Corporation Instalment Guide

2004

Visually impaired persons can get our publications in braille, large print, or etext (computer diskette), or on audio cassette by visiting our Web site at **www.ccra.gc.ca/alternate** or by calling 1-800-267-1267 weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

What's new

Minimal amounts owing

If the amount owed by a corporation is $2 or less the corporation is not required to pay that amount. If an amount of $2 or less is owed to a corporation the amount will not be paid, however it will be applied to any existing liability. This applies to amounts owing after June 2003.

Refund interest

If you file your return late, refund interest will commence 30 days after the return is filed. This applies to taxation years ending after June 2003.

Effect on interest when a carryback is applied

We have revised the calculation of interest when a carryback is applied. See details on page 11. This applies to applications received after June 2003.

Calculating interest on fairness requests

You may have paid an amount of interest or a penalty that is later cancelled after you make an application under the CCRA's Fairness Program. We will calculate interest on this overpayment 30 days after the fairness application was received. This applies to applications received after June 2003.

Cancelling small amounts of penalty and interest

We will cancel any penalty or interest on an amount owed if the total amount of penalty and interest is $25 or less when the tax is paid in full. This applies after June 2003.

Balance due date for corporation taxes

All corporation taxes (with the exception of Part III and Part XII.6) charged under the *Income Tax Act* are due on the corporation's balance due date. This applies to taxation years that start after June 2003.

Instalment threshold for co-operative corporations and credit unions

The instalment threshold provisions for co-operative corporations and credit unions have been harmonized with those for other corporations. This applies to taxation years starting after June 2003.

Forgiven Interest

If you pay an amount quoted on a notice of assessment or reassessment in full within 20 days of that notice, any additional interest from the notice date to the date of payment will not be charged.

Online requests for business

You can electronically request certain financial actions, additional remittance vouchers, other communication products, as well as reproductions of previously issued correspondence on your account. For details, visit our Web site at **www.ccra.gc.ca/requests-business**.

Do you have an income tax problem?

If you have a problem, you can call our national 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 section of your telephone book. 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: .... (613) 526-6574

Long distance from within 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.

Your opinion counts

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

Send your comments to:

Client Services Directorate
Canada Customs and Revenue Agency
Lancaster Road
Ottawa ON K1A 0L5

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

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 so 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 on their federal taxes if the total of their taxes payable under parts I, I.3, VI, VI.1, and XIII.1 of the Act for either 2003or 2004 is $1,000 or less [subsection 157(2.1)]. Similarly, they do not have to make instalment payments on their provincial or territorial taxes, if the total of these taxes for 2003 or 2004 is $1,000 or less.

Also, they do not have to make instalment payments in any of the following cases:

- they are in their first year of operation; or
- 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 2002 or 2003, and they did not have to pay tax for those years under parts I.3, VI, and VI.1, of the Act. This does not apply to taxation years beginning after June 30, 2003.

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.

Since special rules may apply, read the whole guide to determine if you have to make instalment payments.

How to authorize the release of information to third parties

If you want 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*.

Alternate address

You can now have your monthly *Statement of Arrears*, *Statement of Interim Payments*, and any *Notification of Returned Payment* sent to either your business address **or** the mailing address we have on record for your Business Number.

You can register an alternate address for a definite or indefinite period, effective immediately or in the future.

Contact your tax centre if you would like more information, or to register an alternate address. You do not have to contact us if you are satisfied with receiving your statements at your current mailing address.

Do you need more information?

If you would like more information, see the *Income Tax Act* and the *Income Tax 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. You will find our addresses and telephone numbers in the government section of your telephone book, and on our Web site at **www.ccra.gc.ca**.

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.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.

Direct deposit

Direct deposit offers a safe, convenient, and dependable way of receiving payments and eliminates the potential loss of credit interest if a cheque is delayed in the mail.

To start direct deposit to the corporation's account at a financial institution or change information that you have already given us, complete the "Direct Deposit Request" box on the T2 return. You don't have to complete this area if you already use direct deposit and the information hasn't changed.

You can also use Form T2-DD, *Direct Deposit Request Form for Corporations*. You can get this form from our Web site at **www.ccra.gc.ca** or by calling 1-800-959-2221.

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 the payments into the new account. If we cannot deposit your payments into a designated account, we will mail a cheque to you at the address we have on file.

Large Value Transfer Service

The Canadian Payments Association (CPA) has set a maximum value of $25 million for any cheque or other paper-based payment instrument cleared through the banking system. The rule also prohibits the splitting of cheques in excess of the set limit into smaller acceptable cheques. This initiative enhances the safety and stability of the Canadian payments system.

