



Revenue Canada
Taxation

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1989

T-1013

T3

Guide and Trust Return

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CHANGES FOR 1989

Changes in the Return and Schedules for 1989

The content of the Guide, the T3 Return and the various schedules have been changed to reflect the legislative changes discussed below. Therefore, if you are filing a T3 Return for the 1989 taxation year, you should be using the 1989 version of the T3 Return and schedules.

Legislative Changes for 1989

Resulting from Bill C-139, given Royal Assent on September 13, 1988

- For capital gains realized at any time in the 1989 taxation year of the trust, the proportion of the gain to be included in income as a taxable capital gain is 66.67% (2/3) of the capital gain. [For 1990 and subsequent taxation years, this proportion will be 75% (3/4)].
 - For taxation years commencing after 1987, trusts are not permitted to designate capital cost allowance, terminal losses or depletion allowance to their beneficiaries.
- The Employment Tax Credit is not applicable for taxation years ending in 1989 and subsequent years.
 - For tax shelters acquired after August 31, 1989, no claims or deductions will be allowed unless a tax shelter identification number is provided. Forms T5003, "Statement of Tax Shelter Information" and T5004, "Statement of Tax Shelter Loss or Deduction", and relevant documentation are to be included in the investor's return for the year in which an amount is being claimed in respect of an interest in a tax shelter. Information Circular 89-4, "Tax Shelter Reporting" provides additional details.
From April 27, 1989 Budget; Bill C-28, first reading June 20, 1989
 - The individual surtax is increased to 4% for taxation years ending in 1989 and to 5% for 1990 and subsequent taxation years.
 - An additional surtax, of 1½% for taxation years ending in 1989 and of 3% for 1990 and subsequent taxation years, will be imposed on basic federal tax in excess of \$15,000.
 - The surtax levied on income not subject to provincial or territorial income tax is increased to 49.5% for taxation years ending in 1989 and to 52% for 1990 and subsequent taxation years.

GUIDE TO THE 1989 T3 TRUST RETURN

INTRODUCTION

CONTENTS OF GUIDE

This Guide contains information to assist in the completion of the 1989 Trust Income Tax Return and Information Return (referred to in this Guide as 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.

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. For a quick reference to the line numbers on the T3 Return and Trust Schedules, refer to "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. 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) 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.

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 provide each beneficiary with a statement showing the respective share of the estate to which that beneficiary is entitled.

2. A T3 Return must be filed for the registered and non-registered funds of a "related segregated fund trust".
3. Communal organizations must file a T3 Return. See Information Circular 78-5R2.
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 year of 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 Return of Investment Income, if acting on behalf of a resident of Canada, in respect of payments of investment income.
8. A trustee of a trust which is exempt from tax under Part I of the Income Tax Act is not required to file a T3 Return, unless that trust is a non-profit organization whose main purpose is to provide dining, recreational, or sporting facilities for its members.

What to file

One completed T3 Return, applicable schedules and statements, together with copies 1 and 2 of form T3 Supplementary where required, are to be forwarded to Revenue Canada, Taxation. As the forms are updated annually, be sure to use the most recent version available. (The year is printed in the top right hand corner of the form; for example, "T3 1989" identifies the 1989 version of the T3 Return and "T3 Schedule 1 Rev.89", the 1989 version of Schedule 1.) If you are required to file a return for the 1990 taxation year before the 1990 T3 Return is available, you may use the 1989 version.

When to file

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

Where to file

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.

**Trusts Served by District
Taxation Offices located in:**

Newfoundland,
Prince Edward Island,
Nova Scotia,
New Brunswick

Quebec City, Sherbrooke,
Rouyn, Chicoutimi and
Trois Rivieres

Montreal, St.Hubert and Laval

Ottawa, Toronto,
Mississauga, Scarborough
and North York

All other areas of Ontario

Manitoba,
Saskatchewan,
Alberta

British Columbia

Should File With:

Taxation Centre
Freshwater Rd/Empire Ave.
St. John's
Newfoundland
A1B 3Z1

Taxation Centre
2251 de la Centrale Blvd.
Jonquiere
Quebec
G7S 5J1

Taxation Centre
4695, 12th Avenue
Shawinigan-Sud
Quebec
G9N 7S6

Taxation Centre
875 Heron Road
Ottawa
Ontario
K1A 1A2

Taxation Centre,
1050 Notre Dame Avenue
Sudbury
Ontario
P3A 5C1

Taxation Centre
66 Stapon Road
Winnipeg
Manitoba
R3C 3M2

Taxation Centre
9755 King George
Highway
Surrey
British Columbia
V3T 5E1

Trust Schedules

The following Schedules, if applicable, should be completed:
Trust Schedule 1, Part A - Statement of Investment Income.
(lines 105 to 120)

Trust Schedule 1, Part B - Calculation of Gross-up Amount
(lines 121 to 124) of Dividends Retained by Trust.

Trust Schedule 2A - Calculation of Federal Income
(lines 201 to 228) Tax.

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

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

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

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

Trust Schedule 5A - Summary of Dispositions of
(lines 501 to 524) Capital Property.

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

Trust Schedule 5C - Summary of Reserves on
(lines 570 to 576) Dispositions of Capital Property.

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

Trust Schedule 5E - Calculation of Capital Gains
(lines 584 to 596) Deduction for a Spouse Trust.

Trust Schedule 5F - Extension of Trust Schedule 5B
(lines 597 to 599) for Qualified Farm Property or
Qualified Small Business
Corporation shares.

Trust Schedule 6, Part A - Summary of Other Amounts
(lines 601 to 616) Designated.

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

Trust Schedule 7 - Statement of Real Estate Rentals.
(lines 701 to 705)

Trust Schedule 8 - Capital Cost Allowance
(line 801) (Depreciation).

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" and name the Taxation Centre where filed. 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.

It may be noted as you prepare the Return and Schedules that not all line numbers are consecutive. For example, a missing number on a schedule does not mean that a line is missing from your form.

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

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,
 - (i) after June 28, 1982, property has been contributed to the trust otherwise than by an individual's death, or,
 - (ii) before the end of the taxation year, 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 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 created for a spouse by an individual 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.

A further requirement is that at the time the property is transferred to the trust, both the settlor (individual who creates the trust) and the trust must be resident in Canada, which in the case of the testamentary trust would be immediately before the settlor's death and at the time the property vests in 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 a subsequent disposition by the spouse trust or until the death of the spouse, whichever occurs first.

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

A testamentary spouse trust may be eligible for a capital gains deduction for the taxation year in which the spouse dies. Refer to Trust Schedule 5E and Interpretation Bulletin IT-305R3 for additional details.

Interspousal transfers and loans of property 74.1(1), 74.2, 74.3, 74.5, 56(4.1)

Where an individual (the transferor) has transferred or loaned property to a trust for the benefit of the transferor's spouse, the transferor and not the trust, while the transferor is alive, may be required to report for income tax purposes the income or loss from the property, and any taxable capital gain or allowable capital loss on a subsequent disposition of the property by the trust. In the case of loaned property, the above rule only applies where the property was loaned to the trust after May 22, 1985 or where the property was loaned before May 23, 1985 and the loan 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 transferor. A sample calculation to determine the amount to be included in the transferor's income, is included in IT-511. Excluded from these provisions (i.e. the income or loss from property and any taxable capital gains and allowable capital losses from the loaned property would be income of the trust) are those situations where the property is sold to the trust at fair market value or where loans bear a prescribed rate of interest and the interest charged is actually paid in the year.

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 vested interest in a trust and that trust has accumulated income in a taxation year only because the beneficiary is a minor, the income shall be deemed to have become payable to the minor in the year and taxable in the minor's hands. For further details see Interpretation Bulletin, IT-286R2.

Transfers and Loans to a Trust for a Minor 74.1(2), 74.3, 74.5, 56(4.1)

In the situation where an individual transfers or lends 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 transferor and taxed in the transferor's hands while resident in Canada. The transferor 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 under the age of 18 and who is either the niece or nephew of the transferor or who is not dealing at arm's length with the transferor.

Loans to a trust for the benefit of a minor are subject to the same time periods described in the first paragraph above, under the heading "Interspousal transfers and loans of property".

Where the income is to be included in the income of the transferor, the trust is required to file a T3 Return and issue a T3 Supplementary reporting the income as that of the transferor. A sample calculation to determine the amount to be included in the transferor's income is included in IT-510 referred to below.

For further details, see Interpretation Bulletins IT-260R, "Transfer of Property to a Minor" and its Special Release; IT-510, "Transfers and Loans of Property made after May 22, 1985 to a Related Minor"; and IT-286R2 "Trusts – Amount Payable".

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 other conditions of paragraphs 108(2)(a) and (b) of the Income Tax Act.

Mutual Fund Trust 132, Regulation 4801

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 Income Tax Regulation 4801. 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,

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.

Employee Benefit Plans 6(1)(g), 12(1)(n.1), 32.1, 248(1)

An employee benefit plan refers to an arrangement under which contributions are made by an employer for the purpose of funding benefits for employees or former employees. The employer may deduct contributions to the plan only when they are actually distributed to the employees or to the legal heirs or representatives of employees or former employees. At the same time the recipient would include in income the amount actually received from the employee benefit plan. Amounts received by the employee or heirs are considered to be income from an office or employment and would be reported on form T4A Supplementary and not on form T3 Supplementary.

Where an employer makes contributions in contemplation of retirement, termination of employment or any substantial change in the services of an employee, the plan is a retirement compensation arrangement. Transitional rules delayed this application until 1988 for certain written

agreements entered into before October 9, 1986. More details are provided in the "Retirement Compensation Arrangement Guide".

A salary deferral arrangement refers to an arrangement ordinarily under which a person has a right to receive salary or wages in a year after the services were rendered and one of the main purposes of the arrangement is to postpone any tax payable for services rendered. The amount of deferred salary or wages is included in the employee's income in the year the services were rendered. Any income earned by the salary deferral arrangement on the amount deferred is taxable to the employee in the year it is earned. An agreement made in writing before February 26, 1986 continues to be treated as an employee benefit plan where contributions were in respect of services before July 1986. Salary deferral arrangements and their exclusions are described in subsection 248(1) of the Income Tax Act.

Where an employee benefit plan is a trust, the trust is taxable on its income under Part I. Contributions to the plan are not included in the trust's income and distributions out of the plan are not deducted from income. The trust includes in its income the amount of its income from the investment of trust property and deducts expenses related to earning this investment income unless the income is paid to the employees or employer. In order to be recognized as an income beneficiary, the employer must have unrestricted right, title and use of the income allocated to the employer. A payment that is conditional upon its repayment to the trust is not accepted as a bona fide payment; such income will be taxed in the hands of the trust.

The trust must file a T3 Return if the aggregate of its income from all sources exceeds \$500 in the taxation year. For further information, refer to Interpretation Bulletin IT-502, "Employee Benefit Plans and Employee Trusts".

Segregated Fund Trust 138.1

Segregated funds of life insurers in respect of life insurance policies are deemed to be inter vivos trusts which are referred to as "related segregated fund trusts". Basically, the property and income of a segregated fund is deemed to be the property and income of such a trust and the life insurer is the trustee of the related segregated fund trust.

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

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 T4A 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(1)(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

Investment clubs that are **not** trusts, partnerships, or corporations but where each member is an individual and owns an undivided interest in each security or other asset held by the club, are allowed, as a convenience to the members, to report income, capital gains and losses on a T3 Return and issue T3 Supplementaries to the individual members. The Department allows an investment club, who so elects, to be treated as a partnership, (referred to as a "modified partnership"), to facilitate the determination and reporting of income for each member. All income or losses would retain their identity and be allocated on a reasonable basis to the members of the club in the year in which they are received or incurred by the club. A T3 Supplementary would be prepared for each member of the club. The taxation year of such a club is the calendar year. For more information on the conditions that must be met and the method of making an election, obtain Information Circular 73-13, "Investment Clubs".

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

TAXATION YEAR 104(23), 150(1), 249, Regulation 204

Testamentary trust

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 T3 Return for a testamentary trust must be filed and the tax owing to the Receiver General must be paid within 90 days from the end of the trust's established taxation year.

Several reasons why the trustee may find it advantageous to choose a calendar year-end (December 31) for a testamentary trust are:

- Availability of information – Most information slips for income amounts (ex. T5 Slip for bank interest), are issued on a calendar year basis.
- Availability of forms – The current year trust return and related schedules are usually not available until near the end of the calendar year, i.e. the 1989 T3 Return and schedules would not be available until the end of 1989. A 1989 Return due before the forms are available would have to be filed on a 1988 form which may not contain current-year revisions or information.
- More timely receipt of a Notice of Assessment – Amendments to the Income Tax Act generally necessitate changes to the procedures for processing the returns; assessment of a return with a taxation year ending early in a calendar year would have to be delayed until the the legislation is passed by Parliament and the revised procedures are in place.
- Generally, it is easier to complete forms and to interpret rules when the entire taxation year falls within the same calendar year.

Inter vivos trust

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 the tax owing to the Receiver General must be paid within 90 days from the end of the trust's taxation year.

Final return

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

PENALTIES AND INTEREST

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

The T3 Return which functions as both an income tax return and as an information return is subject to the following late-filing penalties:

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 until the date of payment.

REASSESSMENTS

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.

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 78-10R2 for details.

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 and 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.

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.

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.

