2001

Corporation

Instalment Guide

Includes forms RC99 and RC100

Before You Start

Is this guide for you?

Generally, corporations have to pay their taxes in monthly instalments. An instalment payment is a partial payment of the total amount of tax payable for the year. The *Income Tax Act* requires corporations to make instalment payments to ensure that they are treated the same as taxpayers who have tax deducted at source from their income.

Corporations do not have to make instalment payments in any of the following cases:

- the total of their taxes payable under Parts I, I.3, VI, and VI.1 of the *Income Tax Act* for either 2000 or 2001 is $1,000 or less;
- they are in their first year of operation;
- the taxable income of credit unions, certain co-operatives, and other corporations that pay patronage dividends to customers was $10,000 or less for either 2000 or 2001, and they did not have to pay tax for those years under Parts I.3, VI, and VI.1 of the Act; or
- for taxation years commencing after October 2, 2000, they do not have to make instalment payments on their federal taxes if the total of their taxes payable under Parts I, I.3, VI, and VI.1 for either 2000 or 2001 is $1,000 or less. Similarly, they do not have to make instalment payments on their provincial or territorial taxes, if the total of their provincial or territorial taxes for 2000 or 2001 is $1,000 or less.

Notes
The *Income Tax Act* authorizes us to charge instalment interest and a penalty if we do not receive the required payments on time. For more information, see the interest and penalty sections of this guide. We will charge arrears interest, at the prescribed rate, on any outstanding balance of tax, interest, or penalty until the date the payment is made in full.

As special rules may apply, please be sure to read entire guide to determine if you must make instalments.

How to authorize the release of information to third parties

If you would like us to release any of your accounting information 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*.

Do you need more information?

If you would like more information, refer to the *Income Tax Act* and Regulations. We have identified in parentheses the section, subsection, paragraph, or regulation to consult. If you have a question about your account, you can contact us in writing, by telephone, or in person.

For information about the filing due date of your *T2 Corporation Income Tax Return* and penalties, see the *T2 Corporation Income Tax Guide*. You can get a copy of the guide from your tax services office or tax centre. It is also available on our Web site at: **www.ccra-adrc.gc.ca/t2return/**

This guide uses plain language to explain the most common tax situations. If you need help after reading this guide, please contact us.

Do you have an income tax problem?

We are always looking at ways to resolve your problems, and to make it easier for you to file your corporation return, and deduct and send in your instalments.

If you have a problem, you can call our national 1-800 network at 1-800-959-5525 for service in English and 1-800-959-7775 for service in French.

If your problem is not resolved to your satisfaction, call the Problem Resolution Program co-ordinator listed in the Government of Canada section of your local telephone book.

La version française de cette publication est intitulée *Guide des acomptes provisionnels pour les sociétés.*

What's new

Processing redesign

We have redesigned our processing system for T2 returns to increase efficiency, enhance service, and prepare for future improvements. For more information on the processing system redesign, see the *T2 Corporation Income Tax Guide*.

Statement of account changes

The format and frequency of issuing statements of account have changed. We will issue statements of account on a monthly basis rather than on a transactional one. Our redesigned statement of account will reflect interim and arrears balances carried forward from the previous statement, plus the details of any account activity that occurs during the statement period. Arrears and interim amounts will be shown separately on your statement, and all information will be displayed by reporting period. Arrears information will reflect all amounts assessed and charged to your account. Interim information will tell you the balance of instalment payments remitted for each reporting period for which we have not processed a return.

Remittance changes

There will also be a change to the remittance vouchers you receive. There will be two remittance voucher forms: Form RC97, *Business Remittance Voucher – Amounts Owing*, and Form RC98, *Business Remittance Voucher – Interim Payments*. You will automatically receive the appropriate type(s) based on your account status and needs. However, if you need more vouchers, please contact us as neither we nor financial institutions will accept photocopied remittance vouchers.

Form RC97 is only to be used to make payments on an existing debt or to make a prepayment for an anticipated reassessment.

Form RC98 is only to be used to make interim payments for reporting periods for which we have not processed a return. Interim payment remittance vouchers will indicate the remittance period ending, that is, your instalment payment due dates. An additional interim payment remittance voucher will be issued for your balance due date payment and will display your taxation year end as the remittance period ending.

> **Note**
> The meaning of the terms "instalment payment" and "interim payment" are inter-changeable; therefore, either may appear on communication items you receive.

Your Opinion Counts

We review this guide each year. If you have any comments or suggestions to help us improve our publications, we'd like to hear from you.

Please send your comments to:

Client Services Directorate
Canada Customs and Revenue Agency
Place Vanier, Tower A
Ottawa ON K1A 0L5

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Section A – Part I, I.3, VI, and VI.1 Tax Instalments

Most corporations are subject to tax under Part I of the *Income Tax Act*. Corporations have to pay their Part I income tax, and any of the following corporate taxes, in monthly instalments:

- Part I.3 – Tax on large corporations;
- Part VI – Tax on capital of financial institutions; and
- Part VI.1 – Tax on corporations paying dividends on taxable preferred shares.

How to calculate your instalments of corporate tax

There are three options you can use to calculate the amount of tax your corporation has to pay in instalments for the current taxation year (paragraph 157(1)(a)). You can calculate:

- the estimated tax for the current year (Option 1);
- the tax for the preceding taxation year (Option 2); or
- a combination of the tax for the year before the preceding year, and for the preceding year (Option 3).

For all three options, you base the calculation on the total tax you have to pay under Parts I, I.3, VI, and VI.1 of the Act, and the tax you have to pay to your province or territory.

