



# T2 Corporation Income Tax Guide

IDENTIFICATION  
AREA

INFORMATION  
SCHEDULES

NET INCOME

LOSSES

TAXABLE  
INCOME

TAXES AND  
DEDUCTIONS

SUMMARY OF  
TAX AND CREDITS

COMPLETING THE 1990  
T2  
CORPORATION INCOME  
TAX RETURN

## **LEGISLATION**

This Guide is based on the *Income Tax Act* as amended by Bill C-28 which received Royal Assent on October 23, 1990.

Draft amendments to the *Income Tax Act* released by the Minister of Finance on July 13, 1990 have been summarized as notes at the end of affected Guide items.

## **ANY SUGGESTIONS?**

If you have any suggestions about how this Guide can be improved, we would be interested in hearing from you. Please send your comments to:

Tax Forms Directorate,  
875 Heron Road,  
Ottawa, Ontario  
K1A 0L8

## CONTENTS

Guide Line Item Number	Title	Page	Guide Line Item Number	Title	Page
<b>INTRODUCTION</b>			34	Newly Incorporated Corporations	
1	Who must file a T2 return? .....	5		T2S(24) .....	16
2	What is an acceptable T2 return? ..	5	35	Amalgamated Corporations or	
3	Attachments to the T2 Return .....	6		Parent Corporations Winding-Up	
4	When must a T2 return be filed? ...	6		a Subsidiary T2S(24) .....	16
5	Where to file the T2 return .....	6	36	Employer's Remittance Account	
6	When must income tax be paid? ...	7		Number .....	17
7	Penalties .....	8	37	Nature of Business Activities .....	17
8	What happens on filing? .....	8	<b>CALCULATION OF NET INCOME — LINE 111</b>		
9	When can a T2 return be reassessed? .....	8	38	Net Income for Income Tax	
10	Appeals Process .....	9		Purposes T2S(1) .....	17
11	Books and Records .....	10	39	Summary of Dispositions of Capital	
<b>INFORMATION SCHEDULES — GENERAL</b>				Property T2S(6) .....	18
12	Agreement Among Associated		40	Capital Cost Allowance T2S(8) ...	21
	Corporations T2013 .....	10	41	Cumulative Eligible Capital	
13	Election Not to Be an Associated		42	Deduction T2S(8)(A) .....	23
	Corporation T2144 .....	11		Natural Resource Earned Depletion	
14	Related Corporations T2S(9) .....	11	43	T2S(12) .....	23
15	Transactions with Shareholders,		44	Continuity of Reserves T2S(13) ...	23
	Officers and Employees T2S(11)	11		Patronage Dividend Deduction	
16	Non-Arm's Length Transactions		45	T2S(16) .....	24
	T2S(11)(A) .....	11		Allocation in Proportion to	
17	Miscellaneous Payments to		46	Borrowing — Credit Unions	
	Residents T2S(14) .....	12		T2S(17) .....	24
18	Deferred Income Plans T2S(15) ...	12	46	Scientific Research and	
19	Statements of Tax Shelter Loss or			Experimental Development T661	24
	Deduction T5004 .....	12	<b>CALCULATION OF LOSSES</b>		
20	Partnership Information Slips T5013		47	Non-Capital Losses .....	25
	Supplementary and T5013S(1),		48	Allowable Business Investment	
	Memo Schedule .....	12		Losses .....	25
<b>INFORMATION SCHEDULES —</b>			49	Restricted Farm Losses .....	25
<b>TRANSACTIONS WITH NON-RESIDENTS</b>			50	Limited Partnership Losses .....	26
21	Non-Resident Ownership T2S(19) ..	13	51	Farm Losses .....	26
22	Non-Resident Discretionary Trust		52	Losses and Changes in Control ...	26
	T2S(22) .....	13	53	Net Income (Loss) for Income Tax	
23	Investment in Foreign Affiliates			Purposes .....	26
	T2S(25) .....	13	<b>CALCULATION OF TAXABLE INCOME</b>		
24	Payments to Non-Residents		54	115 Charitable Donations T2S(2) .....	27
	T2S(29) .....	13	55	117 Gifts to Canada or a Province and	
25	Non-Canadian Advertising Expense			Gifts of Cultural Property T2S(2)	27
	T2S(30) .....	13	56	119 Dividends Received and Dividends	
26	Corporate Information Return of			Paid T2S(3) .....	28
	Non-arm's Length Transactions		57	120 Part VI.1 Tax Deduction T761B ...	28
	with Non-Resident Persons T106	13	58	Corporation Loss Continuity and	
27	Additional Information .....	14		Application T2S(4) .....	28
<b>COMPLETION OF "IDENTIFICATION" AREA</b>			59	121 Restricted Farm Loss Application ..	28
28	Account Number .....	14	60	123 Limited Partnership Loss	
29	Name and Address .....	14		Application .....	28
30	Is the corporation a resident of		61	123 Non-Capital Loss Application .....	29
	Canada? .....	14	62	125 Net Capital Loss Application .....	29
31	Status of Return .....	15	63	126 Farm Loss Application .....	29
32	Taxation Year .....	15	64	Request for Corporation Loss Carry-	
33	Type of Corporation .....	15	65	127 Back T2A .....	29
				Computation of Taxable Income ...	30

Guide Line Item Number	Title	Page	Guide Line Item Number	Title	Page
66	Addition to Taxable Income for Foreign Tax Deductions T2S(28)	30	91 133	Part VI.1 Tax on Preferred Share Dividends Paid T761, T769, T770	41
<b>CALCULATION OF TAXES AND DEDUCTIONS</b>			92 135	Part XIV Tax on Canadian Branches T2S(20)	42
67 231	Small Business Deduction	30	<b>PROVINCIAL AND TERRITORIAL INCOME TAX AND CREDITS</b>		
68 243	Manufacturing and Processing Profits Deduction T2S(27)	32	93 137	Provincial or Territorial Jurisdiction	42
69 202	Basic Rate of Part I Tax on Taxable Income	32	94 139	Provincial and Territorial Tax Payable T2S-TC	42
70 204	5% Nova Scotia Offshore Tax	32	95 141	Provincial Tax Credits — Rebates	43
71 203	Investment Corporation Deduction	32	96	Provincial Foreign Tax Credits	43
72 206	Additional Deduction — Credit Unions	33	97	Newfoundland	44
73 207	Federal Tax Abatement	33	98	Prince Edward Island	44
74 209	Corporate Surtax Calculation	33	99	Nova Scotia	45
75 211	Federal Foreign Non-Business Income Tax Credit T2S(21)	33	100	New Brunswick	45
76 213	Federal Foreign Business Income Tax Credit T2S(21)	34	101	Manitoba	46
77 215	Federal Logging Tax Credit T2S(21)	34	102	Saskatchewan	46
78 217	Federal Political Contribution Tax Credit	34	103	British Columbia	47
79 224	Part VI Tax Credit T921	34	104	Yukon	48
80 226	Part I.3 Tax Credit T962	35	105	Northwest Territories	49
81 221	Investment Tax Credit T2038	35	<b>OTHER CREDITS</b>		
82 146	Investment Tax Credit Refund	37	106 145	Instalments of Income Tax	49
83 129	Part I Tax Payable	37	107 146	Investment Tax Credit Refund	49
84 261	Refundable Portion of Part I Tax	38	108 147	Dividend Refund	50
85 405	Part IV Tax on Taxable Dividends Received T2S(3)	38	109 149, 151	Federal and Provincial Capital Gains Refund T2S(18)	50
86 411	Refundable Dividend Tax on Hand (RDTOH)	39	110 153	Allowable Refund T2S(26)	50
87 147	Dividend Refund T2S(3)	40	111 157	Tax Withheld at Source	50
<b>SUMMARY OF FEDERAL TAX</b>			112 158	British Columbia Refundable Tax Credits T87	50
88 129	Part I Tax on Taxable Income	41	113 159	Payment on Filing	50
89 131	Part IV Tax on Dividends Received	41	114 163	Balance Unpaid	50
90 132	Part IV.1 Tax on Preferred Share Dividends Received T761	41	114 165	Overpayment	50
			115 161	Refund Code	51
			<b>LISTING OF FEDERAL &amp; PROVINCIAL CORPORATE FORMS</b>		
			<b>ALPHABETICAL INDEX</b>		

## INTRODUCTION

This Guide provides basic information on how to complete the 1990 *Corporation Income Tax Return* (T2 return). It does not replace the *Income Tax Act* and Regulations.

When this Guide refers to parts, subdivisions, sections, subsections, paragraphs and subparagraphs it is referring to the applicable legislative provisions of the *Income Tax Act*.

Guide Items also refer to Information Circulars (IC) and Interpretation Bulletins (IT) that provide more detailed information on particular topics. IC's and IT's are published by the Department and are available from the district taxation offices listed at the end of this Guide.

Whenever this Guide refers to the Department, it means Revenue Canada, Taxation.

### 1 Who must file a T2 return?

All corporations must file a T2 return for each taxation year, even if no tax is payable. The only exception is a corporation that was a registered charity throughout the year.

#### Note

Corporations with total assets of \$10,000,000 or more are no longer required to file a duplicate T2 return.

Every T2 return must be filed with complete financial statements and any required supporting schedules. This also applies to non-profit organizations, tax-exempt, and inactive corporations. It is very important that all corporations, including non-taxable corporations, complete all parts of pages 1 and 6 of the T2 return. Corporations claiming a tax-exempt status must clearly indicate the reason on the return.

### Non-Profit Organizations

Incorporated clubs, societies or associations that qualify as non-profit organizations under paragraph 149(1)(1) are required to file a T2 return each year. The T2 return should include a balance sheet and an income statement. A corporation that meets the conditions of paragraph 149(1)(1) should indicate the type of organization and the exemption from tax on page 1 of the T2 return on the line, "Describe major business activity".

#### References

IT-496 Non-Profit Organizations  
IT-409 Winding-Up of a Non-Profit Organization  
IT-83R2 Non-Profit Organizations — Taxation of Income from Property

### Inactive Corporations

A corporation must file a T2 return for every taxation year from the time it is incorporated until the time its corporate charter ceases to exist. Even if a corporation is not

operating during a taxation year and has earned no income, it must file a T2 return with at least a balance sheet attached.

### Final returns

Send requests for Clearance Certificates, as required by subsection 159(2), to your local district taxation office.

A corporation filing its final return for a taxation year ending on the date of dissolution should clearly indicate that it is the final return. The balance sheet should reflect the final distribution of assets.

### Reference

IT-368 Corporate Distributions — Clearance Certificates

### 2 What is an acceptable T2 return?

The Department will accept a corporation income tax return as long as it is filed using one of the following kinds of T2 forms:

- **T2 return printed by the Department**

These are available from the district taxation offices listed at the end of this Guide. Two copies of the six-page T2 form come in a snap set.

- **Facsimile T2 returns**

These are exact copies of the Department's T2 form that must meet the Department's standards of format, legibility and paper quality. They can, however, be printed on separate pages.

- **Computer-printed T2 returns**

These are returns printed by a computer using an approved software program. The Department grants a four-digit approval code to acceptable software programs on a yearly basis. The approval code is only valid for one taxation year, e.g., computer-printed T2 returns filed for the 1990 taxation year should have a 1990 approval code. The code must be printed below the "Certification Area" on page 6 of the T2 return.

A **keying summary** in approved format must be filed with a computer-printed T2 return. Keying summaries must reflect all the keying fields from the T2 return and schedules (keying fields 111 to 680).

Users of software programs should obtain a printed copy of the approved version of the T2 return from the supplier and make sure that their equipment is capable of producing copies of equal quality. Computer-printed returns must be printed on paper that is as durable as the Department's forms (Number 7 bond, 32m) and the print quality must be clear and dark enough to allow easy reading and photocopying.

Computer-printed T2 returns that do not meet the Department's requirements will not be accepted and will

be returned with a request to refile the return in approved format or on a departmental form.

## References

IC 85-5R Custom and Facsimile Tax Forms  
IC 85-3R2 Guidelines for the Preparation of Corporation Income Tax Returns, Including Computer-Printed Returns

## 3

### Attachments to the T2 Return

All T2 returns must be filed with complete financial statements, including a balance sheet, income statement, any notes to the financial statements and where applicable, the auditor's report.

After answering all the questions under the heading "Schedules and Information Required" on page 2 of the return, attach all the necessary schedules. We have provided a list of all schedules printed by the Department at the end of the Guide. They are available from your district taxation office. Required schedules that are not printed by the Department should show the applicable T2S schedule number in the top right-hand corner.

Users of approved software programs may file free-format schedules. These are computer-printed schedules that provide the same information as the Department's schedules. They are acceptable if

- the software program has been approved by the Department;
- the **keying summary** shows all the keying fields from the free-format schedules T2038(CORP), T2S-TC and T2S(21);
- each schedule shows the corporation's name, account number and taxation year end;
- the meaning of abbreviations is clear;
- paper quality and print legibility meet the Department's standards ("no carbon required" paper is acceptable as long as it can be marked without imprinting the following page).

Staple the T2 return and all attachments together in the top left-hand corner in the following order:

- T2 return (pages 1, 3, 5 face up);
- Keying summary (if a computer-printed T2 return);
- Schedule T2S-TC;
- Schedule T2038(CORP);
- Schedule T2S(21);
- Correspondence;
- Official receipts;
- Financial statements;
- Other schedules.

## 4

### When must a T2 return be filed?

All corporations must file a T2 return within six months from the end of each taxation year. The taxation year of a corporation is its fiscal period.

For a taxation year that ends on the last day of a month, the T2 return must be filed by the **last** day of the sixth month after the end of the year. When the last day of the taxation year is not the last day of a month, the T2 return must be filed by the **same** day of the sixth month after the end of the year.

### Examples

Taxation year end	Required filing date
February 28	August 31
March 31	September 30
June 30	December 31
August 31	February 28
September 23	March 23
October 2	April 2

T2 returns hand-delivered to a district taxation office will be date-stamped and considered filed on that day.

For T2 returns mailed by first class mail or its equivalent, the date of the post mark on the envelope determines the day the return is filed.

When the filing deadline for the T2 return falls on a Saturday, Sunday or statutory holiday, the return will be accepted as filed on time if it is delivered or mailed on the first working day after the required filing date.

Penalties may be assessed if a T2 return is late-filed. See Guide Item 7.

## 5

### Where to file the T2 return

Deliver the T2 return to your local district taxation office or mail it to one of the following taxation centres:

Corporations served by district taxation offices located in:	Taxation Centre
British Columbia and the Yukon	Taxation Centre Surrey, British Columbia V3T 5E1
Alberta, Saskatchewan, Manitoba and the Northwest Territories	Taxation Centre Winnipeg, Manitoba R3C 3M2
Ottawa, Toronto, Scarborough, Mississauga and North York	Taxation Centre Ottawa, Ontario K1A 1A2

Kingston, Belleville,  
Hamilton, Kitchener,  
St. Catharines, London  
Windsor, Sudbury and  
Thunder Bay

Taxation Centre  
Sudbury, Ontario  
P3A 5C1

Montréal, Saint-Hubert  
and Laval

Taxation Centre  
Shawinigan-Sud,  
Quebec  
G9N 7S6

Sherbrooke, Québec,  
Rouyn-Noranda,  
Chicoutimi, Rimouski,  
Trois-Rivières

Taxation Centre  
Jonquière, Quebec  
G7S 5J1

Nova Scotia, New  
Brunswick, Prince  
Edward Island and  
Newfoundland

Taxation Centre  
St. John's,  
Newfoundland  
A1B 3Z1

## Non-resident Corporations

The assessment and reassessment of non-resident T2 returns is centralized at the International Taxation Office in Ottawa. Send all such returns and related correspondence to:

International Taxation Office  
875 Heron Road  
Ottawa, Ontario  
K1A 1A8

A non-resident corporation files a non-resident T2 return

- to report income or payments for services rendered in Canada for which taxes were withheld under regulation 105;
- under section 115 to pay income tax on taxable income earned in Canada;
- to report dispositions of taxable Canadian property upon which a payment on account of tax has previously been made;
- as an elective return under section 216 to pay Part I tax on the net amount of timber royalty income or rental income from real property;
- as a corporation subject to "branch tax" under Part XIV;
- as a corporate emigrant under section 219.1;
- as a non-resident-owned investment corporation under section 133;
- as a travelling corporation whose permanent establishment is outside Canada.

Telephone enquiries to the International Taxation Office concerning non-resident corporation income tax returns may be made to the following telephone numbers:

If you are calling from within the Ottawa area,  
please call 954-9681

If you are calling long distance, please call

- from inside Canada 1-800-267-5177
- from outside Canada 613-954-9681

## Part VII and Part VIII Refundable Tax

Send any correspondence concerning Part VII or Part VIII refundable tax to:

Part VII/Part VIII Tax Group  
Taxation Centre  
Ottawa, Ontario  
K1A 1A2

## 6

### When must income tax be paid?

Corporations must pay their income tax in monthly instalments. The balance of tax payable is due within either two or three months of the end of the taxation year depending on the circumstances of the particular corporation.

Late payments are subject to interest and penalties. To be on time, instalment and other payments must be **received** by the Receiver General or by a Canadian financial institution on or before the due date.

### Instalment Due Dates

Instalment payments are due on the last day of each complete month during a corporation's taxation year. The first payment is due one month less a day from the starting date of the corporation's taxation year. The remaining payments are due on the same day of each following month in the period. For example, if the taxation year begins on December 16, 1989 and ends on December 15, 1990, the first payment would be due January 15, 1990. The remaining 11 payments would be due on the 15th of each following month with the last payment for the taxation year due on December 15, 1990.

A corporation does not have to make instalment payments for a taxation year if the total of Part I (including corporate surtax) and Part VI.1 tax payable for the year or the first instalment base is \$1,000 or less. A new corporation does not have to make instalment payments for its first taxation year because it does not have a preceding taxation year. When instalment payments are not required, the whole amount of tax payable is due by the balance due date.

### Balance Due Date

Generally, the balance of tax payable is due within **two** months after the end of the taxation year. However, this time limit is extended to three months if

- the corporation is a Canadian-controlled private corporation throughout the taxation year, **and**
- the small business deduction is claimed in the taxation year or was allowed in the preceding taxation year, **and**
- the corporation's taxable income for the preceding taxation year was \$200,000 or less.

**If the corporation is associated with any other corporations during the taxation year, then the combined**

taxable incomes of all the associated corporations in the group for their taxation years that ended in the same calendar year as the corporation's preceding taxation year must be \$200,000 or less.

The \$200,000 amount referred to above is normally the total business limit for the preceding taxation year. This amount would be less if the preceding year's business limit was prorated for a short taxation year. The total business limit could be more than \$200,000 if the corporation is associated with other corporations in the current year but not in the preceding year. See Guide Items 12 and 67 concerning the business limit.

## References

Section 157

IC 81-11R2 Corporate Instalments

T7B *Instalment Guide for Corporations*

## 7

### Penalties

#### Late Filing

A late-filed T2 return is subject to a penalty. The penalty is 5% of the unpaid tax when the return was due **plus** 1% of the unpaid tax for each complete month, to a maximum of 12 months, that the return is late.

The return is subject to a greater penalty if the Department issued a demand to file the return under subsection 150(2) and a late filing penalty was assessed for any of the 3 preceding taxation years. The penalty is 10% of the unpaid tax when the return was due **plus** 2% of the unpaid tax for each complete month, to a maximum of 20 months, that the return is late.

## References

Subsections 162(1) and 162(2)

#### Failure to Report Income

A corporation is subject to a penalty for failing to report an amount of income on its return for a taxation year if it also failed to report income in any of the three preceding taxation years. The penalty is 10% of the amount of unreported income in the year subject to the penalty.

## Reference

Subsection 163(1)

#### Gross Negligence

A corporation is subject to a penalty for knowingly or under circumstances amounting to gross negligence, making a false statement or omission in a return. The penalty is the greater of \$100 or 50% of the amount of understated tax.

## Reference

Subsection 163(2)

## Note

If a corporation is charged a penalty under subsection 163(2), it will not be charged a penalty under subsection 163(1).

## Other Penalties

Penalties may also be charged for:

- failing to provide information on a prescribed form as required under the *Income Tax Act* or Regulations;
- failing to file Form T106, *Corporate Information Return of Non-arm's Length Transactions with Non-Resident Persons* (Guide Item 26);
- failing to file Form T5013 Summary, *Partnership Information Return* (Guide Item 20);
- late or deficient instalment payments.

## 8

### What happens on filing?

After the T2 return is filed, it is sent for processing to the Assessing Division of the responsible taxation centre as listed in Guide Item 5.

When the return is assessed, a Notice of Assessment and, if necessary, an Explanation of Changes is mailed to the corporation's mailing address.

As soon as the Notice of Assessment is received, compare it to the corporation's copy of the T2 return. Contact your local district taxation office if any aspect of the assessment needs to be clarified or explained. The telephone numbers and mailing addresses of the district taxation offices are listed at the end of this Guide.

## Note

Corporations wanting details about a particular T2 return or returns released to an independent representative such as an accountant, should send a signed letter of authorization to the Department. The letter should specify the person or persons authorized to receive the information and for which taxation years. If a corporation wishes to rescind authorization previously granted, notify the Department in writing immediately.

## 9

### When can a T2 return be reassessed?

The Department may reassess a return or make additional assessments of tax, interest or penalties within certain time limits. These time limits vary depending on the type of corporation and the nature of the reassessment.