COMPLETION OF T3 RETURN
PAGE 1 – T3
IDENTIFICATION AREA

Refer to the following guidelines when completing this area of the Return:

1. All items a) to o) should be completed on each T3 Return filed.
2. Item a) – where applicable, the **Name of the Trust** should be completed in accordance with one of the following examples, using 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
3. Item c) – the mailing address, if different from the residence of the trust, determines the Taxation Centre to which the Return is to be mailed. See list under **Where to file**.
4. Under g) show the name of the Taxation Centre where the prior year return was filed, if not at the same Taxation Centre where this T3 is being filed.
5. Information from the following items is used to determine the correct rate of tax; therefore, it is very important that each item be completed correctly:
 - items c) and d) provide the residence of the trust and the appropriate province or territory for tax calculation purposes.
 - item m) Type of Trust.
 - item m) A.7 provides the Department with the type of Other Inter Vivos Trust.

SUMMARY OF TAX AND CREDITS – LINES 80 TO 91

Lines 85 to 89
Credits

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 on income earned by the trust and reflected on an information slip, the amount must be entered on this line. Where an information slip is not available, attach a statement from the issuer to substantiate the income reported and tax withheld. Do not allocate tax deducted at source to beneficiaries.

PAGE 2 – T3
INCOME – LINES 01 TO 10

Line 01
Actual Amount of Dividends 82

The amount from Trust Schedule 1, Part A, line 105 is entered on this line. The amount reported here is the **Actual Amount** of taxable dividends received from taxable Canadian corporations. Attach any information slips received.

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. If the amount calculated at line 524 of this schedule is a net taxable capital gain enter the amount here at line 02.

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 deducted against other income of the trust in 1989 and other

years nor allocated to the beneficiaries (except as described under Lines 30 to 37, "Allocation/Designation of Losses"). The excess represents a "net capital loss" for 1989 which 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 a testamentary trust, an excess of capital losses over capital gains can be elected, by the legal representative, to be applied against income in the decedent's Individual Income Tax Return to Date of Death. See Guide item "Testamentary Trust – 164(6) Election".

Line 03
Other Investment Income

The amount from Trust Schedule 1, Part A, line 112 is entered here at line 03. Attach any information slips.

Some of the more common types of income to be reported on this line are: bond interest, bank interest, mortgage interest, and dividends (other than those received from taxable Canadian corporations). 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. For more information on the method of reporting interest income, refer to item 121(A) of the 1989 General Tax Guide for Individuals and Interpretation Bulletin IT-396R.

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.

**Line 04
Foreign Investment Income**

Provision is made on Trust Schedule 1, Part A, line 115 for listing the interest reported on this line.

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. This foreign income must be reported in Canadian funds.

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

**Line 05
Pension Benefits
56(1)(a)(i), 147(10)**

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 any death benefit under the Canada Pension Plan.

Lump Sum Payments ITAR 40(1), (5) and (7)

Certain lump sum payments received by a trust from a pension fund or a deferred profit sharing plan [from T4A Supplementary, Box (D), Accrued **TO** December 31, 1971] may, if the recipient so elects, be taxed at a reduced rate. Report these lump sum amounts on Line 05 if the trust income is being allocated to beneficiaries. Use Box (G), [Schedule 6, Line 601] to inform the beneficiary of the amount included in pension income [Box (F), Line 36] to which the special provisions apply. If income remains with the trust and ITAR 40 provisions are to be applied, do not include the amount on Line 05; instead, write ITAR 40 at Line 05 and on Schedule 2A, Line 209 and the Department will calculate the tax adjustment for you. Information Circular 74-21R and Interpretation Bulletin IT-281R deal with this subject in more detail.

**Line 06 (Net), Line 26 (Gross)
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 net income of the business on line 06, page 2 of the T3 Return.

**Lines 07 and 08 (Net), Lines 27 and 28
(Gross) Farming Income and Fishing
Income 119**

A trust having income from farming 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 1989 Farming Income Tax Guide and the 1989 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 allocated to resident beneficiaries or to members of a communal organization for an election under the block 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 (Net), Line 29 (Gross) Real Estate
Rental Income**

Enter on line 09 the Net Income from Trust Schedule 7 or similar statements. The gross rental income is the total rental income and this amount is to be entered on line 29. In the case of a partnership, the gross amount is the total income of the partnership, while the net income will show only the trust's share.

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, or number of rooms.

Note that normally a rental loss may not be created or increased by capital cost allowance. However, a terminal loss from the disposition of rental property would be claimed as an expense at Line 702 (recapture would be reported as income at Line 701) on Schedule 7 and would therefore be included in the net rental income amount at Line 705, which is reported on Line 09.

For further information, refer to the 1989 Rental Income Tax Guide, and Interpretation Bulletins IT-195R3 and IT-367R2.

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

- a) salary or wages applicable to the period after the date of death to the end of the month of death,

- b) severance pay (death benefits only),
- c) retroactive adjustments of payments described in a) and b) if the collective agreement is signed before the date of death, (if signed after death, the payment is tax exempt),
- d) return of pension contributions, payable because of death.

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

Death Benefit 248(1)

If the trust received an amount for a deceased person's employment service (death benefit) 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. For more information on which payments qualify for the \$10,000 deduction and to determine the taxable portion of a death benefit to be reported on line 10, refer to Interpretation Bulletins, IT-301, "Death Benefits – Qualifying Payments" and IT-508,

"Death Benefits – Calculation". Any amount of the death benefit excluded from the trust's income at line 10, will reduce the amount of death benefit that may be designated to the beneficiary. See line 604.

Registered Retirement Savings Plans (R.R.S.P.)

Income earned in an R.R.S.P. in a year beyond the year of death, will be reported by the plan issuer on a T3R-IND, and T3 Supplementary. If a testamentary trust is the beneficiary of the R.R.S.P., it would be required to include in Other Income at line 10, the amount from the T3 Supplementary. It should be noted that benefits that accrued to date of death, including earnings in the plan from date of death to the end of the year in which the death occurred, are to be reported on the final T1 Return of the deceased, or in some circumstances on the T1 Return of the spouse or a dependent child or grandchild. For more details, refer to Interpretation Bulletin IT-500, "Registered Retirement Savings Plans (maturing after June 29, 1978) Death of an Annuitant after June 29, 1978".

DEDUCTIONS – LINES 12 TO 18

Line 12

Carrying Charges 18(1)(a), 20(1)(c), 20(1)(bb)

The total entered on this line is from Trust Schedule 1, Part A, line 120.

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 purchase and 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 expense on a life insurance policy loan used to earn income is deductible, providing the interest expense is not added to the adjusted cost base of the policy. If a trust is claiming interest paid on a policy loan during 1989, 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 deduction may not be allowed.

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 also be attached to the T3 Return.

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, and if that person's principal business either consists of advising others regarding the purchasing or selling of shares or securities or includes the provision of administration or management services for shares or securities.

In addition to the above outlays, executor and trustee fees may be deducted from business or property income of the trust provided the expense was incurred for the purpose of gaining or producing such income. Trustee fees for looking after real property (i.e. residence) used by a life beneficiary of a testamentary trust are not fees incurred for the purpose of earning business or property income and are not deductible in computing the income of the trust.

Executor fees paid to an individual who does not act in this capacity in the normal course of business, are considered to be income from an office, and are to be reported on a T4 Supplementary [Box(C)], if the fees are \$500., or more. Refer to the Employer's and Trustee's Guide, "Completing the T4 Supplementary" and IT-377R, "Director's, Executor's, and Juror's Fees" for more details.

Line 17

Allowable Business Investment Losses

39(1)(c), 39(10), 104(21.2) 50(1)

A loss from the disposition of shares of a small business corporation to a person with whom the trust deals at arm's length or a loss from a bad debt owed to the trust by a small business corporation may qualify as a business investment loss.

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 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 trust's business investment loss for the current year is reduced by the lesser of:

- a) the trust's business investment loss for the year otherwise determined, and
- b) the aggregate of 2 times (twice) the eligible taxable capital gains amounts designated by the trust for the taxation years ending in 1985, 1986 and 1987 AND 1.5 (3/2) times the eligible taxable capital gains amounts designated by the trust for the taxation year ending in 1988
 minus
 the aggregate of any reductions to a business investment loss in previous years.

The current year reduction is then treated as a capital loss rather than as a business investment loss. Enter the amount of the reduction on Schedule 5A, line 513.

Two thirds (2/3) of the remaining business investment loss incurred in a taxation year ending in 1989 represents an **allowable** business investment loss which is deductible from all sources of income in the year. Report an allowable business investment loss on line 17. (For 1990 and subsequent taxation years, this amount will be increased to three quarters (3/4) of the business investment loss.)

Any allowable business investment loss not deducted in computing income in the 1989 taxation year in which it arises is included in the non-capital loss of the trust for the 1989 taxation year and may be deductible in computing taxable income of other taxation years. The non-capital loss for the 1989 taxation year may be deducted from taxable income for the three preceding taxation years or for the seven taxation years immediately following. Any undeducted balance of this non-capital loss remaining after seven taxation years is then included in the net capital loss computation. For more details, obtain the 1989 Capital Gains Tax Guide and Interpretation Bulletin IT-484R, "Business Investment Losses".

Line 18

Other Deductions 9(1), 18(1)(a) and (b), 18(2), 18(1)(h), 20(1)(v.1), 53

Other deductions could include legal 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 or probate fees, for example are not allowable deductions from income.

Resource allowance 20(1)(v.1), Regulation 1210, 1206(1)

A trust which reports "production royalty" income may claim on this line a resource allowance up to 25% of its production royalty income. Briefly, a production royalty is a royalty based on the amount or value of oil and gas production and on which the recipient pays non-deductible crown charges. If a resource allowance is being claimed, include a copy of your calculations as well as documentation such as a T5 slip or a statement from the payor that provides verification that the income reported is production royalty income. Since production royalty income loses its identity when allocated to a beneficiary, a beneficiary may not claim a resource allowance on any such income allocated from a trust.

Deductions Must be Related to Sources of Income

It should be noted that the expenses of a trust must be deducted before allocating any income to beneficiaries. The expenses are to be applied directly to the income to which they relate. Those which are related to more than one source of income should be apportioned on a reasonable basis to the applicable sources of income of the trust. Where all the income is allocated or designated to beneficiaries, the Department will permit an alternative apportionment of expenses, for example, in order to provide the maximum flow-through to a beneficiary of the dividend tax credit. Refer to Interpretation Bulletin IT-372R for more information and the conditions for acceptance of this alternative apportionment of expenses.

Charitable Donations 104(6) or 118.1

If the trust has made charitable donations, refer to Guide item Schedule 2A, Line 211 to determine whether the donations may be deducted as an allocation of trust income (on page 3, line 33) or as a non-refundable tax credit on Schedule 2A, line 211.

TAXABLE BENEFITS – LINE 21

Line 21 (a)

Upkeep, Maintenance, Taxes of any Property Used or Occupied by any Beneficiary 105(2)

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 a beneficiary must be included in that beneficiary's income in the year of payment, i.e., reported on the beneficiary's T3 Supplementary. Only those amounts that were included in the expenses of the trust (whether on a financial statement or at Line 18) are to be entered on this line. Provide details of the amounts entered on this line, including the nature and amount of payment, and identify the financial statement or line on the T3 Return where the expenses were claimed.

Line 21(b)
Value of Other Benefits to Recipients
 105(1)

The value of other benefits from a trust not otherwise included in a person's income must be shown at this line

(e.g., amounts paid for the beneficiary's personal or living expenses). These benefits must be included on form T3 Supplementary and reported as income by the beneficiary. The benefits reported here are not deductible from the income of the trust. Therefore, they are added here to counteract the deduction shown on page 3. Details, including the nature of the benefits, must be provided for any amounts entered on this line.

PAGE 3 – T3
SUMMARY OF INCOME ALLOCATIONS/DESIGNATIONS TO BENEFICIARIES -
LINES 30 to 37

Allocations/Designations
 104(6), (13), (19), (20), (21), (27), (29)

This area of the Return provides for the allocation/designation of income to beneficiaries (lines 31 to 37), the determination of Net Income of the Trust (line 42), and the calculation of Taxable Income of the Trust (line 56).

The allocation/designation of income to beneficiaries includes Income Paid or Payable to Resident Beneficiaries (Column I), Income Paid or Payable to Non-resident Beneficiaries (Column II), and income accumulating in the trust on which both the trustee and a resident "preferred beneficiary" have jointly elected to tax in the hands of the preferred beneficiary (Column III). Refer to the appropriate column heading in this Guide for more details, especially Column III, regarding the "preferred beneficiary election". Amounts allocated/designated on lines 31 to 37 to a beneficiary are excluded from the trust's income and are included in the income of the beneficiary. These amounts are shown in Boxes (A) to (F) on the T3 Supplementary.

In this Guide and on the T3 Return, the words "allocated or allocation" are used in a general sense to refer to amounts deducted from the income of the trust that are subsequently included in the income of the beneficiary. "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.

In contrast, the words "designated or designation" are used where some special provision of the Income Tax Act is being applied, in most cases so that amounts allocated to a beneficiary retain their identity, in order to allow the beneficiary to take advantage of some deduction or credit applicable to that income; for example, the capital gains deduction or dividend tax credit. With respect to the income of the trust, if no amounts could be "designated" and if all of the income on line 30 were allocated to a beneficiary, only one income Box would be required on the T3 Supplementary because the entire amount allocated would be shown on page 3 of the T3 Return at line 33 as "Other Income".

Examples of income amounts that the trustee may choose to "designate" to a beneficiary are dividends from taxable Canadian corporations, net taxable capital gains, foreign business income, foreign non-business income and certain pension benefits. Schedule 6, Part A and T3 Supplementary, Boxes (G) to (T) are used to provide additional information regarding the designated income amounts. They are also used

to designate non-income amounts, such as foreign tax paid and tax credits which are being flowed-through to the beneficiary.

