



Revenue  
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# T2 Corporation – Income Tax Guide

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# *1998*



## What's new for 1998?

### Processing redesign

In January 1999, Revenue Canada is launching the first phase of a completely redesigned processing system for corporation income tax returns (T2 returns). Phase One introduces a brand new package of T2 forms for the 1998 taxation year.

Almost all of the T2 forms you previously filed have been redesigned so that we can process your T2 return faster and more efficiently while maintaining a high degree of accuracy. These redesigned forms and schedules clearly specify the information we need to assess your return. We also now print the forms that were previously "free-form" and have introduced numerous changes that will make filing easier and more straightforward, such as:

- eliminating the reporting of cents (*Please round to the nearest dollar!*);
- eliminating the Schedule 2, *Charitable Donations and Gifts*, requirement to list each charitable gift over \$100;
- simplifying the T2 return by moving the:
  - calculation of Part IV tax on taxable dividends received to Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*, and
  - calculation of the manufacturing and processing profits deduction to Schedule 27, *Calculation of Canadian Manufacturing and Processing Profits Deduction*;
- incorporating loss carry-back requests on Schedule 4, *Corporation Loss Continuity and Application*, eliminating the requirement for Form T2A, *Request for Corporation Loss Carry-back From Taxation Year Ending*;
- eliminating the signature requirements on all agreement forms.

If you are filing a T2 return for the 1998 taxation year after December 31, 1998, you must use the new forms. If you use commercial software to file your return, be sure to use the updated software package approved for the 1998 taxation year. Commercial software packages approved for filing after December 31, 1998, incorporate all the changes we have made to the forms.

All the new forms and schedules referred to in this guide are available from our Internet site at:  
<http://www.rc.gc.ca/t2return/>

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

### Phase Two

We are targeting mid 1999 to deliver our new and fully operational processing system, which will:

- offer Corporate EFILE, an electronic return filing option developed in coordination with the provinces of Alberta, and Ontario;
- process T2 returns much faster;

- reduce the need to contact you for more information while we are assessing your return; and
- provide a more responsive enquiries service that can give you the information you need right away.

### General index of financial information

Revenue Canada is introducing a new method for filing financial statement information. The General Index of Financial Information (GIFI) is a codified index of items commonly found on balance sheets, income statements, and in notes to financial statements. You will index the information from your existing financial statements. All commercial tax preparation and most accounting software include the GIFI to allow easy capture of financial information.

For more information on using the GIFI, refer to the *Guide to the General Index of Financial Information (GIFI) for Corporations*.

An abridged version of the GIFI called the *GIFI-Short Form* is available in paper format for those corporations with gross revenue and assets less than \$3 million that do not use tax return software to prepare their returns. A guide to the *GIFI-Short Form* is available as well.

You can also download the *Guide to the General Index of Financial Information (GIFI) for Corporations* and the *GIFI-Short Form* and its guide from our Internet site:  
<http://www.rc.gc.ca/t2return/>

The guide and the GIFI on diskette, as well as paper copies of the *GIFI-Short Form* and guide, are available from your tax services office.

### Industry Canada

As part of a cooperative effort, Revenue Canada and Industry Canada are pleased to introduce a joint filing initiative that will reduce the reporting burden of our common clients.

In the past, corporations have had to report much of the same information to Revenue Canada and Industry Canada. Now corporations have a choice. Corporations incorporated under the *Canada Business Corporation Act (CBCA)*, have traditionally filed the Form 22, *Annual Return (Annual Return)*, directly to Industry Canada. These corporations now have the option of continuing this practice, or of filing this information together with the T2 return.

For more details, refer to item 44.

As a further convenience, an Industry Canada remittance form has been included as an appendage to Schedule 80, *Industry Canada – Annual Return – Canada Business Corporation Act*, to provide corporations with the option of paying their annual Industry Canada return fee with the T2 return. Should you choose to take advantage of this option, please note that only the payment of the fee to Industry Canada should be recorded and submitted with

the form. The appropriate Revenue Canada remittance form should be used when remitting income tax payments.

## Our service pledge

Revenue Canada will process 90% of all T2 initial assessed returns within 90 days.

## Proposed legislation

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

### Investment tax credit

Capital costs and expenditures for property qualifying for an investment tax credit are restricted to the amount of costs or expenditures identified on Schedule 31, *Investment Tax Credit – Corporations* (formerly Form T2038 (CORP)). The schedule must be filed within 12 months of the filing due date for the taxation year in which the credit arises. For details, refer to item 110.

### Charitable donations and gifts to Canada or a province

It is proposed that gifts to Canada or a province made after February 18, 1997, be considered charitable donations.

For taxation years that begin after 1996, it is proposed to increase the limit on charitable donations to 75% of net income.

This limit would be further increased by the following amounts:

- 25% of the taxable capital gains arising from gifts of capital property made in the year and included in the corporation's taxable income for the year; and
- 25% of the lesser of:
  - the amount of recapture included in the income for the year arising from the donation of a prescribed class of depreciable property; or
  - the lesser of capital cost of the property and the proceeds of disposition of the property minus any outlays and expenses to the extent that they were made or incurred by the corporation for the purpose of making the disposition.

Excepted from these limits are gifts to Canada or a province made before February 19, 1997, gifts of Canadian cultural property, and gifts of ecologically sensitive land, all of which remain deductible at 100%.

For more information, see items 75 and 76.

### Gifts of non-qualifying security

For 1997 and subsequent taxation years, it is proposed that, where a corporation makes a gift of a non-qualifying

security, that gift will be ignored for the purpose of the charitable donations deduction. However, if the donee disposes of the non-qualifying security within five years, the corporation will be treated as having made the gift at that time.

A reserve may be claimed in respect of any gain on the original disposition to postpone the income inclusion until the donation is recognized.

### Capital gains on donations

For gifts made after February 18, 1997, and before 2002, it is proposed that if a capital gain results from the making of a gift to a qualified donee, other than a private foundation, of a security listed on a stock exchange, a share or unit of a mutual fund, an interest in a related segregated fund trust or a prescribed debt obligation, only 3/8 of the gain will be a taxable capital gain and hence included in income. See item 53.

### Qualified environmental trusts

For taxation years that end after February 18, 1997, it is proposed that the existing rules for mining reclamation trusts will apply to qualifying environmental trusts. See item 109.

### Part VI surtax

The surtax on financial institutions (other than life insurers) is applicable for taxation years that end after February 27, 1995, and begin before November 1999. See item 119.

### Film or video production services tax credit refund

A new film or video production services tax credit refund is available at a rate of 11% of qualified expenditures incurred after October 1997 by an eligible production corporation for the production of an accredited film or video production. See item 142.

## Do you have an income tax problem?

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

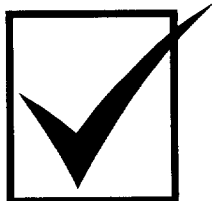
If you have a problem, you can call, write, or visit your tax services office. You can also write or visit your tax centre.

You can find the telephone numbers for your tax services office listed under "Revenue Canada" in the Government of Canada section of the telephone book. The address of your tax centre is listed under item 4.

If your problem is not resolved to your satisfaction, ask to speak with a Problem Resolution Program co-ordinator.

# ***Your opinion counts!***

We review our publications every year. If you have any comments or suggestions that would help us improve them, we would like to hear from you. Please send your comments to:



**Client Services Directorate  
Revenue Canada  
400 Cumberland Street  
Ottawa ON K1A 0L5**

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## 1998 and following taxation years

In this guide, we give you basic information on how to complete the *T2 Corporation Income Tax Return* (1998 and subsequent taxation years). For any information on old versions of the return, refer to the 1995 guide and the 1997 supplement. Please note that the guide does not replace the *Income Tax Act* and its regulations.

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

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

Many of our publications are available on the Internet. Our Internet address is:  
<http://www.rc.gc.ca/t2return/>

If you want to order any of the publications, schedules, forms, or the *T2 Corporation Income Tax Guide* for next year, use the order forms at the end of this guide.

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

### 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 when filing a T2 return. Corporations can complete their financial

statements using the *General Index of Financial Information* (GIFI) available in all tax preparation software packages certified by Revenue Canada and most accounting software packages.

If you use the GIFI, you won't need to send your financial statements with your return.

### 2

#### In what format can you file a T2 return?

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

##### Using T2 returns the Department prints

The Department print two different T2 returns.

##### T2 Corporation Income Tax Return

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

##### T2 Short Return

The *T2 Short Return* is two pages long. It 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** 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 123);
  - it is not claiming any refundable tax credits, other than a refund of instalments it paid; **and**

- it did not receive or pay out taxable dividends.
2. You can also use this return if the corporation is a tax-exempt corporation (such as a non-profit organization) that has a permanent establishment in only one province or territory.

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

A 1998 version of the *T2 Short* return is not available. If you qualify to use the *T2 Short* return, however, you may use a previous version of the form. A revised *T2 Short* return for the 1998 and subsequent taxation years will be available at a later date.

Each return package has two copies of the T2 return; keep one copy for your files, and send the other copy to us.

Refer to the table at the end of this guide for a cross-reference of old and new schedule numbers.

### Using computer-printed returns

Just as we have redesigned all the forms and schedules that the Department prints, we have redesigned the specifications for commercial software packages for the 1998 and subsequent taxation years. If you are filing your return for the 1998 taxation year after December 31, 1998, you must use software that has been approved for filing 1998 returns after December 31, 1998. Revenue Canada will test and approve all commercial software packages to ensure that they meet our new specifications. Your approved software will generate the new T2 RSI (*Return and Schedule Information*), which is similar to the former "keying summary".

For all 1998 taxation year returns filed in the T2 RSI format, also attach the "facsimile" forms that your software generates to the T2 RSI. If the T2 RSI you file does not include the financial information in GIFI format, you have to attach complete financial statements.

For 1999 and subsequent taxation years, you do not have to send us copies of the "facsimile" forms. You will only have to send us the T2 RSI and keep the "facsimile" forms for your own records. You will have less paper to file, because all the information we need to process your return will be provided on the T2 RSI.

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

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

If the T2 RSI you file does not have a valid Revenue Canada software approval code or does not meet our requirements, we will send it back to you to re-file the return, either in an approved format or using our printed forms.

### Facsimile 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 97-2, *Customized Forms – Returns and Information Slips*

## 3

### 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.

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
March 31.....	September 30
June 30.....	December 31
August 31.....	February 28
September 23.....	March 23
October 2.....	April 2

If you hand-deliver the T2 return to a tax services office or tax centre, 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 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 6 for details.

#### Note

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

## 4

### Where do you file 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 tax services office, or mail it to one of the following tax centres:

### Corporations served by tax services offices in:

	Tax centre
British Columbia, the Yukon Territory, Regina	Tax Centre Surrey BC V3T 5E1
Alberta, Manitoba, the Northwest Territories, Saskatoon, London, Windsor and Thunder Bay	Tax Centre Winnipeg MB R3C 3M2
Sudbury/Nickel Belt, Toronto Centre, Toronto East, Toronto West, and Toronto North	Tax Services Office/Tax Centre Sudbury ON P3A 5C1
Montréal, Laval, Ottawa, Sherbrooke, Rouyn-Noranda, North-Eastern Ontario	Tax Centre Shawinigan-Sud QC G9N 7S6
Québec, Chicoutimi, Rimouski, Trois-Rivières, Outaouais and Montérégie-Rive-Sud	Tax Centre Jonquière QC G7S 5J1
Nova Scotia, New Brunswick, Prince Edward Island, Newfoundland, Labrador, Kingston, Peterborough, St. Catharines, Belleville, Hamilton, and Kitchener/Waterloo	Tax Centre St. John's NF A1B 3Z1

## Non-resident corporations

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

The International Tax Services Office  
2204 Walkley Road  
Ottawa ON K1A 1A8

A non-resident corporation is subject to Canadian income tax. This means that the corporation has to file a T2 return if, at any time in the year or a previous year, the corporation carried on business in Canada or disposed of taxable Canadian property.

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); 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 Tax Services Office at one of the following telephone numbers:

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

\*We accept collect calls.

## 5

### When do corporations pay income tax?

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

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

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

#### Note

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

### Instalment due dates

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

#### Example

If the taxation year begins on December 16, 1997, and ends on December 15, 1998, the first payment is due January 15, 1998. The other 11 payments are due on the 15th of every month, with the last payment of the taxation year due on December 15, 1998.

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 prior taxation year is \$1,000 or less. For more information, see the *Corporation Instalment Guide*.

A new corporation does not have to make instalment payments during its first taxation year, since there is no previous taxation year. However, this rule does not apply to a first year following an amalgamation, because the first year is a continuation of the predecessor corporation. Refer



to the *Corporation Instalment Guide* for details. 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 before the application of any loss carry-backs for the previous taxation year does not exceed its business limit for that taxation year, if the corporation is **not associated** with any other corporation during the taxation year.

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

#### Notes

For a taxation year shorter than 51 weeks, prorate the business limit based on the number of days in the taxation year divided by 365. See items 28 and 95 for more information.

Large Canadian-controlled private corporations that have taxable capital employed in Canada of \$15 million or more will have their business limit reduced to nil. For more information, see item 95.

#### References

Section 157  
IC 81-11, *Corporate Instalments*  
Guide T7B, *Corporation Instalment Guide*

## 6

### 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 may apply to large corporations that have gross Part I.3 tax, net taxable capital for the provinces of Nova Scotia and New Brunswick, or Part VI tax payable. The penalty applies if they do not file, as required, the following returns:

- T2 *Corporation Income Tax Return*;
- Schedule 33, *Part I.3 Tax on Large Corporations* (formerly Form T2147);
- Schedule 34, *Part I.3 Tax on Financial Institutions* (formerly Form T2148);
- Schedule 35, *Part I.3 Tax on Large Insurance Corporations* (formerly Form T2149);
- Schedule 38, *Part VI Tax on Capital of Financial Institutions* (formerly Form T2044);
- Schedule 342, *Nova Scotia Tax on Large Corporations* (formerly Form T1167); and
- Schedule 361, *New Brunswick Tax on Large Corporations* (formerly Form T1166).

The penalty is **0.25%** for each complete month that the return is late, up to a maximum of **40 months**. This penalty is calculated on the combined amount that is payable under the large corporation tax returns listed above. 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, and if it failed to report income in any of the three previous taxation years. The penalty is **10%** of the amount of unreported income in the year that is subject to the penalty.

Reference  
Subsection 163(1)

#### False statements or omissions

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

Reference  
Subsection 163(2)

#### Note

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

#### 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 42);
- not filing the T5013 Summary, *Partnership Information Return* (see item 37);
- not filing Forms T1134A, *Information Return Relating to Foreign Affiliates That are not Controlled Foreign Affiliates*, T1134B, *Information Return Relating to Controlled Foreign Affiliates*, T1135, *Foreign Income Verification Statement*, T1141, *Information Return in Respect of Transfers or Loans to a Non-Resident Trust*, and T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-resident Trust* (see item 43); 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*

## 7

### What happens once you have filed the T2 return?

After we receive the T2 return, we send it to Corporation Services of the responsible tax centre for processing. Item 4 lists these tax centres.

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

As soon as you receive the assessment notice, compare it to your copy of the corporation's T2 return. Contact your tax services office if you need us to clarify or explain any part of the assessment.

### How to authorize the release of information to third parties

If you would like us to release details about any T2 return or returns to an independent representative, such as an accountant, you can either send us a signed letter of authorization, or complete Form RC59, *Business Consent Form*.

- If you choose to write a letter of authorization, specify the taxation year and the person or people authorized to receive the information. To cancel an authorization that was previously given, notify us in writing immediately.
- If you choose to use Form RC59, you can get it from your tax services office or tax centre. You can use this form to give an authorization or to cancel one that you 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 prior taxation years, but also to the year after the year for which the form is dated. For example, you can use a consent form dated in 1998 to give authorization up to and including the 1999 taxation year.

## 8

### 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 (it 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*;
- the corporation filed Form T2029, *Waiver in Respect of the Normal Reassessment Period*, with a tax services office before the normal reassessment period expires;
- the reassessment is a carry-back of losses or certain tax credits and deductions where a prescribed form requesting the amendment has been filed on time; or
- instructed to reassess by order of the Court.

#### Note

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

#### References

Subsections 152(3.1), 152(4), and 152(4.1)  
IC 75-7, *Reassessment of a Return of Income*

### How to request a reassessment

Send reassessment requests to the tax centre that serves the corporation. In your request, state the name of the corporation, the Business Number, the taxation year, and any details that apply. Be sure to include any relevant supporting information, such as revised financial statements and schedules.

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

- Schedule 4, *Corporation Loss Continuity and Application* (formerly Schedule T2S(4) and Form T2A), to request the carry back of a loss;
- Schedule 31, *Investment Tax Credit – Corporations* (formerly Form T2038 (CORP)), to request the carry back of an investment tax credit;
- Schedule 21, *Federal Foreign Income Tax Credits and Federal Logging Tax Credit* (formerly Schedule T2S(21)), to request a carry back to previous years of foreign tax credits on business income;
- Schedule 42, *Calculation of Unused Part VI Tax Credit and Unused Part I Tax Credit* (formerly Form T921), to request the carry back of Part I tax credit; and
- Schedule 37, *Calculation of Unused Part I.3 Tax Credit and Unused Surtax Credit* (formerly Form T962), to request the carry back of surtax credit.

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

#### Reference

Subsection 152(6)

## 9

### How do you make an appeal?

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

For a large corporation, the notice of objection shall:

- reasonably describe each issue;
- specify the relief you are seeking, expressed as the amount of a change in a balance or a balance of undeducted outlays, expenses, or other amounts of the corporation; and
- provide facts and reasons the corporation relied on for each issue.

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

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

You do not have to pay the disputed amount of tax, interest, or penalty while you are waiting for the outcome of the 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.

#### Reference

Section 165

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

#### Reference

Subsection 164(1.1)

### Appealing loss determinations

The objection and appeal process does not usually apply to disputed loss amounts, 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 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 tax services office or tax centre.

**References**

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

## 10

### Books and records

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 books and records 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.

You have to keep books and records 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.

**Proposed legislation**

Bill C-28 proposes to add subsection 230(4.1) to oblige corporations that use electronic versions of books and records to keep them for the period mentioned under subsection 230(4).

**References**

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

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12	Lines 002 to 004 – Name of corporation .....	21	Line 072 – Has there been a wind-up of a subsidiary under section 88 of the <i>Income Tax Act</i> during the current taxation year? .....
13	Lines 010 to 018 – Address of head office .....	22	Line 076 – Is this the final taxation year before amalgamation? .....
14	Lines 020 to 028 – Mailing address .....	23	Line 078 – Is this the final return up to dissolution? .....
15	Lines 031 to 038 – Location of books and records .....	24	Lines 080 and 081 – Is the corporation a resident of Canada? .....
16	Lines 040 and 043 – Type of corporation at the end of the taxation year .....	25	Line 085 – If the corporation is exempt from tax under section 149 of the <i>Income Tax Act</i> .....
17	Lines 060 to 065 – To which taxation year does this return apply? .....		
18	Line 067 – Is the corporation a professional corporation that is a member of a partnership? .....		
19	Line 070 – Is this the first year of filing after incorporation? .....		

## “Identification” area

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

### 11

#### Line 001 – Business Number (BN)

The Business Number is a 15-character number composed of three parts. The first nine digits identify your business. The “RC” identifies the corporation income tax program. The last four digits identify the particular program account. Enter “0001” unless we have advised you to use a different program account identifier. You will find the corporation’s Business Number on previous assessment notices, instalment receipts, or remittance forms.

On line 001, enter the corporation’s Business Number for income tax purposes.

With a BN, businesses can get service on the accounts the BN covers. They can:

- register their businesses in one place;
- open additional accounts, such as payroll deductions, import/export, and the goods and services tax/harmonized sales tax (GST/HST);
- make changes to their accounts (e.g., address changes); and
- enquire about account balances and recent payments.

These services are offered through a Business Window at your tax services office.

### 12

#### Lines 002 to 004 – Name of corporation

##### Line 002 – Name of corporation

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

##### Line 003 – Has the corporation changed its name since the last time the Department was notified?

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

### 13

#### Lines 010 to 018 – Address of head office

##### Line 010 – Has the address changed since the last time the Department was notified?

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

##### Lines 011 to 018

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

### 14

#### Lines 020 to 028 – Mailing address

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

##### Line 020 – Has the address changed since the last time the Department was notified?

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

##### Lines 021 to 028

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

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

## 15

### Lines 031 to 038 – Location of books and records

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

## 16

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

#### Line 040

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

#### Reference

IT-391, *Status of Corporations*

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

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

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

#### Proposed legislation

Bill C-28 proposes that, after 1995, the corporation will also have to meet the following requirements at the end of the taxation year:

- if, on the assumption that all of its shares which are owned by any non-resident person or public corporation were owned by one person, that person would not own sufficient shares to control the corporation; and
- no class of its shares of capital stock is listed on a prescribed stock exchange.

#### References

Subsections 89(1) and 125(7)

IT-458, *Canadian-Controlled Private Corporation*

#### Box 2 – Other private corporation

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

- it is resident in Canada;
- it is not a public corporation;
- it is not controlled by one or more public corporations (other than a prescribed venture capital corporation, as defined in Regulation 6700);

- it is not controlled by one or more prescribed federal Crown corporations (as defined in Regulation 7100); and
- it is not controlled by any combination of corporations described in the two preceding conditions.

#### References

Subsection 89(1)

Regulations 6700 and 7100

#### Box 3 – Public corporation

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

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

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

#### References

Subsection 89(1)

Regulation 3200

Regulations 4800(1) and 4800(2)

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

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

#### Box 5 – Other corporation

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

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

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

A change of corporation type 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 1980. The corporation's taxation year ends on December 31, 1998.