#### Normal Reassessment Period

A T2 return for a taxation year may normally be reassessed

- within **three** years from the date of mailing the original Notice of Assessment if the corporation was a Canadian-controlled private corporation at the end of the year, or
- within **four** years from the date of mailing the original Notice of Assessment if the corporation was not a Canadian-controlled private corporation at the end of the year



**Note**

The three-year limit applies to all corporations if the date of mailing the assessment is before April 28, 1986.

**Extended Reassessment Period**

The **normal reassessment period** is extended for an additional three years if the reason for the reassessment is

- to carry back a loss or credit from a subsequent taxation year;
- a result of a non-arm's length transaction involving the corporation and a non-resident;
- because the corporation paid an amount or received a reimbursement of foreign income or profits tax;
- because a reassessment of another taxpayer's tax for any of the above reasons affects the corporation's tax.

**Unlimited Reassessment Period**

The Department may reassess a T2 return **at any time** if

- the reason for the reassessment is misrepresentation due to neglect, carelessness, willful default or when any fraud has been committed in filing the return or in supplying any information under the *Income Tax Act*;
- a *Waiver in Respect of the Normal Reassessment Period*, Form T2029, was filed with the district taxation office before the **normal reassessment period** expired.

**Note**

To revoke a waiver previously filed to extend the normal reassessment period for a particular taxation year, file Form T652, *Notice of Revocation of Waiver*, with the district taxation office. The revocation takes effect six months after Form T652 is filed.

**References**

Subsections 152(3.1) and 152(4)

**How to request a reassessment**

Send reassessment requests to the taxation centre where the T2 return is processed. Specify the name of the corporation, the account number, taxation year and pertinent details in the request. Be sure to include any relevant supporting information such as revised financial statements and schedules.

To request a carry-back of a loss or tax credit to a prior taxation year, file the prescribed form by the filing date of the return reporting the loss or earning the credit. These forms are available from the district taxation offices listed at the end of this Guide.

The prescribed forms are:

- T2A — to request the carry-back of a loss
- T2038(CORP) — to request the carry-back of an investment tax credit

- T921 — to request the carry-back of a Part VI tax credit
- T962 — to request the carry-back of a Part 1.3 tax credit

**Reference**

Subsection 152(6)

**10****Appeals Process**

A corporation can make a formal objection if it disagrees with the amount of tax, interest or penalties assessed or reassessed and does not accept the Department's interpretation of the law. This is done by filing the prescribed form T400A, *Notice of Objection*, with the Deputy Minister of National Revenue for Taxation. The notice of objection must be filed within **90** days from the date of assessment or reassessment.

An appeals officer in the district office or taxation centre will impartially review the assessment or reassessment in light of the objection. The appeals officer will then contact the corporation or its authorized representative to discuss the differences and perhaps resolve the problem.

The corporation may then appeal the assessment or reassessment to the Tax Court of Canada if the differences in interpretation of the law are not resolved.

The disputed amount of tax, interest or penalty does not have to be paid while waiting for the outcome of the Department's or court's impartial review. However, once the objection or appeal is settled, normal interest charges, from the balance due date, will apply to any amount assessed. Before appealing a lower court's decision to a higher court, amounts that continue to be in dispute must be paid or acceptable security must be posted.

**Reference**

IC 80-7, Objections and Appeals.

**Loss Determinations**

The objection and appeal process does not normally apply to disputed loss amounts because there is no tax, interest or penalty involved. However, losses can be objected to or appealed if the Department determines the amount of the loss and issues form T67-AM, *Notice of Determination/Redetermination of a Loss*. Determinations of the amount of a corporation's non-capital loss, net capital loss, restricted farm loss, farm loss or limited partnership loss will only be made at the corporation's request. Send a request for a loss determination to your local district taxation office.

**Reference**

IT-512 Determination and Redetermination of Losses

**11****Books and Records**

The corporation must keep books and records needed to verify the income or loss reported on a T2 return for audit purposes. Books and records, including related accounts and vouchers, must be kept for a minimum of six years from the end of the last taxation year to which they relate. This information must be kept for six years from the date the return was filed, if the return was filed late. They cannot be destroyed any earlier unless written permission to do so is granted by the Department or if the corporation is dissolved.

Permanent records such as general ledgers, minutes of directors' and shareholders' meetings, share registers and special contracts must generally be retained until two years after the date of dissolution of the corporation.

Books and records relating to a notice of objection or appeal must be kept until the objection or appeal process is finished and the time for filing any appeal has expired.

Certain receipts and documents have to be filed with the T2 return. Those that don't have to be filed with the return must be kept in an orderly manner so they can be examined at a later date to support a claim made on the return.

A T2 return might be selected for further review or audit after its initial assessment and may be reassessed within the time limits described in Guide Item 9.

**References**

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

Regulation 5800

IC 78-10R2 Books and Records Retention/Destruction

**INFORMATION SCHEDULES — GENERAL**

Corporations that answer "yes" to any of the questions under the heading "Schedules and Information Required" on page 2 of the T2 return must file the indicated schedules. Some of these schedules are called **information schedules** and are described below.

**12****Agreement Among Associated Corporations T2013**

Form T2013 is available from your district taxation office.

**Associated Canadian-controlled private corporations** must file form T2013 to

- identify the associated corporations;
- allocate the \$200,000 business limit for the small business deduction (Guide Item 67);
- allocate the \$2,000,000 expenditure limit for the 35% investment tax credit (ITC) rate on qualifying scientific research and experimental development expenditures (SR&ED);
- provide the prior year taxable incomes of the associated corporations to determine if the corporation is eligible for
  - the 35% ITC rate and the 100% refundable ITC rate on qualifying SR&ED expenditures;
  - the 40% refundable ITC rate;
  - the one-month extension of the date that the balance of tax is due (Guide Item 6).

Special rules apply to associated corporations that have two or more taxation years ending in the same calendar year. As above, the business limit and expenditure limit for each taxation year ending in the calendar year must be prorated based on the number of days in the taxation year divided by 365. The amount that is prorated in each of the taxation years must equal the amount allocated to the corporation in the first taxation year ending in the calendar year.

**References**

Subsections 125(5) and 127(10.6)

**When is a corporation associated?**

The test that determines association relies on control. A person or group of persons may control a corporation. A "person" includes individuals and corporations. Control is exerted either **directly or indirectly in any manner whatever**.

The associated corporation rules have been amended extensively. Under the new rules, control includes both *de jure* control and factual control and the cross-ownership threshold has been increased from 10% to 25% of the shares of any class. Specified classes of shares, as defined in subsection 256(1.1), are exempted from the cross-ownership test.

In general, a corporation is associated with another corporation if at any time in the taxation year one of the following conditions is met. (Note that **controlled** means directly or indirectly in any manner whatever.)

- One corporation controlled the other.
- Both corporations were controlled by the same person or group of persons.
- Each corporation was controlled by one person and that person was related to the person controlling the other corporation and one of those persons owned not

**Note**

If the corporation's taxation year is less than 51 weeks, the business limit and the expenditure limit have to be prorated based on the number of days in the taxation year divided by 365.

less than 25% of the issued shares of any class of the capital stock of each corporation.

- One corporation was controlled by one person and that person was related to each member of a group of persons that controlled the other corporation, and that person owned not less than 25% of the issued shares of any class of the capital stock of the other corporation.
- Each corporation was controlled by a related group and each of the members of one of the related groups was related to all members of the other related group, and one or more persons who were members of both related groups, either alone or together, owned not less than 25% of the issued shares of any class of the capital stock of each corporation.

### References

Subsections 256(1), 256(1.1), 256(5.1)  
IT 64-R2 Corporations: Association and Control

## 13

### Election Not to Be an Associated Corporation T2144

Form T2144 is available from your district taxation office.

File three copies of this form with the T2 return of a corporation that elects not to be associated with two other corporations. When a corporation makes this election, its business limit for the small business deduction is deemed to be nil. Form T2144 provides further details.

### Reference

Subsection 256(2)

## 14

### Related Corporations T2S(9) (not printed by the Department)

Related corporations must provide the following information on a schedule identified as T2S(9) in the top right-hand corner:

- names, addresses and corporation account numbers of the related corporations;
- details of any inter-company shareholdings;
- type of relationship, e.g., foreign parent, Canadian parent, foreign subsidiary, Canadian subsidiary, associated corporation.

### Reference

Section 251

## 15

### Transactions With Shareholders, Officers and Employees T2S(11) (not printed by the Department)

Identify Schedule T2S(11) in the top right-hand corner and list, with complete details, any transactions with shareholders, officers or employees involving

- assets sold to or purchased from shareholders, officers or employees including those for which an election was made under section 85;
- payments made to or for the account of shareholders, officers or employees that were not part of their authorized remuneration or reimbursement of expenses;
- loans or indebtedness to officers, employees, shareholders or persons connected with a shareholder that were not repaid by the end of the taxation year.

Do not include transactions that were carried out in the ordinary course of business. Also exclude any transactions listed on Form T106. See Guide Item 26.

If the corporation is involved in a transfer of property under section 85, ensure the applicable election form T2057 or T2058 is filed. File form T2058 when property is transferred from a partnership and form T2057 in all other cases. These forms may be obtained from any district taxation office.

## 16

### Non-Arm's Length Transactions T2S(11)(A) (not printed by the Department)

When a section 85 election is made for a transaction **between corporations not dealing at arm's length** and where all or substantially all the transferor's assets are disposed of to the transferee, provide the name, address and account number of the transferor. Identify the schedule as T2S(11)(A) in the top right-hand corner.

Generally, the Department considers that **all or substantially all** means 90% or more. However, this is intended as a guideline only. Assets may be valued at cost or fair market value.

When such a non-arm's length transaction takes place, the instalment requirements of the transferee corporation must take those of the transferor corporation into account.

### References

Regulation 5301(8)  
IC 81-11R2 Corporate Instalments

**17**  
**Miscellaneous Payments to Residents**  
**T2S(14)**  
**(not printed by the Department)**

Prepare a schedule, identified as T2S(14) in the top right-hand corner, listing

- royalties for which a T5 has not been filed;
- technical assistance fees;
- research and development fees;
- management fees; and
- similar payments

paid to residents of Canada. Only list payments of more than \$100 and show the names and addresses of the recipients.

Technical assistance fees are payments for technical or industrial services related to the production of goods or the application of processes, formulae, and "know how" in the production process.

**18**  
**Deferred Income Plans T2S(15)**  
**(not printed by the Department)**

Prepare a schedule, identified as T2S(15) in the top right-hand corner, listing the amounts of income deductions made for payments to a registered pension plan (RPP), registered supplementary unemployment benefit plan (RSUBP), deferred profit sharing plan (DPSP) or employees profit sharing plan (EPSP). The list should show:

- the name of each plan and the amount claimed as a deduction for each;
- the registration number assigned by Revenue Canada, Taxation, to either a RPP, a RSUBP or a DPSP; and
- the name and address of the trust governed by an employees profit sharing plan. If the trust is not resident in Canada, state whether forms T4PS Supplementary were filed for the last calendar year and by whom (trustee or employer).

**19**  
**Statement of Tax Shelter Loss or**  
**Deduction T5004**

Form T5004 is available from your district taxation office.

Corporations claiming a loss or deduction from an interest in a tax shelter that was purchased after August 31, 1989, must file Form T5004 with the T2 return.

Beginning with tax shelters purchased in 1989, the promoter has to prepare an information slip, Form T5003, *Statement of Tax Shelter Information*, and send copies to each investor. Attach copy 2 of Form T5003 to the T2 return.

**Reference**  
 IC 89-4 Tax Shelter Reporting

**20**  
**Partnership Information Slips T5013**  
**Supplementary and T5013S(1), Memo**  
**Schedule**

If the corporation is a member of a partnership and answered "yes" to Question 37 on page 2 of the T2 return, attach a list of all the Partnership Identification Numbers assigned to the partnerships of which the corporation is a member.

Partnerships that have more than five members must issue information slips to each partner for each fiscal period of the partnership. Corporate partners that receive information slips T5013 Supplementary and T5013S(1), Memo Schedule, must file them with the T2 return for the taxation year in which the fiscal period of the partnership ends.

**Note**  
 A *Partnership Information Return*, Form T5013, must be filed by each partnership for each fiscal period. However, some partnerships are exempted from this requirement. Refer to the *Guide to the Partnership Information Return*, available from your district taxation office.

## INFORMATION SCHEDULES — TRANSACTIONS WITH NON-RESIDENTS

Several information schedules are required to allow the Department to verify transactions involving non-resident parties. If the corporation answered "yes" to Questions 13, 22, 25, 28, 32 or 33 on page 2 of the T2 return, complete the applicable schedules described below.

### 21 Non-Resident Ownership T2S(19) (not printed by the Department)

A schedule, identified as T2S(19) in the top right-hand corner, must be filed if a share of any class of the corporation's capital stock was owned by a non-resident shareholder at any time during the taxation year. Give the percentage of voting shares owned by non-resident shareholders. If the percentage varied throughout the year, provide the highest percentage for the year.

### 22 Non-Resident Discretionary Trust T2S(22) (not printed by the Department)

Prepare a schedule, identified as T2S(22) in the top right-hand corner, if

- the corporation, or
- a foreign affiliate controlled by the corporation, 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** governed by subsection 94(1) at any time during the taxation year.

List the names and mailing addresses of each non-resident discretionary trust as well as those of the trustees.

### 23 Investment in Foreign Affiliates T2S(25) (not printed by the Department)

A corporation resident in Canada holding shares in one or more foreign affiliates, as defined in paragraph 95(1)(d), must file a schedule, identified as T2S(25) in the top right-hand corner, providing

- the names of all its foreign affiliates distinguishing between **controlled** and **other** foreign affiliates, and
- the **equity percentage**, as defined in paragraph 95(4)(b), for each foreign affiliate.

### 24 Payments to Non-Residents T2S(29) (not printed by the Department)

Corporations making certain payments to non-residents are required to file the appropriate information return under the provisions of the Income Tax Regulations.

A schedule, identified as T2S(29) in the top right-hand corner, must be filed if the corporation **did not** file NR4-NR4A or T4-T4A returns for any amounts paid or credited to non-residents as

- royalties;
- rents;
- dividends;
- management fees;
- technical assistance fees;
- research and development fees;
- interest;
- film payments;
- any payments for services, either regular or continuous;
- other services.

List the types of payments, dollar amounts and the names and addresses of the payees.

### 25 Non-Canadian Advertising Expense T2S(30) (not printed by the Department)

On a schedule, identified as T2S(30) in the top right-hand corner, list and identify any amounts claimed as expenses for advertising space in an issue of a Non-Canadian newspaper or periodical. Also list expenses claimed for an advertisement broadcast by a foreign broadcasting undertaking.

**References**  
Sections 19 and 19.1

### 26 Corporate Information Return of Non- arm's Length Transactions with Non- Resident Persons T106

Form T106 is available from your district taxation office.

Corporations that were either resident in Canada or carried on business in Canada at any time in the taxation year and entered into non-arm's length transactions with **non-**

**resident persons** must file the T106 information return. A separate T106 information return must be filed for each non-resident person.

All non-arm's length transactions between the corporation and the non-resident person are to be reported on the T106 return including those concerning

- tangible property;
- rents;
- royalties and intangible property;
- services;
- advances, loans, or other accounts receivable or payable to or from the related non-resident person (provide opening and closing balances).

The T106 information return must be delivered to the district taxation office or mailed to the responsible taxation

centre **within six months from the end of the reporting corporation's taxation year.** File the T106 information return(s) separately from the T2 return. Late-filed T106 information returns are subject to penalties.

## References

Sections 233.1 and 251  
Subsections 162(7) and 162(10)

## 27

### Additional Information

Be sure to provide all the information requested under the headings "Additional information", "Location of books and records" and "Certification" on page 6 of the T2 return.

## COMPLETION OF "IDENTIFICATION" AREA

The "Identification Area" is on page 1 of the T2 return. Be sure to complete this area accurately to ensure the corporation is properly identified and the return is processed quickly.

## 28

### Account Number

Each corporation is identified by an eight-digit corporation account number. The corporation's account number can be found on prior year assessment notices, instalment receipts or remittance forms. Enter the account number at the top of the left column of the "Identification Area". **Quote the corporation's account number on all correspondence and instalment payments sent to the Department.**

The Department will automatically assign an account number to a **new corporation.** The account number will be mailed to the corporation's registered head office address. New corporations formed as the result of an **amalgamation** will be assigned an account number as soon as the Department is notified of the amalgamation. Contact your district taxation office if the account number is not received.

## 29

### Name and Address

#### Name of Corporation

Enter the complete name of the corporation. Do not abbreviate the name and ensure that it is punctuated accurately.

### Address of Head Office

Enter the complete head office address of the corporation including the street number, street, city and postal code. Check the appropriate boxes if there has been a change of address since the last return was filed. Advise the responsible taxation centre in writing of a change to the corporation's head office address as soon as possible.

### Mailing Address of Corporation

Complete this area in detail if the corporation's mailing address is different from its head office address. Again, be sure to check the appropriate boxes as instructed. If the corporation had both a mailing and a head office address last year but only has a head office address this year, leave the mailing address blank and tick the box to indicate that the mailing address has changed. Advise the responsible taxation centre in writing of any change to the corporation's mailing address.

All correspondence is normally sent to the mailing address of the corporation. However, instalment receipts and remittance forms will be directed to the head office address if the box to the right of the mailing address is ticked.

To make sure that assessment notices and all other correspondence are sent to the right address, be sure to notify the Department of any changes.

## 30

### Is the corporation a resident of Canada?

Answer "yes" or "no" to this question. If the corporation is not a resident of Canada, provide the country of residence. Non-resident corporations should mail their T2 returns to the International Taxation Office. See Guide Item 5.

### 31 Status of Return

Answer "yes" or "no" to the following three questions at the top of the right-hand column:

- Is this the first year of filing? See Guide Items 34 and 35.
- Is this an amended return?
- Is this the final year before amalgamation? See Guide Item 35.

### 32 Taxation Year

Enter the first and last days of the taxation year in the appropriate blocks. The first day of the current taxation year must be the day following the end of the last taxation year.

The taxation year of a corporation is its fiscal period. A fiscal period cannot be longer than 53 weeks (371 days). The financial statements attached to the T2 return must correspond to the taxation year indicated on the return. The taxation year of a new corporation cannot be any longer than 53 weeks from the date of incorporation.

#### References

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

Check the applicable box if the fiscal period has changed since the last return was filed. Changes to an established fiscal period can only be made with the approval of the Minister. Unless approval has been granted or one of the circumstances noted below has occurred, the corporation's fiscal period must be the same from year to year.

#### Reference

IT-179 Change of Fiscal Period

If the corporation has wound-up and is filing the final return, include this information with the financial statements. An abbreviated fiscal period due to wind-up does not require approval from the Department. Nor is approval required if a corporation is required to end its taxation year at a certain time for other reasons such as emigrating to another country, becoming bankrupt or ceasing to be exempt from tax.

#### Change of Control — Subsection 249(4)

Check the applicable box if control of the corporation was acquired by a person or group of persons either this year or last year.

When an acquisition of control occurs, subsection 249(4) deems the taxation year of the corporation to end immediately before the acquisition of control. No ministerial approval for the changed taxation year is necessary. A T2 return must be filed for the **taxation year ending immediately before the acquisition of control**. The

next taxation year starts immediately after the acquisition of control and the corporation may choose any taxation year end within the next 53 weeks.

If the acquisition of control occurs within seven days after the end of an established taxation year, a corporation can elect to extend the taxation year up to the acquisition of control. Attach a letter to the T2 return stating that an election is being made under paragraph 249(4)(c).

#### Note

The acquisition of control of a corporation is normally considered to occur at the beginning of the day on which the acquisition takes place. However, the particular time of day that the acquisition of control took place will be recognized if the corporation makes an election under subsection 256(9). To elect under subsection 256(9), include a note with the T2 return filed for the taxation year ending immediately before the acquisition of control.

### 33 Type of Corporation

Check the box that accurately describes the corporation's type **at the end of the taxation year**. The corporation's type can determine the corporation's entitlement to certain rates and deductions; therefore, ensure that the correct box is checked in accordance with the following definitions.

#### Reference

IT-391 Status of Corporations

#### Canadian-Controlled Private Corporation (CCPC)

To be a Canadian-controlled private corporation at any particular time, all the following requirements must be met:

- (A) it is a private corporation;
- (B) it is a corporation that was resident in Canada at the time and was
  - incorporated in Canada; or
  - resident in Canada from June 18, 1971 to that time;
- (C) it is not controlled directly or indirectly by one or more non-resident persons,
- (D) it is not controlled directly or indirectly by one or more public corporations (other than a prescribed venture capital corporation);
- (E) it is not controlled directly or indirectly by any combination of persons in (C) and (D) above.

#### References

Paragraphs: 89(1)(a), 89(1)(f), and 125(7)(b)  
IT-458 Canadian-Controlled Private Corporation

## Other Private Corporation

To be a private corporation at any particular time, all the following requirements must be met:

- it is resident in Canada;
- it is not a public corporation;
- it is not controlled directly or indirectly by one or more public corporations.

### Note

Draft amendments to the *Income Tax Act* released on July 13, 1990, propose two changes affecting the definition of a private corporation, effective July 14, 1990. A private corporation will include a corporation controlled by one or more prescribed venture capital corporations that are public corporations. A corporation that is controlled by one or more prescribed federal Crown corporations or by a combination of prescribed Crown corporations and public corporations will not qualify as a private corporation.