For more details, refer to Interpretation Bulletin IT-342, "Trusts Income Payable to Beneficiaries" and Interpretation Bulletin IT-372R, "Trusts – Flow Through of Taxable Dividends and Interest to a Beneficiary".

Whether trust income is allocated to beneficiaries or taxed in the trust it must be done according to the provisions of the Will or trust document. One exception is for certain inter vivos trusts created since 1934 in which property (or property substituted therefor) which has not been absolutely vested, is subject to the discretionary power of the contributor of the property and could revert to the contributor or pass to persons to be subsequently determined by the contributor. Any income, including taxable capital gains and allowable capital losses, from that property is deemed to belong to the contributor during the contributor's lifetime while a resident of Canada. For further information, obtain Interpretation Bulletin IT-369, "Attribution of Trust Income to Settlor". A second exception is provided by subsections 104(13.1) and 104(13.2) described below.

Additional Designation Provisions
 104(13.1) 104(13.2)

For taxation years commencing after 1987, subsection 104(13.1) allows a trust resident in Canada, [other than a trust exempt from tax under subsection 149(1)] to choose to have a portion of the trust income, that was paid or payable to beneficiaries, to be taxed in the trust rather than taxed in the hands of the beneficiaries. Such amounts are deemed not to have been paid or payable in the year for purposes of subsections 104(13) and 105(2). Consequently, they are not deductible by the trust **and** are not taxable in the hands of the beneficiaries.

In the same manner, subsection 104(13.2), permits a qualifying trust to reduce the amount of taxable capital gains that could otherwise be designated to, and included in the income of, the beneficiary under subsection 104(21). The amount selected under subsection 104(13.2) is taxable to the trust and not included in the income of the beneficiary.

A trust may have a non-capital loss carryforward from a prior taxation year and current year taxable capital gains. By using the above provisions the trust may choose not to deduct the full amount to which it is entitled under subsection 104(6), thereby allowing the non-capital loss carryforward to absorb the current year taxable capital gain.

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

Further details are provided in Interpretation Bulletin IT-342, "Trusts-Income Payable to Beneficiaries".

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:

- (a) Losses of an insurer's related segregated fund trust which are to be reported in Box (P) on the beneficiary's T3 Supplementary.
- (b) 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".

Investment clubs which are not trusts but who have elected to file T3 Returns and T3 Supplementaries (as explained in Information Circular 73-13) would report losses 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).

Income Paid or Payable to Resident Beneficiaries Page 3, Column 1 Boxes (A) to (F) 104(13)

This column will allocate/designate the different types of income paid or payable to resident beneficiaries and any taxable benefits to be allocated/designated to beneficiaries. If the income is "allocated", but no amounts are "designated", the "allocated" amount will be entered at line 33 [and Box (C) of the T3 Supplementary]. If the income is being designated, the amounts may be entered at lines 31, 32, 34 to 36 [and in Boxes (A), (B), (D) to (F)]. In addition, use lines 601 to 616 Trust Schedule 6, Part A [and Boxes (G) to (T)], if applicable.

For further details see Interpretation Bulletins IT-286R2, "Trusts - Amounts Payable" and IT-342, "Trusts - Income Payable to Beneficiaries".

Line 32 Capital Gains Designated by a Trust to Beneficiaries 104(21)

Net taxable capital gains of a trust is the amount by which the total of taxable capital gains for a taxation year **exceeds** the total of allowable capital losses for the taxation year plus net capital losses of other years deducted in computing the taxable income of the trust for the taxation year.

Where a portion of a Canadian resident trust's net taxable capital gains is allocated to a beneficiary, that amount, if designated by the trust, is deemed to be a taxable capital gain

of the beneficiary. [Complete T3 Supplementary Box (B) and line 32, page 3 of T3 Return. The amount to be entered in Box (B) is the **capital gain** amount which for the 1989 taxation year is 1.5 times the **taxable capital gain amount** at line 32.]

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 the beneficiary's capital gains deduction. 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. See Trust Schedule 5B, Part IV and V. [Complete T3 Supplementary Box (I) and line 603, Trust Schedule 6, Part A. As above, the amount to be entered in Box (I) is 1.5 times the amount at line 603.]

If the trust has chosen to reduce its current year taxable capital gains (such as with a non-capital loss carryforward) pursuant to subsection 104(13.2), the net taxable capital gain designated to a beneficiary must be reduced accordingly. [See "Additional Designation Provisions 104(13.1) 104(13.2), above].

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.

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 the trust's eligible taxable capital gains is made in subsequent years. See Trust Schedule 5B, Part II, lines 540 to 548.

Line 36 Pension Benefits 104(27)

Certain pension and superannuation benefits included in income under subparagraph 56(1)(a)(i) may be designated by a testamentary trust to have been received by a particular beneficiary and not by the trust. Enter on line 36 and in Box (F) those amounts eligible for paragraph 60(j) transfer to a registered pension plan or registered retirement savings plan.

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 in a similar manner as for resident beneficiaries, the different types of income paid or payable to non-resident beneficiaries. Note that the total of these amounts will be reported as "Estate or Trust Income" on form NR4 Supplementary instead of form T3 Supplementary. Income such as Net Taxable Capital Gains (unless the trust is a mutual fund trust) and Taxable Dividends may not be designated and therefore 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" (Part XIII).

For information on new Part XII.2 Tax, applicable to specified income allocated by certain inter vivos trusts to non-resident beneficiaries, see Guide item, Trust Schedule 4, Lines 401 to 410.

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 of the T3 Return for these adjustments. For example, amounts paid or credited to a beneficiary resident in the United States, derived from income sources outside Canada are not subject to withholding tax by virtue of the Canada - U.S. Tax Convention. This adjustment 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 76-12R4 contain further information regarding this subject.

**By Preferred Beneficiary Election –
Resident Beneficiaries
Page 3, Column III
Boxes (A) to (F) 104(14), Regulation 2800**

This column will be used to allocate/designate the trust's elected accumulating income for 1989. The trustee and a preferred beneficiary may jointly elect to have this accumulating income taxed in the hands of the preferred beneficiary in 1989. See "Preferred Beneficiary" and "Preferred Beneficiary Election" below. A separate form T3 Supplementary is to be completed for this elective income. The following are types of income of the trust that the trustee may also choose to designate under a preferred beneficiary election:

- (a) Actual Amount of Dividends from Taxable Canadian Corporations
- (c) Foreign Non-business Income
- (d) Taxable Capital Gains

Elective income not designated in (a) to (d) 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 relevant amounts are included in the income of the trust.

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, or
- (b) the spouse or former spouse of the settlor of the trust, or
- (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 "settlor" refer to Interpretation Bulletin IT-374.

**Preferred Beneficiary Election 104(12), (14) and (15)
108(1)(a), Regulation 2800**

A trust and a preferred beneficiary may jointly elect in the year that part or all the trust's accumulating income received in the year be included in a preferred beneficiary's income for that year and not in the year in which it is paid to any beneficiary. The trust may then deduct from its income an amount equal to the amount elected to be included in the preferred beneficiary's income; such amount must be stipulated in the election and must not exceed the preferred beneficiary's share in the accumulating 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, stating the part of the income in respect of which the election is made, and signed by both the preferred beneficiary (or guardian) and the 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.

The election must be filed, with the T3 Return or separately, **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 accumulating 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.

Line 37 – Total

The total of lines 31 to 36 is the income allocated/designated to the beneficiaries and may not exceed "Trust Income Before Allocations/Designations", line 30.

CALCULATION OF TAXABLE INCOME OF TRUST – LINES 40 to 56

Line 41

Gross-up Amount of Dividends Retained by the Trust

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

Line 51

Non-capital Losses of Other Years

111(1)(a) 111(8)(b)

A non-capital loss could arise if the trust had a loss from business or property in a year and the loss was more than the income from all sources of income in that year. The unused portion of a non-capital loss incurred in 1983 and subsequent years may be carried forward seven years and back three years. The amount to claim at this line on a current-year T3 Return is the unused portion of a non-capital loss carried forward from a previous year. [It also may include the unused portion of allowable business investment losses of other years.]

To carry an unused non-capital loss back to a previous year, the request should be made on form T1A. Refer to Guide, Loss Applications.

When claiming a non-capital loss carried forward from a previous year, please enclose a continuity statement of any non-capital loss balances, grouping them as follows:

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

Farming and Fishing Losses

Non-capital losses derived from farming and fishing may be carried back three years and forward ten years. For more details on farming or fishing, obtain the "1989 Farming Income Tax Guide" or "1989 Fishing Income Tax Guide". 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 net income remaining in the trust after allocations and designations to beneficiaries (Line 42 of page 3 of T3 Return).

Line 52

Net Capital Losses of Other Years 3, 38, 39, 111(1)(b), 111(8)(a) 104(21)

If allowable capital losses exceed taxable capital gains in a year, the excess becomes a net capital loss for that year. Net capital losses may be carried back three years and forward until fully applied, against taxable capital gains of other years.

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 in the 1989 taxation year as follows:

- a) net capital losses occurring before May 23, 1985 – from any net taxable capital gains realized in the 1989 taxation year; the balance, if any, 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 the 1989 taxation year.

The inclusion rate for calculating the taxable portion of capital gains and the allowable portion of capital losses increased from 1/2 (for taxation years and fiscal periods ending in 1987 and earlier) to 2/3 (for taxation years and fiscal periods ending in 1988 and 1989). When a net capital loss is to be applied to a year when the taxable capital gain was calculated at a different rate, the net capital loss amount must be adjusted to match the inclusion rate of the year to which it is being applied. Form T1A, Area III, "Net Capital Loss for Carryback", provides for this adjustment.

When claiming a net capital loss carried forward from a previous year, please enclose a continuity statement of net capital loss balances grouping them as follows:

- a) before May 23, 1985,
- b) from May 23, 1985 to the year-end of the trust (taxation years commencing in 1984 and 1985),
- c) after 1985 (taxation year commencing in 1986 or 1987; but, ending before 1988), and
- d) after 1987 (taxation years ending in 1988 and subsequent years).

Refer to 1989 Capital Gains Tax Guide for more details on "Net capital losses of other years".

Listed Personal Property Losses

Losses on listed personal property (LPP) may only be applied against an LPP gain. If the unused portion of an LPP loss from another year is being applied against a current year LPP gain, the claim is made at line 508 on Trust Schedule 5A. See Guide, lines 507 to 509, Listed Personal Property.

Loss applications

A claim for a loss carryback from a subsequent year must be requested on or before the due date of the T3 Return for the year in which the loss occurs. The request should be made on form T1A "Request for Loss Carryback" which may be filed separately or attached to the current year T3 Return.

If the losses are not 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. 1986 non-capital losses must be applied before 1987 non-capital losses).

Where all the prior year's income has been allocated to beneficiaries:

- (a) a **non**-capital loss carryback cannot reduce the income allocated to beneficiaries,
- (b) a **net** capital loss carryback may reduce allocations/designations 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 allocated/designated 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 allocated, no reduction in the net taxable capital gain previously designated can be made.

Line 53 **Taxable Capital Gains Deduction for Resident Spouse Trust ONLY 110.6(12)**

Where a beneficiary spouse dies and does not use the total capital gains deduction to which they are entitled on the final T1 Return, the spouse trust, if resident in Canada, may claim the unused portion of the deduction in computing its taxable income for the taxation year in which the beneficiary spouse 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 claim is carried forward from line 596 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. Foreign income reported in the income of the trust that is exempt from tax in Canada because of a tax convention may be deducted at this line. 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.

Line 56 **Taxable Income of Trust**

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. The amount 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 or line 207.

Even if the amount at Line 56 is NIL, the trust (other than a Mutual or Segregated Fund Trust) may be subject to Minimum Tax. See "Minimum Tax – Trust Schedule 2B".

CERTIFICATION AREA

Name of person or company (other than Trustee/Executor/Administrator) who prepared this return:

This box must be completed in full if the return was prepared by someone other than the trustee, executor or administrator.

Certification:

This box must be completed and signed by the trustee, executor or administrator of the trust.

PAGE 4 – T3 **ADDITIONAL INFORMATION REQUIRED**

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

Question 4

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

Question 11

If yes, refer to Guide, Preferred Beneficiary Election. The preferred beneficiary election must be made and filed with the Department **within 90 days** from the end of the trust's taxation year.

Question 12

The trustee must attach a statement where estate assets have been distributed to one or more beneficiaries. This statement should disclose the following information:

- Name and address of the recipient(s),
- Description of assets transferred,
- Fair market value of assets at date of transfer,
- Cost amount 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 identifying one of a number of trusts taxed as an individual.

Where the trust is one of a number of trusts created as a consequence of contributions to the trusts by an individual, submit a list showing the name and address of each trust and the share of the basic exemption from Minimum Tax (See line 264) allocated to each trust.

Question 14.a)

The sale of an income or capital interest in a trust would constitute a change in ownership. For the purposes of this question, distribution of estate property to beneficiaries is not considered a change in ownership.

Question 16

See Interpretation Bulletin IT-406R for information on debts incurred in non-arm's length transactions.

Question 17

If the answer is yes, the election must be filed amending the deceased taxpayer's T1 Return for the year of death. See Guide item, Testamentary Trust – 164(6) Election.

Question 18.a)

The terms of the trust document or Court Order determine the requirement to allocate the income.

