Canada Revenue Agency | Agence du revenu du Canada

T3 Trust Guide

2010

T4013(E) Rev. 10

Canada

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 (see "Types of trusts" on page 7).

We have used the word "you" throughout the guide to mean the trustee, executor, administrator, liquidator, or anyone preparing the return for a trust. For tax purposes, estates and trusts are treated similarly. In calculating the income of an estate, references in this guide to a trust or trust property include estate or estate property. We use "the Act" to refer to the *Income Tax Act*.

If you need more help after reading this guide, you can visit our Web site at **www.cra.gc.ca**, or call **1-800-959-8281**.

If you have a visual impairment, you can get our publications in braille, large print, etext (CD or diskette), or MP3. For more information, go to **www.cra.gc.ca/alternate** or call **1-800-959-2221**.

La version française de cette publication est intitulée T4013, *T3 – Guide des fiducies*.

What's new for 2010

We list the major changes below, including income tax changes that have been announced but were not law at the time of printing. If they become law as proposed, they will be effective for 2010. For more details on these changes, see the areas outlined in colour in this guide.

Mandatory electronic filing

Effective January 1, 2010, you **must** file trust-related information slips over the Internet by Internet File Transfer **if you file more than 50 of any one type of slip** for a tax year. For more information, see "How to file the T3 slip and summary" on page 46.

Failure to file or distribute trust-related information slips

If you file or distribute trust-related information slips late, you are liable to a penalty. For information on how a penalty is calculated as of January 1, 2010, see "Penalties and interest" on page 14.

Internet File Transfer

If you use commercial or in-house-developed software to manage the trust's information slips (distributions/allocations), you can now file up to 150 MB. For more information, see "Filing over the Internet" on page 47.

International financial reporting standards (IFRS)

Effective January 1, 2011, Canada's Accounting Standards Board is adopting the IFRS. This will affect certain trusts. For more information, see "Question 12" on page 17.

Eligible dividends

Effective January 1, 2010, the gross-up rate for eligible dividends and the rate that applies to the taxable amount of eligible dividends, for purposes of the dividend tax credit, have changed. For more information, see:

- "Schedule 8 – *Investment Income, Carrying Charges, and Gross-up Amount of Dividends Retained by the Trust*" on page 32;
- "Line 951 – Dividend tax credit for eligible dividends" on page 39;
- "Lines 24 to 26 – Federal dividend tax credit" on page 42; and
- "Box 51 – Dividend tax credit for eligible dividends" on page 49.

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Before you start

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 your situation.

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

- "Chapter 1 – General Information" on page 7;
- "Step 1 – Identification and other required information" on page 16; and
- the introduction to "Chapter 4 – T3 slip and summary" on page 46 and "Recipient identification number" on page 47.

Non-resident trusts

If you are the trustee for a non-resident trust, or a deemed resident trust (defined on page 8), there are special rules that apply in some situations. Not all of these rules are covered in this guide. For more information, contact the International Tax Services Office at the numbers listed on page 13.

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 tax year.

To get any schedules and forms that you may need, go to **www.cra.gc.ca/forms**, or call **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. **Do not** calculate provincial income tax on the trust's federal return if it was resident in Quebec on the last day of its tax year. 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 Taxpayer Bill of Rights

At the Canada Revenue Agency (CRA), fairness and the promotion of taxpayers' rights have long been key goals. We are committed to treating taxpayers fairly and to ensuring their rights are upheld through the CRA redress mechanisms. For more information, go to **www.cra.gc.ca/fairness**. You can also see Pamphlet P148, *Resolving Your Dispute: Objection and Appeal Rights under the Income Tax Act*, or call **1-800-959-8281**. To get the pamphlet, go to **www.cra.gc.ca/forms**, or call **1-800-959-2221**.

Definitions

In this section, we define 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 or set apart income from the trust to a beneficiary. An amount can only be allocated to a beneficiary when one of the following applies:

- the beneficiary is entitled to the income in the year that it is earned by the trust, 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 in the year that it is earned by the trust, at the discretion of the trustee.

In most cases, the amounts you allocate have to be included in the beneficiary's income, and they are deducted from the trust's income. For exceptions to this general rule, see "Exceptions and limits to income allocations" on page 34.

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, marriage, common-law partnership, or adoption; and
- a corporation and a shareholder who controls the corporation.

If a person, or anyone not dealing at arm's length with that person, is beneficially interested in a personal trust (other than a specified trust as defined in Chart 1 on page 8), the person is considered not to be dealing at arm's length with that trust.

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

Beneficiary – includes 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 unit holder of a mutual fund trust.

Common-law partner – this applies to a person who is **not your spouse** (see page 6), with whom you are living in a conjugal relationship, and to whom at least one of the following situations applies. He or she:

a) has been living with you in such a relationship for at least 12 continuous months;

b) is the parent of your child by birth or adoption; or

c) has custody and control of your child (or had custody and control immediately before the child turned 19 years of age) and your child is wholly dependent on that person for support.

In addition, an individual immediately becomes your common-law partner if you previously lived together in a conjugal relationship for at least 12 continuous months and you have resumed living together in such a relationship.

Under proposed changes, this condition will no longer exist. The effect of this proposed change is that a person (other than a person described in b) or c) on the previous page) will be your common-law partner only after your current relationship with that person has lasted at least 12 continuous months. This proposed change will apply to 2001 and later years.

Reference to "12 continuous months" in this definition includes any period that you were separated for less than 90 days because of a breakdown in the relationship.

Contribution of property – generally refers to a transfer or loan of property, other than an arm's length transfer, to a non-resident trust including:

- a series of transfers or loans that results in a transfer or loan to the non-resident trust; and
- a transfer or loan made as a result of a transfer or loan involving the non-resident trust.

Deemed disposition – used when you are considered to have disposed of property, even though you did not actually do so.

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 a 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 trust property among the beneficiaries according to the terms of the trust document, or according to the applicable 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 this page.

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

Gift – a voluntary transfer of property (including money). Under proposed changes, for gifts made after December 20, 2002, this includes a gift where the donee receives an advantage, as long as the advantage does not exceed 80% of the fair market value (FMV) of the property, or we are satisfied the property was transferred with the intention of making a gift. Also, see the definition of inter vivos gift on this page.

Generally, the **eligible amount** of a gift or monetary contribution is the amount by which the FMV of the gifted property exceeds the amount of the advantage, if any, received for the gift.

The **advantage** is generally the total value of any property, service, compensation, use, or any other benefit that the trust, or a person not dealing at arm's length with the trust, is entitled to as partial consideration for, or in gratitude for, the gift.

Inter vivos – between living persons. An inter vivos trust is a trust set up by a living person.

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 the 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 – a person resident in Canada who is a beneficiary under the trust at the end of the year, and who meets one of the following conditions:

- he or she qualifies for the disability amount for the tax year that ends in the trust's tax year; or
- he or she:
  - is 18 years of age or older before the end of the tax year;
  - is a dependant of another individual for the tax year because of a mental or physical impairment; and
  - has income for the tax year, not including income from a preferred beneficiary election, that does not exceed the dependant tax credit.

In addition, he or she must be one of the following:

- the settlor of the trust (see the definition of "settlor" on this page);
- 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.

Principal residence – generally means 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 28.

Settlor – generally means the person who set up a trust by contributing property to the trust. In the case of a preferred beneficiary election, a settlor is restricted to a person who is otherwise the settlor of the trust and has contributed the majority of property to the trust.

Spouse – this applies only to a person to whom you are legally married.

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

Trust – a binding obligation 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.

Generally, a trust is created when it is properly established and there is 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. Each trust has different tax rules. "Chart 1 – Types of Trusts" on the next page, describes different types of trusts and arrangements.

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 or territorial 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 as a consequence of the individual's death. For rules about testamentary trusts created before November 13, 1981, call **1-800-959-8281**.

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.

Under proposed changes, for tax years ending after December 20, 2002, a testamentary trust may become an inter vivos trust if the trust incurs a debt or other obligation to pay an amount to, or guaranteed by, a beneficiary. For this purpose, a beneficiary includes a person or partnership with whom any beneficiary of the trust does not deal at arm's length.

This does not apply for certain debts or other obligations, including ones:

- incurred by the trust in satisfaction of a beneficiary's right to enforce payment of an amount payable by the trust to the beneficiary or to receive any part of the trust's capital;
- owed to the beneficiary as a result of services provided by the beneficiary for the trust; or
- owed to the beneficiary as a result of a payment on behalf of the trust for which property was transferred to the beneficiary within 12 months of the payment and the beneficiary would have made the payment had they been dealing with the trust at arm's length.

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 tax year;
- did not carry on any active business in the tax year;
- did not receive any property as a gift since June 18, 1971;
- did not incur any debt or obligation after June 18, 1971, to pay an amount to, or guaranteed by, any person with whom any beneficiary of the trust was not dealing at arm's length;
- 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; and
- for tax years beginning after 2002, was not a trust that received a contribution of property (defined on page 6) after June 22, 2000.

  Note
  When a trust has elected to be treated as a deemed resident trust for 2001 or 2002, this additional condition will apply to the determination of the status of the trust as a grandfathered inter vivos trust for those tax years as well. Attach a letter to the T3 return asking to have section 94 of the Act apply for those years. To find out the date by which this election must be received, call one of the telephone numbers listed in "Non-resident trusts and deemed resident trusts" on page 13.

Chart 1 – Types of Trusts

Type of trust	General information
▲ **Personal trust**	This is either: ■ a testamentary trust; or ■ an inter vivos trust in which no beneficial interest was acquired for consideration payable either to the trust, or a person who contributed to the trust. 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. A personal trust does not include a trust that is, or was at any time after 1999, a unit trust.
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 an alter ego trust if it so elects in its return for its first tax year.
Specified trust	This is a trust that is: 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 above mentioned trusts; a trust governed by an eligible funeral arrangement or a cemetery care trust; a communal organization; and a trust where all or substantially all of the property is held for the purpose of providing benefits to individuals from employment or former employment.
Joint spousal or common-law partner 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. 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. They 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.
▲ **Spousal or common-law partner trust**	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. In either case, 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. 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. A **pre-1972 spousal trust** includes both a testamentary trust created before 1972, and an inter vivos trust created before June 18, 1971. In either case, 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: ■ the day the beneficiary spouse dies; ■ January 1, 1993; or ■ the day on which the definition of a pre-1972 spousal trust is applied.
Deemed resident trust	This is a trust resident in another country, but that is considered resident in Canada for certain tax purposes. Usually, such a trust has received a contribution from a resident or former resident of Canada. A trust is a deemed resident if: ■ a resident of Canada transferred property to the trust and is either beneficially interested in the trust (for example, as a beneficiary of the trust), or is related to such a person (including an aunt, uncle, nephew, or niece of the beneficiary); or ■ the beneficiary acquired an interest in the trust by way of purchase or as a gift or inheritance from a Canadian resident who transferred property to the trust. Under proposed changes, a trust will generally be considered to be a deemed resident if it acquired property from a person who is resident in Canada or if any of the beneficiaries are resident in Canada and a contribution of property was made by a resident or former resident of Canada. If you need help in determining whether the trust is a deemed resident of Canada, call one of the telephone numbers listed in "Non-resident trusts and deemed resident trusts" on page 13.
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. A unit trust must also meet one of the three conditions described in subsection 108(2) of the Act.

