



Revenue Canada
Taxation

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Guide to the 1988 T3 Trust Return

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CHANGES FOR 1988

Changes in the Return and Schedules for 1988

Several changes have been made to the T3 Trust Income Tax Return and Information Return and Schedules. The major change is the combining of the Guide, the T3 Return and the Schedules into a package of 8 1/2 X 11 inch format. Trust Schedule 1, Part B now contains "Statement of Investment Income" formerly on Trust Schedule 6. Trust Schedule 4 - "Calculation of Part XII.2 Tax" is new. Trust Schedules 5A, 5B and 5C have been changed significantly and 5D, 5E and 5F have been added. Trust Schedule 6 now contains the calculation of Non-resident Tax (formerly on Page 1 of the T3 Return) and Boxes (G) to (T) of the T3 Supplementary (formerly on Page 3 of the T3 Return). The content of the Guide, the T3 Return and the various schedules have been changed to reflect the legislative changes discussed below.

Legislative Changes for 1988

- The actual amount of dividends received at any time in the 1988 taxation year of the trust is grossed up by 25% to arrive at the taxable amount.
- The dividend tax credit is calculated at 13.33% of the taxable amount or 66.67% of the gross-up amount.
- The interest and dividend income deduction is no longer applicable to the 1988 and subsequent taxation years.
- For capital gains realized at any time in the 1988 and 1989 taxation years of the trust, the proportion of the gain to be included in income as a taxable capital gain is an amount equal to 66.67% of the capital gain. (For 1990 and subsequent taxation years this amount will be 75%.)
- New rules require taxable capital gains allocated to a testamentary trust by either a partnership or another trust to be prorated when the fiscal period of the partnership or trust differs from that of the testamentary trust. This is applicable to taxation years of the testamentary trust ending after 1987 and commencing before 1990.
- For taxation years commencing in 1988, trusts are no longer permitted to designate capital cost allowance, terminal losses or depletion allowance to its beneficiaries.
- For taxation years commencing in 1988, rules are now applicable to allow income allocated to beneficiaries to remain in the trust and to be taxed at the trust level rather than in the beneficiaries hands. This change permits the trust to absorb any losses from prior years it may have.
- Part XII.2 Tax is new and is applicable to some inter vivos trusts. See "Part XII.2 Tax" in this Guide for details.
- Inter vivos trusts are now taxable at the 29% federal rate for 1988 and subsequent taxation years.
- Trusts are NOT entitled to any of the new personal tax credits which have replaced such items as personal exemptions.
- See Guide item on "Personal Trust" for its definition.

GUIDE TO THE 1988 T3 TRUST RETURN

INTRODUCTION

Contents of Guide

This Guide contains information to assist in the completion of the 1988 Trust Income Tax Return 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. Throughout the Guide, references are made to information contained in publications such as Interpretation Bulletins, Information Circulars and other guides. These publications are available at your District Taxation Office.

A trust return may not be required where an estate is distributed immediately after death or where no income has been earned by the estate before its distribution. In this instance the trustee should furnish the beneficiary with a statement showing the respective share of the estate to which the beneficiary is entitled.

Starting with the section entitled "Completion of T3 Return" each guide item is preceded by the line number on the T3 Return or on the appropriate Trust Schedule. The line numbers of the T3 Return 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. For further assistance in the more technical matters, the Headings for most items contain references to relevant provisions of the Income Tax Act and Regulations.

FILING REQUIREMENTS

Who should file

1. Every person, including an individual, a corporation or an institution acting in the capacity of executor, trustee, administrator, assignee or receiver who has ownership or control of a property on behalf of some other person, in a fiduciary capacity, must file a T3 Return if that person is in receipt of income, gains or profits from that property or has disposed of a capital property and
 - (a) either the "Gross Income" from Business, Farming, Fishing, Real Estate rental or "Total Income" at line 11 on page 2 of the T3 Return exceeds \$ 500.00, or
 - (b) the income designated, paid or payable to any single beneficiary exceeds \$ 100.00, or
 - (c) any portion of the income is taxable in the trust, or
 - (d) 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 78-5R3.
4. The special returns, filing requirements and other details for the trusts listed below are covered in Information Circular 78-14R2.
 - 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
 - **Registered Retirement Savings Plan Trust 146(4)**

A trust governed by a registered retirement savings plan is generally exempt from tax. However, the most common exception occurs when 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. This should be reported on a T3R-IND Return.
5. **Retirement Compensation Arrangement**
The filing requirements for a trustee of a Retirement Compensation Arrangement (R. C. A.) are given in the R.C.A. Guide available at your District Taxation Office.
6. A trustee or receiver appointed under the Bankruptcy Act who is 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 when certain payments are made.
8. A trustee of a trust exempt from tax under Part I of the Income Tax Act is not required to file a T3 Return, with the exception of a non-profit organization which provides dining, recreational, or sporting facilities for its members as its main purpose.

What to file

One completed T3 Return, applicable schedules or statements together with copies 1 and 2 of form T3 Supplementary as required are to be forwarded to the Department. The mailing address of the person filing the Return, as shown on page 1 of the T3 Return, determines the Taxation Centre to which the return is to be mailed.

When to file

Within ninety days from the end of the trust's taxation year.

Where to file

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, Rouyn, Chicoutimi and Trois Rivières	Taxation Centre, Jonquière, Quebec G7S 5J1
Toronto, Mississauga, Scarborough, North York and Ottawa	Taxation Centre Ottawa, Ontario K1A 1A2
All other areas of Ontario	Taxation Centre, Sudbury, Ontario P3A 5C2

Note:

If a prior-year return was filed at a Taxation Centre other than the Centre to which this return is being mailed, please indicate under g) on page 1 of the T3 Return "Prior Year Filed" "Taxation Centre" name. On any correspondence relating to a trust sent to either a District Taxation Office or to a Taxation Centre please clearly indicate the name of the Trust, followed by the word, "TRUST".

FORMS AVAILABLE FOR FILING**T3 Return (Lines 01 to 91)**

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

1. Completes the Identification area of the trust in full.
2. Reports revenues and expenses to arrive at Net Income.
3. Allocates or designates (or both) the trust income to the beneficiaries where applicable.
4. Claims the deductions to arrive at Taxable Income, and
5. Determines the Tax Payable, if any.

Trust Schedules

The following Schedules, if applicable, should be completed:

Trust Schedule 1, Part A (lines 105 to 120)	– Statement of Investment Income.
Trust Schedule 1, Part B (lines 121 to 124)	– Calculation of Gross-up amount of Dividends Retained by Trust.

Trust Schedule 2A (lines 201 to 226) – Calculation of Federal Income Tax for the 1988 Taxation Year.

Trust Schedule 2B (lines 239 to 294) – Calculation of Minimum Tax.

Trust Schedule 3A (lines 301 to 332) – Calculation of Provincial Income Tax of Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Ontario.

Trust Schedule 3B (lines 301 to 393) – Calculation of Provincial Income Tax of Manitoba, Saskatchewan, Alberta and British Columbia and of Territorial Income Tax of Northwest Territories and Yukon.

Trust Schedule 4 (lines 401 to 410) – Calculation of Part XII.2 Tax and Refundable Part XII.2 Credit.

Trust Schedule 5A (lines 501 to 520) – Summary of Dispositions of Capital Property for 1988 and Subsequent Years.

Trust Schedule 5B (lines 530 to 560) – Calculation of a Trust's "Net Taxable Gains" and Beneficiary's Share Eligible for Deduction.

Trust Schedule 5C (lines 571 to 576) – Summary of Reserves of Capital Property

Trust Schedule 5D (line 580) – Calculation of Cumulative Net Investment Loss

Trust Schedule 5E (lines 585 to 597) – Calculation of Capital Gains Deduction for a Spouse Trust.

Trust Schedule 5F (lines 598 to 599) – Extension of Trust Schedule 5B for Qualified Farm Property or Qualified Small Business Corporation shares.

Trust Schedule 6, Part A (lines 601 to 617) – Summary of Other Amounts Designated.

Trust Schedule 6, Part B (lines 620 to 629) – Calculation of Non-Resident Withholding Tax (Part XIII).

Trust Schedule 7 (lines 701 to 703) – Statement of Real Estate Rentals

Trust Schedule 8 (line 801) – Capital Cost Allowance (Depreciation)

Information Slips

The following information slips are to be completed if applicable:

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

See Index items "Completion of Form T3 Supplementary" and "Completion of Form NR4 Supplementary" for details on how to prepare these two information slips.

BOOKS AND RECORDS 230

Books and records necessary to verify the accuracy of reported gross and net income from business or property must be maintained and may not be destroyed without permission from the Department. See Information Circular 78-10R for details.

TAXATION YEAR 104(23), 150(1), 249, 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 and payment of tax owing to the Receiver General must be made within 90 days from the end of the trust's established taxation year.** Because most information slips for income amounts are issued on a calendar year basis, the trustee may choose a calendar year-end for a testamentary trust to facilitate the reporting of income. The current year return and schedules are usually available near the end of the year i.e. the 1988 return and schedules are available around the end of 1988. The choice of an early year end usually means that the filing is done on an old (prior year) return which may not contain all the information needed for filing a current return.

The taxation year of an **inter vivos trust** must always coincide with the calendar year. **A T3 Return for an inter vivos trust must be filed and payment of tax owing to the Receiver General must be made 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 and payment of tax owing to the Receiver General must be made within 90 days of the date of winding-up the trust.** For further comments see "Clearance Certificates".

PENALTIES AND INTEREST

Late-Filing Penalties 162(1),(7)

As an Income Tax Return, a T3 Return which is not filed by the required date is subject to a late-filing penalty of 5% of the unpaid tax at that date plus 1% of the unpaid tax for each full month (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 the greater of \$100 and \$25 per day of default to a maximum of \$2,500.

Interest 161

Interest is charged at a prescribed rate on unpaid tax owing from the date the return was due to be filed when a return is assessed or reassessed.

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 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, some property has been contributed to the trust otherwise than by an individual's 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's 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), 70(6.2), 73(1)(c)

A spouse trust may be either a testamentary trust or an inter vivos trust resident in Canada created by an individual who was resident in Canada at that time or was a resident in Canada immediately before that individual's death for a spouse 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 is that any accrued capital gains, recapture of capital cost allowances, capital losses and terminal losses which pass to the spouse trust may 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 capital gains deduction. Refer to the "Capital Gains Deduction"

item and see Interpretation Bulletin IT-305R3 for additional details.

Transfers and Loans to Spouse Trust 74.1(1)

In some cases where an individual (a settlor) has transferred or loaned property to a spouse trust, the settlor and not the trust may be required to report the income or loss from property transferred or loaned to the trust by him/her in his/her own Individual Income Tax Return while the settlor is alive. Income from a loan by the settlor is subject to the same rules as a transfer, provided the loan was made to the spouse trust after May 22, 1985 or the loan was made before May 23, 1985 and is 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.

For further details see Interpretation Bulletins IT-258R2 entitled "Transfer of Property to a spouse" and its related Special Release and IT-511, "Interspousal Transfers and Loans of Property made after May 22, 1985".

Trust for a Minor 104(18)

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

For further details see Interpretation Bulletins IT-260R and IT-510 and its related Special Release.

