



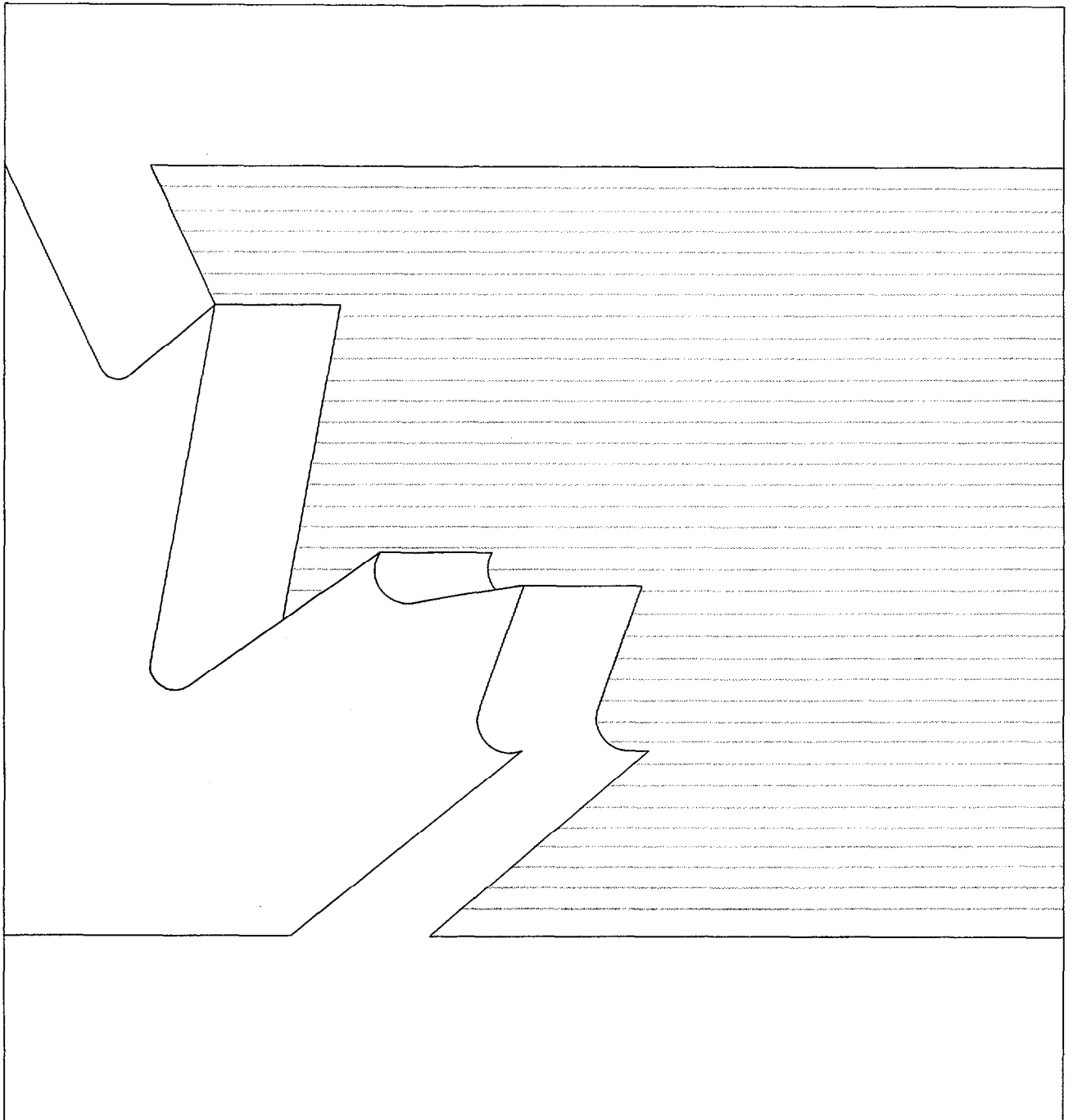
Revenue Canada  
Taxation

Revenu Canada  
Impôt

1990

# T3

## Guide and Trust Return



T4013(E) Rev. 90

Canada

Cette publication est disponible en français

## CHANGES FOR 1990

### Changes in the return and schedules for 1990

The 1990 T3 Guide, return and schedules contain many changes. Many of these changes came about because we are getting ready to computerize the processing of T3 returns. Some result from the legislative changes discussed below. Because there are many changes, if you are filing a T3 return for the 1990 taxation year, you should use the 1990 version of the T3 return and schedules.

### Legislative changes for 1990

The following changes result from Bill C-139, which received Royal Assent on September 13, 1988:

- For capital gains realized at any time in the 1990 taxation year of the trust, the proportion of the gain to be included in income as a taxable capital gain is 75 per cent ( $\frac{3}{4}$ ) of the capital gain.

The following changes result from Bill C-28, which received Royal Assent on October 23, 1990:

- The individual surtax is increased to five per cent for 1990 and subsequent taxation years.
- The additional surtax, imposed on basic federal tax that is more than \$15,000, is increased to three per cent for 1990.
- The surtax, levied on income not subject to provincial or territorial income tax, has been increased to 52 per cent for 1990 and subsequent taxation years.

The following changes are from the Pension Reform Bill C-52, which received Royal Assent on June 27, 1990:

- In most cases pension income received by the trust after 1989 qualifies for paragraph 60(j) transfer in the hands of the beneficiary, only if the beneficiary is the spouse or common law spouse of the deceased settlor.
- A single payment from a registered pension plan may qualify for a paragraph 60(l) transfer by the beneficiary, if that beneficiary is a child or grandchild of the deceased settlor, and was under 18 years old when the settlor died.

Please refer to the new Trust Schedule 7, Statement of Pension Income Allocations/Designations, if the trust has pension income to allocate to beneficiaries.

The following changes are from the February 20, 1990 Budget and Draft Income Tax Legislation, released on July 13, 1990:

- A post-1971 spousal trust is exempt from minimum tax on its income in the taxation year in which the beneficiary spouse dies. This retroactive provision applies to the 1986 and subsequent taxation years.
- A pre-1986 net capital loss is claimed at the 50 per cent inclusion rate under which it was determined when it is claimed against income other than taxable capital gains. This means that no adjustment is made to the pre-1986 net capital loss to reflect the current year inclusion rate when claiming the \$2,000 amount against income other than taxable capital gains. This amendment applies to 1985 and subsequent taxation years.
- If you are requesting a clearance certificate after this legislation receives Royal Assent, you must make the application on new Form TX19, Request for Clearance Certificate. Obtain this form from your district office.
- A communal organization that makes charitable donations may elect to designate the donations to its beneficiaries in the same proportion that it elects to allocate income to those beneficiaries. This amendment applies to 1990 and subsequent taxation years.
- For 1991 and subsequent taxation years, the additional surtax will be increased to 5 per cent and will be imposed on basic federal tax that is more than \$12,500.

### Other changes

- Former Trust Schedules 7 and 8, Statement of Real Estate Rentals and Capital Cost Allowance, have been eliminated from this Guide. If the trust is reporting income from real estate rentals, you should complete Form T776, Statement of Real Estate Rentals and Capital Cost Allowance Schedule, contained in the 1990 *Rental Income Tax Guide*.
- All trust schedules have been renumbered. A complete listing of the 1990 schedules is given in the "Forms available for filing" section in this Guide.
- 1990 is the last year that **investment clubs** will be allowed to file T3 returns and T3 Supplementaries. For fiscal periods ending after December 31, 1990 an investment club that elects to be taxed on a "modified partnership basis" will be required to file a Partnership Information Return. See Guide item, "Investment clubs."

<b>TABLE OF CONTENTS</b>
--------------------------

	Page		Page
<b>Basic Information</b>		<b>Trust Schedules</b>	
Contents of Guide .....	4	Trust Schedule 1 — Lines 101 to 122 .....	17
Filing requirements .....	4	Trust Schedule 2 — Lines 210 to 223 .....	21
Forms available for filing .....	5	Trust Schedule 3 — Lines 301 to 344 .....	21
Taxation year .....	6	Trust Schedule 4 — Lines 401 to 430 .....	22
Penalties and interest .....	7	Trust Schedule 5 — Lines 501 to 525 .....	22
Reassessments .....	7	Trust Schedule 6 — Lines 610 to 613 .....	23
Books and records .....	7	Trust Schedule 7 .....	23
Clearance certificates .....	7	Trust Schedule 8 — Lines 805 to 824 .....	23
Residence of trust .....	7	Trust Schedule 9 — Lines 901 to 944 .....	25
Privacy Act .....	7	Completing the T3 Supplementary form .....	29
Improving the Guide .....	8	Distributing the T3 Supplementary form .....	31
<b>Types of Trusts</b> .....	8	Trust Schedule 10 — Lines 1001 to 1031 .....	33
Testamentary trust .....	8	Completing the NR4-NR4A Summary and NR4	
Inter vivos trust .....	8	Supplementary forms .....	35
		Distributing the NR4 Supplementary form .....	36
<b>Completing the T3 Return</b>		Trust Schedule 11 — Lines 1101 to 1130 .....	36
Page 1 — Identification Area .....	11	Trust Schedule 12 — Lines 1201 to 1269 .....	39
Page 2 — Income — Lines 1 to 10 .....	11	Trust Schedule 13 — Lines 1301 to 1346 .....	41
— Deductions — Lines 12 to 18 .....	13	Trust Schedule 14 — Lines 1401 to 1484 .....	41
— Taxable Benefits — Lines 21 to 23 .....	14		
Page 3 — Additional Information Required .....	15	<b>Appendices</b> .....	44
Page 4 — Calculation of Taxable Income of Trust —			
Lines 50 to 56 .....	15	<b>Related Publications</b> .....	47
— Summary of Tax and Credits			
17 — Lines 81 to 91 .....	16	<b>Index</b> .....	49
— Certification Area .....	17		

## BASIC INFORMATION

### Contents of Guide

This Guide contains information to help you complete the 1990 Trust Income Tax Return and Information Return (referred to in this Guide as the T3 return). Throughout the Guide, we refer to information contained in publications such as Interpretation Bulletins, Information Circulars and other guides. These publications are available at your district office.

