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Guide to the 1987 T3 Trust Return

Canada

(Français au verso)

CHANGES FOR 1987

Changes in the Return and Schedules for 1987

Several changes have been made to the T3 Trust Income Tax Return and Information Return and Schedules. On page 2 provision for including "straddle year" dividends has been made on lines 1 to 5; also on lines 28 to 39, direct and indirect expenses are to be applied against specific sources of income. Page 4 now contains a "Questionnaire" and Investment income details are to be reported on Schedule 6. Schedules 5B and 5C replace Form T672, 'Calculation of a Trust's Designation of its "Net Taxable Capital Gains" and "Eligible Taxable Capital Gains Exemption"' and Form T673 'Calculation of a Spouse Trust Capital Gains Exemption for its 1985 Taxation Year During Which the Spouse Died' respectively.

Legislative Changes for 1987

- If a trust received dividends in 1987, the actual amount received is grossed up by one-third to arrive at the taxable amount. The dividend tax credit is calculated as 16 2/3% of the taxable amount.
- The individual surtax rate has been revised to 3%.

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INTRODUCTION

This Guide contains information for the completion of the 1987 Trust Income Tax and Information Return (referred to in this Guide as the T3 Return). Ordinarily the Guide will be all that is needed to complete the T3 Return. If circumstances arise whereby the information is not covered in the Guide, you may refer to the Interpretation Bulletins and Information Circulars which are referred to throughout the Guide. These Bulletins and Circulars are available at your District Taxation Office.

Starting with the section titled "Completion of The T3 Return" each Guide item is preceded by the line number on the T3 Return or appropriate Schedule. The line numbers are in sequence and are shown beside the Return/Schedule as listed in the "Forms Available For Filing" section of this Guide.

This information is intended as a guide only and is not a substitute for the Income Tax Act and Regulations. To further assist in the more technical matters which may arise the Topic Heading also contains references to relevant provisions of the Income Tax Act.

FORMS AVAILABLE FOR FILING

T3 RETURN (lines 01 to 98)

The T3 Return consists of a four page form and related schedules on which the preparer reports four basic requirements:

1. Identification of the trust and residence.
2. Sources of income and expenses to arrive at Net Income.
3. The income allocation or designation, or both, to the beneficiaries. Page 3 of the Return shows the allocation deduction to determine Net Income and it also serves as the Summary for the T3 Information Return.
4. Deductions to arrive at Taxable Income and determination of tax payable, if any.

SCHEDULES

The following Schedules, if applicable, should be completed:

- | | |
|--------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Schedule 1
(lines 103
to 138) | - Calculation of Gross-up of Dividends retained by trust
and Interest and Dividend Income Deduction. |
| Schedule 2A
(lines 201
to 223) | - Calculation of Federal Income Tax |
| Schedule 2B
(lines 240
to 292) | - Calculation of Minimum Tax |
| Schedule 3A
(lines 301
to 352) | - Calculation of Provincial Income Tax of Manitoba,
Saskatchewan, Alberta and of Territorial Income Tax of
the Northwest Territories. |
| Schedule 3B
(lines 301
to 396) | - Calculation of Provincial Income Tax of British Columbia,
Ontario, Nova Scotia, New Brunswick, Newfoundland,
Prince Edward Island and of Territorial Income Tax of
Yukon. |

Schedule 5A (lines 501 to 516)	- Summary of Dispositions of Capital Property.
Schedule 5B (lines 520 to 540)	- Calculation of a Trust's "Net Taxable Gains" and Beneficiary's Share Eligible for Deduction.
Schedule 5C (lines 550 to 560)	- Calculation of Capital Gains Deduction for a Spouse Trust.
Schedule 6 (lines 601 to 612)	- Statement of Investment Income
Schedule 7 (lines 701 to 703)	- Statement of Real Estate Rentals
Schedule 8 (lines 801 to 803)	- Capital Cost Allowance (Depreciation)

Information Slips

The following information slips are to be completed if applicable:

T3 Supplementary	- Information Slip for recording amounts paid or payable to a trust beneficiary or amounts elected to be included in a beneficiary's income.
NR4 Supplementary	- Statement of amounts paid or credited to non-residents of Canada.

Details of how to complete the information slips are contained in the Completion of Forms section, see alphabetical index for page number. (Completion of Form T3 Supplementary etc.).

Books and Records

Books and records necessary to verify the accuracy of reported gross and net income from business or property must be kept available for examination and may not be destroyed without permission from the Department.

GENERAL INFORMATION

Who Should File a T3 Return

- Every person (including an individual, a corporation or an institution) acting in the capacity of executor, trustee, administrator, assignee or receiver having ownership or control of a property on behalf of some other person, (in a "fiduciary capacity) must file a T3 Return if they are in receipt of income, gains or profits from that property or has disposed of a capital property and
 - either the "Gross" income at lines G11, G12, G13 and G14 or "Total Income" at line 16 exceeds \$ 500.00,
 - the income designated, paid or payable to any single beneficiary exceeds \$ 100.00, or
 - any portion of the income is taxable in the trust, or
 - any portion of the income is allocated to a non-resident beneficiary

2. A T3 Return must be filed for the registered and non-registered funds of a Segregated Insurance Fund Trust.
3. Communal organizations must file a T3 Return. See Information Circular 78-5R2.
4. The filing requirements among other details for the trusts listed below, are covered in Information Circular 78-14R2.
 - Employee Profit Sharing Plan
 - Deferred Profit Sharing Plan
 - Revoked Deferred Profit Sharing Plan
 - Supplementary Unemployment Benefit Plan
 - Registered Retirement Savings Plan
 - Amended Registered Retirement Savings Plan
 - Registered Charities
 - Registered Pension Fund or Plan
5. The filing requirements for a trustee of a Retirement Compensation Arrangement are given in the Retirement Compensation Arrangement Guide which will be available at your District Taxation Office early in 1988.
6. A trustee or receiver appointed under the Bankruptcy Act acting on behalf of an individual files a T1 Return rather than a T3 Return
7. An agent, nominee or custodian not acting in a fiduciary capacity need not file a T3 Return but should file a T5 Information Return if acting on behalf of a resident of Canada or an NR4-NR4A Return if acting on behalf of a non-resident of Canada.
8. A trustee of a Trust exempt from Income Tax under Part I of the Income Tax Act is not required to file a T3 Return.

Filing Requirements – Where and When

One completed T3 Return and applicable schedules, together with copies 1 and 2 of form T3 Supplementary where required, is to be forwarded to the Department within **ninety days** from the end of the trust's taxation year. The mailing address of the person filing the return, as shown on page 1 of the T3 Return, determines to which Taxation Centre the return is to be mailed.

Trusts Served by District Taxation Offices located in :

Should File With

British Columbia

Taxation Centre,
Surrey,
British Columbia
V3T 5E6

Manitoba, Saskatchewan and Alberta

Taxation Centre,
Winnipeg,
Manitoba
R3C 3M3

Newfoundland, Prince Edward Island,
Nova Scotia and New Brunswick

Taxation Centre,
St. John's,
Newfoundland
A1B 3Z2

Montreal, St. Hubert and Laval

Taxation Centre,
Shawinigan,
Quebec
G9N 7V9

Quebec City, Sherbrooke and Rouyn

Taxation Centre,
Jonquiere,
Quebec
G7S 5J1

Toronto, Mississauga, Scarborough
and Ottawa

Taxation Centre
Ottawa, Ontario
K1A 1A2

All other areas of Ontario

Taxation Centre,
Sudbury,
Ontario
P3A 5C2

NOTE: Please clearly indicate the name of the Trust, followed by the word "Trust" on any correspondence sent to Taxation Offices or Centres if it concerns a trust.

Taxation Year 150(1), Income Tax Regulation 204.

The taxation year of a **testamentary trust** may, but need not, coincide with the calendar year. The first fiscal period of the trust will commence on the day after death and end at any time within the next twelve months as selected by the trustee. Once this year end is established, it may not be changed without prior approval of the Department. **A testamentary trust return must be filed within 90 days from the end of the trust's established taxation year.**

The taxation year of an **inter vivos trust** must always coincide with the calendar year. **An inter vivos trust return must be filed within 90 days from the end of the trust's taxation year.**

On the winding-up (discontinuance) of a trust, the taxation year of the trust will end on the date of the final distribution of the assets. **The final return covering this usually shortened taxation year must be filed within 90 days of the date of winding-up the trust.** For further comments see "Clearance Certificates".

Late Filing Penalties 162(1),235(1).

As an income tax return, a T3 Return not filed by the required date is subject to a late filing penalty of 5% of the unpaid tax at that date plus 1% per month up to a maximum of twelve months that the return was past due. As an information return the penalty for failure to file a T3 Return by the due date is \$10 per day for each day the return is late filed to a maximum of \$2,500.

Interest

Interest at the prescribed rate is charged on unpaid tax owing as a result of an assessment or a reassessment of the return. Interest at the prescribed rate is credited on overpayments refunded after filing due date. This interest is to be reported at line 07 of the T3 Return for the year of receipt and qualifies for the Interest and Dividend Income Deduction.

Types of Trusts

Testamentary Trust 108(1)(i).

A testamentary trust is a trust, or estate that arose upon and in consequence of the death of an individual. The terms of the trust are established by the Will, by law in the case of an intestacy or by court order e.g. pursuant to dependant's

relief legislation. **A trust return may not be required where an estate is distributed immediately at death.** In the instance where a T3 Return is not filed the trustee should furnish the beneficiary with a statement showing the respective share of the estate to which the beneficiary is entitled.

A testamentary trust does not include:

- (a) a trust created by a person other than a deceased individual;
- (b) a trust created after November 12, 1981 if, before the end of the taxation year, property has been contributed to the trust otherwise than by an individual on his/her death;
- (c) a trust created before November 13, 1981 if, after June 28, 1982, property has been contributed to the trust otherwise than by an individual on his/her death or if, at any time the fair market value of all property owned by the trust that was contributed to the trust by persons other than the individual on death and property substituted therefor exceeds the fair market value of all property owned by the trust which was contributed by an individual on his/her death and property substituted therefor.

Where a trustee has retained control of the assets rather than distributing them according to the Will, the trust **may** become an inter vivos trust. If this is the case and the fiscal period of the trust is other than a calendar year, the trustee should contact the Department for assistance in changing the year end.

Inter Vivos Trust 108(1)(f).

An inter vivos trust is a trust other than a testamentary trust.

Spouse Trust 70(6), 74.1.

A spouse trust may be either a testamentary trust or an inter vivos trust created by an individual for a spouse and under which:

- (a) the individual's spouse is entitled to receive all of the income of the trust that may arise during the spouse's lifetime,

and

- (b) only the spouse during the spouse's lifetime may receive, or otherwise obtain, the use of any income or capital of the trust.

The effect of the provisions of a spouse trust are that any accrued capital gains, recapture of capital cost allowances, capital losses and terminal losses which pass to the spouse trust are deemed to be deferred until the time of actual disposition by the spouse or spouse trust or until the death of the spouse, whichever occurs first.

If benefits to the spouse change or cease upon remarriage, the trust would not qualify as a spouse trust.

A testamentary spouse trust may be eligible for a Taxable Capital Gains Deduction for its taxation year in which the spouse dies. Refer to the Taxable Capital Gains Deduction information.

Transfers and Loans to Spouse Trust 74.1(1).

While the settlor of an inter vivos trust is alive, the settlor is required to report income from property transferred to the trust by him/her in his/her own Individual Income Tax return. Income from loans by the settlor to the trust are subject to the same rules where the loan was made to the trust after May 22, 1985 and to loans made before May 23, 1985 which are outstanding after 1987.

The trust is required to file a T3 Return and issue a T3 Supplementary reporting the income as that of the settlor.

Trust for a Minor 104(18).

If the beneficiary of a testamentary or inter vivos trust has a vested interest in a trust which has accumulated income only because the beneficiary is a minor, the income shall be considered to have been payable to the minor and taxable in the minor's hands.

Transfers and Loans to A Trust For A Minor 74.1(2).

Income from property transferred to a trust for a minor which, under the terms of the trust is to be taxed in the hands of the minor is attributed to the settlor and must be taxed in his/her hands while resident in Canada. The settlor is not required to report the income of the trust where the beneficiary has, before the end of the year, attained the age of 18, where the beneficiary is not a "designated person" (see note below) or where the income is taxed in the trust.

Note: A "designated person" is defined under subsection 74.5(5) of the Income Tax Act as the transferor's spouse, a person under the age of 18 years with whom the transferor does not deal at arm's length (related) or who is the transferor's niece or nephew.

The same rule also applies to loans made to an infant trust as does to the spouse trust referred to above.

Unit Trust 108(2).

A unit trust is an inter vivos trust where at any time the interest of a beneficiary in the trust is described by reference to units of the trust and the trust satisfies the conditions of paragraphs 108(2)(a) or (b) of the Income Tax Act.

Mutual Fund Trust 132.

A mutual fund trust is a unit trust residing in Canada whose only undertaking is the investing of its funds and it complies with the conditions prescribed under Income Tax Regulations 4801 and 4802. Form T184 is available from your District Taxation Office to assist in the calculation of capital gains refund for mutual fund trusts.

Communal Organization 143.

Where a congregation;

- (a) the members of which live and work together,
- (b) that does not permit any of its members to own property in their own right, and
- (c) that requires that its members devote their working lives to the activities of the congregation

carries on one or more businesses or has the effective management or control of one or more corporations, trusts or other persons that carry on one or more businesses for purposes that include supporting or sustaining its members or the members of any other congregation, an inter vivos trust is considered to have been in existence on December 31, 1976 and continuously thereafter.

A communal organization must file a T3 Return and pay tax as though it were an inter vivos trust. However, it can elect to allocate its income to the beneficiaries.

Information Circular 78-5R2 deals with this subject in considerable detail.

Segregated Insurance Fund Trust 138.1.

For 1978 and subsequent taxation years, a segregated insurance fund trust is deemed to be an inter vivos trust. The property in a non-registered segregated fund of a life insurer is deemed to be held in a trust in which the income is payable in the year to the policyholders or other beneficiaries and the insurer is the trustee.

The registered funds of a segregated insurance fund are tax exempt.

A T3 Return, with financial statements, must be filed for each registered and non-registered fund.

Registered Retirement Savings Plan Trust

A trust governed by a registered retirement savings plan is generally exempt from taxation. However, there are exceptions, the most common is if the last annuitant under a registered plan has died and all the funds have not been paid out of the trust in the taxation year. In this case, the trust is taxable on its income for each year after the death of the last annuitant.

Employee Trust 248(1).

An employee trust is an arrangement made after 1979 under which payments are made by an employer to a trustee in trust solely for the benefit of employees if the trustee has elected to qualify the arrangement as an employee trust in its initial return of income filed within 90 days from the end of its first taxation year. Contributions to the plan are not deductible by the employer where this election has not been made. To maintain its status, the trust must allocate each year to its beneficiaries all non-business income in respect of the year, including employer contributions. Business income is excluded from the allocation and is taxed in the trust according to the provisions of subsection 104(6) of the Income Tax Act. The amount allocated is taxed in the beneficiaries' hands in the year of allocation as income from employment, per paragraph 6(1)(h) of the Income Tax Act and must be reported on form T4A Supplementary NOT on form T3 Supplementary.

Investment Income of Certain Clubs 149(1)(l), 149(5).