Transfers and Loans to Minors 74.1(2)

In the situation where an individual (a settlor) transfers or loans property to a trust for the benefit of a beneficiary who is a minor, the income or loss from the property may be attributed to the settlor and taxed in his/her hands while resident in Canada. The settlor is not required to report the income or loss of the trust where the beneficiary has, before the end of the year, attained the age of 18 or where the income is taxed in the trust.

A minor for this purpose is a person (including the settlor's niece or nephew) who is under the age of 18 years and does not deal at arm's length (related) with the settlor.

The same rules also apply to property that is loaned to a trust for a minor. Similarly, the time periods for a loan to be made described in "Transfers and Loans to Spouse Trust" above also apply.

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

For details on the term "vested interest", see Interpretation Bulletin IT-449R and for additional information on property transferred or loaned to minors, see Interpretation Bulletins IT-260R and IT-510.

Unit Trust 108(2)(a),(b)

A unit trust is an inter vivos trust where at any particular time the interest of each beneficiary in the trust is described by reference to units of the trust and the trust satisfies the conditions of the above noted paragraphs of the Income Tax Act.

Mutual Fund Trust 132, Regulations 4801, 4802

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

Communal Organization 143

Where a congregation:

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

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 detail.

Segregated Funds 138.1

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

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

A T3 Return, with financial statements, must be filed for each segregated fund.

Personal Trust 248(1)

A personal trust can be either a testamentary trust or an inter vivos trust in which no beneficial interest was acquired for consideration payable to the trust or to a person who had made a contribution to the trust.

Retention of an interest in an inter vivos trust at the time the trust was created by the individual or related individuals who settled the trust will not result in the trust losing its status as a personal trust. This definition is applicable after 1984.

Any trust not meeting the above definition is considered to be a "Commercial Trust".

Employee Trust 6(1)(h), 104(6), 248(1)

In general, an employee trust is an arrangement established after 1979 under which payments are made by an employer

to a trustee in trust for the sole benefit of employees. The trustee has to elect 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 by the employer to the plan are deductible by the employer **only** if this election has been made. To maintain its employee trust status, the trust must allocate to its beneficiaries, each year, all non-business income in respect of that year, including employer contributions.

Business income or losses are excluded from the allocation and are taxed in the trust. The amounts allocated are taxed in the beneficiaries' hands in the year of allocation as income from employment and **MUST** be reported on form T4 Supplementary NOT on form T3 Supplementary. Please ensure that page 3 of the T3 Return is completed or a statement of allocation is filed with the employee trust. See Interpretation Bulletin IT-502 entitled "Employee Benefit Plans and Employee Trusts" for further details.

Non-profit Organizations 122(1), 149(5)

Where a non-profit organization such as a club, society or association is organized and operated exclusively for social welfare, civic improvement, pleasure, recreation or for any other purpose except profit, it will be exempt from tax if no part of income is payable to or available for the personal benefit of a proprietor, member or shareholder thereof.

However, where a non-profit organization's main purpose is to provide dining, recreational or sporting facilities to its members, an inter vivos trust is deemed to have been created. The non-profit organization will then be subject to tax on its income from property in excess of \$2000.

The non-profit organization is required to file a T3 Return where the gross or total income from property such as investment income, rental income or other investment income exceeds \$ 500 for the calendar year. Tax is payable by the trust upon its taxable income for each year using the 29% federal income tax rate applicable to inter vivos trusts.

Further details on the taxation of these organizations are contained in Interpretation Bulletin IT-83R2.

Investment Clubs

Ordinarily, for investment clubs a T3 Return is filed. The taxation year of such a club is the calendar year. Income or losses are allocated on a reasonable basis to the members of the club in the year in which they are received or incurred by the club. For more details on Investment Clubs see Information Circular 73-13.

Residence of Trust

A trust may be a resident of Canada or a non-resident of Canada or a resident of a particular province or territory within Canada. Residency is a question of fact to be determined 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 T3 RETURN

PAGE 1 – T3

IDENTIFICATION AREA

This area of the trust return should be completed in following manner: It is suggested that **Name of the Trust** be completed in the same way as the following examples, with the surname first:

Write **Martin, William Estate** not Estate of William Martin
Write **Robins, S. Family Trust** not The Family Trust of S. Robins

Write **Crain, W. Trust re: Crain G.** not W. Crain Trust for G. Crain

items a) to i) all require responses,

NOTE: Under g) show the name of the Taxation Centre if prior year filed at ANOTHER Taxation Centre other than where this T3 is being filed.

item j) complete only if applicable,
items k) to o) all require responses.

The following items are extremely important because their accuracy of completion enables the Department to know that the correct rates of tax have been used:

item c) provides the residence of the trust and the appropriate province or territory for tax calculation purposes.

item m) Type of Trust.

item m) A.6 provides the Department with type of Other Inter Vivos Trust.

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 **Where to File**.

CREDITS – LINES 85 TO 89

Each credit referred to on lines 85 to 89 should be recorded on its respective line.

Line 86

Where tax has been deducted at source and reflected on

an information slip, the amount must be claimed on this line either as a credit against tax owing or as a refund. Where an information slip is not available, a statement from the issuer is sufficient to substantiate the income reported and tax withheld. Do not designate/allocate tax at source to beneficiaries. Any refund **has to be** claimed by the trust.

PAGE 2

INCOME (LINES 01 TO 10)

Line 01

Actual Amount of Dividends 82

Taxable dividends received from taxable Canadian corporations are reported here as income. Attach any information slips received. **Ensure the Actual Amount is reported at this line.**

The amount from Trust Schedule 1, Part A, line 105 is included at this line.

Line 02

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 Trust Schedule 5A. Enter the amount on line 02 from line 520 of this schedule if the amount is a net taxable capital gain.

Where a trust's allowable capital losses, except allowable business investment losses (as described at line 17), exceed its taxable capital gains such an excess can neither be allocated to the beneficiaries (except as described under "Amounts Designated /Allocated To Particular Beneficiaries") nor deducted against other income of the trust in 1988 and subsequent taxation years. A net capital loss may be applied against the amount of

taxable capital gains net of allowable capital losses of other years. See lines 51 and 52 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 section on **Testamentary Trust – 164(6) Election**.

Line 03

Other Investment Income

Some of the more common types of interest to be reported on this line are listed below:

bond interest
bank interest
mortgage interest.

One-half of any cash bonus received in the 1988 taxation year from a Series 35 Canada Savings Bond is also reported as interest income.

Interest credited to the trust's account by a financial institution is considered to have been received by the trust. Interest credited on tax refunds is to be reported at this line for the year of receipt. The total from Trust Schedule 1, Part A, line 112 for reporting interest is entered at this line. Attach any information slips received.

Note:

In the first year of a testamentary trust, the interest income

which has accrued to the date of death and has been reported in the deceased taxpayer's final T1 return should not be included in the interest received and reported in the trust. For more information on the method of reporting interest income, refer to item 121(a) of the 1988 General Tax Guide for individuals, the 1988 Deceased Persons' Income Tax Guide and Interpretation Bulletin IT-396R.

Line 04 Foreign Investment Income

Include on this line all interest and other investment income from foreign sources .

Interest credited to the trust's account by a financial institution is considered to have been received by the trust. Provision is made on Trust Schedule I, Part A, line 115 for listing the interest reported on this line.

The comments in the note to line 03 are also applicable for income included at this line.

This foreign income must be reported in Canadian funds.

Line 05 Pension Benefits

56(1)(a)(i), (iii), 60(j), 147(10), 248(1)

The amount to be entered on this line includes items such as a single payment out of a pension fund, deferred profit sharing plan 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 05, 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 see the instructions for both "Completion of T3, Page 3 - Lines 30 to 37" and "Completion of Trust Schedule 6, Part A".

Line 06 Business Income

A trust carrying on a business, other than farming or fishing, 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 gross and net income of the business on page 2 of the T3 Return.

Line 07 and Line 08 Farming Income and Fishing Income 119

A trust having income from farming and/or fishing may use either the cash or accrual method to determine its income for the taxation year. A Statement of Income and Expenses must

be attached to the return. Statements are contained in the 1988 Farming Income Tax Guide and the 1988 Fishing Income Tax Guide for your use in determining income from each of these sources. Each type of income retains its identity when it is designated to resident beneficiaries or to members of a communal organization. It also retains its identity for purposes of averaging provisions. For this purpose, income paid or payable to a beneficiary should be reported in Box (G) of the T3 Supplementary and identified as "FARMING INCOME" or "FISHING INCOME" in the blank space below Boxes (R), (S) and (T) of the T3 Supplementary.

Line 09 Real Estate Rental Income

Enter the Gross and Net Income from Trust 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, while the net rental income will show **only** the trust's share. Note that normally a loss may not be created or increased by capital cost allowance.

In addition, a terminal loss or recapture from the disposition of a rental property is included here.

For further information, refer to the 1988 Rental Income Tax Guide, Interpretation Bulletins IT-195R3 and IT-367R2.

A trust which rents only part of a building must include in income the amount of rent earned in the year and may claim only 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 should be made on a reasonable basis such as square feet or metres, number of rooms.

Line 10 Other Income

Under "Other Income" report the total of any type of income not itemized on the T3 Return or Trust Schedules, such as royalties or commissions received in the taxation year and **foreign business income** .

Certain payments, applicable to testamentary trusts, which we will call "employment related income" are to be reported at this line. This income that is taxed in the testamentary trust or the beneficiary's hands are:

- a) salary or wages after the date of death to the end of the month of death,
- b) severance pay (death benefits only) and retroactive adjustments,
- c) retroactive adjustments of payments described in a) and b) if the collective agreement is signed before the date of death,
- d) return of pension contributions.

All other taxable employment income is included on the deceased's T1 Individual Return to Date of Death.

DEDUCTIONS (LINES 12 TO 18)

Line 12 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 which are treated as capital dispositions are claimed as "Outlays and Expenses" in column 4 of Trust Schedule 5A and must not be included as a carrying charge.

Interest on a life insurance policy loan used to earn income is deductible, providing the interest is not added to the adjusted cost base of the policy. If a trust is claiming interest paid on a policy loan during 1988, the insurer must complete form T2210 "Verification of Policy Loan Interest by the Insurer". This completed form should be filed with the applicable 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 your calculation attached to the T3 Return.

A list of the types and amounts of carrying charges claimed should be attached to the T3 Return. The total entered on this line is from Trust Schedule 1, Part A line 120.

Line 15 Trustee Fees 9(1), 20(1)(bb)

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

In addition to the above outlays, executor and trustee fees may be deductible in determining the trust's profit from a business or property for the year. All such fees are income to the recipient. If trustee 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 16 Capital Cost Allowance (C.C.A.) Deducted 20(1)(a), 104(16), 104(17.1)

For 1988 taxation years beginning in 1987 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 the beneficiary's share of the amount of C.C.A. designated to all beneficiaries proportionate to the beneficiary's share of income of the trust. The amount of C.C.A. which may be deducted from "Total Income" (at this line) is the balance after any designations to beneficiaries

and should not include the amount, if any, of C.C.A. allowance designated to a beneficiary. See Capital Cost Allowance (Depreciation) section for more information.

For 1988 taxation years beginning in 1988 and for subsequent taxation years new rules require that C.C.A. has to be claimed at the trust level. In other words, income from a trust that is allocated/designated to resident beneficiaries is done so after C.C.A. is claimed in the trust. Trust Schedule 8 is provided for C.C.A. claims.