On March 1, 1998, J. Doe, the controlling shareholder, moved permanently to Newport, Rhode Island. J. Doe is now considered a non-resident.

Since the corporation 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 1998 T2 return.

On August 1, 1998, the corporation became a public corporation. Therefore, the corporation will only be entitled to a dividend refund on its 1998 T2 return for dividends it paid in the year while it was a private corporation.

The corporation 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.

## 17

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

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

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

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

#### Note

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

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

However, 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 is emigrating to another country, becoming exempt from tax, or ceasing to be exempt from tax; or

- a person or group of persons acquired control of the corporation under subsection 249(4).

#### Note

Effective September 30, 1996, a corporation that becomes bankrupt must obtain approval from the Department to change its fiscal period.

#### References

IT-179, *Change of Fiscal Period*

IT-364, *Commencement of Business Operations*

IT-454, *Business Transactions Prior to Incorporation*

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

To answer this question, tick either the *yes* or *no* box. If you answer *yes*, enter on line 065 the date the control was acquired.

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

When control is acquired, subsection 249(4) provides that the taxation year of the corporation ends immediately before control is acquired. You do not need 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 and enter the hours and minutes that specify the time of day at line 065.

## 18

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

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

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

## 19

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

To answer this question, tick either the *yes* or *no* box. If you answer *yes*, you have to attach Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent* (formerly Schedule T2S(24)), to the T2 return.

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

For more information on Schedule 24, refer to item 35.

#### Note

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

## 20

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

To answer this question, tick either the *yes* or *no* box. If you answer *yes*, you have to attach Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent* (formerly Schedule T2S(24)), to the T2 return.

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

For more information on Schedule 24, refer to item 35.

#### Note

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

## 21

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

To answer this question, tick either the *yes* or *no* box. If you answer *yes*, you have to attach Schedule 24, *First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent* (formerly Schedule T2S(24)), to the T2 return.

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

For more information on Schedule 24, refer to item 35.

## 22

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

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

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

#### Note

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, 1998 (the taxation year end for both corporations). The directors of J Co. Inc. passed a similar resolution.

The corporations received their *Articles of Amalgamation* showing the effective date of amalgamation as January 1, 1999.

Both N Co. Ltd. and J Co. Inc. have to file two returns; one for their normal taxation year ending November 30, 1998 and one for the taxation year ending December 31, 1998, which is the deemed taxation year ending immediately before the effective time of the amalgamation as specified in the *Articles of Amalgamation*.

The newly amalgamated corporation, N & J Co. Ltd., will file its first return for the taxation year that begins on January 1, 1999.

## 23

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

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

You have to answer *yes* if you are filing 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 tax services office before distributing any of the corporation's property under his or her control. By obtaining the certificate, the responsible representative will avoid being personally liable for the unpaid taxes, interest, and penalties of the corporation. Remember to include the balance sheet with the final T2 return, which shows how the assets were distributed.

#### Notes

If a corporation wants to be dissolved permanently, it should apply to its applicable incorporating body to have its charter stricken from their records, in addition to filing a final 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.

If you intend to dissolve the corporation, you should ensure that the corporation has received all applicable refunds from Revenue Canada. Once a corporation is dissolved, any refunds revert to the provincial or federal Crown and cannot be issued to the corporation or its representatives.



## 24 Lines 080 and 081– Is the corporation a resident of Canada?

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

If the corporation is not a resident of Canada, give the country of residence on line 081. Non-resident corporations have to mail their T2 returns to the International Tax Services Office. See item 4 for details.

## 25 Line 085 – If the corporation is exempt from tax under section 149 of the *Income Tax Act*

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

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

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

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

- **Paragraph 149(1)(e)** exempts the following types of organizations, as long as no part of the income of these organizations was payable or otherwise available for the personal benefit of proprietors, members, or shareholders:

- agricultural organizations;
- boards of trade; or
- chambers of commerce.

- **Paragraph 149(1)(l)** exempts a club, society, or association that is not a charity and that is organized and operated solely for:

- social welfare;
- civic improvement;
- pleasure or recreation; or
- any purpose other than profit.

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

### Box 2 – Exempt under 149(1)(j)

Tick this box if **paragraph 149(1)(j)** applies.

Paragraph 149(1)(j) exempts a non-profit corporation for scientific research and experimental development, if it meets all the following conditions:

- The corporation must be constituted exclusively for carrying on or promoting scientific research and experimental development.

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

### Box 3 – Exempt under 149(1)(t)

Tick this box if **paragraph 149(1)(t)** applies.

Paragraph 149(1)(t) exempts certain insurers who receive at least 20% of their premiums from the insurance of residences of farmers or fishermen or farm property or property used in fishing.

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

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

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

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

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

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

### References

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

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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 the corporation's complete financial statements or the *General Index of Financial Information (GIFI)* 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.

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, if applicable

- 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 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.

Corporations can complete their financial statement information using the *General Index of Financial Information (GIFI)*. The GIFI is included in all tax preparation software packages certified by Revenue Canada and most accounting software. In addition to the balance sheet and income statement, a notes checklist must be prepared when using the GIFI. The notes checklist is a short set of questions designed to determine who prepared the financial statements, the extent of their involvement, and to identify the type of information contained in the notes to the financial statements.

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

### 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.

We now print the majority of schedules and we have provided a complete list at the end of this guide. You can get them from your tax services office or tax centre. For the schedules we do not print, assemble the requested information and label it with the schedule number in the top right-hand corner of each page.

## Information schedules

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

### 26

#### **Schedule 9, *Related and Associated Corporations* (formerly Schedule T2S(9))**

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

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

Complete the appropriate columns and attach Schedule 9 to the T2 return.

**Reference**  
Section 251

### 27

#### **Schedule 19, *Non-Resident Shareholder Information* (formerly Schedule T2S(19))**

Complete Schedule 19 if a non-resident shareholder owned a share of any class of the corporation's capital stock at any time during the taxation year. Indicate the class and the percentage of voting shares that non-resident shareholders owned. If the percentage varied throughout the year, indicate the highest percentage of non-residents ownership during that year.

### 28

#### **Schedule 23, *Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Business Limit* (formerly Form T2013)**

For more details about associated status, see the section called "When is a corporation associated?" in item 29.

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

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

#### **Note**

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

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

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

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

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

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

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

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

#### **Example**

A Co. and B Co. are associated in 1998.

A Co.'s taxation year runs from January 1, 1998, to June 30, 1998.

The business limit allocated to A Co. for its June 30, 1998, taxation year is \$80,000.

On November 1, 1998, C Co. becomes associated with A Co. and B Co. C Co.'s taxation year ends on December 31, 1998. A Co. and B Co. decide to adopt December 31, 1998, 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, 1998, 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 1998 calendar year?

## Answer

Taxation year ending June 30, 1998:

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, 1998:

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 1998. A Co. prorates it as follows:

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

## Reference

Subsection 125(5)

## 29

### **Schedule 49, Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Expenditure Limit (formerly Form T2013)**

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

- identify all the associated corporations and establish:
  - the 35% investment tax credit rate and the 100% refundable investment tax credit rate on qualifying scientific research and experimental development (SR&ED) expenditures (see item 110);
  - the 40% refundable investment tax credit rate (see item 110); and
- allocate the expenditure limit for the 35% investment tax credit rate on qualifying SR&ED expenditures (see item 110).

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

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

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

## Reference

Subsection 127(10.6)

## When is a corporation associated?

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

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

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

### **Condition 1**

The corporations are associated if one corporation controls the other.

### **Example**

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

X Co. Limited is associated with Y Co. Limited, 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**

AB Co. owns 100% of the issued share capital of CD Co. It also owns 25% of the Class A shares (other than shares of a specified class) of XY Co. AB Co. is related to XY Co.'s

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

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

#### Condition 4

The corporations are associated if:

- one corporation is controlled by one person;
- that person is related to each member of a group of persons 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*

### 30

#### **Schedule 28, Election not to be an Associated Corporation (formerly Form T2144)**

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

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

However, for the purposes of the small business deduction, the third corporation can elect not to be associated with either of the other corporations. When a corporation makes

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

#### Note

You have to file a new election for each taxation year it applies.

#### Reference

Subsection 256(2)

### 31

#### **Schedule 11, Transactions With Shareholders, Officers, or Employees (formerly Schedule T2S(11))**

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

**Column 100 – relationship code:**

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

**Column 200 – amount of payments the corporation made or amounts credited to the account of shareholders, officers, or employees that were not part of their authorized remuneration.**

**Column 300 – amount of reimbursement of expenses the corporation made or amounts credited to the account of shareholders, officers, or employees.**

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

**Column 500 – amount of assets the corporation sold to or purchased from shareholders, officers, or employees, including those for which an election was made under section 85.**

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

Do not include transactions the corporation carried out in the ordinary course of business, or any transactions listed on Form T106, *Corporate Information Return of Non-Arm's Length Transactions With Non-Resident Persons*. See item 42 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.

### 32

#### **Schedule 44, Non-Arm's Length Transactions (formerly Schedule T2S(11)(A))**

Complete Schedule 44, if you make a section 85 election for a transaction between corporations not dealing at arm's length, and if all or substantially all of the assets of a

corporation (the transferor) are disposed of to another corporation (the transferee). Give the name, the Business Number of the transferor, and the date of the transaction.

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

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

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

### 33

#### **Schedule 14, Miscellaneous Payments to Residents (formerly Schedule T2S(14))**

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

**Column 300** – royalties for which the corporation has not filed a T5 slip, *Statement of Investment Income*;

**Column 400** – research and development fees;

**Column 500** – management fees;

**Column 600** – technical assistance fees;\* and

**Column 700** – similar payments.

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

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

### 34

#### **Schedule 15, Deferred Income Plans (formerly Schedule T2S(15))**

Complete Schedule 15 to indicate the amounts the corporation deducted from its income for payments it made to deferred income plans. Schedule 15 must show:

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

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

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

**Column 300** – registration number Revenue Canada assigned to an RPP, an RSUBP, or a DPSP;

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

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

- 1 – trustee,
- 2 – employer.

### 35

#### **Schedule 24, First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent (formerly Schedule T2S(24))**

Complete Schedule 24 if the corporation is filing its first T2 return after incorporation or amalgamation, or by parent corporations filing for the first time after winding-up a subsidiary corporation under section 88 of the *Income Tax Act*. Complete Schedule 24 as follow:

##### **Part 1 – Type of operation**

**Field 100** – when the corporation is filing for the first time after incorporation or amalgamation, tick the box corresponding to the type of operation.

##### **Part 2 – First year of filing after amalgamation**

When the corporation is filing for the first time after amalgamation, give the following information:

**Column 200** – name of predecessor corporations; and

**Column 300** – Business Number of predecessor corporations.

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

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

**Column 400** – name of subsidiary corporations;

**Column 500** – Business Number of subsidiary corporations;

**Column 600** – commencement date of wind-up; and

**Column 700** – official date of wind-up.

##### **Note**

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

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

### 36

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

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*

**37**

### **T5013 Slip, 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 slip have to file it with the T2 return for the taxation year in which the fiscal period of the partnership ends.

#### **Notes**

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

Except where an election is filed pursuant to subsection 249.1(4), for the taxation year that includes the first day of the first fiscal period of a business that begins after 1994, partnerships with at least one member who is an individual, a professional corporation, or another affected partnership, have to have a December 31 fiscal period end.

**38**

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

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

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

**Reference**  
Subsection 149(12)

**39**

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

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

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

**40**

### **Schedule 25, Investment in Foreign Affiliates (formerly Schedule T2S(25))**

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

**Column 100** – name of foreign affiliate;

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

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

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

**41**

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

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

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

- 1 – royalties;
- 2 – rents;
- 3 – management fees/commissions;
- 4 – technical assistance fees (see item 33 for details);
- 5 – research and development fees;
- 6 – interest;
- 7 – dividends;
- 8 – film payments:
  - a motion picture film, or
  - a film or video tape for use in connection with television; or
- 9 – other services.

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

**42**

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

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 Form T106, 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).

File Form T106 **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.

You can also file it at the following address:

Other Programs Unit  
Employer Services Division  
Ottawa Tax Centre  
875 Heron Road  
Ottawa ON K1A 1A2

#### Note

If you file Form T106 late, the corporation will be subject to penalties.

#### References

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

## 43

### Foreign property

#### Foreign affiliates

A corporation resident in Canada, of which a non-resident corporation or trust is a foreign affiliate at any time in the year, must file in respect of the affiliate, either Form T1134A, *Information Return Relating to Foreign Affiliates That are not Controlled Foreign Affiliates*, or Form T1134B, *Information Return Relating to Controlled Foreign Affiliates*, within 15 months after the end of its taxation year. A separate form is required to be filed for each foreign affiliate.

Forms T1134A and T1134B contain more information about filing.

#### Transfers and loans to non-resident trusts

A corporation who has made transfers or loans to a specified foreign trust, or to a non-resident corporation that is controlled by the specified foreign trust, is required to file, with respect to the trust, Form T1141, *Information Return in Respect of Transfers or Loans to a Non-resident Trust*.

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

### Beneficiaries of non-resident trusts

In 1996 or 1997, a corporation may have received funds or property from, or been indebted to, a non-resident trust in which it had a beneficial interest. If so, the corporation has to complete and file Form T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-resident Trust*.

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

### Ownership of foreign property

If, at any time in 1998, the total cost of all specified foreign property the corporation owned or held a beneficiary interest in was more than \$100,000, you have to complete and file Form T1135, *Foreign Income Verification Statement*.

Form T1135 contains more information.

### Penalties

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

#### References

Section 233.1 to 233.6  
Subsections 162(7), 162(10), and 163(10.1)

## 44

### Industry Canada – Schedules 80 and 81

Revenue Canada and Industry Canada have jointly developed two new schedules designed specifically to be filed with the T2 return. The first, Schedule 80, *Industry Canada – Annual Return – Canada Business Corporation Act*, is a combination of Industry Canada's Form 22, *Annual Return*, and Form 3, *Notice of Change of Registered Office*. The second, Schedule 81, *Notice of Change of Directors, Canada Business Corporation Act*, is a revised version of Industry Canada's Form 6, *Notice of Change of Directors*.

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

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

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

If a change of registered office address and/or directors coincides with the filing of the T2 return, they may be reported using schedules 80 and 81. In all other cases, Industry Canada requires notification of these changes



within 15 days using forms 3 and 6. It is also important to note that where required by the *Canada Business Corporation Act*, the changes being reported in schedules 80 and 81 must be authorized by the director(s) or shareholder(s).

Once the corporation files schedules 80 and 81 (if applicable), this information, along with the following information from the T2 return will be passed to Industry Canada:

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

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

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

## **45 Schedule 50, Shareholder Information**

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

## **46 Has the corporation made payments to, or received amounts from a retirement compensation arrangement in the year?**

To answer this question, tick the *yes* or *no* box, on line 172, page 2 of the T2 return. No schedule or form is required.

## **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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## "Additional information" box

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

### 47

#### Line 280 – Is the corporation inactive?

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

Even if a corporation is inactive, which means it has not operated during the taxation year and has not earned any income, it has to file a T2 return. With the return, we need a balance sheet showing the assets, liabilities, and shareholder's equity at the end of the taxation year.

### 48

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

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

First time filers must indicate *yes*.

### 49

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

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

Enter the major commercial 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 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.

### 50

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

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

### 51

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

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

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

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

## Calculating net income or loss

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

### 52

#### Schedule 1, Net Income (Loss) for Income Tax Purposes (formerly Schedule T2S(1))

If the corporation's net income or loss after income tax and extraordinary items on its income statement is different from its net income or loss for income tax purposes, complete Schedule 1.

Enter net income or loss after income tax and extraordinary items on line A, page 1 of Schedule 1. Add the taxable items and the non-allowable expenses listed at lines 101 to 199 and subtract from this the non-taxable items and eligible expenses listed at lines 401 to 499. Enter the net income or loss for income tax purposes on line 300, page 3 of the T2 return.

Additions and deductions identified on lines 101 to 127 and 401 to 417, page 1 of Schedule 1, are the most common additions and subtractions. For other additions and deductions, refer to pages 2 and 3. Keep in mind that some expenses deducted on the corporation's income statement are not allowable for income tax purposes and are not identified on Schedule 1. In this case, use lines 290 to 294 "Other additions" on page 2. Also, certain items included in income which are not taxable, are not identified on this schedule. In such cases, complete lines 390 to 394 "Other deductions" on page 3.

## Note

The deductible portion of expenses the corporation incurred for food, beverages, and entertainment is only 50%.

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

- Schedule 6, *Summary of Dispositions of Capital Property* (see item 53);
- Schedule 8, *Capital Cost Allowance (CCA)* (see item 54);
- Schedule 10, *Cumulative Eligible Capital Deduction* (see item 55);
- Schedule 12, *Resource-Related Deductions* (see item 56);
- Schedule 13, *Continuity of Reserves* (see item 57);
- Schedule 16, *Patronage Dividend Deduction* (see item 58);
- Schedule 17, *Credit Union Deductions* (see item 59); and
- Form T661, *Claim for Scientific Research and Experimental Development Information Return – Expenditures Carried on in Canada* (see item 60).

## 53

### Schedule 6, Summary of Dispositions of Capital Property (formerly Schedule T2S(6))

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

#### References

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

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

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

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

### Completing Schedule 6

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

#### Column 1 – Types of capital property

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

- shares;
- real estate;
- bonds;

- other properties;
- personal-use property; and
- listed personal property.

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

#### Column 2 – Date of acquisition

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

#### Column 3 – Proceeds of disposition

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

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

#### References

Section 54  
IT-259, *Exchanges of Property*  
IT-271, *Expropriations – Time and Proceeds of Disposition*

#### Column 4 – Adjusted cost base

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

#### References

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

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

#### References

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

When deductions from the cost base of a property (other than a partnership interest) reduce the balance to a negative amount at any time in the taxation year, 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.

**Note**

Generally, after February 21, 1994, interests in a partnership that a limited partner or an inactive partner holds are no longer excepted from the negative ACB rule.

**Column 5 – Outlays and expenses**

In this column, enter the amount of outlays and expenses you deducted when calculating a gain or loss. You can deduct most cash outlays the corporation used to put a property into saleable condition when you calculate a gain or loss. You can also deduct expenses the corporation 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 6 – Gain (or loss)**

In column 6, enter the amount of the gain or loss. To determine this figure, subtract the amounts in columns 4 and 5 from the amount in column 3.

A **capital gain** results when the proceeds of disposition of a capital property are more than the adjusted cost base and any related outlays or expenses. A **capital loss** occurs when the proceeds of disposition are less than the adjusted cost base and the related outlays and expenses. However, if depreciable property is disposed of, it will result in a **terminal loss**, not a capital loss. See item 54 under the heading "Column 6 – Undepreciated capital cost" for more details about terminal losses.

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

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

**Part 1 – Shares**

In this part, list the shares 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.

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

If a share is converted because of a merger or an amalgamation, section 54 deems a disposition to have occurred.

**Part 2 – Real estate**

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

Dispositions of non-depreciable real property (unless the property is inventory) may result in a capital gain or loss. However, dispositions of depreciable property may result in a capital gain, a recapture of CCA, or a terminal loss. See item 54 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 the corporation received is usually considered a capital gain. Similarly, a premium the corporation paid is considered a capital loss, either when the obligation matures or on the date the corporation disposes of the obligation.

**Reference**

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 the corporation has established as bad debts, as well as amounts that arise from foreign currency transactions.

When an amount receivable on a capital account becomes a bad debt and the corporation elects on its T2 return to have the provisions of subsection 50(1) apply, 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 usually allows the corporation to claim a bad debt as a capital loss in the year. Any later recovery of that debt will result in a capital gain.

**References**

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

Foreign exchange gains or losses from buying or selling capital properties are capital gains or capital losses. Transactions in foreign currency or foreign currency futures that do not form part of the 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 54 under the heading "Column 6 – Undepreciated capital cost" to find out more about terminal losses.

You have to report dispositions of goodwill and other intangible properties on Schedule 10, *Cumulative Eligible Capital Deduction*. See item 55 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.

On line 655, enter the amount of listed personal property losses from previous years you want to apply against current year net listed personal property gains. Also, enter

this amount on line 530, Part 5 of Schedule 4, *Corporation Loss Continuity and Application*.

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. See item 71 for more details.

**Line 875 – Capital gains dividends**

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

**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.

**Proposed Legislation**

Bill C-28 proposes that, for the 1997 and subsequent taxation years, a corporation, that has made a gift of a non-qualifying security to a qualified donee, may claim a reserve in respect of any gain realized on this security. A reserve can only be claimed if the donation is not deducted for tax purposes and the donee does not dispose of the security. This reserve can only be claimed in taxation years ending within 60 months of the making of the gift. The reserve must be included in income if any of the following occur:

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

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

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

and

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

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 reserve opening balance and subtract the reserve closing balance on lines 880 and 885 of Schedule 6.

Show the continuity of capital gain reserves on Schedule 13, *Continuity of Reserves*. See item 57 for details.

**Example**

A Limited sold a piece of land to Mr. X on March 4, 1998. A Limited's taxation year ends on June 30, 1998.

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, 1999. 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, 1998

Capital gain \$80,000

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

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

or

B.  $4/5 \times \$80,000 = \$64,000$

Capital gains reserve – enter on line 885 of Schedule 6 \$64,000

Total capital gain – enter on line 890 of Schedule 6 \$16,000

Taxable capital gain (.75 × \$16,000) – enter on line 113 of Schedule 1 \$12,000

For the taxation year ending June 30, 1999

Capital gains reserve opening balance – enter on line 880 of Schedule 6 \$64,000

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

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

or

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

Capital gains reserve closing balance – enter on line 885 of Schedule 6 \$48,000

Total capital gain – enter on line 890 of Schedule 6 \$16,000

Taxable capital gain (.75 × \$16,000) – enter on line 113 of Schedule 1 \$12,000

**References**

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

**Determining total capital gain or loss**

The total capital gain or loss is determined as follows:

**Add**

all the amounts in column 6 (excluding Part 6 if the result is a capital loss for the year);

**line 875** – the capital gains dividends;

**line 880** – the balance at the beginning of the year of the capital gains reserve from Schedule 13, *Continuity of Reserves* (this amount should include any amount from

the last taxation year of predecessor corporations after amalgamation or wind-up).