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

Every person (including an individual, corporation or an institution) **acting** as an executor, trustee, administrator, assignee or receiver **who** owns or controls property on behalf of some other person, **must file** a T3 return **if** that person

- has a taxable capital gain or has disposed of a capital property; **or**
- receives income, gains or profits from the trust property **and**
  - the gross income from business, farming, fishing, real estate rentals or total income at line 11 on page 2 of the T3 return is over \$500; **or**
  - the income designated, paid or payable to any single beneficiary is over \$100; **or**
  - any portion of the income is taxable in the trust; **or**
  - any portion of the income is allocated to a non-resident beneficiary.

A trust return may not be required if an estate was distributed immediately after the individual's death, or if no income was earned by the estate before the proceeds were distributed. In this case, the trustee should give each beneficiary a statement showing his or her share of the estate.

- A "related segregated fund trust" must file a T3 return for its registered and non-registered funds.
- Communal organizations must file a T3 return. See Information Circular 78-5R2, *Communal Organizations*.
- Employee benefit plans and employee trusts must file T3 returns if the total receipts in the year are more than \$500, whether or not they are from contributions, gross income or a combination of the two. The beneficiaries' income should be reported on T4A Supplementary forms rather than T3 Supplementary forms.

- Each of the trusts listed below files its own special return.
  - Registered Retirement Savings Plan
  - Amended Registered Retirement Savings Plan
  - Registered Retirement Income Fund
  - Deferred Profit Sharing Plan
  - Revoked Deferred Profit Sharing Plan
  - Registered Pension Fund or Plan
  - Supplementary Unemployment Benefit Plan
  - Registered Investment

For details, refer to Information Circular 78-14R2, *Guidelines for Trust Companies and Other Persons Responsible for Filing T3R-IND, T3R-G, etc.*

- A Retirement Compensation Arrangement (RCA) must file a T3-RCA, Part XI.3 Tax Return. For details, refer to the *Retirement Compensation Arrangement Guide*.
- A registered charity must file a T3010, Registered Charity Information Return and Public Information Return. For details, refer to the *Guide to the Charity Information Return*.
- A trustee or receiver appointed under the Bankruptcy Act who is acting on behalf of an individual should file a T1 return rather than a T3 return.
- An agent, nominee or custodian not acting in a fiduciary capacity should file a T5 Return of Investment Income for payments of investment income, if acting on behalf of a resident of Canada.
- If a non-profit organization's main purpose is to provide dining, recreational, or sporting facilities for its members, it must file a T3 return if its gross or total income from property is more than \$500. See the "Non-profit organizations" section in this Guide.

#### What to file

- T3 return, related schedules and statements — 1 copy.
- T3 Supplementary — copies 1 and 2.
- T4A Supplementary — for beneficiaries of employee benefit plans and employee trusts.
- NR4-4A Summary, NR4 Supplementary — if non-resident beneficiaries. Refer to Trust Schedule 10.

As the forms are updated annually, be sure to use the most recent version available. On the T3 return and schedules, the year is printed on the top right hand corner of the form. For example, "T3 1990" identifies the 1990 version of the T3 return. If you have to file a return for the 1991 taxation year, and the 1991 return is not yet available, you may use the 1990 version. Also, because different tax rates and rules apply, if you are filing a return for an earlier year (e.g., 1989), you must complete the return designed for that year (Rev. 1989).

**When to file**

Within 90 days from the end of the trust's taxation year.

If the required filing date for a T3 return falls on a Saturday, Sunday or statutory holiday, the return will be accepted as filed on time if it is delivered on, or the postmark on the envelope is for, the first working day following the required filing date.

For purposes of determining if a return is filed on time, a return sent by first class mail or its equivalent (e.g. a courier service) is considered to have been received on the day it was mailed.

See the "Penalties and interest" section in this Guide for information on late-filing penalties and interest on unpaid taxes.

**Where to file**

The mailing address of the trustee, rather than the address of the trust, determines the taxation centre to which the return should be mailed.

<b>Trusts served by district offices located in</b>	<b>Should file with</b>
Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick.	Taxation Centre Freshwater Rd/Empire Ave. St. John's Newfoundland A1B 3Z1
Québec City, Sherbrooke, Rouyn-Noranda, Chicoutimi, Rimouski and Trois-Rivières.	Taxation Centre 2251 de la Centrale Blvd. Jonquière Quebec G7S 5J1
Montréal, St. Hubert and Laval.	Taxation Centre 4695, 12th Avenue Shawinigan-Sud Quebec G9N 7S6
Ottawa, Toronto, Mississauga, Scarborough and North York.	Taxation Centre 875 Heron Road Ottawa Ontario K1A 1A2
All other areas of Ontario.	Taxation Centre, 1050 Notre Dame Avenue Sudbury Ontario P3A 5C1
Manitoba, Saskatchewan, Alberta.	Taxation Centre 66 Stapon Road Winnipeg Manitoba R3C 3M2
British Columbia.	Taxation Centre 9755 King George Highway Surrey British Columbia V3T 5E1

**Note****Addresses, names and payments**

- Use the mailing address of the person filing the return to determine where to file.
- If the mailing address changes, give us both the old address and new address, and the account number if one has been assigned to the trust.
- Be sure to put the name of the trust on all correspondence for the trust. Always use the same name and include the word "trust" in the name. See the "Identification area" section in this Guide for comments on family type names.
- To ensure that payments are credited to the proper account, please make sure that every cheque (or statement attached to it) bears the name of the trust and the type of payment (for example, trust income tax; or Part XIII Tax).

**Non-resident trusts**

If the trustee, executor, administrator or other legal representative who manages the trust or controls trust assets lives outside Canada, the trust return should be mailed to:

International Taxation Office  
875 Heron Road  
Ottawa, Ontario  
K1A 1A8

Telephone enquiries regarding non-resident estates should be directed to the International Taxation Office.

If calling from the Ottawa area, dial 952-8753  
Other calls from inside Canada 1-800-267-5177  
Calls from outside Canada 1-613-952-8753

**Forms available for filing**

- T3 return
- Trust schedules 1 to 14

Two copies of the return and of each schedule can be found in the centre of this Guide.

The T3 Supplementary form, and additional copies of the return or any schedule may be obtained from your district office.

**T3 return**

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

- completes the "Identification area" of the trust in full;
- reports income and deductions to arrive at net income;
- deducts the trust income allocated or designated (or both) to the beneficiaries, where applicable;
- claims the deductions to arrive at taxable income; and
- determines the tax payable, if any.

**Trust schedules**

The following schedules, if applicable, should be completed:

Trust Schedule 1 (lines 101 to 122)	Summary of Dispositions of Capital Property
Trust Schedule 2 (lines 210 to 223)	Calculation of Reserves on Dispositions of Capital Property and Calculation of Net Taxable Capital Gains
Trust Schedule 3 (lines 301 to 344)	Calculation of a Trust's Eligible Taxable Capital Gains and Beneficiary's Share Eligible for Capital Gains Deduction
Trust Schedule 4 (line 401 to 430)	Calculation of Cumulative Net Investment Loss
Trust Schedule 5 (lines 501 to 525)	Calculation of Spouse Trust's Capital Gains Deduction
Trust Schedule 6 (lines 610 to 613)	Calculation of Total Taxable Capital Gains and Beneficiary's Share of Eligible Taxable Capital Gains Attributable to Qualified Farm Property or Qualified Small Business Corporation shares
Trust Schedule 7	Statement of Pension Income Allocations/Designations
Trust Schedule 8 (lines 805 to 824)	Statement of Investment Income and Calculation of Gross-up Amount of Dividends Retained by the Trust
Trust Schedule 9 (lines 901 to 944)	Summary of Income Allocations/Designations to Beneficiaries
Trust Schedule 10 (lines 1001 to 1031)	Calculation of Part XII.2 Tax and Part XIII Non-resident Withholding Tax
Trust Schedule 11 (lines 1101 to 1130)	Calculation of Federal Income Tax
Trust Schedule 12 (lines 1201 to 1269)	Calculation of Minimum Tax
Trust Schedule 13 (lines 1301 to 1346)	Calculation of Provincial Income Tax of Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick and Ontario
Trust Schedule 14 (lines 1401 to 1484)	Calculation of Provincial Income Tax of Manitoba, Saskatchewan, Alberta and British Columbia and Territorial Income Tax of the Northwest Territories and Yukon Territory

**Information slips**

Complete the following information slips, 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.
------------------	---

T4A Supplementary	Statement for recording amounts paid or allocated to the beneficiaries of employee benefit plans or employee trusts.
NR4 Supplementary	Statement of amounts paid or credited to non-residents of Canada.

See Guide items "Completing the T3 Supplementary form" and "Completing the NR4 Supplementary form" for details on how to prepare these two information slips. For more details on preparing the T4A Supplementary, see the *Employers Guide to Source Deductions*.

**Taxation year 104(23), 150(1), 153(2), 248, 249, Regulation 204**

**Testamentary trust**

The taxation year of a testamentary trust may, but does not have to, coincide with the calendar year. The first fiscal period of the trust begins on the day after death, and ends at any time within the next 12 months, as selected by the trustee.

Once this year-end is established, it may not be changed without first obtaining the approval of the Department. A T3 return for a testamentary trust must be filed, and the tax owing must be paid to the Receiver General, within 90 days from the end of the trust's established taxation year.

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

- Availability of information — most information slips for income amounts (e.g., 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 1991 T3 return and schedules are not available until the end of 1991). A 1991 return due before the forms are available would have to be filed on a 1990 form which may not contain current-year changes or information.
- More timely receipt of a Notice of Assessment — amendments to the Income Tax Act generally require changing the procedures for processing returns. The assessment of a return with a taxation year ending early in a calendar year may be delayed until 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.
- A calendar year-end may be more advantageous to the beneficiaries. For example, the deduction for acquiring an annuity for a minor under paragraph 60(1) is only available to the minor in the year the income is reported on the minor's return. In addition, to be deductible, the annuity must be acquired for the minor during that year or within 60 days after the end of that

year. In many cases, the tax benefits to the minor are greater if the trust has a calendar year-end rather than a year-end based on the date of death since the term of the annuity may not exceed 18 years minus the age of the minor.

#### 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 balance of tax owing must be paid to the Receiver General, 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 must be paid to the Receiver General, within 90 days from the end of the taxation year. For further comments, see "Clearance certificate" in this Guide.