Question 18.b)

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

T3 SUPPLEMENTARY

Completion of Form T3 Supplementary

APPENDIX A provides an example of a completed T3 Supplementary. A T3 Supplementary must be prepared for all amounts allocated/designated to a RESIDENT beneficiary, including a preferred beneficiary to whom accumulating income of the trust was elected to be allocated/designated. It is important to follow these instructions closely because errors or omissions may result in the T3 Supplementaries being returned to the preparer for revision. Please note the following instructions:

- Complete the T3 Supplementary legibly.
- Enter **Social Insurance Numbers (S.I.N.)** of the beneficiaries. The trustee is required under subsection 237(2) of the Income Tax Act to make every reasonable effort to obtain the Social Insurance Number of each individual beneficiary for whom a T3 Supplementary is being prepared. Subsection 162(6) imposes a penalty on those individuals who fail to provide a Social Insurance Number when requested to do so.
- Identify the fiscal year end of the trust for which the T3 Supplementary is being prepared. For example, if the fiscal year (taxation year) ends in April 1989 show "1989" and "April", in the spaces provided on the left side of the form.
- If it becomes necessary to amend or cancel a T3 Supplementary previously submitted to the Department or to issue a duplicate, print AMENDED, CANCELLED or DUPLICATE, as the case may be, in large print across the bottom of the T3 Supplementary.
- Indicate if it is the first or second amendment and give the date the amended T3 Supplementary was prepared as shown below:
 1. FIRST AMENDED – July 3, 1989
 2. SECOND AMENDED – December 6, 1989
- Cancelled or amended T3 Supplementaries which change amounts shown on previous T3 Supplementaries necessitate the filing of a revised T3 Return, page 3 and Trust Schedule 6, Part A showing the changes in the respective boxes. The number (ex. FIRST AMENDED) and date of the changes should be noted on page 3 and on Trust Schedule 6, Part A.
- Copies of all original and amended T3 Supplementaries should be distributed as instructed on the back of copy 5 and as set out below.
- Where there is an election to report income by a preferred beneficiary, and income is also paid to the same beneficiary, two separate T3 Supplementaries must be completed: one for income with respect to the election and the second for all other income.
- Report all amounts allocated/designated 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 Allocations/Designations". Boxes (G) to (T) are covered on Trust Schedule 6, Part A in the "Summary of Other Amounts Designated".

- Box (A)** – Enter the designated portion of the actual amount of taxable dividends received from taxable Canadian corporations.
- Box (B)** * – For the 1989 taxation year, enter 1.5 (3/2) times the amount of any net taxable capital gains excluding deemed taxable capital 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", as applicable and show the amounts included in Box(B) and Box(I) that relate 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, e.g. "Eligible Capital Property – Qualified Farm Property" or "Eligible Capital Property – Other", as applicable, 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.
- 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 for purposes of paragraph (60)(j) transfers.
- Box (G)** – Enter the amount of other items such as: Pension payments, included in Box (F), that are eligible for the I.T.A.R. 40 provision.
- Box (H)** – Enter the taxable amount of dividends from a taxable Canadian corporation – 1.25 (5/4) times the actual amount reported in Box (A).
- Box (I)** * – For the 1989 taxation year, enter 1.5 (3/2) times the designated portion of the trust's eligible taxable capital gains excluding

deemed taxable capital 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) and in the area below Box (S) show the amount that qualifies for the capital gains deduction. See Guide, Line 32 for further details.

- Box (J)** – Enter the amount of death benefits designated to beneficiaries. See Guide, Line 604 – Death Benefits, 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 tax credit, for transfer to the spouse of the decedent. The amount is also included in Box (F).
- Box (N)** – This is a spare box. If there is more than one item for Box (G) use this box.
- Box (O)** – Calculate and enter the federal dividend tax credit – 13.33% of the taxable amount in Box (H).
- Box (P)** – Enter 1.5 (3/2) times the amount of allowable capital losses from insurance segregated fund trusts. Place brackets around this amount.
- Box (Q)** – Report that portion of the trust's investment 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 218)
- 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 in the space under Boxes (R) to (T) of the T3 Supplementary. (Lines 612 Trust Schedule 6, Part A and Trust Schedule 2A, Line 218)
- Box (S)** – This box is available to indicate each beneficiary's portion of the following credits designated. Enter the type and amount of:
- Manitoba Manufacturing Investment Tax Credit (Man.Mfg.) designated. (Line 613, Trust Schedule 6, Part A)
 - Saskatchewan Livestock Investment Tax Credit (S.L.I.T.C.) designated. (Line 614, Trust Schedule 6, Part A)
 - Saskatchewan Livestock Facilities Tax Credit (S.L.F.T.C.) designated. (Line 615, Trust Schedule 6, Part A)
- When a taxpayer is designated more than one of the credits, prepare separate T3 Supplementaries for each credit. **There are**

only 3 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 allocated to a beneficiary on form T3 Supplementary. Refer to Guide item Line 86 for further information.

***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 capital gain from Box (C) is eligible for the capital gains deduction, the beneficiary should be advised to recalculate Schedule 3 for purposes 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 capital gain from Eligible Capital Property - Other to be reported at line 544 or a deemed 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 Form 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 105 82(1) Dividends from Taxable Canadian Corporations

Attach a schedule listing the amount of taxable dividends received from taxable Canadian corporations as per Box (A) on forms T3 Supplementary and T5 Supplementary. This should include actual and deemed taxable dividends but should not include non-taxable dividends as commented on under line 120. Include all taxable dividends credited through banks, trust companies, brokers, etc. Deduct 50% of the amounts paid by the trust after June 30, 1989 under a securities lending arrangement that are deemed by subsection 260(5) of the Act to have been received by another person as taxable dividends. Taxable dividends received from taxable Canadian corporations qualify for the dividend tax credit on the grossed-up amount, which may reduce the tax payable by the trust, or if the taxable dividends were designated to individual beneficiaries the tax payable by the individual beneficiaries.

Line 112 Other Investment Income

See **Line 03** for some of the types of investment income a trust may earn. Attach information slips received.

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.

Non-Taxable Dividends Received by a Trust 83(1), 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 included in its income.

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

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.

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:

- Name of payor corporation
- Name(s) of the beneficiary and the amount of non-taxable dividend that each beneficiary receives.

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 from taxable Canadian corporations included in Line 01 and retained by the trust. The gross-up rate for dividends received in the 1989 taxation year is 25% (1/4) of the dividends received.

Line 121

On line 121, list amounts of dividends received from Box (A) on forms T3 Supplementary and T5 Supplementary. Attach any information slips received. If you received taxable dividends after April 30, 1989 under a dividend rental arrangement as defined in subsection 248(1) of the Act, deduct these dividends from the taxable dividends included in the amount reported on line 105. Report the net figure only on line 121.

Line 122

From line 121 deduct net (after related expenses) dividends **designated** to beneficiaries. If dividends have been allocated but not designated to beneficiaries, do not deduct the allocated dividends.

Line 124 Gross-up amount of dividends retained or NOT designated by the trust

The remaining amount at line 123 "Total Dividends retained or NOT designated by the Trust" is multiplied by 25% (1/4) to arrive at the line 124 amount. It is to be noted that the gross-up rate is to be applied to actual dividends (that have been retained in the trust, or allocated but not designated to beneficiaries) before the deduction of related expenses.

The amount from line 124 is to be entered on page 3, line 41 and on Schedule 2A at line 211.

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

For further information refer to Interpretation Bulletin, IT-372R, "Flow Through of Taxable Dividends to a Beneficiary".

Trust Schedule 2A – Lines 201 to 228 Calculation of Federal Income Tax for the 1989 Taxation Year 122

Line 207 Inter Vivos Trusts

An inter vivos trust is taxed at 29% of its taxable income if it does **not** meet all of the following conditions:

- it was established before June 18, 1971,
- it was resident in Canada on June 18, 1971 and without interruption thereafter until the end of 1989,
- it did not carry on any active business in 1989,
- it has not received any property by way of gift since June 18, 1971,
and
- it has not, after June 18, 1971, incurred any debt or obligation to pay an amount to, or guaranteed by, any person with whom any beneficiary of the trust was not dealing at arm's length.

Inter vivos trusts (other than mutual fund trusts) that meet all of the above conditions and all testamentary trusts are taxed using the "1989 Rates of Federal Income Tax" for individuals.

Line 209 Tax Adjustment - ITAR 40 Provision

This line is used when adding to the trust's tax, such items as the reduced tax that is applicable on lump sum payments under the above noted provision. You do not need to enter an amount on this line; specify ITAR 40 on this line and at Line 05 on page 2, and the Department will calculate your tax adjustment.

Line 211 Non-Refundable Tax Credits

Federal Dividend Tax Credit 121

The amount of the federal dividend tax credit that the trust may claim on dividends received in the 1989 taxation year is shown as part of the calculation at this line.

The dividend tax credit is 66.67% of the gross-up amount calculated at line 124 of Trust Schedule 1, Part B.

Minimum Tax Carryover from PRIOR Year 120.2

If minimum tax was paid by the trust in 1986, 1987 or 1988, part or all of that amount may be deductible from 1989 taxes payable. To calculate the claim, complete APPENDIX C at the back of this Guide. Attach a copy of this calculation to the T3 Return if a minimum tax carryover is being claimed.

Charitable Donations 118.1 or 104(6)

Testamentary Trust

- (a) If the donation is a one-time payment provided in the decedent's Will, the donation must be claimed on the decedent's T1 Return in year of death and any excess may be carried back one year. The T1 Returns will be reassessed, if necessary, in order to allow the claim.

- (b) If the donation is of a continuous nature according to the terms of the Will, the charity is treated as an income beneficiary and the donation is deducted as an allocation of trust income on the T3 Return (page 3, line 33).
- (c) If the donation is made at the discretion of the trustee, the trustee has the choice of treating the charity as an income beneficiary and deducting the amount at line 33 or claiming a non-refundable tax credit on the donation amount on the T3 Return on Schedule 2A at line 211.

When a donation is being claimed on the T3 Return, either as an income allocation or for a non-refundable tax credit, the trustee should state in the T3 Return whether the donation is a one-time or periodic payment provided in the Will or is made at the discretion of the trustee.

Inter vivos Trust

- (a) If the charity is an income beneficiary according to the trust agreement, the donation is deducted as an allocation of trust income on the T3 Return (Line 33).
- (b) In all other cases, a non-refundable tax credit will be calculated on the donation amount on the T3 Return (Line 211).

Receipts

All donation claims must be accompanied by an official receipt. There are three classes of donations:

- (a) Charitable. Please refer to the T1 Guide for types of organizations that are included in this class.
- (b) Gifts to Canada, province or territory.
- (c) Gifts of cultural property. Attach both the official receipt from the institution and certificate T871 issued by the Canadian Cultural Property Export Review Board.

Maximum Claim and Carry Over

When the non-refundable tax credit method is used, the maximum claim in a year for charitable donations, referred to in (a) immediately above, is limited to 20% of Net Income of the Trust, line 42. You may choose to claim only a portion of your total donations, if under the maximum limit. Any unused portion may be carried forward for five years.

Line 214 Surtax on Income Not Subject to Provincial or Territorial Tax 120(1)

Canadian resident trusts that carry on business through a permanent establishment in a foreign country are subject to the federal surtax of 49.5%* of their Basic Federal Tax attributable to the income earned in the foreign country. *52% for taxation years ending after December 31, 1989.

Non-resident trusts which carry on business through a permanent establishment in Canada are subject to provincial tax on the income earned in the province or territory and NOT the federal surtax. Non-resident trusts which carry on business in Canada without a permanent establishment in Canada, may be subject to the federal surtax on the Canadian business income if the income is not exempt from Part I Tax in Canada by virtue of an income tax convention.

Forms T2203, Calculation of Tax in Respect of Multiple Jurisdictions and T691A, Minimum Tax Supplement – Multiple Jurisdictions are available to assist in the above calculations.

Line 216 Federal Foreign Tax Credit 126, 20(12),(11)

This credit is for foreign income or profit taxes paid to a government of a country other than Canada in respect of income earned outside Canada. In general, the foreign tax credit that may be claimed for each foreign country cannot exceed the lesser of:

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

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 at line 223 as an "Additional Foreign Tax Credit" in computing the "Individual Surtax Payable" amount at line 224 on Schedule 2A. For details of all these calculations, obtain form T2209.

If an excess amount of foreign 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 to the extent allowed for those years. Attach a note to the T3 Return explaining the amount of unused foreign tax credits being applied to other years.

The excess of any foreign non-business income tax may not be carried forward. Some or all of the excess may be claimed as a provincial foreign tax credit on form T2036, as an expense at line 18 on page 2 of T3 Return or as an additional foreign tax deduction against the individual surtax otherwise payable, as stated previously.

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 Bulletins IT-270R 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 of foreign income and foreign tax credits to beneficiaries. Enter the amount from Part I, line (H) of completed form T2209 at line 216 on Trust Schedule 2A.

Line 217 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 is deductible from taxes. Proof of payment in the form of an official receipt signed by the registered agent of the registered party or by the official agent of the candidate must be attached to the return.

The allowable credit is calculated as follows:

Total Federal Political Contributions
(receipts necessary) \$ _____

Allowable credit -	
-75% of first \$100 of total federal political contributions	_____
-50% of next \$450 of total federal political contributions	_____
-33 $\frac{1}{3}$ % of amount of total federal political contributions, over \$550	_____
Total allowable credit -- (maximum \$500)	\$ _____

Enter the allowable credit amount on Line 217," Federal Political Contribution Tax Credit".

Line 218 Annual Investment Tax Credit Limit 127(5), (12.3), 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 the investment tax credit.

