

T3 Trust Guide

2002

What's new for 2002?

T3 slip, *Statement of Trust Income Allocations and Designations*

We changed the look of the T3 slip to make it easier for the beneficiary to use. We kept the boxes that are most often used, and we turned the lesser-used boxes into generic boxes. You will fill out the generic boxes for amounts that are not often allocated or designated.

If you file the slip with us in an electronic format, you can now file amendments and cancellations electronically as

well. For more information, see "How to amend, cancel, or issue a duplicate T3 slip" on page 48.

T3 schedules

We made the line numbering on the T3 schedules simpler, to make them easier for you to use. The only exception is Schedule 9, *Income Allocations and Designations to Beneficiaries*, where the line numbers correspond to the boxes on the T3 slip.

Visually impaired persons can order publications in braille or large print, or on audio cassette or computer diskette, by calling **1-800-267-1267** weekdays from 8:15 a.m. to 5:00 p.m. (Eastern time).

Before you start

Is this guide for you?

In this guide, you will find information on how to complete the T3 *Trust Income Tax and Information Return*, the T3 slip, *Statement of Trust Income Allocations and Designations*, and the T3 Summary, *Summary of Trust Income Allocations and Designations*.

Use this guide if you are filing a return for either a testamentary trust or an inter vivos trust described in “Types of trusts” on page 7.

For easier reading, we have used the word “you” throughout the guide to mean the trustee, executor, administrator, liquidator, or anyone preparing the return for a trust. We use “the Act” to refer to the *Income Tax Act*, and “the Regulations” to refer to the *Income Tax Regulations*.

We have used plain language to explain the most common tax situations for trusts. If you need more help after reading this guide, you can call any of our tax services offices at 1-800-959-8281. For our addresses and other telephone numbers, see the listings in the government section of your telephone book and on the “Contact us” page of our www.ccra.gc.ca Web site.

Do you need to read the whole guide?

If you are filing a T3 return for an estate that has only pension income, investment income, or death benefits, you do not need to read the entire guide. We have used the ▲ symbol to lead you to the information you may need. This symbol appears in the Table of Contents, in the right margins of the guide, and in the left margins of the return, beside the lines that may relate to this situation.

Before you start to complete the return, be sure to read:

- “Chapter 1 – General Information”;
- the introduction and “Step 1 – Identification and other required information” in Chapter 2; and

- the introduction and “Recipient identification number” in Chapter 4.

Which tax package should you use?

Use the provincial or territorial forms package for the province or territory where the trust was resident on the last day of its taxation year.

You can get any other schedules and forms that you may need from our Web site, a tax services office or tax centre, or by calling 1-800-959-2221. Once you have completed the necessary schedules, forms, and statements, you will be ready to complete the return. Attach all documents to the return.

Note

The province of Quebec collects its own provincial income tax. Therefore, do not calculate provincial income tax on the trust’s federal return if it was resident in Quebec on the last day of its taxation year. However, if the trust had income from a business with a permanent establishment in another province or territory, you have to calculate that province’s or territory’s income tax on the trust’s federal tax return.

Fairness and client rights

At the Canada Customs and Revenue Agency, promoting fairness and our clients’ rights has long been a key goal. Recently, as part of the Fairness Initiative, we formalized our commitment to enhanced fairness through *Our Fairness Pledge*. We also publish a declaration of clients’ rights, as well as a guide called *Your Rights*. To get a copy of this guide or more information on fairness and clients’ rights, contact your tax services office or visit our Web site at www.ccra.gc.ca on the “Fairness and Client Rights” page.

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Glossary

This glossary provides a general description of the technical terms we use in this guide.

Administrator – a person appointed by a court to settle the estate of a deceased person.

Allocate, allocation – to assign, set apart, or distribute income from the trust to a beneficiary, when one of the following applies:

- the beneficiary is entitled to the income under the trust document;
- the trust makes a preferred beneficiary election to include the trust income in the beneficiary's income; or
- the beneficiary is paid income at the discretion of the trustee.

In most cases, the amounts you allocate have to be included in the beneficiary's income, and are deducted from the trust's income. For exceptions to this general rule, see "Exceptions and limits to income allocations" on page 33.

Arm's length transaction – a transaction between persons who each act in their own self-interest. Related persons are not considered to deal with each other at arm's length. Related persons include:

- individuals connected by blood relationship, marriage, common-law partnership, or adoption.
- a corporation and a shareholder who controls the corporation.

If a taxpayer, or any person not dealing at arm's length with that taxpayer, is beneficially interested in a specified personal trust, the taxpayer is not considered to deal at arm's length with that trust.

For more information, see Interpretation Bulletin IT-419, *Meaning of Arm's Length*.

Beneficiary – the person for whose benefit the trust is created, the person to whom the amount of an insurance policy or annuity is payable, or the unitholder of a mutual fund trust.

Common-law partner – this applies to a person of the opposite or same sex who is **not your spouse** (see page 6) when you live and have a relationship with that person. In addition, at least **one** of the following has to apply. He or she:

- is the natural or adoptive parent (legal or in fact) of your child;
- has been living and having a relationship with you for at least 12 continuous months; or
- lived with you previously for at least 12 continuous months as your spouse or common-law partner.

The above includes any period that you were separated for less than 90 days because of a breakdown in the relationship.

Deemed disposition – used when you are considered to have disposed of property, even though you did not sell it.

Designate, designation – to keep the identity of certain types of allocated income or credits. In this way, the beneficiaries can take advantage of deductions or credits that relate directly to the type of income, such as the dividend tax credit or pension income amount. Generally, you report amounts designated to a beneficiary in the appropriate box on the T3 slip.

Distribute, distribution – to divide the estate property among the beneficiaries according to the terms of the trust document, or according to the applicable law.

Elect, election – to choose whether to do something allowed under the law.

Excluded property – a share of the capital stock of a non-resident-owned investment corporation that is not taxable Canadian property.

Executor – an individual or trust institution named in a will and confirmed by a court to settle the testator's estate. We define "testator" on the next page.

Exempt property – is trust property that, if disposed of, any income or capital gain resulting from the disposition is exempt from Canadian taxation, either because the trust is not resident in Canada, or because of a tax treaty.

Flow-through entity – any of the following:

- an investment corporation;
- a mortgage investment corporation;
- a mutual fund corporation;
- a mutual fund trust;
- a partnership;
- a related segregated fund trust;
- a trust governed by an employees profit sharing plan;
- a trust created to hold shares of the capital stock of corporations for the benefit of their employees;
- a trust established for the benefit of creditors to secure certain debt obligations; or
- a trust established to hold shares of the capital stock of a corporation to exercise the voting rights attached to such shares.

Gift – a voluntary transfer of property (including money) without valuable consideration. Also, see the definition of "inter vivos gift."

Inter vivos – between living persons.

Inter vivos gift – a gift of property by a living person (donor). The property has to be delivered during the lifetime of the donor and without reference to his or her death.

Liquidator – in Quebec, the liquidator is responsible for distributing assets of all estates established after December 31, 1993. For estates with a will, the liquidator's role is similar to an executor's. For estates without a will, the liquidator acts as the administrator of the estate.

Preferred beneficiary – for taxation years after 1996, a person resident in Canada who is a beneficiary under the trust at the end of the year, and who is one of the following:

- the settlor of the trust (see the definition of “settlor”);
- the spouse or common-law partner, or former spouse or common-law partner, of the settlor of the trust;
- a child, grandchild, or great-grandchild of the settlor of the trust; or
- the spouse or common-law partner of a child, grandchild, or great-grandchild of the settlor of the trust.

In addition, this person must meet one of the following conditions:

- can claim a disability amount for the taxation year that ends in the trust’s taxation year or could have claimed the disability amount had attendant or nursing home care expenses claimed in respect of his or her care been otherwise ignored; or
- is 18 or older and, for the taxation year that ends in the trust’s taxation year, does not claim a disability amount, and for whom another individual can claim an amount for infirm dependants 18 and older for that beneficiary, or could claim the amount if the beneficiary’s income is calculated before including the income from the preferred beneficiary election.

Principal residence – generally, any of the following:

- a housing unit;
- a leasehold interest in a housing unit; or
- a share of a co-operative housing corporation, if the share is acquired for the sole purpose of obtaining the right to live in a housing unit owned by that corporation.

For more information, see “Principal residence” on page 27.

Settlor – the person who sets up a trust, or the person who transfers property to a trust. For more information about the restrictive meaning of settlor, see Interpretation Bulletin IT-374, *Meaning of “Settlor.”*

Spouse – This applies only to a person who is legally married.

Testator – the deceased person who made and left a valid will.

Trust – a binding obligation, voluntarily undertaken, but enforceable by law when undertaken. It may be created by one of the following:

- a person (either verbally or in writing);
- a court order; or
- a statute.

A trust has three essential characteristics. There has to be certainty of:

- the intent to create a trust;
- the property to be placed in trust; and
- who the beneficiaries of the trust are.

Trustee – an individual or trust institution that holds legal title to property in trust for the benefit of the trust beneficiaries. The trustee includes an executor, administrator, assignee, receiver, or liquidator who owns or controls property for some other person.

Vested interest – an immediate fixed interest in property, although the right of possession and enjoyment may be postponed.

Will – a legally enforceable document that declares the intentions about disposal and administration of the testator’s estate after his or her death. It is effective only at death and can be revoked at any time before death.

Chapter 1 – General Information

This chapter provides general information on the different types of trusts and the filing requirements for each.

Types of trusts

A trust is either a testamentary trust or an inter vivos trust. You need to know the type of trust, since different tax rules apply to different trusts. Chart 1 describes the different types of trusts that we discuss in this guide.

Testamentary trust ▲

A testamentary trust is a trust or estate that is generally created on the day a person dies. All testamentary trusts are personal trusts. The terms of the trust are established by the will or by court order in relation to the deceased individual's estate under provincial dependant's relief or support law.

Generally, this type of trust does not include a trust created by a person other than a deceased individual, or a trust created after November 12, 1981, if any property was contributed to it other than by a deceased individual. Contact us for rules about testamentary trusts created before November 13, 1981.

If the assets are not distributed to the beneficiaries according to the terms of the will, the testamentary trust may become an inter vivos trust.

Inter vivos trust

An inter vivos trust is a trust that is not a testamentary trust.

Grandfathered inter vivos trust

A grandfathered inter vivos trust is one established before June 18, 1971, which:

- was resident in Canada without interruption from June 18, 1971, until the end of the taxation year;
- did not carry on any active business in the taxation year;
- did not receive any property as a gift since June 18, 1971;
- after June 18, 1971, did not incur any debt or obligation to pay an amount to, or guaranteed by, any person with whom any beneficiary of the trust was not dealing at arm's length; and
- did not receive any property after December 17, 1999, as a transfer from another inter vivos trust, where:
 - the other trust is not grandfathered; and
 - there is no change in the beneficial ownership of the property on its transfer.

Chart 1 – Types of Trusts

Type of trust	General information
▲ Personal trust	<p>This is either:</p> <ul style="list-style-type: none"> ■ a testamentary trust; or ■ an inter vivos trust in which no beneficial interest was acquired for consideration payable either to the trust, or to a person who contributed to the trust. <p>The person or related persons who create an inter vivos trust may acquire all the interests in it without the trust losing its status as a personal trust.</p> <p>After 1999, a unit trust is not a personal trust.</p>
▲ Spousal or common-law partner trust	<p>A post-1971 spousal or common-law partner trust includes both a testamentary trust created after 1971, and an inter vivos trust created after June 17, 1971, for which the living beneficiary spouse or common-law partner is entitled to receive all the income that may arise during the lifetime of the spouse or common-law partner, and that spouse or common-law partner is the only person who can receive, or get the use of, any income or capital of the trust during his or her lifetime.</p> <p>A pre-1972 spousal trust includes both a testamentary trust created before 1972, and an inter vivos trust created before June 18, 1971, for which the beneficiary spouse was entitled to receive all the income during the spouse's lifetime, and no other person received, or got the use of, any income or capital of the trust. These conditions must be met for the period beginning on the day the trust was created, up to the earliest of the following dates:</p> <ul style="list-style-type: none"> ■ the day the beneficiary spouse dies; ■ January 1, 1993; or ■ the day on which the definition of a pre-1972 spousal trust is applied.
Joint spousal or common-law partner trust	<p>This is an inter vivos trust created after 1999 by a settlor who was 65 years of age or older at the time the trust was created, for which the settlor and the settlor's spouse or common-law partner are entitled to receive all the income that may arise from the trust before the later of their deaths, and are the only persons who can receive, or get the use of, any income or capital of the trust before the later of their deaths.</p>

Chart 1 – (continued)

Type of trust	General information
Alter ego trust	This is an inter vivos trust created after 1999 by a settlor who was 65 years of age or older at the time the trust was created, for which the settlor is entitled to receive all the income that may arise during his or her lifetime, and is the only person who can receive, or get the use of, any income or capital of the trust during the settlor's lifetime. A trust will not be considered to be an alter ego trust if you file an election with the trust's return for its first taxation year asking not to have this provision of the Act apply.
Offshore trust	This is a trust, not resident in Canada, that may have to report its passive (non-business) income, its income earned in Canada, and its dispositions of taxable Canadian property, for Canadian tax purposes. This provision may apply where the non-resident trust has or had a Canadian beneficiary, or a person resident in Canada is beneficially interested in the trust, and one of the following applies: <ul style="list-style-type: none"> ■ the trust acquired property from that person or from someone related to that person (including an aunt, uncle, nephew, or niece); ■ the beneficiary acquired an interest in the trust; or ■ under proposed legislation, a Canadian resident transfers or loans property to the trust (the trust must report its world income).
Unit trust	This is an inter vivos trust for which the interest of each beneficiary can be described at any time by referring to units of the trust. The trust also has to satisfy the other conditions of the Act.
Mutual fund trust	This is a unit trust that resides in Canada, whose only undertaking is the investing of its funds in property (other than real property, or an interest in real property), and/or acquiring, maintaining, leasing, or managing real property or an interest in real property that is capital property of the trust. It also has to comply with the other conditions of the Act and the conditions prescribed by Regulations.
Communal organization	We consider an inter vivos trust to exist when a congregation: <ul style="list-style-type: none"> ■ has members who live and work together; ■ does not permit its members to own property in their own right; ■ requires that its members devote their working lives to the congregation's activities; and ■ carries on one or more businesses directly, or manages or controls the businesses through a business agency, such as a corporation or trust, to support or sustain its members or the members of another congregation. <p>The communal organization has to pay tax as though it were an inter vivos trust. However, it can elect to allocate its income to the beneficiaries. For more information, see Information Circular 78-5, <i>Communal Organizations</i>.</p>
Employee benefit plan	Generally, this is any arrangement under which an employer makes contributions to a custodian, and under which one or more payments will be made to, or for the benefit of, employees, former employees, or persons related to them. <p>For more information, and for details on what we consider to be an employee benefit plan and how it is taxed, see Interpretation Bulletin IT-502, <i>Employee Benefit Plans and Employee Trusts</i>, and its Special Release.</p> <p>Filing note: An employee benefit plan has to file a return if the plan or trust has tax payable, has a taxable capital gain, or has disposed of capital property.</p> <p>Because the allocations are taxed as income from employment to the beneficiaries, report the allocations on a T4 slip, not on a T3 slip. For more information, see the guides called <i>Filing the T4 Slip and Summary Form</i> and <i>Filing the T4F Slip and Summary Form</i>.</p>
Specified personal trust	This is a personal trust but does not include: an amateur athlete trust; an employee trust; a master trust; a trust governed by a deferred profit sharing plan, an employee benefit plan, an employees profit sharing plan, a foreign retirement arrangement, a registered education savings plan, a registered pension plan, a registered retirement income fund, a registered retirement savings plan, or a registered supplementary unemployment benefit plan; a related segregated fund trust; a retirement compensation arrangement trust; a trust whose direct beneficiaries are one of the aforementioned trusts; a trust governed by an eligible funeral arrangement or a cemetery care trust; and a communal organization.

Chart 1 – (continued)

Type of trust	General information
<p>Salary deferral arrangement</p>	<p>Generally, this is a plan or arrangement (whether funded or not) between an employer and an employee or another person who has a right to receive salary or wages in a year after the services have been rendered.</p> <p>For more information, see Interpretation Bulletin IT-529, <i>Flexible Employee Benefit Programs</i>.</p> <p>Filing note: If a salary deferral arrangement is funded, we consider it a trust, and you may have to file a T3 return. The deferred amount is deemed to be an employment benefit, so you report it on a T4 slip, not on a T3 slip. The employee has to include the amount in income for the year the services are rendered. The employee also has to include any interest, or other amount earned by the deferred amount. For more information, see the guides called <i>Filing the T4 Slip and Summary Form</i> and <i>Filing the T4F Slip and Summary Form</i>.</p>
<p>Retirement compensation arrangement (RCA)</p>	<p>This arrangement exists when an employer makes contributions for an employee's retirement, termination of employment, or any significant change in services of employment.</p> <p>For more information, see the <i>Retirement Compensation Arrangements Guide</i>.</p> <p>Filing note: You have to file a T3 return for the portion of an RCA that is treated as an employee benefit plan. A T3-RCA, <i>Part XI.3 Tax Return – Retirement Compensation Arrangement (RCA)</i>, has to be filed to report the income of the other portion of the plan.</p>
<p>Insurance segregated fund trust</p>	<p>Considered to be an inter vivos trust, this is a related segregated fund of a life insurer for life insurance policies. The fund's property and income are considered to be the property and income of the trust, with the life insurer as the trustee.</p> <p>Filing note: You have to file a separate return and financial statements for each fund. If all the beneficiaries are fully registered plans, complete only the identification and certification areas of the return and enclose the financial statements. If the beneficiaries are both registered and non-registered plans, report and allocate only the income that applies to the non-registered plans.</p>
<p>Non-profit organization</p>	<p>This is an organization (for example, club, society, or association) that is usually organized and operated exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit. The organization will generally be exempt from tax if no part of its income is payable to, or available for, the personal benefit of a proprietor, member, or shareholder. For more information, see Interpretation Bulletin IT-496, <i>Non-Profit Organizations</i>, and its Special Release.</p> <p>Note that if the main purpose of the organization is to provide services such as dining, recreational, or sporting facilities to its members, we consider it to be an inter vivos trust. In this case, the trust is taxable on its income from property, and on any taxable capital gains from the disposition of any property that is not used to provide those services. The trust is allowed a deduction of \$2,000 when calculating the trust's taxable income. Claim this on line 54 of the return.</p> <p>For more information, see Interpretation Bulletin IT-83, <i>Non-Profit Organizations – Taxation of Income From Property</i>.</p> <p>Filing note: A non-profit organization may have to file Form T1044, <i>Non-Profit Organization (NPO) Information Return</i>. For more information, see the <i>Income Tax Guide to the Non-Profit Organization (NPO) Information Return</i>.</p>
<p>Employee trust</p>	<p>This is an inter vivos trust. Generally, it is an arrangement established after 1979, under which an employer makes payments to a trustee in trust for the sole benefit of the employees. The trustee has to elect to qualify the arrangement as an employee trust on the trust's first return. The employer can deduct contributions to the plan only if the trust has made this election and filed it no later than 90 days after the end of its first taxation year. To maintain its employee trust status, each year the trust has to allocate to its beneficiaries all non-business income for that year, and employer contributions made in the year. Business income cannot be allocated, and is taxed in the trust.</p> <p>For more information, see Interpretation Bulletin IT-502, <i>Employee Benefit Plans and Employee Trusts</i>, and its Special Release.</p> <p>Filing note: An employee trust has to file a return if the plan or trust has tax payable, has a taxable capital gain, or has disposed of capital property.</p> <p>Because the allocations are taxed as income from employment to the beneficiaries, report the allocations on a T4 slip, not on a T3 slip. For more information, see the guides called <i>Filing the T4 Slip and Summary Form</i> and <i>Filing the T4F Slip and Summary Form</i>.</p>

Chart 1 – (continued)

Type of trust	General information
Master trust	<p>This is an inter vivos trust. A trust can elect to be a master trust if during the entire time since its creation it met all of the following conditions:</p> <ul style="list-style-type: none"> ■ it was resident in Canada; ■ its only undertaking was the investing of its funds; ■ it never borrowed money except for a term of 90 days or less (for this purpose, the borrowing cannot be part of a series of loans or other transactions and repayments); ■ it has never accepted deposits; and ■ each of its beneficiaries is a registered pension plan or a deferred profit sharing plan. <p>Filing note: A master trust is exempt from Part I tax. A trust can elect to be a master trust by indicating this in a letter filed with its return for the taxation year the trust elects to become a master trust. Once made, this election cannot be revoked. However, the trust must continue to meet the conditions listed above, to keep its identity as a master trust. After the first T3 return is filed for the master trust, you do not have to file any further T3 returns for this trust. However, if the trust exceeds the foreign content limit, you may have to file a T3D, <i>Income Tax Return for Deferred Profit Sharing Plan (DPSP) or Revoked DPSP</i>, or a T3P, <i>Employees' Pension Plan Income Tax Return</i>. For more information, get a copy of these returns.</p>
RRSP, RRIF, or RESP trust	<p>Filing note: An RRSP, RRIF, or RESP trust has to complete and file a T3 return if the trust meets one of the following conditions:</p> <ul style="list-style-type: none"> ■ the trust has borrowed money and paragraph 146(4)(a) or 146.3(3)(a) applies; ■ the RRIF trust received a gift of property and paragraph 146.3(3)(b) applies; or ■ the last annuitant has died and paragraph 146(4)(c) or subsection 146.3(3.1) applies. If this is the case, claim an amount on line 43 of the return only if the allocated amounts were paid in accordance with paragraph 104(6)(a.2). <p>If the trust does not meet one of the above conditions and the trust held non-qualified investments, you have to complete a T3 return to calculate the taxable income from non-qualified investments, determined under subsection 146(10.1) or 146.3(9). If the trust is reporting capital gains or losses, it has to report the full amount (i.e., 100%) on line 01 of the return.</p> <p>If the trust does not meet one of the above conditions and the trust carried on a business, you have to complete a T3 return to calculate the taxable income of the trust from carrying on a business. Do not include the business income earned from the disposition of qualified investments for the trust.</p>

Who should file? ▲

You have to file a return if income from the trust property is subject to tax, and in the taxation year the trust:

- has tax payable;
- is a Canadian resident and has a taxable capital gain or has disposed of a capital property;
- is a non-resident throughout the year, and has a taxable capital gain or has disposed of taxable Canadian property;
- is an offshore trust;
- has provided a benefit of more than \$100 to a beneficiary for upkeep, maintenance, or taxes for property maintained for the beneficiary's use (for more information, see Line 43 on page 20); or
- receives from the trust property any income, gain, or profit that is allocated to one or more beneficiaries, and the trust has:
 - total income from all sources of more than \$500;
 - income of more than \$100 allocated to any single beneficiary; or
 - allocated any portion of the income to a non-resident beneficiary.