The CCRA must generate all large value refunds through the Large Value Transfer Service (LVTS).

Since the LVTS is used to send monies electronically between banks, we must obtain the required banking information in order to register our clients on this system.

In order to avoid potential delays, clients must be on direct deposit and must be registered on the LVTS. If you are expecting a large value refund, arrange for direct deposit and contact your tax centre to make the necessary arrangements.

Table of contents

Section A – Parts I, I.3, VI, VI.1, and XIII.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 taxes, in monthly instalments:

- Part I.3 – Tax on large corporations;
- Part VI – Tax on capital of financial institutions;
- Part VI.1 – Tax on corporations paying dividends on taxable preferred shares; and
- Part XIII.1 – Additional tax on authorized foreign banks.

How to calculate your instalments of tax

There are three options you can use to calculate the least 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, VI.1, and XIII.1 of the Act, and the tax you have to pay to your provinces and/or territories, other than Quebec, Ontario, and Alberta.

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

> **Note**
> If a year used in calculating the tax is less than 12 months, see "Short taxation years" on page 7.

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

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

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

We will assess your return using the option that results in the least amount payable by instalments.

> **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.

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 2004 to calculate your instalment payments under option 1, 2, or 3.

Instalment due dates

Instalment payments are due at the end of each month of the year [subsection 157(1)]. The first instalment payment is due one month less a day from the first day of the corporation's taxation year and later instalment payments are due on the same day of each of the following months.

Example 1

Start of taxation year:	January 1, 2004
End of taxation year:	December 31, 2004

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, 2004. The last payment is due by December 31, 2004.

Example 2

First day of taxation year:	October 10, 2003
End of taxation year:	October 9, 2004

The first instalment payment is due by November 9, 2003, and the last instalment payment is due by October 9, 2004.

Balance due date

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

Generally, all corporation taxes (with the exception of Part III and Part XII.6) charged under the *Income Tax Act* are 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 the following conditions apply:

- the corporation is a Canadian-controlled private corporation (CCPC) 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; **and either**
  - the corporation's taxable income 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); or
  - the total of the taxable incomes of **all** the associated corporations for their last taxation year ending in the previous calendar year does not exceed the total of their business limits for those taxation years (if the corporation **is associated** with any other corporation during the taxation year).

The business limit of any corporation, or the combined total of the business limits of all associated corporations, is gradually increasing from $200,000 to $300,000. For more information, see the *T2 Corporation Income Tax Guide*. This amount would be less if the preceding year's business limit were prorated for a short taxation year. The total business limit could be more if the corporation is associated with other corporations in the current year, but not in the preceding year [section 125].

The business limit does not apply 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 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 preceding year taxable income of corporations and associated, subsidiary, and predecessor corporations means taxable income before applying loss carrybacks.

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 just 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 [paragraph 88(1)(e.9)], 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.

The same rule applies for determining the business limit.

Payments due on a non-business day

If your payment due date falls on a Saturday, Sunday, or a statutory holiday, the payment will be considered as having been received on time for calculating instalment interest and penalty, if it is received the first business day after the due date.

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 on your corporation's federal taxes if the total of your taxes payable under parts I, I.3, VI, VI.1, and XIII.1 for either 2003 or 2004 is $1,000 or less [subsection 157(2.1)]. 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 2003 or 2004 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 date" on page 6.

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 date" on page 6.

> **Note**
> Your first taxation year should start on your incorporation date. If you start your taxation year after this date, it may affect on your requirement to make instalments later.

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 starting before June 30, 2003, 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 Act.

However, the full amount of tax owing is due at the end of the third month after 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. See "How to calculate your instalments of tax" on page 6. 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, 2004
End of taxation year:	March 30, 2004

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 [Regulation 5301(1)]. This is called the **adjusted base**.

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; or
- 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 predecessor corporations' instalment bases [Regulation 5301(4)]. For an example, see Appendix 1.

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 base, the instalment base of its subsidiary corporation [Regulation 5301(6)]. For an example, see Appendix 2.

Transfers or rollovers

Generally, a corporation that receives all or substantially all (90% or more) 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 has to include, in addition to its own instalment base, the instalment base of the other 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 7.

Reference
IT-302, Losses of a Corporation – The Effect that Acquisitions of Control, Amalgamations, and Windings-up have on Their Deductibility – After January 15, 1987

Paying instalments

For information on paying by telephone or Internet banking, visit our Web site at **www.ccra.gc.ca/electronicpayments** or contact your financial institution to see if they provide these services.

