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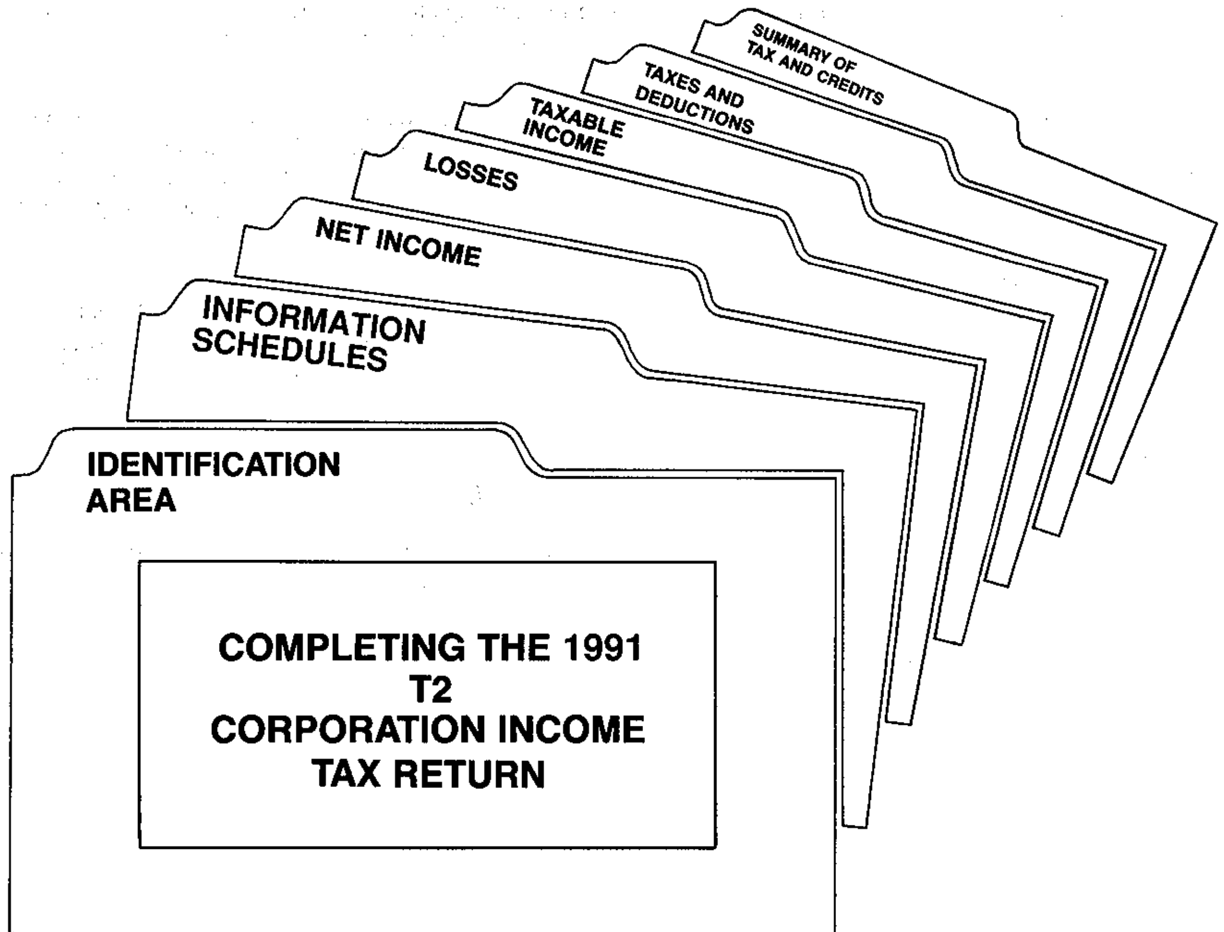
T2 Corporation Income Tax Guide



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Canada

Cette publication est disponible en français

What's new for 1991?

Legislation

This guide includes changes to the *Income Tax Act* introduced in Bill C-18. We have summarized these changes at the end of affected items under the heading "New legislation".

The guide

We've added more examples to this year's guide to help explain certain items. We've also added a list of the most common capital cost allowance classes and rates as a quick reference. See Item 38.

The return

We've made some changes to the *T2 Corporation Income Tax Return* (1991 and later years) to make it easier to follow and complete. For instance, all of page 1 is devoted to identification information, and the corporate surtax calculation is merged with the calculation of Part I tax on page 4. We've also added a "language of correspondence" box at the bottom of page 1 so we can make sure that we send you correspondence in the language of your choice.

Schedule T2S(7)

Schedule T2S(7), *Calculation of Active Business and Investment Income*, now provides the calculations you need to make if the corporation is a member of a partnership. You now only need one schedule to determine the corporation's income from an active business carried on in Canada. We have discontinued the former schedule T2S(7)(A).

Any suggestions?

If you have any ideas about how we can improve this guide, please let us know. Send your comments to:

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

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What you need to know before you start

In this guide, we give you basic information on how to complete the 1991 *Corporation Income Tax Return* (the T2 return). However, this guide does not replace the *Income Tax Act* and its Regulations. It uses plain language to explain the most common situations. If you need more help, please contact your district taxation office.

When we mention parts, subdivisions, sections, subsections, paragraphs, and subparagraphs, we are referring to the provisions of the *Income Tax Act* that apply.

In this guide, we also refer to Information Circulars (ICs) and Interpretation Bulletins (ITs) that will give you more technical information on some topics. ICs and ITs are published by the Department, and are available from the district offices. You will find the addresses and phone numbers of the district offices at the end of this guide. You will also find order forms, in case you want to order any of the publications, forms, or to pre-order the *T2 Corporation Income Tax Guide* for the following year.

Whenever we refer to the "Department," we mean Revenue Canada, Taxation.

Item 1
Who has to file a T2 return?

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

Note

Corporations with total assets of $10,000,000 or more no longer have to file two copies of their T2 return.

Every corporation, including non-profit organizations, tax-exempt corporations, and inactive corporations, has to file a T2 return **with complete financial statements** and supporting schedules. It is very important that all corporations, including non-taxable corporations, complete all parts of the T2 return that apply.

Non-profit organizations and other tax-exempt corporations

Incorporated clubs, societies, or associations that qualify as non-profit organizations under paragraph 149(1)(l), as well as any other tax-exempt corporations, have to file a T2 return every year. With the T2 return, they should include a balance sheet and an income statement.

Corporations that meet the conditions of paragraph 149(1)(e) or (l) should answer yes to the question "Is the corporation a non-profit corporation exempt from tax under paragraph 149(1)(e) or (l) of the *Income Tax Act*?" on page 1 of the T2 return. See Item 19 for details.

All other tax-exempt corporations should state their type of organization and the exemption from tax on page 1 of the T2 return on the line "What is the corporation's major business activity?" See Item 20.

References

IT-496 *Non-Profit Organizations*
IT-409 *Winding-Up of a Non-Profit Organization*
IT-83R3 *Non-Profit Organizations — Taxation of Income from Property*

Inactive corporations

A corporation has to file a T2 return for every taxation year, from the time it is incorporated until its corporate charter no longer exists. Even if a corporation is not operating during a taxation year and has earned no income, it has to file a T2 return with at least a balance sheet showing the assets, liabilities, and shareholders' equity at the end of the taxation year.

Final returns

When a corporation dissolves, the responsible representative of the corporation has to obtain a clearance certificate before distributing any of the corporation's property under its control. By doing so, the person will avoid being personally liable for the unpaid taxes, interest, and penalties of the corporation. Send requests for clearance certificates to your local district office.

A corporation that is filing its final return for a taxation year ending on the date of dissolution should answer yes to the question "Is this the final return up to dissolution?" on page 1 of the T2 return. The balance sheet should show the final distribution of assets.

Reference

Subsection 159(2)
IT-368 *Corporate Distributions — Clearance Certificates*

Item 2
What is an acceptable T2 return?

The following are the three kinds of T2 forms that you can use to file a corporation income tax return:

- **T2 return printed by the Department**

  You can get the T2 return from the district offices listed at the end of this guide. Each T2 return has two copies of the six-page form: one to use as a working copy, and one to send to us.

- **Facsimile T2 returns**

  These returns are exact copies of our T2 form. They have to meet our standards of format, legibility, and paper quality. However, you can print them on separate pages, instead of on the back and the front of each sheet.

- **Computer-printed T2 returns approved by the Department**

  These returns are printed on a computer using a software program. Suppliers of software programs send us a sample of the proposed computer-printed return for our approval.

  We assign a four-digit approval code to acceptable software programs every year. The approval code is only valid for one taxation year (e.g., computer-printed T2 returns you file for the 1991 taxation year should

have a 1991 approval code). Each approved software program will print the approval code either below the Certification area on page 6 of the T2 return, or on line 498 of the keying summary. When you print the return, make sure this code appears.

Be sure to file a **keying summary** in an approved format with your computer-printed T2 return. A keying summary is a list of all data fields from which data will be keyed for computer processing. These keying summaries have to reflect all the keying fields from the T2 return and schedules (keying fields 111 to 680).

If you use software programs, you should get a printed copy of the approved version of the T2 return from the supplier of the software program and make sure that your equipment can produce copies of equal quality.

You have to print computer-printed returns on paper that is as durable as the forms we print (Number 7 bond, 32m), and the print quality has to be clear and dark enough to read and photocopy easily.

So that we can process your return, computer-printed T2 returns have to meet our requirements. If your return does not meet those requirements, we will send it back to you and ask you to refile the return either in an approved format or on our 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*

Item 3
What should you attach to the T2 return?

You have to attach to the T2 return complete financial statements, including a balance sheet, an income statement, any notes to the financial statements, and the auditor's report, if the report applies.

After answering all the questions under the heading "Required attachments" on page 2 of the return, attach all the necessary schedules. You will find a list of all the schedules we print at the end of this guide. You can get them from your district office. Any schedules that we do not print should show the T2S schedule number in the top right-hand corner.

If you use approved software programs, you can file free-format schedules. Free-format schedules are computer-printed schedules that give the same information as the Department's schedules. They are acceptable if:

- we have approved the software program;
- 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; and
- the paper quality and print legibility meet our standards (we do accept "no carbon required" paper, as long as we can write on it without marking the following page).

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

- T2 return (pages 1, 3, and 5 face up)
- keying summary (if it is a computer-printed T2 return)
- Schedule T2S-TC
- Schedule T2038 (CORP)
- Schedule T2S(21)
- correspondence
- official receipts
- financial statements
- other schedules

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*

Item 4
When do you have to file a T2 return?

Be sure to file a T2 return within six months of the end of each taxation year. The taxation year of a corporation is its fiscal period.

If the corporation's taxation year ends on the last day of a month, file the T2 return by the **last** day of the sixth month after the end of the taxation year.

If the last day of the taxation year is not the last day of a month, make sure to file the T2 return by the **same** day of the sixth month after the end of the taxation 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

If you hand-deliver the T2 return to a district office, we will date-stamp it and consider it filed on that day.

If you either mail the T2 return first-class or use an equivalent delivery service, we consider the date of the postmark on the envelope as the day you filed the return.

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

We may assess penalties if you file the T2 return late. See Item 7 for details.

Note

If the corporation is claiming a refund, you have to file the T2 return within three years of the end of the taxation year. If you file the return after the three-year limit, we cannot issue a refund.

Item 5
Where do you file the T2 return?

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

Corporations served by district offices 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, Québec G9N 7S6
Sherbrooke, Québec, Rouyn-Noranda, Chicoutimi, Rimouski, and Trois-Rivières	Taxation Centre Jonquière, Québec G7S 5J1
Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland	Taxation Centre St. John's, Newfoundland A1B 3Z1

Non-resident corporations

For a non-resident corporation, you should file a T2 return:

- to report income or payments for services rendered in Canada for which taxes were withheld under Regulation 105;
- to pay income tax on taxable income the corporation earns in Canada under section 115;
- to report dispositions of taxable Canadian property;
- to pay Part I tax on the net amount of timber royalty income or rental income from real property as an elective return under section 216;
- 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; and
- as a travelling corporation whose permanent establishment is outside Canada.

The International Taxation Office in Ottawa assesses and reassesses all T2 returns filed by non-resident corporations. If the corporation is a non-resident one, send the T2 returns and related correspondence to:

The International Taxation Office
2540 Lancaster Road
Ottawa, Ontario
K1A 1A8

If you have a question about non-resident corporation income tax returns, call the International Taxation Office at the following telephone numbers:

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

If you are calling long-distance, call:

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

Part VII and Part VIII refundable tax

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

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

Item 6
When do you have to pay income tax?

Corporations have to pay their income tax in monthly instalments. **The balance of tax payable is due within either two or three months after the end of the taxation year,** depending on the circumstances of each corporation.

Interest and penalties apply on late payments. To be on time, either the Receiver General or a Canadian financial institution has to receive instalment and other payments on or before the due date.

Note

Interest and penalties on late payments can sometimes be waived or cancelled. See the new legislation describing the "Fairness package" at the end of Item 7 for more details.

Instalment due dates

Instalment payments are due every month 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 rest of the payments are due on the same day of each following month in the period.

Example

If the taxation year begins on December 16, 1990, and ends on December 15, 1991, the first payment is due January 15, 1991. The other 11 payments are due on the 15th of every month, with the last payment of the taxation year due on December 15, 1991.

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, since there is no previous taxation year. When instalment payments are not required, the whole amount of tax 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, the tax

is due within **three** months after the end of the taxation year if all the three following conditions apply:

- the corporation is a Canadian-controlled private corporation throughout the taxation year; **and**
- the corporation claims the small business deduction for the taxation year, or was allowed the small business deduction in the previous taxation year; **and**
- if the corporation is not associated with any other corporation during the taxation year, its taxable income for the previous taxation year was $200,000 (its business limit for the previous year) or less; **or**

  if the corporation is associated with any other corporation during the taxation year, the total of the taxable incomes of all the associated corporations in the group for the taxation years that ended in the same calendar year as the corporation's previous taxation year was $200,000 or less (the total of their business limits for the same taxation years).

The $200,000 limit we refer to above would be less if the previous taxation year's business limit was prorated for a short taxation year. The total could be more than $200,000 if the corporation is associated with other corporations in the current year but not in the previous year. See Items 21 and 66 for more information on the business limit.

References

Section 157
IC 81-11R2 *Corporate Instalments*
T7B *Instalment Guide for Corporations*

Item 7
Penalties

Late filing

If you file the T2 return late, a penalty applies. The penalty is 5% of the unpaid tax that is due on the deadline, **plus** 1% of the unpaid tax for each complete month that the return is late, up to a maximum of 12 months.

The return will be subject to a larger penalty if we issued a demand to file the return under subsection 150(2), and if we assessed a late-filing penalty for any of the three previous 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 that the return is late, up to a maximum of 20 months.

References

Subsections 162(1) and 162(2)

New legislation

A new penalty applies to large corporations that are liable to pay tax under Parts I.3 or VI, or both, and do not file a T2 return, a large corporations tax return, or a financial institutions tax return as required. The penalty is one-quarter (1/4) of 1% per month (to a maximum of 40 months) after the filing deadline. This penalty is calculated on the combined amount payable under the large corporations tax and the financial institutions capital tax. This penalty applies separately for each late-filed return, in addition to any other penalty.

Reference

Section 235

Failing to report income

A penalty will apply if a corporation does not report an income amount on its return for a taxation year if it also failed to report income in any of the three previous taxation years. The penalty is 10% of the amount of unreported income in the year subject to the penalty.

Reference

Subsection 163(1)

Gross negligence

A penalty will apply if a corporation, either knowingly or under circumstances of gross negligence, makes a false statement or omission in a return. The penalty is either $100 or 50% of the amount of understated tax, whichever is more.

Reference

Subsection 163(2)

Note

If a corporation is charged a penalty under subsection 163(2), a penalty under subsection 163(1) does not apply.

Other penalties

Penalties may also be charged for:

- not providing the information required on an authorized form, as specified in the *Income Tax Act* or its Regulations;
- not filing Form T106, *Corporate Information Return of Non-arm's Length Transactions with Non-Resident Persons* (see Item 35);
- not filing Form T5013 Summary, *Partnership Information Return* (see Item 29); or
- late or deficient instalment payments.