### Penalties and interest

#### Late-filing penalties 162(1),(7)

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

- As an income tax return, the penalty for not filing by the required date is five per cent of the **unpaid** tax at that date plus one per cent of the **unpaid** tax for each full month (to a maximum of 12 months) that the return is past due. This penalty will apply only when income is taxable in the trust.
- As an information return, the penalty for failing to file a T3 return by the due date is \$25 for each day of default to a maximum of \$2,500. The minimum penalty is \$100. This penalty will apply only when income is allocated or designated to beneficiaries. The trustee completes pages 1 to 4 of the T3 return, Trust Schedule 9 and the T3 Supplementaries.

#### 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 (four years for mutual trusts) from the day of mailing of either

- a notice of an original assessment, **or**
- a notice 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, Books and Records Retention/Destruction, for details.

### Clearance certificate 159(2),(3)

The *Income Tax Act* requires that every administrator, executor and trustee (the "responsible representative") 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. Information Circular 82-6, Requesting Clearance Certificates for Estates and Trusts, deals 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. After receiving the final Notice of Assessment and paying any balances owing, the responsible representative should send Form TX19, Request for Clearance Certificate, directly to the Business Audit Section at the appropriate district office. Contact your district office to obtain a copy of new Form TX19.

To facilitate processing of the clearance certificate request, the responsible representative should provide with the request all information and all documents (e.g., will, trust document, etc.) requested on the form that apply to the trust.

### Residence of trust

A trust may be a resident of Canada, 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, Residence of a Trust or Estate.

### 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 needed to assess the trust's income tax liability under the *Income Tax Act*.

## Improving the Guide

This Guide is reviewed each year and changes are made to improve the explanations provided. If you have problems with a particular explanation or you have any comments or suggestions on the Guide, we would be pleased to hear from you.

Just write a short letter expressing your concerns to:

Tax Forms Directorate, 875 Heron Road, Ottawa, Ontario K1A 0L8

## TYPES OF TRUSTS

### Testamentary trust 108(1)(i)

A testamentary trust is a trust or estate that arises upon 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., according to dependant's relief legislation).

A testamentary trust does **not** include

- a trust created by any person except a deceased individual;
- a trust created after November 12, 1981 if, before the end of the taxation year, some property was contributed to the trust otherwise than by an individual's death;
- a trust created before November 13, 1981 if,
  - after June 28, 1982, property was contributed to the trust except by an individual's death;

**or**

  - before the end of the taxation year, the fair market value of all property owned by the trust that was contributed by persons except an individual on death and property substituted therefor **exceeds** the fair market value of all property owned by the trust that was contributed by the individual on death and property substituted therefor. In this calculation, the fair market value of property refers to its fair market value on the date on which the trust acquired the property.

If a trustee retains 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 not the calendar year, the trustee should contact the Department for help 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

- the spouse is entitled to receive all of the income of the trust that may arise during the spouse's lifetime; and
- the spouse is the only person who may receive, or otherwise obtain, the use of any income or capital of the trust during the spouse's lifetime.

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. In the case of the testamentary spouse trust, the settlor must be living in Canada immediately before death while the trust must be resident in Canada immediately after the property vests in the trust.

The effect of the provisions of a spouse trust is to defer capital gains and losses, recapture of capital cost allowances, and terminal losses which pass to the spouse trust until the spouse trust disposes of the property, or the spouse dies.

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

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 5, and Interpretation Bulletin IT-305R3, Establishment of Testamentary Spouse Trust, for additional details.

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

If an individual (the transferor) transfers or lends 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 the subsequent disposition of the property by the trust. In the case of loaned property, the above rule applies only if the property was lent to the trust after May 22, 1985, or if the property was lent before May 23, 1985, and the loan is outstanding after 1987.

When 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. 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 when the property is sold to the trust at fair market value, or



when loans bear a prescribed rate of interest, and the interest charged is actually paid in the year.

For more details, see Interpretation Bulletins IT-258R2, Transfer of Property to a Spouse and its Special Release, and IT-511, Interspousal Transfers and Loans of Property made after May 22, 1985. IT-511 contains a sample calculation to determine the amount to be included in the transferor's income.

#### **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 will be deemed to have become payable to the minor in the year and will become taxable in the minor's hands. For more details, see Interpretation Bulletin IT-286R2, Trusts — Amount Payable.

#### **Transfers and loans to a trust for a minor 74.1(2), 74.3, 74.5, 56(4.1)**

When 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 the transferor is resident in Canada. The transferor is not required to report the income or loss of the trust if the beneficiary has, before the end of the year, turned 18, or when the income is taxed in the trust.

A minor for this purpose is a person under the age of 18 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."

When 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. For more details, see the 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. A sample calculation to determine the amount to be included in the transferor's income is included in Interpretation Bulletin IT-510.

#### **Unit trust 108(2)(a),(b)**

A unit trust is an inter vivos trust where at any particular time the interest of each beneficiary in the trust is described by reference to units of the trust, and the trust satisfies the 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 that resides 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 office to help you calculate the capital gains refund for mutual fund trusts.

#### **Communal organization 143**

An inter vivos trust is considered to have been in existence on December 31, 1976 and continuously thereafter when a congregation

- has members who live and work together; and
- does not permit any of its members to own property in their own right; and
- requires that its members devote their working lives to the activities of the congregation; and
- carries on one or more businesses, or manages or controls one or more corporations, trusts or other persons that carry on one or more businesses for the purpose of supporting or sustaining its members or the members of any other congregation.

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, Communal Organizations, deals with this subject in detail.

#### **Employee benefit plans 6(1)(g), 12(1)(n.1), 32.1, 248(1)**

An employee benefit plan is an arrangement under which contributions are made by an employer to fund benefits for employees or former employees. The employer may deduct contributions to the plan only when they are actually distributed to employees or to former employees, or to their legal heirs or their representatives. At the same time, the recipient includes 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 are reported on a T4A Supplementary, not a T3 Supplementary.

When an employee benefit plan is a trust, the trust is taxed 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 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. 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. This income will be taxed in the hands of the trust.

The trust must file a T3 return if the total of its income from all sources is more than \$500 in the taxation year. Attach a statement of amounts received and disbursed during the year, identifying by type both the revenue (e.g., contributions, investment income) and disbursements of the plan. Payments out of or under an employee's benefit plan should be reported on the T4A Supplementary form.

For more information, see Interpretation Bulletin IT-502, Employee Benefit Plans and Employee Trusts.

When an employer makes contributions in contemplation of retirement, termination of employment or any substantial change in the services of an employee, the plan is likely a retirement compensation arrangement (RCA). If the plan existed on October 8, 1986, the RCA rules will apply on the earlier of January 1, 1988 or on the day after October 8, 1986 on which the existing arrangement was materially altered. Grandfathering provisions apply to plans in existence on October 8, 1986 that allow employee benefit plan rules, where applicable, to apply to that portion of plan funding in place before the RCA rules became effective. A T3 return would be filed for the employee benefit portion, and a T3-RCA Part XI.3 Tax Return for the RCA. More details are provided in the *Retirement Compensation Arrangement Guide*.

A salary deferral arrangement is an arrangement under which a person has a right to receive salary or wages in a year after the services have been rendered. 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 are rendered. The employee is taxed on any income earned by the salary deferral arrangement on the amount deferred in the year the income is earned. An agreement made in writing before February 26, 1986 continues to be treated as an employee benefit plan

- when contributions are for services rendered before July 1986, or
- when contributions are for services rendered after June 1986 if the employee is bound under contract to defer receipt of that income.

Salary deferral arrangements and their exclusions are described in Subsection 248(1) of the *Income Tax Act*.

#### **Segregated fund trust 138.1**

Segregated funds of life insurers for life insurance policies are considered to be inter vivos trusts and are referred to as "related segregated fund trusts." Basically, the property and income of a segregated fund is considered 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 and 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 the employees. The trustee has to elect to qualify the arrangement as an employee trust in the trust's initial return of income, filed within 90 days from the end of the trust's first taxation year. Contributions by the employer to the plan may be deducted 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 for 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 a T4A Supplementary, **not** on a T3 Supplementary. Trust Schedule 9, Summary of Income Allocations/Designations to Beneficiaries, or an equivalent statement of allocation, must be completed and submitted with the T3 return. See Interpretation Bulletin IT-502, Employee Benefit Plans and Employee Trusts, for more details.

#### **Non-profit organizations 122(1), 149(1)(1), 149(5)**

If 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 the income is payable to, or available for, the personal benefit of a proprietor, member or shareholder. However, if a non-profit organization's main purpose is to provide dining, recreational or sporting facilities to its members, an inter vivos trust is considered to have been created. The non-profit organization will then be subject to tax on its income from property over \$2,000. The non-profit organization must file a T3 return when the gross or total income from property such as interest income, rental income or other investment income is more than \$500 for the calendar year. Tax is payable by the trust upon its taxable income for each year using the 29 per cent federal income tax rate that applies to inter vivos trusts. Further details on the taxation of these organizations are contained in Interpretation Bulletin IT-83R3, Non-profit Organizations — Taxation of Income from Property.

#### **Investment clubs**

The Department allows an investment club which is not a partnership, trust or corporation to elect 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 retain their identity, and are allocated on a reasonable basis to the members of the club in the year in which they are received or incurred by the club. Information Circular 73-13, Investment Clubs, gives more information on the conditions that must be met and the method of making an election.

**For fiscal periods ending before 1991** — An investment club which elects to be treated as a "modified partnership" will report income, capital gains and losses on a T3 return, and issue T3 Supplementaries to the individual members.

**For fiscal periods ending after December 31, 1990** — An investment club which elects to be treated as a "modified partnership" will be required to file a Partnership Information Return.

#### **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 either to the trust, or to a person who contributed to the trust.

The individuals and related individuals who create the trust may keep an interest in the trust without the trust losing its status as a personal trust. Any trust that does not meet the above definition is considered to be a "commercial trust."

## COMPLETING THE T3 RETURN

### PAGE 1 — IDENTIFICATION AREA

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

- Complete all items in the Identification area.
- **Name of Trust** — when the settlor's name is part of the name of the trust, show the surname first. For example, write:
  - **Martin, William estate** (not estate of William Martin)
  - **Robins, S. Family Trust** (not the family trust of S. Robins)
  - **Crain, W. Trust re: Crain G.** (not W. Crain Trust for G. Crain).
- **Account Number** — If an account number has been assigned to the trust, enter it in this space.
- Information regarding the residence of the trust and type of trust is used to determine the correct rate of tax. It is very important that you complete each item fully and correctly.

