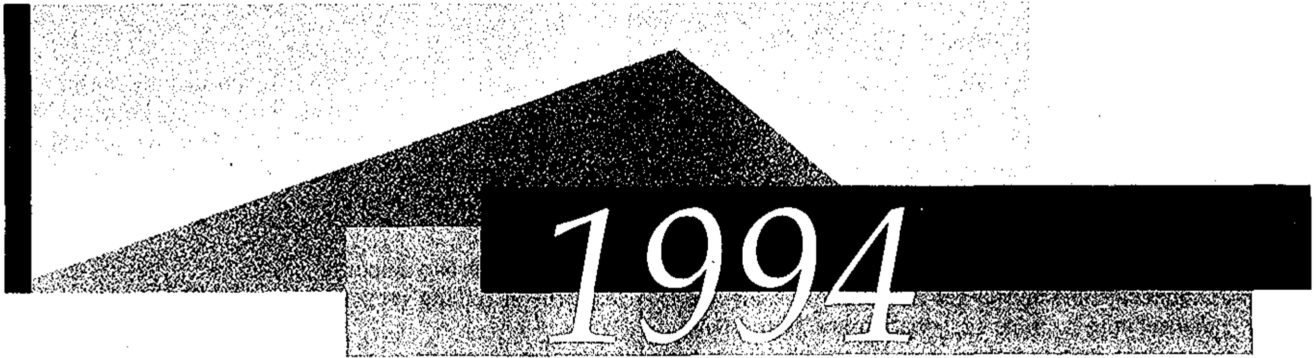
Information for Corporations

Revenue Canada

Revenu Canada



T2 Corporation Income Tax Guide

T4012(E) Rev.94

Canada

What's new for 1994?

Legislation

This guide includes changes to the *Income Tax Act* announced by the Minister of Finance. These changes had not yet become law at the time of printing. However, we are getting ready to apply them. We have summarized and highlighted these changes at the end of any affected items under the heading "Proposed legislation."

The Business Number (BN)

A new numbering system for businesses is being implemented nationally starting in January 1995. See item 12 in this guide for more information.

Tobacco Manufacturers' Surtax

The tobacco manufacturers' surtax is a 40% surtax on a corporation's Part I tax on tobacco manufacturing profits for the year. This tax will be in effect for a three-year period starting February 9, 1994, and ending February 8, 1997. Tobacco manufacturers will use Form T1123, *Part II Tax Return -Tobacco Manufacturers' Surtax* to calculate the tobacco manufacturers' surtax and file this return with their T2 *Corporation Income Tax Return.*

Mining Reclamation Funds

In a Notice of Ways and Means tabled in the House of Commons on November 22, 1994, the Minister of Finance announced draft legislation relating to the income tax treatment of mining reclamation trusts. Some of the proposed rules relating to mine reclamation are as follows:

- the corporation will be able to deduct contributions made after February 22, 1994, to a mining reclamation trust under which the corporation is a beneficiary;
- the corporation will be able to deduct amounts it paid to acquire an interest in a mining reclamation trust;
- the income or loss earned or realized in the trust will also be treated as income or loss of the beneficiary;
- all amounts received by a beneficiary of a mining reclamation trust will be included in the beneficiary's income.

A corporation may be able to claim the new federal mining reclamation tax credit refund. For more information on this refund, see item 110 in this guide.

Direct Deposit

You can now ask Revenue Canada to deposit your corporation's income tax refund directly into the corporation's account at a financial institution. See item 114 in this guide.

Problem Resolution Program

We are continually looking at ways to make it easier for you to file your returns and to resolve any problems you may have.

We deal with the majority of your questions and concerns through our enquiries services. If you have any problems, you should call, write, or visit your Revenue Canada income tax office. However, if your problem is not resolved to your satisfaction, you can contact a Problem Resolution Program co-ordinator.

You will find the telephone number of the co-ordinator of the Problem Resolution Program at your income tax office in the telephone listings at the end of this guide.

This guide uses plain language to explain the most common income tax situations. If you need help after reading this guide, please contact your Revenue Canada income tax office. You can find the address and telephone numbers at the back of this guide.

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In this guide, we give you basic information on how to complete the 1994 *T2 Corporation Income Tax Return* (the T2 return). Please note that the guide does not replace the *Income Tax Act* and its regulations. When we mention parts, sections, subsections, paragraphs, and subparagraphs, we are referring to the *Income Tax Act*.

In this guide, we also refer to information circulars (ICs) and interpretation bulletins (ITs) that we publish to give you more technical information. All references to ICs and ITs in this guide refer to the latest versions, which are available from the income tax offices. You will find the addresses and phone numbers of the income tax offices at the end of this guide. If you want to order any of the publications, forms, or the *T2 Corporation Income Tax Guide* for next year, use the order forms at the back of this guide.

1
Who has to file a T2 return?

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

Every corporation should send complete financial statements and the necessary schedules with the T2 return.

2
Who can use the T2 Short return?

The T2 Short return is a simpler version of the *T2 Corporation Income Tax Return*. There are two categories of corporations that are eligible to use this return.

1. You can use this return if the corporation meets **all** of the following conditions:
   - it is a Canadian-controlled private corporation;
   - it has either a **nil** net income for income tax purposes this year, or a **loss** this year;
   - it has gross revenue of $500,000 or less;
   - it has a permanent establishment in only one province or territory (see item 92 in this guide);
   - it is not claiming any refundable tax credits, other than a refund of instalments it paid; **and**
   - it did not receive or pay out any taxable dividends.
2. You can also file this return if the corporation is a tax-exempt corporation (such as a non-profit organization) that has a permanent establishment in only one province or territory.

If the corporation does not fit into either of the above categories, you have to file a regular *T2 Corporation Income Tax Return*.

Both the T2 Short and the regular T2 return are available at your income tax office.

3
In what format can you file a T2 return?

There are three formats you can use to file a corporation income tax return:

- **T2 returns printed by the Department**
You can get these T2 returns from our income tax offices. We have listed the addresses and telephone numbers at the end of this guide. The regular T2 return is six pages long, and the T2 Short is two pages long. Each return package has two copies of the T2: keep one copy for your files, and send the other one to us.

- **Computer-printed T2 returns**
You print these returns from a computer using an approved software program. If you use computer-printed returns, you have to meet the requirements specified in Information Circular 92-5. The following are some of those requirements:

A. Make sure we have approved any software program you want to use. Suppliers of these software programs send us a sample of the proposed computer-printed return. If it is approved, we assign a four-digit approval code to the acceptable software program.

Our approval code is only valid for one taxation year. The computer-printed T2 return you file for the 1994 taxation year has to have a 1994 approval code. You will find the approval code either below the Certification area on page 6 of the T2 return (page 2 of the T2 Short), or on line 498 of the keying summary. Make sure this code appears when you print the return.

B. You also have to file a keying summary with your computer-printed T2 return. This keying summary, which is included in the approved software packages, is a list of all the data fields from which we will key the information into our computers. The keying summary has to include all the keying fields (from 111 to 680, and from 900 to 904) from both the T2 return and the schedules.

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

You have to print these returns on paper that is as durable as the forms we print (32M or 40M if you print on both sides of the paper). We will accept "no-carbon-required" paper, as long as you send us the copy that does not mark the following page.

If your computer-printed return does not meet the requirements specified in Information Circular 92-5, we will send it back to you and ask you to refile the return either in an approved format, or on our form.

Note

If you use approved software programs, you can also file computer-printed schedules. These schedules give the same information as the ones we print. They are acceptable if:

- we have approved the software program;
- the keying summary shows all the keying fields from Schedules T2038(CORP), T2S-TC, T2S(21), and Forms T2147, T2148, T2149, T2044, T921, or T962;
- each schedule shows the corporation's name, account number, and taxation year-end; and
- the paper quality and print legibility meet our requirements.

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

Reference
IC 92-5 *T1, T2, & T3 Custom Returns*

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 owes tax, see item 6 in this guide for details on when the tax is due.

When 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.

When 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	Filing deadline
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 an income tax 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.

When 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.

Penalties may apply if you file the T2 return late. See item 7 in this guide for details.

Note

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

5
Where do you file the T2 return?

Where you file the T2 return depends on whether or not the corporation is resident in Canada, and where the corporation is located.

Resident corporations

Deliver the T2 return to your local district taxation 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 BC V3T 5E1
Alberta, Saskatchewan, Manitoba, and the Northwest Territories	Taxation Centre Winnipeg MB R3C 3M2
Ottawa, Toronto, Scarborough, Mississauga, and North York	Taxation Centre Ottawa ON K1A 1A2
Kingston, Belleville, Peterborough, Hamilton, Kitchener, St. Catharines, London, Windsor, Sudbury, and Thunder Bay	Taxation Centre Sudbury ON P3A 5C1
Montréal, Saint-Hubert, and Laval	Taxation Centre Shawinigan-Sud QC G9N 7S6
Sherbrooke, Québec, Rouyn-Noranda, Chicoutimi, Rimouski, and Trois-Rivières	Taxation Centre Jonquière QC G7S 5J1
Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland	Taxation Centre St. John's NF A1B 3Z1

Note

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

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

Non-resident corporations

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

The International Taxation Office
2540 Lancaster Road
Ottawa ON K1A 1A8

The following are some situations when a non-resident corporation has to file a T2 return:

- to report income or payments for services rendered in Canada for which taxes were withheld under Regulation 105;
- to pay tax on taxable income the corporation earns in Canada under section 115;
- 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 tax under Part XIV (known as branch tax);
- as a non-resident-owned investment corporation under section 133; and
- as a travelling corporation (e.g., a musical group) which operates in Canada for a limited period of time in a taxation year.

If you have questions about non-resident T2 returns, call the International Taxation Office at the following telephone numbers:

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

6
When do corporations pay income tax?

Corporations have to pay income tax in monthly instalments. The balance of tax the corporation owes for a taxation year is due within either two or three months of the end of that taxation year, depending on the circumstances of each corporation.

Interest and penalties apply on late payments. To be on time, you have to make instalment payments and other payments on or before the due date either by mailing a cheque made out to the Receiver General, or by paying directly at a Canadian financial institution.

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

Note

Sometimes, interest and penalties on late payments can be waived or cancelled. For more information, see the section called "Waiving penalties and interest" in item 7 of this guide.

Instalment due dates

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

Example

If the taxation year begins on December 16, 1993, and ends on December 15, 1994, the first payment is due January 15, 1994. The other 11 payments are due on the 15th of every month, with the last payment of the taxation year due on December 15, 1994.

A corporation does not have to make instalment payments for a taxation year if the total of Parts I (including corporate surtax), I.3, VI, and VI.1 taxes payable for the year or the preceding taxation year is $1,000 or less. For more information, see the *Corporation Instalment Guide*, which is available at your income tax office.

A new corporation does not have to make instalment payments during its first taxation year, since there is no previous taxation year. When instalment payments are not required, you have to pay the whole amount of tax by the balance due date.

Balance due date

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

- The corporation is a Canadian-controlled private corporation throughout the taxation year.
- The corporation claims the small business deduction for the taxation year, or was allowed the small business deduction in the previous taxation year.
- The corporation's taxable income for the previous taxation year is $200,000 or less, if the corporation **is not associated** with any other corporation during the taxation year. This $200,000 amount is the corporation's business limit for the previous year.

  If the corporation **is associated** with any other corporation during the taxation year, the total of the taxable incomes of all the associated corporations (for taxation years ending in the same calendar year as the corporation's previous taxation year) has to be $200,000 or less. This amount is the total of all the corporations' business limits for the same taxation years.

Note

For a taxation year shorter than 51 weeks, prorate the business limit based on the number of days in the taxation year divided by 365. See items 22 and 68 in this guide for more information.

Proposed Legislation

A Notice of Ways and Means tabled in the House of Commons on November 22, 1994 proposed that for taxation years ending after June 30, 1994, large Canadian-controlled private corporations having taxable capital employed in Canada of $15 million or more will have their business limit reduced to nil. For more information, see item 68 in this guide.

References
Section 157
IC 81-11 *Corporate Instalments*
Guide (T7B) *Corporation Instalment Guide*

7 Penalties

What happens if you file a return late?

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

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

References
Subsections 162(1) and 162(2)

Large corporations

A penalty applies to large corporations that have gross Part I.3 or Part VI tax payable, or both, and if they do not file a corporation income tax return, a large corporations tax return, or a financial institutions capital tax return as required.

The penalty is **0.25%** for each complete month that the return is late, up to a maximum of **40** months. This penalty is calculated on the combined amount that is payable under both the large corporations tax and the financial institutions capital tax, before deducting any surtax credits or Part I tax credits. This penalty applies separately for each late-filed return, in addition to any other penalty.

Reference
Section 235

What happens if you don't report income?

A penalty will be charged if a corporation does not report an amount of income on its return for a taxation year, 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 that is subject to the penalty.

Reference
Subsection 163(1)

False statements or omissions

A penalty will be charged if a corporation, either knowingly or under circumstances of gross negligence, makes a false statement or omission 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 for making a false statement or omission under subsection 163(2), the corporation cannot be charged a penalty on the same amount for failing to report income under subsection 163(1).

Other penalties

A corporation can also be charged penalties for:

- not providing information on an authorized form as required by the *Income Tax Act* and its regulations;
- not filing Form T106, *Corporate Information Return of Non-Arm's-Length Transactions with Non-Resident Persons* (see item 38 in this guide);
- not filing the T5013 Summary, *Partnership Information Return* (see item 31 in this guide); or
- late or deficient instalment payments.

Waiving penalties and interest

Sometimes, late-filing penalties or interest charges may be waived in situations where the corporation clearly does not deserve them. The reason for filing late or not paying an amount when it is due may be beyond the taxpayer's control. The types of situations in which a penalty or interest charge may be waived include:

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

If the corporation is in one of these situations, let us know about the problem, and try to file the return and pay any amount of tax owing as soon as possible. If you need an extension for filing a T2 return because of extraordinary circumstances, or if you think there is a valid reason for cancelling a penalty or interest charges, send us a letter explaining why it was impossible for you to file the return or make the payment on time.

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

8
What happens once you have filed the T2 return?

After we receive the T2 return, we send it to the Assessing Division of the responsible taxation centre for processing. Item 5 in this guide lists these taxation centres.

When we assess the return, we mail the corporation a *Notice of Assessment* and, if necessary, an explanation of any changes we made to the return.

As soon as you receive the assessment notice, compare it to your copy of the corporation's T2 return. Contact your local district taxation office if you need us to clarify or explain any part of the assessment. You will find the telephone numbers and mailing addresses of the district taxation offices at the end of this guide.

How to authorize the release of information to third parties

If you would like us to release details about any T2 return or returns to an independent representative, such as an accountant, you can either send us a signed letter of authorization, or complete Form T1013, which is called *Consent Form*.

- If you choose to write a letter of authorization, specify the person or people authorized to receive the information, and for which taxation years. To cancel an authorization that was previously given, notify us in writing immediately.
- If you choose to use Form T1013, you can get it from your income tax office. You can use this form both to give an authorization, or to cancel one that was previously granted.

You have to submit a separate form each time you give or cancel an authorization. With the form, you can ask that this authorization not only apply to previous taxation years, but also to the year after the year for which the form is dated. For example, you can use a consent form dated in 1993 to give authorization up to and including the 1994 taxation year.

9
When can we reassess a T2 return?

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

Normal reassessment period

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

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

Extended reassessment period

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

- if you want to carry back a loss or credit from a later taxation year;
- when a non-arm's-length transaction between the corporation and a non-resident affects the corporation's tax;
- if the corporation pays an amount or receives a refund of foreign income or profits tax;
- when a reassessment of another taxpayer's tax for any of the above reasons affects the corporation's tax; or
- if a reassessment of another taxation year (must be a prior taxation year if the reassessment relates to a loss or credit carry-back) 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 corporation has made a misrepresentation because of neglect, carelessness, wilful default, or fraud in either filing the return or supplying information required by the *Income Tax Act*; or
- the corporation filed Form T2029, *Waiver in Respect of the Normal Reassessment Period,* with the district taxation office before the normal reassessment period expires.

Note

If you want to revoke a waiver that was previously filed to extend the normal reassessment period for a certain taxation year, file Form T652, *Notice of Revocation of*

Waiver, at the district taxation 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

Send reassessment requests to the taxation centre that serves the corporation. 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 whichever of the following forms apply:

- Form T2A, *Request for Corporation Loss Carry-Back*, to request the carry-back of a loss;
- Form T2038(CORP), *Investment Tax Credit - Corporations*, to request the carry-back of an investment tax credit;
- Form T921, *Calculation of Unused Part VI Tax Credit and Unused Part I Tax Credit*, to request the carry-back of Part VI and Part I tax credits; and
- Form T962, *Calculation of Unused Part I.3 Tax Credit and Unused Surtax Credit*, to request the carry-back of Part I.3 and surtax tax credits.

These forms are available at your income tax office. You can file them with the return on which you report the loss or the earning of the credit, or you can forward them separately to the taxation centre that serves the corporation.

Reference
Subsection 152(6)

Form T2A, *Request for Corporation Loss Carry-Back*

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

Send Form T2A, *Request for Corporation Loss Carry-Back*, with the T2 return for the year the loss is incurred, or forward it separately to the taxation centre that processed the return.

10
How do you make an appeal?

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

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

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

You do not have to pay the disputed amount of tax, interest, or penalty while you are waiting for the outcome of the Department's or the Tax Court of Canada's impartial review, unless the corporation or a related corporation is liable for tax under Part I.3. However, once the objection or appeal is settled, normal interest charges will apply to any tax, interest, or penalties outstanding. Interest charges are calculated from the balance due date.

References
Section 165
IC 80-7 *Objections and Appeals*

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

References
Subsection 164(1.1)

Appealing 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, if a corporation does not agree with losses that we have assessed and wants to appeal, it has to request a loss determination. We officially determine the amount of the loss, and confirm it in writing by issuing Form T67-AM, *Notice of Determination/Redetermination of a Loss*. Once the corporation has received this form, it can appeal our loss determination.

Keep in mind that we will only make determinations of the following amounts if the corporation requests it:

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

Send any requests for loss determinations to your income tax office.

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

11
Books and records

You have to keep the corporation's books and records in case we need to verify the income or loss you reported on the T2 return. Keep books and records, including related accounts and vouchers, for at least six years from the end of the last taxation year to which they relate. If you filed a

return late, keep this information for six years from the date you filed the return.

Do not destroy the books and records any earlier unless we give you written permission to do so, or unless the corporation is dissolved.

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.

Keep all receipts and documents that you do not have to file with the T2 return in an orderly manner, in case we need to see them to support a claim, or in case we select the return for further review or audit.

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

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The Identification area

Be sure to complete page 1 of the T2 return accurately, so we can properly identify the corporation and process the return more quickly.

12
Name, account number and Business Number of corporation

Name of corporation

In this area, enter the full name of the corporation. Do not use abbreviations, and make sure the punctuation is correct.

Account number

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.

In the space provided, enter the account number. Remember to give the corporation's account number on all correspondence and instalment remittance forms you send to us.

We automatically assign an account number to a **new corporation**. We then mail this number to the corporation's head-office address. We also assign an account number to new corporations formed by **amalgamation** as soon as we are notified of this amalgamation. Contact your district taxation office if you have not received an account number.

Business Number (BN)

Starting in January 1995, the business number, or BN, (called the Single Business Registration Number during its 1994 pilot test), replaces the multiple numbers businesses now use to do business with government.

The new numbering system provides businesses with a unique number that will apply to the accounts covered by the BN. Initially, the BN will include the four main Revenue Canada business accounts: corporate income tax, payroll deductions, Goods and Services Tax (GST), and import/export.

Between January and April 1995 the BN will be implemented in stages by region. Existing businesses will be mailed information packages on how to convert to the BN. New businesses will be registered in the BN system when they open one of the accounts included in the BN system. Existing businesses will be able to choose their best time to convert up to the mandatory date of January 1, 1997.

With the national implementation of the BN, businesses will be able to get services on the accounts covered by the BN. They will be able to register their businesses in one place, open additional accounts, make changes to their accounts (e.g., address changes), as well as enquire about account balances and recent payments. In some offices, these services will be offered in a Business Window offering one-stop business program service.

The BN will allow government to increase efficiency, provide more effective, client-oriented service, and reduce the time and effort businesses need to do business with government.

Businesses that want to enquire about conversion to the BN before they receive their information packages in the mail can call 1-800-959-8297.

13
Addresses

Address of head office

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

Mailing address

Complete this area if the corporation's mailing address is different from its head-office address. If the corporation's mailing address changes, let the responsible taxation centre know in writing as soon as possible.