Note

You may not have to file a return if the estate is distributed immediately after the person dies, or if the estate did not earn income before the distribution. In these cases, you should give each beneficiary a statement showing his or her share of the estate.

What to file? ▲

Trusts listed in Chart 1 may have to file a *T3 Trust Income Tax and Information Return*, and any related schedules and statements, if they meet the requirements listed above in "Who should file?" The T3 return is filed as both an income tax return, which calculates tax liability, and an information return, which reports amounts allocated and designated to beneficiaries. You may also have to file the following forms, depending on the type of amounts paid or allocated by the trust.

- If the trust allocated amounts to resident beneficiaries, use the T3 Summary and the related T3 slips. See Chapter 4 on page 45 for more information.
- If the trust paid executor, liquidator, or trustee fees to a resident of Canada, or if an employee benefit plan or an employee trust made distributions other than a return of employee contributions, use a T4 Summary, *Summary of Remuneration Paid*, and the related T4 slips, *Statement of*

Remuneration Paid. For more information, see the guide called *Filing the T4 Slip and Summary Form*.

- If the trust paid scholarships, fellowships, bursaries, prizes, or research grants to a resident of Canada, use a T4A Summary, *Summary of Pension, Retirement Annuity, and Other Income*, and the related T4A slips, *Statement of Pension, Retirement, Annuity, and Other Income*. For more information, see the guide called *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary Form*.
- If the trust paid or credited, or is considered to have paid or credited, amounts to a non-resident beneficiary, use an NR4 Summary, *Return of Amounts Paid or Credited to Non-Residents of Canada*, and the related NR4 slips, *Statement of Amounts Paid or Credited to Non-Residents of Canada*. For more information, see the *Non-Resident Withholding Tax Guide*.
- If the trust paid fees to a non-resident of Canada for services performed in Canada, use a T4A-NR Summary, *Fees, Commissions, or Other Amounts Paid to Non-Residents for Services Rendered in Canada*, and the related T4A-NR slips, *Statement of Fees, Commissions, or Other Amounts Paid to Non-Residents for Services Rendered in Canada*. For more information, see the *Non-Resident Withholding Tax Guide*.

Note

For the first T3 return filed, ensure a copy of the will or trust document is attached.

When to file?

The filing due date depends on the trust's taxation year end.

Filing dates

You have to file the return, T3 and NR4 slips, and T3 and NR4 summaries no later than **90 days** after the end of the trust's taxation year (see "Taxation year" on this page). You should also pay any balance owing no later than 90 days after the trust's taxation year end.

If the information slips you need to complete the return are not available when the return is due, **estimate** the income. If, after you receive the slips, you find your estimate differs from the actual amounts, send the slips and a letter to us, requesting an adjustment to the trust's income. For more information, see "Reassessments" on page 13.

If you mail the return first class, or if you use an equivalent delivery service, we consider the date of the postmark on the envelope to be the day you filed the return.

If the required filing date falls on a Saturday, Sunday, or a statutory holiday, we will consider it filed on time if it is delivered on, or if the postmark on the envelope is, the first working day after the required filing date.

For information on late-filing penalties and interest on unpaid taxes, see "Penalties and interest" on page 13.

Note

You have to file T4, T4A, and T4A-NR slips by the last day of February after the calendar year in which the trust made the payment.

Deadline for distributing T3 slips – You must send T3 slips to the beneficiary's last known address no later than 90 days after the end of the trust's taxation year. If you have the information you need to complete the slips before that deadline, we encourage you to send them to the beneficiaries as early as possible.

Final return

If you are filing the final return for the trust, you have to file the return and pay any balance owing no later than 90 days after the trust's wind-up (discontinuation) date. You have to enter the wind-up date on page 1 of the return.

If you wind up a **testamentary trust**, the taxation year will end on the date of the final distribution of the assets. If you wind up an **inter vivos trust**, you may want to file a final return before the end of the trust's taxation year. In either case, you should get a clearance certificate before you distribute the trust property. For more information, see "Clearance certificate" on page 14.

Taxation year

Inter vivos trust

The taxation year end of an inter vivos trust is December 31, except for a mutual fund trust that elects to have a December 15 year end.

A mutual fund trust that previously elected to have a December 15 year end can revoke the election. For more information, contact us.

Testamentary trust

The taxation year end of a testamentary trust may be, but does not have to be, December 31. The first taxation period of the trust begins on the day after the person dies, and ends at any time you select within the next 12 months. The tax rates used, and the tax year of the slips issued to the beneficiaries, are based on the year end of the trust.

You may prefer to choose a December 31 year end for a testamentary trust for several reasons:

- **Availability of forms** – The current-year trust returns and related schedules are usually not available until the end of the calendar year. A 2003 return due before the forms are available would have to be filed on a 2002 form, which might not contain current-year changes or information.
- **Easier form completion** – Generally, it is easier to complete forms and to interpret rules when the taxation year coincides with the calendar year.
- **Availability of information** – Most information slips for income amounts are issued for a calendar year (for example, a T5 slip for bank interest).
- **Minimum delay in assessing** – Changes to law generally require changing the processing procedures for the return. If the return has a taxation year ending early in a calendar year, we may have to delay assessing the return until the law is passed and the new procedures are in place.

There may also be advantages to choosing a non-calendar year end. Elections to transfer certain estate losses incurred

and certain gains realized on employee stock options during the first taxation year of the trust to the deceased person's return for the year of death, and the timing of income receipts may play an important role when you choose the trust's taxation year.

Once you establish the trust's year end, you **cannot** change it without our approval. Requests will be approved only if the change is for sound business reasons. Normally, retroactive changes will not be approved. For more information, see Interpretation Bulletin IT-179, *Change of Fiscal Period*.

Note

If the assets of the testamentary trust are not distributed to the beneficiaries according to the terms of the will, the testamentary trust may become an inter vivos trust. If this is the case, change the taxation year of the trust to December 31 if the trust is not already filing on this basis. On the first return with a December 31 year end, attach a note to explain the situation. In the year of change, the taxation year may be less than, but not more than, 12 months.

Where to file? ▲

Where you file the return depends on the residency of the trust. Generally, we consider a trust to reside where the trustee, executor, administrator, liquidator, or other legal representative who manages the trust or controls the trust's assets lives.

A trust is a resident of Canada or a non-resident of Canada. The residence of the trust will determine the appropriate tax rates.

For more information, see Interpretation Bulletin IT-447, *Residence of a Trust or Estate*.

Trusts resident in Canada

Send the return to:

Ottawa Technology Centre
Canada Customs and Revenue Agency
Ottawa ON K1A 1A2

If you have questions about **resident** trusts, contact us at **1-800-959-8281**. For our addresses and other telephone numbers, visit our Web site or see the listings in the government section of your telephone book.

Non-resident trusts

Send the return to:

International Tax Services Office
Canada Customs and Revenue Agency
Ottawa ON K1A 1A8

If you have questions about **non-resident** trusts, call the International Tax Services Office at one of the following numbers:

When calling from:

The Ottawa area **952-8753**
Other Canadian and U.S. locations **1-800-267-5177**
Outside Canada and U.S.* **613-952-8753**

* We accept collect calls.

How to file? ▲

You can use the following formats to file the return, the summary, and the related slips.

Paper return, summary, and slips – You can use the forms that we print, or your own computer-printed (customized) forms. If you file more than 500 slips, see “Filing on magnetic media” below. If you design and issue your own customized forms, you have to get written approval from us. For more information, see Information Circular 97-2, *Customized Forms*.

Filing on magnetic media – If the trust has a taxation year end of December 31, or is a mutual fund trust with a taxation year end of December 15, and:

- you file more than 500 slips (the total number of T4, T4A, T4A-NR, T4RIF, T5, T5008, T4RSP, NR4, and T3 slips), you have to file the slips and summary on magnetic tape, cartridge, CD-ROM, or diskette; or
- you file 500 or less slips, and you use a computerized system to generate them, we encourage you to file the slips and summary on magnetic media.

If you are a tax preparer, and you file a total of more than 500 slips (the total number of T4, T4A, T4A-NR, T4RIF, T5, T5008, T4RSP, NR4, and T3 slips), you also have to file using magnetic media.

Mutual fund trusts that file T3 slips on magnetic media may combine the income and capital gains from several funds onto one T3 slip for each unitholder. However, when you combine the slips you have to:

- prepare the tape, cartridge, CD-ROM, or diskette of summaries and slips, which you submit to the Canada Customs and Revenue Agency (CCRA) at the individual fund level;
- provide unitholders with statements that allow them to reconcile the amounts reported on the combined information slips; and
- maintain an audit trail so the combined information slips can be verified if the CCRA audits these funds later.

If you file on magnetic media, send us the tape, cartridge, CD-ROM, or diskette on or before the filing deadline. Do not send a paper copy of the summary or slips.

If you are participating in the magnetic media filing program for the first time, send us a test tape, cartridge, CD-ROM, or diskette for our approval at least two months before the filing deadline. For technical specifications, see the *Computer Specifications for Data Filed on Magnetic Media – T5, T5008, T4RSP, T4RIF, NR4, and T3* guide on our Web site at the following address: www.cca.gc.ca/magmedia/.

For more information about this method of filing, you can call us at **1-800-665-5164**.

If you prefer, you can write to:

Magnetic Media Processing Unit
Ottawa Technology Centre
Canada Customs and Revenue Agency
Ottawa ON K1A 1A2

Penalties and interest ▲

Penalties

If you do not file the trust's income tax return by the required date, we will charge a late-filing penalty on any unpaid tax. The penalty is 5% of the unpaid tax plus 1% of the unpaid tax for each full month that the return is late, to a maximum of 12 months.

The late-filing penalty will be **higher** if we issued a demand to file the return, and we assessed a late-filing penalty for any of the three previous years' returns. In this case, the penalty is 10% of the unpaid tax, plus 2% of the unpaid tax for each full month that the return is late, to a maximum of 20 months.

If you fail to report an amount on the return, we may charge you a penalty. If you do this more than once within a four-year period, you will have to pay an extra penalty.

If you file an information return late, or do not distribute two copies of the related slips to the beneficiaries by the required date, you will be liable to a penalty. This penalty is \$25 a day for each day they are late, from a minimum of \$100 to a maximum of \$2,500.

If you are convicted of not filing a return or slip as required, you are liable to a fine ranging from a minimum of \$1,000 to a maximum of \$25,000, or to a fine and imprisonment for a period of up to 12 months.

You will be liable to a penalty if, due to culpable conduct, you prepare income tax or information returns, forms, or certificates on behalf of another person, and you make false statements or omissions. The penalty is the greater of \$1,000 and 50% of the tax avoided or refunded as a result of the false information. This penalty is applicable to false statements or omissions made after June 29, 2000.

You will also be liable to a penalty if, due to culpable conduct, you counsel others to file tax returns based on false or misleading information, or you disregard false information provided by your clients for tax purposes.

Interest

We pay compounded daily interest on a tax refund starting on the **latest** of:

- the 46th day after the return is due;
- the 46th day after the return is filed; or
- the day after the overpayment arises.

We charge interest on unpaid amounts and the total amount of penalties assessed. We calculate this interest, compounded daily, at a prescribed rate from the date the unpaid amount was due until the date of its payment.

Cancelling or waiving penalties and interest

We may cancel or waive all or a portion of penalties and interest because of circumstances beyond your control. For more information, see Information Circular 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*.

After you file ▲

Processing times

We can usually process a T3 return in four months. If you filed a return for the first year of a testamentary trust, and you chose a taxation year end other than December 31, it may take longer to process the return. For more information, see "Taxation year" on page 11.

Reassessments

If you need to change a return after you send it to us, **do not** file another return for that taxation year. Send us a letter providing the details of the change. Make sure that you indicate the taxation year you want us to change, and attach any supporting documents. You should also include the trust's account number on the letter.

We can reassess your return, make additional assessments, or assess tax, interest, or penalties within:

- three years (four years for mutual fund trusts) from the date we mailed your original *Notice of Assessment* or a notice that no tax was payable for the taxation year (this period is called the "normal reassessment period"). We consider the date appearing on the notice to be the date that we mailed it; or
- six years (seven years for mutual fund trusts) from the date we mailed your original *Notice of Assessment* to allow or change a carryback of certain deductions, such as a loss or an unused investment tax credit.

Your request should be postmarked before the end of the periods mentioned above for us to consider reassessing your return.

In certain cases, we can reassess a **testamentary trust** as far back as 1985 to give you a refund or reduce the tax owing. For more information, see Information Circular 92-3, *Guidelines for Refunds Beyond the Normal Three Year Period*.

We usually base our initial assessment on the income you report. Later, we may select the return for a more in-depth review or audit. We can also reassess a return at any time if:

- you have made a misrepresentation because of neglect, carelessness, willful default, or fraud in either filing the return or supplying information required by the Act; or
- you file Form T2029, *Waiver in Respect of the Normal Reassessment Period*, with your tax services office before the normal reassessment period expires. If you want to revoke a waiver you previously filed, file Form T652, *Notice of Revocation of Waiver*. The revocation will take effect six months after you file Form T652.

Elections

Under certain circumstances, we may allow you to make a late or amended election, or revoke an original election. This applies to the following elections that we discuss in this guide:

- 164(6) election by a testamentary trust (see page 24); and
- preferred beneficiary election (see page 35).

A late, amended, or revoked election is subject to a penalty of \$100 for each complete month from the due date of the election to the date of the request. The maximum penalty is \$8,000.

For more information, see Information Circular 92-1, *Guidelines for Accepting Late, Amended or Revoked Elections*.

What records do you have to keep?

You have to keep your books, records, and supporting documents in case we need to verify the income or loss you reported on the return. Generally, you must keep them for at least six years from the taxation year end to which they relate. However, you can request permission to dispose of them before the end of this period. For more information, see Information Circular 78-10, *Books and Records Retention/Destruction*.

Clearance certificate

You have to get a clearance certificate before distributing any property under your control. However, you can distribute property without a clearance certificate, as long as you keep sufficient property in the trust to pay any liability to us. By getting this certificate, you will avoid being personally liable for unpaid taxes, interest, and penalties.

We **cannot** issue a clearance certificate until you:

- have filed all the required returns and we have assessed them; and
- have paid or secured all amounts owing.

To ask for a clearance certificate, complete Form TX19, *Asking for a Clearance Certificate*. Send the completed Form TX19 to the Assistant Director, Verification and Enforcement Division, at your tax services office. Send the form after you have received a *Notice of Assessment* for each return. Do not include Form TX19 with a tax return.

For more information, see Information Circular 82-6, *Clearance Certificate*.

Chapter 2 – Completing the Return

The *T3 Trust Income Tax and Information Return* is a four-page form with related schedules. The following information will help you to complete the return.

Step 1 – Identification and other required information ▲

Complete all items on page 1 of the return. The assessment of the return may be delayed if you do not provide all the information.

- **Name of trust** – Use the same name on all returns and correspondence for the trust.
- **Trust account number** – If we have assigned an account number to the trust, enter it in this space. Include this number on all correspondence related to the trust. If this

is the first return for the trust, we will issue an account number after we receive the return.

- **Residence of trust** – For information about the residence of the trust, see “Where to file?” on page 12.

- **Yukon First Nations** – If the trust resides on Yukon First Nations settlement land, answer “Yes,” and enter the First Nations name and identification number in the spaces provided. The settlement lands and their numbers are:

Champagne and Aishihik	11002
Little Salmon/Carmacks	11006
Nacho Nyak Dun	11007
Selkirk	11009
Teslin Tlingit	11011
Tr’ondëk Hwëch’in	11012
Vuntut Gwitchin	11013

When you enter this information on the return, we will transfer part of any tax payable to the government of the First Nations settlement where the trust resides.

- **Date of entry or departure** – Provide the date the trust entered or departed Canada during the taxation year.
- **Type of trust** – It is important that you complete this section correctly because we use this information to determine the correct rate of tax. To identify the correct type of trust, see the chart on page 7.

For testamentary trusts, use the “Other” box to identify trusts that are not spousal or common-law partner trusts. For inter vivos trusts, use the “Personal trust” box to identify personal trusts that are not spousal or common-law partner trusts or communal organizations.

For RRSP, RRIF, or RESP trusts, use the “Other inter vivos” box and specify the type of trust on the line below.

- **Date of death** (testamentary trust) or **date trust was created** (inter vivos trust) – Provide this information on each return filed.
- **Non-profit organization** – If the non-profit organization is incorporated, enter the business number.
- **Offshore trust** – Indicate if the trust is an offshore trust and provide its country of residence. See the definition of offshore trust in “Chart 1 – Types of Trusts” on page 7.

Reporting foreign income and property

If the trust is resident in Canada, you have to report its income from **all** sources, both inside and outside Canada.

Depending on the trust’s situation, you may have to file the following forms in addition to a T3 return. These forms contain more information about filing them.

- Form T1134-A, *Information Return Relating to Foreign Affiliates That Are Not Controlled Foreign Affiliates*, for a trust with a foreign affiliate that is not a controlled foreign affiliate.
- Form T1134-B, *Information Return Relating to Controlled Foreign Affiliates*, for a trust with a controlled foreign affiliate trust or corporation.

- Form T1141, *Information Return in Respect of Transfers or Loans to a Non-Resident Trust*, for a trust that has made transfers or loans of property to a corporation that would have been a controlled foreign affiliate of a foreign trust if the foreign trust had been resident in Canada, or to a foreign trust in any year, or whose controlled foreign affiliate has made transfers or loans of property to a corporation that would have been a controlled foreign affiliate of a foreign trust if the foreign trust had been resident in Canada, or to a foreign trust (except specified foreign pension plans, specified foreign mutual fund trusts, and trusts governed by foreign retirement arrangements).
- Form T1142, *Information Return in Respect of Distributions From and Indebtedness to a Non-Resident Trust*, for a trust that receives distributions from, or is indebted to, a foreign trust in which it has a beneficial interest (except specified foreign pension plans and trusts governed by foreign retirement arrangements).

Note

If we consider a trust to be resident in Canada because of paragraph 94(1)(c) of the Act, then we consider it to be resident for purposes of the filing of Forms T1134-A, T1134-B, or T1135. However, these trusts **do not** have to file Forms T1141 and T1142. The beneficiaries of or contributors to this kind of trust will have to file these forms.

The trust may either hold foreign property owned by the trust, or it may own a share of foreign property in which it has an interest. If the total cost of all the trust's foreign holdings is more than CAN\$100,000, complete Form T1135, *Foreign Income Verification Statement*. Form T1135 contains more information about filing, and a complete list of the different kinds of foreign property.

The deadline for filing these forms is the same as the return's filing due date (see "Filing dates" on page 11).

Note

There are substantial penalties for failing to complete and file these forms by the due date.

Foreign property includes:

- funds held outside Canada, including a foreign bank account;
- tangible property located outside Canada, including real estate and equipment;
- shares in foreign corporations;
- an interest in a foreign trust, including a foreign mutual fund trust;
- intangible property located outside Canada, such as rights to royalties, and a share of a Canadian corporation deposited with a foreign broker; and
- a debt (such as a note, bond, or debenture) owed or issued by a non-resident.

Foreign property does **not** include:

- an interest in a registered retirement savings plan, registered retirement income fund, or registered pension plan that contains foreign property;

- mutual funds registered in Canada that contain foreign investments;
- property the trust used or held exclusively in the course of carrying on an active business; or
- personal-use property.

Other required information

Answer all the questions at the top of page 2. The following information will help you answer certain questions.

Question 1 – You have to answer this question for each personal trust.

Question 2 – The sale of an income or capital interest in a trust is a change in ownership. Distributing estate property to beneficiaries is not a change in ownership for this question.

Question 6 – For information about debts incurred in non-arm's length transactions, see Interpretation Bulletin IT-406, *Tax Payable by an Inter Vivos Trust*.

Question 8 – The terms of the will, trust document, or court order determine the requirement to allocate income.

Question 10 – If you answer "Yes," attach a statement giving all required information. See "Distribution of property to beneficiaries" on page 23.

Step 2 – Calculating total income: Lines 01 to 20

Transfers and loans of property

We refer to a person who has loaned or transferred property as the "transferor." If a transferor, who is alive and resident in Canada, lends or transfers property to the trust for the benefit of:

- the transferor's **spouse** or **common-law partner**, or a person who has since become the transferor's spouse or common-law partner; or
- the transferor's **related minor** (such as a child, grandchild, sister, brother, niece, or nephew under the age of 18 at the end of the year),

any income or loss from that property may have to be reported on the transferor's return.

Note

The transferor does not have to report the income of the trust if the related minor turns 18 before the end of the year.

The transferor may also have to report taxable capital gains or allowable capital losses from the disposition of property loaned or transferred to a trust for the benefit of the transferor's spouse or common-law partner, or a person who has since become the transferor's spouse or common-law partner.

If the property was sold to the trust at its fair market value, or if it was loaned to the trust at a prescribed rate of interest (which was paid within 30 days of the end of the taxation year), any income or loss, or any taxable capital gain or

allowable capital loss from that property is generally income of the trust. Do not issue a T3 slip to the transferor for this income.

An individual can receive a low-interest or interest-free loan from a trust to which another individual transfers property. If the main reason for the loan was to reduce or avoid tax on the income from the property or substituted property, and the two individuals do not deal at arm's length, report the income from that loaned property or any property substituted for it on the trust's return. This rule also applies to an arm's length commercial loan that the individual uses to repay the original low-interest or interest-free loan.