You can make your payment free of charge at your financial institution in Canada, by presenting your remittance voucher to the teller.

You can also write your Business Number on the back of your cheque made payable to the Receiver General, and mail it with your remittance voucher to the address below:

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 will charge you an administrative fee.

Note
The terms **instalment payment** and **interim payment** and the terms **taxation year-end** and **reporting period** are interchangeable. Either term may appear in correspondence and publications you receive from us.

We have two personalized remittance vouchers. These are Form RC159, *Corporation Remittance Voucher – (Amounts Owing)*, and Form RC160, *Corporation Remittance Voucher – (Interim Payment)*. We will automatically send you the appropriate type(s) based on your account status and needs, along with your *Statement of Interim Payments* or *Statement of Arrears*, as applicable. If you need more vouchers, contact us. Neither we, nor financial institutions, will accept photocopied remittance vouchers.

Use Form RC159 only to make payments on a debt or to make a prepayment for an anticipated reassessment.

Use Form RC160 only to make interim payments for the taxation year-end for which we have not processed a return. Form RC160 will indicate the remittance period end, that is, your monthly instalment payment due date, not the taxation year-end.

After all monthly interim payments are made for the current year (for example, 2004-12-31), you will receive the first interim payment remittance voucher for the next year (for example, 2005-12-31), along with another Form RC160. This additional form will show the taxation year-end of the current year (for example, 2004-12-31). Use the form to remit your balance due date payment, if applicable.

We will process your first instalment payment for parts I, I.3, VI, VI.1, XIII.1, provincial or territorial tax. Then we will send you a personalized Form RC160, with a statement to show the balance of your account. If you pay at your financial institution, present the part of your *Statement of Interim Payments* that displays your remittance voucher to the teller with your payment. The teller will return the top part to you as a receipt.

If you do not have a personalized remittance form, ask for Form RC99, *Business Remittance Voucher – Amount Owing*, or Form RC100, *Corporate Remittance Voucher – Interim Payments.* These forms are available only in printed form due to technical requirements. On Form RC100, the remittance period end is the instalment due date and not the reporting period.

Large Payments

Effective February 3, 2003, the Canadian Payments Association introduced a change to the cheque clearing system that sets a maximum value of $25 million for any cheque or other paper-based payment instrument cleared through the banking system. Canadian financial institutions will no longer accept cheques in excess of $25 million that clients drop off or mail to one of our locations.

In view of the above, clients are encouraged to make arrangements with their financial institutions for payments of large amounts.

Statements

We issue statements on a monthly basis rather than on a transactional basis. These show interim and arrears balances carried forward from previous statements, plus the details of any account activity that occurs during the statement period. Arrears and interim amounts are shown separately on your statement, and all information is displayed by reporting period. Arrears information reflects all amounts assessed and charged to your account. Interim information tells you the balance of instalment payments remitted for each reporting period for which we have not processed a return.

The *Statement of Interim Payments* is used to:

- acknowledge receipt of interim payments;
- show credit movement (transfers in or out);
- show application of interim credits to assessments;
- provide interim credit balances by period(s);
- provide the grand total balance across all interim periods; and
- provide the necessary types of interim payments remittance vouchers to make later payments.

The *Statement of Arrears* is used to:

- acknowledge receipt of arrears payments;
- show all other transactions posted to assessed and non-reporting periods (for example, (re)assessments and transfers) since the last statement;
- provide processed balances by period(s);
- provide the grand total balance across all processed periods; and
- provide a remittance voucher for amounts owing.

Review each *Statement of Interim Payments* and *Statement of Arrears* you receive to make sure we have applied your payments correctly. Contact your tax centre immediately, if we made an error in applying any of your payments, as payments are not transferable once you have been assessed. For more information, see the following section called "Transferring instalments."

Keep the statements with your records for future use.

The instalment credits we show on your *Statement of Interim Payments* for each taxation year should agree with your records. There may be a difference between our records and the amount you report on line 840 of your corporation's return. If so, we will assess your return using the instalment credits shown in our records, and we may refund the difference. If you return the refund, we will credit it with the date that we received it, as we would with any other payment.

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

- they are delivered to a tax services office or tax centre; or
- they are processed at any financial institution belonging to the Canadian Payments Association. (Payments made at an Automated Teller Machine (ATM) may not be processed that same day).

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**
> To make parts I, I.3, VI, VI.1, XIII.1, and XII.1 or XII.3 instalment payments, you can use a personalized Form RC160 or Form RC100. In Section B, we discuss instalment payments under Part XII.1 and Part XII.3.
>
> To pay tax under parts IV, IV.1, and XIV, you can use a personalized Form RC159 or RC99.