We usually 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 in the top right-hand corner of the mailing-address area.

Location of books and records

Enter the complete address of the location where the corporation keeps its books and records. We also need the name and telephone number of the person who has access to the records.

14
Is the corporation a resident of Canada?

To answer this question, tick either the *yes* or *no* box. If the corporation is not a resident of Canada, give the country of residence in the space provided. Non-resident corporations have to mail their T2 returns to the International Taxation Office. See item 5 in this guide for details.

15
Is this the first year of filing?

To answer this question, tick either the *yes* or *no* box. If you answer *yes*, the corporation has either just been incorporated, or has been recently formed as a result of an amalgamation. Keep in mind that the taxation year of a new corporation cannot be longer than 53 weeks from the date it was incorporated.

Date of incorporation

If the corporation is newly incorporated, enter the date of incorporation.

Date of amalgamation

If the corporation has recently been formed as a result of an amalgamation, enter the date the amalgamation became effective. This date is the first day of the first taxation year of the newly formed corporation.

16
Is this the final taxation year before amalgamation?

Predecessor corporations filing their last returns have to answer *yes* to this question on their final T2 returns.

When two or more corporations amalgamate, each one of the predecessor corporations has to file a T2 return for the period ending immediately before the effective date of amalgamation. You will find the effective date on the *Certificate of Amalgamation* or the *Articles of Amalgamation*.

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

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, 1994 (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, 1995.

Both N Co. Ltd. and J Co. Inc. have to file two returns: one for the taxation year ending November 30, 1994, and one for the taxation year ending December 31, 1994.

The newly amalgamated corporation, N & J Co. Ltd., will file its first return for the taxation year that begins on January 1, 1995.

17
Is this the final return up to dissolution?

To answer this question, tick either the *yes* or *no* box. You have to answer *yes* if you are filing the corporation's final return for a taxation year ending on the date of dissolution.

The responsible representative of the corporation has to obtain a clearance certificate from the district taxation office before distributing any of the corporation's property under his or her control. By obtaining the certificate, the responsible representative will avoid being personally liable for the unpaid taxes, interest, and penalties of the corporation. Remember to include the balance sheet with the final T2 return, which shows how the assets were distributed.

Note

If a corporation wants to be dissolved permanently, it should apply to its applicable incorporating body to have its charter stricken from their records, in addition to filing a final T2 return. Otherwise, we will consider the company to still exist, and it will have to file a T2 return, even if there is no tax payable.

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

18
To which taxation year does this return apply?

In the boxes provided, enter the first and last days of the taxation year. The taxation year of a corporation is its fiscal period. A fiscal period cannot be longer than 53 weeks (371 days). The taxation year of a new corporation cannot be longer than 53 weeks from the date it was either incorporated or formed as a result of an amalgamation.

The first day of this taxation year has to be the day after the last day of the preceding taxation year. Make sure the financial statements you attach to the T2 return match the taxation year of the return.

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

Does the taxation year begin and end on the same dates as last year?

To answer this question, tick either the *yes* or *no* box. Generally, unless you have received approval from the Minister of National Revenue to change the fiscal period, the corporation's fiscal period is the same from year to year. To change an established fiscal period, write a letter to your district taxation office asking for approval and explaining the reasons for the change.

However, there are some situations in which you do not need the Minister's approval to change the fiscal period. They include the following:

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

Reference
IT-179 *Change of Fiscal Period*

If *no*, why has the taxation year changed?

If the corporation's taxation year does not begin and end on the same dates as last year, please explain in the space provided why the taxation year has changed.

If the reason is an acquisition of control, when was control acquired?

If the taxation year changed because a person or group of persons acquired control of the corporation, give the date control was acquired in the space provided.

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

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

If control is acquired up to seven days after the end of an established taxation year, generally a corporation can choose to extend the taxation year up to the time control is acquired. In this case, attach a letter to your T2 return that says you are making an election under paragraph 249(4)(c).

Note

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

19
Type of corporation at the end of the taxation year

Check the box that accurately describes the corporation type **at the end of the taxation year.** Since the corporation type determines whether or not the corporation is entitled to certain rates and deductions, make sure to check the correct box. See the following for details.

Reference
IT-391 *Status of Corporations*

Box 1: Canadian-controlled private corporation

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

- it is a private corporation;
- it is a corporation that was resident in Canada, and was either incorporated in Canada or resident in Canada from June 18, 1971, to the end of the taxation year;
- it is not controlled directly or indirectly by one or more non-resident persons;
- it is not controlled directly or indirectly by one or more public corporations (other than a prescribed venture capital corporation, as defined in Regulation 6700); and
- it is not controlled directly or indirectly by any combination of persons described in the two preceding conditions.

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

Box 2: Other private corporation

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

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

References
Subsection 89(1)
Regulations 6700 and 7100

Box 3: Public corporation

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

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

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

References
Subsection 89(1)
Regulations 4800(1) and 4800(2)

Box 5: Corporation controlled by a public corporation

Tick this box if the corporation is a Canadian subsidiary of a public corporation. These types of corporations do not qualify as public corporations for the purpose of determining the type of corporation.

Box 4: Other corporation

Tick this box if the corporation does not fall within the other categories. Examples of "other corporations" include credit unions, co-operatives, non-resident-owned investment corporations, and Crown corporations.

Did the type of corporation change during the taxation year?

To answer this question, tick either the *yes* or *no* box. If you answered *yes*, explain on the line provided what the corporation type was before the change. Do not include other types of changes in this section, such as the change from active to inactive status.

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

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, 1994.

On June 1, 1994, J. Doe, the controlling shareholder, moved permanently to Newport, Rhode Island. J. Doe is now considered a non-resident.

Since the company was not a Canadian-controlled private corporation **throughout the taxation year** because it is now controlled by a non-resident, it cannot claim the small business deduction on its 1994 T2 return.

On August 1, 1994, the company became a public corporation. Therefore, the company will only be entitled to a dividend refund on its 1994 T2 return for dividends it paid in the year while it was a private corporation.

The company will have to pay Part IV tax on any taxable dividends it received at the time in the year when it was a private corporation, even though it was a public corporation at the end of its taxation year.

20
Is the corporation exempt from tax under paragraph 149(1)(e) or (l)?

To answer this question, tick either the *yes* or *no* box. If you are using a T2 Short return, tick the box that describes the kind of tax-exempt corporation. These corporations, which include non-profit organizations, do not have to pay any corporate income tax because they are exempted by one of the following paragraphs:

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

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

You will have to file Form T1044, *Non-Profit Organization (NPO) Information Return*, for taxation years ending after 1992 if the organization meets the definition in paragraph 149(1)(e) or 149(1)(l) and if one of the following conditions apply:

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

If you have to file an information return for any taxation year, you will have to file a return for all future taxation years. See item 32 in this guide for filing instructions.

References
Subsection 149(12)

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

21
What is the corporation's major business activity?

In the space provided, describe 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, describe each of them.

The following are examples of how to describe your corporation's major business activity:

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

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

Tax-exempt corporations (except those described in item 20 in this guide) have to state their organization type and the tax exemption on this line.

If the corporation is inactive, say so on this line. Even if a corporation is inactive, which means it has not operated during the taxation year and has earned no income, it has to file a T2 return. With the return, we need a balance sheet showing the assets, liabilities, and shareholders' equity at the end of the taxation year.

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

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

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

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

Specify the principal products or services

Break down the business activity you described above into the following categories:

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

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

Language of correspondence

Please indicate in which official language you would like to receive your correspondence.

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Attachments

On page 2 of the T2 return, we have listed the most common documents you may have to attach to the return. We need both the complete financial statements of the corporation and the schedules that apply.

Financial statements

Each corporation should include complete financial statements for the taxation year of the T2 return. These statements include:

- a balance sheet;
- an income statement;
- any notes to the financial statements; and
- the auditor's report, if the financial statements were audited.

If the corporation has been inactive during the taxation year, the return should still include at least a balance sheet showing the corporation's financial position at the end of the taxation year.

Schedules

Complete the questionnaire on page 2 of the T2 return. For every *yes* answer you give, fill out the appropriate schedule and include it with the T2 return.

We have organized the schedules into two categories:

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

Since we do not print all of these schedules, we have included a complete list of the schedules we do print at the end of this guide. You can get them from your income tax office. For the schedules we do not print, assemble the requested information and label it with the T2S schedule number in the top right-hand corner of each page.

Order of attachments

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

- the T2 return;
- the keying summary (if it is a computer-printed T2 return);
- Schedule T2S-TC;
- Schedule T2038(CORP);
- Schedule T2S(21);
- Form T2147, Form T2148, or Form T2149;
- Form T2044;
- any correspondence;
- official receipts;
- financial statements; and
- other schedules in any order.

Reference
IC 92-5 *T1, T2, & T3 Custom Returns*

Information schedules

There are two types of information schedules:

- general information schedules; and
- schedules relating to transactions with non-residents.

General information schedules

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

22
Form T2013, *Agreement Among Associated Corporations*

You can get this form from your income tax office.

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

Only **Canadian-controlled private corporations** that are associated have to file Form T2013. These corporations use this form to:

- identify the associated corporations;
- allocate the $200,000 business limit for the small business deduction (see item 68 in this guide);
- allocate the $2,000,000 expenditure limit for the 35% investment tax credit rate on qualifying scientific research and experimental development (SR&ED) expenditures (see item 76 in this guide); and
- provide the previous year's taxable incomes of the associated corporations to determine whether or not the corporation is eligible for:
  - the 35% investment tax credit rate and the 100% refundable investment tax credit rate on qualifying SR&ED expenditures (see item 76 in this guide);
  - the 40% refundable investment tax credit rate (see item 76 in this guide); or
  - the one-month extension of the date that the balance of tax is due (see item 6 in this guide).

Note

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

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

Prorating the expenditure limit

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

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

Reference
Subsection 127(10.6)

Prorating the business limit

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

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

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

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

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

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

Example

A Co. and B Co. are associated in 1994.

A Co.'s taxation year runs from January 1, 1994, to June 30, 1994.

The business limit allocated to A Co. for its June 30, 1994, taxation year is $80,000.

On November 1, 1994, C Co. becomes associated with A Co. and B Co. C Co.'s taxation year ends on December 31, 1994. A Co. and B Co. decide to adopt December 31, 1994, as their year-ends, to match C Co.'s year-end.

The corporations decide to allocate a $150,000 business limit to C Co. for the December 31, 1994, year-end. Since the total of their business limits cannot be more than $200,000, the corporations allocate $25,000 each to A Co. and B Co.

Question
What is A Co.'s business limit for each of the two taxation years ending in the 1994 calendar year?

Answer
Taxation year ending June 30, 1994:

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

$$\$\ 80{,}000 \times \frac{181 \text{ days}}{365 \text{ days}} = \$39{,}671$$

Taxation year ending December 31, 1994:

A Co. uses the $25,000 business limit allocated in this taxation year, since it is less than the $80,000 business limit allocated in its first taxation year ending in 1994. A Co. prorates it as follows:

$$\$\ 25{,}000 \times \frac{184 \text{ days}}{365 \text{ days}} = \$\ 12{,}603$$

Reference
Subsection 125(5)

When is a corporation associated?

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

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

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

Condition 1
The corporations are associated if one corporation controls the other.

Example

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

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

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

Condition 2
The corporations are associated if both corporations are controlled by the same person or group of persons.

Example

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

As a group, Bob and Ike control both companies.

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

Condition 3
The corporations are associated if:

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

Example

Op Co. owns 100% of the issued share capital of Fin Co. It also owns 25% of the Class A shares (other than shares of a specified class) of Ip Co. Op Co. is related to Ip Co.'s controlling shareholder, Billy. (Op Co. is related to Billy because Billy's brother controls that corporation.)

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

Condition 4
The corporations are associated if:

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

Example

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

Therefore, AY Limited and AZ Inc. are associated.

Condition 5
The corporations are associated if:

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

Example

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

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

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

Proposed Legislation
Based on proposed legislation, corporations will be able to use Form T2013 to identify the Gross Part I.3 tax of the preceding taxation year for the purpose of calculating the reduction to the business limit. See item 68 in this guide for more details.

23
Form T2144, *Election not to be an Associated Corporation*

You can get this form from your income tax office.

File Form T2144 if the corporation elects under subsection 256(2) not to be associated with two other corporations for the purposes of the small business deduction.

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

However, for the purposes of the small business deduction, the third corporation can elect not to be associated with either of the other corporations. When a corporation makes this election, its business limit for the small business deduction is considered zero. Form T2144 gives you more details.

Make sure to file one copy of Form T2144 for each corporation to which the election applies with the T2 return of the third corporation.

Reference
Subsection 256(2)

24
Schedule T2S(9), *Related Corporations*

We do not print this schedule.

Related corporations have to include the following information with their T2 returns:

- the names, addresses, and corporation account numbers of the related corporations;
- details of any intercompany shareholdings; and
- the type of relationship (for example, foreign parent, Canadian parent, foreign subsidiary, Canadian subsidiary, or associated corporation).

Please identify this information as Schedule T2S(9) in the top right-hand corner of the page.

Reference
Section 251

25
Schedule T2S(11), *Transactions With Shareholders, Officers, and Employees*

We do not print this schedule.

Give complete details of any transactions with shareholders, officers, or employees that involve:

- 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 were not repaid by the end of the taxation year.

Please identify this information as Schedule T2S(11) in the top right-hand corner of the page.

Do not include transactions the corporation carried out in the ordinary course of business, or any transactions listed on Form T106. See item 38 in this guide for details.

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

26
Schedule T2S(11)(A), *Non-Arm's-Length Transactions*

We do not print this schedule.

If you make a section 85 election for a transaction between corporations not dealing at arm's length, and if all or substantially all of the assets of a corporation (the transferor) are disposed of to another corporation (the transferee), you have to give the name, address, and account number of the transferor.

Identify this information as Schedule T2S(11)(A) in the top right-hand corner of the page.

Generally, we consider that at least 90% meets the test for **all or substantially all**. You have to value all assets at cost or fair market value.

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

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

27
Schedule T2S(14), *Miscellaneous Payments to Residents*

We do not print this schedule.

Please provide a list of any of the following payments the corporation made to residents of Canada:

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

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

List only the payments that were more than $100, and show the names and addresses of each recipient. Identify this information as Schedule T2S(14) in the top right-hand corner of the page.

28
Schedule T2S(15), *Deferred Income Plans*

We do not print this schedule.

List the amounts the corporation deducted from its income for payments it made to a registered pension plan (RPP), a registered supplementary unemployment benefit plan (RSUBP), a deferred profit-sharing plan (DPSP), or an employee profit-sharing plan (EPSP). This list must show:

- the name of each plan, and the amount claimed as a deduction for each;
- the registration number assigned by Revenue Canada to an RPP, an RSUBP, or a DPSP; and
- the name and address of the trust governed by an employee profit-sharing plan. If the trust is not resident in Canada, state whether or not the T4PS Supplementaries, *Statement of Employees Profit Sharing Plan Allocations and Payments*, were filed for the last calendar year and, if so, by whom (the trustee or the employer).

Identify this information as Schedule T2S(15) in the top right-hand corner of the page.

29
Schedule T2S(24), *New Corporations, Amalgamated Corporations, or Parent Corporations Winding Up a Subsidiary*

We do not print this schedule.

a) **New corporations**

   Make sure to attach all of the following documents to the first T2 return of a new corporation:

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

   Identify each of these documents as Schedule T2S(24) in the top right-hand corner of each page.

b) **Amalgamated corporations or parent corporations after winding up a subsidiary**

   Make sure to include the following information with the first return of a newly amalgamated corporation, or of a parent corporation after winding up a subsidiary:

   - the name and the account number of each predecessor or subsidiary corporation; and
   - an accounting of all deductions and tax credits transferred from each predecessor or subsidiary corporation.

   Identify this information as Schedule T2S(24) in the top right-hand corner of the page.

30
Form T5004, *Statement of Tax Shelter Loss or Deduction*

You can get this form from your income tax office.

If the corporation is claiming a loss or deduction from an interest in a tax shelter it purchased after August 31, 1989, file Form T5004 with the T2 return.

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

Reference
IC 89-4 *Tax Shelter Reporting*

31
T5013 Supplementary, *Statement of Partnership Income*

If the corporation is a member of a partnership, attach to the T2 return 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 a T5013 Supplementary, *Statement of Partnership Income*, have to file it with the T2 return for the taxation year in which the fiscal period of the partnership ends.

Note

Each partnership has to file a T5013 Summary, *Partnership Information Return*, for each fiscal period. However, some partnerships are exempt from this requirement. For more information, see the *Income Tax Guide for the Partnership Information Return*, which is available at your income tax office.

32
Form T1044, *Non-Profit Organization (NPO) Information Return*

You can get this form from your income tax office.

Form T1044 is the annual information return for organizations claiming non-profit status under paragraphs 149(1)(l) or 149(1)(e). Your organization will only file this return if it meets one of the filing requirements explained in item 20 of this guide.

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

There are two ways you can choose to send us your NPO return:

- mail it in the envelope enclosed in the NPO guide; or
- attach the NPO return to your T2 return. If you file both returns together, in the Idenfication Section of the NPO return, complete all areas except for the "Name of organization and address" area. Then complete sections B through G. Do not use the NPO envelope. Deliver both returns to your income tax office or mail them together to the responsible taxation centre.

Reference
Subsection 149(12)

Schedules relating to transactions with non-residents

The following section explains various schedules you may have to complete to report transactions with non-residents.

33
Schedule T2S(19), *Non-Resident Ownership*

We do not print this schedule.

If a non-resident shareholder owned a share of any class of the corporation's capital stock at any time during the taxation year, indicate the percentage of voting shares owned by non-resident shareholders. If the percentage varied throughout the year, indicate the highest percentage owned by non-residents at any time during that year.

Identify this information as Schedule T2S(19) in the top right-hand corner of the page.

34
Schedule T2S(22), *Non-Resident Discretionary Trust*

We do not print this schedule.

Indicate the names and mailing addresses of all non-resident discretionary trusts, as well as those of the trustees, if, at any time during the taxation year, **one** of the following organizations had a beneficial interest in a non-resident discretionary trust (governed by subsection 94(1)):

- the corporation;
- a foreign affiliate controlled by the corporation; or
- any other corporation or trust that did not deal at arm's length with the corporation.

Identify this information as Schedule T2S(22) in the top right-hand corner of the page.

35
Schedule T2S(25), *Investment in Foreign Affiliates*

We do not print this schedule.

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

- 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 subsection 95(4), for each foreign affiliate.

Identify this information as Schedule T2S(25) in the top right-hand corner of the page.

36
Schedule T2S(29), *Payments to Non-Residents*

We do not print this schedule.

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

If the corporation **did not** file NR4B, T4-T4A, or T4A-NR returns, we need a list of the types of payments, the dollar amounts, and the addresses of the payees for any of the following amounts paid or credited to non-residents:

- royalties;
- rents;
- dividends;
- management fees;
- technical assistance fees (see item 27 for details);
- research and development fees;
- interest;
- film payments;
- any payments for regular services; or
- other services.

Identify this information as Schedule T2S(29) in the top right-hand corner of the page.

37
Schedule T2S(30), *Non-Canadian Advertising Expense*

We do not print this schedule.

List any amounts claimed as expenses for advertising:

- in an issue of a non-Canadian newspaper or periodical;
- with a foreign broadcaster.

Identify this information as Schedule T2S(30) in the top right-hand corner of the page.

References
Sections 19 and 19.1

38
Form T106, *Corporate Information Return of Non-Arm's-Length Transactions with Non-Resident Persons*

You can get this form from your income tax office.

Form T106 is an annual information return on which you report the activities between Canadian corporate taxpayers and certain non-resident persons under section 233.1.

File 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 non-residents with whom it was not dealing at arm's length at any time in the year.

File a separate T106 information return for each non-resident.

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

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

Be sure to either deliver Form T106 to your district taxation 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 in the same envelope as the T2 return, but **do not** attach them to each other. If you file Form T106 late, the corporation will be subject to penalties.

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

Calculation schedules

You may also have to use various calculation schedules to complete the rest of the T2 return. We have listed all of these schedules on page 2 of the T2 return. You will find details about each of these schedules in the following chapters.

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Calculating net income — Line 111

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

39
Schedule T2S(1), *Net Income for Income Tax Purposes*

We do not print this schedule.

If the corporation's net income on its income statement is different from its net income for income tax purposes, you have to provide us with calculations to show how you determined the net income you are reporting on line 111. Make sure to identify these calculations as Schedule T2S(1) in the top right-hand corner of the page.

Keep in mind that some expenses deducted on the corporation's income statement are not allowable for income tax purposes. Also, certain items included in income are not taxable.