#### Question 1

This question must be answered by all trusts (other than Mutual and Segregated Fund Trusts). If the trust is one of a number of trusts created from contributions by the same individual, submit a list showing the name and address of each trust, and the share of the basic exemption from minimum tax allocated to each trust within the current taxation year (see Trust Schedule 12, line 1226). This list must be signed by the legal representatives of each trust.

#### Question 2

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

#### Question 6

See Interpretation Bulletin IT-406R2, Tax Payable by an Inter Vivos Trust, for information on debts incurred in non-arm's length transactions.

#### Question 7

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," for more details.

#### Question 8

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

#### Question 9

See Guide item "Selected income to be taxed in trust 104(13.1) 104(13.2)," for more details. A trust must select under Subsections 104(13.1) and 104(13.2) at the time the T3 return is filed. After the return is assessed, reassessments will not be processed either to allow a

selection, or to withdraw or change a selection made on the assessed return.

### PAGE 2 — INCOME — LINES 01 TO 10

**Line 01**  
**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 1. If the amount calculated on line 122 of this schedule is a net taxable capital gain, enter the amount on line 01.

When a trust's allowable capital losses (except allowable business investment losses as described under line 17) exceed its taxable capital gains, the excess can neither be deducted against other income of the trust in 1990 and other years nor allocated to the beneficiaries (except as described under Guide item, "Allocation/Designation of losses"). The excess becomes a "net capital loss" for 1990 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 more 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 of the deceased in the T1 return for the year of death. See Guide item "Testamentary Trust — 164(6) Election."

**Line 02**  
**Pension Income 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 or deferred profit sharing plan, annuity payments out of a superannuation or pension plan, or any death benefit under the Canada Pension Plan.

#### Lump-sum payments ITAR 40(1), (5) and (7)

Certain lump-sum payments (accrued to December 31, 1971) received by a trust from a pension fund or a deferred profit sharing plan may, if the trust so elects, be taxed in the trust at a reduced rate. If income remains with the trust, and ITAR 40 provisions are to be applied, do not include the amount on line 02. Instead, write ITAR 40 on line 02 and on Trust Schedule 11, line 1109, and the Department will calculate the tax adjustment for you. Information Circular 74-21R, Payments out of Pension and Deferred Profit Sharing Plans — ITAR 40, and Interpretation Bulletin IT-281R, Elections on Single Payments from a Deferred Profit Sharing Plan, deal with this subject in more detail. Include these lump-sum amounts on line 02 if the trust income is being allocated to beneficiaries.

**Line 03  
Actual Amount of Dividends 82**

The **actual amount** of taxable dividends received from taxable Canadian corporations is reported here and on Trust Schedule 8, Part A, line 805. Attach any information slips received.

**Line 04  
Foreign Investment Income\***

Include on this line all interest and other investment income from foreign sources. Foreign income must be reported in Canadian funds. Trust Schedule 8, Part A, line 808 provides space to list the foreign investment income reported on line 04.

**Line 05  
Other Investment Income\***

On line 05 enter the amount from Trust Schedule 8, Part A, line 815.

On this line include all interest and investment income from Canadian sources except the dividends from taxable Canadian corporations reported on line 03. Attach any information slips received.

**\*Notes**

Interest credited to the trust's account by a financial institution is considered to have been received by the trust.

In the first year of a testamentary trust, the interest income which accrued to the date of death is reported on the deceased taxpayer's final T1 return, and should not be included in the interest received and reported in the trust.

**Line 06 (Net), Line 96 (Gross)  
Business Income**

Enter net business income on line 06. If a trust is carrying on a business other than farming or fishing, it must use the accrual method to determine its net business income. Attach a separate profit and loss statement and a balance sheet for each business carried on by the trust.

**Line 07 (Net), Line 97 (Gross)  
Farming Income  
Line 08 (Net), Line 98 (Gross)  
Fishing Income 119**

A trust that has income from farming or fishing may use either the cash or accrual method to determine income from these sources for the taxation year. A statement of income and expenses must be attached to the return. The 1990 *Farming Income Tax Guide* and the 1990 *Fishing Income Tax Guide* contain blank statements (Forms

T2042 and T2121, respectively) to help you determine farming and fishing income. Farming and fishing income retain their identity when allocated to resident beneficiaries or to members of a communal organization for an election under the block averaging provisions. Farming or fishing income, paid or payable to a beneficiary, should be reported in Box 27 of the T3 Supplementary.

**Line 09 (Net), Line 99 (Gross)  
Real Estate Rental Income**

On line 09 enter the net income from real estate rentals. Enter the gross rental income on line 99. In the case of a partnership, report the trust's share of the net income on line 09, and the total income of the partnership on line 99.

Attach a statement of real estate rentals (Form T776) to your return. To obtain a copy of the statement, and for additional information, refer to the 1990 *Rental Income Tax Guide*.

If the trust acquired property by gift, bequest or inheritance, and it is claiming capital cost allowance on Form T776, refer to Appendix A in this Guide for some special rules concerning the cost of the property to the trust (Cost of Additions of Depreciable Assets).

**Line 10  
Other Income**

Under "Other Income" report the total of any type of income received in the taxation year that is not itemized on the T3 return or trust schedules such as royalties, commissions, and foreign business income.

Certain **employment related income** received by testamentary trusts is reported on this line. This other income that is taxed in the testamentary trust or the beneficiary's hands includes

- salary or wages applicable to the period after the date of death to the end of the month of death;
- severance pay (death benefits only);
- retroactive adjustments of payments described above if the collective agreement is signed before the date of death, (if signed after death, the payment is tax exempt);
- return of pension contributions, payable because of death.

**Note that all other taxable employment income is included on the deceased taxpayer's T1 individual return to date of death.**

**Death benefit 248(1)**

If the trust receives an amount for a deceased person's employment service, 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 amount from income. For more information on the payments that qualify for the \$10,000 deduction, and to determine the taxable portion to be reported on line 10, see 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 on line 10 will reduce the amount of death benefit that may be designated to the beneficiaries. See Trust Schedule 9, line 935.

**Registered Retirement Savings Plans (RRSP) Income**  
Income earned in an RRSP in a year beyond the year of death should be reported by the plan issuer on a T3R-IND, and a T3 Supplementary. If a testamentary trust is the beneficiary of the RRSP, the trust must include in "Other Income" on line 10, the amount from the T3 Supplementary. Please note that benefits that accrued to the date of death 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)

On line 12, enter the total from Trust Schedule 8, Part A, line 820.

Carrying charges paid to third parties include interest on money borrowed to earn investment income, fees paid for the management or safe custody of the 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 must not be included as a carrying charge. Brokerage fees form part of the cost of a security if incurred on the purchase of the security, or may be claimed as "Outlays and Expenses" on Trust Schedule 1, if incurred on the sale of the security.

Interest expense on a life insurance policy loan used to earn income may be deducted, provided the interest expense is not added to the adjusted cost basis of the policy. If a trust is claiming interest paid on a policy loan during 1990, the insurer must complete Form T2210, Verification of Policy Loan Interest by the Insurer, no later than 90 days after the trust's year-end.

Carrying charges incurred on both Canadian and foreign investment income must be apportioned on a reasonable basis, and the calculation attached to the T3 return. A list of the 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 may be deducted from the income of the trust if they are paid to a person for giving

advice on purchasing or selling, or for administering or managing shares or securities. Also that person's principal business must either consist of giving advice to others on how to purchase or sell shares or securities, or provide administration or management services for shares or securities.

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

Executor fees are considered to be income from an office, if they are paid to an individual who does not act in this capacity in the normal course of business. Report these fees on a T4 Supplementary, if they amount to \$500 or more. For more details, refer to the *Employers Guide to Source Deductions*, and Interpretation Bulletin IT-377R, Director's, Executor's, and Juror's Fees.

If the fees are paid to a non-resident of Canada, they are reported on a T4A-NR Supplementary, Box 18. Part XIII non-resident withholding tax, at the prescribed rate, must be deducted from the payments and remitted to the Department. Refer to Guide item, Trust Schedule 10, for more information on non-resident withholding tax.

### Line 17 Allowable Business Investment Losses 39(1)(c), 39(10), 50(1), 104(21.2)

The trust may have a business investment loss if it has a loss

- from disposing of shares or debt of a small business corporation to a person with whom the trust deals at arm's length, or
- from a bad debt owed to the trust by a small business corporation.

When determining the allowable portion that may be claimed, the business investment loss of a trust may be subject to a **reduction**. If, in a previous year, the trust designated part or all of its "Eligible Taxable Capital Gains" (Trust Schedule 3, formerly 5B) to a beneficiary of the trust, the trust's business investment loss for the current year is reduced by the lesser of

- the trust's business investment loss for the year otherwise determined; and
- the total of
  - twice the eligible taxable capital gains amounts designated by the trust for the taxation years ending in 1985, 1986 and 1987, and
  - one and one-half (3/2) times the eligible taxable capital gains amounts designated by the trust for the taxation years ending in 1988 and 1989,

**minus**

- the total of any reductions to a business investment loss made 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 Trust Schedule 1, line 113.

Three quarters ( $\frac{3}{4}$ ) of the remaining business investment loss incurred in a taxation year ending after 1989 represents an **allowable** business investment loss which can be deducted from all sources of income in the year. Report an allowable business investment loss on line 17.

Any allowable business investment loss not deducted in computing income in the 1990 taxation year is included in the non-capital loss of the trust for the 1990 taxation year, and may be deducted when computing the taxable incomes of other taxation years. The non-capital loss for the 1990 taxation year may be deducted from the taxable incomes 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 1990 *Capital Gains Tax Guide* and Interpretation Bulletin IT-484R, Business Investment Losses.

**Line 18**

**Other Deductions from Total Income**  
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. Claim only those amounts that were spent to earn income of the trust. Do not claim outlays and expenses that pertain to the capital assets of the trust or personal expenses 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 that reports "**production royalty**" income may claim a resource allowance of up to 25 per cent of its production royalty income, on this line. 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, to verify 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**

Please note that expenses of a trust must be deducted before any income can be allocated to the beneficiaries.

The expenses are applied directly to the income to which they relate. Those that relate to more than one source of income should be apportioned on a reasonable basis to the applicable sources of income of the trust. Complete Trust Schedule 9, Part A to show the application of expenses against specific types of income.

**Charitable donations** 104(6), 118.1, 143(3.1)

If the trust made charitable donations, refer to Guide item Schedule 11, line 1112 to determine whether the donations may be deducted as an allocation of trust income (on Trust Schedule 9, line 926) or as a non-refundable tax credit on Schedule 11, line 1112.