If the trust's terms are such that the transferred property may revert to the transferor, or if the transferor keeps a certain degree of control over the property, read "Exceptions and limits to income allocations" on page 33.

If the income from loaned or transferred property is to be included on the transferor's return, you generally have to report it on the trust's return, and issue a T3 slip reporting the income as that of the transferor.

For more information about transfers and loans of property, see the *Capital Gains* guide and the following interpretation bulletins:

IT-286 *Trusts – Amount Payable;*

IT-369 *Attribution of Trust Income to Settlor, and its Special Release;*

IT-510 *Transfers and Loans of Property Made After May 22, 1985 to a Related Minor; and*

IT-511 *Interspousal and Certain Other Transfers and Loans of Property.*

Split income of a minor beneficiary

If a trust (other than a mutual fund trust) allocates certain types of income to a beneficiary who had not attained the age of 17 years before the taxation year, the beneficiary may have to pay a special tax.

The special tax applies to:

- taxable dividends allocated by the trust (other than dividends from shares of a class listed on a prescribed stock exchange and those of a mutual fund corporation);
- shareholder benefits allocated by the trust (other than from ownership of shares of a class listed on a prescribed stock exchange); and
- income allocated by the trust that came from income that a trust earned from providing goods or services to a business operated by:
 - a person who is related to the beneficiary at any time in the year;
 - a corporation that has a specified shareholder who is related to the beneficiary at any time in the year; or
 - a professional corporation that has a shareholder who is related to the beneficiary at any time in the year.

The above does not apply if:

- the income is from property inherited by the beneficiary and, during the year, he or she either studies full time in a post-secondary educational institution or qualifies for the disability amount;
- the income is from property the beneficiary inherits from a parent;
- the beneficiary was a non-resident of Canada at any time in the year; or
- neither of the beneficiary's parents lived in Canada at any time in the year.

Note

The split income rules do not apply to property that has to be included in the transferor's income.

How to report split income

If the trust is allocating "split income" to a beneficiary, you have to inform the beneficiary that he or she may have to pay the special tax. Follow the instructions for completing Schedule 9 on page 36 and the T3 slip on page 45. Attach a statement to the T3 slip showing the amount of the beneficiary's share of the split income and the type of income. You should also advise the beneficiary in writing that he or she must complete Form T1206, *Tax on Split Income – 2002*.

Line 01 – Taxable capital gains

Calculate the taxable capital gains and allowable capital losses of the trust on Schedule 1.

If the amount on line 21 of Schedule 1 is a taxable capital gain, enter it on line 01.

If the amount on line 21 of Schedule 1 is a net capital loss, **do not** enter it on line 01. You cannot deduct the net capital loss from other income of the trust in the year, or allocate it to the beneficiaries (except as described under "Exceptions and limits to income allocations" on page 33). You can only use it to reduce the trust's taxable capital gains of other years. For more information on net capital losses, see Line 52 on page 21.

Note

In the first taxation year of a testamentary trust, the legal representative can elect to apply any net capital loss against income on the deceased's final return. See "Testamentary trust elections" on page 24.

If a trust sells capital property and realizes a gain, it is treated as a capital gain. If a trust sells eligible capital property and realizes a gain, it is treated as business, farming, or fishing income. If the eligible capital property is qualified farm property, the gain may qualify for the capital gains deduction. For more information, see the *Farming Income* or the *Farming Income and NISA* guides, and "Capital gains deduction" on page 28.

Line 02 – Pension income ▲

Enter amounts that the trust received from the following:

- a registered pension plan (RPP);
- a retirement compensation arrangement (RCA);

- a deferred profit sharing plan (DPSP);
- a superannuation plan; or
- a foreign retirement arrangement.

Lump-sum payments

If the trust received a lump-sum payment from an RPP or a DPSP that includes amounts accrued to December 31, 1971, you can elect to have this portion taxed in the trust at a lower rate. Do not include the amount on this line. Instead, enter "ITAR 40" on line 02 and on line 22 of Schedule 11, and we will calculate any federal, provincial, or territorial tax adjustment. For more information, see Interpretation Bulletin IT-281, *Elections on Single Payments From a Deferred Profit-Sharing Plan*.

Line 03 – Actual amount of dividends from taxable Canadian corporations ▲

Enter the **actual amount** of dividends received from taxable Canadian corporations from line 1 of Schedule 8. Attach all information slips received. For more information, see Line 1 on page 31.

Line 04 – Foreign investment income ▲

Enter all interest and other investment income from foreign sources from line 4 of Schedule 8. For more information, see the note at Line 05 below, and Lines 2 to 4 on page 31.

Line 05 – Other investment income ▲

Enter the amount from line 10 of Schedule 8.

Include all interest and investment income from Canadian sources except dividends from taxable Canadian corporations reported on line 03. Attach all information slips received.

Note

In the first year of a testamentary trust, any interest income that has accrued to the person's date of death is reported on the deceased person's final return. Any interest income accrued after the person's date of death is reported on the trust return.

For more information, see Lines 5 to 10 on page 31.

Lines 06, 07, 08, and 09 – Business, farming, fishing, and rental income

Enter on the appropriate lines, the trust's gross and net income or loss from business, farming, fishing, and rentals. If the amount is a loss, report it in brackets. If the trust is a member of a partnership, enter the **partnership's** total gross income and the **trust's share** of the partnership's net income or loss.

If a trust operates a business with a fiscal period end other than December 31, special rules may apply for calculating income. See the *Reconciliation of Business Income for Tax Purposes* guide to calculate the income to report.

Note

A testamentary trust is exempt from these special rules if the trust is the sole proprietor of the business, or if the business is owned by a partnership of testamentary trusts.

You have to follow certain rules when reporting business, farming, fishing, and rental income. The following guides contain additional information and the forms you need to calculate the trust's income:

- *Business and Professional Income* (Form T2124, *Statement of Business Activities*);
- *Farming Income* (Form T2042, *Statement of Farming Activities*);
- *Farming Income and NISA* (Form T1163, *Statement A – NISA Account Information and Statement of Farming Activities for Individuals*, or Form T1164, *Statement B – NISA Account Information and Statement of Farming Activities for Additional Operations*);
- *Fishing Income* (Form T2121, *Statement of Fishing Activities*); and
- *Rental Income* (Form T776, *Statement of Real Estate Rentals*).

Line 10 – NISA Fund 2

Use the calculation in this section to report all amounts received, and those deemed to have been received by the trust out of its NISA Fund 2. This fund is the portion of a farm producer's net income stabilization account (NISA) that comes from third-party sources, such as interest, bonuses, and government contributions.

The trust should receive an AGR-1 slip, *Statement of Farm Support Payments*, for all farm support programs from which it received payments of more than \$100. These include programs administered by the federal, provincial, and municipal governments, and producer associations.

A NISA Fund 2 can be transferred to a testamentary post-1971 spousal or common-law partner trust when the settlor dies. In this case, if the beneficiary spouse or common-law partner dies, the trustee has to report a deemed payment on the day the beneficiary spouse or common-law partner dies. The deemed payment is equal to the fund's balance at the end of the day of death. However, the trust and the legal representative of the beneficiary spouse or common-law partner can elect to report all or a portion of this deemed payment on the final return of the beneficiary spouse or common-law partner, rather than on the trust's return. See "NISA Election," on the next page.

The trust has to report on line 10, the amount, if any, determined by the following calculation:

$$A - (B - C)$$

where:

- A** = the amount paid in the year out of the fund (or deemed to have been paid out of the fund, such as on the death of the beneficiary spouse or common-law partner)
- B** = the total of all amounts previously deemed to have been paid out of the fund to the trust, or to the beneficiary spouse or common-law partner, or out of another person's fund on being transferred to the trust
- C** = the total of all amounts previously applied to reduce income out of the fund

Make separate calculations for each amount either paid or deemed paid.

NISA Fund 2 payments are taxable in the trust. They cannot be allocated to beneficiaries, except for:

- amounts that relate to payments received by a testamentary spousal or common-law partner trust while the beneficiary spouse or common-law partner was still alive; or
- amounts received by a communal organization.

Use the space below line 10 to show any of the amount on that line relating to payments received by the beneficiary spouse or common-law partner while he or she was, or is still, alive, or by a communal organization.

NISA Election

The trust may want to make an election to report the deemed payment out of the NISA fund on the final return of the beneficiary spouse or common-law partner. To do so, submit the following information with the return on which the trust is reporting, or would have reported, the deemed disposition:

- a statement making the election, stating the amount on which you are electing, signed by both the trustee and the legal representative of the estate of the beneficiary spouse or common-law partner; and
- a statement, signed by the trustee, showing the calculation of the NISA Fund 2 and the amount being reported on the final return of the beneficiary spouse or common-law partner and the trust's return.

Line 11 – Deemed realizations

Enter the trust's income resulting from "21-year deemed realizations," from line 42 of Form T1055, *Summary of Deemed Realizations*. For more information, see "Deemed realization (disposition)" on page 29.

Line 19 – Other income ▲

Enter the total income the trust received in the taxation year that is not included elsewhere on the return or schedules, such as:

- royalties;
- commissions;
- death benefits under the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP);
- retiring allowances, unless this amount is reported by a beneficiary, or reported in the retired person's income for year of death as a **right or thing** (for more information, see Interpretation Bulletin IT-337, *Retiring Allowances*); and
- certain employment-related income (for more information, see the *Preparing Returns for Deceased Persons* guide).

Death benefit – Other than CPP or QPP

A death benefit is an amount for a deceased person's employment service. It is shown in box 28 of a T4A slip. If the amount is to be taxed in the trust according to the

provisions of the trust document, you may be able to exclude up to \$10,000 of the amount from the trust's income.

If no one other than a trust received a death benefit, report the amount that is more than \$10,000. Even if the trust did not receive all of the death benefits in one year, the total tax-free amount for all years cannot exceed \$10,000. To find out what to report if anyone else received a death benefit for the same person, see Interpretation Bulletin IT-508, *Death Benefits*.

Attach a copy of the T4A slip, or a statement from the deceased person's employer, that identifies the payment as a death benefit.

Registered retirement savings plan (RRSP)

A trust may be entitled to income earned by an unmatured RRSP after the death of the only or last annuitant. Usually, this income is shown on a T5 or T4RSP slip issued to the estate. You usually include this amount on line 19. For more information on taxable benefits from matured and unmatured RRSPs, see the *RRSPs and Other Registered Plans for Retirement* guide and Interpretation Bulletin IT-500, *Registered Retirement Savings Plans – Death of an Annuitant*.

Step 3 – Calculating net income: Lines 21 to 50

Line 21 – Carrying charges and interest expenses ▲

Enter the total carrying charges from line 15 of Schedule 8. For more information, see Lines 11 to 15 on page 32.

Lines 22 to 24 – Trustee fees

Trustee, executor, and liquidator fees include:

- fees paid for certain investment advice (for more information, see Interpretation Bulletin IT-238, *Fees Paid to Investment Counsel*);
- fees incurred to gain or produce business or property income (deducted when you calculate the trust's business or property income); and
- fees for administering the trust or looking after real property (for example, a residence) used by a lifetime beneficiary of a testamentary trust (because these fees are not incurred to earn business or property income, you cannot deduct them from the income of the trust).

Whether or not these fees are deductible by the trust, they are still income to the recipient. For this reason, you have to include the total fees paid in the year on line 22.

On line 23, enter the fees that were not incurred to earn income or that were already deducted elsewhere on the return.

Trustee, executor, or liquidator fees paid to a person who acts in the capacity of an executor in the course of a business are part of that individual's business income. You should report these amounts on a T4A slip. Otherwise, the fee for acting as executor is income from an office or employment. If the fees paid are \$500 or more, you have to

prepare a T4 slip for that individual. The individual reports these amounts as income from an office, even if he or she does not receive a T4 slip. For more information, see the guide called *Filing the T4 Slip and Summary Form*.

If the trust pays fees to a non-resident of Canada for services performed in Canada, complete a T4A-NR slip. For more information, see the *Non-Resident Withholding Tax Guide*.

Line 25 – Allowable business investment losses (ABIL)

If the trust had a business investment loss, you can deduct a part of that loss from income.

We call the deductible portion an ABIL. It results from the actual or deemed disposition of certain capital properties. This can happen if the trust has disposed of, or is deemed to dispose of, one of the following to a person with whom it deals at arm's length:

- a share or debt of a small business corporation; or
- a bad debt owed to it by a small business corporation.

For more information, see the *Capital Gains* guide.

You can deduct the ABIL from the trust's other sources of income for the year. If the ABIL is more than the other sources of income for the year, the difference is a non-capital loss for the year. For more information about non-capital losses, see Line 51 on page 21.

If you cannot deduct the ABIL as a non-capital loss within the allowed timeframe (see Line 51 for details), the unapplied part becomes a net capital loss in the eighth year. You can then use it to reduce the trust's taxable capital gains in the eighth year or any following year.

Reduction in business investment loss – If the trust designated part or all of its eligible taxable capital gains for the purpose of the capital gains deduction to a beneficiary in a previous year, you have to reduce the business investment loss for the current year.

Use the chart on page 20 to calculate the reduction in business investment loss. If the trust had more than one business investment loss in the year, use this chart to calculate the total reduction.

For more information, see Interpretation Bulletin IT-484, *Business Investment Losses*.

Line 40 – Other deductions from total income

Generally, you can deduct expenses if they were paid to earn income for the trust. Expenses include legal, accounting, and management fees. You can also deduct the following:

- a resource allowance; and
- fees paid for advice or assistance in objecting to or appealing an assessment or decision under the Act (although you have to reduce the claim by any award or reimbursement you received for such expenses).

Do not deduct the following:

- outlays and expenses that apply to the capital assets of the trust (see "Outlays and expenses" on page 26);
- personal expenses of the beneficiaries or trustees, such as funeral expenses or probate fees; or
- any amounts paid to beneficiaries.

Resource allowance – Claim a resource allowance of up to 25% of the trust's resource profits on line 40. Generally, the resource profits of a trust are earned as production royalties. This includes royalties based on the amount or value of oil and gas production, and on which the recipient pays non-deductible Crown charges. If you are claiming a resource allowance for the trust, include a copy of your calculations and documents such as a T5 slip or a statement from the payer, to verify that the income qualifies for the resource allowance.

Allowable business investment loss and reduction

You have to adjust the amount of eligible taxable capital gains at lines 1 to 6, because they were included in income at different rates in previous years.

Total eligible taxable capital gains designated by the trust in 1985, 1986, and 1987	_____ × 2	= _____	1
Total eligible taxable capital gains designated by the trust in 1988 and 1989 – do not include eligible capital property on this line	_____ × 3/2	= + _____	2
Total deemed taxable capital gains from eligible capital property designated by the trust in 1988 and 1989	_____ × 4/3	= + _____	3
Total eligible taxable capital gains designated by the trust in years after 1989 and before 2000	_____ × 4/3	= + _____	4
Total eligible taxable capital gains designated by the trust in 2000 (see Note)	_____ × _____	= + _____	5
Total eligible taxable capital gains designated by the trust in 2001 (see Note)	_____ × _____	= + _____	6
Add lines 1 to 6		= _____	7
Total amount you used to reduce the trust's business investment losses in years after 1985 and before 2002		- _____	8
Line 7 minus line 8		= _____	9
Business investment losses for the year before reducing the losses:			10
Enter the amount from line 9 or line 10, whichever is less . This is the reduction for the year:		- _____	11
(Enter this amount on line 11 of Schedule 1.)			
Business investment losses for the year: line 10 minus line 11		= _____	12
Allowable business investment losses for the year: line 12 (_____) × 1/2		= _____	13
(Enter this amount on line 25 of the return.)			

Note: The fractions to be used at lines 5 and 6 are the inverse of the trust's inclusion rates for 2000 and 2001. For example, if the trust's inclusion rate was 1/2, the inverse is 2. If the trust's inclusion rate was 3/4, the inverse is 4/3. If the trust's inclusion rate was 2/3, the inverse is 3/2. For 2000 (and 2001, if applicable), use the inclusion rate from line 16 of the 2000 Schedule 1.

Line 43 – Upkeep, maintenance, and taxes of a property used or occupied by a beneficiary

You may have claimed expenses on the return that relate to the upkeep, maintenance, and taxes on a property used by a beneficiary. You may have claimed these expenses on a financial statement, such as a rental statement. Generally, if these amounts were paid out of the income of the trust, according to the trust document, the beneficiary is required to include these amounts in income in the year they were paid. Therefore, you have to report these benefits as income on the beneficiary's T3 slip, and you will deduct them again from the trust's income on line 47. To offset this "double-deduction" of the same expenses, you have to add these amounts back into the trust's income on line 43.

Provide details of the amount entered on this line, including the nature and amount of each expense, and the line on the return or financial statement where you have claimed them.

Line 44 – Value of other benefits to a beneficiary

You may have paid benefits, such as amounts for personal or living expenses, from the trust to a beneficiary. The beneficiary has to include the value of these benefits in income in the year they were paid, unless the value:

- is already included in computing the beneficiary's income for the year; or
- has been used to reduce the adjusted cost base of the beneficiary's interest in the trust.

Enter on line 44 the amount of these benefits that were included as income on the beneficiary's T3 slip.

Because you have to deduct the value of the benefits as income allocations and designations to beneficiaries on line 47, and the trust cannot deduct this amount, you have to add it back into the trust's income by including the amount on line 44. Provide details of the amount entered on this line, including the nature and amount of each benefit.

Lines A, B, and 47 – Total income allocations and designations to beneficiaries ▲

Generally, a trust receives income and pays it to the beneficiaries, according to the terms of a will or trust document. We call this "allocating" income. In most cases, you enter the income on the T3 return in Step 2, then enter it on line A in Step 3, so the trust does not pay tax on the income. The beneficiary then has to report the income on his or her return. See Schedule 9 on page 32 for more information.

There are some cases, however, where income that is allocated to a beneficiary may be taxed on the trust's return,

instead of the beneficiary's. In other cases, income that is usually reported on the trust's return may instead be reported on the beneficiary's return. For more information, see "Exceptions and limits to income allocations" on page 33.

Note

Income allocated to a beneficiary that is not deductible should **not** be included on these lines, or reported on Schedule 9.

Enter on line A the amounts paid or payable to beneficiaries (including any amount designated by a preferred beneficiary election) and subtract on line B the amounts claimed under subsections 104(13.1) and (13.2). Enter the result on line 47.

Note

Line 47 has to equal the total amounts entered on line 928 of Schedule 9.

For more information, see "Income to be taxed in the trust" on page 34.

Step 4 – Calculating taxable income: Lines 51 to 56

Losses of other years – If you are claiming a loss from other years, provide a continuity statement of the loss balances. Be sure the statement includes the year the loss was incurred, the amounts applied in previous years, and the balance remaining at the beginning of the current year.

If you are providing a continuity statement for a net capital loss carryforward, see the *Capital Gains* guide, and use the table in Chart 5.

Line 51 – Non-capital losses of other years

A non-capital loss could arise if the trust had a loss from business or property in a year, and it was more than the trust's income from all sources in that year. The unused portion of this loss can be carried back three years and forward seven years.

If the trust has an unused non-capital loss from a previous year, you can use it to reduce taxable income for the current year. Enter this amount on line 51.

For information on how to carry back an unused non-capital loss, see "Form T3A, Request for Loss Carryback by a Trust" on this page.

Farming and fishing losses – If the trust had a farming or fishing loss from a previous year, see Line 54 on the next page.

Line 52 – Net capital losses of other years

Generally, if the trust's allowable capital losses are more than its taxable capital gains in a year, the difference is a net capital loss for that year. You can use the net capital loss to reduce the trust's taxable capital gains in any of the three preceding years or in any future year.

Within certain limits, you can deduct all or a portion of the trust's net capital losses of other years that have not already been claimed.

For more information, see the *Capital Gains* guide.

Listed personal property losses – Losses on listed personal property (LPP) can be applied only against LPP gains. Claim the unused portion of an LPP loss from a **previous** year against a current-year LPP gain on line 8 of Schedule 1, or on line 8 of Form T1055, *Summary of Deemed Realizations*, if applicable. See "Listed personal property" on page 27.

The unused portion of an LPP loss can be carried back three years and forward seven years, and applied against LPP gains in those years.

For information on how to carry back an unused net capital loss or an LPP loss, see the next section.

Form T3A, Request for Loss Carryback by a Trust

Use this form to carry an unused loss back to a previous year. You have to make your request on or before the due date of the return for the year in which the trust incurred the loss. You can file the form separately or attach it to the current year's return.

If the loss is not deducted fully in a previous year, keep a schedule of the unused portion so you can deduct it in future years. Always apply the oldest loss within a class of losses first. For example, apply a 1998 non-capital loss before a 1999 non-capital loss.

A non-capital loss carryback is used to reduce the taxable income of the trust in a previous year. If you allocated income to beneficiaries in the previous year, you cannot reduce the income allocated to increase the loss you can apply.

A net capital loss carryback is deductible only from the taxable capital gains retained in the trust. If taxable capital gains were previously designated to beneficiaries, you may be able to change the amount of net taxable capital gains designated as long as the total income allocated does not change.

If you apply a net capital loss carryback, a non-capital loss may be increased or created if the loss was previously used to reduce the amount of taxable capital gains in the year of the carryback.

For more information, see Interpretation Bulletins IT-381, *Trusts – Capital Gains and Losses and the Flow-Through of Taxable Capital Gains to Beneficiaries*, and IT-232, *Losses – Their Deductibility in the Loss Year or in Other Years*.

Line 53 – Capital gains deduction for resident spousal or common-law partner trust only

A spousal or common-law partner trust, if resident in Canada, can claim the unused portion of the beneficiary's capital gains deduction in the year that the beneficiary spouse or common-law partner dies. To calculate the deduction, complete Schedule 5 and attach it to the return. Enter on line 53 the amount from line 10 of Schedule 5.

The deduction is not available to a pre-1972 spousal trust that filed Form T1015, *Election by a Trust to Defer the Deemed Realization Day*, or, to a joint spousal or common-law partner trust or an alter ego trust.