Chart 1 – (continued)	
Type of trust	**General information**
Communal organization	We consider an inter vivos trust to exist when a congregation: ■ has members who live and work together; ■ follows the practices and beliefs of, and operates according to the principles of, the religious organization of which it is a part; ■ 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 owns all of the shares of the capital stock of a corporation (except directors' qualifying shares), or every interest in a trust or other person that carries on the business to support or sustain its members or the members of another congregation. 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 IC78-5, *Communal Organizations*.
Retirement compensation arrangement (RCA)	This arrangement exists when an employer makes contributions for an employee's retirement, termination of employment, or any significant change in services of employment. For more information, see Guide T4041, *Retirement Compensation Arrangements Guide*. **Note**: You have to file a T3 return for the portion of an RCA that is treated as an employee benefit plan. Form T3-RCA, *Retirement Compensation Arrangement (RCA) – Part XI.3 Tax Return*, has to be filed to report the income of the other portion of the plan.
Mutual fund trust	This is a unit trust that resides in Canada. It also has to comply with the other conditions of the Act, as outlined in section 132 and the conditions established by *Income Tax Regulation* 4801. For a mutual fund trust that is a public trust, or public investment trust, there are certain reporting requirements these types of trusts must meet. For more information, see below or go to **www.cra.gc.ca/trusts**. **Public Trust** A public trust is, at any time, a mutual fund trust of which its units are listed, at that time, on a designated stock exchange in Canada. **Public Investment trust** A public investment trust is, at any time, a trust that is a public trust, where all or substantially all of the fair market value of the property is, at that time, attributable to the fair market value of property of the trust that is: ■ units of public trusts; ■ partnership interests in public partnerships; ■ shares of the capital stock of public corporations; or ■ any combination of those properties.
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. 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, *Employee Benefit Plans and Employee Trusts*, and its Special Release. **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. 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 Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.
Salary deferral arrangement	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 performed. For more information, see Interpretation Bulletin IT-529, *Flexible Employee Benefit Programs*. **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 performed. The employee also has to include any interest, or other amount earned by the deferred amount. For more information, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

Chart 1 – (continued)

Type of trust	General information
Insurance segregated fund trust	This is a related segregated fund of a life insurer for life insurance policies and is considered to be an inter vivos trust. The fund's property and income are considered to be the property and income of the trust, with the life insurer as the trustee. **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.
Employee trust	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 tax 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. For more information, see Interpretation Bulletin IT-502, *Employee Benefit Plans and Employee Trusts*, and its Special Release. **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. 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 Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.
Non-profit organization	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, *Non-Profit Organizations*. 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 its taxable income. Claim this on line 54 of the T3 return. For more information, see Interpretation Bulletin IT-83, *Non-Profit Organizations – Taxation of Income From Property*. **Note**: A non-profit organization may have to file Form T1044, *Non-Profit Organization (NPO) Information Return*. For more information, see Guide T4117, *Income Tax Guide to the Non-Profit Organization (NPO) Information Return*.
Master trust	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: ■ 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. **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 tax 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. If a future return is filed, we will assume the trust no longer meets the above conditions. The trust will not be considered a master trust and must file yearly returns from then on. If the trust is wound up, send us a letter to tell us the wind-up date.
RRSP, RRIF, or RESP trust	An RRSP, RRIF, or RESP trust has to complete and file a T3 return if the trust meets **one** of the following conditions: ■ the trust has borrowed money and paragraph 146(4)(a) or 146.3(3)(a) of the Act applies; ■ the RRIF trust received a gift of property and paragraph 146.3(3)(b) of the Act applies; or ■ the last annuitant has died and paragraph 146(4)(c) or subsection 146.3(3.1) of the Act applies. If this is the case, claim an amount on line 43 of the T3 return **only** if the allocated amounts were paid in accordance with paragraph 104(6)(a.2) of the Act. If the trust does not meet one of the above conditions and the trust held non-qualified investments during the tax year, 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 (that is, 100%) on line 01 of the T3 return. 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.

Chart 1 – (continued)	
Type of trust	**General information**
Registered disability savings plan (RDSP) trust	An RDSP trust has to complete and file a T3 return if the trust has borrowed money and subparagraph 146.4(5)(a)(i) or 146.4(5)(a)(ii) of the Act applies. If this does not apply and the trust carried on a business or held non-qualified investments (as defined in subsection 205(1)) during the tax year, you have to complete a T3 return to calculate the taxable income from the business or non-qualified investments. If the trust is reporting capital gains or losses, it has to report the full amount (that is, 100%) on line 01 of the T3 return.
Specified investment flow-through (SIFT) trust	This is a trust (other than a trust that is a real estate investment trust for the tax year or an entity that is an excluded subsidiary entity) that meets **all** the following conditions at any time during the tax year: ■ the trust is resident in Canada; ■ investments in the trust are listed or traded on a stock exchange or other public market; and ■ the trust holds one or more non-portfolio properties. **Note**: The definition of a SIFT trust is amended to exclude from treatment as a SIFT trust for a tax year, an entity that is an excluded subsidiary entity for the tax year. For more information, go to **www.cra.gc.ca/tx/trsts/sfts/menu-eng.html**.
Tax-free savings account (TFSA) trust	A trust governed by a TFSA is generally non-taxable. When the funds in the TFSA trust are used in the carrying on of a business or used to acquire non-qualified investments, the trust will be taxable to the extent of the income earned from that business or those investments. For more information, see "Line 9A – Non-qualified investments for TFSA trusts" on page 29, go to **www.cra.gc.ca/tfsa**, or call **1-800-959-8281**.

Who should file ▲

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

- has tax payable;
- is a Canadian resident and has either disposed of, or is deemed to have disposed of, a capital property or has a taxable capital gain;
- is a non-resident throughout the year, and has a taxable capital gain or has disposed of taxable Canadian property;
- is a deemed resident trust;
- holds property that is subject to subsection 75(2) of the Act;
- 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 – Upkeep, maintenance, and taxes of a property used or occupied by a beneficiary" on page 21); 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;
  - made a distribution of capital to one or more beneficiaries; or
  - allocated any portion of the income to a non-resident beneficiary.

Tax tip
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* (T3 return), and any related schedules and statements, if they meet the requirements listed in "Who should file" on this page. 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. When the trust files its first T3 return, attach a copy of the will or trust document.

You may also have to file the following, depending on the type of amounts paid or allocated by the trust.

- If the trust allocated amounts to resident beneficiaries, file the T3 Summary, *Summary of Trust Income Allocations and Designations* and the related T3 slips. For more information, see "Chapter 4 – T3 slip and summary" on page 46.
- 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, file a T4 Summary, *Summary of Remuneration Paid*, and the related T4 slips, *Statement of Remuneration Paid*. For more information, see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.
- If the trust paid scholarships, fellowships, bursaries, prizes, or research grants to a resident of Canada, file 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 Guide RC4157, *Deducting Income Tax on Pension and Other Income, and Filing the T4A Slip and Summary*.

- If the trust paid or credited, or is considered to have paid or credited, amounts to a non-resident beneficiary, file 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 Guide T4061, *NR4 – Non-Resident Tax Withholding, Remitting, and Reporting*.
- If the trust paid fees to a non-resident of Canada for services performed in Canada, file 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 Guide RC4445, *T4A-NR – Payments to Non-Residents for Services Provided in Canada*.

When to file ▲

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

Tax year

Inter vivos trust

The tax 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, call **1-800-959-8281**.

Testamentary trust

The tax year-end of a testamentary trust may be, but does not have to be, December 31. The first tax 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 (calendar) 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 2010 return due before the forms are available would have to be filed using a 2009 form, which might not contain current-year changes or information.
- **Easier form completion** – Generally, it is easier to complete forms and interpret rules when the tax 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 the return** – Changes to law generally require changing the processing procedures for the return. If the return has a tax 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.

However, there may be advantages to choosing a **non-calendar** year-end. Elections to transfer certain estate losses incurred and certain gains realized on employee security options during the first tax 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 tax 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 tax 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 tax year may be less than, but not more than, 12 months.

A testamentary trust that becomes an inter vivos trust must start filing on a December 31 year-end from the beginning of its current tax year. Under proposed changes, after July 18, 2005, a trust in this situation will switch to a December 31 year-end the day it becomes an inter vivos trust.

Example
A testamentary trust has a year-end of September 30. On January 7, a transaction occurs that causes it to become an inter vivos trust. As a result, its last tax year as a testamentary trust will be from October 1 to January 6. Its return for that period will be due on April 6 (90 days after the end of its tax year). The first reporting period as an inter vivos trust will be from January 7 to December 31.

Filing dates

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

Tax tip
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.

If you do not have the information slips you need to complete the return when it 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 15.

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

For information on late-filing penalties and interest on unpaid taxes, see "Penalties and interest" on page 14.

Deadline for distributing T3 slips – You must send the T3 slips to the beneficiary's last known address no later than 90 days after the end of the trust's tax 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

For a testamentary trust, you have to file the final T3 return and pay any balance owing no later than 90 days after the trust's wind-up (discontinuation) date. Enter the wind-up date on page 1 of the return.

If you wind up a **testamentary trust**, the tax year will end on the date of the final distribution of the assets.

If you wind up an **inter vivos trust**, you have to file the final T3 return and pay any balance owing no later than 90 days after the trust's tax year-end. However, you may want to file the final return before the trust's tax year-end.

In either case, you should get a clearance certificate before you distribute the trust property. For more information, see "Clearance certificate" on page 15.

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 Revenue Agency
Ottawa ON K1A 1A2

If you have questions about **resident** trusts, call **1-800-959-8281**.

Non-resident trusts and deemed resident trusts

Send the return to: International Tax Services Office
Canada Revenue Agency
Post Office Box 9769, Station T
Ottawa ON K1G 3Y4
Canada

If you have questions about **non-resident** trusts or **deemed resident** trusts, call one of the following numbers:

From the Ottawa area or outside Canada and the U.S. (collect calls accepted) **613-952-8753**
From other Canadian and U.S. locations .... **1-800-561-7761 ext 9150**

Transfers and loans of property

Special rules may apply to amounts from a property that, under certain conditions, is held by the trust or is transferred or loaned to the trust. We refer to a person who has loaned or transferred property as the "transferor."

A transferor, who is alive and resident in Canada, may lend or transfer 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 18 years of age at the end of the year).

In either case, 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 years of age 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.

The property may have been sold to the trust at its fair market value, or loaned to the trust at a prescribed rate of interest, which was paid within 30 days of the tax year-end. If this is the case, any income or loss, or any taxable capital gain or allowable capital loss, from that property is generally income of the trust. For this income, issue the T3 slip to the beneficiary, **not** to the transferor.

An individual can receive a low-interest or interest-free loan from a trust to which another individual transfers property. If the two individuals do not deal at arm's length, you will normally be required to report the income from that loaned property or any property substituted for it on the trust's return. This is not the case if the income is attributable to another individual. This 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, see "Exceptions and limits to income allocations" on page 34.

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. Issue a T3 slip reporting the income as that of the transferor.

For more information about transfers and loans of property, see Guide T4037, *Capital Gains*, 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 during the beneficiary's tax year and the beneficiary had not attained the age of 17 before the tax 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 designated 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 designated stock exchange); and
- income allocated by the trust that came from income that a trust earned from providing services or property 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.

This 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 37 and the T3 slip on page 47. Attach a statement to the T3 slip showing the type and amount of the beneficiary's share of the split income. Advise the beneficiary in writing that he or she must complete Form T1206, *Tax on Split Income*.

Penalties and interest ▲

Penalties

If you do not file the trust's T3 return by the due date, we will charge a late-filing penalty. 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, the penalty will be higher.

If you fail to file any trust-related information slip by the due date or distribute any trust-related information slip to a recipient late, the penalty is $25 a day for each day they are late, from a minimum of $100 to a maximum of $2,500, for each failure to comply with this requirement. To calculate the penalty as of January 1, 2010, see the chart below.

If you are convicted of not filing a return or slip as required, you are liable to a fine of $1,000 to $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 or 50% of the tax avoided or refunded as a result of the false information.

Effective January 1, 2010, the penalty for failing to file any trust-related information slip by the due date or for distributing any trust-related information slip to a recipient late, is the greater of $100 or a penalty determined as follows:

Number of any one type of trust-related information slip	Penalty (per day)	Maximum penalty
50 or less	$10	$1,000
51 – 500	$15	$1,500
501 – 2,500	$25	$2,500
2,501 – 10,000	$50	$5,000
10,001 or more	$75	$7,500

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 31st day after the return is due;
- the 31st 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 part of the penalties and interest if they were a result of circumstances beyond your control. For more information, see Information Circular IC07-1, *Taxpayer Relief Provisions*.

After you file ▲

Processing times

We can usually process a T3 return within four months. If you filed a return for the first year of a testamentary trust, and you chose a tax year-end other than December 31, it may take longer to process the return. For more information, see "Tax year" on page 12.

Reassessments

If you need to change a return after you send it to us, **do not** file another return for that tax year. Send us a completed Form T3-ADJ, *T3 Adjustment Request*, or a letter providing the details of the change. Indicate the trust's account number, the tax year you want us to change, and attach any supporting documents.

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 of your original notice of assessment or a notice that no tax was payable for the tax year (this period is called the "normal reassessment period"); or
- six years (seven years for mutual fund trusts) from the date of 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 above periods for us to consider reassessing your return.

In certain cases, we can reassess a **testamentary trust** for any of the 10 previous tax years to give you a refund or reduce the tax owing. For more information, see Information Circular IC07-1, *Taxpayer Relief Provisions*.

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, wilful 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 an estate (see page 25); and
- preferred beneficiary election (see page 36).

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 IC07-1, *Taxpayer Relief Provisions*.

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 tax-year end to which they relate. However, you can request permission to dispose of them before the end of this period.

For more information, go to **www.cra.gc.ca/records**, or see:

- Information Circular IC78-10, *Books and Records Retention/Destruction*; and
- Guide RC4409, *Keeping Records*.

Clearance certificate

You can distribute property without a clearance certificate, as long as you keep sufficient property in the trust to pay any liability to us. However, by getting a clearance 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*, and send it to the Assistant Director, Audit Division, at your tax services office. **Do not** send Form TX19 until you have received a notice of assessment for each return.

For more information, see Information Circular IC82-6, *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.

Residence of trust – For information about the residence of the trust, see "Where to file" on page 13.

Name of trust – Use the same name on all returns and correspondence for the trust. The name of the trust will be modified to meet our requirements if it is longer than 60 characters.