A communal organization that made charitable donations may choose not to claim its donations. However, it may elect to designate its donations to beneficiaries in the same proportion that it elected to allocate income to those beneficiaries.

**TAXABLE BENEFITS — LINES 21 TO 23****Line 21**

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

If the terms of the trust require the trust to pay for the upkeep, maintenance or taxes on property used or occupied by a beneficiary, the amounts paid by the trust 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 on line 18) are to be entered on this line. Give 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 have been claimed.

**Line 22**

**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 on this line (e.g., amounts paid for the beneficiary's personal or living expenses). These benefits must be included on the T3 Supplementary form and reported as income by the beneficiary. The benefits reported here may not be deducted from the income of the trust. Therefore, they are added here to offset the income allocations/designations amount on Schedule 9, line 928, and deducted on line 25 of the T3 return. Details, including the nature of the benefits, must be given for any amounts entered on this line.

**Line 25**  
**Total Income Allocations/Designations to Beneficiaries**

On line 25, enter the total amount of trust income allocated/designated to beneficiaries from Trust Schedule 9, line 928. Trust Schedule 9 and Supplementary forms (T3, T4A, NR4, as applicable) must be completed if an amount is entered here.

**Line 27**  
**Gross-up Amount of Dividends Retained by the Trust**

The amount from Trust Schedule 8, Part B, line 824, is entered on line 27 and reflects the gross-up of dividends retained by the trust.

**PAGE 3 — ADDITIONAL INFORMATION REQUIRED**

Please answer all questions and attach any necessary schedules or statements.

**Question 11**

If yes, refer to Guide item, "Preferred beneficiary election". This 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 with the following information, if estate assets were distributed to one or more beneficiaries:

- Name and address of the recipient(s),
- Description of assets transferred,
- Fair market value of assets at the date of transfer,
- Cost amount of assets at the date of transfer.

**PAGE 4 — CALCULATION OF TAXABLE INCOME OF TRUST — LINES 50 to 56**

**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 on line 51 on a current-year T3 return is the unused portion of a non-capital loss carried forward from a previous year.

If you have an unused non-capital loss to carry back to a previous year, complete Form T1A. See Guide item, "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:

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

**Farming and fishing losses**

Non-capital losses from farming and fishing may be carried back three years and forward 10 years. For more details on farming or fishing, obtain the 1990 *Farming Income Tax Guide* or the 1990 *Fishing Income Tax Guide*. Note that there are restrictions on the amount of certain farm losses that may be claimed each year.

**Non-capital losses of other years may be deducted only if there is net income remaining in the trust after allocations and designations to beneficiaries (line 26 on page 2 of the 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 and, in most cases, can only be claimed 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 previous year may be deducted in the 1990 taxation year as follows:

- net capital losses occurring before May 23, 1985
  - from any net taxable capital gains realized in the 1990 taxation year;
  - the balance, if any, up to \$2,000 from other sources of income, **and**
- net capital losses occurring after May 22, 1985
  - from any net taxable capital gains realized in the 1990 taxation year.

The inclusion rate for calculating the taxable portion of capital gains and the allowable portion of capital losses increased from

- $\frac{1}{2}$  (for taxation years and fiscal periods ending in 1987 and earlier),
- to  $\frac{2}{3}$  (for taxation years and fiscal periods ending in 1988 and 1989), **and**
- to  $\frac{3}{4}$  for taxation years and fiscal periods ending in 1990 and subsequent years.

If a net capital loss is to be applied to a taxable capital gain in 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, should be used to make this adjustment. No adjustment is allowed for the \$2,000 amount referred to above, applied against other sources of income.

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:

- before May 23, 1985,
- from May 23, 1985 to the year-end of the trust (taxation years commencing in 1984 and 1985),
- taxation year commencing in 1986 or 1987 and ending before 1988,
- taxation years ending in 1988 and 1989, and
- taxation years ending after 1989.

Refer to the 1990 *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 be applied only 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 on Trust Schedule 1, line 108. See Guide item, "Listed personal property."

#### Loss applications

A loss carryback to a previous 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 previous 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).

If all the previous year's income has been allocated to beneficiaries

- a **non**-capital loss carryback cannot reduce the income allocated to beneficiaries;
- a **net** capital loss carryback may reduce allocations/designations of taxable capital gains but cannot exceed those taxable capital gains, except that
  - if a preferred beneficiary election was made for the net taxable capital gain, no reduction of the amounts previously allocated/designated can be made; and
  - if the trust document provides 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 Capital Gains Deduction for Resident Spouse Trust ONLY 110.6(12)

In computing its taxable income in the year in which the beneficiary spouse dies, the spouse trust (if resident in Canada) may claim the unused portion of the beneficiary spouse's capital gains deduction. 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 the deduction, complete Trust Schedule 5 and attach it to the T3 return. The claim is carried forward from line 525 of this schedule.

#### Line 54 Other Deductions from Taxable Income

On line 54, you may claim losses such as limited partnership losses and farm losses. The \$2,000 deduction allowed to a non-profit organization reporting income from property should be claimed on this line. If the trust has reported in its income, foreign income that is exempt from tax in Canada because of a tax convention, you may deduct the exempt amount on this line. If you are claiming more than one loss, or if a claim needs more explanation, attach a note to the T3 return outlining the details.

#### Line 56 Taxable Income of Trust

The total on line 55, subtracted from line 50, is the taxable income of the trust. If the amount on line 56 is zero, enter zero on Trust Schedule 12, line 1221. If line 56 is greater than zero, enter the amount on Trust Schedule 11, line 1101 (testamentary trusts) or line 1107 (inter vivos trusts).

Even if the amount on line 56 is NIL, the trust (other than a Mutual or Segregated Fund Trust) may be subject to minimum tax. See Trust Schedule 12, "Calculation of minimum Tax."

#### SUMMARY OF TAX AND CREDITS — LINES 81 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 Total Tax Deducted per Information Slips

If the trust earned income from which tax was deducted at source, the amount of tax deducted must be entered on



this line. If an information slip is not available, attach a statement from the issuer to verify the income reported and tax withheld. Do not allocate tax deducted at source to beneficiaries.

**Line 89  
Other Credits**

An example of a credit to be claimed on this line is the Alberta Royalty Tax Credit from Form T80. See Guide item, Line 1444.

## CERTIFICATION AREA

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

Complete this box 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.

## TRUST SCHEDULES

### TRUST SCHEDULE 1 — Lines 101 to 122 Summary of Dispositions of Capital Property for 1990 and Subsequent Years

**Capital gains 3, 38, 39, 40**

Complete Trust Schedule 1 and file it with the T3 return if the trust had dispositions, or deemed dispositions, of capital property during the year.

The general rules to follow when reporting a capital gain or loss depend on the type of asset disposed of, or considered to be disposed of. For more details on capital gains or losses, obtain the 1990 *Capital Gains Tax Guide*. You may also wish to obtain Information Circular 74-3R2, Supplementary Schedules for Calculating Capital Gains and Losses, which lists a number of other schedules that are available to help you calculate capital gains and losses.

**The taxable portion of a capital gain is  $\frac{3}{4}$  for 1990 and subsequent years.**

**Capital dispositions 40(3), 44, 45, 54(c), 104(4), 104(5), 107, 108(1)(j)**

A disposition of capital property includes a sale, the distribution or 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)

If a personal trust distributes property to a beneficiary (to settle in whole or in part the beneficiary's capital interest in the trust) the trust is considered to receive 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 for other capital property the cost amount is generally its adjusted cost base. Attach to the T3 return a statement giving particulars of all dispositions to a beneficiary within the taxation year.

#### Deemed disposition — 21-year rule 104(4)

At specified times, a trust is considered to have disposed of its non-depreciable capital property at fair market value and to have reacquired it immediately thereafter at a cost equal to the same fair market value. The capital gains or losses arising from these deemed dispositions must be reported by the trust on Trust Schedule 1, in the taxation year in which they are considered to occur.

For a **spouse trust**, the disposition is considered to occur on the death of the beneficiary spouse and every 21 years thereafter, in the following cases:

- Testamentary spouse trust:
  - when the date of death of the beneficiary spouse is after December 31, 1971 but before January 1, 1976;
  - when the date of death of the beneficiary spouse is after December 31, 1975, **and** the trust was created after December 31, 1971.
- Inter vivos spouse trust:
  - when the date of death of the beneficiary spouse is before May 26, 1976;
  - when the date of death of the beneficiary spouse is after May 25, 1976, **and** the trust was created after June 17, 1971, **or** the trust was created before June 18, 1971 and did not meet the grandfathering provisions.\*

For **other trusts**, the disposition is considered to occur on the day that is 21 years after January 1, 1972 or the date the trust was created, whichever is later, and every 21 years thereafter.

\* The grandfathering provisions are described in this Guide, under Trust Schedule 11, line 1101.

Depreciable property of a prescribed class is considered to be disposed of at the same time period specified above, at a value which is the 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.

If on June 18, 1971 and continuously thereafter 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 the following Interpretation Bulletins for additional information related to the deemed cost of the property: 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.

#### **Exemption from the 21-year rule 108(1)(j)**

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

- 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 (communal organization)
- an RCA trust.

#### **Adjusted cost base 53, 54(a)**

Adjusted cost base (ACB) is usually the cost of acquiring property plus or minus certain adjustments allowed under the Income Tax Act. The ACB can differ from the original cost if changes have been made to the property between the time it was acquired and the time it was sold. For example, the cost of additions to a building may be added to the original cost. See Interpretation Bulletin IT-456R, Capital Property — Some Adjustment to Cost Base, for more information.

#### **Outlays and expenses 40(1)**

Outlays and expenses are usually expenses incurred in selling or disposing 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 the property. These outlays and expenses may be applied to reduce a capital gain or increase a capital loss, and in the case of depreciable property sold at a loss reduce the proceeds from the sale to be credited to the class. They may not be claimed as deductions from income.

#### **Assets acquired before 1972**

For assets acquired before 1972, the Valuation Day Value must be considered when computing capital gains and

losses. Valuation Day is December 22, 1971 for shares listed in the publication *Valuation Day Prices of Publicly Traded Shares* (available from your district 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.

#### **(a) Median rule ITAR 24 and 26(3)**

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, unless the trustee chooses the Valuation Day Value election referred to below.