Transferring instalments

Our transfer policy allows for the movement of excess instalment payments from one account where they are not immediately needed to another account where they are needed. We will transfer to pay an outstanding balance on a Corporation, a GST, or an Employer account. We will also make transfers to cover a required payment on an Employer account. Transfers within the same corporation account or between related corporation accounts will also be considered.

The guidelines are as follows:

- Only an authorized officer of the corporation can ask for, in writing or by telephone, a transfer of instalment payments.
- 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. For the purposes of calculating interest, transferred payments keep their original payment date [section 221.2]. We consider any other allocation not to have occurred.

Corporations must make every effort to remit their payments to the correct account. Our transfer policy is meant to provide you with flexibility in reallocating payments when it has been determined that the instalment requirement previously estimated has been overpaid. If your corporation makes continuous requests for multiple transfers, we may ask you to explain why in writing.

Note
If you do not file an income tax return within three years of the end of the taxation year, instalment payments correctly processed to this taxation year will not be refunded [subsection 164(1)]. Such payments are not available for application to another debt.

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

Instalment interest

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

We will charge interest [subsection 161(2)], if you made late or insufficient instalment payments.

We use the offset method to calculate instalment interest. This means we allow credit interest when you prepay or overpay your instalments, and this 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 when calculating instalment interest charges.

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 4 percentage points.

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.

Generally, the interest rate on overpayments is 2% lower than on underpayments. However, when we calculate instalment interest using the offset method, the interest rate is the same on prepayments and overpayments as it is on underpayments.

Example
Corporation A has a December 31 year-end and has to make monthly instalment payments of $75,000 starting in January 2004. 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 $29,323.72 in instalment interest. We have used an interest rate of 9% in the following calculation.

Date 2004	Instalment payments due	Payments received	Balance	Number of days	Interest
January 31	$75,000		$ 75,000.00	29	$ 536.68
February 29	75,000		150,536.68	12	444.81
March 12		$120,000	30,981.49	19	145.07
March 31	75,000		106,126.56	25	654.35
April 25		150,000	(43,219.09)	5	(53.16)
April 30	75,000		31,727.75	31	242.75
May 31	75,000		106,970.50	30	791.95
June 30	75,000		182,762.45	31	1,398.34
July 31	75,000		259,160.79	31	1,982.87
August 31	75,000		336,143.66	30	2,488.61
September 30	75,000		413,632.27	31	3,164.76
October 31	75,000		491,797.03	30	3,640.98
November 30	75,000		570,438.01	31	4,364.50
December 31	75,000		649,802.51	59	9,521.21
Balance due date February 28, 2005	**Total instalment interest**				**$29,323.72**

Instalment penalty

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

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.

There is no penalty on arrears interest.

Example
In the previous example, we charged Corporation A instalment interest of $29,323.72. Therefore, we assess a penalty of $8,154.86 as follows:

Instalment interest	$29,323.72
Minus the greater of: $1,000 and 25% of the instalment interest charged if Corporation A had made no payment at all $52,056.02 × 25% =	13,014.00
Subtotal	16,309.72
Instalment penalty (one-half of subtotal)	$ 8,154.86

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 balance due date (see page 6) to the date of payment.

Refund interest

We calculate refund interest [subsection 164(3)] according to the prescribed interest rates [Regulation 4301]. Refund interest is 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.

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 30th day after the date the return was filed if it 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 (for example, dividend refund or capital gains refund) is adjusted because of the carryback.

We will calculate arrears interest, refund interest, or both, for the carryback from 30 days after whichever of the following dates is later:

- the first day 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, such as 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

A corporation may ask to transfer an overpayment when it files its income tax return. This can be done by either entering "2" on line 894 of the return or by attaching a letter to the front page of the return.

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

When asking for 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. If a corporation asks for a transfer, 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 using the effective interest rate [subsection 164(3)].

Refund of instalments

We will not refund instalment payments until we have assessed the return for the year in question, at which time we will refund any overpayment [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 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;
- a serious illness or accident suffered by the person who is responsible for making a payment when due; and
- wrong information being given to the corporation, 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 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

Corporations that want to reduce charges of arrears interest may prepay tax for anticipated reassessments.

To remit prepayments, use any corporation remittance voucher. It is important that you clearly indicate that the payments are **prepayments.** Also include your corporation's Business Number and the taxation year-end for which the prepayments are intended. We will hold the payments for this purpose and apply them when we process the reassessments.

