refundable; for expenditures incurred after 2011, 50% of the tax credit amount will be refundable. See page 93.

## Manitoba co-op education and apprenticeship tax credit

Beginning in 2011, this credit will be expanded to include employers who hire high-school and post-secondary level 1 and 2 apprentices who are not eligible for the federal apprenticeship job creation tax credit. See page 94.

## Manitoba community enterprise investment tax credit

This credit is extended to December 31, 2013, and renamed the "small business venture capital tax credit." See page 95.

## Manitoba cooperative development tax credit

A new tax credit is introduced for cooperatives that make financial contributions after September 2010 and before 2021 toward cooperative development in Manitoba. See page 96.

## Manitoba interactive digital media tax credit

This credit is extended to December 31, 2013. Effective for certificates of eligibility and tax credit certificates issued after March 23, 2010, tax credit certificates can be issued on a tax-year basis instead of at the end of a project, and repaid or repayable government assistance will no longer reduce eligible labour expenditures. See page 96.

## Manitoba film and video production tax credit

This credit is extended to February 28, 2014. For productions that start principal photography after March 2010, corporations will be able to elect to claim either the maximum 65% tax credit based on eligible labour costs, or a new 30% tax credit based on production costs incurred and paid for labour, goods and services provided in Manitoba that are directly attributable to the production of an eligible film. Effective March 24, 2010, corporations may file a waiver to extend the application deadline for a Certificate of Completion with the Manitoba certifying authority by 18 months. See page 97.

## British Columbia film and television tax credit

The qualified British Columbia labour expenditures cap is increased to 60% from 48% of production costs. The digital animation or visual effects tax credit is increased to 17.5% from 15%. These changes are effective for productions with principal photography that begins after February 28, 2010. See page 101.

## British Columbia production services tax credit

This credit, available for both domestic and foreign productions, is increased to 33% from 25%. The digital animation or visual effects production services tax credit is increased to 17.5% from 15%. These changes are effective for productions with principal photography that begins after February 28, 2010. See page 102.

## British Columbia training tax credit

Effective June 3, 2010, the enhanced tax credit rate for the Red Seal apprenticeship program is reduced to 5.5% from 15%. See page 104.

## British Columbia interactive digital media tax credit

A refundable interactive digital media tax credit of 17.5% was introduced. The credit is effective for eligible salaries and wages (net of designated assistance) incurred after August 31, 2010. See page 105.

## Yukon

Effective January 1, 2011, the Yukon business limit to which the lower income tax rate applies is increased to $500,000. This amount is pro-rated for tax years that straddle January 1, 2011. See page 105.

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## References in this guide

When we mention parts, sections, subsections, paragraphs, and subparagraphs in this guide, we are referring to the *Income Tax Act and Regulations* of Canada, unless otherwise specified. This guide does not replace the *Income Tax Act* and its regulations.

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

Many of our publications, including forms, schedules, ICs, and ITs, are available on our Web site at **www.cra.gc.ca/forms**. A table at the end of this guide lists the forms by number.

## AgriStability and AgriInvest programs

The CRA is not involved in administering the Agristability and AgriInvest programs for corporations. For more information on these programs, go to **www.agr.gc.ca/agristability** and **www.agr.gc.ca/agriinvest**.

## Our service pledge

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

## Who has to file a T2 return?

### Resident corporations

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

### Non-resident corporations

A non-resident corporation has to file a T2 return if, at any time in the year, one of the following situations applies:

- it carried on business in Canada;
- it had a taxable capital gain; or
- it disposed of taxable Canadian property, unless a disposition that takes place after 2008 meets all the criteria listed below.

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

The meaning of "business" is defined in subsection 248(1) and the extended meaning of "carrying on business [in Canada]" is defined in section 253.

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

For dispositions that take place after 2008, a non-resident corporation **will not** have to file a T2 return if all of the following criteria apply:

- no tax is payable under Part I for the tax year;
- the corporation is not liable to pay any amount under the Act for any previous tax year (other than an amount covered by adequate security under section 116 or 220); and
- each taxable Canadian property disposed of in the tax year is:
  - excluded property under section 116; or
  - property for which a certificate was issued under section 116.

Effective after March 4, 2010, the definition of taxable Canadian property was amended to exclude shares of corporations, and certain other interests, that, during the 60-month period ending at the time of determination, do not derive their value principally from real or immovable property situated in Canada (including Canadian resource property and timber resource property).

A non-resident corporation also has to file a T2 return in a number of situations, including:

- when it has filed Form NR6, *Undertaking to File an Income Tax Return by a Non-Resident Receiving Rent from Real Property or Receiving a Timber Royalty*, to pay Part I tax on the net amount of timber royalty income or rental income from real property under subsection 216(1) for the current year and we approved it; or
- when it has filed Form T1288, *Application by a Non-Resident of Canada (Corporation) for a Reduction in the Amount of Non-Resident Tax Required to Be Withheld on Income Earned from Acting in a Film or Video Production*, to pay Part I tax on the net amount of acting services under subsection 216.1(1) for the current year and we approved it.

Even if neither of these requirements applies, a non-resident corporation may still want to file a return if any of the following situations apply:

- when it wants to claim a refund;
- when it wants to elect to pay Part I tax on the net amount of timber royalty income or rental income from real property under subsection 216(1) for the current year; or
- when it wants to elect to pay Part I tax on the net amount of acting services under subsection 216.1(1) for the current year.

**Note**
Non-resident corporations must file their T2 return, schedules, and the GIFI in Canadian funds only. They are not eligible to file in a functional currency per section 261.

### Non-resident corporations claiming treaty exemption

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

- lines 001 to 082 of page 1;
- lines 164, 170, and 171 of page 2;
- lines 270 to 289 of page 3; and
- lines 780 to 990, if applicable, of page 8.

For each of the questions asked at lines 164, 170, and 171 on page 2 of the return to which your response is **yes**, complete the appropriate form or schedule and attach it to your return. In addition, you have to complete Schedule 91, *Information Concerning Claims for Treaty-Based Exemptions*.

### Services rendered in Canada (withholding amount)

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

A corporation related to a non-resident actor is subject to a 23% withholding tax under Part XIII on all amounts it receives for the acting services of the actor in a film or video production in Canada. This withholding tax represents the final tax liability for these acting services. The corporation may elect not to be taxed under Part XIII at the 23% rate by filing a return of income under Part I for the year. A non-resident corporation that has received a waiver of this withholding tax from the CRA still has to file a return.

### Dispositions of taxable Canadian property (certificates of compliance)

A non-resident corporation that disposes of taxable Canadian property must notify the CRA and get a certificate of compliance under section 116. For details, see Information Circular IC72-17, *Procedures Concerning the Disposition of Taxable Canadian Property by Non-residents of Canada – Section 116*.

A non-resident corporation that has a taxable capital gain or disposed of taxable Canadian property, including a corporation that may have received a certificate of compliance from the CRA, has to file a return, unless a disposition that takes place after 2008 meets all the criteria listed previously under "Non-resident corporation" on page 7.

# How do you file your return?

## Using tax preparation software

If you are preparing your return using tax preparation software, you must use CRA-certified software. We certify commercial software to ensure that it meets our specifications. You can then file your return electronically using CRA's Corporation Internet Filing service or My Business Account or you can print the *T2 Bar Code Return* and mail or deliver it to the CRA.

### Mandatory Internet filing

For tax years ending after 2009, all corporations with annual gross revenue of more than $1 million will have to Internet file their T2 return, except for insurance corporations, non-resident corporations, corporations reporting in functional currency and corporations that are exempt from tax payable under section 149 of the *Income Tax Act*. Businesses can use CRA's Corporation Internet Filing service; or, file through CRA's My Business Account without a Web access code at **www.cra.gc.ca/mybusinessaccount**.

### Corporation Internet Filing

Most corporations can file their return electronically using the Internet. You must use CRA-approved software that has been certified for Corporation Internet Filing. By filing electronically, you will receive immediate confirmation that the CRA has received your return, enjoy faster processing and refunds, save on mailing costs, and help the environment by reducing paper consumption.

The Corporation Internet Filing service was expanded in October 2008 to allow eligible non-resident corporations to electronically file their corporation tax returns for the 2006 and later tax years. Corporations claiming an exemption under an income tax treaty and corporations that earn income from a business carried on in Canada through a branch office are eligible.

In October 2009, the Corporation Internet Filing service was also expanded to corporations claiming an SR&ED amount.

If you have to file a certificate or an election form with your return and you are filing your T2 return electronically, send the document(s) to your tax centre (see “Where to file your paper return” on page 10). Clearly identify your corporation's name, business number, and the applicable tax year-end on the documents. If you are filing an election that does not have a prescribed form, include it with the notes to your financial statements on the *General Index of Financial Information* (GIFI) to transmit the election electronically with your return, unless otherwise specified on a T2-related form.

For information on your eligibility, available software, and more, go to **www.cra.gc.ca/corporation-internet**.

### 2D Bar Code

CRA-certified software produces two-dimensional (2D) bar codes that contain the identification information and financial data needed to assess your return. We use bar code scanners to capture the information on our processing systems.

Since the spring of 2009, the newest versions of CRA-certified software produce a *T2 Bar Code Return* that contains the corporation's identification information, a summary of the financial data, bar codes, and a certification area. CRA software no longer produces the *T2 Return and Schedule Information* (T2 RSI).

> **Note**
> If you file a return for a tax year ending before May 1, 2009, the software you use may still produce a T2 RSI. Please only send the page(s) containing the bar codes.

The paper quality and print legibility of your *T2 Bar Code Return* have to meet our standards and must be printed on one side only. Use paper that is as durable as the 32M paper we use to print our forms. The print quality has to be clear and dark enough to read and photocopy easily.

If the *T2 Bar Code Return* you file was not generated by software that we certified or does not meet our requirements, we will contact you to re-file the return, either in an approved format or using our preprinted forms.

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

## Using our preprinted returns

We print two different returns.

***T2 Corporation Income Tax Return***
The *T2 Corporation Income Tax Return* has eight pages. Any corporation can use it.

***T2 Short Return***
The *T2 Short Return* is two pages plus a Schedule 1, *Net Income (Loss) for Income Tax Purposes*, a Schedule 8, *Capital Cost Allowance (CCA)*, and a Schedule 50, *Shareholder Information*. It is a simpler version of the *T2 Corporation Income Tax Return*. Two categories of corporations are eligible to use this return:

1. You can use this return if the corporation meets **all** of the following conditions:
   - it is a Canadian-controlled private corporation (CCPC) throughout the tax year;
   - this year, it has either a nil net income or a loss for income tax purposes;

- it has a permanent establishment in only one province or territory (see page 73);
- it is not claiming any refundable tax credits (other than a refund of instalments it paid);
- it did not receive or pay out any taxable dividends;
- it is reporting in Canadian currency; and
- it does not have an Ontario transitional tax debit.

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

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

### Using facsimile returns

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

**Reference**
IC97-2, *Customized Forms*

## When do you have to file your return?

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

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

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

**Examples**

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

When the T2 filing deadline falls on a Saturday, Sunday, or statutory holiday, we will consider the return filed on time if we receive it on the first business day after the filing deadline. You must file your return on time. If you do not, we can charge penalties on any returns we have not received by the filing due date. See page 11 for details.

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

## Where do you file your paper return?

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

### Resident corporations

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

| Corporations served by tax services offices in: | Tax centre |
|---|---|
| British Columbia, Yukon, Regina | Surrey Tax Centre<br>9755 King George Boulevard<br>Surrey BC V3T 5E1 |
| Alberta, Manitoba, Northwest Territories, Saskatoon, London, Windsor, and Thunder Bay | Winnipeg Tax Centre<br>66 Stapon Road<br>Winnipeg MB R3C 3M2 |
| Sudbury/Nickel Belt, Toronto Centre, Toronto East, Toronto West, Toronto North, and Barrie | Tax Services Office/Sudbury Tax Centre<br>1050 Notre Dame Avenue<br>Sudbury ON P3A 5C1 |
| Montréal, Laval, Ottawa, Sherbrooke, Rouyn-Noranda, North-Eastern Ontario, and Nunavut | Shawinigan Tax Centre<br>4695 12e Avenue<br>Shawinigan-Sud QC<br>G9N 7S6 |
| Québec, Chicoutimi, Rimouski, Trois-Rivières, Outaouais, and Montérégie-Rive-Sud | Jonquière Tax Centre<br>2251 René-Lévesque Boulevard<br>Jonquière QC G7S 5J1 |
| Nova Scotia, New Brunswick, Newfoundland and Labrador, Kingston, Peterborough, and St. Catharines | St. John's Tax Centre<br>290 Empire Avenue<br>St. John's NL A1B 3Z1 |
| Prince Edward Island, Belleville, Hamilton, and Kitchener/Waterloo | Summerside Tax Centre<br>275 Pope Road<br>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, go to **www.cra.gc.ca/tx/nnrsdnts/bsnss** or call the International Tax Services Office at one of the following telephone numbers:

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

Fax number .......................................................... 613-952-3845

*We accept collect calls.

## Film and television production industry

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

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

# When and how do corporations pay income tax?

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

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

Interest and penalties apply to late payments. To be on time, you have to make instalment payments and other payments on or before the due date either by mailing a cheque payable to the Receiver General for Canada, or by paying directly through a Canadian financial institution. You may be able to make arrangements with your financial institution to make your payments electronically. Go to **www.cra.gc.ca/electronicpayments** or contact your financial institution for more information.

We consider the payment to have been made on the day we receive it, and not on the day you mail it.

Your payment due date may fall on a Saturday, Sunday, or a statutory holiday. If so, we will consider the payment as being received on time for calculating instalment interest and penalty if we receive the payment on the first business day after the due date.

> **Note**
> Sometimes, interest and penalties on late payments can be waived or cancelled. For more information, see "Waiving penalties and interest" on page 13.

## Instalment due dates

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

Eligible small-CCPCs can make quarterly instalment payments, instead of monthly ones. For more information, see Guide T7B-Corp, *Corporation Instalment Guide*.

You can view your instalment due dates, by using the Instalment payment calculator service in My Business Account. For information, go to **www.cra.gc.ca/mybusinessaccount**.

## Balance due date

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

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

The business limits are provided at "Line 410 – Business limit" on page 54. For more information about allocating the business limit among associated corporations, see Schedule 23 on page 24.

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

Special rules apply to determine the **balance due date** of a new corporation formed after an amalgamation or of a parent corporation after it receives the assets of a subsidiary corporation that is winding-up. For more information, go to **www.cra.gc.ca/tx/bsnss/tpcs/crprtns/pymnts** or see Guide T7B-Corp, *Corporation Instalment Guide*.

**References**
Sections 125 and 157

# Penalties

## What happens if you file your return late?

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

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

**References**
Subsections 162(1) and 162(2)

### Non-resident corporations

A non-resident corporation will be subject to a failure to file penalty equal to the greater of:

- $100; and

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

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

**Reference**
Subsection 162(2.1)

### Large corporations

A large corporation has to file the *T2 Corporation Income Tax Return* and, if applicable, a Schedule 38, *Part VI Tax on Capital of Financial Institutions.* If a corporation fails to file these returns, a penalty will be charged for each complete month that the returns are late, up to a maximum of 40 months. The penalty will be calculated as follows:

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

A corporation has to identify itself as a large corporation by answering **yes** to the question at line 233 on page 2 of the return.

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

To determine if the total taxable capital employed in Canada of the corporation and its related corporations is greater than $10,000,000 you can use whichever one of the following schedules that applies:

- Schedule 33, *Taxable Capital Employed in Canada – Large Corporations*;
- Schedule 34, *Taxable Capital Employed in Canada – Financial Institutions*; or
- Schedule 35, *Taxable Capital Employed in Canada – Large Insurance Corporations*.

A corporation with a permanent establishment in either Nova Scotia or New Brunswick that is a large corporation, as defined under provincial legislation, has to file either Schedule 342, *Nova Scotia Tax on Large Corporations* or Schedule 361, *New Brunswick Tax on Large Corporations*. See "Nova Scotia tax on large corporations" on page 79 or "New Brunswick tax on large corporations" on page 81.

A corporation with a permanent establishment in Ontario that is a financial institution, as defined under provincial legislation, has to file Schedule 514, *Ontario Capital Tax on Financial Institutions*. If the corporation is not a financial institution, it has to file Schedule 515, *Ontario Capital Tax on Other Than Financial Institutions*. See "Ontario capital tax" on page 85.

A corporation with a permanent establishment in Newfoundland and Labrador that is a financial institution, as defined under provincial legislation, has to file Schedule 305, *Newfoundland and Labrador Capital Tax on Financial Institutions*. See "Newfoundland and Labrador capital tax on financial institutions" on page 76.

**Reference**
Section 235

## What happens if you do not report income?

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

**Reference**
Subsection 163(1)

## False statements or omissions

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

**Reference**
Subsection 163(2)

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

## Misrepresentation in tax matters by a third party

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

**References**
IC01-1, *Third-Party Civil Penalties*
Section 163.2

## Other penalties

A corporation can also be charged penalties for late or incomplete instalment payments and for not providing information on an authorized or prescribed form. The most common forms are:

- Form T106, *Information Return of Non-Arm's Length Transactions With Non-Residents* (see page 27);
- T5013 Summary, *Information Return of Partnership Income* (see page 26);
- T5018 Summary, *Summary of Contract Payments*; and
- Form T1134-A, *Information Return Relating to Foreign Affiliates that are not Controlled Foreign Affiliates,* Form T1134-B, *Information Return Relating to Controlled Foreign Affiliates,* Form T1135, *Foreign Income Verification Statement,* Form T1141, *Information Return in Respect of Transfers or Loans to a Non-Resident Trust,* and Form T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-Resident Trust* (see "Foreign Property" on page 27).

**References**
Sections 162 and 163.1

## Waiving penalties and interest

Sometimes, failure to file penalties or interest charges may be waived if the reason for filing late or not paying an amount when it is due is beyond the taxpayer's control.

The types of situations in which a penalty or interest charge may be waived include:

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

If your corporation is in one of these situations, let us know about the problem and try to file your return and pay any amount of tax owing as soon as possible. If you need an extension for filing a return because of extraordinary circumstances, or if you think there is a valid reason for cancelling a penalty or interest charge, complete Form RC4288, *Request for Taxpayer Relief*, or send us a letter explaining why it was impossible for you to file your return or make the payment on time.

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

For more information about the taxpayer relief provisions and taxpayers' rights, go to **www.cra.gc.ca/fairness**.

**References**
Subsection 220(3.1)
IC07-1, *Taxpayer Relief Provisions*

## Voluntary Disclosures Program

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

For more details get Information Circular IC00-1, *Voluntary Disclosures Program*, or call the Voluntary Disclosures officer in the Enforcement Division of your tax services office. If you wish, you can discuss your situation first on a no-name or hypothetical basis.

For more information about the Voluntary Disclosures Program, go to **www.cra.gc.ca/voluntarydisclosures**.

# Information reporting of tax avoidance transactions

The Department of Finance has released a draft legislative proposal to implement a new reporting requirement for certain tax avoidance transactions.

Taxpayers, advisors and promoters who engage in certain tax avoidance transactions will be subject to the reporting requirements.

The new measures will apply to avoidance transactions entered into after 2010, as well as avoidance transactions that are part of a series of transactions that started before 2011 and was completed after 2010.

A transaction will be reportable if it is an avoidance transaction as defined in subsection 245(3) of the *Income Tax Act* for purposes of the general anti-avoidance rule (GAAR).

In general, an avoidance transaction is a transaction that, but for the GAAR, results in a tax benefit, either by itself or as part of a series of transactions, unless the transaction may reasonably be considered to have been undertaken or arranged primarily in good faith for purposes other than to obtain the tax benefit. The existing definition of tax benefit for the purposes of the GAAR in the *Income Tax Act* applies to these proposals.

An avoidance transaction is reportable if it had at least two of the following three characteristics:

- the promoter or advisor has or had an entitlement to certain types of fee;
- the promoter or advisor has or had confidential protection with respect to the transaction; and/or
- the taxpayer or the promoter or advisor who entered into the transaction for the benefit of the taxpayer has or had obtained a contractual protection for the transaction (otherwise than as a result of a certain types of fee).

A reportable transaction does not include a transaction that is, or is part of a series of transactions that includes the acquisition of a tax shelter or issuance of a flow-through share for which an information return has been filed with the Minister under subsections 237.1(7) or 66(12.68).

Information return RC312, *Reportable Transaction Information Return*, when available, will have to be filed on or before June 30 of the calendar year following the calendar year in which the transaction first became a reportable transaction for the person. If the filing of the information return is required before July 1, 2011, the information return is deemed to be filed before that day if it is filed before 2012.

Failure to report could result in suspension of the tax benefit and a penalty for failure to report.

# What happens after you have filed your return?

After we receive your return, we send it to Corporation Services of the responsible tax centre for processing. A list of the tax centres can be found on page 10.

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

## Authorizing representatives and employees

You can authorize representatives, including your employees, to:

- access and make changes to your business accounts; or
- access your business accounts information only.

### Authorizing online access

You can authorize online access to your business accounts by:

- using the Authorize or manage representatives service in My Business Account at **www.cra.gc.ca/mybusinessaccount**, to give your representatives **immediate** access; or,
- sending a completed Form RC59, *Business Consent Form*, available in Forms and Publications at **www.cra.gc.ca/forms**.

Your representative must be registered with Represent a Client at **www.cra.gc.ca/representatives**, and provide you with their representative identifier, group identifier, or their Business Number, so that you can give them online access to your business accounts.

By authorizing online access, you give representatives consent:

- for all tax years; and
- to represent you through the Represent a Client service, over the phone, in writing, and in person.

### Authorizing access by phone, in writing, and in person

By authorizing representatives via Form RC59, you have the option to give consent:

- for all tax years or a specific year; and
- over the phone, in writing, and in person only.

### Managing existing authorizations

Your consent will stay in effect until it reaches your chosen expiry date or until you cancel it by using My Business Account service or sending another completed Form RC59.

You can view a list of authorized representatives by using My Business Account.

# When can we reassess your return?

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

## Normal reassessment period

We can usually reassess a return for a tax year:

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

## Extended reassessment period

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

- if you want to carry back a loss or credit from a later tax year;
- when a non-arm's length transaction involving the corporation and a non-resident affects the corporation's tax;
- if the corporation pays an amount or receives a refund of foreign income or profits tax;
- when a reassessment of another taxpayer's tax for any of the above reasons affects the corporation's tax;
- if a reassessment of another tax year (it must be a prior tax year if the reassessment relates to a loss or credit carryback) for any of the above reasons affects the corporation's tax;
- if the reassessment results from a non-resident corporation's allocation of revenue or expenses for the Canadian business or from a notional transaction, such as "branch advance," between the non-resident corporation and its Canadian business; or
- to give effect to the application of the non-resident trust rules in section 94 or to the application of the foreign investment rules under sections 94.1 and 94.2 for tax years that end after March 4, 2010, as proposed in the March 4, 2010 budget.

If the reassessment results from a provincial income reallocation, the normal reassessment period can be extended for one year from the later of:

- the day on which the CRA is advised of the provincial reassessment; and
- 90 days after the notice of the provincial reassessment was mailed.

## 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 or Extended Reassessment Period,* with a tax services office before the normal reassessment period expires. The time during which a waiver can be filed is extended an additional three years after the end of the normal reassessment period, if the waiver applies to one of the situations previously described under "Extended reassessment period";
- the reassessment is to carry back losses or certain tax credits and deductions where a prescribed form requesting the amendment has been filed on time; or
- a court instructs us to reassess.

**Note**
If you want to revoke a waiver that was previously filed to extend the normal reassessment period for a certain tax year, file Form T652, *Notice of Revocation of Waiver*, at your tax services office. The revocation will take effect six months after you file Form T652.

**References**
Subsections 152(3.1), 152(4), and 152(4.1)
IC75-7, *Reassessment of a Return of Income*

### How to request a reassessment

Send a letter to the tax centre that serves the corporation. In your request, state the name of the corporation, the Business Number, the tax year, and any details that apply. With your letter, include any relevant supporting information, such as revised financial statements and schedules. Do not send the entire T2 return or the bar code sheet(s). The CRA cannot currently capture the amended information in bar code format.

To ask to carry back a loss or tax credit to a prior tax year, file whichever of the following schedules apply:

- Schedule 4, *Corporation Loss Continuity and Application*, to ask to carry back a loss;
- Schedule 21, *Federal and Provincial or Territorial Foreign Income Tax Credits and Federal Logging Tax Credit*, to ask to carry back foreign tax credits on business income;
- Schedule 31, *Investment Tax Credit – Corporations*, to ask to carry back an investment tax credit;
- Schedule 37, *Calculation of Unused Surtax Credit*, to ask to carry back the surtax credit; and
- Schedule 42, *Calculation of Unused Part I Tax Credit*, to ask to carry back a Part I tax credit.

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

**Reference**
Subsection 152(6)

## What should you do if you disagree?

You can make a formal objection if you disagree with the amount of tax, interest, or penalties we have assessed or reassessed. You have **90 days** from the date of the assessment or reassessment to file the objection. You can make an objection:

- by using the Register a formal dispute service in My Business Account at **www.cra.gc.ca/mybusinessaccount**;
- 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.

You must explain the reasons for the objection, and outline all the relevant facts.

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

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

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

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

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

**Reference**
Section 165

A large corporation that objects to an assessment will have to pay **50%** of the disputed amount. A corporation is a large corporation if the total taxable capital employed in Canada at the end of the tax year by the corporation and its related corporations is over $10 million. The corporation also has to pay the full amount of taxes not in dispute.

**Reference**
Subsection 225.1(7)

### Appealing loss determinations

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

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

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

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

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

**References**
Subsections 152(1.1) and 152(1.2)
IT-512, *Determination and Redetermination of Losses*

## Keeping records

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

For more information, go to **www.cra.gc.ca/records**.

**References**
Subsections 230(4), 230(4.1), 230(5), and 230(6)
Regulation 5800
IC78-10, *Books and Records Retention/Destruction*
RC4409, *Keeping Records*

# Chapter 1 – Page 1 of the T2 return


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## Identification

Accurately complete page 1 of your return, so we can properly identify the corporation and process the return more quickly. You cannot use the Corporation Internet Filing service to change the corporation's head office address or mailing address.

For information on changing the head office address or mailing address, contact Business Enquiries in your tax services office at **1-800-959-5525**.

## Line 001 – Business Number (BN)

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

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

> **Note**
> If you are a non-resident corporation requiring a BN, see Guide RC2, *The Business Number and Your Canada Revenue Agency Program Accounts*, on our Web site at **www.cra.gc.ca/forms**.

## Line 002 – Corporation's name

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

## Lines 010 to 018 – Address of head office

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

If you answer **no**, **do not complete** lines 011 to 018.

### Lines 011 to 018

Enter the new head office address of the corporation, including the street number, street, city, province/territory/state, and postal code or zip code in the appropriate area. Complete line 017, if it applies.

## Lines 020 to 028 – Mailing address

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

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

If you answer **no**, **do not complete** lines 021 to 028.

### Lines 021 to 028

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

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

## Lines 030 to 038 – Location of books and records

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

If you answer **no**, **do not complete** lines 031 to 038.

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

### Lines 031 to 038

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

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

### Line 040

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

**Reference**
IT-391, *Status of Corporations*

#### Box 1 – Canadian-controlled private corporation (CCPC)

The corporation is a CCPC if it meets **all** of the following requirements at the end of the tax year:

- it is a private corporation;
- it is a corporation that was resident in Canada and was either incorporated in Canada or resident in Canada from June 18, 1971, to the end of the tax year;
- it is not controlled directly or indirectly by one or more non-resident persons;
- it is not controlled directly or indirectly by one or more public corporations (other than a prescribed venture capital corporation, as defined in Regulation 6700);
- it is not controlled by a Canadian resident corporation that lists its shares on a designated stock exchange outside of Canada;
- it is not controlled directly or indirectly by any combination of persons described in the three previous conditions;
- if all of its shares that are owned by a non-resident person, by a public corporation (other than a prescribed venture capital corporation), or by a corporation with a class of shares listed on a designated stock exchange, were owned by one person, that person would not own sufficient shares to control the corporation; and
- no class of its shares of capital stock is listed on a designated stock exchange.

**References**
Subsections 89(1) and 125(7)
IT-458, *Canadian-Controlled Private Corporation*

#### Box 2 – Other private corporation

The corporation is an other private corporation if it meets **all** of the following requirements at the end of the tax year:

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

**References**
Subsection 89(1)
Regulations 6700 and 7100

#### Box 3 – Public corporation

The corporation is a public corporation if it is resident in Canada and meets **either** of the following requirements at the end of the tax year:

- it has a class of shares listed on a designated 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**
Subsections 89(1) and 248(1)
Regulations 4800(1) and 4800(2)

#### Box 4 – Corporation controlled by a public corporation

The corporation is a corporation controlled by a public corporation if it is a Canadian subsidiary of a public corporation. This type of corporation does not qualify as a public corporation for determining the type of corporation.

#### Box 5 – Other corporation

The corporation is an other corporation if it does not fall within the other categories. Examples of other corporations include general insurers and Crown corporations.

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

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

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

> **Note**
> If the corporation changed from, or to, a CCPC see line 066 on the following page. Do not complete line 043 if you answer **yes** at line 066, and you are filing a tax return with a deemed tax year-end because of subsection 249(3.1).

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

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

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

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

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

Make sure the financial statements or the *General Index of Financial Information (GIFI)* you attach to the return match the tax year of the return.

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

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

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

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

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

**References**
IT-364, *Commencement of Business Operations*
IT-454, *Business Transactions Prior to Incorporation*

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

If you answer **yes**, enter on **line 065** the date the control was acquired.

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

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

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

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

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

This deeming rule no longer applies when determining the status of a corporation as a small business corporation or a Canadian-controlled private corporation at the time of the transaction that caused the change of control.

For acquisitions of control that occur after 2005, the status of the corporation will not change until the actual time of the acquisition.

### Line 066 – Is the date on line 061 a deemed tax year-end in accordance with subsection 249(3.1)?

If at any time a corporation becomes or stops being a CCPC for any reason other than an acquisition of control, subsection 249(3.1) provides that the tax year of the corporation is deemed to end immediately before that change. You do not need the Minister's approval for the changed tax year.

File a return for the tax year that ends immediately before the change. The next tax year is deemed to start on the date that the corporation type changed, and the corporation can choose any tax year-end within the next 53 weeks.

If the change occurs up to seven days after the end of an established tax year and there has not been an acquisition of control and the corporation has not become or stopped being a CCPC, within those seven days the corporation can choose to extend the tax year up to the time the change occurred. In this case, attach a letter to your return that says you are making an election under paragraph 249(3.1)(c).

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

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

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

If you answer **yes**, you have to file Schedule 24, *First-Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

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

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

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

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

If you answer **yes**, you have to file Schedule 24, *First-Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

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

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

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

If you answer **yes**, you have to file Schedule 24, *First-Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent*, with your return. If you do not file Schedule 24, the processing of your return may be delayed.

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

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

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

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

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

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

You have to answer **yes** if you have already permanently dissolved your corporation with the incorporating authority and you are filing your final return for a tax year ending on the date of dissolution. You will find the date of dissolution on the articles of dissolution.

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

**Notes**
If you want to **dissolve** your corporation, you should send an application for dissolution to the government body that governs the affairs of your corporation.

Taxpayers wishing to dissolve an Ontario jurisdiction corporation should contact Business Enquiries and not the Ontario Ministry of Revenue.

Once the corporation has been dissolved, you should send us the **articles of dissolution**. Otherwise, we consider that the corporation still exists, and it will have to file a return even if there is no tax payable.

Once the corporation is dissolved, any refunds that the corporation would be entitled to revert to the Crown and cannot normally be issued to the corporation or its representatives unless the charter is reinstated.

**References**
Subsection 159(2)
IC82-6, *Clearance Certificate*

## Line 079 – If an election was made under section 261

If the return is not reported in Canadian currency, indicate the functional currency used.

For tax years that start on or after December 14, 2007, corporations **resident** in Canada throughout the tax year can elect to report in a functional currency, except for:

- investment corporations;
- mortgage investment corporations; and
- mutual fund corporations.

A functional currency is a currency of a country other than Canada that is:

- a qualifying currency (currently, the British pound, the euro, the Australian and the U.S. dollar); and
- the primary currency in which the taxpayer maintains its records and books of account for financial reporting purposes for the tax year.

To elect to report in a functional currency, file Form T1296, *Election, or Revocation of an Election, to Report in a Functional Currency*.

**Note**
Even if you elect to report in a functional currency, you still have to complete lines 840 and 898 in Canadian currency.

You cannot change functional currency. If you cease to qualify as a functional currency reporter, you must revert to determining your Canadian tax results in Canadian dollars. You cannot make the election again.

**Reference**
Section 261

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

If you answer **no**, give the country of residence on line 081 and file Schedule 97, *Additional Information on Non-resident Corporations in Canada*. Non-resident corporations have to mail their returns to the International Tax Services Office (ITSO). See page 10 for the address and telephone and fax numbers.

**Note**
Since October 2008, certain non-resident corporations can file electronically through Corporation Internet Filing and do not have to mail their returns to the ITSO.

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

If you answer **yes**, file Schedule 91, *Information Concerning Claims for Treaty-Based Exemptions.*

For more information about the filing obligations of non-resident corporations, see page 7.

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

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

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

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

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

- **Paragraph 149(1)(e)** exempts the following types of organizations, as long as no part of the income of these organizations was payable or otherwise available for the personal benefit of proprietors, members, or shareholders:
  - agricultural organizations;
  - boards of trade; and
  - chambers of commerce.
- **Paragraph 149(1)(l)** exempts a club, society, or association that is not a charity and that is organized and operated solely for:
  - social welfare;
  - civic improvement;
  - pleasure or recreation; or
  - any purpose other than profit.

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

You may have to file Form T1044, *Non-Profit Organization (NPO) Information Return*, if the organization meets the definition in paragraph 149(1)(e) or 149(1)(l) and if one of the following conditions applies:

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

If you have to file an information return for any tax year, you will have to file a return for all future tax years. Form T1044 has to be filed in the six months following the end of the tax year. See Guide T4117, *Income Tax Guide to the Non-Profit Organization (NPO) Information Return.*

**References**
Subsection 149(12)
T4117, *Income Tax Guide to the Non-Profit Organization (NPO) Information Return*
T1044, *Non-Profit Organization (NPO) Information Return*
IT-83, *Non-Profit Organizations – Taxation of Income From Property*
IT-496, *Non-profit Organizations*

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

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

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

#### Box 3 – Exempt under 149(1)(t)

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

#### Box 4 – Exempt under other paragraphs of section 149

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

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

# Chapter 2 – Page 2 of the T2 return

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## Attachments

Schedules can be organized into two categories:

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

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

On pages 2 and 3 of the return, we list the most common schedules you may have to attach to your return. If you respond **yes** to any of the questions on these pages, attach to your T2 return the schedule that applies.

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

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

> **Note**
> Certain non-resident corporations do not have to file using GIFI. For more information, see Guide RC4088, *General Index of Financial Information (GIFI) for Corporations.*

GIFI schedules include:

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

> **Note**
> Include any notes to the financial statements and the auditor or accountant's report, if they were prepared. You should include this information even if you are filing your return using tax preparation software. For more information, see "Using tax preparation software" on page 9.

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

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

Corporations that are inactive throughout the tax year and that do not have balance sheet or income statement information to report are no longer required to attach

schedules 100, 125, and 141 to their T2 return. However, they will be accepted if filed.

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

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

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

# Information schedules and forms

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

## Schedule 9, *Related and Associated Corporations*

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

**Reference**
Section 251

### When is a corporation associated?

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

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

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

#### Condition 1

The corporations are associated if one corporation controls the other.

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

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

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

#### Condition 2

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

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

CCPCs that are associated only because of this definition of a group will not be considered associated when:

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

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

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

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

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

#### Condition 3

The corporations are associated if:

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

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

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

#### Condition 4

The corporations are associated if:

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

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

AY Limited and AZ Inc. are associated.

**Condition 5**
The corporations are associated if:

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

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

One Co. and Two Co. are associated.

**Condition 6**
Two corporations that are not associated with each other will be considered associated under subsection 256(2) if they are associated with the same corporation (the third corporation). See Schedule 28, *Election not to be an Associated Corporation*, on page 25.