New legislation

The fairness package introduces new legislation that will allow us to be lenient in applying late-filing penalties or interest charges in situations where they are clearly not deserved. The reason for filing late or not paying an amount when it is due may be beyond the control of the taxpayer. The types of situations that may warrant waiving a penalty or interest charge include:

- natural or human-made disasters, such as floods or fires;
- civil disturbances or disruptions in services, such as a postal strike;
- serious illness or accident suffered by the person responsible for filing the corporation's return; and
- the Department giving wrong information either in a letter or in a written publication.

In these situations, the corporation should let us know about the problem as soon as possible, and make every effort to minimize the delay in filing. These new measures and are retroactive to the 1985 taxation year.

If you need an extension for filing a T2 return because of extraordinary circumstances, or if you think there is a valid reason for cancelling a penalty or interest we previously assessed, send us a letter explaining why it was impossible to file the return or make the payment on time.

Item 8
What happens when you file?

After you file the T2 return, we send it to the Assessing Division of the responsible taxation centre for processing. Item 5 lists these taxation centres.

When we assess the return, we mail a Notice of Assessment and an Explanation of Changes, if necessary, to the corporation's mailing address.

As soon as you receive the assessment notice, compare it to your copy of the corporation's T2 return. Contact your local district office if you need any part of the assessment clarified or explained. The telephone numbers and mailing addresses of the district offices are listed at the end of this guide.

Note

Corporations that want details about a particular T2 return or returns released to an independent representative, such as an accountant, should send us a signed letter of authorization. The letter should specify the person or people authorized to receive the information, and for which taxation years. If a corporation wants to cancel an authorization that it previously granted, it should notify us in writing immediately.

Item 9
When can we reassess a T2 return?

We can 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

We can normally reassess a T2 return for a taxation year:

- within **three** years of the date we mailed either the original Notice of Assessment, or notification that no tax was payable for the taxation year, as long as the corporation was a Canadian-controlled private corporation at the end of the year; or
- within **four** years of the date we mailed either the original Notice of Assessment, or notification that no tax was payable for the taxation year, as long as the corporation was **not** a Canadian-controlled private corporation at the end of the year.

Extended reassessment period

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

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

Unlimited reassessment period

We can reassess a T2 return **at any time** if:

- the reassessment is needed because the corporation has made a misrepresentation through neglect, carelessness, wilful default, or fraud in filing the return or in supplying any information under the *Income Tax Act*; or
- the corporation filed Form T2029, *Waiver in Respect of the Normal Reassessment Period*, with the district office before the **normal reassessment period** expired.

Note

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

References

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

How to request a reassessment

You should send reassessment requests to the taxation centre that processed the T2 return. In your request, state the name of the corporation, the account number, the taxation year, and any details that apply. Be sure to include any relevant supporting information, such as revised financial statements and schedules.

To request a carry-back of a loss or tax credit to a previous taxation year, file one of the following forms by the filing date of the return on which you report the loss or the earning of the credit. You can get these forms from your district office.

The necessary forms are as follows:

- use Form T2A to request the carry-back of a loss;
- use Form T2038 (CORP) to request the carry-back of an investment tax credit;
- use Form T921 to request the carry-back of a Part VI tax credit; and
- use Form T962 to request the carry-back of a Part I.3 tax credit.

Reference

Subsection 152(6)

Item 10
How do you appeal?

You can make a formal objection if you disagree with the amount of tax, interest, or penalties we have assessed or reassessed, and you do not accept the way we have interpreted and applied the law.

You can make an objection by filing Form T400A, *Notice of Objection*, with the Deputy Minister of National Revenue

for Taxation. You have **90** days from the date of assessment or reassessment to file this notice.

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 to perhaps resolve the dispute.

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

You do not have to pay the disputed amount of tax, interest, or penalty while you are waiting for the outcome of the Department's or the 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 we assessed. Before appealing a lower court's decision to a higher court, you have to either pay the amounts in dispute, or post acceptable security.

New legislation

The fairness package makes filing a formal objection simpler. You will no longer have to use a special form and send it to the Deputy Minister of National Revenue for Taxation. Instead, you will be able to set out the reasons for the objection with all the relevant facts in a letter, and send it to the Chief of Appeals in your district office or taxation centre. You will still have 90 days from the date of assessment or reassessment to make an objection.

Reference

IC 80-7 *Objections and Appeals*

Loss determinations

The objection and appeal process does not usually apply to disputed loss amounts, since there is no tax, interest, or penalty involved. However, you can object to or appeal losses if we determine the amount of the loss and issue Form T67-AM, *Notice of Determination/Redetermination of a Loss*. We will only make determinations of the amount of a corporation's non-capital loss, net capital loss, restricted farm loss, farm loss, or limited partnership loss if the corporation requests it. Send a request for a loss determination to your district office.

Reference

IT-512 *Determination and Redetermination of Losses*

Item 11
Books and records

You have to keep the corporation's books and records that are needed to verify the income or loss you reported on the T2 return for audit purposes. Keep books and records, including related accounts and vouchers, for a minimum of six years from the end of the last taxation year to which they relate. Keep this information for six years from the date you filed the return, if you filed it late. Do not destroy them any earlier unless we give you written permission to do so, or unless you dissolve the corporation.

Generally, you have to keep permanent records such as general ledgers, minutes of directors' and shareholders' meetings, share registers, and special contracts until two years after the date the corporation is dissolved.

Be sure to keep books and records that relate to an objection or appeal notice until the objection or appeal process is finished, and the time for filing any appeal has expired.

You have to file certain receipts and documents with the T2 return. Remember, to keep in an orderly manner, those documents that you don't have to file with the return, so we can examine them later if you need to support a claim made on the return.

We may select a T2 return for further review or audit after its initial assessment, and we may reassess it within the time limits described in Item 9.

References

Subsections 230(4), 230(5) and 230(6)
Regulation 5800
IC 78-10R2 *Books and Records Retention/Destruction*

Completing the Identification area

The Identification area is on page 1 of the T2 return. Be sure to complete this area accurately, since we can process the return more quickly if you properly identify the corporation.

Item 12
Name and account number

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

We identify each corporation with an eight-digit corporation account number. You will find the corporation's account number on previous assessment notices, instalment receipts, or remittance forms.

Enter the account number at the top of the right column of the Identification area. Remember to give **the corporation's account number on all correspondence and instalment payments you send to us.**

We will automatically assign an account number to a **new corporation** and mail the account number to the corporation's registered head office address. We will assign an account number to new corporations formed by **amalgamation** as soon as we are notified of the amalgamation. Contact your district office if you did not receive an account number.

Item 13
Addresses

Address of head office

Enter the complete head office address of the corporation, including the street number, street, city, and postal code. Advise the responsible taxation centre as soon as possible in writing when the corporation's head office address changes.

Mailing address of corporation

Complete this area in detail if your corporation's mailing address is different from its head office address. Write a

letter to the taxation centre to advise us of any change to the corporation's mailing address.

Normally, we send all correspondence to the mailing address of the corporation. However, we will direct instalment receipts and remittance forms to the head office address if you tick the box on the right side of the mailing address.

To make sure we send assessment notices and all other correspondence to the right address, be sure to let us know about any changes.

Item 14
Is the corporation a resident of Canada?

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

Item 15
Newly Incorporated Corporations — Schedule T2S(24) (not printed by the Department)

Answer yes or no to the question, "Is this the first year of filing?" at the bottom of the left-hand column of the Identification area. If the corporation answers yes, enter the date of incorporation in the space provided. In addition, be sure to send us the following documents, identified as Schedule T2S(24), with the first T2 return of a new corporation:

- **the opening balance sheet**; plus
- copies of all relevant agreements, or the full details on shares issued for anything other than cash consideration (if applicable); 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 (if applicable).

Note
See Item 17 for more information about the first taxation year of a corporation.

Item 16
Amalgamated Corporations or Parent Corporations Winding-up a Subsidiary — Schedule T2S(24) (not printed by the Department)

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 has to file a T2 return for the period ending immediately before the **effective date of amalgamation,** as shown on the Certificate of Amalgamation or Articles of Amalgamation. We cannot accept returns filed for the period up to the **adoptive** date of amalgamation, or the date of the shareholders' resolution.

Predecessors filing their last returns should answer yes to the question "Is this the final taxation year before amalgamation?" on their final T2 returns.

Example
At a meeting of the Board of Directors for *N.* Co. Ltd., the directors passed a resolution to amalgamate with *J.* Co. Inc., effective November 30, 1991 (the taxation year-end for both companies). The directors of *J.* Co. Inc. passed a similar resolution.

The companies received their Articles of Amalgamation showing the effective date of amalgamation as January 1, 1992.

Both *N.* Co. Ltd. and *J.* Co. Inc. have to file returns for the taxation years ending November 30, 1991, and December 31, 1991.

The newly amalgamated corporation, *N.* & *J.* Co. Ltd., will file its first return for the taxation year that begins on January 1, 1992.

For the first return of a newly amalgamated corporation or of a parent corporation after winding up a subsidiary, you should provide the following information and identify it as Schedule 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; and
- an accounting of all deductions and tax credits transferred from each predecessor or subsidiary corporation.

Item 17
Taxation year

Enter the first and last days of the taxation year in the correct boxes. Make sure the first day of the current taxation year is the day after 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). Make sure the financial statements attached to the T2 return match the taxation year shown on the return. The taxation year of a new corporation cannot be longer than 53 weeks from the date it was incorporated.

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

Check the box that applies if the taxation year has changed since you filed the last return. You can only make changes to an established fiscal period with the approval of the Minister, which you can request by sending a letter to your district office. The letter requesting permission to change the fiscal period should also state the reason for the change. Unless you have received approval, the corporation's fiscal period should be the same from year to year. However, you do not need the Minister's approval under certain conditions, such as:

- the corporation has wound-up and you are filing its final return with an abbreviated fiscal period; or

- the corporation has to end its taxation year at a certain time because it is emigrating to another country, becoming bankrupt, or ceasing to be exempt from tax.

Reference

IT-179 *Change of Fiscal Period*

Acquisition of control — subsection 249(4)

If a person or group of persons acquired control of the corporation, provide the date the control was acquired in the space provided.

When control is acquired, subsection 249(4) considers the taxation year of the corporation to end immediately before control is acquired. You do not need ministerial approval for the changed taxation year.

Be sure to file a T2 return for **the taxation year ending immediately before the control is acquired.** The next taxation year starts at the time the control is acquired, and the corporation can choose any taxation year-end within the next 53 weeks.

If control is acquired within seven days after the end of an established taxation year, a corporation can choose to extend the taxation year up to the time control is acquired. In this case, attach a letter to your T2 return that says you are making an election 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 for the taxation year ending immediately before the control was acquired.

Item 18
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 if the corporation is entitled to certain rates and deductions. Therefore, make sure to check the correct box, according to 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, the corporation has to meet all of the following requirements:

A. it is a private corporation;

B. it is a corporation that was resident in Canada at the time, and was either 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, as defined in Regulation 6700); and

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-458R *Canadian-Controlled Private Corporation*

Other private corporations

To be a private corporation at any particular time, the corporation has to meet all the following requirements:

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

New legislation

As of July 14, 1990, a private corporation includes a corporation controlled by one or more prescribed venture capital corporations that are public corporations. Also as of July 14, 1990, a corporation that is controlled by one or more prescribed federal Crown corporations or by a combination of prescribed federal Crown corporations and public corporations does not qualify as a private corporation.

References

Paragraphs 89(1)(f) and 89(1)(g)
Regulations 6700 and 7100

Public corporation

A public corporation is a corporation resident in Canada that:

- has a class of shares listed on a prescribed Canadian stock exchange; or
- 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;
  - dispersing of ownership of its shares;
  - public trading of its shares; and
  - the size of the corporation.

A public corporation can elect, or be designated by the Minister of National Revenue, not to be a public corporation if it has complied with certain prescribed conditions.

Reference

Paragraph 89(1)(g)

Controlled by a public corporation

This type of corporation is a Canadian subsidiary of a public corporation. These types of corporations do not meet the requirements to qualify as a public corporation.

Other corporations

"Other" describes any corporation that does not fall within the above definitions. This category includes credit unions, co-operatives, non-resident-owned investment corporations, and Crown corporations.

Changes in corporation type

Check either the yes or no box when you respond to the question, "Did the type of corporation change during the

taxation year?" If you answered yes, explain the change on the line provided.

A change of corporation type during the year may be significant, since certain calculations on the return depend 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.

Example

J. Doe Inc. has been a Canadian-controlled private corporation since it was incorporated in 1970. The company's taxation year ends on December 31, 1991.

On June 1, 1991, J. Doe, the controlling shareholder, moved permanently to Newport, Rhode Island.

Since the company was not a Canadian-controlled private corporation **throughout** the taxation year (it is now controlled by a non-resident), it cannot claim the small business deduction on its 1991 T2 return.

On August 1, 1991, the company became a public corporation. Therefore, the company will not be entitled to a dividend refund on its 1991 T2 return, because it was not a private corporation at the **end** of its taxation year.

The company will have to pay Part IV tax on any taxable dividends it received, since it was a private corporation for **part of the year**.

Note

Do not include other types of changes, such as the change from active to inactive status.

Item 19
Corporations exempt from tax under paragraph 149(1)(e) or (l)

Answer yes or no to the question "Is the corporation a non-profit corporation exempt from tax under paragraph 149(1)(e) or (l) of the *Income Tax Act*?" These non-profit, incorporated entities do not have to pay any corporate income tax because they are exempted by one of the two following paragraphs of the *Income Tax Act*:

- **Paragraph 149(1)(e)** exempts the following types of organizations, as long as the proprietors, members, or shareholders do not enjoy any personal benefit:
  - an agricultural organization
  - a board of trade
  - a chamber of commerce
- **Paragraph 149(1)(l)** exempts an incorporated club, society, or association that is organized and operated solely for:
  - social welfare;
  - civic improvement;
  - pleasure or recreation; or
  - any purpose other than profit.

  The proprietors, members, or shareholders cannot enjoy any personal benefit, unless the proprietor, member, or shareholder is an amateur athletics club, society, or association.

Item 20
What is the corporation's major business activity?

Explain the major business or professional activity of the corporation. Be sure to include enough detail to both support the type of deductions claimed (e.g., the manufacturing and processing profits deduction), and to allow an exact industrial classification.

If the corporation has several major lines of business, please indicate them. Check the yes or no box to answer the question, "Has the major business activity changed since the last return was filed?"

Specify the principal products, services, or revenue sources generated from the business activity described above, and what percentage of the total revenue they represent. If the corporation's business involves the resale of goods, please specify whether it is wholesale or retail.

Some examples of the nature of business descriptions are men's retail clothing store, manufacturing of wooden office furniture, and single residential building contractor. If the corporation is involved in trucking, specify if it transports bulk liquids, or if the corporation is an owner-operator, leased-operator, or broker-operator working for another trucking company.

Use the "What is the corporation's major business activity?" line to show whether the corporation was inactive during the year, or was a tax-exempt corporation. See Item 1 for details.

Information Schedules — General

Corporations that answer yes to any of the questions under the heading "Required attachments" on page 2 of the T2 return have to file the indicated schedules. Some of these schedules are called **information schedules**, and are described in the following sections.

Item 21
Agreement Among Associated Corporations — Form T2013

You can get Form T2013 from your district office.

Associated Canadian-controlled private corporations have to file Form T2013 to:

- identify the associated corporations;
- allocate the $200,000 business limit for the small business deduction (see Item 66);
- 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); and

- provide the previous year's 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; or
  - the one-month extension of the date that the balance of tax is due (see Item 6).

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

Special rules apply to associated corporations that have two or more taxation years ending in the same calendar year. As above, prorate the business limit and the expenditure limit for each taxation year ending in the calendar year based on the number of days in the taxation year divided by 365. Be sure that the amount you prorate in each of the taxation years equals the amount allocated to the corporation in the first taxation year ending in the calendar year.

Example
A. Co. Limited and *B*. Co. Inc. are associated in 1991.

A. Co. Limited has two taxation years ending in 1991: June 1, 1990, to January 31, 1991, and February 1, 1991, to December 31, 1991.

The business limit allocated to *A*. Co. Limited for its January 31, 1991 taxation year is $80,000.