### References

Paragraphs 89(1)(f), and 89(1)(g)

## Public Corporation

A public corporation is a resident corporation that

- has a class of shares listed on a prescribed Canadian stock exchange or that has elected or been designated by the Minister of National Revenue to be a public corporation, and
- has complied with prescribed conditions regarding:
  - the number of its shareholders;
  - dispersal of ownership of its shares;
  - public trading of its shares;
  - size of corporation.

A public corporation may elect, or be designated by the Minister of National Revenue, not to be a public corporation if it has complied with certain prescribed conditions. The fact that company shares are traded "over the counter" does not by itself qualify the corporation as a public corporation.

### Reference

Paragraph 89(1)(g)

## Other — Controlled by Public Corporation

This is a corporation that is a Canadian subsidiary of a public corporation. Such corporations neither meet the requirements to qualify as a public corporation nor can they be considered private since they are controlled by a public corporation.

## Other Corporations

"Other" describes any corporation that does not fall within the above definitions. Included in this category are credit unions, co-operatives, non-resident owned investment corporations, Crown corporations, etc.

## Changes in Corporation Type

Check the "yes" or "no" box in response to the question, "Did the type of corporation change during the taxation year?". If "yes", specify the change on the line provided. A change of corporation type during the year could be significant since certain calculations on the return are based on whether the corporation was private, or Canadian-controlled private, throughout the taxation year, at any time in the taxation year, or at the end of the taxation year.

### Note

For example, the **type** of corporation changes when a Canadian-controlled private corporation becomes a public corporation, or the corporation becomes an "other — controlled by public corporation". Do not include other types of changes such as the change from "Active" to "Inactive" status, etc.

## 34

### Newly Incorporated Corporations T2S(24)

Answer "yes" or "no" to the question, "Is this the first year of filing?" at the top of the right-hand column of the "Identification Area". If the corporation answers "yes", enter the date of incorporation in the space provided below. The following documents, identified as Schedule T2S(24), must also be submitted with the first T2 return of a new corporation:

- the opening balance sheet and, where applicable;
- copies of all relevant agreements, or the full details concerning shares issued for other than cash consideration; and
- the closing balance sheet of any proprietorship, partnership or corporation whose assets or business were acquired or whose liabilities were assumed by the new corporation.

### Note

See Guide Item 32 concerning the first taxation year of a corporation.

## 35

### Amalgamated Corporations or Parent Corporations Winding-Up a Subsidiary T2S(24)

Enter the effective date of amalgamation in the space provided. This date is the first day of the first taxation year of the amalgamated corporation.

When two or more corporations have amalgamated, **each of the predecessor corporations** must file a T2 return up to the **effective date of certification** as indicated on the Certificate of Amalgamation and/or Articles of Amalgamation. Returns filed for the period up to the



**adoptive** date of amalgamation or the date of the shareholders' resolution will not be accepted.

The predecessor corporations are required to provide returns with taxation years ending immediately before the effective date of amalgamation. They should answer "yes" to the question, "Is this the final year before amalgamation?" on their final T2 returns.

**For the first return** of a newly amalgamated corporation or of a parent corporation after winding-up a subsidiary, the following information should be provided and identified as T2S(24):

- the name and the account number of each predecessor or subsidiary corporation;
- the taxation centre where the last return of each predecessor or subsidiary corporation was filed;
- an accounting of all deductions and tax credits transferred from each predecessor or subsidiary corporation.

### 36

#### Employer's Remittance Account Number

Enter the **employer's remittance account** number in the blocks provided. This is the account number used when remitting the employees' payroll deductions.

### 37

#### Nature of Business Activities

Provide the major business or professional activity of the corporation with enough detail to both support the type of deductions claimed, (e.g., the manufacturing and processing profits deduction) and to permit an exact industrial classification. If the corporation has several major lines of business, please indicate them. Check the "yes" or "no" box in answer to the question, "Has major activity changed since last return was filed?"

Specify the principal product(s), services or revenue sources generated from the business activity described above and their percentage of the total revenue. If the corporation's business involves the resale of goods, please specify whether wholesale or retail. Some examples of nature of business descriptions are men's retail clothing store, manufacturing of wooden office furniture, single residential building contractor, etc. Please specify if the corporation is involved in trucking such as truck transportation of bulk liquids or if the corporation is an owner-operator, leased-operator or broker-operator working for another trucking company.

Use the "major business activity" line to indicate if the corporation was inactive during the year or is a tax-exempt Non-Profit Organization.

## CALCULATION OF NET INCOME — LINE 111

### 38

#### Net Income for Income Tax Purposes T2S(1) (not printed by the Department)

Prepare a schedule, identified as T2S(1) in the top right-hand corner, to reconcile net income from financial statements with net income for income tax purposes.

Some expenses deducted on the corporation's Income Statement may not be allowable for income tax purposes. Certain items included in income may not be taxable. Non-allowable expenses are added on Schedule T2S(1). Non-taxable items and allowable deductions for tax purposes are then subtracted to arrive at **net income or loss for income tax purposes**.

Start with the amount of net income or loss determined on the Income Statement, then

#### Add items such as

- income tax provisions;
- interest and penalties on income taxes;
- losses on disposal of fixed assets;
- political donations;
- taxable capital gains;

- depreciation;
- reserves deducted in the preceding year;
- charitable donations;
- restricted farm losses;
- limited partnership losses;
- investment tax credit on current SR&ED expenditures;
- non-allowable portion of food, beverage and entertainment expenses.

#### Deduct items such as

- gains on disposal of assets per financial statements;
- non-taxable capital dividends (payer elected under section 83);
- capital cost allowance;
- cumulative eligible capital deduction;
- allowable business investment loss;
- reserves deducted in the current year;
- allocations by credit unions.

Enter the amount determined as **net income or loss for income tax purposes** on line 111 on page 1 of the T2 return.

The following schedules are used in calculating net income for income tax purposes:

- T2S(6) Summary of Dispositions of Capital Property (Guide Item 39)
- T2S(8) Capital Cost Allowance Schedule (Guide Item 40)
- T2S(8)(A) Cumulative Eligible Capital Deduction (Guide Item 41)
- T2S(12) Natural Resource Earned Depletion (Guide Item 42)
- T2S(13) Continuity of Reserves (Guide Item 43)
- T2S(16) Patronage Dividend Deduction (Co-operative Corporations) (Guide Item 44)
- T2S(17) Allocation in Proportion to Borrowing (Credit Unions) (Guide Item 45)
- T661 Claim for Scientific Research and Experimental Development Expenditures (Guide Item 46)

### 39

#### Summary of Dispositions of Capital Property T2S(6)

Schedule T2S(6) is available from your district taxation office.

Schedule T2S(6) must be completed and attached to the T2 return if the corporation disposed of capital property and realized any **capital gains** (including capital gains dividends under paragraphs 131(1)(b), 133(7.1)(a), and 130.1(4)(b)) or incurred any **capital losses**.

Schedule T2S(6) is the prescribed form for making a **designation under paragraph 111(4)(e)** to deem capital properties to have been disposed of immediately prior to an acquisition of control of a corporation.

A **business investment loss** arises on the disposition of certain capital properties. The deductible portion of a business investment loss is called an allowable business investment loss (ABIL). Although an ABIL is calculated the same way as an allowable capital loss, it is not reported on Schedule T2S(6). See Guide Item 48.

#### References

Paragraph 54(b)

IT-170R Sale of Property — When Included in Income Computation

IT-218R 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-448 Dispositions — Changes in Terms of Securities

IT-460 Dispositions — Absence of Consideration

A **capital gain** results when the proceeds of disposition of a capital property are greater than the adjusted cost base

and any related outlays or expenses. A **capital loss** results when the proceeds of disposition are less than the adjusted cost base and related outlays and expenses. However, the disposition of **depreciable property** will not result in a capital loss. See Guide Item 40 under the heading "Column 10" regarding **terminal losses**. In certain cases, when a building and the land on which it stands are disposed of and the building is disposed of for proceeds of disposition less than its undepreciated cost, the gain on the sale of the land may be reduced by the "loss" on the sale of the building.

#### References

Subsection 13(21.1)

IT-220R2 Capital Cost Allowance — Proceeds of Disposition of Depreciable Property

#### Taxable Capital Gain/Allowable Capital Loss

The **taxable portion** of a capital gain and the **allowable portion** of a capital loss for a taxation year are calculated as a percentage of the total capital gain or loss. This percentage is referred to as the **inclusion rate**. A prior year's reserve is included in income by using the inclusion rate for the current year.

A **taxable capital gain (allowable capital loss)** for a taxation year is determined by applying the following inclusion rates to the capital gain or loss:

Canadian-controlled private corporations throughout the year

- 50% prior to 1988
- 66  $\frac{2}{3}$ % after 1987 and before 1990
- 75% after 1989

Other corporations

- 50% prior to July 1988
- 66  $\frac{2}{3}$ % after June 1988 and before 1990
- 75% after 1989

When a corporation's taxation year straddles a date where the inclusion rate changes, the rate is prorated based on the number of days in the taxation year before and after the rate-change date.

#### Example

Assume the corporation had a capital gain of \$165,000 during the taxation year, April 1, 1989 to March 31, 1990.

Days in taxation year before 1990:	275
Days in taxation year after 1989:	90
Total days in taxation year:	365
Inclusion rate in 1989:	.6666667
Inclusion rate in 1990:	.75

The inclusion rate for the 1990 taxation year is

$$\frac{275 \times .666667}{365} = .5022831$$

Plus

$$\frac{90 \times .75}{365} = .1849315$$

$$\frac{90 \times .75}{365} = .6872146$$

**Taxable capital gain:**

$$\$165,000 \times .6872146 = \$113,390$$

Inclusion rates, taxable capital gains and allowable capital losses are calculated on the back of Schedule T2S(6). Inclusion rates should be taken to at least seven decimal places, as in the above example.

## Proceeds of Disposition

The proceeds of disposition are usually the selling price of the property. However, they can also include compensation received for property destroyed, expropriated, stolen or damaged. In the case of a gift or a deemed disposition, the proceeds of disposition are generally the fair market value of the property at the time its ownership or use changes.

### References

Paragraph 54(h)

IT-259R2 Exchanges of Property

IT-271R Expropriations — Time and Proceeds of Disposition

## Adjusted Cost Base

The cost of property used in computing any capital gain or loss is referred to as the **adjusted cost base (ACB)**. The ACB is the original cost of the property adjusted for certain transactions or occurrences that took place after the property was acquired. 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 at the time it was acquired would determine the cost of the capital property used.

### References

Subsections 53(1) and (2)

IT-456R Capital Property — Some Adjustments to Cost Base

IT-418 Capital Cost Allowance — Partial Dispositions of Property

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

### Reference

IT-128R Capital Cost Allowance — Depreciable Property

Special rules apply for determining the cost of capital property owned on December 31, 1971. These rules ensure that tax is not assessed or losses allowed, for any gain or loss that arose before that date.

## References

IT-84 Capital Property Owned on December 31, 1971 — Median Rule (Tax Free Zone)

IT-139R Capital Property Owned on December 31, 1971 — Fair Market Value

When deductions from the cost base of a property (other than a partnership interest) reduce the balance to a negative amount at any time in the year, a capital gain equal to the amount of the negative balance is deemed to have been realized and the ACB is adjusted to nil. Subsequent additions to the ACB cannot be used to reduce previous gains on the property that resulted from a negative balance. These additions can only be considered when determining future gains or losses.

### Reference

Subsection 40(3)

The rules for determining the ACB of a partnership interest are outlined in paragraphs 53(1)(e) and 53(2)(c).

### Reference

IT-353R2 Partnership Interest — Some Adjustments to Cost Base

The ACB of a share must be reduced by the amount of any share purchase tax credit or scientific research and experimental development tax credit earned on that share.

## Outlays and Expenses

Most cash outlays used to put a property into saleable condition are deductible in computing a gain or loss. Expenses incurred in disposing of the property are also deductible. These include certain "fixing-up" expenses, finder's fees, commissions, surveyor's fees, transfer taxes and other reasonable expenses incurred in order to dispose of the property.

## Shares

Normally, 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 would be considered business income or loss.

If a share is converted because of a merger or amalgamation, subparagraph 54(c)(ii) deems a disposition to have occurred.

## Real Estate

Dispositions of non-depreciable real property (unless the property is inventory) may result in a capital gain or loss. Similarly, dispositions of depreciable property may result in a capital gain or a terminal loss.

### References

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

IT-478 Capital Cost Allowance — Recapture and Terminal Loss

## Bonds

When disposing of a debt obligation, the amount of any realized discount or bonus received may be treated as a capital gain. Similarly, a premium paid may be treated as a capital loss either at the maturity of the obligation or at the date of disposition.

## References

IT-114 Discounts, Premiums and Bonuses on Debt Obligations  
IT-479R Transactions in Securities

## Other Property

Capital gains or losses on any property not specified above are to be included in the "Other Property" area of Schedule T2S(6).

For dispositions of depreciable property, a capital gain results if the proceeds are greater than the capital cost. However, losses on depreciable property do not result in capital losses. These losses are **terminal losses**. See Guide Item 40 under the heading, "Column 10".

Dispositions of goodwill and other intangible properties are reported on Schedule T2S(8)(A). See Guide Item 41.

"Other property" includes amounts established as bad debts as well as amounts arising from foreign currency transactions.

An amount receivable that is established to be a bad debt results in a deemed disposition at the end of the year. It is also deemed to have been reacquired immediately afterwards at a cost of nil. This normally permits a bad debt to be claimed as a capital loss in the year and any subsequent recovery will result in a capital gain.

## References

Subsection 50(1)  
IT-159R3 Capital Debts Established to be Bad Debts

Foreign exchange gains or losses from the purchase or sale of capital properties are capital gains or capital losses. Transactions in foreign currency or foreign currency futures that do not form part of business operations may be treated as capital dispositions.

## References

Subsection 39(2)  
IT-95R, Foreign Exchange Gains and Losses.

## Personal-Use Property

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

Gains and losses on the disposition of personal-use property are determined using the \$1,000 rule. If the adjusted cost base is less than \$1,000, it is deemed to be \$1,000. As well, when the proceeds of disposition are less than \$1,000, they are deemed to be \$1,000.

The general rule is that losses on dispositions of personal-use property, other than **listed personal property**, are not deductible in computing income.

## Reference

Subsection 46(1)  
IT-332R Personal-Use Property

## Listed Personal Property

Listed personal property is personal-use property that is

- a print, etching, drawing, painting, sculpture, or other similar work of art;
- jewellery;
- a rare folio, rare manuscript or rare book;
- a stamp; or
- a coin.

Losses arising on the disposition of these items may only be deducted from listed personal property capital gains. Any unabsorbed losses in the year may be applied to reduce similar net gains in the three immediately preceding years and in the following seven years.

## Capital Gains Reserve

Often, part of the proceeds of disposition, generally for real property, is not due to the corporation until after the end of the year. A portion of the capital gain may be deferred to the year in which the proceeds are due to be received by setting up a capital gains reserve. By using reserves, a capital gain may be spread over a maximum of five years.

The reserve that can be claimed in a taxation year is the lesser of

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

and

- (B) • for the year of disposition, 4/5 of the capital gain
- for the second year, 3/5 of the capital gain
- for the third year, 2/5 of the capital gain
- for the fourth year, 1/5 of the capital gain

The reserve amount deducted in a taxation year must be added to income in the following taxation year. The prior year reserve is added and the current year reserve is deducted at the bottom of Schedule T2S(6).

## References

Subparagraphs 40(1)(a)(ii) and (iii)  
IT-236R2 Reserves — Dispositions of Capital Property

Add the taxable capital gain calculated on the T2S(6) to net income for income tax purposes on Schedule T2S(1). An allowable capital loss is **not deducted on the T2S(1)**. Allowable capital losses become net capital losses and can only be used to reduce taxable capital gains in other years. See Guide Item 62.

## 40 Capital Cost Allowance T2S(8)

Schedule T2S(8) is available from your district taxation office.

Paragraph 20(1)(a) allows a corporation to charge a portion of the capital cost of certain **depreciable** property against income earned in the year from a business or property. This deduction is called **capital cost allowance (CCA)**. When a taxation year is less than 12 months, the CCA may have to be prorated.

Under Part XI of the Income Tax Regulations, depreciable property is grouped into prescribed classes. Most of the prescribed classes are set out in Schedule II of the Regulations.

An overall maximum rate is prescribed for each class. This rate is normally applied to the undepreciated capital cost of the class at year end to determine the maximum CCA the corporation can claim. The corporation may deduct any amount up to the maximum available for the year.

### Note

Draft amendments to the *Income Tax Act* released on July 13, 1990, propose that CCA may not be claimed for a depreciable property of a prescribed class until it becomes **available for use**. These new rules are generally applicable to property acquired after 1989.

New subsection 13(27) proposes that property, other than a building, is considered to be **available for use** at the earliest of several dates. Some examples of these dates are:

- when the property is first used to earn income;
- the beginning of the first taxation year that commences at least 358 days after the taxation year in which the property was acquired;
- immediately before the property is disposed of;
- when the property is capable of producing a saleable product or performing a saleable service.

New subsection 13(28) proposes that a building is considered to be **available for use** at the earliest of the following dates:

- when all or substantially all of the building is used for its intended purpose;
- when construction is completed;
- the beginning of the first taxation year that commences at least 358 days after the taxation year in which the property was acquired;
- immediately before the property is disposed of;
- when a building that is a replacement property is acquired if it is replacing a building involuntarily disposed of that was either acquired before 1990 or had already become available for use.

## Grandfathering Provisions

Certain types of property are still eligible for the higher CCA rates that were in effect on December 31, 1987. To qualify for the old rates, the property must be a property acquired before 1990

- under a written obligation entered into by the corporation before June 18, 1987, or
- that is a building, structure, plant facility or other property that was under construction by or on behalf of the corporation on June 18, 1987, or
- that is machinery or equipment that was a fixed and integral part of property under construction by or on behalf of the corporation on June 18, 1987.

## References

Regulation 1100  
Schedule II of the Regulations

## CCA Rates and Classes

The following is a partial list of CCA classes and rates.

Class 1	4 %	Class 17	8 %
Class 2	6 %	Class 18	60 %
Class 3	5 %	Class 22	50 %
Class 4	6 %	Class 23	100 %
Class 5	10 %	Class 25	100 %
Class 6	10 %	Class 26	5 %
Class 7	15 %	Class 28	30 %
Class 8	20 %	Class 30	40 %
Class 9	25 %	Class 31	5 %
Class 10	30 %	Class 32	10 %
Class 10.1	30 %	Class 33	15 %
Class 11	35 %	Class 35	7 %
Class 12	100 %	Class 37	15 %
Class 16	40 %	Class 41	25 %

For classes 38, 39, and 40, the CCA rates differ depending on the calendar year in which the property was acquired:

For class 38 property the rate is  
40% for 1988,  
35% for 1989, and  
30% for 1990 and subsequent years.

For class 39 property, the rate is  
40% for 1988,  
35% for 1989,  
30% for 1990, and  
25% for 1991 and subsequent years.

For class 40 property the rate is  
40% for 1988,  
35% for 1989, and  
30% for 1990.

In these transitional cases, claims for CCA must be prorated for taxation years straddling January 1.

## Completing the Capital Cost Allowance Schedule T2S(8)

How to complete each column of Schedule T2S(8) in order to calculate the CCA claim is described below. **Note that a separate line must be used for each class of property.**

### Column (1) Class Number

Generally, all depreciable property of the same class is grouped together and CCA is calculated on the undepreciated capital cost of all the property of that class. However, a separate class for each asset in the class is sometimes required. For example, assets that would normally be grouped in the same class but that are used to earn income from different businesses must be kept in separate classes. Enter the applicable class numbers in Column (1).

### Reference

Regulation 1101

### Column (2) Undepreciated Capital Cost

Enter the amount of the undepreciated capital cost at the end of the **preceding taxation year** (Column (11) from last year's Schedule T2S(8)) in Column 2.

### Column (3) Cost of Additions During the Year

For each class enter the total cost of assets acquired in the taxation year. The **capital cost** generally means the full cost of acquiring the property including legal, accounting, engineering or other fees incurred. **Land is not a depreciable property and therefore is not eligible for CCA.**

### Reference

IT-174R Capital Cost Allowance — Meaning of "Capital Cost of Property"

### Column (4) Adjustments

Enter the amount of any government assistance received or entitled to be received in the year and/or any investment tax credits claimed in the **preceding year**. The capital cost of depreciable property must be reduced by these amounts. Do not include these amounts in income. Show amounts that reduce the capital cost in brackets.

A corporation may elect to reduce the capital cost of depreciable property by the amount of non-government assistance received. Otherwise, the assistance is included in income.

Increase the capital cost of the property when any amount of assistance that previously reduced the capital cost is repaid.

### References

Subsections 13(7.1) and 13(7.4)  
Paragraph 12(1)(x)

### Column (5) Proceeds from Disposals

For each class enter the total amount received for assets that were disposed of during the year. When an asset is disposed of for an amount greater than its capital cost, the

amount to be entered is the capital cost, not the actual proceeds from disposal. When the amount in Column (5) of a class is more than the total of Columns (2) plus (3) minus (4) of that class, the excess represents a **recapture** of capital cost allowance which must be added to income. Show the amount of **recapture** as a negative amount in column (10).

When an asset is disposed of for an amount greater than its capital cost, a capital gain results. See Guide Item 39 under the heading, "Other Property".