**Subtract**

**line 885** – the balance at the end of the year of the capital gains reserve from Schedule 13.

Enter the result (total capital gain or loss) on line 890.

**Proposed legislation**

Bill C-28 proposes that if a capital gain results from the making of a gift to a qualified donee (other than a private foundation) of a security listed on a stock exchange, a share or unit of a mutual fund, an interest in a related segregated fund trust, or a prescribed debt obligation, only 3/8 of the gain will be a taxable capital gain and hence included in income. This will apply to gifts made after February 18, 1997, and before 2002.

**Line 895** – enter 50% of capital gains realized on donations of a security listed on a stock exchange, a share or unit of a mutual fund, an interest in a segregated fund, or a prescribed debt obligation made to a qualified donee (other than a private foundation) after February 18, 1997, and before 2002.

**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 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.

**Subtract** line 895 from the total capital gains at line 890. Multiply the result by the inclusion rate of 75% to determine the taxable capital gain for the year.

If the amount at line 890 is a capital loss, enter this amount on line 210, Part 2 of Schedule 4.

If the net result you calculate on Schedule 6 is a taxable capital gain, add it to the net income for income tax purposes on line 113 of Schedule 1. If the net result you calculate on Schedule 6 is an allowable capital loss, you cannot deduct it on Schedule 1. For the purpose of the continuity of capital losses, enter this amount multiplied by 4/3 on line 210, Part 2 of Schedule 4. Since allowable capital losses become net capital losses, you can only use them to reduce taxable capital gains in other years. See item 68 for details.

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

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

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

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

If the corporation is claiming an **allowable business investment loss (ABIL)** you have to complete Part 7 of Schedule 6 giving the following information in the appropriate column:

- **column 900** – name of small business corporation;
- **column 905** – type of disposition (shares or debt);
- **column 910** – date of acquisition of shares or debts;
- **column 920** – proceeds of disposition;
- **column 930** – adjusted cost base; and
- **column 940** – outlays and expenses (re: dispositions).

Deduct from the proceeds of disposition, the adjusted cost base plus the outlays and expenses to get the business investment loss. Enter this result in column 950.

Multiply the total of amounts of business investment losses in column 950 by 75% to obtain the **ABIL**. Deduct this **ABIL** on line 406 of Schedule 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 and carry it forward seven taxation years. If you are unable to deduct an **ABIL** as a non-capital loss within this allowed time frame, the unused part becomes a net capital loss, and you can carry it forward indefinitely to reduce taxable capital gains.

Include all unused **ABIL** after seven years in Part 2 "Capital Loss" of Schedule 4. See item 68, for more details.

#### References

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

## 54 Schedule 8, Capital Cost Allowance (CCA) (formerly Schedule T2S(8))

Complete Schedule 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.

#### Note

Do not include on Schedule 8, capital expenditures (other than first or second term shared-use equipment) for which the corporation is requesting SR&ED treatment.

#### Available-for-use rule

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

#### When is property available for use?

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

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

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

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

#### Note

If a corporation acquires a property after 1989 for a **long-term project**, it can elect to limit the impact of the available-for-use rule. This election is not available for rental buildings. To make this election, send us a completed Form T1031, *Election Under Subsection 13(29) to Provide Further Relief for Certain Long Term Projects Acquired After 1989 by Limiting the Application of the Two-Year Available*, with the T2 return.

#### References

Subsections 13(26) to 13(32)



## CCA rates and classes

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

<b>Class number</b>	<b>Description</b>	<b>CCA rate</b>
1	Most buildings made of brick, stone, or cement acquired after 1987, including their component parts such as electric wiring, lighting fixtures, plumbing, heating and cooling equipment, elevators, and escalators	4%
3	Most buildings made of brick, stone, or cement acquired before 1988, including their component parts as listed in class 1 above	5%
6	Buildings made of frame, log, stucco on frame, galvanized iron, or corrugated metal that are used in the business of farming or fishing, or that have no footings below-ground; fences and most greenhouses	10%
7	Canoes, boats, and most other vessels, including their furniture, fittings, or equipment	15%
8	Property that is not included in any other class such as furniture, calculators and cash registers (that do not record multiple sales taxes), photocopy and fax machines, printers, display fixtures, refrigeration equipment, machinery, tools costing \$200 or more, and outdoor advertising billboards and greenhouses with rigid frames and plastic covers acquired after 1987	20%
9	Aircraft, including furniture, fittings, or equipment attached, and their spare parts	25%
10	Automobiles (except taxis and others used for lease or rent), vans, wagons, trucks, buses, tractors, trailers, drive-in theatres, general-purpose electronic data-processing equipment (e.g., personal computers) and systems software, and timber cutting and removing equipment	30%
10.1	Passenger vehicles costing more than \$26,000 if acquired after 1997 (\$25,000 if acquired in 1997, \$24,000 if acquired after August 31, 1989, and before 1997, and \$20,000 if acquired before September 1989)	30%
12	Chinaware, cutlery, linen, uniforms, dies, jigs, moulds or lasts, computer software (except systems software), cutting or shaping parts of a machine, certain property used for earning rental income such as apparel or costumes, and videotape cassettes; certain property costing less than \$200 such as kitchen utensils, tools, and medical or dental equipment; certain property acquired after August 8, 1989, and before 1993 for use in a business of selling or providing services such as electronic bar-code scanners, and cash registers used to record multiple sales taxes	100%
13	Property that is leasehold interest (the maximum CCA rate depends on the type of the leasehold and the terms of the lease)	N/A
14	Patents, franchises, concessions, and licences for a limited period – the CCA is limited to the lesser of: <ul style="list-style-type: none"><li>■ the capital cost of the property spread out over the life of the property; and</li><li>■ the undepreciated capital cost of the property at the end of the taxation year</li></ul> Class 14 also includes patents, and licences to use patents for a limited period, that you elect not to include in class 44	N/A
16	Automobiles for lease or rent, taxicabs, and coin-operated video games or pinball machines; certain tractors and large trucks acquired after December 6, 1991, that are used to haul freight and that weigh more than 11,788 kilograms	40%
17	Roads, sidewalks, parking-lot or storage areas, telephone, telegraph, or non-electronic data communication switching equipment	8%
38	Most power-operated movable equipment acquired after 1987 used for moving, excavating, placing, or compacting earth, rock, concrete, or asphalt	30%
39	Machinery and equipment acquired after 1987 that is used in Canada primarily to manufacture and process goods for sale or lease	25%
43	Manufacturing and processing machinery and equipment acquired after February 25, 1992, described in class 39 above	30%
44	Patents and 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%

### Proposed legislation

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

### Election under Regulation 1101(5q)

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

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

This election allows the corporation to include certain property usually 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.

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

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

### Grandfathering provisions

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

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

### References

Regulation 1100  
Schedule II of the Regulations

### Completing Schedule 8

This section explains how to complete each column of Schedule 8. Please note that you have to use a separate line for each class of property.

#### Column 1 – Class number

Identify each class of property with the assigned class number.

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

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

passenger vehicle and property you elected to identify in a separate class under Regulation 1101(5q).

### Note

If a class number has not been provided in the *Income Tax Act* for a particular class of property, use the regulation number provided in the *Income Tax Act*.

### Reference

Regulation 1101

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

Enter the amount of the undepreciated capital cost at the end of the **preceding taxation year**.

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

For each class, enter the total cost of depreciable property 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. **Land is not a depreciable property, and is therefore not eligible for CCA.**

#### Column 4 – Net adjustments

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

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

- any goods and services tax/harmonized sale tax (GST/HST) input tax credit or rebate **received or entitled to be received in the year**;
- any federal investment tax credits the corporation used to reduce taxes payable or claimed as a refund in the **preceding taxation year**;
- any reduction of capital cost after the application of section 80;
- any provincial investment tax credits received or entitled to be received in the current year; and
- any government assistance the corporation received or is entitled to receive in the year.

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

- any depreciable property transferred from an amalgamated or wound-up subsidiary;
- any refund of GST/HST input tax credit previously deducted;
- any depreciable property transferred under section 85; and
- any government assistance the corporation repaid in the year that previously reduced the capital cost.

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

#### References

Subsections 13(7.1), 13(7.4), and 13(21)

Paragraph 12(1)(x)

IT-285, Capital Cost Allowance – General Comments

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

For each class, you usually enter the total proceeds of disposition 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;
- either subtract or add the amount in column 4 (subtract if it is a negative amount, and add if it is a positive amount); and
- subtract the amount in column 5.

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 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 8 examples" that follows.

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

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

#### Column 7 – 50% rule

Generally, property 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.

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

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

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

#### References

Regulation 1100(2)

IT-285, Capital Cost Allowance – General Comments

#### Column 8 – Reduced undepreciated capital cost

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

#### Column 9 – CCA rate

Enter the prescribed rate that applies, as provided for under Part XI of the Regulations. If a specific rate has not been provided in the *Income Tax Act* for a particular class of property, enter NA in this column.

#### Column 10 – Recapture of capital cost allowance

Enter the amount of recapture calculated in column 6. Be sure you include the recapture in the corporation's income. Enter the total of amounts in column 10 on line 107 of Schedule 1.

#### Column 11 – Terminal loss

Enter the terminal loss calculated in column 6. Be sure you deduct the terminal loss from the corporation's income. Enter the total of amounts in column 11 on line 404 of Schedule 1.

#### Column 12 – Capital cost allowance

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

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

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

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

**References**

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

The total of all amounts in column 12 is the corporation's CCA claim for the taxation year. Deduct this amount on line 403 of Schedule 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 13 – Undepreciated capital cost at the end of the year**

Enter the amount you get when you subtract the amount in column 12 from the amount in column 6.

When there is a recapture of CCA or a terminal loss for a particular class in the year, the undepreciated capital cost at the end of the year is always nil.

**Schedule 8 examples**

**Example 1**

An import-export business decided to sell its warehouse, since it is better to lease instead. The business received \$30,000 for the warehouse. At the end of the 1998 taxation year, the business had no more assets in class 3.

The business's Schedule 8 for its 1998 taxation year looks like this:

1 Class number	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year's CCA schedule)	3 Cost of acquisitions during the year (new property must be available for use)  See note 1 below	4 Net adjustments (show negative amounts in brackets)	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 (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)  See note 2 below	8 Reduced undepreciated capital cost (column 6 minus column 7)	9 CCA rate %	10 Recapture of capital cost allowance	11 Terminal loss	12 Capital cost allowance (column 8 multiplied by column 9, or a lower amount)  See note 3 below	13 Undepreciated capital cost at the end of the year (column 6 minus column 12)
200	201	203	205	207		211		212	213	215	217	220
1. 3	\$35,000			\$30,000	\$5,000		\$5,000	NA		\$5,000		
2.												
3.												
4.												

The amount in column 11 is a terminal loss.

The import-export business deducts the \$5,000 terminal loss from its income (line 404 of Schedule 1).

**Example 2**

A clothing company bought a sewing machine in 1996 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 1998 for \$12,000. At the beginning of 1998, the undepreciated capital cost of the sewing machine was \$9,500.

The clothing company's Schedule 8 for its 1998 taxation year looks like this:

1 Class number	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year's CCA schedule)	3 Cost of acquisitions during the year (new property must be available for use)  See note 1 below	4 Net adjustments (show negative amounts in brackets)	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 (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)  See note 2 below	8 Reduced undepreciated capital cost (column 6 minus column 7)	9 CCA rate %	10 Recapture of capital cost allowance	11 Terminal loss	12 Capital cost allowance (column 8 multiplied by column 9; or a lower amount)  See note 3 below	13 Undepreciated capital cost at the end of the year (column 6 minus column 12)
200	201	203	205	207		211		212	213	215	217	220
1.	8	\$9,500		\$10,000	(500)		(500)	NA	\$500			
2.												
3.												
4.												

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

The clothing company includes the \$500 recapture in its income (line 107 of Schedule 1). The capital gain is \$12,000 minus \$10,000, which equals \$2,000.

**Example 3**

In its 1998 taxation year, a bookstore decided to buy a computer to help keep up with the paperwork, and started using it right away. The computer cost \$5,000. The bookstore has to apply the 50% rule when it calculates the amount of CCA it can deduct for 1998.

The bookstore's Schedule 8 for its 1998 taxation year looks like this:

1 Class number	2 Undepreciated capital cost at the beginning of the year (undepreciated capital cost at the end of the year from previous year's CCA schedule)	3 Cost of acquisitions during the year (new property must be available for use)  See note 1 below	4 Net adjustments (show negative amounts in brackets)	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 (1/2 of the amount, if any, by which the net cost of acquisitions exceeds column 5)  See note 2 below	8 Reduced undepreciated capital cost (column 6 minus column 7)	9 CCA rate %	10 Recapture of capital cost allowance	11 Terminal loss	12 Capital cost allowance (column 8 multiplied by column 9; or a lower amount)  See note 3 below	13 Undepreciated capital cost at the end of the year (column 6 minus column 12)
200	201	203	205	207		211		212	213	215	217	220
1.	10	\$10,000	\$5,000		\$15,000	\$2,500	\$12,500	30			\$3,750	\$11,250
2.												
3.												
4.												

## 55

### **Schedule 10, Cumulative Eligible Capital Deduction (formerly Schedule T2S(8)(A))**

Complete Schedule 10 to calculate the corporation's cumulative eligible capital deduction.

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

- goodwill;
- trademarks;
- franchises, concessions, or licences for an unlimited period; and
- patents, and licences to use patents for an unlimited period, that the corporation elects not to include in class 44. For more information on class 44, see the CCA rates and classes chart under item 54.

Expenses the corporation incurs for incorporation, reorganization, or amalgamation also qualify as eligible capital expenditures.

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

The cumulative eligible capital (CEC) account is the account you set up to keep track of your eligible capital expenditures.

Calculate your CEC account balance on Schedule 10. Each year, you can deduct up to 7% of the balance. Complete Part 1 of Schedule 10 and claim the amount at line 250 on line 405 of Schedule 1.

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

When completing Part 1 of Schedule 10, if you have a negative balance in your CEC account, you have to complete Part 2. Enter the amount you calculated at line 410 on line 108 of Schedule 1.

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

#### **References**

Subsection 14(5)

Paragraph 20(1)(b)

Section 85

IT-143, *Meaning of Eligible Capital Expenditure*

## 56

### **Schedule 12, Resource-Related Deductions (formerly Schedule T2S(12))**

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

- Canadian development expenses,
- Canadian exploration expenses,
- Canadian oil and gas property expenses,
- depletion, and
- foreign exploration and development expenses.

#### **Part 1 – Continuity of earned depletion base**

#### **Part 2 – Continuity of mining exploration depletion base**

Claim the total of any amounts calculated at lines 115 and 140 of Part 1, plus line 170 of Part 2, at line 344, "Depletion," of Schedule 1.

#### **Part 3 – Cumulative Canadian exploration expenses**

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

#### **Note**

Canadian renewable and conservation expenses incurred after December 5, 1996, are deemed to be Canadian exploration expenses. Enter these at line 217 or 267 of Schedule 12.

#### **Part 4 – Cumulative Canadian development expenses**

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

#### **Part 5 – Cumulative Canadian oil and gas property expenses**

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

#### **Part 6 – Foreign exploration and development expenses**

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

Schedule 12 gives details for the calculations required.

#### **References**

Part XII of the Regulations

Sections 65 and 66

## 57

### **Schedule 13, Continuity of Reserves (formerly Schedule T2S(13))**

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

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

Complete Schedule 13 as follows:

### Part 1 – Capital gains reserves

Establish the continuity of reserves for each different property. Unlike other reserves, you have to report the total capital gain reserves that your corporation and the predecessor corporation deducted last year. Add the current year reserve on Schedule 6 to calculate the current year capital gain. See item 53 for more details.

### Part 2 – Other reserves

In this part, establish the continuity of the following reserves:

- reserve for doubtful debts;
- reserve for undelivered goods and services not rendered;
- reserve for prepaid rent;
- reserve for December 31, 1995, income from partnership;
- reserve for returnable containers;
- reserve for unpaid amounts; and
- other tax reserves.

Enter on line 125 of Schedule 1, the total of the balance of the corporation's reserve at the beginning of the year (line 270 of Schedule 13) plus the amount of reserve transferred on wind-up/amalgamation (line 275 of Schedule 13).

Enter on line 413 of Schedule 1, the balance at the end of the year (line 280 of Schedule 13).

Enter on line 414 of Schedule 1, the balance at the beginning of the year of reserves from financial statements. Enter on line 126 of Schedule 1, the balance at the end of the year of reserves from financial statements.

#### References

IT-152, *Special Reserves – Sale of Land*

IT-154, *Special Reserves*

IT-215, *Reserves, Contingent Accounts and Sinking Funds*

IT-442, *Bad Debts and Reserves for Doubtful Debts*

## 58

### Schedule 16, Patronage Dividend Deduction (formerly Schedule T2S(16))

Complete Schedule 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.

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

If the corporation is claiming a patronage dividend deduction, you have to complete "Part 4 – Calculation of income from an active business carried on in Canada (ABI)" of Schedule 16. Enter the amount calculated on line 124 on line 400 on the T2 return.

#### References

Section 135

IT-362, *Patronage Dividends*

IT-493, *Agency Cooperative Corporations*

## 59

### Schedule 17, Credit Union Deductions (formerly Schedule T2S(17))

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

Use this schedule to calculate the "additional deduction – credit unions" the corporation can claim to reduce Part I tax. For details on this additional deduction, see item 106.

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

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

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

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

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

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

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

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

#### References

Subsections 137(2) and 137(6)

IT-483, *Credit Unions*

## Form T661, Claim for Scientific Research and Experimental Development Information Return – Expenditures Carried on in Canada

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

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

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

Enter the scientific research expenses claimed in the year, on line 411 of Schedule 1.

Form T661 summarizes the costs for all SR&ED projects. You have to complete the form and place it on top of the 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. If the corporation does not file Form T661 and Schedule 31, *Investment Tax Credit – Corporations*, on or before the day that is 12 months after the corporation's filing due-date for the taxation year in which the SR&ED expenditures were made, the corporation cannot claim SR&ED expenditures and investment tax credit for that year. For more information, see item 110.

When a corporation is a member of a partnership that incurs SR&ED expenditures, the partnership has to file Form T661 along with the T5013 Summary, *Partnership Information Return*. Each partner has to file a T5013 slip, *Statement of Partnership Income*, showing its share of the expenditures. If the partnership is exempt from filing (e.g., it has fewer than six members), each partner has to file Form T661 with its 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*  
T4088, *Claiming Scientific Research and Experimental Development Expenditures – Guide to Form T661*

### Note

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

### References

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

## Calculating current year losses

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

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

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## Calculating current year non-capital loss

To determine the current year non-capital loss for the corporation, complete Part I of Schedule 4, *Corporation Loss Continuity and Application* (formerly Schedule T2S(4)) as follows:

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

### Deduct

**Net capital losses deducted in the year** – net capital losses from previous years used to reduce taxable capital gains included in the corporation's income;

**Taxable dividends deductible** – taxable dividends the corporation received, deductible under section 112 or 113 or subsection 138(6) (for details, see item 79);

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

**Exempt income under an income tax treaty** – **Subparagraph 110(1)(f)(i)** – any amount exempted under a tax convention or an agreement with another country that has the force of law in Canada;

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

If the result obtained is positive, you have to enter "0" on the subtotal line.

### Deduct

**Section 110.5 – addition for foreign tax credits** – any amounts added to the taxable income to use foreign tax credits the corporation could not otherwise deduct from Part I tax. For details, see item 89.

### Add

**Current year farm loss** – the lesser of the net loss from farming or fishing included in the income or the non-capital loss before deducting the farm loss. See the example that follows.

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

Refer to item 67 about the application of non-capital losses from other years.



**Note**

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

**References**

Subsection 111(8)

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

**Example**

At the beginning of 1998, 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, 1998, 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:

Income from all sources and losses it incurred from carrying on a business or from property, included in net income (loss) from Schedule 1:

**Income from all sources:**

Income from sawmill	\$20,000	
Taxable capital gains	25,000	
Taxable dividends received	<u>1,000</u>	\$46,000

**Loss from carrying on a business or from properties:**

Net loss from hardware store	\$50,000	
Net loss from farming	<u>\$10,000</u>	<u>60,000</u>
Net loss for income tax purposes		(14,000)

**Less**

Taxable dividends received and deductible under section 112		<u>\$1,000</u>
Subtotal (if positive enter "0")		(15,000)

**Plus**

Current year farm loss, the lesser of:		
Net farm loss	\$10,000	
Non-capital loss, if farm loss was "0"	<u>15,000</u>	<u>10,000</u>
Current year non-capital loss (if positive, enter "0")		<u>(\$5,000)</u>

Farmco enters (\$14,000) on line 300 and \$1,000 on line 320, page 3 of the T2 return. The current-year non-capital loss of \$5,000 and the farm loss of \$10,000 will be entered on Schedule 4.

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**Calculating current year restricted farm loss**

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.

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

If the corporation claims this kind of loss, complete Part 4 of Schedule 4. Do the calculation as follow:

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

- A. the net loss from farming business for the year; or
- B. \$2,500 plus one of the following amounts, whichever is less:
  - (i) (net loss from farming business for the year minus \$2,500) divided by 2; or
  - (ii) \$6,250.