**References**
Subsections 256(1), 256(1.1), 256(5.1), and 256(2)
Section 251
IT-64, *Corporations: Association and Control*

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

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

- identify all the associated corporations to establish:
  - the date the balance of tax is due (see "Balance due date" on page 11); and
  - the calculation of the business limit reduction; and
- assign a percentage to each of the associated corporations for the allocation of the business limit. The total of all percentages cannot be more than 100%. The maximum business limits are provided on page 54.

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

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

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

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

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

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

The business limit was increased from $400,000 to $500,000, effective January 1, 2009. If the first tax year straddles this date, calculate the amount allocated for the first tax year above as if $500,000 was used in allocating the amounts amongst associated corporations.

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

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

**Example**
A Co. and B Co. are associated in 2010.

A Co.'s tax year runs from January 1, 2010, to June 30, 2010.

The business limit allocated to A Co. for its June 30, 2010, tax year is $100,000.

On November 1, 2010, C Co. becomes associated with A Co. and B Co. The tax year-end for C Co. is December 31, 2010. A Co. and B Co. change their year-ends to match C Co.'s year-end.

The corporations decide to allocate a $300,000 business limit to C Co. for the December 31, 2010 year-end. Because the total of their business limits cannot be more than $500,000, the corporations allocate $90,000 to A Co. and $110,000 to B Co.

**Question**
What is A Co.'s business limit for each of the two tax years ending in the 2010 calendar year?

**Answer**
**Tax year ending June 30, 2010**:

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

$$\$100{,}000 \times \frac{181 \text{ days}}{365 \text{ days}} = \$49{,}589$$

**Note:** 365 is not adjusted for a leap year.

**Tax year ending December 31, 2010**:

Because the tax year is shorter than 51 weeks, A Co. prorates the business limit for the number of days in the tax year. A Co. uses the $90,000 business limit allocated in this tax year, because it is less than the $100,000 business limit allocated in its first tax year ending in 2010.

A Co. prorates the business limit as follows:

$$\$90{,}000 \times \frac{184 \text{ days}}{365 \text{ days}} = \$45{,}370$$

**Note:** 365 is not adjusted for a leap year.

**Reference**
Subsection 125(5)

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

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

- identify all the associated corporations:
- allocate the expenditure limit for the 35% ITC rate on qualifying SR&ED expenditures.

For more details about the ITC, see Line 652 on page 63.

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

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

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

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

**References**
Subsections 127(10.3) and 127(10.6)

## Schedule 28, *Election not to be an Associated Corporation*

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

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

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

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

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

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

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

**Reference**
Subsection 256(2)

## Schedule 19, *Non-Resident Shareholder Information*

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

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

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

Do not include transactions the corporation carried out in the ordinary course of business, or any transactions listed on Form T106, *Information Return of Non-Arm's Length Transactions with Non-Residents*. See page 27 for details.

If the corporation is involved in a transfer of property under section 85, make sure to file either Form T2057, *Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation*, or Form T2058, *Election on Disposition of Property by a Partnership to a Taxable Canadian Corporation*. File Form T2058 when property is transferred from a partnership. File Form T2057 in all other cases.

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

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

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

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

**Reference**
Regulation 5301(8)

## Schedule 14, *Miscellaneous Payments to Residents*

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

- royalties for which you have not filed a T5 slip, *Statement of Investment Income*;
- research and development fees;
- management fees;
- technical assistance fees;* or
- similar payments.

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

List only the payments that were more than $100.

## Schedule 15, *Deferred Income Plans*

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

- a registered pension plan;
- a registered supplementary unemployment benefit plan;
- a deferred profit sharing plan; or
- an employees profit sharing plan.

## Form T5004, *Claim for Tax Shelter Loss or Deduction*

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

The promoter has to prepare Form T5003, *Statement of Tax Shelter Information*, and send copies to each investor. Attach copy 2 of Form T5003 to your return.

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

- for a gift, use line 311, 312, 313, 314, or 315 of the return, whichever applies;
- for a limited partnership loss (see page 47), use lines 600 to 620 of Schedule 4, and line 222 of Schedule 1;
- for a business investment loss, use lines 900 to 950 of Schedule 6; and
- for any other losses or deductions, use lines 700 to 704 of Schedule 1.

**Reference**
IC89-4, *Tax Shelter Reporting*

## T5013 Slip, *Statement of Partnership Income*

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

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

**Notes**
Each partnership has to file a T5013 Summary, *Information Return of Partnership Income*, for each fiscal period. However, some partnerships are exempt from this requirement. For more information, see Guide T4068, *Guide for the Partnership Information Return.*

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

## Schedule 22, *Non-Resident Discretionary Trust*

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

## Schedule 25, *Investment in Foreign Affiliates*

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

## Schedule 29, *Payments to Non-Residents*

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

**1** royalties;
**2** rents;
**3** management fees/commissions;
**4** technical assistance fees;*
**5** research and development fees;
**6** interest;
**7** dividends;
**8** film payments:
- for a motion picture film; or
- for a film or videotape for use in connection with television; or

**9** other services.

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

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

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

**References**
Regulations 105(1) and 202(1)

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

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

File Form T106 if:

- at any time in the tax year, you were either a resident in Canada or a non-resident that carried on business (other than as a member of a partnership) in Canada;
- you entered into reportable transactions with a non-resident person with whom you were not dealing at arm's length at any time in the year and partnerships of which the non-resident person is a member; **and**
- the total reportable transactions exceed CAN$1,000,000.

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

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

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

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

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

> **Note**
> If you file Form T106 late, the corporation will be subject to penalties. When the filing deadline falls on a Saturday, Sunday, or statutory holiday, we will consider the return filed on time if we receive it on the first business day after the filing deadline.

**References**
Sections 233.1 and 251
Subsections 162(7.01) and 162(10)

## Foreign property

### Foreign affiliates

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

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

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

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

### Beneficiaries of non-resident trusts

A corporation may have received, in the year, funds or property from, or been indebted to, a non-resident trust in which it had a beneficial interest. If so, you have to complete and file Form T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-Resident Trust*.

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

### Transfers to non-resident trusts

A corporation may have transferred or loaned funds or property to a non-resident trust. If so, you may have to complete and file Form T1141, *Information Return in Respect of Transfers or Loans to a Non-Resident Trust*.

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

### Ownership of foreign property

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

For more information, see Form T1135.

### Foreign investment entities (FIEs) and non-resident trusts (NRTs)

The 1999 federal budget proposed changes to the taxation of FIEs and NRTs. These proposed changes require a corporation with an interest in an FIE to include an amount from the investment in its income; they will also deem NRTs with a connection to Canada to be resident here and will make a "contributor" to and a "beneficiary" under such trusts jointly and severally liable for the trust's Canadian tax liability. Therefore, any corporation that is a "contributor" or a "beneficiary" with respect to an NRT will be jointly liable with the NRT for the NRT's Canadian tax.

Amendments to the outstanding proposal are provided in the 2010 Budget regarding NRT. Those measures will apply for the 2007 and subsequent tax years. An election allowing a trust to be deemed resident for the 2001 to 2006 tax years will still be available. The attribution of trust income to resident contributors will apply only to tax years that end after March 4, 2010, where the contributor elects.

Corporations who have included income from a NRT may need to amend their returns where the NRT filed based on the previous proposals and the NRT does not intend to elect an earlier effective date. If the corporation needs time to get supporting documentation and cannot file its request within the normal reassessment periods, it should file Form T2029, *Waiver in Respect of the Normal Reassessment Period or Extended Reassessment Period*.

The 2010 federal budget announced that the outstanding proposal regarding FIEs will be replaced. The new measure will apply for tax years that end after March 4, 2010, but the existing provision continues to apply. The changes from the current rules include:

- an increase in the prescribed rate applicable to the computation of income from offshore investment fund property;
- the broadening of circumstances in which beneficiaries of certain non-resident trusts, or persons who have contributed to them, are required to report income on a modified foreign accrual property income basis. The rules are to be broadened to apply to any resident beneficiary who, together with any person not dealing at arm's length with the beneficiary, holds 10 % or more of any class of interests in a non-resident trust determined by fair market value; and
- the extension of the reassessment period.

A corporation who voluntarily complied with the outstanding proposals in previous years will have the option of having those years reassessed. If the corporation does not wish to be reassessed for those years, and had more income than would have been the case under the existing rules, the taxpayer will be entitled to a deduction in the current year for the excess income.

For more information about the proposed changes, call us at one of the telephone numbers provided on page 10 of this guide.

#### Penalties

There are substantial penalties for not completing and filing Forms T1134-A, T1134-B, T1135, T1141, and T1142 by the due date, and for knowingly or under circumstances amounting to gross negligence making false statements or omissions in any of the information returns.

**References**
Sections 233.1 to 233.6
Subsections 162(7), 162(10), 162(10.1), 163(2.4)

### Schedule 50, *Shareholder Information*

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

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

To answer this question, tick the **yes** or **no** box. No schedule or form is required.

## Calculation schedules

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

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## Attachments

See Chapter 2 to complete this section.

## Additional information

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

### Line 270 – Did the corporation use the International Financial Reporting Standards (IFRS) when it prepared its financial statements?

If the corporation used the International Financial Reporting Standards (IFRS) to prepare its financial statements, answer **yes** to this question.

The use of the IFRS is mandatory for all publicly accountable enterprises (PAEs) effective January 1, 2011. Early adoption is also permissible for fiscal periods starting on or after January 1, 2009.

This includes corporations that have calculated their financial statements in accordance with the IFRS but have not complied with all aspects of the IFRS. A corporation that has issued, or is in a process of issuing, publicly-traded debt or equity instruments or who holds assets in a fiduciary capacity for a broad group of outsiders is generally considered to be a PAE.

To determine if a corporation has to use the IFRS, go to:
**www.cica.ca/ifrs/faqs/item2429.aspx,**
**www.cica.ca/ifrs/faqs/index.aspx**
**www.acsbcanada.org/index,** and
**www.cica.ca/ifrs/index.aspx**.

For the first year when IFRS is adopted, corporations are required to maintain additional documentation to support amounts filed on the *General Index of Financial Information* (GIFI) and tax returns. For more information on IFRS books and records and other IFRS topics, go to **www.cra.gc.ca/tx/bsnss/tpcs/frs/menu-eng.html**.

### Line 280 – Is the corporation inactive?

Even if a corporation is inactive, which means it has not operated during the tax year, it has to file a return.

> **Note**
> Corporations that are inactive throughout the tax year and that do not have balance sheet or income statement information to report are no longer required to attach schedules 100, 125, and 141 to their T2 return. However, they will be accepted if filed.

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

First-time filers must indicate **yes**.

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

Complete only if you answered **yes** at line 281.

Enter the corporation's major commercial or professional activity.

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

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

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

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

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

Tick either the *Wholesale* or *Retail* box if the corporation's business involves the resale of goods.

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

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

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

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

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

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

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

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

### Line 293 – Do you want to be considered as a quarterly instalment remitter, if you are eligible?

A small-CCPC is eligible to make quarterly instalment payments if it meets certain conditions. To determine if you are eligible, see Guide T7B-Corp, *Corporation Instalment Guide*.

### Line 294 – If the corporation was eligible to remit instalments on a quarterly basis for part of the tax year, provide the date the corporation ceased to be eligible.

Indicate the date that the corporation ceased to be eligible to remit instalments on a quarterly basis.

### Line 295 – If the corporation's major business activity is construction, did you have any subcontractors during the tax year?

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

#### Major business activity

All individuals, partnerships, and corporations whose principal business activity is construction have to report payments made to subcontractors. For these purposes, construction is defined as erecting, installing, altering, modifying, repairing, improving, demolishing, dismantling, or removing any structure or part, including but not limited to buildings, roads, and bridges.

#### Who is a subcontractor?

A subcontractor is an individual, partnership, or corporation that provides construction services. For more information, go to **www.cra.gc.ca/contract**.

## Calculating net income or loss

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

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

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

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

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

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

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

Additions and deductions identified on lines 101 to 128 and 401 to 417 of Schedule 1 are the most common additions and subtractions. For other additions and deductions, see pages 2 and 3.

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

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

> **Notes**
> Only complete lines 203 and 302 if you are converting from an accrual basis to a cash basis. Otherwise, these lines should be left blank.
>
> The deductible portion of expenses you incurred for food, beverages, and entertainment is only 50% of whichever is less: the expenditure actually incurred or the amount that would be reasonable in the circumstances.
>
> For 2009, 70% of expenses for food and beverages consumed by a long-haul truck driver during an eligible travel period are deductible. This deductible amount will increase to 75% in 2010 and to 80% after 2010. For more information on this subject, see Guide T4002, *Business and Professional Income* or go to **www.cra.gc.ca/business**.
>
> A full deduction is allowed for meals provided to an employee at a temporary construction work camp, if certain conditions are met. For more information on this subject, see Guide T4130, *Employer's Guide – Taxable Benefits* or go to **www.cra.gc.ca/payroll**.

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

- Schedule 6, *Summary of Dispositions of Capital Property* (on this page);
- Schedule 8, *Capital Cost Allowance (CCA)* (see page 35);
- Schedule 10, *Cumulative Eligible Capital Deduction* (see page 42);
- Schedule 12, *Resource-Related Deductions* (see page 42);
- Schedule 13, *Continuity of Reserves* (see page 42);
- Schedule 16, *Patronage Dividend Deduction* (see page 43);
- Schedule 17, *Credit Union Deductions* (see page 43); and
- Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim* (see page 43).

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

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

**References**
Section 54
IT-170, *Sale of Property – When Included in Income Computation*
IT-448, *Dispositions – Changes in Terms of Securities*
IT-460, *Dispositions – Absence of Consideration*

### Designation under paragraph 111(4)(e)

Answer **yes** or **no** to the question on **line 050**, page 1 of Schedule 6.

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

## Completing Schedule 6

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

### Column 1 – Types of capital property

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

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

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

### Column 2 – Date of acquisition

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

### Column 3 – Proceeds of disposition

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

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

**References**
Section 54
IT-259, *Exchange of Property*

### Column 4 – Adjusted cost base

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

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

**References**
Subsections 53(1) and 53(2)
IT-418, *Capital Cost Allowance – Partial Dispositions of Property*

The cost of property acquired after 1971 is usually the actual cost of acquiring it, including the purchase price plus any related costs, such as commissions, legal fees, and other reasonable expenses. It also includes the cost of additions and improvements to the property. It does **not** include current expenses, such as maintenance and repair costs.

**Reference**
IT-128, *Capital Cost Allowance – Depreciable Property*

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

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

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

**Reference**
Subsection 40(3)

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

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

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

### Column 5 – Outlays and expenses

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

### Column 6 – Gain (or loss)

In column 6, enter the amount of the gain or loss.

A **capital gain** results when the proceeds of disposition of a capital property are more than the ACB and any related outlays or expenses. A **capital loss** occurs when the proceeds of disposition are less than the ACB and the related outlays and expenses. However, if depreciable property is disposed of, it will result in a **terminal loss**, not a capital loss. See "Column 6 – Undepreciated capital cost" on page 37 for more details about terminal losses.

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

**References**
Subsection 13(21.1)
IT-220, *Capital Cost Allowance – Proceeds of Disposition of Depreciable Property*

### Part 1 – Shares

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

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

If a share is converted because of a merger or an amalgamation, subsection 248(1) deems a disposition to have occurred.

Under paragraph 112(3)(b), a corporation must **reduce** the losses from the disposition of shares held as capital property **by** certain dividends received for those shares. On **line 160**, enter the total adjustment for such losses identified in Part 1.

**Reference**
IT-328, *Losses on Shares on Which Dividends Have Been Received*

### Part 2 – Real estate

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

Dispositions of non-depreciable real property (unless the property is inventory) may result in a capital gain or loss. However, dispositions of depreciable property may result in a capital gain, a recapture of CCA, or a terminal loss. See "Column 6 – Undepreciated capital cost" on page 37 for details about terminal losses and recaptures.

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

**References**
IT-218, *Profit, Capital Gains and Losses From the Sale of Real Estate, Including Farmland and Inherited Land and Conversion of Real Estate From Capital Property to Inventory and Vice Versa*
IT-478, *Capital Cost Allowance – Recapture and Terminal Loss*

### Part 3 – Bonds

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

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

Enter the total amount of gain or loss realized on disposition of bonds on line C.

**Reference**
IT-479, *Transactions in Securities*

### Part 4 – Other properties

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

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

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

**References**
Subsection 50(1)
IT-159, *Capital Debts Established to be Bad Debts*

Foreign exchange gains or losses from buying or selling capital properties are capital gains or capital losses.

Transactions in foreign currency or foreign currency futures that do not form part of the business operations can be considered capital dispositions.

**References**
Subsection 39(2)
IT-95, *Foreign Exchange Gains and Losses*

For dispositions of depreciable property, a capital gain results if the proceeds are more than the capital cost. However, losses on depreciable property do not result in capital losses. These losses are **terminal losses**.
See "Column 6 – Undepreciated capital cost" on page 37 to find out more about terminal losses.

You have to report dispositions of goodwill and other intangible properties on Schedule 10, *Cumulative Eligible Capital Deduction*. See page 42 for more details.

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

### Part 5 – Personal-use property

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

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

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

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

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

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

**Reference**
Subsection 46(1)

#### Part 6 – Listed personal property

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

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

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

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

On **line 655**, enter the amount of listed personal property losses from previous years you want to apply against current-year net listed personal property gains. Also, enter this amount on line 530 of Schedule 4, *Corporation Loss Continuity and Application*.

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

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

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

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

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

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

Complete Part 7 to claim an **allowable business investment loss (ABIL).**

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

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

### Capital gains reserve

Often, you will not receive part of the proceeds of disposition, usually for real property, until after the end of the year. In these cases, you can defer part of the capital gain to the year the corporation 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

For gifts of non-qualifying securities made after December 20, 2002, the reserve claimed by the corporation cannot exceed the eligible amount of the gift. This eligible amount is the amount by which the fair market value of the property that is the subject of the gift exceeds the amount of the advantage, if any, in respect of the gift.

A reserve can only be claimed if the donation is not deducted for tax purposes and the donee does not dispose of the security. This reserve can only be claimed in tax years ending within 60 months of making the gift. The reserve must be included in income if any of the following occur:

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

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

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

**and**

B.

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

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

Show the continuity of capital gain reserves on Schedule 13, *Continuity of Reserves*. See page 42 for details.

**References**
Subparagraphs 40(1)(a)(ii) and 40(1)(a)(iii)
Subsection 40(1.01)

#### Part 8 – Determining capital gains or capital losses

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

Line 880 is the balance at the beginning of the year of the capital gains reserve from Schedule 13. This amount should include any amount from the last tax year of predecessor corporations after amalgamation or wind-up.

#### Part 9 – Determining taxable capital gains and total capital losses

When completing this part, **line O** is 1/2 of capital gains realized before May 2, 2006 on donations of a security listed on a stock exchange, a share or unit of a mutual fund, an interest in a segregated fund, or a prescribed debt obligation made to a qualified donee (other than a private foundation).

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

**Line T** is the capital gain or loss for the year. If the amount is a loss, enter it on line 210 of Schedule 4. If the amount is a gain, multiply it by 1/2 and enter it on line U of Schedule 6 and line 113 of Schedule 1.

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

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

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

Include all **unused ABIL** after the applicable carry-forward period in Part 2, "Capital losses," of Schedule 4.
See page 45, for more details.

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

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

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

Complete Schedule 8 to calculate CCA.

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

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

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

> **Note**
> On Schedule 8, do not include capital expenditures (other than first- or second-term shared-use equipment) which you are claiming as SR&ED capital expenditures.

### Disability-related modifications

You can deduct outlays and expenses you incur for eligible disability-related modifications made to a building in the year you paid them, instead of having to add them to the capital cost of your building. Eligible disability-related modifications include changes you make to accommodate wheelchairs. You can also deduct expenses paid to install or get disability-related devices and equipment.

You can claim this as "Other deductions" on Schedule 1, *Net Income (Loss) for Income Tax Purposes.*

### Available-for-use rule

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

### When is property available for use?

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

- when the corporation first uses the property to earn income;
- the beginning of the first tax year that starts at least 358 days after the tax year during which the corporation acquired the property;
- immediately before the corporation disposes of the property; or
- when the corporation can use the property to either produce a saleable product or perform a saleable service.

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

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

> **Note**
> If a corporation acquires a property for a **long-term project**, it can elect to limit the impact of the available-for-use rule. This election is not available for rental buildings. To make this election, send us a completed Form T1031, *Subsection 13(29) Election in Respect of Certain Depreciable Properties, Acquired for use in a Long Term Project*, with your return.

**References**
Subsections 13(26) to 13(32)

### Election under Regulation 1101(5q)

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

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

This election allows you to include certain property usually included in classes 8 and 43 in a separate class. You have to have acquired each property at a capital cost of **at least $1,000**. The types of properties that qualify for this election include manufacturing and processing property,

photocopiers, and electronic communications equipment, such as facsimile transmission devices or telephone equipment.

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

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

## CCA rates and classes

### Accelerated CCA for clean energy generation

Currently, Class 43.1 and Class 43.2 provide accelerated CCA at a 30% or 50% rate, respectively, on a declining balance basis. The following changes will apply to Class 43.1 and Class 43.2.

- Currently, **heat recovery equipment** in Class 43.2 is limited to equipment used in recovering heat from electrical or cogeneration equipment, to be reused by such equipment to generate electricity, or in recovering heat generated directly in an industrial process to be reused directly in an industrial process.

  For eligible assets acquired after March 3, 2010, that have not been used or acquired for use before March 4, 2010, Class 43.2 is expanded to remove the restrictions that require the recovered heat to be reused in a process of the same type that generated it. Eligible assets include only those used to extract thermal waste. They do not include:

  – any part of a building;

  – assets related to heating water for use in a swimming pool; or

  – assets employed in re-using the recovered heat (such as property that is part of the internal heating or cooling system of a building, or electrical generating equipment), though such assets may in some cases be included by another provision of Class 43.2.

- Currently, specified **distribution equipment that is part of a district energy system** is included in Class 43.1 or 43.2 if it distributes heat produced by electrical cogeneration equipment that meets the requirements of these classes.

  For eligible assets acquired after March 3, 2010, that have not been used or acquired for use before March 4, 2010, specified distribution equipment that is part of a district energy system used by the taxpayer to supply district heating or cooling through thermal energy provided primarily by a ground-source heat pump system, an active solar system, heat recovery equipment, or a combination of these energy sources, will be included in Class 43.1 or in Class 43.2, as long as the related generation equipment is also included in the same class.

### Television set-top boxes

Currently, satellite set-top boxes that are used to decode digital television signals are included in Class 8 and eligible for a 20% declining balance CCA rate, while cable set-top boxes are included in Class 10 and eligible for a 30% declining balance CCA rate.

Satellite and cable set-top boxes acquired after March 4, 2010, and that have neither been used nor acquired for use before March 5, 2010, will be included in Class 30 and eligible for a new 40% declining balance CCA rate.

### Computer equipment

For eligible computer equipment (including systems software) acquired after January 27, 2009 and before February 1, 2011, the CCA rate is 100% with no half-year rule, such that a full write-off is possible in the first tax year that CCA deductions are available.

An eligible asset will be one described in Class 52 that meets the following conditions:

- is situated in Canada;
- is acquired by the taxpayer
  – for use in a business carried on by the taxpayer in Canada or for earning income from property situated in Canada, or
  – for lease by the taxpayer to a lessee for use by the lessee in a business carried on by the lessee in Canada or for earning income from property situated in Canada; and
- has not been used, or acquired for use, for any purpose before it is acquired by the taxpayer for use in Canada.

The computer software tax shelter property rules are extended to computer equipment that is eligible for the CCA rate of 100%.

## Completing Schedule 8

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

### Column 1 – Class number

Identify each class of property with the assigned class number.

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

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

> **Note**
> If a class number has not been provided in Schedule II of the *Income Tax Regulations* for a particular class of property, use the subsection provided in Regulation 1101.

**Reference**
Regulation 1101

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

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

### Column 3 – Cost of acquisitions during the year

For each class, enter the total cost of depreciable property you acquired in the tax year. Depreciable property is considered acquired when it becomes available for use. See page 35 for more information on the available-for-use rule.

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

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

Do not enter section 85 transfers in this column.

**References**
Regulations 1100(2) and (2.2)

### Column 4 – Net adjustments

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

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

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

**Add** to the capital cost of the property:

- depreciable property transferred upon amalgamation or upon the wind-up of a subsidiary;
- repayment of GST/HST input tax credit previously claimed;
- depreciable property transferred under section 85; and
- government assistance repaid in the year that previously reduced the capital cost.

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

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

**References**
Subsections 13(7.1), 13(7.4), and 13(21)
Paragraph 12(1)(x)
IT-285, *Capital Cost Allowance – General Comments*

### Column 5 – Proceeds of dispositions during the year

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

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

### Column 6 – Undepreciated capital cost

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

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

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

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

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

**Recapture of CCA**
If the amount in column 6 is negative, you have a recapture of CCA. A recapture of CCA occurs when the proceeds of disposition in column 5 are more than the total of columns 2 and 3, plus or minus the amount in column 4 of that class.

You have to add the recapture to income. For details, see example 2 under the heading "Schedule 8 examples" that follows.

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

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

### Column 7 – 50% rule

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

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

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

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

**References**
Regulation 1100(2)
IT-285, *Capital Cost Allowance – General Comments*

### Column 8 – Reduced undepreciated capital cost

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

### Column 9 – CCA rate

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

### Column 10 – Recapture of capital cost allowance

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

### Column 11 – Terminal loss

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

### Column 12 – Capital cost allowance

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

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

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

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

**References**
Regulation 1100(3)
IT-147, *Capital Cost Allowance – Accelerated Write-off of Manufacturing and Processing Machinery and Equipment*
IT-285, *Capital Cost Allowance – General Comments*

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

> **Note**
> If you want to change the amount of CCA claimed in a tax year, send a written request within 90 days of the date on the notice of assessment or notice of reassessment. Only under certain circumstances can we make adjustments after the 90-day period has expired.
>
> For more information, see Information Circular IC84-1, *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 2010 tax year, the business had no more assets in Class 3.

The business's Schedule 8 for its 2010 tax year looks like this:

| | 1<br>Class number<br>200 | 2<br>Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from column 13 of last year's CCA schedule)<br>201 | 3<br>Cost of acquisitions during the year (new property must be available for use)<br>203 | 4<br>Net adjustments (show negative amounts in brackets)<br>205 | 5<br>Proceeds of dispositions during the year (amount not to exceed the capital cost)<br>207 | 6<br>Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5) | 7<br>50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)<br>211 | 8<br>Reduced undepreciated capital cost (column 6 **minus** column 7) | 9<br>CCA rate %<br>212 | 10<br>Recapture of capital cost allowance<br>213 | 11<br>Terminal loss<br>215 | 12<br>Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount)<br>217 | 13<br>Undepreciated capital cost at the end of the year (column 6 **minus** column 12)<br>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 2008 for $10,000. Now, because of the overwhelming success the company has had in the retail end of the business, it has decided to concentrate solely on retailing. As a result, the company sold its sewing machine in 2010 for $12,000. At the beginning of 2010, the undepreciated capital cost of the sewing machine was $7,200.

The company's Schedule 8 for its 2010 tax year looks like this:

| | 1<br>Class number<br>200 | 2<br>Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from column 13 of last year's CCA schedule)<br>201 | 3<br>Cost of acquisitions during the year (new property must be available for use)<br>203 | 4<br>Net adjustments (show negative amounts in brackets)<br>205 | 5<br>Proceeds of dispositions during the year (amount not to exceed the capital cost)<br>207 | 6<br>Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5) | 7<br>50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)<br>211 | 8<br>Reduced undepreciated capital cost (column 6 **minus** column 7) | 9<br>CCA rate %<br>212 | 10<br>Recapture of capital cost allowance<br>213 | 11<br>Terminal loss<br>215 | 12<br>Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount)<br>217 | 13<br>Undepreciated capital cost at the end of the year (column 6 **minus** column 12)<br>220 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. | **8** | **$7,200** | | | **$10,000** | **($2,800)** | | **($2,800)** | **n/a** | **$2,800** | | | |
| 2. | | | | | | | | | | | | | |
| 3. | | | | | | | | | | | | | |
| 4. | | | | | | | | | | | | | |

The amount in column 10 is the recapture of CCA.

The clothing company includes the $2,800 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 2010 tax year, a bookstore bought a photocopier to help keep up with the paperwork, and started using it right away. The copier cost $5,000. The bookstore has to apply the 50% rule when it calculates the amount of CCA it can deduct for 2010.

The bookstore's Schedule 8 for its 2010 tax year looks like this:

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Class number | Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from column 13 of last year's CCA schedule) | Cost of acquisitions during the year (new property must be available for use) | Net adjustments (show negative amounts in brackets) | Proceeds of dispositions during the year (amount not to exceed the capital cost) | Undepreciated capital cost (column 2 **plus** column 3 **plus** or **minus** column 4 **minus** column 5) | 50% rule (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) | Reduced undepreciated capital cost (column 6 **minus** column 7) | CCA rate % | Recapture of capital cost allowance | Terminal loss | Capital cost allowance (column 8 **multiplied** by column 9; or a lower amount) | Undepreciated capital cost at the end of the year (column 6 **minus** column 12) |
| | 200 | 201 | 203 | 205 | 207 | | 211 | | 212 | 213 | 215 | 217 | 220 |
| 1. | **8** | **$10,000** | **$5,000** | | | **$15,000** | **$2,500** | **$12,500** | **20** | | | **$2,500** | **$12,500** |
| 2. | | | | | | | | | | | | | |
| 3. | | | | | | | | | | | | | |
| 4. | | | | | | | | | | | | | |

**List of CCA rates and classes**

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

| Class number | Description | CCA rate |
|---|---|---|
| 1 | Most buildings made of brick, stone, or cement acquired after 1987, including their component parts such as electric wiring, lighting fixtures, plumbing, heating and cooling equipment, elevators, and escalators (additional allowance of 6% for buildings used for manufacturing and processing in Canada and 2% for buildings used for other non-residential purposes, for buildings acquired after March 18, 2007) | 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 $500 or more, and outdoor advertising billboards and greenhouses with rigid frames and plastic covers | 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 (for example, personal computers) and systems software, and timber-cutting and removing equipment | 30% |
| 10.1 | Passenger vehicles costing more than $30,000 if acquired after 2000 | 30% |
| 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 $500 such as kitchen utensils, tools, and medical or dental equipment acquired after May 1, 2006 | 100% |
| 13 | Property that is leasehold interest (the maximum CCA rate depends on the type of leasehold and the terms of the lease) | n/a |
| 14 | Patents, franchises, concessions, and licences for a limited period – the CCA is limited to whichever is less:<br>■ the capital cost of the property spread out over the life of the property; or<br>■ the undepreciated capital cost of the property at the end of the tax year<br>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 mainly 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% |
| 45 | Computer equipment that is "general-purpose electronic data processing equipment and system software" included in paragraph f of Class 10 acquired after March 22, 2004. Also see class 50 and 52. | 45% |
| 46 | Data network infrastructure equipment that supports advanced telecommunication applications, acquired after March 22, 2004 – it includes assets such as switches, multiplexers, routers, hubs, modems, and domain name servers that are used to control, transfer, modulate and direct data, but does not include office equipment such as telephones, cell phones or fax machines, or property such as wires, cables or structures | 30% |
| 50 | General-purpose computer equipment and systems software acquired after March 18, 2007, that is not used principally as electronic process control, communications control, or monitor equipment, and the systems software related to such equipment, and data handling equipment that is not ancillary to general-purpose computer equipment. | 55% |
| 52 | General-purpose computer equipment and systems software acquired after January 27, 2009, and before February 2011. | 100% |

## Schedule 10, *Cumulative Eligible Capital Deduction*

Complete Schedule 10 to calculate the cumulative eligible capital deduction.

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

- goodwill;
- trademarks;
- franchises, concessions, or licences for an unlimited period; and
- patents, and licences to use patents for an unlimited period, that you elect not to include in Class 44. For more information on Class 44, see the CCA rates and classes chart on page 39.

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

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

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

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

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

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

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

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

## Schedule 12, *Resource-Related Deductions*

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

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

Schedule 12 gives details for the calculations required.

**References**
Part XII of the Regulations
Sections 65 and 66

## Schedule 13, *Continuity of Reserves*

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

Complete Schedule 13 as follows:

### Part 1 – Capital gains reserves

Establish the continuity of reserves for each different property. Unlike other reserves, you have to report the total capital gain reserves that you and the predecessor corporation deducted last year. Add the current-year reserve on Schedule 6 to calculate the current-year capital gain. See page 31 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 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).

> **Note**
> The balance at the beginning of the year of reserves from financial statements and the balance at the end of the year of reserves from financial statements should not be entered on Schedule 13. Enter these amounts on line 414 and line 126 of Schedule 1 respectively.

**References**
IT-152, *Special Reserves – Sale of Land*
IT-154, *Special Reserves*
IT-442, *Bad Debts and Reserves for Doubtful Debts*

## Schedule 16, *Patronage Dividend Deduction*

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

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

An eligible agricultural co-operative for a particular tax year can deduct patronage dividends issued in the form of shares, but deductions cannot be more than 85% of its income for that year that is attributable to business done with its members.

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

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

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

File one completed copy of this schedule with your return.

> **Note**
> Members of certain agricultural co-operative corporations can defer including in income patronage dividends in the form of shares issued after 2005 and before 2016 to the year of their disposal. However, a member may elect to have an amount included in income before the disposition of the shares. To make this election, the member must send a letter specifying the amount to be included in income with their return for the particular tax year.

**References**
Sections 135 and 135.1
IT-362, *Patronage Dividends*

## Schedule 17, *Credit Union Deductions*

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

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

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

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

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

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

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

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

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

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

**References**
Subsections 137(2) and 137(6)

## Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*

We publish Guide T4088, *Guide to Form T661 Scientific Research and Experimental Development (SR&ED) Expenditures Claim*, which gives details on how to complete Form T661. For more information, go to **www.cra.gc.ca/sred**.

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

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

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

If the SR&ED expenditures have been included in your income statement, enter the amount on line 118 of Schedule 1. Enter the SR&ED expenditures claimed in the year on line 411 of Schedule 1.

Form T661 summarizes the costs for all SR&ED projects. You have to complete the form and place it on top of the return for the tax year you incur SR&ED expenditures. File Form T661 whether or not you claim an ITC. If you do not file Form T661 and Schedule 31, *Investment Tax Credit – Corporations*, on or before the day that is 12 months after your filing due-date for the tax year in which the SR&ED expenditures were made, you cannot claim SR&ED expenditures and an ITC for that year. For more

information, see “Line 652 – Investment tax credit” on page 63.

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, *Information Return of Partnership Income*. 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 a T5013, each partner has to file Form T661 with its return.

**References**
Subsections 37(1), 149(7), and 149(7.1)
Regulation 2900
IC86-4, *Scientific Research and Experimental Development*
IT-151, *Scientific Research and Experimental Development Expenditures*
RC4472, *Overview of the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program*
T4088, *Guide to Form T661 Scientific Research and Experimental Development (SR&ED) Expenditures Claim*

# Losses

## Current-year losses

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

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

The application and continuity of these losses are calculated on Schedule 4, *Corporation Loss Continuity and Application.* Information on how to complete Schedule 4 follows this section.

A corporation may also incur a capital loss. These types of losses are determined on Schedule 6, *Summary of Dispositions of Capital Property*. For information on how to complete this schedule, see page 31.

## Applying losses

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

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

## Losses carryback

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

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

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

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

## Calculating losses when there is an acquisition of control

Following an acquisition of control, special rules apply for calculating and deducting net capital losses, non-capital losses, and farm losses. You will find more information about these rules on Schedule 4 and at lines 063 and 065 on page 19. Also, see the following references for details.

**References**
Subsections 111(4) and 111(5)
IT-302, *Losses of a Corporation – The Effect That Acquisitions of Control, Amalgamations, and Windings-Up Have on Their Deductibility – After January 15, 1987*

# How to complete Schedule 4, *Corporation Loss Continuity and Application*

## Part 1 – Non-capital losses

### Determination of current year non–capital loss

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

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

**deduct**

> **net capital losses deducted in the year** – net capital losses from **previous years** used to reduce taxable capital gains included in income;
>
> **taxable dividends deductible** – taxable dividends received, deductible under section 112 or 113 or subsection 138(6) (for details, see line 320 on page 50);
>
> **amount of Part VI.1 tax deductible** – unused Part VI.1 tax deductible in the taxable income calculation; and
>
> **amount deductible as prospector’s and grubstaker’s shares – paragraph 110(1)(d.2)** – the amount deductible is the value of any shares received from a corporation on disposition of a right or a mining property, except if the amount is exempt from tax in Canada by virtue of one of Canada’s tax treaties, multiplied by 1/2.