Line 54 – Other deductions to arrive at taxable income

Enter other deductions, such as:

- prior year losses, such as limited partnership losses, or farming or fishing losses (see the Note in this section);
- the \$2,000 deduction allowed to a non-profit organization reporting income from property (subsection 149(5) deduction); and
- the amount of foreign income reported that is exempt from tax in Canada because of a tax treaty or convention (identify the exempt income amount, and the treaty or convention that applies).

If the trust is claiming more than one loss, or if a claim needs more explanation, attach a note to the return providing the details.

Note

The unused portion of a farming or fishing loss incurred in a year can be carried back three years and forward ten years. There are restrictions on the amount of certain farm losses you can deduct each year. For information on restricted farm losses, see the *Farming Income* or the *Farming Income and NISA* guides. For information on how to carry back this type of loss, see “Form T3A, *Request for Loss Carryback by a Trust*” on page 21.

Step 5 – Summary of tax and credits: Lines 81 to 100

Line 82 – Provincial or territorial tax payable ▲

For information on which provincial or territorial form to use, see “Provincial and territorial income tax” on page 44.

Line 85 – Tax paid by instalments ▲

Enter the total instalment payments made by the trust. If the account number on the trust’s receipt is not the same as the one on page 1 of the return, enter the account number from the receipt in the space to the right of line 85.

Line 86 – Total tax deducted ▲

If tax was withheld on any income earned by the trust, enter the amount of tax withheld on line 86. If an information slip is not available, attach a statement from the issuer, indicating the income reported and the tax withheld. **Do not** allocate the tax that was withheld to the beneficiaries.

Transfer to Quebec – If the trust was resident in Quebec and earned income outside that province, tax may have been withheld for a province or territory other than Quebec. You can transfer up to 40% of this amount to the Province of Quebec.

Subtract the transferred amount from total tax deducted and enter the result on line 86. Show this calculation, including the amount of the transfer, in the area provided below line 86.

Line 89 – Capital gains refund

This refund is available only to a mutual fund trust that has refundable capital gains tax on hand at the end of the year. To calculate the refund, complete Form T184, *2002 Capital Gains Refund for a Mutual Fund Trust*.

Line 90 – Part XII.2 tax credit

If the trust is the beneficiary of another trust and received a T3 slip from that trust with an amount in box 38, enter that amount on line 90.

Line 91 – Other credits

Newfoundland and Labrador research and development tax credit

You may be able to claim this credit if, in the year, the trust:

- had a business with a permanent establishment in Newfoundland and Labrador; and
- made eligible expenditures for scientific research and experimental development carried out in Newfoundland and Labrador.

In this case, complete Form T1129, *Newfoundland Research and Development Tax Credit (Individuals)*.

You may designate some or all of this credit to beneficiaries of the trust. You do this by reducing the total credit by the amount designated to the beneficiaries. On line 91, enter the credit from Form T1129 **minus** the amount of credit designated to beneficiaries on Schedule 9. Attach Form T1129 to the return.

Yukon mineral exploration tax credit

You can claim this credit if the trust was a resident of the Yukon at the end of the year, and it incurred qualified mineral exploration expenses in the Yukon. The expenses must be incurred for the purposes of determining the existence, location, extent, or quality of a mineral resource in the Yukon.

On line 91, enter the tax credit from Form T1199, *Yukon Mineral Exploration Tax Credit*. Attach Form T1199 to the return.

Yukon research and development tax credit

You can claim this credit if the trust was a resident of the Yukon at the end of the year and it made eligible expenditures for scientific research and experimental development in the Yukon.

Get the tax credit by filing Form T1232, *Yukon Research and Development Tax Credit (Individuals)*. You may designate some or all of this credit to beneficiaries of the trust. You do this by reducing the total credit by the amount designated to the beneficiaries. On line 91, enter the amount from Form T1232 **minus** the amount of credit designated to beneficiaries on Schedule 9. Attach Form T1232 to the return.

British Columbia mining exploration tax credit

You can claim this refundable credit if the trust was a resident of British Columbia at the end of the year and it incurred qualified mining exploration expenses in this province in 2002. The expenses must have been incurred for

determining the existence, location, extent, or quality of a mineral resource in British Columbia.

On line 91, enter the tax credit from Form T88, *British Columbia Mining Exploration Tax Credit (Individuals)*. Attach Form T88 to the return.

Line 94 – Refund or balance owing ▲

The refund or balance owing is the difference between the total taxes payable on line 84 and the total credits on line 93. A difference that is less than \$2 does not have to be paid, and will not be refunded.

Line 95 – Amount enclosed ▲

Attach a cheque or money order payable to the Receiver General to the front of the return. Do not mail cash. To help us credit the correct account, write the trust's name and account number on the back of the cheque or money order. Enter on line 95 the amount of the payment.

If you make a payment with a cheque that your financial institution does not honour (including a cheque on which you put a "stop payment"), we will charge you a fee. Generally, this fee will be \$15 for each returned cheque, plus interest, if applicable.

If payment is made through a bank account at a financial institution outside Canada, you can attach to the front of the return one of the following items which we can immediately negotiate:

- an International Money Order drawn in Canadian dollars;
- a bank draft in Canadian funds drawn on a Canadian bank (available at most foreign financial institutions); or
- a cheque drawn in the currency of the country in which the financial institution is located.

We cannot immediately negotiate a cheque drawn in Canadian funds on a financial institution outside of Canada, as it may take several weeks to collect the funds from the foreign financial institution. Therefore, you should remit your payment early to avoid or reduce any interest charges. Once we receive the funds from the foreign financial institution, we will update the account accordingly. Please note that due to the limits set by the banking community, we cannot accept cheques drawn in Canadian funds on a financial institution outside of Canada for less than \$400 Canadian.

Line 100 – Refund code ▲

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

- 0 if you want us to refund the credit;
- 1 if you want us to keep the credit for next year; or
- 2 if you want us to hold the credit and apply it to an expected assessment of an additional amount to be paid. Attach a letter providing details.

We consider the credit to have been received on the date we assess your return. We will apply a credit of taxes to any outstanding balance. We will direct any amount left over

according to the code you enter. If you do not enter a code, we will refund the credit.

Name and address of person or company (other than trustee, executor, liquidator, or administrator) who prepared this return

Complete this part if someone other than the trustee, executor, liquidator, or administrator prepared this return.

Certification ▲

The trustee, executor, liquidator, or administrator of the trust has to complete and sign this part.

Chapter 3 – Trust Schedules and Forms

Schedule 1 – Dispositions of Capital Property

If the trust disposed of capital property in the year, see the *Capital Gains* guide for the general rules regarding capital gains and losses. We explain the rules that relate to trusts in this section.

Complete Schedule 1 and file it with the return if the trust had dispositions or deemed dispositions of capital property during the year.

Transfer any taxable capital gains at line 21 of Schedule 1 to line 01 of the return.

A disposition of capital property includes:

- the sale of property;
- the distribution or exchange of property;
- the making of a gift;
- a redemption of shares;
- a debt settlement;
- a theft; or
- the destruction of property.

If the trust has deemed realizations resulting from the 21-year deemed realization rule, complete Form T1055, *Summary of Deemed Realizations*. For more information, see "Form T1055, *Summary of Deemed Realizations*" on page 29. Do not report these deemed realizations on Schedule 1.

Note

If the trust realized a capital gain from donating certain properties to a qualified donee (other than a private foundation), or made a gift of ecologically sensitive land to a qualified donee (other than a private foundation), complete Schedule 1A. For the definition of "qualified donee," see the *Capital Gains* guide.

Distribution of property to beneficiaries

If a personal trust distributes property to a beneficiary (to settle in whole or in part the beneficiary's capital interest in

the trust), attach a statement to the return that includes the following information about the distributed property:

- name and address of the recipient or recipients;
- description;
- fair market value (FMV) on the day it is distributed; and
- cost amount on the day it is distributed.

For information regarding the distribution of property to a non-resident beneficiary, see "Proceeds of disposition" on page 25.

Testamentary trust elections

As the legal representative, you can elect to transfer certain estate losses to the deceased person's final T1 return. These elections are:

- the 164(6) election, for capital or terminal losses; and
- the 164(6.1) election, for deemed losses from employment (from employee stock options that expired, were disposed of, or were exercised).

These elections apply only to the first taxation year of a deceased person's estate. The elections do not affect the return of the deceased person for any year before the year of death.

To make either of these elections, attach a letter to the T3 return identifying the type of election. For the 164(6) election, the letter should contain the following:

- the amount of any capital or terminal loss to be transferred;
- a schedule with details of the capital loss, or a statement with details of the terminal loss; and
- a statement of the amount that would have been the capital or terminal loss, had the transfer not occurred.

File the election and an amended final T1 return by the later of:

- the filing due date of the deceased person's T1 return that the legal representative is required to file or has elected to file; and
- the filing due date for the estate's T3 return for its first taxation year.

Clearly identify the amended final T1 return of the deceased person as a "164(6) election" or a "164(6.1) election."

164(6) election

Generally, you can make this election for estate losses that occurred when the trust disposed of:

- the estate's capital property resulting in more capital losses than capital gains; or
- all the estate's depreciable property in a prescribed class, resulting in a terminal loss in that class at the end of the taxation year.

The elected amount of a terminal loss cannot be more than the total of the trust's total non-capital loss and the farm loss calculated before the election.

The trust cannot claim losses that you have elected to transfer to the deceased person's final return. However, you have to report the dispositions of the estate property on Schedule 1. If the total is a loss, enter the amount elected under subsection 164(6), on line 18. For more information, see "Line 18 – Total capital losses transferred under 164(6)" on page 28.

Note

If the loss to be applied to the deceased person's final T1 return is known before that return is due to be filed, you can submit a request to apply the losses with the return. Clearly identify the return as a 164(6) election. Although the claim will not be allowed on the initial assessment of the T1 return, your request will be held until the T3 return is assessed and the claim can be verified. If the claim is accepted, the T1 return will be adjusted, and a *Notice of Reassessment* issued.

164(6.1) election

You can make this election for employee stock options that expired, or were exercised or disposed of, within the first taxation year of the estate. You can elect to treat this reduction in value as a loss from employment for the year in which the person died.

Use the following calculation to determine the amount that can be carried back to the deceased person's final return:

$$A - (B + C)$$

where:

A = the deemed benefit for the option included on the deceased person's final return

B = the amount by which the value of the option immediately before it expired, was exercised, or disposed of, is **more** than the amount the deceased person paid to acquire it

C = the amount by which A is more than B, if a stock option and share deduction for this option was claimed on the deceased person's final return, multiplied by 1/2.

If you make this election, reduce the trust's adjusted cost base of the option by A **minus** B, without considering C.

Capital gains

Generally, the taxable portion of a capital gain and the allowable portion of a capital loss is 1/2.

For gifts of certain capital property to a qualified donee (other than a private foundation), and for gifts of ecologically-sensitive land to a qualified donee (other than a private foundation), the taxable portion of the capital gain is generally 1/4.

For more information on gifts, see the pamphlet called *Gifts and Income Tax* and Schedule 1A.

Capital dispositions – Rules for trusts

A trust resident in Canada which distributes property, including certain taxable Canadian property, to a non-resident beneficiary in satisfaction of all or part of the beneficiary's capital interest in the trust, is deemed to have disposed of such property for proceeds equal to the

property's fair market value (FMV) at that time. This rule does not apply to property that is a share of the capital stock of a non-resident owned investment corporation.

A trust that ceases to be a resident of Canada is deemed to have disposed of all property, including certain taxable Canadian property, for proceeds equal to the property's FMV at that time, and reacquired the property, at the same value, immediately thereafter.

These rules do not apply to the following properties, among others:

- real property situated in Canada, Canadian resource property, or timber resource property;
- property of a business carried on by the trust through a permanent establishment in Canada, including capital property, eligible capital property, and property described in the inventory of the business;
- pension or other similar rights or interests; and
- payments out of a NISA Fund 2.

The trust or beneficiary can defer paying tax resulting from the deemed disposition by providing acceptable security. Contact us to arrange security.

A trust that ceases to be a resident of Canada any time after 1995, and owns property with a total FMV of more than \$25,000 at that time, has to file, with its income tax return for that year, a list of each property the trust owned at that time. A trust does **not** have to include:

- money that is legal tender in Canada and all deposits of such money;
- pension or other similar rights or interests; or
- any item of personal-use property, with a FMV of less than \$10,000 at the time the trust ceased to be a resident of Canada.

Canadian cultural property

For information on dispositions of Canadian cultural property, see "Selling or donating certified Canadian cultural property" in the *Capital Gains* guide, Interpretation Bulletin IT-407, *Dispositions of Cultural Property to Designated Canadian Institutions*, and the *Gifts and Income Tax* pamphlet.

Proceeds of disposition

This is usually the amount that the trust received or will receive for its property. In most cases, it refers to the sale price of the property. In certain situations, the proceeds of disposition are set by rules in the Act.

A. Personal trust – When this kind of trust distributes property to a beneficiary, and there is a resulting disposition of all, or any part, of the beneficiary's capital interest in the trust, we generally consider the trust to have received proceeds of disposition equal to the "cost amount" of the property. The cost amount of a capital property (other than a depreciable property) is its adjusted cost base. We define "adjusted cost base" on page 26.

The cost amount of a depreciable property is calculated as follows:

- If the property was the only property in the class, the cost amount is the undepreciated capital cost (UCC) of the class before the distribution.
- If there is more than one property in the class, the cost amount of each property is as follows:

Capital cost of the property	x	UCC of	=	Cost amount
Capital cost of all properties in the class that have not been previously disposed of		the class		of the property

Where a trust distributes property to a beneficiary to settle in whole, or in part, the beneficiary's capital interest in the trust, you can elect **not** to have the above rule apply. You can do this if:

- the trust was resident in Canada when it distributed the property;
- the property is taxable Canadian property; or
- the property is property of a business carried on by the trust through a permanent establishment in Canada, including capital property, eligible capital property, and property described in the inventory of the business, immediately before the time of distribution.

The election has to be filed with the trust's return for the taxation year in which the property was distributed.

If you file an election, we consider the trust, if resident in Canada, to have received proceeds of disposition equal to the fair market value (FMV) of the property at the time of distribution.

B. Post-1971 spousal or common-law partner trust – When this kind of trust, whose beneficiary spouse or common-law partner is still alive, distributes property such as capital property, resource property, or land inventory to a person who is not the beneficiary spouse or common-law partner, we consider the trust to have received proceeds of disposition equal to the property's FMV.

This also applies to:

- a **joint spousal or common-law partner trust** that distributes property to a person who is not the settlor, beneficiary spouse or common-law partner and the settlor, beneficiary spouse or common-law partner is still alive; and
- an **alter ego trust** that distributes property to a person who is not the settlor and the settlor is still alive.

C. Trust other than a personal trust – When this kind of trust distributes property to a beneficiary and there is a resulting disposition of all, or any part, of the beneficiary's capital interest in the trust, we consider the trust to have received proceeds of disposition equal to the property's FMV.

Where a trust in B or C has distributed property to a beneficiary and is considered to have received proceeds of disposition equal to the FMV of the property at the time of distribution, the trust can elect **not** to have this rule apply. The trust can elect if:

- the trust was resident in Canada when it distributed the property; and
- the trust filed an election with its return for the year, or a preceding taxation year, in which the property was distributed.

If an election is filed, calculate the trust's income for the year without taking into consideration the distribution of property.

For more information on proceeds of disposition, see Chapter 2 of the *Capital Gains* guide.

Adjusted cost base

This is usually the cost of the property plus expenses incurred to obtain it. The adjusted cost base can differ from the original cost if changes have been made to the property between the time it was acquired and the time it was sold. For more information, see the *Capital Gains* guide and Interpretation Bulletin IT-456, *Capital Property – Some Adjustments to Cost Base*, and its Special Release.

Property acquired before 1972

Before 1972, capital gains were not taxed. Therefore, if the trust sold property acquired before 1972, you have to use special rules when calculating the capital gain or capital loss to remove any capital gains accrued before 1972. We do not explain these rules in this guide. To help you calculate the gain or loss from selling property the trust owned before 1972, use Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972*.

Outlays and expenses

These are amounts incurred to sell a capital property. You can deduct outlays and expenses from the proceeds of disposition when calculating the capital gain or capital loss. These types of expenses include finder's fees, commissions, broker's fees, legal fees, and advertising costs.

In the case of depreciable property sold at a loss, these outlays and expenses reduce the proceeds from the sale to be credited to the class. Do not claim them as deductions from the trust's income.

Lines 1 and 2 – Qualified small business corporation shares and qualified farm property

Use these sections if you are filing a return for a personal trust reporting a capital gain or loss from the disposition of qualified small business corporation shares or qualified farm property.

Do not report a loss the trust incurred in disposing shares of, or debts owing by, a small business corporation in an arm's length transaction. For information on these types of losses, see Line 25 on page 19.

Capital gains from the disposition of qualified small business corporation shares or qualified farm property

(defined below) may qualify for the capital gains deduction. If the spousal or common-law partner trust is claiming the deduction in the year that the beneficiary spouse or common-law partner died, use Schedules 3, 4, and 5 to calculate the deduction. If the trust is allocating and designating the eligible capital gains to a beneficiary, complete Schedules 3 and 4, and see "Footnotes for line 930" on page 38, and "How to complete the T3 slip" on page 45.

A share in a small business corporation is considered to be a **qualified small business corporation share** if:

- at the time of disposition, it was a share of the capital stock of a small business corporation and it was owned by the trust, or a partnership related to the trust;
- throughout the 24 months before the disposition, only the personal trust, or a person or a partnership related to the personal trust owned the share; **and**
- throughout that part of the 24 months immediately before the disposition, while the personal trust or person or partnership related to the personal trust owned the share, it was the share of a Canadian-controlled private corporation (CCPC), and more than 50% of the fair market value of the assets of that corporation:
 - were used mainly in an active business carried on primarily in Canada by the CCPC, or by a related corporation;
 - were certain shares or debts of connected corporations; or
 - were a combination thereof.

For the definition of a qualified small business corporation share, a person or a partnership is related to a personal trust in the following situations:

- the person or partnership is a beneficiary of the personal trust;
- the personal trust is a member of the partnership; or
- when the personal trust disposes of the shares, all the beneficiaries are related to the person from whom the personal trust acquired the shares.

For more information, see "Qualified small business corporation shares" in the *Capital Gains* guide.

Qualified farm property of a personal trust includes the following property the personal trust owns:

- a share of the capital stock of a family farm corporation;
- an interest in a family farm partnership; or
- real property or eligible capital property used in carrying on the business of farming in Canada by:
 - an individual beneficiary (to whom the personal trust has designated taxable capital gains), or that beneficiary's spouse or common-law partner, child, or parent; or
 - a family farm corporation or family farm partnership of the personal trust or beneficiary, or the beneficiary's spouse or common-law partner, child, or parent.

Note

Special rules apply to the disposition of eligible capital property that is qualified farm property. For more information, see the chapter called “Eligible Capital Expenditures” in the *Farming Income*, or the *Farming Income and NISA* guides.

Line 3 – Mutual fund units and other shares

Use this section to report a capital gain or loss when the trust sells mutual fund units, shares, or securities that are not described in any other section of Schedule 1.

Line 4 – Bonds, debentures, promissory notes, and other properties

Use this section to report capital gains or losses when the trust sells these types of properties. The trust may receive Form T5008, *Statement of Securities Transactions*, or an account statement, showing details of the sale.

Also use this section to report capital gains or losses when the trust sells options. For information on disposing of options to sell or buy shares, see Interpretation Bulletins IT-96, *Options Granted by Corporations to Acquire Shares, Bonds, or Debentures and by Trusts to Acquire Trust Units*, and IT-479, *Transactions in Securities*, and its Special Release.

Line 5 – Real estate and depreciable property

Use this section if the trust sold real estate or depreciable property.

The trust cannot have a capital loss on the disposition of depreciable property. However, it can have a terminal loss under the capital cost allowance rules. For more information, see “Real estate and depreciable property” in the *Capital Gains* guide.

Line 6 – Personal-use property

Use this section if the trust disposed of property used primarily for the personal use or enjoyment of a beneficiary under the trust, or any person related to the beneficiary. Personal-use property includes personal residences, cottages, automobiles, and other personal and household effects.

When you dispose of personal-use property, use the following rules to calculate the capital gain or loss:

- if the adjusted cost base (ACB) of the property is less than \$1,000, the ACB is considered to be \$1,000;
- if the proceeds of disposition of the property are less than \$1,000, the proceeds are considered to be \$1,000; and
- if both the ACB and the proceeds of disposition are less than \$1,000, there is no capital gain or loss.

If the trust disposed of personal-use property that has an ACB or proceeds of disposition of more than \$1,000, there may be a capital gain or loss. Report the capital gain on Schedule 1. However, if there is a capital loss, you usually cannot deduct the loss in the year. For more information, see “Personal-use property” in the *Capital Gains* guide and Interpretation Bulletin IT-332, *Personal-Use Property*.

If the trust, or a person with whom the trust does not deal at arm’s length, acquires personal-use property, including listed personal property (LPP), **after** February 27, 2000, in circumstances in which it is reasonable to conclude that the acquisition of the property relates to an arrangement, plan, or scheme promoted by another person or partnership and under which it is reasonable to conclude that the property will be donated to a qualified donee, the above rules do not apply. In this case, you calculate the capital gain or loss using the actual ACB and proceeds of disposition.

Principal residence

If a personal trust acquires a principal residence, it will usually be exempt from tax on any capital gain on the disposition or deemed disposition of that residence. To be exempt, the residence has to qualify **and** be designated by the trust as its principal residence. Usually a residence can be designated if it is lived in by a specified beneficiary, or that beneficiary’s spouse or common-law partner, former spouse or common-law partner, or child. A specified beneficiary is one who had a beneficial interest in the trust, and who ordinarily lived, or has a spouse or common-law partner, former spouse or common-law partner, or child who lived, in the residence.

A personal trust can only designate one property as a principal residence. Also, the specified beneficiary cannot designate any other property as a principal residence. For more information, see Form T1079, *Designation of a Property as a Principal Residence by a Personal Trust*.

Make the trust’s designation on Form T1079. You have to file this form with the return for the year in which the disposition or deemed disposition occurs.