Unlike other provinces and territories, Quebec, Ontario, and Alberta do not have corporate tax collection agreements with the federal government. Corporations that earned taxable incomes in these provinces have to pay their provincial taxes directly to these provinces.

> **Note**
> If a year used in calculating the tax is less than 12 months, see "Short taxation years" in this section.

Option 1 – One-twelfth of the estimated tax payable for the current year is due each month of the taxation year.

Option 2 – One-twelfth of the actual tax payable from the preceding year is due each month of the taxation year.

Option 3 – One-twelfth of the actual tax payable for the year before the preceding taxation year is due in each of the first two months of the taxation year. One-tenth of the difference between the total of the first two payments and the actual tax for the preceding year is due in each of the remaining 10 months of the taxation year.

> **Note**
> We may charge interest if you use Option 1, and your estimated tax was lower than the year's actual tax and the tax calculated using Option 2 or 3.

You can use the option that is most advantageous to you (subsection 161(4.1)). We will assess your return using the option that results in the least amount payable by instalments.

Section C includes two worksheets to help you calculate your estimated tax payable and tax credits, as well as your monthly instalment payments. Use the estimated credits for 2001 to calculate your instalment payments under Options 1, 2, or 3.

Instalment due dates

Instalment payments are due at the end of each month of the year (subsection 157(1)). It is our position that the end of each month means the end of each monthly period measured from the first day of the corporation's taxation year. If the taxation year end is not the last day of the month, the first instalment payment is due one month less a day from the first day of the corporation's taxation year and subsequent instalment payments are due on the same day of each of the following months.

Example 1

Start of taxation year:	January 1, 2001
End of taxation year:	December 31, 2001

Each of the 12 instalment payments is due by the last day of each month during the taxation year. The first payment is due by January 31, 2001. The last payment is due by December 31, 2001.

Example 2

First day of taxation year:	October 10, 2000
End of taxation year:	October 9, 2001

The first instalment payment is due by November 9, 2000, and the last instalment payment is due by October 9, 2001.

Balance due dates

The balance due date is the date a corporation has to pay the remainder of the tax it owes for the taxation year (paragraph 157(1)(b)).

For Part I, I.3, VI, and VI.1 taxes payable, the balance due date is two months after the end of the taxation year. However, the time limit is three months if **all** of the three following conditions apply:

- Your corporation deducted the federal small business deduction (subsection 125(1)) in the taxation year, or in the immediately preceding taxation year.
- Your corporation is a Canadian-controlled private corporation (CCPC) throughout the taxation year.
- Your corporation's taxable income for the preceding taxation year was not more than its business limit for the preceding year.

A corporation may be associated with one or more corporations during the taxation year. If so, the total of the taxable income of the corporation for its preceding taxation year and the total of the taxable incomes of all the associated corporations for their taxation years that ended in the same calendar year as the calendar year in which the corporation's preceding taxation year ended, must not be more than the combined total of their business limits for those preceding years.

The business limit of any corporation or the combined total of the business limits of all associated corporations is usually $200,000. This amount would be less if the preceding year's business limit was prorated for a short taxation year. The total business limit could be more than $200,000 if the corporation is associated with other corporations in the current year, but not in the preceding year (section 125).

For taxation years ending after June 30, 1994, the $200,000 business limit has been eliminated for CCPCs with taxable capital employed in Canada (as calculated for purposes of the large corporations tax) of $15 million or more in the preceding taxation year. A CCPC with taxable capital employed in Canada of between $10 and $15 million in the preceding taxation year will reduce the $200,000 business limit on a straight-line basis. Similar restrictions apply to any CCPC that is a member of an associated group.

The taxable capital employed in Canada of a CCPC that is a member of an associated group includes the taxable capital employed in Canada of each member of the associated group. For more information, see the *T2 Corporation Income Tax Guide*.

Note
For purposes of determining balance due dates, the previous year taxable income of corporations and associated, subsidiary, and predecessor corporations means taxable income before applying loss carry backs.

Amalgamations

A special rule applies to determine the **balance due date** for a new corporation formed after an amalgamation has taken place. The new corporation's taxable income for the preceding year is the total of the predecessor corporations' taxable incomes for their taxation years that ended immediately before they amalgamated (paragraph 87(2)(oo.1)). The same rule applies for determining the business limit.

Wind-ups

To determine a parent corporation's **balance due date** in its first taxation year after it receives the assets of a subsidiary corporation that is winding-up, the taxable income for the preceding taxation year is the total of:

- the parent corporation's taxable income for that year; and
- the subsidiary corporation's taxable income for its taxation years ending in the calendar year that the parent corporation's preceding taxation year ended.

These rules also apply for determining the **business limit** (paragraph 88(1)(e.9)).

Special situations – When do you not have to pay instalments?

Tax payable of $1,000 or less

You do not have to make instalment payments for 2001 if your corporation's Part I, I.3, VI, and VI.1 taxes payable for either 2000 or 2001 total $1,000 or less (subsection 157(2.1)). For taxation years commencing after October 2, 2000, you do not have to make instalment payments on your corporation's federal taxes if the total of your taxes payable under Parts I, I.3, VI, and VI.1 for either 2000 or 2001 is $1,000 or less. Similarly, you do not have to make instalment payments on your corporation's provincial or territorial taxes, if the total of your provincial or territorial taxes for 2000 or 2001 is $1,000 or less. However, the corporation has to pay its taxes, if any, on its balance due date. To determine the balance due date, see "Balance due dates" on page 5.