**Subtotal** – if the result is positive, enter “0”;

**deduct**

> **section 110.5 or subparagraph 115(1)(a)(vii) – addition for foreign tax deductions** – any amounts added to the taxable income to use foreign tax deductions you could not otherwise deduct from Part I tax. For details, see line 355 on page 52;

**add**

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

### Calculating current-year farm loss

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

- the loss from farming or fishing that is more than the farming or fishing income for the year; or
- the amount of the current-year non-capital loss as calculated in Part 1 of Schedule 4 before you deduct the farm loss for the year.

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

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

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

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

**References**
Subsection 111(8)
IT-302, *Losses of a Corporation – The Effect That Acquisitions of Control, Amalgamations and Windings-Up Have on Their Deductibility – After January 15, 1987*

### Continuity of non-capital losses and request for carryback

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

The current-year non-capital loss can reduce any kind of income or taxable dividends subject to Part IV tax for the 3 previous tax years and for the 20 following tax years.

For non-capital losses incurred in tax years ending before 2006, but after March 22, 2004, the carry-forward period is for the 10 following tax years.

For non-capital losses incurred in tax years ending before March 23, 2004, the carry-forward period is for the 7 following tax years.

The loss expires after the carry-forward period.

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

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

**Line 140** is the 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.

The result of this part is the closing balance of non-capital losses you carry forward to future years (line 180).

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

## Part 2 – Capital losses

### Continuity of capital losses and request for a carryback

The current-year capital loss is calculated on Schedule 6. See page 31 for more details. Complete this part to establish the continuity and the application of capital losses.

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

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

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

**Line 250** is the amount of any other adjustments not previously mentioned. These adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control, and whose losses that occurred after the acquisition of control are not deductible before the acquisition of control.

**Line 240** is the 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 220** is the **lesser** of the non-capital losses from a previous year that have expired in the year and the amount of the ABIL incurred in the same previous year that is included in the amount of non-capital losses expired in the year [divided by the inclusion rate for the tax year in which the ABIL was incurred (see note below)].

On the appropriate line (lines 951 to 953), enter the amount of capital loss you carry back to prior years. The net capital loss amount will be calculated at the inclusion rate of the year to which the net capital loss is applied.

**Note**
The inclusion rates are:

- 0.75 for tax years ending before February 28, 2000;
- line M of Schedule 6 (version T2 SCH 6, E 01), *Summary of Dispositions of Capital Property*, for tax years ending after February 27, 2000, and starting before October 18, 2000; and
- 0.50 for tax years starting after October 17, 2000.

The result of this part is the closing balance of available capital losses you carry forward to future years (line 280).

## Part 3 – Farm losses

### Continuity of farm losses and request for a carryback

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

A farm loss incurred in a tax year ending after 2005 will expire after 20 tax years following the year of loss. A farm loss incurred in a tax year ending before 2006 expires after 10 tax years following the year of loss.

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

**Line 350** is any other adjustments not previously mentioned. These adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control.

**Line 340** is the 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.

The result of this part is the closing balance of farm losses you carry forward to future years (line 380).

Complete Part 6 to establish the balance of farm losses by year of origin.

## Part 4 – Restricted farm losses

### Calculating current-year restricted farm loss

If your chief source of income is neither farming nor a combination of farming and another source of income, the loss arising from the farming activity that you can deduct is restricted. An amount of farm loss allocated from a partnership may also be restricted.

Use this part to calculate the current-year restricted farm loss.

Enter this amount on line 410 of this schedule and add it to your income on line 233 of Schedule 1.

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

### Continuity of restricted farm losses and request for a carryback

Use this part to establish the continuity of restricted farm losses and to carry back a current-year restricted farm loss to prior years.

The current-year restricted farm loss can reduce farm income for the 3 previous tax years and for the 20 following tax years.

For restricted farm losses incurred in tax years ending before 2006, the carry-forward period is for the 10 following tax years.

The loss expires after the carry-forward period.

When completing this part, line 405 is the amount of restricted farm losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of issued shares in each class were, immediately before the wind-up, owned by the corporation. This amount is the unused restricted farm losses available to carry forward at the end of the tax year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up **minus** any expired amount.

**Line 440** is the 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** is the amount of any other adjustments not previously mentioned. These adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control.

The result of this part is the closing balance of restricted farm losses you carry forward to future years (line 480).

Complete Part 6 to establish the balance of restricted farm losses by year of origin.

## Part 5 – Listed personal property losses

### Continuity of listed personal property loss and request for a carryback

Use this part to establish the continuity of listed personal property losses and to carry back a current-year listed personal property loss against net capital gains incurred on the same kind of property of the three previous years.

A listed personal property loss cannot be transferred.

When completing this part, line 530 is the amount of prior-year listed personal property losses applied in the current year to reduce the net capital gain incurred in the current year on the same kind of property (enter this amount on line 655 of Schedule 6); and

**Line 550** is the amount of adjustments. These adjustments would apply to corporations that have undergone an acquisition of control and whose losses that accrued before the acquisition of control are not deductible after the acquisition of control.

The result of this part is the closing balance of listed personal property losses you carry forward to future years (line 580).

Complete Part 6 to establish the balance of listed personal property losses by year of origin.

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

Use this part to show by year of origin the balance of losses you can carry forward to future years. Enter each loss by year of origin, starting with the current year, going down to the 7th, 10th, or 20th previous year, whichever applies.

## Part 7 – Limited partnership losses

### Current-year limited partnership losses

Use this part to calculate the current-year limited partnership losses that are deductible for the year. The amount that cannot be deducted may be carried to other years.

A corporation that is a limited partner and receives a T5013 slip, *Statement of Partnership Income*, will find the amount of limited partnership loss allocated to it in box 23 of the slip.

If the limited partner does not receive this slip because the partnership is exempt from filing (for example, if it has fewer than six members), you have to file the partnership's financial statements with the return to prove the corporation's share of the partnership loss for the year.

Report the amount in the tax year of the partnership's tax year-end.

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

When completing this part, in column 606, enter the corporation's at-risk amount at the fiscal period ending of the partnership (column 602). The amount entered in column 604 is from a business (other than a farming business) or from property.

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.

Add the total of column 620 to line 222 of Schedule 1. Enter all those losses in column 670 to establish the continuity of losses.

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

### Limited partnership losses from prior tax years that may be applied in the current year

Complete this part if you want to apply limited partnership losses from previous 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.

### Continuity of limited partnership losses that can be carried forward to future tax years

Limited partnership losses can be carried forward indefinitely to future years.

When completing this part, column 664 is the amount of limited partnership losses transferred from a predecessor corporation after amalgamation, or a subsidiary after wind-up, where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation. This amount is the unused limited partnership losses available to carry forward at the end of the tax year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up.

The result of this part is the amount of limited partnership losses you carry forward to later years (column 680).

## Part 8 – Election under paragraph 88(1.1)(f)

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

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

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

# Taxable income

The following section explains how to calculate the deductions you may be able to claim to reduce net income. You will use these amounts to arrive at your taxable income.

## Line 300 – Net income or (loss) for income tax purposes

On line 300, enter the **net income or loss for income tax purposes**, as you calculated on Schedule 1. If you did not have to make any adjustments to the net income or loss

from the financial statements, enter on line 300 the net income or loss from the income statement. Show the amount of any loss in brackets.

**Note**
On Schedule 1, do not deduct charitable donations, taxable dividends, net capital losses, non-capital losses, farm losses, or restricted farm losses from other years. You have to deduct these items from net income for income tax purposes to arrive at **taxable income**.

## Lines 311 to 315

For gifts made after December 20, 2002, the amount deductible by the corporation will generally be the eligible amount. The eligible amount of a gift is the amount by which the fair market value of the property that is the subject of the gift exceeds the amount of the advantage, if any, in respect of the gift.

## Line 311 – Charitable donations

Complete Schedule 2, *Charitable Donations and Gifts*, if, during the tax year, you made charitable donations, or unused charitable donations were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up. You can claim a deduction for charitable donations made to any of the following organizations:

- registered charities (including registered national arts service organizations);
- registered Canadian amateur athletic associations;
- housing corporations resident in Canada and exempt from Part I tax under paragraph 149(1)(i);
- Canadian municipalities;
- municipal or public bodies performing a function of government in Canada;
- the United Nations or its agencies;
- prescribed universities outside Canada listed in Schedule VIII of the *Income Tax Regulations*;
- charitable organizations outside Canada to which the federal government has made a gift during the corporation's tax year, or the 12 months immediately before that tax year; or
- Her Majesty in right of Canada, a province, or territory.

The maximum amount of charitable donations that a corporation can deduct is equal to **75% of its net income** (line 300). This limitation can be increased by the following amounts:

- 25% of the taxable capital gains arising from gifts of capital property (other than for gifts of ecologically sensitive land or of Canadian cultural property) made in the year and included in taxable income for the year;
- 25% of all taxable capital gains in the year from the disposition in a previous year of a non-qualifying security of a corporation that is making a gift to a qualified donee; and
- 25% of whichever is less:
  - the amount of recapture, included in the income of the year, arising from the donation of a prescribed class of depreciable property; or
  - the lesser of the capital cost and the proceeds of disposition of the property minus any outlays and expenses made for the purpose of making the disposition.

Charitable donations are deducted in the order they were made (first-in, first-out rule).

If you are reporting nil net income or a loss for the year, you cannot claim donations to create or increase a loss.

However, you can carry forward unused charitable donations and claim them in any of the five following tax years.

**Note**
On line 255 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose donations carryforward that accrued before the acquisition of control and after March 22, 2004, are not deductible after the acquisition of control).

Complete Part 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 be more than the lesser of:

- the total donations available; or
- the maximum deduction allowable.

Complete Part 7 of Schedule 2 to establish the continuity of charitable donations.

You do not have to file receipts with your return. However, you have to keep them in case we ask for them later.

**Notes**
When a credit union calculates its income for purposes of the 75% limit, it has to add back any amounts it previously deducted for bonus interest payments and payments for allocations in proportion to borrowing.

Where a corporation makes a gift of a non-qualifying security, that gift has to be ignored for the charitable donations deduction. However, if the donee disposes of the security within five years or the security ceases to be a non-qualifying security of the corporation within five years, the corporation will be treated as having made the gift at that later time.

A non-qualifying security includes an obligation of the corporation or a non-arm's length person, a share of the corporation or a share issued by a corporation with which the corporation does not deal at arm's length, and any other security issued by the corporation or a

non-arm's length person. Specifically excepted from this definition are obligations, shares, and other securities listed on designated stock exchanges and deposits with financial institutions.

If you make a monetary gift to Canada, you can choose to apply it to the Debt Servicing and Reduction Account. If you are sending a cheque, make it payable to the Receiver General for Canada and mail it to:

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

Include a note saying that you want your amount applied to this account. Public Works and Government Services Canada will send a receipt.

The federal government will only use these amounts to reduce the public debt.

**References**
Paragraph 110.1(1)(a)
Subsections 40(1.01), 110.1(1.1), and 248(31)

## Line 312 – Gifts to Canada, a province, or a territory

Complete Part 3 of Schedule 2 if, during the tax year:

- you made donations to Canada, a province, or a territory before February 19, 1997, or under a written agreement made before that day; or
- the donations to Canada, a province, or a territory were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up.

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

Complete Part 7 of Schedule 2 to establish the continuity of those gifts.

**References**
Paragraph 110.1(1)(b)
Subsection 110.1(1.1)

## Line 313 – Cultural gifts

Complete Part 4 of Schedule 2 if, during the tax year:

- you donated cultural gifts; or
- the cultural gifts were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after wind-up.

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

If the amount of cultural gifts is more than your net income for the year **minus** other donations you claim, you can carry the excess forward for up to five years.

**Note**
On line 455 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose donations carryforward that accrued before the acquisition of control and after March 22, 2004, are not deductible after the acquisition of control).

Cultural gifts are deducted in the order they were made (first-in, first-out rule).

On line 313, enter the amount for cultural gifts you want to apply against taxable income.

Complete Part 7 of Schedule 2 to establish the continuity of cultural gifts.

The Cultural Property Export Review Board will issue you a certificate, as well as a receipt containing prescribed information. You do not have to file receipts and certificates with your return. However, keep them in case we ask for them later.

**References**
Paragraph 110.1(1)(c)
Subsection 110.1(1.1) and 248(31)
IT-407, *Dispositions of Cultural Property to Designated Canadian Institutions*

## Line 314 – Ecological gifts

Complete Part 5 of Schedule 2 if, during the tax year:

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

You can claim a deduction from net income for certified ecological gifts made to Canada, a province, territory or Canadian municipality, municipal or public bodies performing a function of government in Canada or an approved registered charity. An ecological gift is a gift of land (including a covenant, an easement, or a real servitude) that is certified by the Minister of the Environment as ecologically sensitive.

The fair market value of ecologically sensitive land and, consequently, the corporate donor's proceeds of disposition are deemed to be the amount determined by the Minister of the Environment.

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

If the amount of ecological gifts is more than your net income for the year **minus** any other donations you claim, you can carry the excess forward for up to five years.

**Note**
On line 555 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose donations carryforward that accrued before the acquisition of control and after March 22, 2004, are not deductible after the acquisition of control).

Deduct ecological gifts in the order they were made (first-in, first-out rule).

On line 314, enter the amount of ecological gifts you want to apply against taxable income.

Complete Part 7 of Schedule 2 to establish the continuity of ecological gifts.

For an ecological gift, you must get a certificate issued by the Minister of the Environment as well as a receipt and a *Certificate for Donation of Ecologically Sensitive Land*. You do not have to file the receipt and the two certificates with your return. However, keep them in case we ask for them later.

**References**
Paragraph 110.1(1)(d)
Subsections 110.1(5), 110.1(1.1), and 248(31)

## Line 315 – Gifts of medicine

Complete Part 6 of Schedule 2 if, during the tax year:

- you made a gift of medicine after March 18, 2007; or
- your gifts of medicine made after March 18, 2007, were transferred from a predecessor corporation after amalgamation, or from a subsidiary corporation after wind-up.

You can claim a deduction from net income for an eligible gift of medicine made to a registered charity if the gift is made for activities of the charity outside Canada. An eligible gift is a gift of medicine that was part of the corporation's inventory immediately before being donated and, for a donation made after October 2, 2007, the medicine qualifies as a drug within the meaning of the *Food and Drugs Act*, and generally meets the requirements of that Act but is not a food, cosmetic, or device (as those terms are used in that Act), a natural health product (as defined in the *Natural Health Products Regulations*) or a veterinary drug.

For gifts of medicine made before July 1, 2008, the registered charity must have received a disbursement under a program of the Canadian International Development Agency (CIDA).

For gifts of medicine made after June 30, 2008, the registered charity must be one that, in the opinion of the Minister for International Cooperation, meets conditions prescribed by regulation. (If no such minister has been appointed, the opinion of the minister responsible for CIDA will be required.) Also, the eligible gift of medicine must be available for the donee's use at least six months before its expiration date as defined in the *Food and Drug Regulations (Food and Drugs Act).*

The maximum deduction you can claim is the lesser of:

- the cost to the corporation of the gifts of medicine; and
- 50% of the amount, if any, by which the proceeds of disposition of the donated medicine exceeds the cost to the corporation of the medicine;

**multiplied by**

- the eligible amount of the gift **divided by** the proceeds of disposition for the gift.

If the amount of the gifts of medicine **minus** any other donations you claim is more than your net income for the year, you can carry the excess forward for up to five years.

> **Note**
> On line 655 of Schedule 2, enter the amount of any other adjustments (these adjustments would apply to corporations that have undergone an acquisition of control and whose donations carryforward that accrued before the acquisition of control and are not deductible after the acquisition of control).

Gifts of medicine are deducted in the order they were made (first-in, first-out rule).

On line 315, enter the amount for gifts of medicine you want to apply against taxable income.

Complete Part 7 of Schedule 2 to establish the continuity of the gifts of medicine.

**Reference**
Paragraph 110.1(1)(a.1)
Subsections 110.1(8) and 110.1(9)
Regulation 3505

## Line 320 – Taxable dividends deductible under section 112 or 113, or subsection 138(6)

Complete Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*, if you either received **or** paid dividends. For details on how to complete Schedule 3, see Parts 3 and 4 of Schedule 3 on page 58 and "Line 712 – Part IV tax payable" on page 71.

When calculating taxable income, you can deduct, under section 112, any of the following types of taxable dividends received:

- dividends from a taxable Canadian corporation, or from a corporation resident in Canada and controlled by the receiving corporation; and
- dividends (or a portion of them) from a non-resident corporation (other than a foreign affiliate) that has carried on business in Canada continuously since June 18, 1971.

The following types of taxable dividends received are not deductible under section 112:

- dividends from a corporation that is exempt from Part I tax;
- dividends on collateralized preferred shares (loss rental plans);
- dividends that are part of a dividend rental arrangement, as defined in subsection 248(1);
- dividends on term preferred shares received by certain financial institutions; and
- dividends on shares guaranteed by a specified financial institution, as described in subsection 112(2.2).

**References**
Subsections 112(1), 112(2), and 112(2.1) to 112(2.9)

**Section 113** contains the authority and the limitations concerning the deduction of dividends received from foreign affiliates.

**Subsection 138(6)** contains the authority for a life insurer to deduct the taxable dividends received from taxable Canadian corporations, other than dividends on term preferred shares that are acquired in the ordinary course of its business.

On line 320, enter the amount of taxable dividends (as per Schedule 3) deductible from income under section 112, or 113, or subsection 138(6). This amount is the total of column 240 of Schedule 3.

> **Note**
> A dividend does not include stock dividends received from a non-resident corporation.

By deducting taxable dividends received from net income or loss amount shown on line 300, you can create or increase a non-capital loss for the year.

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

## Line 325 – Part VI.1 tax deduction

A corporation that pays Part VI.1 tax on dividends it paid on taxable preferred shares and short-term preferred shares can deduct 3.2 times the Part VI.1 tax the corporation has to pay. For details on how to calculate Part VI.1 tax, see "Line 724 – Part VI.1 tax payable" on page 72.

On line 325, enter the Part VI.1 tax times 3.2.

**Reference**
Paragraph 110(1)(k)

## Line 331 – Non-capital losses of previous tax years

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

On line 330 of Schedule 3, enter the amount of current-year non-capital losses, and on line 335, enter the non-capital losses from previous years to be used to reduce dividends subject to Part IV tax.

The total of those two amounts has to be entered as an applied amount on line 135 of Schedule 4. For details, see "How to complete Schedule 4, Part 1 – Non-capital losses" on page 44.

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

## Line 332 – Net-capital losses of previous tax years

On line 332, enter the amount of net capital losses from previous years that you applied against taxable capital gain incurred in the year. This amount is the capital loss entered on line 225 of Schedule 4 that you multiply by 50%. See "How to complete Schedule 4, Part 2 – Capital losses" on page 45 for details.

> **Note**
> A net capital loss can create a non-capital loss in the year you apply it, because the net capital loss is not limited to reducing the taxable income, but to reducing the taxable capital gain in that year.

**References**
Section 38
Subsections 111(1.1) and 111(8)
Paragraph 111(1)(b)

## Line 333 – Restricted farm losses of previous tax years

On line 333, enter the amount you want to apply to reduce the current-year farm income. On line 430 of Schedule 4, enter the amount of restricted farm loss used. For details, see page 46.

**Reference**
Paragraph 111(1)(c)

## Line 334 – Farm losses of previous tax years

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

On line 340 of Schedule 3, enter the amount of the current-year farm loss, and on line 345, enter the previous years' farm losses that you are using to reduce dividends subject to Part IV tax.

The total of those two amounts has to be entered on line 335 of Schedule 4 as the amount applied. For details, see "How to complete Schedule 4, Part 3 – Farm losses" on page 46.

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

## Line 335 – Limited partnership losses of previous tax years

On line 335, enter the deductible amount of limited partnership losses from previous years that were applied against other incomes in the current year from Part 7 of Schedule 4. See page 47 for more details.

**Reference**
Paragraph 111(1)(e)

## Line 340 – Taxable capital gains or taxable dividends allocated from a central credit union

If a central credit union has made an election under subsection 137(5.1), amounts allocated to a member credit union as taxable dividends or net capital gains may be claimed by that member as a deduction from taxable income under paragraph 137(5.2)(c). Enter these amounts on line 340.

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

You can deduct 1/2 of the value of any shares received from a corporation after disposition of a right or a mining property, except if the amount is exempt under a tax treaty.

**Reference**
Paragraph 110(1)(d.2)

## Line 355 – Section 110.5 additions and/or subparagraph 115(1)(a)(vii) additions

You can use foreign tax deductions to reduce Part I tax that you would otherwise have to pay. Under section 110.5 and subparagraph 115(1)(a)(vii), a corporation that cannot deduct its foreign income tax deductions (for example, if it has no Part I tax payable for the year) can choose to add an amount to its taxable income.

In this way, the corporation can use these otherwise non-deductible foreign tax deductions.

The amount you add to income for this purpose forms part of the non-capital loss. See page 44 for details. However, you cannot add an amount under section 110.5 if that addition increases **any** of the following deductible amounts:

- the small business deduction;
- the manufacturing and processing profits deduction;
- the federal logging tax credit;
- the federal political contribution tax credit;
- the investment tax credit (ITC);
- the share-purchase tax credit; or
- the SR&ED tax credit.

If the corporation is an authorized foreign bank, you cannot add an amount under subparagraph 115(1)(a)(vii) if that addition increases **any** of the following deductible amounts:

- the federal logging tax credit;
- the federal political contribution tax credit; or
- the ITC.

On line 355, enter the amount you added to income under section 110.5 and/or subparagraph 115(1)(a)(vii).

## Line 360 – Taxable income

To calculate this amount, subtract all the deductions you entered on lines 311 to 350 from the net income for income tax purposes on line 300. Add, if it applies, section 110.5 or subparagraph 115(1)(a)(vii) additions (line 355). Enter the taxable income on line 360.

If the result is a loss, enter "0" on line 360.

> **Note**
> If you want to carry back a current-year loss to a prior tax year, see "How to complete Schedule 4" on page 44 for details.

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

Insurers who are not engaged in any other business except insurance and who earn at least 20% of their gross premium income (net of reinsurance ceded) from the business of property used in a fishing or farming business, or residences of farmers or fishermen, are eligible for an exemption from Part I tax on their taxable income.

On line 370, enter the exempt income if you meet the criteria of paragraph 149(1)(t).

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

Enter on this line the result of line 360 **minus** line 370.

**References**
Subsections 149(4.1) and 149(4.2)

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## Small business deduction

Corporations that were Canadian-controlled private corporations (CCPCs) throughout the tax year may be able to claim the small business deduction (SBD). The SBD reduces Part I tax that the corporation would otherwise have to pay.

The SBD rate is 17%.The SBD is calculated by multiplying the SBD rate by the least of the following amounts:

- the income from active business carried on in Canada (line 400);
- the taxable income (line 405);
- the business limit (line 410); or
- the reduced business limit (line 425).

The following section explains each of the above amounts.

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

## Line 400 – Income from active business carried on in Canada

Complete Schedule 7, *Calculation of Aggregate Investment Income and Active Business Income*, to determine the following amounts:

- the aggregate investment income and foreign investment income for determining the refundable portion of Part I tax (see "Refundable portion of Part I tax, Lines 440, 445, and 450" on page 57 for details);
- the specified partnership income for members of a partnership; and
- the income from an active business carried on in Canada for the SBD.

**Note**
If claiming a deduction for patronage dividends on line 416 of Schedule 1, complete Part 5 of Schedule 16 to establish active business income carried on in Canada (see page 43 for details).

### Active business income

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

Income from a **specified investment business** or from a **personal services business** is generally not considered active business income and is not eligible for the SBD. The following sections explain when income from these types of businesses may be considered to be active business income and eligible for the SBD.

### Specified investment business

A specified investment business is a business with the principal purpose of deriving income from property, including interest, dividends, rents, or royalties. It also includes a business carried on by a prescribed labour-sponsored venture capital corporation, the principal purpose of which is to derive income from property.

Except for a prescribed labour-sponsored venture capital corporation, income from a specified investment business is considered to be active business income, and is therefore eligible for the SBD if:

- the corporation employs more than five full-time employees in the business throughout the year; or
- an associated corporation provides managerial, financial, administrative, maintenance, or other similar services to the corporation while carrying on an active business, and the corporation would have to engage more than five full-time employees to perform these services if the associated corporation were not providing them.

**Note**
The business a credit union carries on, or the business of leasing property other than real property, is not considered specified investment business.

### Personal services business

A personal services business is a business that a corporation carries on to provide services to another entity (such as a person or a partnership) that an officer or employee of that entity would usually perform.

Instead, an individual performs the services on behalf of the corporation. That individual is called an **incorporated employee**.

Any income the corporation derives from providing the services is considered income from a personal services business, as long as both of the following conditions are met:

- the incorporated employee who is performing the services, or any person related to him or her, is a **specified shareholder** of the corporation; and
- the incorporated employee would, if it were not for the existence of the corporation, reasonably be considered an officer or employee of the entity receiving the services.

However, if the corporation employs more than five full-time employees throughout the year or provides the services to an associated corporation, the income is not considered to be from a personal services business. Therefore, the income is eligible for the SBD.

#### Specified shareholder

A specified shareholder is a taxpayer who owns, directly or indirectly at any time in the year, at least 10% of the issued shares of any class of capital stock of the corporation or a related corporation.

#### How to calculate income from an active business carried on in Canada

Generally, to calculate active business income from carrying on a business in Canada, you have to deduct from net income for income tax purposes any of the following amounts that apply:

- taxable capital gains minus allowable capital losses;
- dividends that are deductible from income under sections 112 and 113, and subsection 138(6);
- property income minus property losses;
- property income from an interest in a trust;
- foreign business income;
- income from a specified investment business; and
- income from a personal services business.

#### Specified partnership income

A corporation that is a member of a partnership has to complete Schedule 7 to calculate its active business income.

The corporate partnership rules impose a limit on the amount of active business income earned by a partnership that is eligible for the SBD. This amount is allocated among all partners.

**Specified partnership income** is the amount of partnership income eligible for the SBD that is allocated to the corporation. You have to add this income to your active business income.

If the partnership incurs a loss from carrying on an active business, you have to deduct the corporation's share of that loss from its active business income. This is referred to as a **specified partnership loss**.

If the corporation received a T5013 slip, *Statement of Partnership Income*, that shows its share of partnership income or loss, include this form with the return. See page 26 for details.

On line 400, enter the total active business income you calculated on Schedule 7.

**References**
Subsections 125(1), 125(7), and 248(1)
Section 251
IT-73, *The Small Business Deduction*

### Line 405 – Taxable income for the SBD

The taxable income you use to calculate the SBD is usually the amount entered on line 360. However, if you have claimed a foreign non-business income tax credit, a foreign business income tax credit, or both, you have to reduce the taxable income by:

- ten thirds (10/3) of the amount that would be deductible as a federal foreign non-business income tax credit on line 632, if that credit was determined without the refundable tax on the CCPC's investment income (line 604) and without reference to the corporate tax reduction under section 123.4; and
- (1/(0.38 **minus** the general rate reduction percentage for the tax year)) times the amount that would be deductible as a federal foreign business income tax credit (line 636) if that credit was determined without reference to the corporate tax reduction under section 123.4. The general rate reduction percentage has to be prorated. See page 56.

You also have to reduce taxable income by any amount that, because of federal law, is exempt from Part I tax.

On line 405, enter your taxable income for the purposes of calculating the SBD.

**References**
Paragraph 125(1)(b)
Subsection 126(7)

### Line 410 – Business limit

The maximum allowable business limit for a corporation that is not associated with any other corporation is:

- $400,000 if the calendar year is 2007 or 2008; and
- $500,000 if the calendar year is 2009 or later.

For tax years that straddle a calendar year, the rate is prorated based on the number of days in each calendar year.

CCPCs that are associated with one or more corporations during the tax year have to file Schedule 23, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Business Limit*. On this schedule, a percentage of the business limit is allocated to each corporation, and the total of all percentages cannot be more than 100%. See page 24 for details about Schedule 23.

On line 410, enter the business limit for the year. Enter the amount from Schedule 23 for an associated corporation.

**Notes**

If the tax year is shorter than 51 weeks, you have to prorate the business limit, based on the number of days in the tax year divided by 365, before you enter it on line 410.

If you elect not to be an associated corporation with two other corporations for the small business deduction, you have to file Schedule 28, *Election not to be an Associated Corporation*. For more details, see page 25.

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

## Line 425 – Reduced business limit

Large CCPCs that have taxable capital employed in Canada of $15 million or more do not qualify for the SBD. The business limit is reduced on a straight-line basis for CCPCs that have taxable capital employed in Canada of between $10 million and $15 million in the previous 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.

Use Schedule 23, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Business Limit*, if you are an associated CCPC. For more information about this schedule, see page 24.

**Reference**
Subsection 125(5.1)

## Line 430 – Small business deduction

Multiply the least of lines 400, 405, 410, and 425 by the SBD rate for the year and enter it at line 430. This amount is also entered on line 9 of page 7 of the return. See the beginning of this chapter for the SBD rates.

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## General tax reduction

A general tax reduction is available on qualifying income. This reduction is:

- 8.5% effective January 1, 2008;
- 9% effective January 1, 2009;
- 10% effective January 1, 2010;
- 11.5% effective January 1, 2011; and
- 13% effective January 1, 2012.

For tax years that straddle a calendar year, the rate is prorated based on the number of days in each calendar year.

Corporations benefit from the general tax reduction only on taxable income that is subject to a rate of 38%.

The reduction does not apply to income that benefits from preferential corporate tax treatment, such as:

- income eligible for the small business deduction 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, or a mutual fund corporation.

**Reference**
Subsection 123.4(1)

### General tax reduction for Canadian-controlled private corporations (CCPCs)

If you are a CCPC throughout the tax year, complete this area of page 5 to calculate the reduction. Enter the resulting amount on line 638 on page 7.

> **Note**
> If you are a corporation that is, throughout the year, a cooperative corporation (within the meaning assigned by subsection 136(2)) or a credit union, enter zero on line F.

**Reference**
Subsection 123.4(2)

### General tax reduction

Do not complete this area if you are a CCPC, an investment corporation, a mortgage investment corporation, a mutual fund corporation, or a corporation that has income not subject to the corporation tax rate of 38%.

All other corporations complete this area of page 5 to calculate the reduction. Enter the resulting amount on line 639 on page 7.

**Reference**
Subsection 123.4(2)

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## Refundable portion of Part I tax

### Lines 440, 445, and 450

The refundable portion of Part I tax is part of the refundable dividend tax on hand (RDTOH). More information about RDTOH is in the section that follows.

The refundable portion of Part I tax allows a CCPC that has paid Part I tax on investment income to recover part of that tax when the corporation pays taxable dividends to its shareholders. The refundable portion of Part I tax only applies to corporations that are CCPCs throughout the tax year.

The refundable portion of Part I tax is based on the aggregate investment income and foreign investment income. You have to determine these amounts by completing Parts 1 and 2 of Schedule 7, *Calculation of Aggregate Investment Income and Active Business Income*.

#### Part 1 – Aggregate investment income calculation

The aggregate investment income is the aggregate **world** source income calculated as follows:

**add**

- the eligible portion of the taxable capital gains for the year that is more than the total of:
  - the eligible portion of allowable capital losses for the year; and
  - the net capital losses from previous years which are applied in the year;
- total income from property (including income from a specified investment business carried on in Canada other than income from a source outside Canada) from which the following amounts have been deducted:
  - exempt income;
  - Net Income Stabilization Account (NISA) receipts;
  - taxable dividends deductible after deducting related expenses; and
  - business income from an interest in a trust that is considered property income under paragraph 108(5)(a);

**deduct**

- total losses for the year from property (including losses from a specified investment business carried on in Canada other than income from a source outside Canada).

On line 440 enter the amount of aggregate investment income that you determined on line **O** of Schedule 7.

You can include taxable capital gains and allowable capital losses in a CCPC's net investment income only if you can attribute the gain or loss to a period of time when a CCPC, an investment corporation, a mortgage investment corporation, or a mutual fund corporation held the disposed property.

#### Part 2 – Foreign investment income calculation

The foreign investment income is **all** income from only sources outside of Canada calculated as follows:

**add**

- the eligible portion of the taxable capital gains for the year that is more than:
  - the eligible portion of allowable capital losses for the year;
- total income from property from a source outside Canada from which the following amounts have been deducted:
  - exempt income;
  - taxable dividends deductible after deducting related expenses; and
  - business income from an interest in a trust that is considered property income under paragraph 108(5)(a);

**deduct**

- total losses for the year from property from a source outside Canada.

On line 445 enter the amount of foreign investment income that you determined on line **AA** of Schedule 7.

Calculate the amount of the refundable portion of Part I tax. Enter the amount from line 450 in the space provided in the "Refundable dividend tax on hand" area of your return.

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

## Refundable dividend tax on hand

### Lines 460, 465, 480, and 485

The RDTOH account only applies to corporations that were **private** or **subject corporations**, which are defined on page 71.

A CCPC generates RDTOH on both the Part I tax it pays on investment income, and on the Part IV tax it pays on dividends it receives. For any other type of private corporation, only the Part IV tax it pays generates RDTOH.

For more information on taxable dividends deductible under section 112 or 113, or subsection 138(6), see page 50.

For information on Part IV tax and instructions to complete Schedule 3, see page 71.

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

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

- the RDTOH balance at the end of the previous tax year (minus any dividend refund issued to the corporation in the previous year);
- the refundable portion of Part I tax from line 450;
- Part IV tax calculated on line 360 of Schedule 3; and
- any balance of RDTOH transferred from a predecessor corporation on amalgamation, or from a wound-up subsidiary corporation.

For the first tax year of a successor corporation formed as a result of an amalgamation, enter on line 480 all RDTOH balances being transferred from predecessor corporations. Do not include this amount on line 460.

For a parent corporation that wound up a wholly owned subsidiary, enter on line 480 any RDTOH transferred from the subsidiary corporation. On line 460, enter the RDTOH the parent corporation is carrying forward from its previous tax year.

> **Note**
> You cannot transfer any RDTOH to a successor or parent corporation if, had the predecessor or subsidiary corporation paid a dividend immediately before the amalgamation or wind-up, subsection 129(1.2) would have applied to that dividend.

On line 485, enter the RDTOH at the end of the tax year. Also, enter the same amount on line J in the "Dividend refund" area of your return.

**References**
Subsections 129(3) and 186(5)

## Dividend refund

A private or subject corporation may be entitled to a dividend refund for dividends it paid while it was a private or subject corporation, regardless of whether it was a private or subject corporation at the end of the tax year.

> **Note**
> To claim a dividend refund or to apply the amount to another debit for any tax year, including the same tax year, you have to file your income tax return within three years of the end of the tax year.

A dividend refund arises if you pay taxable dividends to shareholders, and if there is an amount of RDTOH at the end of the tax year.

To claim a dividend refund, you have to have made an actual payment to the shareholders, unless the dividend is considered paid (a deemed dividend).

You can make this payment either in cash, or with some other tangible assets at fair market value, including the following:

- stock dividends;
- section 84 deemed dividends; and
- amounts paid as interest or dividends on income bonds or debentures that are not deductible when calculating income.

If you lose your **private** status following a change in control, a deemed year-end occurs. This allows you to claim a dividend refund for any dividends paid during the deemed short year.

You have to complete Parts 3 and 4 (if they apply) of Schedule 3 to claim a dividend refund. The dividend refund is equal to whichever of the following amounts is less:

- one third of taxable dividends that you paid in the year while a private or subject corporation; or
- the RDTOH at the end of the tax year.

The total of taxable dividends paid for the purpose of the dividend refund is equal to the amount on line 460 of Schedule 3. Refundable dividend tax on hand refers to the amount on line 485 in the "Refundable dividend tax on hand" area of your return.