To calculate the net income or loss for income tax purposes on Schedule T2S(1):

- add the non-allowable expenses to the amount of net income or loss indicated on the income statement; and
- subtract from this amount the non-taxable items and allowable deductions for tax purposes.

The following are a few of the most common additions and subtractions you have to make on Schedule T2S(1).

A. Amounts you have to add:

- 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 credits on current scientific research and experimental development (SR&ED) expenditures; and
- the non-allowable portion of food, beverage, and entertainment expenses.

B. Amounts you have to subtract:

- gains on disposal of assets as shown on financial statements;
- non-taxable capital dividends (election 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.

Remember that these lists are common examples of amounts to add and subtract to the net income or loss indicated on the income statement. They are **not** complete lists.

On line 111 on page 3 of the T2 return (page 1 of the T2 Short), enter the amount you have determined as the **net income or loss for income tax purposes.**

Keep in mind that you may have to use some of the following schedules to calculate certain amounts on Schedule T2S(1):

- Schedule T2S(6), *Summary of Dispositions of Capital Property* (see item 40 in this guide for details);
- Schedule T2S(8), *Capital Cost Allowance (CCA)* (see item 41);
- Schedule T2S(8)(A), *Cumulative Eligible Capital Deduction* (see item 42);
- Schedule T2S(12), *Natural Resource Earned Depletion* (see item 43);
- Schedule T2S(13), *Continuity of Reserves* (see item 44);
- Schedule T2S(16), *Patronage Dividend Deduction* (see item 45);
- Schedule T2S(17), *Allocation in Proportion to Borrowing* (Credit Unions) (see item 46); and
- Form T661, *Claim for Scientific Research and Experimental Development Expenditures carried on in Canada* (see item 47).

Proposed Legislation
A Notice of Ways and Means tabled in the House of Commons on November 22, 1994 proposed that for expenses incurred after February 21, 1994, for food, beverages, and entertainment consumed or enjoyed after February, 1994, the deductible portion of expenses will be reduced from 80% to 50%.

40
Schedule T2S(6), *Summary of Dispositions of Capital Property*

You can get this schedule from your income tax office.

You have to complete Schedule T2S(6) if the corporation disposed of capital property during the taxation year and incurred any **capital losses** or realized any **capital gains**.

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

Note

A **business investment loss** occurs when the corporation disposes of certain capital properties. Although you calculate the deductible part of a business investment loss, called an **allowable business investment loss**, in the same way as you calculate an allowable capital loss, do not report it on Schedule T2S(6). See item 49 in this guide for details.

Paragraph 111(4)(e) designation

You can also use Schedule T2S(6) to make a designation under paragraph 111(4)(e) if control of the corporation has been acquired by a person or group of persons. If you make the designation, capital properties will be considered as having been disposed of immediately before that person or group of persons acquired control of the corporation.

To do so, simply tick the *yes* box on page 1 of the schedule, and attach a statement specifying which properties are subject to the designation.

Completing Schedule T2S(6)

To make it easier to complete Schedule T2S(6), we have provided the following explanations that briefly set out the type of information we need in each column and each part of the schedule.

Column 1: Types of capital property

There are six categories of capital property the corporation may have disposed of during the taxation year:

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

We have divided Schedule T2S(6) into six parts to reflect these categories of capital property.

Column 2: Identifying private corporation dispositions

If the corporation disposed of shares of a private corporation, or if it disposed of debts owing by a private corporation, tick the corresponding box in column 2.

Column 3: Date of acquisition

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

Column 4: Proceeds of disposition

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

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

References
Section 54
IT-259 *Exchanges of Property*
IT-271 *Expropriations — Time and Proceeds of Disposition*

Column 5: Adjusted cost base

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

References
Subsections 53(1) and 53(2)
IT-418 *Capital Cost Allowance — Partial Dispositions of Property*
IT-456 *Capital Property — Some Adjustments to Cost Base*

The cost of property acquired after 1971 is usually the actual cost of acquiring it, including the purchase price plus any related costs 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-128 *Capital Cost Allowance — Depreciable Property*

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

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

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

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

Reference
Subsection 40(3)

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

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

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

Proposed Legislation
In a Notice of Ways and Means tabled in the House of Commons on November 22, 1994, the Minister of Finance announced draft legislation relating to interests in a partnership held by a limited partner or an inactive partner. Such interests will no longer be excepted from the negative ACB rule. This proposal generally applies after February 21, 1994.

Column 6: Outlays and expenses

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

Column 7: Gain or loss

In column 7, enter the amount of the gain or loss. To determine this figure, subtract the amounts in columns 5 and 6 from the amount in column 4.

A **capital gain** results when the proceeds of disposition of a capital property are more than the adjusted cost base and any related outlays or expenses. A **capital loss** occurs when the proceeds of disposition are less than the adjusted cost base and the related outlays and expenses. However, if depreciable property is disposed of, it will result in a **terminal loss**, not a capital loss. See item 41 in this guide under the heading "Column 6: Undepreciated capital cost" for more details about 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 less than its undepreciated capital cost, you may have to reduce the gain on the sale of the land by the terminal loss on the sale of the building.

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

Part 1: Shares

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

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 an amalgamation, section 54 considers a disposition to have occurred.

Part 2: Real estate

In this part, list all real estate the corporation disposed of during the taxation year. Give the legal description or municipal address of each property.

Dispositions of non-depreciable real property (unless the property is inventory) may result in a capital gain or loss. However, dispositions of depreciable property may result in a capital gain, a recapture of CCA, or a terminal loss. See item 41 in this guide under the heading "Column 6: Undepreciated capital cost" for details about terminal losses and recaptures.

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

Part 3: Bonds

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

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

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

Part 4: Other properties

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

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

When an amount receivable on capital account becomes a bad debt, a deemed disposition occurs at the end of the year. The corporation is considered to have reacquired the debt immediately afterwards at a cost of nil. This normally allows the corporation to claim a bad debt as a capital loss in the year. Any later recovery of that debt will result in a capital gain.

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

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

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

For dispositions of depreciable property, a capital gain results if the proceeds are more than the capital cost. However, losses on depreciable property do not result in capital losses. These losses are **terminal losses**. See item 41 in this guide under the heading "Column 6: Undepreciated capital cost" to find out more about terminal losses.

You have to report dispositions of goodwill and other intangible properties on Schedule T2S(8)(A). See item 42 in this guide for more details.

Part 5: Personal-use property

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

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

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

You cannot deduct losses on dispositions of personal-use property (other than listed personal property) from the corporation's income.

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

Part 6: Listed personal property
In this part, describe any listed personal property the corporation disposed of during the taxation year.

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

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

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

You can apply any unabsorbed losses in the current year to reduce similar net gains the corporation realized in the three immediately preceding years, and in the following seven years.

Capital gains dividends

Capital gains dividends under paragraphs 130.1(4)(a) and (b), 131(1)(a) and (b), and 133(7.1)(a) are considered to be capital gains. These paragraphs apply to mortgage investment corporations, mutual fund corporations, and non-resident-owned investment corporations. If the corporation received any capital gains dividends in the taxation year, enter them on this line.

Determining total capital gain or loss

The total capital gain or loss is the amount you determine when you:

- add all the amounts in column 6, the capital gains dividends (if any), and the **prior-year reserve**; and
- subtract the **current-year reserve**.

Capital gains reserve

Often, the corporation will not receive part of the proceeds of disposition, usually for real property, until after the end of the year.

In these cases, the corporation can defer part of the capital gain to the year it is due to receive the proceeds by setting up a capital gains reserve. By using reserves, you can spread a capital gain over a maximum of five years.

The reserve that you can claim in a taxation year cannot be more than one of the two following amounts, whichever is less:

A. $\dfrac{\text{Capital gain}}{\text{Proceeds of disposition}} \times$ 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 the corporation's 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 44 in this guide for details.

Example

A Limited sold a piece of land to Mr. X on March 4, 1994. A Limited's taxation year ends on June 30, 1994.

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. The first payment is due on March 31, 1995. Therefore, the total proceeds of disposition are $100,000.

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

A Limited reports the following:

For the taxation year ending June 30, 1994

Capital gain	$80,000
Minus the capital gains reserve (amount A or B, whichever is less):	

A. $\dfrac{\$80{,}000}{\$100{,}000} \times \$90{,}000 = \$72{,}000$

and

B. 4/5 × $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 × $16,000) — enter on line L of Schedule T2S(6)	$12,000

For the taxation year ending June 30, 1995

Prior-year capital gains reserve — enter on line I of Schedule T2S(6)	$64,000

Minus the current-year capital gains reserve (amount A or B, whichever is less):

A. $\frac{\$80,000}{\$100,000} \times \$60,000 = \$48,000$

and

B. $3/5 \times \$80,000 = \$48,000$

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 × $16,000) — enter on line L of Schedule T2S(6)	$12,000

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

Determining taxable capital gains or allowable capital losses

You have to calculate the **taxable** part of a capital gain and the **allowable** part of a capital loss for a taxation year as a percentage of the total capital gain or loss. We call this percentage the **inclusion rate**. You have to include a prior-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.

If the net result you calculate on Schedule 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 you calculate on the T2S(6) is an allowable capital loss, you cannot deduct it on the T2S(1). Since allowable capital losses become net capital losses, you can only use them to reduce taxable capital gains in other years. See item 63 in this guide for details.

Determining inclusion rates for taxation years beginning before 1990

You can use the formulae provided on page 2 of Schedule T2S(6) to calculate inclusion rates. You may need to do this if you either carry back or carry forward a net capital loss to another year that has a different inclusion rate. See item 63 in this guide for inclusion rates for prior years.

41
Schedule T2S(8), *Capital Cost Allowance (CCA)*

You can get this schedule from your income tax office.

Use Schedule T2S(8) to calculate the corporation's capital cost allowance.

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

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

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

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

Available-for-use rule

The available-for-use rule determines the earliest taxation year in which a corporation can claim CCA for depreciable property it acquired after 1989.

A corporation cannot claim CCA for a depreciable property of a prescribed class until it becomes **available for use.** This rule does not apply to a **certified production**, which is defined in Regulation 1104(2).

When is property available for use?

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

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

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

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

Note

If a corporation acquires a property after 1989 for a **long-term project**, it can elect to limit the impact of the available-for-use rule. This election is not available for rental buildings. To make this election, send us a completed Form T1031, *Election Under Subsection 13(29)*, with the T2 return. You can get copies of Form T1031 from your income tax office.

References
Subsections 13(26) to 13(32)

CCA rates and classes

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

Class number	Description	CCA rate
1	Most buildings made of brick, stone, or cement acquired after 1987, including their component parts such as electric wiring, lighting fixtures, plumbing, heating and cooling equipment, elevators, and escalators	4%
3	Most buildings made of brick, stone, or cement acquired before 1988, including their component parts as listed in class 1 above	5%
6	Buildings made of frame, log, stucco on frame, galvanized iron or corrugated metal that are used in the business of farming or fishing, or that have no footings below-ground; fences and most greenhouses	10%
7	Canoes, boats, and most other vessels, including their furniture, fittings, or equipment	15%
8	Property that is not included in any other class such as furniture, calculators and cash registers, photocopy and fax machines, printers, display fixtures, refrigeration equipment, machinery, tools costing more than $200, and outdoor advertising billboards and greenhouses with rigid frames and plastic covers acquired after 1987	20%
9	Aircrafts, including furniture, fittings, or equipment attached, and their spare parts	25%
10	Automobiles (except taxis and others used for lease or rent), vans, wagons, trucks, buses, tractors, and trailers, drive-in theatres, general-purpose electronic data-processing equipment (for example, personal computers) and systems software, and timber cutting and removing equipment	30%
10.1	Passenger vehicles costing more than $24,000 ($20,000 if acquired before September 1989) — for passenger vehicles acquired after 1990, the $24,000 cost does not include either GST or any provincial sales tax	30%
12	Chinaware, cutlery, linen, uniforms, dies, jigs, moulds or lasts, computer software (except systems software), cutting or shaping parts of a machine, certain property used for earning rental income such as apparel or costumes, and videotape cassettes; certain property costing less than $200 such as kitchen utensils, tools, and medical or dental equipment; certain property acquired after August 8, 1989 and before 1993 for use in a business of selling or providing services such as electronic bar-code scanners, and cash registers used to record multiple sales taxes	100%
13	Property that is leasehold interest (the maximum CCA rate depends on the type of the leasehold and the terms of the lease)	N/A
14	Patents, franchises, concessions, and licences for a limited period — the CCA is limited to the lesser of: • the capital cost of the property spread out over the life of the property; and • the undepreciated capital cost of the property at the end of the taxation year Class 14 also includes patents, and licenses to use patents for a limited period, that you elected not to include in class 44	N/A
16	Automobiles for lease or rent, taxicabs, and coin-operated video games. Certain tractors and large trucks acquired after December 6, 1991, that are used to haul freight and that weigh more than 11,788 kilograms	40%
17	Roads, sidewalks, parking-lot or storage areas, telephone, telegraph, or non-electronic data communication switching equipment	8%
38	Most power-operated movable equipment acquired after 1987 used for moving, excavating, placing, or compacting earth, rock, concrete, or asphalt	30%
39	Machinery and equipment acquired after 1987 that is used in Canada primarily to manufacture and process goods for sale or lease	25%
43	Manufacturing and processing machinery and equipment acquired after February 25, 1992, described in class 39 above	30%
44	Patents, and licenses to use patents for a limited or unlimited period, that the corporation acquired after April 26, 1993. However, you can elect not to include such property in class 44 by attaching a letter to the return for the year the corporation acquired the property. In the letter, indicate the property you do not want to include in class 44	25%

Note

You can elect to include certain property normally included in classes 8 and 10 in a separate class. The corporation has to have acquired each property after April 26, 1993, at a capital cost of at least $1,000. The types of properties that qualify for this election include general-purpose electronic data-processing equipment and ancillary equipment, computer software, photocopiers, and electronic communications equipment such as facsimile transmission devices or telephone equipment. To make this election, attach a letter to the return for the year the corporation acquired the property. In the letter, indicate the property you want to include in a separate class.

Grandfathering provisions

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

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

References
Regulation 1100
Schedule II of the Regulations

Completing Schedule T2S(8)

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

Column 1: Class number

In this column, identify each class of property with the assigned class number.

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

However, sometimes you have to maintain a separate record for each property in the same class. For example, list property that you would normally group in the same class but use to earn income from different businesses on separate lines. Also, list each class 10.1 passenger vehicle on a separate line.

Reference
Regulation 1101

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

In column 2, enter the amount of the undepreciated capital cost at the end of the **preceding taxation year** (the amount from column 11 of last year's Schedule T2S(8)).

Column 3: Cost of acquisitions during the year

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

Column 4: Adjustments

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

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

- any investment tax credits the corporation used to reduce taxes payable, or claimed as a refund in the **preceding taxation year**; and
- any government assistance the corporation received or is entitled to receive in the year (any goods and services tax (GST) input tax credit or rebate it received for property acquired is considered government assistance).

Show the amounts that reduce the capital cost in brackets. Do not include them in the corporation's income.

Note

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

Increase the capital cost of a property by any government assistance the corporation repaid in the year that previously reduced the capital cost. Show this amount as a positive amount in column 4.

References
Subsections 13(7.1), 13(7.4), and 13(21)
Paragraph 12(1)(x)
IT-174 *Capital Cost Allowance — Meaning of "Capital Cost of Property"*

Column 5: Proceeds of dispositions during the year

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

When the corporation disposes of a depreciable property for more than its capital cost, a capital gain results. However, losses on depreciable property do **not** result in capital losses. They may result in terminal losses. See column 6 for more details about terminal losses.

Column 6: Undepreciated capital cost

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

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

The corporation cannot claim CCA when the amount in column 6 is:

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

Terminal loss

A terminal loss results when the corporation disposes of all the property in a particular class, and there is an amount of undepreciated capital cost left in column 6. You have to deduct the terminal loss from the corporation's income. For details, see **example 1** under the heading "Schedule T2S(8) examples" that follows.

Recapture of CCA

If the amount in column 6 is negative, you have a recapture of capital cost allowance. A recapture of CCA occurs when the proceeds of disposition in column 5 are more than the total of columns 2 and 3, plus or minus the amount in column 4 of that class. You have to add the recapture to the corporation's income. For details, see **example 2** under the heading "Schedule T2S(8) examples" that follows.

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

Column 7: 50% rule

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

In column 7, adjust the undepreciated capital cost of the property by using the 50% rule. To make this adjustment, subtract one-half of the net amount of additions to the class (the cost of acquisitions minus the proceeds of disposition) from the undepreciated capital cost in column 6. For details, see **example 3** under the heading "Schedule T2S(8) examples" that follows.

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

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

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

Column 8: Reduced undepreciated capital cost

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

If you have an amount of recapture or a terminal loss in column 8 of Schedule T2S(8), do not complete columns 9, 10, and 11 for that line. On Schedule T2S(1), add the recapture to income, or deduct the terminal loss from income.

Column 9: CCA 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 shorter than 365 days, prorate the CCA claim for all property except for those classes of property excluded by Regulation 1100(3). The exceptions in Regulation 1100(3) include:

- class 14 assets;
- class 15 assets;
- timber limits and cutting rights;
- industrial mineral mines;
- certified productions; and
- certain mining equipment in classes 28 and 41.

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

References
Regulation 1100(3)
IT-147 *Capital Cost Allowance — Accelerated Write-off of Manufacturing and Processing Machinery and Equipment*
IT-285 *Capital Cost Allowance — General Comments*
IT-336 *Capital Cost Allowance — Pollution Control Property*

The total of all amounts in column 10 is the corporation's CCA claim for the taxation year. Deduct this amount on Schedule T2S(1).

Note

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

Column 11: Undepreciated capital cost at the end of the year

In column 11, enter the amount you get when you subtract the amount in column 10 from the amount in column 6.

Schedule T2S(8) examples

Example 1

An import-export business decided to sell its warehouse, since it is better to lease instead. The business received $30,000 for the warehouse. At the end of the 1994 taxation year, the business had no more assets in class 3.

The business's Schedule T2S(8) for its 1994 taxation year looks like this:

1 Class number	2 Undepreciated capital cost at the beginning of the year (column 11 from last year's T2S(8))	3 Cost of acquisitions during the year (new property must be available for use) Note 1	4 Adjustments (show negative amounts in brackets) Note 2	5 Proceeds of dispositions during the year (amount not to exceed the capital cost)	6 Undepreciated capital cost (column 2 plus column 3 plus or minus column 4 minus column 5)	7 50% rule (deduct 1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) Note 3	8 Reduced undepreciated capital cost (column 6 minus column 7)	9 CCA rate %	10 Capital cost allowance (column 8 multiplied by column 9; or a lower amount) Note 4	11 Undepreciated capital cost at the end of the year (column 6 minus column 10)
3	$35,000	nil	nil	$30,000	$5,000	nil	$5,000	-	nil	nil

The amount in column 6 is a terminal loss.

The import-export business deducts the $5,000 terminal loss from its income.

Example 2

A clothing company bought a sewing machine in 1992 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 1994 for $12,000.

The clothing company's Schedule T2S(8) for its 1994 taxation year would look like this:

1 Class number	2 Undepreciated capital cost at the beginning of the year (column 11 from last year's T2S(8))	3 Cost of acquisitions during the year (new property must be available for use) Note 1	4 Adjustments (show negative amounts in brackets) Note 2	5 Proceeds of dispositions during the year (amount not to exceed the capital cost)	6 Undepreciated capital cost (column 2 plus column 3 plus or minus column 4 minus column 5)	7 50% rule (deduct 1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) Note 3	8 Reduced undepreciated capital cost (column 6 minus column 7)	9 CCA rate %	10 Capital cost allowance (column 8 multiplied by column 9; or a lower amount) Note 4	11 Undepreciated capital cost at the end of the year (column 6 minus column 10)
8	$9,500	nil	nil	$10,000	(500)	nil	(500)	-	nil	nil

The amount in column 6 is the recapture of capital cost allowance.

The clothing company includes the $500 recapture in its income. The capital gain is $12,000 minus $10,000, which equals $2,000.

Example 3

A bookstore decided to buy a computer to help keep up with the paperwork, and started using it right away. The computer cost $5,000. The bookstore has to apply the 50% rule when it calculates the amount of CCA it can deduct for 1994.