Question: What is *A*. Co. Limited's business limit for each of the two taxation years ending in the 1991 calendar year?

Answer:
Taxation year ending January 31, 1991:

Since the taxation year is less than 51 weeks, the business limit is prorated as follows:

$$\$80{,}000 \times \frac{245 \text{ days}}{365 \text{ days}} = \$53{,}699$$

Taxation year ending December 31, 1991:

A. Co. Limited would again use the $80,000 business limit, as allocated in its first taxation year ending in 1991, but prorated as follows:

$$\$80{,}000 \times \frac{334 \text{ days}}{365 \text{ days}} = \$73{,}205$$

References
Subsections 125(5) and 127(10.6)

When is a corporation associated?
The test that determines association is based on control. Control can be exerted either **directly or indirectly in any manner**. A person or group of persons can control a corporation. In this context, keep in mind that a "person" includes individuals and corporations.

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

The cross-ownership threshold is 25% of the shares of any class. Specified classes of shares, as defined in subsection 256(1.1), are exempt from the cross-ownership test.

In general, a corporation is associated with another corporation if it meets one of the following conditions at any time in the taxation year (remember that **controlled** means directly or indirectly in any manner):

- one corporation controlled the other **(see Example 1)**;
- both corporations were controlled by the same person or group of persons **(see Example 2)**;
- each corporation was controlled by one person, that person was related to the person controlling the other corporation, and one of those persons owned at least 25% of the issued shares of any class of the capital stock of each corporation **(see Example 3)**;
- one corporation was controlled by one person, that person was related to each member of a group of persons that controlled the other corporation, and that person owned at least 25% of the issued shares of any class of the capital stock of the other corporation **(see Example 4)**; or
- each corporation was controlled by a related group, 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 at least 25% of the issued shares of any class of the capital stock of each corporation **(see Example 5)**.

Example 1
X. Co. Limited owns 100% of the common shares of *Y*. Co. Limited, which in turn owns 51% of the common shares of *Z*. Co. Inc. There were no other voting shares other than common shares for each of these companies.

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

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

Example 2
Bob owns 40% of the voting shares of *ABC* Company Ltd. and 30% of the voting shares of *XYZ* Limited. Ike owns 20% of the voting shares of *ABC* Company Ltd. and 40% of the voting shares of *XYZ* Limited.

As a group, Bob and Ike control both companies.

Therefore, *ABC* Company Ltd. and *XYZ* Limited are associated.

Example 3
Op Co. owns 100% of the issued share capital of Fin Co. It also owns 25% of the Class A shares of Ip Co. and is related to its controlling shareholder, Billy. (Op Co. is related to Billy because Billy's brother controls that corporation.)

Therefore, Fin Co. and Ip Co. are associated.

Example 4

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

Therefore, *AY* Limited and *AZ* Inc. are associated.

Example 5

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

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

References

Subsections 256(1), 256(1.1) and 256(5.1)
Section 251
IT 64-R2 *Corporations: Association and Control*

Item 22
Election Not to Be an Associated Corporation — Form T2144

You can get Form T2144 from your district office.

File three copies of this form with the T2 return of the corporation if it elects not to be associated with two other corporations. When a corporation makes this election, its business limit for the small business deduction is considered to be nil. Form T2144 gives you more details.

Reference

Subsection 256(2)

Item 23
Related Corporations — Schedule T2S(9) (not printed by the Department)

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

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

Reference

Section 251

Item 24
Transactions With Shareholders, Officers and Employees — Schedule 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 the corporation sold to or purchased from shareholders, officers, or employees, including those for which an election was made under section 85;
- payments the corporation made to or for the account of shareholders, officers, or employees that were not part of their authorized remuneration or reimbursement of expenses; or
- loans or indebtedness to officers, employees, shareholders, or persons connected with a shareholder that the corporation did not repay by the end of the taxation year.

Do not include transactions the corporation carried out in the ordinary course of business, or any transactions listed on Form T106. See Item 35 for details.

If the corporation is involved in a transfer of property under section 85, make sure to file either Form T2057 or T2058. File Form T2058 when property is transferred from a partnership, and file Form T2057 in all other cases. You can get these forms from any district office.

Item 25
Non-Arm's Length Transactions — Schedule T2S(11)(A) (not printed by the Department)

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

Generally, we consider **all or substantially all** as 90% or more. However, this is only a guideline. You can value assets either at cost or fair market value.

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

References

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

Item 26
Miscellaneous Payments to Residents — Schedule T2S(14) (not printed by the Department)

Prepare a schedule, identified as T2S(14) in the top right-hand corner, which lists the following payments a corporation has made to residents of Canada:

- royalties for which you have not filed a T5 slip;
- technical assistance fees;*
- research and development fees;
- management fees; and
- similar payments.

You should list only payments of more than $100, and show the names and addresses of each recipient.

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

Item 27
Deferred Income Plans — Schedule T2S(15) (not printed by the Department)

Prepare a schedule, identified as T2S(15) in the top right-hand corner, that lists the amounts of income deductions the corporation 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 a RPP, RSUBP, or 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 or not Forms T4PS Supplementary were filed for the last calendar year, and if so, by whom (the trustee or the employer).

Item 28
Statement of Tax Shelter Loss or Deduction — Form T5004

You can get Form T5004 from your district office.

Corporations that are claiming a loss or deduction from an interest in a tax shelter they purchased after August 31, 1989, have to file Form T5004 with their T2 returns.

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*

Item 29
Partnership information slips — T5013 Supplementary and T5013S(1), *Memo Schedule*

If the corporation is a member of a partnership and you answered yes to Question 36 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 have to 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*, should file them with the T2 return for the taxation year in which the fiscal period of the partnership ends.

Note
Each partnership has to file Form T5013, *Partnership Information Return*, for each fiscal period. However, some partnerships are exempt from this requirement. See the *Guide to the Partnership Information Return*, which is available from your district office, for more information.

Information schedules — Transactions with non-residents

We need several information schedules so we can verify transactions that involve non-resident parties. Complete the schedules described in the next section that apply to the corporation.

Item 30
Non-Resident Ownership — Schedule T2S(19) (not printed by the Department)

File a schedule, identified as T2S(19) in the top right-hand corner, 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 the non-resident shareholders. If the percentage varied throughout the year, give us the highest percentage owned by non-residents at any time during that year.

Item 31
Non-Resident Discretionary Trust — Schedule T2S(22) (not printed by the Department)

Prepare a schedule, identified as T2S(22) in the top right-hand corner, if one of the following had a beneficial interest in a non-resident discretionary trust (governed by subsection 94(1)) at any time during the taxation year:

- 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.

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

Item 32
Investment in Foreign Affiliates — Schedule T2S(25) (not printed by the Department)

If a corporation resident in Canada holds shares in one or more foreign affiliates, as defined in paragraph 95(1)(d), file a schedule, identified as T2S(25) in the top right-hand corner, which provides the following:

- the names of all its foreign affiliates, showing which ones are **controlled** and which ones are **other** foreign affiliates; and

- the **equity percentage,** as defined in paragraph 95(4)(b), for each foreign affiliate.

Item 33
Payments to Non-Residents — Schedule T2S(29) (not printed by the Department)

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

File a schedule, identified as T2S(29) in the top right-hand corner, if the corporation **did not** file NR4B (NR4-NR4A before 1991), T4-T4A, or T4A-NR returns for any of the following amounts paid or credited to non-residents:

- 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.

Item 34
Non-Canadian Advertising Expense — Schedule T2S(30) (not printed by the Department)

File a schedule, identified as T2S(30) in the top right-hand corner, which lists and identifies any amounts claimed as expenses for advertising space in an issue of a non-Canadian newspaper or periodical. In addition, please list expenses you claimed for an advertisement broadcast by a foreign broadcasting undertaking.

References
Sections 19 and 19.1

Item 35
Corporate Information Return of Non-arm's Length Transactions with Non-Resident Persons — Form T106

Form T106 is an annual information return used for reporting the activities between Canadian corporate taxpayers and certain non-resident persons under section 233.1 of the *Income Tax Act.*

You can get Form T106 from your district office.

File the T106 information return if the corporation was either resident in Canada or carried on business in Canada at any time in the taxation year and entered into transactions with a non-resident person with whom it was, at any time in the year, not dealing at arm's length. File a separate T106 information return for each non-resident person.

Report all transactions between the corporation and the non-resident person on the T106 return, including those transactions concerning:

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

Be sure to deliver the T106 information return to the district office or mail it to the responsible taxation centre **within six months of the end of the reporting corporation's taxation year.** You can send the T106 information return(s) in the same envelope as the T2 return, but please do not attach them together. If you file T106 information returns late, they will be subject to penalties.

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

Calculating net income — line 111

Item 36
Net Income for Income Tax Purposes — Schedule T2S(1) (not printed by the Department)

Prepare a schedule, identified as T2S(1) in the top right-hand corner, if net income from the income statement is different from net income for income tax purposes.

Some expenses deducted on the corporation's income statement are not allowable for income tax purposes. Certain items included in income may not be taxable.

To reconcile the differences, you should add the non-allowable expenses on Schedule T2S(1). Then, subtract the non-taxable items and allowable deductions for tax purposes to arrive at **net income or loss for income tax purposes.**

The following are a few common additions and deductions on Schedule T2S(1). Start with the amount of net income or loss determined on the income statement. Then, you should **add items like:**

- 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; and
- 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; and
- allocations by credit unions.

Enter the amount you have determined as **net income or loss for income tax purposes** on line 111 on page 3 of the T2 return.

You can use the following schedules to calculate some of the amounts included on Schedule T2S(1):

- T2S(6) *Summary of Dispositions of Capital Property* (Item 37)
- T2S(8) *Capital Cost Allowance Schedule* (Item 38)
- T2S(8)(A) *Cumulative Eligible Capital Deduction* (Item 39)
- T2S(12) *Natural Resource Earned Depletion* (Item 40)
- T2S(13) *Continuity of Reserves* (Item 41)
- T2S(16) *Patronage Dividend Deduction* (Item 42)
- T2S(17) *Allocation in Proportion to Borrowing* (Item 43)
- T661 *Claim for Scientific Research and Experimental Development Expenditures* (Item 44)

Item 37
Summary of Dispositions of Capital Property — Schedule T2S(6)

You can get Schedule T2S(6) from your district office.

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

Use Schedule T2S(6) to make a **designation under paragraph 111(4)(e)** to have capital properties considered as having been disposed of immediately before the control of a corporation was acquired.

A **business investment loss** occurs when certain capital properties are disposed of. The deductible part 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, do not report it on Schedule T2S(6). See Item 46 for more details.

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 a capital property disposition are more than the adjusted cost base and any related outlays or expenses. A **capital loss** occurs when the disposition proceeds are less than the adjusted cost base and the related outlays and expenses. However, the disposition of **depreciable property** will not result in a capital loss. For more details, see Item 38 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 capital cost, you may have to reduce the gain on the sale of the land by adjusting the fair market value of the building.

References

Subsection 13(21.1)
IT-220R2 *Capital Cost Allowance — Proceeds of Disposition of Depreciable Property*

Taxable capital gain and allowable capital loss

The **taxable** part of a capital gain and the **allowable** part of a capital loss for a taxation year are calculated as a percentage of the total capital gain or loss. We call this percentage the **inclusion rate**. You have to include a previous year's reserve in income using the inclusion rate for the current year.

To determine a **taxable capital gain or an allowable capital loss** for a taxation year, apply the inclusion rate to the capital gain or loss. The inclusion rate is 75% after 1989.

You can calculate inclusion rates, taxable capital gains, and allowable capital losses on the back of Schedule T2S(6). This may be necessary if you carry back or forward a net capital loss to another year that has a different inclusion rate. See Item 61 for previous years' inclusion rates.

Proceeds of disposition

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

References

Paragraph 54(h)
IT-259R2 *Exchanges of Property*
IT-271R *Expropriations — Time and Proceeds of Disposition*

Adjusted cost base

The cost of property you use to calculate any capital gain or loss is called 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 corporation acquired the property.

The cost of a capital property may be the actual cost, a deemed cost, or the Valuation-Day value of the property. The nature of the property and the circumstances when it was acquired determine which cost of the capital property you should use.

References

Subsections 53(1) and 53(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, including the purchase price plus any related costs like commissions, legal fees, and other reasonable expenses. It also includes the cost of additions and improvements to the property. It **does not** include current expenses like maintenance and repair costs.

Reference

IT-128R *Capital Cost Allowance — Depreciable Property*

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

References

IT-84 *Capital Property Owned on December 31, 1971 — Median Rule (Tax-Free Zone)*
IT-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 considered to have been realized, adjusting the ACB to nil.

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

Reference

Subsection 40(3)

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*

You have to reduce the ACB of a share by the amount of any share purchase tax credit or one-half of the amount of any scientific research and experimental development tax credit you earned on that share.

Outlays and expenses

You can deduct most cash outlays used to put a property into saleable condition when you calculate a gain or loss. Expenses incurred when 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 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 is considered business income or loss.

If a share is converted because of a merger or amalgamation, subparagraph 54(c)(ii) considers 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 you make a capital disposition of a debt obligation, the amount of any realized discount or bonus received is treated as a capital gain. Similarly, a premium paid is treated as a capital loss, either when the obligation matures or on the date it is disposed of.

References

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

Other property

You should include any capital gains or losses on any property not specified above in the "Other property" area of Schedule T2S(6).

For dispositions of depreciable property, a capital gain results if the proceeds are more than the capital cost. However, losses on depreciable property do not result in capital losses. These losses are **terminal losses**. See Item 38 under the heading "Column 10" to find out more about terminal losses.

You have to report dispositions of goodwill and other intangible properties on Schedule T2S(8)(A). See Item 39 for more details.

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

When an amount receivable becomes a bad debt, a deemed disposition occurs at the end of the year. The debt is considered to have been reacquired immediately afterwards at a cost equal to nil. This normally allows you to claim a bad debt as a capital loss in the year. Any later 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 buying or selling capital properties are capital gains or capital losses. Transactions in foreign currency or foreign currency futures that do not form part of business operations can 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 who is related to the corporation.

Use the $1,000 rule to determine gains and losses on the disposition of personal-use property. If the adjusted cost base is less than $1,000, it is considered to be $1,000. As well, when the proceeds of disposition are less than $1,000, they are considered to be $1,000.

Generally, you cannot deduct losses on dispositions of personal-use property from income. However, you can use **listed personal property** losses to reduce listed personal property gains.

References

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.

You can only deduct losses arising when you dispose of these items from listed personal property capital gains. You can apply any unabsorbed losses in the year 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. The corporation can defer part of the capital gain to the year the proceeds are due to be received by setting up a capital gains reserve. By using reserves, you can spread a capital gain over a five-year period.

The reserve that you can claim in a taxation year is one of the two following amounts, whichever is less:

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

and

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

Be sure to add the reserve amount you deducted in a taxation year to income in the following taxation year. Add the prior-year reserve and subtract the current-year reserve on Schedule T2S(6). Show the continuity of capital gain reserves on Schedule T2S(13). See Item 41 for details.

Example

A Limited sold a piece of land to Mr. *X* on March 4, 1991 (*A* Limited's taxation year ends on June 30, 1991).

Under the terms of the sale agreement, *A* Limited received a $10,000 down payment, and will receive $30,000 each year for the next three years, with the first payment due on March 31, 1992. Therefore, the total proceeds of disposition are $100,000.

The capital gain on the sale was $80,000.

A Limited would report the following:

For taxation year ending June 30, 1991

Capital gain	$80,000
Minus the capital gains reserve which is the lesser of:	
(a) $80,000 / $100,000 x $90,000 = $72,000	
and	
(b) 4/5 x $80,000 = $64,000	
Capital gains reserve — enter on line (J) of Schedule T2S(6)	$64,000
Total capital gain — enter on line (K) of Schedule T2S(6)	$16,000
Taxable capital gain (.75 x $16,000) — enter on line (L) of Schedule T2S(6)	$12,000

For taxation year ending June 30, 1992

Prior-year capital gains reserve — enter on line (I) of Schedule T2S(6)	$64,000
Minus current-year capital gains reserve which is the lesser of:	
(a) $80,000 / $100,000 x $60,000 = $48,000	
and	
(b) 3/5 x $80,000 = $48,000	
Capital gains reserve — enter on line (J) of Schedule T2S(6)	$48,000
Total capital gain — enter on line (K) of Schedule T2S(6)	$16,000
Taxable capital gain (.75 x $16,000) — enter on line (L) of Schedule T2S(6)	$12,000

References

Subparagraphs 40(1)(a)(ii) and (iii)
IT-236R3 *Reserves — Dispositions of Capital Property*

If the net result calculated on the T2S(6) is a taxable capital gain, add it to the net income for income tax purposes on Schedule T2S(1). If the net result calculated on the T2S(6) is an allowable capital loss, do not deduct it on the T2S(1). Allowable capital losses become **net capital losses**. You can only use them to reduce taxable capital gains in other years. See Item 61 for more details.