### Parts 3 and 4 of Schedule 3

The following explains how to complete Parts 3 and 4 of Schedule 3. Parts 1 and 2 are explained on page 71.

If you paid taxable dividends during the year, complete Part 3 to identify taxable dividends that qualify for the dividend refund.

If the amount of dividends paid includes dividends that do not qualify for the dividend refund, you have to deduct these dividends before completing the calculation in Part 3. In this case, complete Part 4 of Schedule 3 to identify dividends that do not qualify.

Dividends that do not qualify are:

- dividends paid out of the capital dividend account;
- capital gains dividends;
- dividends paid for shares that do not qualify as taxable dividends, because the main purpose of acquiring the shares was to receive a dividend refund [subsection 129(1.2)];
- taxable dividends paid to a controlling corporation that was bankrupt at any time in the year; and
- deemed dividends paid on a small business development bond.

Complete Part 3 of Schedule 3 to identify a connected corporation that received taxable dividends that qualify for the dividend refund.

If the dividend refund is more than the amount of Part I tax payable for the year, we deduct the excess from any other taxes owed under the *Income Tax Act*. Any balance left over is available for a refund.

If the total dividends paid during the year is different from the total of taxable dividends paid for the purpose of the dividend refund, complete Part 4 of Schedule 3.

**References**
Section 129
Subsection 186(5)

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## Part I tax

### Line 550 – Base amount of Part I tax

The basic rate of Part I tax is 38% of taxable income. To determine the base amount of Part I tax, calculate 38% of the taxable income from line 360 of page 3 less income exempt under paragraph 149(1)(t).

On line 550, enter this base amount.

**Reference**
Section 123

### Line 602 – Recapture of investment tax credit (ITC)

#### Scientific research and experimental development

A corporation that disposed of a property used in scientific research and experimental development (SR&ED), or converted it to commercial use, should report a recapture in its income tax return for the year in which the disposition or conversion occurred.

If you performed the SR&ED and earned the related ITC, the recapture will be whichever is less:

- the ITC earned for the property; or
- the amount determined by applying the percentage you used in calculating the ITC earned on the property to:
  - the proceeds of disposition of the property if you dispose of it to an arm's length person; or
  - in any other case, the fair market value of the property.

If you performed the SR&ED and transferred the qualified expenditures to a non-arm's length party in accordance with an agreement described in subsection 127(13), the recapture will be whichever is less:

- the ITC earned by the transferee on the qualified expenditures for the property that was transferred; or
- the amount determined by the formula:

  $A \times B - C$

  where

  - "A" is the percentage that the transferee used in determining its ITC;
  - "B" is the proceeds of dispositions of the property if you dispose of it to an arm's length person, or in any other case, the fair market value of the property; and
  - "C" is the amount, if any, added to the tax payable under subsection 127(27) for the property. This allows for the situation where you transferred only a portion of the cost of the property in an agreement under subsection 127(13).

If you transferred a portion of the expenditures and claimed a portion of that expenditure for ITC purposes, both calculations will apply.

For more information, see Guide T4088, *Guide to Form T661, Scientific Research and Experimental Development (SR&ED) Expenditures Claim* or go to **www.cra.gc.ca/sred**.

#### Child care spaces

The ITC for child care spaces (see page 66) will be recovered against the taxpayer's tax otherwise payable if, at any time within the 60 months of the day on which the taxpayer acquired the property:

- the new child care space is no longer available; or
- eligible property for purposes of this credit is sold or leased to another person or converted to another use.

If the property disposed of is a child care space, the amount to be recaptured will be the amount that can reasonably be considered to have been included in the original ITC.

In the case of eligible expenditures, the amount to be recaptured will be the lesser of:

- the amount that can reasonably be considered to have been included in the original ITC; and
- 25% of the proceeds of disposition of the eligible property or of its fair market value at the time of disposition, if the property was disposed of to a non arm's-length person.

Use Schedule 31, *Investment Tax Credit – Corporations*, to calculate the recapture of ITC.

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

**References**
Subsections 127(27) to (35)

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

An additional refundable tax of 6 2/3% is levied on the investment income (other than deductible dividends) of a CCPC. This additional tax is not part of the corporate surtax base.

This additional tax will be added to the refundable dividend tax on hand (RDTOH). The RDTOH pool will be refunded when dividends are paid to shareholders (at a rate of 1/3 of taxable dividends paid).

A CCPC with investment income has to calculate this additional tax on page 7 and enter the amount on line 604.

**References**
Section 123.3
Subsection 129(3)

## Line 608 – Federal tax abatement

The federal tax abatement is equal to 10% of taxable income earned in the year in a Canadian province or territory less income exempt under paragraph 149(1)(t). The federal tax abatement reduces Part I tax payable. Income earned outside Canada is not eligible for the federal tax abatement.

On line 608, enter the amount of federal tax abatement.

**Reference**
Section 124

## Line 616 – Manufacturing and processing profits deduction

Corporations that derive at least 10% of their gross revenue for the year from manufacturing or processing goods in Canada for sale or lease can claim the manufacturing and processing profits deduction (MPPD). The MPPD reduces Part I tax otherwise payable.

The MPPD applies to the part of taxable income that represents Canadian manufacturing and processing profits. Calculate the MPPD at the rate of 7% on income that is not eligible for the small business deduction (SBD).

Use Schedule 27, *Calculation of Canadian Manufacturing and Processing Profits Deduction*, to calculate the manufacturing and processing profits deduction.

There are two ways to calculate Canadian manufacturing and processing profits: a simplified method for small manufacturing corporations, and a basic labour and capital formula for other corporations. These methods are outlined in Parts 1 and 2 of Schedule 27.

A corporation's manufacturing labour and capital is based on the labour and capital employed in qualified activities. These activities are discussed in interpretation bulletin IT-145, *Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax*.

Small manufacturing corporations only have to complete Part 1 of Schedule 27, and are entitled to calculate the MPPD on their entire adjusted business income. Essentially, a corporation's adjusted business income is its income from an active business it carried on in Canada that is more than its losses from similar businesses. If the corporation is involved in resource activities, it has to reduce the adjusted business income by its net resource income, its refund interest, and a portion of its prescribed resource loss. Schedule 27 shows how to calculate the adjusted business income.

To qualify as a small manufacturing corporation, you have to meet **all** of the following requirements:

- the activities during the year were mainly manufacturing or processing;
- the active business income and that of any associated Canadian corporations was not more than $200,000;
- you were not engaged in any activities specifically excluded from manufacturing and processing, as defined in subsection 125.1(3);
- you were not engaged in processing ore (other than iron ore or tar sands ore) from a mineral resource located outside Canada to any stage that is not beyond the prime metal stage or its equivalent;
- you were not engaged in processing iron ore from a mineral resource located outside Canada to any stage that is not beyond the pellet stage or its equivalent;
- you were not engaged in processing tar sands located outside Canada to any stage that is not beyond the crude oil stage or its equivalent; and
- you did not carry on any active business outside Canada at any time during the year.

Corporations that do not qualify as small manufacturing corporations have to complete Part 2 of Schedule 27. In Part 2, you will find the basic formula for calculating Canadian manufacturing and processing profits, as well as detailed instructions on how to complete the schedule.

Corporations that produce electricity or steam for sale are allowed the 7% manufacturing and processing tax reduction. Complete Parts 10 to 13 of Schedule 27 to calculate this reduction.

On line 616, enter the amount of the manufacturing and processing profits deduction determined in Part 9 of Schedule 27.

**References**
Section 125.1
Regulation 5200
IT-145, *Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax*

## Lines 620 and 624 – Investment corporation deduction

A Canadian public corporation that is an **investment corporation**, as defined in subsection 130(3), can claim a deduction from Part I tax that the corporation would otherwise have to pay. This deduction is equal to 20% of the taxable income for the year that is more than the taxed capital gains for the year.

On line 624, enter the investment corporation's taxed capital gains. On line 620, enter the amount of the deduction you are claiming.

**Reference**
Section 130

## Line 628 – Additional deduction—credit unions

Although a credit union is not generally considered a private corporation, it is eligible for the small business deduction. A credit union can also deduct a percentage of its taxable income that was not eligible for the small business deduction.

The additional deduction is 17% of whichever of the following amounts is less:

- the taxable income for the year; or
- 4/3 of the **maximum cumulative reserve** at the end of the year, **minus** the **preferred-rate amount** at the end of the previous tax 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 tax year is equal to the total of the preferred rate amount at the end of the previous year, **plus** 25/4 of the amount of the small business deduction for the year.

With this additional deduction, a credit union can pay tax at a reduced rate on income it needs to build up a tax-paid reserve that is equal to 5% of deposits and capital. Provincial and territorial statutes require these reserves. The credit union cannot distribute these reserves to its members.

Use Schedule 17, *Credit Union Deductions*, to claim the additional deduction. Credit unions have to complete the Schedule 17 boxes called "Additional deduction" and "Preferred rate amount at the end of the tax year" to claim this additional deduction.

On line 628, enter the credit union's additional deduction.

**Reference**
Section 137

## Line 632 – Federal foreign non-business income tax credit

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

A federal foreign non-business income tax credit is available to Canadian residents to prevent double taxation of any non-business income earned in a foreign country that was taxed by that foreign country. The credit is also available to authorized foreign banks on their Canadian banking business from sources in a foreign country. This credit reduces Part I tax that the corporation would otherwise have to pay.

Foreign non-business income includes dividends, interest, and capital gains. It does **not** include dividends received from foreign affiliates, or income from operating a business in a foreign country.

Foreign non-business income tax does not include any foreign tax paid on income that is exempt from tax in Canada under an income tax treaty.

As another option, under subsection 20(12), instead of claiming a foreign non-business income tax credit, a corporation can deduct from income all or any part of non-business income tax it paid to a foreign country.

If, after you claim the federal foreign non-business income tax credit, there is any foreign non-business income tax left over, you can claim it as a provincial or territorial foreign tax credit. See page 76 for details.

Under section 110.5 and subparagraph 115(1)(a)(vii), you can also increase your taxable income so that you can use an otherwise non-deductible foreign non-business income tax credit. See "Line 355 – Section 110.5 additions and/or subparagraph 115(1)(a)(vii) additions" on page 52 for details.

To claim this credit, complete Part 1 of Schedule 21. Calculate the federal foreign non-business income tax credit for each country separately. Use more than one schedule if more space is required.

Add all the allowable foreign non-business income tax credits in column I on Schedule 21. Then, enter the total allowable credit or a lesser amount on line 632.

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

## Line 636 – Federal foreign business income tax credit

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

To prevent double taxation, a corporation that pays foreign tax on income or profits it earned from operating a business in a foreign country can claim a federal foreign business income tax credit. This credit reduces the Part I tax that the corporation would otherwise have to pay.

Unlike foreign non-business income tax, you cannot deduct excess foreign business income tax paid as a provincial or territorial foreign tax credit. However, under section 110.5, you can increase taxable income so as to claim an otherwise non-deductible foreign business income tax credit. See Line 355 on page 52 for details.

To claim this credit, complete Part 2 of Schedule 21. Calculate the foreign business income tax credit for each country separately. Use more than one schedule if more space is required.

Add all allowable foreign business income tax credits in column J on Schedule 21. Then, enter the total allowable credits or a lesser amount on line 636.

**Notes**
Foreign business income tax does not include any foreign tax paid on income that is exempt from tax in Canada under an income tax treaty.

When calculating income for the year from sources in a foreign country, deduct the maximum amount of foreign exploration and development expense that is deductible on a country-by-country basis.

**References**
Subsection 126(2)
IT-270, *Foreign Tax Credit*

### Continuity of unused federal foreign business income tax credits

Complete Part 3 of Schedule 21 if you have a foreign business income tax credit that:

- expired in the current year;
- was transferred from an amalgamation or wind-up;
- was deducted in the current year; or
- was carried back to a prior year.

You have to establish the continuity and the application of the foreign tax credits on business income for each country. Use more than one schedule if more space is required.

### Carryback or carryforward of unused credits

You can carry back any unused foreign business income tax credit to the 3 previous tax years, and you can carry the credit forward for 10 tax years.

Credits earned in tax years ending before March 23, 2004, can be carried forward for 7 tax years.

To claim a carryback to previous years, complete Part 4 of Schedule 21.

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

## Lines 638 and 639 – General tax reduction

Calculate this reduction on page 5.

If you were a CCPC throughout the tax year, enter the amount on line 638.

If you were a corporation other than a CCPC, an investment corporation, a mortgage investment corporation, a mutual fund corporation, or a corporation that has income that is not subject to the corporation tax rate of 38% enter the amount on line 639.

See "General tax reduction" on page 56 for details.

## Line 640 – Federal logging tax credit

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

Complete Part 5 of Schedule 21, *Federal and Provincial or Territorial Foreign Income Tax Credits and Federal Logging Tax Credit*, to calculate this credit. On line 640, enter the credit you calculated on line 580 of Schedule 21 or a lesser amount.

**References**
Subsection 127(1)
Regulation 700

## 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 mainly for, or for any combination of:

- the operation of a mine;
- the extraction of clay, peat, sand, shale, or aggregates; or
- the deposit of waste.

On line 648, enter the credit claim up to the amount of Part I tax otherwise payable. On line 792 (page 8), enter any unused amount.

**Reference**
Section 127.41

## Line 652 – Investment tax credit

A corporation can claim an investment tax credit (ITC) to reduce Part I tax that it would otherwise have to pay, or in some cases this credit may be fully or partially refundable.

Use Schedule 31, *Investment Tax Credit – Corporations*, to calculate the ITC.

A corporation earns ITCs by applying a specified percentage to the cost of acquiring certain property (investments) or on certain expenditures. However, you first have to reduce the capital cost of the property or the expenditure by any government or non-government assistance you received or will receive for that property or the expenditure. Any goods and services tax/harmonized sales tax (GST/HST) input tax credit or rebate received for property acquired is considered government assistance.

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

### Available-for-use rule

A corporation is not considered to have acquired a property or made capital expenditures for earning an investment tax credit until the property becomes **available for use**.

For more information about the available-for-use rule, see "When is property available for use?" on page 35.

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

### Investments and expenditures that qualify for an ITC

The following investments and expenditures earn an ITC:

A. the cost of acquiring qualified property;

B. SR&ED qualified expenditure pool;

C. pre-production mining expenditures;

D. apprenticeship expenditures; and

E. eligible child care spaces expenditures incurred after March 18, 2007.

The following are definitions of investments and expenditure:

A. **Qualified property** (other than certified property or approved project property) includes new prescribed buildings, machinery, or equipment acquired during the year to use in certain activities. See the "Activities that qualify for the investment tax credit" section that follows.

B. **Qualified expenditures and SR&ED** qualified expenditure pool are defined in subsection 127(9). SR&ED is defined in subsection 248(1).

C. **Pre-production mining expenditures** are defined in subsection 127(9).

D. **Apprenticeship expenditures** are defined in subsection 127(9).

E. **Eligible child care spaces expenditures** are defined in subsection 127(9).

### Activities that qualify for an ITC on qualified property

You can earn ITCs on qualified property acquired mainly for use in designated activities in specific areas.

The specific areas are Newfoundland and Labrador, Nova Scotia, Prince Edward Island, New Brunswick, the Gaspé Peninsula, and prescribed offshore regions.

Designated activities include, among others, the following:

- manufacturing or processing goods for sale or lease;
- prospecting, exploring, extracting, and developing minerals;
- exploring, drilling, operating an oil or gas well, and extracting oil or natural gas;
- processing ore, iron ore, or tar sands to the prime metal stage only;
- logging;
- farming or fishing; and
- Canadian field processing.

In addition, the following rules apply to certain corporations that lease qualified properties:

- For a corporation with a principal business of leasing property, lending money, or purchasing conditional sales contracts, accounts receivable, or other obligations, property acquired for the purposes of leasing it in the ordinary course of carrying on business in Canada is considered qualified property.
- For a corporation with a principal business of manufacturing property that it sells or leases, property acquired for leasing purposes is considered qualified property only if the corporation manufactures it and leases it in the ordinary course of its business in Canada.
- For a corporation with a principal business of selling or servicing property, property acquired for leasing purposes is considered qualified property only if it is a type of property that the corporation sells or services, and the property is leased in the ordinary course of carrying on business in Canada.

### Scientific research and experimental development (SR&ED) qualified expenditure pool

You have to file Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*, along with Schedule 31 when making a claim for an ITC on qualified expenditures for SR&ED. See page 43 for more information.

> **Note**
> You have to identify qualified SR&ED expenditures on Form T661 and Schedule 31 no later than 12 months after the filing due date for the year the expenditures were incurred (without reference to subsection 78(4)).

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

> **Note**
> A specified percentage of provincial or territorial deductions for scientific research and experimental development (SR&ED) in excess of the actual amount of the expenditure are treated as government assistance.

Generally, the **SR&ED qualified expenditure pool** will include all qualified SR&ED expenditures (current and capital expenditures) the corporation incurred in the year and any qualified expenditures transferred to the corporation under an agreement in paragraph 127(13)(e) (see Form T1146, *Agreement to Transfer Qualified Expenditures Incurred in Respect of SR&ED Contracts Between Persons Not Dealing at Arm's Length*). However, amounts the corporation transferred during the year, under paragraph 127(13)(d) (see Form T1146), will reduce this account.

**References**
Subsections 37(11) and 127(9)

### SR&ED investment tax credit and refund

You may earn a non-refundable ITC of 20% of the SR&ED qualified expenditure pool at the end of the tax year.

Some CCPCs can claim an additional ITC of 15% on the SR&ED qualified expenditure pool, up to their expenditure limit. A CCPC can earn refundable ITCs at the rate of 35% on current and capital SR&ED expenditures, up to its expenditure limit. A qualifying corporation can also earn refundable ITCs at the rate of 20% on expenditures in excess of the expenditure limit.

The **expenditure limit** is $3 million and is subject to a phase-out based on the taxable income and the taxable capital employed in Canada, of the CCPC and its associated corporations, for the previous tax year.

The expenditure limit begins to decrease when the taxable income before the application of the specified future tax consequences (see note below) of the CCPC and its associated corporations for the previous tax year exceeds $500,000 ($400,000 for tax years that start before 2010) and becomes nil at $800,000 ($700,000 for tax years that start before 2010) and higher.

The expenditure limit also begins to decrease when the taxable capital employed in Canada of the CCPC and its associated corporations for the previous tax year reaches $10 million and becomes nil at $50 million and higher.

If the corporation is associated with one or more corporations, you have to allocate the expenditure limit among the associated corporations on Schedule 49, *Agreement Among Associated Canadian Controlled Private Corporations to Allocate the Expenditure Limit*. See page 25 for details about Schedule 49.

CCPC's can earn ITCs at the rate of 35% on qualified SR&ED expenditures up to their expenditure limit of which 100% earned on current SR&ED expenditures and 40% earned on capital SR&ED expenditures is refundable if the ITC cannot be used in the year. The ITC earned at the rate of 20% on SR&ED expenditures that exceed the expenditure limit is not refundable to a corporation unless it is a qualifying corporation.

A **qualifying corporation** is a CCPC whose taxable income for the previous tax year 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 tax years ending in the same calendar year as the corporation's previous tax year) is not more than the total of the qualifying income limits of the corporation and the associated corporations for those previous years.

The **qualifying income limit** is $500,000 ($400,000 for tax years that start before 2010). It begins to decrease when the total taxable capital employed in Canada of the corporation and its associated corporations for the previous tax year reaches $10 million and becomes nil at $50 million.

Qualifying corporations can also earn ITCs at the rate of 35% on qualified SR&ED expenditures up to their expenditure limit of which 100% earned on current SR&ED expenditures and 40% earned on capital SR&ED expenditures is refundable if the ITC cannot be used in the year. For qualifying corporations, the ITCs earned above the expenditure limit are earned at the rate of 20% of which 40% earned on current and capital SR&ED expenditures is also refundable.

> **Note**
> The taxable income mentioned in the definition of expenditure limit and qualifying corporation is determined before taking into consideration the specified future tax consequences. These 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. For more information, see the definition of specified future tax consequence in subsection 248(1).

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

CCPCs that are associated only because of the above definition of a group will not be considered associated for the following calculations:

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

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

**References**
Section 127.1
Subsections 127(5) to 127(12) and 248(1)
Regulations 2902 and 4600
IT-151, *Scientific Research and Experimental Development Expenditures*

### Apprenticeship job creation tax credit

A corporation can earn an ITC equal to 10% of the eligible salaries and wages paid to eligible apprentices employed in the business in the tax year to a maximum credit of $2,000, per year, per apprentice.

An **eligible apprentice** is one who is working in a prescribed trade in the first two years of their apprenticeship contract. This contract is registered with Canada or a province or territory under an apprenticeship program designed to certify or license individuals in the trade. A prescribed trade will include the trades currently listed as Red Seal Trades. For more information about the trades, go to **www.red-seal.ca**. In addition, the Minister of Finance may in consultation with the Minister of Human Resources and Social Development, prescribe other trades.

**Eligible salaries and wages** are those payable by the employer to an eligible apprentice for the apprentices' employment in Canada in the tax year and during the first 24 months of the apprenticeship. Eligible salaries or wages do not include remuneration based on profits, bonuses, taxable benefits including stock options, and certain unpaid remuneration.

Where two or more related employers employ an apprentice, special rules apply to ensure that the $2,000 limit is allocated to only one employer.

An unused credit can be carried back 3 years, and carried forward 20 years.

Complete Parts 21 to 23 of Schedule 31 to calculate the credit.

### Investment tax credit (ITC) for child care spaces

An employer carrying on business in Canada, other than a child care services business, can claim a non-refundable tax credit to create one or more new child care spaces in a new or existing licensed child care facility for the children of their employees and for other children in the community. The non-refundable tax credit is equal to the lesser of $10,000 or 25% of the eligible expenditure per child care space created. Eligible expenditures include the cost of depreciable property (other than specified property), and the amount of specified start-up costs, acquired or incurred only to create the new child care space at a licensed child care facility.

Eligible depreciable property includes:

- the building or the part of the building in which the child care facility is located;
- furniture and appliances;
- computer and audio-visual equipment; and
- playground structures and equipment.

Specified child care start-up costs include the initial costs for:

- building permits and architect's fees;
- landscaping for the children's playground;
- regulatory inspections and licensing fees; and
- children's educational material.

Eligible expenditures do not include specified property such as motor vehicles, or a property that is, or is located in or attached to, a residence of: the taxpayer, an employee of the taxpayer, a person who holds an interest in the taxpayer, or any person related to a person referred to above.

The credit is not available for any of the ongoing expenses of the child care facility such as supplies, wages, salaries, or utilities.

The amount of the credit is added to the ITC pool and is available to reduce the federal taxes payable in the tax year. Any unused credits can be carried back 3 years or carried forward 20 years.

Complete Parts 24 to 28 of Schedule 31 to claim the credit.

The credit will be recovered against the taxpayer's tax otherwise payable under Part I of the Act if, at any time within the 60 months of the day on which the taxpayer acquired the property:

- the new child care space is no longer available; or
- property that was an eligible expenditure for this credit is sold or leased to another person or converted to another use.

For more information on the recapture, see line 602 on page 60.

### Investment tax credit (ITC) claim

You can deduct the full amount of ITC against federal Part I tax payable. If you are claiming an ITC for a depreciable property, including shared-use equipment, reduce the capital cost of the property in the next tax year by the amount of this year's ITC. If you are claiming an ITC for SR&ED expenditures, other than expenditures for shared-use equipment, reduce the SR&ED expenditure pool in the next tax year by the amount of this year's ITC. For more information, see Schedule 8, "Column 4 – Net adjustments," on page 37.

> **Note**
> A corporation cannot claim an ITC for an expense or expenditure incurred in the course of earning income if any of that income is exempt. ITCs also cannot be claimed for expenses or expenditures incurred in earning taxable income that is exempt from tax under Part I.

**References**
Subsections 13(7.1) and 37(1)

You can carry forward ITCs not previously deducted for 20 years, or carry them back 3 years, to reduce Part I tax. Remember that you can only carry back ITCs to a prior year if you cannot deduct them in the year you earn them.

Special rules restrict the carryforward and carryback of ITCs following an acquisition of control.

**References**
Paragraph 127(5)(a)
Subsections 127(9.1), 127(9.2), and 127(36)

### When to complete Schedule 31

Complete and file Schedule 31 with the return if the corporation:

- acquired any qualified property or incurred any expenditures qualifying for ITC purposes;
- is carrying forward unused ITCs from a previous year;
- is transferring unused ITCs from a predecessor corporation on amalgamation, or from a subsidiary corporation on wind-up;
- is applying ITCs against Part I tax;
- is requesting a carryback of unused ITCs to a prior tax year; or
- is requesting a refund of unused ITCs.

Complete Schedule 31 and enter the amount of the ITC for the current year on line 652.

> **Note**
> Eligibility for an ITC is limited to those expenses or expenditures identified in Schedule 31 filed within 12 months of the filing due date for the tax year in which the expenses were made or incurred [without reference to subsection 78(4)].

### Investment tax credit refund

For information about CCPCs claiming a refund of ITC for scientific research and experimental development, see "SR&ED investment tax credit and refund" on page 65.

Any ITC you earned in the tax year must first be used to reduce taxes payable to zero before the remainder can be claimed as a refund.

You have to file Schedule 31 to claim the ITC refund. On line 780 of your return, enter the ITC refund claim calculated on Schedule 31.

## Part I tax payable

Part I tax payable for the year is the basic Part I tax **plus** the amount of recapture of ITC and the refundable tax on the CCPC's investment income (line A plus lines B, C, and D), **minus** any allowable deductions and credits (line F).

Enter this amount on line G, and also on line 700 in the "Summary of tax and credits" section on page 8 of your return.

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## Summary of tax and credits

In the "Summary of tax and credits" area of your return, summarize the amounts of federal and provincial or territorial tax payable, as well as the credits and refunds claimed to reduce total tax payable.

## Federal tax

### Line 700 – Part I tax payable

On line 700, enter the amount of Part I tax payable that you determined on line G of page 7.

### Line 708 – Part II surtax payable

Under Part II, tobacco manufacturers have to pay surtax equal to 50% of Part I tax on tobacco manufacturing profits for the year.

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

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

**Reference**
Section 182

### Line 710 – Part III.1 tax

A corporation that designates dividends as **eligible dividends** that exceed its capacity to pay such dividends is subject to Part III.1 tax. The tax is equal to 20% of the excessive eligible dividend designation.

Use Schedule 55, *Part III.1 Tax On Excessive Eligible Dividend Designations*, to calculate any Part III.1 tax payable and file it with your T2 return.

> **Note**
> Every corporation resident in Canada that pays a taxable dividend in the year, other than a capital gains dividend, must file this schedule.

In the case where an excessive eligible dividend designation is determined to be part of a tax avoidance scheme, the 20% tax plus an additional 10% tax will apply to the whole dividend designation.

#### Eligible dividend

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

#### General rate income pool (GRIP)

A CCPC or a deposit insurance corporation may pay eligible dividends to the extent of its GRIP—a balance generally reflecting taxable income that has **not** benefited from the small business deduction or any other special tax rate—without incurring Part III.1 tax. The GRIP is calculated at the end of the tax year. However, a corporation can pay eligible dividends over the course of the year as long as, at the end of the year, the eligible dividends paid do not exceed its GRIP.

Use Schedule 53, *General Rate Income Pool (GRIP) Calculation*, to determine the GRIP and file it with your T2 return. You should file this schedule if you paid an eligible dividend in the tax year, or if your GRIP balance changed, to ensure that the GRIP balance on our records is correct.

#### Low rate income pool (LRIP)

A corporation resident in Canada that is neither a CCPC nor a deposit insurance corporation will be able to pay eligible dividends in any amount unless it has an LRIP. The LRIP is generally made up of taxable income that has benefited from certain preferential tax rates. The corporation will have to reduce its LRIP to zero by paying out ordinary dividends before it can pay an eligible dividend, or it will be subject to Part III.1 tax. The LRIP must be calculated at any time of the year (whenever a dividend is paid or received or any other event that occurs that affects the LRIP balance in the year).

Use Schedule 54, *Low Rate Income Pool (LRIP) Calculation*, to determine the LRIP, throughout the year. File the completed schedule with your T2 return. All other calculations including the worksheets should be kept with your records in case we ask for them at a later date.

#### Election not to be a Canadian-controlled private corporation

A CCPC can elect not to be a CCPC for purposes of this new dividend treatment. If it so elects, it is deemed not to be a CCPC for the tax year in which it makes the election and all later tax years, until it revokes the election. The CCPC will lose its entitlement to the small business deduction. However, no other benefits of CCPC status will be affected.

A corporation that revokes an election will become a CCPC again for the tax year that follows the tax year in which the revocation is made.

Use Form T2002, *Election, or Revocation of an Election, Not To Be a Canadian-Controlled Private Corporation*, to make or to revoke an election previously made, and file it by the due date of the T2 return. We will not accept an election or revocation of an election after the filing due date.

> **Note**
> A corporation that has previously revoked an election must get written consent from us to make or revoke another election.

#### Election to treat excessive eligible dividend designations as ordinary dividends

Corporations that make excessive eligible dividend designations may be allowed to elect to treat the excessive amounts paid as ordinary dividends. In order to do so, the corporation must have the concurrence of its shareholders who received, or were entitled to receive, the dividend and whose addresses are known to the corporation. For more information, go to:
**www.cra.gc.ca/tx/bsnss/tpcs/crprtns/dvdnds/lctn-eng.html**

Corporations cannot elect to treat excessive eligible dividend designations that are subject to the 30% Part III.1 tax as ordinary dividends.

**References**
Sections 185.1 and 185.2
Subsections 89(11) to (14)

## Line 712 – Part IV tax payable

Use Parts 1 and 2 of Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*, to calculate Part IV tax payable on taxable dividends you received.

### Dividends subject to Part IV tax

The following types of dividends are subject to Part IV tax:

- taxable dividends from corporations that are deductible under section 112 when you calculate taxable income; and
- taxable dividends from foreign affiliates that are deductible under paragraphs 113(1)(a), (b), or (d), or subsection 113(2) when you calculate taxable income.

Taxable dividends received are only subject to Part IV tax if the corporation receives them while it is a **private or subject corporation**. Taxable dividends received from a non-connected corporation are subject to Part IV tax.

Taxable dividends received from a **connected corporation** are subject to Part IV tax only when paying the dividends generates a dividend refund for the payer corporation. The Part IV tax rate is 33 1/3%.

### Definitions

#### Private corporation

A private corporation is a corporation that is:

- resident in Canada;
- not a public corporation;
- not controlled by one or more public corporations (other than a prescribed venture capital corporation);
- not controlled by one or more prescribed federal Crown corporations; and
- not controlled by any combination of prescribed federal Crown corporations and public corporations.

**Reference**
Subsection 89(1)

#### Subject corporation

A subject corporation is a corporation, other than a private corporation, that is resident in Canada and is controlled by or for the benefit of either an individual other than a trust, or a related group of individuals other than trusts.

**Reference**
Subsection 186(3)

#### Connected corporation

A payer corporation is connected to the corporation that receives the dividends (the recipient) if the recipient controls the payer corporation. The payer and recipient corporations are also connected when:

- the recipient owns more than 10% of the issued share capital (with full voting rights) of the payer corporation; and
- the recipient owns shares of the capital stock of the payer corporation with a fair market value of more than 10% of the fair market value of all the issued share capital of the payer corporation.

You determine control of the corporation by considering the actual ownership of shares, without taking into account any rights referred to in paragraph 251(5)(b).

For purposes of Part IV tax, a payer corporation is controlled by a recipient corporation if more than 50% of the payer's issued share capital (having full voting rights) belongs to the recipient, to persons with whom the recipient does not deal at arm's length, or to any combination of these persons.

**References**
Subsections 186(2) and (4)

### Exempt corporations

The following types of corporations are exempt from Part IV tax:

A. a corporation that was bankrupt at any time during the year; or

B. a corporation that, throughout the year, was:

   - a prescribed labour-sponsored venture capital corporation;
   - a prescribed investment contract corporation;
   - an insurance corporation;
   - a corporation licensed as a trustee;
   - a bank; or
   - a registered securities dealer that was, throughout the year, a member of a designated stock exchange in Canada.

**Reference**
Section 186.1

### Exempt dividends

A corporation that is a prescribed venture capital corporation throughout the year does not have to pay Part IV tax on dividends it received from a prescribed qualifying corporation.

**References**
Section 186.2
Regulation 6704

### Dividends not taxable

Any dividends that a corporation received from a capital dividend account are not taxable, as long as the payer corporation made an election under section 83. Therefore, if these non-taxable dividends are included as income, they should be deducted as an adjustment on Schedule 1.

### Parts 1 and 2 of Schedule 3

In the following section we provide details on Parts 1 and 2 of Schedule 3. Parts 3 and 4 are explained on page 58.

### Part 1 – Dividends received in the tax year

Complete Part 1 to identify dividends, both taxable and non-taxable, received during the tax year and to calculate Part IV tax before deductions. Public corporations (other than subject corporations) do not need to calculate Part IV tax.

> **Note**
> If more than one corporation paid dividends, you have to do a separate calculation for each payer corporation. If dividends were paid in different payer corporations' tax years, you have to do separate calculations for each of the tax years.

On line 320 of the return, enter the amount of taxable dividends deductible from taxable income under section 112, subsections 113(2) and 138(6), and paragraph 113(1)(a), (b), or (d).

### 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 below for details.

You can reduce the amount of dividends subject to Part IV tax by using non-capital losses and farm losses incurred in the tax year or carried forward from prior years.

On line 712 of the return, enter the amount of Part IV tax payable on taxable dividends received.

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

## Line 716 – Part IV.1 tax payable

Complete Schedule 43, *Calculation of Parts IV.1 and VI.1 Taxes*, to calculate Part IV.1 tax payable.

### Part 4 of Schedule 43 – Calculation of Part IV.1 tax

Part 4 gives details on how to calculate Part IV.1 tax.

Public corporations and certain other corporations may be subject to the 10% Part IV.1 tax on dividends they receive on taxable preferred shares. A **restricted financial institution** is also subject to tax on dividends received on **taxable restricted financial institution shares** (see subsection 248(1) for definitions of these terms).

The issuer of taxable preferred shares can elect to pay a 40% tax under Part VI.1 on dividends on taxable preferred shares. This election exempts the holder of these shares from the 10% tax under Part IV.1. For details, see line 724 below.

**Excepted dividends**, which are defined in section 187.1, are not subject to Part IV.1 tax. For example, an excepted dividend is one the corporation receives on a share of another corporation in which the corporation had a substantial interest at the time it received the dividend.

On line 716, enter the amount of Part IV.1 tax payable that you calculated on line 340 of Schedule 43.

**References**
Sections 187.1 to 187.6
Subsection 191.2(1)

## Line 720 – Part VI tax payable

You have to complete Schedule 38, *Part VI Tax on Capital of Financial Institutions*, to calculate Part VI tax.

Part VI levies a tax on a financial institution's taxable capital employed in Canada. Part VI tax is 1.25% of the taxable capital employed in Canada that is more than the $1 billion capital deduction for the year.

If the corporation is a member of a related group, you have to allocate the capital deduction among the members.

Use Schedule 39, *Agreement Among Related Financial Institutions – Part VI Tax*, to allocate the capital deduction. File this agreement with your return.

> **Note**
> Schedule 39 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 39 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

Under subsection 190.1(3), you can deduct Part I tax from Part VI tax payable. This is called the Part I tax credit. You can deduct any unused Part I tax credits from Part VI tax in any of the three previous and seven following tax years.

To calculate the balance of unused Part I tax credits and to carry back this credit, you can use Schedule 42, *Calculation of Unused Part I Tax Credit*.

You could also deduct Canadian surtax payable for the year from Part VI tax payable. This was called the surtax credit. As the surtax was eliminated effective January 1, 2008, you can now only deduct an unused surtax credit from Part VI tax payable in the seven following tax years that they were earned in.

To calculate the balance of your unused surtax credit, you can use Schedule 37, *Calculation of Unused Surtax Credit.*

**Financial institutions** include banks, trust companies, life insurance corporations, certain holding corporations, and corporations that accept deposits and carry on the business of lending money on the security of real estate or investing in mortgages or hypothecs on real estate.

File Schedule 38 with your return if you have Part VI tax payable, or would have, if not for the deduction of a Part I tax credit or surtax credit.

On line 720, enter the amount of Part VI tax payable that you calculated on line 890 of Schedule 38.