The bookstore's Schedule T2S(8) for its 1994 taxation year looks like this:

1 Class number	2 Undepreciated capital cost at the beginning of the year (column 11 from last year's T2S(8))	3 Cost of acquisitions during the year (new property must be available for use) Note 1	4 Adjustments (show negative amounts in brackets) Note 2	5 Proceeds of dispositions during the year (amount not to exceed the capital cost)	6 Undepreciated capital cost (column 2 plus column 3 plus or minus column 4 minus column 5)	7 50% rule (deduct 1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5) Note 3	8 Reduced undepreciated capital cost (column 6 minus column 7)	9 CCA rate %	10 Capital cost allowance (column 8 multiplied by column 9; or a lower amount) Note 4	11 Undepreciated capital cost at the end of the year (column 6 minus column 10)
10	$10,000	$5,000	nil	nil	$15,000	$2,500	$12,500	30	$3,750	$11,250

42
Schedule T2S(8)(A), *Cumulative Eligible Capital Deduction*

You can get this schedule from your income tax office.

Use Schedule T2S(8)(A) to calculate the corporation's cumulative eligible capital deduction.

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

- goodwill;
- trademarks;
- franchises, concessions, or licenses for an unlimited period; and
- patents, and licenses to use patents for an unlimited period, that are elected not to be included in class 44. For more information on class 44, see the CCA rates and classes chart under item 41.

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

Eligible capital expenditures are not deductible in full, and they are not eligible for capital cost allowance. However, they may qualify for a partial deduction (called a cumulative eligible capital deduction).

The cumulative eligible capital (CEC) account is the account you set up to keep track of your eligible capital expenditures. You add three-quarters of the cost of eligible capital property acquired during the taxation year to the balance in the CEC account at the beginning of the taxation year. You subtract three-quarters of the proceeds of disposition of an eligible capital property from this balance.

Each year, you can deduct up to 7% of the balance in your CEC account. If deducting three-quarters of the net proceeds of disposition from the CEC account results in a negative balance of cumulative eligible capital, add the amount you calculated in box 2 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
Subsection 14(5)
Paragraph 20(1)(b)
IT-143 *Meaning of Eligible Capital Expenditure*

43
Schedule T2S(12), *Natural Resource Earned Depletion*

We do not print this schedule.

A corporation can deduct an allowance for mining and mineral processing. This deduction is called the depletion allowance.

If the corporation is claiming a depletion allowance, you have to show the continuity of the earned depletion base. Identify this information as Schedule T2S(12) in the top right-hand corner of the page. The earned depletion base is defined under Regulation 1205(1).

Expenditures the corporation 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

44
Schedule T2S(13), *Continuity of Reserves*

We do not print this schedule.

You have to show the continuity of all the corporation's reserves by indicating the prior-year and the current-year reserves. If you deducted a reserve amount last year, add

that amount to the corporation's current-year income and establish a new reserve amount.

Identify this information as Schedule T2S(13) in the top right-hand corner of the page.

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

The following are some examples of reserves:

- reserve for doubtful debts;
- reserve for undelivered goods;
- reserve for services not rendered;
- reserve for amounts receivable; and
- capital gains reserve.

Add the prior-year reserve on Schedule T2S(1), and deduct the current-year reserve on the T2S(1). Although you show capital gains reserves on Schedule T2S(13), you have to add and deduct them on Schedule T2S(6). See item 40 in this guide under the heading "Capital gains reserve" for details.

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

45 Schedule T2S(16), *Patronage Dividend Deduction*

You can get this schedule from your income tax office.

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

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

Schedule T2S(16) gives details on how to calculate the allowable patronage dividend deduction.

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

46 Schedule T2S(17), *Allocation in Proportion to Borrowing* (Credit Unions)

We do not print this schedule.

If a credit union is claiming an allocation in proportion to borrowing, you have to provide us with calculations of this claim. Identify this information as Schedule T2S(17) in the top right-hand corner of the page.

An **allocation in proportion to borrowing** for a taxation year is an amount the credit union credits to a member, on the terms that the member is entitled to or will receive that amount.

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

On Schedule T2S(17), you have to calculate the amount credited at a rate that is related to:

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

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

References
Subsections 137(2) and 137(6)
IT-483 *Credit Unions*

47 Form T661, *Claim for Scientific Research and Experimental Development Expenditures carried on in Canada*

You can get this form from your income tax office.

We publish a guide, called *Claiming Scientific Research and Experimental Development Expenditures*, which gives details on how to complete Form T661. This guide is also available from your income tax office.

File Form T661 if the corporation carries on business in Canada and has incurred expenditures for scientific research and experimental development (SR&ED) carried on in Canada.

Current and capital SR&ED expenditures form a special pool that you can deduct in the current year. You can also carry forward to any future year the expenditures in that pool.

Form T661 summarizes the costs for all SR&ED projects. You have to complete the form and place it on top of 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. For more information, see item 76 in this guide.

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*, the T5013 Summary. Each partner has to file a T5013 Supplementary, *Statement of Partnership Income*,

showing its share of the expenditures. If the partnership is exempt from filing (for example, it has fewer than six members), each partner has to file Form T661 with its T2 return.

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

Calculating current-year losses

A corporation may not always have net income to report on line 111. Instead, it may have incurred a loss for the year. The following section describes the different types of losses a corporation can incur, and how to calculate these losses.

On line 111, be sure to enter in brackets the corporation's net loss for the year.

48 Non-capital losses

To determine a non-capital loss for the corporation, do the following calculation:

[A + B] - [C + D]

To calculate amount A,

add the following amounts:

- losses from carrying on a business or from property ________ (1)
- allowable business investment losses ________ (2)
- net capital losses of other taxation years the corporation deducts under paragraph 111(1)(b) ________ (3)
- taxable dividends the corporation received that are deductible under section 112 and subsections 113(1) and 138(6) ________ (4)
- the unused part of the Part VI.1 tax deductible when calculating taxable income ________ (5)
- amount deductible under subparagraph 110(1)(f)(i) for income exempt from tax in Canada because of a tax treaty with another country ________ (6)

Total of lines 1 to 6 ________ (7)

- the corporation's income for the year from all sources ________ (8)

Amount A (line 7 minus line 8, if negative enter "nil") ________ (A)

Amount B is any foreign tax deductions under section 110.5.

Amount C is the corporation's farm loss for the year (see item 52 in this guide for details).

Amount D is the corporation's fuel tax rebate loss abatement for the year.

Example

In the beginning of 1994, 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 the taxation year ending December 31, 1994, the hardware store had a loss of $50,000, and the sawmill showed a profit of $20,000. Farmco also received taxable dividends in the amount of $1,000 that it can deduct under section 112.

Farmco calculates its non-capital loss 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
Amount A		$15,000
Minus		
Amount C Farm loss		$10,000
Non-capital loss		**$ 5,000**

Farmco has to show ($4,000) on line 111 of the T2 return, and $1,000 on line 119, which totals $5,000 in non-capital loss. It records the $10,000 farm loss separately on Schedule T2S(4).

On Schedule T2S(4), enter the year's non-capital loss. You will find details on the T2S(4) in item 59 of this guide. See item 61 for rules on how to apply non-capital losses to other years.

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

49 Allowable business investment losses

You have to calculate an allowable business investment loss (ABIL) in the same way as you would calculate an allowable capital loss. See item 40 in this guide for details.

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

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

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

You can deduct an ABIL from all sources of income for the year. Any balance remaining after the year the loss occurs becomes part of the corporation's non-capital loss. You can carry the non-capital loss back three taxation years or carry it forward seven taxation years. If you are unable to deduct an ABIL as a non-capital loss within this allowed time frame, the unused part becomes a net capital loss, and you can carry it forward indefinitely to reduce taxable capital gains.

If the corporation is claiming an ABIL, attach a separate statement to the T2 return that contains the following information:

- the name of the small business corporation;
- the number and class of shares, or the type of debt the corporation disposed of;
- the date the corporation acquired the debt or the shares;
- the proceeds of disposition;
- the adjusted cost base;
- the outlays and expenses on the disposition;
- the amount of loss the corporation claimed; and
- written 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 59 in this guide for details.

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

50
Restricted farm losses

If the corporation's chief source of income is neither farming nor a combination of farming and another source of income, the loss arising from the farming activity that the corporation can deduct is restricted. An amount of farm loss allocated from a partnership may 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; **or**

B. $2,500 **plus** one of the following amounts, whichever is less:
   (i) (farming loss for the year **minus** $2,500) **divided by** 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 corporation's income on Schedule T2S(1). This difference is called a **restricted farm loss**, and you have to enter it on Schedule T2S(4). See item 59 in this guide for details.

Note

Section 31 of the Act does not restrict the portion of the loss arising from a claim for expenditures for scientific research and experimental development.

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 $30,000 from the farming business.

Pubco calculates the deductible farm loss and the restricted farm loss as follows:

A. Farm loss		$30,000
Minus the deductible farm loss:		
B. $2,500 **plus** one of the following amounts, whichever is less:		
(i) ($30,000 minus $2,500) divided by 2 =	$13,750	
and		
(ii)	$ 6,250	$ 8,750
Restricted farm loss		**$21,250**

Pubco's deductible farm loss is $8,750. If Pubco's income from other sources is less than its deductible farm loss, then the difference is the corporation's farm loss for the year. See item 64 in this guide for information on how to apply farm losses.

Pubco adds the restricted farm loss of $21,250 to its income on Schedule T2S(1), and also enters it on Schedule T2S(4).

See item 60 in this guide for details on how to apply restricted farm losses to other years.

Reference
Subsection 31(1)

51
Losses allocated from a limited partnership

A corporation that is a limited partner and receives a T5013 Supplementary, *Statement of Partnership Income*, will find the amount of limited partnership loss allocated to it in box 23 of the slip.

If the limited partner does not receive this form because the partnership is exempt from filing (for example, it has fewer than six members), you have to file the partnership's financial statements with the T2 return to substantiate the corporation's share of the partnership loss for the year. Report the amount in the taxation year during which the partnership's taxation year ends.

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

Calculate this deductible part of the loss 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; **or**

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 investment 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, you have to calculate a limited partner's **at-risk amount** as follows:

- the adjusted cost base of its partnership interest;

plus

- its share of the current year's income from the partnership;

minus

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

Interests in partnerships that were operating on a regular and continuous basis on and after February 25, 1986, are exempt from the at-risk rules. However, partnership interests may lose their exempt status if, after February 25, 1986, there has been either a substantial contribution of capital to the partnership, or substantial partnership borrowings.

The difference between the corporation's share of the actual loss of the limited partnership shown on the financial statements and the corporation's at-risk amount is called a **limited partnership loss**. You have to add this amount on Schedule T2S(1). You also have to include the amount of the limited partnership loss on Schedule T2S(4). See item 59 in this guide for details. You will find details on how to apply limited partnership losses to other years in item 62 of this guide.

References
Subsection 96(2.1)
IT-232 *Non-Capital Losses, Net Capital Losses, Restricted-Farm Losses, Farm Losses and Limited Partnership Losses — Their Composition and Deductibility in Computing Taxable Income*

52
Farm losses

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

A. the loss from farming or fishing that is more than the farming or fishing income for the year; **or**

B. the amount of the non-capital loss (as calculated in item 48) before you deduct the farm loss for the year.

Keep in mind that the farm loss can also include an amount allocated from a partnership. On Schedule T2S(4), enter the corporation's farm loss separately from its non-capital loss. See item 59 in this guide for details.

You will find details on how to apply farm losses to other years in item 64 in this guide.

Reference
Subsection 111(8)

53
Losses and changes in control

There are special rules for calculating and deducting net capital losses, non-capital losses, and farm losses for corporations following an acquisition of control.

References
Subsections 111(4) and 111(5)
IT-302 *Losses of a Corporation — The Effect on Their Deductibility of Changes in Control, Amalgamation and Winding-Up*

54
Line 111
Net income or loss for income tax purposes

On line 111 on page 3 of the T2 return (page 1 of the T2 Short), enter the **net income or loss for income tax purposes**, as you calculated on Schedule T2S(1). If you did not have to make any adjustments to the net income or loss from the financial statements, enter on line 111 the net income or loss from the income statement. Remember to show the amount of any loss in brackets.

Note

On Schedule T2S(1), do not deduct charitable donations, taxable dividends, or net capital losses, non-capital losses, farm losses, or restricted farm losses from other years. You have to deduct these items from net income for income tax purposes to arrive at **taxable income**.

Calculating taxable income

The following section explains how to calculate the deductions you may be able to claim to reduce net income. You will use these amounts to arrive at taxable income.

55
Lines 113 and 115
Schedule T2S(2), *Charitable Donations*

We do not print this schedule.

On Schedule T2S(2), you have to report any donations the corporation made during the taxation year to any of the following organizations:

- registered charities (including registered national arts service organizations);
- registered Canadian amateur athletic associations;
- housing corporations resident in Canada and exempt from Part I tax under paragraph 149(1)(i);
- Canadian municipalities;
- the United Nations or its agencies;
- prescribed universities outside Canada listed in Schedule VIII of the *Income Tax Regulations*; or

- charitable organizations outside Canada to which the federal government has made a gift during the corporation's taxation year, or the 12 months immediately before that taxation year.

For each donation of $100 or more, give the name of the organization and, in the case of a registered charity or an athletic association, its **registration number**. Identify this information as Schedule T2S(2) in the top right-hand corner of the page.

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 the processing of the return, 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 its 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.

However, you can carry forward unused charitable donations and claim them in the five following taxation years. On Schedule T2S(2), group all donations you are carrying forward by the year in which the corporation made the donations.

On line 113 on page 3 of the T2 return, enter the total amount of current-year charitable donations and donations carried forward from the five previous taxation years. On line 115, enter the amount of the current-year claim (up to 20% of line 111).

Note

When a credit union calculates its income for the purposes of the 20% limit, it has to add back any amounts it previously deducted for bonus interest payments and payments for allocations in proportion to borrowing.

Reference
Paragraph 110.1(1)(a)

56
Line 117
Schedule T2S(2), *Gifts to Canada or a Province, and Gifts of Cultural Property*

We do not print this schedule.

Gifts to Canada or a province

A corporation can claim a deduction from net income for a gift it made to Canada or to a province. The amount of the deduction is not limited to 20% of the corporation's net income, as is the case for charitable donations. The most you can deduct is the total gifts the corporation made in the current taxation year, and any gifts the corporation has not previously deducted from the five previous years.

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

On Schedule T2S(2), show the amount of each gift made in the current year, and group any gifts the corporation is carrying forward by the year in which the corporation made the gifts.

Note

If you make a monetary gift to Canada, you can choose to apply it to the *Debt Servicing and Reduction Account.* If you are sending a cheque, make it out to the Receiver General for Canada and mail it to: Place du Portage, Phase 3, 11 Laurier Street, Hull QC K1A 0S5.
Public Works and Government Services Canada will provide you with a receipt. Be sure to include a note saying that you want your amount applied to this account. These amounts will only be used to service the public debt.

Reference
Paragraph 110.1(1)(b)

Gifts of cultural property

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

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

On Schedule T2S(2), show the amount of each gift the corporation made to a designated institution in the current year. Group all gifts you are carrying forward by the year in which the corporation made the gifts.

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

With the T2 return, you have to send receipts that support deductions for gifts to Canada or a province, or gifts of cultural property. Regulation 3501(1.1) outlines the information that has to appear on the receipt.

On line 117 on page 3 of the T2 return, enter the allowable claim for gifts to Canada or a province, or gifts of cultural property, including amounts you have carried forward.

57
Line 119
Schedule T2S(3), *Dividends Received and Taxable Dividends Paid*

You can get this schedule from your income tax office.

Complete Schedule T2S(3) if the corporation either received **or** paid dividends.

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

See item 81 in this guide for more information about taxable dividends that you can deduct under sections 112 and 113. See item 83 in this guide for information about dividends the corporation paid.

By deducting taxable dividends the corporation received from its net income or loss amount shown on line 111, you can create or increase a non-capital loss for the year.

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

58
Line 120
Part VI.1 tax deduction

A corporation that pays Part VI.1 tax on dividends paid on taxable preferred shares and 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 the Part VI.1 tax the corporation has to pay.

On line 120 on page 3 of the T2 return, enter the amount of the Part VI.1 tax deduction you calculated. See item 89 in this guide for details on how to calculate Part VI.1 tax.

Reference
Paragraph 110(1)(k)

Applying losses

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

59
Schedule T2S(4), *Corporation Loss Continuity and Application*

We do not print this schedule.

If the corporation is carrying forward losses or has current-year losses of any kind, please provide a summary of the following:

- the balance of non-capital losses, net capital losses, farm losses, restricted farm losses, and limited partnership losses that the corporation is carrying forward;
- the amount of each loss the corporation incurred in the current year;
- the amount of each loss you deducted when calculating the corporation's taxable income;
- the amount of non-capital losses and farm losses you claimed to reduce the corporation's dividends that are subject to Part IV tax;
- the amount of each loss that has expired during the year;
- the amount of each loss that you carried back to prior years;
- the amount of each loss transferred to a new corporation on amalgamation;
- the amount of each loss transferred to a parent corporation on the winding-up of a subsidiary corporation of which the parent owned at least 90% of the issued shares of each class immediately before the wind-up; and
- the balance of each loss at the end of the taxation year.

  Identify this information as Schedule T2S(4) in the top right-hand corner of each page.

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

Add any unused allowable business investment losses which are expiring as non-capital losses 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.

60
Line 121
Applying restricted farm losses

You can only apply a restricted farm loss to reduce the corporation's **farming income** earned in the three previous taxation years and in the ten following taxation years. On line 121 on page 3 of the T2 return, enter the amount of restricted farm loss you are carrying forward from previous taxation years.

Reference
Paragraph 111(1)(c)

61
Line 123
Applying non-capital losses

You can use non-capital losses to reduce either taxable income or dividends that are subject to Part IV tax, as explained in A and B below.

A. You can apply a non-capital loss to reduce all types of income the corporation earned in the three previous taxation years, and in the seven taxation years that follow.

   On line 123 on page 3 of the T2 return, enter any non-capital losses the corporation is carrying forward from previous years to reduce taxable income. Please note that the amount you enter on line 123 includes both the non-capital loss and any limited partnership loss from prior years. See item 62 for details.

B. You can use a non-capital loss to reduce dividends that are subject to Part IV tax (see item 81 under the heading "Column 5: Dividends subject to Part IV tax" for details).

   On line 406 on page 5 of the T2 return, enter the amount of current-year non-capital loss, prior-year non-capital loss, or both, that the corporation wants to use to reduce dividends subject to Part IV tax.

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

62
Line 123
Applying limited partnership losses

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

A. the amount of the limited partnership loss the corporation is carrying forward; **or**

B. the corporation's at-risk amount (see item 51) at the end of the partnership's taxation year that ends in the current taxation year of the corporation, **minus** the following amounts:

- the corporation's share of the partnership's investment tax credits 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 that the partnership incurred 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, 1993, to November 30, 1994.

For its December 31, 1993, taxation year-end, the partnership allocated $500 in Canadian exploration expenses, $1,000 in investment tax credits, and $5,000 in income to Oilco.

On December 31, 1993, Oilco's at-risk amount for the partnership was $3,000.

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

Oilco calculates the deductible part of the limited partnership loss for its 1994 taxation year as follows:

Amount A or B, whichever is less:

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

Oilco can still carry forward $500 as a limited partnership loss.

On line 123 on page 3 of the T2 return, enter the amount of limited partnership loss you are carrying forward from previous taxation years. Remember that the amount you enter on line 123 includes both the limited partnership loss and any non-capital loss from prior years. See item 61 for details.

Reference
Paragraph 111(1)(e)

63
Line 125
Applying net capital losses

You can apply a net capital loss to **reduce the amount of taxable capital gains** the corporation included in its 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 we noted in item 40, you can only use an allowable capital loss that arises from disposing of **listed personal property** to reduce taxable capital gains that arise when the corporation disposed of such property.

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

Canadian-controlled private corporations throughout the year:

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

Other corporations:

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

Note

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

Adjusting net capital losses for different inclusion rates

You have to adjust the amount of net capital losses that the corporation is either carrying back or carrying forward to a year with a different inclusion rate for capital gains. You have to adjust these losses to compensate for the difference between the inclusion rate for the loss year (i.e., the year the loss occurred), and the inclusion rate for the gain year (the year to which you apply the loss).

The net capital loss the corporation claims 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 corporation claims the loss.

The net capital loss the corporation claims will decrease when the inclusion rate for the loss year is higher than the inclusion rate for the gain year.

Note

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

To adjust a net capital loss for different 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, *Request for Corporation Loss Carry-Back*, provides calculations to help you make the adjustments you need 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 are carrying forward a net capital loss to a later year with a different inclusion rate.

Example

Investco is a Canadian-controlled private corporation. It had a taxable capital gain of $100,000 on the sale of some real estate for the taxation year beginning July 1, 1993, and ending on June 30, 1994.