We are reviewing this policy. If any changes are made you will be advised.

Section B – Part XII.1 and Part 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 option 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 of 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 corporation's balance due date.

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. For an example of how instalment interest is calculated using the deficiency method, see Appendix 4.

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 starts. 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 remaining tax, if any, is due on or before the corporation's balance due date.

If your Part XII.3 tax is $1,000 or less in the current or previous 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, and this can reduce or eliminate the interest we charge on late or insufficient payments. See the example on page 10.

Generally, the interest rate on overpayments is 2% lower than on underpayments. However, when we calculate instalment interest using the offset method, the interest rate is the same on prepayments and overpayments as it is on underpayments.

> **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 RC160, *Corporation Remittance Voucher – Interim Payments*, every month with your *Statement of Interim Payments*. 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 RC160, ask for Form RC100, *Corporate Remittance Voucher – Interim Payments*. Enter the corporation's Business Number, the corporation's name and address, the end of the remittance period, which represents your instalment due date and not the reporting period, and the amount of your payment in the spaces provided. If you are making one payment for taxes under different parts of the *Income Tax Act*, tell us how to allocate each amount to make sure that we credit your accounts correctly.

Section C – Worksheets

The two worksheets in this section will help you determine your instalments for 2004. 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, VI.1, and XIII.1 of the *Income Tax Act*, and your provincial and territorial tax, enter the amounts in the appropriate columns for options 1, 2, and 3. See "How to calculate your instalments of tax" on page 6 for information on the three options. 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 on page 6 under "Balance due date."

Rates of tax

The information in this part will help you estimate your taxes payable and tax credits for 2004 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 income tax in addition to their federal income tax.

Generally, provinces and territories have two rates of income tax—a lower rate and a higher rate.

The lower rate applies to eligible income based on either:

- the income eligible for the federal small business deduction; or
- income limits established by the particular province or territory.

The higher rate applies to all other income. Various deductions, credits, and tax relief may affect the above rates. For more detailed information, see the *T2 Corporation Income Tax Guide* or your provincial or territorial legislation.

Quebec, Ontario, and Alberta do not have corporation tax collection agreements with the federal government. Corporations with a permanent establishment in these provinces have to file an income tax return with their province.

New Brunswick and Nova Scotia tax on large corporations should be included as a provincial tax in establishing tax payable or determining the instalment base for a particular year.

If your corporation has a permanent establishment in more than one province or territory, you have to calculate the taxable income the corporation earned in each province or territory. You may wish to use Schedule 5, *Tax Calculation Supplementary – Corporations*, to assist in this determination or refer to Part IV of the *Income Tax Regulations*.

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	Tax rate on taxable income eligible for the small business deduction (lower rate)	Tax rate on other taxable income (higher rate)
Newfoundland and Labrador	5	14
Nova Scotia	5	16
Prince Edward Island	7.5	16
New Brunswick	3	13
Manitoba	5	15.5
Saskatchewan	5.5	17
British Columbia	4.5	13.5
Yukon	6	15
Northwest Territories	4	12
Nunavut	4	12

These rates may change during 2004.

The higher rate for Manitoba is reduced to 15% for 2005. The lower rate for Saskatchewan is reduced to 5% for 2005.

Worksheet 1 – Calculating estimated tax payable and tax credits for 2004

Estimated taxable income	______		
Calculating the estimated tax payable			
Total of the following estimated amounts:			
Base amount of Federal Part I tax	______		
Federal surtax	______		
Recapture of investment tax credit	______		
Refundable tax on CCPC's investment income	______		
Subtotal		______	A
Minus the total of the following estimated amounts:			
Small business deduction	______		
Federal tax abatement	______		
Manufacturing and processing profits deduction	______		
Investment corporation deduction	______		
Additional deduction — credit unions	______		
Federal foreign non-business income tax credit	______		
Federal foreign business income tax credit	______		
Accelerated tax reduction	______		
Resource deduction	______		
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	______		
Subtotal		______	B
Total estimated 2004 Part I tax payable * (line A minus line B)		______	
Total estimated 2004 Part I.3 tax payable *		______	
Total estimated 2004 Part VI tax payable *		______	
Total estimated 2004 Part VI.1 tax payable *		______	
Total estimated 2004 Part XIII.1 tax payable *		______	
Estimated 2004 net provincial and territorial tax payable * (include New Brunswick and Nova Scotia tax on large corporations)		______	C

* 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 2004 (continued)