A club, society or association organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit, no part of the income of which was payable to, or was otherwise available for the personal benefit of any proprietor, member or shareholder thereof, is exempt from income tax, except that the income from property of certain clubs in excess of \$2000 in a taxation year is subject to tax. Where, for any period of time, the main purpose of a non-profit organization is to provide dining, recreational or sporting facilities to its members, an inter vivos trust is deemed to be created. The club is required to file a T3 Return where the total income from property (before the \$2,000 deduction) exceeds \$500 for the calendar year. Tax is payable by the trust upon its taxable income for each taxation year using the 34% Federal income tax rate applicable to certain inter vivos trusts under subsection 122(1). Further details on the taxation of these organizations are contained in Interpretation Bulletin IT-83R2.

Residence of Trust

The residence of a trust or estate outside Canada or in Canada, or in a particular province or territory within Canada, is a question of fact to be deter-

mined according to the circumstances in each case. However, a trust is generally considered to reside where the trustee, executor, administrator or other legal representative who manages the trust or controls the trust assets resides. For further information, obtain Interpretation Bulletin IT-447.

Completion of The T3 Return

Completion of Page 1 Identification Area

This area of the trust return should be completed in full, items a) to i) all require responses, j) only if applicable, k) to o) must be completed. Item m) Type of Trust is of particular importance since correct completion will enable the Department to determine the applicable rate of tax, if any. If the trust is identified as an "Other inter vivos trust", item m) A.6. please specify the type of trust on the line provided. Item c) will determine the residence of the trust and the appropriate province or territory for tax calculation purposes. The mailing address, if different from the residence of the trust determines to which Taxation Centre the Return is to be mailed; see list under **Filing Requirements – Where and When**.

Lines 84-88 Credits

The various credits referred to on lines 84 to 88 should be recorded on their respective line. In the case of tax deducted at source, (line 85) and reflected on an information slip, the amount must be claimed by the trust, either as a credit against tax owing or as a refund.

Completion of Page 2 Lines 01 to 39

If the trust has investment income to report, Schedule 6 Statement of Investment Income should be completed first.

Line 01 and Line 04

Actual Amount of Eligible 1986 Dividends 110.1.

Actual Amount of Eligible 1987 Dividends

Certain taxable dividends received from taxable Canadian corporations are eligible for the interest and dividend income deduction. Generally, the dividends which are eligible are taxable dividends received from a taxable Canadian corporation with which the trust deals at "arm's length". The expression "arm's length" is used in the Income Tax Act and a trust that controls the corporation paying the dividend or is a member of a related group that controls the corporation would not deal with the corporation at "arm's length". For further information, obtain Interpretation Bulletin IT-333R4 and Interpretation Bulletin IT-419.

For an explanation for recording the 1986 and 1987 dividends separately see the comments under Line 03 and line 06 below.

Line 02 and Line 05

Actual Amount of Ineligible 1986 Dividends

Actual Amount of Ineligible 1987 Dividends

The dividends entered on these lines will include those received from corporations with which the trust does not deal at arm's length. Provision is made

on Schedule 6 for listing the dividends reported on lines 01, 02, 04 and 05. Attach any information slips received.

Line 03 and Line 06

Total 1986 Dividends and Total 1987 Dividends

As both the gross-up rate and dividend tax credit rate have changed in 1987 for taxable Canadian dividends, a testamentary trust having a fiscal period straddling 1986 and 1987 may apply the 1986 rates to those dividends received in the 1986 portion of the fiscal period. This applies to dividends retained in the trust or designated to beneficiaries. For this reason, separate totals are required to separate the 1986 dividends, if any, from the 1987 dividends. The gross-up rate for 1986 is 1/2 and for 1987 1/3. The dividend tax credit rate based on the gross-up amount for 1986 is 68% and for 1987, 66 $\frac{2}{3}$ %; when calculated on the grossed-up dividend, it is 22 $\frac{2}{3}$ % for 1986 and 16 $\frac{2}{3}$ % for 1987.

Line 07

Eligible Interest

Bond interest, including one-half of any cash bonus reported in 1987 from a Series 35 Canada Savings Bond, bank interest, mortgage and other types of interest received by the trust or credited to the trust's account during the year are income. Generally, interest income received from Canadian sources is eligible for the interest and dividend income deduction.

Line 08

Ineligible Investment Income

Certain interest income is not eligible for the deduction e.g. interest received from a partnership by a partner, interest received from foreign sources and interest received in situations where the taxpayer is "not dealing at arm's length" with the payor. The expression "not dealing at arm's length" used in the Income Tax Act normally applies to transactions between "related persons".

Provision is made on Schedule 6 for listing the interest reported on lines 07 and 08. Attach any information slips received.

Note: In the first year of a testamentary trust, the interest income which was accrued to the date of death and reported in the deceased's final T1 return should not be included in the interest received and reported on the T3 Return. For more information on the method of reporting interest income, refer to item 121(a) of the 1987 T1 General Tax Guide and the 1987 Guide-T1 Income Tax Returns for Deceased Persons, and Interpretation Bulletin IT-396R.

Line 09

Taxable Capital Gains

3, 38, 39, 40(1), 110.6, 111, 138.1(3).

Calculate the taxable capital gains and allowable capital losses of the trust on Schedule 5A. Enter the amount on line 09 from line 516 of Schedule 5A if it is a net taxable capital gain. Where a trust's allowable capital losses, except allowable business investment losses (as described at line 22), exceed its taxable capital gains such an excess cannot be allocated to the beneficiaries (except as described under Completion of Page 3 Amounts Designated/Allocated) nor deducted against other income of the trust in 1987 and subse-

quent taxation years. A net capital loss may be applied against taxable capital gains of other years; See lines 51B and 51C for further information on losses. Note that in the first taxation year of the trust an excess of capital losses over capital gains can be elected, by the legal representative, to be applied against income in the final T1 Return. See the section on **Testamentary Trust 164(6) Election**.

Line 10 **Superannuation or Pension Payments** 56(1)(a)(i), (iii), 248(1).

The amount to be entered on this line includes items such as a single payment out of a pension fund or a death benefit. If the trust received an amount for a deceased person's service in employment and the income is to be taxed in the trust according to the provisions of the trust document, the trust may be able to exclude up to \$10,000 of the death benefit from income. To determine the taxable portion to be reported at line 10, obtain Interpretation Bulletin IT-508 "Death Benefits Calculation". The Canada Pension Plan Death Benefit does not qualify for this exclusion. Interpretation Bulletin IT-301 deals with the qualifying and non-qualifying payments in more detail. For information on amounts paid or payable, designated or transferred (under paragraph 60(j)) see the instructions for "Completion of Page 3 Lines 40 to 76" of the T3 Return. See also comments at Line 67 of this Guide.

Line 11 **Business Income**

A trust carrying on a business must use the accrual method of determining its net business income. A Profit and Loss Statement and Balance Sheet for each business must be attached to the return. In all cases, enter the gross and net income amounts of each business on page 2 of the T3 Return.

Line 12 and Line 13 **Farming Income and Fishing Income**

Trusts having income from farming and fishing may use either the cash or accrual method of determining their income for the taxation year. A Statement of Income and Expenses must be attached to the return. Statements are contained in the Farmer's Income Tax Guide and the Fisherman's Income Tax Guide for your use and information in determining income from these sources. Farming and Fishing income when designated to resident beneficiaries or members of a communal organization is considered farming or fishing income for purposes of averaging under section 119 of the Income Tax Act. For this purpose, income should be reported in Box (G) of the T3 Supplementary and identified as "FARM INCOME" or "FISHING INCOME" in the blank space below boxes (R), (S) and (T) of the T3 Supplementary.

Line 14 **Real Estate Rental Income**

Enter the Gross and Net income from Schedule 7 or similar Statements. The gross rental income is the total rental income, in the case of a partnership the gross rent figure is the total rental income of the partnership. Net rental income will be shown on Schedule 7 or similar statements; for a partnership show only the trust's share. Note that normally a loss may not be created or increased

by capital cost allowance. For further information, obtain Interpretation Bulletin IT-195R3 and Interpretation Bulletin IT-367R2.

Rental of Part of Building

A trust which rents only part of a building must include in income the amount of rent received in the year and may claim as deductions therefrom the expenses incurred to earn that rent. Those expenses which relate specifically to the rental portion may be claimed in full, but those which relate to the building as a whole (e.g. taxes, insurance) may be claimed only in the proportion that the rental portion is of the whole building, such apportionment being made on a reasonable basis such as square feet or metres, number of rooms.

Line 15 Other Income

Under "Other Income" report the total of any type of income not itemized on the Return or Trust Schedules, such as royalty income or commissions received in the taxation year.

Deductions From Total Income

Line 17 Carrying Charges 18(1)(a), 20(1)(c), 20(1)(bb).

Carrying charges paid to third parties include interest on money borrowed to earn investment income, fees paid for the management or safe custody of such investment, safety deposit box charges, accounting fees paid for the recording of investment income, and investment counsel fees paid. Brokerage fees incurred in the sale of securities are allowable expenses against proceeds from a capital disposition (see Trust Schedule 5A) but cannot be included as a carrying charge.

Interest on a life insurance policy loan used to earn income is deductible, providing the interest is actually paid and not added to the adjusted cost base of the policy. If you are claiming interest paid on a policy loan during 1987, you must have the insurer complete form T2210 "Verification of Policy Loan Interest by the Insurer". The completed form should be filed with your T3 Return or the interest may not be deductible.

Carrying charges incurred on both Canadian and foreign investment income must be apportioned on a reasonable basis and the calculation attached to the T3 Return.

A list of the different types and amounts of carrying charges claimed should be attached to the T3 Return and the total entered at line 17 on Page 2 of the T3 Return.

Line 20 Trustee Fees 9(1), 20(1)(bb).

Executor and trustee fees are deductible from the income of the trust when paid to a person for advice regarding purchasing, selling, administration or management of shares and securities, provided that person's principal business includes such activities.

Other than the above trustee fees, executor and trustee fees may be deductible in determining a trust's profit from a business or property for the year. All

executor or trustee fees are income to the recipient. If such fees are paid to a person who does not act in this capacity in the normal course of a business, refer to the Employer's and Trustee's Guide for reporting requirements.

Line 21

Capital Cost Allowance Not Allocated to Beneficiaries

20(1)(a), 104(16), 104(17.1)

There will be some cases where all or part of the capital cost allowance (depreciation) will be designated to the beneficiaries of the trust. Normally this will be at the discretion of the trustee; however, any C.C.A. designated in the year to a beneficiary cannot exceed an amount proportionate to the beneficiary's share of the income of the trust. The amount of capital cost allowance which may be deducted from "Total Income" (line 16 on page 2 of the T3 Return) is the balance after any designations to beneficiaries and should not include the amount, if any, of capital cost allowance designated to a beneficiary. See Capital Cost Allowance (Depreciation) section for more information.

Line 22

Allowable Business Investment Losses 39(1)(c), 39(10).

A capital loss from the disposal of shares or certain debts of a small business corporation to a person with whom a trust deals with at "arm's length" may qualify as a Business Investment Loss. Beginning in 1986, the business investment loss of a trust may be subject to a reduction in determining the allowable portion that may be claimed. Where the trust has designated part or all of its "Eligible Taxable Capital Gains", on Schedule 5B, to a beneficiary of the trust in a previous taxation year, the reduction in the trust's business investment loss is equal to the lesser of:

- a) the trust's business investment loss for the year otherwise determined, and
- b) twice the amounts designated by the trust under subsection 104(21.2) of the Income Tax Act for the preceding taxation years minus any other business investment loss of the year or of a previous year that was reduced under this provision.

NOTE: Any reduction in a trust's business investment loss in a year under this provision means that the amount of the reduction will be treated as a capital loss of the trust in the year that the reduction is applicable.

One half of the business investment loss represents an allowable business investment loss which is deductible from all sources of income in the year it is incurred.

Any unused loss is treated as a non-capital loss and may be deductible from income in other years. Any remaining balance of the loss that was not deducted as a non-capital loss becomes a capital loss in the seventh year after it was incurred. Report an allowable business investment loss at line 22 on page 2 of the T3 Return. (Do not record the loss on Trust Schedule 5A). Only the Capital Loss arising from the reduction in the Business Investment Loss is reported at line 509 on Trust Schedule 5A.

Obtain the "T1 Guide for Capital Gains" for more details.

Line 23

Other Deductions 18(1)(a), (b), 18(2), 20(1)(v.1), 53(1)(h).

Other deductions could include legal fees, office expenses, accounting fees, etc.; however, any amounts claimed must be expended to earn the income of

the trust and not pertain to the capital assets of the trust or to personal expenditures of the beneficiaries or trustees. Funeral expenses, for example are not an allowable deduction from income.

A trust which reports royalty income may claim a resource allowance. Any royalty income allocated to beneficiaries loses its identity; therefore, a beneficiary cannot claim the resource allowance.

Line 26 Upkeep, Maintenance, Taxes Beneficiary

Amounts paid in the year out of the income of a trust for the upkeep or maintenance of property or for taxes in respect of property that, under the terms of the trust, is required to be maintained for a beneficiary (e.g. life tenant of a dwelling) must be included in that beneficiary's income in the year of payment and should be included on the form T3 Supplementary for the beneficiary.

Lines 28 to 39 Application of Expenses Against Specific Types of Income

Expenses are to be applied against income to which they relate and must be deducted by the trust before any designation of income to beneficiaries. For purposes of the application **Direct** expenses refer to the interest expense incurred by a trust to earn interest and taxable dividend income eligible for the interest and dividend income deduction. This interest expense is on either borrowed money or on an amount payable for acquisition of property used to earn such eligible income.

Indirect expenses are other expenses on lines 17, 20, 21 and 23 which were incurred to earn income and should be reasonably apportioned against income to which they relate. However, where all the income is designated or allocated to beneficiaries, the Department will permit an alternative allocation in order to provide the maximum possible flow-through to a beneficiary of both the dividend tax credit and the interest and dividend income deduction. See Interpretation Bulletin IT-372R for more information and conditions for acceptance of this alternative allocation.

The resulting net income on lines 28 to 38 is available for designation/allocation on page 3. For dividends designated the gross-up amount is based on this net amount.

Completion of Schedule 6 Lines 601 to 612

Statement Of Investment Income

The Dividend lines 601 to 604 allow for reporting of both 1986 and 1987 dividends for those trusts with a fiscal period commencing in 1986 and ending in 1987.

Lines 601-602 Dividends Eligible For Interest And Dividend Income Deduction

List actual amounts of dividends received eligible for the interest and dividend income deduction as per box (A) on forms T3 Supplementary and T5 Supplementary (attach any information slips received).

Carrying charges relating to these eligible dividends should be shown on Schedule 6, line 607.

Lines 603–604

Dividends Not Eligible For Interest And Dividend Income Deduction

List actual amounts of dividends received not eligible for the interest and dividend income deduction as per Box (B) on forms T3 Supplementary and Box (E) on forms T5 Supplementary (attach any information slips received).

Line 605

Interest From Canadian Sources Eligible For Interest And Dividend Income Deduction

List interest from Canadian sources. Generally, interest from bank deposits, bonds, mortgages and notes qualify (attach any information slips received).

Line 606

Investment Income Not Eligible For Interest And Dividend Income Deduction

List interest income not eligible for the deduction (e.g. foreign interest, interest received from a partnership by a partner and interest received by a trust that was not dealing at "arm's length" with the payor).

As in the case of any other foreign income, investment income from sources outside Canada should be expressed in Canadian currency, converted at the rate of exchange prevailing at the time the income was received. The amount to be reported is the amount of such income before deducting any tax withheld at source.