Four years ago, the corporation incurred a net capital loss of $150,000. It decides to apply the 1990 net capital loss to the 1994 taxable capital gain.

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 amount A or B, whichever is less:	
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

Adjusted net capital loss to be entered on line 125:

$$\frac{\$94,399 \times .75^{*}}{.7079909^{**}} = \$100,000$$

* The inclusion rate for the 1994 taxation year is .75.

** Since the date the inclusion rate changed fell within Investco's 1990 taxation year (July 1, 1989, to June 30, 1990), Investco has to prorate the rate 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 the corporation is carrying forward from previous years and applying to reduce taxable capital gains.

References
Section 38
Subsections 111(1.1) and 111(8)
Paragraph 111(1)(b)

64
Line 126
Applying farm losses

You can use a farm loss to reduce either taxable income or dividends that are subject to Part IV tax, as explained in A and B below.

A. You can apply a farm loss to reduce all types of income the corporation earned in the three previous taxation years and the ten taxation years that follow.

   On line 126 on page 3 of the T2 return, enter the farm losses the corporation is carrying forward from previous years to reduce taxable income.

B. You can use a farm loss to reduce dividends that are subject to Part IV tax (see item 81 under the heading "Column 5: Dividends subject to Part IV tax" for details).

   On line 406 on page 5 of the T2 return, enter the amount of the current-year farm loss, prior-year farm loss, or both, that the corporation is using to reduce dividends subject to Part IV tax.

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

65
Line 127
Taxable income

On line 127, enter the corporation's taxable income. To calculate this amount, subtract all the deductions you entered on lines 115 to 126 from the net income for income tax purposes on line 111.

If the result is a loss, enter **nil** on line 127.

Note

If you want to carry back a current-year loss to a previous taxation year, see item 9 in this guide for information on Form T2A, *Request for Corporation Loss Carry-Back*.

66
Schedule T2S(28), *Addition to Taxable Income for Foreign Tax Deductions*

We do not print this schedule.

You can use foreign income tax credits to reduce Part I tax that the corporation would otherwise have to pay. Under section 110.5, a corporation that cannot deduct its foreign income tax credits (for example, it has no Part I tax payable for the year) can choose to add an amount to its taxable income. In this way, the corporation can use these otherwise non-deductible foreign tax credits.

The amount added to income for this purpose forms part of the corporation's non-capital loss. See item 48 in this guide for details. However, the corporation cannot add an amount under section 110.5 if that addition increases **any** of the following deductible amounts:

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

You have to show how you determined the addition that you have included in taxable income, as calculated under section 110.5.

Identify these calculations as Schedule T2S(28) in the top right-hand corner of each page.

On the line called "Addition," enter the amount you added to income under section 110.5. Add the amount on line 127 to this "Addition" amount, and enter the total on line A, "Adjusted taxable income." You will find these lines on page 3 of the T2 return.

Calculating base amount of Part I tax

67
Line 202
Base amount of Part I tax

The basic rate of Part I tax is 38% of taxable income. To determine the base amount of Part I tax, calculate 38% of the corporation's taxable income from line 127 on page 3 of the return (or from amount A, "Adjusted taxable income," if it applies).

On line 202 on page 3 of the T2 return, enter this base amount. Also, enter the base amount on line A on page 4 of the T2 return.

The "Small Business Deduction" box

68
Lines 223, 225, 227, and 231

Corporations that were **Canadian-controlled private corporations (CCPCs)** throughout the taxation year may be able to claim the small business deduction (SBD). The SBD reduces Part I tax that the corporation would otherwise have to pay.

The SBD is 16% of the least of the following amounts:

- the corporation's income from active business carried on in Canada (line 223);
- the corporation's taxable income (line 225); and
- the corporation's business limit (line 227).

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

Once you have calculated the SBD, enter it on line 8 on page 4 of the T2 return.

Line 223, Schedule T2S(7), *Calculation of Active Business and Investment Income*

You can get this schedule from your income tax office.

Use Schedule T2S(7) to determine the following amounts:

- 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 80 in this guide for details); and
- the active business income of a corporation that is claiming the SBD and is a member of a partnership.

Active business income

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

Active business income does not include income from a **specified investment business** or from a **personal services business**. Income from these types of businesses is therefore not eligible for the SBD.

Specified investment business

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

In the following instances, however, income from a specified investment business is considered to be active business income, and is therefore eligible for the SBD:

- when the corporation employs more than five full-time employees in the business throughout the year; or
- when an associated corporation provides managerial, financial, administrative, maintenance, or other similar services to the corporation while carrying on an active business, and the corporation would have to engage more than five full-time employees to perform these services if the associated corporation was not providing them.

Note

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

Personal services business

A personal services business is a business that a corporation carries on to provide services to another entity (i.e., person or partnership) that an officer or employee of that entity would normally perform. Instead, the services are performed by an individual on behalf of the corporation providing the services. That individual is referred to as an **incorporated employee.**

Any income the corporation derives from providing the services is considered income from a personal services business, as long as both of the following conditions are met:

- the incorporated employee who is performing the services, or any person related to him or her, is a **specified shareholder** of the corporation; and
- the incorporated employee would, if it were not for the existence of the corporation, reasonably be considered an officer or employee of the entity receiving the services.

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

Reference
IT-73 *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

How to calculate active business income

Generally, to calculate active business income from carrying on a business in Canada, you have to deduct from the corporation's net income for income tax purposes any of the following amounts that apply:

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

Specified partnership income

A corporation that is a member of a partnership has to complete both sides of Schedule T2S(7) to calculate its active business income.

The corporate partnership rules impose a limit of $200,000 on the amount of active business income earned by a partnership that is eligible for the SBD. This amount is allocated among all partners.

Specified partnership income is the amount of partnership income eligible for the SBD that is allocated to the corporation. You have to add this income to the corporation's active business income.

If the partnership incurs a loss from carrying on an active business, you have to deduct the corporation's share of that loss from its active business income. This is referred to as a **specified partnership loss.**

If the corporation received a T5013 Supplementary, *Statement of Partnership Income*, that shows its share of partnership income or loss, include this form with the T2 return. See item 31 in this guide for details.

On line 223 on page 3 of the T2 return, enter the total active business income you calculated on Schedule T2S(7).

Line 225, Taxable income

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

- ten-thirds (10/3) of the amount you are deducting as a foreign non-business income tax credit; and
- ten-fourths (10/4) of the amount you are deducting as a foreign business income tax credit.

You also have to reduce taxable income by any amount that, because of federal law, is exempt from Part I tax.

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

On line 225 on page 3 of the T2 return, enter the corporation's taxable income for the purposes of calculating the SBD.

Line 227, Business limit

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

Canadian-controlled private corporations that are associated with one or more corporations during the taxation year have to file Form T2013, *Agreement Among Associated Corporations*, to allocate the $200,000 business limit among them. See item 22 in this guide for details about Form T2013.

On line 227 on page 3 of the T2 return, enter the corporation's business limit for the year (for an associated corporation, enter on line 227 the business limit you determined on Form T2013).

Note

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

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

Proposed Legislation

A Notice of Ways and Means tabled in the House of Commons on November 22, 1994, proposed that, for taxation years ending after June 30, 1994, large CCPCs that have taxable capital employed in Canada of $15 million or more will no longer qualify for the SBD. The $200,000 business limit will be reduced on a straight-line basis for CCPCs that have taxable capital employed in Canada of between $10 million and $15 million in the preceding year. Similar restrictions will apply to any CCPC that is a member of an associated group that has, in total, more than $10 million of taxable capital employed in Canada. The calculation of the reduction to the business limit (line 227) is explained below.

Calculation of reduction to business limit

Use the following amounts in the calculation below:

amount C = amount from line 227 on page 3 of the T2 return;

amount D = amount from line 229 on page 3 of the T2 return. This amount is the gross Part I.3 tax for the corporation for its preceding taxation year. For associated corporations, this amount is the total gross Part I.3 tax for the corporate group, for their last taxation years ending in the preceding calendar year. In both cases, compute Part I.3 tax before deducting the surtax credits and increase the tax to reflect a full-year liability if the prior year is less than 51 weeks.

$$\text{Amount C} \times \frac{\text{amount D*}}{\$10{,}000} \times \frac{\text{\# of days in taxation year after June 30, 1994}}{\text{\# of days in taxation year}} = \text{amount E}$$

The reduced business limit (amount F on page 3 of the T2 Return) is the difference between amount C and amount E.

* For taxation years starting before July 1994, enter either amount D and $10,000, whichever is less.

The "Manufacturing and Processing Profits Deduction" box

69
Lines 233 and 243
Schedule T2S(27), *Calculation of Canadian Manufacturing and Processing Profits*

You can get this schedule from your income tax office.

Use Schedule T2S(27) to calculate the corporation's manufacturing and processing profits.

Corporations that derive at least 10% of their gross revenue for the year from manufacturing or processing goods in Canada for sale or lease can claim the manufacturing and processing profits deduction (MPPD). The MPPD reduces Part I tax that the corporation would otherwise have to pay.

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 December 1992 and before January 1994	After December 1993
Income not eligible for the small business deduction	6%	7%

Keep in mind that only income that is not eligible for the small business deduction is eligible for the MPPD.

Note

If one of the effective dates specified above falls within the corporation's taxation year, you have to prorate the MPPD. Follow the calculations shown in the MPPD area on page 3 of the T2 return to prorate this deduction.

Complete Schedule T2S(27) to determine the corporation's Canadian manufacturing and processing profits that are eligible for the MPPD. There are two ways to calculate Canadian manufacturing and processing profits: a simplified method for small manufacturing corporations, and a basic labour and capital formula for other corporations. These methods are outlined in Areas A and B on Schedule T2S(27).

A corporation's manufacturing labour and capital is based on the labour and capital employed in **qualified activities**. These activities are discussed in IT-145, *Canadian Manufacturing and Processing Profits — Reduced Rate of Corporate Tax*.

Small manufacturing corporations only have to complete Area A of Schedule T2S(27), and are entitled to calculate the MPPD on their entire adjusted business income. Essentially, a corporation's adjusted business income is its income from an active business carried on in Canada that is more than its losses from similar businesses, reduced by any net resource income. Schedule T2S(27) shows how to calculate the adjusted business income.

To qualify as a **small manufacturing corporation**, the corporation has to meet **all** of the following requirements:

- its activities during the year were mainly manufacturing or processing;
- the corporation's active business income and that of any associated Canadian corporations was not more than $200,000;
- the corporation was not engaged in any activities specifically excluded from manufacturing and processing, as defined in subsection 125.1(3);
- the corporation was not engaged in the processing of ore from a mineral resource located outside Canada;
- the corporation was not engaged in the processing of iron ore from a mineral resource located outside Canada;
- the corporation was not engaged in the processing of tar sands located outside Canada; 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 manufacturing corporations have to complete Area B of Schedule T2S(27). In Area B, you will find the basic formula for calculating Canadian manufacturing and processing profits, as well as detailed instructions on how to complete the schedule.

On line 233 on page 3 of the T2 return, enter the amount of Canadian manufacturing and processing profits determined in either Area A or Area B of Schedule T2S(27).

Note

Processing of foreign ore is no longer specifically excluded from manufacturing and processing activities under subsection 125.1(3).

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

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Page 4 of the T2 Return

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The "Part I Tax" box

70
Line 209
Corporate surtax calculation

Every corporation is subject to a 3% surtax on the federal tax that the corporation otherwise has to pay, unless the corporation was a non-resident owned investment corporation throughout the year.

You have to calculate the surtax on the amount of the corporation's Part I tax before you deduct:

- the small business deduction;
- the additional deduction for credit unions (see item 72);
- the manufacturing and processing profits deduction;
- the foreign business and non-business income tax credits;
- the federal political contribution tax credit;
- the investment tax credit; and
- the Part VI tax credit (see item 77) **and**;
- the Part I.3 tax credit (see item 78);

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

Reference
Section 123.2

71
Lines 203 and 205
Investment corporation deduction

A Canadian public corporation that is an **investment corporation**, as defined in subsection 130(3), can claim a deduction from Part I tax that the corporation would otherwise have to pay. This deduction is equal to 20% of the taxable income for the year that is more than the taxed capital gains for the year.

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

References
Section 130
IT-98 *Investment Corporations*

72
Line 206
Additional deduction — Credit unions

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

With this additional deduction, a credit union can pay tax at a reduced rate on income it needs to build up a tax-paid reserve that is equal to 5% of deposits and capital. These

reserves are required by provincial statutes. The credit union cannot distribute these reserves to its members.

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

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

minus

- the least of lines 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.

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

References
Section 137
IT-483 *Credit Unions*

73
Line 207
Federal tax abatement

The federal tax abatement is equal to 10% of taxable income the corporation earned in the year in a Canadian province or territory. The federal tax abatement reduces Part I tax the corporation has to pay. Income earned outside Canada is not eligible for the federal tax abatement.

On line 207 on page 4 of the T2 return, enter the amount of the corporation's federal tax abatement.

Reference
Section 124

74
Schedule T2S(21), *Federal Foreign Income Tax Credits and Federal Logging Tax Credit*

You can get this schedule from your income tax office.

Use Schedule T2S(21) to calculate the following credits:

- the federal foreign non-business income tax credit (line 211);
- the federal foreign business income tax credit (line 213); and
- the federal logging tax credit (line 215).

Line 211, Federal foreign non-business income tax credit

A federal foreign non-business income tax credit is available to Canadian residents to prevent double taxation of any **non-business** income earned in a foreign country that was taxed by that foreign country. This credit reduces Part I tax that the corporation would otherwise have to pay.

Foreign **non-business** income includes dividends, interest, and capital gains. It does **not** include dividends received from foreign affiliates, or income from operating a business in a foreign country.

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

If, after you claim the federal foreign non-business income tax credit, there is any foreign non-business income tax left over, you can deduct it as a provincial foreign tax credit. See item 94 in this guide for details.

Under section 110.5, a corporation can also increase its taxable income so that it can use an otherwise non-deductible foreign non-business income tax credit. See item 66 in this guide for details.

Calculate the federal foreign non-business income tax credit for each country separately. Use more than one schedule if you are calculating credits for more than three countries.

Add all the foreign non-business income tax credits in column G on Schedule T2S(21). Then, enter the total on line 211 on page 4 of the T2 return.

Note

Foreign non-business income tax does not include any foreign tax the corporation paid on income that is exempt from tax in Canada under an income tax treaty.

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

Line 213, Federal foreign business income tax credit

To prevent double taxation, a corporation that pays foreign income or profits tax on income it earned from operating a business in a foreign country can claim a federal foreign business income tax credit. This credit reduces the Part I tax that the corporation would otherwise have to pay.

Unlike foreign non-business income tax, the corporation cannot deduct excess foreign business income tax it 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 66 in this guide 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 for seven taxation years. However, you can only use this credit 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 separately. Use more than one schedule if you are calculating credits for more than three countries.

Add all foreign business income tax credits in column H on Schedule T2S(21). Then, enter the total on line 213 on page 4 of the T2 return.

Note

Foreign business income tax does not include any foreign tax the corporation paid on income that is exempt from tax in Canada under an income tax treaty. However, you can still carry forward and claim any unused foreign business income tax credit that arises from such income in taxation years ending before July 14, 1990.

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

Line 215, Federal logging tax credit

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

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

75
Lines 217 and 219
Federal political contribution tax credit

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

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

You can claim contributions the corporation made as follows:

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

Attach official receipts to the T2 return. An official receipt is one that is signed by the registered agent for the registered party, or the official agent of the candidate. We can only accept photocopies if the issuer certifies them as true copies.

On page 4 of the T2 return, enter on line 219 the total amount of qualifying contributions, and enter on line 217 the amount of the allowable credit.

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

76
Line 221
Form T2038(CORP), *Investment Tax Credit — Corporations*

You can get this form from your income tax office.

Use Form T2038(CORP) to calculate the corporation's investment tax credit. A corporation can claim the investment tax credit to reduce Part I tax that it would otherwise have to pay.

A corporation earns investment tax credits by applying a specified percentage to either the cost of acquiring certain property, or to the amount of certain expenditures. However, you first have to reduce the capital cost of the property or the amount of the expenditure by any government or non-government assistance, or any contract payments the corporation received or will receive for that property or expenditure. Keep in mind that any goods and services tax (GST) input tax credit or rebate received for property acquired is considered government assistance.

On page 2 of Form T2038(CORP), we have listed the percentages you have to apply to eligible investments and expenditures.

Investments and expenditures that qualify for investment tax credit

The following investments and expenditures earn an investment tax credit:

A. the cost of acquiring qualified property;

B. the cost of acquiring certified property;

C. the cost of acquiring approved project property; and

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

In the following section, we provide definitions of each investment and expenditure.

A. **Qualified property** (other than certified property or approved project property) includes new prescribed buildings, machinery, or equipment the corporation acquired during the year to use in certain activities. We outline these activities under the heading "Activities that qualify for investment tax credit" that follows.

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

   - For a corporation with a principal business of leasing property, lending money, or purchasing conditional sales contracts, accounts receivable, or other obligations, property the corporation acquired for the purposes of leasing it in the ordinary course of carrying on business in Canada is considered qualified property.

   - For a corporation with a principal business of manufacturing property that it sells or leases,

property the corporation acquired for leasing purposes is considered qualified property only if the corporation manufactures it and leases it in the ordinary course of its business in Canada.

- For a corporation with a principal business of selling or servicing property, property the corporation acquired for leasing purposes is considered qualified property only if it is a type of property that the corporation sells or services, and the property is leased in the ordinary course of carrying on business in Canada.

B. **Certified property** includes prescribed buildings or machinery and equipment, other than approved project property, which the corporation acquired during the year to use in prescribed areas of slow growth in Canada. To find out where these prescribed areas are, see Regulation 4602.

C. **Approved project property** is property that the Minister of Industry 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 the corporation acquired before 1993.

D. **Qualified expenditures for scientific research and experimental development (SR&ED)** are defined in subsection 127(9). SR&ED is defined in Regulation 2900.

You have to file Form T661, *Claim for Scientific Research and Experimental Development Expenditures Carried on in Canada*, along with Form T2038(CORP), when you are making claims under both subsections 37(1) and 127(5) for qualified SR&ED expenditures. See item 47 in this guide for more information.

Note

The latest date you must identify Qualified SR&ED expenditures on Forms T661 and T2038 is the time the T2 return is due for the next taxation year after the year the expenditures were incurred.

Generally, a Canadian-controlled private corporation earns investment tax credits at the rate of 35% on the first $2 million of current and capital SR&ED expenditures, and at the rate of 20% (30% for the Atlantic provinces) on any of these expenditures that are more than $2 million.

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

Activities that qualify for investment tax credit

The corporation can earn investment tax credits on qualified property that it acquires primarily to use for designated activities in specific areas.

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

Designated activities include the following:

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

See subsection 127(9) under "qualified property" for more details.

Available-for-use rule

A corporation is not considered to have acquired a property or made capital expenditures for earning an investment tax credit until the property becomes **available for use**. This rule applies to property that the corporation acquired after 1989.

See item 41 under the heading "When is property available for use?" for more information about the available-for-use rule.

References
Subsections 13(26) to 13(32)

Annual investment tax credit limit

For taxation years beginning before 1994, the **annual investment tax credit limit** restricts the amount of investment tax credit the corporation can claim for a year.

For a Canadian-controlled private corporation throughout the year, the limit is:

- 3% of the amount that is eligible for the small business deduction (the least of lines 223, 225, and 227); **plus**
- three-quarters of the Part I tax that the corporation would otherwise have to pay.

For other corporations, the limit is three-quarters of the Part I tax that the corporation would otherwise have to pay.

For taxation years beginning after 1993, these limits are eliminated. A corporation can claim the full amount of its investment tax credit against federal Part I tax it would otherwise have to pay.

If the corporation is claiming an investment tax credit for a depreciable property, you have to reduce the capital cost of the property in the next taxation year by the amount of this year's investment tax credit. For more information, see item 41 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. Remember that you can only carry back investment tax credits to a previous year if you cannot deduct them in the year the corporation earns them.

Please note that special rules restrict the carry-forward of investment tax credits following an acquisition of control.

References
Subsections 127(9.1) and 127(9.2)

When to complete Form T2038(CORP)

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

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

On line 221 on page 4 of the T2 return, enter the amount of the corporation's investment tax credit for the current year.