**References**
Sections 190, 190.1, and 190.11 to 190.15

## Line 724 – Part VI.1 tax payable

Complete the following schedules if required:

- Schedule 43, *Calculation of Parts IV.1 and VI.1 Taxes*; and
- Schedule 45, *Agreement Respecting Liability for Part VI.1 Tax.*

See the following headings for more details.

#### Part 1 of Schedule 43 – Calculation of dividend allowance

Calculate the dividend allowance on Part 1 of Schedule 43.

Generally, the first $500,000 of dividends paid in the year on taxable preferred shares is exempt from Part VI.1 tax liability. This basic annual exemption is called the **dividend allowance**.

However, the $500,000 dividend allowance is reduced if you paid more than $1 million of dividends on taxable preferred shares in the previous year.

#### Part 2 of Schedule 43 – Agreement among associated corporations to allocate the dividend allowance

If you are a member of an associated group, you have to allocate the dividend allowance between the members. Part 2 provides an area for this allocation.

#### Part 3 of Schedule 43 – Calculation of Part VI.1 tax

Complete Part 3 of Schedule 43 to calculate Part VI.1 tax. Part VI.1 tax is levied on dividends (other than certain excluded dividends) you paid on short-term preferred shares and taxable preferred shares.

You are subject to a tax of 50% on dividends you paid on **short-term preferred shares** that are more than the annual dividend allowance.

This rate is decreased to 45% for dividends paid in tax years ending after 2009 and before 2012, and to 40% for dividends paid in tax years ending after 2011.

You are subject to a tax of 25% and/or 40% on dividends you paid on **taxable preferred shares** (other than short-term preferred shares) that are more than any remaining dividend allowance.

See subsection 248(1) for definitions of the terms **short-term preferred shares** and **taxable preferred shares**.

#### Schedule 45, *Agreement Respecting Liability for Part VI.1 Tax*

Complete Schedule 45 to certify the transfer of Part VI.1 tax liability and send it to us with Schedule 43.

A corporation (the transferor) can transfer all or part of its Part VI.1 tax liability to another corporation (the transferee), if the corporations were related throughout the following tax years:

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

You can deduct Part VI.1 tax payable from income. See page 51 for more information. Any Part VI.1 tax that is left over after the taxable income is reduced to zero is part of the non-capital loss for the year. See page 44 for details.

On line 724, enter the amount of Part VI.1 tax payable you calculated on line 270 of Schedule 43.

**References**
Sections 191, and 191.1 to 191.4

### Line 727 – Part XIII.1 tax payable

Every authorized foreign bank is subject to Part XIII.1 tax equal to 25% of its taxable interest expense for the year.

You have to show your calculations on a separate schedule. Identify these calculations as Schedule 92, *Part XIII.1 Tax – Additional Tax on Authorized Foreign Banks*, since we do not print this schedule. For more information, see Part XIII.1 tax.

On line 727 of the return, enter the amount of Part XIII.1 tax payable.

### Line 728 – Part XIV tax payable

Every corporation that is non-resident in a tax year is subject to Part XIV tax.

Part XIV tax is 25%, but a tax treaty can reduce this percentage. In addition, a tax treaty may restrict the Part XIV tax to corporations that carry on business in Canada through a permanent establishment in Canada.

You have to complete Schedule 20, *Part XIV – Additional Tax on Non-Resident Corporations*, to calculate Part XIV tax. On line 728 of the return, 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 "Corporation Internet Filing" on page 9 and "Where do you file your paper return?" on page 10.

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

## Provincial and territorial tax

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

All other provinces and territories legislate their corporation income tax provisions, but the CRA administers them. These provinces and territories do not charge income tax on the taxable income of corporations that are exempt from tax under section 149.

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

### Permanent establishment

A permanent establishment in a province or territory is usually a fixed place of business of the corporation, which includes an office, branch, oil well, farm, timberland, factory, workshop, warehouse, or mine. If the corporation does not have a fixed place of business, the corporation's permanent establishment is the principal place in which the corporation's business is conducted.

If the corporation carries on business through an employee or an agent established in a particular place, it is considered

to have a permanent establishment in that place if the employee or agent:

- has general authority to contract for the corporation; or
- has a stock of merchandise owned by the corporation from which the employee or agent regularly fills orders received.

For 2009 and later tax years, a corporation that would not otherwise have any permanent establishment in a province or territory is deemed to have a permanent establishment at the place designated in its incorporation documents or bylaws as its head office or registered office. So, whether or not the corporation carries on a business in a province or territory, it is entitled to the 10% federal abatement, but subject to provincial or territorial taxation.

See Regulation 400(2) for a complete definition of permanent establishment.

**References**
Regulation 400(2)
IT-177, *Permanent Establishment of a Corporation in a Province*

## Line 750 – Provincial or territorial jurisdiction

On line 750, give the name of the province or territory where you earned your income. Usually, this is where the corporation has its permanent establishment.

If you earned income in more than one province or territory, write "multiple" on line 750 and file Schedule 5, *Tax Calculation Supplementary – Corporations*, with your return. See below for instructions on how to complete Schedule 5.

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

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

**Reference**
Subsection 124(4)

## Line 760 – Net provincial and territorial tax payable

If your provincial or territorial jurisdiction is not Quebec or Alberta, and you do not need to complete Schedule 5, enter your provincial or territorial tax payable on line 760.

If you do need to complete Schedule 5, the net amount of provincial or territorial tax will be calculated on line 255 of the schedule. If this amount is positive enter it on line 760 of the return. If this amount is negative, enter it on line 812 of the return.

The following section explains when and how to complete Schedule 5.

## Schedule 5, *Tax Calculation Supplementary – Corporations*

You have to complete Schedule 5 if:

- there is a permanent establishment in more than one province or territory (complete Part 1), whether or not you are taxable (if taxable, also complete Part 2);
- the corporation is claiming provincial or territorial tax credits, or rebates (complete Part 2); or
- the corporation has to pay taxes other than income tax (see "Part 2 of Schedule 5" below).

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

For information on the calculation of tax for each province and territory, see the sections that follow in this chapter.

### Part 1 of Schedule 5 – Allocation of taxable income

You must complete Part 1 of Schedule 5 if you had a permanent establishment in more than one province or territory. Complete columns A to F for each province or territory in which you had a permanent establishment in the tax year. If there is no taxable income, you only have to complete columns A, B and D.

> **Note**
> This also applies to corporations with permanent establishments in Quebec or Alberta.

We assess provincial or territorial income taxes on the amount of taxable income allocated to each province or territory. See Regulation 402 for details on how to allocate taxable income.

Generally, to allocate taxable income to each province or territory, you have to use a formula based on gross revenue, and salaries and wages. See Part 1 of Schedule 5 for details.

You will find the general rules on how to allocate gross revenue in Regulation 402.

Do not include any of the following amounts in gross revenue:

- interest on bonds, debentures, or mortgages;
- dividends on shares of capital stock; or
- rents or royalties from property that are not part of the principal business operations.

Allocate gross salaries and wages paid in the year to the permanent establishment in which those salaries and wages were paid. Do not include in gross salaries and wages any commissions paid to a person who is not an employee. The allocation of salaries paid through a central paymaster is subject to the deeming rules under Regulation 402.1.

See Regulations 403 to 413 for details on special methods for allocating taxable income for the following types of businesses:

- insurance corporations (Regulation 403);
- banks (Regulation 404);
- trust and loan corporations (Regulation 405);
- railway corporations (Regulation 406);
- airline corporations (Regulation 407);

- grain elevator operators (Regulation 408);
- bus and truck operators (Regulation 409);
- ship operators (Regulation 410);
- pipeline operators (Regulation 411);
- divided businesses (Regulation 412);
- non-resident corporations (Regulation 413); and
- international banking centres (Regulation 413.1).

In field 100, enter the regulation number that applies to attribute the taxable income.

**References**
Regulations 400 to 413.1

### Part 2 of Schedule 5 – Provincial and territorial tax credits and rebates

Complete Part 2 of Schedule 5 if:

- there is provincial or territorial tax (and a permanent establishment in more than one province or territory);
- there is a claim for provincial or territorial tax credits or rebates; or
- there is a claim for provincial or territorial refundable tax credits.

**Note**
Corporations with a permanent establishment in Quebec or Alberta must complete the appropriate provincial corporation returns and schedules to report provincial tax and claim provincial credits and rebates.

For tax years ending in 2009 or later, corporations with a permanent establishment in Ontario must also complete Part 2 of Schedule 5 if one of the three **previous** or six **following** conditions applies: The corporation:

- is claiming the Ontario small business deduction;
- is claiming the Ontario credit union reduction;
- has an addition to Ontario basic income tax (such as a transitional tax debit);
- has Ontario corporate minimum tax payable;
- has Ontario special additional tax on life insurance corporations payable; or
- has Ontario capital tax payable.

For tax years that start after October 31, 2008, corporations must also complete Part 2 of Schedule 5 if they have Newfoundland and Labrador capital tax on financial institutions payable.

On line 255 of Schedule 5, enter the net amount of provincial and territorial tax payable or the net amount of refundable credits. When the result is positive, enter the net provincial or territorial tax payable on line 760 of the return. When the result is negative, enter the refundable provincial or territorial tax credit on line 812 of the return. Attach to your return any forms you completed to claim provincial or territorial credits or rebates.

In the following sections, you will find information about provincial and territorial tax rates, foreign tax credits, and details on the provincial and territorial credits and rebates.

## Dual rates of provincial and territorial income tax

Generally, provinces and territories have two rates of income tax: the **lower rate** and the **higher rate**.

The lower rate applies to the income eligible for the federal small business deduction. One component of the small business deduction is the business limit. Some provinces or territories choose to use the federal business limit. Others establish their own business limit.

The higher rate applies to all other income. For detailed information on the income eligible for each rate and the rates that apply to each province and territory, see the sections that follow in this chapter.

**Example 1**
X Inc. earned all of its income in 2010 from its permanent establishment in Saskatchewan. X Inc. claimed the small business deduction when it calculated its federal tax payable. The income from active business carried on in Canada was $78,000.

The Saskatchewan **lower rate** of tax is 4.5%. The **higher rate** of tax is 12%.

X Inc. calculates its Saskatchewan 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 (from the T2 return) | $78,000 |
| Amount taxed at higher rate | $12,000 |
| Taxes payable at the lower rate: | |
| $78,000 × 4.5% = | $ 3,510 |
| Taxes payable at the higher rate: | |
| $12,000 × 12% = | $ 1,440 |
| Saskatchewan tax payable | $ 4,950 |

When you allocate taxable income to more than one province or territory, you also have to allocate proportionally any income eligible for the federal small business deduction.

**Example 2**
Y Inc. has permanent establishments in both Nova Scotia **and** the Yukon. Its tax year runs from September 1, 2009, to August 31, 2010.

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

The **lower rate** of tax for Nova Scotia is 5%, and the **higher rate** of tax is 16%.

To calculate its Nova Scotia income tax, Y Inc. does the following calculations:

| | |
|---|---|
| Taxable income allocated to Nova Scotia (from Schedule 5) | $60,000 |
| Taxable income allocated to the Yukon (from Schedule 5) | $30,000 |
| Total taxable income earned in Canada | $90,000 |
| Least of lines 400, 405, 410, or 425 in the federal small business deduction calculation (from the T2 return) | $78,000 |
| Income eligible for the federal small business deduction attributed to Nova Scotia: | |
| $60,000 × $78,000 = / $90,000 | $52,000 |
| Taxable income earned in Nova Scotia | $60,000 |
| **Subtract:** Income eligible for the federal small business deduction attributed to Nova Scotia | $52,000 |
| Amount taxed at higher rate | $ 8,000 |
| Taxes payable at higher rate: | |
| $8,000 × 16% = | $ 1,280 |
| Taxes payable at lower rate: | |
| $52,000 × 5% = | $ 2,600 |
| Nova Scotia tax payable | $ 3,880 |

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

On the appropriate lines of Part 2 of Schedule 5, enter the gross amount of each provincial or territorial tax payable.

## Provincial or territorial foreign tax credits

Every province and territory allows a corporation to claim a foreign tax credit for taxes it paid to another country on foreign **non-business income**. This credit reduces the provincial tax otherwise payable.

However, you cannot claim foreign tax credits for the provinces of Quebec and Alberta on the federal return, because these provinces collect their own income taxes.

The provincial or territorial foreign tax credit is available to a corporation that:

- is resident in Canada throughout the tax year;
- has a permanent establishment in the province or territory at any time in the tax year; and
- has foreign investment income for the tax year.

For Ontario, an authorized foreign bank is eligible for the foreign tax credit if it performed Canadian banking business.

The tax credit can only be claimed if the foreign non-business income tax paid exceeds the federal foreign non-business income tax credit deductible for the year.

For each province or territory for which you are claiming a credit, you have to do a separate calculation. Also, if you paid tax to more than one foreign country you have to do a separate calculation for each country.

If dual rates of corporate tax apply, use the higher rate when you calculate the foreign tax credit. For Ontario, use the basic rate of tax.

To claim the foreign tax credit, complete Schedule 21, *Federal and Provincial or Territorial Foreign Income Tax Credits and Federal Logging Tax Credit*.

> **Note**
> If the tax rate has changed during the tax year, you have to prorate the calculation in Part 9 of Schedule 21 using the number of days in each period. For British Columbia, **prorate the tax rate** in each period, round off the prorated rates to the nearest one-thousandth of 1 percent (= 0.001%), and add the rounded percentages for the periods **before** multiplying by the foreign non-business income.

On the appropriate lines of Part 2 of Schedule 5, enter the applicable provincial and territorial foreign tax credits.

## Newfoundland and Labrador

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

Effective for tax years beginning on or after April 1, 2010, the small business income tax rate is reduced from 5% to 4%.

The **higher rate** of income tax is 14%. This higher rate applies to taxable income earned in Newfoundland and Labrador that does **not** qualify for the federal small business deduction.

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

On line 200 and/or 205 of Schedule 5, enter the amount of tax calculated.

### Newfoundland and Labrador capital tax on financial institutions

A provincial tax is levied on the taxable capital of financial institutions that have a permanent establishment in Newfoundland and Labrador. This tax applies to banks and trust and loans corporations.

A capital deduction of $5 million is available to a corporation that is not a member of a related group and has a capital of $10 million or less. If the corporation is a member of a related group, a capital deduction of $5 million to be allocated among members of the related group is available as long as the combined capital of all members of the related group is $10 million or less.

Use Schedule 306, *Newfoundland and Labrador Capital Tax on Financial Institutions – Agreement Among Related Corporations*, to allocate the capital deduction. File this agreement with your return.

The tax is equal to 4% of the amount by which the corporation's taxable capital employed in the province for the year, including the offshore area, exceeds its capital deduction for the year.

Corporations that are liable to pay this tax have to file Schedule 305, *Newfoundland and Labrador Capital Tax on Financial Institutions*.

On line 518 of Schedule 5, enter the provincial tax on financial institutions payable.

A penalty applies to financial institutions that have to pay this tax and do not file the required return on time. For details, see "Penalties" on page 11.

Instalment payment requirements are the same as for Part I tax. For details, see "Instalment due dates" on page 11.

The provincial capital tax cannot be reduced by any tax credits. However, you can deduct the capital tax payable when calculating federal income for tax purposes.

### Newfoundland and Labrador political contribution tax credit

You can claim a tax credit on contributions made to registered political parties, registered district associations, or registered non-affiliated candidates, as defined under the *Elections Act, 1991*, of Newfoundland and Labrador, as follows:

- 75% of the first $100 contributed;

**plus**

- 50% of the next $450 contributed;

**plus**

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500**.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 891 of Schedule 5, enter the total amount of qualifying contributions, and on line 500, enter the amount of the credit you are claiming.

### Newfoundland and Labrador manufacturing and processing profits tax credit

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

This credit cannot be claimed unless the corporation has engaged in manufacturing or processing in the tax year from a permanent establishment in Newfoundland and Labrador.

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

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

### Newfoundland and Labrador direct equity tax credit

You can claim this credit for an investment in eligible shares of a business with which you deal at arm's length.

There are two tax credit rates. For qualifying activities undertaken in the province outside the Northeast Avalon, a 35% rate applies. For qualifying activities undertaken within the Northeast Avalon, a 20% rate applies. In cases where qualifying activities are undertaken in both areas, a reasonable proration applies.

The maximum credit you can claim is $50,000 per year, including any amounts carried back or carried forward.

This credit must be claimed against tax otherwise payable before the Newfoundland and Labrador small business tax holiday. You can carry forward unused credits for seven years or back three years.

The province of Newfoundland and Labrador will issue Form NLDETC-1, *Newfoundland and Labrador Direct Equity Tax Credit,* for eligible investments. File this form with your T2 return.

To claim the credit, file a completed Schedule 303, *Newfoundland and Labrador Direct Equity Tax Credit.* See the schedule for more details.

On line 505 of Schedule 5, enter the amount of the credit.

### Newfoundland and Labrador resort property investment tax credit

You can claim this credit if you make an investment in a qualifying resort development property in Newfoundland and Labrador after June 13, 2007, but not more than five years after the qualifying resort development property was first made available for sale. The investment must be made at arm's length. The credit is equal to 45% of the amount invested to a lifetime maximum credit of $150,000.

The maximum credit you can claim in the tax year is $50,000, including any amounts carried back or carried forward.

This credit must be claimed against tax otherwise payable before the Newfoundland and Labrador small business tax holiday. You can carry forward unused credits to the seven following tax years or back to the three previous tax years.

The Province of Newfoundland and Labrador will issue Form NLRPITC-1, *Newfoundland and Labrador Resort Property Investment Tax Credit*, for qualifying investments. File this form with your T2 return.

To claim the credit, file a completed Schedule 304, *Newfoundland and Labrador Resort Property Investment Tax Credit.* See the schedule for more details.

On line 507 of Schedule 5, enter the amount of the credit you are claiming.

### Newfoundland and Labrador small business tax holiday

The province of Newfoundland and Labrador will issue a Small Business Tax Holiday Certificate (NLSBTH) to eligible new businesses incorporated between April 1, 2003, and March 31, 2006, that operate in designated growth sectors of the economy and are not associated with another business.

For businesses located on the Northeast Avalon Peninsula, the tax holiday will be provided for the new company's first three fiscal years. For those located outside the

Northeast Avalon, the tax holiday will apply for the first five fiscal years.

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

On lines 832 and 511 of Schedule 5, enter the certificate number and the amount you are claiming.

#### Newfoundland and Labrador research and development tax credit

You can claim this credit if you have a permanent establishment in Newfoundland and Labrador and if you made eligible expenditures for research and development carried out in Newfoundland and Labrador. The credit is equal to 15% of eligible expenditures.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

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

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

#### Newfoundland and Labrador film and video industry tax credit

The Minister of Finance for the province of Newfoundland and Labrador will issue a tax credit certificate to a corporation that produces an eligible film or video in the province.

The amount of the credit is equal to the lesser of 40% of eligible salaries paid in the tax year to residents of the province or 25% of the total production costs for each eligible film or video.

The tax credit:

- applies to eligible salaries incurred before January 1, 2014; and
- is a maximum of $3 million for each eligible corporation, together with all corporations associated with that corporation, for all eligible films or videos begun in a 12-month period.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file the certificate(s) (or a copy) with your return. Keep a copy for your records.

If there is only one certificate, enter the certificate number on line 821 of Schedule 5. If there is more than one certificate, complete Schedule 302, *Additional Certificate Numbers for the Newfoundland and Labrador Film and Video Industry Tax Credit*, and file it with your return.

On line 521 of Schedule 5, enter the amount of the credit earned in the current year.

### Prince Edward Island

The **lower rate** of Prince Edward Island income tax is:

- 3.2% effective April 1, 2008;
- 2.1% effective April 1, 2009; and
- 1% effective April 1, 2010.

The tax is prorated based on the number of days in the year when the tax year straddles these dates.

This rate applies to:

- taxable income earned in Prince Edward Island that qualifies for the federal small business deduction; and
- a credit union's income that qualifies for the additional deduction under subsection 137(3).

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

On line 210 of Schedule 5, enter the amount of tax calculated.

#### Prince Edward Island political contribution tax credit

You can claim a tax credit on contributions made to recognized Prince Edward Island political parties, and to candidates who were officially nominated under the *Elections Act* of Prince Edward Island, as follows:

- 75% of the first $100 contributed;

**plus**

- 50% of the next $450 contributed;

**plus**

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500**.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 892 of Schedule 5, enter the total amount of qualifying contributions, and on line 525, enter the amount of credit you are claiming.

#### Prince Edward Island corporate investment tax credit

Corporations that have acquired qualified property are eligible for this credit. Apply the credit to reduce the Prince Edward Island tax payable.

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

The credit can be renounced but must include all current year credits. Partial renouncements are not permitted. The renouncement must be filed on or before the filing due date of the income tax return.

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

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

## Nova Scotia

The **lower rate** of Nova Scotia income tax is 5%.

Effective January 1, 2011, the small business income tax rate will be reduced from 5% to 4.5%. This rate will be pro-rated for tax years that straddle January 1, 2011.

The Nova Scotia business limit is $400,000.

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

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

You can use Schedule 346, *Nova Scotia Corporation Tax Calculation*, to help you calculate the Nova Scotia tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

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

### Nova Scotia tax on large corporations

A provincial tax is levied on the taxable capital of large corporations that have a permanent establishment in Nova Scotia, except for:

- corporations mentioned in subsection 181.1(3) of the federal *Income Tax Act;* and
- banks, credit unions, trust and loan companies.

The Nova Scotia tax on large corporations will be completely eliminated by 2012.

A capital deduction of $5 million is available to a corporation that is not a member of a related group and has taxable capital employed in Canada of less than $10 million. If the corporation is a member of a related group, a capital deduction of $5 million to be allocated among members of the related group is available as long as the combined taxable capital of all members of the related group is less than $10 million.

Use Schedule 343, *Nova Scotia Tax on Large Corporations – Agreement Among Related Corporations*, to allocate the capital deduction. File this agreement with your return.

**Note**
Schedule 343 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 343 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

The tax rates of a corporation when the taxable capital employed in Canada of all related corporations is less than $10 million are as follows:

- 0.4% effective July 1, 2008;
- 0.3% effective July 1, 2009;
- 0.2% effective July 1, 2010;
- 0.1% effective July 1, 2011; and
- 0% effective July 1, 2012.

The tax rates of a corporation when the taxable capital employed in Canada of all related corporations is $10 million or more are as follows:

- 0.2% effective July 1, 2008;
- 0.15% effective July 1, 2009;
- 0.1% effective July 1, 2010;
- 0.05% effective July 1, 2011; and
- 0% effective July 1, 2012.

These rates apply to the taxable capital allocated to the province of Nova Scotia including the Nova Scotia offshore area.

The tax is prorated based on the number of days in the year when the tax year straddles these dates.

Corporations that are liable to pay the Nova Scotia tax on large corporations have to file Schedule 342, *Nova Scotia Tax on Large Corporations*. Use this schedule to also calculate and claim the Nova Scotia energy tax credit (see below).

On line 765 of the T2 return, enter the provincial tax on large corporations payable.

A penalty applies to large corporations that have to pay this tax and do not file the required return on time. For details, see "Penalties" on page 12.

Instalment payment requirements are the same as for Part I tax. For details, see "Instalment due dates" on page 11.

The provincial capital tax cannot be reduced by any tax credits, except the energy tax credit; however, you can deduct the capital tax payable when calculating federal income for tax purposes.

#### Nova Scotia energy tax credit

This is a non-refundable tax credit equal to 25% of eligible capital investments in Nova Scotia on renewable energy sources or energy efficiency investments made by a corporation in a given year. The credit can be used to reduce up to a maximum of 50% of the provincial capital tax payable in a tax year. Any unused credit can be carried forward seven tax years.

A corporation can renounce the energy tax credit. The renouncement must be filed on or before the filing due date of the income tax return.

Complete Schedule 342, *Nova Scotia Tax on Large Corporations*, to calculate and claim this credit.

### Nova Scotia political contribution tax credit

You can claim a tax credit on contributions made to candidates and recognized parties, as defined under the Nova Scotia *Elections Act*. The amount that you can claim is the lesser of:

- 75% of the total contributions;

and

- $750.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 893 of Schedule 5, enter the total amount of qualifying contributions, and on line 550 enter the amount of the credit you are claiming.

### Nova Scotia corporate tax reduction for new small businesses

This tax reduction applies to the first three tax years of qualifying CCPCs incorporated in Nova Scotia. This tax reduction also applies to a corporation incorporated outside the province, but inside of Canada, if it pays at least 25% of its wages to employees who are resident in the province and its head office is located in the province.

If the qualifying corporation is eligible for a federal small business deduction for the year, it can claim this tax reduction to reduce Nova Scotia income tax otherwise payable.

Schedule 341, *Nova Scotia Corporate Tax Reduction for New Small Businesses*, is a worksheet to calculate the credit and does not have to be filed with your return. You do not have to file the certificate of eligibility that the province issues. However, keep it in case we ask for it later.

On lines 834 and 556 of Schedule 5, enter the certificate number and the amount of the reduction you are claiming.

### Nova Scotia film industry tax credit

The Minister of Finance for the Province of Nova Scotia will issue a tax credit certificate to a corporation producing an eligible film in the province.

The credit currently ranges from 50% to 65% of eligible salaries paid to residents of the province, and is limited by the production costs.

For film production activities between October 1, 2007, and December 31, 2015, the credit is equal to:

When **50% or more** of the days of principal photography of the production are in an eligible geographic area:

- whichever is less:
  - 60% of **all** eligible salaries paid to residents of the province; or
  - 30% of total production costs of the eligible film.

When **less than 50%** of the days of principal photography of the production are in an eligible geographic area:

- whichever is less:
  - 60% of eligible salaries paid to residents of the province prorated for the number of days of principal photography that are inside the eligible geographic area over the total number of days of principal photography; **plus**
  - 50% of eligible salaries paid to residents of the province prorated for the number of days of principal photography that are outside the eligible geographic area over the total number of days of principal photography;

**or**

  - 30% of total production costs of the eligible film prorated for the number of days of principal photography that are inside the eligible geographic area over the total number of days of principal photography; **plus**
  - 25% of total production costs of the eligible film prorated for the number of days of principal photography that are outside the eligible geographic area over the total number of days of principal photography.

Production companies that shoot more than two films in the province over a two-year period are eligible for an additional 5% of eligible salaries frequent film bonus on the third and subsequent films.

This credit is refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file the original or a copy of the certificate with your return.

If there is only one certificate, enter the certificate number on line 836 of Schedule 5. If there is more than one certificate, complete Schedule 345, *Additional Certificate Numbers for the Nova Scotia Film Industry Tax Credit*, and file it with your return.

On line 565 of Schedule 5, enter the amount of the credit earned in the current year.

### Nova Scotia research and development tax credit

You can claim this credit if you have a permanent establishment in Nova Scotia and if you made eligible expenditures for research and development carried out in Nova Scotia. The credit is equal to 15% of eligible expenditures.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You can renounce the research and development tax credit for an eligible expenditure incurred during the year under subsection 41(7) of the *Income Tax Act* (Nova Scotia).

To calculate and claim the credit, file a completed Schedule 340, *Nova Scotia Research and Development Tax Credit*, with your return. See the schedule for more details.

On line 566 of Schedule 5, enter the amount of credit earned in the year.

### Recapture of Nova Scotia research and development tax credit

A corporation that disposed of a property used in research and development, or converted the property to commercial use, may have to report a recapture of any Nova Scotia research and development tax credit previously calculated on that property. Any recapture will create or increase Nova Scotia tax otherwise payable.

To calculate the recapture, complete Schedule 340, *Nova Scotia Research and Development Tax Credit*. See the schedule for more details.

On line 221 of Schedule 5, enter the amount of recapture calculated.

### Nova Scotia digital media tax credit

The Minister of Finance for the Province of Nova Scotia will issue a tax credit certificate to a corporation producing an eligible product in the province.

The credit is based on the qualifying expenditures incurred before January 1, 2013, and is limited by total expenditures. The amount of the credit is the lesser of:

- 60% of the qualifying expenditures incurred after December 31, 2007, to develop an eligible product in a prescribed geographic area; **plus**
- 50% of the qualifying expenditures incurred after December 31, 2007, to develop an eligible product outside a prescribed geographic area;

**or**

- 30% of the total expenditures incurred after December 31, 2007, to develop an eligible product in a prescribed geographic area; **plus**
- 25% of the total expenditures incurred after December 31, 2007, to develop an eligible product outside a prescribed geographic area.

This credit is refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file the original or a copy of the certificate with your return.

If there is only one certificate, enter the certificate number on line 838 of Schedule 5. If there is more than one certificate, complete Schedule 347, *Additional Certificate Numbers for the Nova Scotia Digital Media Tax Credit*, and file it with your return.

On line 567 of Schedule 5, enter the amount of the credit earned in the current year.

## New Brunswick

The **lower rate** of New Brunswick income tax is 5%.

The income eligible for the lower rates is determined using the New Brunswick business limit of $500,000, effective January 1, 2009. Before this date, the business limit was $400,000.

The **higher rate** of New Brunswick income tax is 12%.

The higher rate will decrease as follows:

- 11% effective July 1, 2010;
- 10% effective July 1, 2011; and
- 8% effective July 1, 2012.

This rate applies to all income **not** eligible for the lower rates.

The tax is prorated based on the number of days in the year when the tax year straddles these dates.

You can use Schedule 366, *New Brunswick Corporation Tax Calculation*, to help you calculate the New Brunswick tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 225 of Schedule 5, enter the amount of tax calculated.

### New Brunswick tax on large corporations

A provincial tax is levied on the taxable capital of large corporations that have a permanent establishment in New Brunswick, except for:

- corporations mentioned in subsection 181.1(3) of the federal *Income Tax Act*; and
- financial institutions.

The New Brunswick tax on large corporations was completely eliminated effective January 1, 2009. Since January 1, 2008, the tax was 0.10% of the taxable capital allocated to the province of New Brunswick, pro-rated for the number of days in 2008.

A $5 million capital deduction on taxable capital is available to corporations. If the corporation is a member of a related group, the capital deduction has to be allocated between the members.

Use Schedule 362, *New Brunswick Tax on Large Corporations – Agreement Among Related Corporations*, to allocate the capital deduction. File this agreement with your return.

> **Note**
> Schedule 362 need only be filed by one of the associated/related corporations for a calendar year. However, if Schedule 362 is not already on file with us when we assess any of the returns for a tax year ending in the calendar year of the agreement, we will ask for one.

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*.

On line 765 of the T2 return, enter the provincial tax on large corporations payable.

A penalty applies to large corporations that have to pay this tax and do not file the required return on time. For details, see "Penalties" on page 12.

The provincial capital tax cannot be reduced by any tax credits; however, you can deduct the capital tax payable when calculating federal income for tax purposes.

### New Brunswick political contribution tax credit

You can claim a tax credit on contributions made to a registered political party, a registered district association, or a registered independent candidate, as defined under the New Brunswick *Elections Act*, as follows:

- 75% of the first $200 contributed;

**plus**

- 50% of the next $350 contributed;

**plus**

- 33 1/3% of the next $525 contributed, to a maximum credit of **$500**.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can

accept photocopies only if the issuer certifies them as true copies.

On line 894 of Schedule 5, enter the total amount of qualifying contributions, and on line 575 enter the amount of the credit you are claiming.

### New Brunswick non-refundable research and development tax credit

Corporations can no longer file a claim for this credit, since it was available only on eligible expenditures for research and development carried out in New Brunswick before January 1, 2003. Any unused credits can be carried forward for up to seven tax years that follow the tax year in which you made the expenditure.

To claim a carryforward, file a completed Schedule 360, *New Brunswick Research and Development Tax Credit*, with your return. For more details, see the schedule.

On line 577 of Schedule 5, enter the amount of the credit you are claiming.

### New Brunswick refundable research and development tax credit

You can claim this credit if you have a permanent establishment in New Brunswick and you made eligible expenditures for research and development to be carried out in New Brunswick. The amount of the credit is equal to 15% of eligible expenditures.

The credit is fully refundable and there are no carry-forward or carry-back provisions.

To claim the credit, file a completed Schedule 360, *New Brunswick Research and Development Tax Credit*, with your return. For more details, see the schedule.

On line 597 of Schedule 5, enter the amount of the credit you are claiming.

### Recapture of New Brunswick research and development tax credit

A corporation that disposed of a property used in research and development, or converted it to commercial use, may have to report a recapture of any New Brunswick research and development tax credit previously calculated on that property. Any recapture will create or increase New Brunswick tax otherwise payable.

To calculate the recapture, complete Schedule 360, *New Brunswick Research and Development Tax Credit*.

On line 573 of Schedule 5, enter the amount of recapture calculated.

### New Brunswick film tax credit

The Minister of Finance for the province of New Brunswick will issue a tax credit certificate to a corporation producing an eligible film in the province.

The amount of the credit cannot be more than 40% of the amount of eligible salaries paid in the tax year.

Effective January 1, 2010, an additional 10% regional bonus is available for eligible productions for which more than 50% of the principal photography is done more than 50 kilometers from the city hall of Moncton, the city hall of Fredericton, and the city hall of Saint John.

The credit is subject to the following conditions:

- the tax credit applies to eligible salaries incurred before January 1, 2020;
- an eligible corporation must, for each eligible project, pay at least 25% of its total salaries and wages to eligible employees; and
- the tax credit applies only to that portion of eligible salaries that is not more than 50% of the total production costs of the eligible project less the amount of production costs funded by the province.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file the original tax credit certificate with your return.

If there is only one certificate, enter the certificate number on line 850 of Schedule 5. If there is more than one certificate, complete Schedule 365, *Additional Certificate Numbers for the New Brunswick Film Tax Credit*, and file it with your return.

On line 595 of Schedule 5, enter the amount of the credit earned in the current year.

## Ontario

The **basic rate** of income tax is 14%.

The basic rate will be reduced as follows:

- 12% effective July 1, 2010;
- 11.5% effective July 1, 2011;
- 11% effective July 1, 2012; and
- 10% effective July 1, 2013.

The tax is prorated based on the number of days in the year when the tax year straddles these dates.

You can use Schedule 500, *Ontario Corporation Tax Calculation*, to calculate your Ontario basic income tax. Schedule 500 is a worksheet and does not have to be filed with your return.

On line 270 of Schedule 5, enter the amount of basic income tax calculated.

### Ontario small business deduction

The deduction reduces the Ontario basic income tax of a corporation that was a CCPC throughout the tax year. It is calculated by multiplying the corporation's Ontario small business income for the tax year by the small business deduction rate (8.5%) for the year, resulting in a lower tax rate of 5.5%.

Effective July 1, 2010, the small business deduction rate is 7.5%, resulting in a lower tax rate of 4.5%.

The rate is prorated based on the number of days in the year when the tax year straddles July 1, 2010.

Calculate a corporation's Ontario small business income for the tax year by multiplying its Ontario domestic factor by the least of the following amounts:

- the income from an active business carried on in Canada (amount on line 400 of the T2 return);
- the federal taxable income, less adjustment for foreign tax credit (amount on line 405 of the T2 return); or
- the unreduced federal business limit adjusted for Ontario's higher business limit of $500,000 for days in the tax year that are in 2008 (line 3 of Schedule 500).

The corporation's Ontario domestic factor is the ratio of the corporation's Ontario taxable income to the corporation's taxable income earned in all provinces and territories.

You can use Part 3 of Schedule 500, *Ontario Corporation Tax Calculation*, to calculate the deduction. Schedule 500 is a worksheet and does not have to be filed with your return.

On line 402 of Schedule 5, enter the small business deduction amount.

### Surtax re Ontario small business deduction

The Ontario surtax re Ontario small business deduction claws back the small business deduction from more profitable CCPCs.

The surtax of 4.25% applies to CCPCs whose adjusted taxable income and the adjusted taxable income of all associated corporations, if any, exceed the Ontario business limit of $500,000. The surtax fully claws back the deduction when the adjusted taxable income of the corporation or the associated group is equal to or more than $1,500,000.

A corporation's adjusted taxable income is equal to:

- its taxable income or taxable income earned in Canada for the year;

**plus**

- its adjusted Crown royalties for the year, as calculated on Schedule 504;

**minus**

- its notional resource allowance for the year, as calculated on Schedule 504.

The surtax re Ontario small business deduction is eliminated effective July 1, 2010.