Mailing address – We may modify part of your address to meet Canada Post's requirements. Therefore, the address on any cheques or correspondence we send you may be different from the one you indicate on the trust's return. If you include the name and mailing address of a contact person, we will send any cheques or correspondence for the trust in care of that person.

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, which will appear on the notice of assessment.

Designated Aboriginal settlement lands – If the trust resides on designated Aboriginal settlement lands, answer **yes**, and enter the name and settlement number in the spaces provided. The settlement lands and their numbers are as follows:

Yukon:

*Carcross/Tagish	11001
Champagne and Aishihik	11002
Kluane	11003
Kwanlin Dun	11004
Little Salmon/Carmacks	11006
Nacho Nyak Dun	11007
Selkirk	11009
Ta'an Kwäch'än	11010
Teslin Tlingit	11011
Tr'ondëk Hwëch'in	11012
Vuntut Gwitchin	11013

Northwest Territories:

Tlicho	10008

Newfoundland and Labrador:

Nunatsiavut Government	00010

When you enter this information on the return, we will transfer part of any tax payable to the government of the Aboriginal settlement where the trust resides, except as explained below for Carcross/Tagish.

*At the time of printing, potential tax administration agreements were under discussion with the Carcross/Tagish First Nation, which could lead to the sharing of income tax with the Carcross/Tagish First Nation. Such agreements may be implemented before January 1, 2011. If so, we will use the Carcross/Tagish First Nation settlement lands information to administer the agreements with the Carcross/Tagish First Nation.

Date of residency – Provide the date the trust became a resident of Canada or ceased to be a resident of Canada during the tax year, if applicable.

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 Chart 1 beginning on page 8.

For testamentary trusts, use the "Other" box to identify trusts that are not spousal or common-law partner trusts. For RRSP, RRIF, RESP, or RDSP trusts, use the "Other inter vivos" box and specify the type of trust on the line below. Also use the "Other inter vivos" box for a trust electing to be a master trust.

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.

Deemed resident trust – Indicate if the trust is a deemed resident trust and provide the name of any other country in which the trust is considered to be resident. See the definition of a deemed resident trust in Chart 1 on page 8.

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.

If a resident trust or a deemed resident trust conducts business with a foreign affiliate, or has foreign holdings in excess of CAN$100,000, you may have to file special returns. For more information, call **1-800-959-8281**.

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 shares 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 on page 2. The following information will help you answer some of the 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 5 – Answering this question will help us determine which tax rate will apply to the trust.

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 7 – The terms of the will, trust document, or court order determine the requirement to allocate income. The trust may be required to pay out its income to a beneficiary. In this case, the income cannot be retained and taxed in the trust, unless the trust has made a designation under subsections 104(13.1) or 104(13.2). For more information, see page 35.

Question 9 – If you answer **yes**, attach a statement giving all required information. See "Distribution of property to beneficiaries" on page 24.

Question 10 – "Contribution of property," is defined on page 6.

Question 11 – A **yes** response to this question only applies to a mutual fund trust.

Question 12 – If a trust used the international financial reporting standards (IFRS) when it prepared its financial statements, answer **yes**.

IFRS is the collection of financial reporting standards developed by the International Accounting Standards Board (IASB).

For more information, go to **www.cra.gc.ca/tx/bsnss/tpcs/frs/menu-eng.html**.

Step 2 – Calculating total income: Lines 01 to 20

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 34). You can only use it to reduce the trust's taxable capital gains of other years. For more information, see "Line 52 – Net capital losses of other years" on page 22.

Tax tip
In the first tax year of an estate, the legal representative can elect to apply any net capital loss against income on the deceased's final return. See "Estate elections (losses)" 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 or fishing property, the gain may qualify for the capital gains deduction.

For more information, see:

- "Capital gains deduction" on page 29;
- Guide T4003, *Farming Income*; and
- Guide T4004, *Fishing Income*.

Line 02 – Pension income ▲

Enter amounts that the trust received from the following:

- registered pension plans;
- retirement compensation arrangements;
- deferred profit sharing plans;
- superannuation plans; or
- foreign retirement arrangements.

When an amount is considered to have been distributed to an estate from a foreign retirement arrangement according to the laws of the country where the arrangement was established, the payment is also deemed received by the estate for tax purposes in Canada. In this case, you must include the amount, in Canadian funds, on line 02.

Lump-sum payments

If the trust received a lump-sum payment from a registered pension plan or a deferred profit sharing plan 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.

Attach to the return any information slips the trust received. If the information slip does not show the amount of lump-sum payment accrued to December 31, 1971, provide a statement from the payer indicating the amount.

Line 03 – Total of actual amount of dividends from taxable Canadian corporations ▲

Enter the total of the **actual amount** of dividends received from taxable Canadian corporations from line 3 of Schedule 8. On line 3A, enter the actual amount of dividends other than eligible dividends from line 1 of Schedule 8. Attach all information slips received. For more information, see "Lines 1 to 3 – Dividends from taxable Canadian corporations" on page 32.

Line 04 – Foreign investment income ▲

Enter all interest and other investment income from foreign sources from line 6 of Schedule 8. For more information, see the tax tip below and "Lines 4 to 6 – Foreign investment income" on page 32.

Line 05 – Other investment income ▲

Enter the amount from line 12 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. For more information, see "Lines 7 to 12 – Other investment income" on page 32.

Tax tip
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's final return. Any interest income accrued after the person's date of death is reported on the *T3 Trust Income Tax and Information Return*.

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. Attach the appropriate forms or statements to the T3 return.

If a trust operates a business with a tax year-end other than December 31, special rules may apply for calculating income. See Guide RC4015, *Reconciliation of Business Income for Tax Purposes*, 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 publications contain more information and the forms you may need to calculate the trust's income:

- Guide T4002, *Business and Professional Income* (Form T2125, *Statement of Business or Professional Activities*);
- Guide T4003, *Farming Income* (Form T2042, *Statement of Farming Activities*);
- Guide T4004, *Fishing Income* (Form T2121, *Statement of Fishing Activities*); and
- Guide T4036, *Rental Income* (Form T776, *Statement of Real Estate Rentals*).

If the trust is a member of the AgriStability/AgriInvest programs, call **1-866-367-8506** to find out which form you should use to report farming income.

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, territorial, and municipal governments, and producer associations.

A NISA Fund 2 amount can be transferred to a testamentary post-1971 spousal or common-law partner trust when the settlor dies. 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 part of this deemed payment on the final return of the beneficiary spouse or common-law partner instead of 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 amounts 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, showing 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 amount 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 dispositions income or losses

Enter the trust's income resulting from deemed dispositions from line 42 of Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*. For more information, see "Deemed disposition" on page 30.

Line 19 – Other income ▲

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

- royalties (**do not** include Crown royalties in income);
- 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 the 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 Guide T4011, *Preparing Returns for Deceased Persons*).

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, along with a footnote code of 06 in box 38. 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 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. Include this amount on line 19 of the return. Generally, amounts deemed received on death or as a refund of premiums should not be included.

For more information on taxable benefits from matured and unmatured RRSPs, see Guide T4040, *RRSPs and Other Registered Plans for Retirement*, Guide T4011, *Preparing Returns for Deceased Persons,* 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 17 of Schedule 8. For more information, see "Lines 13 to 17 – Carrying charges and interest expenses" 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 Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*. 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 Guide T4061, *NR4 – Non-Resident Tax Withholding, Remitting and Reporting*.

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 Guide T4037, *Capital Gains*.

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, see "Line 51 – Non-capital losses of other years" on page 21.

If you cannot deduct the ABIL as a non-capital loss within the allowed time frame, the unapplied part becomes a net capital loss in the 11th year. You can then use it to reduce the trust's taxable capital gains in the 11th 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 this page 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*.

Allowable Business Investment Loss and Reduction

You have to adjust the amount of eligible taxable capital gains on lines 1 to 7, because they were included in income at different rates in previous years.

Description	Amount	Factor		Result	Line
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
Total eligible taxable capital gains designated by the trust in years after 2001	________	× 2	=	+ ________	7
Add lines 1 to 7				= ________	8
Total amount you used to reduce the trust's business investment losses in years after 1985 and before 2010				– ________	9
Line 8 **minus** line 9				= ________	10
Business investment losses for the year before reducing the losses				________	11
Enter the amount from line 10 or line 11, whichever is **less**. This is the reduction for the year. (Enter this amount on line 12 of Schedule 1.)				– ________	12
Business investment losses for the year: line 11 **minus** line 12				= ________	13
Allowable business investment losses for the year: line 13 (__________) × 1/2 (Enter this amount on line 25 of the return.)				= ________	14

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 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 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 27);
- personal expenses of the beneficiaries or trustees, such as funeral expenses or probate fees; or
- any amounts paid to beneficiaries.

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 on 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 calculating 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 (defined on page 5). 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. For more information, see "Schedule 9 – Income Allocations and Designations to Beneficiaries" on page 33.

In some cases, income that is allocated to a beneficiary may be taxed on the trust's return, instead of on 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 34.

> **Note**
> Income allocated to a beneficiary that is not deductible by the trust (other than a designated amount included in line B) should **not** be included on line A, or reported on Schedule 9.

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

For more information, see "Income to be taxed in the trust" on page 35.

> **Tax tip**
> Line 47 has to equal the amount entered on line 928 of Schedule 9.

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, use the table in Chart 5 of Guide T4037, *Capital Gains*.

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 tax year in which the non-capital loss was incurred will affect the extent to which you can carry over the unused portion. You can carry over the unused portion of a loss that was incurred in a tax year ending:

- on or after January 1, 2006, back 3 years and forward 20 years;
- after March 22, 2004, and before January 1, 2006, back 3 years and forward 10 years; and
- before March 23, 2004, back 3 years and forward 7 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.

> **Note**
> Under proposed changes, for tax years beginning after December 31, 2004, the trust can claim a non-capital loss only if there is a reasonable expectation of profit from that business or property. For this purpose, **do not** include capital gains or capital losses.

Farming and fishing losses – If the trust had a farming or fishing loss from a previous year, see "Line 54 – Other deductions to arrive at taxable income" on this 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 Guide T4037, *Capital Gains*.

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 Dispositions (2002 and later tax years)*, if applicable. See "Lines 7 to 9 – Listed personal property" on page 28.

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 was 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 2006 non-capital loss before a 2007 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 in computing a trust's taxable income for a previous tax year only to the extent of the trust's taxable capital gains in that previous year. If taxable capital gains were previously designated to beneficiaries, contact us to determine whether the trust can carry back the net capital loss to the previous year.

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 Bulletin IT-381, *Trusts – Capital Gains and Losses and the Flow-Through of Taxable Capital Gains to Beneficiaries*, and Interpretation Bulletin 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 limited partnership, farming, or fishing losses (see Note);
- 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 3 years and forward 20 years. There are restrictions on the amount of certain farm losses you can deduct each year. For information on restricted farm losses, see Guide T4003, *Farming Income*. For information on how to carry back this type of loss, see "Form T3A, *Request for Loss Carryback by a Trust*" on this page.

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

Line 81 – Total federal tax payable ▲

Enter the federal tax payable from line 44 of Schedule 11, or line 55 of Schedule 12.

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 46.

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 to the right of line 85. If you received a refund of all or part of an instalment, **do not** include this amount on line 85.

Lines C, D, and 86 – Total tax deducted ▲

If tax was withheld on any income earned by the trust, enter the amount of tax withheld on line C. Attach information slips if they are available. 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 45% of this amount to the province of Quebec. Enter this amount on line D. If this does not apply to you, enter "0" on line D.

Subtract the transferred amount from total tax deducted, and enter the result on 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, *2010 Capital Gains Refund to 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

Certain provincial or territorial tax credits are available to a trust if it was a resident of the province or territory at the end of the tax year and it incurred eligible expenditures related to certain activities. You can find specific information on the following forms:

- Form T1129, *Newfoundland and Labrador Research and Development Tax Credit (Individuals)* (for the Newfoundland and Labrador research and development tax credit);
- Form T1232, *Yukon Research and Development Tax Credit (Individuals)* (for the Yukon research and development tax credit); and
- Form T88, *British Columbia Mining Exploration Tax Credit (Individuals)* (for the British Columbia mining exploration tax credit).

Use the appropriate form to calculate the tax credit. Attach the form to the trust's return.

In the case of the research and development tax credits, the trust can designate some or all of these credits to beneficiaries of the trust. Subtract the amount designated to beneficiaries from the credit calculated on the form. Enter the result on line 91 of the trust's 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. Generally, a difference that is $2 or less does not have to be paid, nor will it be refunded.

Line 95 – Amount enclosed ▲

Attach to the front of the return, a cheque or money order payable to the Receiver General. **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. Because of 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 CAN$400.

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. First, we will apply a credit to any outstanding balance. Then, 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 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 Guide T4037, *Capital Gains*, 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 of capital property during the year. **Do not** include any deemed dispositions that are reported on Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*. For more information, see "Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*" on page 30.

Transfer any taxable capital gains from 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.

Note
We do not consider a disposition to have occurred if two corporations or a parent corporation and its subsidiary have amalgamated and there is no consideration for the redemption of shares. For more information, call **1-800-959-8281**.