Item 38
Capital Cost Allowance — Schedule T2S(8)

You can get Schedule T2S(8) from your district office.

Paragraph 20(1)(a) allows a corporation to charge a part 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, you generally have to prorate the CCA.

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 applied to the undepreciated capital cost of the class at year-end to determine the maximum CCA the corporation can claim. The corporation can deduct any amount up to the maximum available for the year.

New legislation

A corporation cannot claim CCA for a depreciable property of a prescribed class until it becomes **available for use**. These rules do not apply to a "certified production." They generally apply to property acquired after 1989.

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

- when the property is first used to earn income;
- the beginning of the first taxation year that starts at least 358 days after the taxation year the property was acquired;
- immediately before the property is disposed of; or
- when the property is able to produce a saleable product or perform a saleable service.

A building is considered **available for use** on 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 starts at least 358 days after the taxation year the corporation acquired the property;
- immediately before the property is disposed of; or
- 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.

References

Subsections 13(26) to 13(32)

Grandfathering provisions

Some types of property, such as assets in classes 2, 3, 11, 22, 28, 29, and 30, are still eligible for the higher CCA rates that were in effect on December 31, 1987. To qualify for the old rates, the property has to 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 the most common capital cost allowance (CCA) classes, and part of their descriptions. You can find a more comprehensive list in Schedule II of the *Income Tax Regulations*.

Description	Class no.	Rate (%)
Most buildings made of brick, stone, or cement acquired after 1987, including their component parts such as electric wiring, lighting fixtures, plumbing, heating and cooling equipment, elevators, and escalators	1	4%
Most buildings made of brick, stone, or cement acquired before 1988, including their component parts as listed in class 1 above	3	5%
Fences, greenhouses, buildings made of frame log, stucco on frame, or galvanized or corrugated iron that have no footings below ground or are used in a farming or fishing business	6	10%
Canoes or boats, and most other vessels including their furniture, fittings, or equipment	7	15%
Property acquired after 1987 that is not included in any other class, such as furniture, calculators and cash registers, photocopy and fax machines, printers, telephone systems, display fixtures, refrigeration equipment, machinery, tools costing more than $200, and outdoor advertising billboards	8	20%
Aircrafts, including furniture, fittings, or equipment attached, and their spare parts	9	25%
Automobiles (except those used for lease or rental, and taxis), vans, wagons, trucks, buses, tractors, trailers, drive-in theatre property, general-purpose electronic data-processing equipment (e.g., personal computers) and systems software, films, motion pictures (other than certified feature films), oil-well equipment used above ground, and timber cutting and removing equipment	10	30%
Passenger vehicles costing more than $24,000 ($20,000 if acquired before September, 1989)	10.1	30%
Chinaware, cutlery or other tableware, linen, uniforms, dies, jigs, moulds or lasts, computer software (except systems software), cutting or shaping parts of a machine, certified feature films or productions; property used for earning rental income, such as apparel or costumes, metric scales, video tape cassettes; property costing less than $200, such as kitchen utensils, tools, medical or dental equipment; property acquired after August 1989 and before 1993 for use in a business of selling or providing services, such as electronic bar code scanners, cash registers used to record multiple sales taxes	12	100%
Property that is leasehold interest (the maximum CCA rate depends on the type of the leasehold and the terms of the lease)	13	N/A
Patents, franchises, concessions, and licences for a limited period — the CCA is limited to the lesser of: ● the capital cost of the property apportioned over the life of the property; and ● the undepreciated capital cost of the property at the end of the taxation year	14	N/A
Automobiles for lease or rental, taxicabs, and coin-operated video games	16	40%
Airplane runways, roads, sidewalks, parking-lot or storage areas, telephone, telegraph or non-electronic data communication switching equipment	17	8%
Most power-operated movable equipment acquired after 1987 used for moving, excavating, placing, or compacting earth, rock, concrete, or asphalt	38	30%
Machinery and equipment acquired after 1987 that is used in Canada primarily to manufacture and process goods for sale or lease	39	30% for 1990 25% for 1991 and later years

Note

A transitional rate applies to class 39. Prorate the claim for CCA for a taxation year that straddles January 1.

Completing the capital cost allowance Schedule T2S(8)

The next section explains how to complete each column of Schedule T2S(8) to calculate the CCA claim. **Please note that you have to use a separate line for each class of property.**

Column 1: Class number

Generally, all depreciable property of the same class is grouped together. CCA is calculated on the undepreciated capital cost of all the property in that class. However, you sometimes have to maintain a separate class for each asset in the class.

For example, keep assets that are normally grouped in the same class but are used to earn income from different businesses in separate classes. As another example, keep each class 10.1 passenger vehicle in a separate class. Enter the class numbers that apply in column 1.

Reference

Regulation 1101

Column 2: Undepreciated capital cost

In column 2, 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)).

Column 3: Cost of additions during the year

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

Column 4: Adjustments

The capital cost of a property has to be reduced by the following amounts:

- any government assistance received or entitled to be received in the year (the amount of any goods and services tax (GST) input tax credit or rebate that is received for property acquired after 1990 is considered to be government assistance, and should also be deducted from the capital cost of the property);
- any investment tax credits used to reduce taxes payable, or claimed as a refund in the **preceding taxation year**.

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

A corporation can elect to reduce the capital cost of depreciable property by the amount of non-government assistance it received. Otherwise, include the assistance in income.

Increase the capital cost of the property when you repay any amount of assistance that previously reduced the capital cost.

References

Subsections 13(7.1) and 13(7.4)
Paragraphs 12(1)(x) and 13(21)(f)
IT-174R *Capital Cost Allowance — Meaning of "Capital Cost of Property"*

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 more than its capital cost, the amount that you enter 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 is a **recapture** of capital cost allowance. The recapture rule does not apply to passenger vehicles in class 10.1. Show the amount of recapture as a negative amount in column 10. **See Example 1 on recapture.**

When an asset is disposed of for an amount more than its capital cost, a capital gain results. However, losses on depreciable property do not result in capital losses. For more information, see column 10.

Column 6: Undepreciated capital cost

In column 6, enter the amount you get when you add column 3 to column 2 and subtract column 5. This amount is net of any adjustments in column 4.

Column 7: 50% rule

Generally, an asset acquired that is available for use during the year is only eligible for one-half of the normal maximum CCA for the year. You can claim full CCA for that asset in the next taxation year.

CCA is calculated under the 50% rule by adjusting the undepreciated capital cost in column 7. This adjustment reduces the undepreciated capital cost in the year of acquisition by one-half of the net amount of additions (the cost of additions minus the proceeds from disposal) to the class. **See Example 2 on the 50% rule.**

When applying the 50% rule, do not reduce the net amount of additions by the investment tax credit claimed in the preceding taxation year and included in column 4.

Certain properties acquired through non-arm's length transfers or "butterfly transfers" are exempt from the 50% rule.

References

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

Column 8: Reduced undepreciated capital cost

Enter the amount you get when you subtract column 7 from column 6.

Column 9: Capital cost allowance rate

Enter the prescribed rate that applies, as provided for under Part XI of the Regulations.

Column 10: Capital cost allowance

To claim the maximum CCA for each class, multiply the amount in column 8 by the rate in column 9 and enter the result in column 10. You do not have to claim the maximum allowable CCA. You can claim any amount up to the maximum.

If the corporation's taxation year is less than 365 days, prorate the CCA claim for all property except for class 14, class 15, timber limits and cutting rights, and industrial mineral mines. 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 you dispose of **all** the assets of a particular class, and there is an amount of undepreciated capital cost left in column 6. You have to deduct in full a terminal loss from business income in the year it arises. The terminal-loss rule does not apply to passenger vehicles in class 10.1. Enter the terminal loss amount in column 10. **See Example 3 on terminal loss.**

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 because of recapture, add this amount on Schedule T2S(1).

Note

If a corporation wants to change the amount of CCA it claimed in a taxation year, we will normally make the requested adjustment if you send a written request within 90 days of the date of the assessment or the reassessment. We can only make adjustments requested after the 90-day period has expired under certain circumstances. For more information, see Information Circular IC-84-1, *Revision of Capital Cost Allowance Claims and Other Permissive Deductions.*

Example 1

A clothing company bought a sewing machine in 1989 for $10,000. Now, because of the overwhelming success the company has had in the retail end of the business, it has decided to concentrate solely on retailing. Consequently, the company sold its sewing machine in 1991 for $12,000.

The clothing company's Schedule T2S(8) would look like this:

1 Class no.	2 Undepreciated capital cost at beginning of year (column 11 previous year)	3 Cost of additions during year (new asset must be **available for use**) Note 1	4 Adjustments Note 2	5 Lesser of cost or proceeds from disposals during year	6 Undepreciated capital cost 2 + 3 – 4 – 5	7 Deduct 1/2 of the amount, if any, by which the net cost of additions exceeds col. 5 Note 3	8 Reduced undepreciated capital cost 6 – 7	9 Rate %	10 Capital cost allowance (col. 8 X col. 9 or lesser amount) Note 4	11 Undepreciated capital cost at end of year 6 – 10
8	9,500	nil	nil	10,000	(500)	nil	(500)	20	(500)	nil

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

The clothing company will include the $500 recapture in income. The capital gain is equal to $2,000 ($12,000 – $10,000).

Example 2

A book store decided to buy a computer to help keep up with the paperwork, and started using it right away. The computer cost $5,000. The company has to apply the 50% rule when it calculates the amount of CCA it can deduct for 1991.

The book store's Schedule T2S(8) would look like this:

1 Class no.	2 Undepreciated capital cost at beginning of year (column 11 previous year)	3 Cost of additions during year (new asset must be **available for use**) Note 1	4 Adjustments Note 2	5 Lesser of cost or proceeds from disposals during year	6 Undepreciated capital cost 2 + 3 – 4 – 5	7 Deduct 1/2 of the amount, if any, by which the net cost of additions exceeds col. 5 Note 3	8 Reduced undepreciated capital cost 6 – 7	9 Rate %	10 Capital cost allowance (col. 8 X col. 9 or lesser amount) Note 4	11 Undepreciated capital cost at end of year 6 – 10
10	10,000	5,000	nil	nil	15,000	2,500	12,500	30	3,750	11,250

Example 3

An import-export business decided to sell its warehouse, since it would be better to lease instead. It received $30,000 for it. At the end of the taxation year, it had no more assets in class 3.

The import-export business's Schedule T2S(8) would look like this:

1	2	3	4	5	6	7	8	9	10	11
Class no.	Undepreciated capital cost at beginning of year (column 11 previous year)	Cost of additions during year (new asset must be **available for use**) Note 1	Adjustments Note 2	Lesser of cost or proceeds from disposals during year	Undepreciated capital cost 2 + 3 − 4 − 5	Deduct 1/2 of the amount, if any, by which the net cost of additions exceeds col. 5 Note 3	Reduced undepreciated capital cost 6 − 7	Rate %	Capital cost allowance (col. 8 X col. 9 or lesser amount) Note 4	Undepreciated capital cost at end of year 6 − 10
3	35,000	nil	nil	30,000	5,000	nil	5,000	5	5,000	nil

The amount in column 10 is a terminal loss.

Item 39
Cumulative Eligible Capital Deduction — Schedule T2S(8)(A)

You can get Schedule T2S(8)(A) from your district office. Use it to calculate the corporation's cumulative eligible capital deduction (CECD).

Some business-related expenditures are capital in nature. They are not deductible in full, and they are not eligible for capital cost allowance. However, they may qualify for a partial deduction as **eligible capital expenditures.** The following are some examples of qualifying expenditures:

- goodwill;
- trademarks;
- expense of incorporation, reorganization, or amalgamation; and
- patents, franchises, concessions, or licenses for an unlimited period.

Three-quarters (3/4) of the cost of eligible capital property acquired during the taxation year should be added to the pool of cumulative eligible capital. Three-quarters (3/4) of the proceeds of disposition of an eligible capital expenditure property should be deducted from this pool.

Eligible capital expenditures can be written off at a rate of 7% a year on a declining-balance basis. If deducting three-quarters (3/4) of the net proceeds of disposition from the pool results in a negative balance of cumulative eligible capital, add the amount calculated on Schedule T2S(8)(A) to the income on Schedule T2S(1). You do not have to prorate the cumulative eligible capital deduction for a short taxation year.

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

Item 40
Natural Resource Earned Depletion — Schedule T2S(12) (not printed by the Department)

A corporation can deduct an allowance for mining and mineral processing. Prepare a schedule and identify it as Schedule T2S(12) in the top right-hand corner to show the continuity of the **earned depletion base.**

Expenditures made after 1989 no longer increase the earned depletion base. However, a corporation can continue to deduct depletion allowances until it has exhausted its earned depletion base.

References
Regulations 1201 to 1209 and 1212
Section 65

Item 41
Continuity of Reserves — Schedule T2S(13) (not printed by the Department)

Prepare a schedule, identified in the top right-hand corner as T2S(13), 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 can be considered unearned). If you deducted a reserve amount last year, add that amount to income this year and establish a new reserve amount for this year.

Add the previous year's reserve on Schedule T2S(1), and deduct the current year's reserve on the T2S(1). Although they are recorded on the T2S(13), you have to add and deduct **capital gains reserves** on Schedule T2S(6). See Item 37 under the heading "Capital gains reserve."

References
IT-215R *Reserves, Contingent Accounts and Sinking Funds*
IT-152R3 *Special Reserves — Sale of Land*
IT-154R *Special Reserves*
IT-442 *Bad Debts and Reserve for Doubtful Debts*

Item 42
Patronage Dividend Deduction — Schedule T2S(16)

You can get Schedule T2S(16) from your district office.

File Schedule T2S(16) with the T2 return if the corporation is claiming a deduction for payments made to customers for allocations in proportion to patronage. An allocation in proportion to patronage entitles a customer to receive payment calculated at a rate relating to the quantity, quality, or value of goods sold or services rendered. This is known as the **patronage dividend deduction.**

This deduction usually applies to co-operative corporations that pay patronage dividends to their member customers. The corporation has to pay amounts that qualify for this deduction either in the year or in the following 12 months after the taxation year.

If the corporation did not make the patronage payments to all the customers at the same rate, the amount that you can deduct is limited to one of the following two amounts, whichever is less:

- the 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 the corporation cannot deduct all the patronage payments it made to its member customers because of the above limit, the excess is deductible, within specific limits, against the income it earns in a later year from doing business with its member customers in that year.

Schedule T2S(16) shows how to calculate the allowable patronage dividend deduction.

References

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

Item 43
Allocation in Proportion to Borrowing — Credit Unions — Schedule T2S(17) (not printed by the Department)

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

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

A credit union can deduct from its income for a taxation year the total of all bonus interest payments and payments to its members for allocations in proportion to borrowing. It can also deduct such payments it makes in the 12 months following the end of the taxation year. However, it cannot deduct an amount if it was deductible in the previous taxation year.

Calculate the amount credited 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 the member borrowed from the credit union.

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

References

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

Item 44
Scientific Research and Experimental Development Expenditures — Form T661

You can get Form T661 from your district office. The guide, called *Claiming Scientific Research and Experimental Development Expenditures*, provides details on how to complete Form T661.

File Form T661 if the corporation carries out business in Canada and has incurred expenditures for scientific research and experimental development (SR&ED) carried out in Canada. Current and capital SR&ED expenditures form a special pool which you can deduct in the current year. You can also carry forward to any future year the expenditures included in that pool, as long as the business to which they relate continues to be carried out in that year.