You can use Part 4 of Schedule 500, *Ontario Corporation Tax Calculation*, to calculate the surtax. Schedule 500 is a worksheet and does not have to be filed with your return.

If the corporation is a member of an associated group, also complete Schedule 501, *Ontario Adjusted Taxable Income of Associated Corporations to Determine Surtax re Ontario Small Business Deduction*.

On line 272 of Schedule 5, enter the amount of the surtax.

### Ontario additional tax re Crown royalties

File a completed Schedule 504, *Ontario Resource Tax Credit and Ontario Additional Tax re Crown Royalties*, with the return. For more information, see the section "Ontario resource tax credit" on page 86.

On line 274 of Schedule 5, enter the amount of the additional tax re Crown royalties.

### Ontario transitional tax debits and credits

The Ontario transitional tax debits and credits provide a transition from the *Corporations Tax Act* (Ontario) for corporations with different income tax attributes for federal and Ontario purposes.

For tax years ending before 2009, a corporation's income and taxable income for Ontario purposes are determined based on its Ontario tax pools (for example, the undepreciated capital cost of depreciable property) under the *Corporations Tax Act* (Ontario).

For tax years ending after 2008, the corporation's income and taxable income for Ontario purposes are determined based on its federal tax pools under the *Taxation Act, 2007* (Ontario).

Where the corporation's federal tax pools exceed its Ontario tax pools, the corporation has a transitional tax debit. A specified corporation subject to the Ontario transitional tax debit is generally required to pay additional Ontario corporate income tax over a five-year period beginning with its first tax year ending after 2008.

Conversely, where the corporation's Ontario tax pools exceed its federal tax pools, the corporation has a transitional tax credit. A specified corporation is generally entitled to a transitional tax credit over a five-year period beginning with its first tax year ending after 2008.

A specified corporation is defined under subsection 46(5) of the *Taxation Act, 2007* (Ontario).

Complete Schedule 506, *Ontario Transitional Tax Debits and Credits*, to calculate the corporation's transitional tax debits and tax credits. Use Schedule 507, *Ontario Transitional Tax Debits and Credits Calculation*, to determine the amounts to enter in Part 3 of Schedule 506.

File Schedule 506 with the return. Schedule 507 does not have to be filed with the return.

On line 276 of Schedule 5, enter the total transitional tax debits.

On line 414 of Schedule 5, enter the transitional tax credits.

### Ontario corporate minimum tax

The Ontario corporate minimum tax payable is equal to the amount by which the corporate minimum tax exceeds the Ontario corporate income tax.

A corporation is subject to corporate minimum tax if its total assets exceed $5,000,000 or total revenue exceeds $10,000,000, except if it was, throughout the tax year:

- a corporation exempt from income tax under section 149;
- a mortgage investment corporation under subsection 130.1(6);
- a deposit insurance corporation under subsection 137.1(5);
- a congregation or business agency to which section 143 applies;

- an investment corporation referred to in subsection 130(3); or
- a mutual fund corporation under subsection 131(8).

Effective July 1, 2010, the corporate minimum tax rate is reduced from 4% to 2.7%. For tax years ending after June 30, 2010, a corporation is subject to corporate minimum tax if its total assets are equal to or greater than $50,000,000 and its total revenue is equal to or greater than $100,000,000.

The rate is prorated based on the number of days in the year when the tax year straddles June 30, 2010.

In determining if the total assets or total revenue exceeds the limits, a corporation must include its share of the total assets and total revenue of a partnership in which it has an interest, any associated foreign or Canadian corporation, and any associated corporation's share of a partnership. If a corporation is associated it must complete and file Schedule 511, *Ontario Corporate Minimum Tax – Total Assets and Revenue for Associated Corporations*, to report the total assets and total revenue of all the associated corporations.

File Schedule 510, *Ontario Corporate Minimum Tax*, with your T2 return if:

- the corporation is subject to corporate minimum tax for the tax year (Part 1 of the schedule);
- the corporation is not subject to corporate minimum tax in the year, but is deducting a corporate minimum tax credit or has a corporate minimum tax credit carryforward (see page 87), corporate minimum tax loss carryforward, or current year corporate minimum tax loss (Parts 4 to 8 of the schedule); or
- the corporation has special additional tax on life insurance corporations payable in the year even if it is not subject to corporate minimum tax for the tax year (Part 4 of Schedule 510, and Schedule 512, *Ontario Special Additional Tax on Life Insurance Corporations [SAT])*.

Corporate minimum tax is based on the adjusted net income of a corporation. The adjusted net income is a corporation's net income calculated in accordance with Canadian generally accepted accounting principles or the International Financial Reporting Standards, with various adjustments. The adjustments are reported on Part 2 of Schedule 510.

Accounting gains reported in the year from corporation reorganizations that are deferred for income tax purposes are deductible when calculating adjusted net income.

Accounting gains reported in the year on the transfer of property under section 85, section 85.1, section 97, subsection 13(4), subsection 14(6) and/or section 44 are deductible when calculating adjusted net income. An election is required in order to claim this deduction. We will consider a corporation to have filed an election (and to not need to file another document) if it reports the deduction and has filed the election(s) required for corporate income tax purposes.

In addition, certain unrealized mark-to-market gains/losses and foreign currency gain/losses on assets that are not required to be included in computing income for income tax purposes are not included in adjusted net income. For additional information see Ontario Regulation 37/09.

File a completed Schedule 510 with your return and, if applicable, Schedule 511.

On line 278 of Schedule 5, enter the amount of the corporate minimum tax.

**References**
Division C, Sections 54 – 62 *Taxation Act, 2007* (Ontario)

### Corporate minimum tax loss carryforward

A corporate minimum tax loss earned in a tax year ending before March 23, 2007, may be carried forward 10 years. A loss earned in a tax year ending after March 22, 2007, may be carried forward 20 years.

A corporate minimum tax loss may be transferred to a successor corporation on an amalgamation under section 87 that occurred before March 22, 2007. The loss may not be transferred from a subsidiary to the successor on an amalgamation of a parent and subsidiary corporations occurring after March 21, 2007.

A corporate minimum tax loss may be transferred to a parent corporation on a winding-up of its subsidiary under subsection 88(1) completed before March 22, 2007. The loss may not be transferred to a parent corporation on any winding-up completed after March 21, 2007.

### Ontario special additional tax on life insurance corporations

A life insurance corporation carrying on business in Ontario at any time in the tax year is subject to the Ontario special additional tax on life insurance corporations.

The special additional tax payable for a tax year is equal to the amount by which:

- 1.25% of the corporation's taxable paid-up capital multiplied by the number of days in the tax year divided by 365

**exceeds**

- the total of the corporation's Ontario corporate income tax and corporate minimum tax payable for the year.

Use Schedule 512, *Ontario Special Additional Tax on Life Insurance Corporations (SAT)*, to calculate the tax payable.

For tax years ending in 2009 and later, the special additional tax paid for a tax year is added to the corporation's corporate minimum tax credit carryforward. This credit may be deducted to reduce Ontario corporate income tax payable in future years. Refer to "Ontario Corporate Minimum Tax Credit" on page 87 for more information. Enter the special additional tax payable for the tax year in Part 4 of Schedule 510, *Ontario Corporate Minimum Tax*.

Life insurance corporations that are subject to the special additional tax and related, at the end of the tax year, to another life insurance corporation carrying on business in Canada must use Schedule 513, *Agreement Among Related Life Insurance Corporations (Ontario)*, to allocate the capital allowance among the members of the related group.

File Schedule 512 and, if applicable, Schedule 513, with your return.

On line 280 of Schedule 5, enter the amount of special additional tax payable.

### Ontario capital tax

For tax years starting before July 1, 2010, corporations that have a permanent establishment in Ontario at any time in the tax year are liable for Ontario capital tax under section 64 of the *Taxation Act, 2007* (Ontario). These include both financial institutions and corporations other than financial institutions, except:

- a corporation that is liable for the special additional tax under section 74 of the *Corporations Tax Act* (Ontario);
- a deposit insurance corporation, as defined in section 137.1 of the federal *Income Tax Act*;
- a credit union;
- a corporation exempt from income tax under section 149 of the federal Act;
- a family farm corporation for the year, as defined in subsection 64(3) of the *Taxation Act, 2007* (Ontario), other than a corporation for which a determination has been made under subsection 31(2) of the federal Act; and
- a family fishing corporation for the year, as defined in subsection 64(3) of the *Taxation Act, 2007* (Ontario).

**Note**
The Ontario capital tax is eliminated effective July 1, 2010. The tax is eliminated effective January 1, 2007, for businesses mainly engaged in qualifying manufacturing and resource activities in Ontario.

#### Capital deduction

The taxable capital is reduced by a $15 million capital deduction.

#### Financial institutions

The rates of capital tax payable by financial institutions are:

| Applicable period | First $400 million of taxable capital | Taxable capital over $400 million | |
|---|---|---|---|
| | | Non-deposit taking | Deposit taking |
| Before Jan. 1, 2010 | 0.45% | 0.54% | 0.675% |
| After Dec. 31, 2009 and before July 1, 2010 | 0.3% | 0.36% | 0.45% |
| July 1, 2010 | Eliminated | Eliminated | Eliminated |

The investment allowance of an authorized foreign bank is generally calculated in the same way as for other financial institutions under the *Taxation Act, 2007* (Ontario). However, an investment made by an authorized foreign bank is not eligible if the investee corporation is exempt from capital tax.

**Note**
An authorized foreign bank is defined by section 2 of the *Bank Act* and in general terms is a foreign bank authorized to operate in Canada through a branch. The paid-up capital of an authorized foreign bank is the same amount as its capital for federal large corporations tax purposes.

To calculate your capital tax payable, complete the following:

- Schedule 34, *Taxable Capital Employed in Canada – Financial Institutions*;
- Schedule 517, *Calculation of Ontario Capital Tax Investment Allowance for Financial Institutions*; and
- Schedule 514, *Ontario Capital Tax on Financial Institutions*.

File completed Schedules 34 and 514 with your T2 return within six months of the end of the tax year.

On line 282 of Schedule 5, enter the Ontario capital tax payable.

#### Other than financial institutions

The rates of capital tax payable by a corporation that is other than a financial institution are:

- 0.225% before January 1, 2010;
- 0.15% after December 31, 2009 and before July 1, 2010; and
- 0% effective July 1, 2010.

To calculate the capital tax payable by a corporation other than a financial institution, complete the following:

- Schedule 33, *Taxable Capital Employed in Canada – Large Corporations*; and
- Schedule 515, *Ontario Capital Tax on Other Than Financial Institutions*.

Eligible corporations that are associated with other eligible corporations in a tax year may elect under subsection 83(2) of the *Taxation Act, 2007* (Ontario), to allocate the associated group's net capital deduction. File a completed Schedule 516, *Capital Deduction Election of Associated Group for the Allocation of Net Deduction*, with your return.

A manufacturing corporation whose Ontario manufacturing labour cost is more than 20% of its total Ontario labour cost for the year can claim a capital tax credit for manufacturers. If the corporation's manufacturing labour cost is at least 50% of its total Ontario labour cost for the year, this credit will equal the amount of capital tax otherwise payable. If the corporation's manufacturing labour cost is less than 50% but more than 20% of its total Ontario labour cost for the year, the credit is calculated as the capital tax otherwise payable, reduced proportionately on a straight-line basis. Calculate the tax credit in Part 4 of Schedule 515.

File completed Schedules 33, 515, and, if applicable, 516 with your T2 return within six months of the end of the tax year.

On line 282 of Schedule 5, enter the Ontario capital tax payable.

### Ontario political contributions tax credit

You can claim a tax credit on contributions made to Ontario registered parties, registered constituency associations, or

registered candidates as defined under the Ontario *Election Finances Act*.

Generally, this non-refundable credit is calculated by multiplying the basic tax rate (see page 82) by the amount of Ontario political contributions, up to an annual maximum indexed according to the *Election Finances Act*. The credit is effective for tax years ending after December 31, 2008. It replaces the previous deduction for political contributions administered by the province.

You can carry forward unused contributions, including those from pre-2009 tax years, for up to 20 years. There are no carry-back provisions.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

File a completed Schedule 525, *Ontario Political Contributions Tax Credit*, with your return.

On line 415 of Schedule 5, enter the amount of the credit you are claiming.

#### Ontario resource tax credit

The Ontario resource tax credit and the Ontario additional tax re Crown royalties are based on the corporation's:

- notional resource allowance for the year, as determined in subsection 7(3) of Ontario Regulation 37/09 to the *Taxation Act, 2007*
- adjusted Crown royalties for the year, as defined in subsection 36(2) of the *Taxation Act, 2007* (Ontario); and
- Ontario allocation factor, as defined in subsection 1(1) of the *Taxation Act, 2007* (Ontario).

The Ontario resource tax credit is used to offset Ontario corporate income tax otherwise payable. Unused amounts (the resource tax credit balance at the end of the year) can be carried forward to the following year.

Complete Schedule 504, *Ontario Resource Tax Credit and Ontario Additional Tax re Crown Royalties*, if the corporation:

- has a permanent establishment in Ontario at any time in the tax year;
- is not exempt from corporate income tax;

and

- owns a Canadian resource property as defined in subsection 66(15) of the federal *Income Tax Act*; or
- produces in Canada petroleum, natural gas, related hydrocarbons, coal, sulphur, base or precious metals, certain minerals, or iron to the pellet stage from an oil or gas well, a mine, or tar sands in Canada;

and

- earned adjusted resource profits for the year and has a notional resource allowance for the year as determined in subsection 7(3) of Ontario Regulation 37/09 to the *Taxation Act*, 2007; or
- paid or incurred an adjusted Crown royalty for the year as defined in subsection 36(2) of the *Taxation Act*, 2007 (Ontario).

File a completed Schedule 504 with the return.

On line 404 of Schedule 5, enter the amount of the credit you are claiming.

#### Ontario tax credit for manufacturing and processing

You can claim the Ontario tax credit for manufacturing and processing if the corporation had:

- Ontario taxable income during the tax year; and
- eligible Canadian profits from manufacturing and processing, farming, fishing, logging, mining, the generation of electrical energy for sale, or the production of steam for sale.

You cannot claim this credit on the corporation's income that is subject to the Ontario small business deduction rate.

To claim the credit, file a completed Schedule 502, *Ontario Tax Credit for Manufacturing and Processing*, with the return.

On line 406 of Schedule 5, enter the amount of the credit you are claiming.

#### Ontario credit union tax reduction

The Ontario credit union tax reduction allows credit unions a special deduction from income tax otherwise payable. It is designed to reduce their overall income tax rate to the same net rate paid by small business corporations that claim the Ontario small business deduction.

To be eligible to claim the Ontario credit union tax reduction, the credit union must:

- have been a credit union throughout the tax year;
- have had a permanent establishment in Ontario at any time in the tax year; and
- have Ontario taxable income in the year.

You can use Part 6 of Schedule 500, *Ontario Corporation Tax Calculation*, to calculate the Ontario credit union tax reduction. Schedule 500 is a worksheet and does not have to be filed with your return.

On line 410 of Schedule 5, enter the amount of the credit you are claiming.

#### Ontario research and development tax credit

You can claim this credit if you have a permanent establishment in Ontario and you had eligible expenditures for scientific research and experimental development carried out in Ontario.

An eligible expenditure is:

- an expenditure attributable to a permanent establishment in Ontario of a corporation;
- a qualified expenditure for the purposes of section 127 of the federal *Income Tax Act* for scientific research and experimental development carried on in Ontario; and

- reduced by government assistance, non-government assistance or contract payments received, entitled to be received or reasonably expected to be received.

The amount of the non-refundable credit is equal to 4.5% of eligible expenditures incurred by a corporation in a tax year that ends after December 31, 2008.

The credit may be applied to reduce Ontario corporate income tax that you would otherwise have to pay. An unused credit can be carried back 3 years to tax years ending after December 31, 2008, and can be carried forward 20 years.

Only corporations that are not exempt from Ontario corporate income tax and that have no exempt income can claim the credit.

To claim the credit, file a completed Schedule 508, *Ontario Research and Development Tax Credit*, with your return.

If the corporation is a member of a partnership and is allocated a portion of the credit as provided for in section 40 of the *Taxation Act, 2007* (Ontario), attach a schedule showing the partnership's calculation.

On line 416 of Schedule 5, enter the amount of the credit you are claiming.

**References**
Sections 38 to 44, *Taxation Act, 2007* (Ontario)

### Recapture of Ontario research and development tax credit

A corporation that disposed of a property used in scientific research and experimental development, or converted it to commercial use, may have to report a recapture of any Ontario research and development tax credit previously calculated on that property. Any recapture will create or increase Ontario tax otherwise payable.

To calculate the recapture, complete Schedule 508, *Ontario Research and Development Tax Credit*.

On line 277 of Schedule 5, enter the amount of recapture calculated.

**Reference**
Section 45, *Taxation Act, 2007* (Ontario)

### Ontario corporate minimum tax credit

The Ontario corporate minimum tax credit that may be deducted from Ontario corporate income tax payable for the tax year is equal to the least of:

- the corporate minimum tax credit available for the tax year;
- the Ontario corporate income tax payable (before the corporate minimum tax credit) **minus** the greater of the corporate minimum tax after foreign tax credit deduction and gross special additional tax on life insurance corporations for the tax year; and
- the Ontario corporate income tax payable (before the corporate minimum tax credit) **minus** the total refundable tax credits for the tax year.

The minimum tax credit carryforward at the beginning of the tax year is equal to the minimum tax and special additional tax paid in previous tax years less any minimum tax credit previously deducted or expired. Only special additional tax paid in a tax year ending after 2008 is included.

The minimum tax credits attributable to tax years ending after March 22, 2007, can be carried forward for 20 years.

For tax years ending after 2008, the carryforward of minimum tax credits attributable to tax years ending before March 23, 2007, is extended from 10 to 20 years if the credit did not otherwise expire before the beginning of the corporation's first tax year ending after 2008.

Complete Parts 4, 5, and 6 of Schedule 510, *Ontario Corporate Minimum Tax*, to calculate the corporate minimum tax credit carryforward and the credit deducted in the current tax year.

On line 418 of Schedule 5, enter the amount of the credit deducted in the current tax year.

**References**
Subsection 53(1), *Taxation Act, 2007* (Ontario)
Subsections 53(2), (3), (4) and (5), *Taxation Act, 2007* (Ontario)

### Ontario qualifying environmental trust tax credit

A corporation that is the beneficiary of a qualifying environmental trust located in Ontario can claim a qualifying environmental trust tax credit on income that is subject to tax under Part XII.4 of the federal *Income Tax Act*.

The amount of the tax credit is the corporation's share of the qualifying environmental trust tax paid by the trust.

The qualifying environmental trust will issue a letter to the corporation that is a beneficiary.

The credit is fully refundable but must first be applied against taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the letter with your return. However, keep it in case we ask for it later.

On line 450 of Schedule 5, enter the amount of the credit you are claiming.

**Reference**
Section 87, *Taxation Act, 2007* (Ontario)

### Ontario co-operative education tax credit

You can claim this credit if you are a corporation that provided a qualifying work placement at a permanent establishment in Ontario for a student enrolled in a qualifying post-secondary co-operative education program.

To be a qualifying work placement, the work placement must meet all of the following conditions:

- the student must perform employment duties for a corporation under a qualifying co-operative education program;
- the placement must be developed or approved by an eligible educational institution as a suitable learning situation;
- the terms of the placement must require the student to engage in productive work;
- the placement must be for a period of at least 10 consecutive weeks except, in the case of an internship

program, the placement cannot be less than 8 consecutive months and not more than 16 consecutive months;

- the corporation must supervise and evaluate the job performance of the student;
- the institution must monitor the student's performance in the placement;
- the institution must certify the placement as a qualifying work placement; and
- the student must be paid for the work performed.

The credit is equal to an eligible percentage (25% to 30%) of the eligible expenditures incurred by the corporation for a qualifying work placement. For eligible expenditures incurred before March 27, 2009, the eligible percentage is 10% to 15%.

The maximum credit for each qualifying work placement is $3,000. The maximum credit for each qualifying work placement ending before March 27, 2009, is $1,000.

If the qualifying work placement straddles March 26, 2009, the maximum amounts are prorated.

Eligible expenditures are:

- salaries and wages (including taxable benefits) paid or payable to a student in a qualifying work placement; or
- fees paid or payable to an employment agency for the provision of services performed by the student in a qualifying work placement.

Keep a copy of the letter of certification from the eligible educational institution in Ontario to support your claim. The letter of certification must contain the name of the student, the employer, the institution, the term of the work placement, and the name/discipline of the qualifying co-operative education program.

To claim the credit, file a completed Schedule 550, *Ontario Co-operative Education Tax Credit*, with your return. For more details, see the schedule.

On line 452 of Schedule 5, enter the amount of the refundable credit you are claiming.

**Reference**
Section 88, *Taxation Act, 2007* (Ontario)

### Ontario apprenticeship training tax credit

You can claim this credit if you are a corporation that provided a qualifying apprenticeship at a permanent establishment in Ontario for a student enrolled in a qualifying skilled trade.

To be a qualifying apprenticeship, the apprenticeship must meet the following conditions:

- the apprenticeship must be in a qualifying skilled trade approved by the Ministry of Training, Colleges and Universities (Ontario); and
- the corporation and the apprentice must be participating in an apprenticeship program in which the training agreement has been registered under the *Ontario College of Trades and Apprenticeship Act, 2009* or the *Apprenticeship and Certification Act, 1998* or in which the contract of apprenticeship has been registered under the *Trades Qualification and Apprenticeship Act*.

The credit is equal to a specified percentage (35% to 45%) of the eligible expenditures incurred by the corporation for a qualifying apprenticeship. The maximum credit for each apprentice is $10,000 per year to a maximum of $40,000 over the first 48 months of the qualifying apprenticeship.

For eligible expenditures incurred before March 27, 2009, the eligible percentage is 25% to 30%. The maximum credit for each apprentice is $5,000 per year to a maximum of $15,000 over the first 36 months of the qualifying apprenticeship.

If the qualifying apprenticeship straddles March 26, 2009, the maximum amounts are prorated.

Eligible expenditures are:

- salaries and wages (including taxable benefits) paid to an apprentice in a qualifying apprenticeship; or
- fees paid to an employment agency for the provision of services performed by an apprentice in a qualifying apprenticeship.

Keep a copy of the training agreement or contract of apprenticeship to support your claim.

To claim the credit, file a completed Schedule 552, *Ontario Apprenticeship Training Tax Credit*, with your return. For more details, see the schedule.

On line 454 of Schedule 5, enter the amount of the refundable credit you are claiming.

**Reference**
Section 89, *Taxation Act, 2007* (Ontario)

### Ontario computer animation and special effects tax credit

The Ontario computer animation and special effects tax credit is a refundable tax credit equal to 20% of the qualifying labour expenditures for eligible computer animation and special effects activities, incurred by a qualifying corporation in a tax year for an eligible production.

Qualifying labour expenditures equal the corporation's Ontario labour expenditures for the tax year less any assistance reasonably related to these expenditures, other than excluded government assistance. The Ontario labour expenditures are the sum of the salaries and wages and 50% of the remuneration incurred before March 27, 2009, and 100% of the remuneration incurred after March 26, 2009, in a tax year that are directly attributable to computer animation and special effects activities performed in Ontario and paid to certain persons or entities, within 60 days of the end of the tax year.

The criteria a corporation must meet to be eligible for the credit include the following:

- be a Canadian corporation;
- perform eligible computer animation and special effects activities for the eligible production at a permanent establishment in Ontario for the tax year;
- not be exempt from tax under Part III of the *Taxation Act, 2007* (Ontario) for the tax year;
- not be controlled directly or indirectly, at any time in the tax year, in any way, by one or more corporations, all or

part of whose taxable income is exempt from tax under section 57 of the *Corporations Tax Act* (Ontario) or Part III of the *Taxation Act, 2007* (Ontario); and

- not be a prescribed labour-sponsored venture capital corporation at any time in the tax year.

Before claiming the credit, send a completed Ontario Media Development Corporation (OMDC) application form to the OMDC. If the production is eligible, the OMDC will issue a certificate indicating the estimated amount of the tax credit. Only **one** certificate of eligibility is issued for all of the eligible productions for the tax year.

To claim the credit, attach the following to your return for the year:

- a certificate of eligibility (or copy) issued by the OMDC; and
- a completed Schedule 554, *Ontario Computer Animation and Special Effects Tax Credit*, for **each** eligible production.

On line 456 of Schedule 5, enter the total amount of the credit you are claiming.

**Reference**
Section 90, *Taxation Act, 2007* (Ontario)

### Ontario film and television tax credit

The Ontario film and television tax credit is a refundable tax credit based on the qualifying labour expenditures incurred by a qualifying production company for eligible Ontario productions.

If the eligible Ontario production is a **first-time** production, you can claim a credit equal to:

- 40% of the labour expenditures, for the first $240,000 for the production and 35% on the balance; and
- an additional 10% of the labour expenditures if the production is a regional Ontario production.

If the eligible Ontario production is a **small first-time** production, you can claim a credit equal to the lesser of:

- the labour expenditures; and
- $20,000 if the production is a regional Ontario production or $15,000 if it is not a regional Ontario production.

The total labour expenditure for a small first-time production cannot be more than $50,000 at the time the production is completed.

If the eligible Ontario production is **other than a first-time** production, you can claim a credit equal to:

- 35% of labour expenditures; and
- an additional 10% of labour expenditures if the production is a regional Ontario production.

The qualifying labour expenditures equal the corporation's Ontario labour expenditures less assistance reasonably related to these expenditures (some exceptions apply—see Schedule 556). The qualifying labour expenditures are determined without reference to any equity investment held by a person prescribed under section 1106(10) of the federal regulations. The Ontario labour expenditures are the sum of the salaries and wages and remuneration incurred in a tax year that are directly attributable to the eligible Ontario production, performed in Ontario and paid to certain persons or entities, within 60 days of the end of the tax year.

The criteria a corporation must meet to be eligible for the credit include the following:

- be a Canadian-controlled corporation throughout the tax year as determined under sections 26 to 28 of the *Investment Canada Act*;
- have a permanent establishment in Ontario throughout the tax year;
- be primarily engaged in the carrying on of a Canadian film or video production business through a permanent establishment in Canada in the tax year;
- not be exempt from tax under Part III of the *Taxation Act, 2007* (Ontario) or Part I of the federal *Income Tax Act* for the tax year;
- not be controlled, at any time in the tax year, directly or indirectly, in any way, by one or more persons, all or part of whose taxable income was exempt from tax under Part I of the federal *Income Tax Act*; and
- not be a prescribed labour-sponsored venture capital corporation at any time in the tax year.

You **cannot** claim the Ontario film and television tax credit if you claim the Ontario production services tax credit for that same production for any tax year.

Before claiming the credit, send a completed Ontario Media Development Corporation (OMDC) application form to the OMDC. If the production is eligible, the OMDC will issue a certificate indicating the estimated amount of the tax credit.

To claim the credit, attach the following to your return for the year for **each** eligible production:

- a certificate of eligibility (or copy) issued by the OMDC; and
- a completed Schedule 556, *Ontario Film and Television Tax Credit*.

On line 458 of Schedule 5, enter the total amount of the credit you are claiming.

**Reference**
Section 91, *Taxation Act, 2007* (Ontario)

### Ontario production services tax credit

The Ontario production services tax credit is a refundable tax credit based on qualifying production expenditures incurred for eligible productions by a qualifying corporation in a tax year.

The credit is equal to 25% of qualifying production expenditures.

Before July 1, 2009, only qualifying Ontario labour expenditures were eligible.

For expenditures incurred after June 30, 2009, the credit is expanded to incorporate all qualifying production expenditures incurred in Ontario, including qualifying labour expenditures as well as the purchase or rental of

qualifying tangible properties, such as equipment and studio rentals.

The qualifying Ontario production expenditures equal the corporation's Ontario wage expenditures, Ontario service contract expenditures, reimbursements to the parent company for eligible expenditures, and Ontario tangible property expenditures, less assistance reasonably related to these expenditures (some exceptions apply—see Schedule 558). The eligible expenditures incurred in the tax year must be reasonable and directly attributable to the eligible production, performed in Ontario and paid to certain persons or entities, within 60 days of the end of the tax year.

The criteria a corporation must meet to be eligible for the credit include the following:

- be primarily engaged, in the tax year, in the carrying on of a film or video production business, or a film or video production services business, through a permanent establishment in Ontario;
- not be exempt from tax, for the tax year, under Part III of the *Taxation Act, 2007* (Ontario) or Part I of the *Income Tax Act*;
- not, at any time in the tax year, be controlled directly or indirectly, in any way, by one or more persons, all or part of whose taxable income was exempt from tax under Part I of the *Income Tax Act*; and
- not be a prescribed labour-sponsored venture capital corporation at any time in the tax year.

You **cannot** claim the Ontario production services tax credit if you claim the Ontario film and television tax credit for that same production for any tax year.

Before claiming the credit, send a completed Ontario Media Development Corporation (OMDC) application form to the OMDC. If the production is eligible, the OMDC will issue a certificate indicating the estimated amount of the tax credit.

To claim the credit, attach the following to your return for the year for **each** eligible production:

- a certificate of eligibility (or copy) issued by the OMDC; and;
- a completed Schedule 558, *Ontario Production Services Tax Credit*.

On line 460 of Schedule 5, enter the total amount of the credit you are claiming.

**Reference**
Section 92, *Taxation Act, 2007* (Ontario)

### Ontario interactive digital media tax credit

The Ontario interactive digital media tax credit is a refundable tax credit based on qualifying expenditures incurred for eligible products by a qualifying corporation during a tax year.

For qualifying expenditures incurred after March 26, 2009:

- all qualifying corporations that develop and market their own eligible products (non-specified products) are eligible to claim a credit equal to 40% of expenditures;
- qualifying corporations that develop eligible products under a fee-for-service arrangement (specified products) are eligible to claim a credit equal to 35% of expenditures;
- a 35% credit is available to:
  - qualifying digital game corporations that incur a minimum of $1 million of eligible Ontario labour expenditures over a 36-month period for fee-for-service work done in Ontario for an eligible digital game; and
  - specialized digital game corporations that incur at least $1 million of Ontario labour expenses per year in developing eligible digital games. A specialized digital game corporation generally would have at least 80% of Ontario payroll or 90% of annual gross revenues directly attributable to developing digital games.

The credit for qualifying expenditures incurred after March 25, 2008, and before March 27, 2009, is equal to:

| | Qualifying small corporation | Other qualifying corporation |
|---|---|---|
| Non-specified product | 30%* | 25% |
| Specified product | 25% | 25% |

* after March 23, 2006

For all eligible products, qualifying expenditures include Ontario salaries and wages incurred in a tax year that are directly attributable to the eligible product and paid within 60 days of the end of the tax year.

For eligible products that are not specified products, the qualifying expenditures also include 50% of Ontario remuneration, and marketing and distribution expenditures (maximum $100,000 per eligible product for all tax years) incurred in a tax year that are directly attributable to the product and paid to certain persons and entities within 60 days of the end of the tax year.

For expenditures incurred after March 26, 2009, the amount of eligible remuneration expenditures that a corporation can claim has been expanded from 50% to 100%. It now includes amounts paid to other taxable Canadian corporations for services rendered by its employees. Corporations that develop specified products are also able to claim these expenditures.

Qualifying expenditures are reduced by any government assistance reasonably related to these expenditures (some exceptions apply—see Schedule 560).

You cannot claim the Ontario interactive digital media tax credit if you claim the Ontario computer animation and special effects tax credit, the Ontario film and television tax credit or the Ontario production services tax credit for the same expenditure for any tax year.

The criteria a corporation must meet to be eligible for the credit include the following:

- be a Canadian corporation;

- have completed development on or developed an eligible interactive digital media product at a permanent establishment in Ontario, as described in subsection 93(16) of the *Taxation Act, 2007* (Ontario);
- not be exempt from tax under Part III of the *Taxation Act, 2007* (Ontario) for the tax year;
- not be controlled directly or indirectly, in any way, at any time in the tax year, by one or more corporations, all or part of whose taxable income was exempt from tax under section 57 of *the Corporations Tax Act* (Ontario) or Part III of the *Taxation Act, 2007* (Ontario); and
- not be a prescribed labour-sponsored venture capital corporation at any time in the tax year.

The criteria a qualifying digital game corporation or a specialized digital game corporation must meet to be eligible for the credit also include:

- be a corporation that carries on through a permanent establishment in Ontario a business that includes developing digital games;
- not be a corporation the primary activity of which is to provide the services of a single individual and all the issued and outstanding shares of the capital stock of which are owned by that individual.

For more information see Schedule 560, *Ontario Interactive Digital Media Tax Credit.*

Before claiming the credit, send a completed Ontario Media Development Corporation (OMDC) application form to the OMDC. If the product is eligible, the OMDC will issue a certificate indicating the estimated amount of the tax credit. Only **one** certificate of eligibility is issued for all of the eligible products for the tax year.

To claim the credit, attach the following to your return for the year:

- a certificate of eligibility (or copy) issued by the OMDC; and
- a completed Schedule 560, *Ontario Interactive Digital Media Tax Credit*, for **each** eligible product.

On line 462 of Schedule 5, enter the total amount of the credit you are claiming.

**Reference**
Section 93, *Taxation Act, 2007* (Ontario)

### Ontario sound recording tax credit

The Ontario sound recording tax credit is a refundable tax credit equal to 20% of the qualifying expenditures incurred during a tax year by an eligible sound recording company. The expenditures must be incurred by the corporation within 24 months from the date that the first eligible expenditure was incurred for the eligible Canadian sound recording.

Qualifying expenditures include expenditures incurred mainly in Ontario in the production of the recording, the production of the qualifying music video, and the marketing of the recording, and 50% of the last two types of expenditures if incurred outside Ontario. These qualifying expenditures are reduced by any assistance reasonably related to these expenditures.

Touring costs incurred in connection with a concert or live performance are **not** a qualifying expenditure.

The criteria a corporation must meet to be eligible for the credit include the following:

- be a Canadian-controlled corporation throughout the tax year under sections 26 to 28 of the *Investment Canada Act*;
- be primarily engaged in the carrying on of a sound recording business mainly through a permanent establishment in Ontario;
- have earned less than 50% of its taxable income in the previous tax year outside Ontario; and
- not be exempt from tax under Part III of the *Taxation Act, 2007* (Ontario).

Before claiming the credit, send a completed Ontario Media Development Corporation (OMDC) application form to the OMDC. If the sound recording is eligible, the OMDC will issue a certificate.

To claim the credit, attach the following to your return for the year for **each** eligible Canadian sound recording:

- a certificate of eligibility (or copy) issued by the OMDC; and
- a completed Schedule 562, *Ontario Sound Recording Tax Credit*. For more details, see the schedule.

On line 464 of Schedule 5, enter the total amount of the credit you are claiming.

**Reference**
Section 94, *Taxation Act, 2007* (Ontario)

### Ontario book publishing tax credit

The Ontario book publishing tax credit is a refundable tax credit of 30% on the qualifying expenditures incurred during a tax year for an eligible literary work, by an Ontario book publishing company, up to a maximum credit of $30,000 per work.

Qualifying expenditures include pre-press costs and marketing expenditures and 50% of the production costs paid by the corporation for the publishing of an eligible literary work. These qualifying expenditures are reduced by any assistance reasonably related to these expenditures.

After March 26, 2009, qualifying expenditures include direct expenses that reasonably relate to publishing a digital or electronic version of the literary work. The credit is available for any number of literary works by a Canadian author in an eligible category. Before March 27, 2009, only the first three literary works were eligible.

The criteria a corporation must meet to be eligible for the credit include the following:

- be a Canadian-controlled corporation throughout the tax year, as determined under sections 26 to 28 of the *Investment Canada Act*;
- carry on a book publishing business mainly through a permanent establishment in Ontario for the tax year;
- not be exempt from tax under Part III of the *Taxation Act, 2007* (Ontario) for the tax year; and

- not be controlled by the author of the literary work, or by a person not dealing at arm's length with the author.

Before claiming the credit, send a completed Ontario Media Development Corporation (OMDC) application form to the OMDC. If the literary work is eligible, the OMDC will issue a certificate.

To claim the credit, attach the following to your return for the year for **each** literary work:

- a certificate of eligibility (or copy) issued by the OMDC; and
- a completed Schedule 564, *Ontario Book Publishing Tax Credit*.