New corporations

You do not have to make instalment payments for a new corporation until it has started its second year of operation. However, for its first year of operation, the corporation has to pay any tax it owes on its balance due date for that taxation year. To determine the balance due date, see "Balance due dates" on page 5.

Credit unions, certain co-operatives, and other corporations

Credit unions, certain co-operatives, and corporations that pay patronage dividends to customers do not have to make instalment payments for a taxation year if, for that year or the preceding year, their taxable incomes were $10,000 or less and no tax was payable under Parts I.3, VI, and VI.1 of the *Income Tax Act*.

In these cases, the full amount of tax owing is due at the end of the third month following the end of the taxation year (subsection 157(2)).

Special rules

Short taxation years

If your corporation's taxation year is less than 12 months, you have to pay one-twelfth or one-tenth, as applicable, of the corporation's tax each month in the taxation year. You do not have to make an instalment payment for a taxation year that is shorter than one month.

The tax you did not pay in instalments is due on the corporation's balance due date.

Example

Start of taxation year:	January 15, 2001
End of taxation year:	March 30, 2001

Tax owed by instalments under Option 2: $300,000.

Two instalments of $25,000 (1/12 of $300,000) each must be paid on February 14 and March 14.

If the actual tax for the year is $500,000, the remaining $450,000 is due by the corporation's balance due date.

For Options 2 and 3, when a preceding taxation year is less than 12 months, the tax payable for that year is adjusted to a 12-month equivalent. This is called the "adjusted base" (Regulation 5301(1)).

To calculate the adjusted base, divide 365 by the number of days in the taxation year. Multiply this figure by the actual tax payable for that year.

For Options 2 and 3, when a preceding taxation year is less than 183 days, the adjusted base is whichever of the following amounts is greater:

- the adjusted base for that taxation year; and
- the adjusted base for the next preceding taxation year of more than 182 days (Regulation 5301(3)).

Amalgamations

When a new corporation is formed by amalgamation, it is treated as a continuation of the predecessor corporations (section 87). Generally, the instalment base of the new corporation is the total of the previous corporations' instalment bases (Regulation 5301(4)). See Appendix 1 for an example of how to calculate the instalment base when there has been an amalgamation.

Wind-ups

When a subsidiary corporation is wound up into a Canadian parent corporation (subsection 88(1)), the parent corporation generally has to include, in addition to its own instalment bases, the instalment bases of its subsidiary corporation (Regulation 5301(6)). See Appendix 2 for an example of how to calculate the instalment base when there has been a wind-up.

Transfers or rollovers

A corporation that receives all or substantially all of the property of another corporation that it does not deal with at arm's length in a transaction to which subsection 85(1) or 85(2) applies generally has to include, in addition to its own instalment bases, the instalment bases of that corporation (Regulation 5301(8)). See Appendix 3 for an example of how to calculate the instalment base when there has been a transfer or rollover.

Change of control

If there is a change of control of a corporation under subsection 249(4), the corporation continues to exist as it was before, for instalment base purposes.

When there is a short taxation year, see the special rules for short taxation years on page 6.

Paying instalments

You can make instalment payments at your financial institution or you can mail them to us at the following address:

Ottawa Technology Centre
Canada Customs and Revenue Agency
875 Heron Road
Ottawa ON K1A 1B1
Canada

If you make a payment with a cheque that your financial institution does not honour, we may charge you an administrative fee.

After we process your first instalment payment for Part I, I.3, VI, or VI.1 taxes, you will receive a personalized Form RC98, *Business Remittance Voucher – Interim Payments*. This form will show the balance of your account. If you make payment at your financial institution, present the part of your statement of account that displays your remittance voucher to the teller with your payment. The teller will return the top portion to you as a receipt.

If you do not have a personalized remittance form, you cannot make your instalment payment where you bank. Instead, mail your payment to us using Form RC100, *Business Remittance Voucher – Interim Payments*, included in this guide. Enter your Business Number, corporation's name, address, the remittance period ending (if applicable), and the amount of your payment in the spaces provided.

You can pay by cheque or money order made payable to the Receiver General. You can also make your payment by electronic data interchange (EDI). If you are interested in using EDI to remit your corporate instalment payments, contact your financial institution. We will send you a monthly statement of account and remittance form(s) which will reflect any account activity that occurs during the statement period. Keep the receipt with your records for future use.

Review each statement of account you receive to ensure that we have applied your payments correctly. If we made an error in applying any of your payments, immediately contact your tax centre.

The instalment credits we show on your statement of account for each taxation year should agree with your records. If there is a difference between our records and the amount you report at line 840 of your corporation's return, we will assess the return using the instalment credits shown in our records.

We consider you to have made corporate tax payments on the day on which:

- they are delivered to a tax services office or tax centre; or
- they are deposited at any financial institution belonging to the Canadian Payments Association.

If you mail your payment, we consider you to have made the payment on the day we receive the payment, not on the day you mail it (subsection 248(7)).

Notes

You can use Form RC98, *Business Remittance Voucher – Interim Payments*, to make Part I, I.3, VI, and VI.1 instalment payments, and to make instalment payments under Part XII.1 or XII.3. You can also use Form RC100, *Business Remittance Voucher – Interim Payments*, included in this guide, to make instalment payments. Instalment payments under Part XII.1 and Part XII.3 are discussed in Section B.

You can use personalized Form RC97, *Business Remittance Voucher – Amounts Owing*, or Form RC99, *Business Remittance Voucher – Amounts Owing*, included in this guide to pay tax under Parts IV, IV.1, and XIV.