If the trust realized a capital gain from donating certain properties to a qualified donee, 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 Guide T4037, *Capital Gains*.

For donations of these properties made after May 1, 2006, the inclusion rate for capital gains is generally 0%.

For gifts (other than gifts of ecologically sensitive land) made after March 18, 2007, the capital gains inclusion rate of 0% on donations of certain capital property includes gifts to a private foundation.

The inclusion rate of 0% on capital gains arising from the donation of certain capital property may also apply to the capital gain realized on the exchange of shares of the capital stock of a corporation for those publicly listed securities donated after February 25, 2008. For more information, see the section called "Capital gains realized on gifts of certain capital property" in Pamphlet P113, *Gifts and Income Tax*.

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:

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

For information regarding the distribution of property to a non-resident beneficiary, see "Capital dispositions – Rules for trusts" on page 25.

Estate elections (losses)

As the legal representative of a deceased person, you can elect to transfer certain losses from the deceased person's estate 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 security options that expired, were disposed of, or were exercised).

These elections apply only to the first tax 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 final 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 tax 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 tax 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 a loss 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 19.

Tax tip
If you know you want to apply a loss to the deceased person's final T1 return before that return is due to be filed, you can submit a request to apply the loss with the return. Clearly identify the return as a 164(6) election. Although we will not allow the claim on the initial assessment of the T1 return, we will hold your request until we assess the T3 return and verify your claim. If we accept your claim, we will adjust the T1 return, and issue a notice of reassessment.

164(6.1) election

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

Use the following calculation to determine the amount that can be carried back to the deceased person's final T1 return:

A – (B + C)

where:

A	=	the deceased 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 security option deduction for this option was claimed on the deceased person's final return, multiplied by 50%

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

Certain gifts

Generally, the inclusion rate for capital gains on certain gifts is 50%.

For gifts of certain capital property made to a qualified donee and for gifts of ecologically sensitive land to a qualified donee (other than a private foundation), the inclusion rate for capital gains is generally 0%.

Under proposed changes, for any gift made after December 20, 2002, only the capital gain on the **eligible amount** of the gift will qualify for the lower inclusion rate. The capital gain on the remainder of the proceeds of disposition, referred to as an **advantage**, will be subject to the inclusion rate of 50%.

For gifts (other than gifts of ecologically sensitive land) made after March 18, 2007, the capital gains inclusion rate of 0% on donations of certain capital property includes gifts to a private foundation.

For more information, see Pamphlet P113, *Gifts and Income Tax*, and Schedule 1A, *Capital Gains on Gifts of Certain Capital Property*.

Capital dispositions – Rules for trusts

After March 22, 2004, a trust is considered to be affiliated with its majority interest beneficiary and any person who is affiliated with such a beneficiary. As a result, the rules that apply to affiliated persons may apply to a trust and its beneficiaries, settlors, or contributors. For more information, call **1-800-959-8281**.

A trust resident in Canada that 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.

Note
Under proposed changes, this will apply to all distributions made after February 27, 2004, regardless of the trust's place of residence.

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. To arrange security, call **1-800-959-8281**.

A trust that ceases to be a resident of Canada, and that owns property with a total FMV of more than $25,000 at that time, has to file Form T1161, *List of Properties by an Emigrant of Canada*, with its T3 return for that year, listing each property the trust owned at that time. For the

purposes of determining whether Form T1161 is required, property **does not** 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 Guide T4037, *Capital Gains*, Interpretation Bulletin IT-407, *Dispositions of Cultural Property to Designated Canadian Institutions*, and Pamphlet P113, *Gifts and Income Tax*.

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.

Personal trust – When this kind of trust distributes property to a beneficiary, and there is a resulting disposition of all or 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 this page.

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

Where a trust distributes property to a beneficiary to settle all or part of the beneficiary's capital interest in the trust, you can elect to **not** have the rule on the previous page 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. This includes 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 tax 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.

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.

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 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.

For more information, see Chapter 2 in Guide T4037, *Capital Gains*.

Adjusted cost base (ACB)

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 Guide T4037, *Capital Gains*, and Interpretation Bulletin IT-456, *Capital Property – Some Adjustments to Cost Base*, and its Special Release.

Beneficial interest in a trust – A trust may receive a T3 slip with an amount showing in box 42. Use this amount to determine the ACB of your interest in that trust. Reduce the cost of your interest by the total of the positive amounts shown in box 42 of the T3 slips received from the trust for all tax years after 2003. Also reduce it by all amounts (other than amounts received as proceeds of disposition or as a distribution of income of the trust) received from the trust before 2004. If the amount in box 42 is in brackets, it will result in an increase in the ACB. You may want to contact the trustee of the trust to determine if there are any other adjustments required in calculating the ACB of your interest. For more information on how to account for box 42 amounts, see Information Sheet RC4169, *Tax Treatment of Mutual Funds for Individuals*.

> **Note**
> If your ACB is reduced to an amount below zero at any time in the tax year, we consider a deemed disposition to have occurred. The negative amount is deemed to be a capital gain. Your ACB is then reset to zero. For more information, see "Line 3 – Mutual fund units and other shares" on page 28.

Property acquired before 1972

Before 1972, capital gains were not taxed. 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. These rules are found on Form T1105, *Supplementary Schedule for Dispositions of Capital Property Acquired Before 1972*. Use Form T1105 to calculate the gain or loss from selling property the trust owned before 1972.

Outlays and expenses

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

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.

> **Note**
> Outlays and expenses made or incurred in respect of deemed dispositions cannot be claimed.

Lines 1 and 2 – Qualified small business corporation shares and qualified farm or fishing 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.

Dispositions of qualified fishing property made on or after May 2, 2006, will receive the same treatment as qualified farm property. Such dispositions may qualify for the capital gains deduction. For more information, see Guide T4037, *Capital Gains*, and the definition of **qualified farm or fishing property** on this page.

Do not report a loss the trust incurred in disposing of 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 – Allowable business investment losses (ABIL)"on page 20.

Capital gains from the disposition of qualified small business corporation shares, or qualified farm or fishing property 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 "How to complete the T3 slip" on page 47.

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 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:
  - was used mainly in an active business carried on primarily in Canada by the CCPC, or by a related corporation;
  - was certain shares or debts of connected corporations; or
  - was a combination of the two.

For the purpose of a qualified small business corporation share, a person or a partnership is related to a personal trust if:

- the person or partnership is a beneficiary of the personal trust;
- the personal trust is a member of the partnership;
- the person is a member of a partnership that is a member of another partnership and is deemed to be a member of the second 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 Guide T4037, *Capital Gains*.

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

- a share of the capital stock of a family farm or fishing corporation;
- an interest in a family farm or fishing partnership; or
- real property or eligible capital property used in carrying on the business of farming or fishing 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 or fishing corporation or family farm or fishing 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 or fishing property. For more information, see "Eligible Capital Expenditures" in Guide T4003, *Farming Income*, and Guide T4004, *Fishing Income*.

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.

If you are deemed to have a capital gain as a result of a negative adjusted cost base (ACB), use this line to report the deemed gain. Complete the first two columns with the number of shares and the name of the fund or corporation. Enter the ACB in brackets in column 3 and the capital gain in column 5.

Line 4 – Bonds, debentures, promissory notes, and other similar 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 Bulletin IT-96, *Options Granted by Corporations to Acquire Shares, Bonds, or Debentures and by Trusts to Acquire Trust Units*, and Interpretation Bulletin 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, depreciable property and other properties" in Guide T4037, *Capital Gains*.

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; and
- if the proceeds of disposition of the property are less than $1,000, the proceeds are considered to be $1,000.

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. If there is a capital loss, you usually cannot deduct the loss in the year. For more information, see "Personal-use property" in Guide T4037, *Capital Gains*.

Calculate the capital gain or loss using the actual ACB and proceeds of disposition if the trust, or a person with whom the trust does not deal at arm's length, meets the following conditions:

- personal-use property, including listed personal property (LPP), was acquired after February 27, 2000;
- circumstances suggest that acquisition of the property relates to an arrangement, plan, or scheme promoted by another person or partnership; and
- the property will be donated to a qualified donee.

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 a specified beneficiary, or that beneficiary's spouse or common-law partner, former spouse or common-law partner, or child, lives in it. 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 trust's return for the year in which the disposition or deemed disposition occurs.

When a personal trust's principal residence is distributed to a beneficiary, 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 this page.

Line 9A – Non-qualified investments for TFSA trusts

Use this section if the funds in the tax-free savings account (TFSA) trust have been used to acquire non-qualified investments. In this case, the trust will be taxable on capital gains resulting from the disposition of those investments and they will be subject to a 100% inclusion rate.

Line 10 – Information slips

Use this line to report the following amounts:

- capital gains from box 21 of a T3 slip;
- insurance segregated fund net 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.

Note
If the T3 slip has an amount in box 42, use the amount to calculate the adjusted cost base of the property. Follow the instructions on the back of the T3 slip. Do this for every year you own the property. For more information, see Information Sheet RC4169, *Tax Treatment of Mutual Funds for Individuals*.

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

Line 12 – Capital losses from a reduction in business investment loss

Report a capital loss from a reduction in business investment loss on line 12. For more information, see "Reduction in business investment loss" on page 20.

Line 15 – 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 20% of the taxable capital gain. If you claimed a reserve in 2009, you have to bring it back into the trust's income in 2010. 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 about reserves, see Guide T4037, *Capital Gains*.

Line 17 – Capital gains on gifts of certain capital property eligible for the 0% inclusion rate

Enter the amount from line 3 of Schedule 1A. On line 18, enter the capital gains on gifts of capital property included in lines 1 and 2 of Schedule 1A, excluding amounts reported on line 17.

Line 19 – Total capital losses transferred under subsection 164(6)

Enter on this line the amount of capital losses you transferred under subsection 164(6) to the deceased person's final T1 return. For more information, see "164(6) election" on page 25.

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

Transfer the total taxable capital gains to line 01 of the trust's return. If the amount on this line is negative, and is not used to reduce your deemed dispositions on Form T1055, *Summary of Deemed Dispositions (2002 and later tax years)*, 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 22.

Note
If the amount on line 21 is a capital gain and you calculate a net capital loss on Form T1055, 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 can do this by claiming the unused portion of the beneficiary spouse's or common-law partner's capital gains deduction for capital gains reported from the disposition of:

- qualified small business corporation shares;
- qualified farm property; or
- qualified fishing property after May 1, 2006.

A pre-1972 spousal trust reporting a deemed disposition 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 on Form T1015, *Election by a Trust to Defer the Deemed Realization Day*.

For 2001 and subsequent years, you generally only include 50% of the trust's taxable capital gains in its taxable income. The trust's cumulative capital gains deduction limit is $250,000.

For capital gains arising from the disposition of qualified property after March 18, 2007, the cumulative capital gains deduction limit is $375,000. For more information, see Guide T4037, *Capital Gains*.

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. For more information on capital gains deductions, see Guide T4037, *Capital Gains*.

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 Dispositions (2002 and later tax years)*

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

Deemed disposition

The trust is deemed to have disposed of its capital property (other than exempt property and certain excluded property), land inventory, and Canadian and foreign resource properties on specified dates called "deemed disposition days." You have to report the resulting income, gains, or losses on the trust's return in the tax year in which the dispositions are considered to have occurred. For more information about those specified dates, see the next section.

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 – NISA Fund 2"on page 18.

If, after a deemed disposition that was to be reported on Form T1055, the trust actually disposed of the property in the same tax year, use Schedule 1 to report the gain or loss from the actual disposition. If the trust is a post-1971 spousal or common-law partner trust, a joint spousal or common-law partner trust, or an alter ego trust, the gain or loss should instead be reported on Form T1055.

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 disposition 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.

Deemed disposition 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 disposition date will be 21 years after the day the trust was created;
- 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 individual died; or
- for other trusts, 21 years after the day the trust was created.

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

The following deemed disposition days will not result in another deemed disposition on the 21st anniversary of that deemed disposition day. Instead, the next deemed disposition for such trusts will occur 21 years after the day the trust was created or on the anniversary of a deemed disposition day otherwise established:

- where a trust 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 deemed resident trust, the day before it ceases to have any resident contributors with unlimited liability for the trust's tax liability.

Exemption from Form T1055 deemed dispositions

The following trusts are **excluded** from the deemed dispositions reported on Form T1055:

- a specified trust (as defined in Chart 1 on page 8);
- a tax-free savings account trust (as defined in Chart 1 on page 11);
- a employee life and health trust;
- a unit trust; and

- a trust in which all interests have been permanently vested. This exception applies primarily to those commercial trusts (all trusts other than personal trusts) that do not qualify as unit trusts. This exception does not apply to:
  - a post-1971 spousal or common-law partner trust;
  - a joint spousal or common-law partner trust or an alter ego trust;
  - 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;
  - a trust that elected to postpone the deemed disposition day;
  - a trust that elects on its return not to apply this provision;
  - 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.