When a personal trust’s principal residence is distributed to a beneficiary (to the spouse or common-law partner beneficiary if the personal trust is a post-1971 spousal or common-law partner trust, to the settlor, spouse or common-law partner beneficiary if the trust is a joint spousal or common-law partner trust, or to the settlor if the trust is an alter ego trust), the trust can elect to have a deemed disposition of the principal residence at its fair market value (FMV). Make this election on the trust’s return for the year of distribution. You can then apply the principal residence exemption to any gain on the trust’s deemed disposition. The beneficiary will acquire the property at its FMV.

For more information, see Form T1079, and Interpretation Bulletin IT-120, *Principal Residence*.

Lines 7 to 9 – Listed personal property

Use this section to report dispositions of listed personal property (LPP), including all or part of any interest in, or any right to, the following properties:

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

Because an LPP is a type of personal-use property, the capital gain or loss on the sale of the LPP item, or set of items, is calculated the same way as for personal-use property.

For more information, see “Line 6 – Personal-use property” on page 27.

Line 10 – Information slips

Use this line to report the following amounts:

- capital gains from box 21 of a T3 slip;
- insurance segregated fund capital losses from box 37 of a T3 slip;
- capital gains dividends from box 18 of a T5 slip;
- capital gains (or losses) from box 34 of a T4PS slip; and
- capital gains (or losses) from box 23 of a T5013 slip.

If a slip identifies amounts for “qualified small business corporation shares” or “qualified farm property” in its footnote, details, or “other information” area, do not report these amounts on line 10. Instead, enter them at line 1 or 2, whichever is applicable.

Line 11 – Capital losses from a reduction in business investment loss

Report a capital loss from a reduction in business investment loss on line 11. For information on this type of loss, see “Reduction in business investment loss” on page 19.

Line 12 – Capital gains reduction on flow-through entities

If the trust filed Form 94-115, *Election to Report a Capital Gain on Property Owned by a Personal Trust at the End of February 22, 1994*, for its interest in, or shares of, a flow-through entity, it may have an exempt capital gains balance (ECGB). You can use the ECGB to reduce capital gains flowed to the trust by a flow-through entity, or capital gains it realizes on a disposition of its interest in, or shares of, the flow-through entity.

Report a capital gains reduction on line 12. The reduction for each flow-through entity is limited to the ECGB for that entity. You cannot include the reduction on certain flow-through entities the trust donated. Instead, claim it on line 4 of Schedule 1A. For more information, see the *Capital Gains* guide.

Note

Any ECGB has to be used before 2005.

Line 14 – Capital gains (losses) from reserves

If the trust sold capital property, but did not receive the full payment at the time of the sale, you can claim a reserve for the unpaid amount. Generally, the minimum amount of the trust’s capital gain you have to report each year is one fifth of the taxable capital gain. If you claimed a reserve in 2001, you have to bring it back into the trust’s income in 2002. If any of the proceeds are to be paid after the end of the year, you may be able to claim a new reserve. If you are claiming a reserve on the trust’s return, you have to complete

Schedule 2. For more information on reserves, see the *Capital Gains* guide and Interpretation Bulletin IT-236, *Reserves – Disposition of Capital Property*.

Line 16 – Adjusted capital gains on gifts of certain capital property

Enter the amount from line 6 of Schedule 1A.

On line 17, enter the capital gains on gifts of property other than the gains included on line 6 of Schedule 1A. These are the total of any capital gains from gifts that are included in lines 1 to 7 **minus** any amount included on line 12 relating to those gifts.

Line 18 – Total capital losses transferred under 164(6)

Enter on this line the amount of capital losses you transferred under 164(6) to the deceased person’s final T1 return. For more information, see “164(6) election” on page 24.

Line 21 – Total taxable capital gains (or net capital losses)

Transfer the total taxable capital gains to line 01 of the return. If the amount on this line is negative, you have a net capital loss. **Do not** enter it on line 01 of the return. See “Form T3A, *Request for Loss Carryback by a Trust*” on page 21.

Note

If the amount on line 21 is a capital gain and you calculate a net capital loss on Form T1055, *Summary of Deemed Realizations*, see the instructions on that form for a possible adjustment to line 21.

Capital gains deduction

When the beneficiary spouse or common-law partner dies, you may be able to reduce the trust’s taxable capital gain. A post-1971 spousal or common-law partner trust reporting capital gains from the disposition of qualified small business corporation shares or qualified farm property can do this by claiming the unused portion of the beneficiary spouse’s or common-law partner’s capital gains deduction. A pre-1972 spousal trust reporting a deemed realization on the death of the beneficiary spouse can also claim the unused portion of the beneficiary spouse’s capital gains deduction, but only if it did not make an election before 1999 on Form T1015, *Election by a Trust to Defer the Deemed Realization Day*.

For 2001 and subsequent years, you generally only include 1/2 of the trust’s taxable capital gains in its taxable income. Therefore, the trust’s cumulative capital gains deduction is \$250,000. For more details, see the *Capital Gains* guide.

Calculate the capital gains deduction on Schedule 5, and claim it on line 53 of the return. You will also have to complete Schedules 3 and 4.

Note

A joint spousal or common-law partner trust and an alter ego trust cannot claim a capital gains deduction.

Form T1055, Summary of Deemed Realizations

Deemed realization (disposition)

On specified dates during the life or existence of a trust, it is deemed to have disposed of its capital property (other than exempt property of a trust and certain excluded property), land inventory, and Canadian and foreign resource properties. We refer to these dates as “deemed realization days.” You have to report the resulting income, gains, or losses on the trust’s return in the taxation year in which the dispositions are considered to have occurred. For more information about those specified dates, see “Deemed realization day” on this page.

In addition to the properties referred to above, if a post-1971 testamentary spousal or common-law partner trust holds a NISA Fund 2 that was transferred to it on the death of the settlor, report a deemed payment out of the fund on the day the beneficiary spouse or common-law partner dies. For more information, see Line 10 on page 17.

Use Form T1055 to calculate the income, or capital gain or loss from deemed realizations.

Note

If the trust actually disposed of the property before the end of the taxation year, use Schedule 1 to report the actual disposition, unless the trust is a post-1971 spousal or common-law partner trust.

If a deemed disposition occurs, the trust is considered to have:

- disposed of its capital property (including depreciable property of a prescribed class), land inventory, and Canadian and foreign resource properties at the end of the deemed realization day, at the fair market value (FMV); and
- reacquired them immediately after, at a cost equal to the same FMV.

For depreciable property, the trust has to report both capital gains and recapture of capital cost allowance.

Use Form T1055 to calculate:

- the adjustments to line 21 of Schedule 1;
- the amount of tax on which the trust can elect to defer payment; and
- the amount of taxable and deemed taxable capital gains to which you can apply the trust’s net capital losses of other years.

For more information about the deemed cost of the property, see Interpretation Bulletins IT-370, *Trusts – Capital Property Owned on December 31, 1971*, and IT-132, *Capital Property Owned on December 31, 1971 – Non-Arm’s Length Transactions*.

Deemed realization day

This is the day we consider the trust to have disposed of its capital property, land inventory, and Canadian and foreign resource properties.

Generally, it is one of the following:

- for a spousal or common-law partner trust, the day the beneficiary spouse or common-law partner died;
- for a joint spousal or common-law partner trust, the day the settlor or the beneficiary spouse or common-law partner died, whichever is later;
- for an alter ego trust, the day the settlor died, unless the trust filed an election not to be considered an alter ego trust (see the definition of alter ego trust on page 8). If the trust has filed an election, the deemed realization date will be 21 years after the day the trust was created; or
- for other trusts, 21 years after the day the trust was created.

Subsequent deemed realizations will occur every 21 years, on the anniversary of the day established above.

For 2000 and subsequent years, the deemed realization day will be:

- for a trust that distributes property after December 17, 1999, to a beneficiary in respect of the beneficiary’s capital interest in the trust and it is reasonable to consider that the distribution was financed by a liability of the trust, and one of the reasons for incurring the liability was to avoid paying taxes because of the death of any individual, the day the property was distributed;
- where an individual has transferred property (other than real property situated in Canada, Canadian resource property, or a timber resource property, property of a business carried on by the trust through a permanent establishment in Canada including capital property, eligible capital property, and property described in the inventory of the business, or certain pension or other similar rights or interests) after December 17, 1999, to a trust for the transferor’s spouse or common-law partner, and it is reasonable to conclude that the property was transferred knowing that the individual planned to emigrate from Canada, the day the individual ceases to be a resident of Canada; or
- for a trust to which property was transferred by an individual (other than a trust) where the transfer did not result in a change in beneficial ownership of that property and no person (other than the individual) has any absolute or contingent right as a beneficiary under the trust, the day on which the death of the individual occurs.

Once a trust is considered to have disposed of the property in one of the above three situations, the 21-year deemed disposition rule does not apply.

Exemption from the 21-year rule

The following trusts are **excluded** from the 21-year deemed realization rules:

- A. an amateur athlete trust;
- B. an employee trust;
- C. a master trust;

- D. trusts governed by:
- a deferred profit sharing plan;
 - an employee benefit plan;
 - an employees profit sharing plan;
 - a foreign retirement arrangement;
 - a registered education savings plan;
 - a registered pension plan;
 - a registered retirement income fund;
 - a registered retirement savings plan; or
 - a registered supplementary unemployment benefit plan;
- E. a related segregated fund trust;
- F. a retirement compensation arrangement (RCA) trust;
- G. a trust whose direct beneficiaries are one of the above-mentioned trusts;
- H. a trust governed by an eligible funeral arrangement or a cemetery care trust;
- I. a communal organization;
- J. a unit trust;
- K. a trust in which all interests have been permanently vested. This provision applies primarily to those commercial trusts (all trusts other than personal trusts) that do not qualify as unit trusts. It does not apply to:
- a post-1971 spousal or common-law partner trust;
 - a joint spousal or common-law partner or an alter ego trust;
 - a trust that elected to postpone the deemed realization day;
 - a trust that elects on its return for the first taxation year ending after 1992 not to apply this provision;
 - after December 23, 1998, a trust resident in Canada that has non-resident beneficiaries, if the fair market value (FMV) of the non-resident beneficiaries' interests in the trust is more than 20% of the total FMV of all the interests in the trust;
 - a trust that distributed property after December 17, 1999, to a beneficiary in respect of the beneficiary's capital interest in the trust and it is reasonable to consider that the distribution was financed by a liability of the trust, and one of the reasons for incurring the liability was to avoid paying taxes because of the death of any individual; or
 - a trust under the terms of which, all or part of any person's interest is to be terminated with reference to a period of time; and
- L. a trust (other than a trust described in A, B, C, D, and F above) where all or substantially all of the trust's property is held for the purpose of providing benefits to individuals from employment or former employment.

Form T2223, Election, Under Subsection 159(6.1) of the Income Tax Act, by a Trust to Defer Payment of Income Tax

The trust can elect to pay its income tax arising from the deemed realization rule in up to 10 annual instalments. Interest at the prescribed rate will apply. Make this election on Form T2223, and file it at your tax services office no later than the day the return is due for the taxation year the deemed realization occurs. For more information on this election, call us.

Transfer of trust property to another trust

If one trust (Trust A) transfers capital property (other than excluded property), land inventory, or resource property to another trust (Trust B), the deemed realization day of Trust B becomes the **earliest** of the following dates:

- Trust A's deemed realization day that would have occurred if the transfer had not been made;
- Trust B's deemed realization day that would have occurred if the transfer had not been made; or
- the day after the transfer, if Trust B is:
 - a spousal or common-law partner trust, and the beneficiary spouse or common-law partner is still alive at the time of the transfer;
 - a joint spousal or common-law partner trust, and the settlor or beneficiary spouse or common-law partner is still alive at the time of the transfer; or
 - an alter ego trust, and the settlor is still alive at the time of the transfer.

This last condition will not apply when the transfer took place:

- on or before December 20, 1991, if **either** Trust A or Trust B was a pre-1972 spousal trust;
- after December 20, 1991, if **both** Trust A and Trust B are spousal or common-law partner trusts;
- after 1999, if **both** Trust A and Trust B are joint spousal or common-law partner trusts; or
- after 1999, if **both** Trust A and Trust B are alter ego trusts.

**Summary of options available for deemed realization under the 21-year rule
(subject to the provisions of the will or trust document)**

Options	Post-1971 spousal or common-law partner trust	Pre-1972 spousal trust	Joint spousal or common-law partner and alter ego trust	Other trusts and spousal or common-law partner trusts 21 years after first deemed disposition
Gains or losses from the deemed dispositions taxed in the trust	yes	yes	yes	yes
Elect to defer tax (Form T2223)	yes	yes	yes	yes
Claim capital gains deduction, in the year the beneficiary spouse or common-law partner dies (Schedule 5)	yes	yes (no, if the trust previously filed Form T1015)	no	no
Designate capital gains (box 21 of the T3 slip)	no	yes	no	yes
Preferred beneficiary election	no, for the date the spouse or common-law partner died (yes, for the subsequent dispositions)	no, for the date the spouse died (yes, for the subsequent dispositions)	no	yes

Schedule 8 – Investment Income, Carrying Charges, and Gross-up Amount of Dividends Retained by the Trust

Line 1 – Actual amount of dividends from taxable Canadian corporations

Attach a statement listing the actual amount of dividends the trust received from taxable Canadian corporations. These amounts are shown in box 23 on a T3 slip and in box 10 on a T5 slip issued to the trust. In this statement, include actual and deemed taxable dividends. Do not include non-taxable dividends, as explained at Lines 5 to 10, or capital gains dividends that you report on line 10 of Schedule 1. We consider dividends credited to the trust's account by a financial institution to have been received by the trust, even if the trust did not receive a T3 or a T5 slip.

The grossed-up amount of taxable dividends received from taxable Canadian corporations qualifies for the dividend tax credit. This may reduce the trust's tax payable. If the trust designated the taxable dividends to individual beneficiaries, the tax payable by the beneficiaries may be reduced.

Lines 2 to 4 – Foreign investment income

Report investment income from foreign sources in Canadian dollars. Calculate how much to report by multiplying the foreign income by the exchange rate in effect on the day that the trust received the income. If the amount was paid at various times throughout the year, contact us to get the applicable rate. Report the full amount of the foreign income. Do not reduce it by the tax withheld by foreign authorities.

Lines 5 to 10 – Other investment income

Report bond interest, bank interest, mortgage interest, and other dividends (including dividends under a dividend rental arrangement). We consider interest and dividends credited to the trust's account by a financial institution to have been received by the trust.

Report interest on tax refunds received in the year on line 9.

Do not include the following:

- dividends the trust received from taxable Canadian corporations reported on line 1;
- capital gains dividends reported on line 10 of Schedule 1; and
- non-taxable dividends discussed in the next section.

For more information on the method of reporting interest and other investment income, see the *General Income Tax and Benefit Guide* and Interpretation Bulletin IT-396, *Interest Income*.

Non-taxable dividends received by a trust

If the trust received a non-taxable dividend, **do not** include it in the trust's income. An example of a non-taxable dividend is a tax-free dividend that a Canadian private corporation pays from its capital dividend account.

Certain non-taxable dividends that the trust received, other than dividends paid out of the capital dividend account, may reduce the adjusted cost base of the shares on which the dividends were paid. Make this adjustment when calculating a capital gain or loss if the trust later disposes of the shares.

If the trust pays out non-taxable dividends to its beneficiaries, inform the beneficiaries that they should not include these dividends in income. You also have to file a

statement with the return containing the following information:

- the name of the payer corporation; and
- the names of the beneficiaries, and the amount of non-taxable dividends that each beneficiary received.

Lines 11 to 15 – Carrying charges and interest expenses

Carrying charges and interest expenses include:

- interest on money borrowed to earn investment income;
- fees for the management or safe custody of investments;
- safety deposit box charges;
- accounting fees for recording investment income; and
- investment counsel fees.

Attach a statement to the return, listing the types and amounts of carrying charges that the trust claimed. If the trust is claiming interest on money borrowed, provide the following details:

- the name of the lender;
- the date and the amount of the loan;
- the interest rate;
- the terms of repayment; and
- the balance of the loan at the end of the taxation year.

If the trust has carrying charges for Canadian and foreign investment income, identify them separately, according to the percentage that applies to each investment.

Do not include trustee fees paid by the trust or brokerage fees or commissions paid by the trust to buy or sell securities. If the trust paid these expenses to purchase a security, they are part of its cost. If the trust paid them to sell a security, claim them as “Outlays and expenses (from dispositions)” in column 4 of Schedule 1.

You can deduct interest expenses on a life insurance policy loan if the trust used the proceeds of the loan to earn income. If the trust elects to add the interest expense to the adjusted cost base of the policy, you cannot deduct it on line 21 of the return. If the trust is claiming interest paid on a policy loan during the year, the insurer has to complete Form T2210, *Verification of Policy Loan Interest by the Insurer*, no later than 90 days after the trust’s taxation year end.

For more information, see Interpretation Bulletin IT-355, *Interest on Loans to Buy Life Insurance Policies and Annuity Contracts, and Interest on Policy Loans*.

Lines 16 to 21 – Calculating the gross-up amount of dividends retained or not designated by the trust

Use this section to calculate the gross-up amount of actual dividends from taxable Canadian corporations included on line 1 and that the trust retained. The gross-up rate for dividends received in the year is 25% of the dividends received.

Note

The gross-up does not apply to taxable Canadian dividends received by the trust if they are allocated to a non-resident beneficiary.

Enter dividends allocated, but not designated, to a non-resident beneficiary on line 19.

Line 16 – Total dividends reported before applying expenses

Enter the actual amount of dividends from taxable Canadian corporations from line 1.

Line 17 – Dividends designated to beneficiaries

Enter the amount of net dividends, after related expenses, that you designated to beneficiaries from line 923, Part A of Schedule 9. If you have allocated dividends by including them in the amount on line 926 of Schedule 9, the dividends are not designated. Therefore, **do not** include them on line 17.

Line 19 – Dividends allocated, but not designated, to non-resident beneficiaries

Enter the amount of net dividends, after related expenses, included in Column 2, line 926 of Schedule 9. If the dividends have been allocated to non-resident beneficiaries on line 923, **do not** include them on line 19.

Line 21 – Gross-up amount of dividends retained or not designated by the trust

Multiply the amount on line 20 by 25% to calculate the amount to enter on line 21. You have to apply the gross-up rate to actual dividends that have been retained in the trust, or allocated but not designated to beneficiaries, before you deduct the related expenses.

Enter this amount on line 49 of the return, and:

- in the calculation area for line 24 of Schedule 11; and
- on line 19 of Schedule 12, if applicable.

Claim the carrying charges that relate to dividends on line 14 of Schedule 8.

For more information, see Interpretation Bulletin IT-524, *Trusts – Flow-Through of Taxable Dividends to a Beneficiary – After 1987*.

Schedule 9 – Income Allocations and Designations to Beneficiaries ▲

Complete this schedule if the trust is allocating income to its beneficiaries. You also have to complete T3 slips and a T3 Summary if you are allocating income to resident beneficiaries, or NR4 slips and an NR4 Summary if you are allocating income to non-resident beneficiaries.

Allocations and designations ▲

Generally, you **allocate** income to the trust’s beneficiaries according to the terms of the will or trust document. Depending on the type of income allocated, you may then

designate part or all of the allocated amount. When you designate an amount to a beneficiary, the type of income keeps its identity. This may allow the beneficiary to take advantage of a deduction or credit that applies to that income (such as the capital gains deduction or the dividend tax credit).

See the Glossary for a definition of the terms “allocate, allocation,” and “designate, designation.”

You can choose to designate the following income amounts to a beneficiary:

- net taxable capital gains;
- certain lump-sum pension income;
- dividends from taxable Canadian corporations;
- foreign business income;
- foreign non-business income;
- pension income that qualifies for the pension income amount;
- pension income that qualifies for acquiring an eligible annuity for a minor beneficiary; and
- retiring allowances that qualify for a transfer to a registered pension plan (RPP) or a registered retirement savings plan (RRSP).

Note

An insurance segregated fund trust has to designate all its capital gains and losses to its beneficiaries.

Use Part B of Schedule 9 to report designated amounts. This includes amounts such as foreign income tax paid, a retiring allowance qualifying for transfer to a RPP and a RRSP, a Part XII.2 tax credit, and other tax credits that flow through to the beneficiary.

Note

Income allocated to a beneficiary that is not deductible should **not** be reported on Schedule 9.

For more information, see the following Interpretation Bulletins:

IT-342, *Trusts – Income Payable to Beneficiaries*;

IT-381, *Trusts – Capital Gains and Losses and the Flow-Through of Taxable Capital Gains to Beneficiaries*; and

IT-524, *Trusts – Flow-Through of Taxable Dividends to a Beneficiary – After 1987*.

Exceptions and limits to income allocations

Generally, trust income has to be allocated to beneficiaries, or taxed in the trust, according to the provisions of the will or trust document, with the following exceptions and limits:

- A post-1971 spousal or common-law partner trust, joint spousal or common-law partner trust, or alter ego trust cannot deduct:
 - any income realized from deemed dispositions of property of the trust, and then distributed to someone other than:

- for a post-1971 spousal or common-law partner trust, the beneficiary spouse or common-law partner;
 - for a joint spousal or common-law partner trust, the settlor or the beneficiary spouse or common-law partner, while the settlor or beneficiary spouse or common-law partner is still alive; or
 - for an alter ego trust, the settlor.
- any income realized from deemed dispositions of capital property (other than exempt or excluded property), land inventory of the trust’s business, and Canadian and foreign resource property that arose on the death of:
 - for a post-1971 spousal or common-law partner trust, the beneficiary spouse or common-law partner;
 - for a joint spousal or common-law partner trust, the settlor or the beneficiary spouse or common-law partner, whichever is later; or
 - for an alter ego trust, the settlor.
 - the deemed payment from NISA Fund 2 that arose on the death of a beneficiary spouse or common-law partner.
- The trust cannot deduct income from payments out of NISA Fund 2, unless:
 - the trust is a testamentary spousal or common-law partner trust and this income was received while the beneficiary spouse or common-law partner was alive; or
 - the trust is a communal organization.
 - A trust cannot deduct amounts payable in a taxation year to anyone except:
 - for a trust that was a post-1971 spousal trust on December 20, 1991, or a spousal or common-law partner trust created after December 20, 1991, the beneficiary spouse or common-law partner, while the beneficiary spouse or common-law partner is alive;
 - for a joint spousal or common-law partner trust, the settlor or the beneficiary spouse or common-law partner while either one of them is alive; or
 - for an alter ego trust, the settlor while the settlor is alive.
 - Certain inter vivos trusts created after 1934 may have property (or property substituted for it) that:
 - may revert to the contributor;
 - may be distributed to beneficiaries determined by the contributor at a time after the trust was created; or
 - may only be disposed of with the consent of, or at the direction of, the contributor while the contributor is alive or exists.