Transfer of instalments

Our transfer policy makes it easier for you to move excess instalment payments from one account where they are not immediately needed to another account where they are needed. You may want to do this to cover an outstanding balance or to cover an employer account.

The guidelines are as follows:

- Only an authorized officer of the corporation can request, in writing or by telephone, a transfer of instalments.
- The request has to specify how you want to apply the payments.
- You can transfer funds between taxation years in the same account, or to another account.
- You can transfer part of a payment or an amount made up of several payments.
- You can request more than one transfer during the year.
- You cannot transfer a payment after we have assessed the income tax return for the taxation year in question. Transferred payments will keep their original payment date for the purpose of calculating interest. Since a transferred payment keeps its original payment date (section 221.2), we consider the previous allocation not to have occurred.

Address your request for an instalment transfer to Corporation Services, at the appropriate tax centre.

> **Note**
> If you have questions about a **non-resident corporation** account, call the International Tax Services Office at one of the following telephone numbers:
>
> In the Ottawa area...526-6574
> Long distance from Canada and
> the United States..................................... 1-800-267-5177
> Long distance from outside Canada
> and the United States.............................(613) 526-6574*
>
> *We accept collect calls.

Instalment interest

We calculate instalment interest (subsection 157(1)), compounded daily, according to a corporation's actual instalment requirements for the year.

We will charge interest (subsection 161(2)), if:

- you made late or insufficient instalment payments; and
- the interest on the instalment payments is more than $25.

We use the offset method to calculate instalment interest. This means we allow credit interest when you prepay or overpay your instalments, which can reduce or eliminate the interest we charge on late or insufficient payments.

We do not refund excess credit instalment interest offset. This credit is used only to calculate instalment interest.

> **Note**
> "Overpayment" is defined in subsection 164(7). Refund interest is calculated according to subsection 164(3) up to the day the overpayment is refunded or applied.

The interest rate is determined (Regulation 4301) every three months. The interest rate on underpayments is based on the average rate of 90-day treasury bills sold during the first month of the preceding quarter (rounded to the next higher whole percentage point) plus four percentage points.

The interest rate on overpayments is 2% lower than on underpayments, except for the offset method of calculating instalment interest.

Example

Corporation A has a December 31 year end and has to make monthly instalment payments of $75,000 beginning in January 2001. The corporation only makes two instalment payments in the year. The corporation makes one payment of $120,000 on March 12, and a second payment of $150,000 on April 25. Therefore, when we assess Corporation A's return, we will charge $29,333.56 in instalment interest. We have used an interest rate of 9% in the following calculation.

Date 2000	Instalment payments due	Payments received	Balance	Number of days	Interest
January 31	$75,000		$75,000.00	28	$ 519.54
February 28	75,000		150,519.54	12	445.98
March 12		$120,000	30,965.52	19	145.39
March 31	75,000		106,110.91	25	656.05
April 25		150,000	(43,233.04)	5	(53.33)
April 30	75,000		31,713.63	31	243.31
May 31	75,000		106,956.94	30	794.02
June 30	75,000		182,750.96	31	1,402.10
July 31	75,000		259,153.06	31	1,988.27
August 31	75,000		336,141.33	30	2,495.44
September 30	75,000		413,636.77	31	3,173.49
October 31	75,000		491,810.26	30	3,651.09
November 30	75,000		570,461.35	31	4,376.68
December 31	75,000		649,838.03	59	9,495.53
Balance due date February 28, 2002	**Total instalment interest**				**$29,333.56**

Instalment penalty

We may charge an instalment penalty under section 163.1 of the *Income Tax Act* when the instalment interest is more than $1,000.

We calculate the penalty by subtracting from the instalment interest the greater of:

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

One-half of the difference is the amount of the penalty.

Please note that there is no additional penalty on arrears interest.

Example

In the previous example, we charged Corporation A instalment interest of $29,333.56. Therefore, we assess a penalty of $8,153.35 as follows:

Instalment interest $29,333.56

Minus the greater of:
$1,000 and 25% of the
instalment interest charged if Corporation A
had made no payment at all
$52,107.40 × 25% = ... 13,026.85

Subtotal 16,306.71

Instalment penalty (one-half of subtotal) .... $ 8,153.35

Arrears interest

We charge arrears interest (subsection 161(1)) according to the prescribed interest rate (Regulation 4301), compounded daily, on any unpaid balance from the due date to the date of payment.

Refund interest

We calculate refund interest (subsection 164(3)) according to the prescribed interest rates (Regulation 4301), compounded daily.

We pay refund interest on an overpayment (subsection 164(7)), and we calculate refund interest up to and including the day the overpayment is refunded or applied. We do not pay refund interest of less than $1.00.

When we refund or apply an overpayment, we pay refund interest from whichever of the following dates is later:

- the date of the overpayment;
- the 120th day after the end of the taxation year if the return for the year is filed on time; or
- the date the return was actually filed if the return for the year is filed late.

Carryback

You cannot use a carryback to reduce instalment interest (subsection 161(7)). We will not adjust instalment interest we previously charged if the amount of the current year credit (e.g., dividend refund, capital gains refund) is adjusted because of the carryback.

If a carryback that originates from a taxation year ending in 1985 or later is applied to a previous year's return, we will calculate arrears interest, refund interest, or both, for the carryback from whichever of the following date is later:

- the first day immediately following the taxation year in which the carryback originates;
- the date the tax return in which the carryback originates is filed;
- the date a prescribed form (e.g., a schedule 4) or an amended return is filed; or
- the date a request is made in writing to reassess a year to take into account a loss from another taxation year.