Line 17 Allowable Business Investment Losses 39(1)(c), 39(10), 104(21.2)

A capital loss from the disposal of shares or certain debts, of a small business corporation to a person with whom a trust deals 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", Trust 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) 2 times the amounts designated by the trust to beneficiaries for the preceding taxation years minus any other business investment loss of the year or of a previous year that was reduced under the Income Tax Act.

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.

Two-thirds of the business investment loss for 1988 represents an allowable business investment loss which is deductible from all sources of income in the year it is incurred.

(For 1990 and subsequent taxation years this amount will be increased to three-quarters of the business investment loss.)

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 has not been 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 this line. Do not record the loss on Trust Schedule 5A, except where the business investment loss is reduced. Only the amount of reduction is reported at line 511 on Trust Schedule 5A. Obtain the 1988 Capital Gains Tax Guide for more details.

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

Other deductions could include legal fees, office expenses and accounting fees. Any amounts claimed must be expended

to earn the income of the trust and not be outlays that pertain to the capital assets of the trust or to personal expenditures of the beneficiaries or trustees. Funeral expenses, for example are not allowable as a deduction from income.

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

Line 21 Upkeep, Maintenance, Taxes – Beneficiary

Amounts paid in the year out of the income of a trust for the upkeep, maintenance or taxes in respect of property that, under the terms of the trust, is required to be maintained for 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.

PAGE 3 – T3

Note:

Enter the number of T3 Supplementary slips being issued in the area provided.

LINES 30 TO 37 Summary of Income Designations / Allocations to Beneficiaries

Trust Schedule 6, Part A – Lines 601 to 616
104(17), (19), (20), (21), (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, foreign income, pension or superannuation benefits and death benefits. If such a designation is made, the income so designated retains its identity and is deemed to be received by the beneficiary rather than by the trust. (This income 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.)

"Allocation" indicates a flow-through of trust income without regard to its source and it is on the basis of 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 33, as "Other Income", the income having lost its identity. See Interpretation Bulletin IT-342R which deals with trust income payable to beneficiaries and Interpretation Bulletin IT-372R which discusses the most beneficial allocation for maximum flow-through of the Dividend Tax Credit.

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 for an inter vivos trust created since 1934 in which property (or property substituted therefor) which has not been absolutely vested, is subject to the discretionary power of the settlor of the property and 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 he/she is a resident of Canada. For further information, obtain Interpretation Bulletin IT-369R.

Additional Designation Provisions

In previous years there was little flexibility as to how income could be taxed, particularly in the first year of a testamentary trust. The following two provisions have been added to the Income Tax Act to provide alternatives in the rules to reporting income not only for the first year, but for subsequent years too.

104(13.1)

This new provision permits a Canadian resident trust not exempt from tax to designate to its beneficiaries their respective shares of that portion of the trust's actual income distributions which has not been deducted in computing its income for the year. In other words, the trustee has under this provision, selected to retain additional income in the trust.

Such amounts are deemed not to have been paid or payable in the year by the trust for purposes of Subsections 104(13) and 105(2).

These amounts are not deductible to the trust **and** are not taxable in the hands of the beneficiaries.

Such amounts will reduce the adjusted cost base to the beneficiaries of their capital interest in the trust **UNLESS** that interest was acquired for NO consideration in a personal trust, or was an interest in an employee trust, an R.C.A. trust, a deferred income plan trust or a related segregated fund trust.

Generally, this rule is applicable with respect to all amounts that become payable after 1987.

104(13.2)

A trust may have a non-capital loss carryforward from a prior taxation year and current taxable capital gains. The trust may choose not to deduct the full amount to which it is entitled under Subsection 104(6). This will allow the non-capital loss carryforward to absorb the current Taxable Capital Gain.

Allocation/Designation of Losses

Net capital losses and non-capital losses **cannot be allocated or designated** to beneficiaries of a trust.

Exceptions to this rule are:

- Losses of an insurance segregated fund trust which are to be reported in Box (P) on the beneficiary's T3 Supplementary.
- Investment club losses which are to be reported in brackets in Box (B) on the beneficiary's T3

Supplementary with the words "LOSS-INVESTMENT CLUB" clearly indicated in the space under Boxes (R), (S) and (T).

- (c) Losses of revocable trusts, which are to be reported in brackets in Box (B) on a separate T3 Supplementary for the beneficiary with the type of loss clearly indicated in the space under Boxes (R), (S) and (T). This includes losses from "blind trusts".

Determining Most Beneficial Designation/Allocation

See explanation of "Preferred Beneficiary Election" item of this Guide.

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

See APPENDIX A – Example of a T3 Supplementary for details.

Income Paid or Payable to Resident Beneficiaries

Page 3, Column I

Boxes (A) to (F) 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 31 to 36. In addition, use Boxes (G) to (T), lines 601 to 617 Trust Schedule 6, Part A, if applicable. If the income is allocated the amount will be entered at line 33.

For further details see Interpretation Bulletins IT-286R, "Trusts – Amounts Payable" and IT-342, "Trusts – Income Payable to Beneficiaries".

Line 32

Capital Gains Designated by a Trust to Beneficiaries

Where a portion of a Canadian resident trust's net taxable capital gains (the excess of taxable capital gains for 1988 over the total of allowable capital losses for 1988 plus net capital losses of other years deducted in 1988) 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. (Complete T3 Supplementary Box (B) and line 32 page 3 of T3 Return).

Where a trust has made the designation mentioned above, it must also designate a portion of its eligible taxable capital gains (designated eligible taxable capital gains) in respect of the beneficiary for the purposes of his/her capital gains deduction. If the trust has chosen to reduce its current year taxable capital gains with a non-capital loss carryforward pursuant to subsection 104(13.2), the amount of the reduction is deemed **not** to have been paid by the trust.

Therefore, the taxable capital gain designated to a beneficiary must be reduced accordingly.

Complete T3 Supplementary Box (I) and line 603, Trust Schedule 6, Part A.

Where a designation of net taxable capital gains is made,

Trust Schedule 5B must be completed and filed with the T3 Return.

Refer to Guide discussion of Trust Schedule 5B Lines 530 to 560 for additional details.

The designated eligible taxable capital gains for a beneficiary is the proportion of the trust's eligible taxable capital gains that the designated amount is of the trust's net taxable capital gains.

Note:

A copy of Trust 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.

Income Paid or Payable to Non-resident Beneficiaries

Page 3, Column II

Boxes (A) to (F) 104(13), 212(1)(c)

This column will allocate or designate, 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. This means that Net Taxable Gains and Taxable Dividends lose their identity when allocated to Non-resident beneficiaries.

Most amounts paid or payable to a non-resident beneficiary are subject to a withholding tax. See Non-resident Beneficiaries section of Guide. The total of Column II is to be transferred to line 620 on Trust Schedule 6, Part B "Non-Resident Withholding Tax".

For reference to the new Part XII.2 Tax see discussion of Trust Schedule 4.

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 Trust Schedule 6, Part B for these adjustments. For example, amounts paid or credited to a beneficiary resident in the United States, derived from income sources outside Canada is not subject to withholding tax by virtue of the Canada – U.S. Tax Convention. This deduction would be entered in the "Amounts Not Subject to Part XIII Tax" area at line 623 Trust Schedule 6, Part B. Interpretation Bulletins IT-381R, IT-465R and Information Circular 76-12R3 contain further information regarding this subject.

By Preferred Beneficiary Election – Resident Beneficiaries

Page 3, Column III

Boxes (A) to (F) 104(14)

This column will show the accumulating income, on which both the trustee and each preferred beneficiary have jointly elected, to have taxed in the hands of the preferred beneficiary. See "Preferred Beneficiary" and "Preferred Beneficiary Election" items of this Guide. A separate form T3 Supplementary is to be completed for this elective income.

The following are some items of income of the trust that 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
- (b) Pension Benefits
- (c) Foreign Business Income
- (d) Foreign Non-business Income
- (e) Taxable Capital Gains
- (f) Death Benefits

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

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.

Line 37 – Total

The total of lines 31 to 36 is the income designated/allocated to the beneficiaries and cannot exceed the "Trust Income Before Designations/Allocations".

LINES 40 TO 56

Line 40 Net Income After Designations/ Allocations

The trust's Net Income after designations/allocations is determined by subtracting line 37 from line 30.

Line 41 Grossed-up Amount of Dividends Retained or NOT Designated by the Trust

This amount, from Trust Schedule 1, Part B, line 124 is entered on line 41 and reflects the allowable grossed-up dividends retained by the trust.

Line 42 Net Income of Trust

Add lines 40 and 41.

Lines 51 to 55 Calculation of Taxable Income of the Trust

Line 51 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 incurred in any of the six preceding years.

Please attach details to the T3 Return concerning non-capital losses of other years, if applicable, broken down in the following manner:

Non-capital loss balances:

- a) before 1986 (taxation years commencing in 1985 and earlier)
- b) after 1985 (taxation years commencing in 1986 or later)

Farming and Fishing Losses Incurred in 1984 and Subsequent Years

The above noted types of losses may be carried back three

years and forward ten years. Where the trust is involved in farming or fishing, obtain the "1988 Farming Income Tax Guide" or "1988 Fishing 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 to be taxed in the trust. These losses cannot be designated/allocated to beneficiaries.

Line 52 Capital Losses of Other Years 3, 38, 39, 111(1)(b), 104(21)

Net capital losses excluding listed personal property losses and those allowable business investment losses which are treated as part of the non-capital losses may be carried back three years and forward until fully applied.

Net capital losses arising in 1988 may only be deducted against net taxable gains of other years and these losses do not qualify to be claimed against other sources of 1988 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 1988.

Please attach details to the T3 Return concerning net capital losses of other years, if applicable, broken down in the following manner:

Net capital loss balances:

- a) before May 23, 1985
- b) from May 23, 1985 to the year end of the trust with a taxation year commencing in 1985
- c) after 1985 (taxation year commencing in 1986 or later)

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 1988, the excess may be used to reduce net gains on listed personal property in 1985, 1986, 1987 and in the next seven years (1989 to 1995).

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

Loss applications

A request for a loss carryback must be filed on or before the normal due date of the T3 Return for the year in which the loss occurs. To do so, attach a completed copy of form T1A "Request for loss carryback" to the T3 Return.

If the losses will not be fully absorbed by incomes of prior years, 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. 1985 non-capital losses must be applied before 1986 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 53 Taxable Capital Gains Deduction for Resident Spouse Trust ONLY

A spouse trust resident in 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 Trust Schedule 5E and attach it to the T3 Return. The result is entered from line 597 of this schedule.

Line 54 Other Deductions

Items such as limited partnership losses and farm losses may be claimed on line 54 of page 1 of the T3 Return. If more than one loss is being claimed or if a claim needs more explanation, attach a note to the T3 Return with the details.

To determine Taxable Income of the Trust, the Deductions on lines 51 to 54 should be entered where appropriate. The total at line 55 subtracted from line 42 is the Taxable Income of the Trust. This result at line 56, 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 56 is NIL or greater, the trust (other than a Mutual or Segregated Fund Trust) may be subject to Minimum Tax. See "Minimum Tax – Trust Schedule 2B".

CERTIFICATION

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 if compensation has been paid for the completion of this return.

PAGE 4 – T3

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. Where the Department requires additional information, other than a Yes/No response or a schedule, explanatory notes to help in the completion are provided for some of the 19 questions below.

Question 5

If the answer is yes, complete Trust Schedule 4. See Part XII.2 Tax item in this Guide.