Add to the corporation's income on line 233 of Schedule 1 the difference between:

- the actual farm loss you deducted on the financial statements or entered on line 485 of Schedule 4; and
- the deductible farm loss you calculated above.

This difference is called the current year restricted farm loss, and you have to enter it on line 410 of Schedule 4. See item 70 for details.

**Example**

Pubco's chief source of income comes from publishing. The company also owns a farm that raises 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	
<b>Minus</b> 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	
or		
(ii)	<u>\$ 6,250</u>	<u>\$ 8,750</u>
<b>Restricted farm loss</b>		<b><u>\$21,250</u></b>

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 69 for information on how to apply farm losses.

Pubco adds the restricted farm loss of \$21,250 to its income on line 233 of Schedule 1, and also enters it on line 410 of Schedule 4.

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

#### References

Subsection 31(1)

IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*

## 63

### Calculating current year limited partnership losses

Complete "Limited partnership losses incurred in the year" box in Part 7 of Schedule 4 to calculate the loss. This box is used to calculate the deductible amount for the year. The amount that cannot be deducted would be carried to other years.

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

If the limited partner does not receive this form because the partnership is exempt from filing (e.g., it has fewer than six members), you have to file the partnership's financial statements with the 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.

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

**Column 600** – partnership identifier;

**Column 602** – fiscal period ending of the partnership;

**Column 604** – corporation's share of limited partnership loss from a business (other than a farming business) or from property;

**Column 606** – corporation's **at-risk amount** at the fiscal period ending of the partnership;

**Column 608** – total of corporation's share in:

- partnership investment tax credits for the year,
- partnership's loss from a farming business for the year, and
- partnership's resource expenses for the year.

**Column 620** – enter the result of:

**Column 604** – (Column 606 – Column 608)

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

the adjusted cost base of its partnership interest;

**plus**

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

**minus**

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

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

The difference between the corporation's share of the actual loss of the limited partnership shown on the financial statements and the corporation's at-risk amount is called a **limited partnership loss**. This amount is from column 620. You have to add the total of column 620 to line 222 of Schedule 1. You also have to enter all those losses in column 670 of Schedule 4 to establish the continuity of losses. Refer to item 73 for details on how to apply limited partnership losses to other years.

#### References

Subsection 96(2.1)

IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*

## 64

### Calculating current year farm loss

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

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

Enter the farm loss calculated on line 310, Part 3 of Schedule 4.

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

You will find details on how to apply farm losses to other years in item 69.

#### Reference

Subsection 111(8)

## 65 Calculating losses when there is a change 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. See the following references for details.

### References

Subsections 111(4) and 111(5)

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

## Applying losses

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

## 66 Schedule 4, Corporation Loss Continuity and Application (formerly Schedule T2S(4))

Complete Schedule 4, if the corporation is carrying forward losses or has current year losses of any kind, or is applying any current year loss to prior years.

### Note

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.

### Losses carry-back

For 1998 and subsequent taxation years, use Schedule 4 to request carry-back of any losses to prior years.

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

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

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

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

If you do not attach your request to the T2 return, you can send it separately to your tax centre.

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

### 67 Part 1 – Non-capital losses

#### Determination of current year non-capital loss

Use this box to establish the current year non-capital loss. For details on how to complete this part, see item 61.

#### Continuity of non-capital losses and request for carry-back

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

The current year non-capital loss can reduce any kind of income or taxable dividends subject to Part IV tax for the three preceding taxation years and for the seven following taxation years.

Complete this box as follow:

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

#### Deduct

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

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

#### Add

**Line 105** – Amount of non-capital losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation. This amount is the unused non-capital losses available for carried forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up, minus any expired amount.

**Line 110** – Amount of current year non-capital loss calculated above (see item 61).

#### Deduct

**Line 130** – Amount of non-capital losses applied in the current year to reduce the taxable income. Enter this amount on line 331, page 3 of the T2 return.

**Line 135** – Amount of prior and current year non-capital losses applied to reduce current year taxable dividends subject to Part IV tax. Enter those amounts on lines 330 or 335 of Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation*.

**Line 140** – Amount of debt forgiveness under section 80 that reduces the non-capital losses balance. Losses have to be reduced in the order established by section 80.

**Line 150** – Amount of any other adjustments not previously mentioned. These adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change of control.

The result obtained at this point is the amount of non-capital losses available to carry back or carry forward to other years.

#### Deduct

**Lines 901 to 913** – On the appropriate line, enter the amount of non-capital loss you carry back to prior years against taxable income and taxable dividends subject to Part IV tax.

**Line 180** – Enter the result. This is the closing balance of non-capital losses the corporation carries forward to future years.

Complete Part 6 of Schedule 4 to establish the balance of non-capital losses by year of origin. For details see item 72.

#### Election under paragraph 88(1.1)(f)

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

Paragraph 88(1.1)(f) allows the parent corporation to elect that this loss is deemed to be a loss from its taxation year preceding the year mentioned above.

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

## 68

### Part 2 – Capital losses

#### Continuity of capital losses and request for carry-back

The current year capital loss is calculated on Schedule 6. For more details, see item 53. Complete this box of Schedule 4 to establish the continuity and the application of capital losses.

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

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

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

Complete this box as follows:

#### Add

**Line 200** – Amount of capital losses at end of preceding taxation year.

**Line 205** – Amount of capital losses transferred from a predecessor corporation after amalgamation or a subsidiary after winding-up, where not less than 90% of the issued shares of each class were, immediately before the wind-up, owned by the corporation. This amount is the unused capital losses available for carry forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up, including any amount of allowable business investment loss expired as non-capital loss for the predecessor corporation or the subsidiary multiply by 4/3.

**Line 210** – Amount of the current year capital loss calculated on Schedule 6 (see item 53).

**Line 220** – Amount of the allowable business investment loss included in the amount of non-capital losses expired in the year. Multiply this amount by 4/3.

#### Deduct

**Line 225** – Amount of capital losses from prior years used to reduce a net capital gain incurred in the year. To obtain the net capital losses required to reduce the taxable capital gain included in the net income (loss) for the purpose of current year tax, multiply the amount on line 225 by the inclusion rate of 75%. Enter the result on line 332, page 3 of the T2 return.

**Line 240** – Amount of debt forgiveness under section 80 that reduces the capital losses balance. Losses have to be reduced in the order established by section 80.

**Line 250** – Amount of any other adjustments not previously mentioned. These adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change of control.

The result obtained at this point is the amount of capital losses available to carry back or carry forward to other years.

#### Deduct

**Lines 951 to 953** – On the appropriate line, enter the amount of capital loss you carry back to prior years. 75% of these amounts can be applied against taxable capital gains included in income of prior years.

**Line 280** – Enter the result. This is the closing balance of available capital losses the corporation carries forward to future years.

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

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

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

**Canadian-controlled private corporations throughout the year:**

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

**Other corporations:**

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

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

**Example**

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

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

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

$\$100,000 \div .7079909 =$  **\$141,245**

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

**69**

**Part 3 – Farm losses**

**Continuity of farm losses and request for carry-back**

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

Complete this box as follow:

Amount of farm losses at end of preceding taxation year.

**Deduct**

**Line 300** – Amount of farm loss expired after ten taxation years. This amount is the balance of farm loss from the eleventh preceding year that would otherwise be available.

**Line 302** – Amount of farm losses at beginning of taxation year (this is the result of the two preceding lines).

**Add**

**Line 305** – Amount of farm losses transferred from predecessor corporation after amalgamation or subsidiary after winding-up where not less than 90% of the issued shares in each class were, immediately before the wind-up, owned by the corporation. This amount is the unused farm losses available for carry forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up minus any expired amount.

**Line 310** – Amount of the current year farm loss previously calculated. See item 64.

**Deduct**

**Line 330** – Amount of farm losses from prior years you applied in the current year to reduce the taxable income. Enter this amount on line 334, page 3 of the T2 return.

**Line 335** – Amount of farm losses from the current or previous years applied in the current year to reduce taxable dividends subject to Part IV. Enter these amounts on lines 340 or 345 of Schedule 3.

**Line 340** – Amount of debt forgiveness under section 80 that reduces the farm losses balance. Losses have to be reduced in the order established by section 80.

**Line 350** – Any other adjustments not previously mentioned. These adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change of control.

The result obtained at this point is the amount of farm losses available to carry back or carry forward to other years.

**Deduct**

**Lines 921 to 933** – On the appropriate line, enter the amounts of farm loss you apply to prior years against taxable income and taxable dividends subject to Part IV tax.

**Line 380** – Enter the result. This is the closing balance of farm losses the corporation carries forward to future years.

Complete Part 6 of Schedule 4 to establish the balance of farm losses by year of origin. For details, see item 72.

## 70

### Part 4 – Restricted farm losses

#### Current year restricted farm loss

Use this box to calculate the current year restricted farm loss. For details on how to complete this part, refer to item 62.

#### Continuity of restricted farm losses and request for carry-back

Use this box to establish the continuity of restricted farm losses and to carry back a current year restricted farm loss to prior years.

The current year restricted farm loss can reduce farm incomes for the three preceding taxation years and for the ten following taxation years.

Complete this box as follow:

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

#### Deduct

**Line 400** – Amount of restricted farm loss expired after ten taxation years. This amount is the balance of restricted farm loss from the eleventh preceding year that would otherwise be available.

**Line 402** – Amount of restricted farm losses at beginning of taxation year (this is the result of the two preceding lines).

#### Add

**Line 405** – Amount of restricted farm losses transferred from a predecessor corporation after amalgamation or a subsidiary after wind-up where not less than 90% of issued shares in each class were, immediately before the wind-up, owned by the corporation. This amount is the unused restricted farm losses available for carry forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or wind-up minus any expired amount.

**Line 410** – Amount of current year restricted farm loss calculated above (see item 62).

#### Deduct

**Line 430** – Amount of restricted farm losses applied in the current year to reduce farm income. Enter this amount on line 333, page 3 of the T2 return.

**Line 440** – Amount of debt forgiveness under section 80 that reduces the restricted farm losses balance. Losses have to be reduced in the order established by section 80.

**Line 450** – Amount of any other adjustments not previously mentioned. These adjustments would apply to corporations that have undergone a change of control

and whose losses that accrued prior to the change of control are not deductible after the change of control.

The result obtained at this point is the amount of restricted farm losses available to carry back or carry forward to other years.

#### Deduct

**Lines 941 to 943** – On the appropriate line, enter the amount of loss you carry back to prior years against farm income.

**Line 480** – Enter the result. This is the closing balance of restricted farm losses the corporation carries forward to future years.

Complete Part 6 of Schedule 4 to establish the balance of restricted farm losses by year of origin. For details, see item 72.

## 71

### Part 5 – Listed personal property losses

#### Continuity of listed personal property losses and request for carry-back

Use this box to establish the continuity of listed personal property losses and to carry back a current year listed personal property loss against net capital gains incurred on the same kind of property of the three preceding years.

A listed personal property loss cannot be transferred.

Complete this box as follows:

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

#### Deduct

**Line 500** – Amount of listed personal property loss expired after seven taxation years. This amount is the balance of listed property loss from the eighth preceding year that would otherwise be available.

**Line 502** – Amount of listed personal property losses at beginning of taxation year (this is the result of the two preceding lines).

#### Add

**Line 510** – Amount of listed personal property loss for the current year previously calculated on Schedule 6 (refer to item 53).

#### Deduct

**Line 530** – Amount of prior years listed personal property losses applied in the current year to reduce the net capital gain incurred in the current year on the same kind of property. Enter this amount on line 655 of Schedule 6.

**Line 550** – Amount of adjustments. These adjustments would apply to corporations that have undergone a change of control and whose losses that accrued prior to the change of control are not deductible after the change of control.

The result obtained at this point is the amount of listed personal property losses available to carry back or carry forward to other years.

#### Deduct

**Lines 961 to 963** – On the appropriate line, enter the amount of loss you carry back to prior years against listed personal property gains.

**Line 580** – Enter the result. This is the closing balance of listed personal property losses the corporation carries forward to future years.

Complete Part 6 of Schedule 4 to establish the balance of listed personal property losses by year of origin. For details, see item 72.

## 72

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

Use this box to show by year of origin the balance of losses the corporation can carry forward to future years. Enter each loss by year of origin, starting with the current year, going down to the seventh or the tenth preceding year, as applicable.

## 73

### Part 7 – Limited partnership losses

#### Current year limited partnership losses

Use this box to calculate the current year limited partnership losses. For details on how to complete this box, refer to item 63.

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

Complete this box if you want to apply limited partnership losses from preceding years to reduce any kind of income in the current year. However, the deductible amount is limited to the difference between the balance of losses and the corporation's at-risk amount in respect of each limited partnership. Refer to item 63 earlier in this chapter for details.

Complete this box as follow:

**Column 630** – Partnership identifier.

**Column 632** – Fiscal period ending of the partnership that ends in the corporation's taxation year.

**Column 634** – Amount of the limited partnership losses at the end of the preceding taxation year.

**Column 636** – Corporation's at-risk amount.

**Column 638** – Total of corporation's shares in:

- partnership's investment tax credit;
- partnership's business or property losses; and
- partnership's resource expenses.

**Column 650** – Enter the lesser of the two following amounts:

■ **Column 634**, or

■ **Column 636** – **Column 638**.

The result is the amount of limited partnership losses from previous years the corporation can apply against other income in the current year.

#### Continuity of limited partnership losses that can be carried forward to future taxation years

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

**Column 660** – Partnership identifier;

**Column 662** – Limited partnership losses at end of preceding taxation year;

**Column 664** – Amount of limited partnership losses transferred from a predecessor corporation after amalgamation or a subsidiary after winding-up where not less than 90% of the issued shares in each class were, immediately before the winding-up, owned by the corporation. This amount is the unused limited partnership losses available for carry forward at the end of the taxation year of the predecessor corporation or subsidiary ending immediately before the amalgamation or winding-up;

**Column 670** – Amount of current year limited partnership losses as calculated in column 620 above;

**Column 675** – Amount of limited partnership losses applies on line 335 of the T2 return. This amount cannot exceed the amount calculated in column 650 above;

**Column 680** – Amount of limited partnership losses carried forward to subsequent years. This is the result of the following calculation:

**Column 662 + Column 664 + Column 670 – Column 675.**

### "Taxable income" box

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

## 74

### Line 300 – Net income or (loss) for income tax purposes

On line 300, 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 1. If you did not have to make any adjustments to the net income or loss from the financial statements, enter on line 300 the net income or loss from the income statement. Remember to show the amount of any loss in brackets.

## Note

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

## 75

### Line 311 – Charitable donations

Complete Schedule 2, *Charitable Donations and Gifts*, (formerly Schedule T2S(2)) if, during the taxation year, the corporation made charitable donations, unused charitable donations were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after winding-up, or the corporation claims a deduction for charitable donations made to any of the following organizations:

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

#### Proposed legislation

Bill C-28 proposes to add to the list above:

- Her Majesty in right of Canada or a province for gifts made after February 18, 1997, except if made under a written agreement made before that date.

For taxation years starting in 1996, the maximum a corporation can claim as charitable donations is 50% of its net income (line 300). This maximum can be increased by 50% of taxable capital gains from donations of capital property the corporation made in the current year.

#### Proposed legislation

Bill C-28 proposes that for taxation years beginning after 1996, the maximum amount of charitable donations (including gifts to Canada or a province made after February 18, 1997) that a corporation can deduct is increased to 75% of its net income (line 300). This limitation can also be increased by the following amounts:

- 25% of the taxable capital gains arising from gifts of capital property (other than for gifts of ecologically sensitive land or of Canadian cultural property) made in the year and included in the corporation's taxable income for the year;
- 25% of the total of all amounts, each of which is a taxable capital gain in the year from the disposition in a preceding year of a non-qualifying security of a corporation that is making a gift to a qualified donee; and

- 25% of the lesser of:

- the amount of recapture, included in the income of the year, arising from the donation of a prescribed class of depreciable property, or
- the lesser of the capital cost and the proceeds of disposition of the property minus any outlays and expenses made for the purpose of making the disposition.

It is also proposed that charitable donations will be considered to be deducted in the order they were made (first-in, first-out rule).

If you are reporting nil net income or a loss for the year, you cannot claim donations to create or increase a loss.

However, you can carry forward unused charitable donations and claim them in the five following taxation years.

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

#### For taxation year starting after 1996

Complete Part 2 of Schedule 2 to calculate the maximum deduction allowable and to determine the amount to claim for charitable donations including gifts of capital property.

On line 311, page 3 of the T2 return, enter the amount you want to apply against taxable income. This amount cannot exceed the lesser of total donations available and the maximum deduction allowable.

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

You do not have to attach receipts to the T2 return. However, you have to keep them in case we ask for them later.

#### Note

When a credit union calculates its income for purposes of the 50% or 75% limit, it has to add back any amounts it previously deducted for bonus interest payments and payments for allocations in proportion to borrowing.

#### Proposed legislation

Bill C-28 proposes that where a corporation makes a gift of a non-qualifying security, that gift will be ignored for the purpose of the charitable donations deduction. However, if the donee disposes of the security within 5 years or the security ceases to be a non-qualifying security of the corporation within 5 years, the corporation will be treated as having made the gift at that later time.

A non-qualifying security includes an obligation of the corporation or a non-arm's length person, a share of the corporation or a share issued by a corporation with which the corporation does not deal at arm's length or any other security issued by the corporation or a non-arm's length person. Specifically excepted from this definition are obligations, shares and other securities listed on prescribed stock exchanges and deposits with financial institutions.

#### Reference

Paragraph 110.1(1)(a)



## 76

### Line 312 – Gifts to Canada or a province

Complete Part 3 of Schedule 2 if, during the taxation year, the corporation made donations to Canada or to a province, donations to Canada or a province were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after winding-up, or it claims a deduction for donations to Canada or to 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 50% 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. Also, the corporation can claim 100% of taxable capital gains from gifts of capital property it made during the year.

#### Proposed legislation

Bill C-28 proposes that gifts to Canada or a province made after February 18, 1997, will be included in charitable donations except if made under a written agreement made before that date.

Deduct charitable donations first. Then, claim gifts to Canada or to 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 line 312, page 3 of the T2 return, enter the amount of gifts to Canada or to a province, you want to apply against taxable income.

Complete Part 6 of Schedule 2, to establish the continuity of those gifts.

You do not have to attach receipts to the T2 return. However, you have to keep them, in case we ask for them later. Regulation 3501(1.1) outlines the information that has to appear on the receipt.

#### 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 payable 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. The federal government will only use these amounts to service the public debt.

#### Reference

Paragraph 110.1(1)(b)

## 77

### Line 313 – Cultural gifts

Complete Part 4 of Schedule 2 if, during the taxation year, the corporation made cultural gifts, cultural gifts were transferred from a predecessor corporation after amalgamation or from a subsidiary corporation after winding up, or it claims cultural gifts as a deduction.

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

On line 313, page 3 of the T2 return, enter the amount for cultural gifts you want to apply against taxable income.

Complete Part 6 of Schedule 2, to establish the continuity of cultural gifts.

#### References

Paragraph 110.1(1)(c)

IT-407, *Disposition of Cultural Property to Designated Canadian Institutions*

You do not have to attach receipts to the T2 return. However, you have to keep them, in case we ask for them later. Regulation 3501(1.1) outlines the information that has to appear on the receipt.

#### Proposed legislation

Bill C-28 proposes that cultural gifts will be considered to be deducted in the order they were made (first-in, first-out rule).

## 78

### Line 314 – Ecological gifts

Since February 28, 1995, a corporation can deduct from its net income an amount for certified ecological gifts made to Canadian municipalities and registered charities that are designated by the Minister of the Environment.

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

Complete Part 5 of Schedule 2 if, during the taxation year, the corporation made certified ecological gifts, ecological gifts were transferred from a predecessor corporation after amalgamation, or from a subsidiary corporation after winding-up, or it claims ecological gifts.

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

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

On line 314, page 3 of the T2 return, enter the amount of ecological gifts you want to apply against taxable income.

Complete Part 6 of Schedule 2 to establish the continuity of ecological gifts.

You do not have to attach the receipt and the certificate "Certificate for Donation of Ecologically Sensitive Land," to the T2 return. However, you have to keep them, in case we ask for them later.

#### Proposed legislation

Bill C-28 proposes that if the corporation made a gift of a servitude, covenant, or easement in respect of an ecological land to her Majesty in right of Canada or a province or a municipality in Canada, the donation will be equal to the greater of:

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

It also proposed that ecological gifts will be considered to be deducted in the order they were made (first-in, first-out rule).

#### Reference

Paragraph 110.1(1)(d)

## 79

### Line 320 – Taxable dividends deductible under section 112, 113 or subsection 138(6)

Complete Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation* (formerly Schedule T2S(3)), if the corporation either received or paid dividends. Refer to items 99 and 117 for details on how to complete Schedule 3.

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)

**Section 113** contains the authority and the limitations concerning the deduction of dividends the corporation received from foreign affiliates.

**Subsection 138(6)** contains the authority for a life insurer to deduct the taxable dividends received from taxable Canadian corporations, other than dividends on term preferred shares that are acquired in the ordinary course of its business.

On line 320, page 3 of the T2 return, enter the amount of taxable dividends (as per Schedule 3) deductible from income under sections 112, 113, or subsection 138(6). This amount is the total of column 240, Part 1 on Schedule 3.

#### Note

A dividend does not include stock dividends a corporation receives after 1990 from a non-resident corporation.

By deducting taxable dividends the corporation received from its net income or loss amount shown on line 300, you can create or increase a non-capital loss for the year.

#### Reference

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

## 80

### Line 325 – Part VI.1 tax deduction

A corporation that pays Part VI.1 tax on dividends it paid on taxable preferred shares and short-term preferred shares can deduct 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 325, page 3 of the T2 return, enter nine-fourths (9/4) of the Part VI.1 tax calculated on line 724, page 6 of the T2 return. See item 120 for details on how to calculate Part VI.1 tax.