Form T661 summarizes the costs for all SR&ED projects. You have to complete and attach it to the T2 return for the taxation year the corporation incurs SR&ED expenditures. Be sure to file Form T661 whether or not you claim an investment tax credit.

When a corporation is a member of a partnership that incurs SR&ED expenditures, the partnership has to file Form T661 along with its *Partnership Information Return*, Form T5013 Summary. Each partner has to file a T5013 Supplementary showing its share of the expenditures. If the partnership is exempt from filing (e.g., it has less than six members), each partner would have to file Form T661 with its T2 return.

References

Subsection 37(1)
Regulation 2900
IC-86-4R2 *Scientific Research and Experimental Development*
IT-331R *Investment Tax Credit*
Guide *Claiming Scientific Research and Experimental Development Expenditures*

Calculating losses arising in the year

Item 45
Non-capital losses

To calculate a non-capital loss for a corporation, add the following amounts:

- losses from carrying on a business or from property;
- allowable business investment losses;
- taxable dividends received that were deductible under section 112 and subsections 113(1) and 138(6);
- the unused part of the Part VI.1 tax deductible when calculating taxable income;
- amount deductible under subparagraph 110(1)(f)(i) for income exempt from tax in Canada because of a tax convention with another country; and
- the addition for foreign tax credits under section 110.5.

From this total, **subtract** the following amounts:

- income for the year from all sources; and
- farm loss for the year, as calculated in Item 49.

Example

In the beginning of 1991, Farmco operated a farming business and incurred a loss of $10,000. The corporation decided to sell the farming operation and received proceeds of disposition of $200,000. There was a taxable capital gain of $25,000 on the sale.

It used the money to purchase two businesses, a hardware store and a sawmill. In its taxation year ending December 31, 1991, the hardware store had a loss of $50,000 and the sawmill showed a profit of $20,000. The corporation also received taxable dividends in the amount of $1,000 that are deductible under section 112.

The non-capital loss would be calculated as follows:

Total of all losses from carrying on a business and the amount of taxable dividends received and deductible under section 112:

Loss from hardware store	$50,000	
Loss from farming	$10,000	
Taxable dividends received and deductible under section 112	$ 1,000	
		$61,000
Minus		
Income from all sources:		
Taxable capital gain	$25,000	
Income from sawmill	$20,000	
Taxable dividends received	$ 1,000	
		$46,000
		$15,000
Minus:		
Farm loss		$10,000
Non-capital loss		**$ 5,000**

Farmco would show ($4,000) on line 111 of the T2 return, and $1,000 on line 119. It would record the $10,000 farm loss on Schedule T2S(4).

Enter the year's non-capital loss on Schedule T2S(4). The T2S(4) is discussed in Item 56. See Item 60 for rules on how to apply non-capital losses to other years.

References

Paragraph 111(8)(b)

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

Item 46
Allowable business investment losses

You should calculate an allowable business investment loss (ABIL) in the same way as an allowable capital loss. See Item 37 for details. 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 has to deal with the corporation at arm's length.

You can apply an ABIL 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 that expires as a non-capital loss becomes a net capital loss, and you can carry it forward indefinitely.

Attach a separate statement containing the following information:

- the name of the small business corporation;
- the number and class of shares and the date of issue, and the type of debt disposed of;
- the date the debt or shares were acquired;
- the proceeds of disposition;
- the adjusted cost base;
- the outlays and expenses on the disposition;
- the amount of loss claimed; and
- 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 Item 56 for details.

References

Paragraph 39(1)(c)

IT-484R *Business Investment Losses*

Item 47
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 you can deduct from net income for income tax purposes is (A) or (B), whichever is less:

(A) the farming loss for the year;

(B) $2,500 plus the lesser of:

  (i) (farming loss for the year **minus** $2,500) ÷ 2; **and**

  (ii) $6,250.

Add the difference between the actual farm loss deducted on the financial statements and the deductible farm loss you calculated above to the income on Schedule T2S(1). This difference is called a **restricted farm loss**, and you should enter it on Schedule T2S(4). See Item 56 for details.

Example

Pubco's chief source of income comes from publishing. The company also owns a farm where they raise horses for harness racing. The corporation incurred a loss of $20,000 from the farming business.

The deductible farm loss and the restricted farm loss are calculated as follows:

(A) Farm loss		$20,000
Minus the deductible farm loss:		
(B) $2,500 plus the lesser of:		
(i) ($20,000 - $2,500) ÷ 2 =	$8,750	
and		
(ii)	$6,250	$ 8,750
Restricted farm loss		**$11,250**

Pubco would add the restricted farm loss of $11,250 to income on Schedule T2S(1), and also enter it on Schedule T2S(4).

Item 58 outlines the rules for applying restricted farm losses to other years.

If the deductible farm loss is more than the income from other sources in the year, the difference is the corporation's non-capital loss for the year. See Item 60 for details.

Reference

Subsection 31(1)

Item 48 Losses allocated from a limited partnership

A corporation that is a limited partner and receives Form T5013 Supplementary will find the amount of limited partnership loss allocated to it in Box 23 of the slip. If the limited partner does not receive this form because the partnership is exempt from filing (e.g., it has less than six members), you should file the partnership's financial statements with the T2 return to substantiate the corporation's share of the partnership loss for the year. You should report the amount in the taxation year in which the taxation year of the partnership ends.

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

The deductible part of the loss is calculated as (A) or (B), whichever is less:

(A) the corporation's share of the limited partnership's loss from a business (other than a farming business) or from property;

(B) the corporation's **at-risk** amount at the end of the partnership's taxation year, minus the following amounts:

- the corporation's share of investments tax credits of the partnership for the year;
- the corporation's share of any losses of the partnership for the year from a farming business; and
- the corporation's share of resource expenses incurred by the partnership for the 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;

minus

- all amounts the partner owes to the partnership, and any amount or benefit to which the partner is entitled that is intended to protect it from the loss of its investment.

Interests in partnerships that were operating on a regular and continuous basis on and after February 25, 1986, are exempt from the **at-risk** rules. However, partnership interests may lose their exempt status if, after February 25, 1986, there has been 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 is called a **limited partnership loss**. This amount should be added on Schedule T2S(1). Include the amount of the limited partnership loss on Schedule T2S(4). See Item 56 for details. Item 59 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*

Item 49 Farm losses

A corporation's farm loss is one of the two following amounts, whichever is less:

(A) the loss from farming or fishing that is more than the farming or fishing income for the year; and

(B) the non-capital loss as calculated under Item 45 without 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 Item 56 for details.

Item 62 explains the rules on how to apply farm losses to other years.

Reference

Paragraph 111(8)(b.1)

Item 50 Losses and changes in control

There are special rules for calculating and deducting net capital, non-capital, and farm losses for corporations that have undergone an acquisition 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*

Item 51
Line 111 — Net income or loss for income tax purposes

Enter **net income or loss for income tax purposes**, as you calculated it on Schedule T2S(1), on line 111 on page 3 of the T2 return. If no adjustments were required to the net income (loss) that was 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 from other years on Schedule T2S(1). You should deduct these items from net income for income tax purposes to arrive at **taxable income**.

Calculating taxable income and base amount of Part I tax

Item 52
Lines 113 and 115 — *Charitable Donations — Schedule T2S(2) (not printed by the 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 organizations:

- 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*; or
- 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 before that taxation year.

For each donation of $100 or more, give the name of the organization and, in the case of registered charities or athletic associations, their **registration numbers**. You do not have to send receipts with the T2 return, but keep them in case we ask to see them later. If you give us inaccurate organization names or registration numbers, it may delay processing, and we may have to disallow 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 you are reporting nil net income or a loss for the year, you cannot claim donations to create or increase a loss.

You can carry forward unused charitable donations and claim them in the five following taxation years. Show the breakdown of donations you carried forward on Schedule T2S(2) by the year of origin.

Enter the total amount of current-year charitable donations and donations carried forward from the five previous taxation years on line 113 on page 3 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 have to add back amounts they deducted for bonus interest payments and payments for allocations in proportion to borrowing when they calculate income for the purposes of the 20% limit.

Reference

Paragraph 110.1(1)(a)

Item 53
Line 117 — *Gifts to Canada or a Province and Gifts of Cultural Property —* Schedule T2S(2) (not printed by the Department)

Gifts to Her Majesty — line 117

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

Deduct charitable donations first. Then, you can claim gifts to Canada or the provinces to reduce the taxable income to zero. You can carry forward any unused gifts for up to five years. On Schedule T2S(2), show the amount of each gift made in the current year, and list any gifts carried forward from previous years by the year of origin.

Reference

Paragraph 110.1(1)(b)

Gifts to institutions — line 117

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

Deduct charitable donations and gifts to Canada or the provinces first. Then, you can claim gifts to institutions to reduce the taxable income to zero. You can carry forward any unused gifts to institutions for up to five years. On Schedule T2S(2), show the amount of each gift made to a designated institution in the current year, and list any of these gifts carried forward from previous years by the year of origin.

References

Paragraph 110.1(1)(c)

IT-407R3 *Disposition after 1987 of Canadian Cultural Property*

You should send us any receipts to support deductions for gifts to Canada, the provinces, or designated institutions with the T2 return. Regulation 3501(1.1) outlines the information that has to appear 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 3 of the T2 return.

Item 54
Line 119 — *Dividends Received and Dividends Paid* — Schedule T2S(3)

You can get Schedule T2S(3) from your district office. You have to complete it if the corporation received **or** paid dividends.

On line 119 on page 3 of the T2 return, enter the amount of taxable dividends received that is deductible from income under sections 112 or 113, or both. This amount is the total in column 4 of Area A of Schedule T2S(3). See Item 82 for more information about taxable dividends deductible under sections 112 and 113.

By deducting taxable dividends received from the net income or loss amount shown on line 111, you 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*

Item 55
Line 120 — Part VI.1 tax deduction

A corporation that pays Part VI.1 tax on dividends paid on **short-term preferred shares** can deduct part of this Part VI.1 tax from its income. This deduction is equal to nine-fourths (9/4) of Part VI.1 tax payable.

On line 120 on page 3 of the T2 return, enter the calculated amount of the Part VI.1 tax deduction. See Item 88 on how to calculate Part VI.1 tax for more information.

Reference
Paragraph 110(1)(k)

Item 56
Corporation Loss Continuity and Application — Schedule T2S(4) (not printed by the 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) should summarize the following:

- the continuity of non-capital, net capital, farm, restricted farm, and limited partnership losses;
- the amount of each loss deducted when 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 on amalgamation; and
- the amount of any non-capital, net capital, farm, restricted farm, and limited partnership losses of a parent corporation on the winding-up of a subsidiary corporation of which the parent owned not less than 90% of the issued shares of each class immediately before the wind-up.

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 that applies is as follows: when applying a certain type of loss, you have to apply the oldest available loss first.

You should add an unused allowable business investment loss (ABIL) which is expiring as a non-capital loss to the net capital losses in that year.

You cannot apply losses from other years to either create or increase a non-capital loss for the taxation year.

Item 57
Request for Corporation Loss Carry-Back — Form T2A

You can get Form T2A from your district office. File it to request the carry-back of a loss to a previous taxation year.

You can carry back non-capital, net capital, restricted farm, and farm losses to any of the three previous taxation years.

Send Form T2A, *Request for Corporation Loss Carry-back*, by the T2 filing date for the year in which the corporation incurs the loss. You can file it with the T2 return for the year the loss is incurred, or forward it separately to the taxation centre that processed the return.

Item 58
Line 121 — Restricted farm loss application

You can only apply a restricted farm loss to reduce **farming income** in the three previous taxation years and the ten following taxation years. Enter the amount of restricted farm loss applied from previous taxation years on line 121 on page 3 of the T2 return.

Reference
Paragraph 111(1)(c)

Item 59
Line 123 — Limited partnership loss application

You can carry forward a limited partnership loss indefinitely and deduct it from any source of income. The amount of the deductible limited partnership loss is calculated as (A) or (B), whichever is less:

(A) the amount of the limited partnership loss carried forward;

(B) the corporation's at-risk amount at the end of the partnership's taxation year ending in the current taxation year of the corporation, **minus** the following amounts:

- the corporation's share of investment tax credits of the partnership for the year;
- the corporation's share of any losses of the partnership for the year from a business or property; and
- the corporation's share of resource expenses incurred by the partnership for the year.

Example

Oilco is a limited partner in a partnership which invests in oil exploration.

Oilco's taxation year runs from December 1, 1990, to November 30, 1991.

For its December 31, 1990 taxation year-end, the partnership allocated $500 in Canadian exploration expenses, $1,000 in investment tax credits, and income of $5,000 to Oilco.

On December 31, 1990, Oilco's at-risk amount for the partnership was $3,000.

Oilco also has a $2,000 carry-forward of limited partnership losses.

Oilco would calculate the deductible part of the limited partnership loss for its 1991 taxation year as follows:

The lesser of:

(A)	Limited partnership loss carry-forward and		$2,000
(B)	Oilco's at-risk amount minus		$3,000
	Canadian exploration expenses	$ 500	
	Investment tax credits	$1,000	
			$1,500
	Deductible part of limited partnership loss		**$1,500**

The limited partnership loss that can still be carried forward is $500.

Enter the amount of limited partnership loss applied from previous taxation years on line 123 on page 3 of the T2 return.

Reference

Paragraph 111(1)(e)

Item 60
Line 123 — Non-capital loss application

You can apply a non-capital loss to reduce all types of income in the three previous taxation years and the seven taxation years that follow. Enter non-capital losses carried forward from previous years to reduce taxable income on line 123 on page 3 of the T2 return.

Instead of reducing taxable income, you can use a non-capital loss to reduce dividends that are subject to Part IV tax (see Item 82 under the heading "Dividends subject to Part IV tax (column 5)"). On line 406 on page 5 of the T2 return, enter the amount of current-year non-capital loss or prior-year non-capital losses that are used to reduce dividends subject to Part IV tax.

References

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

Item 61
Line 125 — Net capital loss application

You can apply a net capital loss to **reduce the amount of taxable capital gains** included in income in the three previous years, and in any later year.

Usually, a net capital loss of a corporation for a taxation year is:

- its allowable capital losses for the year from dispositions of property;

minus

- its taxable capital gains for the year from dispositions of property.

However, as noted in Item 37, you can only net any allowable capital loss arising from disposition of **listed personal property** against taxable capital gains that arise when such property is disposed of.

As explained in Item 37, after 1989, a net capital loss is 75% of the capital loss. Between 1988 and 1990, the 75% inclusion rate was phased in. The transitional inclusion rates for previous years are as follows:

Canadian-controlled private corporations throughout the year

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

Other corporations

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

Note

When a corporation's taxation year straddles a date on which the inclusion rate changes, you have to prorate the inclusion rate based on the number of days in the taxation year before and after the date the rate changes. When you have to prorate an inclusion rate, make sure to include at least seven decimal places. The next example shows how to calculate an inclusion rate.

You have to adjust the amount of net capital losses that the corporation carries back or forward to a year with a different inclusion rate for capital gains. You have to adjust the net capital losses to compensate for the difference between the inclusion rate for the loss year and the inclusion rate for the year to which you apply the loss.

The net capital loss claimed in a particular year will increase when the inclusion rate for the loss year is lower than the inclusion rate for the later year in which the loss is claimed.

The net capital loss claimed will be reduced when the inclusion rate for the loss year is higher than the inclusion rate for the previous year to which the loss is carried back.

Note

You should make these adjustments at the time you apply a net capital loss to a previous or later year that has a different inclusion rate. You should show the actual (unadjusted) amount of available net capital losses on Schedule T2S(4).

To adjust a net capital loss for the variance in inclusion rates, use the following formula:

$$\frac{\textbf{inclusion rate for the gain year} \times \textbf{the net capital loss}}{\textbf{inclusion rate for the loss year}}$$

To determine how much net capital loss you need to entirely offset a certain amount of taxable capital gain in a year that has a different inclusion rate, use the following formula:

$$\frac{\textbf{inclusion rate for the loss year} \times \textbf{the taxable capital gain}}{\textbf{inclusion rate for the gain year}}$$

Form T2A provides calculations to help you make the adjustments needed when carrying back a net capital loss to a year with a different inclusion rate.