We consider any income, including taxable capital gains and allowable capital losses from that property or the substituted property, to belong to the contributor during the contributor’s life or existence while a resident of Canada. For more information about these inter vivos trusts and these attribution rules, see Interpretation

Bulletin IT-369, *Attribution of Trust Income to Settlor*, and its Special Release.

- For 2000 and subsequent years, if the trust is:
 - a post-1971 spousal or common-law partner trust, and the beneficiary spouse or common-law partner died in the year;
 - a joint spousal or common-law partner trust, and the survivor of the settlor or the beneficiary spouse or common-law partner died in the year; or
 - an alter ego trust, and the settlor died in the year,you cannot deduct an amount in respect of income accrued up to the deemed realization day caused by the death but that is payable only after the death. For more information, call us.
- A trust cannot allocate capital losses and non-capital losses to beneficiaries of a trust except:
 - capital losses, if it is an insurance-related segregated fund trust; and
 - losses of revocable trusts and from blind trusts. Report these losses in brackets in the appropriate box on a separate T3 slip for the beneficiary. Clearly indicate the type of loss in the footnote area below box 41 on the T3 slip.
- We consider income that was not paid or payable to a beneficiary to be allocated to a beneficiary if he or she has a vested right to its income, and:
 - the trust is resident in Canada throughout the year;
 - the beneficiary is under 21 years of age at the end of the year; and
 - the beneficiary's right to income is vested by the end of the year, it did not become vested due to the exercise or non-exercise of a discretionary power by any person, and it is not subject to any future condition other than the condition that the beneficiary survive to an age of not more than 40 years.

Income to be taxed in the trust ▲

You can choose to report income on the trust return, rather than report it in the hands of the beneficiaries, as long as the trust is:

- resident in Canada throughout the year;
- not exempt from tax; and
- not a trust type A to I and L described in "Exemption from the 21-year rule" on page 29.

This applies to income paid or payable to beneficiaries.

The choice of reporting income on the trust's return is called a **designation under subsection 104(13.1)**. You make this choice by indicating on line B of the return for the year that a designation is being made under subsection 104(13.1). For example, you can use this designation in a year when a trust has taxable income and a non-capital loss carryforward. Once you make this choice, you cannot deduct on line 47 the income designated in the election.

Once you make the choice, you have to make it for each beneficiary. It reduces a beneficiary's income from the trust by that beneficiary's proportionate share of the income reported on the trust's return. We show you how to calculate the proportionate share in the following section.

You can make a similar **designation under subsection 104(13.2)** if taxable capital gains are included in the income reported on the trust's return. This will reduce the beneficiary's taxable capital gains from the trust by that beneficiary's proportionate share of taxable capital gains reported on the trust's return.

For example, by making the subsection 104(13.2) designation, you can use the trust's non-capital loss or net capital loss carryforward to absorb the current-year taxable capital gain.

Generally, amounts designated under subsections 104(13.1) and 104(13.2) will reduce the adjusted cost base of a beneficiary's capital interest in the trust unless the interest was acquired for no consideration and the trust is a personal trust.

If you choose to designate any portion of the beneficiary's income to be reported on the trust return:

- enter the amount on line B of the return; and
- attach a statement to the return showing the income you are designating and the amounts you are designating for each beneficiary.

For more information, see Interpretation Bulletins IT-342, *Trusts – Income Payable to Beneficiaries*, and IT-381, *Trusts – Capital Gains and Losses and the Flow-Through of Taxable Capital Gains to Beneficiaries*.

Proportionate share formulas

Use the following formulas to calculate designations under subsections 104(13.1) and 104(13.2). You have to apply these formulas to each beneficiary. A trust cannot use these designations to tax one beneficiary's share in the trust and allocate another share to a beneficiary unless the trust agreement entitles one beneficiary to the trust's income and another beneficiary to the trust's capital.

Subsection 104(13.1)

$$\frac{A \times C}{B}$$

where:

- A** = Beneficiary's share of trust income (calculated without reference to the Act)
- B** = Total of amount A for all beneficiaries
- C** = Trust income designated under subsection 104(13.1)

Subsection 104(13.2)

$$\frac{A \times C}{B}$$

where:

- A** = Beneficiary's share of the taxable capital gains of the trust calculated under income tax rules
- B** = Total of amount A for all beneficiaries
- C** = Net taxable capital gains designated under subsection 104(13.2)

Example

A trust's income is \$9,000, comprised of investment income of \$6,000 and taxable capital gains of \$3,000. Both are shared equally between the trust's two beneficiaries, Bonnie and Ian. The trust has \$6,000 in losses from prior years to apply: a non-capital loss of \$5,000 and a net capital loss of \$1,000. Therefore, the trustee decides to report \$6,000 of income on the trust return by designating \$5,000 under subsection 104(13.1) and \$1,000 of taxable capital gains under subsection 104(13.2), against which the losses are applied.

Determine the amount designated under subsection 104(13.1) for Bonnie as follows:

$$\frac{A \times C}{B}$$

$$\frac{\$3,000 \times \$5,000}{\$6,000} = \$2,500$$

Therefore, the amount designated for Bonnie is \$2,500. Because Ian shares equally, his calculation is the same.

Determine the amount designated under subsection 104(13.2) for Bonnie as follows:

$$\frac{A \times C}{B}$$

$$\frac{\$1,500 \times \$1,000}{\$3,000} = \$500$$

Therefore, the amount designated for Bonnie is \$500. Because Ian shares equally, his calculation is the same.

Preferred beneficiary election

A trust and a preferred beneficiary can jointly elect, in the year, to include in a preferred beneficiary's income for that year, all or part of the trust's accumulating income for the year. You can deduct the elected amount from the trust's income, up to the amount of the accumulating income. The elected amount for a preferred beneficiary must not be more than the allocable amount of the trust's total accumulating income. See the definition of "Preferred beneficiary" on page 6.

Trusts that are exempt from the 21-year rule cannot make a preferred beneficiary election. We list these trusts under "Exemption from the 21-year rule" on page 29.

You can only make the election if:

- for a spousal or common-law partner trust, the beneficiary spouse or common-law partner is still alive;
- for a joint spousal or common-law partner trust, either the settlor or the beneficiary spouse or common-law partner is still alive; and
- for an alter ego trust, the settlor is still alive.

A trust's accumulating income for the year is generally its income for the year after deductions, but without regard to amounts allocated under preferred beneficiary elections.

Accumulating income **does not** include the income from the deemed realization of capital property, land inventory, or resource property on the death of:

- the beneficiary spouse or common-law partner, for a spousal or common-law partner trust;
- the settlor or the beneficiary spouse or common-law partner, whichever is later, for a joint spousal or common-law partner trust; and
- the settlor, for an alter ego trust.

Accumulating income also **does not** include income arising from the deemed disposition of property to a beneficiary that results in a disposition of all or part of the beneficiary's capital interests in the trust, when the property is distributed to a beneficiary other than:

- the beneficiary spouse or common-law partner for a post-1971 spousal or common-law partner trust;
- the settlor or the beneficiary spouse or common-law partner, for a joint spousal or common-law partner trust; and
- the settlor, for an alter ego trust,

if the beneficiary spouse or common-law partner or settlor is alive on the deemed date of distribution.

Accumulating income of a trust **does not** include amounts paid or deemed to have been paid from NISA Fund 2. However, a preferred beneficiary election can include these amounts paid to a testamentary spousal or common-law partner trust while the beneficiary spouse or common-law partner was still alive.

Note

Accumulating income is calculated as if you have deducted the maximum amount of income that became payable in the year to the beneficiary.

You can make a preferred beneficiary election for a taxation year by filing the following:

- a statement making the election for the year, stating the part of the accumulating income on which you are making the election, and signed by both the preferred beneficiary (or guardian) and the trustee with the authority to make the election; and
- a statement signed by the trustee showing the calculation of the amount of the beneficiary's share of the accumulating income, and indicating the beneficiary's

social insurance number, his or her relationship to the settlor of the trust, and whether:

- the beneficiary is claiming a disability amount;
- a supporting individual is claiming a disability amount for that beneficiary (if yes, provide the name, address, and social insurance number of the supporting individual); or
- the beneficiary is 18 or older, and in the beneficiary’s taxation year which ends in the trust’s taxation year, another individual can claim an amount for an infirm dependant age 18 or older for that beneficiary, or could claim the amount if the beneficiary’s income is calculated before including the income from the preferred beneficiary election (if this is the case, provide a statement from the doctor, optometrist, audiologist, occupational therapist, speech-language pathologist, or psychologist confirming the beneficiary’s infirmity in the first year the claim is made).

File the election, with the return or separately, no later than 90 days after the end of the trust’s taxation year for which the election was made. For a preferred beneficiary election to be valid, you have to file it on time. If you file the election late, we will tax the accumulating income in the trust. For more information regarding late-filed or amended elections, see “Elections” on page 13.

If you are making a preferred beneficiary election, see Interpretation Bulletin IT-394, *Preferred Beneficiary Election*.

How to complete Schedule 9

Report allocated income using the columns provided:

Column 1 – income paid or payable to **resident** beneficiaries;

Column 2 – income paid or payable to **non-resident** beneficiaries; and

Column 3 – income allocated by a **preferred beneficiary election**.

See the appropriate column heading in the following sections for more information. Any amounts allocated to a beneficiary on lines 921 to 926 are generally deducted from the trust’s income.

If you claimed expenses on line 41 of the return, you have to deduct them from specific types of income before the trust can allocate the income to the beneficiaries. You have to apportion the expenses that relate to more than one source of income to the applicable sources of income. If you allocate all of the income to the beneficiaries, we will allow an alternative apportionment of expenses to provide the maximum flow-through to a beneficiary of the dividend tax credit. For more information, and the conditions that the trust has to meet before we can accept this alternative apportionment of expenses, see Interpretation Bulletin IT-524, *Trusts – Flow-Through of Taxable Dividends to a Beneficiary – After 1987*.

Column 1 – Resident

Include in this column allocations and designations of income paid or payable to resident beneficiaries, as well as

any taxable benefits to be allocated to these beneficiaries. If the income is allocated, but no amounts are designated, enter the total amount on line 926. If you are designating the income, enter the amounts on the appropriate lines. In addition, use Part B for other amounts you are designating to the beneficiaries.

For more information, see:

- “Allocations and designations” on page 32;
- Interpretation Bulletin IT-286, *Trusts – Amount Payable*; and
- Interpretation Bulletin IT-342, *Trusts – Income Payable to Beneficiaries*.

Column 2 – Non-resident

Include in this column allocations and designations of income paid or payable to non-resident beneficiaries. If the income is allocated, but no amounts are designated, enter the total amount on line 926. Report the total of the amounts in column 2 as estate or trust income on an NR4 slip, not on a T3 slip.

Most amounts paid or payable to non-resident beneficiaries are subject to a Part XIII withholding tax. See Lines 24 to 26 on page 40. Enter the total of column 2 on line 15 of Schedule 10.

If you allocate certain income to non-resident beneficiaries, the trust may also be subject to Part XII.2 tax. For information on Part XII.2 tax, see Schedule 10 on page 39.

Column 3 – By preferred beneficiary election

A trust and a preferred beneficiary can jointly elect to have the trust’s accumulating income taxed in the hands of the preferred beneficiary. Use column 3 to allocate and designate the elected accumulating income. Complete a separate T3 slip for this income.

You can designate the following types of income under a preferred beneficiary election:

- taxable capital gains (line 921);
- actual amount of dividends from taxable Canadian corporations (line 923);
- foreign business income (line 924); and
- foreign non-business income (line 925).

You have to make the designations on the trust’s return for the year in which you include the relevant amounts in the trust’s income. If the income is allocated but no amounts are designated, enter the total amount on line 926. If you are designating the income, enter the amounts on the appropriate lines. In addition, use Part B for other amounts you are designating to the beneficiaries.

Part A – Total income allocations and designations to beneficiaries Lines 921 to 928

Answer all four questions, and attach any necessary statements. For information about income attributed to the

transferor, see “Transfers and loans of property” on page 15.

Line 921 – Taxable capital gains ▲

You may allocate all or a portion of a Canadian resident trust’s net taxable capital gains to a beneficiary. If you designate this amount, we consider it to be the beneficiary’s taxable capital gain.

A trust’s **net taxable capital gain** is the amount by which the total of the trust’s taxable capital gains for a taxation year is **more** than the total of:

- the trust’s allowable capital losses for the taxation year; and
- net capital losses of other years deducted in calculating the trust’s taxable income for the taxation year.

When calculating the maximum net taxable capital gains available for designation in the current year, you have to reduce the net taxable capital gains (as calculated above) by:

- any expenses the trust incurred to earn income included in line 01 of the return; and
- amounts designated under subsection 104(13.2) to be taxed in the trust, other than amounts for which a deduction has been claimed on line 52. See “Income to be taxed in the trust” on page 34.

Note

If the amount on line 01 includes any deemed taxable capital gains (including gifts of capital property), call us for more information.

You have to include the following in the amounts you enter on line 921:

- net taxable capital gains allocated to a non-resident beneficiary; and
- net taxable capital gains allocated by a trust governed by an employee benefit plan.

If you complete line 921 and you are allocating capital gains eligible for the capital gains deduction, you also have to complete line 930. The only taxable capital gains eligible for this deduction are from the disposition of qualified farm property and qualified small business corporation shares.

Footnotes for line 921

The trust may have disposed of foreign property and is designating the capital gain to a beneficiary. Although the beneficiary reports this as a capital gain, the gain can be considered foreign non-business income when the beneficiary calculates a foreign tax credit.

Enter on line 921-3, the taxable amount of capital gains included on line 921 from the disposition of foreign property.

Line 922 – Lump-sum pension income ▲

A testamentary trust can designate to a beneficiary, in a year throughout which it was a resident of Canada, certain pension income, superannuation benefits, and amounts received from a deferred profit sharing plan.

Complete Schedule 7, *Pension Income Allocations and Designations*. Enter on line 922, those amounts from Schedule 7 that qualify for a transfer to a registered pension plan or a registered retirement savings plan.

Line 925 – Foreign non-business income

Enter all foreign non-business income designated to beneficiaries. This may include income from:

- foreign employment;
- foreign pension; and
- interest from foreign sources.

Line 926 – Other income ▲

Enter all income allocated to beneficiaries that is not shown on lines 921 to 925. This includes business, farming, fishing, or rental income, interest or pension income (other than from foreign sources and lump-sum pension income included at line 922), death benefits, retiring allowances, and dividends under a dividend rental arrangement. Include any amount claimed on line 43 for the upkeep, maintenance, and taxes of a property used or occupied by a beneficiary, and the amount claimed on line 44 for the value of other benefits to a beneficiary.

A testamentary trust may be able to designate, in a year throughout which it was a resident of Canada, a lump-sum payment out of a registered pension plan to a beneficiary to acquire an annuity. Include these amounts from Schedule 7, *Pension Income Allocations and Designations*, on line 926, and show the amount that qualifies for a transfer on line 936-1.

Footnotes for line 926

Enter on line 926-1 the amount of business income, included on line 926, from the disposition of eligible capital property that is qualified farm property eligible for the capital gains deduction.

A communal organization has to show on line 926-3, the total amount of business income (farming, fishing, and other business) allocated to its members. Business income that a member received from the communal organization is considered self-employment earnings for determining Canada Pension Plan contributions. For more information, see Information Circular 78-5, *Communal Organizations*.

Line 928 – Totals ▲

The total of lines 921 to 926 is the income allocated to the beneficiaries. The amount cannot be more than “Income before allocations” on line 46 of the return.

Part B – Summary of other amounts designated to beneficiaries

Lines 930 to 945 ▲

Complete this area only when there are designations, such as dividends from taxable Canadian corporations, foreign taxes paid for credit purposes, and pension income or retiring allowances qualifying for a transfer.

Line 930 – Taxable capital gains eligible for deduction

A personal trust that makes a designation on line 921 and has eligible taxable capital gains also has to designate a portion of the trust's eligible taxable capital gains to the beneficiary for the beneficiary's capital gains deduction.

Calculate the trust's eligible taxable capital gains on Schedule 3. Enter on line 930 the **lesser** of the following amounts:

- the amount on line 921; or
- the amount on line 34 of Schedule 3 **minus** the amount on line 926-1.

Footnotes for line 930

Enter on line 930-1 the eligible taxable capital gains from qualified farm property, which is the **lesser** of:

- the taxable capital gains from dispositions of qualified farm property; or
- the taxable capital gains eligible for the deduction.

Enter on line 930-2 the eligible taxable capital gains from qualified small business corporation shares, which is the **lesser** of:

- the taxable capital gains from dispositions of qualified small business corporation shares; or
- the taxable capital gains eligible for the deduction **minus** the taxable capital gains from qualified farm property entered on line 930-1.

Line 931 – Qualifying pension income ▲

Enter those amounts from Schedule 7, *Pension Income Allocations and Designations*, that qualify for the pension income amount. You can make this designation only if the beneficiary was the spouse or common-law partner of the deceased, and if the trust received the benefits of a life annuity from a superannuation or pension plan.

Line 932 – Taxable amount of dividends ▲

Enter the amount from line 923 of the **actual** amount of dividends, designated to a beneficiary who is either an individual or a trust (other than a registered charity), multiplied by 1.25.

Line 934 – Foreign non-business income tax paid

If you are designating a foreign tax credit to a beneficiary, you have to submit an official receipt or information slip from the foreign country. This is necessary to support the claim that the trust paid foreign non-business income tax, or that it was withheld from foreign non-business income the trust earned.

The portion of foreign taxes you designate to a beneficiary has to be in proportion to the foreign income you designate to that beneficiary. You have to convert any foreign taxes paid in foreign currency to Canadian funds.

For more information, see Interpretation Bulletins IT-270, *Foreign Tax Credit*, and IT-201, *Foreign Tax Credit – Trusts and Beneficiaries*, and see Line 31 on page 43.

Line 935 – Eligible death benefits ▲

A testamentary trust may receive a payment as a result of the employee's death to recognize the employee's service in an office or employment. Such a payment is usually from the deceased person's employer or from a trust fund the employer established. This payment may qualify as a **death benefit**, and the trust may be able to exclude up to \$10,000 of the amount from income.

If you allocate the total death benefit to a single beneficiary according to the provisions of the will, the beneficiary may be able to exclude up to \$10,000 of the payment from income. Enter on line 935 the amount from line 926 eligible for this exclusion.

If you allocate the total death benefit to more than one beneficiary, apportion the amount eligible for this exclusion among those beneficiaries. The total eligible amount apportioned cannot exceed \$10,000. The beneficiaries can use this information to calculate the taxable portion that they have to report on their T1 returns.

If you exclude the eligible death benefit from the trust's income, only the taxable portion flows out to the beneficiary. Make sure that you report only the taxable portion of the death benefit on line 19 of the return. For more information, see Line 19 on page 18.

Line 936 – Miscellaneous ▲

Enter those amounts from Column D of Schedule 7, *Pension Income Allocations and Designations*, that qualify for an eligible annuity for a minor on line 936-1. Enter any retiring allowance eligible for a transfer on line 936-2. Enter charitable donations designated to the beneficiaries of a communal organization on line 936-3.

Line 937 – Insurance segregated fund capital losses

Enter the designated portion of net capital losses from the disposition of property by an insurance segregated fund.

Line 938 – Part XII.2 tax credit

Calculate the amount for line 14 of Schedule 10, and enter it here. Generally, you can designate the Part XII.2 tax credit only to those resident beneficiaries to whom you allocated income in column 1 of line 928, Schedule 9.

Line 939 – Federal dividend tax credit ▲

Enter the amount on line 932 multiplied by 13.3333%.

Lines 940 and 941 – Investment tax credit (ITC)

Only testamentary trusts and communal organizations that are deemed to be inter vivos trusts can designate an ITC to their beneficiaries.

Complete Section 1 of Form T2038(IND), *Investment Tax Credit (Individuals)*, to calculate the amount of the

investment cost or expenditure and the ITC available. You will need the eligible amounts the trust invested to acquire property and the eligible expenditures for this part of the form. You have to reduce the trust's ITC by any amount allocated to beneficiaries.

Enter the beneficiaries' share of the trust's investment cost or expenditures on line 940. You need this amount to determine the amount of the ITC you can designate to each beneficiary.

Enter on line 941, the amount of the trust's ITC from Form T2038(IND) that you designated to a beneficiary and did not deduct on line 34 of the trust's Schedule 11.

Line 945 – Other credits

Newfoundland and Labrador research and development tax credit

Enter the amount of this credit that you designated to a beneficiary and did not deduct on page 4 of the return. For more information, see "Newfoundland and Labrador research and development tax credit" on page 22.

Yukon research and development tax credit

Enter the amount of this credit that you designated to a beneficiary and did not deduct on page 4 of the return. For more information, see "Yukon research and development tax credit" on page 22.

Schedule 10 – Part XII.2 Tax and Part XIII Non-Resident Withholding Tax

Complete Schedule 10 if the trust is allocating income to non-resident or other designated beneficiaries (see the next page for details). The total of Part XII.2 and Part XIII tax is approximately equal to the Part I tax, plus provincial or territorial taxes, that would apply to the income if the beneficiaries were resident in Canada.

Part A – Calculating Part XII.2 tax and the refundable Part XII.2 tax credit Lines 1 to 14

Pay any Part XII.2 tax no later than 90 days after the trust's taxation year end.