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 dispositions reported on Form T1055 in up to 10 annual instalments. Interest at the prescribed rate will apply. Use Form T2223 to make this election, and send it to your tax services office no later than the day the return is due for the tax year the deemed disposition occurs. For more information, call **1-800-959-8281**.

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 disposition day for Trust B becomes the **earliest** of the following dates:

- Trust A's deemed disposition day that would have occurred if the transfer had not been made;
- Trust B's deemed disposition day that would have occurred if the transfer had not been made; or
- the day of the transfer if the original transfer to Trust A occurred on a rollover basis, for example, where Trust A 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 is between two trusts of the same type. For example, from one alter ego trust to another alter ego trust.

Summary of Options Available for Deemed Dispositions Reported on Form T1055 (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 (unless 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 deemed disposition occurring on the death of the spouse or common-law partner yes – for subsequent dispositions	no – for the date the spouse died yes – for subsequent dispositions	no	yes

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

Lines 1 to 3 – Dividends from taxable Canadian corporations

Attach a statement listing the actual amount of dividends the trust received from taxable Canadian corporations. In this statement, include actual and deemed taxable dividends. **Do not** include non-taxable dividends (see "Lines 7 to 12 – Other investment income" on this page), 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 T5 slip.

The gross-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 beneficiaries, the tax payable by the beneficiaries may be reduced.

The type of dividends the trust receives determines which dividend tax credit rate it will apply to the gross-up amount of the dividends. For **eligible** dividends received from qualifying taxable Canadian corporations, the rate is **17.9739%**. For dividends **other than eligible** dividends, the rate is **13.3333%**.

These amounts are shown on the trust's T3 and T5 slips. Box 23 on a T3 slip and box 10 on a T5 slip show the actual amount of dividends other than eligible dividends. Enter these amounts on line 1 of Schedule 8. Box 49 on a T3 slip and box 24 on a T5 slip show the actual amount of eligible dividends. Enter these amounts on line 2 of Schedule 8.

Lines 4 to 6 – 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, to get the applicable rate, go to **www.cra.gc.ca/exchangerates**, or call **1-800-959-8281**. Report the full amount of the foreign income. **Do not** reduce it by the tax withheld by foreign authorities.

Lines 7 to 12 – 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 11.

Do not include the following:

- dividends the trust received from taxable Canadian corporations reported on lines 1 and 2;
- capital gains dividends reported on line 10 of Schedule 1; and
- non-taxable dividends (see "Non-taxable dividends received by a trust" on this page).

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 13 to 17 – 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.

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 tax year-end.

Lines 18 to 32 – 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 lines 1 and 2 that the trust retained.

The gross-up rate for **eligible** dividends received in the year is **44%** of the dividends received. This calculation is done on lines 18 to 24.

The gross-up rate for dividends **other than eligible** dividends received in the year is **25%** of the dividends received. This calculation is done on lines 25 to 31.

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

If you have allocated dividends by including them in the amount on line 926 of Schedule 9, the dividends are not designated. **Do not** include them on line 19 or line 26.

Claim the carrying charges that relate to dividends on line 16 of Schedule 8.

Line 19 – Eligible dividends designated to beneficiaries

Enter the amount of net eligible dividends, after related expenses, that you designated to beneficiaries from line 949 of Schedule 9.

Line 21 – Eligible dividends allocated, but **not** designated, to non-resident beneficiaries

Enter the amount of net eligible 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 949, **do not** include them on line 21.

Line 24 – Gross-up amount of eligible dividends retained or not designated by the trust

Multiply the amount on line 22 by 44% to calculate the amount to enter on line 24. You have to apply the gross-up rate to actual eligible dividends that have been retained in the trust, other than those allocated but not designated to non-resident beneficiaries, before you deduct the related expenses.

Enter this amount in the calculation area for line 24 of Schedule 11.

Line 26 – Dividends other than eligible dividends designated to beneficiaries

Enter the amount of net dividends other than eligible dividends, after related expenses, that you designated to beneficiaries from line 923 of Schedule 9.

Line 28 – Dividends other than eligible dividends allocated, but **not** designated, to non-resident beneficiaries

Enter the amount of net dividends other than eligible 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 28.

Line 31 – Gross-up amount of dividends other than eligible dividends retained or not designated by the trust

Multiply the amount on line 29 by 25%, and enter the result on line 31. You have to apply the gross-up rate to actual dividends other than eligible dividends that have been retained in the trust, other than those allocated but not designated to non-resident beneficiaries, before you deduct the related expenses.

Enter this amount in the calculation area for line 25 of Schedule 11.

Line 32 – Total gross-up amount of dividends retained or not designated by the trust

Add the gross-up amount of both the eligible dividends and the dividends other than eligible dividends from lines 24 and 31.

Enter the result on line 49 of the return and on line 19 of Schedule 12, if applicable.

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, and 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** all or part 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).

We define "allocate, allocation" on page 5 and "designate, designation" on page 6.

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 of 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 an RPP and an RRSP, a Part XII.2 tax credit, and other tax credits that flow through to the beneficiary.

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 is 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 (other than one created before December 21, 1991), joint spousal or common-law partner trust, or alter ego trust cannot deduct amounts payable in a tax year to anyone except:
  - for a trust that was a post-1971 spousal or common-law partner 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.
- A post-1971 spousal or common-law partner trust, joint spousal or common-law partner trust, or alter ego trust cannot deduct the allocation of any income realized from deemed dispositions of capital 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;
  - for an alter ego trust, or 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; or
  - 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.
- 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.

  Certain related amounts, including taxable capital gains and allowable capital losses from that property or the substituted property, are considered to belong to the contributor during the contributor's life or existence while a resident of Canada. The trust must still report the amount on the trust's T3 return and issue a T3 slip reporting the amount as that of the contributor of the property. For more information, see Interpretation Bulletin IT-369, *Attribution of Trust Income to Settlor*, and its Special Release.

  Under proposed changes, this exception will not apply to a non-resident trust if it has a contributor that has not been resident in Canada for a minimum of five years.
- 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 26 on the T3 slip.
- We consider income that was not paid or payable to a beneficiary to be allocated (as defined on page 5) 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.

- The amount of income that can be allocated to a beneficiary may be limited if:
  - a beneficiary's share of the income of the trust is less than his or her capital interest in the trust; or
  - the beneficiary is a designated beneficiary as described on page 40 and the trust was not resident in Canada throughout the tax year.
- When a trust resident in Canada distributes property to a beneficiary and the trust realizes a capital gain, the trust can elect to treat the income as taxable in the trust. That is, the taxable capital gain will not be considered payable to the beneficiary 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 tax year, in which the property was distributed.

  The election can be made for distributions to all beneficiaries or only for distributions to non-resident beneficiaries. The trust may have filed such an election in the current year or any preceding year. If this is the case, calculate the trust's income available for allocation to a beneficiary without taking into consideration any gains realized on the distribution of property to beneficiaries covered by the election while the trust was resident in Canada.
- For tax years beginning after 2002, a deemed resident trust is limited in the amounts that it can allocate to non-resident beneficiaries. For more information, contact the International Tax Services Office at one of the numbers listed on page 13.

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 specified trust (as defined in Chart 1 on page 8).

This applies to income paid or payable to beneficiaries.

You make this choice by indicating on line B of the return for the year that you are making a **designation under subsection 104(13.1)**. Once you make this choice, you cannot deduct on line 47 the income designated in the election. An example of when you might use this designation is in a year when a trust has taxable income and a non-capital loss carryforward.

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.

An example of when you might want to make the subsection 104(13.2) designation is when you are able to 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 Bulletin IT-342, *Trusts – Income Payable to Beneficiaries*, and Interpretation Bulletin 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)

A ÷ B × C

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)

A ÷ B × C

where:

A = beneficiary's share of the taxable capital gains of the trust calculated under the Act

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: investment income of $6,000 and taxable capital gains of $3,000. Both are shared equally between the trust's two beneficiaries, Brayden and Ashley. 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 Brayden as follows:

A ÷ B × C
$3,000 ÷ $6,000 × $5,000 = $2,500

Therefore, the amount designated for Brayden is $2,500. Because Ashley shares equally, her calculation is the same.

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

A ÷ B × C
$1,500 ÷ $3,000 × $1,000 = $500

Therefore, the amount designated for Brayden is $500. Because Ashley shares equally, her 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. We define "preferred beneficiary" on page 6.

The preferred beneficiary election cannot be made by the trusts listed under "Exemption from Form T1055 deemed dispositions" on page 30.

For the trusts listed below, you can only make the election:

- for a spousal or common-law partner trust, in respect of the beneficiary spouse or common-law partner while he or she is still alive;
- for a joint spousal or common-law partner trust, in respect of the settlor or the beneficiary spouse or common-law partner while he or she is still alive; and
- for an alter ego trust, in respect of the settlor while he or she 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 disposition 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 interest 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 beneficiaries.

You can make a preferred beneficiary election for a tax 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 years of age or older, and in the beneficiary's tax year that ends in the trust's tax 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 medical practitioner confirming the beneficiary's impairment 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 tax 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 15.

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**.

For more information, see the appropriate column heading in the following sections. Any amounts allocated to a beneficiary on lines 921 to 926 and on line 949 are generally deducted from the trust's income.

Before allocating income to the beneficiaries, you must first take into consideration the trust's expenses. If the trust claimed expenses on line 41 of the return, deduct them from the specific source of income to which the expense relates. If the expense relates to more than one source of income, you must divide it between the applicable sources of income. The trust can then allocate the remaining income to the beneficiaries.

Column 1 – Resident ▲

Include in this column, allocations and designations of income paid or payable to resident 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 33;
- 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 "Part B – Calculating Part XIII non-resident withholding tax" on page 41. 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. When allocating such income, include the full amount before deducting Part XII.2 tax. For more information, see "Schedule 10 – *Part XII.2 Tax and Part XIII Non-Resident Withholding Tax*" on page 40.

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, both eligible dividends (line 949) and dividends other than eligible dividends (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 13.

Line 921 – Taxable capital gains ▲

You can allocate all or part 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 tax year is **more** than the total of:

- the trust's allowable capital losses for the tax year; and
- net capital losses of other years deducted in calculating the trust's taxable income for the tax 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 on 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. For more

information, see “Income to be taxed in the trust” on page 35.

Note
If the amount on line 01 includes any deemed taxable capital gains (including gifts of capital property), call **1-800-959-8281** for more information.

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

- capital gains distributions designated as payable by a mutual fund trust 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 lines 929 and 930. The only taxable capital gains eligible for this deduction are from the disposition of qualified farm property, qualified fishing property made after May 1, 2006, and qualified small business corporation shares.

Line 922 – Lump-sum pension income ▲

In a year throughout which a testamentary trust was a resident of Canada, it can designate, to a beneficiary:

- 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 a foreign pension or 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 on line 922), death benefits, retiring allowances, and dividends under a dividend rental arrangement. Include the amount of any taxable benefits to resident beneficiaries under the trust, unless the amounts are included on lines 921 or 923.

Note
The total of the taxable benefits included on lines 921, 923, and 926 should be the same as the total taxable benefits reported on line 45 of the T3 return.

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. Show on line 946 the amount that qualifies for a transfer.

Line 928 – Totals ▲

The total of lines 921 to 926, plus line 949 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 929 to 951 ▲

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.

Lines 929 and 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 929, the capital gains realized before March 19, 2007, and on line 930, the capital gains realized after March 18, 2007. Enter on line 929 or 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 of business income allocated at line 926 from the disposition of eligible capital property that is qualified farm or fishing property eligible for the capital gains deduction.

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 other than eligible dividends ▲

If you are designating dividends other than eligible dividends to a beneficiary who is either an individual or a trust (other than a registered charity), enter the result of the amount from line 923 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 34 – Federal foreign tax credit" on page 44.

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. Report only the taxable portion of the death benefit on line 19 of the return. For more information, see "Line 19 – Other income" on page 19.

Line 937 – Insurance segregated fund net 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 – Dividend tax credit for dividends other than eligible dividends ▲

Enter the result of the amount from 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 Part A 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 37 of the trust's Schedule 11.

Line 942 – Amount resulting in cost base adjustment

Enter the amount by which the cost base of a beneficiary's interest in the trust may be reduced or increased.

> **Note**
> If you issued new units to a beneficiary in satisfaction of a distribution of income, **do not** include that amount here. Instead, advise the beneficiary that you have issued these units, as well as the number of units and their value.

Line 945 – Other credits

Research and development tax credit

This credit is available to a trust resident in Newfoundland and Labrador, or Yukon. 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 "Line 91 – Other credits" on page 23.

Line 946 – Pension income qualifying for an eligible annuity for a minor ▲

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 946.

Line 947 – Retiring allowance qualifying for transfer to an RPP or an RRSP

Enter any retiring allowance eligible for a transfer on line 947.

Line 948 – Eligible amount of charitable donations

Enter charitable donations designated to the beneficiaries of a communal organization on line 948.