Calculating the estimated tax credits for 2004

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 and Labrador research and development tax credit	______		
Newfoundland and Labrador film and video industry tax credit	______		
Nova Scotia film industry tax credit	______		
Nova Scotia research and development tax credit	______		
New Brunswick film tax credit	______		
New Brunswick refundable research and development tax credit	______		
Manitoba film and video production tax credit	______		
Saskatchewan qualifying environmental trust tax credit	______		
Saskatchewan film employment tax credit	______		
British Columbia qualifying environmental trust 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	______		
British Columbia book publishing tax credit	______		
Yukon mineral exploration tax credit	______		
Yukon research and development tax credit	______		
Total estimated 2004 credits *		______	**D**

* 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 2004	**Option 2 2003**	**Option 3 2002**
Add : Part I tax payable			
Part I.3 tax payable	+	+	+
Part VI tax payable	+	+	+
Part VI.1 tax payable	+	+	+
Part XIII.1 tax payable	+	+	+
Total of parts I, I.3, VI, VI.1, and XIII.1 tax *	=	=	=
Add: Provincial and territorial tax payable **	+	+	+
Total of parts I, I.3, VI, VI.1, and XIII.1 tax, as well as provincial and territorial tax	=	=	=
Subtract: Total 2004 estimated credits (Enter the amount from line D of 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)			
Subtract: The total of payments 1 and 2			–
Subtotal			=
Divide by:			÷ 10
Each of the remaining 10 payments			=

* If the total of parts I, I.3, VI, VI.1, and XIII.1 tax is $1,000 or less for either 2004 or 2003, you do not have to make instalment payments on this amount for 2004.

** If the provincial and territorial tax is $1,000 or less for either 2004 or 2003, you do not have to make instalment payments on this amount for 2004.

Note
See appendices 5 and 6 for examples of how to calculate monthly instalment payments with Worksheet 2.

Section D – Appendices

Appendix 1 – Instalment base – Amalgamations

[Regulation 5301(4)]

Corporation A	Corporation B	Corporation C
Start of taxation year: January 1, 2002	Start of taxation year: January 1, 2002	Start of taxation year: January 1, 2002
End of taxation year: December 31, 2002	End of taxation year: December 31, 2002	End of taxation year: December 31, 2002
Tax payable: $2,000	Tax payable: $2,500	Tax payable: $3,000
Start of taxation year: January 1, 2003	Start of taxation year: January 1, 2003	Start of taxation year: January 1, 2003
End of taxation year: December 31, 2003	End of taxation year: December 31, 2003	End of taxation year: December 31, 2003
Tax payable: $4,000	Tax payable: $5,000	Tax payable: $6,000

Corporations A, B, and C amalgamated on January 1, 2004, to form Corporation ABC.

For its first taxation year, which will end on December 31, 2004, Corporation ABC estimated its tax payable to be $20,000.

For the purpose of Regulation 5301(4), the instalment base amounts for Corporation ABC's first taxation year (which ends on December 31, 2004) would be:

Taxation year-end December 31, 2004	First instalment base year (1)	Second instalment base year (2)
Corporation ABC	Predecessors (Corporation A + B + C)	Predecessors (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 2004 taxation year is $15,000. This amount is the total of the predecessor corporations' tax payable (2003) for their last taxation year before amalgamation.

(2) The second instalment base year for the successor's 2004 taxation year is $7,500. This amount is the total of the predecessor corporations' first instalment base year for the 2003 taxation year.

For the purpose of Regulation 5301(4), the instalment base amounts for Corporation ABC's second taxation year that ends on December 31, 2005, would be:

Taxation year-end December 31, 2005	First instalment base year (1)	Second instalment base year (2)
Corporation ABC	Corporation ABC	Predecessors' bases (Corporation A + B + C)
$25,000 *	$20,000	4,000 + 5,000 + 6,000 = $15,000

* Estimate of tax payable for 2005.

(1) The first instalment base year for the successor's 2005 taxation year is $20,000.

Note
If the successor's first taxation year had been less than 183 days, the first instalment base amount for 2005 would have equalled the greater of the following two amounts:

- the adjusted base amount for 2004; and
- the adjusted base amount for the next preceding taxation year of more than 182 days, as stated in the requirements related to short taxation years (see page 7).

(2) The second instalment base year for the successor's 2005 taxation year is $15,000. This amount is the successor's first instalment base year for its first taxation year (2004).

Appendix 2 – Instalment base – Wind-ups
[Regulation 5301(6)]

On July 31, 2004, a subsidiary corporation wound up and dissolved, and all its assets were distributed to its parent corporation.