Part XII.2 tax **applies** when a trust:

- has specified income as described below;
- has a designated beneficiary as described below; and
- allocates or designates any of its income.

Part XII.2 tax **does not** apply to a trust that was one of the following throughout the year:

- a testamentary trust;
- a mutual fund trust;
- trust types A to I, or L in "Exemption from the 21-year rule" on page 29;
- a trust that was exempt from Part I tax under subsection 149(1); or
- a non-resident trust.

Specified income

Specified income of a trust generally means its taxable capital gains or allowable capital losses from the disposition of taxable Canadian property **and** the total income (or loss) from the following sources:

- businesses carried on in Canada;
- real properties located in Canada, such as land or buildings;
- timber resource properties; and
- Canadian resource properties the trust acquired after 1971.

Note

Although **designated income** is used in Part XII.2 of the Act, we use **specified income** in this guide and on Schedule 10 to avoid confusion with the term "designated income" used in other parts of this guide.

Designated beneficiary

A designated beneficiary for the purpose of Part XII.2 tax includes a beneficiary who is:

- a non-resident person;
- a non-resident owned investment corporation;
- a trust, other than a testamentary trust, a mutual fund trust, or a trust exempt from Part I tax under subsection 149(1), resident in Canada whose beneficiaries include a designated beneficiary;
- a partnership whose members include a designated beneficiary; or
- a person exempt from Part I tax under subsection 149(1), if that person acquired an interest in the trust, directly or indirectly, from a beneficiary of the trust after October 1, 1987.

Note

A person exempt from Part I tax is not a designated beneficiary if:

- after either October 1, 1987, or the date the interest was created, whichever is later, any person exempt from Part I tax continuously held the interest; or
- the person exempt from tax is a trust governed by a registered retirement savings plan or registered retirement income fund, and the trust acquired its interest directly or indirectly from its beneficiary, the beneficiary's spouse or common-law partner, or former spouse or common-law partner.

A designated beneficiary is usually not entitled to the refundable tax credit for Part XII.2 tax that the trust paid. This means that you will generally not complete box 38 on the T3 slip for a designated beneficiary who is a Canadian resident. Also, before you calculate Part XIII non-resident withholding tax, you have to reduce the income payable to a non-resident beneficiary by the non-resident's share of the Part XII.2 tax. For more information, see Line 13 on the next page.

Eligible beneficiary

This term is used for a beneficiary who is not a designated beneficiary as described above. An eligible beneficiary is generally a Canadian resident who is entitled to a refundable Part XII.2 tax credit in proportion to the share of allocated or designated trust income. You have to include an amount equal to the Part XII.2 tax credit in the income allocated to the beneficiary. In effect, this credit replaces the income that the beneficiary would have received if the trust did not have to pay Part XII.2 tax.

Line 6 – Total specified income

This is the total of lines 1 to 5, which represents the specified income of the trust. Part XII.2 tax does not apply if the amount on line 6 is negative.

Line 11 – Adjusted amount allocated and designated to beneficiaries

Enter the amount from column 1 of line 928, Schedule 9, on line 7. Enter the amount from column 2 of line 928, Schedule 9, on line 8. Subtract the taxable benefits you reported on line 44 of the return on line 10.

Line 11 represents the following amounts:

- the deduction from trust income for the portion of the trust's income you allocated to resident and non-resident beneficiaries, to be included in their income; and
- the deduction from trust income for the Part XII.2 tax the trust paid for the year.

Withhold the Part XII.2 tax from income you distribute to the beneficiaries.

Line 12 – Part XII.2 tax payable

Multiply the **lesser** of the amount on line 6 and the amount on line 11 by 36% to calculate Part XII.2 tax payable by the trust. Enter this amount on line 83 of the return.

Line 13 (Adjustment for Part XIII tax purposes)

On this line, calculate the amount of Part XII.2 tax that you attribute to designated beneficiaries. Transfer the amount from line 13 to line 21 to reduce the income subject to Part XIII tax.

Line 14 – Part XII.2 refundable tax credit for eligible beneficiaries

This is the amount of Part XII.2 tax attributable to eligible beneficiaries. It is also the amount eligible for the Part XII.2 refundable tax credit for these beneficiaries.

If there is more than one eligible beneficiary, use the following formula to determine the amount of refundable tax credit to report in box 38 of the T3 slip for each eligible beneficiary:

$$\frac{A \times B}{C}$$

where:

A = Part XII.2 tax paid by the trust (line 12)

B = Each eligible beneficiary's share of the amount from line 11 (the trust income you allocated to the eligible beneficiaries)

C = Adjusted allocations or designations for the year (line 11)

Part B – Calculating Part XIII non-resident withholding tax

Lines 15 to 26

Complete this part if the trust allocated income to non-resident beneficiaries.

Line 20 – Amounts not subject to Part XIII tax: Other

One example of an amount to enter on this line is an amount you paid or credited to a beneficiary resident in the United States, when the amount is derived from income sources outside Canada and it is not subject to withholding tax under the *Canada – U.S. Tax Convention*.

Line 21 (Part XII.2 tax amount)

On this line, enter the amount from line 13, which is the amount of Part XII.2 tax you attribute to designated beneficiaries.

Lines 24 to 26 – Non-resident tax payable

Complete the rest of this schedule by referring to the NR4 return for the trust.

Every non-resident person has to pay Canadian income tax of 25% under Part XIII of the Act, unless a tax treaty or convention provides a lower rate. Part XIII tax is paid on amounts that a Canadian trust paid or credited, or is considered to have paid or credited, to non-residents. You have to withhold and remit tax on these amounts. This tax has to be received by the Canada Customs and Revenue Agency or a Canadian financial institution on or before the 15th day of the month after the month during which the tax was withheld.

Calculate the amount of non-resident tax payable and any balance due by following the steps in Part B of Schedule 10. Send any balance due to us, with Form NR76, *Non-Resident Tax – Statement of Account*, which is a combined remittance statement and receipt.

If you are remitting Part XIII tax for the first time, send us a statement with the trust's name and address, the type of payment (Part XIII tax), and the month during which you withheld the tax. When we receive the payment, we will issue a Form NR76 receipt. You can use the bottom portion for remitting future payments.

You also have to complete an NR4 Summary, *Return of Amounts Paid or Credited to Non-Residents of Canada*, and an NR4 slip, *Statement of Amounts Paid or Credited to Non-Residents of Canada*.

For more information on non-resident income tax, see:

- Information Circular 76-12, *Applicable Rate of Part XIII Tax on Amounts Paid or Credited to Persons in Countries With Which Canada Has a Tax Convention*, and its Special Release;
- Information Circular 77-16, *Non-Resident Income Tax*; and
- Interpretation Bulletin IT-465, *Non-Resident Beneficiaries of Trusts*.

Example

An inter vivos trust resident in Canada has two beneficiaries: Adam, a resident of Canada who is an **eligible** beneficiary, and Meg, a non-resident who is a **designated** beneficiary. Each beneficiary is entitled to receive an equal share of the trust income that is distributed annually.

The trust has \$1,400 net income for the year, which includes net business income (from a business carried on in Canada) of \$1,000, and net interest income of \$400.

On Schedule 10, the trustee would:

- enter \$1,000 on lines 1 and 6, since there are no other sources of specified income (the \$400 interest is not specified income);
- enter \$1,400 on line 11, since this is the total amount from columns 1 and 2 of line 928 of Schedule 9;
- enter the **lesser** of lines 6 (\$1,000) and 11 (\$1,400) in the calculation area for line 12;
- multiply \$1,000 by 36%, and enter the result (\$360) on line 12;
- calculate the amount that is not subject to Part XIII non-resident tax by completing the calculation area for line 13 (divide \$700 by \$1,400 and multiply by \$360). Enter the result (\$180) on line 13 and on line 21; and
- calculate the amount of refundable Part XII.2 tax credit on line 14 by subtracting line 13 (\$180) from line 12 (\$360). Enter the result (\$180) in box 38 on the T3 slip.

Adam received \$520, but he will include \$700 (\$520 + \$180) in his income for the year. This amount, which is entered in box 26 on the T3 slip, is the 50% portion of the trust income distributed to him under the terms of the trust agreement. On his T1 return for 2002, he will claim a refundable Part XII.2 tax credit of \$180.

Meg received \$520. This amount, which is entered on the NR4 slip, is the 50% of the trust income distributed to her under the terms of the trust agreement. On Schedule 10, the trustee reduces the total income paid or payable to

non-resident beneficiaries (line 15) by the Part XII.2 tax (line 21). Line 23 (\$700 – \$180 = \$520) is the amount subject to non-resident tax.

Completing the NR4 return

The *Non-Resident Withholding Tax Guide* explains how to report amounts the trust paid or credited to non-residents of Canada and how to complete and distribute the NR4 return.

Report the total trust income you allocated to a non-resident beneficiary as estate and trust income on the NR4 return. Types of income, except for taxable capital gains from a mutual fund trust, lose their identity when allocated to a non-resident beneficiary. Therefore, you have to total and report them as "Estate or trust income" in box 16 of the NR4 slip.

File this return no later than 90 days after the end of the trust's taxation year.

Schedule 11 – Federal Income Tax

Use Schedule 11 to determine the federal income tax payable by the trust.

Note

The trust may be subject to minimum tax. For more information, see Schedule 12 on page 44.

Lines 8 and 9 – Federal tax on taxable income

Testamentary and grandfathered inter vivos trusts ▲
Federal tax rates for individuals apply to all testamentary trusts and to grandfathered inter vivos trusts. For more information on grandfathered inter vivos trusts, see "Grandfathered inter vivos trust" on page 7.

The amount of tax a testamentary or grandfathered inter vivos trust has to pay has changed. See "Step 1" on the schedule for details.

Inter vivos trusts

An inter vivos trust, other than a grandfathered inter vivos trust, is taxed at 29% of its taxable income. For more information, see Interpretation Bulletin IT-406, *Tax Payable by an Inter Vivos Trust*.

Line 22 – Tax adjustments – Lump-sum payments under ITAR 40

 ▲

Use this line to add items, such as the reduced tax that applies to lump-sum payments under section 40 of the *Income Tax Application Rules* (ITAR 40). You do not have to enter an amount on this line if you indicate "ITAR 40" on this line and on line 02 of the return. We will calculate your federal and provincial tax adjustment. Attach to the return any information slips the trust received.

Line 24 – Federal dividend tax credit

 ▲

Enter the amount of the federal dividend tax credit on dividends the trust received from taxable Canadian corporations in the taxation year.

The dividend tax credit is 2/3 of the gross-up amount you calculated on line 21 of Schedule 8.

Note

Foreign dividends do not qualify for this credit.

Line 25 – Donations and gifts tax credit ▲

Attach to the return official receipts for all claims. There are four types of donations or gifts:

- Donations to qualified donees – See the *Gifts and Income Tax* pamphlet for types of organizations that qualify;
- Gifts to Canada, a province, or a territory;
- Gifts of cultural property – Attach both the official receipt from the institution and Form T871, *Cultural Property Income Tax Certificate*, issued by the Canadian Cultural Property Export Review Board; and
- Gifts of ecological property – Attach the official receipt and the *Certificate for Donation of Ecologically Sensitive Land* issued by the Minister of the Environment.

Testamentary trust

If the donation is a one-time payment provided for in the deceased person's will, do not claim it on the T3 return. Instead, claim the donation on the deceased person's T1 return, either in the year of death or in the year before the year of death, or claim part of the donation on each return.

If the donation is not a one-time payment (for example, a donation that will continue to be made according to the terms of the will), treat the recipient as an income beneficiary and deduct the donation as an allocation of trust income on line 47 of the return. You also have to include the donation on the appropriate line of Schedule 9.

If the will provides that a donation can be made at the discretion of the trustee, you can:

- choose to treat the recipient as an income beneficiary and deduct the amount on line 47 of the return; or
- claim a non-refundable tax credit on line 25 of Schedule 11.

When you are claiming a donation on the return, either as an income allocation or for a non-refundable tax credit, you should indicate on the return whether the donation is a one-time or periodic payment as provided in the will, or if it was made at your discretion.

Inter vivos trust

If the recipient is an income beneficiary according to the terms of the trust agreement, deduct the donation on line 47 of the return, and include it on the appropriate line of Schedule 9.

In all other cases, calculate a non-refundable tax credit for the donation on line 25 of Schedule 11.

Maximum claim and carryover

The maximum claim for donations and gifts in the year is the sum of:

- 25% of the taxable capital gains from the donation of capital property, less any capital gains deduction claimed against that property;
- 25% of the recapture of capital cost allowance reported as a result of making the gift; and
- 75% of the trust's net income (line 50 of the return).

Note

The limit of 75% of net income does not apply to gifts to Canada, a province, or a territory, which were made or agreed to before February 19, 1997, or to gifts of cultural or ecological property.

For more information on calculating the maximum claim, see the *Gifts and Income Tax* pamphlet.

Claim any portion of the trust's total donations, up to the maximum limit. Any unused portion can be carried forward for five years.

If the trust donates an obligation of the trust or of a related person, a share issued by a corporation related to the trust, or any other security issued by a person related to the trust, contact us.

A communal organization that made charitable donations can choose not to claim them and can elect to designate the donations to beneficiaries. For more information, see Information Circular 78-5, *Communal Organizations*.

Line 26 – Minimum tax carryover from previous years

If the trust paid minimum tax in the 1995 to 2001 taxation years, and does not have to pay minimum tax for the 2002 taxation year, you may be able to claim a credit against the trust's 2002 taxes payable. Use Part 7 of Schedule 12, *Minimum Tax*, to calculate the total minimum tax carryover.

Note

You can carry over minimum tax from the seven previous taxation years.

Line 29 – Surtax on income not subject to provincial or territorial tax

A resident trust, or a trust deemed to be resident in Canada, that carries on business through a permanent establishment in a foreign country, has to pay a federal surtax of 48% of its basic federal tax attributable to the income earned in the foreign country.

A non-resident trust pays this tax instead of provincial or territorial tax. However, business income that the trust earned in a province or territory through a permanent establishment in that province or territory is subject to the provincial or territorial tax instead of this 48% surtax.

For more information, see Form T2203, *Provincial and Territorial Taxes for 2001 – Multiple Jurisdictions*.

Line 31 – Federal foreign tax credit

This credit is available to a resident trust only for foreign income or profit taxes the trust paid on income it received from sources outside Canada. When you calculate the foreign tax credit, convert all amounts to Canadian currency.

In general, the foreign tax credit you can claim for each foreign country is the **lesser** of:

- the tax the trust paid to a foreign country; and
- the tax payable to Canada on the portion of income the trust earned in the foreign country.

Use Form T2209, *Federal Foreign Tax Credits*, to calculate the trust's foreign tax credit. When you complete Form T2209, base the calculation of the credit on amounts the trust retains. Do not include any amounts relating to the designation of foreign income and foreign tax credits to the beneficiaries. Enter the amount from line 10 of Form T2209 on line 31.

The trust's federal foreign tax credit may be less than the tax paid to a foreign country. The trust can carry unclaimed foreign tax paid on **business income** back three years and forward seven years. The trust cannot carry forward or carry back excess amounts of any foreign **non-business** income tax. You may be able to claim some or all of the excess as:

- a provincial or territorial foreign tax credit on Form T2036, *Provincial Foreign Tax Credit* (this does not apply to a trust that is a resident of Quebec); or

- a deduction on line 40 of the return (for information, see Interpretation Bulletin IT-506, *Foreign Income Taxes as a Deduction from Income*).

Attach proof of the tax the trust paid to a foreign country.

For more information, see Interpretation Bulletins IT-270, *Foreign Tax Credit*, and IT-201, *Foreign Tax Credit – Trust and Beneficiaries*.

Line 33 – Allowable federal political contribution tax credit

Claim this credit if the trust contributed to a registered federal political party or to a candidate for election to the House of Commons. Use the chart below to calculate the credit, and enter the total allowable credit on line 33. If the trust's total federal political contributions are \$1,150 or more, enter \$500 on line 33. Attach to the return an official receipt as proof of the contribution. You do not have to attach a receipt for an amount shown in box 36 of a T5013 slip, or in a financial statement showing an amount a partnership allocated to the trust. For more information, see Information Circular 75-2, *Contributions to a Registered Political Party or to a Candidate at a Federal Election*.

Federal political contribution tax credit

Total federal political contributions.....	_____	
Allowable credit:		
75% of first \$200 of total federal political contributions.....	_____	a
50% of next \$350 of total federal political contributions.....	+ _____	b
33 1/3% of total federal political contributions that are more than \$550.....	+ _____	c
Total credit (add lines a, b, and c).....	= _____	d
Allowable credit – enter the lesser of line d or \$500 on line 33 of Schedule 11.		

Line 34 – Investment tax credit

A trust can claim an investment tax credit (ITC) on eligible investments and qualified expenditures that are listed on Form T2038(IND), *Investment Tax Credit (Individuals)*. For example, a trust can claim an ITC on certain buildings, machinery, or equipment to be used in certain areas of Canada in qualified activities such as farming, fishing, logging, or manufacturing.

There is a time limit to complete and submit Form T2038(IND). To be able to claim an ITC, you have to send us the completed form no later than 12 months after the due date of the return for the year the expenditure occurred.

Attach a completed copy of Form T2038(IND) to the return if the trust:

- earned an ITC in the taxation year;
- is carrying forward a credit;
- is carrying back a credit;
- had an ITC recapture; or

- is claiming a refundable ITC in the taxation year (on line 88 of the return).

Reduce the cost of eligible investments and qualified expenditures by the portion of the credit deducted or refunded. Reduce these costs in the year after the trust:

- claims the credit; or
- acquired the asset if it:
 - made the claim or refund in the year of acquisition; or
 - applied the claim to a previous year.

For example, the capital cost of property is reduced in 2002 by any ITC which the trust earned in 2001, and which was claimed or refunded on the 2001 return or applied to a previous year.

You will have to report an ITC recapture for the trust if the trust:

- acquired the property in this or any of the previous 10 taxation years;

- claimed the cost of the property as a qualified expenditure for Scientific Research and Experimental Development;
- included the cost of the property in calculating the trust's ITC, or was the subject of an agreement to transfer qualified expenditures; and
- disposed of the property or converted it to commercial use after February 23, 1998.

Only a testamentary trust or a communal organization can designate an ITC to its beneficiaries. When you calculate the trust's ITC for the taxation year, do not include the part that is designated on line 941 of Schedule 9, according to the terms and conditions of the trust agreement, or by choice of the trustee. Reduce the cost of the qualified property acquisitions or expenditures by the amount of any ITC that you designated to the beneficiaries in the taxation year.

For more information, see the instructions included with Form T2038(IND).

Line 35 – Other credits

Credits you can claim at this line include:

- a federal logging tax credit; and
- a federal environmental trust tax credit.

Line 38 – Refundable Quebec abatement ▲

A trust is entitled to an abatement of 16.5% of its basic federal tax if it was resident in Quebec on the last day of its taxation year and it did not have income from a business with a permanent establishment outside Quebec.

The abatement is provided instead of direct cost-sharing by the federal government under federal-provincial fiscal arrangements.

Use Form T2203, *Provincial and Territorial Taxes for 2001 – Multiple Jurisdictions*, to calculate the refundable Quebec abatement if the trust:

- was a resident in Quebec and had income from a business with a permanent establishment outside Quebec; or
- resided outside Quebec and had income from a business with a permanent establishment in Quebec.

Schedule 12 – Minimum Tax

Read the following information to see if the trust is liable to minimum tax, and if you need to complete Schedule 12.

The following trusts are **not** subject to minimum tax:

- a mutual fund trust;
- a related segregated fund trust;
- a spousal or common-law partner trust, a joint spousal or common-law partner trust, or an alter ego trust, if they report in the year, their first deemed realization under the 21-year rule; and
- a master trust.

Minimum tax limits the tax advantage a trust can receive in a year from certain incentives. The most common situations that may make a trust liable to minimum tax are if it:

- reports taxable dividends;
- reports taxable capital gains;
- makes an election on pension benefits under ITAR 40;
- claims a loss resulting from, or is increased by, resource expenditures, or claims resource and depletion allowances on resource properties; or
- claims a loss resulting from, or is increased by, capital cost allowance on rental or leasing property, or certified films or videotapes.

The trust has to pay minimum tax if it is more than the federal tax calculated in the usual manner.

Provincial and territorial income tax ▲ Resident trusts

A trust is liable for provincial or territorial tax, at the rate that applies for the province or territory of residence, if it:

- was a resident of a province other than Quebec, or of a territory on the last day of its taxation year; and
- did not have income from a business with a permanent establishment outside the province or territory of residence.

Use the applicable provincial or territorial tax form to calculate the provincial or territorial tax.

If the trust was resident in the Province of Quebec on the last day of its taxation year, see the note in the section called "Which tax package should you use?" on page 3.

A resident trust may carry on a business with a permanent establishment:

- in a province or territory other than the province or territory of residence; or
- in a foreign country.

In these cases, you have to calculate the trust's income from each source to determine the liability for:

- provincial or territorial income tax; or
- federal surtax for income not subject to provincial or territorial tax.

Report income from a business for each province, territory, or foreign country in which the business had a permanent establishment during the taxation year. Attach a copy of this list to the return. In general, you should allocate all other income to the province or territory of residence.

A trust resident in a province other than Quebec, or in a territory on the last day of its taxation year may have a federal foreign tax credit that is less than the tax the trust paid to a foreign country. For more information, see Line 31 on page 43. You can apply this credit against provincial or territorial income tax.

Non-resident trusts

A non-resident trust that carries on a business through a permanent establishment in a province or territory is subject to provincial or territorial tax on the business income it earned in that province or territory.

A non-resident trust may carry on a business in Canada without a permanent establishment in Canada. In this case, it may be subject to the federal surtax. For more information, see Line 29 on page 42.

Chapter 4 – T3 Slip and Summary

As trustee, you have to complete a T3 slip, *Statement of Trust Income Allocations and Designations*, for each resident beneficiary, including a preferred beneficiary, to whom the trust allocated income in the year. If you allocated income to a non-resident beneficiary, see “Column 2 – Non-resident,” on page 36.

This chapter provides information on how to complete the T3 slip. This slip is available in the following two formats:

- three-copy carbon-loaded in continuous-feed; and
- single-copy for laser printers.