Question 11

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

If yes, follow the rules for making such an election in Regulation 2800 of the Income Tax Act.

Question 12

The trustee must attach a statement where estate assets have been distributed to one or more beneficiaries. It does not pertain to the distribution of forms T3 Supplementary. This statement should disclose the following information:

- a) Name and address 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 13

This question 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 Trust 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 14.a)

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.

Question 17

If the answer is yes, the election must be filed amending the

deceased taxpayer's T1 Return to date of death on which the capital gain of the deemed disposition was originally reported.

Question 18.a)

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

Question 18.b)

See discussions of Additional Designation Provisions 104(13.1) and/or 104(13.2) for details.

Question 19

This will ensure that correspondence is received in the official language of your choice.

T3 SUPPLEMENTARY

Completion of T3 Supplementary

A T3 Supplementary must be prepared for all allocations/designations to a RESIDENT beneficiary. It is important to follow these instructions closely because errors or omissions may result in all T3 supplementaries being returned to the preparer for revision. Please note the following instructions:

- Complete the T3 Supplementary legibly.
- Enter Social Insurance Numbers of the beneficiaries.
- Identify the fiscal year end for which the T3 supplementary is being prepared; that is the month and year.
- Identify original supplementaries as follows:
ORIGINAL – April 1988 year end
- Identify cancelled, amended or duplicate supplementaries as such in large print across the bottom of the T3 Supplementary.
- Include the number of the amendment and the date the amended supplementary is prepared as shown below:
1 FIRST AMENDED – July 3, 1988
2 SECOND AMENDED – December 6, 1988
- Cancelled or amended T3 supplementaries which change amounts shown on previous T3 supplementaries necessitate the filing of a revised T3, page 3 and Trust Schedule 6, Part A showing the changes in the respective boxes. The number and date of the changes should be noted on page 3 and Trust Schedule 6, Part A.
- Copies of either amended or original T3 supplementaries should be distributed as instructed on the back of copy 5 as 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 second for all other income.
- Report all amounts designated/allocated to each RESIDENT beneficiary in the appropriate boxes as follows:

Boxes (A) to (F) are covered at the top of page 3 of the T3 Return in the "Summary of Income Designations/

Allocations".

Boxes (G) to (T) are covered on Trust Schedule 6, Part A in the "Summary of Other Amounts Designated/Allocated.

- Box (A) – Enter the designated portion of the actual amount of dividends that qualify for the dividend tax credit received from taxable Canadian Corporations .
- Box (B) – Enter 1.5 times the amount of any net taxable capital gains excluding deemed taxable gains from eligible capital property (to be reported in Box (C)) designated to a beneficiary from page 3, Column I, line 32 of the T3 Return.

Ensure that the designated portion of the trust's eligible taxable capital gains is also indicated at Box (I) for the purpose of the beneficiary's capital gains deduction.

Amounts attributable to Qualified Farm Property and Qualified Small Business Corporation shares must be identified to enable the beneficiary to claim the higher capital gains deduction relating to these dispositions. Put an asterisk * beside this amount in Box (B). In the area below Box (S) write Qualified Farm Property or Qualified Small Business Corporation shares and show the amount that is included in Box (B) and Box (I) that relates to the disposition of this property.
See Guide item Line 32 for further details.
- Box (C) – Enter the amount of all other income which is not recorded in Boxes (A),(B),(D),(E) and (F).

Include deemed taxable capital gains from the disposition of eligible capital property, if applicable. Put an asterisk * beside this amount in Box (C). In the area below Box (S) write a description of the property i.e. Eligible Capital Property – Qualified Farm Property or Eligible Capital Property – Other, the taxable amount and the amount that qualifies for the capital gains deduction.

- Box (D) – Enter the designated portion of the gross foreign business income from line 34, page 3 of the T3 Return. capital losses from insurance segregated fund trusts. Place brackets around this amount.
- Box (E) – enter the designated portion of the gross foreign non-business income from line 35, page 3 of the T3 Return.
- Box (F) – Enter the amount of pension benefits including Canada Pension Plan death benefits designated to beneficiaries from line 36, page 3 of the T3 Return.* see Guide item "Line 607 – Eligible Pension Income" for further details. Note C.C.P. is NOT eligible pension income.
- Box (G) – Enter the amount of other items such as the following:
For trust years beginning before 1988 ONLY, Capital Cost Allowance (C.C.A.) may be designated to beneficiaries. Put brackets around the amount in this box and write C.C.A. below the amount.
Pension payments eligible for the Income Tax Application Rules (I.T.A.R.) 40 provision are to be entered here.
- Box (H) – Enter the taxable amount of dividends which is 1.25 times the actual amount reported in Box (A).
- Box (I) – Enter 1.5 times the designated portion of the trust's eligible taxable capital gains excluding deemed taxable gains from eligible capital property (to be reported in Box (C)) for the purpose of the beneficiary's taxable capital gains deduction. If Box (B) includes gains from Qualified Farm Property or Qualified Small Business Corporation shares put an asterisk in Box (I). In the area below Box (S) show the amount that qualifies for the capital gains deduction. See Guide item Line 32 for further details.
- Box (J) – Enter the amount of death benefits designated to beneficiaries. (See Guide item 604 – Eligible Pension income and Line 604, Trust Schedule 6, Part A)*
This amount is also included in Box (C).
- Box (K) – Enter the designated portion of the foreign business income tax paid which is based on the amount in Box (D).
- Box (L) – Enter the designated portion of the foreign non-business income tax paid which is based on the amount in Box (E).
- Box (M) – Enter amounts applicable to Eligible Pension Income to the spouse of the decedent. The amount here is also in Box (F). *
- Box (N) – This is a spare box. If there is more than one item for Box (G) use this box.
- Note:*** These are memo boxes only.
- Box (O) – Calculate and enter the federal dividend tax credit – 13.33% of the taxable amount in Box (H).
- Box (P) – Enter 1.5 times the amount of allowable
- Box (Q) – Report that portion of the trust's investment in qualified property on which the calculation of each beneficiary's portion of the investment tax credit is based. (Line 611, Trust Schedule 6, Part A and Trust Schedule 2A, line 217)
- Box (R) – 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.
(Lines 612 Trust Schedule 6, Part A and Trust Schedule 2A, Line 217)
- Box (S) – This box is available to indicate each beneficiary's portion of the following credits designated. Enter the type and amount of:
a) Manitoba Manufacturing Investment Tax Credit (Man.Mfg.) designated. (Line 613, Trust Schedule 6, Part A)
b) Saskatchewan Livestock Investment Tax Credit (S.L.I.T.C.) designated. (Line 614, Trust Schedule 6, Part A)
c) Saskatchewan Livestock Facilities Tax Credit (S.L.F.T.C.) designated. (Line 615, Trust Schedule 6, Part A)
d) Employment Tax Credit (E.T.C.) designated.
(Line 616, Trust Schedule 6, Part A)
When a taxpayer is designated more than one of the credits, prepare separate T3 Supplementaries for each credit.
These are the only 4 credits which may be included in this box.
- Box (T) – Enter the portion of the Part XII.2 Tax Credit that is designated to each beneficiary. See discussion on Part XII.2 Tax in this Guide and Trust Schedule 4.

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 on form T3 Supplementary. Refer to Guide item Line 86 for further information.

Note:

Additional Instructions – Boxes (B), (C) and (I)
If more than one box requires an explanation in the area under Box (S), prepare a separate statement and attach one copy to each copy of the T3 Supplementary.
If the amount in Box (I) is less than the amount in Box (B), or if less than the full amount of the deemed taxable gain from Box (C) is eligible for the capital gains deduction, the beneficiary should be advised to recalculate Schedule 3 for purpose of calculating the capital gains deduction (form

T657) using the lesser amounts from Box (I) and Box (C). The trustee has to provide each beneficiary with additional instructions when designating gains from Qualified Farm Property – Boxes (B) and (I); Qualified Small Business Corporation shares – Boxes (B) and (I); Eligible Capital Property – Qualified Farm Property – Box (C); Eligible Capital Property – Other – Box (C).

Inform each beneficiary that if * appears in Box (B) then part of the amount in Box (B) is a capital gain from the disposition of Qualified Small Business Corporation shares or Qualified Farm Property. The amount is to be reported by the beneficiary on line 513 or 516 depending on the details provided below Box (S). The difference between the amount the beneficiary reports at line 513 or 516 is reported at line 533.

If * appears in Box (C), then part of the amount in Box (C) is either a deemed taxable gain from Eligible Capital Property – Other to be reported at line 544 or a taxable capital gain from Eligible Capital Property – Qualified Farm Property to be reported at line 543.

The difference between the amount the beneficiary reports at line 543 or 544 is reported at line 130.

If * appears in Box (I), then part of the amount in Box (I) should be entered as a capital gain from the disposition of Qualified Small Business Corporation shares or Qualified Farm Property.

See details in the discussion of this note concerning Box (B) above.

Distribution of 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 with the trust records.

TRUST SCHEDULES

Trust Schedule 1, Part A – Lines 105 to 120

Statement Of Investment Income

Line 112

Other Investment Income

See discussion of page 2, line 03 for the types of investment income a trust may earn. (Attach information slips received.) Other types of investment income include interest received from a partnership by a trust that is a partner and interest received by a trust which is not dealing at "arm's length" with the payer.

For further discussion on the meaning of "arm's length" see Interpretation Bulletin IT-419 .

Line 115

Total Foreign Investment Income

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

Line 120

Carrying Charges

Enter line 120 amount (the total of lines 116 to 119) on line 12, page 2 of the T3 Return.

Trust Schedule 1, Part B – Lines 121 to 124

Calculation of Gross-up Amount of Dividends Retained by the Trust

This calculation determines the gross-up amount of dividends retained by the trust. See discussion of line 01, page 2 of the T3 Return for further reference.

Line 121

Total Dividends Reported

List actual amounts of dividends received as per Box (A) on forms T3 Supplementary and T5 Supplementary (attach any information slips received).

Carrying charges relating to dividends should be shown on Trust Schedule 1, Part A, line 119.

from line 121 deduct Dividends designated to beneficiaries. The remaining amount at line 123 "Total Dividends retained or NOT Designated by the Trust" is multiplied by 25% to arrive at line 124 amount.

The gross-up rate for dividends received in the 1988 taxation year is 1/4 of the actual dividends received.

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

Trust Schedule 2A – Lines 201 to 226

Calculation of Federal Income Tax for the 1988 Taxation Year 122

Inter vivos trusts which do not meet all of the following conditions are taxed at 29% 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 "1988 Rates of Federal Income Tax" for individuals.

Line 209 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 211 Federal Dividend Tax Credit 121

The amount of the federal dividend tax credit that the trust may claim on dividends received in the 1988 taxation year is shown as part of the calculation at Trust Schedule 2A, line 211.

The dividend tax credit is 13.33% of the amount previously calculated at line 124 of Trust Schedule 1, Part B.

Line 213 Surtax On Income Not Subject to Provincial or Territorial Tax 120(1)

Canadian resident trusts

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

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 and NOT the surtax. 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 215 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 224 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 18 on page 2 of T3 Return or an additional foreign tax deduction against the individual surtax otherwise payable. See line 224 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-270R2 and IT-201R.

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 215 on Trust Schedule 2A.

Line 216 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 _____

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	_____
-33⅓% 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 216 on Trust Schedule 2A.

Line 217 **Annual Investment Tax Credit Limit** 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.