#### Reference

Paragraph 110(1)(k)

## 81

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

On line 331, page 3 of the T2 return and on line 130 of Schedule 4, enter any non-capital losses the corporation is carrying forward from previous years to reduce taxable income.

On line 330 of Schedule 3, enter the amount of current year non-capital loss, and on line 335, enter the prior years non-capital losses that the corporation wants to use to reduce dividends subject to Part IV tax.

The total of those two amounts has to be entered as an applied amount on line 135, Part 1 of Schedule 4. For details, refer to items 61 and 67.

#### References

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

**82****Line 332 – Net capital losses of preceding taxation years**

On line 332, page 3 of the T2 return, enter the amount of net capital losses from prior years that the corporation applies against taxable capital gain incurred in the year. This amount is the capital loss entered on line 225, Part 2 of Schedule 4 that you multiply by the inclusion rate of 75%. See item 68 for details.

**Note**

A net capital loss can create a non-capital loss in the year you apply it, because the net capital loss is not limited to reducing the taxable income, but to reducing the taxable capital gain in that year.

**References**

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

**83****Line 333 – Restricted farm losses of preceding taxation years**

On line 333, page 3 of the T2 return, enter the amount you want to apply to reduce the current year farm income. On line 430, Part 4 of Schedule 4, enter the amount of restricted farm loss used. Refer to item 70 for details.

**Reference**

Paragraph 111(1)(c)

**84****Line 334 – Farm losses of preceding taxation years**

On line 334, page 3 of the T2 return and on line 330, Part 3 of Schedule 4, enter the farm losses the corporation is carrying forward from previous years to reduce taxable income.

On line 340 of Schedule 3, enter the amount of the current year farm loss and on line 345, enter the prior years farm losses that the corporation is using to reduce dividends subject to Part IV tax.

The total of those two amounts has to be entered on line 335, Part 3 of Schedule 4 as the amount applied.

**References**

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

**85****Line 335 – Limited partnership losses of preceding taxation years**

Complete Part 7, "Limited partnership losses from prior taxation years that may be applied in the current year" box of Schedule 4 to calculate limited partnership losses that may be applied in the year. For more details, refer to item 73.

On line 335, page 3 of the T2 return, enter the deductible amount of limited partnership losses from prior years that applied against other incomes in the current year.

**Reference**

Paragraph 111(1)(e)

**86****Line 340 – Taxable capital gains or taxable dividends allocated from a central credit union**

If a central credit union has made an election under subsection 137(5.1), amounts allocated to a member credit union as taxable dividends or net capital gains may be claimed as a deduction from taxable income under paragraph 137(5.2)(c) by that member. Enter such amounts on line 340, page 3 of the T2 return.

**87****Line 345 – Exempt income under an income tax treaty**

You can deduct any amount that is exempt under a tax convention or agreement with another country that has the force of law in Canada under subparagraph 110(1)(f)(i).

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

You can deduct 1/4 of the value of any shares received from a corporation after disposition of a right or a mining property, except if the amount is exempt under a tax treaty.

**Reference**

Paragraph 110(1)(d.2)

**89****Line 355 – Section 110.5 additions**

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 (e.g., it has no Part I tax payable for the year) can choose to add an amount to its taxable income. In this way, the corporation can use these otherwise non-deductible foreign tax credits.

The amount you add to income for this purpose forms part of the corporation's non-capital loss. See item 61 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;
- the investment tax credit;
- the share-purchase tax credit; or
- the SR&ED tax credit.

On line 355, page 3 of the T2 return, enter the amount you added to income under section 110.5.

## 90

### Line 360 – Taxable income

To calculate this amount, subtract all the deductions you entered on lines 311 to 350 from the net income for income tax purposes on line 300. Add, if applicable, section 110.5 additions (line 355). Enter the taxable income on line 360.

If the result is a loss, enter “0” on line 360.

#### Note

If you want to carry back a current year loss to a prior taxation year, see items 67 to 73 for details.

## 91

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

Insurers not engaged in any other business except insurance and who earn not less than 20% of their gross premium income (net of reinsurance ceded) from the business of property used in a fishing or farming business, or residence of farmers or fishermen are eligible for an exemption from Part I tax on their taxable income.

On line 370, enter the exempt income if the corporation meets the criteria of paragraph 149(1)(t).

## 92

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

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

#### References

Subsections 149(4.1) and 149(4.2)

### “Small business deduction” box

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

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

- the corporation’s income from active business it carried on in Canada (line 400);
- the corporation’s taxable income (line 405);
- the corporation’s business limit (line 410); and
- the corporation’s reduced business limit (line 425).

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

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

## 93

### Line 400 – Income from active business carried on in Canada

Complete Schedule 7, *Calculation of Aggregate Investment Income and Active Business Income* (formerly Schedule T2S(7)), to determine the following amounts:

- the corporation’s aggregate investment income and foreign investment income for the purpose of determining the refundable portion of Part I tax (see item 97 for details);
- the corporation’s income from an active business carried on in Canada for the SBD; and
- the specified partnership income for members of a partnership.

#### Note

If the corporation is claiming a deduction for patronage dividends on line 416 of Schedule 1, it has to complete Part 4 of Schedule 16 to establish its “active business income carried on in Canada” (see item 58 for details).

### 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.

#### Proposed legislation

It is proposed that the definition of specified investment business include a business carried on by a prescribed labour-sponsored venture capital corporation, the principal purpose of which is to derive income from property.

Except for a prescribed labour-sponsored venture capital corporation, income from a specified investment business is considered to be active business income, and is therefore eligible for the SBD in the following instances:

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

#### Note

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

### Personal services business

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

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

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

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

#### Reference

IT-73, *The Small Business Deduction*

#### Specified shareholder

A specified shareholder is a taxpayer who owns, directly or indirectly at any time in the year, at least 10% of the issued shares of any class of capital stock of the corporation or a related corporation.

#### References

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

#### How to calculate income from an active business carried on in Canada

Generally, to calculate active business income from carrying on a business in Canada, you have to deduct from 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, 113, and subsection 138(6);
- property income minus property losses;
- property income from an interest in a trust;
- foreign business income;
- income from a specified investment business; and
- income from a personal services business.

#### Specified partnership income

A corporation that is a member of a partnership has to complete Schedule 7 to calculate its active business income.

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

**Specified partnership income** is the amount of partnership income eligible for the SBD that is allocated to the corporation. You have to add this income to 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 slip, *Statement of Partnership Income*, that shows its share of partnership income or loss, include this form with the T2 return. See item 37 for details.

On line 400, page 3 of the T2 return, enter the total active business income you calculated on Schedule 7.

## 94

### Line 405 – Taxable income

The taxable income you use to calculate the SBD is usually the amount you entered on line 360, page 3 of the T2 return. However, if the corporation has claimed either a foreign non-business income tax credit, a foreign business income tax credit, or both, you have to reduce the taxable income by:

- ten-thirds (10/3) of the amount that would be deductible as a federal foreign non-business income tax credit on line 632, page 5 of the T2 return, if that credit was determined without the refundable tax on CCPC's investment income (line 604); and
- ten-fourths (10/4) of the amount you are deducting as a federal foreign business income tax credit (line 636).

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

#### References

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

On line 405, page 3 of the T2 return, enter the corporation's taxable income for the purposes of calculating the SBD.

## 95

### Line 410 – Business limit

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

Canadian-controlled private corporations that are associated with one or more corporations during the taxation year have to file Schedule 23 to allocate the \$200,000 business limit among them. See item 28 for details about Schedule 23.

On line 410, page 3 of the T2 return, enter the corporation's business limit for the year (for an associated corporation, enter on line 410 the business limit you determined on Schedule 23).

#### Notes

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, before you enter it on line 410.

If the corporation elects not to be an associated corporation with two other corporations for the purposes of the small business deduction, you have to file Schedule 28. Refer to item 30 for more details.

**Line 425 – Reduced business limit**

Large Canadian-controlled private corporations (CCPC) that have taxable capital employed in Canada of \$15 million or more no longer qualify for the SBD. The \$200,000 business limit has to be reduced on a straight-line basis for CCPCs that have taxable capital employed in Canada of between \$10 million and \$15 million in the preceding year. Similar restrictions apply to any CCPC that is a member of an associated group that has, in total, more than \$10 million of taxable capital employed in Canada. The calculation of the reduction to business limit (amount E) is as follows:

Amount C = amount from line 410.

Amount D = line 415.

This amount is the gross Part I.3 tax of 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, calculate Part I.3 tax before deducting the surtax credits and increase the tax to reflect a full-year liability if the prior year is shorter than 51 weeks.

Line 420 = \$11,250.

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

The reduced business limit (amount on line 425, page 3 of the T2 return) is the difference between amount C and amount E.

**References**

Subsections 125(2), 125(3), 125(5), and 125(5.1)

IT-64, *Corporations: Association and Control – After 1988*

Item	Page	Item	Page
“Refundable portion of Part I tax” box .....	55	“Dividend refund” box.....	56
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98 Lines 460, 465, 480, and 485 .....	55		

## “Refundable portion of Part I tax” box

**97**

### Lines 440, 445, and 450

The refundable portion of Part I tax is part of a corporation’s refundable dividend tax on hand (RDTOH). For more information about RDTOH, see item 98.

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 aggregate investment income and foreign investment income. You have to determine these amounts by completing page 1 of Schedule 7, *Calculation of Aggregate Investment Income and Active Business Income*.

Calculate investment income as follows:

#### Add

- the eligible portion of the taxable capital gains for the year that exceeds the total of:
  - the eligible portion of the allowable capital loss for the year, and
  - the net capital losses from preceding years which are applied in the year;
- total income from property (including income from a specified investment business) from which the following amounts have been deducted:
  - exempt income;
  - NISA receipts;
  - taxable dividends deductible after deducting related expenses; and
  - business income (loss) from an interest in a trust that is considered property income under paragraph 108(5)(a).

#### Deduct

- total losses for the year from property (including losses from specified investment business).

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

On lines 440 and 445, page 4 of the T2 return, enter the amount of aggregate investment income and the amount of foreign investment income that you determined on lines O and P of Schedule 7.

You can only include taxable capital gains and allowable capital losses in a CCPC’s net investment income if you can attribute the gain or loss to a period of time when a CCPC, an investment corporation, a mortgage investment corporation, or a mutual fund corporation held the disposed property.

Calculate the corporation’s amount of the refundable portion of Part I tax. Then, enter the amount from line 450 in the space provided in the “Refundable dividend tax on hand” box on page 4 of the T2 return.

#### References

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

## “Refundable dividend tax on hand” box

**98**

### Lines 460, 465, 480, and 485

The refundable dividend tax on hand (RDTOH) account only applies to corporations that were **private or subject corporations**, as defined in item 117.

A Canadian-controlled private corporation (CCPC) generates RDTOH on both the Part I tax it pays on investment income, and on the Part IV tax it pays on dividends it receives. For any other type of private corporation, only the Part IV tax it pays generates RDTOH.

For more information on taxable dividends deductible under sections 112, 113, or subsection 138(6), refer to item 79.

For information on Part IV tax and instructions to complete Schedule 3, refer to item 117.

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 refundable portion of Part I tax from line 450 of the T2 return;
- Part IV tax calculated on line 360 of Schedule 3; and
- any balance of RDTOH transferred from a predecessor corporation on amalgamation, or from a wound-up subsidiary corporation.

For the first taxation year of a successor corporation formed as a result of an amalgamation, enter on line 480 of the T2 return all RDTOH balances being transferred from predecessor corporations. Do not include this amount on line 460.

For a parent corporation that wound up a wholly owned subsidiary, enter on line 480 any RDTOH transferred from the subsidiary corporation. On line 460, enter the RDTOH the parent corporation is carrying forward from its preceding taxation year.

#### Note

You cannot transfer any RDTOH to a successor or parent corporation if, had the predecessor or subsidiary corporation paid a dividend immediately before the amalgamation or wind-up, subsection 129(1.2) would have applied to that dividend.

On line 485, enter the amount of RDTOH at the end of the taxation year. Also, enter the same amount on line B in the "Dividend refund" box of the T2 return.

#### References

Subsections 129(3) and 186(5)

### "Dividend refund" box

A private or subject corporation may be entitled to a dividend refund for dividends it paid while it was a private or subject corporation, regardless of whether it was a private or subject corporation at the end of the taxation year.

A dividend refund arises if 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.

You have to complete Parts 3 and 4 (if they apply) of Schedule 3 to claim a dividend refund. The dividend refund is equal to one of the following amounts, whichever is less:

- one-third of taxable dividends that the corporation paid in the year while it was a private or subject corporation; or
- the RDTOH at the end of the taxation year.

The total of taxable dividends paid for the purpose of the dividend refund is equal to the amount on line 460, Part 3 of Schedule 3. Refundable dividend tax on hand refers to the amount on line 485 in the "Refundable dividend tax on hand" box, page 4 of the T2 return.

## 99

### Parts 3 and 4 of Schedule 3

The following explains how to complete Parts 3 and 4 of Schedule 3. Refer to item 117 for an explanation on Parts 1 and 2.

If the corporation paid taxable dividends during the year, complete Part 3 to identify taxable dividends that qualify for the dividend refund.

If the amount of dividends paid by the corporation include dividends that do not qualify for the dividend refund, you have to deduct these dividends before completing the calculation in Part 3. In this case, you have to complete Part 4 of Schedule 3 to identify dividends that do not qualify.

Dividends that do not qualify are:

- dividends paid out of the capital dividend account;
- capital gains dividends;
- dividends paid for shares that do not qualify as taxable dividends, because the main purpose of acquiring the shares was to receive a dividend refund (subsection 129(1.2));
- taxable dividends paid to a controlling corporation that was bankrupt at any time in the year; and
- deemed dividends paid on a small business development bond.

You have to complete Part 3 of Schedule 3 to identify a connected corporation that received taxable dividends that qualify for the dividend refund.

#### Complete Part 3 as follow:

**Column 400** – name of all connected corporations that received dividends;

**Column 410** – Business Number of the connected corporations;

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

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



**Line 450** – total taxable dividends that qualify for the dividend refund that the corporation paid to other than connected corporations;

**Line 460** – the result of the addition of:

**Column 430 + Line 450.**

Report this amount on page 4 of the T2 return in the “Dividend refund” box.

Calculate the dividend refund by completing the “Dividend refund” box, page 4 of the T2 return. If it applies, enter the dividend refund on line 784, page 6 of the T2 return.

If the dividend refund is more than the amount of Part I tax payable for the year, we deduct the excess from any other taxes the corporation owes under the *Income Tax Act*. Any balance left over is available for a refund.

When the total dividends paid during the year is different from the total of taxable dividends paid for the purpose of the dividend refund, complete Part 4 of Schedule 3.

**Complete Part 4 as follow:**

**Line 500** – total dividends paid in the taxation year.

**Deduct the following amounts:**

**Line 510** – dividends paid out of capital dividend account;

**Line 520** – capital gains dividends;

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

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

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

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

**References**

Section 129

Subsection 186(5)

IT-243, *Dividend Refund to Private Corporation*

## Chapter 5 – Page 5 of the T2 return

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### “Part I tax” box

#### 100

#### Line 550 – Base amount of Part I tax

The basic rate of Part I tax is 38% of taxable income. To determine the base amount of Part I tax, calculate 38% of the corporation’s taxable income from line 360, page 3 of the T2 return less income exempt under paragraph 149(1)(t).

On line 550, page 5 of the T2 return, enter this base amount.

#### 101

#### Line 600 – Corporate surtax

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

On page 5 of the T2 return, calculate the 4% corporate surtax, and enter it on line 600.

**Reference**  
Section 123.2

#### 102

#### Line 604 – Refundable tax on CCPC’s investment income

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

This additional tax will be credited to the corporation’s refundable dividend tax on hand (RDTOH). The RDTOH pool will be refunded to the corporation upon payment of dividends to shareholders at a rate of 1/3 of taxable dividends paid.

A CCPC with investment income has to calculate this additional tax on page 5 and enter the amount on line 604.

**Reference**  
Subsection 129(3)

#### 103

#### Line 608 – 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 less income exempt under paragraph 149(1)(t). 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 608, page 5 of the T2 return, enter the amount of the corporation’s federal tax abatement.

**Reference**  
Section 124

#### 104

#### Line 616 – Manufacturing and processing profits deduction

Use Schedule 27, *Calculation of Canadian Manufacturing and Processing Profits Deduction* (formerly Schedule T2S(27)), to calculate the corporation’s manufacturing and processing profits deduction.

Corporations that derive at least 10% of their gross revenue for the year from manufacturing or processing goods in Canada for sale or lease can claim the manufacturing and processing profits deduction (MPPD). The MPPD reduces Part I tax 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 on income that is not eligible for the small business deduction (SBD) at the rate of 7%.

Complete Schedule 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 Parts 1 and 2 on Schedule 27.

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

Small manufacturing corporations only have to complete Part 1 of Schedule 27, and are entitled to calculate the MPPD on their entire adjusted business income. Essentially, a corporation's adjusted business income is its income from an active business it carried on in Canada that is more than its losses from similar businesses, reduced by any net resource income. Schedule 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 to any stage that is not beyond the prime metal stage or its equivalent;
- the corporation was not engaged in the processing of iron ore from a mineral resource located outside Canada to any stage that is not beyond the pellet stage or its equivalent;
- the corporation was not engaged in the processing of tar sands located outside Canada to any stage that is not beyond the crude oil stage or its equivalent; and
- the corporation did not carry on any active business outside Canada at any time during the year.

#### Note

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

Corporations that do not qualify as small manufacturing corporations have to complete Part 2 of Schedule 27. In Part 2, you will find the basic formula for calculating Canadian manufacturing and processing profits, as well as detailed instructions on how to complete the schedule.

On line 616, page 5 of the T2 return, enter the amount of the manufacturing and processing profits deduction determined in part 9 of Schedule 27.

#### References

Section 125.1

Regulation 5200

IT-145, *Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax*

## 105

### Lines 620 and 624 – Investment corporation deduction

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

On line 624, page 5 of the T2 return, enter the investment corporation's taxed capital gains. On line 620, enter the amount of the deduction you are claiming.

#### References

Section 130

IT-98, *Investment Corporations*

## 106

### Line 628 – Additional deduction – credit unions

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

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

Use Schedule 17, *Credit Union Deductions* (formerly Schedule T2S(17)), to claim the additional deduction. Credit unions have to complete the "Additional deduction" and "Preferred rate amount at the end of the taxation year" boxes of Schedule 17 to claim this additional deduction.

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

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

minus

- the least of lines 400, 405, and 425 of the small business deduction calculation (page 3 of the T2 return).

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

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

On line 628, page 5 of the T2 return, enter the credit union's additional deduction.

**References**  
Section 137  
IT-483, *Credit Unions*

## 107

### Lines 632 to 640 – Federal foreign income tax credits and federal logging tax credit

Use Schedule 21, *Federal Foreign Income Tax Credits and Federal Logging Tax Credit* (formerly Schedule T2S(21)), to calculate the following credits:

- the federal foreign non-business income tax credit;
- the federal foreign business income tax credit; and
- the federal logging tax credit.

Use Schedule 21 to establish the continuity of unused federal foreign business income tax credits. You also use this schedule to carry back federal foreign business income tax credits to previous years.

#### Line 632 – 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 claim it as a provincial foreign tax credit. See item 125 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 89 for details.

To claim this credit, complete Part 1 of Schedule 21. Calculate the federal foreign non-business income tax credit

for each country separately. Use more than one schedule if more space is required.

Add all the allowable foreign non-business income tax credits in column I on Schedule 21. Then, enter the total allowable credit or a lesser amount on line 632, page 5 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 636 – Federal foreign business income tax credit

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

Unlike foreign non-business income tax, 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 so as to claim an otherwise non-deductible foreign business income tax credit. See item 89 for details.

To claim this credit, complete Part 2 of Schedule 21. Calculate the foreign business income tax credit for each country separately. Use more than one schedule if more space is required.

Add all allowable foreign business income tax credits in column J on Schedule 21. Then, enter the total allowable credits or a lesser amount on line 636, page 5 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*

#### Continuity of unused federal foreign business income tax credits

Complete Part 3 of Schedule 21 if your corporation had a foreign business income tax credit that:

- expired in the current year;
- was transferred from an amalgamation or winding-up;
- was deducted in the current year; or
- was carried back to a prior year.

You have to establish the continuity and the application of the foreign tax credits on business income for each country. Use more than one schedule if more space is required.

### Carry back or carry forward of unused credits

You can carry back any unused foreign business income tax credit to the three preceding taxation years, and you can carry the credit forward for seven taxation years. To claim a carry-back to previous years, complete Part 4 of Schedule 21.

#### Note

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

### Line 640 – 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.

To claim this credit, complete Part 5 of Schedule 21. On line 640, page 5 of the T2 return, enter the credit you calculated on line 580 of Schedule 21 or a lesser amount.

#### References

Subsection 127(1)  
Regulation 700

## 108

### Lines 644 and 646 – Federal political contribution tax credit

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

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

You can claim contributions 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.

An official receipt is one that is signed by the registered agent for the registered party, or the official agent of the candidate. We can only accept photocopies if the issuer certifies them as true copies. You do not have to attach receipts to the T2 return. However, keep them in case we ask for them later.

On line 646, page 5 of the T2 return, enter the total amount of qualifying contributions and, on line 644, the amount of the allowable credit.

#### References

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

## 109

### Line 648 – Federal qualifying environmental trust tax credit

A corporation that is the beneficiary under a mining reclamation trust can claim a tax credit equal to Part XII.4 tax payable by the trust on that income.