Attach a completed copy of form T2038 (IND) to the T3 Return if:

- qualified property was purchased or a qualified expenditure was made in 1989, or
- a credit is being carried forward,
- a credit is being carried back to prior years, or
- a refundable investment tax credit is being claimed in 1989 (on page 1, Line 88).

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 (ITC) must be reduced by any portion of the credit deducted or refunded in calculating the tax payable for the trust. The reduction takes place in the year following the year in which the credit is claimed, or following the year of acquiring the asset if the claim or refund is made in the year of acquisition or if the claim is applied back to a prior year. For example, the capital cost of property is reduced in 1990 by any ITC which is earned in 1989 and which is claimed or refunded on the 1989 Return, or applied back to a prior year (1986 to 1988).

Investment tax credits calculated on qualified property purchased or a qualified expenditure made 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. After that time only testamentary trusts or communal organizations may designate an investment tax credit to beneficiaries. 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 designated to beneficiaries reduces the cost of the qualified property acquisitions or expenditures of the trust in the taxation year of the designation.

A separate T3 Supplementary should be prepared for each designation to beneficiaries for eligible expenditures in the different regions, if the investment tax credit rates differ. A beneficiary could therefore have more than one T3 Supplementary from the same trust.

For more details in this area, refer to the "1989 Business and Professional Income Tax Guide", the "1989 Farming Income Tax Guide" or the "1989 Fishing Income Tax Guide", Interpretation Bulletin IT-331R, "Investment Tax Credit", Information Circular 78-4R3, "Investment Tax Credit Rates" and its Special Release dated November 13, 1987.

Line 221 Federal Tax Payable Before Individual Surtax

Refer to guide item "Schedule 2B – Lines 239 to 294, Calculation of Minimum Tax" for situations in which the trust may be subject to minimum tax and required to complete Schedule 2B.

Lines 222 to 226 of Schedule 2A and Lines 280 to 282 of Schedule 2B Individual Surtax Payable 180.1

Trusts which are liable to pay tax under Part I of the Income Tax Act for a taxation year shall pay an individual surtax at the following rate:

- 4% for taxation years ending in 1989
- 5% for taxation years ending in 1990 and subsequent years.

The amount on which the surtax is calculated is determined as follows:

- a) For a trust other than a Mutual Fund Trust:
 - The Basic Federal Tax at line 213 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 213 on Trust Schedule 2A minus the least of the amounts (a), (b) and (c) on form T184.

In addition to the surtax described above, an additional surtax, at the rate of:

- 1 1/2% for taxation years ending in 1989
- 3% for taxation years ending in 1990 and subsequent years, is applied on the amount by which the amounts described in a) or b) above exceed \$15,000.

If the trust is entitled to claim a Federal Foreign Tax Credit or an Investment Tax Credit, it may be able to reduce its Individual Surtax by the unused portion of these credits.

Line 223 of Schedule 2A and Line 281 of Schedule 2B Additional Federal Foreign Tax Credit

The additional *Federal Foreign Tax Credit* (F.F.T.C.), calculated on form T2209, is subtracted from the surtax calculated above.

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 Payable. Enter

zero at line 223 on Trust Schedule 2A or, if the trust is subject to Minimum Tax, at line 281 on Trust Schedule 2B.

- b) If an additional Federal Foreign Tax credit is available to be claimed against the Individual Surtax, enter the amount determined in area F from Part II of form T2209 on Trust Schedule 2A, Line 223 or, if the trust is subject to Minimum Tax, at line 281 on Trust Schedule 2B.

Line 225 on Schedule 2A and at Line 282 on Schedule 2B Additional Investment Tax Credit

The additional *Investment Tax Credit* to be deducted from the Individual Surtax is calculated on form T2038(IND), Section II.

The individual surtax may be reduced by the lesser of:

- unused investment tax credit determined on line (E) of form T2038IND, and
- 3/4 of the amount (line 224 on Schedule 2A) by which the individual surtax otherwise payable exceeds the additional federal foreign tax credit, calculated above.

Line 228 of Schedule 2A and Line 284 of Schedule 2B 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 and 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 and trusts resident outside of Quebec which had income from a business with a permanent establishment in 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 127.5 to 127.55

A Mutual fund trust and a "related segregated fund trust" are not subject to minimum tax. Any other trust (except an investment club that is not an actual trust) is liable to pay a minimum tax if the minimum amount (Line 267 of Schedule 2B) less the special foreign tax credit (Line 268 of Schedule 2B) exceeds the regular tax payable (Line 272 of Schedule 2B). Any of the following conditions may attract minimum tax for 1989:

- Taxable dividends are reported; (at Line 01, page 2)
- Taxable capital gains are reported; (at Line 02, page 2)
- An election is made under ITAR 40 on pension benefits; (at Line 05, page 2 and line 209 Schedule 2A)

- A loss is claimed resulting from, or increased by, capital cost allowance on the rental of:
 - (a) Multiple unit residential buildings (MURBs); (at Line 09, page 2)
 - (b) Certified films or videotapes; (at Line 06, page 2), or
- A loss is claimed resulting from, or increased by, resource and depletion allowances on resource properties (at Line 06 or 10, page 2).

Complete Trust Schedule 2B to determine the Net Adjusted Taxable Income for Minimum Tax. Basically, Trust Schedule 2B recalculates taxable income by:

adding back the following amounts:

- Non-taxable portion of capital gains minus an amount equivalent to capital gains designated or allocated to beneficiaries, and
- Certain deductions including losses caused by capital cost allowances,

and **deducting**:

- A basic exemption up to \$40,000., allowed to testamentary trusts and to grand-fathered inter vivos trusts. See Guide, Trust Schedule 2A, Calculation of Federal Income Tax.
- Gross-up amount of dividends retained by the trust, and
- Non-deductible portion of business investment loss (1/2 of allowable business investment loss on line 17).

A tax rate of 17% is applied to the adjusted taxable income amount, if any, and the result, minus the special foreign tax credit and the charitable donations tax credit, is compared to the regular federal tax payable. Explanations of certain lines as required, are provided below.

Line 241 127.52(1)(d) Non-taxable portion of capital gains retained in the trust

This amount would normally be equal to one-half of the taxable capital gains (unless realized on mortgage foreclosures and conditional sales repossessions) retained in the trust after designation or allocation of capital gains to beneficiaries. If a capital gains reserve (at line 517) or a carry over of a listed personal property loss (at line 508) relates to a disposition of property occurring before 1986 and is used in calculating the 1989 taxable capital gains on Schedule 5A, an adjustment is required. For this purpose use the Worksheet in APPENDIX B.

Line 260 127.52(1)(i)(i) Non-Capital Losses of other years USED IN CURRENT YEAR

Non-capital losses of other years, which are claimed on line 51 of page 3 of the T3 Return, may have to be reduced for minimum tax purposes, if the loss occurred in a taxation year beginning after 1985. This reduction is the portion, if any, of the non-capital losses attributable to capital cost allowance claimed on MURBS, films certified by the Canadian Film and Videotape Certification office, resource expenditures, or resource and depletion allowances included in the loss claimed. The portion is added back on Line 260.

Line 262 127.52(1)(i)(ii) Net Capital Losses of other years USED IN CURRENT YEAR

The net capital loss for minimum tax purposes is adjusted to reflect 100% of the capital losses (unless realized on mortgage foreclosures and conditional sales repossessions) from capital property dispositions occurring in taxation years beginning after 1985. Income for minimum tax purposes is adjusted to reflect the non-deductible portion of capital losses of other years used in the current year.

The amount to be entered at line 262, is one-half of the net capital losses of other taxation years beginning after 1985 (except capital losses on mortgage foreclosures and conditional sales repossessions) claimed on line 52 in the current year.

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

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 other conditions set out under subsection 122(2) of the Income Tax Act. (See Guide, Line 207.)

Where more than one qualifying trust is formed from contributions by the same 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 exemption.

Where a notice in writing is forwarded by the Department to a trustee requiring such an agreement and it is not filed with the Minister within 30 days, the Minister may allocate the \$40,000 basic exemption to one or more of the qualifying trusts.

Lines 280 to 282 Individual Surtax Payable Refer to Guide, Schedule 2A, lines 222 to 226 for details.

Line 284 Refundable Quebec Abatement Refer to Guide, Schedule 2A, line 228 for details.

Lines 285 to 294 PART VI – Calculation of Additional Taxes Paid For Minimum Tax Carry-over

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 (Trust Schedule 2A, line 211).

Trust Schedules 3A and 3B – Lines 301 to 393
Provincial or Territorial Tax Payable

Canadian resident trusts

Trusts resident in a province (other than Quebec) or territory 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 the province or territory of residence. See Trust Schedules 3A and 3B.

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 (other than Quebec) or territory, 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 Taxation 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.

If a trust resident in Canada has income during the year from a business and if this business had a permanent establishment in a province other than the one in which the trust resided at the end of the taxation year, or in a country other than Canada, the trust must allocate its income to determine the liability for provincial or territorial income tax or to determine federal surtax for income earned outside of Canada. Income from a business should be allocated for each province, territory or country outside Canada in which the business had a permanent establishment during the taxation year. In general, all other income is allocated to the province or territory in which the trust resided at the end of the taxation year. Form T2203, Calculation of Tax in Respect of Multiple Jurisdictions and form T691A, Minimum Tax Supplement – Multiple Jurisdictions are available to assist in this calculation.

Non-resident Trusts

Non-resident trusts which carry on business through a permanent establishment in a province in Canada are subject to provincial (or territorial) tax on the business income earned in that province.

Non-resident trusts which do not have income from a business with a permanent establishment in a province or territory are not liable for provincial or territorial income tax. However, non-resident trusts which carry on a business in Canada without a permanent establishment in Canada, may be subject to the federal surtax (Schedule 2A, line 214) on the Canadian business income if the income is not exempt from Part I Tax in Canada by virtue of an income tax convention.

Provincial and Territories Tax Rebates and Credits

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

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

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

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

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

Political Contributions in 1989	\$ _____
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 1989	\$ _____
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 1989	\$ _____
Allowable credit -	
100% of first \$100 of Total Contributions is	\$
50% of Total Contribution exceeding \$100 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.

Line 331 Ontario Tax Reduction

If the trust is subject to Minimum Tax (from Schedule 2B), the trust is not entitled to claim an Ontario Tax Reduction at line 331 of Schedule 3A.

Line 343 Manitoba Manufacturing Investment Tax Credit 149

The Manitoba Manufacturing Investment Tax Credit was available in respect of qualified property acquired after April 24, 1984 and before 1987. The total credit or any portion thereof may be retained by the trust to be claimed against its Manitoba tax payable or may be designated to the beneficiaries to be claimed by them against their Manitoba tax payable. Any unused credit is subject to carry-over provisions.

To claim a carry-over of this credit from a prior year, obtain form T86, "Manitoba Manufacturing Investment Tax Credit", from your District Taxation Office. One completed copy of form T86 must be attached to the return. Where the credit was retained by the trust, enter the amount 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.

Lines 357 to 361 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 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 – 358. 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).

Line 370 – Alberta Royalty Tax Rebate Line 89 (Page 1) – Alberta Royalty Tax Credit

If, during 1989, the trust paid royalties or similar payments to a federal or provincial government for production from a Canadian resource property, it may qualify for the Alberta Royalty Tax Rebate and the Alberta Royalty Tax Credit. To

claim the rebate and credit, you must complete forms T79 and T80, respectively, and attach them to the T3 Return. Both forms are available from your District Taxation Office. The Alberta Royalty Tax Rebate calculated on form T79 is entered on Trust Schedule 3B, Line 370. The Alberta Royalty Tax Credit on form T80 is entered at line 89 on page 1 of the T3 return. The Alberta Royalty Tax Credit is a refundable tax credit whereas the Alberta Royalty Tax Rebate may only reduce your Alberta Income Tax payable and cannot result in a refund.

Line 380 British Columbia Royalty and Deemed Income Rebate

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.

Trust Schedule 4 – Lines 401 to 410 Calculation of Part XII.2 Tax and Refundable Part XII.2 Tax Credit for 1988 and Subsequent Taxation Years 104, 210 to 210.3

Part XII.2 Tax is levied when a trust has "specified income", a "designated beneficiary" and distributes (allocates/designates) any of its income.

A separate tax return has not been provided for Part XII.2 Tax. Instead, Part XII.2 Tax is calculated on Trust Schedule 4 and is payable within 90 days from the end of the trust's taxation year.

Part XII.2 Tax does NOT apply to a trust that was, throughout the year:

- a testamentary trust,
- a mutual fund trust,
- a trust that is exempt from tax under subsection 149(1) of Part I,
- a trust described in subparagraph 108(1)(j)(ii),
- a communal organization deemed by subsection 143(1) to be an inter vivos trust, or
- a non-resident trust.

Specified Income

"Specified income" of a trust is the total of the following sources of income or losses:

- net income (loss) from businesses carried on in Canada,
- net income (loss) from real properties (land or buildings) located in Canada,
- net income (loss) from timber resource properties,
- net income (loss) from Canadian resource properties acquired by the trust after 1971, and
- taxable capital gains (allowable capital losses) from dispositions of taxable Canadian property, as defined in subsection 248(1).

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 parts of this Guide.

Designated Beneficiary 210

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

- a non-resident person,
- a non-resident-owned investment corporation,
- a person who is exempt from tax by reason of subsection 149(1) where that person acquired an interest in the trust directly or indirectly from a beneficiary of the trust after October 1, 1987 [unless, since the later of October 1, 1987 and the date the trust was created, the interest was held continuously by a beneficiary exempt from tax or the beneficiary is a trust governed by a registered retirement savings plan or registered retirement income fund which acquired the interest from its beneficiary or the beneficiary's spouse], or
- a trust [other than a testamentary trust or trust exempt from tax by reason of subsection 149(1)] or a partnership whose beneficiaries or members include a designated beneficiary.