When two or more of these three amounts are the same, that amount will be the median. This median amount is considered to be the cost of the asset, and is the amount that should be entered in Column 3 of Schedule 1 if there are no adjustments to the cost base. A capital gain results if the proceeds of disposition exceed the greater of cost and the Valuation Day Value. A capital loss results if the proceeds of disposition are less than the lesser of cost and the Valuation Day Value.

#### **(b) Valuation Day Value election ITAR 26(7)**

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 will 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 office to assist trusts to make this election.

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 1990 *Capital Gains Tax Guide* and to Interpretation Bulletin IT-370, Trusts — Capital Property Owned on December 31, 1971.

### **Testamentary trust — 164(6) election Regulation 1000**

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

the legal representative may elect to transfer such losses to the T1 return of the deceased taxpayer for the year of death.

The elected amount of terminal loss cannot exceed the trust's combined non-capital loss and farm loss, computed before the election was made. Losses that are transferred to the deceased under the election may not be claimed by the estate. Any portion of the losses not transferred are subject to the normal loss provisions available to the estate.

Regulation 1000 describes the prescribed manner and prescribed time in which the election is to be made. The legal representative must file this election and an amended T1 return for the deceased taxpayer for the year of death by the later of

- the last day the legal representative is required, or has elected, to file a T1 return for the year of death; and
- the day the estate's T3 return must be filed for its first taxation year.

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

### Note

Identify the amended T1 return clearly as "**164(6) ELECTION.**"

### Line 101 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 on 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 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 that part of 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) and more than 50 per cent of the fair market value of the assets of that corporation were
  - assets used principally in an active business carried on primarily in Canada by the CCPC, or by a 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; or
- when the trust disposes of the shares, all the beneficiaries are related to the person from whom the trust acquired the shares.

### Line 102 Qualified Farm Property 110.6(1)

A capital gain from the disposition of qualified farm property by a personal trust is reported on this line.

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
  - an individual beneficiary to whom the trust has designated taxable capital gains, or a spouse, child or parent of that beneficiary; or
  - a family farm corporation or family farm partnership of the trust or beneficiary, or the beneficiary's spouse, child or parent.

### Lines 101 and 102

Capital gains reported on lines 101 and 102 qualify for the higher capital gains deduction limit when these gains are designated to an individual beneficiary. See "Completing the T3 Supplementary form" in this Guide for an explanation of Boxes 21 and 30 to make sure these gains retain their identity for higher capital gains deduction purposes.

For additional details on "Qualified Small Business Corporation Shares" and "Qualified Farm Property," see the 1990 *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 capital property" for purposes of completing Trust Schedules 1 to 6 and the T3 Supplementary.

### Line 104 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, Discounts, Premiums and Bonuses on Debt Obligations, are available to assist in the calculations.

**Line 105**  
**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. If the property was owned on December 31, 1971, the gain is limited to any gain since Valuation Day. 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, Capital Property Owned on December 31, 1971 — Depreciable Property, and the related Special Release dated September 13, 1982.

**Line 106**  
**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 includes 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. If the adjusted cost base is less than \$1,000, show the cost as \$1,000. No capital loss is allowed on personal-use property (except certain debts acquired on disposition of such property and listed personal property).

**Principal residence 40(4), 40(5), 107(2.01)**  
 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**. For more information, see Interpretation Bulletins IT-366R, Principal Residence — Transfers to Spouse, Spouse Trust or Certain Other Individuals and the related Special Release, and IT-120R3, Principal Residence.

**Lines 107 to 109**  
**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 in the same manner 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. If 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. When these losses exceed these 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 120 and 121**  
**Eligible capital property — deemed**  
**taxable capital gains 14(1), 20(4.2),**  
**39(11)**

The disposition of eligible capital property such as goodwill may result in a deemed taxable capital gain to be reported on line 121, or on line 120 if the disposition relates to qualified farm property.

If the trust has a bad debt arising from the disposition of eligible capital property,  $\frac{3}{4}$  of that loss may be deducted as an allowable capital loss on Trust Schedule 1, on line 120 or 121. Alternatively, if the trust has never designated capital gains to beneficiaries, this deemed allowable capital loss may be claimed as a deduction from total income on line 18, page 2 of the T3 return.

For more information on deemed taxable capital gains on the disposition of eligible capital property, see the 1990 *Farming Income Tax Guide*, the 1990 *Fishing Income Tax Guide*, or the 1990 *Business and Professional Income Tax Guide*.

**Canadian cultural property 39(1)(a)(i.1),**  
**118.1(10)**

For information on dispositions of Canadian Cultural Property, refer to the 1990 *Capital Gains Tax Guide* and Interpretation Bulletin IT-407R3, Disposition after 1987 of Canadian Cultural Property.

**Line 122**  
**Total Taxable Capital Gains 40(1)**

Summarize the capital gains and losses as shown on Trust Schedule 1. The amount from line 122 should be entered

on line 01, "Taxable Capital Gains" on page 2 of the T3 Return.

Do not enter a loss amount on line 01. Capital losses, realized after May 22, 1985 may be used only to offset capital gains in the current year. Any excess becomes a net capital loss that may be applied against taxable capital gains in a previous or future year. See "Net Capital Losses of Other Years" under 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 each year is one fifth of the taxable capital gain. If a reserve was claimed in 1989, it must be brought back into income in 1990. If all of the proceeds are not due in 1990, a new reserve may be claimed. If the trust is claiming a reserve, complete Trust Schedule 2. For more details on reserves, see the 1990 *Capital Gains Tax Guide* and Interpretation Bulletin IT-236R2, Reserves — Dispositions of Capital Property.

### Records — capital transactions

Records or vouchers relative to capital transactions do not need to be filed with the T3 return but must be retained. For more details, see Information Circular 78-10R2, Books and Records Retention/Destruction.

## TRUST SCHEDULE 2 — Lines 210 to 223 Calculation of Reserves on Dispositions of Capital Property and Calculation of Net Taxable Capital Gains

### Lines 210 to 216 Part I. Summary of Reserves on Dispositions of Capital Property

Complete Part I of Trust Schedule 2 if a reserve on the disposition of capital property

- was claimed at the end of the previous year, or
- is being claimed at the end of the current taxation year.

Information from Schedule 2 is needed to complete

- Trust Schedule 1 — to calculate the reserve amount to include in, or exclude from, current year capital gains;
- Trust Schedules 3 and 6 — to calculate capital gains eligible for the capital gains deduction, by identifying reserves that apply to dispositions occurring after 1984, and that apply to qualified farm property and qualified small business corporation shares; and
- Trust Schedule 12 — to calculate minimum tax, by segregating reserves relating to dispositions before 1986.

### Lines 220 to 223 Part II. Trust's Net Taxable Capital Gains for Current Year 104(21.3)

Complete Part II if the trust is designating taxable capital gains to an individual beneficiary in the taxation year.

The trust's net taxable capital gains will be used on Trust Schedule 3, Part IV to calculate each beneficiary's share of the eligible taxable capital gains for the capital gains deduction.

Amounts designated to beneficiaries as taxable capital gains under Subsection 104(21) (T3 Supplementary, Box 21) and as eligible taxable capital gains for purposes of the capital gains deduction under Subsection 104(21.2) (T3 Supplementary, Box 30) must not include any taxable capital gains to which the trust has applied a non-capital loss carryforward under Subsection 104(13.2). This applies to taxation years beginning in 1988 or later. See Guide item, "Selected income to be taxed in the trust."

## TRUST SCHEDULE 3 — Lines 301 to 344 Calculation of a Trust's Eligible Taxable Capital Gains and Beneficiary's Share Eligible for Capital Gains Deduction 104(21), 104(21.1), 104(21.2), 104(21.3)

Complete Trust Schedule 3 if the trust is designating taxable capital gains to an individual beneficiary (T3 Supplementary, Box 21) or if it is a spouse trust claiming a capital gains deduction on Trust Schedule 5.

Please note that if you must complete this schedule, you must also complete and submit Trust Schedule 4, "Calculation of Cumulative Net Investment Loss."

### Lines 301 to 310 Part I. Trust's Annual Gains Limit for Current Year 110.6

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

- 1990 taxable and deemed taxable capital gains (excluding reserves on dispositions that occurred before 1985) less 1990 allowable capital losses exceeds the total of
- 1990 allowable business investment losses, and net capital losses of other years claimed in 1990.

### Lines 320 to 328 Part II. Trust's Cumulative Gains Limit at the end of the trust's current taxation year 110.6

Basically, the trust's 1990 cumulative gains limit is

- the amount by which the total of the taxable and deemed taxable capital gains **exceeded** allowable capital losses in the years from 1985 to 1990 inclusive, from dispositions occurring in those years (excludes reserves on dispositions occurring before 1985);

**exceeds**

- the total of
  - allowable business investment losses claimed in 1985 to 1990 inclusive; and
  - net capital losses of other years claimed in 1985 to 1990 inclusive; and
  - allowable capital losses deducted from other income in 1985 (not exceeding \$2,000); and
  - cumulative net investment loss\* at the end of 1990.

**\* Note**

See Trust Schedule 4 for how to calculate cumulative net investment loss at the end of 1990.

**Lines 330 to 334**  
**Part III. 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, or for a spouse trust claiming a capital gains deduction on Trust Schedule 5.

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

- the trust's annual gains limit for the current year, and
- the trust's cumulative gains limit at the end of the current year less the total amounts of eligible taxable capital gains designated in previous years (1985 to 1989 inclusive).

**Lines 340 to 344**  
**Part IV. Calculation of Beneficiary's Share of Trust's Eligible Taxable Capital Gains for the Capital Gains Deduction 104(21.2)**

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.

When this amount (used to complete Box 30 on the T3 Supplementary) is less than the designated taxable capital gains amount (Box 21) the beneficiary should be advised to use the lesser amount to calculate the capital gains deduction on Form T657.

Complete Trust Schedule 6, Part II if the trust is designating eligible taxable capital gains to a beneficiary for qualified farm property or qualified small business corporation shares to determine each beneficiary's share of the eligible taxable capital gains from these properties (Box 30).

**TRUST SCHEDULE 4 — Lines 401 to 430**  
**Calculation of Cumulative Net Investment Loss 110.6**

Complete Trust Schedule 4 if the trust is designating taxable capital gains to individual beneficiaries, or if it is a spouse trust claiming a capital gains deduction on Trust Schedule 5. Complete this schedule even if the trust does not have a cumulative net investment loss on line 430.