Transfer of overpayments

If a corporation requests a transfer of an overpayment of tax, we will transfer the overpayment plus any refund interest that applies with the effective interest date of the (re)assessment. We will calculate refund interest to the date of (re)assessment using the effective interest rate (subsection 164(3)).

A corporation may request to transfer an overpayment when it files its income tax return. This can be done by either entering "2" on line 894 of the T2 return or by attaching a letter to the front page of the return. When requesting a reassessment, it is necessary to indicate that any overpayment be transferred; otherwise, we will automatically refund the overpayment after the offset of any outstanding debits.

> **Note**
> If a "2" is entered on line 894, the overpayment will first be applied to any outstanding debits and the remaining part of the overpayment will be transferred to the next instalment year.

Refund of instalments

We will not refund instalment payments until we have assessed the T2 return for the year in question, at which time we will mail a refund of any overpayment with the *Notice of Assessment* (subsection 164(1)). We will only consider refunding an instalment payment when a corporation indicates that the payment was remitted to us but was intended for another government department or a third party. We do **not** pay refund interest on this type of refund.

Cancelling or waiving penalties and interest

We may cancel or waive late-filing penalties or interest charges in situations where a taxpayer fails to pay due to circumstances beyond his or her control. The types of situations in which we may cancel or waive a penalty or interest charge 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 making a payment when due; and
- the corporation receives 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 pay any amount owing as soon as possible. If you think there is a valid reason for cancelling penalty or interest charges, send us a letter explaining why it was impossible for you to make the payment on time. For more information on cancelling or waiving penalties and interest, see Information Circular 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties.*

Prepayment of reassessments

We have special procedures to allow corporations to prepay tax for anticipated reassessments. These payments are accepted as a service to corporations who want to reduce charges of arrears interest.

To remit prepayments you can use Form RC99, *Business Remittance Voucher – Amounts Owing*, a copy of which you will find at the end of this guide. It is important that you clearly indicate that the payments are **"prepayments."** Also, include your corporation's Business Number and taxation year end for which the prepayments are intended. These payments will be held for this purpose and will be applied when we process the reassessments.

Section B – Part XII.1 and XII.3 Tax Instalments

This section will help you determine the instalment payments your corporation has to make under the following parts of the *Income Tax Act*:

- Part XII.1 – Tax on carved-out income; and
- Part XII.3 – Tax on investment income of life insurers.

Arrears and refund interest apply to Part XII.1 and Part XII.3 of the Act.

Do not use Options 1, 2, or 3 in Section A to calculate Part XII.1 or XII.3 instalment payments.

Part XII.1 – Tax on carved-out income

Part XII.1 of the *Income Tax Act* generally applies to carved-out property acquired after July 19, 1985. Carved-out property includes Canadian mineral resources, petroleum, natural gas, and related hydrocarbons. The tax rate for carved-out income is 45% of the income from carved-out property. Section 209 of the Act describes carved-out income.

Reporting Part XII.1 tax

Report the Part XII.1 tax you owe on Form T2096, *Part XII.1 Tax Return – Tax on Carved-Out Income*. We should receive the return within six months from the end of the corporation's taxation year.

Instalment payments

You have to make instalment payments equal to one-twelfth of the tax payable under Part XII.1 of the Act each month in the taxation year. The remaining tax, if any, is due on or before the end of the second month after the end of the corporation's taxation year.

Interest

We use the deficiency method to calculate instalment interest on late or insufficient instalment payments of Part XII.1 tax. This means that we base the instalment interest on the amount by which your instalment payments were deficient. See Appendix 4 for an example of how instalment interest is calculated using the deficiency method.

Part XII.3 – Tax on investment income of life insurers

Life insurers may have to pay tax under Part XII.3 of the Act (section 211.1). The amount of tax you may have to pay is 15% of your corporation's taxable Canadian life investment income for the year.

Reporting Part XII.3 tax

Report the Part XII.3 tax you owe on Form T2142, *Part XII.3 Tax Return – Tax on Investment Income of Life Insurers*. We should receive the return no later than six months after the end of your corporation's taxation year.

Instalment payments

You have to make monthly instalment payments. The first instalment payment is due one month less a day after your taxation year begins. Your remaining payments are due on the same day of each month until the end of your corporation's taxation year.

Calculate each instalment payment as one-twelfth of the lesser of:

- the estimated Part XII.3 tax payable for the current taxation year; and
- the Part XII.3 tax payable for the preceding taxation year.

The remainder of tax, if any, is due on or before the last day of the second month after the end of your taxation year.

If your Part XII.3 tax is $1,000 or less in the current or preceding year, you do not have to make instalment payments.

Interest

We use the offset method to calculate instalment interest. This means we allow credit interest when you prepay or overpay your instalments, which can reduce or eliminate the interest we charge on late or insufficient payments. See the example on page 9.

We will not charge interest on late or deficient instalments if the total amount of the interest is $25 or less.

The interest rate on overpayments is 2% lower than on underpayments, except for purposes of the offset method for the instalment interest calculation.

> **Note**
> "Overpayment" is defined in subsection 164(7). Refund interest is calculated according to subsection 164(3) up to the day the overpayment is refunded or applied.

Paying instalments

After we process your payment for Part XII.1 or XII.3 taxes, you will receive a personalized Form RC98, *Business Remittance Voucher – Interim Payments*, monthly with your Statement of Account. This form will give you the revised balance for your account and you can use it to make your next payment.