Line 607

Interest Expense Related To Eligible Interest And Dividend Income

Apportion interest expense applicable to amounts eligible for the interest and dividend income deduction. The total amount, before apportionment, should be entered at line 30, Page 2 of the T3 Return. See "Lines 28 to 39 Application of Expenses Against Specific Types of Income".

Completion of Page 3 Lines 40 to 76

Amounts Designated

Amounts Allocated

To Particular Beneficiaries

104(17), (19), (20), (21), (26), (27), (29)/104(6)

This area of the return provides for the designation/allocation of income to beneficiaries, the determination of Net Income of the trust and the calculation of Taxable Income of the trust.

The words "Designated" and "Allocated" are used in the following context. A trustee may choose to "Designate" certain types of trust income such as dividends, taxable capital gains, interest income, foreign income, pension or superannuation benefits and death benefits. If such a designation is made, the

income so designated (which must be paid or payable in accordance with the terms of the Will/trust document or elective in the case of a preferred beneficiary election) retains its identity as it is deemed to be received by the beneficiary rather than by the trust. "Allocation" indicates a flow-through of trust income without regard to its source and on the basis of its being paid or payable in accordance with the trust document or on a discretionary basis by a preferred beneficiary election. When a "Designation" is not made but the income is "Allocated" the allocations are to be reported on page 3, line 47, as "Other Income", the income having lost its identity. See Interpretation Bulletin IT-342 which deals with trust income payable to beneficiaries.

When trust income is designated/allocated to beneficiaries or taxed in the trust it must be done according to the provisions of the Will or trust document. An exception is an inter vivos trust created since 1934 in which property (or property substituted therefor) which has not been absolutely vested and is subject to the discretionary power of the settlor of the property, could revert to the settlor or pass to persons to be subsequently determined by the settlor. Any income therefrom is deemed to be the income of the settlor during the settlor's lifetime while a resident of Canada. For further information, obtain Interpretation Bulletin IT-369.

Net capital losses and non-capital losses cannot be distributed to beneficiaries of a trust.

The only exceptions to this rule are:

- (a) Losses of an insurance segregated fund trust which are to be reported in Box (P) on the beneficiary's T3 Supplementary.
- (b) Investment club losses which are to be reported in brackets in Box (F) on the beneficiary's T3 Supplementary with the words "LOSS-INVESTMENT CLUB" clearly indicated in the space under Boxes (R) to (T).
- (c) Losses of revocable trusts, filing under the provisions of subsection 75(2) of the Income Tax Act, which are to be reported in brackets in Box (F) on a separate T3 Supplementary for the beneficiary with the type of loss clearly indicated in the space under Boxes (R) to (T). This includes losses from "blind trusts".

Page 3, Column I – Paid or Payable to Beneficiaries Boxes (A) to (G) – Resident 104(13)

This column will designate/allocate the different types of income paid or payable to resident beneficiaries and any taxable benefits to be designated/allocated to beneficiaries. If the income is being designated the amounts will be reflected in Boxes (A) to (F), lines 41 to 46 (lines 48 and 49 also if 1986 dividends are being designated). In addition Boxes (H) to (T), lines 54 to 76, if applicable. If the income is allocated the amount will be entered in Box (G), line 47.

Line 46 Capital Gains Designated by a Trust to Beneficiaries

Where a portion of the trust's net taxable capital gains (the excess of taxable capital gains for 1987 over the total of allowable capital losses for 1987 and any net capital losses of other years deducted in 1987) is included in the income of a beneficiary, that amount is deemed, if so designated by the trust ("designated amount") to be a taxable capital gain of the beneficiary (T3 Supplementary Box (F) and line 46 page 3 of T3 Return) except for the purposes of the capital gains deduction.

Where the trust designates an amount of its net taxable capital gains, it must also designate a portion of its eligible taxable capital gains (for 1987, this amount is the excess of the taxable capital gains over the allowable capital losses from dispositions of property in 1986 and 1987 reduced by the total of allowable business investment losses for 1986 and 1987 and net capital losses of other years deducted from income in 1986 and 1987 less the total of taxable capital gains designated in 1986) in respect of the beneficiary for the purposes of his/her capital gain deduction. The latter designated amount is the proportion of the trust's eligible taxable capital gains that the designated amount bears to the net taxable capital gains (T3 Supplementary Box (Q) and line (Q) page 3 of T3 Return).

Where a designation of net taxable capital gains is made, Schedule 5B must be completed and filed with the T3 Return, Schedule 5B replaces form T672.

NOTE: A copy of the Schedule 5B should be retained for your records as the information will be needed to determine the cumulative gains limit whenever a designation of trust eligible taxable capital gain is made in subsequent years.

Page 3, Column II – Paid or Payable to Beneficiaries Boxes (A) to (G) – Non-resident Beneficiaries 104(13), 212(1)(c), 104(8), 108(1)(d.1).

This column will allocate, in a similar manner as for resident beneficiaries, the different types of income paid or payable to non-resident beneficiaries. Note however that these amounts will be accumulated and reported as "Estate or Trust Income" on form NR4 Supplementary instead of form T3 Supplementary. By this allocation on the NR4 Supplementary designations are precluded for Net Taxable Gains and Taxable Dividends to non-resident beneficiaries.

Amounts paid or payable to a non-resident beneficiary are subject to a withholding tax. See Non-resident Tax section of this Guide. The total of column II is to be transferred to line 91 in the "Non-Resident Tax" area on page 1 of the T3 Return.

There are certain adjustments to "Total Income Paid or Payable to Non-Resident Beneficiaries" in determining the "Amount Subject to Non-Resident Tax". Provision is made on page 1 of the T3 Return for these adjustments. e.g. amounts paid or credited to a beneficiary resident in the United States derived from income sources outside Canada are not subject to withholding tax. This deduction would be entered in the

"Amounts Not Subject to Part XIII Tax" area at line 94 on page 1 of the T3 Return.

Interpretation Bulletins IT-381R, IT-465R and Information Circular 76-12R3 contain further information regarding this matter.

NOTE: The Department has extended its administrative position with respect to not enforcing the "designated income" provisions contained in subsections 104(8), 104(6) and paragraph 108(1)(d.1) of the Income Tax Act to taxations years of trusts commencing before 1988.

Page 3, Column III – By Preferred Beneficiary Election Boxes (A) to (G) – Resident Beneficiaries 104(14)

This column will show the accumulating income, on which both the trustee and the preferred beneficiaries have jointly elected, to be taxed in the hands of the beneficiary, see "Preferred Beneficiary" and "Preferred Beneficiary Elec-

tion" section of this Guide. A separate form T3 Supplementary is to be completed for this elective income.

The following income of the trust may be designated under a preferred beneficiary election to have been received by the beneficiary and not by the trust:

- (a) Actual Amount of Dividends from Taxable Canadian Corporations eligible for the Interest and Dividend Income Deduction
- (b) Actual Amount of Dividends from Taxable Canadian Corporations not eligible for the Interest and Dividend Income Deduction
- (c) Interest eligible for the Interest and Dividend Income Deduction
- (d) Foreign Business Income
- (e) Foreign Non-business Income
- (f) Taxable Capital Gains

These designations must be made by the trust in its return for the year in which the income is received or the taxable capital gain is realized.

- (g) Elective income not mentioned in (a) to (f) will be taxed in the beneficiary's hands as "Other Income".

Line 50 Total

The total of lines 41 to 49 is the income designated/allocated to the beneficiaries and cannot exceed the "Trust Income Before Designations/Allocations".

Line 50A

Net Income After Designations/Allocations

The trust's Net Income after designations/allocations is determined by subtracting line 50 from line 40.

Line 50B

Grossed up Amount of 1986 and/or 1987 Dividends Retained by the Trust

This amount, from Schedule 1, line 120 is added to line 50A and reflects the allowable gross-up on dividends retained by the trust.

Line 50C

NET INCOME OF TRUST

Lines 51A to 53

Calculation of Taxable Income of Trust

Line 51B

Non-capital Losses of Other Years. 111(8).

A non-capital loss could arise when the trust incurs a loss from business or property. It also includes the unused portion of allowable business investment losses of other years.

Farming and Fishing Losses Incurred in 1983 and Subsequent Years

May be carried back three years and forward ten years. Where the trust is involved in farming or fishing, obtain the "Farmer's Income Tax Guide" or

"Fisherman's Income Tax Guide" for more details. Note that there are restrictions on the amount of certain farm losses that can be claimed each year.

Non-capital losses of other years are deductible only from income taxed in the trust. These losses cannot be designated/allocated to beneficiaries.

Line 51C

Capital Losses of Other Years 3, 38, 39, 111(1)(b), 104(21).

Net capital losses excluding listed personal property losses and allowable business investment losses may be carried back three years and forward until fully applied.

Note that the net capital losses arising in 1987 may only be deducted against net taxable capital gains of other years and these losses do not qualify to be claimed against other sources of 1987 income.

Within certain limits (see Loss Applications) all or a portion of the net capital losses of other years that have not been applied in a prior year may be deducted as follows:

- a) net capital losses occurring before May 23, 1985 from any net taxable capital gains realized in 1987. Then, if any loss remains, up to \$2000 from other sources of income, and
- b) net capital losses occurring after May 22, 1985 from any net taxable capital gains realized in 1987.

Losses on listed personal property can be applied only against gains on other items of listed personal property. If such losses exceed such gains in 1987, the excess may be used to reduce net gains on listed personal property in 1984, 1985 and 1986 and in the next seven years (1988 to 1994).

Capital losses cannot be designated/allocated to beneficiaries except as outlined in "Amounts Designated/Allocated to Particular Beneficiary". This subject is fully discussed in Interpretation Bulletin IT-381R.

Line 51D

Taxable Capital Gains Deduction – Spouse Trust

Only a spouse trust resident of Canada may claim a deduction in computing its taxable income for the taxation year in which the spouse (beneficiary) died in respect of its eligible capital gains for that year. The deduction is based on the premise that the spouse trust should be able to claim a capital gains deduction to the extent the spouse would have claimed a deduction if the eligible taxable capital gains of the trust had been realized by the spouse directly. To obtain such a deduction, complete Schedule 5C and attached it to the T3 Return and enter the result at line 143 of Trust Schedule 1.

Loss applications

A request for a loss carryback must be filed on or before the due date of the T3 Return in which the loss or credit occurs. To do so, attach a completed copy of form T1A "Request for loss carry-back" to the T3 Return. If the losses will not be fully absorbed by prior years' incomes, keep a copy of the T1A form as a record of unused losses for future years. Always apply the oldest loss within a class of losses first (e.g. 1984 non-capital losses must be applied before 1985 non-capital losses).

Where all the prior year's income has been designated/allocated

- (a) a non-capital loss carryback cannot reduce the income designated/allocated,
- (b) a net capital loss carryback may reduce designations/ allocations of taxable capital gains but cannot exceed those taxable capital gains except that:
 - (i) where a preferred beneficiary election has been made in respect of the net taxable capital gain, no reduction of the amounts designated/allocated per form T3 Supplementary is allowable, and
 - (ii) where the provisions of the trust document indicate that all of the income including capital gains must be designated/allocated, no reduction in the net taxable capital gain previously designated/allocated can be made.

Line 51E Other Deductions

Some items that may be claimed at line 51E of Trust Schedule 1 are described below. If more than one is being claimed or if a claim needs more explanation, attach a note to the T3 Return with the details.

- a) charitable donations (applicable to inter vivos trusts)
- b) limited partnership losses, and
- c) farm losses.

To determine Taxable Income of the trust the Deductions on lines 51A to 51E should be entered where appropriate, the total at line 52 subtracted from line 50C is the Taxable Income of the Trust. The result at line 53, if zero should be entered on Trust Schedule 2B, line 259 or if greater than zero on Trust Schedule 2A, line 201.

When the amount at line 53 is NIL or greater, the trust (other than a Mutual or Segregated Fund Trust) may be subject to Minimum Tax. See "Minimum Tax Schedule 2B".

Determining Most Beneficial Designation/Allocation

See explanation at "Completion of Page 3 Lines 40-76, Amounts Designated/Allocated To Particular Beneficiaries", "Application of Expenses Against Specific Types of Income" Lines 28 to 39 and "Preferred Beneficiary Election" of this Guide.

Interpretation Bulletin IT-372R deals with this subject in considerable detail.

See Appendix A – Examples, for two examples of amounts designated on T3 Supplementaries.

Lines 54 to 76 Other Amounts Designated Boxes (H) to (T)

This area will be completed only when there are designations such as dividends from taxable Canadian corporations, capital cost allowance, foreign taxes paid for credit purposes, etc. It is intended to provide beneficiaries with designations other than income designations and/or other information necessary to complete their T1 Individual Return.

Line 63

Foreign Non-Business Income Tax Paid

Any foreign tax credit claim for foreign non-business income tax paid or designated to a beneficiary must be substantiated by a proper receipt or information slip from the foreign country involved. Foreign taxes paid should be converted to Canadian funds.

Line 64

Capital Cost Allowance Designated to Beneficiary

The portion of the capital cost allowance that is designated to the beneficiaries and has not been deducted on page 2 of the T3 Return will be recorded in these boxes. It should be noted that for taxation years commencing after November 12, 1981, the amount of capital cost allowance designated to a particular beneficiary cannot exceed the proportion that the beneficiary's share of the total income is of the total income of the trust.

Line 65

Registered Retirement Savings Plan Refunds

146(1)(h), 146(8.1), 146(8.8).

If an annuitant died after June 29, 1978 and the spouse is the beneficiary, the spouse may transfer the amount to his or her own Registered Retirement Savings Plan. If the spouse is 71 years of age or older and is entitled by the terms of the plan to receive the plan funds, the amount that qualifies as a refund of premiums may be used to purchase a life annuity or fixed term annuity. Where there is no spouse, the foregoing also applies where the refund of premiums was paid to a child dependent by reason of physical or mental infirmity.

Where the spouse becomes entitled to receive the plan funds that were reported by the plan issuer in Box (K) of form T4RSP, "Deemed Receipt on Death", the amount paid to the spouse may be designated by election form T2019 to be a Refund of Premiums. If this situation arises, the T4RSP information slip and form T2019 may be filed with the T3 Return, provided a T3 Supplementary is prepared showing the amount in Box (G), "Other Income" and Box (N1), "RRSP Refund of Premiums". Normally, the T4RSP information slip and form T2019 are attached to the T1 Return of the spouse making the election.

Where someone other than the spouse or dependent children or grandchildren becomes entitled to receive the plan funds, the fair market value of the RRSP at the date of death is to be reported by the plan issuer in Box (K), "Deemed Receipt on Death" of the T4RSP and included in the deceased's T1 Income Tax Return for the year of death.

Under no circumstances is the amount to be included in the T3 Testamentary Trust return of the deceased.

Income earned by the plan from the date of death to the end of that year (or termination if earlier) is to be reported by the plan issuer in Box (H) of form T4RSP in the year the plan is terminated and included in the beneficiary's income for that year. Where a plan continues beyond the end of the year of death, income earned in the plan to the extent paid or payable to a beneficiary during the year is to be reported by the plan issuer on a T3 Supplementary and included in the beneficiary's income for the year. In the above it is possible for the beneficiary to be the testamentary trust of the deceased. For additional information see Interpretation Bulletin IT-500.