On line 648, page 5 of the T2 return, enter the credit claim not exceeding Part I tax otherwise payable. On line 792, page 6 of the T2 return enter the unused balance.

#### Proposed legislation

Bill C-28 proposes that, for taxation years that end after February 18, 1997, the existing rules for mining reclamation trust apply to qualifying environmental trust.

The sole purpose of qualifying environmental trust must now be for funding the reclamation of a site in Canada that had been used primarily for, or for any combination of, the operation of a mine, the extraction of clay, peat, sand, shale, or aggregates or the deposit of waste.

#### Reference

Section 127.41

## 110

### Line 652 – Investment Tax Credit

Use Schedule 31, *Investment Tax Credit – Corporations* (formerly 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 or in some cases this credit may be fully or partially refundable.

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

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

A corporation may earn an investment tax credit of 20% of its scientific research and experimental development (SR&ED) qualified expenditure pool at the end of the year.

Generally, this pool will include all qualified expenditures the corporation incurred in the year and any qualified expenditures transferred to the corporation under an agreement in paragraph 127(13)(e). However, amounts the corporation transferred during the year, under paragraph 127(13)(d), will reduce this account.

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

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

## Investments and expenditures that qualify for investment tax credit

The following investments and expenditures earn an investment tax credit:

- A. the cost of acquiring qualified property;
- B. the cost of acquiring certified property; and
- C. qualified SR&ED expenditures.

The following are definitions of investment and expenditure:

- A. **Qualified property** (other than certified property or approved project property) includes new prescribed buildings, machinery, or equipment the corporation acquired during the year to use in certain activities. See the heading "Activities that qualify for investment tax credit" that follows.
- B. **Certified property** includes prescribed buildings or machinery and equipment, other than approved project property, 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. **Qualified expenditures for scientific research and experimental development (SR&ED)** are defined in subsection 127(9). SR&ED is defined in Regulation 2900.

## 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, among others, the following:

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

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

- For a corporation with a principal business of leasing property, lending money, or purchasing conditional sales contracts, accounts receivable, or other obligations, property 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.

### Note

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

## Qualified expenditures for scientific research and experimental development (SR&ED)

You have to file Form T661, *Claim for Scientific Research and Experimental Development Information Return – Expenditures Carried on in Canada*, along with Schedule 31 when you are making claims under subsections 37(1), 127(5) and section 127.1 for qualified SR&ED expenditures. See item 60 for more information.

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

The investment tax credit earned at the rate of 20% on SR&ED expenditures that exceed the annual limit is not refundable to a CCPC with a taxable income for the preceding year of more than \$200,000. For eligible corporations, the investment tax credit is still refundable at the rate of 40%. Refer to Schedule 31 for details.

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

### Notes

The latest date you must identify qualified SR&ED expenditures on Form T661 and Schedule 31 is the day that is 12 months after the corporation's filing due date for the year the expenditures were incurred (without reference to subsections 78(4) and 127(26)).

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

### Reference

Subsection 37(9.1)

## Reduction of regional investment tax credits

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

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

**Reference**  
Subsection 127(9)

**Note**

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

**Available-for-use rule**

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

See item 54 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)

**Investment tax credit claim**

A corporation can deduct 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, including shared-use equipment, it has to reduce the capital cost of the property in the next taxation year by the amount of this year's investment tax credit. If the corporation is claiming an investment tax credit for SR&ED expenditures, other than expenditures in respect of shared-use equipment, it has to reduce the SR&ED expenditure pool in the next taxation year by the amount of this year's investment tax credit. For more information, see item 54 under the heading "Column 4 – Net adjustments."

**Reference**  
Subsection 13(7.1)

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

**Proposed legislation**

Bill C-28 proposes to restrict the eligibility of all investment tax credits (ITC). Eligibility for an ITC will be limited to those expenses or expenditures identified in Schedule 31 and Form T661, if it applies, filed within 12 months of the filing due date for the taxation year in which the expenses were made or incurred (without reference to subsections 78(4) and 127(26)).

**When to complete Schedule 31**

You have to complete and file Schedule 31 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 prior taxation year; or
- is requesting a refund of unused investment tax credits.

Complete Schedule 31 and enter the amount of the corporation's investment tax credit for the current year on line 652, page 5 of the T2 return.

**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:

- Qualifying corporations can request a 40% refund of the investment tax credit they earned in the taxation year.
- Most qualifying corporations that have investment tax credits they earned in the taxation year on SR&ED expenditures can claim:
  - a full refund (100%) of the investment tax credit they earned on the first \$2 million of **current** SR&ED expenditures;

**plus**

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

**plus**

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

**Definitions**

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

can be a maximum of \$200,000 but can also be reduced by Part I.3 tax.

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

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

Also, if the corporation is associated with one or more corporations, you have to allocate the expenditure limit among the associated corporations on Schedule 49. See item 29 in this guide for details about Schedule 49.

You have to file Schedule 31 to claim the investment tax credit refund. On line 780, page 6 of the T2 return, enter the corporation's investment tax credit refund claim you calculated on Schedule 31.

#### Note

The taxable income mentioned in the definition of "qualifying corporation" is determined before taking into consideration the "specified future tax consequences." These specified future tax consequences include, among others, the carry back of losses from subsequent years that would have reduced the taxable income for the year in which those losses were applied. This amendment applies to 1996 and subsequent taxation years. For more information, refer to the definition of "specified future tax consequence" in subsection 248(1) of the *Income Tax Act*.

#### References

Section 127.1  
Subsections 127(5) to 127(12)  
Regulations 4600 and 2902  
IT-151, *Scientific Research and Experimental Development Expenditures*  
IC 78-4, *Investment Tax Credit Rates*

## 111

### Line 656 – Part VI tax credit

On line 656, page 5 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 Schedule 42, *Calculation of Unused Part VI Tax Credit and Unused Part I Tax Credit* (formerly Form T921), with the T2 return.

A corporation can use this form to calculate the balance of its 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)

## 112

### Line 660 – Part I.3 tax credit

On line 660, page 5 of the T2 return, enter the amount of unused Part I.3 tax credit being carried forward from taxation years ending before 1992. File the completed Schedule 37, *Calculation of Unused Part I.3 Tax Credit and Unused Surtax Credit* (formerly Form T962), with the T2 return.

The corporation can use this schedule to calculate the balance of its unused Part I.3 tax credit from taxation 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)

## 113

### Part I tax payable

The corporation's Part I tax payable for the year is its basic Part I tax **plus** the amount of surtax and the refundable tax on CCPC's investment income (line A plus lines B and C, page 5 of the T2 return), **minus** any allowable deductions and credits (line E, page 5 of the T2 return).

Enter this amount on line F, page 5, and also on line 700 in the "Summary of Tax and Credits" box, page 6 of the T2 return.



# Chapter 6 – Page 6 of the T2 return

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## “Summary of tax and credits” box

In the “Summary of tax and credits” box, summarize the amounts of federal 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.

## “Federal tax” area

### 114

#### Line 700 – Part I tax payable

On line 700, page 6 of the T2 return, enter the amount of the corporation’s Part I tax payable that you determined on line F, page 5 of the T2 return.

**References**  
Items 100 to 113

### 115

#### Line 704 – Part I.3 tax payable

Part I.3 of the Act levies a tax on the taxable capital employed in Canada by large corporations, including large financial institutions and large insurance corporations. Part I.3 tax is 0.225% of the 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**.

To calculate the balance of unused surtax credits and to carry back any unused surtax credits, the corporation has to file Schedule 37, *Calculation of Unused Part I.3 Tax Credit and Unused Surtax Credit* (formerly Form T962).

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

If the corporation is a member of a related group, you have to allocate the capital deduction among the members. Use Schedule 36, *Agreement Among Related Corporations – Part I.3*

*Tax* (formerly Form T2150), to allocate the capital deduction. File this schedule with the T2 return.

#### 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 has Part I.3 tax payable, or would have, if not for the deduction of a surtax credit. There are three types of returns you can use to calculate the corporation’s Part I.3 tax:

- Schedule 33, *Part I.3 Tax on Large Corporations* (formerly Form T2147);
- Schedule 34, *Part I.3 Tax on Financial Institutions* (formerly Form T2148); and
- Schedule 35, *Part I.3 Tax on Large Insurance Corporations* (formerly Form T2149).

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

- non-resident-owned investment corporations;
- bankrupt corporations;
- corporations exempt from tax under section 149 on all their taxable income;
- corporations that were not resident in Canada and did not carry on a business from a permanent establishment in Canada;
- deposit insurance corporations; and
- a corporation described in subsection 136(2) of the Act whose principal business is marketing natural products belonging to or acquired from its members or customers.

On line 704, 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 5 for details. For more information, see the T7B – Corp, *Corporation Instalment Guide*.

#### References

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

## 116

### Line 708 – Part II surtax payable

Under Part II of the Act, tobacco manufacturers have to pay a surtax equal to 40% of Part I tax on tobacco manufacturing profits for the year. This surtax applies until February 8, 2000, inclusive. You will have to prorate this surtax based on the number of days in the year when the taxation year straddles that date.

The corporation has to file Schedule 46, *Part II – Tobacco Manufacturers' Surtax* (formerly Form T1123), and attach it to the T2 return. Refer to the schedule for more details.

On line 708, page 6 of the T2 return, enter the amount of the corporation's Part II surtax payable.

#### Reference

Section 182

## 117

### Line 712 – Part IV tax payable

Use Parts 1 and 2 of Schedule 3, *Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation* (formerly Schedule T2S(3)), to calculate the corporation's Part IV tax payable on taxable dividends it received.

#### Dividends subject to Part IV tax

The following types of dividends are subject to Part IV tax:

- taxable dividends from corporations that are deductible under subsection 112(1) when you calculate taxable income; and
- taxable dividends from foreign affiliates that are deductible under paragraphs 113(1)(a), (b), or (d), or subsection 113(2) when you calculate taxable income.

Taxable dividends that a corporation receives are only subject to Part IV tax if the corporation receives them while it is a **private or subject corporation**. Taxable dividends received from a non-connected corporation are subject to Part IV tax.

Taxable dividends received from a **connected corporation** are subject to Part IV tax only when paying the dividends generates a dividend refund for the payer corporation. The Part IV tax rate is 33 1/3%.

#### Definitions

##### Private corporation

A private corporation is a corporation that is:

- resident in Canada;
- not a public corporation;
- not controlled by one or more public corporations (other than a prescribed venture capital corporation);

- not controlled by one or more prescribed federal Crown corporations; and

- not controlled by any combination of prescribed federal Crown corporations and public corporations.

#### Reference

Subsection 89(1)

#### Subject corporation

A subject corporation is a corporation, other than a private corporation, that is resident in Canada and is controlled by or for the benefit of either an individual other than a trust, or a related group of individuals other than trusts.

#### Reference

Subsection 186(3)

A payer corporation is connected to the corporation that receives the dividends (the recipient) if the recipient controls the payer corporation. The payer and recipient corporations are also connected when:

- the recipient owns more than 10% of the issued share capital (with full voting rights) of the payer corporation; and
- the recipient owns shares of the capital stock of the payer corporation with a fair market value of more than 10% of the fair market value of all the issued share capital of the payer corporation.

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

For purposes of Part IV tax, a payer corporation is controlled by a recipient corporation where more than 50% of the payer's issued share capital (having full voting rights) belongs to the recipient, to persons with whom the recipient does not deal at arm's length or to any combination thereof.

#### References

Subsections 186(2) and (4)

#### Exempt corporations

The following types of corporations are exempt from Part IV tax:

- A. a corporation that was bankrupt at any time during the year; or
- B. a corporation that, throughout the year, was:
  - a prescribed labour-sponsored venture capital corporation;
  - a prescribed investment contract corporation;
  - an insurance corporation;
  - a corporation licensed as a trustee;
  - a bank; 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, if these non-taxable dividends are included as income, they should be deducted as an adjustment on Schedule 1.

### Completing Parts 1 and 2 of Schedule 3

In the following section, we provide details on how to complete Parts 1 and 2 of Schedule 3. See item 99 for details on Parts 3 and 4.

#### Part 1 – Dividends received during the taxation year

**Column 200** – List all payer corporations from which the corporation received the dividends.

**If the payer corporation is a connected corporation, complete columns 205, 210 and 220:**

**Column 205** – enter “1” in the box if the payer corporation is a connected corporation;

**Column 210** – connected corporation’s Business Number;

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

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

**Column 240** – amount of taxable dividends deductible from taxable income under section 112, subsection 138(6), and paragraphs 113(1)(a), (b) and (d) (enter the total of this column on line 320, page 3 of the T2 return). For more information on these dividends, refer to item 79.

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

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

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

**Column 270** – amount of Part IV tax, based on the following calculations:

- when the taxable dividend subject to Part IV tax is received from a non-connected corporation:

$$\text{Column 270} = \text{Column 240} \times 1/3$$

- when the dividend subject to Part IV tax is received from a connected corporation:

$$\text{Column 270} = \frac{\text{Column 240} \times \text{Column 260}}{\text{Column 250}}$$

If the connected payer corporation’s taxation year ends more than three months after the corporation’s taxation year, you have to estimate the payer’s dividend refund when you calculate the corporation’s Part IV tax payable.

Add all Part IV tax, and enter the amount in Part 2 of Schedule 3.

If there are taxable dividends received, enter the amount in column 240, but if the corporation is not subject to Part IV tax (e.g., public corporation) enter “0” in column 270.

#### Note

If dividends were paid by more than one corporation, you have to do a separate calculation for each payer corporation. If dividends were paid in different payer corporation’s taxation years, you have to do a separate calculation for each taxation year.

#### Part 2 – Calculation of Part IV tax payable

Part IV tax otherwise payable on a dividend is reduced by any amount of Part IV.1 tax payable on the same dividend. See item 118 for details.

On line 320, Part 2 of Schedule 3, enter the amount of Part IV.1 tax the corporation has to pay on taxable dividends received.

A corporation can reduce the amount of dividends subject to Part IV tax by using non-capital losses and farm losses incurred in the taxation year or carried forward from prior years.

On lines 330 to 345, Part 2 of Schedule 3, enter the amount of available non-capital and farm losses you are using to reduce dividends subject to Part IV tax.

On line 712, page 6 of the T2 return, enter the amount of Part IV tax the corporation has to pay on taxable dividends received (line 360, Part 2 of Schedule 3).

#### References

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

## 118

### Line 716 – Part IV.1 tax payable

Complete Schedule 43, *Calculation of Parts IV.1 and VI.1 Taxes*, (formerly Form T761) to calculate Part IV.1 tax payable.

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

Part 3 of Schedule 43 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 120 for details.

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

On line 716, page 6 of the T2 return, enter the amount of Part IV.1 tax payable that you calculated on line 340, Part 3 of Schedule 43.

**References**  
Sections 187.1 to 187.6  
Subsection 191.2(1)

## 119 Line 720 – Part VI tax payable

You have to complete Schedule 38, *Part VI Tax on Capital of Financial Institutions* (formerly 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 following taxation years.

To calculate the balance of unused Part I tax credits and to carry back this credit, the corporation can use Schedule 42, *Calculation of Unused Part VI Tax Credit and Unused Part I Tax Credit* (formerly Form T921).

**Financial institutions** include banks, trust companies, life insurance corporations, certain holding corporations, and corporations that accept deposits and carry on the business of lending money on the security of real estate or investing in mortgages or hypothecs on real estate.

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

- A. \$20 million; or
- B. 20% of the amount of the taxable capital employed in Canada that is more than \$200 million.

A corporation has to file Schedule 38 with its T2 return if it has Part VI tax payable, or would have, if not for the deduction of a Part I tax credit or surtax credit.

If the corporation is a member of a related group, you have to allocate the capital deduction among the members.

Use Schedule 39, *Agreement Among Related Financial Institutions – Part VI Tax* (formerly Form T2045), to allocate the capital deduction. File this agreement with the T2 return.

Part VI instalment requirements are the same as those for Part I. See item 5 for details. For more information, see the T7B–Corp, *Corporation Instalment Guide*.

On line 720, page 6 of the T2 return, enter the amount of Part VI tax payable that you calculated on line 890, Part 15 of Schedule 38.

**References**  
Sections 190, 190.1 and 190.11 to 190.15

### **Additional temporary tax on deposit-taking institutions**

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

If the corporation is a member of a related group, you have to allocate the enhanced capital deduction among the members. Use Schedule 41, *Agreement Among Related Deposit-Taking Institutions* (formerly Form T2045(B)), to allocate the enhanced capital deduction. File this agreement with the T2 return.

Calculate the additional tax on Schedule 38. The amount will be included in Part VI tax at line 720, page 6 of the T2 return.

Part I tax credit cannot reduce this additional tax.

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

### **Proposed legislation**

Bill C-28 proposes to extend Part VI tax on financial institutions (other than life insurance corporations) until October 31, 1999.

The surtax will be prorated for taxation years ending after October 1999.

**Reference**  
Subsection 190.1(1.2)

### **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% of the amount by which its taxable capital employed in Canada for the year exceeds its capital allowance for the year.

If the corporation is a member of a related group, you have to allocate the capital allowance among the members. Use Schedule 40, *Agreement Among Related Life Insurance Corporations* (formerly Form T2045(A)), to allocate the capital allowance. File this agreement with the T2 return.

This additional tax is effective until the end of 1998.

**Reference**  
Subsection 190.1(1.1)

**Line 724 – Part VI.1 tax payable**

Complete the following schedules if required:

- Schedule 43, *Calculation of Parts IV.1 and VI.1 Taxes* (formerly Form T761); and
- Schedule 45, *Agreement Respecting Liability for Part VI.1 Tax* (formerly Form T770).

Refer to the following headings for more details:

**Part 1 of Schedule 43 – Calculation of dividend allowance**

Calculate the corporation's dividend allowance on Part 1 of Schedule 43.

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. Part 1 provides an area for this allocation.

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

Complete Part 2 of Schedule 43 to calculate the corporation's Part VI.1 tax. 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% and/or 40% 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**.

**Schedule 45, Agreement Respecting Liability for Part VI.1 Tax**

Complete Schedule 45 to certify the transfer of the corporation's Part VI.1 tax liability and send it to us with Schedule 43.

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

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

A corporation can deduct Part VI.1 tax payable from its income. See item 80 for more information. Any Part VI.1 tax that is left over after the taxable income is reduced to zero is part of the corporation's non-capital loss for the year. See item 61 for details.

On line 724, page 6 of the T2 return, enter the amount of Part VI.1 tax payable you calculated on line 270, Part 2 of Schedule 43.

**References**  
Sections 191, and 191.1 to 191.4

**Line 728 – Part XIV tax payable**

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 20, *Part XIV – Branch Tax*, as we do not print this schedule.

On line 728, page 6 of the T2 return, enter the amount of Part XIV tax payable you calculated on Schedule 20.

**Proposed legislation**

Bill C-28 proposes that, for taxation years beginning after 1995, Part XIV tax will be payable by corporations that are non-resident in a taxation year.

**Note**

Corporations that are subject to Part XIV tax should file their T2 return with the International Tax Services Office. See item 4 in this guide for details.

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

**“Provincial and territorial tax” area**

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

All other provinces and territories legislate their corporate income tax provisions, 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 has a permanent establishment in any province or territory other than Quebec, Ontario, or Alberta, you have to calculate provincial and territorial income taxes and credits, as well as federal income taxes and credits, on the T2 return.

## 122

### Line 750 – Provincial or territorial jurisdiction

On line 750, page 6 of the T2 return, 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” on line 750. Corporations with a **multiple jurisdiction** have to file Schedule 5, *Tax Calculation Supplementary – Corporations* (formerly Schedule T2S-TC), with the T2 return.

#### Note

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

By completing line 750, you ensure that the 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.

#### Reference

Subsection 124(4)

## 123

### Line 760 – Net provincial and territorial tax payable

You have to complete Schedule 5 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 124 for details).

If the corporation has no taxable income, you only have to complete columns B and D in Part 1 of Schedule 5.

A **permanent establishment** in a province or territory is usually a fixed place of business of the corporation, which includes an office, branch, mine, oil well, farm, timberland, factory, workshop, or warehouse. If the corporation does not have a fixed place of business, the corporation’s permanent establishment is the principal place in which the corporation’s business is conducted.

If the corporation carries on 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**.

#### References

Regulations 400(2) and 414

IT-177, *Permanent Establishment of a Corporation in a Province and of a Foreign Enterprise in Canada*

## Part 1 of Schedule 5 – Allocation of taxable income

We assess provincial 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 1 of Schedule 5 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 businesses:

- 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.

On line 100, Part 1 of Schedule 5, enter the regulation number the corporation uses to attribute the taxable income.

### Dual rates of provincial and territorial income tax

All provinces and territories have two rates of income tax: the **lower rate**, and the **higher rate**. You will find the rates that apply to each province and territory in items 126 through 134.

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 1998 from its permanent establishment in Prince Edward Island.

The corporation's taxation year runs from June 1, 1997, to May 31, 1998.

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

The **lower rate** of tax for Prince Edward Island is 7.5%. The **higher rate** is 15% until June 30, 1997, and 16% after that.

Corporation X calculates its Prince Edward Island tax payable as follows:

Taxable income	\$90,000
<b>Subtract</b> amount taxed at lower rate:	
Least of lines 400, 405, 410, or 425 in the small business deduction calculation	<u>\$78,000</u>
Amount taxed at higher rate	<u>\$12,000</u>
Taxes payable at higher rate:	
$\$12,000 \times 15\% \times \frac{30}{365} =$	\$ 148
$\$12,000 \times 16\% \times \frac{335}{365} =$	<u>1,762</u>
Total taxes payable at higher rates:	\$ 1,910
Taxes payable at lower rate:	
$\$78,000 \times 7.5\% =$	<u>\$ 5,850</u>
Prince Edward Island tax payable	<u>\$ 7,760</u>

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

Prince Edward Island tax payable:	
$\$90,000 \times 15\% \times \frac{30}{365} =$	\$ 1,110
$\$90,000 \times 16\% \times \frac{335}{365} =$	<u>\$13,216</u>
Total tax payable:	<u>\$14,326</u>

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 September 1, 1997, to August 31, 1998.