Line 950 – Taxable amount of eligible dividends ▲

If you are designating eligible dividends to a beneficiary who is either an individual or a trust (other than a registered charity), enter the result of the amount from line 949 multiplied by 1.44.

Line 951 – Dividend tax credit for eligible dividends ▲

Enter the result of the amount from line 950 multiplied by 17.9739%.

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 section 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.

Tax tip
If the trust is a non-resident trust with investments in Canadian mutual funds, it may have paid Part XIII.2 tax during the tax year. The trust may be eligible to claim a refund of this tax. The trust may also qualify if it realized a Canadian mutual fund loss during the tax year. If this applies to you, see Form T1262, *Part XIII.2 Tax Return for Non-Resident's Investments in Canadian Mutual Funds*.

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 tax year-end.

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

- has specified income as described on this page;
- has a designated beneficiary as described on this page; 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;
- a specified trust (as defined in Chart 1 on page 8), unless the trust is a related segregated fund trust, a retirement compensation arrangement trust, a trust whose direct beneficiaries are specified trusts, a trust governed by an eligible funeral arrangement, a cemetery care trust and, in certain circumstances, an amateur athlete trust;
- a trust that was exempt from Part I tax under subsection 149(1);
- a non-resident trust; or
- under proposed changes, for tax years ending after 2002, a deemed 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, certain property transferred to a trust in contemplation of a person beneficially interested in the trust ceasing to reside in Canada, **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

Subject to the exclusions listed below, a designated beneficiary for the purpose of Part XII.2 tax includes:

- a non-resident person or a non-resident owned investment corporation;
- an entity that is exempt from Part I tax under subsection 149(1), if the interest was ever previously held by a taxable entity;
- a trust if any of its beneficiaries is either a trust or a designated beneficiary; or
- a partnership if any of its members is either a partnership or would be a designated beneficiary if that member held an interest in a trust.

A designated beneficiary **does not** include:

- a mutual fund trust resident in Canada;
- a testamentary trust;
- an RRSP or RRIF that acquired its interest directly or indirectly from its beneficiary, the beneficiary's spouse or common-law partner, or former spouse or common-law partner;
- an entity that is exempt from Part I tax if its interest in the trust has been owned continuously since October 1, 1987, or the date on which the trust was created, by one or more entities that are exempt from Part I tax under subsection 149(1);
- a partnership, which would otherwise be a designated beneficiary, where no members of the partnership are designated beneficiaries and the partnership's interest in the trust has never been held by anyone other than the partnership or an entity that is exempt from Part I tax under subsection 149(1); or
- a trust, the beneficiaries of which are all either trusts that have no designated beneficiaries, or persons who are not designated beneficiaries.

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 – (Adjustment for Part XIII tax purposes)" on the next page.

Eligible beneficiary

This term is used for a beneficiary who is not a designated beneficiary as described on this page. 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.

Lines 7, 8, 10, and 11 – Adjusted amounts allocated and designated to beneficiaries

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

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 by 36%, the **lesser** of the amount on line 6 and the amount on line 11. Enter the result 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 non-resident 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 formula below to determine the amount of refundable tax credit to report in box 38 of the T3 slip for each eligible beneficiary:

A × 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 27

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

Line 18 – Taxable capital gains distributions designated as payable by a mutual fund trust

After March 22, 2004, a mutual fund trust that designates more than 5% of its capital gains distributions to non-resident beneficiaries (including any partnership that is not a Canadian partnership) must do an additional calculation for line 18. If this applies to the trust, complete lines 28 to 47 at the bottom of Part B. Enter the amount from line 43 on line 18.

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.

Line 23 – Taxable Canadian property gains distributions for non-resident beneficiaries

A mutual fund trust that designates more than 5% of its capital gains distributions to non-resident beneficiaries (including any partnership that is not a Canadian partnership) must include a portion of the distributions when calculating Part XIII tax. Enter the amount calculated at line 42 on line 23.

Lines 25 to 27 – 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 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 Form NR76. 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 IC76-12, *Applicable rate of part XIII tax on amounts paid or credited to persons in countries with which Canada has a tax convention*;
- Information Circular IC77-16, *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: Karson, a resident of Canada who is an **eligible** beneficiary, and Teagan, 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.

Karson 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 he will claim a refundable Part XII.2 tax credit of $180.

Teagan 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 24 ($700 – $180 = $520) is the amount subject to non-resident tax.

Completing the NR4 return

Guide T4061, *NR4 – Non-Resident Tax Withholding, Remitting, and Reporting*, 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 "Gross income" in box 16 of the NR4 slip. In box 14 or 24, enter an income code of "11" for estate or trust income. Enter a code of "58" if there were taxable Canadian property gains distributions to the non-resident.

File this return no later than 90 days after the end of the trust's tax 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 – *Minimum Tax*" on page 45.

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 page 7.

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*.

In addition, include any tax payable by a specified investment flow-through (SIFT) trust. For more information on SIFT trusts and their tax calculation, go to **www.cra.gc.ca/tx/trsts/sfts/menu-eng.html**.

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). For more information, see "Line 02 – Pension income" on page 17.

Lines 24 to 26 – Federal dividend tax credit ▲

Complete these lines if the trust reported a gross-up amount on line 24 or line 31 of Schedule 8 for dividends received from a taxable Canadian corporation in the tax year.

Calculate the dividend tax credit for eligible dividends by multiplying the gross-up amount from line 24 of Schedule 8 by 58.8235%. Calculate the dividend tax credit for dividends other than eligible dividends by multiplying the gross-up amount from line 31 of Schedule 8 by 66.6667%. Enter the total of these two amounts on line 26.

Note
Foreign dividends do not qualify for this credit.

Line 27 – Donations and gifts tax credit ▲

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

- Donations to qualified donees – see Pamphlet P113, *Gifts and Income Tax,* for the 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. If the land is located in Quebec, the certificate will be issued by the ministère du Développement durable, de l'Environnement et des Parcs.

Note
Under proposed changes, for gifts made after December 20, 2002, if the trust receives any form of compensation or advantage in exchange for the gift, only the **eligible amount** of the gift is included in determining the donations and gifts tax credit. For more information, see Pamphlet P113, *Gifts and Income Tax*.

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. 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 27 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.

Note
Include donations made prior to the death of the deceased on the deceased's T1 return. You **cannot** transfer them to the estate's T3 return.

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 27 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, see Pamphlet P113, *Gifts and Income Tax*.

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, call **1-800-959-8281**.

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 IC78-5, *Communal Organizations*.

Line 30 – Minimum tax carryover from previous years

If the trust paid minimum tax in the 2003 to 2009 tax years, and does not have to pay minimum tax for the 2010 tax year, you may be able to claim a credit against the trust's 2010 taxes payable. Use Part 7 of Schedule 12, *Minimum Tax*, to calculate the total minimum tax carryover.

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

Line 32 – Surtax on income not subject to provincial or territorial tax

A resident trust 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, or a deemed 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 T3MJ, *T3 Provincial and Territorial Taxes for 2010 – Multiple Jurisdictions*.

Line 34 – 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. If the amount was paid at various times throughout the year, to get the applicable rate, go to **www.cra.gc.ca/exchangerates**, or call **1-800-959-8281**.

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; or
- the tax payable to Canada on the portion of the 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 foreign income amounts that have been retained by the trust and not allocated to a beneficiary. **Do not** include any amounts relating to the designation of foreign income and foreign tax credits to the beneficiaries. Enter on line 34, the amount from line 10 of Form T2209.

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 3 years and forward 10 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 or Territorial Foreign Tax Credit* (a trust resident in Quebec should contact Revenu Québec about its entitlement to this credit); or
- a deduction on line 40 of the return (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 36 – 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 on this page to calculate the credit.

For political contributions made after December 20, 2002, you have to deduct any advantage the trust receives as a result of a contribution. This includes the total value at the time the political contribution was made, of all property, services, compensation, or other benefits to which the trust, or a person not dealing at arm's length with the trust, is entitled as partial consideration for, or in gratitude for, the political contribution.

> **Note**
> Under proposed changes, after February 27, 2004, if a political contribution is made in the form of a non-cash contribution, the amount to be used as the proceeds of disposition in respect of the property contributed and the amount of the eligible contribution are considered to be the lesser of the property's fair market value and its adjusted cost base.

Enter the total allowable credit on line 36. If the trust's total eligible federal political contributions are $1,275 or more, enter $650 on line 36. Attach an official receipt to the return 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 IC75-2, *Contributions to a Registered Party, a Registered Association or to a Candidate at a Federal Election*.

Federal Political Contribution Tax Credit

Total eligible federal political contributions		
Allowable credit:		
75% of first $400 of eligible federal political contributions		a
50% of next $350 of eligible federal political contributions	+	b
33 1/3% of eligible federal political contributions that are more than $750	+	c
Total credit (**add** lines a, b, and c)	=	d

Allowable credit: enter the **lesser** of line d or $650 on line 36 of Schedule 11.

Line 37 – 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.

To be able to claim an ITC, you have to send us the completed Form T2038(IND) 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 tax year;
- is carrying forward a credit;
- is carrying back a credit;
- had an ITC recapture; or
- is claiming a refundable ITC in the tax year (on line 88 of the T3 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 2010 by any ITC that the trust earned in 2009, and that was claimed or refunded on the 2009 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 11 tax years;
- claimed the cost, or a portion of the cost, of the property as a qualified expenditure for scientific research and experimental development;
- included the cost, or a portion of 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.

> **Note**
> An ITC recapture on a portion of the cost of property as described above applies only to dispositions that occur after December 20, 2002.

Only a testamentary trust or a communal organization can designate an ITC to its beneficiaries. When you calculate the trust's ITC for the tax 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 tax year.

For more information, see Form T2038(IND).

Line 43 – Additional tax on RESP accumulated income payments

If you received an accumulated income payment from a registered education savings plan (RESP) in the year, you may have to pay an additional tax on all or part of the amount in box 40 of your T4A slip. If this is the case, complete Form T1172, *Additional Tax on Accumulated Income Payments From RESPs*. Enter the amount from line 10 or line 13 (whichever applies) on line 43 of Schedule 11. For more information, see Information Sheet RC4092, *Registered Education Savings Plans (RESPs)*.

Line 45 – Refundable Quebec abatement ▲

A trust may be entitled to an abatement of 16.5% of its basic federal tax.

If the trust was resident in Quebec on the last day of its tax year and it did not have income from a business with a permanent establishment outside Quebec, complete line 45.

Use Form T3MJ, *T3 Provincial and Territorial Taxes for 2010 – Multiple Jurisdictions*, to calculate the refundable Quebec abatement if one of the following situations applies to the trust:

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

Enter the result on line 45 of Schedule 11.

Schedule 12 – *Minimum Tax*

The following trusts are **not** subject to minimum tax and **do not** need to complete Schedule 12:

- 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 in the year in which the trust reports the deemed disposition arising on the death of the spouse, common-law partner or settlor, as the case may be;
- a master trust; and
- under proposed changes, an employee life and health 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 increased by, resource expenditures, or claims resource and depletion allowances on resource properties; or
- claims a loss resulting from, or 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 or territory on the last day of its tax year. 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 tax year, see the note in the section called "Which tax package should you use?" on page 5.

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 tax 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. Use Form T3MJ, *T3 Provincial and Territorial Taxes for 2010 – Multiple Jurisdictions*, to report this income. To get this form, go to **www.cra.gc.ca/forms**, or call **1-800-959-2221**.

A trust resident in a province other than Quebec, or in a territory, on the last day of its tax year may have a federal foreign tax credit that is less than the non-business income tax the trust paid to a foreign country. If this is the case, the trust can apply the excess of foreign non-business income tax paid against provincial and territorial tax. For more information, see "Line 34 – Federal foreign tax credit" on page 44.

Non-resident trusts and deemed resident trusts

A non-resident trust or a deemed resident trust that carries on a business with 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 or a deemed 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 32 – Surtax on income not subject to provincial or territorial tax" on page 43.

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. You must also do this for a trust that made any distributions of capital that would result in an adjustment to the adjusted cost base of the beneficiary's interest in the trust. If you allocated income to a non-resident beneficiary, see "Column 2 – Non-resident," on page 37.

This chapter provides information on how to complete the T3 slip. The T3 slip has three individual slips printed on each sheet. These are intended to be used for laser or ink jet printers, for typing, or to be completed by hand.

The T3 slip shows only the high-use boxes (boxes 12, 14, 16, 18, 21, 23, 26, 30, 32, 39, 49, 50, and 51). There are also six generic boxes with blank codes for less common amounts. If you have to use a generic box, enter the box number **and** the amount in the other information area.

If you need more than six boxes for the same beneficiary, use an additional T3 slip.

You can find a sample of the slip on page 52.

You do not have to complete a T3 slip for a beneficiary if the income allocated in the year to that beneficiary is less than $100. However, you have to notify the beneficiary of the allocated income 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 only prepare one T3 slip. This is the form you use to record the total of the more common 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 53.