### Column (7) Half-Year Rule

Generally, an asset acquired during the year is only eligible for one-half of the normal maximum CCA for the year in which it is acquired. Full CCA may be claimed for that asset in the next taxation year.

CCA is calculated under the half-year rule by making an adjustment to the undepreciated capital cost in Column (7). This adjustment reduces the undepreciated capital cost in the year of acquisition by 1/2 of the net amount of additions (cost of additions minus proceeds from disposal) to the class.

Certain properties acquired through non-arm's length transfers or "butterfly transfers" are exempt from the half-year rule.

### References

Regulation 1100(2), Property Acquired in the Year IT-285R, Capital Cost Allowance — General Comments

### Column (9) Capital Cost Allowance Rate

Enter the applicable prescribed rate provided for under Part XI of the Regulations as listed above.

### Column (10) Capital Cost Allowance

To claim the maximum capital cost allowance for each class, multiply the amount in Column (8) by the rate in Column (9) and enter the result in Column (10). A corporation does not have to claim the maximum allowable CCA. Any amount up to the maximum may be claimed.

If the corporation's taxation year is less than 365 days, the CCA claim must be prorated. To determine the CCA claim, multiply what would be the maximum CCA for a complete year by the number of days in the taxation year divided by 365.

A **terminal loss** results when **all** the assets of a particular class have been disposed of and there is an amount of undepreciated capital cost left in Column (6). Enter the terminal loss amount in Column (10).

### References

IT-147R2 Capital Cost Allowance — Accelerated Write-off of Manufacturing and Processing Machinery and Equipment  
IT-285R Capital Cost Allowance — General Comments  
IT-336R Capital Cost Allowance — Pollution Control Property

The total of all amounts in Column 10 is the CCA claim for the taxation year. Deduct this amount on Schedule T2S(1). (If the total in Column 10 is a negative amount due to recapture, add this amount on Schedule T2S(1).)

### Note

If a corporation wishes to revise the amount of CCA claimed in a taxation year, the Department will normally make the requested adjustment if the written request is made within 90 days from the date of assessment or reassessment. The Department will only make adjustments requested after the 90-day period under certain circumstances. Obtain IC-84-1, Revision of Capital Cost Allowance Claims and Other Permissive Deductions.

## 41

### Cumulative Eligible Capital Deduction T2S(8)(A)

Schedule T2S(8)(A) is available from your district taxation office and is used to calculate the corporation's Cumulative Eligible Capital Deduction (CECD).

Some business related expenditures are capital in nature and are not deductible in full, nor are they eligible for capital cost allowance. However, they may qualify for a partial deduction as **eligible capital expenditures**. Examples of qualifying expenditures are

- goodwill;
- trademarks;
- expense of incorporation, reorganization or amalgamation;
- legal and accounting fees;
- patents, franchises, concessions or licenses.

Effective for taxation years beginning after June 30, 1988, the portion of an eligible capital expenditure that is added to the pool of cumulative eligible capital increased to 3/4 from 1/2. The portion of the proceeds of disposition of an eligible capital expenditure property that is to be deducted from the pool also increased to 3/4. A corporation that is filing a T2 return for the first taxation year commencing after June 30, 1988, should make an adjustment to increase its previously existing pool of cumulative eligible capital by 1/2. Schedule T2S(8)(A) provides this adjustment calculation.

Eligible capital expenditures may be written off at a rate of 7% a year on a declining balance basis. If deducting 3/4 of the net proceeds of disposition from the pool results in a negative balance of cumulative eligible capital (line D on Schedule T2S(8)A), add the amount of the negative balance to income on Schedule T2S(1). The CECD does not have to be prorated for a short taxation year.

### References

Paragraphs 14(5)(a) and 20(1)(b)  
IT-143R2 Meaning of Eligible Capital Expenditure

## 42

### Natural Resource Earned Depletion T2S(12) (not printed by the Department)

A corporation may deduct an allowance related to income from an oil and gas well, mineral resource or from the processing of ore from a mineral resource. A schedule should be prepared and identified as Schedule T2S(12) in the top right-hand corner, showing the continuity of qualifying expenditures added to the **earned depletion base**.

The earned depletion rate has been reduced from 33 1/3% to 16 2/3% for eligible expenditures incurred after June 30, 1988. Expenditures made after 1989 no longer earn depletion. However, a corporation may continue to deduct existing depletion allowances until the earned depletion base is exhausted.

The provisions requiring the recapture of earned depletion by a taxpayer on a disposition of the related resource property have been amended to correspond with the phase out of earned depletion.

### References

Part XII of Draft Income Tax Regulations  
Subsection 59(3.3)

## 43

### Continuity of Reserves T2S(13) (not printed by Department)

A schedule, identified in the top right-hand corner as T2S(13), must be prepared to show the continuity of all reserves. The use of reserves allows a corporation to deduct, for tax purposes, certain amounts that are included in business income (e.g., certain types of income may be considered unearned). A reserve amount deducted in one year must be added back to income in the following year and a new reserve must be established for that year.

The prior year's reserve is added on Schedule T2S(1) and the current year's reserve is deducted on the T2S(1). Although recorded on the T2S(13), **capital gains reserves** are added and deducted on Schedule T2S(6). See Guide Item 39 under the heading "Capital Gains Reserve".

### References

IT-215R Reserves, Contingency Accounts and Sinking Funds  
IT-152R3 Special Reserves — Sale of Land  
IT-154R Special Reserves — Including Reserves in Respect of Goods and Services  
IT-345R Special Reserves — Loans Secured by Mortgages  
IT-442 Bad Debts and Reserve for Doubtful Debts

## 44 Patronage Dividend Deduction T2S(16)

Schedule T2S(16) is available from your district taxation office.

File Schedule T2S(16) with the T2 return of a corporation claiming a deduction for payments made to customers pursuant to allocations in proportion to patronage. This is known as the **Patronage Dividend Deduction**. This deduction commonly applies to co-operative corporations that pay patronage dividends to their member customers. Amounts qualifying for the deduction must be paid in the year or in the following 12 months.

An allocation in proportion to patronage entitles a customer to receive payment computed at a rate relating to the quantity, quality or value of goods sold or services rendered.

If the patronage payments were not made to all the customers at the same rate, the amount that can be deducted is limited to the lesser of

- total qualifying patronage payments, and
- the portion of the corporation's income that is attributable to business done with **members** and any patronage payments made to **non-member** customers.

If a corporation cannot deduct all the patronage payments made to its member customers because of the above limitation, the excess is deductible, within specific limits, against the income earned in a subsequent year from doing business with its member customers in that year.

Schedule T2S(16) provides a detailed calculation of the allowable patronage dividend deduction.

### References

Section 135  
IT-362R Patronage Dividends  
IT-493 Agency Cooperative Corporations

## 45 Allocation in Proportion to Borrowing — Credit Unions T2S(17) (not printed by the Department)

A credit union claiming an allocation in proportion to borrowing must prepare, and identify in the top right-hand corner, Schedule T2S(17).

A credit union may deduct from its income for a taxation year the total of all bonus interest payments and payments to its members pursuant to allocations in proportion to borrowing. It may also deduct such payments made in the 12 months following the end of the taxation year. However, no amount may be deducted if it was deductible in the preceding taxation year.

**Allocation in proportion to borrowing** for a taxation year means an amount credited by the credit union to a member on terms that the member is entitled to or will receive payment of that amount.

The credited amount must be calculated at a rate that is related to

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

The amount credited must be credited at the same rate as interest or money similarly credited to all other members of the same class.

### References

Section 137(2)  
Paragraph 137(6)(a)  
IT-483 Credit Unions

## 46 Scientific Research and Experimental Development Expenditures T661

Form T661 is available from your district taxation office and provides detailed information for its completion.

A corporation must file Form T661 if it carries on business in Canada and has incurred scientific research and experimental development (SR&ED) expenditures. Current and capital SR&ED expenditures form a special pool which may be deducted in the current year or carried forward indefinitely.

Form T661 summarizes the costs relating to all SR&ED projects and must be completed and attached to the T2 return for the taxation year SR&ED expenditures are incurred. Form T661 must be filed whether or not an investment tax credit is claimed or a claim against Part VIII tax is made.

Where a corporation is a member of a partnership that incurs SR&ED expenditures, Form T661 is to be filed by the partnership along with its *Partnership Information Return*, Form T5013 Summary. Partnerships must deduct their SR&ED expenditures from income at the partnership level in the year they are made. When a partnership's loss for tax purposes is allocated to limited partners, the partners may not deduct the portion of the loss arising from SR&ED deductions taken by the partnership.

Any expenditure amount that has been used to claim a refund for Part VIII Tax cannot be used in the calculation of investment tax credits.

### References

Subsection 37(1)  
Regulation 229(1)(e)  
IC-86-4R2 Scientific Research and Experimental  
Development  
IT-331R Investment Tax Credit  
Guide *Claiming Scientific Research and Experimental  
Development Expenditures*

Enter the amount determined on Schedule T2S(1) as **net income for income tax purposes** on line 111 on page 1 of the T2 return.



## CALCULATION OF LOSSES

### 47

#### Non-Capital Losses

A non-capital loss for a corporation is calculated as the total of:

- its losses from carrying on a business or from property;
- its allowable business investment losses;
- its deductible amounts relating to prospector's and grubstaker's shares under paragraph 110(1)(d.2);
- its taxable dividends received that were deductible under section 112 and subsections 113(1) and 138(6);
- the unused portion of the Part VI.1 tax deductible in computing taxable income;
- its amount deductible under subparagraph 110(1)(f)(i) for income exempt from tax in Canada because of a tax convention with another country;
- the addition for foreign tax credits under section 110.5

less:

- its income for the year from all sources; and
- its farm loss for the year as calculated in Guide Item 51.

Enter the year's non-capital loss on Schedule T2S(4). The T2S(4) is discussed at Guide Item 58. See Guide Item 61 for rules on applying non-capital losses to other years.

#### References

Paragraphs 111(8)(b)  
IT-302R2 Losses of a Corporation — The Effect on Their Deductibility of Changes in Control, Amalgamation and Winding-Up

### 48

#### Allowable Business Investment Losses

An allowable business investment loss (ABIL) is calculated the same way as an allowable capital loss. See Guide Item 39. Generally, an ABIL arises on the arm's length disposition (or deemed disposition) of shares or certain debts of a **small business corporation**, as defined in subsection 248(1). In the case of debts owed to the corporation by a small business corporation, the debtor must deal with the corporation at arm's length.

An ABIL may be applied against income from all sources. Any balance remaining after the year the loss occurs becomes part of the corporation's non-capital loss. An unused ABIL expiring as a non-capital loss becomes a net capital loss, and can be carried forward indefinitely.

Attach a separate statement containing the following information:

- name of corporation;
- number and class of shares or the date of issue and type of debt disposed of;
- date the debt or shares were acquired;
- proceeds of disposition;
- adjusted cost base;
- outlays and expenses on the disposition;
- amount of loss claimed;
- confirmation that the transaction has taken place between parties dealing at arm's length.

Deduct the corporation's ABIL on Schedule T2S(1). Include any unused ABIL with the corporation's non-capital losses on Schedule T2S(4). See Guide Item 58.

#### References

Paragraph 39(1)(c)  
IT-484R Business Investment Losses

### 49

#### Restricted Farm Losses

If neither farming nor a combination of farming and some other source of income is the corporation's chief source of income, the deductibility of the loss arising on the farming activity is restricted. An amount of farm loss allocated from a partnership could also be restricted. The amount of farm loss that can be deducted from net income for income tax purposes is the **lesser** of:

- (A) the farming loss for the year, and
- (B) \$2,500 plus the lesser of
  - (farming loss for the year — \$2,500) × 1/2 and
  - \$6,250.

Add the difference between the actual farm loss deducted on the financial statements and the deductible farm loss calculated above to income on Schedule T2S(1). This difference is referred to as a **restricted farm loss** and should be entered on Schedule T2S(4). See Guide Item 58.

Guide Item 59 outlines the rules for applying restricted farm losses to other years.

#### Reference

Subsection 31(1)

## 50 Limited Partnership Losses

A corporation that is a limited partner and receives information slip T5013, Supplementary, will find the amount of limited partnership loss allocated to it in Box P of the slip. The portion of a partnership loss, except for a loss from farming, that a limited partner can deduct in determining net income for income tax purposes may be restricted. The deductible portion of the loss cannot be greater than the corporation's **at-risk** amount at the end of the partnership's fiscal period ending in the corporation's taxation year.

In general terms, a limited partner's at-risk amount is calculated as follows:

- the adjusted cost base of its partnership interest, plus
- its share of the current year's income from the partnership,

less

- all amounts owing by the partner 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 a substantial contribution of capital to the partnership or substantial partnership borrowings.

The difference between the actual limited partnership loss shown on the financial statements and the **at-risk amount** should be added back on Schedule T2S(1). Include the restricted amount of partnership loss on Schedule T2S(4). See Guide Item 58. Guide Item 60 outlines the rules for applying limited partnership losses to other years.

### References

Subsection 96(2.1)

IT-232R2 Non-capital, Net Capital, Restricted-Farm, Farm and Limited Partnership Losses — Their Composition and Deductibility in Computing Taxable Income.

## 51 Farm Losses

A corporation's farm loss is calculated as the lesser of

- (A) the excess of losses from farming or fishing over farming or fishing income for the year, and
- (B) the non-capital loss as calculated under Guide Item 47 without the reference to the farm loss for the year

Account for the farm loss separately from the corporation's non-capital loss. The farm loss can also include an amount allocated from a partnership. Record the corporation's farm loss on Schedule T2S(4). See Guide Item 58.

Guide Item 63 outlines the rules for applying farm losses to other years.

### Reference

Paragraph 111(8)(b.1)

## 52 Losses and Changes in Control

Special rules for computing and deducting net capital, non-capital and farm losses apply to corporations that have undergone a change of control.

### References

Subsections 111(4) and 111(5)

IT-302R2 Losses of a Corporation — The Effect on Their Deductibility of Changes in Control, Amalgamation and Winding-Up

## 53 Net Income or Loss for Income Tax Purposes

Enter **net income or loss for income tax purposes**, as calculated on Schedule T2S(1), on line 111 on page 1 of the T2 return. If no adjustments were required to the net income (loss) recorded in the financial statements, enter net income (loss) from the Income Statement on line 111. Show a loss amount in brackets.

### Note

Do not deduct charitable donations, taxable dividends or net capital, non-capital, farm and restricted farm losses of other years on Schedule T2S(1). These items are deducted from net income for income tax purposes to arrive at **taxable income**.

## CALCULATION OF TAXABLE INCOME

54

### Line 115 — Charitable Donations T2S(2) (not printed by Department)

Prepare a schedule, identified as T2S(2) in the top right-hand corner, if the corporation made donations during the taxation year to any of the following:

- registered charities;
- registered Canadian amateur athletic associations;
- housing corporations resident in Canada and exempt from Part I tax under paragraph 149(1)(i);
- Canadian municipalities;
- the United Nations or its agencies;
- prescribed universities outside Canada listed in Schedule VIII of the Income Tax Regulations;
- charitable organizations outside Canada to which Her Majesty in right of Canada has made a gift during the corporation's taxation year or the 12 months immediately preceding that taxation year.

For each donation of \$100 or more, provide the name of the organization and, in the case of registered charities or athletic associations, their **registration numbers**. Receipts do not have to be filed with the T2 return but must be kept in case they are asked for at a later date. Inaccurate organization names or registration numbers may delay processing and result in disallowance of part or all of the claim.

The amount of charitable donations that a corporation can deduct is limited to **20% of net income** (line 111). If the corporation is reporting NIL net income or a loss for the year, donations cannot be claimed to create or increase a loss. Unused charitable donations can be carried forward and claimed in the five following taxation years. Show the breakdown of donations carried forward on Schedule T2S(2) by year of origin.

Enter the total amount of current year charitable donations and donations carried forward from the five preceding taxation years on line 113 on page 1 of the T2 return. Enter the amount of the current year claim (to a maximum of 20% of line 111) on line 115.

Credit unions must add back amounts deducted for bonus interest payments and payments pursuant to allocations in proportion to borrowing when calculating income for purposes of the 20% limitation.

#### References

Paragraph 110.1(1)(a)  
Subsection 137(2)

55

### Line 117 — Gifts to Canada or a Province and Gifts of Cultural Property T2S(2)

#### Gifts to Her Majesty — Line 117

A corporation can deduct an amount from net income for a gift made to Canada or to the provinces. The maximum deduction is the total of gifts made in the current taxation year and any undeducted gifts from the five preceding years.

Charitable donations must be deducted first. Then, gifts to Canada or the provinces can be claimed to reduce taxable income to zero. Any unused gifts may be carried forward for up to five years. Show the amount of each gift made in the current year and list, by year of origin, any gifts carried forward from prior years on Schedule T2S(2).

#### Reference

Paragraph 110.1(1)(b)

#### Gifts to Institutions — Line 117

A corporation may deduct an amount from net income for a gift of cultural significance made to a qualifying institution. The maximum deduction is the total of these gifts made in the current taxation year and any undeducted gifts from the five preceding years.

Charitable donations and gifts to Canada or the provinces must be deducted first. Then, gifts to institutions can be claimed to reduce taxable income to zero. Any unused gifts to institutions may be carried forward for up to five years. Show the amount of each gift made to a qualifying institution in the current year and list, by year of origin, any of these gifts carried forward from prior years on Schedule T2S(2).

#### References

Paragraph 110.1(1)(c)  
IT-407R3 Disposition after 1987 of Canadian Cultural Property

File receipts to support deductions for gifts to Canada, the provinces or qualifying institutions with the T2 return. Regulation 3501(1.1) outlines the information that must be provided on the receipt.

Enter the allowable claim for gifts to Canada, the provinces and to institutions, including amounts carried forward, on Line 117 on page 1 of the T2 return.

**56****Line 119 — Dividends Received and Dividends Paid T2S(3)**

Schedule T2S(3) is available from your district taxation office and must be completed if the corporation received or paid dividends.

Enter the amount of taxable dividends received that are deductible from income under section 112 or 113 on Line 119 on page 1 of the T2 return. This amount is the total in Column 4 of Area "A" of Schedule T2S(3). See Guide Item 85 which describes taxable dividends deductible under sections 112 and 113.

Deducting taxable dividends received from the net income or loss amount shown on Line 111 can create or increase a non-capital loss for the year.

**Reference**

IT-269R2 Part IV Tax on Taxable Dividends Received by a Private Corporation or a Subject Corporation

**57****Line 120 — Part VI.1 Tax Deduction T761B**

A corporation paying Part VI.1 tax on dividends paid on **Short-Term Preferred Shares** can deduct a portion of its Part VI.1 tax from income. For the 1989 taxation year, the deduction was equal to 5/2 of Part VI.1 tax payable. This rate has been reduced to 9/4 for taxation years commencing in 1990.

There is a transitional calculation of the deduction for taxation years straddling December 31, 1989. This calculation is provided on Schedule T761B, available from your district office. File Form T761B with the T2 return of a corporation whose taxation year straddles December 31, 1989.

Enter the calculated amount of the Part VI.1 tax deduction on line 120 on page 1 of the T2 return. See Guide Item 91 on the calculation of Part VI.1 tax.

**58****Corporation Loss Continuity and Application T2S(4)  
(not printed by Department)**

File a schedule, identified as T2S(4) in the top right-hand corner, if the corporation is carrying forward losses or has current year losses of any kind.

Schedule T2S(4) summarizes the following:

- the continuity of non-capital, net capital, farm, restricted farm and limited partnership losses;
- the amount of each loss deducted in calculating taxable income;
- the amount of non-capital and farm losses claimed to reduce dividends subject to Part IV tax;

- the amount of any non-capital, net capital, farm, restricted farm and limited partnership losses of a new corporation upon amalgamation;
- the amount of any non-capital, net capital, farm, restricted farm and limited partnership losses of a parent corporation upon the winding-up of a subsidiary corporation of which not less than 90% of the issued shares of each class were, immediately before the winding-up, owned by the parent.

A corporation can choose whether or not to apply an available loss against income in a taxation year. There is no order for deducting different types of losses. The only rule is that when applying a certain type of loss, the oldest available loss must be applied first.

An unused allowable business investment loss (ABIL) expiring as a non-capital loss should be added to the net capital losses in that year.

Losses from other years cannot be applied to either create or increase a non-capital loss for the taxation year.

**59****Line 121 — Restricted Farm Loss Application**

A restricted farm loss can only be applied to reduce **farming income** in the three preceding taxation years and the ten subsequent taxation years. Enter the amount of restricted farm loss applied from prior taxation years on Line 121 on page 1 of the T2 return.

**Reference**

Paragraph 111(1)(c)

**60****Line 123 — Limited Partnership Loss Application**

A limited partnership loss can be carried forward indefinitely. A limited partnership loss that can be deducted cannot be greater than the corporate partner's at-risk amount of the same partnership at the end of last fiscal period of the partnership ending in the current taxation year of the corporation. See Guide Item 50. The at-risk amount, here, is net of:

- investment tax credits of the partnership for the year that are allocated to the partner;
- the corporation's share of any losses of the partnership for the year;
- the corporation's share of resource expenses that flow through to the partner for the year.

Enter the amount of limited partnership loss applied from prior taxation years on Line 123 on page 1 of the T2 return.