The following example shows you how to make the necessary adjustments when you carry forward a net capital loss to a later year with a different inclusion rate.

Example

Investco had a taxable capital gain of $100,000 on the sale of some real estate for the taxation year beginning July 1, 1990, and ending on June 30, 1991.

The year before, the corporation incurred a net capital loss of $150,000. It decides to apply the 1990 net capital loss to the 1991 taxable capital gain. The company is a Canadian-controlled private corporation.

Investco calculates the net capital loss to be applied and any remaining balance as follows:

Net capital loss carry-forward per Schedule T2S(4)		$150,000
Minus the lesser of:		
(a) Net capital loss carry-forward:	$150,000	
and		
(b) Net capital loss needed to entirely offset the taxable capital gain: $\frac{.7079909^{**} \times \$100,000}{.75^{*}}$ = $ 94,399		
		$ 94,399
Remaining net capital loss available for carry-forward — enter this amount on Schedule T2S(4)		$ 55,601
Net capital loss to be entered on line 125: $\frac{\$\,94,399 \times .75^{*}}{.7079909^{**}}$ =		$100,000

*The inclusion rate for the 1991 taxation year is .75.

**Since Investco's 1990 taxation year (July 1, 1989, to June 30, 1990) straddled a date when the inclusion rate changed, the rate has to be prorated based on the number of days in the taxation year before and after the date the rate changed, as follows:

Days in taxation year before 1990:	184
Days in taxation year after 1989:	181
Total days in taxation year:	365
Inclusion rate for 1989:	.6666667
Inclusion rate for 1990:	.75
The inclusion rate for Investco's 1990 taxation year is:	
$\frac{184}{365} \times .6666667 =$	.3360731
plus	
$\frac{181}{365} \times .75 =$	.3719178
	.7079909

On line 125 on page 3 of the T2 return, enter the **adjusted** net capital losses carried forward from previous years and applied to reduce taxable capital gains.

References

Paragraphs 111(1)(b) and 111(8)(a)
Subsection 111(1.1)
Section 38

Item 62
Line 126 — Farm loss application

You can apply a farm loss to reduce all types of income in the three previous taxation years and the ten taxation years that follow. Enter farm losses carried forward from previous years to reduce taxable income on line 126 on page 3 of the T2 return.

Instead of using farm losses to reduce taxable income, a corporation can choose to apply farm losses to reduce dividends that are subject to Part IV tax (see Item 82 under the heading "Dividends subject to Part IV tax (column 5)"). On line 406 on page 5 of the T2 return, enter the amount of current-year farm loss or farm losses of other years, or both that you want to apply to reduce dividends subject to Part IV tax.

References

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

Item 63
Line 127 — Calculating taxable income

Taxable income, line 127, is equal to the net income for income tax purposes (line 111) minus all deductions on lines 115 to 126. If the result is a loss, enter **nil** on line 127. Calculate Part I tax on the amount of calculated taxable income.

Item 64
Addition to Taxable Income for Foreign Tax Deductions —Schedule T2S(28) (not printed by the Department)

You can use foreign income tax credits to reduce Part I tax otherwise payable. Under section 110.5, a corporation that cannot use its foreign tax credits (e.g., it has no Part I tax payable for the year) can choose to add an amount to its

taxable income so that it can 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 Item 45 for details. However, the corporation cannot add an amount under section 110.5 if that addition increases any of the following deductible amounts:

- 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, which reconciles taxable income that you normally calculate with taxable income to which you have included the addition, as calculated under section 110.5.

Enter the amount added to income under section 110.5 on the line identified as "Addition" and the "Adjusted taxable income" on line (A) provided on page 3 of the T2 return.

Item 65
Line 202 — Basic rate of Part I tax on taxable income

The basic rate of Part I tax is 38%. On line 202, enter 38% of taxable income from line 127 (or from amount (A) if it applies) on page 3 of the T2 return. Also, enter this amount on line (A) on page 4 of the T2 return.

Calculating taxes and deductions

The calculation areas on the T2 return appear as follows:

(A) Small business deduction (page 3)
(B) Manufacturing and processing profits deduction (page 3)
(C) Calculation of Part I tax (page 4)
(D) Refundable portion of Part I tax (page 5)
(E) Part IV tax on taxable dividends received (page 5)
(F) Refundable dividend tax on hand (page 5)
(G) Dividend refund (page 5)
(H) Summary of tax and credits (page 6)

Item 66
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 that is otherwise payable. You can calculate this deduction 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).

On page 4 of the T2 return, enter the calculated amount of the SBD in the "Calculation of Part I tax" area.

Line 223 — Active business income — Schedule T2S(7)

You can get Schedule T2S(7) from your district office.

Use the T2S(7) to determine the following:

- the corporation's active business income that is eligible for the SBD;
- the corporation's net Canadian and foreign investment income for calculating the refundable portion of Part I tax (see Item 81 for details); and
- the active business income of a corporation that is claiming the SBD and is a member of a partnership.

Generally, active business income is income that is 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, these kinds of income are not eligible for the SBD.

A **specified investment business** is a business with a principal purpose of deriving income from property, including interest, dividends, rents, or royalties.

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

- the corporation employs more than five full-time employees in the business throughout the year; or
- an associated corporation provides managerial, financial, administrative, maintenance, or other similar services to the corporation while carrying on an active business, and the corporation would have to engage more than five full-time employees to perform these services if the associated corporation was not providing 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 a business that provides services to another entity that an officer or employee of the entity that is receiving the services would normally perform. Instead, the services are performed by an individual on behalf of a corporation providing the services. That person is referred to as an "incorporated employee."

When the incorporated employee who is 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, any income from the services is considered personal services business income.

However, if the corporation employs more than five full-time employees throughout the year, or provides the services to an associated corporation, the income is not from a personal services business. Therefore, the income is eligible for the SBD.

Reference

IT-73R4 *The Small Business Deduction — Income from an Active Business, a Specified Investment Business and a Personal Services Business*

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(1), 125(7), and 248(1)
Section 251

Generally, you can calculate **active business income** by starting with net income for income tax purposes from either Schedule T2S(1) or the income statement, and then by deducting:

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

A corporation that is a **member of a partnership** has to complete both sides of 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 corporate partnership rules impose a limit of $200,000 on the amount of active business income earned by a partnership that is eligible for the small business deduction (SBD). This amount is allocated among all partners.

If the corporation received a Form T5013 Supplementary that shows its share of partnership income or loss, include this form with the T2 return. See Item 29 for details.

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

Line 225 — Taxable income

The taxable income you use to calculate the SBD is usually the amount on line 127 on page 3 of the T2 return. However, if the corporation has claimed either foreign business or non-business income tax credits, reduce the taxable income by:

- ten-thirds (10/3) of the amount deducted as a foreign non-business income tax credit; **and**
- ten-fourths (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 — Form T2013

The business limit for a taxation year is generally $200,000, as long as the corporation is not associated with any other corporation. However, if the corporation's taxation year is less than 51 weeks, you have to prorate the $200,000 business limit 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 have to file Form T2013 to allocate the $200,000 business limit among them. See Item 21 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 you determined on Form T2013 on line 227.

References

Subsections 125(2), 125(3), and 125(5)
IT-64R2 *Corporations: Association and Control*

Item 67
Line 243 — *Manufacturing and Processing Profits Deduction* — Schedule T2S(27)

You can get Schedule T2S(27) from your district office.

Corporations that derive 10% or more of their gross revenue for the year from selling or leasing goods manufactured or processed in Canada can claim the manufacturing and processing profits deduction (MPPD) to reduce their Part I tax payable.

The MPPD applies to the part of taxable income that represents the corporation's Canadian manufacturing and processing profits. Calculate the MPPD at the following rates:

	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	3%	4%	5%

Note

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

For taxation years that straddle one of the effective dates specified above, prorate the MPPD 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 that is eligible for the small business deduction does not qualify for the MPPD. To qualify as a small manufacturer, the corporation has to 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 totalled $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); and
- 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 have to complete Area B of Schedule T2S(27). The form gives detailed instructions on how to complete it.

Enter the amount of Canadian manufacturing and processing profits determined in either Area A or Area B on line 233 on page 3 of the T2 return.

New legislation

Processing of foreign ore is no longer an activity that is specifically excluded from manufacturing and processing under paragraph 125.1(3)(b).

References

Section 125.1
Regulation 5200
IT-145R *Canadian Manufacturing and Processing Profits — Reduced Rate of Corporate Tax*

Item 68
Line 209 — Corporate surtax calculation

All corporations (except non-resident-owned investment corporations) are subject to a 3% surtax on federal tax that is otherwise payable.

Calculate the 3% corporate surtax on page 4 of the T2 return, and enter this amount on line 209.

Reference

Section 123.2

Item 69
Lines 203 and 205 — 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 excess taxable income for the year over the taxed capital gains for the year.

Enter the investment corporation's taxed capital gains on line 205 on page 4 of the T2 return. Enter the amount of the deduction you are claiming on line 203.

References

Section 130
IT-98R *Investment Corporations*

Item 70
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 can also deduct an extra 16% of its taxable income that was not eligible for the small business deduction.

With this additional deduction a credit union can pay tax at a reduced rate on income required to build up a tax-paid reserve that is equal to 5% of deposits and capital. These reserves are required by provincial statutes, and cannot be distributed to credit-union members.

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

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

minus

- 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 the small business deduction for the year.

Enter the credit union's additional deduction on line 206 on page 4 of the T2 return.

References

Section 137
IT-483 *Credit Unions*

Item 71
Line 207 — Federal tax abatement

The federal tax abatement is equal to 10% of taxable income earned in a province, the Yukon, Northwest Territories, the Newfoundland offshore area, and the Nova Scotia offshore area. The federal tax abatement reduces federal Part I tax payable. Income earned outside Canada is not eligible for the federal tax abatement.

Enter the calculated amount of federal tax abatement on line 207 on page 4 of the T2 return.

Reference

Section 124

Item 72
Line 211 — *Federal Foreign Non-Business Income Tax Credit* — Schedule T2S(21)

You can get Schedule T2S(21) from your district office. Use it to calculate a corporation's federal foreign non-business income tax credit. This credit reduces federal Part I tax that is 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 like dividends, interest, and capital gains. However, it does not include dividends received from foreign affiliates. It also does not include income from operating a business in a foreign country.

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

You can deduct any foreign non-business income tax the corporation paid that was left over after you claimed the federal foreign non-business income tax credit as a provincial foreign tax credit. See Item 93 for details.

A corporation can also increase its taxable income under section 110.5, so it can use an otherwise non-deductible foreign non-business income tax credit. See Item 64 for details.

Calculate the federal foreign non-business income tax credit for each country separately. Use more schedules if you are calculating credits for more than three countries. On line 211 on page 4 of the T2 return, enter the total foreign non-business income tax credits from Column G on Schedule T2S(21).

New legislation

For taxation years ending after July 13, 1990, foreign non-business income tax does not include any foreign taxes paid on income that is exempt from tax in Canada under an income tax convention.

References

Subsection 126(1)
IT-270R2 *Foreign Tax Credit*

Item 73
Line 213 — *Federal Foreign Business Income Tax Credit* — Schedule T2S(21)

You can get Schedule T2S(21) from your district office. Use it to calculate a corporation's federal foreign business income tax credit. This credit reduces federal Part I tax that is otherwise payable.

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

You cannot deduct excess foreign business income taxes paid as a provincial foreign tax credit. However, under section 110.5, a corporation can increase its taxable income to use an otherwise non-deductible foreign business income tax credit. See Item 64 for details.

You can carry back any unused foreign business income tax credit to the three preceding taxation years, and you can carry the credit forward to the seven taxation years that follow. You can use the credit carried forward or back 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 you are calculating credits for more than three countries, prepare a separate schedule for each. On line 213 on page 4 of the T2 return, enter the total foreign business income tax credits from Column H on Schedule T2S(21).

New legislation

For taxation years ending after July 13, 1990, foreign business income tax does not include any foreign taxes paid on income that is exempt from tax in Canada under an income tax convention. However, any unused foreign business income tax credit arising from such income in taxation years ending before July 14, 1990 can still be claimed.

References

Subsection 126(2)
IT-270R2 *Foreign Tax Credit*

Item 74
Line 215 — *Federal Logging Tax Credit* — Schedule T2S(21)

You can get Schedule T2S(21) from the district office. Use it 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 Québec or British Columbia can claim this credit.

On line 215 on page 4 of the T2 return, enter the credit you calculated on Schedule T2S(21).

References

Subsection 127(1)
Regulation 700

Item 75
Lines 217 and 219 — 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.

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

You can claim the following credits:

- 75% of the first $100 contributed; plus
- 50% of the next $450 contributed; plus
- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of $500.

You have to attach proof of payment to the return, (i.e., an official receipt signed by the registered agent for the registered party, or the official agent of the candidate). We can only accept photocopies if the issuer has certified them as true copies.

Enter the total amount of qualifying contributions on line 219, and the amount of the allowable credit on line 217, on page 4 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*

Item 76
Line 224 — *Part VI Tax Credit* — Form T921

You can get Form T921 from your district office. Use it to calculate the corporation's Part VI tax credit.

Part VI of the Act levies a tax on a financial institution's taxable capital employed in Canada.

Corporations that are liable to pay Part VI tax have to file Form T2044, *Part VI tax return — Tax on Capital of Financial Institutions*, separately from the T2 return. You can send us the Part VI tax return in the same envelope as the T2 return, but please do not attach them together. You can get Form T2044 from your district office.

For information about Part VI instalment requirements, see the T7B, *Instalment Guide for Corporations*, which you can get from your district office.

You can claim Part VI tax payable as a credit against Part I tax payable for the year. You can deduct unused Part VI tax in any of the seven years that follow, or in any of the three previous years ending after 1987.

To claim a Part VI tax credit, file Form T921, *Calculation of Claim for Part VI Tax Credit*, with the T2 return. You can also use Form T921 to request a carry-back of the credit to a previous year.

Enter the claim for the Part VI tax credit on line 224 on page 4 of the T2 return.

New legislation

After February 20, 1990, financial institutions include life insurance corporations and certain holding corporations. Part VI tax applies to such corporations with taxation years ending after February 20, 1990.

As a transitional rule, such corporations have to prorate both the Part VI tax liability and the Part VI tax credit based on the number of days in their taxation year after February 20, 1990.

Reference

Section 125.2

Item 77
Line 226 — *Part I.3 Tax Credit* — Form T962

You can get Form T962 from your district office. Use it 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 liable to pay Part I.3 tax have to file a Part I.3 tax return. You can send us the Part I.3 tax return in the same envelope as the T2 return, but please do not attach them together. The following forms are available at your district office:

- 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*

For more information about Part I.3 instalment requirements, see the *Instalment Guide for Corporations* (T7B).

Corporations that are liable to pay Part I.3 tax can claim a Part I.3 tax credit against Part I tax that is otherwise payable. The credit is equal to the amount of Part I.3 tax payable, but is limited by the amount of the corporation's **Canadian surtax** payable for the year.

If the corporation was not resident in Canada at any time in the year, or was not a Canadian resident corporation that carried on a life-insurance business, Canadian surtax is the amount of surtax determined under section 123.2.

In any other case, Canadian surtax is the amount of surtax determined under section 123.2, multiplied by the taxable capital employed in Canada, divided by the taxable capital for the year. There are special rules for calculating the Part I.3 tax credit in a year when the corporation undergoes a change of control.

To claim the Part I.3 tax credit, file Form T962, *Part I.3 Tax Credit*, with the T2 return. Enter the amount of the credit you are claiming on line 226 on page 4 of the return.

You can carry back unused Part I.3 tax credits to any of the three preceding taxation years that end after June 1989, and you can carry them forward seven taxation years and claim them to the same extent as described above.

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

New legislation

For 1991 and later taxation years, the Part I.3 tax rate is changed from 0.175% to 0.2%. However, there is a transitional rule for taxation years that straddle January 1, 1991, as shown on the Part I.3 tax returns.

Reference
Section 125.3

Item 78
Line 221 — *Investment Tax Credit* — Form T2038 (CORP)

You can get Form T2038 (CORP) from your district office.

You can apply investment tax credits that are earned by a corporation to reduce its Part I tax that is otherwise payable. A corporation earns investment tax credits by applying a specified percentage to the cost of acquiring certain property or to certain expenditures.