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

- qualified property was purchased or a qualified expenditure was made in 1988, or
- a credit is being carried forward, or
- a credit is being claimed in 1988, or
- an investment tax credit refund is being claimed

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

The cost of assets or expenditures which gave rise to an investment tax credit must be reduced in 1988 by any portion of the credit deducted or refunded in calculating the tax payable for 1984 to 1988.

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 to beneficiaries by testamentary trusts or by communal organizations. All or part of the Investment Tax Credit which is designated according to the terms and conditions of the trust or by choice of the trustee is to be included in Box (R), line 612 on Trust Schedule 6, Part A 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-331R2.

A separate form T3 Supplementary should be prepared for each allocation to beneficiaries for eligible expenditures in

the different regions, because of varying investment tax credit rates. A beneficiary could therefore have more than one T3 Supplementaries from the same trust.

For more details, in this area refer to the "1988 Business and Professional Income Tax Guide", the "1988 Farming Income Tax Guide" or the "1988 Fishing Income Tax Guide", Interpretation Bulletin IT-331R2 - "Investment Tax Credit", Information Circular 78-4R3 - "Investment Tax Credit Rates" and its Special Release dated November 13, 1987.

Line 224 **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 212 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 212 on Trust Schedule 2A minus the amount (a) on form T184, Part I, Area A.

The additional Federal Foreign Tax Credit (F.F.T.C.) calculated on form T2209 is subtracted from either a) or b) above, as required. Enter this result, the Individual Surtax Payable on line 224 on Trust Schedule 2A or, on line 280 on Trust Schedule 2B if the trust is subject to Minimum Tax.

To complete form T2209, Part II the following instructions should be used:

- a) If the amount determined at line (i) of the Special Foreign Tax Credit calculation on Trust Schedule 2B exceeds the amount at line (E) 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 266 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 226 **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.

Trust Schedule 2B – Lines 239 to 294 Calculation of Minimum Tax 127.53(2),(3), 138.1(1)(a)

A Mutual fund trust and a Segregated fund trust are not subject to minimum tax. Any other trust **except** investment clubs which are not trusts is liable to pay a minimum tax if the amount calculated exceeds the regular tax payable. Any of the following conditions may attract minimum tax for 1988:

- (A) Taxable capital gains are reported;
- (B) 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:
- (C) Multiple unit residential buildings;
- (D) Certified films or video tapes; or
- (E) A loss is claimed resulting from or increased by resource and depletion allowances on resource properties.

If any of the above conditions apply complete Trust Schedule 2B to determine the Net Adjustable Taxable Income for minimum tax purposes. Basically, Trust Schedule 2B recalculates taxable income by adding back 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-taxable 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.

Explanations of certain lines as required, are provided below.

Line 241 Non-taxable portion of capital gains retained in the trust

This amount would normally be equal to one-third of the taxable capital gains retained in the trust after designation or allocation to beneficiaries. Included in beneficiaries are 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 1987 was used in calculating the 1988 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. This reduction is the portion, if any, of post 1986 non-capital losses attributable to capital cost allowance claimed on MURBS, Certified Films/Videotapes and/or Resource Expenditures and Resource and Depletion allowances included in the loss claimed.

If any part of the non-capital loss is attributable to capital cost allowance on MURBS etc., the portion is added back here.

Line 262 Net Capital Losses of other years USED IN CURRENT YEAR

The non-taxable portion of capital losses arising from dispositions of capital property after 1986 may be deducted from the otherwise non-taxable portion of capital gains, (the amount at line 241).

Line 264 Basic Exemption – Minimum Tax 122(2), 127.53(b)

A basic exemption of \$ 40,000 is allowed to testamentary trusts and to those inter vivos trusts (other than mutual fund trusts) that were established before June 18, 1971 and meet certain conditions under the Income Tax Act.

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.

Lines 285 to 294 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.

Trust Schedules 3A and 3B – Lines 301 to 398 Provincial or Territorial Tax Payable

Trusts resident in a province or territory (other than Quebec) on the last day of their taxation year 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 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 which did not have income from a business with a permanent establishment in any other province or territory are not required to calculate provincial income tax in the federal tax return 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 having 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. Any credit is then applied against provincial or territorial Income Tax.

Provincial and Territories 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 registered political party of that province/territory,
- a registered constituency association of that province/territory,
- 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 1988 \$_____

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 1988 .. \$_____

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 1988 \$_____

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 Credit

British Columbia provides a tax credit to a trust resident in that province on the last day of its taxation year. It is the British Columbia Venture Capital Tax Credit. It is calculated on Trust Schedule 3B and entered at line 89 on page 1 of the T3 Return as a deduction from Tax Payable.

To claim the British Columbia Royalty and Deemed Income Rebate complete and attach form T81 and enter the result at line 380 of Trust Schedule 3B.

Alberta Royalty Tax Rebate and Credit

If, during 1988, the trust paid royalties or similar payments to a federal or provincial government for production from a Canadian resource property, it may qualify for this Alberta Royalty Tax Rebate and the Alberta Royalty Tax Credit. To claim the rebate and credit, you must complete forms T79 and T80, respectively, and attach them to the T3 Return. Both forms are available from your District Taxation Office.

Alberta Royalty Tax Rebate calculated on form T79 is entered on Trust Schedule 3B, Line 370. Alberta Royalty Tax Credit on form T80 is entered at line 89 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. 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 3B, lines 357-359. 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 as outlined below.

If a communal organization, which is considered to be an inter vivos trust, makes the appropriate election, 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 149

Any unused credit is subject to carry-over provisions.

To claim a carry-over of this credit 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 343 on Trust Schedule 3B.

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

Employment Tax Credit (E.T.C.)

Any claim for a carryforward of an E.T.C. from prior years 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 (S) and "E.T.C." should be indicated in the Type of Credit Area.

Note:

The E.T.C. is not applicable for taxation years after 1988.

Trust Schedule 4 – Lines 401 to 410 Calculation of Part XII.2 Tax for Taxation Years Commencing After 1987 104

This new tax, applicable for 1988 and subsequent taxation years, does NOT apply to a trust that was, throughout the year a testamentary trust,

- a mutual fund trust, or
- a trust that is exempt from tax under Part I.

For a complete listing of the types of trusts exempt from Part I Tax see Interpretation Bulletin IT-269R2.

Part XII.2 Tax IS levied on distributions of "specified income" from the trust to "designated beneficiaries". Specified income for a trust means the total amount (excluding payments from an employee benefit plan, an employee trust, amounts credited to beneficiaries for upkeep etc., amounts per a preferred beneficiary election and the actual tax under Part XII.2) of:

- income from carrying on a business in Canada
- income from real estate
- income from resource properties and timber resource properties
- gains from dispositions of taxable Canadian property.

Note:

Although the term "Designated Income" is used in Part XII.2 of the Income Tax Act, the term "Specified Income" has been substituted in this Guide and in Trust Schedule 4 to avoid any confusion with designated income used in other areas of this Guide.

A designated beneficiary under a trust generally means a non-resident person or a non-resident-owned investment corporation.

The new tax will also apply where a taxable trust makes distributions out of its specified income to persons who are exempt from tax under Part I where these persons acquire their interests in such trusts directly or indirectly from other beneficiaries of the trust after October 1, 1987. This change prevents income which has accrued in the trust for the benefit of a taxable beneficiary from escaping tax where the interest is transferred to a person who is exempt from Part I Tax.

Line 406

The total of lines 401 to 405 is entered at this line.

Line 407

The amount at this line will not be equal to the amount at line 406 if all of the line 406 amount is NOT deducted in the year.

Enter the amount from line 37, page 3 of the T3 Return.

Line 408

Calculation of Part XII.2 Tax Credit is the lesser of amounts at lines 406 and 407 multiplied by 36%. The amount calculated is entered at here and at line 83, page 1 of the T3 Return.

Line 409

The amount at this line reduces the amount on which Part XIII Tax is levied and the amount is entered at line 624, Trust Schedule 6.

Line 410

The amount at this line is the calculation to establish the Part XII.2 Refundable Tax Credit for Eligible Beneficiaries, that is to say, beneficiaries who are NOT Designated Beneficiaries.

See Appendix D of this Guide for an example of a Part XII.2 Tax Calculation.

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 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 the 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 the 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. Once an election is made and assessed, it cannot be rescinded. If the election is filed late the elective income will be taxed in the hands of the trust.

Interpretation Bulletin IT-394 and its related Special Release deal with the subject in considerable detail.

Trust Schedule 5A – Lines 501 to 520 Summary of Dispositions of Capital Property for 1988 and Subsequent Years 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. Trust Schedule 5A is to be completed and filed with the T3 Return 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. The "1988 Capital Gains Tax Guide" 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.

Please note that the taxable portion of a capital gain is $\frac{2}{3}$ of the capital gain for 1988 and 1989; $\frac{3}{4}$ for 1990 and subsequent years.

Note:

In the case where a testamentary trust with a fiscal year ending in 1988 is a beneficiary of another trust with a fiscal year ending in 1987, the inclusion rate for the recipient trust is $\frac{2}{3}$ of the capital gain.

Capital Dispositions

40(3), 44, 45, 54(c), 104(4), (5), 107, 108(1)(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 an property.

Where a property of a personal 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. For some trusts the deemed disposition in a trust created after 1972 will first occur 21 years after the year the trust was created and every 21 years thereafter. These deemed dispositions should be reported on Trust Schedule 5A.

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.

A unit trust, trusts governed by 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 "21 year deemed disposition" rules.

Testamentary Trust – 164(6) Election Regulation 1000

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. The above mentioned regulation 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 for the deceased taxpayer 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.**"

Line 501 Qualified Small Business Corporation Shares 110.6(1), (14)(c),(d), 248(1)

A capital gain from the disposition of this type of share is reported by a personal trust at this line. A share in a small business corporation is considered to be a qualified small business corporation share if:

- the disposition occurred after June 17, 1987 and
- at that time, the share was owned by the trust or person or a partnership related to the trust and
- throughout the 24 months immediately before the disposition, the share was not owned by anyone other than the trust or person or a partnership related to the trust and
- throughout the 24 months immediately before the disposition, 50% of the fair market value of the assets of that corporation were
 - assets used in an active business carried on primarily in Canada
 - certain shares or debts if connected corporations, or
- a combination of the above two categories.

For purposes of this definition, a person or a partnership is related to a personal trust if that person or partnership is a beneficiary of the trust.

Line 502 Qualified Farm Property 110.6(1)

For greater clarity, qualified farm property must be property **owned** by the trust that is:

- a share of the capital stock of a family farm corporation
- an interest in a family farm partnership

- real property or eligible capital property **used** in carrying on the business of farming in Canada by:
 - a beneficiary of the trust who is an individual to whom the trust has designated taxable capital gains
 - a spouse, child or parent of that beneficiary, or
 - a family farm corporation or family farm partnership of the trust or beneficiary, or the beneficiary's spouse, child or parent.

Line 501 and 502 gains qualify for the higher capital gains deduction limit when these gains are designated to an individual beneficiary. See "Completion of T3 Supplementary" in this Guide for discussion of Boxes (B) and (I) which explains how to make sure these gains retain their identity for higher capital gains deduction purposes.

For additional details on this topic refer to the "1988 Capital Gains Tax Guide".

Lines 503, 504 and 505 Other Capital Properties 39

As indicated on Trust Schedule 5A, other capital properties are divided into "Shares", "Bonds, Debentures, Promissory Notes and Other Properties" and "Real Estate". (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 property.