**Reference**

Paragraph 111(1)(e)

**61****Line 123 — Non-Capital Loss Application**

A non-capital loss can be applied to reduce all types of income in the three preceding taxation years and the seven subsequent taxation years. Enter the amount of non-capital losses applied from prior years on Line 123 on page 1 of the T2 return.

Instead of reducing income, a non-capital loss may be used to reduce dividends subject to Part IV tax. (See Guide Item 85 under the heading "Dividends Subject to Part IV Tax (Column 5)".) Enter the amount of current year non-capital loss or prior year non-capital losses used to reduce dividends subject to Part IV tax on Line 406 on page 5 of the T2 return.

**References**

Paragraphs 111(1)(a), 186(1)(d)

**62****Line 125 — Net Capital Loss Application**

A net capital loss may be applied to **reduce the amount of taxable capital gains** included in income in the three preceding years and in any subsequent year.

A net capital loss of a corporation for a taxation year is the amount by which

- its allowable capital losses for the year from dispositions of property (other than listed personal property), less its allowable business investment loss, is greater than
- its taxable capital gains for the year from dispositions of property (other than listed personal property) and its taxable net gain from dispositions of listed personal property.

An adjustment is required to the amount of net capital losses that are carried back or forward to a year with a different inclusion rate for capital gains. The net capital losses are adjusted to compensate for the difference between the inclusion rate for the loss year and the inclusion rate in the year the loss is applied. See Guide Item 39 regarding inclusion rates.

The net capital loss claimed in a particular year will be increased when the inclusion rate for the loss year is lower than the inclusion rate for the subsequent year in which the loss is claimed. The net capital loss claimed will be reduced when the inclusion rate for the loss year is greater than the inclusion rate for the prior year to which the loss is carried back. A net capital loss is adjusted for the variance in inclusion rates by applying the following formula:

$$\frac{\text{Inclusion rate for year to which loss is being applied} \times \text{net capital loss}}{\text{Inclusion rate for loss year}}$$

To determine how much net capital loss is required to entirely offset a particular amount of taxable capital gain in a year that has a different inclusion rate, apply the following formula:

$$\frac{\text{Inclusion rate for loss year} \times \text{taxable capital gain}}{\text{Inclusion rate for year in which taxable capital gain arose}}$$

The prescribed form, T2A, provides calculations to assist in making the necessary adjustments when carrying back a net capital loss to a year with a different inclusion rate.

Record **unadjusted** net capital losses on Schedule T2S(4).

Enter net capital losses carried forward from prior years and applied to reduce taxable capital gains on Line 125 on page 1 of the T2 return.

**References**

Paragraph 111(1)(b)  
Subsection 111(1.1)

**63****Line 126 — Farm Loss Application**

A farm loss can be applied to reduce all types of income in the three preceding taxation years and the ten subsequent taxation years. Enter farm losses applied from prior years on Line 126 on page 1 of the T2 return.

Instead of using farm losses to reduce income, a corporation may choose to apply farm losses to reduce dividends subject to Part IV tax. (See Guide Item 84 under the heading "Dividends Subject to Part IV Tax (Column 5)".) Enter the amount of either a current year farm loss or farm losses of other years applied to reduce dividends subject to Part IV tax on Line 406 on page 5 of the T2 return.

**References**

Paragraphs 111(1)(d), 186(1)(d)

**64****Request for Corporation Loss Carry-Back T2A**

Prescribed form T2A is available from your district taxation office and must be filed by a corporation requesting the carry-back of a loss to a previous taxation year.

Non-capital, net capital, restricted farm and farm losses may be carried back to any of the three preceding taxation years.

Submit form T2A, *Request for Corporation Loss Carry-back*, by the required filing date of the T2 return for the year in which the loss is incurred. It may be filed with the T2 return for the year the loss is incurred or forwarded separately to the taxation centre where the return is processed.

## 65 Line 127 — Computation of Taxable Income

**Taxable Income**, Line 127, is equal to net income for income tax purposes (line 111) less all deductions on lines 115 to 126. If the result is a loss, enter "NIL" on Line 127. Part I tax is calculated on the amount of computed taxable income.

## 66 Addition to Taxable Income for Foreign Tax Deductions T2S(28) (not printed by the Department)

Foreign income tax credits are used to reduce Part I tax otherwise payable. A corporation that cannot use its foreign tax credits (e.g., it has no Part I tax payable for the year) may, under section 110.5, choose to add an amount to its taxable income in order to use its otherwise

non-deductible foreign tax credits. The amount added to income for this purpose forms part of the corporation's non-capital loss. See Guide Item 47. However, the corporation may not add an amount under section 110.5 if that addition increases the deductible portion of any of the following:

- small business deduction;
- manufacturing and processing profits deduction;
- federal logging tax credit;
- federal political contribution tax credit; or
- investment tax credit.

Prepare a schedule, identified as T2S(28) in the top right-hand corner, reconciling taxable income normally calculated with taxable income after including the addition as calculated under section 110.5.

Enter the amount added to income under section 110.5 on the line identified as "Other Adjustments (Specify)" on page 1 of the T2 return. Indicate "Section 110.5" beside the amount.

## CALCULATION OF TAXES AND DEDUCTIONS

The T2 return presents the calculations in the order completed by most corporations. Accordingly, the areas for calculation are set out as follows:

- (A) Small Business Deduction (page 3)
- (B) Manufacturing and Processing Profits Deduction (page 3)
- (C) Part I Tax on Taxable Income (page 3)
- (D) Calculation of 3% Corporate Surtax (page 4)
- (E) Refundable Portion of Part I Tax (page 5)
- (F) Part IV Tax on Taxable Dividends Received (page 5)
- (G) Refundable Dividend Tax on Hand (page 5)
- (H) Dividend Refund (page 5)
- (I) Summary of Tax and Credits (page 6)

## 67 Line 231 — Small Business Deduction

Corporations that were **Canadian-controlled private corporations** throughout the taxation year may be able to claim the small business deduction (SBD). The SBD reduces Part I tax otherwise payable and is calculated on page 3 of the T2 return.

The SBD is 16% of the least of the corporation's

- (A) active business income carried on in Canada (Line 223),
- (B) taxable income (Line 225), and
- (C) business limit (Line 227).

Enter the calculated amount of the SBD in the Part I tax area on page 3 of the T2 return.

## Line 223 — Active Business Income T2S(7), T2S(7)(A)

Schedules T2S(7) and T2S(7)(A) are available from your district taxation office.

The T2S(7) is used to determine the corporation's active business income eligible for the SBD. It is also used to determine net Canadian and foreign investment income for calculating the corporation's refundable portion of Part I tax. See Guide Item 84. Schedule T2S(7)(A) is used by a corporation that is claiming the SBD and is a member of a partnership.

Generally, active business income is income earned from a business source along with any incidental income. Active business income does not include income from a **specified investment business** or from a **personal services business**; therefore, such income is not eligible for the SBD.

A **specified investment business** means a business whose principal purpose is to derive income from property, including interest, dividends, rents or royalties.

However, such income is considered to be income from an active business and therefore is eligible for the SBD

- if the corporation employs more than 5 full-time employees in the business throughout the year, or
- if an associated corporation provides managerial, financial, administrative, maintenance or other similar services to the corporation in the course of carrying on an active business and the corporation would have had to engage more than 5 full-time employees to perform these services if the associated corporation had not provided them.

The business carried on by a credit union and the business of leasing property other than real property are not **specified investment businesses**.

A **personal services business** is the business of providing services to another entity that would normally be performed by an officer or employee of the entity receiving the services. Instead, the services are performed by an individual on behalf of a corporation providing the services who is referred to as an "incorporated employee". When the incorporated employee performing the services or any person related to him or her, is a specified shareholder of the corporation and would reasonably be considered to be an officer or employee of the recipient of the services except for the existence of the corporation, income from the services is personal services business income. However, if the corporation employs more than 5 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 and therefore will be eligible for the SBD.

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.

### References

Subsections 125(7), 248(1)

Generally, **active business income** is calculated by starting with net income for income tax purposes from Schedule T2S(1) or the financial statements and deducting:

- taxable capital gains less allowable capital losses;
- dividends deductible from income under sections 112 and 113;
- property income less property losses;
- property income from an interest in a trust;
- foreign business income;
- income from a personal services business;
- income from a specified investment business.

A **member of a partnership** must complete Schedule T2S(7)(A) along with Schedule T2S(7) to determine its income from active business. The share of

active business income from a partnership is included in the corporate partner's income. However, the amount eligible for the small business deduction is limited to its portion of a maximum aggregate of \$200,000 of active business income earned by the partnership. The eligible amount of partnership income ("specified partnership income") is added to the corporation's active business income and a loss ("specified partnership loss") is subtracted from the corporation's active business income. If the corporation received form T5013 Supplementary showing its share of specified partnership income or loss, file this form with the T2 return. See Guide Item 20.

Enter the total income from active business from Schedule T2S(7) on Line 223 on page 3 of the T2 return. If the corporation is a member of a partnership, enter the amount of active business income from Schedule T2S(7)(A) on Line 223.

### Line 225 — Taxable Income

Taxable income used to calculate the SBD is generally the amount on Line 127 on page 1 of the T2 return. However, if the corporation has claimed either foreign business or non-business income tax credits, taxable income is reduced by

- 10/3 of the amount deducted as a foreign non-business income tax credit, **and**
- 10/4 of the amount deducted as a foreign business income tax credit.

### References

Paragraph 125(1)(b)  
Subsection 126(7)

Enter the corporation's taxable income for the SBD on Line 225 on page 3 of the T2 return.

### Line 227 — Business Limit T2013

The business limit for a taxation year is generally equal to \$200,000 if the corporation is not associated with any other corporation. However, if the corporation's taxation year is less than 51 weeks, the \$200,000 business limit has to be prorated based on the number of days in the taxation year divided by 365.

Canadian-controlled private corporations that are **associated** with one or more other corporations during the taxation year must file Form T2013 to allocate the \$200,000 business limit among them. See Guide Item 12 for more information about Form T2013.

Enter the amount determined to be the corporation's business limit for the year on Line 227 on page 3 of the T2 return. For an associated corporation, enter the business limit as determined on Form T2013 on Line 227.

### References

Subsections 125(2), 125(3)  
IT-64R2 Corporations: Association and Control

**68**

**Line 243 — Manufacturing and Processing Profits Deduction T2S(27)**

Schedule T2S(27) is available from your district taxation office.

Corporations that derive 10% or more of their gross revenue for the year from the sale or lease of goods manufactured or processed in Canada are eligible to claim the manufacturing and processing profits deduction (MPPD), to reduce Part I tax payable. The MPPD applies to the portion of taxable income representing the corporation's Canadian manufacturing and processing profits, and is calculated at the following rates:

	After June '88 and Before July '89	After June '89 and Before July '90	After June '90 and Before July '91	After June '91
Income Not Eligible for the Small Business Deduction	2%	3%	4%	5%

**Note**

Income eligible for the small business deduction is not eligible for the MPPD.

For taxation years that straddle one of the effective dates specified above, the MPPD is prorated as shown in the MPPD area on page 3 of the T2 return.

Complete Schedule T2S(27) to determine the corporation's Canadian manufacturing and processing profits eligible for the MPPD. The eligible income is based on the proportion of a corporation's manufacturing labour and capital to its total labour and capital in relation to its adjusted business income (ADJUBI). A corporation's manufacturing labour and capital is based on labour and capital employed in **qualified activities**, which are discussed in IT-145R, Canadian Manufacturing and Processing Profits — Reduced Rate of Corporate Tax.

**Small manufacturers** only have to complete Area "A" of Schedule T2S(27) and are entitled to calculate the MPPD on their entire ADJUBI. However, income eligible for the small business deduction does not qualify for the MPPD. To qualify as a small manufacturer the corporation must meet **all** of the following requirements:

- Its activities during the year were primarily manufacturing or processing.
- The corporation's active business income and that of any associated Canadian corporations total \$200,000 or less.
- The corporation was not engaged in any activities specifically excluded from manufacturing and processing as defined in paragraph 125.1(3)(b).

- The corporation did not carry on any active business outside Canada at any time during the year.

Corporations that do not qualify as small manufacturers must complete Area "B" of Schedule T2S(27). The form provides detailed instructions for its completion.

Enter the amount of Canadian manufacturing and processing profits determined in either Area "A" or Area "B", as applicable, on Line 233 on page 3 of the T2 return.

**References**

- Subsection 125.1(3)
- Regulation 5200
- IT-145R Canadian Manufacturing and Processing Profits — Reduced Rate of Corporate Tax

**69**

**Line 202 — Basic Rate of Part I Tax on Taxable Income**

The basic rate of Part I tax is 38%. Enter 38% of taxable income, from Line 127 on page 1 of the T2 return, on Line 202 on page 3.

**70**

**Line 204 — 5% Nova Scotia Offshore Tax**

A corporation with a taxation year **commencing before December 23, 1989**, is subject to a 5% tax on the amount of taxable income earned in the Nova Scotia Offshore Area. The income allocated to this area is determined on Schedule T2S-TC. For taxation years commencing after December 22, 1989, income from the Nova Scotia Offshore Area is subject to Nova Scotia provincial income tax. See Guide Item 99.

**71**

**Line 203 — Investment Corporation Deduction**

A Canadian public corporation that is an **investment corporation** as defined in subsection 130(3) is allowed a deduction from Part I tax payable. The deduction is equal to 20% of the amount by which taxable income for the year exceeds the taxed capital gains for the year.

Enter the investment corporation's taxed capital gains on Line 205 on page 3 of the T2 return. Enter the amount of the deduction claimed on Line 203.

**References**

- Section 130
- IT-98R Investment Corporations



72

### Line 206 — Additional Deduction — Credit Unions

Although a credit union is not generally considered to be a private corporation, it is eligible for the small business deduction. A credit union may also deduct an additional 16% of its taxable income that was not eligible for the small business deduction.

This additional deduction permits a credit union to pay tax at a reduced rate on the income that may be required to build up a tax paid reserve equal to 5% of deposits and capital. These reserves are required by provincial statutes and may not be distributed to credit union members.

The additional deduction is equal to 16% of the amount, if any, by which the lesser of

- the taxable income for the year, and
- the amount, if any, by which 4/3 of the "maximum cumulative reserve" at the end of the year exceeds the "preferred-rate amount" at the end of the immediately preceding taxation year,

#### exceeds

- the least of Lines 223, 225 and 227 of the small business deduction calculation (page 3 of the return).

Generally, a credit union's **maximum cumulative reserve** is equal to 5% of the amounts owing to members, including members' deposits, plus 5% of all members' share capital in the credit union.

The **preferred rate amount** at the end of a taxation year is equal to the total of the preferred rate amount at the end of the preceding year plus 25/4 of the amount of small business deduction for the year.

Enter the credit union's additional deduction on Line 206 on page 3 of the T2 return.

#### References

Section 137  
IT-483 Credit Unions

73

### Line 207 — Federal Tax Abatement

The federal tax abatement reduces federal Part I tax payable and is intended as an offset for provincial and territorial income taxes payable. The federal tax abatement is equal to 10% of taxable income earned in a province, the Yukon, Northwest Territories and the Newfoundland Offshore Area. For taxation years commencing after December 22, 1989, the abatement is also allowed on taxable income earned in the Nova Scotia Offshore Area. No abatement is allowable in respect of income earned outside Canada.

Enter the calculated amount of federal tax abatement on Line 207 on page 3 of the T2 return.

#### Reference

Section 124

74

### Line 209 — Corporate Surtax Calculation

All corporations except non-resident owned investment corporations are subject to a 3% surtax on federal tax otherwise payable. Effective for taxation years ending after June 1989, the surtax is calculated on the amount of Part I tax before deducting the small business deduction (SBD), manufacturing and processing profits deduction (MPPD), the Part 1.3 tax credit and without the allowance for any tax payable by a Canadian-controlled private corporation (CCPC) that is included in its refundable dividend tax on hand (RDTOH). Before July 1989, the surtax was calculated on Part I tax net of the SBD, MPPD and the allowance included in a CCPC's RDTOH. There is a transitional surtax calculation for taxation years straddling July 1, 1989.

Calculate the 3% corporate surtax on page 4 of the T2 return. Enter the amount of surtax calculated on Line 209 on page 3.

#### Reference

Section 123.2

75

### Line 211 — Federal Foreign Non- Business Income Tax Credit T2S(21)

Schedule T2S(21) is available from your district taxation office and is used to calculate a corporation's federal foreign non-business income tax credit. This credit reduces federal Part I tax otherwise payable.

A federal foreign non-business income tax credit is available to Canadian residents to prevent double taxation on **non-business** income earned and taxed in a foreign country. Foreign **non-business** income includes items such as dividends, interest and capital gains. It does not include income from operating a business in a foreign country.

Under subsection 20(12), a corporation can deduct all or any portion of non-business income tax paid to a foreign country instead of claiming a foreign non-business income tax credit.

Any foreign non-business income tax paid that remains after claiming the federal foreign non-business income tax credit can be deducted as a provincial foreign tax credit. See Guide Item 96.

A corporation can also increase its taxable income under section 110.5 in order to use an otherwise non-deductible foreign non-business income tax credit. See Guide Item 66.

Calculate the federal foreign non-business income tax credit for each country separately. Provide additional schedules if credits are being calculated for more than three countries. Enter the total foreign non-business income tax credits from Column "G" on

Schedule T2S(21) on Line 211 on page 3 of the T2 return.

### Note

Draft amendments to the *Income Tax Act* released on July 13, 1990, propose that foreign non-business income tax will not include any foreign taxes paid on income that is exempt from tax in Canada under a treaty provision. This amendment will be applicable to taxation years ending after July 13, 1990.

### References

Subsection 126(1)  
IT-270R Foreign Tax Credit

## 76

### Line 213 — Federal Foreign Business Income Tax Credit T2S(21)

Schedule T2S(21) is available from your district taxation office and is used to calculate a corporation's federal foreign business income tax credit. This credit reduces federal Part I tax otherwise payable.

A corporation that pays foreign income or profits tax on income earned from operating a business in a foreign country is eligible to claim a federal foreign business income tax credit to prevent double taxation.

Excess foreign business income taxes paid cannot be deducted as a provincial foreign tax credit. Under section 110.5, however, a corporation can increase its taxable income to use an otherwise non-deductible foreign business income tax credit. See Guide Item 66.

Unused foreign business income tax credits may be carried back to the three preceding taxation years and carried forward to the seven subsequent taxation years. The credit carried forward or back can be used to reduce Part I tax on income originating from the same foreign country as the credit.

Calculate the foreign business income tax credit for each country. If credits are being calculated for more than three countries, prepare a separate schedule for each. Enter the total of foreign business income tax credits from Column H on Schedule T2S(21) on Line 213 on page 3 of the T2 return.

### Note

Draft amendments to the *Income Tax Act* released on July 13, 1990, propose that foreign business income tax will not include any foreign taxes paid on income that is exempt from tax in Canada under a treaty provision. This amendment will be applicable to taxation years ending after July 13, 1990.

### References

Subsection 126(2)  
IT-270R Foreign Tax Credit

## 77

### Line 215 — Federal Logging Tax Credit T2S(21)

Schedule T2S(21) is available from the district taxation office and is used to calculate a corporation's federal logging tax credit.

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

Enter the credit calculated on Schedule T2S(21) on Line 215 on page 3 of the T2 return.

### References

Subsection 127(1)  
Regulation 700

## 78

### Line 217 — Federal Political Contribution Tax Credit

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

Political contributions that qualify for any grant, credit, subsidy or other form of assistance from other government bodies are not deductible.

The allowable credits are as follows:

- 75% of the first \$100 contributed, plus
- 50% of the next \$450 contributed, plus
- 33 1/3% of the amount contributed exceeding \$550 to a maximum credit of \$500.

Proof of payment in the form of an official receipt signed by the registered agent for the registered party or the official agent of the candidate must be attached to the return. Only photocopies certified by the issuer as true copies are acceptable.

Enter the total amount of qualifying contributions on Line 219 and the amount of the allowable credit on Line 217 on page 3 of the T2 return.

### References

Subsection 127(3)  
IC 75-2R3 Contributions to a Registered Political Party or to a Candidate at a Federal Election

## 79

### Line 224 — Part VI Tax Credit T921

Form T921 is available from your district taxation office.

Part VI of the Act levies a tax on a financial institution's taxable capital employed in Canada. Part VI tax is calculated on Form T2044, *Part VI Tax Return — Tax on Capital of Financial Institutions*. File the Part VI return separately from the T2 return. Form T2044 is available from your district taxation office.

For information concerning Part VI instalment requirements, obtain the T7B, *Instalment Guide for Corporations*, from your district taxation office.

Part VI tax payable may be claimed as a credit against Part I tax payable for the year. Unused Part VI tax can be deducted in any of the subsequent seven years or in any of the three previous years ending after 1987.

File Form T921, *Calculation of Claim for Part VI Tax Credit*, with the T2 return to claim a Part VI tax credit. Form T921 is also used to request a carry-back of the credit to a prior year.

Enter the claim for the Part VI tax credit on Line 224 on page 3 of the T2 return.

## Reference

Section 125.2

## Note

Draft amendments to the *Income Tax Act* issued on July 13, 1990, propose that the liability for Part VI tax will be extended to large life insurance corporations and to certain holding corporations. Part VI tax will apply to such corporations with taxation years ending after February 20, 1990. A transitional rule will prorate the Part VI tax liability based on the number of days in the taxation year after February 20, 1990. The Part VI tax credit, deductible from the Part I tax of these institutions, will be limited based on the same proration attributable to the period after February 20, 1990.