Note
Although the subsidiary must file a return for the taxation year that includes January 1, 2004, to July 31, 2004, the tax assessed for this period will not be part of the instalment base in any year for the parent corporation.

Taxation year-end	Parent	Subsidiary
December 31, 2002	$14,000	$5,000
December 31, 2003	$12,000	$6,000
December 31, 2004 *	$20,000	N/A

* For the current taxation year ending on December 31, 2004, the estimated tax payable is $20,000.

For the purpose of Regulation 5301(6), the instalment base year amounts for the parent corporation's taxation year that ends on December 31, 2004, would be:

Before the wind-up (July 31, 2004)

Taxation year-end December 31, 2004	First instalment base year	Second instalment base year
$20,000	$12,000	$14,000

Seven instalment payments of $1,000 each ($12,000 ÷ 12) are due up to July 31, 2004.

After the wind-up

Taxation year-end December 31, 2004	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) are due up to December 31, 2004.

(1) The first instalment base year for the parent's 2004 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 2004 taxation year.

(2) The second instalment base year for the parent's 2004 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 2004 taxation year.

For the purpose of Regulation 5301(6), the instalment base year amounts for the parent's taxation year that ends on December 31, 2005, would be:

Taxation year-end December 31, 2005	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 next taxation year.

(1) The first instalment base year for the parent's 2005 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 2004 taxation year, multiplied by the number of complete months (7) in the parent's 2004 taxation year before the winding-up distribution divided by 12. Calculate this amount as follows: ($6,000 × 7) ÷ 12 = $3,500.

(2) The second instalment base for the parent's 2005 taxation year is $18,000. This amount is the total of:

- the parent's normal first instalment base year of $12,000 for its 2004 taxation year; and
- the subsidiary's first instalment base year of $6,000 for its 2004 taxation year.

Appendix 3 – Instalment base – Transfers

[Regulation 5301(8)]

On October 31, 2003, 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 have an income tax liability for its taxation year that includes the period July 1, 2003, to October 31, 2003, in which all or substantially all of its property has been disposed of, the actual tax assessed for that year will not be part of the transferee's instalment base in any year.

Taxation year-end	Transferee	Transferor
June 30, 2002	$14,000	$5,000
June 30, 2003	$12,000	$6,000
June 30, 2004 *	$20,000	N/A

* For the current taxation year ending on June 30, 2004, the transferee estimated its tax payable to be $20,000.

For the purpose of Regulation 5301(8), the instalment base year amounts for the transferee's taxation year that ended on June 30, 2004, would have been:

Before the rollover (November 1, 2003)

Taxation year-end June 30, 2004	First instalment base year	Second instalment base year
$20,000	$12,000	$14,000

Four instalment payments of $1,000 each ($12,000 ÷ 12) are due up to October 31, 2003.

After the rollover

Taxation year-end June 30, 2004	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) are due up to June 30, 2004.

(1) The first instalment base year for the transferee's 2004 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 2004 taxation year.

(2) The second instalment base year for the transferee's 2004 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 2004 taxation year.

For the purpose of Regulation 5301(8), the instalment base year amounts for the transferee's taxation year that ends on June 30, 2005, would be:

Taxation year-end June 30, 2005	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 transferee's next taxation year.

(1) The first instalment base year for the transferee's 2005 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 2004 taxation year, multiplied by the number of complete months (4) in the transferee's 2004 taxation year before the rollover divided by 12. Calculate this amount as follows: ($6,000 × 4) ÷ 12 = $2,000.

(2) The second instalment base for the transferee's 2005 taxation year is $18,000. This amount is the total of:

- the transferee's normal first instalment base year of $12,000 for its 2004 taxation year; and
- the transferor's first instalment base year of $6,000 for its 2004 taxation year.

Appendix 4 – The deficiency method of calculating instalment interest *

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

Assumptions: Start of taxation year: January 1, 2004

End of taxation year: December 31, 2004

Balance due date: February 28, 2005

Interest base: 12 payments of $20,000

Interest rate used for calculation purposes: 9% for the first quarter and 10% for all later quarters.