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.

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. The gain 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.

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

Line 506 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 disposed of 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) is 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(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 usually will be exempt from tax on any gain realized on its disposition. The gain is exempt provided the residence qualifies and is designated by the trust as the principal residence of the spouse for the period owned. See Interpretation Bulletins IT-366R and its related Special Release and IT-120R4 for details.

Line 508 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 items is treated the same as the gain on personal use property. If the trust has sold such an item or set 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.

Eligible Capital Property 14(1)

The disposition of eligible capital property such as goodwill may result in a deemed taxable capital gain to be reported at Line 519. This gain is to be reported at Line 518 if the disposition relates to qualified farm property.

For further information on deemed taxable capital gains on the disposition of eligible capital property, refer to the 1988 Farming Income Tax Guide, the 1988 Fishing Income Tax Guide and the 1988 Business and Professional Income Tax Guide.

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

Refer to the 1988 Capital Gains Tax Guide and Interpretation Bulletin IT-407R3 for information on dispositions of Canadian Cultural Property.

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-456R2 for additional information on adjustments to 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 is December 22, 1971 for shares listed in the publication "Valuation Day Prices of Publicly Traded Shares" (available from your District Taxation Office). Valuation Day for all other assets is December 31, 1971. To compute a capital gain or loss on an asset acquired before 1972, three values are required:

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

The median of these three amounts, that is, the amount 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 below.

Where two or more of these three amounts are the same, 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 Schedule 5A provided that there are no adjustments to the cost base. 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.

Refer to Interpretation Bulletin IT-370, "Capital Property Owned on December 31, 1971" for additional information.

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 rather than use the median rule. Once this election is made, 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 in making this election.

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, lawyer's fees, commissions, broker's fees, surveyor's

fees, transfer taxes and other reasonable expenses directly related with facilitating the sale of property.

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

Summary of Capital Gains 40(1)

Summarize the capital gains and losses as shown on Trust Schedule 5A. Remember that two-thirds of the capital gain should be entered at line 04, "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 1987, it must be brought back into income in 1988. If all of the proceeds are not due in 1988, a new reserve may be claimed.

For more details, obtain Interpretation Bulletin IT-236R2 and the 1988 Capital Gains Tax Guide.

Records – Capital Transactions

Records or vouchers relative to capital transactions do not need to be filed with the return but must be retained. See Information Circular 78-10R for details on retention/destruction of records.

Trust Schedule 5B – Lines 530 to 560 Calculation of a Trust's "Net Taxable Capital Gains" and Beneficiary's Share Eligible for Deduction

Here, the trust's eligible taxable capital gains are determined for the purposes of providing each beneficiary his or her amount of designated taxable capital gains (T3 Supplementary Box (B) that is eligible for the capital gains deduction (Box (I))).

The trust's eligible taxable capital gains for the current year is the lesser of:

- (a) the trust's annual gains limit for the current year; and
- (b) the trust's cumulative gains limit at the end of the current year less the total amounts of eligible taxable capital gains designated in prior years (1985 to 1987 inclusive).

Line 539 Part I. Trust's Annual Gains Limit for the Current Year

The annual gains limit is the amount by which:

- (a) 1988 taxable and deemed taxable gains (excluding

reserves on dispositions that occurred before 1985) less 1988 allowable capital losses

exceeds

- (b) the aggregate of 1988 allowable business investment losses and net capital losses of other years (1985 to 1987) claimed in 1988.

Line 548 Part II. Trust's Cumulative Gains Limit at the End of the Year

The trust's cumulative gains limit for 1988 is the total of the annual gains limit calculated for 1985 to 1988, inclusive less the trust's 1988 cumulative net investment loss.

The 1988 cumulative gains limit is the amount by which:

- (a) the aggregate of:
 - i) the amount by which taxable capital gains exceeded allowable capital losses in the years 1985, 1986 and 1987 in respect of dispositions occurring in the year, and
 - ii) for 1988, the amount by which taxable and deemed taxable capital gains (excluding reserves of dispositions occurring before 1985) exceeds allowable capital losses.

exceeds:

- (b) the aggregate of:
 - i) allowable business investment losses claimed in 1985 to 1988 inclusive, and
 - ii) net capital losses of other years claimed in 1985 to 1988 inclusive, and
 - iii) capital losses claimed in 1985 (not exceeding \$2000.), and
 - iv) 1988 cumulative net investment loss

Note:

Refer to Trust Schedule 5D, line 580 for calculation of iv) above, the 1988 Cumulative Net Investment Loss.

Lines 550 to 555 Part III. Trust's Net Taxable Gains for Current Year 104(21.3)

The trust's net taxable capital gains amount is calculated here and will be used in Part V to calculate each beneficiary's share of the eligible taxable gain (Box (I)) for the capital gains deduction.

Amounts designated to beneficiaries as taxable capital gains under subsection 104(21) and as eligible taxable capital gains for purposes of the capital gains deduction under subsection 104(21.2) must not include any taxable capital gains to which the trust has applied a non-capital loss carryforward under 104(13.2). This is applicable to taxation years commencing after 1987.

If the trust is designating taxable capital gains to a beneficiary who is an individual in respect of qualified farm property or qualified small business corporation shares, it must complete Trust Schedule 5F, Part II to determine each beneficiary's share of capital gains from these properties.

Lines 556 to 560
Part IV. Trust's Eligible Taxable Capital Gains for Current Year 108(1)(d.2)

The eligible taxable capital gains amount determined here is the amount of the trust's taxable capital gain that qualifies for the capital gains deduction in the hands of each beneficiary who is an individual.

Part V. Calculation of Beneficiary's Share of Trust's Eligible Taxable Capital Gains for his/her Capital Gains Deduction

This calculation is required to determine each beneficiary's share of the eligible taxable capital gains for purposes of the beneficiary's capital gains deduction.

Where this amount (used to complete Box (I) of the T3 Supplementary) is less than the designated taxable capital gains amount (Box (B)), the beneficiary should be advised to use the lesser amount to calculate the capital gains deduction on form T657.

If the trust is designating eligible taxable capital gains to a beneficiary who is an individual in respect of qualified farm property or qualified small business corporation shares Trust Schedule 5F, Part III must be completed to determine each beneficiary's portion of the eligible taxable capital gains from these properties (Box (I)).

Trust Schedule 5C – Lines 570 to 576
Summary of Reserves on Dispositions of Capital Property

If the trust claimed a reserve on the disposition of capital property at the end of the prior taxation year or if a reserve is being claimed at the end of the current taxation year, Trust Schedule 5C should be completed.

Information from this schedule is required to complete Trust Schedule 2B, where it is necessary to segregate reserves, applicable to capital dispositions occurring before 1986 and to complete Trust Schedules 5A, 5B and 5F.

This schedule shows the types of properties and the time period applicable to the reserves / dispositions. This breakdown of information is needed for the purpose of calculating the taxable capital gains and eligible taxable capital gains for each type of property.

Trust Schedule 5D – Line 580
Calculation of Cumulative Net Investment Loss

Cumulative Net Investment Loss refers to the amount by which investment (property) expenses for the year or for a preceding year ending after 1987 exceeds investment (property) income for the year or for a preceding year ending after 1987.

The amount determined at line 580 reduces the trust's cumulative gains limit (calculated on Trust Schedule 5B, Part II) and therefore reduces the trust's eligible taxable gain for the beneficiaries' capital gains deduction.

Investment income (expenses) for purposes of the cumulative net investment loss refers to income and expenses related to property such as dividends, interest and rental income.

Refer to Trust Schedule 5D for additional details.

Trust Schedule 5E – Lines 585 to 597
Calculation of Capital Gains Deduction for a Spouse Trust 110.6(12)

The calculation of the spouse trust's capital gains deduction in the year in which the spouse died is done on this schedule.

Before this calculation is made, the following two calculations have to be made:

- a) the trust's eligible taxable capital gains (Trust Schedule 5B) and
- b) the spouse's unused lifetime capital gains deduction limit for the year in which the spouse died (calculated on Form T657).

Trust Schedule 5F – Lines 598 to 599
Extension of Trust Schedule 5B for Qualified Farm Property or Qualified Small Business Corporation Shares

If the trust is designating taxable capital gains or eligible taxable capital gains from dispositions of qualified farm property or qualified small business corporation shares, the amounts attributable to these properties must be calculated to enable the beneficiary to have advantage of the higher capital gains deduction. as a result of these disposals.

See the discussion of Boxes (B), (C) and (I) in the Guide item "Completion of T3 Supplementary" for additional details.

Trust Schedule 6, Part A – Lines 601 to 617
Other Amounts Designated – Boxes (G) to (T)

This area will be completed only when there are designations such as dividends from taxable Canadian corporations and foreign taxes paid for credit purposes.

Capital Cost Allowance (C.C.A.) Designated to Beneficiaries

For taxation years beginning after 1987, C.C.A. may NOT be designated to beneficiaries.

Registered Retirement Savings Plan (R.R.S.P.) Refunds 146(1)(h), 146(8.1), 146(8.8)

For 1988 and subsequent taxation years, inclusion of 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 to be reported on the final T1

Return of the deceased. The only reporting in the T3 Return will be for the purpose of reflecting any interest earned after the date of death.

On the death of an annuitant where the spouse is the beneficiary of the plan, 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 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 or grandchild 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. The T4RSP information slip and form T2019 must be attached to the T1 Individual Income Tax 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 Individual 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. The return to be filed is a T3R-IND. In the above situation, it is possible for the beneficiary to be the testamentary trust of the deceased. For additional information see Interpretation Bulletin IT-500.

**Line 604
Death Benefits 104(28), 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.

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 beneficiary's income. Box (J) is 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 T1 Individual Income Tax Return.

See Interpretation Bulletin IT-508 for further discussion on death benefits.

Where a trustee calculates the taxable portion on behalf of a

beneficiary, the trustee must ensure that only the taxable portion of the death benefit is reported at line 10, page 2 of T3 Return and that only Box (C) is completed on Form T3 Supplementary.

Note too, that C.P.P. benefits are not eligible to be transferred under paragraph 60(j) of the Income Tax Act to a Registered Pension Plan or a Registered Retirement Savings Plan.

Payments from the Canada Pension Plan (C.P.P.) are not considered to be paid in recognition of an employee's service in an office or employment. Consequently, C.P.P. death benefits should not be reported in Box (J) or Box (M) of Form T3 Supplementary. Instead, these payments should be reported in Box (F) as they qualify under the transfer provisions for pensions.

C.P.P. death benefits DO NOT qualify as income included for purposes of the "Eligible Pension Income Amount", one of the Non-refundable Tax Credits calculated on the T1 Individual Income Tax Return of a beneficiary.

**Line 606
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 must be converted to Canadian funds.

**Line 607
Eligible Pension Income for Transfer
56(1)(a), 60(j), 147(10)**

Pension benefits including Canada Pension and Old Age Security 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 Box (F) of the T3 Supplementary and also in the appropriate type of designated income Box (M) for pension benefits.

Amounts entered in Box (F) are to identify pension income eligible for the paragraph 60(j) transfer to Registered Pension Plans or Registered Retirement Savings Plans. These amounts may also qualify as income for purposes of the "Eligible Pension Income Amount" calculation on the beneficiary's T1 Individual Income Tax Return when designated to the spouse of the individual upon whose death the trust was created. Item 314 of the 1988 General Tax Guide and Interpretation Bulletin IT-401R2 outline the types of income included in calculation of the Eligible Pension Income Amount. If there is "eligible" income, complete Box (M) of the T3 Supplementary.