## 80

### Line 226 — Part I.3 Tax Credit T962

Form T962 is available from your district taxation office and is used to calculate a corporation's Part I.3 tax credit.

Part I.3 of the Act applies to taxation years ending after June 1989 and levies a tax on the taxable capital employed in Canada by large corporations. Part I.3 tax is 0.175% of the excess of the corporation's taxable capital employed in Canada over its capital deduction of \$10 million for the year. If the corporation is a member of a related group the capital deduction is the amount allocated to the corporation. Corporations that are subject to Part I.3 tax must file a Part I.3 tax return separately from the T2 return. Forms T2147, *Part I.3 Tax Return — Tax on Large Corporations*, T2148, *Part I.3 Tax Return — Tax on Large Financial Institutions*, T2149E, *Part I.3 Tax Return — Tax on Large Insurance Corporations* and T2150, *Agreement Among Related Corporations — Part I.3 Tax* are available from the district taxation office. For

information concerning Part I.3 instalment requirements, obtain the T7B, *Instalment Guide for Corporations*.

Corporations that are subject to Part I.3 tax may claim a Part I.3 tax credit against Part I tax otherwise payable. The credit is equal to the amount of Part I.3 tax payable limited by the amount of the corporation's **Canadian surtax** payable for the year. If the corporation was at **no time in the year** resident in Canada, Canadian surtax is the amount of surtax determined under section 123.2. In any other case, Canadian surtax is the portion of surtax determined under section 123.2 attributable to taxable income earned in a province in accordance with Part IV of the Income Tax Regulations. If the taxation year straddles July 1, 1989, the Canadian surtax must be prorated based on the number of days in the taxation year before and after this date. There are special rules for calculating the Part I.3 tax credit in a year where the corporation undergoes a change of control.

To claim the Part I.3 tax credit, file Form T962, *Calculation of Part I.3 Tax Credit*, with the T2 return. Enter the amount of the credit claimed on Line 226 on page 3 of the return.

Unused Part I.3 tax credits may be carried back to any of the three preceding taxation years that end after June 1989 and carried forward seven taxation years and claimed to the same extent as described above.

Use Form T962 to request a carry-back of a Part I.3 tax credit.

## Reference

Section 125.3

## 81

### Line 221 — Investment Tax Credit T2038 (CORP)

Prescribed Form T2038 (CORP) is available from your district taxation office.

Investment tax credits earned by a corporation may be applied to reduce its Part I tax otherwise payable. Investment tax credits are earned by applying a specified percentage to the cost of acquiring certain property or to certain expenditures. Expenditures qualifying for investment tax credits are:

- the cost of acquiring qualified property;
- the cost of acquiring certified property;
- the cost of acquiring approved project property;
- qualified Canadian exploration expenditures;
- qualified expenditures for scientific research and experimental development (SR&ED).

Investment tax credits may be earned on qualified property acquired primarily for use in Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Gaspé Peninsula or a prescribed offshore region for the following activities:

- manufacturing or processing of goods for sale or lease;
- prospecting, exploring, extracting and developing minerals;
- exploring, drilling, operating an oil or gas well, extracting oil or natural gas;
- processing ore, iron ore or tar sands;
- logging;
- farming (including grain storage);
- fishing.

The complete description of qualifying activities is found in subsection 127(9) under "qualified property".

To calculate the amount of investment tax credit earned, reduce the cost of the property acquired or expenditure made by any assistance, contract payment, reimbursement or inducement received or receivable for that property or expenditure. The percentages, with their effective dates, that are to be applied to eligible expenditures are listed on page 2 of Form T2038 (CORP).

### Note

Draft amendments to the *Income Tax Act* released on July 13, 1990, propose that property will not be considered to have been acquired and expenditures will not be considered to have been made for earning an investment tax credit until the property has become **available for use**. This rule applies to property acquired after 1989.

Proposed subsection 13(27) provides that property, other than a building, is considered to be **available for use** at the earliest of several dates. Some examples of these dates are:

- when the property is first used to earn income;
- the beginning of the first taxation year that commences at least 358 days after the taxation year in which the property was acquired;
- when the property is capable of producing a saleable product or performing a saleable service.

Proposed subsection 13(28) provides that a building is considered to be **available for use** at the earliest of the following dates:

- when all or substantially all of the building is used for its intended purpose;
- when construction is completed;
- the beginning of the first taxation year commencing at least 358 days after the end of the year in which the property was acquired;
- when a building that is a replacement property is acquired if it is replacing a building involuntarily disposed of that was either acquired before 1990 or had already become available for use.

### Annual Investment Tax Credit Limit

The amount of investment tax credit that can be claimed for a year is restricted by the **annual investment tax credit limit**, which is

- when the corporation is a Canadian-controlled private corporation throughout the year, 3% of the amount determined as eligible for the small business deduction (the least of Lines 223, 225 and 227) **plus** 3/4 of the Part I tax otherwise payable, and
- in the case of any other corporation, 3/4 of Part 1 tax otherwise payable.

The amount of an investment tax credit claimed for a depreciable property must reduce the capital cost of the property in the next taxation year. See Guide Item 40, "Capital Cost Allowance — T2S(8)" under the heading "Column (4) — Adjustments".

### Reference

Subsection 13(7.1)

Unclaimed investment tax credits may be carried forward ten years and carried back three years to reduce Part I tax. Investment tax credits can only be carried back to a prior year if they are not deductible in the year they are earned.

Special rules restrict the carry-over of investment tax credits where control of a corporation is acquired.

### References

Subsections 127(9.1), 127(9.2)

### Form T2038 (CORP), Investment Tax Credit (ITC) — Corporations

Prescribed Form T2038 (CORP) must be completed and filed with the T2 return when a corporation

- has acquired any property or incurred any of the expenditures listed above that qualify for the investment tax credit;
- is carrying over unused investment tax credits from a previous year;
- is applying investment tax credits against Part I tax;
- is requesting a carry-back of unused investment tax credits to a prior taxation year; or
- is requesting a refund of unused investment tax credits (See Guide Item 82).

Page 3 of Form T2038 (CORP) provides areas to report current year acquisitions or expenditures, calculate investment tax credits earned in the year, calculate amounts claimed, and determine the amount of investment tax credits available for carry-forward to the next year.

Enter the amount of investment tax credit claimed in the current year to reduce Part I tax payable on Line 221 on page 3 of the T2 return.

## Definitions

- **Qualified Property** (other than Certified Property or Approved Project Property) includes new prescribed buildings, machinery or equipment acquired during the year for use in the activities outlined.
- **Certified Property** includes prescribed buildings or machinery and equipment (other than an "approved project") acquired during the year for use in prescribed areas of slow growth in the country. These prescribed areas are detailed in Regulation 4602.
- **Approved Project Property** means property that is certified by the Minister of Industry, Science and Technology for use on an "approved project" in Cape Breton. These properties are prescribed buildings, machinery and equipment that have a minimum capital cost of \$25,000 and that are acquired before 1993.
- **Qualified Canadian Exploration Expenditures** means prescribed expenditures in respect of Canadian exploration of an oil or gas well, such as drilling or completing an exploratory probe, incurred before 1991.
- **Qualified Expenditures in respect of Scientific Research and Experimental Development (SR&ED)** are defined in Regulation 2900. See Guide Item 46 for information concerning SR&ED reporting requirements. Prescribed Form T661, *Claim for Scientific Research and Experimental Development Expenditures*, must be filed along with Form T2038 (CORP) when claims are being made under both subsections 37(1) and 127(5) for a qualified expenditure on SR&ED. Expenditures for SR&ED that are used to claim a refund of Part VIII tax must not be used in the calculation of investment tax credits earned in the year.

### Note

Draft amendments to the *Income Tax Act* released on July 13, 1990, propose to amend the definition of **qualified property**. For a corporation whose principal business is manufacturing property that it sells or leases, property acquired to be leased will only be qualified property if the corporation manufactures it itself. For a corporation whose principal business is selling or servicing property, property acquired to be leased will only be qualified property if it is the type that the corporation sells or services. These amendments are applicable to property acquired after July 13, 1990.

### References

Subsections 127(5) to 127(12)  
 Regulation 4600  
 IT-331R Investment Tax Credit  
 IT-151R2 Scientific Research Expenditures and Allowances  
 IC 78-4R3 Investment Tax Credit Rates

## 82

### Line 146 — Investment Tax Credit Refund

Certain Canadian-controlled private corporations may claim a refund of their unused investment tax credit (ITC) earned during the taxation year. The refund that may be claimed by

- a **qualifying corporation** is 40% of the amounts included in computing the ITC at the end of the taxation year,
- a **qualifying corporation other than an excluded corporation** is a full (100%) refund of the ITC earned at the 35% rate in respect of up to \$2 million of scientific research and experimental development (SR&ED) expenditures (other than expenditures for the acquisition of depreciable property) made in the taxation year and 40% of any unused ITC that remains after claiming the 100% SR&ED refund.

A **Qualifying Corporation** is a Canadian-controlled private corporation whose taxable income for the immediately preceding taxation year plus the taxable incomes of all associated corporations for the immediately preceding taxation year does not exceed the total of the business limits of the corporation and the associated corporations for that preceding year. In most cases, the prior year taxable income(s) cannot exceed \$200,000. See Guide Item 12.

An **Excluded Corporation** is a corporation that is, at any time in the year, related to, or controlled directly or indirectly by a person exempt from tax under section 149, a Crown corporation, a Canadian municipality or any other public authority.

Prescribed Form T2038 (CORP) must be filed to claim the investment tax credit refund. Enter the amount shown on Form T2038 (CORP) as the claim for the investment tax credit refund on Line 146 on page 6 of the T2 return.

### References

Section 127.1  
 IT-331R Investment Tax Credit  
 IC 78-4R3 Investment Tax Credit Rates

## 83

### Line 129 — Part I Tax Payable

The basic Part I tax less allowable deductions and credits, as calculated on page 3 of the return, equals the corporation's net Part I tax payable for the year. Enter this amount on Line 129 in the "Summary of Tax and Credits" area of page 6 of the T2 return.

## 84 Line 261 — Refundable Portion of Part I Tax

The refundable portion of Part I tax is calculated on page 5 of the T2 return and is part of a corporation's refundable dividend tax on hand. The refundable portion of Part I tax enables a Canadian-controlled private corporation (CCPC) that has paid Part I tax on investment income to recover a portion of that tax at a time when it pays taxable dividends to its shareholders. This calculation only applies to corporations that are CCPC's throughout the taxation year.

The refundable portion of Part I tax is based on the corporation's net Canadian investment income and net foreign investment income which are determined on Schedule T2S(7). Investment income is calculated as

- total income from property including income from a specified investment business;
- taxable capital gains less allowable capital losses as determined on Schedule T2S(6);
- capital gains dividends;

less:

- exempt income;
- dividends deductible from income under sections 112 and 113;
- income from an interest in a trust that is deemed by paragraph 108(5)(a) to be income from property;
- losses from property.

Enter the amount of net Canadian investment income on Line 247 and the amount of net foreign investment income on Line 249 on page 5 of the T2 return.

Taxable capital gains and allowable capital losses are included in a CCPC's net investment income only to the extent that the gain or loss is attributable to a period of time when the property disposed of was held by a CCPC. IT-243R3, Dividend Refund to Private Corporation, provides further information on this subject.

In determining the refundable portion of Part I tax, net investment income is reduced by net capital losses of other years that are deducted in computing taxable income.

Foreign business and non-business income tax credits deducted in computing Part I tax payable for the year are grossed up and reduce the taxable income component of the refundable portion of Part I tax as shown on the T2 return.

Calculate the corporation's amount of the refundable portion of Part I tax and then enter the amount from Line 261 in the space provided in the "Refundable Dividend Tax on Hand Area" on the same page.

## References

Subsections 129(3) and (4)  
IT-73R4 The Small Business Deduction — Income From an Active Business, a Specified Investment Business and a Personal Services Business  
IT-243R3 Dividend Refund to Private Corporation  
IT-269R2 Part IV Tax on Taxable Dividends Received by a Private Corporation or a Subject Corporation

## 85 Line 405 — Part IV Tax on Taxable Dividends Received T2S(3)

Schedule T2S(3) is available from your district taxation office.

Every corporation that was a **private** or **subject** corporation at any time in the taxation year must pay Part IV tax on taxable dividends received. These taxable dividends are also deductible from income. Part IV tax paid is refundable to the corporation when it pays taxable dividends to its shareholders.

Dividends received from a **connected** corporation are subject to Part IV tax only when their payment generates a dividend refund to the payer corporation.

**Private**, **subject** and **connected** corporations are defined at the end of this item.

Taxable dividends received are subject to Part IV tax at the rate of 25%. Taxable dividends subject to Part IV tax are identified in Area "A" of Schedule T2S(3).

## Exempt Corporations

A corporation is not subject to Part IV tax if it was bankrupt at any time during the year or was, throughout the year

- 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 non-resident-owned investment corporation.

## 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 received from a prescribed qualifying corporation.

## References

Section 186.2  
Regulation 6704

## Dividends not Subject to Part IV Tax

Dividends received on a Small Business Development Bond are not subject to Part IV tax.

## Dividends not Taxable

Dividends received out of a capital dividend account are not included in income if the payer corporation made an election under section 83. Included in a corporation's capital dividend account are life insurance proceeds received. Deduct Section 83 dividends received from income on Schedule T2S(1).

## Completion of Area A of Schedule T2S(3)

List all the payer corporations in Column 1 and the amount of dividends received in Column 2. Check *Yes* or *No* in Column 2 to indicate if the payer is a connected corporation.

## Dividends deductible in computing taxable income under section 112 or 113 (Column 4)

Under subsection 112(1), taxable dividends are deductible if received from a taxable Canadian corporation or from a corporation resident in Canada and controlled by the receiving corporation. However, dividends received from a non-resident-owned investment corporation or from a corporation exempt from Part I tax are not deductible under subsection 112(1). Dividends received from a non-resident corporation (other than from a foreign affiliate) are deductible as determined under subsection 112(2).

Under subsections 112(2.4) to 112(2.9) dividends on collateralized preferred shares (loss rental plans) are not deductible in computing taxable income. Dividends received after April 30, 1989, as part of a **dividend rental arrangement**, as defined in subsection 248(1), are not deductible under section 112.

Dividends received from foreign affiliates are deductible under Section 113.

Enter the total from Column 5 on Line 119 on page 1 of the T2 return.

## Dividends subject to Part IV tax (Column 5)

The following dividends received by a corporation that was a **private or subject** corporation at any time in the taxation year are subject to Part IV tax:

- taxable dividends received from non-connected corporations that are deductible in computing taxable income under subsection 112(1);
- taxable dividends received from non-connected foreign affiliates that are deductible in computing taxable income under paragraphs 113(1)(a), (b) or (d) or subsection 113(2);
- taxable dividends received from **connected** private corporations that give rise to a **dividend refund** in the hands of the payer corporation. Complete the calculation in Area A to determine the amount subject to Part IV tax.

When the connected payer corporation has a taxation year end more than three months after that of the recipient, the recipient should estimate the payer's dividend refund in calculating the tax payable under Part IV.

## Reference

IT-269R2 Part IV Tax on Taxable Dividends Received by a Private or Subject Corporation

Enter on Line 405 on page 5 of the T2 return, the total of dividends subject to Part IV tax from Column 5 on the T2S(3).

A corporation may reduce the amount of dividends subject to Part IV tax by the application of non-capital or farm losses incurred in the year or carried over from other years. Enter the amount of available non-capital or farm losses used to reduce dividends subject to Part IV tax on Line 406 on page 5 of the T2 return.

Part IV tax otherwise payable on a dividend is reduced by the amount of Part IV.1 tax payable on the same dividend. See Guide Item 90. Enter the amount of Part IV.1 tax payable on Line 418 on page 5 of the T2 return.

Enter the calculated amount of Part IV tax on Line 131 on page 6 of the T2 return.

## Definitions

A **private corporation** at any particular time is a corporation that is resident in Canada, is not a public corporation, and is not controlled, directly or indirectly by one or more public corporations.

## Reference

Paragraph 89(1)(f)

A **subject corporation** is a corporation resident in Canada, other than a private corporation, that is controlled whether by reason of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts).

## Reference

Subsection 186(1)

**Connected corporations** exist when the payer corporation is controlled by a particular corporation or a particular corporation owns more than 10% of the issued share capital (having full voting rights) of the payer corporation and owns shares with a fair market value of more than 10% of the fair market value of all the issued share capital. Control of the corporation is determined by reference to the actual ownership of shares and without regard to any rights referred to in paragraph 251(5)(b).

## Reference

Subsection 186(4)

## 86

### Line 411 — Refundable Dividend Tax on Hand (RDTOH)

The RDTOH Area is on page 5 of the T2 return. This account only applies to corporations that were **private** or **subject** corporations, as defined in Guide Item 85, at the end of the taxation year.

A Canadian-controlled private corporation (CCPC) generates RDTOH on the payment of Part I tax on investment income and on the payment of Part IV tax on dividends received. Only Part IV tax paid generates RDTOH for most other private corporations.

The total RDTOH at the end of the taxation year is available to be refunded to the corporation if taxable dividends are paid to shareholders during the taxation year.

A corporation's RDTOH at the end of its taxation year is calculated as follows:

- RDTOH at the end of the preceding taxation year;

less

- dividend refund for the preceding taxation year;

**add the total of:**

- refundable portion of Part I tax for the year;
- Part IV tax payable for the year;
- RDTOH at the end of the final taxation year of any and all predecessor corporations and wound-up subsidiary corporations less any dividend refunds received by those corporations in that taxation year.

For the first taxation year of a successor corporation after an amalgamation, all RDTOH balances transferred from predecessor corporations are entered on Line 465. Do not include the amount transferred on Line 409.

Enter any amount of RDTOH transferred from a wholly-owned subsidiary corporation upon winding-up into the parent corporation on Line 465. Enter the RDTOH carried forward from the preceding taxation year of the parent corporation on Line 409.

### Note

No RDTOH may be transferred to a successor or parent corporation where, had a dividend been paid by the predecessor or subsidiary immediately before the amalgamation or wind-up, subsection 129(1.2) would have applied to that dividend.

Enter the amount of RDTOH at the end of the taxation year on Line 411. Also enter this amount on Line B in the "Dividend Refund Area" on page 5 of the T2 return.

### Reference

Subsection 129(3)

## 87

### Line 147 — Dividend Refund T2S(3)

The "Dividend Refund Area" is on page 5 of the T2 return. A corporation that was a **private** or **subject** corporation, as defined in Guide Item 85, at the end of a taxation year may be eligible for a dividend refund. A dividend refund arises if taxable dividends are paid to shareholders and the corporation has an amount of refundable dividend tax on hand (RDTOH) at the end of the taxation year.

The dividend refund is equal to the **lesser of**

- 1/4 of the taxable dividends paid in the year, and
- the RDTOH at the end of the taxation year.

Complete Area B of Schedule T2S(3) when taxable dividends have been paid in the year. Area B reconciles total dividends paid with the total taxable dividends paid that qualify for the dividend refund. The following amounts are deducted from total dividends paid in the year:

- dividends paid out of the Capital Dividend Account;
- dividends paid, deemed not to be taxable dividends pursuant to subsection 129(1.2);
- capital gains dividends;
- 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.

To claim a dividend refund, a corporation must make an actual payment to the shareholders except when a dividend is considered to have been paid (deemed dividend). This payment can be either in the form of cash or of other tangible assets at their fair market value including

- stock dividends;
- dividends deemed to have been paid pursuant to section 84;
- amounts paid as interest or dividends on income bonds or debentures which are not deductible in computing the corporation's income.

A dividend refund will not be issued for dividends paid in the year that a **private** or a **subject** corporation becomes a public corporation or a subsidiary of a public corporation. Even if the dividend was paid at a time in the year before the corporation became public, or if there is a balance remaining in the RDTOH account, no dividend refund will be issued. A dividend refund will only be issued if the corporation is a private or subject corporation at the end of the year.

When any amount of tax due for a taxation year is required to be paid by instalments, each instalment payment may be reduced by 1/12 of the dividend refund for that year. A private corporation or a subject corporation may therefore minimize its instalment payments by taking into account its anticipated dividend refund.

When the dividend refund is greater than the amount of Part I tax payable for the year, the excess will be applied first against any other taxes owing under the *Income Tax Act*, and any balance will be available for refund.

Enter the amount calculated as the dividend refund on Line 147 on page 6 of the T2 return.

### References

Section 129

IT-243R3 Dividend Refund to Private Corporation



## SUMMARY OF FEDERAL TAX

88

### Line 129 — Part I Tax on Taxable Income

Enter the amount of Part I tax payable, as determined on page 3 of the T2 return, on Line 129.

#### References

Guide Items 67 to 81

89

### Line 131 — Part IV Tax on Dividends Received

Enter the amount of Part IV tax payable, as determined on page 5 of the T2 return, on Line 131.

#### Reference

Guide Item 85

90

### Line 132 — Part IV.1 Tax on Preferred Share Dividends Received T761

Form T761 is available from your district taxation office.

Public corporations and certain other corporations may be subject to Part IV.1 tax of 10% on dividends received on taxable preferred shares. A restricted financial institution is also subject to the tax on dividends received on taxable restricted financial institution (RFI) shares.

The issuer of taxable preferred shares may elect to pay a 40% tax under Part VI.1 on such dividends, exempting the holder from the 10% tax (Guide Item 91).