How to file the T3 slip and summary ▲

Mandatory electronic filing
If you file **more than 50 of any one type of trust-related information slip** for a tax year, you must file them over the Internet by Internet File Transfer. For more information, go to **www.cra.gc.ca/electronicmedia**.

Filing on paper

If you file 50 trust-related information slips or less for a tax year, you can file on paper. However, we encourage you to file over the Internet in Extensible Markup Language (XML) by Internet File Transfer. You will get immediate confirmation that we received your submission.

If you file on paper, you can use the forms that we provide, or your own computer-printed (customized) forms. If you

design and issue your own customized forms, you have to get written approval from us. For more information, see Information Circular IC97-2, *Customized Forms*. **Do not** staple the slips and summary to the T3 return.

Filing over the Internet

Internet File Transfer – Allows you to conveniently transmit slips and summaries with a maximum size of **150 MB**. All you need is a Web browser to connect to the Internet, and your software will create, print, and save your electronic submission in XML format. For information about this filing option, contact your software publisher or go to **www.cra.gc.ca/esrvc-srvce/rf/xml/menu-eng.html**.

> **Note**
> If your summary and slip submission is more than 150 MB, you can either compress it or divide it so that each submission is no more than 150 MB.

Internet File Transfer can be used to submit original and amended slips and summaries.

Internet filing is available from early January to early December.

Filing on electronic media

If you file 50 trust-related information slips or less for a tax year, you can file on electronic media. Send us the DVD, CD, or diskette on or before the filing due date. **Do not** send a paper copy of the summary or slips. For technical specifications, go to **www.cra.gc.ca/electronicmedia**.

For more information, call **1-800-665-5164**, or send a letter to:

Electronic Media Processing Unit
Ottawa Technology Centre
Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1A2

If you are a mutual fund trust that files T3 slips on electronic media, you can combine the income and capital gains from several funds onto one T3 slip for each unit holder. However, when you combine the slips, you have to:

- submit a sample of the combined information slip requesting an approval number to the following address:

  Electronic and Print Media Directorate
  Business Integration Division
  Place de Ville, Tower A
  320 Queen Street, 9th floor
  Ottawa ON K1A 0L5

- prepare the DVD, CD, or diskette of summary forms and slips, which you submit to us at the individual fund level;
- write "Combined information slip" clearly on the T3 slip under the recipient name and address, and provide the unit holders 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 we audit these funds later.

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 has 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 Service Canada Centre, 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 due date. 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, or 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 person 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 IC82-2, *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 the amount was paid at various times throughout the year, to get the applicable rate, go to **www.cra.gc.ca/exchangerates**, or call **1-800-959-8281**.

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 51 from Schedule 9, *Income Allocations and Designations to Beneficiaries*.

Recipient's name and address – Enter the information in the white area provided. If the payment is to an individual, enter the beneficiary's name. If the payment is to a joint beneficiary, enter both names. If the payment is made to a trust, enter the name of the trust and not the names of the individual beneficiaries of that trust. If the payment is made to an association, organization, or institution, enter that name. Following the beneficiary's name, enter the beneficiary's full address including city and province or territory. Also include the postal code.

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

Trust year end – Use a four-digit number to indicate the year, and a two-digit number to indicate the month of the trust's tax 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. The high-use boxes appear first, followed by the generic boxes.

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 the section titled "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. For security purposes, **do not** include the trust account number on the copies you provide to the beneficiary.

Box 16 – Report code ▲

Enter one of the following codes:

Code	Type of slip
O	original
A	amended
C	cancelled

If you use code A or C, see "Amending, cancelling, adding, or replacing trust-related information slips" on page 50 for more information.

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 box 26 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 result of 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, identify 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 – Taxable capital gains" on page 37.

Box 23 – Actual amount of dividends other than eligible 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 Box 32 and Box 39 for more instructions.

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 or fishing income from the disposition of eligible capital property that is qualified farm or fishing property. In the footnote area, enter "eligible capital property – qualified farm property" or "eligible capital property – qualified fishing property," and the amount of the beneficiary's share.
>
> 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.

No other footnotes are required for box 26.

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

Multiply the beneficiary's share by 2, and enter the result on line 929 or line 930 of Schedule 9. **Do not** include farming or fishing 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. In the footnote area, enter either "qualified farm property," "qualified fishing property", or "qualified small business corporation shares," whichever applies. Also enter the amount eligible for the capital gains deduction for capital gains:

- before March 19, 2007; and
- after March 18, 2007.

For more information, see "Lines 929 and 930 – Taxable capital gains eligible for deduction" on page 38.

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

Box 39 – Dividend tax credit for dividends other than eligible dividends ▲
If the beneficiary is an individual or a trust (other than a registered charity), enter 13.3333% of the amount in box 32.

Box 49 – Actual amount of eligible dividends ▲
Enter the beneficiary's share of the amount on line 949 of Schedule 9.

Box 50 – Taxable amount of eligible dividends ▲

If the beneficiary is an individual or a trust (other than a registered charity), enter the result of the amount of eligible dividends from taxable Canadian corporations reported in box 49, multiplied by 1.44.

Note
If the beneficiary is a resident of Newfoundland and Labrador, in the footnote area, enter "NLDIV pre-July 1, 2010," and the taxable amount of eligible dividends paid before July 1, 2010. On the **recipient copy** enter an asterisk (*) beside the amount in box 50. **Do not** enter an asterisk on the copy you send to us.

Box 51 – Dividend tax credit for eligible dividends ▲

If the beneficiary is an individual or a trust (other than a registered charity), enter 17.9739% of the amount in box 50.

"Other information" area

This area on the T3 slip has boxes for you to enter codes and amounts for less common amounts, such as foreign business income, eligible death benefits, investment tax credits, and others.

The boxes are not pre-numbered as in the top part of the slip. Therefore, enter the codes that apply to the beneficiary.

If more than six codes apply to the same beneficiary, use an additional T3 slip. **Do not** repeat all the data on the additional slip. Enter only the beneficiary's identification number and name, as well as the trust's name and account number, and complete the required boxes in the "Other information" area.

Box 22 – Lump-sum pension income ▲
Enter the beneficiary spouse's or common-law partner's share of the amount on line 922 of Schedule 9.

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, in Canadian dollars, 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, in Canadian dollars, from each country.

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 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, in Canadian dollars, 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, in Canadian dollars, 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 – Eligible death benefits" on page 39.

Box 37 – Insurance segregated fund net capital losses

Enter the result of 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 – *Part XII.2 Tax and Part XIII Non-Resident Withholding Tax*" on page 40.

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 – Investment 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 more information, see "Lines 940 and 941 – Investment tax credit (ITC)" on page 39.

Box 42 – Amount resulting in cost base adjustment

Enter the beneficiary's share of the amount on line 942 of Schedule 9. If this is a negative amount, put it in brackets.

> **Note**
> Enter an asterisk (*) beside any amount entered in box 42. In the footnote area, indicate whether the amount should be added to the adjusted cost base (ACB) of the property (for a negative amount), or subtracted from the ACB (for a positive amount).

Do not include new units issued to a beneficiary in satisfaction of a distribution of income. Instead, advise the beneficiary that you have issued these units, as well as the number of units and their value.

Box 45 – Other credits

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.

Box 46 – Pension income qualifying for an eligible annuity for a minor ▲

Enter the beneficiary's share of the pension income that is eligible for a transfer to an eligible annuity for certain minors, from line 946 of Schedule 9 (also included in box 26).

Box 47 – Retiring allowance qualifying for transfer to an RPP or RRSP

Enter the beneficiary's share of the retiring allowance, which qualifies for a transfer to a registered pension plan or registered retirement savings plan, from line 947 of Schedule 9 (also included in box 26).

Box 48 – Eligible amount of charitable donations

Enter the beneficiary's share of the charitable donations or gifts of a communal organization, from line 948 of Schedule 9. For more information, see Information Circular IC78-5, *Communal Organizations*.

Distributing the T3 slip ▲

Send us the T3 slip along with the T3 Summary no later than 90 days after the end of the trust's tax year.

Do not staple the summary and slips to the T3 return.

Send two copies of the T3 slip to the beneficiary. You do not have to keep a copy of the T3 slips. However, if you file electronically, you have to keep the information from which you prepared the slips in an accessible and readable format.

You can provide recipients with an electronic copy of their T3 slips only if the recipient gives you their consent in writing or by email.

If you fail to distribute the T3 slip or any other trust-related information slip to a recipient by the due date, you will be liable to a penalty. For more information on how these penalties are calculated as of January 1, 2010, see "Penalties and interest" on page 14.

Amending, cancelling, adding, or replacing trust-related information slips

If you notice errors on the trust-related information slips **before** you file them with us, you can correct them by preparing new slips and removing any incorrect copies from your submission. If you do not prepare a new slip, initial any changes you make on the slip. In either case, enter "O" in box 16. Make sure that you also correct the related summary.

Amending slips

If you notice errors on the trust-related information slips **after** you file them with us, you will have to prepare amended slips to correct the information.

Note
If you have filed the original slip with us on paper, you can send us amendments and cancellations on paper, on electronic media (DVD, CD, or diskette), or over the Internet in Extensible Markup Language (XML) by Internet File Transfer. For more information, go to **www.cra.gc.ca/t3slip**.

Amending slips electronically – Amended slips are indicated with report type code "A". For more information on amending slips over the Internet or on electronic media, go to **www.cra.gc.ca/t3slip**.

Amending paper slips – Clearly identify new slips as amended slips by writing "AMENDED" at the top of the slips. When you amend a slip, make sure you complete all the necessary boxes, including the information that was correct on the original slip. Send two copies of the amended slips to the recipient in the same way that you sent the originals.

Send one copy of the amended slips to us with a letter explaining the reason for the amendment.

Note
Do not file an amended summary when you send in amended slips.

Cancelling slips

Cancelling slips electronically – Cancelled slips are indicated with report type code "C". Since a cancelled slip is considered to be an amended slip, for more information, see "Amending slips electronically "on this page.

Note
Amendments submitted using electronic media (DVD, CD, or diskette) should be sent to:

Electronic Media Processing Unit
Ottawa Technology Centre
Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1A2

Cancelling paper slips – If you issued a paper slip by mistake and you want to cancel it, you can send us your cancellations on paper, on electronic media (DVD, CD, or diskette) or over the Internet in Extensible Markup Language (XML) by Internet File Transfer. For more information, go to **www.cra.gc.ca/t3slip**.

Note
If you choose to send a paper copy, include the original slip, enter "C" in box 16, and clearly mark "CANCELLED" at the top of the slip. Send two copies of the cancelled slip to the recipient in the same way that you sent the originals.

Adding slips

After you file your trust-related information slips with us, you may discover that you need to send us additional slips.

Adding slips electronically – We accept additional original trust-related information slips on electronic media (DVD, CD, or diskette) or over the Internet in Extensible Markup Language (XML) by Internet File Transfer (see note below). Additional slips are indicated with report type code "O". For more information, go to **www.cra.gc.ca/t3slip**.

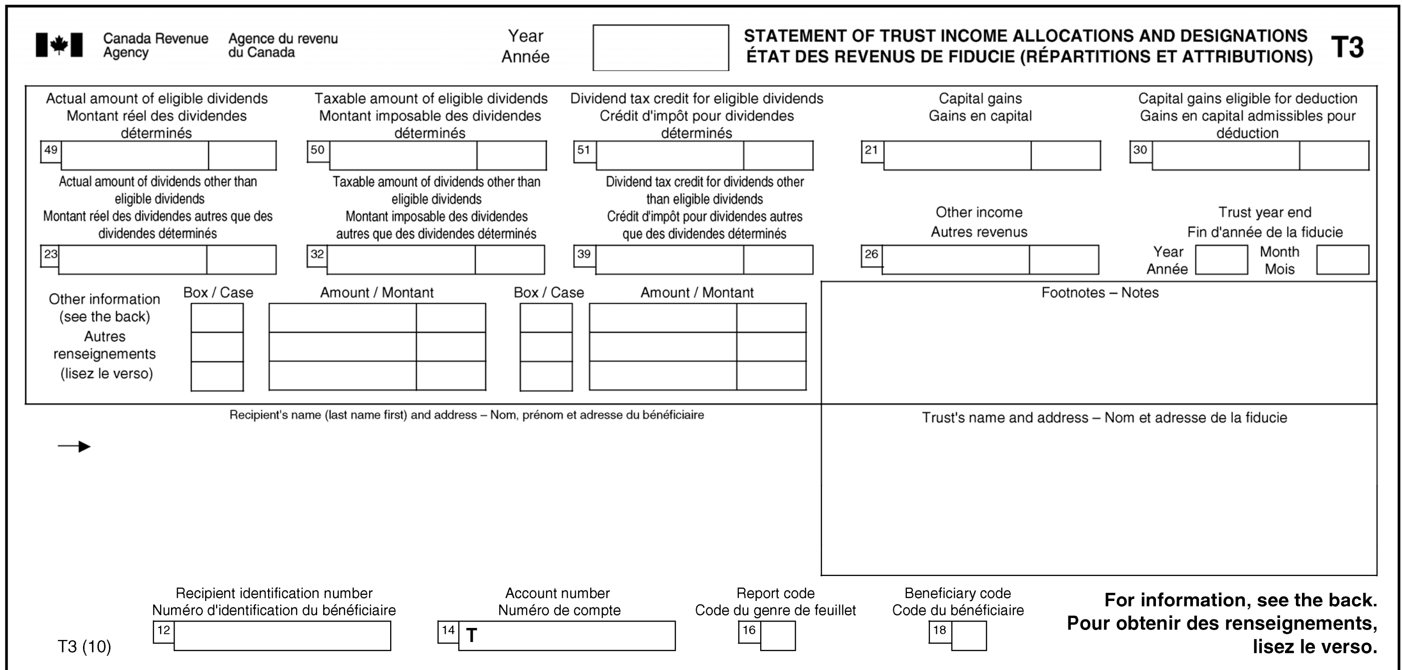
Adding slips on paper – When submitting additional slips on paper (see note below), clearly identify the new slips by writing "ADDITIONAL" at the top of the slip. Send a copy of the slips to any tax centre. **Do not** file an additional summary.