NOTE: Commencing in 1988, i.e. any T3 Return filed after January 1, 1988, inclusion of the R.R.S.P. "Deemed Receipt on Death" as a refund of premiums will no longer be permitted. This change conforms to the provisions of the Income Tax Act whereby the deemed receipt on death is reflected in the final T1 Return of the deceased. The only reporting in the T3 Return will be for the purpose of reflecting any interest earned from the date of death.

Line 66 Superannuation or Pension Payments Designated

Pension benefits (Canada Pension, Old Age Security, Superannuation) and death benefits that are paid or payable to a beneficiary may be designated by the trust to have been received by a particular beneficiary and not by the trust. If this is the situation, these amounts are to be included in the "Other Income" Box (G) of the T3 Supplementary and also in the appropriate type of designated income Box (N2) for pension benefits. For death benefits, see "Death Benefits", Line 67.

Pension Benefits Eligible for Transfer 60(j).

Amounts entered in this box are to identify pension income eligible for transfer under subsection 60(j) of the Income Tax Act. The same amounts may also be eligible for the pension income deduction on the beneficiary's individual income tax return when designated to the spouse of the individual upon whose death the trust arose. Item 240 of the 1987 T1 General Tax Guide and Interpretation Bulletin IT-401R2 outline the types of income eligible for the pension deduction. If also eligible for the pension income deduction, indicate "(N2) Eligible for pension income deduction" under Boxes (R), (S) and (T) of the T3 Supplementary.

Line 67 Death Benefits

56(1)(a)(i),(iii), 110.2, 104(27),(28), 147(10), 248(1).

If the trust is in receipt of a payment from the decedent's employer which was paid upon or after the death of the employee in recognition of the employee's service in an office or employment, the payment is a death benefit as defined by subsection 248(1) of the Income Tax Act.

When a death benefit payment is received by a trust and is to be designated to a beneficiary according to the provisions of the trust document, the beneficiary may be entitled to exclude up to \$10,000 of the the benefit from the income. Boxes (G) and (N3) are provided on form T3 Supplementary to advise the beneficiary of the total amount received for a deceased person's service in employment. The information is then used by the beneficiary to calculate the taxable benefit to be reported on his/her Individual Income Tax Return.

Where a trustee calculates the taxable portion on behalf of a beneficiary, he/she must ensure that only the taxable death benefit is reported at line 10, page 2 of T3 Return and that only Box (G) is completed on Form T3 Supplementary.

NOTE: Payments from the Canada Pension Plan are not considered to be paid in recognition of an employee's service in an office or employment. Consequently, Canada Pension Plan death benefits should not be reported in Box (N3) of Form T3 Supplementary. Instead, these payments should be reported in Box (N2) as they qualify under the rollover provisions of subsection 60(j). However, these benefits are not eligible for the pension income deduction.

Line 71

Investment Tax Credit Designated

The portion of the trust's investment in qualified property acquisitions or qualified expenditures that determines the amount of the investment tax credit available for designation to a beneficiary as calculated on form T2038 (IND.) will be recorded in Box (R) Investment in Qualified Property for I.T.C.. This is a memorandum entry only.

The portion of the investment tax credit that is designated to a beneficiary on form T2038 (IND) and is therefore not deducted by the trust on Trust Schedule 2A will be recorded in Box (S) Investment Tax Credit (I.T.C.). If these blocks are completed, amounts must be shown on the forms T3 Supplementary for the beneficiaries.

Completion of Form T3 Supplementary

A T3 Supplementary must be prepared for all allocations to a RESIDENT beneficiary. It is to your benefit to follow these instructions closely because changes or omissions may result in all T3 supplementaries being returned to you for revision. Please note the following instructions:

- Complete the T3 supplementary legibly.
- Beneficiaries Social Insurance Numbers must be entered.
- Identify fiscal year end for which T3 supplementary is being prepared including month and year.
- Cancelled, amended or duplicate supplementaries should be identified as such in large print across the bottom of the T3 Supplementary.

Please include the number of the amendment and the date the amended slip is prepared.

e.g. 1 ORIGINAL - April 1987 year end
2 FIRST AMENDED - July 3, 1987
3 SECOND AMENDED - November 2, 1987

- Cancelled or amended T3 supplementaries which change amounts shown on previous slips necessitate the filing of a revised T3, page 3 showing the changes in the respective boxes. The number and date of the changes should be clearly noted on page 3.
- Copies of either amended or original T3 supplementaries should be distributed as instructed on the back of copy 5 and set out below.
- Where income is paid or payable to a beneficiary and there is also an election to pay tax on accumulating income by a preferred beneficiary, as outlined under "Preferred Beneficiary Election" two separate T3 Supplementary forms must be completed one for income with respect to the election and the other for all other income.

Report all amounts designated/allocated to each RESIDENT beneficiary in the appropriate boxes as follows:

NOTE: For trusts with Straddle Years and Dividend Income the 1987 dividends will be shown in the normal manner, 1986 dividends will be indicated below Boxes (R),(S) and (T). See the "Appendix A Examples" No.3 for a copy of a completed T3 Supplementary with dividend income.

- Box (A) – report the designated portion of the actual amount of dividends from taxable Canadian Corporations that are eligible for the interest and dividend income deduction;
 - Box (B) – report the designated portion of the actual amount of dividends from taxable Canadian Corporations that are not eligible for the interest and dividend income deduction;
 - Box (C) – enter interest eligible for the interest and dividend income deduction;
 - Box (D) – report the designated portion of the gross foreign business income;
 - Box (E) – report the designated portion of the gross foreign non-business income;
 - Box (F) – report double the amount of any net taxable capital gains designated to beneficiaries, (ensure that the designated portion of the trust's eligible taxable capital gains is also indicated at Box (Q) for the purpose of the beneficiary's capital gains deduction.) See Line 46;
 - Box (G) – report the amount of all other income which is not included in Boxes (A) to (F);
 - Box (H) – enter the taxable amount which is $\frac{4}{3}$ of the actual amount reported in Box (A);
 - Box (I) – enter the taxable amount which is $\frac{4}{3}$ of the actual amount reported in Box (B);
 - Box (J) – calculate and enter the federal dividend tax credit $16\frac{2}{3}\%$ of the taxable amount in Boxes (H) and (I);
 - Box (K) – enter the designated portion of the foreign business income tax paid;
 - Box (L) – enter the designated portion of the foreign non-business income tax paid;
 - Box (M) – report the amount of any capital cost allowance designated to beneficiaries;
 - Box (N1) – enter the Registered Retirement Savings Plan refund of premiums to the estate. See Line 65; *
 - Box (N2) – enter the amount of pension benefits (Canada Pension, Plan death benefits, Superannuation) designated to beneficiaries. See Line 66; *
 - Box (N3) – enter the amount of death benefits designated to beneficiaries. See Line 67. (Canada Pension Plan payments including Canada Pension Plan Death Benefits are to be entered in Box (N2); *)
- Note:*** Also include Boxes (N1), (N2) and (N3) amounts in Box (G) as these are memo boxes only.
- Box (O) – Not Applicable for 1987 and subsequent years;
 - Box (P) – enter losses from Segregated Insurance Fund Trusts only;
 - Box (Q) – report double the designated portion of the trust's eligible taxable

capital gains for the purpose of the beneficiary's taxable capital gains deduction. See Line 46;

- Box (R) – report that portion of the trust's investment in qualified property or expenditure in respect of scientific research and experimental development on which the calculation of each beneficiary's portion of the investment tax credit is based.
See Line 71 and Schedule 2A, line 215;
- Box (S) – report each beneficiary's portion of the investment tax credit designated. Refer to the Calculation of Investment Tax Credit area on form T2038(IND) and insert the applicable code 1 through 7 in the space under Boxes (R) to (T) of the T3 Supplementary.
See Lines 71 and Schedule 2A, line 215;
- Box (T) – this box is available to indicate each beneficiary's portion of a credit designated. Report the type and amount of:
- (a) Share Purchase Tax Credit (S.P.T.C.) designated. See Line 72.
 - (b) Scientific Research Tax Credit (S.R.T.C.) designated. (Line 72.)
 - (c) Manitoba Manufacturing Investment Tax Credit (Man.Mfg.) designated. (Line 73.)
 - (d) Saskatchewan Livestock Investment Tax Credit (S.L.I.T.C.) designated. (Line 75.)
 - (e) Saskatchewan Livestock Facilities Tax Credit (S.L.F.T.C.) designated. (Line 76.)
 - (f) Employment Tax Credit (E.T.C.) designated. (Line 74.)

When a beneficiary is designated more than one of the credits, prepare separate T3 Supplementaries for each credit.

NOTE: Any tax deducted per information slips received by the trust cannot be used to reduce the amount of income designated/allocated to a beneficiary nor can it be distributed to a beneficiary on form T3 Supplementary. Refer to CREDITS—Lines 84-88, section of this Guide for information on refunds.

Distribution of Forms T3 Supplementary

Copies 1 and 2: Forward with the T3 Return to the Department within 90 days from the end of the trust's taxation year. See Filing Requirements.

Copies 3 and 4: Forward to the beneficiary at the last known address within 90 days from the end of the trust's taxation year.

Copy 5: Retain for your records.

Completion of Page 4 – Additional Information Required

This additional information is required to facilitate the processing of the T3 Return. Please answer all the questions and attach any necessary schedules or statements.

Question 1

For purposes of question 1 distribution of estate property to beneficiaries is

not considered a change in ownership, the sale of an income or capital interest would constitute a change in ownership.

Questions 2, 3, 4, 5 and 6

Ensure that these are answered and if the answer to 4. is yes complete Schedule 5A

Question 7

Question 7 requires that the trustee attach a statement where estate assets have been distributed to one or more beneficiaries. It does not pertain to the distribution on forms T3 Supplementary. This statement should disclose the following information:

- (a) Name, address, and relationship of the recipient(s),
- (b) Description of assets transferred,
- (c) Fair market value of assets at date of transfer,
- (d) Adjusted cost base of assets at date of transfer.

Question 8.

If the trust is a testamentary trust and the T3 Return is for the first taxation year (starting on the day after death and ending as selected by the trustee) ensure that the question is answered. Where a subsection 164(6) election is made the the following information should be provided with the T3 Return:

- (a) The particulars of disposition,
- (b) The amount of loss designated under the election,
- (c) The amount of loss not designated under the election.

Question 9.

Question 9 must be answered by all trusts (other than Mutual and Segregated Fund Trusts) for the purpose of providing information in respect of the trust's obligation to pay Minimum Tax.

See Schedule 2B Calculation of Minimum Tax.

Where the trust is one of a multiple of trusts created as a consequence of contributions to the trusts by an individual, the statement required should contain the name and address of all of the trusts.

Question 10.

The terms of the trust document or Court Order determines the requirement to designate the income.

Questions 11, 12, 13, 14 and 15

Ensure that the respective Schedules 1, 2A, 3A, 3B, 5B and 5C are completed where appropriate.

Question 16

The preferred beneficiary election must be made within 90 days from the end of the trust's taxation year.

Questions 17, 18 and 19

Complete the appropriate Schedules 6, 7 and 8.

Certification Page 4

This area is to be completed in full by the trustee, executor or administrator.

Name of person or company (other than executor/ administrator) who prepared this return.

This area must be completed in full by the person or company (other than the trustee, executor or administrator) who prepared the return.

Completion of Forms NR4-NR4A Summary And NR4 Supplementary (Non-Residents)

Non-resident Tax

Every non-resident beneficiary must pay a Canadian Income Tax of 25% (unless a lesser rate is provided by tax treaty) on income received from a trust. The trustee must withhold this tax and remit it to the Department by the 15th day of the month following the month during which the tax was withheld.

Calculate the amount of non-resident tax payable and balance due, if any, by following the steps on page 1 of the T3 Return. Any balance due should be remitted to the Department accompanied by form PD7AR-NR which is a combined remittance statement and receipt. Persons remitting tax for the first time should include with the payment their name and address, the type of payment (estate or trust income) and the month during which the tax was withheld. The Department will issue a form PD7AR-NR on receipt, the top portion of which may be torn off and used when remitting future payments.

Forms NR4-NR4A Summary and NR4 Supplementary, available from your District Taxation Office, are also required. Information Circular 77-16R2 deals with the subject of non-resident Income Tax in considerable detail.

NR4-NR4A Summary

This is a summary of all forms NR4 Supplementary completed and for balance purposes records any amounts under \$10 for which no forms NR4 Supplementary are completed. The total payments to non-residents should agree with the "Amount subject to Non-Resident Tax" on page 1 of the T3 Return and the "Amounts previously remitted per forms PD7AR-NR should agree with the "Non-Resident Tax payable" on page 1 of the T3 Return. Copies 1 and 2 of the NR4-NR4A Summary are to be forwarded to the Department. Copy 3 is to be retained by the trustee.

NR4 Supplementary

Enter the year for which this return is being filed and report, in the Estate and Trust Income box, the total of all amounts aggregating \$10 or more attributable to non-resident beneficiaries. The various income items (e.g. interest, dividends, business, rentals, etc.) lose their identity when allocated to a non-resident beneficiary and are therefore accumulated and reported as "estate or trust income" on the NR4 Supplementary.

Distribution of forms NR4 Supplementary

Copies 1 and 2: Forward with copies 1 and 2 of the NR4-NR4A Summary to the Department within 90 days from the end of the trust's taxation year.

Copies 3 and 4: Forward to the beneficiary at the last known address within 90 days from the end of the trust's taxation year.

Copy 5: Retain for your records.

Completion of Trust Schedule 1 Lines 103 to 138

Calculation of Gross-up of Dividends Retained by Trust and Interest and Dividend Income Deduction for the 1987 Taxation Year.

Lines 104 to 116

Calculation of Gross-up of Dividends

This calculation determines the gross-up of 1986 and/or 1987 dividends retained by the trust.

Lines 121 to 138

Calculation of Interest and Dividend Income Deduction (Testamentary Trust only)

Only in the instance where the terms of the trust permit the income of the trust to be taxed in the hands of the trustee does the Interest and Dividend Income Deduction apply to the trust. If applicable, this deduction is the lesser of \$1,000 and the amount determined by the calculation. See Interpretation Bulletin IT-333R4 for further information.

NOTE: Interest paid on refunds of income tax for a particular year must be included in income in the year of receipt. This income may be included in computing the interest and dividend income deduction.

Calculation of Tax – Schedules 2A, 2B, 3A AND 3B

Completion of Trust Schedule 2A Lines 201 to 223

Calculation of Federal Income Tax 122.

Inter vivos trusts which do not meet all of the following conditions are taxed at 34% of taxable income:

- (i) was established before June 18, 1971,
 - (ii) was resident in Canada on June 18, 1971 and without interruption thereafter until the end of the year,
 - (iii) did not carry on any active business in the year,
 - (iv) has not received any property by way of gift since June 18, 1971,
- and
- (v) has not after June 18, 1971 incurred any debt or any other obligation to pay an amount to, or guaranteed by, a person with whom any beneficiary of the trust was not dealing at arm's length.

Inter vivos trusts which meet all of the above conditions and all testamentary trusts are taxed using the "1987 Rates of Federal Income Tax" for individuals. See Trust Schedule 2A.

Line 207 Tax Adjustments

This line is for use when adding to the trust's tax such items as the reduced tax that is applicable on certain lump sum payments. See "Lump Sum Payments".

Line 209 Federal Dividend Tax Credit

The amount of the federal dividend tax credit that the trust may claim on dividends received is shown on Schedule 2A, in Line 209 Total.