Cumulative net investment loss refers to the amount by which the total of the investment expenses for 1990 and preceding years ending after 1987 exceeds the total of investment income for 1990 and preceding years ending after 1987.

The amount determined on line 430 reduces the trust's cumulative gains limit (calculated on Trust Schedule 3, Part II) and, therefore, reduces the trust's eligible taxable capital gain for the beneficiaries' capital gains deduction.

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

We recommend that you complete Trust Schedule 4 each year and keep it with the trust's records, even for years when the trust is not reporting capital gains or losses, and is not designating eligible taxable capital gains to its beneficiaries. The total amount of the trust's investment expenses and income for 1988 and subsequent years will be needed in the future to determine the eligible taxable capital gains for purposes of an individual beneficiary's capital gains deduction, or for a spouse trust to claim a capital gains deduction in the year in which the beneficiary spouse dies.

**TRUST SCHEDULE 5 — Lines 501 to 525**  
**Calculation of Spouse Trust's Capital Gains Deduction 110.6(12)**

Complete Trust Schedule 5 to determine the spouse trust's capital gains deduction in the year in which the beneficiary spouse dies.

A spouse trust may claim a capital gains deduction in the taxation year in which the beneficiary spouse dies, to the extent that the beneficiary spouse would have claimed a deduction for the eligible taxable capital gains if the gains had belonged to that spouse and not to the trust.

Before completing this schedule, you must calculate

- the trust's eligible taxable capital gains (Trust Schedule 3, line 334), and

- the spouse's unused lifetime capital gains deduction limit for the year in which the spouse died (calculated on Form T657 or T657A).

Please attach a copy of the spouse's Form T657 or T657A to the T3 return.

## **TRUST SCHEDULE 6 — Lines 610 to 613**

### **Calculation of Total Taxable Capital Gain and Beneficiary's Share of Eligible Taxable Capital Gains Attributable to Qualified Farm Property or Qualified Small Business Corporation Shares 104(21.2)**

**Lines 610 to 613**  
**Part I. Calculation of Total Taxable Capital Gains for the Year (from dispositions after 1984) Attributable to:**  
**(a) Qualified Farm Property, (b) Qualified Small Business Corporation Shares, and (c) Other Property**

If the trust disposed of qualified farm property or qualified small business corporation shares, and it is designating eligible taxable capital gains to an individual beneficiary (or claiming the capital gains deduction on Trust Schedule 5, above), you must calculate the amounts attributable to these properties to enable the beneficiary (or spouse trust) to take advantage of the higher capital gains deduction on these properties.

If the trust is designating eligible taxable gains to a beneficiary, the information from Part I will be used

- in Part II to calculate each beneficiary's share of net taxable capital gains designated from qualified farm property or qualified small business shares, and
- in Part III to calculate each beneficiary's share of eligible taxable capital gains from qualified farm property or qualified small business shares.

See the the explanations under Boxes 21, 26 and 30, Guide item "Completing the T3 Supplementary form" for additional details.

A spouse trust claiming the capital gains deduction will use the information in Part I to calculate the trust's capital gains deduction on Trust Schedule 5.

## **TRUST SCHEDULE 7**

### **Statement of Pension Income Allocations / Designations**

Complete this schedule if the trust is allocating or designating pension income to beneficiaries.

There are four columns on this schedule to help you determine what pension income may be designated to beneficiaries and the reason for the designation.

- Box 22 — Pension income may be reported in Box 22 as a pension benefit on a beneficiary's T3 Supplementary, if it qualifies for a paragraph 60(j) transfer to a Registered Retirement Savings Plan or to a Registered Pension Plan.
- Box 26 — All other pension income will be reported in Box 26 as other income on the T3 Supplementary.

The total of the pension amounts entered in Boxes 22 and 26 may not exceed the lesser of the pension income reported by the trust on line 02 on the T3 return and the net income before allocations/designations on line 24 of the T3 return.

Some of the pension income in Boxes 22 and 26 may qualify for further designations, and these are provided for in Boxes 31 and 36.

- Box 31 — Report in Box 31 the amounts designated to a beneficiary spouse that qualify as eligible pension income for purposes of the pension income non-refundable tax credit.
- Box 36 — Report in Box 36 the amounts designated to a minor beneficiary that qualify for the purpose of acquiring an annuity under paragraph 60(1).

For the purpose of designating pension income to a beneficiary, a spouse includes a common-law spouse of the opposite sex who was living with the deceased at the time of death in a conjugal relationship and either had lived with the deceased for a period of at least one year or is a natural or adoptive parent of the deceased's child.

For more details, please see the 1990 *Pension and RRSP Tax Guide*.

## **TRUST SCHEDULE 8 — Lines 805 to 824**

### **Statement of Investment Income and Calculation of Gross-up Amount of Dividends Retained by Trust**

**Part A. Statement of Investment Income**  
**Lines 805 to 820**

**Line 805**  
**Actual Amount of Dividends from Taxable Canadian Corporations 82(1)**

Attach a schedule listing the amount of taxable dividends received from taxable Canadian corporations from Form T3 Supplementary, Box 23, and Form T5 Supplementary, Box 10. This list should include actual and deemed taxable dividends but should not include non-taxable dividends, as explained under line 815. Include all taxable dividends credited through banks, trust companies, brokers, etc. Deduct 50 per cent 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. This 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 808 Foreign Investment Income

Investment income from sources outside Canada is reported on this line, in Canadian dollars. To convert foreign funds to Canadian dollars, use the foreign exchange rate in effect at the time the income was received. Report the full amount of the foreign income; do not deduct any tax withheld at source.

### Line 815 Other Investment Income

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, reported on line 805 and non-taxable dividends discussed below). Interest credited on tax refunds should be reported on this line in the year it is received. Interest credited to the trust's account by a financial institution is considered to have been received by the trust. For more information on the method of reporting investment income, see the 1990 *General Tax Guide* and Interpretation Bulletin IT-396R, Interest Income.

**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. If the trust receives 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 the shares on which the dividends were paid. This may be relevant in computing a capital gain (or loss) on the subsequent disposition of the shares.

If the trust is allocating non-taxable dividends to its beneficiaries, the trust should inform the beneficiaries that the dividends are not to be included when computing their income. The trust must also file a statement with the T3 return containing the following information:

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

### Line 820 Carrying Charges

Enter the amount on line 820 (the total of lines 816 to 819) on line 12, page 2 of the T3 return.

### Part B. Calculation of Gross-up Amount of Dividends Retained by the Trust Lines 821 to 824

This calculation determines the gross-up amount of dividends from taxable Canadian corporations included in line 805 above, and retained by the trust. The gross-up rate for dividends received in the 1990 taxation year is 25 per cent (1/4) of the dividends received.

### Line 821 Total Dividends reported before applying expenses

Enter the amount of dividends from taxable Canadian corporations from line 805 above.

If you received taxable dividends, on shares acquired 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 805. Report the net figure only on line 821.

### Line 822 Dividends designated to beneficiaries

From line 821, deduct net (after related expenses) dividends **designated** to beneficiaries (the amount from Trust Schedule 9, line 923). If dividends have been allocated but not designated to beneficiaries, do not deduct the allocated dividends.

### Line 824 Gross-up amount of dividends retained or NOT designated by the trust

The remaining amount on line 823, "Total Dividends retained or NOT designated by the Trust" is multiplied by 25 per cent (1/4) to arrive at the amount on line 824. Please note that the gross-up rate is applied to actual dividends (that have been retained in the trust, or allocated but not designated to beneficiaries) before deducting related expenses.

Enter the amount from line 824 onto page 2 of the T3 return, line 27 and onto Trust Schedule 11, line 1111 or onto Trust Schedule 12, line 1217, if applicable. Carrying charges relating to dividends should be claimed on this schedule on line 819.



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

## TRUST SCHEDULE 9 — Lines 901 to 944 Summary of Income Allocations/Designations to Beneficiaries

Complete this schedule if the trust is allocating/designating income to beneficiaries.

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

In this Guide and on the T3 return, the words “allocated” and “allocation” are used to refer to amounts deducted from the income of the trust (on line 25) that are subsequently included in the income of the beneficiary. “Allocation” indicates a flow-through of trust income to a beneficiary that has been paid or become payable in accordance with the trust document or by a preferred beneficiary election.

The words “designated” and “designation” are used when some special provision of the Income Tax Act is being applied. In all cases, amounts designated to a beneficiary retain their identity to allow the beneficiary to take advantage of some deduction or credit applicable to that income, such as the capital gains deduction or dividend tax credit. If no amounts could be “designated”, only one income box would be required on the T3 Supplementary because the entire amount allocated would be shown on Trust Schedule 9 on line 926 as “Other Income”.

The trustee may choose to “designate” the following income amounts to a resident beneficiary:

- net taxable capital gains,
- certain pension benefits,
- dividends from taxable Canadian corporations,
- foreign business income,
- foreign non-business income, and
- farming and fishing income.

These amounts appear on the T3 Supplementary in Boxes 21 to 27.

Trust Schedule 9, Part C and T3 Supplementary, Boxes 30 to 42 are used to provide additional information regarding other designated amounts, including non-income amounts such as foreign income tax paid, Part XII.2 Tax Credit, and other tax credits which are being flowed-through to the beneficiary.

For more details, see Interpretation Bulletins IT-342R, Trusts — Income Payable to Beneficiaries, and IT-524, Trusts — Flow Through of Taxable Dividends to a Beneficiary — After 1987.

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, subject to the exceptions discussed below.

1. 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 considered to belong to the contributor during the contributor's lifetime while a resident of Canada. For further information, obtain Interpretation Bulletin IT-369R, Attribution of Trust Income to Settlor.

2. **Selected income to be taxed in trust 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 considered not to have been paid or payable in the year for purposes of Subsections 104(13) and 105(2). Consequently, they may not be deducted 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 previous 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.

If the trust is selecting under Subsections 104(13.1) or 104(13.2) to retain additional income in the trust, be sure to answer “YES” to Question 9 on page 1 of the T3 return.

A trust must make the selection under Subsections 104(13.1) and 104(13.2) at the time the T3 return is filed. After a return is assessed, a reassessment will not be processed if the only purpose of the

reassessment is to make a selection, or to withdraw or to change a selection made on the assessed return.

Further details are provided in Interpretation Bulletin IT-342R, 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.