**Excepted dividends** are defined in section 187.1 and are not subject to Part IV.1 tax. For example, an excepted dividend is one received by a corporation on a share of another corporation in which it had a substantial interest at the time the dividend was paid.

Form T761, *Calculation of Part IV.1 and VI.1 Taxes*, provides details of the calculation of Part IV.1 tax. Enter the amount of Part IV.1 tax payable on Line 132 on page 6 of the return.

A restricted financial institution and a taxable restricted financial institution share are defined in subsection 248(1).

#### References

Sections 187.1 to 187.6  
Subsection 191.2(1)

91

### Line 133 — Part VI.1 Tax on Preferred Share Dividends Paid T761, T769, T770

Forms T761, *Calculation of Parts IV.1 and VI.1 Taxes*, T769, *Election Under Section 191.2* and T770, *Agreement Respecting Liability for Part VI.1 Tax*, are available from your district taxation office.

A tax of 66 2/3% is payable by the issuing corporation on dividends paid on **short-term preferred shares** in excess of a \$500,000 annual dividend allowance. A tax of 25% is payable on dividends paid on **taxable preferred shares** (other than short term preferred shares) in excess of any remaining dividend allowance.

The \$500,000 dividend allowance is reduced if \$1,000,000 or more of dividends were paid on taxable preferred shares in the immediately preceding year. The dividend allowance must be allocated between the members of an associated group.

Part VI.1 tax is calculated on Form T761, *Calculation of Part IV.1 and VI.1 Taxes*. Enter the amount of Part VI.1 tax payable on Line 133 on page 6 of the T2 return.

Corporations (other than financial intermediary or private holding corporations) can elect to pay a 40% tax instead of the 25% tax on taxable preferred shares when the shares are first issued or first become taxable preferred shares. If the election is made, the holder will be exempt from the 10% Part IV.1 tax. File Form T769 to make this election.

A corporation (the transferor) may transfer all or part of its Part VI.1 tax liability to another corporation (the transferee) if the transferee was related to the transferor throughout a taxation year of the transferor and throughout the last taxation year of the transferee ending at or before the end of that taxation year of the transferor. File Form T770 to certify the transfer of the Part VI.1 tax liability.

A corporation may deduct Part VI.1 tax payable from income. See Guide Item 57. Any Part VI.1 tax remaining after reducing taxable income to nil forms part of the corporation's non-capital loss for the year. See Guide Item 47.

A financial intermediary corporation and private holding corporation are defined in subsection 191(1). A short-term preferred share and taxable preferred share are defined in subsection 248(1).

#### References

Sections 191 and 191.1 to 191.4

92

**Line 135 — Part XIV Tax on Canadian Branches T2S(20) (not printed by the Department)**

A corporation, other than a corporation that was a Canadian corporation throughout the year, that carries on business in Canada through a permanent establishment in Canada is subject to an additional “branch” tax. The tax is generally 25% but may be reduced by a reciprocal tax treaty.

Prepare a schedule, identified as T2S(20) in the top right-hand corner, showing the calculation of Part XIV tax. Enter the amount of Part XIV tax payable on Line 135 on page 6 of the T2 return. See Guide Item 5 for filing instructions.

**References**

Section 219

IT-137R3 Additional Tax on Certain Corporations Carrying on Business in Canada

IT-277R Branch tax — Effect of Tax Treaties

**PROVINCIAL AND TERRITORIAL INCOME TAX AND CREDITS**

Except for Quebec, Ontario and Alberta, the provinces and territories have tax collection agreements with the federal government. The “agreeing” provinces and territories legislate their own corporation income tax provisions and Revenue Canada, Taxation administers them on their behalf. For this reason, provincial and territorial income taxes and credits are calculated on the federal T2 return along with federal income taxes and credits. The “agreeing” provinces do not levy income taxes on the taxable income of non-resident owned investment corporations or on the taxable income of corporations exempt from tax under section 149.

Corporations that earn income in the provinces of **Quebec, Ontario and Alberta** must file separate provincial income tax returns with those provinces.

93

**Line 137 — Provincial or Territorial Jurisdiction**

Line 137, on page 6 of the T2 return, must be completed to ensure that income taxes are paid to the appropriate province or territory. All corporations must complete Line 137 even if no tax is payable or if the provincial jurisdiction is Quebec, Ontario or Alberta.

Indicate the name of the province or territory where the corporation earned its income on Line 137. Normally, this is where the corporation has its permanent establishment. If the corporation earned income in more than one province or territory, indicate “Multiple”. Corporations with a **multiple jurisdiction** must file Schedule T2S-TC, *Tax Calculation Supplementary — Corporations*, with the T2 return.

94

**Line 139 — Provincial and Territorial Tax Payable T2S-TC**

Schedule T2S-TC is available from your district taxation office and must be filed with the T2 return of a corporation that

- has a permanent establishment in more than one province or territory (whether the corporation is taxable or non-taxable), and/or
- is claiming provincial and territorial tax credits or rebates (Guide Item 95).

Corporations with nil taxable income should only complete Columns B and D of Part I of Schedule T2S-TC.

Provincial income taxes are assessed on the amount of taxable income allocated to each province. The Income Tax Regulations provide the method for allocating taxable income. Generally, taxable income is allocated using a formula based on gross revenue and salaries and wages attributable to each province as shown in Part I of Schedule T2S-TC. However, Regulations 403 to 413 provide special methods for allocating taxable income for the following types of business:

- insurance corporations;
- chartered banks;
- trust and loan corporations;
- railway corporations;
- airline corporations;
- grain elevator operators;
- bus and truck operators;
- ship operators;
- pipeline operators;
- divided businesses;
- non-resident corporations.

Schedule T2S-TC also provides the basis for calculating the corporation’s federal tax abatement (Guide Item 73) and is used to allocate Parts IV.1 and VI.1 taxes to the provinces (Guide Items 90 and 91).

**Dual Rates of Provincial and Territorial Income Tax**

All provinces and territories except **Prince Edward Island** and the **Northwest Territories** have dual rates of income tax known as the **lower rate** and the **higher rate**. The

applicable rates are shown under the heading for each province and territory below.

The **lower rate** applies to the portion of taxable income allocated to the particular province or territory that is eligible for the federal small business deduction.

The **higher rate** applies to the taxable income allocated to a particular province or territory that is not eligible for the federal small business deduction.

### Example

The **lower rate** of tax for New Brunswick is 9%. The higher rate is 16%. The corporation is located solely in New Brunswick.

Taxable income earned in New Brunswick:	\$90,000
Subtract: Least of Lines 223, 225 and 227 per calculation of small business deduction	<u>78,000</u>
	\$12,000
Amount taxed at higher rate: \$12,000 × 16% =	\$ 1,920
Amount taxed at lower rate: \$78,000 × 9% =	<u>7,020</u>
New Brunswick tax payable:	<u>\$ 8,940</u>

If, in the above example, the corporation did not qualify for a federal small business deduction, the provincial corporation tax payable would be calculated as follows:

New Brunswick tax payable:  
\$90,000 × 16% = \$14,400

When a corporation has taxable income allocated to more than one province or territory, income eligible for the small business deduction must also be allocated proportionally.

### Example

To calculate New Brunswick income tax using the same example above except that the corporation has permanent establishments in New Brunswick and Nova Scotia:

Taxable income allocated to New Brunswick (from T2S-TC):	\$60,000
Taxable Income allocated to Nova Scotia (from T2S-TC):	<u>30,000</u>
Total taxable income:	\$90,000
Income eligible for small business deduction attributed to New Brunswick:	
$\frac{\$60,000 \times \$78,000}{\$90,000} = \$52,000$	
Taxable income earned in New Brunswick	\$60,000
Subtract: Income eligible for the small business deduction attributed to New Brunswick	<u>52,000</u>
	\$ 8,000
Amount taxed at higher rate: \$8,000 × 16% =	\$ 1,280
Amount taxed at lower rate: \$52,000 × 9% =	<u>4,680</u>
New Brunswick tax payable:	<u>\$ 5,960</u>

Enter Amount K, the total amount of provincial and territorial tax payable from Column H of Schedule T2S-TC, on Line 139 on page 6 of the T2 return.

## 95

### Line 141 — Provincial Tax Credits — Rebates

Complete Part II of Schedule T2S-TC if the corporation is claiming provincial or territorial tax credits and rebates to reduce provincial or territorial income taxes payable. File the applicable form with the T2 return to support any claims made. Enter the total amount of provincial and territorial tax credits and rebates from Part II of Schedule T2S-TC on Line 141 on page 6 of the T2 return.

Provincial foreign tax credits for all provinces and territories are discussed in Guide Item 96. All other credits and rebates are described under the headings for each province and territory below.

## 96

### Provincial Foreign Tax Credits

Each of the provinces, the Yukon and the Northwest Territories, allows a foreign tax credit for foreign taxes paid on foreign **non-business income**. However, foreign tax credits for the provinces of Quebec, Ontario and Alberta are not allowed on the federal return as these provinces levy their own income taxes. A separate calculation is required for each province for which a credit is claimed.

A provincial foreign tax credit is calculated as the lesser of:

(A) Provincial or territorial tax rate (%)*	×	Foreign non-business income	×	Total taxable income allocated to province or territory
				<u>Total taxable income</u>

and

(B) (i) × (ii-iii)

where

- (i) =  $\frac{\text{Taxable income allocated to province or territory}}{\text{Taxable income allocated to all provinces or territories}}$
- (ii) = Non-business foreign tax paid (not including tax paid on income, such as dividends, from a share of a foreign affiliate) net of the subsection 20(12) deduction
- (iii) = Federal non-business foreign tax credit allowed

**Note**

\* Corporations with a taxation year straddling two periods that have different provincial rates must complete the calculation shown in (A) for both portions of the taxation year. Prorate the result by the number of days of the taxation year in each period over the total number of days in the taxation year. When a corporation has dual rates of corporate tax, the higher rate should be used in the foreign tax credit calculation.

Enter the total of provincial foreign tax credits on Line 601 of Part II of Schedule T2S-TC.

**97****Newfoundland****Tax Rates**

The **lower** rate of Newfoundland income tax is 10%. The 10% rate applies to taxable income earned in Newfoundland that qualifies for the federal small business deduction.

The **higher** rate of tax that applies to taxable income earned in Newfoundland that does **not** qualify for the federal small business deduction is:

- 16% before July 1989, and
- 17% after June 1989.

If the corporation's taxation year straddles July 1, 1989, prorate the higher rate tax based on the number of days in the taxation year before and after this date. These rates also apply to taxable income earned in the Newfoundland Offshore area.

**Newfoundland New Small Business Deduction — Line 669 — T745**

The Newfoundland new small business deduction applies to the first three taxation years of qualifying Canadian-controlled private corporations that incorporate after April 2, 1987 and before April 3, 1991. Qualifying corporations eligible to claim a federal small business deduction for the year may claim this deduction to reduce Newfoundland income tax otherwise payable.

File the *Certified Application Form* issued by the province with the T2 return. Also file Form T745 to calculate and claim the deduction. Form T745 is available from your district taxation office.

Enter the amount of the deduction claimed on Line 669 of Part II of Schedule T2S-TC.

**98****Prince Edward Island****Tax Rate**

The single rate of income tax for Prince Edward Island is 15%.

**Prince Edward Island Political Contribution Tax Credit — Lines 630 & 632**

Contributions to recognized Prince Edward Island political parties and to candidates who have been officially nominated under the Election Act of Prince Edward Island may be claimed as follows:

- 75% of the first \$100 contributed, plus
- 50% of the next \$450 contributed, plus
- 33 1/3 % of the amount contributed exceeding \$550 to a maximum credit of \$500.

Attach official receipts to the T2 return. We cannot accept photocopies unless they are certified by the issuer as true copies.

Enter the total amount of qualifying contributions on Line 630 and the amount of the credit claimed on Line 632 of Part II of Schedule T2S-TC.

**Prince Edward Island Small Business Deduction - Line 680 — T708**

Corporations that claim the federal small business deduction may claim this deduction to reduce Prince Edward Island tax payable. The deduction is equal to 5% of the corporation's taxable income earned in Prince Edward Island that is eligible for the federal small business deduction. The deduction also applies to the amount of income of a credit union that is eligible for the additional deduction under subsection 137(3).

File Form T708, *Prince Edward Island Small Business Deduction*, with the T2 return. Form T708 is available from your district taxation office.

Enter the amount of the deduction claimed on Line 680 of Part II of Schedule T2S-TC.

**99****Nova Scotia****Tax Rates**

The **lower** rate of Nova Scotia income tax is 10%. The 10% rate applies to taxable income earned in Nova Scotia that qualifies for the federal small business deduction.

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

- 15% before 1990, and
- 16% after 1989.

For a corporation whose taxation year straddles January 1, 1990, prorate the higher rate tax based on the number of days in the taxation year before and after this date.

**Note**

Nova Scotia provincial income tax at the above rates also applies to taxable income earned in the Nova Scotia Offshore Area for taxation years **commencing after December 22, 1989**. See Guide Item 70 if the corporation's taxation year commences before December 23, 1989.

**Nova Scotia Political Contribution Tax Credit — Lines 612 & 616**

Contributions to candidates and recognized parties as defined under the Elections Act of Nova Scotia may be claimed as follows:

- 75% of the first \$100 contributed, plus
- 50% of the next \$450 contributed, plus
- 33 ⅓ % of the amount contributed exceeding \$550 to a maximum credit of \$500.

Attach official receipts to the T2 return. We cannot accept photocopies unless they are certified by the issuer as true copies.

Enter the total amount of qualifying contributions on Line 630 and the amount of the credit claimed on Line 632 of Part II of Schedule T2S-TC.

**Nova Scotia Tax Reduction for New Small Business Corporations — Line 668 — T701**

The Nova Scotia corporate tax reduction for new small businesses applies to the first two taxation years of qualifying Canadian-controlled private corporations incorporated in Nova Scotia. The reduction is available to qualifying corporations eligible to claim a federal small business deduction for the year. It is deducted from the corporation's Nova Scotia provincial corporate tax otherwise payable for the year.

The credit is calculated on Form T701, available from your district taxation office. File Form T701 with the T2

return along with the *Certificate of Eligibility* issued by the province.

Enter the amount of the credit claimed on Line 668 of Part II of the Schedule T2S-TC.

**Nova Scotia Research and Development Tax Credit — Lines 670 & 671 — T85**

A corporation with a permanent establishment in Nova Scotia that made eligible expenditures for scientific research carried out in Nova Scotia qualifies for this credit. The amount of the credit is equal to 10% of qualified expenditures and is applied to reduce Nova Scotia tax otherwise payable.

Form T85, *Nova Scotia Research and Development Tax Credit*, provides details of the calculation and is available from your district taxation office. To claim the credit, file Form T85 with the T2 return.

Enter the total qualified expenditures made in the year on Line 670 of Part II of Schedule T2S-TC and the amount of the credit claimed on Line 671.

**100****New Brunswick****Tax Rates**

The **lower** rate of New Brunswick income tax is 9%. The 9% rate applies to taxable income earned in New Brunswick that qualifies for the federal small business deduction.

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

**New Brunswick Political Contribution Tax Credit — Lines 622 & 624**

Contributions to a registered political party, a registered district association or a registered independent candidate as defined under the Elections Act of New Brunswick may be claimed as follows:

- 75% of the first \$100 contributed, plus
- 50% of the next \$450 contributed, plus
- 33 ⅓ % of the amount contributed exceeding \$550 to a maximum credit of \$500.

Attach official receipts to the T2 return. We cannot accept photocopies unless they are certified by the issuer as true copies.

Enter the total amount of qualifying contributions on Line 622 of Part II of Schedule T2S-TC and the amount of the credit claimed on Line 624.

## 101 Manitoba

### Tax Rates

The **lower** rate of Manitoba income tax is 10%. The 10% rate applies to taxable income earned in Manitoba that qualifies for the federal small business deduction. The **lower rate** also applies to the income of a credit union that qualifies for the additional deduction under subsection 137(3).

The **higher** rate of tax that applies to taxable income earned in Manitoba that does **not** qualify for the small business deduction is 17%.

### Manitoba Political Contribution Tax Credit — Lines 619 & 620

Contributions to registered political parties and registered candidates as defined under the Election Finances Act of Manitoba may be claimed as follows:

- 75% of the first \$100 contributed, plus
- 50% of the next \$450 contributed, plus
- 33 ⅓ % of the amount contributed exceeding \$550 to a maximum credit of \$500

Attach official receipts to the T2 return. We cannot accept photocopies unless they are certified by the issuer as true copies.

Enter the total amount of qualifying contributions on Line 620 of Part II of Schedule T2S-TC and the amount of the credit claimed on Line 619.

### Manitoba Manufacturing Investment Tax Credit — Line 673 — T86

The Manitoba manufacturing investment tax credit was available for purchases of qualifying manufacturing and processing property made before 1987.

An unclaimed credit may be carried forward to the seven taxation years following the taxation year in which the purchase was made.

File Form T86, *Manitoba Manufacturing Investment Tax Credit*, with the T2 return to support the carry-forward balance of any credits claimed to reduce Manitoba tax otherwise payable. Form T86 is available from your district taxation office.

Enter the amount of the credit claimed as a carry-forward on Line 673 of Part II of Schedule T2S-TC.

### Manitoba Corporate Tax Reduction for New Small Businesses — Lines 610 & 611 — T800

The Manitoba corporate tax reduction for new small businesses applies to the first five taxation years of

Canadian-controlled private corporations, credit unions or cooperative corporations incorporated in Manitoba after August 8, 1988 and before January 1, 1991.

Eligible corporations may reduce their lower rate Manitoba tax otherwise payable by a percentage of taxable income earned in Manitoba that qualifies for the federal small business deduction. The rate of the reduction declines by 2% per year over the first five taxation years of the corporation as follows:

First Year	10%
Second Year	8%
Third Year	6%
Fourth Year	4%
Fifth Year	2%

The Manitoba corporate tax reduction for new small businesses is calculated on Form T800, available from your district taxation office. To claim the reduction, file Form T800 along with the *Confirmation Notice*, issued by the province, with the T2 return.

Enter the reduction rate on Line 610 of Part II of Schedule T2S-TC and the amount of the reduction on Line 611.

## 102 Saskatchewan

### Tax Rates

The **lower** rate of Saskatchewan income tax is 10%. The 10% rate applies to taxable income earned in Saskatchewan that qualifies for the federal small business deduction. The **lower rate** also applies to the income of a credit union that qualifies for the additional deduction under subsection 137(3).

The **higher** rate of tax that applies to taxable income earned in Saskatchewan that does **not** qualify for the federal small business deduction is 15%.

### Saskatchewan Royalty Tax Rebate — Lines 605, 614, 615 — T70

The Saskatchewan royalty tax rebate is available to corporations that, in the taxation year, had 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.

Form T70, *Saskatchewan Royalty Tax Rebate Calculation (Corporations)*, is available from your district taxation office and provides details of the calculation. To claim the rebate, file Form T70 with the T2 return.

Enter the royalty tax rebate claimed on Line 605 of Part II of Schedule T2S-TC. Enter a rebate carried forward to the current taxation year on Line 614 and the current adjusted attributed Canadian royalties and taxes on Line 615.

## Saskatchewan Corporate Tax Reduction for New Small Businesses — Line 674 — T700

The Saskatchewan corporate tax reduction for new small businesses applies to the first two taxation years of qualifying Canadian-controlled private corporations incorporated in Saskatchewan before April 1992. The reduction is available to qualifying corporations eligible to claim a federal small business deduction for the year. It is deducted from the corporation's Saskatchewan income tax otherwise payable for the year.

The Saskatchewan corporate tax reduction for new small businesses is calculated on Form T700, available from your district taxation office. To claim the reduction, file Form T700 along with the *Confirmation Notice*, issued by the province, with the T2 return.

Enter the amount of the reduction calculated on Form T700 on Line 674 of Part II of Schedule T2S-TC.

## Saskatchewan Venture Capital Tax Credit — Lines 636 & 637

Corporations resident in Saskatchewan that invest in equity shares of a venture capital corporation may be eligible to claim a venture capital tax credit. The province of Saskatchewan will issue an information slip, T2C(SASK), that must be filed with the T2 return in order to claim the credit.

The available credit must be applied to reduce the Saskatchewan provincial tax to zero. Any remaining credit may be carried forward to the seven subsequent taxation years and applied against Saskatchewan tax payable.

Enter the total credit earned in the year, as reported on the information slip, T2C(SASK), plus the amount of credit available for carry-forward from the previous taxation year on Line 636 of Part II of Schedule T2S-TC. Enter the amount of the credit claimed on Line 637.

## Saskatchewan Livestock Investment Tax Credit — Lines 638 & 639

Corporations resident in Saskatchewan that owned, fed, and marketed eligible classes of livestock before 1990 are eligible to earn the livestock investment tax credit. The available credit must be applied to reduce the Saskatchewan provincial tax to zero. Any remaining credit may be carried forward to the seven subsequent taxation years and applied against Saskatchewan tax payable.

To claim the credit, file the information slip, T2C(SASK), issued by the province of Saskatchewan, with the T2 return.

Enter the total credit earned in the year, as reported on the information slip, T2C(SASK), plus the amount of credit available for carry forward from the previous taxation year on Line 638 of Part II of Schedule T2S-TC. Enter the amount of the credit claimed on Line 639.