Line 211 Surtax For Trusts Not Subject to Provincial or Territorial Tax

Non-resident Trusts which carry on business through a permanent establishment in a province in Canada are subject to provincial tax on the Canadian source of income not the surtax under subsection 120(1). Canadian resident trusts that carry on business through a permanent establishment in a foreign country are subject to the surtax of 47% of their Basic Federal Tax. Non-resident trusts which carry on business in Canada without a permanent establishment may be subject to the surtax on the Canadian source of business income if they are not exempt from Part I tax in Canada by virtue of an income tax convention.

Line 212 Federal Foreign Tax Credit 126, 20(12),(11).

This credit is for foreign income or profit taxes paid on income received from outside Canada. It is allowed to a trust resident in Canada for foreign income or profit taxes paid to a government of a country other than Canada in respect of income received from outside Canada. The foreign tax credit that may be claimed for each foreign country is the lesser of:

- (a) the trust's portion of income or profits tax actually paid to a foreign country, and
- (b) the tax payable to Canada on the trust's portion of net foreign income.

A separate foreign tax credit calculation is necessary for each foreign country. In addition, separate calculations are required for "business income taxes" and "non-business income taxes" paid to a foreign country.

Where the sum of all business income taxes and non-business income taxes paid to foreign countries exceeds the total amount allowable as a foreign tax credit, the excess, or a portion thereof, may be deducted as an "Additional Foreign Tax Credit" in computing the "Individual Surtax Payable" amount. For details of this calculation, obtain form T2209 and also see Line 220 comment.

If an excess amount of business income tax, commonly referred to as "unused foreign tax credit" still remains, it may be applied back to the three immediately preceding years or carried forward to the seven years immediately following the current year. Attach a note to the T3 Return explaining the amount of unused foreign tax credits being applied to other years.

The excess non-business income tax may not be carried forward. The non-business income tax paid that is not eligible for the federal tax credit may be claimed as a provincial tax credit (obtain form T2036), an expense at line 23 on page 1 of T3 Return or an additional foreign tax deduction against the individual surtax otherwise payable. See Line 220 comment.

Proof of payment of tax paid to a foreign country should be attached to the T3 Return.

When calculating the foreign tax credit, all amounts are to be expressed in Canadian currency. For more details, obtain Interpretation Bulletin IT-270R.

In completing form T2209, note that the calculation of the credit is based only on amounts retained by the trust. Exclude all amounts relating to the designation/allocation of income and credits to beneficiaries. Enter the amount from Part I, line (H) of completed form T2209 at line 212 on Trust Schedule 2A.

**Line 213
Federal Political Contribution Tax Credit 127(3).**

A portion of contributions to registered federal political parties or candidates at an election to the House of Commons are deductible from taxes. Proof of payment in the form of an official receipt signed by the registered agent of the registered party or the official agent of the candidate must be attached to the return.

The allowable credit is calculated as follows:

	Net Federal Tax	XXXXX
Total Federal Political Contributions (receipts necessary)		
Allowable Credit		
– 75% of first \$100 of Total Contributions, credit is		
– 50% of next \$450 of Total Contributions, credit is		
– 33 1/3% of amount of Total Contributions, exceeding \$550, credit is		
Total allowable credit – (maximum \$500) not to exceed "Net Federal Tax" above		*

* Enter this amount on "Federal Political Contribution Tax Credit" line 213 on Trust Schedule 2A.

**Line 214
Share-Purchase Tax Credit 127.2.**

A trust may be eligible for this credit in 1987 if it acquired certain qualifying shares issued by a taxable Canadian Corporation after June 1983 and before 1987.

The amount of the share-purchase tax credit available to the trust will be reported on form T2111 received from the issuer of the shares. Claim an amount not exceeding the available credit as shown on form T2111 (to be attached to the T3 return) or the amount of the trust's federal tax otherwise payable whichever is less. Any credit which cannot be used in 1987 may be

applied against federal tax for 1986 by filing form T2116. If the total credit is not used up in 1986 and 1987, the balance remaining may be treated as a capital loss on the 1988 return.

The share-purchase tax credit shown on form T2111 must be deducted from the cost of the qualifying shares when calculating capital gains or losses on their disposal.

All or part of the "Share-Purchase Tax Credit" may be designated to beneficiaries under the terms and conditions of the trust. Any designated amount of the tax credit is to be included at line 72 on page 3 of the T3 Return and must be excluded in computing the share-purchase tax credit of the trust for the taxation year. The designated credit becomes a share-purchase tax credit of the beneficiary on the last day of the trust's taxation year. Where the taxation year of the trust and its beneficiaries do not coincide, the beneficiary obtains the credit for the beneficiary's taxation year then in progress.

Line 215

Investment Tax Credit 127(5), (7), (12), (12.1), 37(1), 13(7.1).

A trust which has acquired certain new buildings, machinery or equipment to be used in Canada in qualifying activities such as farming, fishing, logging or manufacturing may be eligible for this credit. Expenditures for scientific research and experimental development may also qualify for this credit.

The Investment Tax Credit includes the new Cape Breton Investment Tax Credit, if applicable.

For more details, obtain Interpretation Bulletin IT-331R – "Investment Tax Credit", and Information Circular I.C. 78-4R3 – entitled "Investment Tax Credit Rates." and the related Special Release dated November 13, 1987. For information on scientific research and experimental development refer to Interpretation Bulletin IT-151R2 and Information Circular 86-4R.

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

- qualified property was purchased or a qualified expenditure was made in 1987, or
- a credit is being carried forward, or

Attach a completed copy of forms T661 and T2038(IND) to the return if:

- a credit is being claimed in 1987, or
- an investment tax credit refund is being claimed

Obtain the "1987 T1 Guide for Income from a Business or Profession", the 1987 Farmer's Income Tax Guide" or the "1987 Fisherman's Income Tax Guide" for details.

The cost of assets or expenditures which gave rise to an investment tax credit must be reduced in 1987 by any portion of the credit deducted or refunded in calculating the tax payable for 1984 to 1987.

Investment tax credits earned by a trust prior to 11.00 A.M. EDT October 3, 1986 could be retained by the trust and claimed against its federal tax payable or they could be designated to the beneficiaries and claimed by them against their federal tax payable. Credits earned after that time may only be designated by a testamentary trust or communal organization (treated as an inter-vivos trust by section 143 of the Income Tax Act) to beneficiaries. All of the Investment Tax Credit which is designated according to the terms and conditions of the trust is to be included in Box (S), line 71 on page 3 of the T3 return and

must be excluded in computing the Investment Tax Credit of the trust for the taxation year. The amount of any investment tax credit claimed by the trust against its federal tax payable or designated to beneficiaries reduces the cost of the qualified property acquisitions or expenditures of the trust in the taxation year of the claim or designation. See paragraphs 30, 32 and 35 of Interpretation Bulletin IT-331R.

A separate form T3 Supplementary should be prepared for each allocation to beneficiaries for eligible expenditures in the different regions. A beneficiary could therefore have three T3 Supplementaries from the same trust.

Line 216

Employment Tax Credit

Only employers who have entered into an agreement before April 1, 1981 qualify for a deduction. Any claim for such a credit should be accompanied by form T2208, Employment Tax Credit Schedule.

Where the employment tax credit is allocated to beneficiaries a separate T3 Supplementary should be prepared. The credit amount should be indicated in Box (T) and "E.T.C." should be indicated in the type of credit area.

Line 220-221

Individual Surtax Payable 180.1(1), (2).

Trusts which are liable to pay tax under Part I of the Income Tax Act for a taxation year shall pay an individual surtax. The amount on which to calculate the surtax is determined as follows:

- (a) For a Trust other than a Mutual Fund Trust:
 - The Basic Federal Tax at line 210 on Trust Schedule 2A or, if subject to Minimum Tax, line 276 on Trust Schedule 2B.
- (b) For a Mutual Fund Trust:
 - The Basic Federal Tax at line 210 on Trust Schedule 2A minus the amount (a) on form T184, Part I, Area A.

From the above amount, the Additional Federal Foreign Tax Credit from form T2209 is subtracted. The result is the Individual Surtax Payable that is to be entered at line 221 on Trust Schedule 2A or, if the trust is subject to Minimum Tax, at line 282 on Trust Schedule 2B.

Complete form T2209, Part II in accordance with the following notes:

- (a) If the amount determined at line (i) of the Special Foreign Tax Credit calculation on Trust Schedule 2B exceeds the amount at line (H) from Part I of form T2209, no additional Federal Foreign Tax Credit is available to reduce the Individual Surtax otherwise payable. Enter zero on Trust Schedule 2A or, if the trust is subject to Minimum Tax, at line 281 on Trust Schedule 2B.
- (b) If an additional Federal Foreign Tax Credit is available to be claimed against the Individual Surtax, enter the amount determined in area F from Part II of form T2209 on Trust Schedule 2A or, if the trust is subject to Minimum Tax, at line 281 on Trust Schedule 2B.

Line 223

Refundable Quebec Abatement 120(2).

Trusts which were resident in the Province of Quebec on the last day of their taxation year and did not have income from a business with a permanent

establishment outside Quebec are entitled to the maximum abatement of 16.5% of their "Basic Federal Tax". The abatement is refundable for the 1980 and subsequent taxation years to the extent that it does not reduce federal tax payable. This abatement for trusts resident in Quebec is provided in lieu of direct cost-sharing by the Federal Government under Federal-Provincial fiscal arrangements.

Trusts resident in Quebec which had income from a business with a permanent establishment outside Quebec should obtain form T2203 from their District Taxation Office in order to calculate the amount of their abatement.

Completion of Trust Schedule 2B Lines 240 to 292 Calculation of Minimum Tax. 127.53(2),(3).

(Applicable to trusts with taxation years beginning after 1985)

A Mutual fund trust and a Segregated fund trust (138.1(1)(a)) are not subject to minimum tax. Any other trust is liable to pay a minimum tax if the minimum amount calculated exceeds the regular tax payable. Any of the following conditions may attract minimum tax for 1987:

- (a) Taxable capital gains are reported;
- (b) The interest and dividend income deduction is claimed;
- (c) An election is made under ITAR 40 on pension benefits;

A loss is claimed resulting from or increased by capital cost allowance on the rental of:

- (d) Multiple unit residential buildings;
- (e) Certified films or video tapes; or
- (f) A loss is claimed resulting from or increased by resource and depletion allowances on resource properties.

If any of the above conditions apply complete Schedule 2B to determine the Net Adjustable Taxable Income for minimum tax purposes. Basically Schedule 2B recalculates taxable income by adjusting for the following amounts:

1. Non-taxable portion of capital gains minus an amount equivalent to capital gains designated or allocated to beneficiaries,
2. Certain deductions including losses caused by capital cost allowances, and deducting
3. A basic exemption of \$ 40,000 allowed to certain trusts,
4. Gross-up amount of dividends added to the trust, and
5. Non-allowable portion of a business investment loss.

A tax rate of 17% is applied to the balance, if any and the result is compared to the regular Basic Federal Tax.

An explanation of certain lines is required:

Line 240 Non-taxable portion of capital gains retained in the trust.

This amount would normally be equal to the taxable capital gains retained in the trust after designation or allocation to beneficiaries (includes resident, non-

resident and employee benefit plan recipients). If a reserve or a listed personal property loss or both relating to a disposition of property occurring before 1986 was used in calculating the 1987 taxable capital gains, an adjustment is required. For this purpose use the Worksheet in APPENDIX B.

Line 260

Non-Capital Losses of other years USED IN CURRENT YEAR

Non-capital losses of other years must be reduced for minimum tax purposes by the portion, if any, of post 1985 non-capital losses attributable to capital cost allowance claimed on MURBS, Certified Films/Videotapes and/or Resource Expenditures, Resource and Depletion allowances included in the loss claimed. If any part of non-capital loss is attributable to capital cost allowance on MURB etc., the portion is added back at Line 260.

Line 262

Net Capital Losses of other years USED IN CURRENT YEAR

The non-allowable portion of capital losses arising from dispositions of capital property after 1985 may be deducted from the otherwise non-taxable portion of capital gains, (the amount at line 240).

Lines 285 to 292

PART VI – Calculation of Additional Taxes Paid For Minimum Tax Carryover

Any additional tax payable by a trust under the provisions relating to minimum tax may be carried forward and deducted from the regular tax liability in subsequent years. – See APPENDIX C.

Line 264

Basic Exemption – Minimum Tax 127.53(b)

A basic exemption of \$ 40,000 is allowed to testamentary trusts and to those inter vivos trusts that were established before June 18, 1971 and meet the conditions under subsection 122(2).

Where more than one trust is formed from contributions by an individual the \$40,000 must be allocated among the trusts. If minimum tax applies to any of the multiple trusts, an agreement signed jointly by each trustee should be filed in each of the trust returns showing the allocation of the \$ 40,000.

Where a notice in writing is forwarded to a trustee for such an agreement and it is not filed with the Minister within 30 days, the allocation will be determined by the Minister.

Completion of Trust Schedules 3A and 3B Lines 301 to 396

Provincial or Territorial Tax Payable

Trusts resident in a province or territory (other than Quebec) on the last day of their taxation year and which did not have income from a business with a permanent establishment outside the province or territory of residence are liable for provincial or territorial income tax at the rate applicable for that province or territory. See Trust Schedules 3A and 3B.

Trusts not resident in Canada on the last day of their taxation year and which did not have income from a business with a permanent establishment in a province or territory are not liable for provincial or territorial income tax.

Trusts resident in the Province of Quebec on the last day of their taxation year and which did not have income from a business with a permanent establishment in any other province or territory are not required to calculate provincial or territorial income tax because the Province of Quebec collects its own income tax.

Trusts resident in a province or territory, (other than Quebec) on the last day of their taxation year with a Federal Foreign Tax Credit less than the tax paid to a foreign country should obtain form T2036 from their District Office in order to calculate any Provincial or Territorial Foreign Tax credit, to which they may be entitled, against provincial or territorial Income Tax.

Provincial and Territorial Tax Rebates and Credits

Political Contribution Tax Credit

Prince Edward Island, Nova Scotia, Manitoba, Alberta, British Columbia, Northwest Territories and Yukon Territory Political Contribution Tax Credit

A trust may deduct from the taxes otherwise payable to the above provinces and territories a portion of amounts paid to:

- (a) a registered political party of that province/territory,
- (b) a registered constituency association of that province/territory,
- (c) a registered candidate seeking election to the legislature of that province/territory.

Proof of payment in the form of an official receipt signed by the chief financial officer of the registered party, constituency association, or candidate must be attached to this return.

The allowable credit is calculated for Prince Edward Island, Nova Scotia, Manitoba, British Columbia and Yukon Territory as follows:

Political Contributions in 1987	\$ _____
<hr/>	
Allowable credit –	
75% of first \$100 of Total Contributions is	\$ _____
50% of next \$450 of Total Contributions is	_____
33 1/3% of Total Contributions exceeding \$550 is	_____
Total allowable credit (maximum \$500)	\$ _____ *

For Alberta, the allowable credit is calculated as follows:

Total Alberta Political Contributions in 1987	\$ _____
<hr/>	
Allowable credit –	
75% of first \$150 of Total Contributions is	\$ _____
50% of next \$675 of Total Contributions is	_____
33 1/3% of Total Contributions exceeding \$825 is	_____
Total allowable credit (maximum \$750)	\$ _____ *

For Northwest Territories the allowable credit is calculated as follows:

Total Northwest Territories Political Contributions in 1987	\$	
Allowable credit –		
100% of first \$100 of Total Contributions is.....	\$	
50% of total exceeding \$100 of Total Contribution is		
Total allowable credit (maximum \$500)	\$	*

* Enter this amount on the applicable "Political Contribution Tax Credit" line on Trust Schedule 3A or 3B in order to obtain the tax credit.