**Line 612
Investment Tax Credit (I.T.C.) 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 (Q) 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 (R) Investment Tax Credit (I.T.C.). If these blocks are completed, amounts must be shown on form T3 Supplementary for each type.

Trust Schedule 6, Part B – Lines 620 to 629

Non-resident Withholding Tax (Part XIII)

Line 622

Depending on the result of the reconciliation mentioned at line 621 the amount at line 621 would either be added to or subtracted from the amount at line 620.

Line 624

A payment on account of Part XII.2 Tax is a deduction in computing Part XIII Tax.

The remainder of this schedule should be completed with reference to the NR-NR4A Summary for the trust.

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

Non-resident Beneficiaries

Every non-resident beneficiary must pay a Canadian Income Tax of 25% under Part XIII of the Income Tax Act (unless a lower 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 Trust Schedule 6, Part B. 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 77-16R3 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 Trust Schedule 6, Part B. The "Amounts previously remitted per forms PD7AR-NR" should agree with the "Non-resident Tax Payable" on Trust Schedule 6, Part B.

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) 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 with trust records. |

Trust Schedule 7 – Lines 701 to 703

Statement of Real Estate Rentals

The amount from line 703 is to be entered at line 09, page 2 of the T3 Return. See Line 09 discussion in this Guide for additional details.

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.

Trust Schedule 8 – Line 801

Capital Cost Allowance (Depreciation)

Regulations 1100, 1700

The method of claiming capital cost allowance (depreciation) as prescribed under Part XI (Regulation 1100) must be followed, unless the claim is in respect of assets used in farming or fishing that were acquired prior to 1972. In this case, Part XVII (Regulation 1700) may be followed. Full details and schedules for claiming capital cost allowance under Part XVII are contained in the 1988 Farming Income Tax Guide and the 1988 Fishing Income Tax Guide.

Complete Trust 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:

73(1)

- i) **Where the property is acquired by inter vivos gift**, the fair market value of the property at the time it was acquired. An exception occurs where the trust is an exclusive trust for the spouse of the settlor (unless the appropriate election was made). Too, at the time of the settlement the settlor and the trust must both resident in Canada. The amount to be entered is the undepreciated capital cost of the property to the settlor. (See "Note" below.)

70(6)(b)

- ii) **Where the property is acquired by bequest or inheritance and the trust is an exclusive trust for the spouse of the deceased**. Where, immediately before the death of the settlor, both 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. (See "Note" below.)

70(5)

- 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.)

70(9)

- 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 otherwise) 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. In the case of land 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 depreciable property of a prescribed class, the proceeds of disposition would be between the fair market value of the property and its undepreciated capital cost (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 :

- 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. When there is more than one property in the class, the proceeds 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, special rules for dispositions from a spousal trust are covered under subsection 107(4) for distributions to resident beneficiaries and subsection 107(5) for non-resident beneficiaries.

- 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 when a deemed disposition occurs, the undepreciated capital cost (u.c.c.) 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 u.c.c. 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 is less than the u.c.c. 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 to claim the terminal loss in the T1 Return to Date of Death may be made.

Note: See 164(6) Election

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. The maximum rate of C.C.A. for each such class is shown in brackets. (For classification of other property, see the Income Tax Regulations, the tables in the 1988 Farming or Fishing Income Tax Guides and the 1988 Business and Professional Income Tax Guide.)

- 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.

Designation Of Non-Taxable Dividends Received By A Trust 83(2), 53(2)

An example of a non-taxable dividend occurs when a Canadian private corporation pays a tax free dividend out of its capital dividend account.

Where the trust is in receipt of a dividend of this type, the dividend is not to be included in income. 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) Name(s) of the recipient(s) and the amount of non-taxable dividend that each payee received.

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. This may be relevant in computing a capital gain (or loss) on the subsequent disposition of the shares.

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.

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.

The request should identify the following information:

- the name, address of the person(s) requesting the certificate
- the title (e.g. executor, trustee or administrator) of the person(s) requesting the certificate
- the complete name of the trust
- 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.

RELATED PUBLICATIONS

The following publications are available and may be obtained from your District Taxation Office:

Guides		IT-366SR	Special Release
1988 General Tax Guide		IT-367R2	Capital Cost Allowance – Multiple-Unit Residential Buildings
1988 Capital Gains Guide		IT-367SR	Special Release
1988 Deceased Persons' Income Tax Guide		IT-370	Capital Property Owned on December 31, 1971
1988 Farming Income Tax Guide		IT-372R	Trusts – Flow-through of Taxable Dividends to a Beneficiary
1988 Fishing Income Tax Guide		IT-374	Meaning of "Settlor"
1988 Business and Professional Income Tax Guide		IT-381R	Trusts – Taxable Capital Gains and Allowable Capital Losses
1988 Rental Income Tax Guide		IT-385R	Disposition of an Income Interest in a Trust
Employer's and Trustee's Guide		IT-394	Preferred Beneficiary Election
Valuation Day Prices of Publicly Traded Shares		IT-394SR	Special Release
Retirement Compensation Arrangement Guide		IT-396R	Interest Income
Interpretation Bulletins		IT-406R	Tax Payable by an Inter Vivos Trust
IT-79R2	Capital Cost Allowance – Buildings and Other Structures	IT-407R2	Disposition of Canadian Cultural Property
IT-83R2	Non-profit Organizations – Taxation of Income from Property	IT-419	Meaning of Arm's Length
IT-114	Discounts, Premiums and Bonuses on Debt Obligations	IT-446	Legacies
IT-120R3	Principal Residence	IT-447	Residence of a Trust or Estate
IT-151R3	Scientific Research Expenditures and Allowances	IT-456R	Capital Property – Some Adjustments to Cost Base
IT-195R3	Rental Property – Capital Cost Allowance Restrictions	IT-465R	Non-Resident Beneficiaries of Trusts
IT-201R	Foreign Tax Credit – Trust and Beneficiaries	IT-500	Registered Retirement Savings Plan (concerning the flow-through of Refund of Premiums to a beneficiary of an estate)
IT-217	Capital Property Owned on December 31, 1971 – Depreciable Property	IT-502	Employee Benefit Plans and Employee Trusts
IT-217SR	Special Release	IT-508	Death Benefits – Calculation
IT-236R2	Reserves – Disposition of Capital Property	Information Circulars	
IT-260R	Transfer of Property to a Minor	74-3R2	Supplementary Schedules for Calculating Capital Gains and Losses
IT-270R	Foreign Tax Credit	74-21R	Payments out of Pension and Deferred Profit Sharing Plans – ITAR 40
IT-274	Rental Properties – Capital Cost of \$50,000 or More	76-12R4	Applicable Rate of Part XIII Tax on Amounts Paid or Credited to Persons in Treaty Countries
IT-281R	Elections on Single Payments from a Deferred Profit Sharing Plan	77-1R3	Profit Sharing Plans
IT-282R	Estate and Trust Distributions – Clearance Certificates	77-16R3	Non-resident Income Tax
IT-285R	Capital Cost Allowance – General Comments	78-4R3	Investment Tax Credit Rates
IT-286R	Trusts – Amount Payable	78-4R3	Special Release
IT-301	Death Benefits – Qualifying Payments	78-5R3	Communal Organizations
IT-305R3	Establishment of Testamentary Spouse Trusts	78-10R	Books and Records Retention/ Destruction
IT-331R	Investment Tax Credit	78-14R2	Guidelines for Trust Companies and Other Persons Responsible for Filing T3R-IND and Other Returns
IT-342	Trusts – Income Payable to Beneficiaries		
IT-366R	Principal Residence – Transfers to Spouse, Spouse Trust or Certain Other Individuals		

82-6	Requesting Clearance Certificates for Estates and Trust	T2208	Employment Tax Credit Schedule
86-4R	Scientific Research and Experimental Development	T2209	Calculation of Federal Foreign Tax Credit
86-5R	Part XVII Capital Cost Allowance, Farming and Fishing	T2210	Verification of Policy Loan Interest by Insurer
		T2211	Calculation of Deemed Proceeds of Disposition and the Amount of Capital Gains Allowable for Deferment upon the Disposition of Shares of the Capital Stock of a Small Business Corporation
Other Publications (Forms, Information Slips, Returns)			
T1A	Request for Loss Carryback		
T184	Calculation of Capital Gains Refund for a Mutual Fund Trust	T2216	Joint Election in Respect of a Small Business Development Bond
T2019	Registered Retirement Savings Plan Refund of Premiums Designation – Spouse	T4 RSP	Statement of Registered Retirement Savings Plan Income
T2036	Calculation of Provincial Foreign Tax Credit	T600C	Statement of Cash Bonus Payment Canada Savings Bonds
T2038(IND)	Business Investment Tax Credit (Individuals)	PD7AR-NR	Non-resident Remittance Form
T2076	Valuation Day Value Election for Capital Property Owned on December 31, 1971	NR4 Supplementary	Statement of Amounts Paid or Credited to Non-residents of Canada
T2084	Bonds and Other Obligations	T3 Supplementary	Statement of Trust Income Allocations/Designations
T2203	Calculation of Tax in Respect of Multiple Jurisdictions	T4A Supplementary	Statement of Pension, Retirement, Annuity and Other Income
		T5 Supplementary	Statement of Investment Income

APPENDIX A

Example of T3 Supplementary

Box (O) – Federal Dividend Tax Credit \$ 166.67

Other Income * \$1,950.00

Allowable Expenses and Deductions * \$1,000.00

* Box (C) includes \$1,950.00 less \$1,000.00, or \$950.00

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:

Completing Form T3 Supplementary

The trust has the following income and deductions:

Dividends from Taxable Canadian Corporations

Box (A) – Actual Amount \$1,000.00

Box (H) – Taxable Amount \$1,250.00

TRUST YEAR ENDING FIN D'ANNÉE DE LA FIDUCIE	(A) ACTUAL AMOUNT DIVIDENDS - TCC MONTANT RÉEL DIVIDENDES DE CCI	(B) CAPITAL GAINS GAINS EN CAPITAL	(C) OTHER INCOME AUTRES REVENUS	(D) FOREIGN BUSINESS INCOME REVENU ÉTRANGER TIRÉ D'ENTREPRISES	(E) FOREIGN NON-BUSINESS INCOME REVENU ÉTRANGER NON TIRÉ D'ENTREPRISES	(F) PENSION BENEFITS PRESTATIONS DE PENSION	(G)
YEAR ANNÉE	(H) TAXABLE AMOUNT DIVIDENDS - TCC MONTANT IMPOSABLE DIVIDENDES DE CCI	(I) CAPITAL GAINS ELIGIBLE FOR DEDUCTION GAINS EN CAPITAL ADMISSIBLES POUR DÉDUCTION	(J) DEATH BENEFITS PRESTATIONS CONSÉCUTIVES AU DÉCÈS	(K) FOREIGN BUSINESS INCOME TAX PAID IMP. ÉTR. PAYÉ SUR REV. TIRÉ D'ENTR.	(L) FOREIGN NON-BUSINESS INCOME TAX PAID IMP. ÉTR. PAYÉ SUR REV. NON TIRÉ D'ENTR.	(M) ELIGIBLE PENSION INCOME REVENU DE PENSIONS ADMISSIBLE	(N)
MONTH MOIS	(O) FEDERAL DIVIDEND TAX CREDIT - TCC CRÉDIT D'IMP. FÉD. POUR DIVIDENDES DE CCI	(P) INSUR. SEGREGATED FUND LOSSES PERTES SUR FONDS RÉSERVÉ D'ASSUREUR	INVESTMENT TAX CREDIT - CRÉDIT D'IMPÔT À L'INVESTISSEMENT (Q) INVESTMENT INVESTISSEMENT	D'IMPÔT A L'INVESTISSEMENT (R) TAX CREDIT CRÉDIT D'IMPÔT	(S) OTHER TAX CREDIT - AUTRE CRÉDIT D'IMPÔT TYPE GENRE	(T) PART XII.2 TAX CREDIT MONTANT CRÉDIT D'IMPÔT PARTIE XII.2	