Note

For 2002, we changed the design of the slip. We removed the low-use boxes and kept the high-use boxes (boxes 23, 32, 39, 21, 30, 26, 12, 16, and 18). There are now six generic boxes with blank codes for low-use amounts. If you need to use a generic box, enter the box number **and** the amount in the other information area. If you require more than six boxes for the same beneficiary, use an additional T3 slip.

You can find a sample of the slip on page 49.

Note

You do not have to complete a T3 slip for a beneficiary if the only amount allocated in the year to that beneficiary is income less than \$100. However, you have to notify the beneficiary of the allocated amount since it still has to be reported on the beneficiary’s return.

You have to complete a T3 Summary, *Summary of Trust Income Allocations and Designations*, even if you prepare only one T3 slip. This is the form you use to record the total of the amounts you reported on all related slips. File only one summary for the trust, unless it is a mutual fund trust.

See the back of the summary for information on how to complete it. You can find a sample of the form on page 50.

Note

If you send us more than 500 slips, you have to file T3 slips on magnetic media. For more information, see “Filing on magnetic media” on page 12.

Recipient identification number ▲

The recipient identification number is one of the following:

- the social insurance number (SIN), if the beneficiary is an individual (other than a trust);
- the business number (BN), if the beneficiary is a corporation or partnership; or
- the trust account number, if the beneficiary is a trust.

This section explains the special rules and penalties that apply to the use of the SIN and the BN.

Trustee – Anyone who prepares an information slip has to make a reasonable effort to get the SIN or BN from the person or partnership who will receive the slip. Unless you make a reasonable effort to get this information, you will be liable to a \$100 penalty each time you do not provide the SIN or BN on the information slip. This penalty does not apply if the person or partnership has applied for, but not yet received, a SIN or BN when the return was filed.

Beneficiary – Persons or partnerships (other than trusts) have to give their SIN or BN on request to anyone who has to prepare an information slip for them.

If the person or partnership does not have a SIN or BN, the following rules apply:

- the person or partnership must apply for the number within 15 days of your request (the SIN from any Human Resources Development Canada office, the BN from us); and
- once the person or partnership has received the number, they have 15 days to give it to you.

Persons or partnerships who, for any reason, do not comply with these requirements are liable to a penalty of \$100 for each failure to give their SIN or BN.

A beneficiary may indicate that a SIN or BN has been applied for, but has not yet been received, or the beneficiary may refuse to give you the number. In these cases, do not delay completing the information slip beyond the filing deadline. If you have not received the SIN or BN by the time you prepare the T3 slip, enter “nil” in box 12.

If you have to prepare an information slip, you, your employees, officers, or agents cannot knowingly use, communicate, or allow a SIN or BN to be communicated, other than as required or authorized by law, without the written consent of the individual taxpayer or partnership. Any person who does so is guilty of an offence, and liable on summary conviction to a fine, imprisonment, or both.

For more information, see Information Circular 82-2, *Social Insurance Number Legislation That Relates to the Preparation of Information Slips*.

How to complete the T3 slip ▲

Type or print the information on the slip. Report all amounts in Canadian dollars.

If there is a preferred beneficiary election and other income is also allocated to the same beneficiary, complete one T3 slip for the elected income and a separate slip for all other allocated income.

You can get the information needed to complete boxes 21 to 45 from Schedule 9, *Income Allocations and Designations to Beneficiaries*.

Year – Enter the applicable taxation year at the top of the slip.

Trust year ending – Use a four-digit number to indicate the year, and a two-digit number to indicate the month of the trust’s taxation year end.

Note

For your convenience, we have put the instructions for the following boxes in numeric order, even though the order on the slip may be different.

Box 12 – Recipient identification number ▲

You have to enter the beneficiary’s social insurance number, business number, or trust account number. If you do not have the number, see “Recipient identification number” on the previous page. Do not leave this box blank.

Box 14 – Account number

You have to enter the trust’s account number, if we have assigned one. Otherwise, enter “nil.” Do not leave this box blank.

Box 16 – Report code ▲

Enter one of the following codes:

Code	Type of slip
0	original
1	amended or cancelled

If you use code 1, see “How to amend, cancel, or issue a duplicate T3 slip” on page 48.

Box 18 – Beneficiary code ▲

You have to enter one of the following codes to identify the type of beneficiary (do not leave this box blank):

Code	Type of beneficiary
1	an individual
2	a joint beneficiary
3	a corporation
4	an association, a trust (fiduciary, trustee, nominee, or estate), a club, or a partnership
5	a government, a government enterprise, an international organization, a charity, a non-profit organization or other tax-exempt entity, or a deferred income plan that is exempt from tax

Footnotes

In some cases, you may have to enter information in the footnote area below boxes 12, 16, and 18 on the T3 slip. If you need more room to include an explanation in this area, prepare a separate statement and attach a copy to each copy of the slip.

Box 21 – Capital gains

Enter the beneficiary’s share of the amount on line 921 of Schedule 9, multiplied by 2.

Note

If box 21 includes capital gains from foreign property, enter an asterisk (*) beside the amount in box 21. In the footnote area, for each country, enter “non-business income for foreign tax credit” and the taxable portion of the amount included in box 21 that relates to the disposition of foreign property.

For more information, see Line 921 on page 37.

Box 22 – Lump-sum pension benefits ▲

Enter the beneficiary spouse’s or common-law partner’s share of the amount on line 922 of Schedule 9.

Box 23 – Actual amount of dividends ▲

Enter the beneficiary’s share of the amount on line 923 of Schedule 9.

If the beneficiary is an individual or a trust (other than a registered charity), see boxes 32 and 39 for further instructions.

Box 24 – Foreign business income

Enter the beneficiary’s share of the amount on line 924 of Schedule 9 (before withholding taxes).

Note

Enter an asterisk (*) beside the amount in box 24. In the footnote area, identify each foreign country and the amount of business income from each country.

Box 25 – Foreign non-business income

Enter the beneficiary’s share of the amount on line 925 of Schedule 9 (before withholding taxes).

Note

Enter an asterisk (*) beside the amount in box 25. In the footnote area, identify each foreign country and the amount of non-business income from each country.

Box 26 – Other income ▲

Enter the beneficiary’s share of the amount on line 926 of Schedule 9.

Include amounts such as the following in this box:

- death benefits;
- retiring allowances;
- pension income other than lump-sum pension benefits already included in box 22;
- net rental income;
- net business, farming, and fishing income; and
- interest income.

Notes

Enter an asterisk (*) beside the amount in box 26 if it includes any farming income from the disposition of eligible capital property which is qualified farm property. In the footnote area, enter “eligible capital property – qualified farm property,” and the amount of the beneficiary’s share from line 926-1 of Schedule 9.

Enter an asterisk (*) beside the amount in box 26 if it includes business, farming, or fishing income from a

communal organization. In the footnote area, enter “self-employment earnings for CPP purposes,” and indicate the type of income—business, farming, or fishing—and the amount of the beneficiary’s share from line 926-3 of Schedule 9.

Box 30 – Capital gains eligible for deduction
Only personal trusts complete box 30.

Enter the beneficiary’s share of the amount on line 930 of Schedule 9, multiplied by 2. Do not include farming income from the disposition of eligible capital property identified in the footnote to box 26.

Note

Enter an asterisk (*) beside the amount in box 30, and in the footnote area, enter either “qualified farm property” or “qualified small business corporation shares,” whichever applies, and the amount eligible for the capital gains deduction.

For more information, see Line 930 on page 38.

Box 31 – Qualifying pension income ▲
Enter the beneficiary spouse’s or common-law partner’s share of the amount on line 931 of Schedule 9. This amount is included in box 26.

Box 32 – Taxable amount of dividends ▲
If the beneficiary is an individual or a trust (other than a registered charity), enter the amount of dividends from taxable Canadian corporations reported in box 23, multiplied by 1.25.

Note

If the beneficiary is a resident of Newfoundland and Labrador, enter an asterisk (*) beside the amount in box 32. In the footnote area, enter “NLDIV pre-Mar. 22,” and the taxable amount of dividends that were declared and paid **before** March 22, 2002.

Box 33 – Foreign business income tax paid
Enter the beneficiary’s share of the amount on line 933 of Schedule 9.

Note

Enter an asterisk (*) beside the amount in box 33. In the footnote area, identify each foreign country and the amount of foreign tax paid on business income from each country.

Box 34 – Foreign non-business income tax paid
Enter the beneficiary’s share of the amount on line 934 of Schedule 9.

Note

Enter an asterisk (*) beside the amount in box 34. In the footnote area, identify each foreign country and the amount of foreign tax paid on non-business income from each country.

Box 35 – Eligible death benefits ▲
Enter the beneficiary’s share of the amount on line 935 of Schedule 9. This amount is included in box 26.

For more information, see Line 935 on page 38.

Box 36 – Miscellaneous ▲
Enter the beneficiary’s share of the following amounts:

- pension income that is eligible for a transfer to an eligible annuity for certain minors, from line 936-1 of Schedule 9 (also included in box 26);
- a retiring allowance, which qualifies for a transfer to a registered pension plan or registered retirement savings plan, from line 936-2 of Schedule 9 (also included in box 26); and
- charitable donations or gifts of a communal organization, from line 936-3 of Schedule 9. For more information, see Information Circular 78-5, *Communal Organizations*.

Note

Enter an asterisk (*) beside the amount in box 36. In the footnote area, enter the details of this amount. If you are designating more than one type of these amounts to one beneficiary, prepare a separate T3 slip for each type.

Box 37 – Insurance segregated fund capital losses
Enter the beneficiary’s share of the amount on line 937 of Schedule 9, multiplied by 2.

Box 38 – Part XII.2 tax credit
Enter the beneficiary’s share of the amount on line 938 of Schedule 9.

For more information, see Schedule 10 on page 39.

Box 39 – Federal dividend tax credit ▲
If the beneficiary is an individual or a trust (other than a registered charity), enter 13.3333% of the amount in box 32.

Boxes 40 and 41 – Investment tax credit
Only a testamentary trust or a communal organization can complete boxes 40 and 41.

If the trust made eligible expenditures in different regions, and the investment tax credit rates differ, prepare a separate T3 slip for each designation to beneficiaries.

Box 40 – Investment cost or expenditures
Enter the beneficiary’s share of the amount on line 940 of Schedule 9.

Box 41 – Tax credit
Enter the beneficiary’s share of the amount on line 941 of Schedule 9.

Note

Enter an asterisk (*) beside the amount in box 41. In the footnote area, enter the applicable investment code from Form T2038(IND), *Investment Tax Credit (Individuals)*.

For further information, see Lines 940 and 941 on page 38.

Box 45 – Other credits
Newfoundland and Labrador research and development tax credit
Enter the beneficiary’s share of the amount on line 945 of Schedule 9.

Yukon research and development tax credit

Enter the beneficiary's share of the amount on line 945 of Schedule 9.

Note

Enter an asterisk (*) beside the amount in box 45. In the footnote area, enter "Newfoundland and Labrador R&D" or "Yukon R&D," whichever applies, and the amount of this credit from box 45.

Distributing the T3 slip ▲

Copy 1: Send us this copy, **with** the summary and return, no later than 90 days after the end of the trust's taxation year. For addresses and more information on filing requirements, see "Chapter 1 – General Information" on page 7.

Copies 2

and 3: Send these copies to the beneficiary's last known address no later than 90 days after the end of the trust's taxation year. If you have the information you need to complete the slips before that deadline, we encourage you to send them to the beneficiaries as early as possible.

Copy 4: Keep this copy with the trust records.

If you use the T3 slip for laser printers, see the instructions on the back of the laser form.

How to amend, cancel, or issue a duplicate T3 slip

If you find that a T3 slip includes an error **before** you file it, prepare a new slip and destroy any incorrect copies, or correct the slip and initial your changes. In either case, enter "0" in box 16.

If you find that a T3 slip includes an error **after** you file it, send us a letter explaining the error along with the necessary slips, as explained below.

Amended slips – If you have to change some of the data on a slip, change only the required entries and leave the original amounts in the other boxes. Print the word "AMENDED" at the top of the revised slip, and enter "1" in box 16. Send two copies to the beneficiary.

If you have filed the original slip with us electronically, you can send us amendments and cancellations electronically. Send these changes in electronic format using hard medium (diskette or CD-ROM). The format used is Extensible Markup Language (XML). For more information, visit our Web site at www.ccra.gc.ca/magmedia/. New information will be posted as it becomes available. Amendments submitted in electronic format should be sent to:

Magnetic Media Processing Unit
Ottawa Technology Centre
Canada Customs and Revenue Agency
Ottawa ON K1A 1A2

Cancelled slips – If you issued a slip by mistake and you want to cancel it, send us another slip with the same data as on the original. Print the word "CANCELLED" at the top of the slip, and enter "1" in box 16. Send two copies of the slip to the beneficiary.

Duplicate slips – If you issue a slip to replace one that a client lost or destroyed, print the word "DUPLICATE" at the top of the slip. Send two copies to the beneficiary.

Do not send us a copy of the duplicate slip.

Note

If the amended or cancelled T3 slip results in a change to the **total** dollar amounts for boxes 21 to 41, you also have to send us an amended summary. For more information, see the instructions on the back of the T3 Summary.

Appendix A – T3 Slip and Summary ▲



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

STATEMENT OF TRUST INCOME ALLOCATIONS AND DESIGNATIONS ÉTAT DES REVENUS DE FIDUCIE (RÉPARTITIONS ET ATTRIBUTIONS) T3

Year Année	Actual amount of dividends Montant réel des dividendes	Taxable amount of dividends Montant imposable des dividendes	Federal dividend tax credit Crédit d'impôt fédéral pour dividendes	Capital Gains Gains en capital	Capital gains eligible for deduction Gains en capital admissibles pour déduction
<input type="text"/>	23 <input type="text"/>	32 <input type="text"/>	39 <input type="text"/>	21 <input type="text"/>	30 <input type="text"/>
	Other income Autres revenus	Trust year ending Fin d'année de la fiducie	Recipient identification number Numéro d'identification du bénéficiaire	Account number Numéro de compte	Report code Code de genre du feuillet
	26 <input type="text"/>	Year Année <input type="text"/> Month Mois <input type="text"/>	12 <input type="text"/>	14 <input type="text"/>	16 <input type="text"/>
	18 <input type="text"/>				
Other information (see the back) Autres renseignements (voir au verso)	Box / Case	Amount / Montant	Box / Case	Amount / Montant	Footnotes – Notes
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	
	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	

→ Recipient's name (last name first) and address - Nom, prénom et adresse du bénéficiaire

Trust's name and address – Nom et adresse de la fiducie

0179

T3 (02)

Return with T3 Summary 1
Retournez avec le formulaire T3 Sommaire 1



SUMMARY OF TRUST INCOME ALLOCATIONS AND DESIGNATIONS

- Complete this summary if the trust allocated income to a resident beneficiary, including a preferred beneficiary, in the year.
- If you are filing your T3 slips on magnetic media (tape, cartridge, or diskette), see "Filing on magnetic media," in Chapter 1 of the tax guide called *T3 Trust Guide*.
- File this summary with copy 1 of the related T3 slips, and the T3 *Trust Income Tax and Information Return*, no later than 90 days after the end of the trust's taxation year.
- See the back of this summary for instructions.

Identification

Name of trust		Account number T - -
Name of trustee, executor, liquidator, or administrator		Telephone number ()
Mailing address of trustee, executor, liquidator, or administrator (or name and mailing address of the person to contact, if different)		Postal code -
Summary for taxation year		Total number of T3 slips filed
From:	To:	10

T3 slip totals

Summary of income allocated and designated to resident beneficiaries (including preferred beneficiaries)

Capital gains	21		
Lump-sum pension benefits	22		
Actual amount of dividends	23		
Foreign business income	24		
Foreign non-business income	25		
Other income	26		

Summary of amounts designated to resident beneficiaries (including preferred beneficiaries)

Capital gains eligible for deduction	30		
Qualifying pension income	31		
Taxable amount of dividends	32		
Foreign business income tax paid	33		
Foreign non-business income tax paid	34		
Eligible death benefits	35		
Miscellaneous – footnotes to box 36			
Pension income eligible for transfer	36-1		
Retiring allowance eligible for transfer	36-2		
Charitable donations	36-3		
Insurance segregated fund capital losses	37		
Part XII.2 tax credit	38		
Federal dividend tax credit	39		
Investment tax credit			
Investment cost or expenditures	40		
Tax credit	41		
Other credits	45		

Do not use this area

Summary of footnote amounts

Box 21 – Non-business income for foreign tax credit		
Box 26 – Eligible capital property - qualified farm property		
Box 26 – Self-employment earnings		
Box 30 – Qualified farm property		
Box 30 – Qualified small business corporation shares		

Certification

I, _____, (Please print) certify that the information given on the T3 Summary and the related T3 slips, is, to the best of my knowledge, correct and complete.

_____ Date _____ Authorized person's signature _____ Position or title

Completing your T3 Summary

Identification

Complete this area using the same information that you entered in the identification area on the T3 *Trust Income Tax and Information Return*.

Total number of T3 slips filed

Enter the total number of T3 slips that you have included with this summary.

T3 slip totals

The line numbers in this area are the same as the box numbers shown on a T3 slip. For each box number, add the amounts from all of the T3 slips filed with this summary, and enter the total on the corresponding line of this summary.

Summary of footnote amounts

Boxes 21, 26, or 30 on a T3 slip may contain amounts that you identified with an asterisk (*). You should explain these amounts in the footnote area of the slip. For each footnote type, add the amounts from all of the T3 slips filed with this summary, and enter the total on the corresponding line of this summary. For more information on the footnotes, refer to the text for the applicable box number in the tax guide called *T3 Trust Guide*.

Certification

Ensure that you date and sign this area before sending us the summary.

Keep a copy of the T3 Summary with the trust records.

Where to file?

Trusts resident in Canada

Ottawa Technology Centre
Canada Customs and Revenue Agency
Ottawa ON K1A 1A2

Non-resident trusts

International Tax Services Office
Canada Customs and Revenue Agency
Ottawa ON K1A 1A8

Magnetic media filers

Send us your tape, cartridge, or diskette. Do not send us a paper copy of this form or T3 slips.

Magnetic Media Processing Team
Ottawa Technology Centre
Canada Customs and Revenue Agency
Ottawa ON K1A 1A2

Amending your T3 Summary

If you prepare an amended T3 slip after you have filed the original with us, you have to file an amended T3 Summary showing the revised totals. If the amended T3 slip affects the amounts shown on the T3 *Trust Income Tax and Information Return*, or on Schedule 9, *Income Allocations and Designations to Beneficiaries*, you also have to file an amended T3 return, or Schedule 9. Ensure that you print the word "AMENDED" at the top of all amended documents that you send to us.

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Contacting Us

Once a trust return is filed, the information on it becomes confidential. For this reason, we follow certain procedures before giving out information about the trust. Information can be given only to the trustee (or other legal representative who filed the return, such as an executor, administrator, assignee, receiver, or liquidator) or to an authorized representative. The authorized representative could be an accountant, lawyer, or tax preparer acting for the trustee. Although beneficiaries are entitled to information related to their personal tax situation, they are not entitled to information from us about the tax affairs of the trust.

Getting information in person

If you visit us, we will ask for:

- personal identification, which may be one piece of signed identification with your picture or two pieces of signed identification;
- trust identification, which may be a copy of the will, trust agreement or letters of administration, or confirmation that a copy of one of these documents has been filed with us. We will also accept other identification, such as a copy of the *Notice of Assessment* or other information about the contents of the trust return; and
- a business card or some other form of corporate identification, if you are an employee of a corporate trustee.

If your representative visits us, we will ask for the same identification. We will also ask for evidence that you have authorized this person to represent you.

Some of the trust's tax information is readily available and can be given to you as soon as we confirm that you are entitled to it. However, a pre-arranged appointment will ensure that the information you need will be available when you visit.

Getting information by telephone

If you call us, we will ask:

- for your name and address, and the date you were appointed as trustee;
- whether a copy of the will, trust agreement, or letters of administration has been filed with us. If not filed, we will ask for a copy or for some other form of proof that will allow us to give you the information you need. If you have questions about the assessment of the trust's return, we may also ask you for information about the return; and
- for the date that your company was appointed as trustee, if you are an employee of a corporate trustee.

If your representative calls us, we will ask for evidence that you have authorized this person to obtain information on your behalf, in addition to the trust-related identification.

If you use a teletypewriter, you can call our bilingual enquiry service at **1-800-665-0354** during regular hours of service.

Giving or cancelling an authorization

You can authorize a representative or cancel an authorization already given by writing to us, or by sending in a completed Form T1013, *Authorizing or Cancelling a Representative*.

The authorization, or cancellation of an authorization, should include:

- the name, address, and account number of the trust;
- your representative's name (only the business name of a firm or partnership need appear, unless authorization is to be restricted to a certain member) and telephone number;
- the taxation year or years to which the authorization, or cancellation of the authorization, applies; and
- your signature and title as the authorized signing person (trustee, executor, administrator, or liquidator), your telephone number, and the date.

You have to complete a separate written authorization or consent form for each representative appointed or cancelled for a taxation year or years.

Sending information by fax

Please use the facsimile service for correspondence only. Because this service relies on the telephone network, we are not responsible for misdirected, incomplete, or unclear documents.

Problem Resolution Program

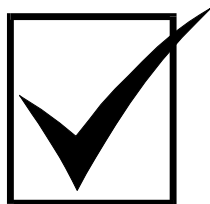
We are committed to providing you with service that is fair, accurate, timely, courteous, and confidential.

The Enquiries staff of your tax services office will help you with any tax-related questions or problems you may have. If a problem is not resolved to your satisfaction, you can contact a Problem Resolution Program co-ordinator at your local tax services office. The co-ordinator will be in touch with you right away to let you know they are working on your concern. The address and numbers for this office are listed in the government section of your telephone book.

Our goal under this program is to provide you with a solution within 15 working days. If we are unable to resolve your issue within that time (for example, if your case is complex), we will contact you to discuss your case and let you know when you can expect a reply.

Your opinion counts!

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



Please send your comments to:

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