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

The **lower rate** of tax for Manitoba is 9%, 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 5)	\$60,000
Taxable income allocated to British Columbia (from Schedule 5)	<u>\$30,000</u>
Total taxable income	<u>\$90,000</u>
Least of lines 400, 405, 410, or 425 in the small business deduction calculation	\$78,000
Income eligible for the small business deduction attributed to Manitoba:	
$\frac{\$60,000}{\$90,000} \times \$78,000 =$	\$52,000
Taxable income earned in Manitoba	\$60,000
<b>Subtract:</b> Income eligible for the small business deduction attributed to Manitoba	<u>\$52,000</u>
Amount taxed at higher rate	<u>\$ 8,000</u>
Taxes payable at higher rate:	
$\$8,000 \times 17\% =$	\$ 1,360
Taxes payable at lower rate:	
$\$52,000 \times 9\% =$	<u>\$ 4,680</u>
Manitoba tax payable	<u>\$ 6,040</u>

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

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

## 124

### Part 2 of Schedule 5 – Provincial and territorial tax credits and rebates

Complete Part 2 of Schedule 5 if the corporation has to pay a provincial or territorial tax or it claims provincial or territorial tax credits or rebates to reduce the provincial or territorial income tax it would otherwise have to pay. Part 2 of Schedule 5 has also to be completed to claim any provincial refundable tax credits.

On line 255, Part 2 of Schedule 5, enter the net amount of provincial and territorial tax payable or the net amount of refundable credits. When the result is positive, enter the net provincial tax payable on line 760, page 6 of the T2 return. When the result is negative, enter the refundable provincial tax credit on line 812, page 6 of the T2 return. Attach to the T2 return any forms you completed to claim provincial or territorial credits or rebates.

You will find information about provincial foreign tax credits for all provinces and territories in item 125. We have also provided details on all other provincial and territorial credits and rebates in items 126 to 134.



## 125

### 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:

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

and

$$\text{B. (i)} \times [(\text{ii}) - (\text{iii})]$$

where

$$\text{(i) = } \frac{\text{taxable income allocated to province or territory}}{\text{taxable income allocated to all provinces or territories}}$$

$$\text{(ii) = non-business foreign tax paid (not including tax paid on dividends from a share of a foreign affiliate) after deduction under subsection 20(12)}$$

$$\text{(iii) = federal foreign non-business income tax credit allowed}$$

\* 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.

On the appropriate lines of Part 2 of Schedule 5, enter the totals of provincial and territorial foreign tax credits.

## 126

### Newfoundland

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

The higher rate of income tax is 14%. This higher rate applies to taxable income earned in Newfoundland that does not qualify for the federal small business deduction.

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

Enter the amount of tax calculated on line 200 or 205 in Part 2 of Schedule 5.

### Newfoundland political contribution tax credit

You can claim contributions the corporation made to registered political parties, registered district associations, or registered non-affiliated candidates, as defined under the *Elections Act, 1991 of Newfoundland*, as follows:

- 75% of the first \$100 contributed;

plus

- 50% of the next \$450 contributed;

plus

- 33 1/3% of the amount contributed that is more than \$550, to a maximum credit of \$500.

You do not have to attach official receipts to the T2 return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 891, Part 2 of Schedule 5, enter the total amount of qualifying contributions, and on line 500 enter the amount of the credit the corporation is claiming.

### Schedule 300, Newfoundland Manufacturing and Processing Profits Tax Credit (formerly Form T1100)

Corporations that have earned taxable income and manufacturing and processing profits in Newfoundland are eligible for the Newfoundland manufacturing and processing profits tax credit. Schedule 300 is a worksheet to calculate the credit and is not required to be filed with the T2 return. Refer to the schedule for more details.

On line 503, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

### Schedule 301, Newfoundland Research and Development Tax Credit (formerly Form T1129)

Use Schedule 301 to calculate the Newfoundland research and development (R&D) tax credit.

A corporation can claim this credit if it has a permanent establishment in Newfoundland and made eligible expenditures for R&D carried out in Newfoundland after December 31, 1995. The amount of the credit is equal to 15% of eligible expenditures.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file completed Schedule 301 with the T2 return. Refer to the schedule for more details.

On line 520, Part 2 of Schedule 5, enter the amount of credit earned in the year.

### Newfoundland film tax credit

No more details were available at the time of printing.

On lines 821 and 521, Part 2 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

## 127

### 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% until June 30, 1997, and 16% after that date. Those rates apply to taxable income that does not qualify for the federal small business deduction.

If July 1, 1997, 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 123 for details.

On line 210, Part 2 of Schedule 5, enter the amount of tax calculated.

#### 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.

You do not have to attach official receipts to the T2 return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 892, Part 2 of Schedule 5, enter the total amount of qualifying contributions, and on line 525 enter the amount of the credit the corporation is claiming.

#### Schedule 320, Prince Edward Island Manufacturing and Processing Profits Tax Credit (formerly Form T1091)

Corporations that have earned taxable income and manufacturing and processing profits in Prince Edward Island are eligible for the Prince Edward Island manufacturing and processing profits tax credit. The credit is 7.5% of these profits until June 30, 1997, and 8.5% after that date. Schedule 320 is a worksheet to calculate the credit and is not required to be filed with the T2 return. Refer to the schedule for more details.

On line 529, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

#### Schedule 321, Prince Edward Island Corporate Investment Tax Credit (formerly Form T1092)

Use Schedule 321 to calculate 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 back an unused credit to the three previous taxation years from the taxation year that the corporation acquired the property. You cannot carry back the credit to any taxation year ending before 1993. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which the corporation acquired the property.

To claim the credit, file completed Schedule 321 with the T2 return. Refer to the schedule for more details.

On line 530, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

## 128

### 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.

On line 215 or 220, Part 2 of Schedule 5, enter the amount of tax calculated.

#### 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.

You do not have to attach official receipts to the T2 return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 893, Part 2 of Schedule 5, enter the total amount of qualifying contributions, and on line 550 enter the amount of the credit the corporation is claiming.

#### Schedule 341, Nova Scotia Corporate Tax Reduction for New Small Businesses (formerly Form T701)

Use Schedule 341 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. For the 1993 and subsequent taxation years, this tax reduction has been extended to a corporation incorporated outside the province if it pays at least 25% of its wages to employees who are resident in the province and its head office is located in the province.

If the qualifying corporation is eligible for a federal small business deduction for the year, you can claim this tax reduction to reduce Nova Scotia income tax that the corporation would otherwise have to pay.

Schedule 341 is a worksheet to calculate the credit and is not required to be filed with the T2 return. You do not have to attach the *Certificate of Eligibility* that the province issues. However, keep it in case we ask for it later.

On lines 834 and 556, Part 2 of Schedule 5, enter the certificate number and the amount of the reduction the corporation is claiming.

#### **Nova Scotia ISO 9000 certification tax credit**

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

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

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

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

You do not have to attach the certificate with the T2 return. However, keep it in case we ask for it later.

On lines 822, 823, and 557, Part 2 of Schedule 5, enter the amount of the credit available, the certificate number, and the amount of the credit the corporation is claiming.

#### **Nova Scotia ISO 14000 certification tax credit**

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

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

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

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

You do not have to attach the certificate to the T2 return. However, keep it in case we ask for it later.

On line 824, 825, and 558, Part 2 of Schedule 5, enter the amount of credit available, the certificate number, and the amount of the credit the corporation is claiming.

#### **Nova Scotia prospectus tax credit**

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

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

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

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

You do not have to attach the certificate with the T2 return. However, keep it in case we ask for it later.

On lines 826, 827, 828, and 559, Part 2 of Schedule 5, enter the credit at the end of the preceding taxation year, the credit available in the current taxation year, the certificate number and the amount of the credit the corporation is claiming.

#### **Schedule 340, Nova Scotia Research and Development Tax Credit (formerly Form T85)**

Use Schedule 340 to calculate the Nova Scotia research and development tax credit.

##### **Credits earned before 1994**

The corporation can carry forward any unclaimed credits earned in taxation years ending on or before December 31, 1993, to the seven years following the taxation year in which it made the expenditure. The credit can only be applied to reduce the provincial tax otherwise payable.

To claim the credit, file completed Schedule 340 with the T2 return. Refer to the schedule for more details.

On line 560, Part 2 of Schedule 5, enter the amount of credit the corporation is claiming.

##### **Credits earned after 1993**

A corporation can claim this credit if it has a permanent establishment in Nova Scotia and it made eligible expenditures for research and development carried out in Nova Scotia. The amount of the credit is equal to 15% of eligible expenditures incurred after 1993.

The credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

To claim the credit, file completed Schedule 340 with the T2 return. Refer to the schedule for more details.

On line 566, Part 2 of Schedule 5, enter the amount of credit earned in the year.

### **Schedule 344, Nova Scotia Manufacturing and Processing Investment Tax Credit (formerly Form T1168)**

Use Schedule 344 to calculate Nova Scotia manufacturing and processing investment tax credit. A corporation can earn this credit on qualified property it acquired after December 31, 1996, and before January 1, 2003.

The corporation has to use or lease the qualified property in Nova Scotia primarily for the purpose of manufacturing or processing of goods. The credit is equal to 30% of the qualified property.

You can carry back an unused credit to the three previous taxation years from the taxation year the corporation acquired the property. The credit cannot be carried back to a taxation year ending before January 1, 1997. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which the corporation acquired the property.

To claim the credit, file completed Schedule 344 with the T2 return. Refer to the schedule for more details.

On line 561, Part 2 of Schedule 5, enter the amount of credit the corporation is claiming.

#### **Nova Scotia film industry tax credit**

The Minister of Finance for the Province of Nova Scotia will issue a tax credit certificate to a corporation producing an eligible film in the province.

The amount of the credit is equal to the lesser of the following amounts:

- 30% of eligible salaries paid after 1994 and before 2000 to residents of Nova Scotia; or
- 15% of the total production costs of the eligible film.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to attach the certificate with the T2 return. However, keep it in case we ask for it later. Schedule 345, *Additional Certificate Numbers for the Nova Scotia Film Industry Tax Credit*, should be completed when more than one certificate is issued.

On lines 836 and 565, Part 2 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

## **129**

### **New Brunswick**

The **lower** rate of New Brunswick income tax is 7%. This 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.

On line 225, Part 2 of Schedule 5, enter the amount of tax calculated.

#### **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.

You do not have to attach official receipts to the T2 return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 894, Part 2 of Schedule 5, enter the total amount of qualifying contributions, and on line 575 enter the amount of the credit the corporation is claiming.

### **Schedule 360, New Brunswick Research and Development Tax Credit (formerly Form T1111)**

Use Schedule 360 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 research and development to be carried out in New Brunswick after February 25, 1994. The amount of the credit is equal to 10% of eligible expenditures. Apply the credit to reduce New Brunswick tax that the corporation would otherwise have to pay.

You can carry back an unused credit to the three previous taxation years from the taxation year that the corporation made the expenditure. The credit cannot be carried back to a taxation year ending before February 26, 1994. You can also carry forward the unclaimed credit to the seven taxation years that follow the taxation year in which the corporation made the expenditure.

To claim the credit, file completed Schedule 360 with the T2 return. Refer to the schedule for more details.

On line 577, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

#### **New Brunswick film tax credit**

The Minister of Finance for the Province of New Brunswick will issue a tax credit certificate to a corporation producing an eligible film in the province.

The amount of the credit is equal to:

- 40% of New Brunswick eligible labour costs for first time productions;
- 30% for subsequent productions; and
- 35% of incremental eligible labour costs over a previous year's labour costs.

The credit is subject to the following conditions:

- the tax credit applies with respect to eligible salaries incurred after June 12, 1996, and before December 31, 2001;

- an eligible corporation must, for each eligible project, pay at least 25% of its total salaries and wages to eligible employees;
- the tax credit applies only with respect to that portion of eligible salaries that does not exceed 50% of the total production costs of the eligible project less the amount of production costs funded by the province;
- the tax credit is limited to one million dollars per eligible project and two million dollars per eligible corporation, together with all corporations associated with that corporation, of all eligible projects commenced in any 12-month period.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to attach the certificate to the T2 return. However, keep it in case we ask for it later.

Schedule 365, *Additional Certificate Numbers for the New Brunswick Film Tax Credit*, should be completed when more than one certificate is issued.

On lines 850 and 595, Part 2 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

## 130 Manitoba

The lower rate of Manitoba income tax is 9%. This lower rate applies 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.

On line 230, Part 2 of Schedule 5, enter the amount of tax calculated.

### 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.

You do not have to attach official receipts to the T2 return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 895, Part 2 of Schedule 5, enter the total amount of qualifying contributions, and on line 600 enter the amount of the credit the corporation is claiming.

### Schedule 381, *Manitoba Manufacturing and Processing Tax Credit (formerly Form T1089)*

Use Schedule 381 to calculate 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, 2000, 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 lease.

You can carry back an unused credit to the three previous taxation years from the taxation year that the corporation acquired the property. The credit cannot be carried back to a 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 acquired the property.

To claim the credit, file completed Schedule 381 with the T2 return. Refer to the schedule for more details.

On line 605, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

### Schedule 380, *Manitoba Research and Development Tax Credit (formerly Form T1088)*

Use Schedule 380 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 research carried out in Manitoba after March 11, 1992. The amount of the credit is equal to 15% of eligible expenditures. Apply the credit to reduce Manitoba tax that the corporation would otherwise have to pay.

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

#### For taxation years that begin after 1995

Qualified expenditures must be identified by the claimant on Schedule 380 no later than 12 months after the claimant's income tax return is due for the taxation year in which the expenditures were incurred.

A corporation may renounce the research and development tax credit in whole or in part under subsection 7.3(7) of the *Manitoba Income Tax Act*, no later than 12 months after the income tax return is due for the taxation year in which the credit was earned.

To claim the credit, file completed Schedule 380 with the T2 return. Refer to the schedule for more details.

On line 606, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

### **Manitoba film and video production tax credit**

The Minister of Finance of Manitoba will issue a tax credit certificate to a corporation that produces an eligible film or video in the province.

The amount of the credit is equal to the lesser of the following amounts:

- 35% of eligible salaries paid after 1996 and before March 1, 2000, to residents of Manitoba; or
- 22.5% of the total production costs of the eligible film incurred after December 31, 1996 and before March 1, 2000.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

You do not have to attach the certificate to the T2 return. However, keep it in case we ask for it later. Schedule 382, *Additional Certificate Numbers for the Manitoba Film and Video Production Tax Credit*, should be completed when more than one certificate is issued.

On lines 856 and 620, Part 2 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

## **131**

### **Saskatchewan**

The **lower** rate of Saskatchewan income tax is 8%. This lower rate applies to:

- taxable income earned in Saskatchewan that qualifies for the federal small business deduction; and
- a credit union's income that qualifies for the additional deduction under subsection 137(3).

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

On line 235, Part 2 of Schedule 5, enter the amount of tax calculated.

### **Schedule 401, Saskatchewan Manufacturing and Processing Tax Credit (formerly Form T1101)**

Use Schedule 401 to calculate 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 lease.

You can carry forward the unclaimed credit to the ten taxation years that follow the taxation year in which the corporation made the purchase.

To claim the credit, file completed Schedule 401 with the T2 return. Refer to the schedule for more details.

On line 629, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

### **Schedule 402, Saskatchewan Manufacturing and Processing Investment Tax Credit (formerly Form T1128)**

Use Schedule 402 to calculate the Saskatchewan manufacturing and processing investment tax credit.

A corporation can earn this credit on qualified property it acquired after February 16, 1995, to reduce Saskatchewan tax payable.

The corporation has to use the qualified property in Saskatchewan primarily for manufacturing or processing goods for lease or sale.

The corporation is eligible for a credit of 9% on qualified properties acquired before March 21, 1997, and a credit of 7% on qualified properties acquired after March 20, 1997.

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

To claim the credit, file completed Schedule 402 with the T2 return. Refer to the schedule for more details.

On line 630, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

### **Schedule 403, Saskatchewan Research and Development Tax Credit**

No more details were available at the time of printing.

Schedule 403 will only be available in 1999.

On line 631, Part 2 of Schedule 5, enter the amount of credit the corporation is claiming.

### **Schedule 400, Saskatchewan Royalty Tax Rebate Calculation (Corporations) (formerly Form T70)**

Use Schedule 400 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 completed Schedule 400 with the T2 return. Refer to the schedule for more details.

On line 632, Part 2 of Schedule 5, enter the royalty tax rebate the corporation is claiming.

### **Saskatchewan mining reclamation tax credit**

A corporation that is a beneficiary of a mining reclamation trust located in Saskatchewan can claim a tax credit equal to 17% of income that is subject to tax under Part XII.4 of the federal *Income Tax Act*.

The mining reclamation trust will issue a letter to the corporation that is a beneficiary.

The credit will reduce the corporation's provincial tax otherwise payable for its taxation year that ends within the trust's taxation year.

This credit is fully refundable, but must first be applied against taxes payable. There are no carry-back or carry-forward provision.

You do not have to file the letter with the T2 return. However, keep it in case we ask for it later.

On line 641, Part 2 of Schedule 5, enter the amount of the credit earned.

#### **Saskatchewan film employment tax credit**

No more details were available at the time of printing.

On lines 860 and 643, Part 2 of Schedule 5, enter the certificate number, if only one certificate, and the amount of the credit earned in the current year.

#### **Saskatchewan manufacturing and processing profits tax reduction**

A corporation can reduce the Saskatchewan income tax rate by as much as 7% on Canadian manufacturing and processing profits, as reported on the T2 return.

The Revenue Division of the Saskatchewan Department of Finance will administer the tax reduction as a corporation income tax rebate. Corporations will have to apply directly to Saskatchewan Finance for a rebate of the tax paid upon filing of their T2 return.

For more information, contact the Revenue Division of Saskatchewan Finance.

## **132**

### **British Columbia**

The lower rate of British Columbia income tax is 9%. 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 16.5%. This higher rate applies to taxable income earned in British Columbia that does not qualify for the federal small business deduction.

On line 240, Part 2 of Schedule 5, enter the amount of tax calculated.

#### **British Columbia logging tax credit**

Corporations that have paid a logging tax to British Columbia on income they earned from logging operations for the year can claim a British Columbia logging tax credit. The credit is equal to 1/3 of the logging tax the corporation paid.

On line 651, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.

#### **Schedule 420, British Columbia Royalty and Deemed Income Rebate Calculation and Application (Corporations) (formerly Form T81 (CORP))**

Use Schedule 420 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*.

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.

To claim the rebate, file completed Schedule 420 with the T2 return. Refer to the schedule for more details.

On line 652, Part 2 of Schedule 5, enter the rebate or addition you calculated on Schedule 420.

#### **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.

You do not have to attach official receipts to the T2 return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 896, Part 2 of Schedule 5, enter the total amount of qualifying contributions, and on line 653 enter the amount of the credit the corporation is claiming.

#### **British Columbia corporate tax reduction for new small business**

The Province of British Columbia will issue a certificate of eligibility, FIN 562, to new corporations incorporated after April 30, 1996, and before April 1, 2001, that carry on business in British Columbia during this period. The taxation year for which the deduction is claimed must be the first or second taxation year of the corporation.

The corporation must apply for the certificate within three years after the end of the applicable taxation year end. A separate certificate must be obtained for each taxation year. The province may rescind or refuse to issue the certificate of eligibility.

The corporation must be carrying on an active business and be allowed a small business deduction under the federal Act. Credit unions that are eligible for the small business deduction or its equivalent will also be eligible for this reduction.

At least 25% of wages or salaries paid by the corporation must be paid to employees resident in British Columbia. The tax reduction will be equal to the provincial tax payable at the lower rate before calculating interest and penalties.

A corporation is not eligible for this reduction if:

- it is the result of an amalgamation;
- the corporation is associated with another corporation;
- the corporation was the beneficiary of a trust;
- a newly incorporated corporation is carrying on mainly the same business as a proprietorship or partnership that operated for more than 90 days before incorporation. (If the period of business before incorporation is 90 days or less, and that period began after April 30, 1996, the corporation would be eligible.)

You do not have to attach the certificate of eligibility to the T2 return. However, keep it in case we ask for it later.

On lines 879 and 655, Part 2 of Schedule 5, enter the certificate number and the amount the corporation is claiming.

#### **British Columbia small business venture capital tax credit**

Corporations investing in shares of a registered venture capital corporation can claim a British Columbia venture capital tax credit to a maximum of \$60,000. The British Columbia government issues a certificate called Form FIN 565 to these corporations.

You have to apply this credit to reduce the British Columbia provincial tax payable for the year to zero. If there are still unclaimed credits, the corporation can carry them forward for four taxation years to reduce its British Columbia tax payable.

You do not have to attach the certificate to the T2 return. However, keep it in case we ask for it later.

On lines 880, 881, and 882, Part 2 of Schedule 5, enter the credit at the end of the preceding taxation year, the credit available in the current year, as reported on Form FIN 565, and the certificate number. On line 656 enter the credit the corporation is claiming.

#### **British Columbia mining reclamation tax credit**

A corporation that is a beneficiary of a mining reclamation trust located in British Columbia is eligible for a tax credit equal to the Part XII.4 tax the trust paid on that income.

The credit will reduce the corporation's provincial tax otherwise payable for the taxation year that ends within the trust's taxation year.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 670, Part 2 of Schedule 5, enter the amount of the credit earned.

#### **British Columbia film and television tax credit**

No more details were available at the time of printing.

On line 671, Part 2 of Schedule 5, enter the amount of credit the corporation is claiming.