British Columbia Tax Rebate and Credits

British Columbia provides two tax credits to a trust resident in British Columbia on the last day of its taxation year. They are the British Columbia Housing and Employment Development Bond Tax Credit and the British Columbia Venture Capital Tax Credit. They are calculated on Trust Schedule 3B and entered at line 88 on page 1 of the T3 Return as a deduction from Tax Payable.

The B.C. Housing and Employment Development Bond Tax Credit is calculated on eligible bond interest received from British Columbia Tax Credit Bonds at Line 362 of Schedule 3B. Bond interest eligible for this tax credit will be identified as such by applicable wording on the T5 Supplementary.

Any amount received for the B.C. Housing and Employment Development Bond Tax Credit must be brought into income for the taxation year in which the credit is actually received as "Other Income" on page 2 of the T3 return for that year.

To claim the British Columbia Venture Capital Tax Credit complete the calculation on Trust Schedule 3B, Lines 363 – 369 and include the certificate (form FIN 565) issued to the trust by the Province of British Columbia.

To claim the British Columbia Royalty and Deemed Income Rebate complete and attach form T81 and enter the result at line 358 of Trust Schedule 3B.

Alberta Royalty Tax Rebate and Credit

If, during 1987, the trust paid royalties or similar payments to a federal or provincial government for production from a Canadian resource property, it may qualify for the Alberta royalty tax rebate and the Alberta royalty tax credit. To claim the rebate and credit, you must complete and attach forms T79 and T80, respectively, to the T3 Return. Both forms are available from your District Taxation Office.

Alberta Royalty Tax Rebate from form T79 is entered on Trust Schedule 3A, Line 333. Alberta Royalty Tax Credit from form T80 is entered at line 88, "Other Credits" on page 1 of the T3 return.

Saskatchewan Tax Incentives

The Saskatchewan Tax Incentives Program provides for different tax credits to Saskatchewan residents willing to invest in targeted Saskatchewan industries. These credits, the Saskatchewan Venture Capital Tax Credit, the Saskatchewan Livestock Investment Tax Credit, and the Saskatchewan Livestock Facilities Tax Credit are to be applied as a reduction of the net Saskatchewan Tax Payable in the year of investment on Trust Schedule 3A, lines 324-326.

Unused tax credits can be carried forward and applied against net Saskatchewan Tax Payable during the next seven taxation years. To obtain such credits, a trust must submit a Saskatchewan Tax Incentives information slip T2C (Sask.) with its T3 Return. These credits cannot be designated to beneficiaries except in the following case.

Where a Communal Organization is considered to be an inter vivos trust by section 143 of the Income Tax Act and the appropriate election is made under that section, the Saskatchewan Livestock Investment Tax Credit and the Saskatchewan Livestock Facilities Tax Credit may be designated to members of the organization (beneficiaries).

Manitoba Manufacturing Investment Tax Credit

A trust which has acquired new qualified property that is prescribed under federal regulations for the purposes of the Federal Investment Tax Credit and that

- (a) is used by the trust in Manitoba primarily for the purpose of manufacturing or processing of goods for sale or lease, or
- (b) is leased by the trust to a lessee (other than a person exempt from tax under section 149 of the Federal Income Tax Act) who can reasonably be expected to use the property in Manitoba primarily for the purpose of manufacturing or processing of goods for sale or lease,

may obtain a Manitoba Manufacturing Investment Tax Credit to be deducted against its Manitoba taxes otherwise payable.

The total credit or any portion thereof may be retained by the trust to be claimed against its Manitoba tax payable, Trust Schedule 3A, line 311, or may be designated to the beneficiaries to be claimed by them against their Manitoba tax payable. Any unused credit is subject to carry-over provisions.

To claim a current year credit or a carry-over to or from another year, obtain form T86, "Manitoba Manufacturing Tax Credit", from your District Taxation Office. One completed copy of form T86 must be attached to the return. Where the credit is retained by the trust, enter the amount of credit or unused credit to be claimed from form T86 at line 311 on Trust Schedule 3A.

Where the credit is being designated to the beneficiaries, forms T3 Supplementaries should be prepared indicating the designated credit amount in Box (T) and "Man. Mfg." in the Type of Credit Area.

Lump Sum Payments ITAR 40(1), 40(7).

Certain lump sum payments received by a trust from a pension fund or a deferred profit sharing plan may be taxed at a reduced rate. Information Circular 74-21R and Interpretation Bulletin IT-281R deal with this subject in considerable detail.

Preferred Beneficiary 108(1)(g), (h).

A "preferred beneficiary" of a trust means an individual resident in Canada who is a beneficiary under the trust and is

- (a) the settlor of the trust,
- (b) the spouse or former spouse of the settlor of the trust,
- (c) a child, grandchild or great grandchild of the settlor of the trust, or
- (d) the spouse of any person described in item (c) above.

For definition of a "settlor" refer to Interpretation Bulletin IT-374.

Preferred Beneficiary Election

104(12), (14), (15), 108(1)(a) Regulation 2800.

A trust and a preferred beneficiary may elect jointly that part or all the trust's accumulating income for the year be included in the preferred beneficiary's income for that year and not so included for the year in which it is paid. The trust may then deduct an amount equal to the amount of the income required to be included in the preferred beneficiary's income. The amount of income to be included in the preferred beneficiary's income must be stipulated in the election and must not exceed the preferred beneficiary's share of the income. This election in respect of a taxation year shall be made by filing with the Minister the following documents:

- (a) a statement making the election in respect of the year, designating the part of the income in respect of which the election is being made, and signed by the preferred beneficiary and a trustee having the authority to make the election, and
- (b) a statement signed by the trustee showing the computation of the amount of the preferred beneficiary's share in the income of the trust for the year together with such information concerning the provisions of the trust and its administration as is necessary for this purpose.

This election must be filed within 90 days from the end of the trust's taxation year in respect of which the election is made. It is emphasized that a preferred beneficiary election, to be valid, must be filed on time. If filed late the elective income will be taxed in the hands of the trust. Once an election is made and assessed, it cannot be rescinded.

Interpretation Bulletin IT-394 deals with the subject in considerable detail.

Capital Gains 3, 38, 39, 40.

The general rules to follow when reporting a capital gain or loss depend upon the type of asset that may have been disposed of or deemed to have been disposed of during the year as shown on Trust Schedule 5A. This Schedule is to be completed if there are any dispositions or deemed dispositions of capital property of the trust.

There are many exceptions to the rules outlined below for various assets. For your assistance, the "T1 Guide for Capital Gains" and Information Circular 74-3R2, which lists a number of supplementary schedules that may be obtained for use as detailed working sheets in calculating the amounts to be entered on Trust Schedule 5A, are available from your District Taxation Office.

Completion of Trust Schedule 5A Lines 501 to 516 Summary of Dispositions of Capital Property

To calculate the trust's taxable capital gains or allowable capital losses for the year complete Trust Schedule 5A and enclose this schedule with the T3 Return.

Capital Dispositions

40(3), 44, 45, 54(c), 104(4), (5), 107, 108(j).

A disposition of capital property includes a sale, a distribution or an exchange of property, the making of a gift, a redemption of shares, a debt settlement and a theft or destruction of a property.

Where a property of a trust is distributed to a beneficiary of the trust in complete or partial settlement of the beneficiary's capital interest in the trust the property is deemed to have been disposed of by the trust for proceeds of disposition equal to the "cost amount" of the property. If the property is depreciable property, the cost amount is its undepreciated capital cost and if the property is another type of capital property, the cost amount is its adjusted cost base.

A statement giving particulars of all dispositions to a beneficiary within the taxation year should be attached to the T3 Return.

At specified times, a trust is deemed to have disposed of its non-depreciable capital property at fair market value for capital gains purposes and reacquired it immediately thereafter at a cost equal to the same fair market value. The deemed disposition in a spouse trust created after 1972 will first occur when the spouse dies and every 21 years thereafter. In the case of other trusts the deemed disposition occurs every 21 years. These deemed dispositions should be reported on Trust Schedule 5A.

A unit trust, trusts governed by a registered pension fund or plan, an employee profit sharing plan, a registered supplementary unemployment benefit plan, a registered retirement savings plan, a deferred profit sharing plan, a registered education savings plan, a registered retirement income fund, an employee benefit plan or an employee trust, a related segregated fund trust and an inter vivos trust deemed to exist in respect of a congregation that is a constituent part of a religious organization are all excluded from the "deemed disposition" rules.

Similarly depreciable property of a prescribed class is deemed to be disposed of at the same specified times at a value which is midway between the fair market value at the time of the deemed disposition of all the property in the class and the undepreciated capital cost of the class to the trust. Note that in the case of depreciable property both capital gains and recapture of capital cost allowance can be factors.

Valuation Day Value Election ITAR 24, 25, 26.

For assets acquired before 1972 the trustee may elect to use the Valuation Day value for all transactions and ignore the median rule. Once having made this election, it would apply to all assets owned at the end of 1971, regardless of the year when the capital disposition occurs. Form T2076 is available from your District Taxation Office to assist trusts wishing to make the election.

Testamentary Trust – 164(6) Election

Where, in the course of administering the estate of a deceased taxpayer, the legal representative has, within the first taxation year of the estate,

- (a) disposed of capital property of the estate which resulted in an excess of capital losses over capital gains, or
- (b) disposed of all the depreciable property of a prescribed class of the estate which resulted in a terminal loss in that class at the end of the first taxation year of the estate,

the legal representative may elect in prescribed manner and within a prescribed time to deem such losses to be capital losses or terminal losses of the **deceased taxpayer** from the disposition of property in the taxation year in which he or she died. Section 1000 of Part X of the Income Tax Regulations

describes the prescribed manner and prescribed time in which the election is to be made. To the extent that losses are designated to the deceased under the election, they may not be claimed by the estate. Any portion of the losses not designated under the election are subject to the normal loss provisions available to the estate.

In cases where this election is made, the legal representative must file an amended T1 Return of income for the deceased taxpayer for his or her taxation year for the year he or she died by the later of

- (a) the last day the legal representative is required or has elected to file the return for the taxation year in which the taxpayer died, or
- (b) the day the return for the first taxation year of the deceased's estate is required to be filed.

The election and the amended return do not affect the return of the deceased taxpayer for any year preceding the year of death.

NOTE: Identify the amended return clearly as "**164(6) ELECTION.**"

Personal-Use Property 40(2)(g)(iii), 46, 54(f).

Personal-use property is property such as personal and household effects, automobiles, boats, cottages or antiques. If the trust sold such an asset during the year for more than its adjusted cost base the trust may have to report a capital gain. A gain should be reported only if the selling price (proceeds of disposition) was more than \$1,000 for any asset. Where the adjusted cost base is less than \$1,000, show the cost as \$1,000. No loss is allowable on personal use-property.

Principal Residence 40(4), 40(5), 45(2), 54(g).

A principal residence acquired by a spouse trust or an inter vivos trust under which the spouse is the sole income beneficiary will be exempt from tax on any gain realized on disposition provided the residence qualifies and is designated by the trust as the principal residence of the spouse for the period owned. The provisions of the Income Tax Act on a principal residence are discussed in detail in Interpretation Bulletins IT-366R and IT-120R3.

Listed Personal Property 41, 54(e).

Listed personal property consists of:

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

The gain on the sale of such an item (or a set of such items) is treated the same as the gain on personal use property. If the trust has sold such an item for less than its adjusted cost base the trust may be allowed a capital loss. The loss should be reported only if the adjusted cost base is more than \$1,000. Where the selling price is less than \$1,000, show the proceeds of disposition as \$1,000.

Losses on listed personal property can be applied only against gains on other items of listed personal property. Where such losses exceed such gains in a particular year, the excess may be used to reduce net gains on listed personal property in the preceding three years and the seven immediately following years.

Canadian Cultural Property 39(1)(a)(i.1).

Refer to the T1 Guide for Capital Gains and Interpretation Bulletin IT-407R2 for information on Canadian Cultural Property dispositions.

Other Capital Properties 39.

As Trust Schedule 5A indicates, other capital properties are divided into "Shares", "Real Estate" and "Bonds, Debentures, Promissory Notes and Other Properties". (Note that a disposition of a principal residence or a recreation property such as a summer cottage, owned chiefly for personal use, should be shown under the heading "Personal-use Property" on Trust Schedule 5A).

All gains and losses on these capital properties should be reported, regardless of amount. Losses are offset against gains to arrive at a net gain (or loss) for each type of property.

Depreciable Property 54(a), ITAR 20(1).

A capital gain is realized on depreciable property only if it is sold for more than its original capital cost, and is limited to any gain since V-day if the property was owned on December 31, 1971. There can be no capital loss on the disposition of depreciable property. There may, however, be a terminal loss under the capital cost allowance rules when all the property of a particular class is disposed of.

For more details about the disposition of depreciable property obtain Interpretation Bulletin IT-217 and the related Special Release dated September 13, 1982.

Bonds 12.1, 47(2), (3), ITAR 26(8.2).

Since bonds may be purchased at a discount or premium, rules have been established for determining the cost figure for bonds acquired before 1972. Form T2084 "Bonds and Other Obligations" and Interpretation Bulletin IT-114 are available from your District Taxation Office to assist in the calculations.

One-half of any cash bonus received in 1987 on a Canada Savings Bonds (form T600C) must be reported as interest at line 07 on page 2 of the T3 Return. The other half is tax exempt. Item 121 of the 1987 T1 General Tax Guide contains further details on the methods of reporting interest on Canada Savings Bonds.

Adjusted Cost Base 53, 54(a).

Adjusted cost base is usually the cost of acquiring property plus or minus certain adjustments provided for under the Income Tax Act. It can differ from the original cost if there have been changes to the property between the time of acquisition and the time of sale. For example, the cost of additions to a building may be added to the original cost. See Interpretation Bulletin IT-456 for additional information on adjustments to the cost base.

Assets Acquired Before 1972

For assets acquired before 1972, the Valuation Day value must be considered when computing capital gains and losses. Valuation Day for shares listed in the publication "Valuation Day Prices of Publicly Traded Shares" (available from your District Taxation Office) was December 22, 1971. Valuation Day for all other assets was December 31, 1971. To compute a capital gain or loss on an asset acquired before 1972, three figures are required:

- the actual cost,
- the Valuation Day value,
- the proceeds of disposition

The median of these three figures, that is, the figure which is neither the highest nor the lowest, becomes the deemed cost on which the capital gain or loss is computed, subject to the Valuation Day value election explained previously.

Where two or more of these three figures are the same amount, that amount will be the median. This median figure is deemed to be the adjusted cost base of the asset and is the amount to be entered in column (3) of Trust Schedule 5A provided that there are no adjustments to the cost base. Thus, a capital gain results if the proceeds of disposition exceeds the greater of cost and Valuation Day value. A capital loss results if the proceeds of disposition are less than the lesser of cost and Valuation Day value.

Outlays and Expenses (re dispositions) 40(1).

Outlays and expenses are usually expenses incurred in connection with the sale or disposition of capital property. They include certain "fixing-up" expenses, finder's fees, lawyers fees, commissions, broker's fees, surveyor's fees, transfer taxes and other reasonable expenses directly connected with facilitating the sale of property.