We have listed the percentages and their effective dates that should be applied to eligible expenditures on page 2 of Form T2038 (CORP). Expenditures that qualify 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; and
- qualified expenditures for scientific research and experimental development (SR&ED).

You will find the definitions of qualifying expenditures at the end of this item.

A corporation can earn investment tax credits on qualified property that is acquired primarily for use in Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, the 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, and extracting oil or natural gas;
- processing ore, iron ore, or tar sands;
- logging;
- farming (including grain storage); and
- fishing.

You will find a complete description of qualifying activities in subsection 127(9) under "qualified property."

Before applying the specified percentage to calculate the amount of investment tax credit earned, you have to 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 amount of any goods and services tax (GST) input tax credit or rebate that is received for property acquired after 1990 is considered to be government assistance, and should be deducted from the capital cost of the property.

New legislation

A property is not considered to have been acquired or expenditures are not considered to have been made, for earning an investment tax credit until the property becomes **available for use**. This rule applies to property acquired after 1989, other than a "certified production."

Property other than a building is considered **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 starts at least 358 days after the taxation year in which the property was acquired; or
- when the property is capable of producing a saleable product or performing a saleable service.

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

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

References
Subsections 13(26) to 13(32)

Annual investment tax credit limit

The amount of investment tax credit that you can claim for a year is restricted by the **annual investment tax credit limit**. Calculate this annual investment tax credit limit as follows:

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

The amount of an investment tax credit claimed for a depreciable property has to reduce the capital cost of the property in the next taxation year. For more information, see Item 38, "*Capital Cost Allowance* — Schedule T2S(8)," under the heading "column 4 — Adjustments."

Reference
Subsection 13(7.1)

You can carry forward any unclaimed investment tax credits for ten years, or carry them back three years, to reduce Part I tax. You can only carry back investment tax credits to a previous year if you cannot deduct them in the year they are earned.

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

References
Subsections 127(9.1) and 127(9.2)

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

You have to complete and file Form T2038 (CORP) with the T2 return when a corporation:

- has acquired any property or incurred any of the expenditures that qualify for the investment tax credit;
- is carrying over unused investment tax credits from a previous year;
- is transferring unused investment tax credits from a predecessor corporation on amalgamation, or from a subsidiary corporation on wind-up;
- is applying investment tax credits against Part I tax;
- is requesting a carry-back of unused investment tax credits to a previous taxation year; or
- is requesting a refund of unused investment tax credits (see Item 79).

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 that are available for carry-forward to the next year.

On line 221 on page 4 of the T2 return, enter the amount of investment tax credit claimed in the current year to reduce Part I tax payable.

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 at the beginning of this item.
- **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. To find out where the prescribed areas are, see Regulation 4602.
- **Approved project property** means property that the Minister of Industry, Science and Technology has certified 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** are prescribed expenditures for Canadian exploration of an oil or gas well, such as drilling or completing an exploratory probe, which the corporation has incurred before 1991.
- **Qualified expenditures for scientific research and experimental development (SR&ED)** are defined in Regulation 2900.

  See Item 44 for information about SR&ED expenditures. You have to file Form T661, *Claim for Scientific Research and Experimental Development Expenditures*, along with Form T2038 (CORP), when you are making claims under both subsections 37(1) and 127(5) for a qualified SR&ED expenditure.

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

New legislation
For property acquired after July 13, 1990, the definition of **qualified property** has been amended. For a corporation with a principal business of manufacturing property that it sells or leases, property acquired to be leased is considered qualified property only if the corporation manufactures it itself. For a corporation whose principal business is selling or servicing property, property acquired to be leased is considered qualified property only if it is the type that the corporation sells or services.

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

Item 79
Line 146 — Investment tax credit refund

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

- a **qualifying corporation** can claim 40% of the ITC earned in the taxation year; and
- a **qualifying corporation other than an excluded corporation** can claim a full refund (100%) of the ITC earned at the 35% rate for up to $2 million of scientific research and experimental development (SR&ED) expenditures (other than expenditures made to acquire 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 is not more than the total of the business limits of the corporation and the associated corporations for that preceding year. In most cases, the previous year's taxable income(s) cannot be more than $200,000. See Item 21 for more information.

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, or by any combination of these persons.

You have to file Form T2038 (CORP) 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*

Item 80
Line 129 — Part I tax payable

The basic Part I tax minus any allowable deductions and credits, as calculated on page 4 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.

Item 81
Line 261 — Refundable portion of Part I tax

Calculate the refundable portion of Part I tax on page 5 of the T2 return. It 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 part of that tax when it pays taxable dividends to its shareholders. This calculation only applies to corporations that are CCPCs 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. You can determine these amounts on Schedule T2S(7).

Investment income is calculated as:

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

minus

- 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; and
- losses from property.

On page 5 of the T2 return, enter the amount of net Canadian investment income on line 247, and the amount of net foreign investment income on line 249.

Taxable capital gains and allowable capital losses are included in a CCPCs net investment income only as long as you can attribute the gain or loss to a period of time when the property disposed of was held by a CCPC. See IT-243R3, *Dividend Refund to Private Corporation*, for more information.

To determine the refundable portion of Part I tax, reduce the net investment income by the net capital losses of other years that you deducted when you calculated taxable income for the year.

Foreign business and non-business income tax credits claimed 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. 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 129(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*

Item 82
Line 405 — *Part IV Tax on Taxable Dividends Received* — Schedule T2S(3)

You can get Schedule T2S(3) from your district office.

Every corporation that was a **private** or **subject** corporation at any time in the taxation year has to pay Part IV tax on any taxable dividends it 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 the payment of the dividends generates a dividend refund for the payer corporation.

You will find the definitions of **private, subject,** and **connected** corporations at the end of this item.

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

New legislation

A stock dividend received after 1990 from a non-resident corporation is no longer considered a "dividend."

Reference

Subsection 248(1)

Exempt corporations

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

- a prescribed labour-sponsored venture capital corporation;
- a prescribed investment contract corporation;
- an insurance corporation;
- a corporation licensed as a trustee;
- a bank; or
- a 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 it received from a prescribed qualifying corporation.

References

Section 186.2
Regulation 6704

Dividends not subject to Part IV tax

Dividends that are received on a small business development bond are not subject to Part IV tax.

Reference

Section 15.1

Dividends not taxable

Dividends that a corporation received out of a capital dividend account are not included in income if the payer corporation made an election under section 83. Any life insurance proceeds a corporation received have to be included in its capital dividend account. You can deduct any section 83 dividends received from income on Schedule T2S(1).

Completing 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 show if the payer is a connected corporation. Show the amount of dividends received from each payer corporation in column 3.

Dividends deductible in calculating taxable income under section 112 or 113 (column 4)

The following taxable dividends are deductible under section 112:

- dividends received from a taxable Canadian corporation, **or** from a corporation resident in Canada and controlled by the receiving corporation; and
- dividends received from a non-resident corporation (other than from a foreign affiliate).

The following taxable dividends are **not** deductible under section 112:

- dividends received from a corporation that is exempt from Part I tax;
- dividends received from a non-resident-owned investment corporation;
- dividends on collateralized preferred shares (loss rental plans); and
- dividends received as part of a **dividend rental arrangement**, as defined in subsection 248(1).

References

Subsections 112(1), 112(2), and 112(2.4) to 112(2.9)

Dividends received from foreign affiliates are deductible under section 113.

On line 119 on page 3 of the T2 return, enter the total from column 4.

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 under subsection 112(1) when you calculate taxable income;
- taxable dividends received from non-connected foreign affiliates that are deductible under paragraphs 113(1)(a), (b) or (d), or subsection 113(2) when you calculate taxable income; and
- taxable dividends received from **connected** private corporations, when the payment of the dividends generates a **dividend refund** for the payer corporation (complete the calculation in Area A to determine the amount that is subject to Part IV tax).

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

Reference

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

On line 405 on page 5 of the T2 return, enter the total of *dividends subject to Part IV tax from column 5 on Schedule* T2S(3).

A corporation can reduce the amount of dividends subject to Part IV tax by applying non-capital or farm losses incurred in the year or carried over from other years. On line 406 on page 5 of the T2 return, enter the amount of available non-capital or farm losses used to reduce dividends subject to Part IV tax.

Part IV tax otherwise payable on a dividend is reduced by any amount of Part IV.1 tax payable on the same dividend. See Item 87 for details. 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** is, at any particular time, a corporation that:

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

New legislation

As of July 14, 1990, a private corporation includes a corporation controlled by one or more prescribed venture capital corporations that are public corporations. Also, as of July 14, 1990, a corporation that is controlled by one or more prescribed federal Crown corporations or any combination of prescribed federal Crown corporations and public corporations does not qualify as a private corporation.

Reference

Paragraph 89(1)(f)

A **subject corporation** is a corporation resident in Canada, other than a private corporation, that is controlled (because of a beneficial interest in one or more trusts, or other reason) by an individual 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 when a particular corporation owns more than 10% of the issued share capital (with 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.

You can determine control of the corporation by referring to the actual ownership of shares, and without considering any rights referred to in paragraph 251(5)(b).

Reference
Subsection 186(4)

Item 83
Line 411 — Refundable dividend tax on hand (RDTOH)

The "Refundable dividend tax on hand area" is on page 5 of the T2 return. This account only applies to corporations that were **private** or **subject** corporations, as defined in Item 82, at the end of the taxation year.

A Canadian-controlled private corporation (CCPC) generates RDTOH on both 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 other private corporations.

You have to add the RDTOH generated in the current year to the amount of RDTOH at the end of the preceding taxation year (net of any dividend refund issued in the preceding year), plus any balance of RDTOH transferred from a predecessor corporation on amalgamation, or from a subsidiary corporation on wind-up. This new balance is the **RDTOH at the end of the taxation year.**

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

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

Enter any amount of RDTOH transferred from a wholly-owned subsidiary corporation on 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
You cannot transfer any RDTOH to a successor or parent corporation if, 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. See Item 84 for details.

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)

Item 84
Line 147 — *Dividend Refund* — Schedule T2S(3)

The "Dividend refund area" is on page 5 of the T2 return. A corporation that was a **private** or **subject** corporation at the end of a taxation year, as defined in Item 82, may be eligible for a dividend refund.

A dividend refund arises if the corporation pays taxable dividends 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 one of the following amounts, whichever is less:

- 1/4 of the taxable dividends paid in the year; or
- 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. Deduct the following amounts from total dividends paid in the year:

- dividends paid out of the capital dividend account;
- dividends paid on a share that do not qualify as taxable dividends, because the main purpose of acquiring the share was to receive a dividend refund (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 has to make an actual payment to the shareholders, except when a dividend is considered as having been paid (a deemed dividend). This payment can be either in the form of cash or of other tangible assets at their fair market value, including the following:

- stock dividends;
- section 84 deemed dividends; and
- amounts paid as interest or dividends on income bonds or debentures that are not deductible when calculating the corporation's income.

A dividend refund cannot be issued for dividends paid if a **private** or a **subject** corporation becomes either a public corporation or a subsidiary of a public corporation during the taxation year. 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, we cannot issue a dividend refund. A corporation has to be a private or subject corporation at the end of the year to qualify for a dividend refund.

However, if the corporation loses its **private** status because of a change of control, a deemed year-end would occur, allowing a dividend refund for any dividends paid within the deemed short year-end.

When any amount of tax due for a taxation year has to be paid by instalments, you can reduce each instalment payment by one-twelfth (1/12) of the dividend refund for that year. Therefore, a private corporation or a subject corporation can minimize its instalment payments by taking into account its anticipated dividend refund.

When the dividend refund is more than the amount of Part I tax payable for the year, we will first apply the excess 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

Item 85
Line 129 — Part I tax on taxable income

On line 129, enter the amount of Part I tax payable that you determined on page 4 of the T2 return.

References

Items 66 to 78

Item 86
Line 131 — Part IV tax on dividends received

On line 131, enter the amount of Part IV tax payable that you determined on page 5 of the T2 return.

Reference

Item 82

Item 87
Line 132 — *Part IV.1 Tax on Preferred Share Dividends Received* — Form T761

You can get Form T761 from your district 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, which exempts the holder from the 10% tax. See Item 88 for more details.

Excepted dividends are defined in section 187.1. These dividends 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 Parts IV.1 and VI.1 Taxes Payable,* gives details on how to calculate 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)

Item 88
Line 133 — *Part VI.1 Tax on Preferred Share Dividends Paid* — Forms T761, T769, and T770

You can get Forms T761, *Calculation of Parts IV.1 and VI.1 Taxes Payable*, T769, *Election Under Section 191.2 by an Issuer of Taxable Preferred Shares to Pay Part VI.1 Tax at a rate of 40%,* and T770, *Agreement Respecting Liability for Part VI.1 Tax*, from your district office.

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

The $500,000 dividend allowance is reduced if the corporation paid $1,000,000 or more of dividends on taxable preferred shares in the immediately preceding year. You have to allocate the dividend allowance between the members of an associated group.

Calculate Part VI.1 tax on Form T761. 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. To make this election, send us a completed Form T769.

A corporation (the transferor) can transfer all or part of its Part VI.1 tax liability to another corporation (the transferee), if they were related:

(a) throughout a taxation year of the transferor; and
(b) throughout the last taxation year of the transferee ending on or before the end of that taxation year of the transferor.

To certify the transfer of the Part VI.1 tax liability, send us Form T770.

A corporation can deduct Part VI.1 tax payable from income. See Item 55 for more information. Any Part VI.1 tax that remains after reducing taxable income to nil is part of the corporation's non-capital loss for the year. See Item 45 for details.

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

Item 89
Line 135 — *Part XIV Tax on Canadian Branches* — Schedule T2S(20) (not printed by the Department)

A corporation, other than one 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 usually 25%, but it can be reduced by a reciprocal tax treaty.

Prepare a schedule, identified as T2S(20) in the top right-hand corner, that shows how you calculated Part XIV tax. Enter the amount of Part XIV tax that is payable on line 135 on page 6 of the T2 return. See Item 5 for details on where to file the T2 return.

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 Québec, 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, you have to calculate provincial and territorial income taxes and credits on the federal T2 return along with the federal income taxes and credits. The "agreeing" provinces do not charge 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 **Québec, Ontario,** and **Alberta** have to send separate provincial income tax returns to those provinces.

If you need help with Québec's corporations tax, please see the *Corporation Income Tax Guide* which is published by the Ministère du Revenu du Québec. You can order this guide by contacting one of the offices of the Ministère du Revenu du Québec.

If you need help with Ontario's corporations tax, please see the *Ontario Corporations Tax Guide*. You can order this guide by calling one of the following numbers:

Metro Toronto	965-8470
All other areas	1-800-236-7965
French-language enquiries	1-800-668-5821
Telephone Device for the Deaf	1-800-263-7776

If you need help with Alberta's corporations tax, please see the brochure called *An Introduction to Alberta's Corporate Income Tax*, and the *Guide to the Completion of the Alberta Corporate Income Tax Return*. You can order these publications by calling one of the following numbers:

Edmonton	(403)427-0712
Calgary	(403)297-5200
Outside the Edmonton and Calgary calling areas but within Alberta	Alberta Zenith 22143

Item 90
Line 137 — Provincial or territorial jurisdiction

You have to fill in line 137 on page 6 of the T2 return to ensure that income taxes are paid to the appropriate province or territory. All corporations have to complete line 137, even if no tax is payable or if the provincial jurisdiction is Québec, Ontario, or Alberta.

On line 137, state the name of the province or territory where the corporation earned its income. Normally, this is where the corporation has its permanent establishment. If the corporation earned income in more than one province or territory, write "multiple." Corporations with a **multiple jurisdiction** have to file Schedule T2S-TC, *Tax Calculation Supplementary -Corporations*, with the T2 return.

Item 91
Line 139 — *Provincial and Territorial Tax Payable* — Schedule T2S-TC

You can get Schedule T2S-TC from your district office. File it with the T2 return if the corporation:

- has a permanent establishment in more than one province or territory (whether the corporation is taxable or non-taxable); or
- is claiming provincial and territorial tax credits, rebates (see Item 92), or both.

Corporations with no taxable income should only complete columns B and D of Part I of Schedule T2S-TC.