A designated beneficiary is not entitled to the refundable tax credit for any Part XII.2 Tax paid by the Trust. This means that:

- Box (T) on the T3 Supplementary is **not** to be completed for a designated beneficiary who is a Canadian resident; and
- the non-resident withholding tax under Part XIII will be calculated on an amount which is reduced by a proportionate amount of the Part XII.2 Tax paid by the trust for a designated beneficiary who is a non-resident person. (See the comments for Line 409 below.)

Eligible Beneficiary

"Eligible Beneficiary" is a term used to identify a beneficiary other than a designated beneficiary described above and generally is a resident beneficiary.

Such a beneficiary is entitled to a refundable tax credit on a proportionate share of the Part XII.2 Tax paid by the trust and is required to include the amount of the credit in income. The credit, in effect, replaces the income that would have been received by the beneficiary but for the requirement that the trust pay the Part XII.2 Tax.

Line 406 Total Specified Income

The total of lines 401 to 405 represents the total of Specified Income of a trust. If this amount is negative, Part XII.2 Tax is not applicable.

Line 407 Amount Allocated/Designated to Beneficiaries

Enter the total of the amounts in Columns I and II from line 37 on page 3 of the T3 Return. This amount must be reduced

by the subsection 105(1) amount "Value of other benefits to recipients" reported on line 21(b). The line 21(b) amount and the total amount in Column III for accumulating income under a preferred beneficiary election are not subject to Part XII.2 Tax.

In effect, the total at Line 407 represents the following provisions of the Income Tax Act:

- the deduction taken by the trust under subsection 104(6) for that portion of the trust's income which is distributed to resident and non-resident beneficiaries and included in their income;
- the subsection 104(30) deduction for the tax paid by the trust for the year under Part XII.2; and
- the amount of trust income which is required to be included in an eligible beneficiary's income under subsections 104(13) and 104(31). (See the comments for Line 410 below.)

For information related to completing the T3 Supplementary, the NR4 Supplementary and the NR4 Summary for income distributions, refer to the comments for Lines 409 and 410 below.

Note:

In effect, the trust withholds the Part XII.2 Tax from income distributed to the beneficiaries. This way, a proportionate share of the tax for each beneficiary may be based on the income originally allocated or designated to them with the provision that eligible beneficiaries will receive a refundable tax credit on their share of the tax. The purpose of the Part XII.2 Tax is to ensure that designated beneficiaries pay sufficient taxes on their share of "specified income", which when added to Part XIII Tax would approximate Part I Tax plus provincial or territorial taxes.

Line 408 Calculation of Part XII.2 Tax

The lesser of the amounts at line 406 or 407 multiplied by 36% is the amount of Part XII.2 Tax payable by the trust. This amount is entered at line 83 on page 1 of the T3 Return. Part XII.2 Tax for the year is generally equal to 36% of the specified income at line 406, unless the amount of income distributed to the trust's beneficiaries after Part XII.2 Tax is less than 64% of the trust's specified income for the year. In the latter case the Part XII.2 Tax is equal to 36% of the deduction under subsection 104(6) which is grossed up by a factor of 100/64 to a before-tax amount, in recognition of the deduction under subsection 104(30). This grossed-up amount is equal to the amount at Line 407.

Paragraph 210.2(1)(b) of the Income Tax Act is the income of the trust after deducting the amount of its accumulating income included in a preferred beneficiary election, but before subsection 104(30) and 104(6) deductions. This amount has been eliminated from the calculation on Trust Schedule 4 because it would never be less than the amount at line 407 which is the amount determined under paragraph 210.2(1)(c).

Line 409 Adjustment for Part XIII Tax purposes

Enter the amount calculated on this line at line 624, in Part B, of Trust Schedule 6 to reduce the amount subject to Part XIII Tax. The total amount in column II on page 3 of the T3 Return includes income under subsection 104(31) [i.e. the Part XII.2 Tax] which is not subject to Part XIII Tax in the case of a non-resident person who is a designated beneficiary.

Line 410 Part XII.2 Refundable Tax Credit for "Eligible Beneficiaries"

The amount calculated on this line establishes the Part XII.2 Refundable Tax Credit for all "eligible beneficiaries".

If there is more than one eligible beneficiary, the following formula calculation may be used to determine the amount of refundable tax credit to be reported in Box (T) of the T3 Supplementary for each beneficiary:

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

where

- A is the Part XII.2 Tax payable by the trust, which is the amount from Line 408,
- B is the trust income allocated/designated to the "eligible beneficiary", which is each beneficiary's share of the amount from line 407, and
- C is the total allocations/designations for the year, which is the entire amount from line 407.

Example:

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

The net income of the trust for 1989 of \$1,400 represents:

- net business income of \$1,000, and
- interest income after related expenses of \$400

On Trust Schedule 4 - Calculation of Part XII.2 Tax and Refundable Part XII.2 Tax Credit you would:

- Enter \$1,000 at lines 401 and 406 as there are no other sources of "Specified Income". (The \$400. interest is NOT specified income);
- Enter \$1,400 at Line 407 as this is the total amount from columns I and II on page 3 of the T3 Return;
- Enter the lesser of lines 406 and 407 (\$1,000) in the first blank space on Line 408;
- Calculate 36% of \$1000 and enter the result (\$360) in the second blank space on line 408;
- Calculate the amount which is not subject to the Non-resident tax by completing the entries in the area for Line 409 [i.e., divide \$700 by \$1400 and multiply by \$360 and enter the result (\$180)] at line 624 of Trust Schedule 6 in Part B - Non-resident Withholding Tax (Part XIII Tax); and

- Calculate the amount of refundable Part XII.2 Tax Credit at line 410 by subtracting line 409 from 408. Enter the result (\$180) on the T3 Supplementary in Box (T).

Mr. Adam received \$520 but he will include \$700 (i.e., \$520 + \$180) in his income for the year. This amount is one-half of the trust income that was to be distributed to him according to the terms of the trust agreement. On his T1 return for 1989, he will claim a refundable Part XII.2 Tax Credit of \$180.

Trust Schedule 5A - Lines 501 to 524 Summary of Dispositions of Capital Property for 1989 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.

The taxable portion of a capital gain is 2/3 of the capital gain for 1989; 3/4 for 1990 and subsequent years.

There are many exceptions to the rules outlined below for various assets. The "1989 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.

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, a theft or the destruction of a property.

Distribution of Property to Beneficiaries 107(2)

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, generally, 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.

Deemed disposition - 21 year rule 104(4)

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 to have reacquired it immediately thereafter at a cost equal to the same fair market value. Generally, a trust is deemed to have disposed of its property at the following times:

- for a spouse trust, created after 1971, disposition is

deemed to occur on the death of the spouse and every 21 years thereafter.

- for other trusts, disposition is deemed to occur on the day which is 21 years after the later of January 1, 1972 and the date the trust was created and every 21 years thereafter.

These deemed dispositions should be reported on Trust Schedule 5A.

If, on June 18, 1971, the property was owned by the trust or by another person from whom the trust subsequently acquired the property in a non-arm's length transaction, refer to Interpretation Bulletins, IT-370, "Trusts - Capital Property Owned on December 31, 1971" and IT-132R2, "Capital Property Owned on December 31, 1971 - Non-Arm's Length Transactions", for additional information related to the deemed cost of the property.

Similarly, depreciable property of a prescribed class is deemed to be disposed of at the same time period specified above at a value which is the mean average 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 must be reported.

108(1)(j)

A unit trust, trusts governed by a registered pension fund or plan, an employee profit sharing plan, a registered supplementary unemployment benefit plan, a registered retirement savings plan, a deferred profit sharing plan, a registered education savings plan, a registered retirement income fund, an employee benefit plan or an employee trust; a related segregated fund trust; a master trust; an inter vivos trust deemed to exist in respect of a congregation that is a constituent part of a religious organization and an RCA trust are all **excluded** from the "21-year deemed disposition" rules.

Adjusted Cost Base 53, 54(a)

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

Assets Acquired Before 1972

(a) Median Rule ITAR 24 and 26(3)

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 (unless the property was depreciable property or an interest in a partnership) 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 amount 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 exceed 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.

For additional information relating to the disposition of capital property acquired before 1972 (including depreciable property and an interest in a partnership), refer to the 1989 Capital Gains Tax Guide and to Interpretation Bulletins, IT-84, "Capital property owned on December 31, 1971 - Median Rule (Tax-Free Zone)"; IT-139R, "Capital Property Owned on December 31, 1971 - Fair Market Value"; IT-217, "Capital Property Owned on December 31, 1971 - Depreciable Property" and its Special Release; IT-319, "Cost of obligations owned on December 31, 1971 and IT-370, "Trusts - Capital Property Owned on December 31, 1971".

(b) Valuation Day Value Election ITAR 26(7)

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 to 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.

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,

- disposed of capital property of the estate which resulted in an excess of capital losses over capital gains, or
- 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 designate 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 elected amount of terminal loss cannot exceed the trust's combined non-capital loss and farm loss, computed before the election was made. 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 provided by the Income Tax Act for the filing of a return that the legal representative of a deceased taxpayer is required or has elected to file under the Act in respect of the income of that deceased taxpayer for the taxation year in which he died, and
- (b) the day the return of the income for the first taxation year of the deceased taxpayer'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), 110.6(14), 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:

- at the time of disposition, the share was owned by the trust 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, while the share was owned by the trust or person or partnership related to the trust, it was the share of a Canadian controlled private corporation (CCPC) of which more than 50% of the fair market value of the assets of that corporation were:
 - assets used in an active business carried on primarily in Canada by the CCPC or corporation related to it,
 - certain shares or debts of 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)

Qualified farm property of a personal trust includes property owned by the trust that is:

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

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

Lines 501 and 502

Capital gains reported on lines 501 and 502 qualify for the higher capital gains deduction limit when these gains are designated to an individual beneficiary. See "Completion of Form 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 related to "Qualified Small Business Corporation Shares" and "Qualified Farm Property", refer to the "1989 Capital Gains Tax Guide".

Other Capital Properties 39

Other capital properties such as shares, bonds, real estate, etc. that are neither "Qualified Small Business Corporation Shares", nor "Qualified Farm Property" and, therefore, do not qualify for the higher capital gains deduction (when designated to an individual beneficiary) fall under the general description of "Other Property" for purposes of completing Schedules 5A to 5F and the T3 Supplementary.

Line 504 Bonds 47(2), ITAR 26(8)

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.

Line 505 Real Estate/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 Valuation Day if the property was owned on December 31, 1971. There can be no capital loss on the disposition of depreciable property. There may, however, be a terminal loss under the capital cost allowance rules when all the property of a particular class is disposed of.

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

Line 506
Personal-Use Property 40(2)(g)(iii), 46,
54(f)

“Personal-use property” of a trust includes property used primarily for the personal use or enjoyment of a beneficiary under the trust or any person related to the beneficiary. It would include property such as personal and household effects, automobiles, boats, personal residences, 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 capital loss is allowable on personal use-property (except certain debts acquired on disposition of such property and listed personal property).

Principal Residence 40(4)

A principal residence acquired by a spouse trust 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-120R3 for details.

Lines 507 to 509
Listed Personal Property 41, 54(e)

Listed personal property consists of:

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

Since a listed personal property is a type of personal use property, the gain or loss on the sale of an item or set of items is calculated the same as the gain or loss on personal use property by using \$1,000 as the minimum amount for both proceeds and adjusted cost base. 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.

Lines 520 and 521
Eligible Capital Property – deemed
taxable capital gains 14(1)

The disposition of eligible capital property such as goodwill may result in a deemed taxable capital gain to be reported at

Line 521, or at Line 520 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 1989 Farming Income Tax Guide, the 1989 Fishing Income Tax Guide and the 1989 Business and Professional Income Tax Guide.

Line 523
Bad Debt Arising from Disposition of
Eligible Capital Property 20(4.2)

If the trust has a bad debt arising from the disposition of eligible capital property, 3/4 of that loss may be deducted on Schedule 5A, at line 523.

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

Refer to the 1989 Capital Gains Tax Guide and Interpretation Bulletin IT-407R2 for information on dispositions of Canadian Cultural Property.

Line 524
Total Taxable Capital Gains 40(1)

Summarize the capital gains and losses as shown on Trust Schedule 5A. The amount from line 524 is entered at line 02, “Taxable Capital Gains” on page 2 of the T3 Return. Remember that no amount of loss can be entered on page 2, because capital losses realized after May 22, 1985 may only be used to offset capital gains in the current year and the excess allowable capital loss may then only be applied against taxable capital gains in a previous or future year. See “Net Capital Losses of Other Years” at line 52 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. Generally, 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 1988, it must be brought back into income in 1989. If all of the proceeds are not due in 1989, a new reserve may be claimed.

For more details, obtain Interpretation Bulletin IT-236R2 and the 1989 Capital Gains Tax Guide.

Records – Capital Transactions

Records or vouchers relative to capital transactions do not need to be filed with the T3 Return but must be retained. See Information Circular 78-10R2 for details on retention and 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 104(21), 104(21.1),
104(21.2), 104(21.3)

Here, the trust’s eligible taxable capital gains are determined to provide each beneficiary’s share of designated taxable

capital gains [T3 Supplementary Box (B)] that is eligible for the capital gains deduction [Box (I)].