On line 466 of Schedule 5, enter the total amount of the credit you are claiming.

**Reference**
Section 95, *Taxation Act, 2007* (Ontario)

### Ontario innovation tax credit

You are eligible to claim an Ontario innovation tax credit if you:

- had a permanent establishment in Ontario during the year;
- have carried on scientific research and experimental development (SR&ED) in Ontario during the year;
- are not exempt from tax under Part III of the *Taxation Act, 2007* (Ontario);
- are eligible to claim a federal investment tax credit under section 127 of the federal *Income Tax Act* for the corporation's qualified expenditures; and
- have filed Form T661, *Scientific Research and Experimental Development (SR&ED) Expenditures Claim*, in the tax year.

The credit is a 10% refundable tax credit based on the sum of the corporation's qualified expenditures incurred in Ontario and any eligible repayments.

The credit is available to a maximum annual expenditure limit of $3 million. Associated corporations must share in the $3 million expenditure limit.

The expenditure limit of $3 million begins to reduce when the federal taxable income of the corporation and its associated corporations for the previous tax year exceeds $500,000 ($400,000 for tax years that end before 2010) and becomes nil at $800,000 ($700,000 for tax years that end before 2010). The $3 million expenditure limit also begins to reduce when the specified capital amount of the corporation and its associated corporations for the previous tax year reaches $25 million and becomes nil at $50 million.

Qualified expenditures include 100% of current expenditures and 40% of capital expenditures.

Expenditure limit, qualified expenditure, and eligible repayments are defined in subsections 96(3), 96(3.1), 96(8) and 96(12) of the *Taxation Act, 2007* (Ontario).

File a completed Schedule 566, *Ontario Innovation Tax Credit*, with your return. See the schedule for more details.

On line 468 of Schedule 5, enter the amount of the credit you are claiming.

**Reference**
Section 96, *Taxation Act, 2007* (Ontario)

### Ontario business-research institute tax credit

You are eligible to claim an Ontario business-research institute tax credit if you:

- carried on business in the tax year through a permanent establishment in Ontario;
- incurred qualified expenditures under an eligible contract with an eligible research institute; and
- were not exempt from tax under Part III of the *Taxation Act, 2007* (Ontario).

This credit is a 20% refundable tax credit based on qualified expenditures for the tax year incurred in Ontario under an eligible contract with an eligible research institute.

The annual qualified expenditure limit is $20 million. If a corporation is associated with other corporations at any time in a calendar year, the $20 million limit must be allocated among the associated corporations. The maximum tax credit that a qualifying corporation or an associated group of corporations can claim in a tax year is $4 million (20% of $20 million).

Complete Schedule 568, *Ontario Business-Research Institute Tax Credit*, to claim the credit and complete a Schedule 569, *Ontario Business-Research Institute Tax Credit Contract Information*, for each eligible contract.

> **Note**
> When completing Schedule 569, to find the applicable eligible research institute code, go to **www.cra.gc.ca/tx/bsnss/tpcs/crprtns/prv/on/bsnssrsrch-eng.html**.

Keep a copy of each eligible contract to support your claim.

On line 470 of Schedule 5, enter the amount of the credit you are claiming.

**Reference**
Section 97, Taxation Act, 2007 (Ontario)

### Ontario Ministry of Government Services annual return

Ontario corporations and foreign business corporations licensed to carry on business in Ontario must file an Ontario *Corporations Information Act* Annual Return with the CRA within six months of the end of the tax year as follows:

- Every corporation that is incorporated, continued, or amalgamated in Ontario and subject to the *Business Corporations Act* or the *Corporations Act*, except for registered charities under the federal *Income Tax Act*, must file Schedule 546, *Corporations Information Act Annual Return for Ontario Corporations*.
- Every business corporation that is incorporated, continued, or amalgamated in a jurisdiction outside Canada with a licence under the *Extra-Provincial Corporations Act* to carry on business in Ontario must file Schedule 548, *Corporations Information Act Annual Return for Foreign Business Corporations*.

File the completed Schedule 546 or 548 with the T2 return. If you have to file more than one tax return in a calendar year, file the annual return only with the first tax return.

The CRA will transmit the information on Schedules 546 and 548 to the Ontario Ministry of Government Services (MGS). The MGS is responsible for maintaining a public database of corporate information. It is the corporation's responsibility to ensure that the information on the public record is accurate and up to date.

To report changes to the name of a director/officer, or changes to both the address and date elected/appointed of a director/officer, enter the director/officer information exactly as shown incorrectly on the public record, with a cease date, and then photocopy and complete only Part 7 of Schedule 546 with the correct director/officer information.

Corporations that have to file Schedule 546 have the option of filing electronically with one of the service providers under contract with the Ontario Ministry of Government Services, instead of filing it together with the T2 return.

### Ontario specialty types

Any corporation carrying on business in Ontario through a permanent establishment must file Schedule 524, *Ontario Specialty Types*, to identify its specialty type if:

- its tax year includes January 1, 2009;
- the tax year is the first year after incorporation or an amalgamation; or
- there is a change to the specialty type.

## Manitoba

The **rates** of Manitoba income tax are:

- 13% effective July 1, 2008; and
- 12% effective July 1, 2009.

Corporations may be eligible for a small business deduction to reduce part of the tax otherwise payable.

The small business income tax rates are:

- 2% effective January 1, 2008
- 1% effective January 1, 2009; and
- 0% effective December 1, 2010.

The small business deduction rate will be adjusted accordingly.

You have to prorate the tax using the number of days in each period when the rate changes during the tax year.

The income eligible for the small business deduction rate is determined using the Manitoba business limit of $400,000.

You can use Schedule 383, *Manitoba Corporation Tax Calculation,* to help you calculate your Manitoba tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 230 of Schedule 5, enter the amount of tax calculated.

### Manitoba manufacturing investment tax credit

You can earn this 10% credit on qualified property you acquired before January 1, 2012, to reduce Manitoba tax payable.

You have to use the qualified property in Manitoba mainly for manufacturing or processing goods for sale or lease.

The definition of qualified property is extended to include new equipment, under Class 43.1 of Part XI of the federal *Income Tax Regulations*, purchased between April 22, 2003, and December 31, 2011.

> **Note**
> Qualified property under Class 43.1 that was moved under Class 43.2 as a result of the 2005 federal budget continues to qualify for this credit.

After March 8, 2005, qualifying property includes used buildings, machinery, and equipment made available for use in manufacturing or processing goods for sale or lease.

You can carry back an unused credit to the three previous tax years from the tax year in which you acquired the property.

You can carry forward to the following 10 tax years an unused credit earned in a tax year ending after 2003, and to the following 7 tax years for an unused credit earned in a tax year ending before 2004. The 2010 tax year is the last tax year to which you can carry forward a credit earned in 2003.

To claim the credit, file a completed Schedule 381, *Manitoba Manufacturing Investment Tax Credit* no later than 12 months after your income tax return is due for the tax year in which the expenditures were incurred. For more details, see the schedule.

On line 605 of Schedule 5, enter the amount of the credit you are claiming.

### Manitoba refundable manufacturing investment tax credit

The investment tax credit will first be applied to reduce the Manitoba corporation income tax payable. Then you can claim a part of the investment tax credit you are entitled to claim in a tax year as a refundable credit. The maximum refundable part is 70% of your investment tax credit (7% of qualified property) for tax year ending in 2008 or after. This applies to qualified property acquired on or after January 1, 2008.

> **Note**
> The **acquired** date for purposes of this credit is the date that the property became **available for use**.

To claim the credit, file a completed Schedule 381, *Manitoba Manufacturing Investment Tax Credit*, no later than 12 months after your income tax return is due for the tax year in which the expenditures were incurred. For more details, see the schedule.

On line 621 of Schedule 5, enter the amount of the refundable credit you are claiming.

### Manitoba research and development tax credit

You can claim this credit if you have a permanent establishment in Manitoba and you made eligible

expenditures for research and development carried out in Manitoba.

The amount of the credit is equal to 20% 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 tax years from the tax year that you made the expenditure. You can carry forward to the following 10 tax years an unused credit earned in a tax year ending after 2003, and to the following 7 tax years an unused credit earned in a tax year before 2004. The 2010 tax year is the last tax year to which you can carry forward a credit earned in 2003.

For eligible expenditures incurred after 2009, the whole credit is refundable if the research and development is carried on in Manitoba under an eligible contract with a qualifying research institute in priority areas.

**Note**
Manitoba Finance posted on its Web site a list of *Educational Institutions Potentially Eligible for Participation in SR&ED Refundable Manitoba R&D Tax Credit Program*.

The refundable credit will not be limited to research and development carried on under contract with a research institute in Manitoba. For in-house research and development expenditures incurred after 2010, 25% of the tax credit amount (5% of eligible expenditures) will be refundable; for expenditures incurred after 2011, 50% of the tax credit amount (10% of eligible expenditures) will be refundable.

You can renounce the research and development tax credit for an eligible expenditure incurred during the year, in whole or in part, under subsection 7.3(7) of the *Income Tax Act* (Manitoba).

To claim the credit, file a completed Schedule 380, *Manitoba Research and Development Tax Credit*, with your return. You must identify the qualified expenditures no later than 12 months after your income tax return is due for the tax year in which the expenditures were incurred. For more details, see the schedule.

On line 606 of Schedule 5, enter the amount of the non-refundable credit you are claiming. On line 613 of Schedule 5, enter the amount of the refundable credit.

### Manitoba co-op education and apprenticeship tax credit

The Manitoba co-op education and apprenticeship tax credit includes the following:

- co-op student hiring incentive;
- co-op graduate hiring incentive;
- advanced level apprentices hiring incentive; and
- journeypersons hiring incentive

Beginning in 2011, the tax credit will be expanded to include the early level apprentice hiring incentive, available to employers who hire high-school and post-secondary level 1 and 2 apprentices who are not eligible for the federal apprenticeship job creation tax credit.

The Province of Manitoba will issue a "Proof-of-credit certificate" to the corporation or partnership for each qualifying work placement or qualifying employment.

To claim the credit, file a completed Schedule 384, *Manitoba Co-op Education and Apprenticeship Tax Credit*, with your return. For more details, see the schedule.

On line 603 of Schedule 5, enter the amount of the non-refundable credit you are claiming.

On line 622 of Schedule 5 enter the amount of the refundable credit you are claiming.

A corporation that is exempt under section 149 of the federal *Income Tax Act* is also eligible to claim this credit. Along with Schedule 384, the exempt corporation will also have to complete Schedule 5 and file a T2 return.

#### Co-op student hiring incentive

You can claim this credit if you are an employer who provides a work placement for a student enrolled in a qualifying post-secondary co-operative education program.

The work placement must end on or before the end of a tax year and before 2012.

The credit for each qualifying work placement is whichever is less:

- $1,000; and
- 10% of the wages and salaries paid to the employee for work performed mainly in Manitoba, less government assistance.

The credit will be nil if the student under the work placement has had five previous qualifying work placements.

The credit for work placements that end before March 7, 2006, is non-refundable. You can claim any unused credit earned before this date to reduce total taxes payable. Any remaining credit that has not expired can be carried forward 10 tax years that follow the tax year in which you earned the credit. Unused credits may be carried forward on amalgamation or wind-up.

The credit earned for work placements that end after March 6, 2006, is fully refundable, but must first be applied against total taxes payable. The carry-back and carry-forward provisions do not apply to a credit earned after March 6, 2006.

#### Co-op graduates hiring incentive

You can claim this credit if you are an employer that has hired co-op graduates in full-time employment in Manitoba, and retained them for at least one year. The students must have graduated after March 6, 2006, and before 2012, from a recognized post-secondary co-operative education program in a field related to the employment.

The credit is equal to 5% of the net wages and salaries paid to the graduate in each of the first two full years of employment, to a maximum of $2,500 for each year, where the employment starts within 18 months of graduation.

This credit is fully refundable but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

### Early level apprentice hiring incentive

You can claim this credit if you are an employer who hires high-school and post-secondary level 1 and 2 apprentices in Manitoba after December 31, 2010, and before 2014, and the wages and salary you paid them are not eligible for the federal apprenticeship job creation tax credit.

The new credit is equal 10% of net wages and salaries paid to an apprentice, up to a maximum of $2,000.

### Advanced level apprentice hiring incentive

You can claim this credit if you are an employer that has hired an apprentice who is enrolling at an advanced level (3, 4, or 5) in Manitoba after December 31, 2008, and before 2012. The credit can be claimed in the year the level is completed.

The credit is equal to 5% of the wages and salaries paid to the apprentice for work performed in Manitoba, less any government assistance received or receivable. The maximum credit for one apprentice completing one level is $2,500. You can apply for an unlimited number of apprentices.

This credit is fully refundable but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

### Journeypersons hiring incentive

You can claim this credit if you are an employer that has hired recent graduates of apprenticeship programs in full time employment in Manitoba, and retained them for at least one year. The journeyperson must have received their certificate of qualification in Canada after April 9, 2008, in a field related to the employment.

The credit is equal to 5% of the wages and salaries paid to the journeyperson in each of the first two full years of employment, to a maximum of $2,500 for each year, where the employment starts within 18 months of certification.

Employment periods must be continuous and consecutive, but an employment period of twelve-month's duration may be interrupted by a seasonal layoff of not more than three months.

This credit is fully refundable but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

## Manitoba odour-control tax credit

You can earn this credit on eligible expenditures made before January 1, 2012, to reduce Manitoba income tax payable.

Eligible expenditures consist of the capital costs of depreciable capital properties that become available for use in the year and were acquired for preventing, reducing, or eliminating nuisance odours that arise or may arise from the use or production of organic waste.

You can earn this credit if odour control is a significant, but not necessarily your primary, purpose for acquiring the eligible capital property. The properties must be unused and must not have been acquired for any use by anyone before. Eligible expenditures are either prescribed by regulation or approved by the Minister.

The credit is equal to 10% of the eligible expenditures and is non-refundable. However, for eligible expenditures made by an agricultural corporation, part of the credit is refundable (see below).

You can carry back an unused credit to the three previous tax years from the tax year in which you earned the credit. You can also carry forward the unclaimed credit to the 10 tax years that follow the tax year in which you earned the credit. Unused credits may be carried forward on amalgamation or wind-up.

The corporation may be the beneficiary of a trust or a member of a partnership at the end of the trust's or partnership's tax year. If so, it may include its proportionate allocation or share of the trust/partnership's eligible expenditures in computing its odour-control tax credit.

You cannot claim this credit on eligible expenditures used in calculating any other credit.

Effective March 7, 2006, agricultural corporations are eligible for a refundable part of the odour-control tax credit. The maximum refund that an agricultural corporation can claim is the lesser of:

- the tax credit that is more than the non-refundable tax credit claimed in the current year; and
- the property tax paid net of government assistance received or receivable on Manitoba farmland used by the corporation in the business of farming, for the calendar year that ended in a tax year after March 6, 2006.

To claim the credit, file a completed Schedule 385, *Manitoba Odour – Control Tax Credit*, with your return. You can claim this credit no later than 12 months after your income tax return is due for the tax year in which the expenditures were incurred. For more details, see the schedule.

On line 607 of Schedule 5, enter the non-refundable amount of the credit you are claiming.

If you are an agricultural corporation, enter the refundable part of the credit you are claiming on line 623 of Schedule 5.

## Manitoba small business venture capital tax credit

This credit was previously called the community enterprise investment tax credit. It is extended to December 31, 2013.

You can claim a non-refundable tax credit if:

- you are a corporation that is not a prescribed venture capital corporation or labour-sponsored venture capital corporation under Part LXVII of the federal regulations; and
- you directly invested a minimum of $20,000 in a qualifying community enterprise, as defined in the regulations.

The credit is equal to 30% of the amount invested to a **lifetime** maximum investment of $450,000.

The **annual** investment limit is also $450,000 and the maximum amount of the tax credit that you can **earn** in a given year is $135,000. However, the maximum amount of the tax credit that you can **apply** against provincial tax in

the year is $45,000, including any amounts carried back or carried forward.

This credit must be claimed against Manitoba tax otherwise payable. You can carry forward unused credits to the 10 following tax years or back to the 3 previous tax years.

The Province of Manitoba will issue a tax credit receipt for qualifying investments. File it with your T2 return, unless you file electronically. Then keep your receipt in case we ask for it later.

To claim the credit, file a completed Schedule 387, *Manitoba Small Business Venture Capital Tax Credit.* See the schedule for more details.

On line 608 of Schedule 5, enter the amount of the credit you are claiming.

**Manitoba cooperative development tax credit**

A new tax credit is introduced for Manitoba cooperatives and credit unions with a permanent establishment in Manitoba that make financial contributions after September 2010 and before 2021 to a cooperative development fund.

Contributions will be made to a fund established and managed by an administrator, which is the Manitoba Cooperative Association, or a person or organization designated by regulation. Contributions will be used for:

- forming new Manitoba cooperatives;
- providing technical assistance to Manitoba cooperatives;
- coordinating existing supports and services for Manitoba cooperatives; and
- providing small grants and strategic investments to Manitoba cooperatives, other than cooperatives that primarily provide financial services.

The total amount of contributions eligible for the credit of a contributor is $ 50 000, provided the administrator is not subject to a tax credit limit for the year. The total amount of tax credits for which an administrator can issue receipts in a calendar year cannot be greater than:

- $100,000 for the 2010 calendar year;
- $200,000 for any later calendar year.

The credit is equal to:

| Contribution (C) | Tax credit (T) |
|---|---|
| $10,000 or less | T = C × 3/4 |
| $10,001 to $30,000 | T = $7,500 + [(C – $10,000) ÷ 2] |
| $30,001 to $50,000 | T = $17,500 + [(C – $30,000) ÷ 3] |

The maximum amount of the credit is $24,167. The maximum amount of the refundable credit is $750.

If you file electronically, keep your receipt in case we ask for it later. Otherwise, file your receipt with your paper return.

On line 609 of Schedule 5, enter the amount of the non-refundable credit you are claiming.

On line 612 of Schedule 5, enter the amount of the refundable credit you are claiming.

**Manitoba interactive digital media tax credit**

Manitoba Science, Technology, Energy and Mines will issue a tax credit certificate to a corporation that develops and produces an eligible interactive digital media project in Manitoba, upon completion of the project. However, the corporation must first receive a certificate of eligibility before the start of the project.

Effective for certificates of eligibility and tax credit certificates issued after March 23, 2010:

- tax credit certificates can be issued on a tax-year basis instead of at the end of a project (this does not apply if the government or a public body is the purchaser);
- repaid or repayable government assistance will no longer reduce eligible labour costs; and
- where a government or public authority is the purchaser of an interactive digital media product, the amount paid by the purchaser and the amount of the interactive digital media tax credit cannot exceed 100% of the project's costs.

To claim the credit, a qualifying corporation must be a taxable Canadian corporation with a permanent establishment in Manitoba. It must pay at least 25% of the salary and wages to employees who are Manitoba residents for the project period.

The amount of the credit is equal to 40% of eligible labour costs paid in the tax year to residents of the province. The maximum tax credit on an eligible project is $500,000.

Projects that begin prototyping and product development after April 9, 2008, and before 2011 will qualify for the credit.

This credit is extended to December 31, 2013.

This credit is fully refundable. There are no carry-back of carry-forward provisions.

To claim the credit, file the certificate with your return no later than the filing-due date of the tax year following the tax year in which the project was completed.

On line 614 of Schedule 5, enter the amount of the credit you are claiming.

**Manitoba book publishing tax credit**

You can claim this credit if you:

- are engaged mainly in the business of publishing books or you operate a book publishing business as a university press;
- have a permanent establishment in Manitoba;
- pay at least 25% of the wages and salaries to employees who are Manitoba residents;
- made non-refundable monetary advances in the tax year to authors of eligible books; and

- have published at least two eligible books within the two-year period ending at the end of the tax year.

An eligible book is a first edition, non-periodical Canadian-authored publication. It is classified as fiction, non-fiction, poetry, drama, biography or children's. An eligible book must be **published** after April 9, 2008, and before 2012.

The credit is equal to 40% of eligible Manitoba labour costs, to a maximum of $100,000 per year. Eligible labour costs must be incurred and paid in Manitoba by the publisher after April 9, 2008, and before 2012.

The credit is fully refundable. There are no carry-forward or carry-back provisions.

An additional bonus of 10% on Manitoba printing costs can be claimed if the book is printed on paper with a minimum of 30% recycled content. Eligible printing costs must be incurred and paid within one year of publication of the eligible book.

To claim the credit, file a completed Schedule 389, *Manitoba Book Publishing Tax Credit*, with your return.

On line 615 of Schedule 5, enter the amount of the credit you are claiming.

### Manitoba green energy equipment tax credit

#### Manufacturer's tax credit

You can claim this credit if you manufacture and sell in Manitoba after April 4, 2007, and before 2019 qualifying property used to generate energy from a renewable resource.

The credit is equal to a maximum of 10% of the selling price of the qualifying property that is manufactured in Manitoba and sold in the year for residential or commercial use in Manitoba. The rate varies with different classes of property and is prescribed by regulation.

Manufacturers can claim a 5% tax credit on the sale price of ground source heat pump systems that meet the standards set by the Canadian Standards Association.

This credit is refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 619 of Schedule 5, enter the amount of the credit earned in the year.

#### Purchaser's tax credit

You can also claim this credit if you buy qualifying property that is used to produce energy in Manitoba from a renewable resource. The credit you can claim cannot exceed 10% of the purchase price, less any credit that an eligible manufacturer has claimed or may claim for the qualifying property. The rate varies with different classes of property and is prescribed by regulation.

Purchasers can claim a credit on **ground source heat pump** systems that meet the standards set by the Canadian Standards Association. The tax credit is calculated as follows:

- 10% on eligible capital installation costs excluding the cost of the heat pump; plus
- 5% on the cost of the heat pump if it is manufactured in Manitoba.

Purchasers who install new specified **solar heating** equipment in Manitoba qualify for a refundable 10% credit on the eligible capital costs (including taxes and costs related to acquiring and making the system operational). The equipment does not include equipment used to heat water for use in a swimming pool or equipment that distributes heated air or water in a building.

This credit is refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 619 of Schedule 5, enter the amount of the credit earned in the year.

### Manitoba film and video production tax credit

The Manitoba Film and Sound Recording Development Corporation reviews all tax credit applications and will issue a tax credit certificate to a corporation that produces an eligible film.

The credit is equal to 45% of eligible salaries paid before March 1, 2011, for work performed on an eligible film.

This credit is extended to February 28, 2014.

The percentage of eligible salaries paid to non-residents for work performed in Manitoba is 30% of eligible salaries paid to Manitobans. However, it is 10% if only one individual participated, as a Manitoba trainee, in the film production technical crew in which the eligible non-resident individual provided services.

There is a **frequent filming incentive** of 10% on the third eligible film, for corporations that produce three eligible films in two years. This also applies to serial productions.

There is a 5% incentive on eligible salaries paid for work performed in Manitoba on productions where at least 50% of filming days take place at least 35 kilometers outside of Winnipeg.

You can claim a 5% bonus on eligible salaries where a Manitoba resident receives credit as a **producer** on an eligible film.

For productions that start principal photography after March 2010, corporations will be able to elect to claim either the maximum 65% tax credit based on eligible labour costs, or a new 30% tax credit based on production costs incurred for labour, goods, and services provided in Manitoba that are directly attributable to the production of an eligible film.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, for each eligible production, attach the following **on top** of your return for the tax year:

- a *Certificate of Completion* (if the production was completed in the tax year), or an *Advance Certificate of Eligibility* (if the production was not completed in the tax year), issued by the Manitoba Film and Sound Recording Development Corporation;

- a completed copy of Schedule 388, *Manitoba Film and Video Production Tax Credit*; and
- all the additional documents listed on the last page of Schedule 388.

Effective March 24, 2010, corporations may file Form T2029, *Waiver in Respect of the Normal Reassessment Period or Extended Reassessment Period*, to extend the application for a Certificate of Completion with the Manitoba certifying authority by 18 months.

On line 620 of Schedule 5, enter the amount of the credit earned in the current year.

## Saskatchewan

The **lower rate** of Saskatchewan income tax is 4.5%.

Income eligible for this lower rate is determined using the Saskatchewan business limit of $500,000.

The **higher rate** of income tax is 12%.

This higher rate applies to all income **not** eligible for the lower rate.

You can use Schedule 411, *Saskatchewan Corporation Tax Calculation*, to help you calculate your Saskatchewan tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 235 of Schedule 5, enter the amount of tax calculated.

### Saskatchewan political contribution tax credit

You can claim a tax credit on contributions made to qualifying political parties or election candidates as follows:

- 75% of the first $400 contributed;

**plus**

- 50% of the next $350 contributed;

**plus**

- 33 1/3% of the next $525 contributed, to a maximum credit of **$650**.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 890 of Schedule 5, enter the total amount of qualifying contributions, and on line 624, enter the amount of the credit you are claiming.

### Saskatchewan manufacturing and processing profits tax reduction

You can claim this reduction if at any time in the tax year you had a permanent establishment in Saskatchewan, earned taxable income and had Canadian manufacturing and processing profits, in Saskatchewan.

The profits from producing or processing electrical energy or steam for sale can be included with Canadian manufacturing and processing profits for this tax reduction.

You must claim this reduction within three years of the filing due date of the return for the applicable tax year.

You can reduce the Saskatchewan income tax rate on Canadian manufacturing and processing profits by 2% effective July 1, 2008.

You can calculate the reduction on Schedule 404, *Saskatchewan Manufacturing and Processing Profits Tax Reduction*. Schedule 404 is a worksheet to calculate the reduction and does not have to be filed with your return. For more details, see the schedule.

On line 626 of Schedule 5, enter the amount of reduction you are claiming.

### Saskatchewan manufacturing and processing investment tax credit

You can earn this credit on qualified property that is used in Saskatchewan mainly for manufacturing or processing goods for lease or sale.

The credit you can earn is 5% on qualified property acquired after October 27, 2006.

The credit earned on qualified property acquired after April 6, 2006, is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

The credit earned on qualified property acquired before April 7, 2006, is non-refundable. Any unused credit that has not expired can be carried forward for up to 10 years that follow the tax year in which you earned the credit.

Corporations that are exempt under section 149 of the federal *Income Tax Act* are not eligible for the refundable credit.

To claim the credit, file a completed Schedule 402, *Saskatchewan Manufacturing and Processing Investment Tax Credit*, with your return. For more details, see the schedule.

On line 630 of Schedule 5, enter the amount of the non-refundable credit you are claiming.

On line 644 of Schedule 5, enter the amount of the refundable credit you are claiming.

### Saskatchewan research and development tax credit

You can claim this credit if you have a permanent establishment in Saskatchewan, and you made eligible expenditures for scientific research and experimental development carried out in Saskatchewan.

The credit is 15% of eligible expenditures. It is fully refundable for eligible expenditures made after March 18, 2009.

For eligible expenditures made before March 19, 2009, the credit is non-refundable and may be applied to reduce Saskatchewan tax that you would otherwise have to pay. You can carry back an unused non-refundable credit to the three previous tax years from the tax year that you made the expenditures. You can also carry forward the unused non-refundable credit to the ten tax years that follow the tax year in which you made the expenditures.

You can renounce the non-refundable research and development tax credit for an eligible expenditure incurred during the year, in whole or in part, under subsection 63(10) of the *Income Tax Act* (Saskatchewan).

To claim the credit, file a completed Schedule 403, *Saskatchewan Research and Development Tax Credit*. See the schedule for more details.

On line 631 of Schedule 5, enter the amount of the non-refundable credit you are claiming. On line 645 of Schedule 5, enter the amount of the refundable credit.

### Saskatchewan royalty tax rebate

This rebate is available to corporations that, in the tax year, had both taxable income earned in Saskatchewan and attributed Canadian royalties and taxes, as defined in paragraph 2(1)(a) of the *Saskatchewan Royalty Tax Rebate Regulations*.

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

To claim the rebate, file a completed Schedule 400, *Saskatchewan Royalty Tax Rebate Calculation (Corporations)*, with your return. For more details, see the schedule.

On line 632 of Schedule 5, enter the royalty tax rebate you are claiming.

### Saskatchewan qualifying environmental trust tax credit

A corporation that is a beneficiary of a qualifying environmental trust located in Saskatchewan can claim a tax credit on income that is subject to tax under Part XII.4 of the federal *Income Tax Act*.

The amount of the tax credit is 12% effective July 1, 2008.

The qualifying environmental trust will issue a letter to the corporation that is a beneficiary.

This credit is fully refundable, but must first be applied against taxes payable. There are no carry-back or carry-forward provisions.

You do not have to file the letter with your return. However, keep it in case we ask for it later.

On line 641 of Schedule 5, enter the amount of the credit earned.

### Saskatchewan film employment tax credit

The Minister of Tourism, Parks, Culture and Sport 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 45% of eligible salaries. Eligible salaries are limited to 50% of the total production cost of the eligible film.

An additional 5% credit for salaries of Saskatchewan residents, when hired in 6 out of 10 key positions in films with budgets of 3 million dollars or more, is also available.

An eligible corporation located more than 40 kilometres from Saskatoon or Regina can apply for an additional credit equal to 5% of the total production cost for the eligible film.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file the original or a copy of the eligibility certificate (or certificates) with your return. If there is only one certificate, enter the certificate number on line 860 of Schedule 5. If there is more than one certificate, complete Schedule 410, *Additional Certificate Numbers for the Saskatchewan Film Employment Tax Credit*, and file it with your return.

On line 643 of Schedule 5, enter the amount of the credit earned in the current year.

## British Columbia

The **lower rate** of British Columbia income tax is:

- 3.5% effective July 1, 2008; and
- 2.5% effective December 1, 2008.

Income eligible for the lower rate is determined using the British Columbia business limit of $500,000. Before January 1, 2010, this limit was $400,000.

The **higher rate** of British Columbia income tax is:

- 11% effective July 1, 2008;
- 10.5% effective January 1, 2010; and
- 10% effective January 1, 2011.

This rate applies to all income **not** eligible for the lower rate.

The tax is prorated based on the number of days in the year when the tax year straddles these dates.

You can use Schedule 427, *British Columbia Corporation Tax Calculation*, to help you calculate your British Columbia tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 240 of Schedule 5, enter the amount of tax calculated.

**References**
Sections 14, 14.1, and 16, British Columbia *Income Tax Act*

### 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. This non-refundable credit is equal to one-third of the logging tax payable and paid as indicated on provincial Form FIN 542, *Logging Tax Return of Income*.

On line 651 of Schedule 5, enter the amount of the credit you are claiming.

**Reference**
Section 19.1, British Columbia *Income Tax Act*

### British Columbia political contribution tax credit

You can claim a tax credit on contributions made to registered British Columbia political parties, registered British Columbia constituency associations, or to candidates for an election to the Legislative Assembly of British Columbia, as follows:

- 75% of the first $100 contributed;

**plus**

- 50% of the next $450 contributed;

**plus**

- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of **$500**.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 896 of Schedule 5, enter the total amount of qualifying contributions, and on line 653, enter the amount of the credit you are claiming.

**Reference**
Section 20, British Columbia *Income Tax Act*

### British Columbia small business venture capital tax credit

Corporations investing in shares of a registered venture capital corporation or eligible business corporation can claim a British Columbia venture capital tax credit. The British Columbia government issues a certificate called Form SBVC 10 to these corporations.

Apply this credit first to reduce the British Columbia provincial tax payable for the year to zero. If unclaimed credits remain, you can carry them forward for four tax years to reduce the British Columbia tax payable.

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

On Schedule 5, line 880, enter the unclaimed tax credit, if any, at the end of the previous tax year. On line 881, enter the tax credit amount available in the current year as reported on Form SBVC 10. On line 882, enter the nine-digit certificate number from Form SBVC 10. On line 656, enter the tax credit amount you are claiming.

**Reference**
Section 21, British Columbia *Income Tax Act*

### British Columbia manufacturing and processing tax credit

Corporations may no longer file a claim for the British Columbia manufacturing and processing tax credit. This credit was earned on qualifying property purchased before July 31, 2001.

Any unused credits that have not expired may be carried forward for up to 10 tax years after the tax year in which they were earned.

To claim a carryforward, file a completed Schedule 426, *British Columbia Manufacturing and Processing Tax Credit*, with your return. For more details, see the schedule.

On line 660 of Schedule 5, enter the amount of the credit you are claiming.

**References**
Part 7, British Columbia *Income Tax Act*
CIT 001, *British Columbia Manufacturing and Processing Tax Credit*

### British Columbia scientific research and experimental development tax credit

A qualifying corporation can claim this credit on expenditures incurred in the tax year for scientific research and experimental development (SR&ED) carried on in British Columbia. The expenditures have to be made before September 1, 2014, and when the corporation has a permanent establishment in the province.

An active member of a partnership can also claim its share of the partnership's non-refundable tax credit for SR&ED carried on in British Columbia. Only partners that are qualifying corporations can claim the credit.

To claim the credit, file a completed Form T666, *British Columbia (BC) Scientific Research and Experimental Development Tax Credit*, with your return. You must file this form no later than 18 months after the end of the tax year in which the qualified expenditures are incurred. For more details, see Form T666.

**References**
Part 6, British Columbia *Income Tax Act*
CIT 007, *British Columbia Scientific Research and Experimental Development Tax Credit*

### British Columbia SR&ED refundable tax credit

A qualifying corporation that is a CCPC may claim the refundable tax credit.

The amount of the credit is equal to 10% of whichever of the following amounts is less:

- the SR&ED qualified BC expenditure for the tax year; or
- the expenditure limit for the tax year.

On line 674 of Schedule 5, enter the amount of the refundable credit you are claiming.

**Reference**
Section 98, British Columbia *Income Tax Act*

### British Columbia SR&ED non-refundable tax credit

Other qualifying corporations, and CCPCs with SR&ED qualified expenditures that are more than their expenditure limit, may claim a non-refundable tax credit.

The non-refundable tax credit for a tax year is 10% of the SR&ED qualified BC expenditure for that year less the total of:

- the amount of refundable credit for that year; and
- any amount renounced for that year.

The credit may be deducted against the income tax payable for that year. You must claim the maximum tax credit available in the year it is earned. You can carry back an unused credit to the three previous tax years from the year the expenditures were incurred. You can also carry forward the unclaimed credit to the ten tax years that follow the tax year in which the expenditures were incurred.

On line 659 of Schedule 5, enter the amount of the non-refundable credit you are claiming.

**Reference**
Section 99, British Columbia *Income Tax Act*

### Recapture of British Columbia SR&ED tax credit

A corporation that disposed of a property used in SR&ED, or converted it to commercial use, may be required to report a recapture of any British Columbia SR&ED tax credit previously calculated on that property. Any recapture will create or increase British Columbia tax otherwise payable.

To calculate the recapture, complete Form T666, *British Columbia (BC) 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.

**Reference**
Sections 102.1 to 102.6, British Columbia *Income Tax Act*

### British Columbia qualifying environmental trust tax credit

A corporation that is a beneficiary of a qualifying environmental trust located in British Columbia can claim a tax credit on income that is subject to tax under Part XII.4 of the federal *Income Tax Act*.

The credit will reduce the provincial tax otherwise payable for the tax year that includes the trust's tax year.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 670 of Schedule 5, enter the amount of the credit earned.

**Reference**
Section 25, British Columbia *Income Tax Act*

### British Columbia film and television tax credit

The film and television tax credits are for domestic productions with qualifying levels of Canadian content. To claim these credits, an eligible production corporation must be a Canadian-controlled corporation and its activities must mainly be carrying on a film or video production business through a permanent establishment in British Columbia.

For productions that started principal photography before January 1, 2009, the eligibility for these credits was restricted to British Columbia-controlled corporations.

The film and television tax credit **cannot** be claimed if the production services tax credit is claimed for that production.

These credits are fully refundable but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

There is no expiry date for these credits.

These credits apply to BC labour expenditures. For determining BC labour expenditures, a BC-based individual is a person who is resident in the province on December 31 of the year preceding the end of the tax year for which the tax credit is claimed. For productions that started principal photography before February 20, 2008, a BC-based individual was defined for the entire length of a production based on the residency status of the individual in the calendar year that precedes the year principal photography begins.

An eligible production corporation can claim these different credits:

- the basic tax credit;
- the additional basic tax credit;
- the regional tax credit;
- the distant location regional tax credit;
- the film training tax credit; and
- the digital animation or visual effects tax credit.