These outlays and expenses may not be claimed as a deduction from income, but may be applied to reduce a capital gain or increase a capital loss.

Summary of Capital Gains 40(1).

Summarize the capital gains and losses as shown on Trust Schedule 5A. Having computed the total capital gain (or loss), remember that only one-half of the capital gain should be entered at line 09, "Taxable Capital Gains" on page 2 of the T3 Return. Also remember that no amount of loss can be entered on page 2, as allowable capital losses realized after May 22, 1985 may only be used to offset net taxable capital gains in a previous or future year. See "Capital Losses of Other Years" section of this Guide.

If a taxable capital gain was realized but the full sale price was not received a restrictive reserve may be established for the unpaid amount. For property sold after November 12, 1981 the minimum amount of a capital gain to be reported annually is one-fifth of the taxable capital gain. If a reserve was claimed in 1986, it must be brought back into income in 1987. If part of the proceeds are still not due in 1987, a new reserve may be claimed.

For more details, obtain Interpretation Bulletin IT-236R2 and the T1 Guide for Capital Gains.

Records – Capital Transactions

Records or vouchers relative to capital transactions do not need to be filed with the return but should be retained as they may be required for examination on request.

Completion Of Trust Schedule 8 Capital Cost Allowance (Depreciation)

The method of claiming capital cost allowance (depreciation) as prescribed under Part XI of the Income Tax Regulations must be followed, unless the claim is in respect of assets used in farming or fishing that were acquired prior to 1972, in which case the method prescribed under Part XVII of the Regulations may be followed. Full details and schedules for claiming capital cost allowance under Part XVII of the Regulations are contained in the Farmer's Income Tax Guide and the Fisherman's Income Tax Guide.

Complete the Schedule 8 in accordance with the following notes:

- (a) When claiming capital cost allowance in accordance with Part XI, use a separate line for each class of property prescribed under that Part. Attach a statement showing details of the amounts entered in columns (3) and (4), including the kind of asset, the cost and date of each addition and the proceeds of each disposal.
- (b) The amount to be entered in column (3) where depreciable property is acquired by gift, bequest or inheritance is as follows:
 - (i) **Where the property is acquired by inter vivos gift**, the fair market value of the property at the time it was acquired, except that, where the trust is an exclusive trust for the spouse of the settlor as described in paragraph 73(1)(c) (unless the transferor made an election contained under subsection 73(1) of the Income Tax Act) and at the time of the settlement the settlor and the trust were both resident in Canada, the amount to be entered is the undepreciated capital cost of the property to the settlor. (See "Note" below).
 - (ii) **Where the property is acquired by bequest or inheritance and the trust is an exclusive trust for the spouse** of the deceased as described in paragraph 70(6)(b) and where, immediately before the death of the settlor, the settlor and the trust were resident in Canada, the amount to be entered for each property acquired is the undepreciated capital cost of the property to the settlor immediately before death. (unless the legal representative of the deceased made an election under subsection 70(6.2) of the Income Tax Act). (See "Note" below.)
 - (iii) **Where the property is acquired by bequest or inheritance and the trust is not a trust described in (ii)** the amount to be entered for each property acquired is an amount that is midway between the fair market value of the property at the time it was acquired and the undepreciated capital cost of the property to the settlor immediately before death. (See "Note" below.)
 - (iv) **Where the property is Part XI farm assets acquired by bequest or inheritance** which vested indefeasibly in a child of the settlor within 36 months of death and where, immediately before the death of the settlor, the property was used by the settlor, the spouse or any of the children in the business of farming and the child is a resident of Canada, the amount to be entered for each property acquired is the

undepreciated capital cost (unless the legal representative of the deceased elects under subsection 70(9) of the Income Tax Act) of the property to the settlor immediately before death. (See "Note" below.)

- (v) **Where the property is Part XVII assets acquired by inter vivos gift, bequest or inheritance**, the fair market value of the property at the time it was acquired.
- (vi) **Where the property is farmland in Canada** or depreciable farm assets of a prescribed class in Canada acquired by inter vivos gift for a child of the transferor who was resident in Canada immediately before the transfer, the amount to be entered for each property acquired is the amount chosen as proceeds of disposition by the transferor. The transferor may choose as the proceeds of disposition any amount between the fair market value of the property and its adjusted cost base, in the case of land; or between the fair market value of the property and its undepreciated capital cost in the case of depreciable property of a prescribed class. (It should be noted that farmland should not be included on the schedule.)

NOTE: Where there is more than one property in a prescribed class, the undepreciated capital cost of a property is that proportion of the undepreciated capital cost of the class that the fair market value of the particular property is of the fair market value of all the property in the class.

- (c) The amount to be entered in column (4) in respect of a disposition of depreciable property is the lesser of:
 - the proceeds of disposition, and
 - the capital cost of the property. (for an explanation of "capital cost" see Capital Cost Allowance (Depreciation) segment.

Where property is disposed of to a beneficiary of the trust the following special rules apply:

- (i) When property of a class is distributed to a beneficiary in settlement, in full or in part, of the beneficiary's capital interest in the trust the amount to be entered is the undepreciated capital cost of the property to the trust which, when there is more than one property in the class, is that proportion of the undepreciated capital cost of the class that the capital cost of the particular property is of the capital cost of all the properties in the class.
- (ii) When property of a class is distributed to a beneficiary in settlement, in full or in part, of the beneficiary's income interest in the trust, the amount to be entered is the fair market value of the property.

NOTE: In addition to the above rules the Income Tax Act provides special rules for dispositions from a spousal trust, subsection 107(4) and for distributions to a non-resident beneficiary, subsection 107(5).

- (d) If the amount in column (4) is greater than the sum of the amounts in columns (2) and (3), for that class, the excess, referred to as recapture of Capital Cost Allowance (C.C.A.) is added to income.
- (e) For depreciable property acquired after November 12, 1981, the maximum capital cost allowance that may be claimed by the trust in the year, as a general rule, is limited to one-half of the normal C.C.A. rate generally provided. Interpretation Bulletin IT-285R covers this situation in more detail.

- (f) Enter in column (8) the rate you wish to use, not exceeding the maximum rate prescribed under Part XI, and apply this rate to the amount in column (7).

Capital Cost Allowance (Depreciation)

3, 13(1), 20(1)(a), 20(16), 104(16).

The "capital cost" of property usually means the actual original cost plus the cost of additions and improvements. No C.C.A. may be claimed on land.

Generally when depreciable property is sold, or on a deemed disposition, the undepreciated capital cost of the class to which the property belonged will be reduced by the proceeds of disposition, up to the amount of the capital cost of the property.

Proceeds of disposition in excess of the capital cost of the property are to be reported as a capital gain on Trust Schedule 5A. Where the proceeds of disposition (excluding the capital gain, if any) exceed the undepreciated capital cost of the class immediately before the sale, the amount of the excess is a "recapture" of C.C.A. previously claimed as a deduction. The "recapture" of C.C.A. is income for the year in which it occurs. This income may be allocated to the beneficiaries, depending on the terms of the trust document. However, it does not retain its identity.

Where the proceeds of disposition are less than the undepreciated capital cost of the class and all of the property in that class has been disposed of during the year the amount remaining is a "terminal loss". This loss may be claimed by the trust or, where the terminal loss arises in the estate of a deceased taxpayer an election under subsection 164(6) of the Income Tax Act may be made.

Any capital cost allowance which has been allocated to the beneficiaries is deemed to have been allowed to the trust and any recapture of capital cost allowance is income to the trust.

The properties most commonly in use are set out below according to the class to which they belong, with the maximum rate of C.C.A. for each such class. (For classification of other property, see the Income Tax Regulations, the tables in the Farmer's or Fisherman's Guides and also the T1 Tax Guide for Income From A Business Income Tax or Profession).

- Class 3(5%) - most buildings, including component parts such as electric wiring and fixtures, plumbing, heating and central air-conditioning equipment.
- Class 6(10%) - fences, greenhouses, and wooden wharves. Most buildings acquired after 1978 belong in class 3. However, buildings made of frame, log, stucco on frame or galvanized or corrugated iron may belong in this class, if built without footings or other base support below ground level. Component parts of these buildings are also included in class 6. Costs of additions or alterations to these buildings may also belong in this class rather than class 3.
- Class 8(20%) - property not included in any other class including furniture, fixtures, machinery and equipment and even certain buildings or other structures.

Interpretation Bulletin IT-79R2 contains further details on buildings and other structures and the C.C.A. class in which they belong.

- Class 10(30%) - cars (except taxis which are Class 16(40%)), vans, trucks and tractors; harness or stable equipment, sleighs and wagons; trailers, contractor's movable equipment.

Rental Buildings Costing \$50,000 or More Income Tax Regulation 1101(1ac).

Each rental building acquired after 1971 that costs \$50,000 or more will become a separate capital cost allowance class. Interpretation Bulletin IT-274 deals with this subject in further detail.

Allocation Of Non-Taxable Dividends Received By A Trust

An example of a non-taxable dividend received by a trust is where a Canadian private corporation pays a tax free dividend out of its capital dividend account under subsection 83(2) of the Income Tax Act.

Where the trust is in receipt of this type of dividend, the dividends are not to be included in income on page 2 of the T3 Return. Trusts allocating non-taxable dividends should inform the beneficiaries that the dividends are not to be included in computing their income and a statement containing the following information is required to be filed with the T3 Return:

- (a) Name of the payor corporation,
- (b) The amount of non-taxable dividend and its distribution, i.e. the name(s) of the recipient(s).

It should be noted that certain non-taxable dividends (other than dividends paid out of the capital dividend account) received by the trust may reduce the adjusted cost base of the shares on which the dividends were paid under subsection 53(2) of the Income Tax Act. This may be relevant in computing a capital gain (or loss) on the subsequent disposition of the shares.

Related Publications

The following additional publications may be obtained from your District Taxation Office:

Guide – T1 Income Tax Returns for Deceased Persons

T1 Tax Guide for Income From a Business or Profession.

T1 Guide for Capital Gains

The following Interpretation Bulletins are available from your District Taxation Office for your assistance:

IT-201R	Foreign Tax Credit – Trust and Beneficiaries
IT-260R	Transfer of Property to a Minor
IT-286R	Trusts – Amount Payable
IT-305R2	Establishment of Testamentary Spouse Trusts
IT-342	Trusts – Income Payable to Beneficiaries
IT-370	Capital Property Owned on December 31, 1971
IT-372R	Trusts – Flow-through of Taxable Dividends to a Beneficiary
IT-381R	Trusts – Taxable Capital Gains and Allowable Capital Losses
IT-385R	Disposition of an Income Interest in a Trust
IT-394	Preferred Beneficiary Election
IT-406R	Tax Payable by an Inter Vivos Trust
IT-446	Legacies
IT-447	Residence of a Trust or Estate
IT-465R	Non-Resident Beneficiaries of Trusts
IT-500	Registered Retirement Savings Plan (concerning the flow-through of Refund of Premiums to a beneficiary of an estate)
IT-502	Employee Benefit Plans and Employee Trusts

Clearance Certificates 159(2), (3).

The Income Tax Act requires that every administrator, executor and trustee must obtain a clearance certificate before distributing any property under their control if they wish to avoid being personally liable for unpaid taxes, interest and penalties. Interpretation Bulletin IT-282R and Information Circular 82-6 deal with Clearance Certificates in detail.

A clearance certificate cannot be issued until all required T3 Returns have been filed and assessed, and all taxes, interest and penalties have been paid or secured. However, the written request for a clearance certificate may accompany the final T3 Return. Where the request has been forwarded directly to the Business Audit section at the appropriate District Taxation Office, a copy of the request should be attached to the final T3 Return. In either case the request should identify the person(s) requesting the certificate by name, address and title, e.g. executor, trustee or administrator and include the name of the trust and the date chosen for winding-up the trust.

Where the request is for the final distribution of all the estate property, the representative must attach an undertaking to complete the actual transfer of all of the property of the estate as soon as possible after the clearance certificate is received. It will expedite the processing of the written request for a clearance certificate if the following documents of information, as applicable, accompany the request, unless they have already been provided to the Department:

- (a) a copy of the will,
- (b) a statement showing the assets of the estate, together with the adjusted cost base and fair market value of the properties. In the case of a partial distribution, the assets intended for distribution should be identified, and
- (c) in the case of intestacy, details of the proposed distribution of the assets including the names and addresses of the beneficiaries and their relationship to the deceased.

Number Of Years To Be Reassessed

The T3 return after initial processing and assessment may or may not be selected for further review or audit. The Department may reassess a return of income or make additional assessments, or assess tax, interest or penalties within three years from the day of mailing of either

- (a) a notice of an original assessment, or
- (b) a notification that no tax is payable for the taxation year.

Privacy Act

The Privacy Act protects the privacy of individual beneficiaries to whom the information contained in the T3 return pertains. The information provided by the trustee is required to assess the trust's income tax liability under the Income Tax Act.

Appendix A – Examples of T3 Supplementaries

Example 1

Completing Form T3 Supplementary

The trust has the following income and deductions:

Dividends from Taxable Canadian Corporations Eligible for the Interest and Dividend Income Deduction – Actual Amount	\$ 900.00
– Taxable Amount	\$1,200.00
– Federal Dividend Tax Credit	\$ 200.00

Interest Eligible for the Interest and Dividend Income Deduction	\$ 800.00
Other Income	\$2,000.00
Allowable Expenses and Deductions	\$1,000.00

There is one beneficiary of the trust and all income is to be designated/allocated to the beneficiary.