Lines 530 to 539

Part I. Trust's Annual Gains Limit for the Current Year 110.6

Basically, the trust's annual gains limit is the amount by which:

- (a) 1989 taxable and deemed taxable capital gains (excluding reserves on dispositions that occurred before 1985) less 1989 allowable capital losses exceeds the total of
- (b) 1989 allowable business investment losses *and* net capital losses of other years claimed in 1989.

Lines 540 to 548

Part II. Trust's Cumulative Gains Limit at the End of the Current Year 110.6

Basically, the trust's 1989 cumulative gains limit is:

- a) the amount by which the aggregate of the taxable and deemed taxable capital gains exceeded allowable capital losses in the years 1985 to 1989, inclusive in respect of dispositions occurring in those years (excludes reserves on dispositions occurring before 1985), exceeds:
 - (b) the aggregate of:
 - i) allowable business investment losses claimed in 1985 to 1989 inclusive, and
 - ii) net capital losses of other years claimed in 1985 to 1989 inclusive, and
 - iii) allowable capital losses deducted from other income in 1985 (not exceeding \$2000.), and
 - iv) cumulative net investment loss at the end of 1989.

Note:

Refer to Trust Schedule 5D, line 580 for calculation of iv) above, Cumulative Net Investment Loss at the end of 1989.

Lines 550 to 555

Part III. Trust's Net Taxable Capital 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 capital 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 subsection 104(13.2). This is applicable to taxation years commencing in 1988 and for subsequent taxation years.

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.

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 1988 inclusive).

Part V. Calculation of Beneficiary's Share of Trust's Eligible Taxable Capital Gains for the 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 share 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 previous taxation year or if a reserve is being claimed at the end of the current taxation year, Trust Schedule 5C should be completed. This schedule shows the types of properties and the time period applicable to the reserves and dispositions.

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 where it is necessary to segregate reserves applicable to capital dispositions occurring before 1985. This breakdown of information is also needed to calculate taxable capital gains and eligible taxable capital gains for each type of property, i.e. qualified farm property or qualified small business corporation shares that qualify for the higher capital gains deduction.

**Trust Schedule 5D – Line 580
Calculation of Cumulative Net Investment
Loss 110.6**

Cumulative Net Investment Loss refers to the amount by which the aggregate of the investment (property) expenses for the year and for a preceding year ending after 1987 exceeds the aggregate of investment (property) income for the year and 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 capital gain for the beneficiaries' capital gains deduction.

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

Refer to Trust Schedule 5D for additional details.

Even for years in which the trust is not reporting capital gains or losses, or not designating eligible taxable capital gains to its beneficiaries, it is recommended that Schedule 5D for the current taxation year be completed and retained with the trust's records. The total amount of the trust's investment expenses and income for 1988 and subsequent years will be required in the future to determine the eligible taxable capital gains for purposes of an individual beneficiary's capital gains deduction.

**Trust Schedule 5E – Lines 584 to 596
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 completed:

- a) the trust's eligible taxable capital gains (Trust Schedule 5B), and
- b) the spouse's unused lifetime capital gains exemption limit for the year in which the spouse died (calculated on form T657 or T657A).

**Trust Schedule 5F – Lines 597 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 take advantage of the higher capital gains deduction as a result of these dispositions.

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

**Trust Schedule 6, Part A – Lines 601 to
616
Summary of 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. Please note that for taxation years beginning in 1988 or later, Capital Cost Allowance (CCA) may NOT be designated to beneficiaries.

**Line 604
Death Benefits 104(28), 248(1)**

If a testamentary trust is in receipt of a payment, normally from the decedent's employer or from a trust fund established by the employer, which was paid as a consequence of the death of the employee in recognition of the employee's service in an office or employment, the payment may qualify as a "death benefit" as defined by subsection 248(1) of the Income Tax Act.

When the death benefit payment is to be allocated to a beneficiary according to the provisions of the Will, the beneficiary may be entitled to exclude up to \$10,000 of the payment from income. Box (J) is provided on form T3 Supplementary to inform the beneficiary of the amount in Box (C) that is a death benefit and eligible for this exemption.

The information is then used by the beneficiary to calculate the taxable portion to be reported on the T1 Individual Income Tax Return.

Where a trustee designates only the **taxable** portion of a death benefit on behalf of a beneficiary, the trustee must ensure that only that the **taxable** portion of the death benefit is reported at line 10, page 2 of the T3 Return and that only Box (C) [not Box (J)] is completed on the T3 Supplementary. See Line 10.

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 are not eligible for the \$10,000 tax exemption nor the pension tax credit, therefore they are not to be included in Boxes (J) or (M) on the T3 Supplementary. In 1989, these C.P.P. payments should be reported in Box (F) as they qualify for the 60(j) transfer provisions for pensions.

**Line 606
Foreign Non-Business Income Tax Paid
104(22)(b), 126(1)(a)**

Any foreign tax credit claim for foreign non-business income tax paid by a trust or withheld from foreign non-business income earned by the trust which has been designated to a beneficiary must be substantiated on the T3 Return by a proper receipt or information slip from the foreign country involved. Foreign taxes paid in foreign currency must be converted to Canadian funds.

Please refer to Interpretation Bulletin IT-270R and Guide item Line 216, Federal Foreign Tax Credit" for further details.

Line 607
Eligible Pension Income 104(27), 118(3),
 118(7)

Testamentary trusts may include here, and in Box (M), amounts from Box (F) that qualify as "pension income" or "qualified pension income" for purposes of "Eligible Pension Income" for the calculation of the related tax credit on the beneficiary's T1 Individual Income Tax Return. This designation is applicable only if the beneficiary was the spouse of the decedent. Payments from the Canada or Quebec Pension Plans are **not** eligible pension income. See Line 314 of the T1 General Tax Guide for more details.

Line 611 and Line 612
Investment Tax Credit (I.T.C.) Designated
 127(7)

Only testamentary trusts and communal organizations (s.143) may designate the investment tax credit (I.T.C.) to their beneficiaries.

A beneficiary's portion of the trust's investment in eligible property acquisitions or eligible expenditures that determines the amount of the investment tax credit available for designation to the beneficiary (line 611), as calculated on form T2038 (IND.), will be recorded in Box (Q), investment eligible for I.T.C..

The portion of the trust's investment tax credit that is designated to a beneficiary on form T2038 (IND.) and not deducted by the trust on Trust Schedule 2A, Line 218 will be recorded in Box (R) Investment Tax Credit (I.T.C.).

Insert the applicable code number, from form T2038 (IND.), in the space under Boxes (R) to (T) of the T3 Supplementary. Refer to "Completion of Form T3 Supplementary" for additional details.

Line 616
Part XII.2 Tax Credit 104(31) 210.2(3)

Enter the amount from Line 410 of Schedule 4. The Part XII.2 Tax Credit may be designated only to those resident beneficiaries to whom income was allocated/designated in Column I, Line 37 on page 3.

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 on the Schedule 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 in respect of allocations to designated beneficiaries (calculated at Line 409, Schedule 4) is a deduction in computing Part XIII Tax.

Lines 627 to 629

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-Resident Persons including Non-Resident beneficiaries) Part XIII Tax, 212(1)(c)

Non-resident Beneficiaries

Every non-resident person must pay a Canadian Income Tax (Non-Resident Tax) of 25% under Part XIII of the Income Tax Act (unless a lower rate is provided by a tax treaty) on amounts paid or credited, or on amounts deemed to be paid or credited by a Canadian trust to non-residents on account of income from the trust. The trustee must withhold tax on these amounts and remit this tax 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 the 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 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 amounts paid or credited, or deemed to be paid or credited, to non-residents and basically represents the total of amounts reported on the NR4 Supplementary slips. For balancing purposes, the summary will differ by the number of amounts under \$10 for which no NR4 Supplementaries were 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 form is being completed and report, as Estate and Trust Income (Box J), the total trust income aggregating \$10 or more allocated to a non-resident beneficiary. The various income items (e.g. dividends) lose their identity when allocated to a non-resident beneficiary and are therefore totalled and reported as "Estate or Trust Income" on the NR4 Supplementary.

Distribution of forms NR4 Supplementary Regulation 202(8)

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 705 Statement of Real Estate Rentals

The amount from line 705 is to be entered at line 09, page 2 of the T3 Return. See Line 09 discussion in this Guide for additional details.

Trust Schedule 8 – Line 801 Capital Cost Allowance (Depreciation) on Rental Property

Use Schedule 8 to calculate capital cost allowance (CCA) to be claimed on Schedule 7, Statement of Real Estate Rentals. CCA on other assets related to other types of income (business, farming, etc.) should be calculated on a separate schedule and claimed on the appropriate statement of income and expenses.

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.

Capital Cost Allowance (Depreciation) Regulations 1100, 1700 3, 13(1), 20(1)(a), 20(16)

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. For details, obtain Information Circular 86-5R, "Part XVII Capital Cost Allowance, Farming and Fishing". Additional information and schedules for claiming capital cost allowance under Part XVII are contained in the 1989 Farming Income Tax Guide and the 1989 Fishing Income Tax Guide.

Complete capital cost allowance schedules for the trust in accordance with the following notes:

- 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 (not to exceed capital cost) of each disposal.

- The amount to be entered in column (3), Cost of Additions during the taxation year, where depreciable property is acquired by gift, bequest or inheritance is as follows:

69(1), 73(1)

- Where the property is acquired by inter vivos gift**, use the fair market value of the property at the time it was acquired. An exception occurs where the property is acquired by an exclusive trust for the spouse of the settlor, provided at the time of acquisition both the settlor and the trust are resident in Canada. Such exclusive trust would enter the undepreciated capital cost of the property to the settlor unless the settlor elects to do otherwise. (See "Note" below.)

70(6)

- Where the property is acquired by bequest or inheritance and the trust is an exclusive trust for the spouse of the deceased and the settlor was resident in Canada immediately before his death and the trust was resident in Canada immediately after the property vested in the trust**, 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)

- 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 the average mean 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)

- Where the property is Part XI farm assets acquired by bequest or inheritance** which vested indefeasibly in a resident child of the settlor within 36 months of death and where immediately before the death of the settlor, the property was used in the business of farming by the settlor, spouse or a child, the amount to be entered for each property acquired is the undepreciated capital cost of the property to the settlor immediately before death (unless the legal representative of the deceased elects otherwise). (See "Note" below.) For additional information, refer to Interpretation Bulletin, IT-349R2 "Intergenerational Transfer of Farm Property on Death" and its Special Release.

- 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.

73(3)

- 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 cost of each property acquired is the amount chosen as proceeds of disposition by the transferor. 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. (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. It should be noted that farmland should **not** be included on the capital cost allowance schedule.) For additional information, refer to Interpretation Bulletin, IT-268R3 "Inter Vivos Transfer of Farm Property to a Child" and its Special Release.

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), Net Proceeds of Disposal during the taxation year, 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 the paragraph entitled Capital Cost below.)

Where property of a personal trust is distributed to a beneficiary of the trust: 107(2)

- 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 are 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 are contained in subsection 107(4) for distributions from an exclusive spouse trust to beneficiaries other than the spouse and in subsection 107(5) for distributions from a personal trust to 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. Recapture on rental properties is reported on Schedule 7, at line 701. Specify "Recapture".
- e) For the purpose of calculating C.C.A. in the year of acquisition, usually only one-half of the net additions to a class is eligible for C.C.A. This adjustment is made in column (6). For more details on this "50% Rule", obtain Interpretation Bulletin IT-285R.
- 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

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.

Disposition of depreciable property

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 net proceeds of disposition or capital cost of the property, whichever is lower.

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 depreciable property sold was acquired before 1971, refer to the 1989 Capital Gains Tax Guide for calculating the capital gains. 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. If the recapture relates to real estate rentals, enter the amount under Gross Rents on Schedule 7 at Line 701 and specify "Recapture". This income may be allocated to the beneficiaries, depending on the terms of the trust document. However, it does not retain its identity.

Where the proceeds of disposition are less than the 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. If the loss relates to real estate rentals, enter the amount under Expenses - Other on Schedule 7 at Line 702 and specify "Terminal Loss". If the terminal loss arises in the first taxation year of a testamentary trust, an election may be made to claim the terminal loss in the decedent's final T1 Return. See Testamentary Trust - 164(6) Election.

Classes of depreciable property

The depreciable properties most commonly held by a trust 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 1989 Farming or Fishing Income Tax Guides and the 1989 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 in 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.