Note
If the total number of **any** one type of trust-related information slip you file (original plus additional slips) is more than 50 slips for the same tax year, you **have to** file the additional slips over the Internet. For more information, go to **www.cra.gc.ca/electronicmedia**.

Replacing slips

If you issue slips to replace copies that are lost or destroyed, **do not send us copies of these slips**. Send two copies to the beneficiary. Clearly identify them as "DUPLICATE" copies, and keep them with your records.

Note
If an amended or cancelled T3 slip results in a change to the total dollar amounts for the high-use boxes, you also have to send us an amended summary. For more information, see the instructions on the back of the T3 Summary.



Canada Revenue Agency / Agence du revenu du Canada

Year / Année

STATEMENT OF TRUST INCOME ALLOCATIONS AND DESIGNATIONS
ÉTAT DES REVENUS DE FIDUCIE (RÉPARTITIONS ET ATTRIBUTIONS) **T3**

Actual amount of eligible dividends / Montant réel des dividendes déterminés	Taxable amount of eligible dividends / Montant imposable des dividendes déterminés	Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés	Capital gains / Gains en capital	Capital gains eligible for deduction / Gains en capital admissibles pour déduction
49	50	51	21	30
Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés	Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés	Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés	Other income / Autres revenus	Trust year end / Fin d'année de la fiducie — Year / Année, Month / Mois
23	32	39	26	

Other information (see the back) / Autres renseignements (lisez le verso)

Box / Case	Amount / Montant	Box / Case	Amount / Montant

Footnotes – Notes

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

Recipient identification number / Numéro d'identification du bénéficiaire	Account number / Numéro de compte	Report code / Code du genre de feuillet	Beneficiary code / Code du bénéficiaire
12	14 T	16	18

T3 (10)

For information, see the back.
Pour obtenir des renseignements, lisez le verso.

Canada Revenue Agency — Agence du revenu du Canada

SUMMARY OF TRUST INCOME ALLOCATIONS AND DESIGNATIONS
SOMMAIRE DES RÉPARTITIONS ET ATTRIBUTIONS DES REVENUS DE LA FIDUCIE

T3 Summary / Sommaire

Complete this summary if the trust allocated income to a resident beneficiary, including a preferred beneficiary, in the year. Also complete it if the trust made any distribution of capital that would result in an adjustment to the adjusted cost base (ACB) of the beneficiary's interest in the trust.

If you are filing your T3 slips electronically, see Chapter 4 of the publication T4013, *T3 Trust Guide*.

File this summary with one copy of the related T3 slips, and the *T3 Trust Income Tax and Information Return*. See Chapter 4 in the *T3 Trust Guide* for filing due dates. Do **not** staple the summary and slips to the return.

See the back of this summary for instructions.

Remplissez ce sommaire si, dans l'année, la fiducie a réparti des revenus au profit d'un bénéficiaire résident, y compris un bénéficiaire privilégié. Remplissez-le aussi si la fiducie a fait une distribution de capital nécessitant un rajustement du prix de base rajusté (PBR) de la participation du bénéficiaire dans la fiducie.

Si vous produisez vos feuillets T3 par voie électronique, lisez le chapitre 4 de la publication T4013, *T3 – Guide des fiducies.*

Envoyez ce sommaire et une copie de tous les feuillets T3 qui s'y rapportent, avec la *Déclaration de renseignements et de revenus des fiducies – T3*. Consultez le chapitre 4 de la publication T4013, *T3 – Guide des fiducies,* pour connaître la date limite de production. **N'agrafez pas** le sommaire ni les feuillets à la déclaration.

Lisez le verso de ce formulaire pour obtenir des instructions.

Identification

Name of trust – Nom de la fiducie

Name and mailing address of trustee, executor, liquidator, or administrator – Nom et adresse postale du fiduciaire, de l'exécuteur, du liquidateur ou de l'administrateur

Account number – Numéro de compte: T __ __ – __ __ __ __ __ – __ __

Telephone number – Numéro de téléphone

Summary for tax year – Sommaire pour l'année d'imposition

From: / Du : Year / Année, Month / Mois, Day / Jour — To: / Au : Year / Année, Month / Mois, Day / Jour

Name and mailing address of the person to contact, if different from above – Nom et adresse postale de la personne-ressource, s'ils sont différents de ceux qui précèdent

Complete this area if you do not have an account number and you are submitting a paper return.

Remplissez cette section si vous n'avez pas un numéro de compte et produisez une déclaration sur papier.

If this is a testamentary trust, enter the social insurance number of the **deceased**.

S'il s'agit d'une fiducie testamentaire, inscrivez le numéro d'assurance sociale de la personne **décédée**.

Is this the first return for the trust?

Est-ce la première année pour laquelle une déclaration T3 est produite?

Yes / Oui ☐ No / Non ☐

T3 slip totals – Totaux des feuillets T3

Summary of amounts allocated and designated to resident beneficiaries (including preferred beneficiaries)
Sommaire des revenus répartis et attribués aux bénéficiaires résidents (y compris les bénéficiaires privilégiés)

Do not use this area – N'inscrivez rien ici

Total number of T3 slips filed – Nombre de feuillets T3 produits — 10

Actual amount of dividends other than eligible dividends – Montant réel des dividendes autres que des dividendes déterminés — 23

Taxable amount of dividends other than eligible dividends – Montant imposable des dividendes autres que des dividendes déterminés — 32

Dividend tax credit for dividends other than eligible dividends – Crédit d'impôt pour dividendes autres que des dividendes déterminés — 39

Other income – Autres revenus — 26

Capital gains – Gains en capital — 21

Capital gains eligible for deduction – Gains en capital admissibles pour déduction — 30

Actual amount of eligible dividends – Montant réel des dividendes déterminés — 49

Taxable amount of eligible dividends – Montant imposable des dividendes déterminés — 50

Dividend tax credit for eligible dividends – Crédit d'impôt pour dividendes déterminés — 51

Certification – Attestation

I certify that the information given on the T3 Summary and the related T3 slips is, to the best of my knowledge, correct and complete.
J'atteste que les renseignements fournis dans ce formulaire T3 *Sommaire* et les feuillets T3 qui s'y rapportent sont, à ma connaissance, exacts et complets.

Date — Signature of authorized person – Signature d'une personne autorisée — Position or title – Poste ou titre

T3 Summary – Sommaire (10)

Canada

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.*

T3 slip totals
Line 10 – Enter the total number of T3 slips that you have included with this summary.

The other 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.

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.

Comment remplir ce formulaire

Identification
Fournissez dans cette section les mêmes renseignements que vous avez indiqués dans la section d'identification de la *Déclaration de renseignements et de revenus des fiducies – T3.*

Totaux des feuillets T3
Ligne 10 – Inscrivez le total des feuillets T3 que vous joignez à ce sommaire.

Les autres numéros de ligne dans cette section correspondent aux numéros de case du feuillet T3. Pour chaque numéro de case, additionnez les montants de tous les feuillets T3 joints à ce sommaire et inscrivez le total à la ligne correspondante.

Attestation
Indiquez la date et signez cette section avant de nous envoyer le sommaire.

Conservez une copie du T3 *Sommaire* dans les dossiers de la fiducie.

Where to file

Trusts resident in Canada
Ottawa Technology Centre
Canada Revenue Agency
Ottawa ON K1A 1A2

Non-resident trusts and deemed resident trusts
International Tax Services Office
Canada Revenue Agency
Ottawa ON K1A 1A8

Electronic media filers
Send us your DVD, CD, or diskette. Do not send us a paper copy of this summary or the T3 slips.
Electronic Media Processing Unit
Ottawa Technology Centre
Canada Revenue Agency
875 Heron Road
Ottawa ON K1A 1A2

Où devez-vous envoyer ce sommaire

Fiducies résidentes du Canada
Centre de technologie d'Ottawa
Agence du revenu du Canada
Ottawa ON K1A 1A2

Fiducies non-résidentes et fiducies réputées résidentes
Bureau international des services fiscaux
Agence du revenu du Canada
Ottawa ON K1A 1A8

Déclarants sur support électronique
Envoyez-nous votre DVD, CD ou disquette. N'envoyez pas de copie papier de ce sommaire, ni les feuillets T3.
Unité de traitement sur support électronique
Centre de technologie d'Ottawa
Agence du revenu du Canada
875, chemin Heron
Ottawa ON K1A 1A2

Amending your T3 Summary

If you prepare and issue an amended T3 slip after you have filed the original with us, you may have to file an amended T3 Summary. If there is a change to the amounts in the boxes shown on the front of this summary, file an amended T3 Summary. 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*, **do not** file another T3 return. Instead, send us a completed Form T3-ADJ, *T3 Adjustment Request*, or a letter providing the details of the change. Indicate the tax year you want us to change and attach any supporting documents. Include the trust's account number on the letter.

Privacy Act, Personal Information Bank number CRA PPU 015

Comment modifier ce sommaire

Si vous voulez modifier un feuillet T3 après nous avoir fourni les feuillets originaux, vous devrez peut-être avoir à produire un T3 *Sommaire* modifié. Si vous modifiez les montants des cases sur l'autre côté de ce sommaire, produisez un T3 *Sommaire* modifié. Si le feuillet T3 modifié change des montants dans la *Déclaration de renseignements et de revenus des fiducies – T3,* ou dans l'annexe 9, *Revenus répartis et attribués aux bénéficiaires,* **ne produisez pas** une autre déclaration T3. Envoyez-nous le formulaire T3-ADJ, *Demande de redressement d'une T3*, dûment rempli, ou une lettre fournissant les détails de la modification. Indiquez l'année d'imposition visée par la modification et joignez toutes les pièces justificatives. Indiquez aussi le numéro de compte de la fiducie.

Loi sur la protection des renseignements personnels, Fichier des renseignements personnels ARC PPU 015

For more information

What if you need help?

If you need help after reading this publication, visit **www.cra.gc.ca** or call **1-800-959-8281**.

To get forms or publications, go to **www.cra.gc.ca/forms**, or call **1-800-959-2221**.

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 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 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 get information for you, in addition to the trust-related identification.

Teletypewriter (TTY) users

TTY users can call **1-800-665-0354** for bilingual assistance during regular business hours.

Giving or cancelling an authorization

You can authorize a representative or cancel an authorization already given by writing to us, or by sending a completed Form T1013, *Authorizing or Cancelling a Representative*. You can include this form with the trust's T3 return, but **do not** staple it to the return.

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 tax 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 tax year or years. Note that authorizing a new representative will **not** cancel your existing authorizations unless you ask us to cancel existing authorizations.

Our service complaint process

Step 1 – Talk to us

If you are not satisfied with the **service** you have received from us, you have the right to make a formal complaint. Before you make a complaint, we recommend that you try to resolve the matter with the CRA employee you have been dealing with (or call the phone number you have been given).

If you still disagree with the way your concerns are being addressed, ask to discuss the matter with the employee's supervisor.

Step 2 – Contact CRA – Service Complaints

This program is available to individual and business taxpayers and benefit recipients who have dealings with us. It is meant to provide you with an extra level of review if you are not satisfied with the results from the **first step** of our complaint process. In general, service-related complaints refer to the quality and timeliness of the work we performed.

If you choose to bring your complaint to the attention of CRA – Service Complaints, complete Form RC193, *Service-Related Complaint*, which you can get by going to **www.cra.gc.ca/complaints** or by calling **1-800-959-2221**.

Step 3 – Contact the office of the Taxpayers' Ombudsman

If, **after following steps 1 and 2**, you are still not satisfied with the way the CRA has handled your complaint, you can file a complaint with the Taxpayers' Ombudsman.

For more information on the Taxpayers' Ombudsman and on how to file a complaint, visit their Web site at **www.taxpayersrights.gc.ca**.

Your opinion counts!

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

Taxpayer Services Directorate
Canada Revenue Agency
750 Heron Road
Ottawa ON K1A 0L5

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