We assess provincial income taxes 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 (see Item 71), and is used to allocate Parts IV.1 and VI.1 taxes to the provinces (see Items 87 and 88).

Dual rates of provincial and territorial income tax

All provinces and territories except **Prince Edward Island** (and the **Northwest Territories** for taxation years ending before July 1, 1991) have dual rates of income tax known as the **lower rate** and the **higher rate**. The rates that apply are shown under the heading for each province and territory in Items 94 through 102.

The **lower rate** applies to the part 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 1

Corporation *X* earned all of its income in 1991 from its permanent establishment in New Brunswick.

The corporation's taxation year runs from September 1, 1990, to August 31, 1991.

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

The **lower rate** of tax for New Brunswick is 9%. The **higher rate** is 16% before 1991, and 17% after 1990.

Corporation *X* calculates its New Brunswick taxes payable as follows:

Taxable income	$90,000
Subtract amount taxed at lower rate:	
Least of lines 223, 225, and 227 in the calculation of the small business deduction	$78,000
Amount taxed at higher rate	$12,000
Taxes payable at higher rate:	
$12,000 x 16% x 122/365 =	$ 642
$12,000 x 17% x 243/365 =	$1,358
Taxes payable at lower rate:	
$78,000 x 9% =	$7,020
New Brunswick tax payable	$9,020

If, as in the above example, the corporation did not qualify for a federal small business deduction, and its taxation year was entirely in 1991, you would calculate the provincial corporation tax payable as follows:

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

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

Example 2

To calculate New Brunswick income tax using the same example, except that Corporation *X* has permanent establishments in New Brunswick **and** Nova Scotia, and its taxation year runs from January 1, 1991, to December 31, 1991, do the following:

Taxable income allocated to New Brunswick (from T2S-TC)	$60,000
Taxable income allocated to Nova Scotia (from T2S-TC)	$30,000
Total taxable income	$90,000
Income eligible for small business deduction attributed to New Brunswick: $60,000/$90,000 x $78,000 = $52,000	
Taxable income earned in New Brunswick	$60,000
Subtract: Income eligible for the small business deduction attributed to New Brunswick	$52,000
	$ 8,000
Amount taxed at higher rate: $8,000 x 17% =	$ 1,360
Amount taxed at lower rate: $52,000 x 9% =	$ 4,680
New Brunswick tax payable	$ 6,040

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.

Item 92
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. 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. Attach any forms needed to claim provincial or territorial credits or rebates to the T2 return.

We have discussed provincial foreign tax credits for all provinces and territories in Item 93. All other credits and rebates are described under the headings for each province and territory below.

Item 93
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, we do not allow foreign tax credits for the provinces of Québec, Ontario, and Alberta on the federal return, since these provinces collect their own income taxes. You will need a separate calculation for each province for which the corporation is claiming a credit.

Calculate a provincial foreign tax credit as the least of:

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

and

(B) (i) x [(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

* Always use the higher rate when you calculate the foreign tax credit. If the higher rate has changed during the taxation year, prorate the calculation in (A) using the two rates.

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

Item 94
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 17%.

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

Newfoundland Corporate Tax Reduction for New Small Businesses — line 669 — Form T745

The Newfoundland corporate tax reduction for new small businesses 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 that are eligible to claim a federal small business deduction for the year can claim this reduction to reduce Newfoundland income tax that is otherwise payable.

File the *Certified Application Form* issued by the province with the T2 return. Also, file Form T745 to calculate and claim the reduction. You can get Form T745 from your district office.

Enter the amount of the reduction claimed on line 668 of Part II of Schedule T2S-TC.

Item 95
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

You can claim contributions to recognized Prince Edward Island political parties, and to candidates who have been officially nominated under the *Election Act of Prince Edward Island*, as follows:

- 75% of the first $100 contributed; plus
- 50% of the next $450 contributed; plus
- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of $500.

Attach official receipts to the T2 return. We cannot accept photocopies unless the issuer certifies them as true copies.

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.

Prince Edward Island Small Business Deduction — line 680 — Form T708

Corporations that claim the federal small business deduction can 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.

This 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. You can get Form T708 from your district office.

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

Item 96
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 16%.

Nova Scotia provincial income tax at the above rates also applies to taxable income earned in the Nova Scotia offshore area.

Nova Scotia political contribution tax credit — lines 612 & 616

You can claim contributions to candidates and recognized parties as defined under the *Elections Act of Nova Scotia* as follows:

- 75% of the first $100 contributed; plus
- 50% of the next $450 contributed; plus
- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of $500.

Attach official receipts to the T2 return. We cannot accept photocopies unless the issuer certifies them as true copies.

Enter the total amount of qualifying contributions on line 616 of Part II of Schedule T2S-TC, and the amount of the credit claimed on line 612.

Nova Scotia Corporate Tax Reduction for New Small Businesses — line 668 — Form 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 that are eligible to claim a federal small business deduction for the year. It is deducted from the corporation's Nova Scotia provincial corporate tax that is otherwise payable for the year.

You can calculate the reduction on Form T701, *Nova Scotia Corporate Tax Reduction for New Small Businesses*, which is available from your district office. File Form T701 with the T2 return, along with the *Certificate of Eligibility* that the province issues.

Enter the amount of the reduction claimed on line 668 of Part II of Schedule T2S-TC.

Nova Scotia Research and Development Tax Credit — lines 670 & 671 — Form 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 that is otherwise payable.

Form T85, *Nova Scotia Research and Development Tax Credit*, shows you how to do the calculation. You can get the form from your district 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.

Item 97
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% before 1991; and
- 17% after 1990.

For a corporation whose taxation year straddles January 1, 1991, prorate the higher rate tax based on the number of days in the taxation year before and after this date. See Example 1 in Item 91.

New Brunswick political contribution tax credit — lines 622 & 624

You can claim contributions to a registered political party, a registered district association, or a registered independent candidate as defined under the *Elections Act of New Brunswick*, as follows:

- 75% of the first $100 contributed; plus
- 50% of the next $450 contributed; plus
- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of $500.

Attach official receipts to the T2 return. We cannot accept photocopies unless the issuer certifies them 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.

Item 98
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

You can claim contributions to registered political parties and registered candidates as defined under the *Election Finances Act of Manitoba* as follows:

- 75% of the first $100 contributed; plus
- 50% of the next $450 contributed; plus
- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of $500.

Attach official receipts to the T2 return. We cannot accept photocopies unless the issuer certifies them 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 — Form T86

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

You can carry forward an unclaimed credit to the seven taxation years following the taxation year in which the corporation made the purchase.

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 that is otherwise payable. You can get Form T86 from your district 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 — Form 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 that were incorporated in Manitoba after August 8, 1988, and before January 1, 1993.

Eligible corporations can reduce their lower rate Manitoba tax that is otherwise payable by a percentage of taxable income earned in Manitoba that qualifies for the federal small business deduction. The reduction also applies to the amount of income of a credit union that is eligible for the additional deduction under subsection 137(3). 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%

Calculate the Manitoba corporate tax reduction for new small businesses on Form T800, which is available from your district office. To claim the reduction, send Form T800 with the T2 return, along with the *Confirmation Notice*, the province issues.

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

Item 99
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%. However, this rate will change to 16% starting January 1, 1992.

Saskatchewan royalty tax rebate — lines 605, 614, 615 — Form 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*.

You can get Form T70, *Saskatchewan Royalty Tax Rebate Calculation (Corporations)*, from your district office. This form gives 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 — Form 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 that are eligible to claim a federal small business deduction for the year. It is deducted from the corporation's Saskatchewan income tax that is otherwise payable for the year.

Calculate the Saskatchewan corporate tax reduction for new small businesses on Form T700, which is available from your district office. To claim the reduction, send Form T700 with the T2 return, along with the *Confirmation Notice* the province issues.

Enter the amount of the reduction you 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 Saskatchewan government will issue an information slip called T2C(SASK) which you have to send with the T2 return to claim the credit.

You have to apply the available credit to reduce the Saskatchewan provincial tax to zero. You can carry forward any remaining credit to the seven taxation years that follow, and apply it against any Saskatchewan tax that is payable.

Enter the total credit earned in the year, as reported on the 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 were eligible to earn the livestock investment tax credit.

You can carry forward an unclaimed credit to the seven taxation years following the year the credit was earned and apply it against Saskatchewan tax that is payable.

Enter 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 were eligible for a Saskatchewan livestock facilities tax credit.

You can carry forward an unclaimed credit and apply it to reduce the Saskatchewan provincial tax that is payable in the seven taxation years following the year the credit was earned.

Enter 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.

Item 100
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% before 1991; and
- 15% after 1990.

For a corporation whose taxation year straddles January 1, 1991, prorate the higher rate based on the number of days in the taxation year before and after this date. See Example 1 in Item 91.

British Columbia political contribution tax credit — lines 604 & 606

You can claim contributions to recognized British Columbia political parties, recognized British Columbia constituency associations, or to candidates of an election to the British Columbia Legislative Assembly, as follows:

- 75% of the first $100 contributed; plus
- 50% of the next $450 contributed; plus
- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of $500.

Attach official receipts to the T2 return. We cannot accept photocopies unless the issuer certifies them 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 — Form 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 have to complete Form T81, *British Columbia Royalty and Deemed Income Rebate Calculation and Application,* and file it with the T2 return. You can get Form T81 from your district office.

Enter the rebate (or addition) 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 one-third (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 British Columbia government issues an information slip (Form FIN 565) that you have to file with the T2 return to claim the credit.

You have to apply the available credit to reduce the British Columbia provincial tax payable for the year to zero. You can carry forward any remaining credit to reduce British Columbia tax payable in the four taxation years that follow.

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 — Form T87

All corporations that, during the taxation year, received interest from bonds issued by the British Columbia Housing and Employment Development Financing Authority can claim the British Columbia housing and employment development bond tax credit.

To claim the credit, send Form T87, *British Columbia Refundable Tax Credits*, with the T2 return. Form T87 is available from your district office.

Enter the amount of eligible bond interest, as calculated on Form T87, on line 633 of Part II of Schedule T2S-TC. Credits that are more than the provincial tax payable are eligible for refund. Enter the amount of any refundable excess on line 158 on page 6 of the T2 return.

Item 101
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

You can claim contributions to a registered political party or to a candidate of an election to serve in the Legislative Assembly of the Yukon Territory as follows:

- 75% of the first $100 contributed; plus
- 50% of the next $450 contributed; plus
- 33 1/3% of the amount contributed that is more than $550, to a maximum credit of $500.

Attach official receipts to the T2 return. We cannot accept photocopies unless the issuer certifies them 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 — Form 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. You can get Form T572 from your district office.

Enter the amount of the calculated credit on line 634 of Part II of Schedule T2S-TC.

Item 102 Northwest Territories

Tax rates

All income earned in the Northwest Territories is subject to tax at the rate of 12% for taxation years ending before July 1, 1991. Qualifying corporations can claim the Northwest Territories small business deduction to reduce this tax. See below for details.

For taxation years starting after June 30, 1991, the **lower** rate of Northwest Territories income tax is 5%. The 5% rate applies to taxable income earned in the Northwest Territories that qualifies for the federal small business deduction.

The **higher** rate of tax that applies to taxable income that does **not** qualify for the small business deduction is 12%.

For taxation years that straddle July 1, 1991, the **lower** rate of tax is:

- 8% before July 1, 1991; and
- 5% after June 30, 1991.

For a corporation whose taxation year straddles July 1, 1991, prorate the lower rate of tax based on the number of days in the taxation year before and after this date. See example 1 in Item 91.

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. We can only accept photocopies if the issuer certifies them 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 — Form T1001

For taxation years that end before July 1, 1991, corporations that claim the federal small business deduction can claim this deduction to reduce Northwest Territories tax payable. The deduction is equal to 4% of income eligible for the federal small business deduction that is allocated to the Northwest Territories.

To claim the deduction, send Form T1001, *Northwest Territories Small Business Deduction*, with the T2 return. You can get Form T1001 from your district office.

Enter the amount of the deduction claimed on line 679 of Part II of Schedule T2S-TC.

For taxation years that start after June 30, 1991, or that straddle July 1, 1991, this deduction no longer applies. It has been replaced by a lower rate of tax. See "Tax rates" at the start of this item for details.

Other credits

Item 103 Line 145 — Instalments of income tax

You can find more details about payments, procedures, and how to calculate instalments in the *Instalment Guide for Corporations* (T7B), which is available from your district 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 RF-Corp you will find at the end of this guide. Make sure you give the corporation name, address, and account number on the form. You have to enter the complete taxation year-end and the amount of the payment in the appropriate boxes.

Review every statement of account (Form T9) you received to make sure that we have allocated instalment payments to the correct taxation year. If any payment is not allocated correctly, contact your taxation centre immediately and tell them about 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, we will process the return using the instalment credits available in the account for the taxation year being assessed.

We may have to apply a penalty on the interest payable on late or deficient instalment payments.

This penalty is 50% of the amount by which the net instalment interest for the year is more than one of the following amounts, whichever is more:

- $1,000; and
- 25% of the instalment interest calculated as if no instalment payment had been made for the year.

References

Sections 157 and 163.1
Item 6

Item 104
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 Item 79 for details.

Item 105
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 Item 84 for details.

Item 106
Line 149 — *Federal Capital Gains Refund* — Schedule T2S(18)
Line 151 — *Provincial Capital Gains Refund* — Schedule T2S(18) (not printed by the Department)

Investment corporations and **mutual fund corporations** have to 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 you use to determine the refundable capital gains tax on hand is 28%.

Calculate the federal capital gains refund as 21% of one of the following amounts, whichever is less:

- the capital dividends paid; and
- the capital gains redemption.

Calculate the provincial capital gains refund according to the provincial income tax act that applies.

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 and 131

New legislation

After February 20, 1990, a corporation that is established or maintained primarily to benefit non-residents does not qualify as a mutual fund corporation. Therefore, this type of corporation is not eligible for the capital gains refund.

Item 107
Line 153 — *Allowable Refund* — Schedule T2S(26) (not printed by the Department)

A non-resident-owned investment corporation that is paying taxable dividends to its shareholders has to 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

Item 108
Line 157 — Tax withheld at source

This is the amount shown as "income tax deducted" on NR4B (NR4-NR4A before 1991), T4A, or T4A-NR information slips that the recipient of a payment received. Attach these information slips to the T2 return.

There are two methods to claim a refund of non-resident withholding tax. You can either submit a completed Form NR7-R or a signed letter requesting the refund, or you can file a T2 return and attach a copy of the information slips.

Reference
IC 77-16R3 *Non-Resident Income Tax*

Item 109
Line 158 — *British Columbia Refundable Tax Credits* — Form T87

The British Columbia government allows a refundable tax credit for British Columbia housing and employment development bond interest that is more than the provincial tax payable. See Item 100 for details.

Enter the calculated amount of refundable tax credit from Form T87 on line 158 on page 6 of the T2 return.

Item 110
Line 159 — Payment on filing

Enter the amount of any payment being made with 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.

Item 111
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.

Item 112
Line 161 — Refund code

If the corporation is entitled to a refund, enter one of the following codes in refund code box 161:

- enter **1**, if you want us to refund the overpayment;
- enter **2**, if you want us to transfer the overpayment to next year's instalment account; or
- enter **3**, if you want us to hold the overpayment.

Note

We will first apply an overpayment of taxes to any outstanding previous year's tax balance. We will direct any amount left over according to the code you enter. If you do not enter a code, we will refund the overpayment.

If you enter code 2, we will transfer the overpayment to the next instalment year, as well as any refund interest that has accumulated from the date of the assessment.

You could use code 3 when a corporation wants the year's overpayment applied to an expected debit assessment. A corporation may also want to apply the overpayment to a different account. Attach a letter providing the details to the T2 return.

Item 113
Additional information

Be sure to provide all the information we request under the heading "Additional information" on page 6 of the return. Enter the **employer's remittance account** number on line (6). This is the account number you use when remitting the employees' payroll deductions.

Also, complete, in full, the Certification area at the bottom of page 6 of the T2 return.

Listing of federal & provincial corporate forms

You can get the following forms printed by Revenue Canada, Taxation from your district office. To order them, please use the telephone numbers and addresses listed in this guide.

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