If you do not have a personalized Form RC98, use the copy of Form RC100, *Remittance Voucher – Interim Payments*, included in this guide. Enter your Business Number, corporation's name, address, the remittance period ending, and the amount of your payment in the spaces provided. Mail the completed form with your payment to us.

If you are making one payment for taxes under different parts of the *Income Tax Act*, give the allocation for each amount to ensure that we credit each account correctly.

Note
If you have questions about a **non-resident corporation** account, call the International Tax Services Office at one of the following telephone numbers:

In the Ottawa area...526-6574
Long distance from Canada and
the United States..................................... 1-800-267-5177
Long distance from outside Canada
and the United States..............................(613) 526-6574*

*We accept collect calls.

Section C – Worksheets

The two worksheets in this section will help you determine your instalments for 2001. Estimate your current-year tax payable and your credits on Worksheet 1. Then use these amounts to complete the current-year information area on Worksheet 2.

Use Worksheet 2 to determine your instalments for the year. After you have calculated the taxes you owe under Parts I, I.3, VI, and VI.1 of the *Income Tax Act*, and your provincial or territorial tax, enter the amounts in the appropriate columns for Options 1, 2, and 3. We explain the three options in Section A under the heading "How to calculate your instalments of corporate tax." You can use the option that is most advantageous to you. Any remaining unpaid tax is payable on or before the balance due date described in Section A.

Rates of corporate tax

The information in this part will help you estimate your taxes payable and your tax credits for 2001 on Worksheet 1.

Federal

The basic rate of Part I tax is 38% of your taxable income.

Provincial or territorial

Corporations have to calculate and pay provincial or territorial corporate income tax in addition to their federal corporate income tax.

Provincial or territorial corporate income tax is based on the taxable income your corporation earned in a province or territory. If your corporation is established in more than one province or territory, see Part IV of the *Income Tax Regulations*.

When you calculate the 10% federal tax abatement and the provincial or territorial tax, you have to determine the taxable income the corporation earned in each province or territory according to these regulations. All provinces and territories have two corporate tax rates. Apply the lower rate to the income you earned in a province or territory that is eligible for the federal small business deduction. Apply the higher rate to your income that is not eligible for this deduction.

Quebec, Ontario, and Alberta do not have corporate tax collection agreements with the federal government. Corporations established in these provinces must file an income tax return with their respective province.

The following table shows the income tax rates for the provinces and territories that have tax collection agreements with the federal government.

Province or territory	Income eligible for the small business deduction (% of federal taxable income)	Other income (% of federal taxable income)
Newfoundland	5	14
Nova Scotia	5	16
Prince Edward Island	7.5	16
New Brunswick	4.5	17
Manitoba	7	17
Saskatchewan	8	17
British Columbia	4.75	16.5
Yukon	6	15
Northwest Territories	5	14
Nunavut	5	14

These rates may change during 2001.

The lower rate in Manitoba is reduced to 6% starting January 1, 2001, and to 5% starting January 1, 2002.

The above rates may be affected by various deductions, credits, and tax relief. For more information, see the *T2 Corporation Income Tax Guide.*

Worksheet 1 – Calculating estimated tax payable and tax credits for 2001

Estimated taxable income	______	
Calculating the estimated tax payable		
Total of estimated:		
Federal Part I tax	______	
Federal surtax	______	
Subtotal **(A)**		______
Minus total of estimated:		
Small business deduction	______	
Federal tax abatement	______	
Manufacturing and processing profits deduction	______	
Investment corporation deduction	______	
Additional deduction – Credit Union	______	
Foreign non-business income tax credit	______	
Foreign business income tax credit	______	
Accelerated tax reduction	______	
General tax reduction for CCPCs	______	
General tax reduction	______	
Federal logging tax credit	______	
Federal political contribution tax credit	______	
Federal qualifying environmental trust tax credit	______	
Investment tax credit	______	
Part I.3 tax credit	______	
Part VI tax credit	______	
Subtotal **(B)**		______
Total estimated 2001 Part I tax payable * **(A) – (B)**		______
Total estimated 2001 Part I.3 tax payable *		______
Total estimated 2001 Part VI tax payable *		______
Total estimated 2001 Part VI.1 tax payable *		______
Estimated 2001 net provincial or territorial tax payable *		______

* Use these amounts when you calculate your monthly instalment payments on Worksheet 2.

(continued on next page)

Worksheet 1 – Calculating estimated tax payable and tax credits for 2001 (continued)

Calculating the estimated credits for 2001

Total of:

Investment tax credit refund	______	
Dividend refund	______	
Federal capital gains refund	______	
Federal qualifying environmental trust tax credit refund	______	
Canadian film or video production tax credit refund	______	
Film or video production services tax credit refund	______	
Tax withheld at source	______	
Allowable refund for non-resident-owned investment corporations	______	
Provincial and territorial capital gains refund	______	
Newfoundland research and development tax credit	______	
Newfoundland film and video industry tax credit	______	
Nova Scotia film industry tax credit	______	
Nova Scotia research and development tax credit	______	
New Brunswick film tax credit	______	
Manitoba film and video production tax credit	______	
Saskatchewan mining reclamation tax credit	______	
Saskatchewan film employment tax credit	______	
British Columbia mining reclamation tax credit	______	
British Columbia film and television tax credit	______	
British Columbia production services tax credit	______	
British Columbia mining exploration tax credit	______	
British Columbia SR&ED refundable tax credit	______	
Yukon mineral exploration tax credit	______	
Yukon research and development tax credit	______	
Total estimated 2001 credits *		______

* Use these amounts when you calculate your monthly instalment payments on Worksheet 2.