Date	Instalment payment due ($)	Payment received ($)	Balance ($)	Number of days	Interest rate (%)	Instalment interest ($)
January 31	20,000		20,000.00	29	9	143.12
February 29	20,000		40,143,12	2	9	19.74
March 2		(45,000)	(4,837,14)			
March 31	20,000		15,162.86	30	9	124.78
April 30	20,000		35,284.64	31	10	300.11
May 31	20,000		55,587.75	30	10	457.45
June 30	20,000		76,045.20	5	10	103.94
July 5		(90,000)	(13,850.86)			
July 31	20,000		6,149.14	31	10	52.30
August 31	20,000		26,201.44	15	10	107.59
September 15		(55,000)	(28,690.97)			
September 30	20,000		(8,690.87)			
October 31	20,000		11,309.03	15	10	46.44
November 15		(55,000)	(43,644.53)			
November 30	20,000		(23,644.53)			
December 31	20,000		(3,644.53)			
February 28 (balance due date)						
Total instalment interest						**1266.61**

Appendix 5 – Worksheet 2 – Example 1

Corporation A has estimated its tax for the year 2004 at $900,000. The actual taxes for the years 2003 and 2002 are $912,000 and $60,000 respectively. Using Worksheet 2, we will determine the most advantageous option.

Worksheet 2 – Calculating monthly instalment payments

Instalment payments are due each month of your corporation's taxation year.			
	Option 1 2004	**Option 2 2003**	**Option 3 2002**
Add: Part I tax payable	900,000	912,000	60,000
Part I.3 tax payable	+	+	+
Part VI tax payable	+	+	+
Part VI.1 tax payable	+	+	+
Part XIII.1 tax payable	+	+	+
Total of parts I, I.3, VI, VI.1, and XIII.1 tax *	=	=	=
Add: Provincial and territorial tax payable **	+	+	+
Total of parts I, I.3, VI, VI.1, and XIII.1 tax, as well as provincial and territorial tax	=	=	=
Subtract: Total 2004 estimated credits (Enter the amount from line D of Worksheet 1)	–	–	–
Instalment base amount	= 900,000	= 912,000	= 60,000
Divide by:	÷ 12	÷ 12	÷ 12
12 payments due under options 1 and 2	= 75,000	= 76,000	
Payments 1 and 2 under option 3			5,000
Prior-year instalment base (Option 2 instalment base amount above)			912,000
Subtract: Total of payments 1 and 2			– 10,000
Subtotal			= 902,000
Divide by:			÷ 10
Each of the remaining 10 payments			= 90,200

* If the total amount of parts I, I.3, VI, VI.1, and XIII.1 tax is $1,000 or less for either 2004 or 2003, the corporation does not have to make instalment payments on this amount for 2004.

** If the provincial and territorial tax is $1,000 or less for either 2004 or 2003, the corporation does not have to make instalment payments on this amount for 2004.

Option 1 is the most advantageous of the three options. Therefore, Corporation A will have to remit an instalment payment of $75,000 for each month. We may charge interest if the corporation uses option 1 and its estimated tax was lower than the year's actual tax and the tax calculated using option 2 or 3.

Appendix 6 – Worksheet 2 – Example 2

Corporation A has estimated its tax for the year 2004 at $912,000. The actual taxes for the year 2003 and 2002 are $912,000 and $60,000, respectively. Using Worksheet 2, we will determine the most advantageous option.

Worksheet 2 – Calculating monthly instalment payments

Instalment payments are due each month of your corporation's taxation year.

	Option 1 2004	Option 2 2003	Option 3 2002
Add: Part I tax payable	912,000	912,000	60,000
Part I.3 tax payable	+	+	+
Part VI tax payable	+	+	+
Part VI.1 tax payable	+	+	+
Part XIII.1 tax payable	+	+	+
Total of parts I, I.3, VI, VI.1, and XIII.1 tax *	=	=	=
Add: Provincial and territorial tax payable **	+	+	+
Total of parts I, I.3, VI, VI.1, and XIII.1 tax, as well as provincial and territorial tax	=	=	=
Subtract: Total 2004 estimated credits (Enter the amount from line D from Worksheet 1)	–	–	–
Instalment base amount	= 912,000	= 912,000	= 60,000
Divide by:	÷ 12	÷ 12	÷ 12
12 payments due under options 1 and 2	= 76,000	= 76,000	
Payments 1 and 2 under option 3			5,000
Prior-year instalment base (Option 2 instalment base amount above)			912,000
Less: the total of payments 1 and 2			– 10,000
Subtotal			= 902,000
Divide by:			÷ 10
Each of the remaining 10 payments			= 90,200

* If the total amount of parts I, I.3, VI, VI.1, and XIII.1 tax is $1,000 or less for either 2004 or 2003, you do not have to make instalment payments on this amount for 2004.

** If the provincial and territorial tax is $1,000 or less for either 2004 or 2003, you do not have to make instalment payments on this amount for 2004.

Option 3 is the most advantageous of the three options. Therefore, Corporation A will have to remit an instalment payment of $5,000 in each of the first two months and $90,200 for each of the last 10 months.