Investment tax credit refund

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

A. **Qualifying corporations** can claim 40% of the investment tax credit they earned in the taxation year.

B. Most **qualifying corporations** that have investment tax credits they earned in the taxation year on scientific research and experimental development (SR&ED) expenditures can claim:
   - a full refund (100%) of the investment tax credit they earned on the first $2 million (the expenditure limit) of **current** SR&ED expenditures; **plus**
   - 40% of the investment tax credit they earned on any current expenditures that are more than $2 million; **plus**
   - 40% of the investment tax credit they earned on capital expenditures at either rates of 35% or 20% (30% for Atlantic provinces).

Definitions

A **qualifying corporation** is a Canadian-controlled private corporation whose taxable income for the preceding taxation year, plus the taxable incomes of all associated corporations (for taxation years ending in the same calendar year as the corporation's preceding taxation year), is not more than the total of the business limits of the corporation and the associated corporations for those preceding years.

A corporation's **expenditure limit** for a taxation year is $2,000,000. This limit is the maximum annual amount of SR&ED expenditures that qualify for the 35% investment tax credit rate. However, when a corporation's taxation year is shorter than 51 weeks, you have to prorate the expenditure limit by the number of days in the taxation year divided by 365.

Also, if the corporation is associated with one or more corporations, you have to allocate the expenditure limit among the associated corporations on Form T2013, *Agreement Among Associated Corporations*. See item 22 in this guide for details about Form T2013.

You have to file Form T2038(CORP) to claim the investment tax credit refund. On line 146 on page 6 of the T2 return, enter the corporation's investment tax credit refund claim you calculated on Form T2038(CORP).

Note

For taxation years beginning after 1993, a Canadian-controlled private corporation that is **not a qualifying corporation** as described above, is eligible for a portion of refundable credit on the first $2 million of current and capital SR&ED expenditures. If the total taxable incomes for the preceding taxation year are more than $200,000 but not more than $400,000, the $2 million amount is reduced by $10 for every $1 over $200,000.

Example

H Co. is a Canadian-controlled private corporation that is not associated with any other corporation. It incurs $2 million in current SR&ED expenditures in Canada. Its taxable income for the preceding taxation year is $300,000. H Co. calculates the amount eligible for the refundable credit at the 35% rate as follows:

SR&ED expenditures		$2,000,000
less:		
taxable income for preceding taxation year	$300,000	
business limit	200,000	
excess	$100,000 × 10 =	1,000,000
Expenditure eligible for a full refund at the 35% rate		$1,000,000

Small Business Investment Tax Credit (SBITC)

In addition to existing investment tax credits, a corporation can claim the SBITC. This temporary and non-refundable SBITC is 10 % on **qualified small-business property**. Qualified small-business property (other than buildings) includes certain properties the corporation acquired after December 2, 1992, and before 1994, regardless of when the property became available for use.

Qualified property, certified property, qualified construction equipment, and qualified transportation equipment are eligible for the SBITC. For more details on the types of machinery and equipment that qualify, see the following:

- for qualified property, see Regulation 4600;
- for certified property, see subsection 127(9);
- for qualified construction equipment, see Regulation 4603; and
- for qualified transportation equipment, see Regulation 4601.

The following corporations cannot claim the SBITC:

a) a corporation that was not a Canadian-controlled private corporation when it acquired the property;

b) a corporation that would be subject to the large corporations tax (LCT) under Part I.3, if, in determining its LCT liability, no deduction were made for the corporation's surtax credits, and no account were taken of its debt or equity financing that was used to acquire qualified small-business property; or

c) a corporation that is related to a corporation described in b).

A corporation will not be able to claim a credit on qualified small-business property until the property becomes available for use.

Proposed legislation
A Notice of Ways and Means tabled in the House of Commons on November 22, 1994 proposed to reduce or eliminate the special investment tax credit rates for property acquired and expenditures made in the Atlantic provinces, the Gaspé Peninsula, the adjacent offshore region, and prescribed areas. The rate changes are as follows:

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

Note

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

References
Section 127.1
Subsections 127(5) to 127(12)
Regulation 4600
IT-151 *Scientific Research and Experimental Development Expenditures*
IT-331 *Investment Tax Credit*
IC 78-4 *Investment Tax Credit Rates*

77
Line 224
Form T921, *Calculation of Unused Part VI Tax Credit and Unused Part I Tax Credit*

You can get this form from your income tax office.

Part VI of the Act levies a tax on the taxable capital employed in Canada of a corporation that is a financial institution. A corporation can use its Part I tax to reduce its Part VI tax payable. This is called the Part I tax credit. The corporation will claim its Part I tax credit on Form T2044. See item 88 in this guide for details.

On line 224 on page 4 of the T2 return, enter the amount of the unused Part VI tax credit the corporation is carrying forward from taxation years ending before 1992 and claiming in the current year. File the completed Form T921 with the T2 return.

A corporation can use Form T921 to:

- calculate the balance of unused Part I tax credits that it can deduct from its Part VI tax up to seven years; and
- carry back an unused Part I tax credit up to three years and deduct it from Part VI tax. The corporation cannot carry back its credit to a taxation year ending before 1992 (or 1991, if the corporation has made a special election).

A corporation can also use this form:

- to carry back an unused Part VI tax credit up to three years from the years 1992, 1993, and 1994 to taxation years ending before 1992.
- to calculate the balance of unused Part VI tax credit from taxation years ending before 1992 that it can deduct from Part I tax within the present seven-year carry-forward period.

References
Subsections 125.2(1) and 190.1(3)

78
Line 226
Form T962, *Calculation of Unused Part I.3 Tax Credit and Unused Surtax Credit*

You can get this form from your income tax office.

Part I.3 of the Act levies a tax on the taxable capital employed in Canada by large corporations. See item 85 in this guide for details. A corporation can use its Canadian surtax payable to reduce its Part I.3 tax liability. This is called the surtax credit. A corporation can claim its surtax credit on Form T2147, T2148, or T2149.

On line 226, on page 4 of the T2 return, enter the amount of Part I.3 tax credit being carried forward from taxation years ending before 1992. File the completed Form T962 with the T2 return.

The corporation can use Form T962 to:

- calculate the balance of unused surtax credits that it can deduct from its Part I.3 tax; and
- carry back up to three years any unused surtax credit and deduct it from Part I.3 tax (this carry-back does not apply to a taxation year ending before 1992).

The corporation can also use this form:

- for the years 1992, 1993 and 1994 to carry-back any unused Part I.3 tax credit three years and deduct it from Canadian surtax payable for taxation years ending before 1992; and
- to calculate the balance of unused Part I.3 tax credit from tax years ending before 1992 that it can deduct within the present seven-year carry-forward period.

References
Subsections 125.3(1) and 181.1(4)

79
Part I tax payable

The corporation's Part I tax payable for the year is its basic Part I tax **minus** any allowable deductions and credits (line C minus line D on page 4 of the return).

Enter this amount on line E on page 4, and also on line 129 in the "Summary of Tax and Credits" box on page 6 of the T2 return.

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The "Refundable Portion of Part I Tax" box

80
Lines 247, 249, and 261

The refundable portion of Part I tax is part of a corporation's refundable dividend tax on hand (RDTOH). See item 82 in this guide for more information about RDTOH.

The refundable portion of Part I tax allows a Canadian-controlled private corporation (CCPC) that has paid Part I tax on investment income to recover part of that tax, when the corporation pays taxable dividends to its shareholders. The refundable portion of Part I tax only applies to corporations that are CCPCs throughout the taxation year.

The refundable portion of Part I tax is based on the corporation's net Canadian investment income and net foreign investment income. You can determine these amounts in the appropriate columns in the "Investment Income" box on page 1 of Schedule T2S(7), *Calculation of Active Business and Investment Income*.

To calculate investment income, **add**:

- all income from property (including income from a specified investment business). Do not include exempt income and amounts paid from NISA (net income stabilization account) Fund No. 2.
- taxable capital gains **minus** allowable capital losses, as you determined on Schedule T2S(6); and
- capital gains dividends.

From that total, **subtract**:

- dividends deductible from income under sections 112 and 113;
- income from an interest in a trust that, under paragraph 108(5)(a), is considered as income from property; and
- losses from property.

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

You can only include taxable capital gains and allowable capital losses in a CCPC's net investment income if you can attribute the gain or loss to a period of time when a CCPC, an investment corporation, a mortgage investment corporation, or a mutual fund corporation held the property that was disposed of.

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" box.

References

Subsections 129(3) and 129(4)

IT-73 *The Small Business Deduction – Income From an Active Business, a Specified Investment Business and a Personal Services Business*

IT-243 *Dividend Refund to Private Corporation*

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

The "Part IV Tax on Taxable Dividends Received" box

81
Lines 405, 406, and 418
Schedule T2S(3), *Dividends Received and Taxable Dividends Paid*

You can get this schedule from your income tax office.

Use Schedule T2S(3) to calculate the corporation's Part IV tax payable on taxable dividends it received.

Every corporation that was a **private** or **subject corporation** at any time during the taxation year has to pay Part IV tax on any taxable dividends it received before 1993. Taxable dividends that a corporation receives after 1992 are only subject to Part IV tax if the corporation receives them while it is a private or subject corporation. However, the corporation can deduct these taxable dividends from its net income for the purposes of Part I tax. 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 paying the dividends generates a dividend refund for the payer corporation.

Taxable dividends received are subject to Part IV tax at a rate of 25%. You have to identify any taxable dividends that are subject to Part IV tax in Area A of Schedule T2S(3).

Note

A dividend does not include stock dividends a corporation receives after 1990 from a non-resident corporation.

Reference
Subsection 248(1)

Definitions

A **private corporation** is a corporation that is:

- resident in Canada;
- not a public corporation;
- not controlled by one or more public corporations (other than a prescribed venture capital corporation);
- not controlled by one or more prescribed federal Crown corporations; and
- not controlled by any combination of prescribed federal Crown corporations and public corporations.

Reference
Subsection 89(1)

A **subject corporation** is a corporation, other than a private corporation, that is resident in Canada and is controlled by or for the benefit of either an individual other than a trust, or a related group of individuals other than trusts.

Reference
Subsection 186(1)

A **payer corporation is connected** to the corporation that receives the dividends (the recipient) if the recipient controls the payer corporation. The payer and recipient corporations are also connected when:

- the recipient owns more than 10% of the issued share capital (with full voting rights) of the payer corporation; **and**
- the recipient owns shares of the capital stock of the payer corporation with a fair market value of more than 10% of the fair market value of all the issued share capital of the payer corporation.

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

Reference
Subsection 186(4)

Exempt corporations

The following types of corporations are exempt from Part IV tax:

A. a corporation that was bankrupt at any time during the year; or

B. a corporation that, throughout the year, was:
- a prescribed labour-sponsored venture capital corporation;
- a prescribed investment contract corporation;
- an insurance corporation;
- a corporation licensed as a trustee;
- a bank; or
- a 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 the corporation received on a small business development bond or on a small business bond are not subject to Part IV tax.

References
Sections 15.1 and 15.2

Dividends not taxable

Any dividends that a corporation received from a capital dividend account are not taxable, as long as the payer corporation made an election under section 83. Therefore, do not include these dividends in the corporation's income.

On Schedule T2S(1), deduct from the corporation's income any section 83 dividends it received.

Completing Area A of Schedule T2S(3)

In the following section, we provide details on how to complete each column in Area A of Schedule T2S(3).

Column 1: Payer corporation
In column 1, list all the payer corporations from which the corporation received the dividends.

Column 2: Is the payer corporation a connected corporation?
In this column, tick *yes* or *no* to show whether or not the payer is a connected corporation.

Column 3: Amount received
In column 3, show the amount of dividends the corporation received from each payer corporation.

Column 4: Dividends deductible from income under sections 112 or 113, or both
When calculating taxable income, you can deduct, under section 112, any of the following types of taxable dividends the corporation received:

- dividends from a taxable Canadian corporation, or from a corporation resident in Canada and controlled by the receiving corporation; and
- dividends (or a portion thereof) from a non-resident corporation (other than a foreign affiliate) that has carried on business in Canada continuously since June 18, 1971.

The following types of taxable dividends the corporation received are not deductible under section 112:

- dividends from a corporation that is exempt from Part I tax;
- dividends from a non-resident-owned investment corporation;
- dividends on collateralized preferred shares (loss rental plans);
- dividends that are part of a dividend rental arrangement, as defined in subsection 248(1);
- dividends on term preferred shares received by certain financial institutions; and
- dividends on shares guaranteed by a specified financial institution, as described in subsection 112(2.2).

References
Subsections 112(1), 112(2), and 112(2.1) to 112(2.9)

Under section 113, you can deduct any dividends the corporation received from foreign affiliates.

On line 119 on page 3 of the T2 return, enter the total of all the amounts you entered in column 4 of Schedule T2S(3).

Column 5: Dividends subject to Part IV tax
Every corporation that was a private or subject corporation at any time during the taxation year has to pay Part IV tax on any taxable dividends it received before 1993. Taxable dividends that a corporation receives after 1992 are only subject to Part IV tax if the corporation receives them while it is a private or subject corporation. Any of the following types of dividends it received are subject to Part IV tax:

- taxable dividends from non-connected corporations that are deductible under subsection 112(1) when you calculate taxable income;
- taxable dividends 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 from connected private corporations, when paying the dividends generates a dividend refund for the payer corporation. In this case, you have to complete the calculation in Area A on page 1 of Schedule T2S(3) to determine the amount that is subject to Part IV tax.

If the connected payer corporation's taxation year ends more than three months after the corporation's taxation year, you have to estimate the payer's dividend refund when you calculate the corporation's Part IV tax payable.

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

Add all of the amounts in column 5 on Schedule T2S(3). Then, enter this total on line 405 on page 5 of the T2 return.

A corporation can reduce the amount of dividends subject to Part IV tax by applying non-capital losses or farm losses either 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 you are using 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 in this guide for details. On line 418 on page 5 of the T2 return, enter the amount of Part IV.1 tax payable.

On line 131 on page 6 of the T2 return, enter the amount of Part IV tax.

Proposed Legislation
The February 1994 budget proposed that the rate of Part IV tax will increase from 25% to 33 1/3%. The new rate will apply to taxable dividends received after 1994, other than dividends received from a connected corporation for dividends received by any connected corporation before 1995.

The "Refundable Dividend Tax on Hand" box

82
Lines 409, 410, 465, and 411

The refundable dividend tax on hand (RDTOH) account only applies to corporations that were **private** or **subject corporations**, as defined in item 81.

A Canadian-controlled private corporation (CCPC) generates RDTOH on both the Part I tax it pays on investment income, and on the Part IV tax it pays on dividends it receives. For any other type of private corporation, only the Part IV tax it pays generates RDTOH.

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

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

- the RDTOH balance at the end of the preceding taxation year (minus any dividend refund issued to the corporation in the preceding year);
- the RDTOH generated in the current year; and
- any balance of RDTOH transferred from a predecessor corporation on amalgamation, or from a subsidiary corporation on wind-up.

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

For a parent corporation that wound up a wholly-owned subsidiary, enter on line 465 any RDTOH transferred from the subsidiary corporation. On line 409, enter the RDTOH the parent corporation is carrying forward from its preceding taxation year.

Note

You cannot transfer any RDTOH to a successor or parent corporation if, had the predecessor or subsidiary corporation paid a dividend immediately before the amalgamation or wind-up, subsection 129(1.2) would have applied to that dividend.

On line 411, enter the amount of RDTOH at the end of the taxation year. Also, enter the same amount on line B in the "Dividend Refund" box.

References
Subsection 129(3) and 186(5)

The "Dividend Refund" box

83
Line 414

A private or subject corporation may be entitled to a dividend refund for dividends it paid after 1992 if it paid the dividends while it was a private or subject corporation, regardless if it was a private or subject corporation at the end of the taxation year.

A dividend refund arises if the corporation pays taxable dividends to shareholders, and if the corporation has an amount of refundable dividend tax on hand (RDTOH) at the end of the taxation year.

To claim a dividend refund, the corporation has to have made an actual payment to the shareholders, unless the dividend is considered paid (a deemed dividend).

The corporation can make this payment either in cash, or with some other tangible assets at fair market value, including the following:

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

If the corporation loses its **private** status following a change in control, a deemed year-end occurs. This allows the corporation to claim a dividend refund for any dividends it paid during the deemed short year.

The dividend refund is equal to one of the following amounts, whichever is less:

- one-quarter of the taxable dividends the corporation paid in the year while it was a private or subject corporation; or
- the RDTOH at the end of the taxation year.

Proposed Legislation
The February 1994 budget proposed that the one-quarter dividend refund rate on taxable dividends the corporation paid in the year will be increased to one-third. This new rate will apply to taxable dividends paid after 1994, to the extent that the corporation has paid the increased Part IV tax of 33 1/3% on taxable dividends received after 1994.

Area B on page 2 of Schedule T2S(3)

If the corporation paid taxable dividends in the year, complete Area B on page 2 of Schedule T2S(3) to determine the taxable dividends that qualify for the

dividend refund. Deduct the following amounts from total dividends the corporation paid in the year:

- dividends paid out of the capital dividend account;
- dividends paid for shares that do not qualify as taxable dividends because the main purpose of acquiring the shares was to receive a dividend refund (subsection 129(1.2));
- 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.

On line 414 on page 5 of the T2 return, enter the total taxable dividends that qualify for the dividend refund.

When the dividend refund is more than the amount of Part I tax payable for the year, we first deduct the excess from any other taxes the corporation owes under the *Income Tax Act*. Any balance left over is available for a refund.

On line 147 on page 6 of the T2 return, enter the amount of dividend refund you calculated.

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

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The "Additional Information" box

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

The **employer's remittance account** number on line 6 is the account number you use when remitting employees' payroll deductions.

The "Summary of Tax and Credits" box

In the "Summary of Tax and Credits" box, you summarize the amounts of federal tax and provincial or territorial tax the corporation has to pay, as well as the credits and refunds the corporation is claiming to reduce its total tax payable.

Lines 129 to 135, the "Federal tax" area

84
Line 129
Part I tax payable

On line 129 on page 6 of the T2 return, enter the amount of the corporation's Part I tax payable that you determined on line E on page 4 of the T2 return.

References
Items 68 to 78

85
Line 130
Part I.3 tax payable
Forms T2147, T2148, and T2149

You can get these forms from your income tax office.

Part I.3 of the Act levies a tax on the taxable capital employed in Canada by large corporations, including large financial institutions and large insurance corporations. Part I.3 tax is 0.2% of the corporation's taxable capital employed in Canada that is more than its capital deduction of $10 million for the year. Also, under subsection 181.1(4), a corporation can deduct its Canadian surtax from the amount of Part I.3 tax payable. This is called the surtax credit.

A corporation can deduct its unused Canadian surtax credit from its Part I.3 tax in any of the three preceding and seven later taxation years that end after 1991. See item 78 in this guide for details.

If the corporation is a member of a related group, you have to allocate the capital deduction among the members. Use Form T2150, *Agreement Among Related Corporations – Part I.3 Tax*, to allocate the capital deduction. File this form with the T2 return. You can get Form T2150 from your income tax office.

Note

For the purposes of this allocation, a Canadian-controlled private corporation is only considered to be related to corporations with which it is also associated.

A corporation has to file the applicable Part I.3 tax return with its T2 return if it is subject to Part I.3 tax, or if it is not subject because the corporation deducted a surtax credit. There are three types of returns you can use to calculate the corporation's Part I.3 tax:

- Form T2147, *Part I.3 Tax Return – Tax on Large Corporations*
- Form T2148, *Part I.3 Tax Return – Tax on Large Financial Institutions*; and
- Form T2149, *Part I.3 Tax Return – Tax on Large Insurance Corporations.*

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

- non-resident owned investment corporations;
- bankrupt corporations;
- corporations exempt from tax under section 149 on all their taxable income;
- corporations that were not resident in Canada and did not carry on a business from a permanent establishment in Canada;
- deposit insurance corporations; and
- a corporation described in subsection 136(2) of the Act whose principal business is marketing natural products belonging to or acquired from its members or customers.

On line 130 on page 6 of the T2 return, enter the amount of the corporation's Part I.3 tax payable.

Part I.3 instalment requirements are the same as those for Part I. See item 6 in this guide for details. For more information, see the *Corporation Instalment Guide*, which is available at your income tax office.

References
Subsections 181(1) to 181.7

86
Line 131
Part IV tax payable

On line 131, enter the amount of the corporation's Part IV tax payable that you determined in the "Part IV Tax on Taxable Dividends Received" box on page 5 of the T2 return.

Reference
Item 81

87
Line 132
Part IV.1 tax payable
Form T761, *Calculation of Parts IV.1 and VI.1 Taxes Payable*

You can get this form from your income tax office.

Box 3 of Form T761: "Calculation of Part IV.1 Tax"

Box 3 of Form T761 gives details on how to calculate Part IV.1 tax.