**Note**
If you are not eligible for, and do not claim the basic tax credit, you cannot claim the additional basic, regional, distant location, film training, or the digital animation or visual effects tax credits.

- The **basic tax credit** is equal to one of the following amounts:
  - 30% of the qualified BC labour expenditure for the tax year for the production; or
  - for a production that is an inter-provincial co-production, 30% of the qualified BC labour expenditure for that tax year for the production multiplied by the percentage of the copyright in the production that is beneficially owned by the corporation.
- The **additional basic tax credit** is equal to 5% of qualified BC labour expenditure incurred after December 31, 2007.
- The **regional tax credit** is equal to one of the following amounts:
  - 12.5% of the qualified BC labour expenditure for the production for the tax year, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are outside of the designated Vancouver area; or
  - for a production that is intended for television broadcast as a series and that comprises a cycle of at least three episodes, where principal photography of at least three episodes is done outside of the designated Vancouver area, the credit is 12.5% of the qualified BC labour expenditure for the tax year for the qualified episodes done in British Columbia, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are outside of the designated Vancouver area.

The credit is prorated for the number of days of principal photography done in British Columbia outside the designated Vancouver area over the total number of days of principal photography performed in British Columbia.

- The **distant location regional tax credit** is available for productions that start principal photography after February 19, 2008, when principal photography is done

in British Columbia in a distant location. The distant location is that part of British Columbia that is **not** included within the area that extends from the designated Vancouver area north, up to and including Whistler, and east to include Hope, and not within the Capital Regional District.

The distant location regional tax credit is equal to one of the following amounts:

– 6% of the qualified BC labour expenditure for the production for the tax year, where a minimum of one day of principal photography is in a distant location; or

– for a production that is intended for television broadcast as a series and that comprises a cycle of at least three episodes, where principal photography of at least three episodes is done in a distant location, the credit is 6% of the qualified BC labour expenditure for the tax year for the qualified episodes determined for the regional tax credit, where a minimum of one day of principal photography is in a distant location.

The qualified BC labour expenditures must be incurred after December 31, 2007.

The credit is prorated for the number of days of principal photography done in a distant location, over the total number of days of principal photography performed in British Columbia.

The distant location regional tax credit can only be claimed if the corporation is eligible for, and claiming the regional tax credit.

- The **film training tax credit** is equal to whichever is less:
  – 3% of the qualified BC labour expenditure for the production for the tax year; or
  – 30% of the payments (net of assistance) made to the trainees in the tax year while they are participating in the approved training program on the production.
- The **digital animation or visual effects tax credit** is equal to 15% of BC labour expenditure directly attributable to prescribed digital animation or visual effects activities.

For productions with principal photography that begins after February 28, 2010, the digital animation or visual effects tax credit is increased to 17.5% from 15% on the amount of BC labour expenditures incurred after February 28, 2010.

To claim these credits, attach the following **on top** of your return for the year:

- the eligibility certificate(s) requested from British Columbia Film;
- if it applies, the completion certificate, and a copy of the audited statement of production costs and notes provided to British Columbia Film; and
- a completed copy of Form T1196, *British Columbia Film and Television Tax Credit*, for each film or video production.

You must claim these credits no later than 36 months after the end of the tax year.

On line 671 of Schedule 5, enter the amount you are claiming.

**References**
Part 5, British Columbia *Income Tax Act*
CIT 009, *British Columbia Film and Television Tax Credit*
CIT 011, *British Columbia Digital Animation or Visual Effects Tax Credit*

### British Columbia production services tax credit

The production services tax credits are available to both domestic and foreign producers and there is no Canadian content requirement. To claim these credits, the corporation must have a permanent establishment in British Columbia during the tax year, and throughout the tax year, must have mainly carried on a film or video production business or a film or video production services business.

The production services tax credit **cannot** be claimed if the film and television tax credit is claimed for that production.

These credits are fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

There is no expiry date for these credits.

These credits apply to BC labour expenditures. A BC-based individual is a person who is resident in the province on December 31 of the year preceding the end of the tax year for which the tax credit is claimed. For productions that started principal photography before February 20, 2008, a BC-based individual was defined for the entire length of a production based on the residency status of the individual in the calendar year that precedes the year principal photography begins.

An accredited production corporation can claim these different credits:

- the production services tax credit;
- the additional production services tax credit;
- the regional production services tax credit;
- the distant location production services tax credit; and
- the digital animation or visual effects production services tax credit.

**Note**
If you are not eligible for, and do not claim the production services tax credit, you cannot claim the additional, regional, distant location, or digital animation or visual effects production services tax credits.

- The **production services tax credit** is equal to 18% of the corporation's accredited qualified BC labour expenditure for the tax year.
- The **additional production services tax credit** is equal to 7% of accredited qualified BC labour expenditures incurred after December 31, 2007.

For productions with principal photography that begins after February 28, 2010, the total of the production services tax credit and the additional production services tax credit is increased to 33% from 25% on the amount of BC labour expenditures incurred after February 28, 2010.

- The **regional production services tax credit** is equal to 6% of the accredited qualified BC labour expenditure for the production for the tax year, where a minimum of five days and more than 50% of the total principal photography days in British Columbia are done outside of the designated Vancouver area.

The credit is prorated for the number of days of principal photography done in British Columbia outside the designated Vancouver area over the total number of days of principal photography performed in British Columbia.

- The **distant location production services tax credit** is available for productions that start principal photography after February 19, 2008, when principal photography is done in British Columbia in a distant location. The distant location is that part of British Columbia that is **not** included within the area that extends from the designated Vancouver area north, up to and including Whistler and east to include Hope and not within the Capital Regional District.

The distant location production services tax credit is equal to 6% of the accredited qualified BC labour expenditure for the production for the tax year, where a minimum of one day of principal photography is in a distant location.

The accredited qualified BC labour expenditure must be incurred after December 31, 2007.

The credit is prorated for the number of days of principal photography done in a distant location, over the total number of days of principal photography performed in British Columbia.

The distant location production services tax credit can only be claimed if the corporation is eligible for, and is claiming the regional production services tax credit.

- The **digital animation or visual effects production services tax credit** is equal to 15% of accredited qualified BC labour expenditure directly attributable to prescribed digital animation or visual effects activities.

For productions with principal photography that begins after February 28, 2010, the digital animation or visual effects production services tax credit is increased to 17.5% from 15% on the amount of BC labour expenditures incurred after February 28, 2010.

To claim these credits, attach the following **on top** of your return for the year:

- the accreditation certificate requested from British Columbia Film; and
- a completed Form T1197, *British Columbia Production Services Tax Credit*, for each film or video production.

You must claim these credits no later than 36 months after the end of the tax year.

On line 672 of Schedule 5, enter the amount of credit you are claiming.

**References**
Part 5, British Columbia *Income Tax Act*
CIT 010, *British Columbia Production Services Tax Credit*
CIT 011, *British Columbia Digital Animation or Visual Effects Tax Credit*

### British Columbia mining exploration tax credit

A corporation that has incurred qualified mining exploration expenses in British Columbia may qualify for the British Columbia mining exploration tax credit. The corporation must have maintained a permanent establishment in the province at any time in the tax year.

The expenditures have to be incurred before January 1, 2017, for determining the existence, location, extent, or quality of a mineral resource in British Columbia.

Any flow-through mining expenditure renounced under subsection 66(12.6) of the federal *Income Tax Act* does not qualify for the credit.

This credit also applies to partnerships. Taxpayers who are active members of a partnership, other than specified members (such as limited partners), can each claim their proportionate share of the partnership's tax credit. To claim your proportionate share of the partnership's tax credit, file a completed Form T1249, *British Columbia Mining Exploration Tax Credit Partnership Schedule*, with your return. For more details, see the schedule.

The credit is equal to 20% of the amount by which:

- the total qualified mining exploration expenses incurred in the tax year;

**is more than**

- the total assistance for amounts included in the total qualified mining exploration expenses for the tax year.

A corporation can claim an additional 10% of the total qualified mining exploration expenses incurred after February 20, 2007, in prescribed mountain pine beetle affected areas. These expenses must be reduced by the total assistance attributable to them. The prescribed mountain pine beetle affected areas were expanded by regulation on December 1, 2008.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file a completed Schedule 421, *British Columbia Mining Exploration Tax Credit*, with your return. You must claim this credit no later than 36 months after the end of the tax year. For more details, see the schedule. Members of a partnership must also file a completed Schedule T1249.

On line 673 of Schedule 5, enter the amount of credit you are claiming.

**References**
Section 25.1, British Columbia *Income Tax Act*
CIT 006, *Mining Exploration Tax Credit*

### British Columbia book publishing tax credit

You can claim this credit if you are a recipient of a base amount of Publishing support contributions before April 1, 2012.

The recipient must be a Canadian-controlled corporation carrying on business mainly through a permanent establishment in British Columbia with book publishing as its principal business.

You are eligible for a credit of 90% of the base amount of Publishing support contributions received in the tax year. The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 886 and line 665 of Schedule 5, enter the base amount of Publishing support contributions received in the tax year and the amount of the credit you are claiming. You must claim this credit no later than 18 months after the end of the tax year.

**References**
Part 8, British Columbia *Income Tax Act*
CIT 008, *Book Publishing Tax Credit*

### British Columbia training tax credit

You can claim a refundable tax credit if you are a taxable corporation with a permanent establishment in the province and you paid salary and wages to an employee who was registered in a prescribed program administered through the BC Industry Training Authority.

You can claim one or more of the following three credits in the year for each qualified employee:

- The **basic tax credit** is 20% of the salary and wages (net of designated assistance) that were paid to an employee who was in the first 24 months of a non-Red Seal apprenticeship program in the tax year. The maximum basic tax credit you can claim is $4,000, per employee. This credit is not available to Red Seal trades and cannot be claimed if you are claiming the federal apprenticeship job creation tax credit for the same employee (see page 65).

  Before July 1, 2009, the basic tax credit was 10%, up to a maximum of $2,000 per employee;

- The **completion tax credit** is 15% of the salary and wages (net of designated assistance) that was paid to an employee within the 12 month period ending on any day in the month that the employee completed level three or higher. The maximum completion tax credit you can claim is $2,500 per employee who has completed level three, and $3,000 per employee who has completed level four or higher. This credit applies to both Red Seal and non-Red Seal trades; and

- The **enhanced tax credit** applies to employees who are registered as Indians under the *Indian Act* or qualify for the disability amount on their income tax return. Do not claim the basic tax credit or the completion tax credit if you are claiming the enhanced tax credit as these credits are included in the calculation of the enhanced tax credits. An employer claiming the enhanced tax credit for a qualifying employee should only complete Part 3 when filing Schedule 428, *British Columbia Training Tax Credit*. The enhanced tax credits are as follows:

  – **for the first 24 months of a Red Seal program,** 15% of the salary and wages (net of designated assistance) that was paid to an employee who was in the first 24 months of a Red Seal apprenticeship program in the tax year. The maximum tax credit you can claim is $1,000 per employee. You can claim this credit in addition to the federal apprenticeship job creation tax credit in respect of the same employee;

  – For salary and wages paid on or after June 3, 2010, the enhanced tax credit rate for the first 24 months of a Red Seal apprenticeship program is reduced from 15% to 5.5%.

  – **for the first 24 months of a non-Red Seal program**, 30% of the salary and wages that was paid to an employee who was in the first 24 months of a non-Red Seal apprenticeship program in the tax year. This amount is reduced by any assistance you received or were entitled to receive for this employee. The maximum tax credit you can claim is $6,000 per employee. This credit is not available to Red Seal trades and cannot be claimed if you are claiming the federal apprenticeship job creation tax credit in respect of the same employee;

    Before July 1, 2009, this enhanced tax credit was 15%, up to a maximum of $3,000 per employee.

  – **for level 3 or higher of a Red Seal or non-Red Seal program**, 22.5% of the salary and wages that was paid to an employee within the 12 month period ending on any day in the month that the employee completed level three or higher. This amount is reduced by any assistance you received or were entitled to receive for this employee. The maximum tax credit you can claim is $3,750, per employee who has completed level three and $4,500, per employee who has completed level four or higher.

For the completion and enhanced tax credits, the salary and wages can be dually applied to overlapping periods when more than one level is completed during the tax year.

**Example**
The employer's tax year runs from January 1 to December 31, 2010.

An employee completes level three on January 31, 2010, and level four on June 30, 2010.

In the tax year, the employer can claim the wages paid from February 1, 2009 to January 31, 2010 for the level three tax credit. In the same tax year, the employer can also claim the wages paid from July 1, 2009 to June 30, 2010, for the level four tax credit. The wages paid from July 1, 2009 to January 31, 2010, are used for both credits.

You can also claim these credits for former qualified employees for the time they were employed by you during an eligible period, even though they were no longer working for you when they completed a specific level of the apprenticeship program.

These credits extend to partnerships. Corporations who are members of a partnership, other than specified members (such as limited partners), can each claim their share of the partnership's tax credit.

Special rules apply for employers not dealing at arm's length who wish to claim the training tax credit for the same employee. For more details, see section 125 of the British Columbia *Income Tax Act*.

To claim these credits, file a completed Schedule 428, *British Columbia Training Tax Credit*, with your return. You

must claim these credits no later than 36 months after the end of the tax year in which you paid the eligible salaries and wages.

On line 679 of Schedule 5, enter the total amount of the credits you are claiming.

**References**
Part 9, British Columbia *Income Tax Act*
CIT 013, *Training Tax Credits for Employers*

### British Columbia interactive digital media tax credit

The interactive digital media tax credit is a refundable credit equal to 17.5% of BC eligible salary and wages (net of designated assistance) incurred after August 31, 2010, and before September 1, 2015.

To claim this credit, a corporation must not claim a BC SR&ED tax credit for the year and must:

- be registered with the BC Ministry of Finance for each tax year for which the tax credit is claimed;
- have a permanent establishment in British Columbia at any time during the tax year;
- be a taxable Canadian corporation throughout the tax year;
- be a corporation whose
  - principal business in the tax year is the development of interactive digital media products, or
  - all or substantially all of the business in the tax year consists of one or both of the following:
    - the development of interactive digital media products;
    - the provision of eligible activities to a corporation who has a permanent establishment in British Columbia and whose principal business is the development of interactive digital media products;
- have an amount of eligible salary and wages for the tax year greater than $100,000. This amount is prorated for short tax years.

To claim the credit, file a completed Schedule 429, *British Columbia Interactive Digital Media Tax Credit*, with your return.

You must claim this credit no later than 18 months after the end of the tax year.

On line 680 of Schedule 5, enter the amount of the credit you are claiming.

**Reference**
Part 10, British Columbia *Income Tax Act*

## Yukon

The **lower rate** of Yukon income tax is 4%. Income eligible for this lower rate is determined using the Yukon business limit of $400,000.

Effective January 1, 2011, the Yukon business limit to which the lower income tax rate applies is increased to $500,000. This amount is pro-rated for tax years that straddle January 1, 2011.

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.

You can use Schedule 443, *Yukon Corporation Tax Calculation*, to help you calculate the Yukon tax before the application of credits. You do not have to file it with your return. See the schedule for more details.

On line 245 of Schedule 5, enter the amount of tax calculated.

### Yukon political contribution tax credit

You can claim a tax credit on contributions made to a registered political party or to a candidate for an election to the Yukon Legislative Assembly. The maximum credit you can claim is **$500** and is calculated as follows:

- 75% of the first $100 contributed;

**plus**

- 50% of the next $450 contributed;

**plus**

- 33 1/3% of the amount contributed that is more than $550.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 897 of Schedule 5, enter the total amount of qualifying contributions, and on line 675, enter the amount of the credit you are claiming.

### Yukon manufacturing and processing profits tax credit

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

Schedule 440, *Yukon Manufacturing and Processing Profits Tax Credit*, is a worksheet to calculate the credit, and it does not have to be filed with your return. For more details, see the schedule.

On line 677 of Schedule 5, enter the amount of the credit you are claiming.

### Yukon research and development tax credit

You can claim this credit if you have a permanent establishment in the Yukon at any time in the year and you incurred qualified expenditures in the year for scientific research and experimental development carried on in the Yukon.

The credit is equal to the total of the following amounts:

- 15% of eligible expenditures incurred in the year; and
- 5% of eligible expenditures included above paid or payable to the Yukon College.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file Schedule 442, *Yukon Research and Development Tax Credit*, with your return. For more details, see the schedule.

On line 698 of Schedule 5, enter the amount of the credit earned.

## Northwest Territories

The **lower rate** of Northwest Territories income tax is 4%. This lower rate applies to taxable income earned in the Northwest Territories that qualifies for the federal small business deduction.

The **higher rate** of the Northwest Territories income tax is 11.5%. This rate applies to taxable income earned in the Northwest Territories 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 a tax credit on contributions made to a candidate for an election to the Northwest Territories Legislative Assembly. The allowable political contribution tax credit is equal to:

- 100% of the first $100 contributed;

**plus**

- 50% of the next $800 contributed, to a maximum credit of **$500**.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

> **Note**
> Contributions to a political party do **not** qualify for this credit.

On line 898 of Schedule 5, enter the total amount of qualifying contributions, and on line 700, enter the amount of the credit you are claiming.

### Northwest Territories investment tax credit

You can claim this credit if you had a permanent establishment in the Northwest Territories at any time in the year and made an investment eligible for the investment tax credit under the *Risk Capital Investment Tax Credits Act*.

The maximum credit you can claim in a tax year is $30,000 less any tax credits that may be deducted under the federal *Income Tax Act*.

This credit expired December 31, 2003, and is continued again for investments made from January 1, 2005, and before March 1, 2008. No credit is available for investments made during the 2004 calendar year.

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

The Minister of Finance of the Northwest Territories will issue a certificate to eligible corporations. You do not have to file the certificate with your return. However, keep it in case we ask for it later.

To claim the credit, file a completed Schedule 460, *Northwest Territories Investment Tax Credit*, with your return. For more details, see the schedule.

On line 705 of Schedule 5, enter the amount of credit you are claiming.

## Nunavut

The **lower rate** of Nunavut income tax is 4%. This lower rate applies to taxable income earned in Nunavut that qualifies for the federal small business deduction.

The **higher rate** of Nunavut income tax is 12%. This rate applies to taxable income earned in Nunavut that does **not** qualify for the small business deduction.

On line 260 of Schedule 5, enter the amount of tax calculated.

### Nunavut political contribution tax credit

You can claim a tax credit on contributions made to a candidate for an election to the Nunavut Legislative Assembly. The allowable political contribution tax credit is equal to:

- 100% of the first $100 contributed;

**plus**

- 50% of the next $800 contributed, to a maximum credit of **$500**.

You do not have to file official receipts with your return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

> **Note**
> Contributions to a political party do **not** qualify for this credit.

On line 899 of Schedule 5, enter the total amount of qualifying contributions, and on line 725, enter the amount of the credit you are claiming.

### Nunavut investment tax credit

You can no longer file a claim for this credit, since it expired December 31, 2003. Only unused credits that have not expired can be carried forward for up to seven tax years that follow the tax year in which you made the investments.

To claim a carryforward, file a completed Schedule 480, *Nunavut Investment Tax Credit*, with your return. For more details, see the schedule.

On line 735 of Schedule 5, enter the amount of the credit you are claiming.

### Nunavut business training tax credit

Effective April 1, 2009, corporations that have a permanent establishment in Nunavut and provide qualified training to eligible employees who successfully completed the training in the year can claim 30% of their business training

expenses as a refundable tax credit. Where the training is for a beneficiary of the *Nunavut Land Claims Agreement*, the employer can claim 50% of these expenditures as a refundable tax credit.

The maximum tax credit for a 12-month period from April 1 to March 31 is $10,000 per employer if the corporation **qualifies** for the small business deduction under the federal *Income Tax Act* and $50,000 if the corporation does **not** qualify. The credit does not apply to business training provided or completed after March 31, 2014.

The Nunavut Department of Finance will issue one or more business training tax credit certificates to eligible employers. The maximum tax credit you can claim for the tax year is the total of the amounts of the business training tax credit indicated on the certificates for that year.

To claim the credit, file a completed Schedule 490, *Nunavut Business Training Tax Credit*. See the schedule for more details.

On line 740 of Schedule 5, enter the amount of the credit you are claiming.

### Line 765 – Provincial tax on large corporations

A provincial tax is levied on taxable capital of certain large corporations that have a permanent establishment in Nova Scotia or New Brunswick.

The New Brunswick tax on large corporations was eliminated effective January 1, 2009.

If the corporation is liable for the provincial tax on large corporations in Nova Scotia, on line 765, enter the tax as calculated on Schedule 342, *Nova Scotia Tax on Large Corporations*. For more details, see "Nova Scotia tax on large corporations" on page 79.

If the corporation is liable for the provincial tax on large corporations in New Brunswick, on line 765, enter the tax as calculated on Schedule 361, *New Brunswick Tax on Large Corporations*. For more details, see "New Brunswick tax on large corporations" on page 81.

> **Note**
> Newfoundland and Labrador and Ontario capital taxes are reported on Schedule 5. For more details, see "Newfoundland and Labrador capital tax on financial institutions" on page 76 and "Ontario capital tax" on page 85.

## Other credits

### Line 780 – Investment tax credit refund

On line 780, enter the amount of the investment tax credit refund. See page 63 for details.

### Line 784 – Dividend refund

On line 784, enter the amount of the dividend refund, which you calculated in the "Dividend refund" area on page 6 of your return. See page 58 for details.

### Line 788 – Federal capital gains refund

**Investment corporations** and **mutual fund corporations** have to file Schedule 18, *Federal and Provincial or Territorial Capital Gains Refund*, with their returns. Schedule 18 has to contain the following information:

- details about the refundable capital gains tax on hand;
- details of the capital gains redemption for the year; and
- a calculation of the federal capital gains refund for the year.

Use 28% as the percentage to determine the refundable capital gains tax on hand.

The federal capital gains refund for the year is whichever is less:

- 14% of the total of:
  - the capital gains dividends paid in the period starting 60 days after the beginning of the year and ending 60 days after the end of the year; and
  - the capital gains redemption for the year; or
- the refundable capital gains tax on hand at the end of the year.

Complete the appropriate lines on Schedule 18, and enter on line 788 of the return the federal capital gains refund. See the next page for details on the provincial or territorial capital gains refund.

> **Note**
> If a corporation is established and maintained mainly to benefit non-residents, it does not qualify as a mutual fund corporation, and it cannot claim the capital gains refund.

**References**
Sections 130 and 131

### Line 792 – Federal qualifying environmental trust tax credit refund

On line 792, enter the amount of federal qualifying environmental trust tax credit refund that was not used in the Part I tax calculation. See page 63 for more information.

### Line 796 – Canadian film or video production tax credit refund

A fully refundable tax credit is available to qualified corporations that produce an eligible production certified by the Minister of Canadian Heritage to be a Canadian film or video production.

The credit is equal to 25% of qualified labour expenditures for the year for the production. The qualified labour expenditure cannot be more than 60% of the total cost of a production. The tax credit is therefore limited to 15% of the total cost of a production, less any assistance. Labour expenditures in respect of non-residents of Canada (other than Canadian citizens) will not be eligible for the credit.

For more information, see Guide RC4385, *Claiming a Film or Video Production Services Tax Credit*, or visit our Web site at **www.cra.gc.ca/filmservices**.

To claim the credit, attach the following items to the top of your return for the year:

- the Canadian Film or Video Production Certificate (Part A) issued by the Canadian Audio-Visual Certification Office (CAVCO), or a copy;
- if it applies, a Certificate of Completion (Part B) issued by CAVCO, or a copy, and a copy of the audited statement of production costs and notes provided to CAVCO; and
- a completed Form T1131, *Canadian Film or Video Production Tax Credit*, for each film or video production.

On line 796, enter the amount of the credit from Form T1131. If you are filing more than one of these forms, enter the cumulative total.

> **Note**
> We may refund all or part of a claim for a Canadian film or video production tax credit for a tax year to a qualified corporation, before we issue the notice of assessment for that year, provided certain conditions are met.

**References**
Section 125.4
Regulation 1106
RC4164, *Claiming a Canadian Film or Video Production Tax Credit – Guide to Form T1131*

## Line 797 – Film or video production services tax credit refund

A fully refundable tax credit is available to eligible production corporations for a film or video production certified by the Minister of Canadian Heritage to be an accredited production.

Eligible production corporations do not include those that, at any time in the year, are tax-exempt, are controlled by one or more tax-exempt entities, or are prescribed labour-sponsored venture capital corporations.

The credit is equal to 16% of qualified Canadian labour expenditures for the year.

> **Note**
> Qualified Canadian labour expenditure is net of any assistance.

For more information, see our Web site at **www.cra.gc.ca/filmservices**.

To claim the credit, attach the following items to the top of your return for the year:

- an Accredited Film or Video Production Certificate, or a copy; and
- a completed Form T1177, *Film or Video Production Services Tax Credit*, for each accredited production.

On line 797, enter the amount of the credit from Form T1177. If you are filing more than one of these forms, enter the cumulative total.

If a credit is claimed for the Canadian film or video production tax credit, then a credit cannot be claimed for the film and video production services tax credit.

> **Note**
> We may refund all or part of a claim for a film or video production services tax credit for a tax year to an eligible production corporation, before we issue the notice of assessment for that year, provided certain conditions are met.

**References**
Section 125.5
Regulation 9300

## Lines 800 and 801 – Tax withheld at source

This is the amount shown as "income tax deducted" on any information slips, such as NR4, T4A, or T4A-NR, you may have received. You do not have to file these information slips with your return, unless you are a non-resident corporation. However, keep them in case we ask for them later.

On line 800, enter the total amount of income tax deducted from all your information slips and, on line 801, enter the total payments on which tax has been withheld.

**References**
IC77-16, *Non-Resident Income Tax*
IC75-6, *Required Withholding From Amounts Paid to Non-Residents Providing Services in Canada*

## Line 808 – Provincial and territorial capital gains refund

**Investment public corporations** and **mutual fund corporations** have to file Schedule 18, *Federal and Provincial or Territorial Capital Gains Refund*, with their return, complete with information mentioned on page 107.

These corporations have to calculate the provincial and territorial capital gains refund according to provincial and territorial income tax acts.

Complete page 2 of Schedule 18, and enter the provincial and territorial capital gains refund on line 808.

**References**
Sections 130 and 131

## Line 812 – Provincial and territorial refundable tax credits

On line 812, enter the amount of provincial and territorial refundable tax credits calculated on line 255 of Schedule 5 (negative amount).

## Line 840 – Tax instalments paid

On line 840, report all of the instalment payments you made for the tax year.

You can view your interim balance; and if needed, you can transfer a payment from one interim period to another within the same account by using the Account balance and activities service in My Business Account at **www.cra.gc.ca/mybusinessaccount**. Your representative can also access these services through Represent a Client at **www.cra.gc.ca/representatives**.

If there is a discrepancy between the amount you report on the return and the interim balance in your business account, we will use the amount in your business account for the tax year being assessed when we process the return.

For information on how to make payments, go to **www.cra.gc.ca/payments** or see Guide T7B Corp, *Corporation Instalment Guide*. For more information on calculating instalments, go to **www.cra.gc.ca/mybusinessaccount** or see Guide T7B Corp, *Corporation Instalment Guide*.

> **Note**
> Even if you elected to report in a functional currency, you still have to complete line 840 in Canadian currency.

## Refund or payment

Your overpayment or balance unpaid is the difference you get after subtracting all the credits on lines 780 to 840 from the total tax payable on line 770.

If your total tax payable (line 770) is less than your total credits (line 890), enter the difference on the **overpayment** line.

If your total payable (line 770) is more than your total credits (line 890), enter the difference on the **balance unpaid** line.

> **Note**
> After we process your return and apply any interest and/or penalty charges, if the total amount owing at that time is $2 or less, you will not have to pay that amount. If an amount of $2 or less is owed to you, the amount will not be paid; however, we will apply it to any existing liability you may have.

### Line 894 – Refund code

If entitled to a refund, enter one of the following codes on line 894:

- enter "**1**" or leave this line blank if you want us to refund the overpayment;
- enter "**2**" if you want us to transfer the overpayment to next year's instalment account; or
- enter "**3**" if you want us to apply the overpayment to another liability (such as an expected debit from a reassessment) or to a different account. Attach a letter to your return giving instructions and we will review your request.

Whichever option you choose, we will apply the overpayment to any outstanding liabilities the corporation owes on the same or related Business Number account. Then, we will refund or transfer the excess overpayment according to the code you enter. We will do this only if all the required returns have been filed on the account and all related accounts.

> **Note**
> Under subsection 220(6) of the *Income Tax Act* a corporation may assign any amount payable under this Act. However, according to Subsection 220(7) the Minister of National Revenue "is not required to pay to the assignee, the assigned amount." As an alternative, we will review a request to send the refund to a "care of" address. However, a refund issued in this manner will still be issued in the name of the corporation, (see item 3 above).

The payment of refunds and rebates will be withheld until all required returns, of which the Minister of National Revenue has knowledge, have been filed.

### Line 896 – If the corporation is a Canadian-controlled private corporation throughout the tax year, does it qualify for the one-month extension of the date the balance of tax is due?

Tick the appropriate box. See "Balance due date" on page 11.

### Line 898 – Enclosed payment

On line 898, enter the amount of any payment you are sending with your return. Do not enter an amount on this line if you made your payment at your financial institution in Canada or sent your payment to us electronically (see following section). Do not include this payment amount in the instalment total you recorded on line 840.

Make the cheque or money order payable to the Receiver General for Canada, and attach it to your return.

> **Note**
> Even if you elected to report in a functional currency, you still have to complete line 898 in Canadian currency.

The Canadian Payments Association sets a maximum value of $25 million for any cheque or other paper-based payment instrument cleared through the banking system. We encourage you to make arrangements with your financial institution for payments of large amounts.

> **Note**
> You or your representative may not have a bank account at a financial institution in Canada. If so, either of you can make your payment using:
>
> - an international money order drawn in Canadian dollars;
> - a bank draft in Canadian funds drawn on a Canadian bank (available at most foreign financial institutions); or
> - a cheque drawn in the currency of the country in which the financial institution is located. We will use the currency rate in effect at the time of cashing your cheque.

## Electronic payment of balance owing

Make your payment online using the Canada Revenue Agency's My Payment option. For more information, or to use My Payment, go to **www.cra.gc.ca/mypayment**.

You can pay your corporation's balance owing electronically by using your financial institution's Internet or telephone banking services, or through a third-party service provider. Most financial institutions allow a corporation to schedule a future-dated payment. For more information about this option, go to **www.cra.gc.ca/electronicpayments** or contact your financial institution.

## Direct deposit request

### Lines 910 to 918

Direct deposit offers a safe, convenient, and dependable way of receiving payments, and it removes the potential loss of credit interest if a cheque is delayed in the mail.

To **start** direct deposit to the corporation's account at a financial institution, or to **change** information you already gave us, complete the "Direct deposit request" at the bottom of page 8. You do not have to complete this area if you already have direct deposit service and the information you gave before has not changed.

You can also use Form T2-DD, *Direct Deposit Request Form for Corporations*.

You **cannot** use the Corporation Internet Filing service to start direct deposit or to change your direct deposit information.

For information on changing your direct deposit information, contact Business Enquiries in your tax services office at **1-800-959-5525**.

> **Note**
> You can view direct deposit banking information online by using the View banking information service in My Business Account at **www.cra.gc.ca/mybusinessaccount**.

Your direct deposit request will stay in effect until you change the information or cancel the service. However, if your financial institution advises us that you have a new account, we may deposit your payments into the new account. If, for any reason, we cannot deposit a payment into a designated account, we will mail a cheque to you at the address we have on file at the time of the original payment.

> **Note**
> The CRA must generate all large-value refunds ($25 million or more) through the Large Value Transfer System (LVTS). To avoid potential delays, you have to be registered for direct deposit and be registered on the LVTS. If you are expecting a large-value refund, arrange for direct deposit and contact your tax centre to make the necessary arrangements.

## Certification

### Lines 950 to 959

**Lines 950 to 956** – Complete these lines by giving the required information in the appropriate spaces. Be sure that the person who signs and dates the return is an authorized officer of the corporation.

**Line 957** – Tick the appropriate box.

**Lines 958 and 959** – If you answer **no** to line 957, provide the first and last names and telephone number of a contact person. This contact person is responsible for **all matters related to the processing** of this year's return.

> **Note**
> Use My Business Account or complete Form RC59, *Business Consent Form*, if you wish to authorize representatives (including employees) to discuss your corporation income tax return for any year with the CRA. Please verify if your list of authorized representatives is up-to-date and, if applicable, modify or cancel authorized representatives. My Business Account allows you to authorize a new representative, and to view, update, and cancel authorizations of existing representatives. For more information, go to **www.cra.gc.ca/mybusinessaccount**.

## Language of correspondence

### Line 990

Indicate in which official language you would like to receive your correspondence by entering the appropriate code:

- **1** for English; or
- **2** for French.

# Related forms and publications

## List of federal and provincial or territorial corporate schedules and forms

We provide the following schedules and forms, on our Web site at **www.cra.gc.ca/forms**. You can also get a printed copy by calling **1-800-959-2221**.

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# For more information

## What if you need help?

If you need help after reading this guide visit **www.cra.gc.ca** or call **1-800-959-5525**.

For detailed information on topics in this guide, see the provincial and federal *Income Tax Act* and the *Income Tax Regulations*.

## Forms and publications

To get any forms or publications, go to **www.cra.gc.ca/forms** or call **1-800-959-2221**.

## Electronic mailing lists

We can notify you immediately about new information like new or revised income tax technical publications, electronic filing, SR&ED tax incentives, and more. To subscribe, free of charge, go to **www.cra.gc.ca/lists**.

## My Business Account

**My Business Account** is a secure and convenient way to access and manage your business accounts online.

You can:

- view your account balance and transactions
- request additional remittance vouchers
- file your return and view its status
- calculate your instalment payments
- view notices, letters, and statements
- view address and banking information
- transfer payments and immediately view an updated balance

**Quick. Easy. Secure**. For more information, go to **www.cra.gc.ca/mybusinessaccount**.

## Represent a Client

**Represent a Client** is a secure online service to access tax information and services on behalf of businesses, including your employer. To register, go to **www.cra.gc.ca/representatives**.

## My Payment

My Payment is a payment option that allows individuals and businesses to make payments online, using the Canada Revenue Agency's Web site, from an account at a participating Canadian financial institution. For more information on this self-service option, go to **www.cra.gc.ca/mypayment**.

## Teletypewriter (TTY) users

TTY users can call **1-800-665-0354** for bilingual assistance during regular business hours.

## Our service complaint process

### Step 1 – Talk to us

If you are not satisfied with the **service** you have received from us, you have the right to make a formal complaint. Before you make a complaint, we recommend that you try to resolve the matter with the CRA employee you have been dealing with (or call the phone number you have been given).

If you still disagree with the way your concerns are being addressed, ask to discuss the matter with the employee's supervisor.

### Step 2 – Contact CRA – Service Complaints

This program is available to individual and business taxpayers and benefit recipients who have dealings with us. It is meant to provide you with an extra level of review if you are not satisfied with the results from the **first step** of our complaint process. In general, service-related complaints refer to the quality and timeliness of the work we performed.

If you choose to bring your complaint to the attention of CRA – Service Complaints, complete Form RC193, *Service-Related Complaint*, which you can get by going to **www.cra.gc.ca/complaints** or by calling **1-800-959-2221**.

### Step 3 – Contact the office of the Taxpayers' Ombudsman

If, **after following steps 1 and 2**, you are still not satisfied with the way the CRA has handled your complaint, you can file a complaint with the Taxpayers' Ombudsman.

For more information on the Taxpayers' Ombudsman and on how to file a complaint, visit their Web site at **www.taxpayersrights.gc.ca**.

## Non-resident corporation enquiries

If you have a question about a **non-resident corporation** account, go to **www.cra.gc.ca/tx/nnrsdnts/bsnss** or call the International Tax Services Office at one of the following numbers:

**Canada and the United States**
Telephone: **1-800-561-7761**, Extension 9155

**Outside Canada and the United States**
(We accept collect calls.)
**613-954-9681**

**Fax**
613-952-3845

## Your opinion counts

If you have any comments or suggestions that could help us improve our publications, we would like to hear from you. Please send your comments to:

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

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