Worksheet 2 – Calculating monthly instalment payments

Instalment payments are due each month of your corporation's taxation year.			
	Option 1 2001	**Option 2 2000**	**Option 3 1999**
Add: Part I tax payable			
Part I.3 tax payable			
Part VI tax payable			
Part VI.1 tax payable			
Total Part I, I.3, VI, and VI.1 tax *			
Add: Provincial/territorial tax payable**			
Total Part I, I.3, VI, VI.1 tax, and provincial/territorial tax			
Subtract: Total 2001 estimated credits from Worksheet 1			
Instalment base amount			
Divide by	12	12	12
12 payments due under Options 1 and 2			
Payments 1 and 2 under Option 3			
Prior-year instalment base (Option 2 instalment base amount above)			
Less the total of payments 1 and 2			
Subtotal			
Divide by			10
Each of the remaining 10 payments			

* If the total amount of federal taxes is $1,000 or less for either 2001 or 2000, you do not have to make instalment payments on this amount for 2001.

** If the total amount of provincial or territorial taxes is $1,000 or less for either 2001 or 2000, you do not have to make instalment payments on this amount for 2001.

Section D – Appendices

Appendix 1 – Instalment Base – Amalgamations

Corporation A	Corporation B	Corporation C
Start of taxation year: January 1, 1998	Start of taxation year: January 1, 1998	Start of taxation year: January 1, 1998
End of taxation year: December 31, 1998	End of taxation year: December 31, 1998	End of taxation year: December 31, 1998
Tax payable: $2,000	Tax payable: $2,500	Tax payable: $3,000
Start of taxation year: January 1, 1999	Start of taxation year: January 1, 1999	Start of taxation year: January 1, 1999
End of taxation year: December 31, 1999	End of taxation year: December 31, 1999	End of taxation year: December 31, 1999
Tax payable: $4,000	Tax payable: $5,000	Tax payable: $6,000

Corporations A, B, and C amalgamated on January 1, 2000, to form Corporation ABC.

For its taxation year that ended December 31, 2000, Corporation ABC estimated its tax payable to be $20,000.

For the purpose of Regulation 5301(4), the instalment base amounts for the taxation year that ends December 31, 2000, would be:

Taxation year end December 31, 2000	First instalment base year (1)	Second instalment base year (2)
Corporation ABC	Predecessors' bases (Corporation A + B + C)	Predecessors' bases (Corporation A + B + C)
$20,000	4,000 + 5,000 + 6,000 = $15,000	2,000 + 2,500 + 3,000 = $7,500

(1) The first instalment base year for the successor's 2000 taxation year is $15,000. This amount is the total of the predecessor corporations' last year tax payable (1999), before amalgamation.

(2) The second instalment base year for the successor's 2000 taxation year is $7,500. This amount is the total of the predecessor corporations' first instalment base year for the 1999 taxation year.

Appendix 2 – Instalment base – Wind-ups

On August 1, 2000, a subsidiary corporation wound up and all its assets were distributed to its parent corporation.

Note: Although the subsidiary filed a return for the short taxation year of January 1, 2000, to July 31, 2000, the actual tax assessed for this period will not form a part of the instalment base in any year for the parent corporation.

Taxation year end	Parent ($)	Subsidiary ($)
December 31, 1998	14,000	5,000
December 31, 1999	12,000	6,000
December 31, 2000 *	20,000	

* For the taxation year that ended December 31, 2000, the estimated tax payable is $20,000.

For the purpose of Regulation 5301(6), the instalment base year amounts for the taxation year that ends December 31, 2000, would be:

Before the wind-up (August 1, 2000)

Taxation year end December 31, 2000	First instalment base year	Second instalment base year
$20,000	$12,000	$14,000

Seven instalment payments of $1,000 each ($12,000 ÷ 12) were due up to July 31, 2000.

After the wind-up

Taxation year end December 31, 2000	First instalment base year (1)	Second instalment base year (2)
$20,000	12,000 + 6,000 = $18,000	14,000 + 5,000 = $19,000

Five instalment payments of $1,500 each ($18,000 ÷ 12) were due up to December 31, 2000.

(1) The first instalment base year for the parent's 2000 taxation year is $18,000. This amount is the total of:

- the parent's normal first instalment base year of $12,000; and
- the subsidiary's first instalment base year of $6,000 for its 2000 taxation year.

(2) The second instalment base year for the parent's 2000 taxation year is $19,000. This amount is the total of:

- the parent's normal second instalment base year of $14,000; and
- the subsidiary's second instalment base year of $5,000 for its 2000 taxation year.

For the purpose of Regulation 5301(6), the instalment base year amounts for the taxation year that ends December 31, 2001, would be:

Taxation year end December 31, 2001	First instalment base year (1)	Second instalment base year (2)
$26,000 *	20,000 + (6,000 × 7/12) = $23,500	12,000 + 6000 = $18,000

* Estimate of tax payable for the current year.

(1) The first instalment base year for the parent's 2001 taxation year is $23,500. This amount is the total of:

- the parent's normal first instalment base year of $20,000; and
- the subsidiary's first instalment base year of $6,000 for its 2000 taxation year, multiplied by the number of complete months (7) in the parent's 2000 taxation year before the winding-up distribution divided by 12; namely ($6,000 × 7) ÷ 12 = $3,500.

(2) The second instalment base for the parent's 2001 taxation year is $18,000. This amount is the total of:

- the parent's normal first instalment base year of $12,000 for its 2000 taxation year; and
- the subsidiary's first instalment base year of $6,000 for its 2000 taxation year.