SOCIAL INSURANCE NUMBER
NUMÉRO D'ASSURANCE SOCIALE
1 2 3 4 5 6 7 8 9

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

BENEFICIARY, JOHN
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 0X9

• For Taxation Office
• Pour le bureau d'impôt

1



Revenue Canada
Taxation

Revenu Canada
Impôt

T3 Supplementary - Supplémentaire Rev. 88

STATEMENT OF TRUST INCOME
ÉTAT DES REVENUS DE FIDUCIE

APPENDIX B

T3 – Schedule 2B WORKSHEET

Calculation Non-Taxable Portion of Capital Gains – 1988 Area A NOTE (1)

Taxable Capital Gains: an amount equal to 1/2 of line 02, page 2 of T3	(A)	_____		_____
Add: L.P.P. loss (1985 and earlier dispositions) 1/3 of line 508 Trust Schedule 5A (NOTE 2)	(B)	_____		_____
Reserve (1985 and prior dispositions) 1/3 of amounts in column (2), lines 573 and 575, Trust Schedule 5C (NOTE 2)	(C)	_____		_____
Add lines (B) and (C)	(D)	_____		_____
Sub-total (add lines (A) and (D))	(E)	_____		_____
Less: Reserve (1985 and prior dispositions) 1/3 of amounts in column (1), lines 573 and 575, Trust Schedule 5C	(F)	_____		_____
Net Taxable Capital Gains Designated/Allocated:				
Resident beneficiary 1/2 of line 32, page 3 of T3	(G)	_____		_____
Employee Benefit Plan 1/2 of line 33 page 3 of T3 NOTE 3	(H)	_____		_____
Non-Resident beneficiary 1/2 of line 33 page 3 of T3 NOTE 3	(I)	_____		_____
Add lines (F), (G), (H) and (I)	(J)	_____		_____
Total (subtract line (J) from line (E) and enter on Trust Schedule 2B Part I (A) line 241 (1988)	(K)	_____		_____

- NOTE:(1) The worksheet is to be completed where lines (B), (C) or (F) apply.
- NOTE:(2) The amount from this line may include another amount which is not considered in the calculation, e.g., 1/3 of an L.P.P. loss or 1/3 of a reserve related to 1985 dispositions would be added, but 1/3 of an L.P.P. loss or 1/3 of a reserve related to dispositions after 1985 would not.
- NOTE:(3) It is assumed Employee Benefit Plan allocations on a T4A slip are shown on this line. Only a capital gain distribution included in this income would be subtracted. Line 33 could also include other undesignated income not connected with either an E.P.B. or a Non-Resident allocation of capital gains.

APPENDIX C

Minimum Tax Carry-over from 1987

Minimum Tax Available for Carry-over from 1987 (Trust Schedule 2B, line 294 or Appendix C Guide line H) (A) _____

Tax Payable before Minimum Tax Carry-over
(1988 Trust Schedule 2A, line 204 or 207) (B) _____

Less: Minimum Amount (1988 Trust Schedule 2B, line 267) (C) _____

Maximum Carry-over which can be applied in 1988 (D) _____

MINIMUM TAX CARRY-OVER APPLIED IN 1988

Claim an amount NOT EXCEEDING the lesser of (A) and (D)
(Enter this amount on Trust schedule 2A) (H) _____

INCLUDE A COPY OF THIS CALCULATION WITH THE T3 RETURN WHEN APPLYING A CARRY-OVER
(if there is a balance, be sure to keep a copy for your records)

APPENDIX D

Part XII.2 Tax Calculation (Trust Schedule 4)

The following example illustrates the application of this new tax:

An inter vivos trust, resident in Canada, has two beneficiaries – Mr. Adam (a resident of Canada) and Ms. Meg (a non-resident). Each beneficiary is entitled to receive an equal share of trust income.

The income of the trust for 1988 is \$1400.: \$1000. of business income and \$400. of interest income.

Enter \$1000. at line 401. There are no other sources of Specified Income. (The \$400. interest is NOT specified income.)

Enter \$1000. also at line 406.

Line 407 amount is \$1400.. This is the amount from line 30, page 2 of the T3 Return.

Line 408 amount is \$1000. because all of line 406 amount is being deducted in computing the trust's income in the year.

(a) 36 % of \$1000. (line 406) = \$360.

(b) 36 % of \$1400. (line 407) = \$504.

Enter the lesser of (a) or (b) at line 408 i.e. \$360.

Line 409 is the amount as determined in the calculation outlined in this area.

$$(\$700. / \$1400.) \times (\$360.) = \$180.$$

Enter line 409 amount on line 624, Trust Schedule 6, Part B, as the Non-resident Withholding Tax (Part XIII Tax) is now based on an amount net of Part XII.2 Tax.

Line 410 amount = Line 408 amount less line 409 amount
\$360. – \$180. = \$180.

Mr. Adam includes \$700. in income. (This amount is one-half of the Trust's income.) He will also receive a Part XII.2 Tax Credit (Box (T) on T3 Supplementary) for \$180. which is entered on line 456, page 4 of his 1988 T1 Return.

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DISTRICT TAXATION OFFICES	GENERAL ENQUIRIES		FORMS REQUEST
	ENGLISH SERVICES		LOCAL
	LOCAL	LONG DISTANCE	
NEWFOUNDLAND St. John's - 215 Water Street, A1C 6C9	772-2610	1-800-563-2600	772-5088
PRINCE EDWARD ISLAND Charlottetown - 90 Richmond Street, C1A 8L3	566-7200	1-566-7200	566-7250
NOVA SCOTIA Halifax - 1557 Hollis Street, B3J 2T5	426-2210	1-426-2210	426-2151
Sydney - 49 Dorchester Street, B1P 6K3	564-7080	1-564-7081	564-7120
NEW BRUNSWICK Bathurst - 786 King Avenue, E2A 1R5	548-7100	1-800-222-9622	548-7100
Saint John - 65 Canterbury Avenue, E2L 4H9	648-4600	1-800-222-9622	648-4618
QUEBEC Chicoutimi - 100 Lafontaine Ave, Office 211, G7H 6X2	545-8026	1-800-463-4421	545-8026
Laval - 3131 St. Martin Boulevard West, H7T 2A7	283-5300	1-800-361-2808	335-8658
Montréal - 305 Rene-Levesque Boulevard West, H2Z 1A6	283-5300	1-800-361-2808	283-5623
Québec - 165 Pointe-aux-Lièvres Street South, G1K 7L3	648-3180	1-800-463-4421	648-4083
Rimouski - 411 Sirois Street, G5L 8B2	722-3104	1-800-463-4421	722-3104
Rouyn-Noranda - 11 Terminus Street East, J9X 3B5	764-5171		764-5151
Calls from area code 418		1-800-567-6428	
Calls from area code 819		1-800-567-6403	
Sherbrooke - 50 Place de la Cite, J1H 5L8	565-5888	1-800-567-6184	821-8565
St. Hubert - 5245 Cousineau Boulevard, J3Y 7Z7	283-5300	1-800-361-2808	445-5264
Trois-Rivières - 55 des Forges Boulevard, G9A 2G4	373-2723	1-800-567-9325	373-2723
ONTARIO Belleville - 11 Station Street, K8N 2S3	962-8611	1-800-267-2130	962-4816
Hamilton - 150 Main Street West, L8N 3E1	522-8671		572-2609
Calls from area code 416		1-800-263-9200	
Calls from area code 519		1-800-263-9210	
Kingston - 385 Princess Street, K7L 1C1	545-8371	1-800-267-9447	1-800-267-2139
Kitchener - 166 Frederick Street, N2G 4N1	579-2230	1-800-265-2530	579-8951
London - 451 Talbot Street, N6A 5E5	645-4211	1-800-265-4900	679-4244
Mississauga - 36 Adelaide Street East, M5C 2T4	869-1500		865-9469
Calls from area code 416		1-800-387-1700	
Calls from area code 519, 705		1-800-387-1710	
Ottawa - 360 Lisgar Street, K1A 0L9	598-2275		598-2300
Calls from area code 613		1-800-267-8440	
Calls from area code 819		1-800-267-4735	
St-Catharines - 32 Church Street, L2R 6R4	688-4000	1-800-263-5672	688-4000
Scarborough - 200 Town Centre Court, M1P 4Y3	296-1950		296-0104
Calls from area code 416		1-800-387-5229	
Calls from area code 705		1-800-387-5183	
Sudbury - 19 Lisgar Street South, P3E 3L5	671-0581	1-800-461-4060	671-0596
Thunder Bay - 201 North May Street, P7C 3P5	623-3443	1-800-465-6981	623-2751
Toronto - 36 Adelaide Street East, M5C 1J7	869-1500		865-9469
Calls from area code 416		1-800-387-1700	
Calls from area code 519, 705		1-800-387-1710	
Windsor - 185 Ouellette Avenue, N9A 5S8	258-8302		252-3611
Calls from Essex County		1-800-265-4841	
MANITOBA Winnipeg - 391 York Avenue, R3C 0P5	983-6350	1-800-282-8079	983-3942
SASKATCHEWAN Regina - 1955 Smith Street, S4P 2N9	780-6015	1-800-667-7555	780-6079
Saskatoon - 201-21st Street East, S7K 0A8	975-4595	1-800-667-2083	975-4577
Calls from exchange numbers 825, 871, 875		Zenith 1-9400	
ALBERTA Calgary - 220-4th Avenue Street East, T2G 0L1	292-4101		292-4225
Calls from Southern Alberta		1-800-332-1410	
Edmonton - 9700 Jasper Avenue, T5J 4C8	420-3510		420-3544
Calls from Northern Alberta		1-800-232-1966	
Calls from North West Territories and North Eastern British Columbia		1-800-661-6451	
BRITISH COLUMBIA Penticton - 277 Winnipeg Street, V2A 1N6	492-9200	1-800-642-8259	492-9200
Vancouver - 1166 West Pender Street, V6E 3H8	689-5411	1-800-663-9033	666-0337
Calls from Yukon Territory and North Western British Columbia		1-800-663-0451	
Victoria - 1415 Vancouver Street, V8V 3W4	388-0121	1-800-742-6108	388-3291

HEARING DISABILITY

If you are deaf or have a hearing disability and have access to a telephone device for the Deaf, telephone 1-800-665-0354*

REGULAR HOURS OF TELEPHONE AND COUNTER SERVICE

Monday to Friday - 8:15 a.m. to 5:00 p.m.
(holidays excepted)

Long Distance Calls: No charge to caller.
Dial direct, per instructions.