Public corporations and certain other corporations may be subject to the 10% Part IV.1 tax on dividends they receive on taxable preferred shares. A **restricted financial institution** is also subject to tax on dividends received on **taxable restricted financial institution shares** (see subsection 248(1) for definitions of these terms).

The issuer of taxable preferred shares can elect to pay a 40% tax under Part VI.1 on dividends on taxable preferred shares. This election exempts the holder of these shares from the 10% tax under Part IV.1. See item 89 in this guide for details.

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

On line 132 on page 6 of the T2 return, enter the amount of Part IV.1 tax payable that you calculated in box 3 of Form T761.

References
Sections 187.1 to 187.6
Subsection 191.2(1)

88
Line 134
Part VI tax payable
Form T2044, *Part VI Tax Return – Tax on Capital of Financial Institutions*

You can get this form from your income tax office.

Use Form T2044 to calculate the corporation's Part VI tax. Part VI of the Act levies a tax on a financial institution's taxable capital employed in Canada. Part VI tax is 1.25% of the corporation's taxable capital employed in Canada that is more than its capital deduction for the year. Also, under subsection 190.1(3), a corporation can deduct its Part I tax from its Part VI tax payable. This is called the Part I tax credit.

A corporation can deduct any unused Part I tax credits from its Part VI tax in any of the three preceding and seven later taxation years that end after 1991 (or after 1990, if the corporation makes a special election). See item 77 in this guide for details.

A financial institution includes a bank, a trust company, a corporation that accepts deposits and carries on the business of lending money on the security of real estate or investing in mortgages or hypothecs on real estate, life insurance corporations, and certain holding corporations.

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

A. $20 million; or

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

A corporation has to file Form T2044 with its T2 return if it is subject to Part VI tax, or if it is not subject because it deducted a Part I tax credit or surtax credit.

If the corporation is a member of a related group, you have to allocate the capital deduction among the members. Use Form T2045, *Agreement Among Related Financial Institutions – Part VI Tax*, to allocate the capital deduction. File this form with the T2 return. You can get Form T2045 from your income tax office.

Part VI instalment requirements are the same as those for Part I. See item 6 in this guide for details. For more information, see the *Corporation Instalment Guide*, which is available at your income tax office.

On line 134 on page 6 of the T2 return, enter the amount of Part VI tax payable that you calculated on Form T2044.

References
Sections 190, 190.1 and 190.11 to 190.15

Additional temporary tax on life insurance corporations

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

This additional tax is effective for taxation years ending after February 25, 1992, and starting before 1996. Companies can also elect to apply both the additional Part VI tax and the new rules on investments in foreign life insurance subsidiaries for taxation years ending after 1990 and before February 26, 1992.

Reference
Subsection 190.1(1.1)

89
Line 133
Part VI.1 tax payable
Forms T761, T769, and T770

The following forms are available at your income tax office:

- Form T761, *Calculation of Parts IV.1 and VI.1 Taxes Payable*;
- Form 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
- Form T770, *Agreement on Liability for Part VI.1 Tax*.

Box 1 of Form T761: "Calculation of Dividend Allowance"

You can calculate the corporation's dividend allowance in box 1 of Form T761.

Generally, the first $500,000 of dividends the corporation paid in the year on taxable preferred shares is exempt from any Part VI.1 tax liability. This basic annual exemption is called the **dividend allowance**.

However, the $500,000 basic allowance is reduced if the corporation paid $1 million or more of dividends on taxable preferred shares in the preceding year.

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

Box 2 of Form T761: "Calculation of Part VI.1 Tax"

You can calculate the corporation's Part VI.1 tax in box 2 of Form T761. Part VI.1 tax is levied on dividends the corporation paid on short-term preferred shares and taxable preferred shares.

The corporation is subject to a tax of 66 2/3% on dividends it paid on **short-term preferred shares** that are more than the $500,000 annual dividend allowance.

The corporation is subject to a tax of 25% on dividends it paid on **taxable preferred shares** (other than short-term preferred shares) that are more than any remaining dividend allowance.

See subsection 248(1) for definitions of the terms **short-term preferred shares** and **taxable preferred shares**.

Form T769, *Election Under Section 191.2 by an Issuer of Taxable Preferred Shares to Pay Part VI.1 Tax at a Rate of 40%*

Corporations other than **financial intermediary corporations** or **private holding corporations** (see subsection 191(1) for definitions) can elect to pay a 40% tax instead of 25% on dividends paid on taxable preferred shares.

If the corporation makes this election, the holder of these shares will be exempt from the 10% Part IV.1 tax. See item 87 in this guide for details. To make this election, complete Form T769 and send it to us with Form T761.

Form T770, *Agreement on Liability for Part VI.1 Tax*

Complete Form T770 to certify the transfer of the corporation's Part VI.1 tax liability and send it to us with Form T761.

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

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

A corporation can deduct Part VI.1 tax payable from its income. See item 58 in this guide for more information. Any Part VI.1 tax that is left over after you reduce taxable income to zero is part of the corporation's non-capital loss for the year. See item 48 in this guide for details.

On line 133 on page 6 of the T2 return, enter the amount of Part VI.1 tax payable you calculated in box 2 of Form T761.

References
Sections 191, and 191.1 to 191.4

90
Line 135
Part XIV tax payable
Schedule T2S(20), *Part XIV Tax on Canadian Branches*

We do not print this schedule.

Any corporation that is **not** a Canadian corporation throughout the year and carries on business in Canada is subject to Part XIV tax, which is known as **branch tax**.

The branch tax rate is usually 25%, but a reciprocal tax treaty can reduce this percentage. In addition, a tax treaty may restrict the branch tax to corporations that carry on business in Canada through a permanent establishment in Canada.

You have to show how you calculated Part XIV tax. Identify these calculations as Schedule T2S(20) in the top right-hand corner of the page.

On line 135 on page 6 of the T2 return, enter the amount of Part XIV tax payable you calculated on Schedule T2S(20).

Note

Corporations that are subject to Part XIV tax should file their T2 return at the International Taxation Office. See item 5 in this guide for details.

References
Section 219
IT-137 *Additional Tax on Certain Corporations Carrying on Business in Canada*
IT-277 *Branch Tax – Effect of Tax Treaties*

Lines 137 to 143, the "Provincial and territorial tax" area

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

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

Therefore, if the corporation does not have a permanent establishment in Quebec, Ontario, or Alberta, you have to calculate provincial and territorial income taxes and credits, as well as federal income taxes and credits, on the T2 return.

If you need help with **Quebec**'s corporate tax, please see Quebec's *Corporation Income Tax Guide*. 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 corporate 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 1-800-263-7965
French-language enquiries 1-800-668-5821
Telecommunications Device for the Deaf . 1-800-263-7776

If you need help with **Alberta**'s corporate 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 1-800-363-6296

91
Line 137
Provincial or territorial jurisdiction

On line 137 on page 6 of the T2 return (page 1 of the T2 Short), give the name of the province or territory where the corporation earned its income. Usually, 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.

By completing line 137, you ensure that the corporation's income taxes go to the correct province or territory. Please complete this line even if no tax is payable, or if the provincial jurisdiction is Quebec, Ontario, or Alberta.

92
Line 139
Provincial or territorial tax payable
Schedule T2S-TC, *Tax Calculation Supplementary – Corporations*

You can get this schedule from your income tax office.

File Schedule T2S-TC with the T2 return if the corporation:

- has a **permanent establishment** in more than one province or territory (whether or not the corporation is taxable); or
- is claiming provincial or territorial tax credits, or rebates (see item 93 in this guide for details).

If the corporation has no taxable income, you only have to complete columns B and D in Part I of Schedule T2S-TC.

A **permanent establishment** in a province or territory is usually a fixed place of business of the corporation, which includes an office, branch, mine, oil well, farm, timberland, factory, workshop, or warehouse. If the corporation does not have a fixed place of business, the corporation's permanent establishment is the principal place in which the corporation's business is conducted.

If the corporation carries on its business through an employee or an agent established in a particular place, the corporation is considered to have a permanent establishment in that place if the employee or agent:

- has general authority to contract for the corporation; or
- has a stock of merchandise owned by the corporation from which the employee or agent regularly fills orders received.

See Regulation 400(2) for a **complete definition** of permanent establishment.

Reference
IT-177 *Permanent Establishment of a Corporation in a Province and of a Foreign Enterprise in Canada*

Part I of Schedule T2S-TC: "Allocation of taxable income"

We assess provincial income taxes on the amount of taxable income the corporation allocates to each province. See Regulation 402 for details on how to allocate taxable income.

Generally, to allocate taxable income to each province, you have to use a formula based on gross revenue and salaries and wages. See Part I of Schedule T2S-TC for details.

You will find the rules on how to allocate gross revenue in Regulations 402(4) and 402(4.1).

Do not include any of the following amounts in the corporation's gross revenue:

- interest on bonds, debentures, or mortgages;
- dividends on shares of capital stock; or
- rentals or royalties from property that the corporation does not use in its principal business operations.

Be sure to allocate gross salaries and wages the corporation paid in the year to the permanent establishment in which those salaries and wages were paid. Do not include in gross salaries and wages any commissions the corporation paid to a person who is not an employee.

See Regulations 403 to 413 for details on special methods for allocating taxable income for the following types of 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; and
- non-resident corporations.

Dual rates of provincial and territorial income tax

All provinces and territories have two rates of income tax: the **lower rate**, and the **higher rate**. You will find the rates that apply to each province and territory in items 95 through 103.

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

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

Example 1

Corporation X earned all of its income in 1994 from its permanent establishment in Saskatchewan.

The corporation's taxation year runs from September 1, 1993, to August 31, 1994.

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

The **lower rate** of tax for Saskatchewan is 9% for 1993 and 8.5% for 1994. The **higher rate** is 17%.

Corporation X calculates its Saskatchewan tax payable as follows:

Taxable income	$90,000
Subtract amount taxed at lower rate:	
Least of lines 223, 225, and 227 in the small business deduction calculation	$78,000
Amount taxed at higher rate	$12,000
Taxes payable at higher rate:	
$12,000 × 17 % =	$ 2,040
Taxes payable at lower rate:	
$\$78,000 \times 9\% \times \frac{122}{365} =$	$ 2,346
$\$78,000 \times 8.5\% \times \frac{243}{365} =$	$ 4,414
Saskatchewan tax payable	$ 8,800

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

Saskatchewan tax payable $90,000 × 17% = $15,300

When you allocate a corporation's taxable income to more than one province or territory, you also have to allocate proportionally any income eligible for the small business deduction.

Example 2

Corporation Y has permanent establishments in both Manitoba **and** British Columbia. Its taxation year runs from January 1, 1994, to December 31, 1994.

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

The **lower rate** of tax for Manitoba is 9.5%, and the **higher rate** of tax is 17%.

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

Taxable income allocated to Manitoba (from Schedule T2S-TC)	$60,000
Taxable income allocated to British Columbia (from Schedule T2S-TC)	$30,000
Total taxable income	$90,000
Least of lines 223, 225, and 227 in the small business deduction calculation	$78,000
Income eligible for small business deduction attributed to Manitoba:	
$\frac{\$60,000}{\$90,000} \times \$78,000 =$	$52,000
Taxable income earned in Manitoba	$60,000
Subtract: Income eligible for the small business deduction attributed to Manitoba	$52,000
Amount taxed at higher rate	$ 8,000
Taxes payable at higher rate: $8,000 × 17% =	$ 1,360
Taxes payable at lower rate: $52,000 × 9.5% =	$ 4,940
Manitoba tax payable	$ 6,300

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

On line 139 on page 6 of the T2 return, enter amount K from Schedule T2S-TC, which is the total amount of provincial or territorial tax payable from column H on Schedule T2S-TC.

93
Line 141
Part II of Schedule T2S-TC: "Provincial and territorial tax credits and rebates"

Complete Part II of Schedule T2S-TC if the corporation is claiming provincial or territorial tax credits or rebates to reduce the provincial or territorial income tax it would otherwise have to pay.

On line 141 on page 6 of the T2 return, enter the total amount of credits and rebates you calculated in Part II of Schedule T2S-TC. Attach to the T2 return any forms that you completed to claim provincial or territorial credits or rebates.

In item 94, you will find information about provincial foreign tax credits for all provinces and territories. In items 95 to 103, we have also provided details on all other provincial and territorial credits and rebates.

94
Provincial or territorial foreign tax credits

Every province and territory allows a corporation to claim a foreign tax credit for taxes it paid to another country on foreign **non-business income**.

However, you cannot claim foreign tax credits on the T2 return for the provinces of Quebec, Ontario, and Alberta, since these provinces collect their own income taxes.

For each province for which the corporation is claiming a credit, you have to do a separate calculation. Calculate a provincial foreign tax credit as the least of:

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

and

B. (i) × [(ii) − (iii)]

where

(i) = $\dfrac{\text{taxable income allocated to province or territory}}{\text{taxable income allocated to all provinces or territories}}$

(ii) = non-business foreign tax paid (not including tax paid on dividends from a share of a foreign affiliate) after deduction under subsection 20(12)

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

* If the tax rate has changed during the taxation year, prorate the calculation in A above using the two rates. If the corporation has dual rates of corporate tax, always use the higher rate when you calculate the foreign tax credit.

In Part II of Schedule T2S-TC, enter on line 601 the total of provincial and territorial foreign tax credits.

95
Newfoundland

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

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

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

Newfoundland political contribution tax credit

You can claim contributions the corporation made to registered political parties and registered candidates, as defined under the *Elections Act, 1991 of Newfoundland*, as follows:

- 75% of the first $100 contributed; plus

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

Attach official receipts to the T2 return. We can only accept photocopies if the issuer certifies them as true copies.

In Part II of Schedule T2S-TC, enter on line 602 the total amount of qualifying contributions, and enter on line 603 the amount of the credit the corporation is claiming.

Form T745, *Newfoundland Corporate Tax Reduction for New Small Businesses*

You can get this form from your income tax office.

Use Form T745 to calculate the Newfoundland corporation tax reduction for new small businesses.

This tax reduction applies to the first three taxation years of qualifying Canadian-controlled private corporations that incorporated from April 3, 1987, to April 2, 1991, inclusive.

If the qualifying corporation is eligible for a federal small business deduction for the year, you can claim this corporate tax reduction to reduce Newfoundland income tax that the corporation would otherwise have to pay.

To claim the reduction, send a completed Form T745 with the T2 return, along with the *Certified Application Form* which the province issues.

In Part II of Schedule T2S-TC, enter on line 669 the amount of the reduction the corporation is claiming.

Form T1100, *Newfoundland Manufacturing and Processing Profits Tax Credit*

You can get this form from your income tax office.

Corporations that have earned taxable income and manufacturing and processing profits in Newfoundland are eligible for the Newfoundland manufacturing and processing profits tax credit. Complete Form T1100 and file it with the T2 return to claim this tax credit.

On line 681 in Part II of Schedule T2S-TC, enter the amount of the credit the corporation is claiming.

96
Prince Edward Island

The **lower** rate of Prince Edward Island income tax is 7.5%. This rate applies to:

- taxable income earned in Prince Edward Island that qualifies for the federal small business deduction; and
- a credit union's income that qualifies for the additional deduction under subsection 137(3).

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

Prince Edward Island political contribution tax credit

You can claim contributions the corporation made to recognized Prince Edward Island political parties, and to candidates who were 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 can only accept photocopies if the issuer certifies them as true copies.

In Part II of Schedule T2S-TC, enter on line 630 the total amount of qualifying contributions, and enter on line 632 the amount of the credit the corporation is claiming.

Form T1091, *Prince Edward Island Manufacturing and Processing Profits Tax Credit*

You can get this form from your income tax office.

Corporations that have earned taxable income and manufacturing and processing profits in Prince Edward Island are eligible for the Prince Edward Island manufacturing and processing profits tax credit. Complete Form T1091 and file it with the T2 return to claim this tax credit.

On line 682 in Part II of Schedule T2S-TC, enter the amount of the credit the corporation is claiming.

Form T1092, *Prince Edward Island Corporate Investment Tax Credit*

You can get this form from your income tax office.

Use Form T1092 to claim the Prince Edward Island corporate investment tax credit. A corporation can earn this credit on qualified property it acquired after December 31, 1992 to reduce Prince Edward Island tax payable.

You can carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which the corporation made the purchase. You can also carry back an unused credit to the three previous taxation years from the taxation year that the corporation made the purchase. You cannot carry back the credit to any taxation year ending before 1993.

On line 760 in Part II of Schedule T2S-TC, enter the total of qualified expenditures the corporation made in the year. On line 763, enter the amount of the credit the corporation is claiming.

97
Nova Scotia

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

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

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

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

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

Attach official receipts to the T2 return. We can only accept photocopies if the issuer certifies them as true copies.

In Part II of Schedule T2S-TC, enter on line 616 the total amount of qualifying contributions, and enter on line 612 the amount of the credit the corporation is claiming.

Form T701, *Nova Scotia Corporate Tax Reduction for New Small Businesses*

You can get this form from your income tax office.

Use Form T701 to calculate the Nova Scotia corporate tax reduction for new small businesses.

This tax reduction applies to the first two taxation years of qualifying Canadian-controlled private corporations incorporated in Nova Scotia. For corporations that incorporated after April 24, 1992, this tax reduction has been extended to the first **three** taxation years.

If the qualifying corporation is eligible for a federal small business deduction for the year, you can claim this tax reduction to reduce Nova Scotia income tax that the corporation would otherwise have to pay.

To claim the reduction, send a completed Form T701 with the T2 return, along with the *Certificate of Eligibility* that the province issues.

In Part II of Schedule T2S-TC, enter on line 668 the amount of the reduction the corporation is claiming.

Form T85, *Nova Scotia Research and Development Tax Credit*

You can get this form from your income tax office.

Use Form T85 to calculate the Nova Scotia research and development tax credit.

The corporation can claim this credit if it has a permanent establishment in Nova Scotia, and if it made eligible expenditures for scientific research carried out in Nova Scotia. The amount of the credit is equal to 10% of qualified expenditures. Apply the credit to reduce Nova Scotia tax that the corporation would otherwise have to pay.

The corporation can carry back any unclaimed credit to the preceding three taxation years from the year that it made the expenditure. The corporation can carry forward the unclaimed credit to the following seven years from the taxation year that it made the expenditure.

For qualified expenditures incurred in taxation years ending *after December 31, 1993, the rate will increase from 10%* to 15%. The credit is applied to reduce Nova Scotia tax payable as well as any amounts owing under the federal and provincial income tax acts, the *Canada Pension Plan Act* and the *Unemployment Insurance Act*. Any remaining balance will be refunded.

To claim the credit, file Form T85 with the T2 return. Form T85 has more details on how to do the calculation.

In Part II of Schedule T2S-TC, enter on line 670 the total qualified expenditures the corporation made in the year, and enter on line 154 on page 6 of the T2 return the total amount of the credit earned in the current year. Enter the amount of credit carried forward from preceding years and applied against the current year provincial tax payable on line 671 of schedule T2S-TC.

Nova Scotia ISO9000 Certification Tax Credit

The Minister of Finance for the province of Nova Scotia will issue a tax credit certificate for expenditures made after 1993 (by a corporation with a permanent establishment in the province of Nova Scotia) for expenses necessary to become ISO9000 certified.

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

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

The certificate, indicating the amount of tax credit, must be filed with the income tax return.

The tax credit may be deducted from the provincial tax otherwise payable.

In Part II of Schedule T2S-TC, enter on line 613 the *amount of the credit the corporation is claiming.*

98
New Brunswick

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

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

New Brunswick political contribution tax credit

You can claim contributions the corporation made to a registered political party, a registered district association,

or a registered independent candidate, as defined under the *Elections Act of New Brunswick*, as follows:

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

Attach official receipts to the T2 return. We can only accept photocopies if the issuer certifies them as true copies.

In Part II of Schedule T2S-TC, enter on line 622 the total amount of qualifying contributions, and enter on line 624 the amount of the credit the corporation is claiming.

Form T1111, *New Brunswick Research and Development Tax Credit*

You can get Form T1111 from your income tax office. Use it to calculate the New Brunswick research and development tax credit. The corporation can claim this credit if it has a permanent establishment in New Brunswick and if it made eligible expenditures for scientific research carried out in New Brunswick after February 25, 1994. The amount of the credit is equal to 10% of qualified expenditures. Apply the credit to reduce New Brunswick tax that the corporation would otherwise have to pay.

The corporation can carry back any unclaimed credit to the preceding three taxation years from the year that it made the expenditure. It cannot carry back the credit to any taxation year ending before February 26, 1994. In addition, the corporation can carry forward the unclaimed credit to the following seven years from the taxation year that it made the expenditure.