Appendix 3 – Instalment base – Transfers

On November 1, 1999, a corporation (transferor) disposed of all its property, by way of a section 85 rollover, to another corporation it was not dealing with at arm's length (transferee).

Note: Although the transferor may file a return for the short taxation year of July 1, 1999, to October 31, 1999, the actual tax assessed for the period will not form a part of the transferee's instalment base in any year.

Taxation year end	Transferee ($)	Transferor ($)
June 30, 1998	14,000	5,000
June 30, 1999	12,000	6,000
June 30, 2000 *	20,000	

* For the taxation year that ended June 30, 2000, the transferee estimated its tax payable to be $20,000.

For the purpose of Regulation 5301(8), the instalment base year amounts for the taxation year that ended June 30, 2000, would have been:

Before the rollover (November 1, 1999)

Taxation year end June 30, 2000	First instalment base year	Second instalment base year
$20,000	$12,000	$14,000

Four instalment payments of $1,000 each ($12,000 ÷ 12) were due up to October 31, 1999.

After the rollover

Taxation year end June 30, 2000	First instalment base year (1)	Second instalment base year (2)
$20,000	12,000 + 6,000 = $18,000	14,000 + 5,000 = $19,000

Eight instalment payments of $1,500 each ($18,000 ÷ 12) were due up to June 30, 2000.

(1) The first instalment base year for the transferee's 2000 taxation year was $18,000. This amount is the total of:

- the transferee's normal first instalment base year of $12,000; and
- the transferor's first instalment base year of $6,000 for its 2000 taxation year.

(2) The second instalment base for the transferee's 2000 taxation year was $19,000. This amount is the total of:

- the transferee's normal second instalment base year of $14,000; and
- the transferor's second instalment base year of $5,000 for its 2000 taxation year.

For the purpose of Regulation 5301(8), the instalment base year amounts for the taxation year that ends June 30, 2001, would be:

Taxation year end June 30, 2001	First instalment base year (1)	Second instalment base year (2)
$27,000 *	20,000 + (6,000 × 4/12) = $22,000	12,000 + 6,000 = $18,000

* Estimate of tax payable for the current year.

(1) The first instalment base year for the transferee's 2001 taxation year is $22,000. This amount is the total of:

- the transferee's normal first instalment base year of $20,000; and
- the transferor's first instalment base year of $6,000 for its 2000 taxation year, multiplied by the number of complete months (4) in the transferee's 2000 taxation year before the rollover divided by 12;
  namely ($6,000 × 4) ÷ 12 = $2,000.

(2) The second instalment base for the transferee's 2001 taxation year is $18,000. This amount is the total of:

- the transferee's normal first instalment base year of $12,000 for its 2000 taxation year; and
- the transferor's first instalment base year of $6,000 for its 2000 taxation year.

Appendix 4 – The deficiency method of calculating instalment interest *

Assumptions: Start of taxation year: January 1, 2001

End of taxation year: December 31, 2001

Balance due date: February 28, 2002

Interest base: 12 payments of $20,000

Date	Instalment payment due ($)	Payment received ($)	Balance ($)	Number of days	Interest rate (%)	Instalment interest ($)
January 31	20,000		20,000.00	28	9	138.54
February 28	20,000		40,138.54	2	9	19.80
March 2		(45,000)	(4,841.66)			
March 31	20,000		15,158.34	30	9	112.53
April 30	20,000		35,270.87	31	9	270.60
May 31	20,000		55,541.47	30	9	412.33
June 30	20,000		75,953.80	5	9	93.69
July 5		(90,000)	(13,952.51)			
July 31	20,000		6,047.49	31	9	46.40
August 31	20,000		26,093.89	15	9	96.68
September 15		(55,000)	(28,809.43)			
September 30	20,000		(8,809.43)			
October 31	20,000		11,190.57	15	9	41.46
November 15		(55,000)	(43,767.97)			
November 30	20,000		(23,767.97)			
December 31	20,000		(3,767.97)			
February 28 (balance due date)						
Total instalment interest						**1,232.03**

* This is the method of calculating instalment interest on Part XII.1 tax.

Canada Customs and Revenue Agency — Agence des douanes et du revenu du Canada

BUSINESS REMITTANCE VOUCHER
Receipt

Use this voucher to make an amounts owing payment only.
If you require other or additional vouchers, please contact our office.

Please complete all areas of this form.

See the reverse for further instructions.

Business Number

Amount paid

RC99 E

Canada Customs and Revenue Agency — Agence des douanes et du revenu du Canada

BUSINESS REMITTANCE VOUCHER
Amounts owing

001313 | 7 | 7

RC99 E

YOU MUST COMPLETE THIS AREA

Business Number

Business name / address

Amount paid

.

001313 0007 0007 00 000000000 000000 0000000000000 8

Canada Customs and Revenue Agency — Agence des douanes et du revenu du Canada

BUSINESS REMITTANCE VOUCHER
Receipt

Use this voucher to make an instalment payment only. If you require additional vouchers, please contact our office.

Please complete all areas, including the remittance period where the payment should be credited.

See the reverse for further instructions.

Business Number

Amount paid

RC100 E

Canada Customs and Revenue Agency — Agence des douanes et du revenu du Canada

BUSINESS REMITTANCE VOUCHER
Interim payments

001339 | 7 | 1

RC100 E

YOU MUST COMPLETE THIS AREA

Business Number

Business name / address

Amount paid

.

Remittance period ending

Year	Month	Day

001339 0007 0001 00 000000000 000000 0000000000000 4