## Saskatchewan Livestock Facilities Tax Credit — Lines 676 & 678

Corporations resident in Saskatchewan that invested in eligible livestock facilities before 1990 are eligible for a Saskatchewan livestock facilities tax credit. The credit is a percentage of the capital cost of eligible investments. The credit reduces Saskatchewan provincial tax otherwise payable for the taxation year. Any excess may be carried forward to be applied to reduce the Saskatchewan provincial tax payable in the seven subsequent taxation years.

To claim the credit, file the information slip, T2C(SASK), issued by the province of Saskatchewan, with the T2 return.

Enter the total credit earned in the year as reported on the information slip, T2C(SASK), plus the amount of credit available for carry forward from the previous taxation year on Line 678 of Part II of Schedule T2S-TC. Enter the amount of the credit claimed on Line 676.

## 103 British Columbia

### Tax Rates

The **lower** rate of British Columbia income tax is 9%. The 9% rate applies to taxable income earned in British Columbia that qualifies for the federal small business deduction. The **lower rate** also applies to the income of a credit union that qualifies for the additional deduction under subsection 137(3).

The **higher rate** of tax that applies to taxable income earned in British Columbia that does **not** qualify for the federal small business deduction is 14%.

## British Columbia Political Contribution Tax Credit — Lines 604 & 606

Contributions to recognized British Columbia political parties, recognized British Columbia constituency associations or to candidates at an election to the British Columbia Legislative Assembly may be claimed as follows:

- 75% of the first \$100 contributed, plus
- 50% of the next \$450 contributed, plus
- 33 ⅓ % of the amount contributed exceeding \$550 to a maximum credit of \$500.

Attach official receipts to the T2 return. We cannot accept photocopies unless they are certified by the issuer as true copies.

Enter the total amount of qualifying contributions on Line 606 of Part II of Schedule T2S-TC and the amount of the credit claimed on Line 604.

## British Columbia Royalty and Deemed Income

### Rebate — Line 607 — T81

This rebate allows a deduction for Crown royalties and deemed income and replaces the federal resource allowance. The adjusted taxable income is used to recalculate provincial taxes payable. Show any difference between the British Columbia tax otherwise payable and the recalculated British Columbia tax payable as a rebate receivable or payable by the corporation.

Corporations that are subject to British Columbia income tax and have income affected by any of paragraphs 12(1)(o), 18(1)(m), 20(1)(v.1) or subsections 69(6) or 69(7) of the federal Act must complete Form T81, *British Columbia Royalty and Deemed Income Rebate Calculation and Application*, and file it with the T2 return. Form T81 is available from your district taxation office.

Enter the deemed rebate from Form T81 on Line 607 of Part II of Schedule T2S-TC.

### British Columbia Logging Tax Credit — Line 608

Corporations that have paid a **logging tax** to British Columbia on income derived from logging operations for the year are eligible for a British Columbia logging tax credit. The credit is equal to 1/3 of the logging tax paid.

Enter the amount of the credit on Line 608 of Part II of Schedule T2S-TC.

### British Columbia Venture Capital Tax Credit — Lines 642 & 644

Corporations investing in shares of a registered venture capital corporation are entitled to claim a British Columbia venture capital tax credit. The province of British Columbia issues an information slip (Form FIN 565) that must be filed with the T2 return in order to claim the credit.

The available credit must be applied to reduce the British Columbia provincial tax payable for the year to zero. Any remaining credit is available for carry forward to reduce British Columbia tax payable in the four subsequent taxation years.

Enter the total credit earned in the year as reported on the information slip, FIN 565, plus any credit available for carry forward from the previous taxation year, on Line 642 of Part II of Schedule T2S-TC. Enter the amount of the credit claimed on Line 644.

### British Columbia Housing and Employment Development Bond Interest Credit — Lines 633 & 158 — T87

The British Columbia housing and employment development bond tax credit may be claimed by all corporations that, during the taxation year, received

interest from bonds issued by the British Columbia Housing and Employment Development Financing Authority. The credit is considered to be interest income and included in income in the taxation year the credit is claimed.

To claim the credit, file Form T87, *British Columbia Refundable Tax Credits*, available from your district taxation office, with the T2 return.

Enter the amount of eligible bond interest, as calculated on Form T87, on Line 633 of Part II of Schedule T2S-TC. Credits in excess of provincial tax payable are eligible for refund. Enter the amount of any refundable excess on Line 158 on page 6 of the T2 return.

## 104 Yukon

### Tax Rates

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

The **higher** rate of tax that applies to taxable income earned in the Yukon that does **not** qualify for the small business deduction is 10%.

### Yukon Political Contribution Tax Credit — Lines 626 & 628

Contributions to a registered political party or to a candidate at an election to serve in the Legislative Assembly of the Yukon Territory may be claimed as follows:

- 75% of the first \$100 contributed, plus
- 50% of the next \$450 contributed, plus
- 33 1/3 % of the amount contributed exceeding \$550 to a maximum credit of \$500.

Attach official receipts to the T2 return. We cannot accept photocopies unless they are certified by the issuer as true copies.

Enter the total amount of qualifying contributions on Line 626 of Part II of Schedule T2S-TC and the amount of the credit claimed on Line 628.

### Yukon Manufacturing and Processing Profits Tax Credit — Line 634 — T572

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

To claim the credit, file Form T572, *Yukon Manufacturing and Processing Profits Tax Credits*, with the T2 return. Form T572 is available from your district taxation office.

Enter the amount of the calculated credit on Line 634 of Part II of Schedule T2S-TC.



## 105 Northwest Territories

### Tax Rate

All income earned in the Northwest Territories is subject to tax at the following rates:

- 10% before 1990, and
- 12% after 1989.

For a corporation whose taxation year straddles January 1, 1990, prorate the territorial tax based on the number of days in the taxation year before and after the effective date.

### Northwest Territories Political Contribution Tax Credit — Lines 609 & 648

Contributions to a candidate for election as a member of the Northwest Territories Legislative Assembly qualify for a political contribution tax credit. Contributions to a political party **do not** qualify for a credit. The allowable credit is an amount equal to

- 100% of the first \$100 contributed, plus
- 50% of the next \$800 contributed, to a maximum credit of \$500.

Attach official receipts to the T2 return. Photocopies are only accepted if they are certified by the issuer as true copies.

Enter the total amount of qualifying contributions on Line 648 of Part II of Schedule T2S-TC and the amount of the credit claimed on Line 609.

### Northwest Territories Small Business Deduction — Line 679 — T1001

Effective January 1, 1990, corporations that claim the federal small business deduction may claim this deduction to reduce Northwest Territories tax payable. The deduction is equal to 4% of income eligible for the small business deduction that is allocated to the Northwest Territories. The deduction is prorated for taxation years straddling January 1, 1990.

To claim the deduction, file Form T1001, *Northwest Territories Small Business Deduction*, with the T2 return. Form T1001 is available from the district taxation office.

Enter the amount of the deduction claimed on Line 679 of Part II of Schedule T2S-TC.

## OTHER CREDITS

### 106 Line 145 — Instalments of Income Tax

Payments, procedures and assistance in calculating instalments are detailed in the T7B, *Instalment Guide for Corporations*, available from your district taxation office. Make all remittances payable to the Receiver General and forward them with Form T9, *Corporation Remittance Form*. If you do not have a remittance form, use the copy of Form T9R-C enclosed at the end of this Guide. Ensure that the corporation name, address and account number are provided in Area 1 of the form. The complete fiscal period end and the amount of payment must be entered in the appropriate boxes.

Review every statement of account (Form T9) received to ensure that instalment payments have been allocated to the correct fiscal period. If any payment is not allocated correctly, contact your taxation centre immediately and advise them of the error.

Report instalments for the taxation year on Line 145 on page 6 of the T2 return. When there is a discrepancy between the amount reported on the return and the amount in the instalment account, the return will be processed using the instalment credits available in the account for the taxation year being assessed.

A penalty may be applied on the interest payable on late or deficient instalment payments effective for instalments payable for taxation years commencing after June 30, 1989.

This penalty is 50% of the amount by which the net instalment interest for the year exceeds the greater of

- \$1,000, and
- 25% of the instalment interest calculated as if no instalment payment had been made for the year.

### References

Sections 157, 163.1  
Guide Item 6

### 107 Line 146 — Investment Tax Credit Refund

Enter the amount of investment tax credit refund on Line 146 on Page 6 of the T2 return. See Guide Item 82.

**108**  
**Line 147 — Dividend Refund**

Enter the amount of dividend refund, as calculated on page 5 of the T2 return, on Line 147 on page 6 of the T2 return. See Guide Item 87.

**109**  
**Line 149 — Federal Capital Gains Refund T2S(18)**  
**Line 151 — Provincial Capital Gains Refund T2S(18) (not printed by the Department)**

Investment corporations and **mutual fund corporations** must file a schedule identified as T2S(18) in the top right-hand corner to

- detail the refundable capital gains tax on hand account, and
- calculate the federal and provincial capitals gains refund.

The percentage used in determining the refundable capital gains tax on hand is 28%.

The federal capital gains refund is calculated as 21% of the lesser of

- capital dividends paid, and
- capital gains redemption.

Calculate the provincial capital gains refund in accordance with the applicable provincial Income Tax Act.

Enter the federal capital gains refund on Line 149 on page 6 of the T2 return. Enter the provincial capital gains refund on Line 151.

**References**  
 Sections 130, 131

**Note**  
 Draft amendments to the *Income Tax Act* released on July 13, 1990, propose that a corporation that is established primarily for the benefit of non-residents will not qualify as a mutual fund corporation and therefore, will not be eligible for the capital gains refund after February 20, 1990.

**110**  
**Line 153 — Allowable Refund T2S(26) (not printed by Department)**

A non-resident owned investment corporation paying taxable dividends to its shareholders must complete a schedule to support a claim for an allowable refund.

Identify this schedule as T2S(26) in the top right-hand corner and also provide the corporation's non-resident remitter number.

Calculate a separate allowable refund for each taxable dividend paid during the year. Enter the amount of the total allowable refund on Line 153 on page 6 of the T2 return.

**Reference**  
 Section 133

**111**  
**Line 157 — Tax Withheld at Source**

This is the amount shown as Income Tax Deducted on T4A or T4A-NR information slips received by the recipient of a payment. Attach these information slips to the T2 return.

Claim a refund of non-resident tax deducted by submitting forms T4A-NR, NR4, NR4-A or NR7-R, or by submitting a signed letter requesting the refund.

**Reference**  
 IC 77-16R3, Non-Resident Income Tax

**112**  
**Line 158 — British Columbia Refundable Tax Credits T87**

The province of British Columbia allows a refundable tax credit for British Columbia housing and employment development bond interest in excess of the provincial tax payable. See Guide Item 103.

Enter the calculated amount of refundable tax credit from Form T87 on Line 158 on page 6 of the T2 return.

**113**  
**Line 159 — Payment on Filing**

Enter the amount of any payment made on filing the T2 return on Line 159 on page 6 of the T2 return. Do not include this payment in the instalment amount recorded on Line 145.

Attach a cheque or money order payable to the Receiver General to the T2 return.

**114**  
**Line 163 — Balance Unpaid**  
**Line 165 — Overpayment**

Subtract all the credits on Lines 145 to 158 from total tax payable on Line 143. Tick Box 163 if an amount is due. Tick Box 165 if there is an overpayment to be refunded or applied to other liabilities.

**115****Line 161 — Refund Code**

If the corporation is entitled to a refund, enter one of the following codes in Refund Code Box 161 to advise the Department to:

- 1 Refund overpayment.
- 2 Transfer overpayment to subsequent year instalment account.
- 3 Hold overpayment.

**Note**

An overpayment of taxes will first be applied to any outstanding prior year's tax balance. Any excess will be directed according to the code entered. If a code is not entered, the overpayment will be refunded.

If Code 2 is entered, the overpayment will be transferred to the subsequent instalment year, with accumulated refund interest, as of the date of assessment.

Refund Code 3 could be used in situations where a corporation wishes that the overpayment for the year be applied to an expected debit assessment. A corporation may also wish to apply the overpayment to a different instalment account such as its Part I.3 instalment account. Attach a letter providing all the details to the T2 return.

## LISTING OF FEDERAL & PROVINCIAL CORPORATE FORMS

The following forms printed by Revenue Canada are available from your district taxation office. When ordering, please use the telephone numbers and addresses listed in this Guide.

Form Number	Title
T2	Corporation Income Tax Return
T2A	Request for Corporation Loss Carry-Back
T2-FTC	Calculation of Part I, Part IV, and Refundable Taxes (for 1988 and prior taxation years)
Schedule 1	
T2-FTC	Adjustments to Part I Tax (for 1988 and prior taxation years)
Schedule 1	
Supplementary	
T2S-TC	Tax Calculation Supplementary
T2S(3)	Schedule of Dividends Received and Taxable Dividends Paid
T2S(6)	Summary of Dispositions of Capital Property
T2S(7)	Income Analysis
T2S(7)(A)	Income from Corporate Partnerships
T2S(8)	Capital Cost Allowance
T2S(8)(A)	Deduction in respect of Cumulative Eligible Capital
T2S(16)	Patronage Dividend Deduction
T2S(21)	Calculation of Federal Foreign Tax Credits and Federal Logging Tax Credit
T2S(27)	Computation of Canadian Manufacturing and Processing Profits
T70	Saskatchewan Royalty Tax Rebate Calculation (Corporations)
T81	British Columbia Royalty and Deemed Income Rebate Calculation and Application
T85	Nova Scotia Research & Development Tax Credit
T86	Manitoba Manufacturing Investment Tax Credit
T87	British Columbia Refundable Tax Credits
T106	Corporate Information Return of Non-arm's Length Transactions with Non-Resident Persons
T549	New Brunswick Small Business Corporate Tax Reduction
T572	Yukon Manufacturing & Processing Profits Tax Credit
T623	Saskatchewan Manufacturing & Processing Profits Tax Reduction (for 1988 and prior)
T661	Claim for Scientific Research and Experimental Development Expenditures
T700	Saskatchewan Corporate Tax Reduction for New Small Businesses
T701	Nova Scotia Tax Reduction for New Small Business Corporations
T708	Prince Edward Island Small Business Deduction
T713	Addition at December 31, 1986 of Refundable Dividend Tax on Hand
T745	Newfoundland New Small Business Deduction
T761	Calculation of Parts IV.1 and VI.1 Taxes — Taxes on Dividends on Taxable Preferred Shares
T761B	Calculation of Part VI.1 Tax Deduction
T763	Reduction at December 31, 1987 of Refundable Dividend Tax on Hand
T769	Election under Section 191.2 by an Issuer of Taxable Preferred Shares to Pay Part VI.1 Tax at a Rate of 40%
T770	Agreement Respecting Liability for Part VI.1 Tax
T800	Manitoba Corporate Tax Reduction for New Small Businesses
T921	Claim for Part VI Tax Credit
T962	Calculation of Part I.3 Tax Credit
T1001	Northwest Territories Small Business Deduction
T2013	Agreement Among Associated Corporations
T2029	Waiver in Respect of the Normal Reassessment Period
T2038(CORP)	Investment Tax Credit (ITC) — Corporations
T2044	Part VI Tax Return — Tax on Capital of Financial Institutions
T2057	Election on Disposition of Property by a Taxpayer to a Taxable Canadian Corporation
T2058	Election on Disposition of Property by a Partnership to a Taxable Canadian Corporation
T2144	Election Not to Be an Associated Corporation
T2147	Part I.3 Tax Return — Tax on Large Corporations
T2148	Part I.3 Tax Return — Tax on Large Financial Institutions
T2149E	Part I.3 Tax Return — Tax on Large Insurance Corporations
T2150	Agreement Among Related Corporations — Part I.3 Tax
T2215	Corporate Surtax (for 1988 and prior taxation years)
T5003	Statement of Tax Shelter Information
T5004	Statement of Tax Shelter Loss or Deduction
T5013	Partnership Information Return

## ALPHABETICAL INDEX

Subject	Guide Item	Line Number
Account Number .....	28	
Addition to Taxable Income for Foreign Tax Deductions T2S(28) .....	66	
Additional Deduction — Credit Unions .....	72	206
Additional Information .....	27	
Agreement Among Associated Corporations T2013 .....	12	
Allocation in Proportion to Borrowing — Credit Unions T2S(17) .....	45	
Allowable Business Investment Losses .....	48	
Allowable Refund T2S(26) .....	110	153
Amalgamated Corporations or Parent Corporations Winding-Up a Subsidiary T2S(24) .....	35	
Appeals Process .....	10	
Attachments to the T2 Return .....	3	
Balance Unpaid .....	114	163
Basic Rate of Part I Tax on Taxable Income .....	69	202
Books and Records .....	11	
British Columbia .....	103	
British Columbia Refundable Tax Credits T87 .....	112	158
Capital Cost Allowance T2S(8) .....	40	
Charitable Donations T2S(2) .....	54	115
Computation of Taxable Income .....	65	127
Continuity of Reserves T2S(13) .....	43	
Corporate Information Return of Non-arm's Length Transactions with Non-Resident Persons T106 .....	26	
Corporate Surtax Calculation .....	74	209
Corporation Loss Continuity and Application T2S(4) .....	58	
Cumulative Eligible Capital Deduction T2S(8)(A) .....	41	
Deferred Income Plans T2S(15) .....	18	
Dividend Refund T2S(3) .....	87,108	147
Dividends Received and Dividends Paid T2S(3) .....	56	119
Election Not to Be an Associated Corporation T2144 .....	13	
Employer's Remittance Account Number .....	36	
Farm Loss Application .....	63	126
Farm Losses .....	51	
Federal and Provincial Capital Gains Refund T2S(18) .....	109	149, 151
Federal Foreign Business Income Tax Credit T2S(21) .....	76	213
Federal Foreign Non-Business Income Tax Credit T2S(21) .....	75	211
Federal Logging Tax Credit T2S(21) .....	77	215
Federal Political Contribution Tax Credit .....	78	217
Federal Tax Abatement .....	73	207
Gifts to Canada or a Province and Gifts of Cultural Property T2S(2) .....	55	117
Instalments of Income Tax .....	106	145
Investment Corporation Deduction .....	71	203
Investment in Foreign Affiliates T2S(25) .....	23	
Investment Tax Credit T2038 (CORP) .....	81	221
Investment Tax Credit Refund .....	82,107	146
Is the corporation a resident of Canada? .....	30	
Limited Partnership Losses .....	50	
Limited Partnership Loss Application .....	60	123
Losses and Changes in Control .....	52	
Manitoba .....	101	
Manufacturing and Processing Profits Deduction T2S(27) .....	68	243
Miscellaneous Payments to Residents T2S(14) .....	17	
Name and Address .....	29	
Natural Resource Earned Depletion T2S(12) .....	42	
Nature of Business Activities .....	37	
Net Capital Loss Application .....	62	125
Net Income or Loss for Income Tax Purposes .....	53	
Net Income for Income Tax Purposes T2S(1) .....	38	
New Brunswick .....	100	
Newfoundland .....	97	
Newly Incorporated Corporations T2S(24) .....	34	

Subject	Guide Item	Line Number
Non-Arm's Length Transactions T2S(11)(A)	16	
Non-Canadian Advertising Expense T2S(30)	25	
Non-Capital Loss Application	61	123
Non-Capital Losses	47	
Non-Resident Discretionary Trust T2S(22)	22	
Non-Resident Ownership T2S(19)	21	
Northwest Territories	105	
Nova Scotia	99	
Overpayment	114	165
Part I Tax on Taxable Income	88	129
Part I Tax Payable	83	129
Part I.3 Tax Credit T962	80	226
Part IV Tax on Dividends Received	89	131
Part IV Tax on Taxable Dividends Received T2S(3)	85	405
Part IV.1 Tax on Preferred Share Dividends Received T761	90	132
Part VI Tax Credit T921	79	224
Part VI.1 Tax Deduction T761B	57	120
Part VI.1 Tax on Preferred Share Dividends Paid T761, T769, T770	91	133
Part XIV Tax on Canadian Branches T2S(20)	92	135
Partnership Information Slips T5013 Supplementary and T5013S(1), Memo Schedule	20	
Patronage Dividend Deduction T2S(16)	44	
Payment on Filing	113	159
Payments to Non-Residents T2S(29)	24	
Penalties	7	
Prince Edward Island	98	
Provincial and Territorial Tax Payable T2S-TC	94	139
Provincial Foreign Tax Credits	96	
Provincial or Territorial Jurisdiction	93	137
Provincial Tax Credits — Rebates	95	141
Refund Code	115	161
Refundable Dividend Tax on Hand (RDTOH)	86	411
Refundable Portion of Part I Tax	84	261
Related Corporations T2S(9)	14	
Request for Corporation Loss Carry-Back T2A	64	
Restricted Farm Loss Application	59	121
Restricted Farm Losses	49	
Saskatchewan	102	
Scientific Research and Experimental Development T661	46	
Small Business Deduction	67	231
Statements of Tax Shelter Loss or Deduction T5004	19	
Status of Return	31	
Summary of Dispositions of Capital Property T2S(6)	39	
Tax Withheld at Source	111	157
Taxation Year	32	
Transactions With Shareholders, Officers and Employees T2S(11)	15	
Type of Corporation	33	
Yukon	104	
What happens on filing?	8	
What is an acceptable T2 return?	2	
When can a T2 return be reassessed?	9	
When must a T2 return be filed?	4	
When must income tax be paid?	6	
Where to file the T2 return	5	
Who must file a T2 return?	1	
5% Nova Scotia Offshore Tax	70	204