To claim the credit, file Form T1111 with the T2 return. Form T1111 has more detailed information on how to calculate this credit.

On line 770 in Part II of Schedule T2S-TC, enter the total qualified expenditures the corporation made in the year. On line 773, enter the amount of the credit the corporation is claiming.

99
Manitoba

The **lower** rate of Manitoba income tax is 10% for 1993 and 9.5% for 1994. These lower rates apply to:

- taxable income earned in Manitoba that qualifies for the federal small business deduction; and
- a credit union's income that qualifies for the additional deduction under subsection 137(3).

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

If January 1, 1994, falls within the corporation's taxation year, you have to prorate the lower tax rate based on the number of days in the taxation year before and after this date. See example 1 in item 92 for details.

Manitoba political contribution tax credit

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

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

Attach official receipts to the T2 return. We can only accept photocopies if the issuer certifies them as true copies.

In Part II of Schedule T2S-TC, enter on line 620 the total amount of qualifying contributions, and enter on line 619 the amount of the credit the corporation is claiming.

Form T86, *Manitoba Manufacturing Investment Tax Credit*

You can get this form from your income tax office.

Use Form T86 to claim the Manitoba manufacturing investment tax credit. This credit was earned on purchases of qualifying manufacturing and processing property the corporation made before 1987.

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

Send Form T86 with the T2 return to support the carry-forward balance of any credits you are claiming to reduce Manitoba tax that the corporation would otherwise have to pay.

In Part II of Schedule T2S-TC, enter on line 673 the amount of the credit the corporation is claiming as a carry-forward.

Form T1088, *Manitoba Research and Development Tax Credit*

You can get this form from your income tax office.

Use Form T1088 to calculate the Manitoba research and development tax credit.

The corporation can claim this credit if it has a permanent establishment in Manitoba, and if it made eligible expenditures for scientific research carried out in Manitoba after March 11, 1992. The amount of the credit is equal to 15% of qualified expenditures. Apply the credit to reduce Manitoba tax that the corporation would otherwise have to pay.

The corporation can carry back any unclaimed credit to the preceding 3 taxation years from the year that it made the expenditure. The corporation cannot carry back the credit to any taxation year ending before March 12, 1992. The corporation can carry forward the unclaimed credit to the

following 7 years from the taxation year that it made the expenditure.

To claim the credit, file Form T1088 with the T2 return. Form T1088 has more details on how to calculate this credit.

On line 755 in Part II of Schedule T2S-TC, enter the total qualified expenditures the corporation made in the year. On line 758, enter the amount of the credit the corporation is claiming.

Form T1089, *Manitoba Manufacturing and Processing Tax Credit*

You can get this form from your income tax office.

Use Form T1089 to claim the Manitoba manufacturing and processing tax credit. A corporation can earn this credit on qualified property it acquired after March 11, 1992, and before July 1, 1995, to reduce Manitoba tax payable. The corporation has to use the qualified property in Manitoba primarily for the purpose of manufacturing or processing goods for sale or for lease.

This credit is in addition to the *Manitoba manufacturing investment tax credit* (Form T86). Do not enter on Form T1089 credits available for carry-forward from Form T86.

On line 750 in Part II of Schedule T2S-TC, enter the total of qualified expenditures the corporation made in the year. On line 753, enter the amount of the credit the corporation is claiming.

You can carry back an unused credit to the three previous taxation years from the taxation year that the corporation made the purchase. You cannot carry back the credit to any taxation year ending before March 12, 1992. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which the corporation made the purchase.

Form T800, *Manitoba Corporate Tax Reduction for New Small Businesses*

You can get this form from your income tax office.

Use Form T800 to calculate the Manitoba corporate tax reduction for new small businesses.

This tax reduction applies to Canadian-controlled private corporations, credit unions, or co-operative corporations that incorporated in Manitoba from August 9, 1988, to December 31, 1992, inclusive.

For corporations that incorporated before April 18, 1991, the tax reduction applies to the first five taxation years. However, for corporations that incorporated after April 17, 1991, the province of Manitoba has changed the legislation to limit this reduction to the first four taxation years.

If the corporation is eligible, you can reduce the amount of lower-rate Manitoba tax otherwise payable by a percentage of the taxable income the corporation earned in Manitoba that qualifies for the federal small business deduction. The reduction also applies to the amount of a credit union's income that is eligible for the additional deduction under subsection 137(3).

The reduction rate declines by 2% per year over the first four or five taxation years of the corporation, as follows:

Taxation year	Five-year reduction	Four-year reduction
First year	10%	8%
Second year	8%	6%
Third year	6%	4%
Fourth year	4%	2%
Fifth year	2%	—
Sixth and later years	—	—

To claim the reduction, send a completed Form T800 with the T2 return, along with the *Confirmation Notice* the province issues.

In Part II of Schedule T2S-TC, enter the reduction rate on line 610, and enter on line 611 the amount of the reduction the corporation is claiming.

100 Saskatchewan

The **lower** rate of Saskatchewan income tax is 9.0% for 1993 and 8.5% for 1994. These lower rates apply to:

- taxable income earned in Saskatchewan that qualifies for the federal small business deduction; and
- a credit union's income that qualifies for the additional deduction under subsection 137(3).

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

If January 1, 1994, falls within the corporation's taxation year, you have to prorate the lower tax rate based on the number of days in the taxation year before and after this date. See example 1 in item 92 for details.

Form T70, *Saskatchewan Royalty Tax Rebate Calculation (Corporations)*

You can get this form from your income tax office.

Use Form T70 to calculate the Saskatchewan royalty tax rebate. This rebate is available to corporations that, in the taxation year, had both taxable income earned in Saskatchewan and **attributed Canadian royalties and taxes**, as defined in paragraph 2(1)(a) of the *Saskatchewan Royalty Tax Rebate Regulations*.

To claim the rebate, file Form T70 with the T2 return. Form T70 gives details on how to do the calculations.

On Part II of Schedule T2S-TC, enter on line 605 the royalty tax rebate the corporation is claiming. On line 614, enter any rebate it is carrying forward to the current

taxation year. On line 615, enter the current adjusted attributed Canadian royalties and taxes.

Form T700, *Saskatchewan Corporate Tax Reduction for New Small Businesses*

You can get this form from your income tax office.

Use Form T700 to calculate the Saskatchewan corporate tax reduction for new small businesses.

This tax reduction applies to the first two taxation years of qualifying Canadian-controlled private corporations, co-operative corporations, and credit unions that incorporated before April 1992.

If the qualifying corporation is eligible for a federal small business deduction for the year, you can claim this tax reduction to reduce Saskatchewan income tax that the corporation would otherwise have to pay.

To claim the reduction, send a completed Form T700 with the T2 return, along with the *Confirmation Notice* the province issues.

In Part II of Schedule T2S-TC, enter on line 674 the amount of the reduction.

Saskatchewan venture capital tax credit

If the corporation is resident in Saskatchewan and invests in equity shares of a venture capital corporation, it may be able to claim a venture capital tax credit.

The Saskatchewan government issues an information slip called the T2C(SASK) to these corporations. To claim the credit, send the T2C(SASK) with the T2 return.

You have to apply any available credit to reduce the corporation's Saskatchewan provincial tax to zero. If there is an amount left over, the corporation can carry it forward to the seven taxation years that follow and deduct it from the Saskatchewan tax payable.

On line 636 in Part II of Schedule T2S-TC, enter the total credit the corporation 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 637, enter the amount of the credit the corporation is claiming.

Saskatchewan livestock investment tax credit

Corporations that were resident in Saskatchewan were able to earn the livestock investment tax credit if, before 1990, they owned, fed, and marketed eligible classes of livestock.

If the corporation still has any unclaimed credits, you can carry them forward to the seven taxation years following the year the corporation earned them, and apply them to any Saskatchewan tax the corporation would otherwise have to pay.

In Part II of Schedule T2S-TC, enter on line 638 the amount of credit available for carry-forward from the previous taxation year, and enter on line 639 the amount of the credit the corporation is claiming.

Saskatchewan livestock facilities tax credit

Corporations that were resident in Saskatchewan were able to earn a Saskatchewan livestock facilities tax credit if, before 1990, they invested in eligible livestock facilities.

In Part II of Schedule T2S-TC, enter on line 678 the amount of credit available for carry-forward from the previous taxation year, and enter on line 676 the amount of the credit the corporation is claiming.

If the corporation still has any unclaimed credits, it can carry them forward to the seven taxation years following the year the corporation earned the credits, and apply them to any Saskatchewan tax the corporation would otherwise have to pay.

Form T1101, *Saskatchewan Manufacturing and Processing Tax Credit*

You can get this form from your income tax office.

Use Form T1101 to claim the Saskatchewan manufacturing and processing tax credit. A corporation can earn this credit on qualified property it acquired after March 31, 1993, and before January 1, 1994, to reduce Saskatchewan tax payable. The corporation has to use the qualified property in Saskatchewan primarily for the purpose of manufacturing or processing goods for sale or for lease.

On line 765 in Part II of Schedule T2S-TC, enter the total of qualified expenditures the corporation made in the year. On line 768, enter the amount of the credit the corporation is claiming.

You can carry forward the unclaimed credit to the ten taxation years that follow the taxation year in which the corporation made the purchase. You can also carry back an unused credit to the three previous taxation years from the taxation year that the corporation made the purchase.

101
British Columbia

The **lower** rate of British Columbia income tax is 10%. This lower rate applies to:

- taxable income earned in British Columbia that qualifies for the federal small business deduction; and
- a credit union's income that qualifies for the additional deduction under subsection 137(3).

The **higher** rate of tax is 16% from January 1, 1992, until June 30, 1993. The rate then increases to 16.5% beginning on July 1, 1993. These higher rates apply to taxable income earned in British Columbia that does **not** qualify for the federal small business deduction.

If July 1, 1993, falls within the corporation's taxation year, you have to prorate the higher tax rate based on the number of days in the taxation year before and after this date. See example 1 in item 92 of this guide for details.

British Columbia political contribution tax credit

You can claim contributions the corporation made to recognized British Columbia political parties, recognized

British Columbia constituency associations, or to candidates for an election to the British Columbia Legislative Assembly, as follows:

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

Attach official receipts to the T2 return. We can only accept photocopies if the issuer certifies them as true copies.

In Part II of Schedule T2S-TC, enter on line 606 the total amount of qualifying contributions, and enter on line 604 the amount of the credit the corporation is claiming.

Form T81, *British Columbia Royalty and Deemed Income Rebate Calculation and Application*

You can get this form from your income tax office.

Use Form T81 if the corporation is subject to British Columbia income tax, and if it has 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 *Income Tax Act*. File the completed form with the T2 return.

This rebate allows a deduction for Crown royalties and deemed income, and replaces the federal resource allowance. Use the adjusted taxable income to recalculate any provincial taxes payable. The difference between the British Columbia tax that the corporation would otherwise have to pay and the recalculated British Columbia tax payable may result in an amount receivable or payable by the corporation.

In Part II of Schedule T2S-TC, enter on line 607 the rebate or addition you calculated on Form T81, and enter on line 617 the amount of British Columbia tax that the corporation would otherwise have to pay.

British Columbia logging tax credit

Corporations that have paid a **logging tax** to British Columbia on income they earned from logging operations for the year can claim a British Columbia logging tax credit. The credit is equal to one-third of the logging tax the corporation paid.

In Part II of Schedule T2S-TC, enter on line 608 the amount of the credit.

British Columbia small business venture capital tax credit

Corporations investing in shares of a registered venture capital corporation can claim a British Columbia venture capital tax credit.

The British Columbia government issues an information slip called Form FIN 565 to these corporations. File this information slip with the T2 return to claim the British Columbia venture capital tax credit.

You have to apply this credit to reduce the British Columbia provincial tax payable for the year to zero. If there is still some credit left over, the corporation can carry it forward for four taxation years to reduce its British Columbia tax payable.

On line 642 in Part II of Schedule T2S-TC, enter the total credit the corporation earned in the year, as reported on the FIN 565 slip, **plus** any credit available for carry-forward from the previous taxation year. On line 644, enter the amount of the credit the corporation is claiming.

102 Yukon

The **lower** rate of Yukon income tax is 6%. This lower rate applies to taxable income earned in the Yukon that qualifies for the federal small business deduction.

The **higher** rate of tax is 13% for 1993 and 15% for 1994. These higher rates apply to taxable income earned in the Yukon that does **not** qualify for the small business deduction.

If January 1, 1994, falls within the corporation's taxation year, you have to prorate the higher tax rates based on the number of days in the taxation year before and after this date. See example 1 in item 92 for details.

Yukon political contribution tax credit

You can claim contributions the corporation made to a registered political party or to a candidate for an election to the Yukon Legislative Assembly, as follows:

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

Attach official receipts to the T2 return. We can only accept photocopies if the issuer certifies them as true copies.

In Part II of Schedule T2S-TC, enter on line 626 the total amount of qualifying contributions, and enter on line 628 the amount of the credit the corporation is claiming.

Form T572, *Yukon Manufacturing and Processing Profits Tax Credit*

You can get this form from your income tax office.

Corporations that have earned taxable income and manufacturing and processing profits in the Yukon are eligible for the Yukon manufacturing and processing profits tax credit. Complete Form T572 and file it with the T2 return to claim this tax credit.

On line 634 in Part II of Schedule T2S-TC, enter the amount of the credit the corporation is claiming.

103 Northwest Territories

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

The **higher** rate of Northwest Territories income tax is 12% for 1993 and 14% for 1994. These rates apply to taxable income that does **not** qualify for the small business deduction.

If January 1, 1994, falls within the corporation's taxation year, you have to prorate the higher tax rate based on the number of days in the taxation year before and after this date. See example 1 in item 92 for details.

Northwest Territories political contribution tax credit

You can claim contributions the corporation made to a candidate for an election to the Northwest Territories Legislative Assembly. The allowable political contribution tax credit is equal to:

- 100% of the first $100 contributed; plus
- 50% of the next $800 contributed, to a maximum credit of $500.

Attach official receipts to the T2 return. We can only accept photocopies if the issuer certifies them as true copies.

Note

Contributions to a political party do **not** qualify for a credit.

In Part II of Schedule T2S-TC, enter on line 648 the total amount of qualifying contributions, and enter on line 609 the amount of the credit the corporation is claiming.

Lines 145 to 157, the "Other credits" area

104
Line 145
Tax instalments paid

We publish a guide called the *Corporation Instalment Guide*, which is available from your income tax office. This guide gives you more details about how to make payments and how to calculate instalments.

Make all cheques or money orders payable to the Receiver General, and send them with Form T9, *Corporation Remittance Form*.

If you do not have a remittance form, use the copy of Form RF-Corp, *Remittance Form*, that we have provided at the end of this guide. Be sure to include the corporation's name, address, and account number on the form. Also, be sure to enter the taxation year-end and the payment amount in the correct boxes.

Remember to review every statement of account (Form T9) you receive from us to make sure that we have applied the corporation's instalment payments to the correct taxation year. If we did not allocate a payment correctly, contact your taxation centre immediately.

On line 145 on page 6 of the T2 return (page 1 of the T2 Short), report all of the instalment payments the corporation made for the taxation year. Keep in mind that, if there is a discrepancy between the amount you report on the return and the amount in the instalment account, we will use the amount in the corporation's instalment account for the taxation year being assessed when we process the return.

In addition to the interest that the corporation has to pay for late or deficient instalment payments, a penalty may apply on the interest payable. The penalty is 50% of the amount you get after you subtract from the net instalment interest for the year one of the following amounts, whichever is more:

- $1,000; or
- 25% of the instalment interest calculated as if the corporation had not made any instalment payments for the year.

References
Sections 157 and 163.1
Item 6

105
Line 146
Investment tax credit refund

On line 146 on page 6 of the T2 return, enter the amount of the corporation's investment tax credit refund. See item 76 in this guide for details.

106
Line 147
Dividend refund

On line 147 on page 6 of the T2 return, enter the amount of the corporation's dividend refund, which you calculated in the "Dividend Refund" box on page 5 of the T2 return. See item 83 in this guide for details.

107
Line 149 and 151
Schedule T2S(18), *Federal and Provincial or Territorial Capital Gains Refund*

We do not print this schedule.

Investment corporations (see section 130) and **mutual fund corporations** (see section 131) have to provide the following information with their T2 returns:

- details about the refundable capital gains tax on hand; and
- a calculation of the federal and provincial capitals gains refund.

Identify this information as Schedule T2S(18) in the top right-hand corner of the page.

The percentage you use to determine the refundable capital gains tax on hand is 28%.

To calculate the federal capital gains refund, determine 21% of one of the following amounts, whichever is less:

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

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

On line 149 on page 6 of the T2 return, enter the federal capital gains refund. On line 151, enter the provincial capital gains refund.

References
Sections 130 and 131

Note

If the corporation is established and maintained primarily to benefit non-residents, it does not qualify as a mutual fund corporation, and it cannot claim the capital gains refund.

108
Line 153
Schedule T2S(26), *Allowable Refund for Non-Resident-Owned Investment Corporations*

We do not print this schedule.

A non-resident-owned investment corporation that is paying taxable dividends to its shareholders has to show how it calculated its claim for an allowable refund. Calculate a separate allowable refund for each taxable dividend the corporation paid during the year.

Identify this calculation as Schedule T2S(26) in the top right-hand corner of the page. Be sure to give the corporation's non-resident remitter number on the schedule.

On line 153 on page 6 of the T2 return, enter the amount of the total allowable refund.

Reference
Section 133

109
Line 154
Nova Scotia research and development tax credit refund

On line 154 on page 6 of the return, enter the amount of the current year credit the corporation is claiming. See Form T85 in item 97 for more details.

Proposed legislation
In a Notice of Ways and Means tabled in the House of Commons on November 22, 1994, the Minister of Finance announced draft legislation relating to the income tax treatment of mining reclamation trusts.

110
Line 155
Federal mining reclamation tax credit refund

A corporation that is the beneficiary of a mining reclamation trust in a taxation year of the trust which ends in a particular taxation year of the corporation may deduct, from Part I tax, the tax payable by the trust under Part XII.4. To the extent that the amount is not deducted by the corporation from Part I tax, it is considered to have been paid on account of the corporation's tax for the year. Enter this amount on line 155 on page 6 of the T2 return.

111
Line 157
Tax withheld at source

This is the amount shown as "income tax deducted" on any NR4B, T4A, or T4A-NR information slips the corporation may have received. Attach these information slips to the T2 return to support a claim for a refund of tax withheld at source.

In addition, to claim a refund of non-resident withholding tax, you can also submit a completed Form NR7-R, *Application for Refund of Non-Resident Tax*, or send us a signed letter requesting the refund.

On line 157 on page 6 of the T2 return, enter the amount of the refund the corporation is claiming.

Reference
IC 77-16 *Non-Resident Income Tax*
IC 75-6 *Required Withholding from Amounts Paid to Non-Resident Persons Performing Services in Canada*

Lines 159 to 161, Payment or refund area

112
Line 159
Enclosed payment

On line 159 on page 6 of the T2 return, enter the amount of any payment you are sending with the T2 return. Do not include this payment amount in the instalment total you recorded on line 145.

Make the cheque or money order payable to the Receiver General, and attach it to the T2 return.

113
Line 163, Balance unpaid
Line 165, Overpayment

Subtract all the credits on lines 145 to 157 from the total tax payable on line 143. Tick box 163 if an amount is due. Tick box 165 if there is an overpayment you would like us to either refund or apply to other liabilities.

114
Line 161
Refund code

If the corporation is entitled to a refund, enter one of the following codes in the refund code box at line 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 apply the overpayment to another liability.

Keep in mind that we will first apply the overpayment to any outstanding tax the corporation owes. Then, we will direct any amount left over according to the code you enter.

If you enter 1 or do not enter a code, we will send you a cheque for the amount of the overpayment.

If you enter **2**, we will transfer the overpayment to the next year's instalment account, as well as any refund interest that has accumulated from the assessment date.

Enter **3** if you want us to apply the corporation's overpayment to other tax liabilities (for example, an expected debit from a reassessment), or to a different account. Attach a letter providing instructions to the T2 return.

Direct Deposit

You can have the corporation's refund deposited directly into the corporation's account at a financial institution. For details, see Form T2-DD, *Direct Deposit Request Form for Corporations*. You can get this form from your income tax office.

The "Certification" box

Complete the "Certification" box by providing the name, address, and title of the authorized signing officer of the corporation.

Be sure to have the officer sign and date the return.

List of federal and provincial corporate forms

Revenue Canada prints the following forms, which are available at your income tax office. We have listed the addresses and telephone numbers of our income tax offices at the end of this guide.

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