#### **British Columbia production services tax credit**

No more details were available at the time of printing.

On line 672, Part 2 of Schedule 5, enter the amount of credit the corporation is claiming.

#### **British Columbia mining exploration tax credit**

No more details were available at the time of printing.

On line 673, Part 2 of Schedule 5, enter the amount of credit the corporation is claiming.

### **133**

#### **Yukon**

The **lower** rate of Yukon income tax is 6%. This lower rate applies to taxable income earned in the Yukon that qualifies for the federal small business deduction.

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

On line 245, Part 2 of Schedule 5, enter the amount of tax calculated.

#### **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.

You do not have to attach official receipts to the T2 return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

On line 897, Part 2 of Schedule 5, enter the total amount of qualifying contributions, and on line 675 enter the amount of the credit the corporation is claiming.

#### **Schedule 440, Yukon Manufacturing and Processing Profits Tax Credit (formerly Form T572)**

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.

Schedule 440 is a worksheet to calculate the credit, and is not required to be filed with the T2 return. Refer to the schedule for more details.

On line 677, Part 2 of Schedule 5, enter the amount of the credit the corporation is claiming.



### **Yukon mining reclamation tax credit**

A corporation that is a beneficiary of a mining reclamation trust located in the Yukon Territory can claim a tax credit equal to 15% of income that is subject to tax under Part XII.4 of the federal *Income Tax Act*.

The credit will reduce the corporation's provincial tax otherwise payable for its taxation year that ends within the trust's taxation year.

This credit is fully refundable, but must first be applied against total taxes payable. There are no carry-back or carry-forward provisions.

On line 695, Part 2 of Schedule 5, enter the amount of the credit earned.

## **134**

### **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 14%. This rate applies to taxable income that does **not** qualify for the small business deduction.

On line 250, Part 2 of Schedule 5, enter the amount of tax calculated.

### **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.

You do not have to attach official receipts to the T2 return. However, keep them in case we ask for them later. We can only accept photocopies if the issuer certifies them as true copies.

#### **Note**

Contributions to a political party do **not** qualify for a credit.

On line 898, Part 2 of Schedule 5, enter the total amount of qualifying contributions, and on line 700 enter the amount of the credit the corporation is claiming.

### **Northwest Territories investment tax credit**

No more details were available at the time of printing.

On line 705, Part 2 of Schedule 5, enter the amount of credit the corporation is claiming.

## **135**

### **Line 760 – Net provincial and territorial tax payable**

On line 760, page 6 of the T2 return, enter the net amount of provincial or territorial tax (positive amount) calculated on line 255, Part 2 of Schedule 5. If the amount on line 255 is negative, enter it on line 812 of the T2 return.

## **136**

### **Line 765 – Provincial tax on large corporations**

A provincial tax is levied on taxable capital of certain large corporations that have a permanent establishment in Nova Scotia or New Brunswick. This tax applies for taxation years ending after March 31, 1997, for New Brunswick, and for taxation years ending after March 31, 1997, and beginning before April 1, 2002, for Nova Scotia. The tax is prorated based on the number of days in the year, when the taxation year straddles one of those dates.

This tax does not apply to corporations mentioned in subsection 181.1(3) of the federal *Income Tax Act*. Also, it does not apply to financial institutions in New Brunswick and to banks or trusts and loan companies in Nova Scotia.

Instalment payment requirements are the same as for Part I tax. For details, refer to item 5.

The provincial capital tax cannot be reduced by any tax credits.

#### **Note**

A penalty applies to large corporations that have to pay this tax and do not file the required return on time. See item 6 for more details.

### **Nova Scotia tax on large corporations**

A capital deduction of \$5,000,000 is available to a corporation that is not a member of a related group and has taxable capital of less than \$10,000,000. Where the corporation is a member of a related group, a capital deduction of \$5,000,000, to be allocated among members of the related group, is available provided the combined taxable capital of all members of the related group, is less than \$10,000,000.

Use Schedule 343, *Nova Scotia Tax on Large Corporations – Agreement Among Related Corporations* (formerly Form T1167B), to allocate the capital deduction. File this agreement with the T2 return.

The provincial capital tax on Nova Scotia large corporations is 0.5% of taxable capital of a corporation if the Nova Scotia taxable capital of all related corporations is less than \$10,000,000. If it is \$10,000,000 or more, then all corporations in the group will be subject to a 0.25% rate.

Corporation that are liable to pay the Nova Scotia tax on large corporations have to file Schedule 342, *Nova Scotia Tax on Large Corporations* (formerly Form T1167A), with Schedule 33, 34, or 35.

On line 765, page 6 of the T2 return, enter the provincial tax on large corporations which the corporation has to pay. You can deduct the provincial tax on large corporations payable when calculating federal income for tax purposes.

### **New Brunswick tax on large corporations**

A capital deduction of \$5,000,000 is available to corporations on taxable capital. If the corporation is a member of a related group, the capital deduction has to be allocated between the members.

Use Schedule 362, *New Brunswick Tax on Large Corporations – Agreement Among Related Corporations* (formerly Form T1166B), to allocate the capital deduction. File this agreement with the T2 return.

New Brunswick tax on large corporations is equal to 0.3% of taxable capital allocated to the Province of New Brunswick.

Corporations that are liable to pay the New Brunswick capital tax on large corporations have to file Schedule 361, *New Brunswick Tax on Large Corporation* (formerly Form T1166A), and attach it to Schedule 33, *Part 1.3 Tax on Large Corporations*.

On line 765, page 6 of the T2 return, enter the provincial tax on large corporations payable. You can deduct the provincial tax on large corporations payable when calculating federal income for tax purposes.

## **“Other credits” area**

### **137**

#### **Line 780 – Investment tax credit refund**

On line 780, page 6 of the T2 return, enter the amount of the corporation’s investment tax credit refund. See item 110 for details.

### **138**

#### **Line 784 – Dividend refund**

On line 784, page 6 of the T2 return, enter the amount of the corporation’s dividend refund, which you calculated in the “Dividend refund” box, page 4 of the T2 return. See item 99 for details.

### **139**

#### **Line 788 – Federal capital gains refund**

**Investment corporations** (see section 130) and **mutual fund corporations** (see section 131) have to provide with their T2 returns, Schedule 18, *Federal and Provincial or Territorial Capital Gains Refund* (formerly Schedule T2S(18)), with the following information:

- details about the refundable capital gains tax on hand;
- details of the capital gains redemption for the year; and
- a calculation of the federal capital gains refund for the year.

The percentage you use to determine the refundable capital gains tax on hand is 28%.

The federal capital gains refund for the year is the lesser of:

- 21% of the total of:
  - the capital gains dividends paid in the period commencing 60 days after the commencement of the year and ending 60 days after the end of the year, and
  - the capital gains redemption for the year;
- the refundable capital gains tax on hand at the end of the year.

Complete the appropriate lines on Schedule 18 and enter on line 788, page 6 of the T2 return, the federal capital gains refund. Refer to item 145 later in this chapter for provincial or territorial 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.

### **140**

#### **Line 792 – Federal qualifying environmental trust tax credit refund**

On line 792, page 6 of the T2 return, enter the amount of federal qualifying environmental trust tax credit refund that was not used in the Part I tax calculation. See item 109 for more information.

### **141**

#### **Line 796 – Canadian film or video production tax credit refund**

A fully refundable tax credit will be provided to qualified corporations that produce and own an eligible film or video tape. The tax credit is equal to 25% of its qualified labour expenditure for the year in respect of the production.

The Department of Canadian Heritage will certify what constitutes an eligible film, qualified salaries and wages, and production costs.

To claim the credit, file Form T1131, *Claiming a Canadian Film or Video Production Tax Credit*, with the T2 return and enter the amount of the credit earned in the current year on line 796, page 6 of the T2 return.

#### **Reference**

Subsection 125.4(3)

### **142**

#### **Line 797 – Film or video production services tax credit refund**

##### **Proposed legislation**

It is proposed that for taxation years ending after October 1997, an eligible production corporation that produces an accredited production is considered to have paid an amount on account of its tax payable under Part I for the year equal to 11% of its qualified Canadian labour expenditures for the year in respect of the production.

The corporation has to file with its T2 return, an accredited film or video production certificate and Form T1177, *Claiming a Film or Video Production Services Tax Credit*.

The principal filming or taping of the production must have begun before the end of the year.

This credit cannot be claimed for a Canadian film or video production for which a Canadian film or video production tax credit is claimed (item 141).

Enter the amount of the credit on line 797, page 5 of the T2 return.

### 143

#### Lines 800 and 801 – Tax withheld at source

This is the amount shown as “income tax deducted” on any NR4, T4A, or T4A-NR information slips the corporation may have received. You do not have to attach these information slips to the T2 return. However, keep them in case we ask for them later.

On lines 800 and 801, page 6 of the T2 return, enter the amount of the refund the corporation is claiming and the total payments on which tax has been withheld.

#### References

IC 77-16, *Non-Resident Income Tax*

IC 75-6, *Required Withholding From Amounts Paid to Non-Resident Persons Performing Services in Canada*

### 144

#### Line 804 – Allowable refund for non-resident-owned investment corporations

A non-resident-owned investment corporation that is paying taxable dividends to its shareholders has to show how it calculated its claim for an allowable refund. Calculate a separate allowable refund for each taxable dividend the corporation paid during the year.

Identify this calculation as Schedule 26 in the top right-hand corner of the page. We do not print this schedule. Be sure to give the corporation’s non-resident remitter number on the schedule.

On line 804, page 6 of the T2 return, enter the amount of the total allowable refund.

#### Reference

Section 133

### 145

#### Line 808 – Provincial and territorial capital gains refund

**Investment corporations** (see section 130) and **mutual fund corporations** (see section 131) have to provide Schedule 18, *Federal and Provincial or Territorial Capital Gains Refund* (formerly Schedule T2S(18)), with the T2 return, complete with information mentioned at item 139 above.

These corporations have to calculate the provincial and territorial capital gains refund, under provincial or territorial income tax acts.

Complete page 2 of Schedule 18, and on line 808, page 6 of the T2 return, enter the provincial and territorial capital gains refund.

#### Reference

Sections 130 and 131

### 146

#### Line 812 – Provincial and territorial refundable tax credits

On line 812, page 6 of the T2 return, enter the amount of provincial and territorial refundable tax credits calculated on line 255, Part 2 of Schedule 5 (negative amount). For more information, see items 126 to 134.

### 147

#### Lines 815 and 816 – Royalties deductible and tax remitted under Syncrude Remission Order

The Syncrude Remission Order allows a deduction in computing income of amounts paid as royalties. However, this deduction is only allowable for federal income tax purposes. Enter the eligible amount at line 815.

Calculate the federal tax payable before the Syncrude Remission Order deduction (amount enter at line 815).

Calculate the federal tax payable after the Syncrude Remission Order deduction. Enter the difference at line 816.

### 148

#### Line 840 – Tax instalments paid

We publish a guide called T7B-Corp, *Corporation Instalment Guide*, that 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, *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 Business Number on the form. Also, be sure to enter the taxation year end and the payment amount in the correct boxes.

Remember to review every statement of account (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 tax centre immediately.

On line 840, page 6 of the T2 return, 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.

#### Note

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. Refer to the *Corporation Instalment Guide* for more details.

#### References

Sections 157 and 163.1

## “Payment or refund” area

149

### Line 894 – Refund code

If the corporation is entitled to a refund, enter one of the following codes at line 894:

- enter 1, if you want us to refund the overpayment;
- enter 2, if you want us to transfer the overpayment to next year’s instalment account; or
- enter 3, if you want us to apply the overpayment to another liability.

#### Note

Keep in mind that we will first apply the overpayment to **any outstanding tax the corporation owes**. Then, we will direct any amount left over according to the code you enter.

If you enter 1 or do not enter a code, we will send you a cheque for the amount of the overpayment.

If you enter 2, we will transfer the overpayment to the next year’s instalment account, as well as any refund interest that has accumulated from the assessment date.

If you enter 3, we will apply the corporation’s overpayment to other tax liabilities (for example, an expected debit from a reassessment), or to a different account. Attach a letter to the T2 return providing instructions.

150

### Line 896

Tick the appropriate box. Refer to item 5 for details.

151

### Line 898 – Enclosed payment

On line 898, 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 840.

Make the cheque or money order payable to the Receiver General, and attach it to the T2 return.

152

### Balance unpaid or overpayment

Your overpayment or balance unpaid is the difference you get after subtracting all the credits on lines 780 to 840 from the total tax payable on line 770.

If your total tax payable (line 770) is less than your total credits (line 890), enter the difference on the **overpayment** line.

If your total payable (line 770) is more than your total credits (line 890), enter the difference on the **balance unpaid** line.

## “Direct deposit information” box

153

### Lines 910 to 918 – Direct Deposit (D.D.) Request

Direct deposit has replaced cheques as the federal government’s standard method of issuing payments. It has a number of advantages over the traditional method of payment. It offers a safe, convenient, dependable, and time-saving way of receiving payments, and saves the Government money through reduced fees and postage.

You can have the corporation’s refund deposited directly into the corporation’s account at a financial institution.

To **start** direct deposit, or to **change** information you already provided to us, complete the Direct Deposit Request at the bottom of page 6 of the T2 return. You don’t have to complete this area if you already have direct deposit service and the information you provided before hasn’t changed.

Your direct deposit request will stay in effect until you change the information or cancel the service. However, if your financial institution advises us that you have a new account, we may deposit your payments into the new account. If we cannot deposit a payment into a designated account, we will mail a cheque to you at the address we have on file.

You can also use Form T2-DD, *Direct Deposit Request Form for Corporations*.

## “Certification” box

154

### Lines 950 to 959

**Lines 950 to 956** – Complete those lines by providing the required information in the appropriate spaces. Be sure that the person who signs and dates the return is an authorized officer of the corporation.

**Line 957**– Tick the appropriate box.

**Lines 958 and 959** – If you answer *no* to line 957, please provide the full name and surname along with the telephone number of a contact person. This contact person will be responsible for answering queries related to this income tax return.

## “Language of correspondence” box

155

### Line 990

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

# Appendices

## List of federal and provincial corporate schedules

Revenue Canada prints the following schedules, which are available at your tax services office or tax centre.

Old form Number	Title	New schedule number
T2	<i>T2 Corporation Income Tax Return</i>	T2
T2 Short	<i>T2 Short for Eligible Corporations</i>	T2 Short
T2S(1)	<i>Net Income (Loss) for Income Tax Purposes</i>	T2 SCH 1
T2S(2)	<i>Charitable Donations and Gifts</i>	T2 SCH 2
T2S(3)	<i>Dividends Received, Taxable Dividends Paid, and Part IV Tax Calculation</i>	T2 SCH 3
T2S(4) & T2A	<i>Corporation Loss Continuity and Application</i>	T2 SCH 4
T2S-TC	<i>Tax Calculation Supplementary - Corporations</i>	T2 SCH 5
T2S(6)	<i>Summary of Dispositions of Capital Property</i>	T2 SCH 6
T2S(7)	<i>Calculation of Aggregate Investment Income and Active Business Income</i>	T2 SCH 7
T2S(8)	<i>Capital Cost Allowance (CCA)</i>	T2 SCH 8
T2S(9)	<i>Related and Associated Corporations</i>	T2 SCH 9
T2S(8)(A)	<i>Cumulative Eligible Capital Deduction</i>	T2 SCH 10
T2S(11)	<i>Transactions With Shareholders, Officers, or Employees</i>	T2 SCH 11
T2S(12)	<i>Resource-Related Deductions</i>	T2 SCH 12
T2S(13)	<i>Continuity of Reserves</i>	T2 SCH 13
T2S(14)	<i>Miscellaneous Payments to Residents</i>	T2 SCH 14
T2S(15)	<i>Deferred Income Plans</i>	T2 SCH 15
T2S(16)	<i>Patronage Dividend Deduction</i>	T2 SCH 16
T2S(17)	<i>Credit Union Deductions</i>	T2 SCH 17
T2S(18)	<i>Federal and Provincial or Territorial Capital Gains Refund</i>	T2 SCH 18
T2S(19)	<i>Non-resident Shareholder Information</i>	T2 SCH 19
T2S(21)	<i>Federal Foreign Income Tax Credits and Federal Logging Tax Credit</i>	T2 SCH 21
T2S(22)	<i>Non-Resident Discretionary Trust</i>	T2 SCH 22
T2013	<i>Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Business Limit (see Schedule 49 for Allocation of the Expenditure Limit)</i>	T2 SCH 23
T2S(24)	<i>First Time Filer After Incorporation, Amalgamation, or Winding-up of a Subsidiary Into a Parent</i>	T2 SCH 24
T2S(25)	<i>Investment in Foreign Affiliates</i>	T2 SCH 25
T2S(27)	<i>Calculation of Canadian Manufacturing and Processing Profits Deduction</i>	T2 SCH 27
T2144	<i>Election not to be an Associated Corporation</i>	T2 SCH 28
T2S(29)	<i>Payments to Non-Residents</i>	T2 SCH 29
T2038(CORP)	<i>Investment Tax Credit - Corporations</i>	T2 SCH 31
T2147	<i>Part I.3 Tax on Large Corporations</i>	T2 SCH 33
T2148	<i>Part I.3 Tax on Financial Institutions</i>	T2 SCH 34
T2149	<i>Part I.3 Tax on Large Insurance Corporations</i>	T2 SCH 35
T2150	<i>Agreement Among Related Corporations - Part I.3 Tax</i>	T2 SCH 36
T962	<i>Calculation of Unused Part I.3 Tax Credit and Unused Surtax Credit</i>	T2 SCH 37
T2044	<i>Part VI Tax on Capital of Financial Institutions</i>	T2 SCH 38
T2045	<i>Agreement Among Related Financial Institutions - Part VI Tax</i>	T2 SCH 39
T2045A	<i>Agreement Among Related Life Insurance Corporations</i>	T2 SCH 40
T2045B	<i>Agreement Among Related Deposit-Taking Institutions</i>	T2 SCH 41
T921	<i>Calculation of Unused Part VI Tax Credit and Unused Part I Tax Credit</i>	T2 SCH 42
T761	<i>Calculation of Parts IV.1 and VI.1 Taxes</i>	T2 SCH 43
T2S(11A)	<i>Non-Arm's Length Transactions</i>	T2 SCH 44
T770	<i>Agreement Respecting Liability for Part VI.1 Tax</i>	T2 SCH 45
T1123	<i>Part II - Tobacco Manufacturers' Surtax</i>	T2 SCH 46
T2013	<i>Agreement Among Associated Canadian-Controlled Private Corporations to Allocate the Expenditure Limit (see Schedule 23 for Allocation of the Business Limit)</i>	T2 SCH 49
T2S(50)	<i>Shareholder Information</i>	T2 SCH 50
	<i>Industry Canada - Annual Return - Canada Business Corporations Act</i>	T2 SCH 80
	<i>Notice of Change of Directors, Canada Business Corporations Act</i>	T2 SCH 81

<b>Old form Number</b>	<b>Title</b>	<b>New schedule number</b>
T1100	<i>Newfoundland Manufacturing and Processing Profits Tax Credit</i>	<b>T2 SCH 300</b>
T1129	<i>Newfoundland Research and Development Tax Credit</i>	<b>T2 SCH 301</b>
T1091	<i>Prince Edward Island Manufacturing and Processing Profits Tax Credit</i>	<b>T2 SCH 320</b>
T1092	<i>Prince Edward Island Corporate Investment Tax Credit</i>	<b>T2 SCH 321</b>
T85	<i>Nova Scotia Research and Development Tax Credit</i>	<b>T2 SCH 340</b>
T701	<i>Nova Scotia Corporate Tax Reduction for New Small Businesses</i>	<b>T2 SCH 341</b>
T1167A	<i>Nova Scotia Tax on Large Corporations</i>	<b>T2 SCH 342</b>
T1167B	<i>Nova Scotia Tax on Large Corporations – Agreement among Related Corporations</i>	<b>T2 SCH 343</b>
T1168	<i>Nova Scotia Manufacturing and Processing Investment Tax Credit</i>	<b>T2 SCH 344</b>
	<i>Additional Certificate Numbers for the Nova Scotia Film Industry Tax Credit</i>	<b>T2 SCH 345</b>
T1111	<i>New Brunswick Research and Development Tax Credit</i>	<b>T2 SCH 360</b>
T1166A	<i>New Brunswick Tax on Large Corporations</i>	<b>T2 SCH 361</b>
T1166B	<i>New Brunswick Tax on Large Corporations – Agreement Among Related Corporations</i>	<b>T2 SCH 362</b>
	<i>Additional Certificate Numbers for the New Brunswick Film Tax Credit</i>	<b>T2 SCH 365</b>
T1088	<i>Manitoba Research and Development Tax Credit</i>	<b>T2 SCH 380</b>
T1089	<i>Manitoba Manufacturing and Processing Tax Credit</i>	<b>T2 SCH 381</b>
	<i>Additional Certificate Numbers for the Manitoba Film and Video Production Tax Credit</i>	<b>T2 SCH 382</b>
T70	<i>Saskatchewan Royalty Tax Rebate Calculation (Corporations)</i>	<b>T2 SCH 400</b>
T1101	<i>Saskatchewan Manufacturing and Processing Tax Credit</i>	<b>T2 SCH 401</b>
T1128	<i>Saskatchewan Manufacturing and Processing Investment Tax Credit</i>	<b>T2 SCH 402</b>
	<i>Saskatchewan Research and Development Tax Credit</i>	<b>T2 SCH 403</b>
T81 (CORP)	<i>British Columbia Royalty and Deemed Income Rebate Calculation and Application (Corporations)</i>	<b>T2 SCH 420</b>
T572	<i>Yukon Manufacturing and Processing Profits Tax Credit</i>	<b>T2 SCH 440</b>

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