RELATED PUBLICATIONS

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

Guides

1989 General Tax Guide
 1989 Capital Gains Tax Guide
 1989 Deceased Persons Income Tax Guide
 1989 Farming Income Tax Guide
 1989 Fishing Income Tax Guide
 1989 Business and Professional Income Tax Guide
 1989 Rental Income Tax Guide
 Employer's and Trustee's Guide
 Valuation Day Prices of Publicly Traded Shares
 Retirement Compensation Arrangement Guide

Interpretation Bulletins

IT-79R2 Capital Cost Allowance – Buildings and Other Structures
 IT-83R2 Non-profit Organizations – Taxation of Income from Property
 IT-114 Discounts, Premiums and Bonuses on Debt Obligations
 IT-120R3 Principal Residence
 IT-151R3 Scientific Research Expenditures and Allowances
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 IT-281R Elections on Single Payments from a Deferred Profit Sharing Plan
 IT-282R Estate and Trust Distributions – Clearance Certificates
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 IT-286R2 Trusts – Amount Payable
 IT-301 Death Benefits – Qualifying Payments
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 IT-331R Investment Tax Credit
 IT-342 Trusts – Income Payable to Beneficiaries
 IT-366R Principal Residence – Transfers to Spouse, Spouse Trust or Certain Other Individuals
 IT-366SR Special Release
 IT-367R2 Capital Cost Allowance – Multiple-Unit Residential Buildings
 IT-367SR Special Release
 IT-370 Capital Property Owned on December 31, 1971

IT-372R Trusts – Flow-through of Taxable Dividends to a Beneficiary
 IT-374 Meaning of “Settlor”
 IT-381R Trusts – Taxable Capital Gains and Allowable Capital Losses
 IT-385R Disposition of an Income Interest in a Trust
 IT-394 Preferred Beneficiary Election
 IT-394SR Special Release
 IT-396R Interest Income
 IT-406R Tax Payable by an Inter Vivos Trust
 IT-407R2 Disposition of Canadian Cultural Property
 IT-419 Meaning of Arm's Length
 IT-446R Legacies
 IT-447 Residence of a Trust or Estate
 IT-456 Capital Property – Some Adjustments to Cost Base
 IT-465R Non-Resident Beneficiaries of Trusts
 IT-484R Business Investment Losses
 IT-500 Registered Retirement Savings Plan (concerning the flow-through of Refund of Premiums to a beneficiary of an estate)
 IT-502 Employee Benefit Plans and Employee Trusts
 IT-508 Death Benefits – Calculation

Information Circulars

74-3R2 Supplementary Schedules for Calculating Capital Gains and Losses
 74-21R Payments out of Pension and Deferred Profit Sharing Plans – ITAR 40
 76-12R4 Applicable Rate of Part XIII Tax on Amounts Paid or Credited to Persons in Treaty Countries
 77-1R3 Profit Sharing Plans
 77-16R3 Non-resident Income Tax
 78-4R3 Investment Tax Credit Rates
 78-4R3 Special Release
 78-5R2 Communal Organizations
 78-10R2 Books and Records Retention/ Destruction
 78-14R2 Guidelines for Trust Companies and Other Persons Responsible for Filing T3R-IND and Other Returns
 82-6 Requesting Clearance Certificates for Estates and Trust
 86-4R Scientific Research and Experimental Development
 86-5R Part XVII Capital Cost Allowance, Farming and Fishing
 89-4 Tax Shelter Reporting

Other Publications (Forms, Information Slips, Returns)

T1A Request for Loss Carryback
 T184 Calculation of Capital Gains Refund for a Mutual Fund Trust

T2019	Registered Retirement Savings Plan Refund of Premiums Designation – Spouse		Disposition and the Amount of Capital Gains Allowable for Deferral upon the Disposition of Shares of the Capital Stock of a Small Business Corporation
T2036	Calculation of Provincial Foreign Tax Credit	T2216	Joint Election in Respect of a Small Business Development Bond
T2038(IND)	Business Investment Tax Credit (Individuals)	T4 RSP	Statement of Registered Retirement Savings Plan Income
T2076	Valuation Day Value Election for Capital Property Owned on December 31, 1971	T600C	Statement of Cash Bonus Payment Canada Savings Bonds
T2084	Bonds and Other Obligations	PD7AR-NR	Non-resident Remittance Form
T2203	Calculation of Tax in Respect of Multiple Jurisdictions	NR4 Supplementary	Statement of Amounts Paid or Credited to Non-residents of Canada
T2208	Employment Tax Credit Schedule	T3 Supplementary	Statement of Trust Income Allocations/ Designations
T2209	Calculation of Federal Foreign Tax Credit	T4A Supplementary	Statement of Pension, Retirement, Annuity and Other Income
T2210	Verification of Policy Loan Interest by Insurer	T5 Supplementary	Statement of Investment Income
T2211	Calculation of Deemed Proceeds of		

APPENDIX A

Example of T3 Supplementary 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

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 allocated/designated to the beneficiary.

The form T3 Supplementary should be completed as follows:

TRUST YEAR ENDING FIN D'ANNÉE DE LA FIDUCIE	(A) ACTUAL AMOUNT DIVIDENDS - TCC 1000.00 MONTANT RÉEL DIVIDENDES DE CCI	(B) CAPITAL GAINS GAINS EN CAPITAL	(C) OTHER INCOME 950.00 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 1250.00 MONTANT IMPOSABLE DIVIDENDES DE CCI	(I) CAPITAL GAINS ELIGIBLE FOR DEDUCTION GAINS EN CAPITAL ADMISSIBLES POUR DEDUCTION	(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 166.67 CRÉDIT D'IMP. FÉD. POUR DIVIDENDES DE CCI	(P) INSUR. SEGREGATED FUND LOSSES PERTES SUR FONDS RÉSERVÉ D'ASSUREUR	(Q) INVESTMENT INVESTISSEMENT	(R) TAX CREDIT CRÉDIT D'IMPÔT	(S) OTHER TAX CREDIT - AUTRE CRÉDIT D'IMPÔT TYPE	(T) PART XII.2 TAX CREDIT CRÉDIT D'IMPÔT PARTIE XII.2	

SOCIAL INSURANCE NUMBER
NUMÉRO D'ASSURANCE SOCIALE
BENEFICIARY: SURNAME FIRST, AND FULL ADDRESS
BÉNÉFICIAIRE: NOM DE FAMILLE D'ABORD, ET ADRESSE COMPLÈTE

1 2 3 4 5 6 7 8 9
BENEFICIARY, JOHN
100 - 8TH STREET
ANYTOWN, CANADA
T3A 0X9

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

ESTATE OF T. THRE
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, Area (A)

LINE 241

Calculation of Non-Taxable Portion of Capital Gains reported and retained in the trust for 1989 and which include Listed Personal Property (LPP) Losses or Capital Gain Reserves relating to dispositions of capital property prior to 1986.

Taxable Capital Gains: an amount equal to 1/2 of Line 519, Schedule 5A..... (A) _____

ADD:

L.P.P. loss (1985 and prior dispositions)
1/3 of Line 508, Schedule 5A.*1 (B) _____

Reserve (1985 and prior dispositions)
1/3 of amounts in column (2), Lines 570, 573 and 575, Schedule 5C.*1 (C) _____

ADD Lines (B) and (C) >(D) _____

Sub-total [add Lines (A) and (D)] (E) _____

DEDUCT:

Reserve (1985 and prior dispositions)
1/3 of amounts in column(1), Lines 570, 573 and 575, Schedule 5C.*1 (F) _____

Net Taxable Capital Gains Designated/Allocated, page 3 of T3
Resident beneficiary (1/2 of Line 32) (G) _____

Employee Benefit Plan (1/2 of Line 33)*2..... (H) _____

Non-resident Beneficiary (1/2 of Line 33)*2..... (I) _____

Add Lines (F), (G), (H), and (I)..... >(J) _____

Total (subtract Line (J) from Line (E) and enter the difference, [Line (K)] on Trust Schedule 2B,
Part I (A), Line 241 (K) _____

Notes:

*1 – Use only those amounts from Lines 508, 570, 573, and 575 that relate to 1985 and earlier dispositions of capital property.

*2 – Deduct 1/2 of the amount shown at Line 33, (Other Income), that was an allocation of capital gains. Only capital gains allocated as Other Income either from an Employee Benefit Plan or to a Non-Resident beneficiary would be subtracted here.

APPENDIX C

Calculation of Minimum Tax Carry-over

MINIMUM TAX CARRY-OVER FROM PRIOR YEARS WHICH CAN BE APPLIED IN 1989

Minimum Tax Carry-over from the years 1986 to 1988
[1988 Trust Schedule 2B, Line 294 or 1988 Appendix C,

Line (A) minus Line (H)]..... (A) _____

Tax Payable immediately before Minimum Tax Carry-over
1989 Trust Schedule 2A,

Line 210..... (B) _____

Less: Tax Credits from Schedule 2A, Line 211

Federal Dividend Tax Credit (C) _____

Charitable Donations and Gifts (D) _____

Line (C) plus Line (D) (E) _____

Line (B) less Line (E)..... (F) _____

Less: Minimum Amount [1989 Trust Schedule 2B, Line 267] (G) _____

Maximum Tax Carry-over which can be applied in 1989

Line (F) less Line (G)..... (H) _____

MINIMUM TAX CARRY-OVER FROM PRIOR YEAR, APPLIED IN 1989

Claim an amount NOT EXCEEDING the lesser of (A) or (H)

Enter this amount on Trust Schedule 2A, Line 211 (I) _____

MINIMUM TAX CARRY-OVER AVAILABLE FOR 1990

Line (A) less line (I)..... (J) _____

INCLUDE A COPY OF THIS CALCULATION WITH THE T3 RETURN WHEN CLAIMING A MINIMUM TAX CARRY-OVER. If there is a balance, be sure to keep a copy for your records.

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AREA FOR YOUR NOTES AND CALCULATIONS

DISTRICT TAXATION OFFICES	PAYROLL AND NON RESIDENT ENQUIRIES		FORMS REQUEST
	ENGLISH SERVICES		LOCAL
	LOCAL	LONG DISTANCE	
NEWFOUNDLAND St. John's - 215 Water Street, A1C 6C9	772-2639	1-800-563-2639	772-5088
PRINCE EDWARD ISLAND Charlottetown - 90 Richmond Street, C1A 8L3	566-7244	1-566-7200	566-7250
NOVA SCOTIA Halifax - 1256 Barrington Street, B3J 2T5	426-3296	1-426-3296	426-2151
Sydney - 136 Charlotte Street, B1P 6K3	564-7099	1-564-7081	564-7120
NEW BRUNSWICK Bathurst - 786 King Avenue, E2A 1R5		1-800-222-8472	548-7100
Saint John - 65 Canterbury Avenue, E2L 4H9	648-4462	1-800-222-8472	648-4618
QUEBEC Chicoutimi - 100 Lafontaine Ave, Office 211, G7H 6X2	545-8026	1-800-463-4425	545-8026
Laval - 3131 St. Martin Boulevard West, H7T 2A7	636-9717	1-800-363-2219	686-9722
Montréal - 305 Rene-Levesque Blvd. West, H2Z 1A6	283-5585	1-800-363-9700	283-5623
Québec - 165 Pointe-aux-Lièvres Street South, G1K 7L3	648-5809	1-800-463-1825	648-4083
Rimouski - 411 Sirois Street, G5L 8B2	722-3104	1-800-463-4421	722-3104
Rouyn-Noranda - 11 Terminus Street East, J9X 3B5	764-3474	1-800-567-6487	797-4299
Sherbrooke - 50 Place de la Cite, J1H 5L8	821-4008	1-800-567-3582	821-8565
St. Hubert - 5245 Cousineau Boulevard, J3Y 7Z7	283-5585	1-800-363-9700	445-5264
Trois-Rivières - 55 des Forges Boulevard, G9A 2G4	373-2723	1-800-567-3526	373-2723
ONTARIO Belleville - 11 Station Street, K8N 2S3	962-8616	1-800-267-8038	969-3707
Hamilton - 150 Main Street West, L8N 3E1	572-2026		572-2609
Calls from area code 416		1-800-263-8562	
Calls from area code 519		1-800-263-9297	
Kingston - 385 Princess Street, K7L 1C1	545-8665	1-800-267-7817	1-800-267-8043
Kitchener - 166 Frederick Street, N2G 4N1	579-0490	1-800-265-6373	579-8951
London - 451 Talbot Street, N6A 5E5	645-4223	1-800-265-4498	679-4244
Mississauga - 36 Adelaide Street East, M5C 2T4	363-8574		566-6005
Calls from area code 416		1-800-387-0800	
Calls from area code 519		1-800-387-1710	
North York - 36 Adelaide St. E., Toronto, M5C 2V4	367-9990		865-9469
Calls from area code 416		1-800-387-0800	
Calls from area codes 519, 705		1-800-387-0810	
Ottawa - 360 Lisgar Street, K1A 0L9	598-2344		598-2300
Calls from area code 613		1-800-267-6550	
Calls from area code 819		1-800-267-3323	
St-Catharines - 32 Church Street, L2R 6R4	688-3523	1-800-263-5421	688-4000
Scarborough - 200 Town Centre Court, M1P 4Y3	973-7700		296-0104
Calls from area code 416		1-800-387-5228	
Calls from area code 705		1-800-387-5183	
Sudbury - 19 Lisgar Street South, P3E 3L5	671-0530	1-800-461-3518	671-0596
Thunder Bay - 201 North May Street, P7C 3P5	623-3039	1-800-465-6842	623-2751
Toronto - 36 Adelaide Street East, M5C 1J7	367-9990		865-9469
Calls from area code 416		1-800-387-0800	
Calls from area codes 519, 705		1-800-387-0810	
Windsor - 185 Ouellette Avenue, N9A 5S8	252-6518		252-3611
Calls from Essex County		1-800-265-5826	
MANITOBA Winnipeg - 391 York Avenue, R3C 0P5	983-3918	1-800-542-3441	983-3942
SASKATCHEWAN Regina - 1955 Smith Street, S4P 2N9	780-6999	1-800-667-7157	780-6079
Saskatoon - 201-21st Street East, S7K 0A8	975-5692	1-800-667-6844	975-4577
Calls from exchange numbers 825, 871, 875		Zenith 1-9400	
ALBERTA Calgary - 220-4th Avenue South East, T2G 0L1	292-6477		292-4225
Calls from Southern Alberta		1-800-332-1003	
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 Vancouver - 277 Winnipeg Street, V2A 1N6	492-9470	1-800-663-5062	492-9470
Victoria - 1166 West Pender Street, V6E 3H8	666-7509	1-800-663-5650	666-0337
Calls from Yukon Territory and North Western British Columbia		1-800-663-0710	
Victoria - 1415 Vancouver Street, V8V 3W4	388-3373	1-800-663-2598	388-3291

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AREA FOR YOUR NOTES AND CALCULATIONS

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