The form T3 Supplementary should be completed as follows:

TRUST YEAR FIN D'ANNÉE TRUSTE	(A) ACTUAL AMOUNT ELIGIBLE DIVIDENDS MONTANT RÉEL DIVIDENDES ADMISSIBLES	(B) ACTUAL AMOUNT INELEGIBLE DIVIDENDS MONTANT RÉEL DIVIDENDES NON ADMISSIBLES	(C) ELIGIBLE INTEREST INTÉRÊT ADMISSIBLE	(D) FOREIGN BUSINESS INCOME REVENU ÉTRANGER TIRE D'ENTREPRISES	(E) FOREIGN NON- BUSINESS INCOME REVENU ÉTRANGER NON TIRE D'ENTREPRISES	(F) CAPITAL GAINS GAINS EN CAPITAL	(G) OTHER INCOME AUTRE REVENU							
▶ 1987 MONTH MOIS	900.00		800.00				1,000.00							
▶ DEC.	1,200.00		200.00											
YEAR ANNÉE	1987													
(H) TAXABLE AMOUNT ELIGIBLE DIVIDENDS MONTANT IMPOSABLE DIVIDENDES ADMISSIBLES	(I) TAXABLE AMOUNT INELEGIBLE DIVIDENDS MONTANT IMPOSABLE DIVIDENDES NON ADMISSIBLES	(J) FEDERAL DIVIDEND TAX CREDIT CRÉDIT D'IMPÔT FÉD. POUR DIVIDENDES	(K) FOREIGN BUSINESS INCOME TAX PAID IMP. ÉTR. PAYÉ SUR REV. TIRE D'ENTR.	(L) FOREIGN NON-BUSINESS INCOME TAX PAID IMP. ÉTR. PAYÉ SUR REV. NON TIRE D'ENTR.	(M) CAPITAL COST ALLOWANCE DÉDUCTION POUR AMORTISSEMENT	(N) RRSP REFUND OF PREMIUMS REMBOURSEMENT DE PRIMES D'UN REER	(O) PENSION BENEFITS PRESTATIONS DE PENSION	(P) DEATH BENEFITS RECETTES CONSÉCUTIVES AU DÉCÈS	(Q) DEEMED RHPSP RECEIPTS RECETTES RÉPUTÉES D'UN REER	(R) INSUR. SEGREGATED FUND LOSSES PERTES SUR FONDS RÉSERVÉ D'ASSUREUR	(S) CAPITAL GAINS ELI- GIBLE FOR DEDUCTIONS GAINS EN CAPITAL ADMIS- SIBLES POUR DÉDUCTION	(T) INVESTMENT TAX CREDIT - CROQU D'IMPÔT À L'INVESTISSEMENT INVESTISSEMENT	(U) OTHER TAX CREDIT - AUTRE CROQU D'IMPÔT TYPE	(V) OTHER TAX CREDIT - AUTRE CROQU D'IMPÔT AMOUNT

From taxable Canadian corporations
De corporations canadiennes imposables

SOCIAL INSURANCE NUMBER
N^o D'ASSURANCE SOCIALE
457914890

BENEFICIARY: SURNAME FIRST, AND FULL ADDRESS
BÉNÉFICIAIRE: NOM DE FAMILLE D'ABORD, ET ADRESSE COMPLETE

▶ John Q. Beneficiary
100 8th. Street
Anytown, Canada
T3A 0X9

NAME AND ADDRESS OF TRUST - NOM ET ADRESSE DE LA FIDUCIE

Estate of T. Three
c/o H. M. Trustee
100 C. street
Anytown, Canada
T3A 0X8

• For Taxation Office
• Pour le bureau d'impôt



Revenue Canada
Taxation

Revenu Canada
Impôt

T3 Supplementary - Supplémentaire Rev. 85

STATEMENT OF TRUST INCOME ALLOCATIONS
ÉTAT DE LA RÉPARTITION DU REVENU DE FIDUCIE

Example 2

Determining Amounts To Be Designated/Allocated And Completing Form T3 Supplementary

The trust has the following income and deductions:

Dividends from Taxable Canadian Corporations Eligible for the Interest and Dividend Income Deduction – Actual Amount	\$ 900.00
– Taxable Amount	\$1,200.00
– Federal Dividend Tax Credit	\$ 200.00
– Other Income	\$2,000.00
Allowable Expenses and Deductions	\$2,300.00

There is one beneficiary of the trust and all income is to be designated/allocated to the beneficiary.

The form T3 Supplementary should be completed as follows:

TRUST YEAR / ENNEE DE LA FIDUCIE	(A) ACTUAL AMOUNT ELIGIBLE DIVIDENDS / MONTANT RÉEL DIVIDENDES ADMISSIBLES	(B) ACTUAL AMOUNT INELIGIBLE DIVIDENDS / MONTANT RÉEL DIVIDENDES NON ADMISSIBLES	(C) ELIGIBLE INTEREST / INTÉRÊT ADMISSIBLE	(D) FOREIGN BUSINESS INCOME / REVENU ÉTRANGER TIRÉ D'ENTREPRISES	(E) FOREIGN NON-BUSINESS INCOME / REVENU ÉTRANGER NON TIRÉ D'ENTREPRISES	(F) CAPITAL GAINS / GAINS EN CAPITAL	(G) OTHER INCOME / AUTRE REVENU	
1987	600.00							
MONTHS / MOIS	(P) TAXABLE AMOUNT ELIGIBLE DIVIDENDS / MONTANT IMPOSABLE DIVIDENDES ADMISSIBLES	(Q) TAXABLE AMOUNT INELIGIBLE DIVIDENDS / MONTANT IMPOSABLE DIVIDENDES NON ADMISSIBLES	(L) FEDERAL DIVIDEND TAX CREDIT / CRÉDIT D'IMPÔT FÉD. POUR DIVIDENDES	(K) FOREIGN BUSINESS INCOME TAX PAID / IMP. ÉTR. PAYÉ SUR REV. TIRÉ D'ENTR.	(J) FOREIGN NON-BUSINESS INCOME TAX PAID / IMP. ÉTR. PAYÉ SUR REV. NON TIRÉ D'ENTR.	(M) CAPITAL COST ALLOWANCE / DÉDUCTION POUR AMORTISSEMENT	(N) RRSP REFUND OF PREMIUMS / REMBOURSEMENT DE PRIMES D'UN REER	(O) PENSION BENEFITS / PRESTATIONS DE PENSION
1987	800.00		133.37					
YEAR / ANNÉE	(R) DEATH BENEFITS / PRESTATIONS CONSÉCUTIVES AU DÉCÈS	(I) DEEMED RHOSP RECEIPTS / RECETTES RÉPUTÉES D'UN RÉEL	(P) INSUR. SEGREGATED FUND LOSSES / PERTES SUR FONDOS RÉSERVÉ D'ASSURÉUR	(H) CAPITAL GAINS ELIGIBLE FOR DEDUCTIONS / GAINS EN CAPITAL ADMISSIBLES POUR DÉDUCTION	(I) INVESTMENT / INVESTISSEMENT	(S) TAX CREDIT / CRÉDIT D'IMPÔT	(T) OTHER TAX CREDIT - AUTRE CRÉDIT D'IMPÔT / TYPE	(U) AMOUNT / MONTANT

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 SOCIAL INSURANCE NUMBER / N° D'ASSURANCE SOCIALE
123456789

NAME AND ADDRESS OF TRUST - NOM ET ADRESSE DE LA FIDUCIE

John Q. Beneficiary
 100 8th. Street
 Anytown, Canada
 T3A 0X9

Estate of T. Three
 c/o H.M. Trustee
 100 C Street
 T3A 0X8

For Taxation Office / Pour le bureau d'impôt

Revenue Canada / Taxation / Revenu Canada / Impôt / T3 Supplementary - Supplémentaire Rev. 85 / STATEMENT OF TRUST INCOME ALLOCATIONS / ÉTAT DE LA RÉPARTITION DU REVENU DE FIDUCIE

COMPLETION OF T3 SUPPLEMENTARY WITH 1986 AND 1987 DIVIDENDS

TRUST YEAR / ENNEE DE LA FIDUCIE	(A) ACTUAL AMOUNT ELIGIBLE DIVIDENDS / MONTANT RÉEL DIVIDENDES ADMISSIBLES	(B) ACTUAL AMOUNT INELIGIBLE DIVIDENDS / MONTANT RÉEL DIVIDENDES NON ADMISSIBLES	(C) ELIGIBLE INTEREST / INTÉRÊT ADMISSIBLE	(D) FOREIGN BUSINESS INCOME / REVENU ÉTRANGER TIRÉ D'ENTREPRISES	(E) FOREIGN NON-BUSINESS INCOME / REVENU ÉTRANGER NON TIRÉ D'ENTREPRISES	(F) CAPITAL GAINS / GAINS EN CAPITAL	(G) OTHER INCOME / AUTRE REVENU	
1987								
MONTHS / MOIS	(P) TAXABLE AMOUNT ELIGIBLE DIVIDENDS / MONTANT IMPOSABLE DIVIDENDES ADMISSIBLES	(Q) TAXABLE AMOUNT INELIGIBLE DIVIDENDS / MONTANT IMPOSABLE DIVIDENDES NON ADMISSIBLES	(L) FEDERAL DIVIDEND TAX CREDIT / CRÉDIT D'IMPÔT FÉD. POUR DIVIDENDES	(K) FOREIGN BUSINESS INCOME TAX PAID / IMP. ÉTR. PAYÉ SUR REV. TIRÉ D'ENTR.	(J) FOREIGN NON-BUSINESS INCOME TAX PAID / IMP. ÉTR. PAYÉ SUR REV. NON TIRÉ D'ENTR.	(M) CAPITAL COST ALLOWANCE / DÉDUCTION POUR AMORTISSEMENT	(N) RRSP REFUND OF PREMIUMS / REMBOURSEMENT DE PRIMES D'UN REER	(O) PENSION BENEFITS / PRESTATIONS DE PENSION
YEAR / ANNÉE	(R) DEATH BENEFITS / PRESTATIONS CONSÉCUTIVES AU DÉCÈS	(I) DEEMED RHOSP RECEIPTS / RECETTES RÉPUTÉES D'UN RÉEL	(P) INSUR. SEGREGATED FUND LOSSES / PERTES SUR FONDOS RÉSERVÉ D'ASSURÉUR	(H) CAPITAL GAINS ELIGIBLE FOR DEDUCTIONS / GAINS EN CAPITAL ADMISSIBLES POUR DÉDUCTION	(I) INVESTMENT / INVESTISSEMENT	(S) TAX CREDIT / CRÉDIT D'IMPÔT	(T) OTHER TAX CREDIT - AUTRE CRÉDIT D'IMPÔT / TYPE	(U) AMOUNT / MONTANT

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 SOCIAL INSURANCE NUMBER / N° D'ASSURANCE SOCIALE

1986 Dividends: (eligible or ineligible) / Actual: xxxx Taxable: xxxx DTC: xxxx
 NAME AND ADDRESS OF TRUST - NOM ET ADRESSE DE LA FIDUCIE

*INDICATE 1987 DIVIDENDS HERE ONLY

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Appendix B

T3 – Schedule 2B WORKSHEET

Calculation Non-Taxable Portion of Capital Gains – 1987 Area A

		1987
Taxable Capital Gains: an amount equal to T3, pg. 2 line 09		(A)
Add: L.P.P. loss, pre 1986 disposition: 1/2 of Schedule 5A, line before 506 * (1)		(B)
Reserve subtracted, pre 1986 disposition: 1/2 of Schedule 5A, line 514 * (1)		(C)
Add lines (B) and (C)		(D)
Sub-total (add lines (A) and (D))		(E)
Less: Reserve added, pre 1986 disposition: 1/2 of Schedule 5A, line 513		(F)
Net Taxable Capital Gains		
Designated/Allocated:		
Resident beneficiary T3, pg. 3 line 46		(G)
Employment Benefit Plan T3, pg. 3 line 47 * (2)		(H)
Non-res. beneficiary T3, pg. 3 line 47 * (2)		(I)
Add lines (F), (G), (H) and (I)		(J)
Total (subtract line (J) from line (E) and enter on Schedule 2B Part I (A) line 240 (1987) * (3)		(K)

NOTE: (1) The amount from this line may include another amount which is not to be considered in the calculation, e.g. 1/2 of an L.P.P. loss or 1/2 of a reserve related to a 1984 disposition would be added, but 1/2 of an L.P.P. loss or 1/2 of a related to a 1986 disposition would not.

NOTE: (2) It is assumed E.B.P. allocations on a T4 slip are shown on this line. Only a Capital gain distribution included in this income would be subtracted. Line 47 could also include other undesignated income not connected with either an E.P.B. or a non-resident allocation of capital gains.

NOTE: (3) The Worksheet is to be completed where lines (B), (C) or (F) apply or where a capital loss is indicated or both. It is expected in most circumstances that the above will not apply and the calculation of capital gains for minimum tax purposes in these cases is simply to subtract the allocations/designations of "Net Taxable Capital Gains", total of lines (G), (H) and (I) above from an amount equal to the "Taxable Capital Gains" reported on line (A) above.

Appendix C

Minimum Tax Carry-over from 1986

Minimum Tax Carry-over from 1966
(Schedule 2B, line 291)

(A) _____

Tax Payable before Minimum Tax Carry-over
Schedule 2A, line 204 or 205

(B) _____

Less: Minimum Amount
(Schedule 2B, line 267)

(C) _____

Maximum Carry-over which can be applied
in 1987

(D) _____

Minimum Tax Carry-over Applied in 1987

Claim an amount NOT EXCEEDING the lesser of (A) and (D)
(Enter this amount in Schedule 2A)

(E) _____

Balance, if any, of 1986 taxes for carryover to subsequent
taxation year (line (A) minus line (E))

(F) _____

Add: Additional 1987 taxes for carry-over to subsequent
taxation years (from schedule 2B, line 292)

(G) _____

Total Minimum Tax Carry-over Available for
Subsequent years (add lines (E), (F) and (G))

(H) _____

**INCLUDE A COPY OF THIS CALCULATION WITH THE T3 RETURN WHEN
APPLYING A CARRY-OVER.**

COMPLETION OF T3 SUPPLEMENTARY WITH 1986 AND 1987 DIVIDENDS

TRUST YEAR ENNEE IN D'ANNEE FIDUCIE	(A) ACTUAL AMOUNT ELIGIBLE DIVIDENDS MONTANT REEL DIVIDENDES ADMISSIBLES	(B) ACTUAL AMOUNT INELIGIBLE DIVIDENDS MONTANT REEL DIVIDENDES NON ADMISSIBLES	(C) ELIGIBLE INTEREST INTERET ADMISSIBLE	(D) FOREIGN BUSINESS INCOME REVENU ETRANGER TIRE D'ENTREPRISES	(E) FOREIGN NON- BUSINESS INCOME REVENU ETRANGER NON TIRE D'ENTREPRISES	(F) CAPITAL GAINS GAINS EN CAPITAL	(G) OTHER INCOME AUTRE REVENU		
MONTH MOIS	(A) TAXABLE AMOUNT ELIGIBLE DIVIDENDS MONTANT IMPOSABLE DIVIDENDES ADMISSIBLES	(B) TAXABLE AMOUNT INELIGIBLE DIVIDENDS MONTANT IMPOSABLE DIVIDENDES NON ADMISSIBLES	(L) FEDERAL DIVIDEND TAX CREDIT CREDIT D'IMPOT FED. POUR DIVIDENDES	(K) FOREIGN BUSINESS INCOME TAX PAID IMP. ETR. PAYE SUR REV. TIRE D'ENTR.	(J) FOREIGN NON-BUSINESS INCOME TAX PAID IMP. ETR. PAYE SUR REV. NON TIRE D'ENTR.	(M) CAPITAL COST ALLOWANCE DEDUCTION POUR AMORTISSEMENT	(N) RESP REFUND OF PREMIUMS REBOURSEMENT DE PRIMES D'UN REER	(O) PENSION BENEFIT PRESTAT. DE PENS.	
YEAR ANNEE	(W) DEATH BENEFITS PRESTATIONS CONSUEVUES AU DECES	(X) DEEMED RHOSS RECEIPTS RECETTES REPUTÉES D'UN REEL	(P) INSUR. SEGREGATED FUND LOSSES PERTES SUR FONDS RESERVE D'ASSUREUR N° D'ASSURANCE SOCIALE	(Q) CAPITAL GAINS ELI- GIBLE FOR DEDUCTIONS GAINS EN CAPITAL ADMIS- SIBLES POUR DEDUCTION	(R) INVESTMENT INVESTISSEMENT	(S) TAX CREDIT CREDIT D'IMPOT	(T) OTHER TAX CREDIT - AUTRE CREDIT D'IMPOT TYPE	GENRE	MONTA
1987									

From taxable Canadian corporations
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BENEFICIARY: SURNAME FIRST, AND FULL ADDRESS
BENEFICIAIRE: NOM DE FAMILLE D'ABORD, ET ADRESSE COMPLETE

1986 Dividends: (eligible or ineligible)
Actual: xxxx Taxable: xxxx DTC: x
NAME AND ADDRESS OF TRUST - NOM ET ADRESSE DE LA FIDUCIE

*INDICATE 1987 DIVIDENDS HERE ONLY

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STATEMENT OF TRUST INCOME ALLOCAT
ETAT DE LA RÉPARTITION DU REVENU DE FID