There are two exceptions to this rule:

- Losses of an insurer's related segregated fund trust that are to be reported in Box 37 on the beneficiary's T3 Supplementary.
- Losses of revocable trusts and from "blind trusts". These losses are to be reported in brackets in Box 21 on a separate T3 Supplementary for the beneficiary, with the type of loss clearly indicated in the T3 Supplementary in the footnote space.

Investment clubs that are not trusts but that have elected to file T3 returns and T3 Supplementaries (as explained in Information Circular 73-13, Investment Clubs) should report losses in brackets in Box 21 on the beneficiary's T3 Supplementary, with the words "LOSS-INVESTMENT CLUB" clearly indicated in the footnote space on the T3 Supplementary.

#### Part A. Application of Expenses Against Specific Types of Income Before Allocations/Designations Lines 901 to 912

Expenses deducted on line 19 must be applied against specific types of income before income can be allocated/designated to beneficiaries. Expenses that relate to more than one source of income must be apportioned on a reasonable basis to the applicable sources of income of the trust. When all the income is allocated or designated to beneficiaries, the Department will allow an alternative apportionment of expenses, for example, to provide the maximum flow-through to a beneficiary of the dividend tax credit. For more information and the conditions for accepting this alternative apportionment of expenses, see Interpretation Bulletin IT-524, Trusts — Flow Through of Taxable Dividends to a Beneficiary — After 1987.

#### Part B. Total Income Allocations/Designations to Beneficiaries Lines 921 to 928

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 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 921 to 927 to a beneficiary are excluded from the trust's income and are included in the income of the beneficiary. These income amounts are shown in Boxes 21 to 27 on the T3 Supplementary.

### Income Paid or Payable to Resident Beneficiaries

**Column 1, lines 921 to 927**  
**Boxes 21 to 27 104(13)**

This column allocates or designates the different types of income paid or payable to resident beneficiaries, and any taxable benefits to be allocated or designated to beneficiaries. If the income is "allocated," but no amounts are "designated," the "allocated" amount should be entered on line 926 (and Box 26 of the T3 Supplementary). If the income is being designated, the amounts may be entered on lines 921 to 925 and line 927 (and in Boxes 21 to 25, and Box 27). In addition, use lines 930 to 944 in Part C (and Boxes 30 to 42), if applicable.

For more details see Interpretation Bulletins IT-286R2, Trusts — Amounts Payable and IT-342R, Trusts — Income Payable to Beneficiaries.

### Line 921 Capital Gains Designated by a Trust to Beneficiaries 104(21)

Net taxable capital gains of a trust (computed on Trust Schedule 2, Part II, line 222) 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.

If 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 considered to be a taxable capital gain of the beneficiary. (Complete T3 Supplementary, Box 21. The amount to be entered in Box 21 is the **capital gain** amount which for the 1990 taxation year is 1.33 (4/3) times the beneficiary's share of the **taxable capital gain amount** on line 921.)

If a trust makes the designation mentioned above, it must also designate a portion of its eligible taxable capital gains (in respect of the beneficiary) for purposes of the beneficiary's capital gains deduction. See Trust Schedule 3, Part IV. (Complete T3 Supplementary, Box 30 and Part C of this schedule, line 930. As above, the amount to be entered in Box 30 is 1.33 (4/3) times the beneficiary's share of the amount at line 930.)

If the trust chooses to reduce its current year taxable capital gains (such as with a net-capital or non-capital loss carryforward) according to Subsection 104(13.2), the net

taxable capital gain designated to a beneficiary must be reduced accordingly. (See "Selected income to be taxed in the trust 104(13.1) 104(13.2).")

If a designation of net taxable capital gains is made, Trust Schedules 2 and 3 must be completed and filed with the T3 return. Refer to Guide explanations of Trust Schedules 2 and 3 for additional details.

#### Note

A copy of Trust Schedule 3 should be kept with your records as you will need the information to determine the cumulative gains limit whenever a designation of the trust's eligible taxable capital gains is made in subsequent years.

#### Line 922

**Pension Benefits 104(27), 104(27.1), 60(j)**

Certain pension and superannuation benefits, and certain amounts received from a deferred profit sharing plan may be designated by a testamentary trust to have been received by a particular beneficiary and not by the trust. Enter on line 922 those amounts from Trust Schedule 7 that are eligible for a paragraph 60(j) transfer to a registered pension plan or a registered retirement savings plan.

#### Line 926

**Other Income**

Enter on this line all income distributed to beneficiaries that is not shown on lines 921 to 925, or on line 927.

#### Line 927

**Farming/Fishing Income 119(7)**

Farming or fishing income, from lines 07 and 08 on page 2 of the T3 return, should be entered on this line if allocated to a beneficiary, or to a member of a communal organization, to identify farming and fishing income for a block averaging election.

#### Income Paid or Payable to Non-Resident Beneficiaries

**Column II, lines 921 to 927  
104(13), 212(1)(c)**

This column allocates the different types of income paid or payable to non-resident beneficiaries. Income such as taxable capital gains (unless the trust is a mutual fund

trust) and taxable dividends from taxable Canadian corporations may not be designated and, therefore, lose their identity when allocated to non-resident beneficiaries. The different types of income retain their identity on this schedule, to identify the source of the income retained in the trust. Please note that the total of the amounts in Column II should be reported as "Estate or Trust Income" on the NR4 Supplementary form, instead of on the T3 Supplementary form.

Most amounts paid or payable to a non-resident beneficiary are subject to a Part XIII withholding tax. See Guide item, "Non-resident beneficiaries." The total of Column II should be transferred to Trust Schedule 10, Part B. Part XIII Non-Resident Withholding Tax on line 1020.

The trust may also be subject to Part XII.2 Tax if it is distributing income to non-resident beneficiaries. For information on Part XII.2 tax, see Guide item, "Trust Schedule 10, Part A. Calculation of Part XII.2 Tax."

**By Preferred Beneficiary Election —  
Resident Beneficiaries  
Column III, lines 921 to 927  
Box 21, and Boxes 23 to 27 104(14),  
Regulation 2800**

This column should be used to allocate or designate the trust's elected accumulating income for 1990. The trustee and a preferred beneficiary may jointly elect to have this accumulating income taxed in the hands of the preferred beneficiary in 1990. See "Preferred beneficiary" and "Preferred beneficiary election" below. A separate T3 Supplementary form should be completed for this elective income.

The following types of trust income may retain their identity and be designated under a preferred beneficiary election:

- taxable capital gains (line 921),
- actual amount of dividends from taxable Canadian corporations (line 923)
- foreign business income (line 924)
- foreign non-business income (line 925)
- farming/fishing income (line 927)

Elective income not designated in one of the above categories should be taxed in the beneficiary's hands as "Other Income." The 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

- the settlor of the trust; or

- the spouse or former spouse of the settlor of the trust; or
- a child, grandchild or great grandchild of the settlor of the trust; or
- the spouse of any person described in the preceding item.

For the definition of “settlor” refer to Interpretation Bulletin IT-374, Meaning of Settlor.

**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 the amount elected to be included in the preferred beneficiary’s income. The amount elected 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 should be made by filing the following documents with the Minister:

- a statement making the election for the year, stating the part of the income on 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
- a statement, signed by the trustee, showing the computation of the preferred beneficiary’s share in the income of the trust for the year along with any information about 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 on which the election was made. Please be aware that for a preferred beneficiary election to be valid, **IT 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-394R, Preferred Beneficiary Election, deals with the subject in considerable detail.

### Line 928 Total

The total of lines 921 to 927 is the income allocated or designated to the beneficiaries and may not exceed “Trust Income Before Allocations/Designations,” on line 24, page 2 of the T3 return.

### Part C. Summary of Other Amounts Designated Lines 930 to 944

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

### Line 931 Eligible Pension Income 104(27), 118(3), 118(7)

Testamentary trusts may include pension income amounts from line 02 on page 2 of the T3 return that qualify as pension income for the pension income non-refundable tax credit on the beneficiary’s T1 return. This designation applies only if the beneficiary was the spouse (or common-law spouse) of the deceased, and if the trust received the benefits from a life annuity from a superannuation or pension fund. Refer to Trust Schedule 7 for more details.

### Line 934 Foreign Non-Business Income Tax Paid 104(22)(b), 126(1)(a)

If the trust is designating a foreign tax credit to a beneficiary, it must submit a valid receipt or information slip from the foreign country to substantiate the foreign non-business income tax paid by the trust, or withheld from foreign non-business income earned by the trust.

The proportion of foreign taxes designated to a beneficiary must be in the same proportion as the foreign income designated to that beneficiary. Foreign taxes paid in foreign currency must be converted to Canadian funds.

Please see Interpretation Bulletin IT-270R, Foreign Tax Credit and Guide item, “Federal Foreign Tax Credit” for further details.

### Line 935 Death Benefits 104(28), 248(1)

If a testamentary trust receives a payment, normally from the deceased’s employer or from a trust fund established by the employer, which was paid as a result of the employee’s death and 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 35 is provided on the T3 Supplementary form to inform the beneficiary of the amount in Box 26 that is a death benefit, and which is 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.

If the death benefit is deducted from the trust income, and only the taxable portion flows out to the beneficiary, the trustee must ensure that only the taxable portion of the death benefit is reported on line 10, page 2 of the T3

Return and that only Box 26 (and not Box 35) should be completed on the T3 Supplementary. See Guide item, "line 10."

Payments from the Canada Pension Plan (CPP) are not considered to be paid in recognition of an employee's service in an office or employment. Consequently, CPP death benefits are not eligible for the \$10,000 exemption, therefore they are not to be included in Box (35) on the T3 Supplementary.

### Line 936 104(27), 60(1), 143(2)

On this line enter amounts such as pension income that is eligible for paragraph 60(1) transfer to an annuity for a minor, from Trust Schedule 7 and charitable donations designated to the beneficiaries of a communal organization. A lump-sum payment out of a registered pension plan may be designated by a testamentary trust to a beneficiary for the purpose of acquiring an annuity under Subclause 60(1)(v)(B.1)(II) if that beneficiary is a child or grandchild of the deceased individual and was under 18 at the time of the deceased's death. See Guide item, "Taxation year, Testamentary trust."

### Line 938 Part XII.2 Tax Credit 104(31), 210.2(3)

Enter the amount from Trust Schedule 10, Part A, line 1010. The Part XII.2 tax credit may be designated only to those resident beneficiaries to whom income was allocated or designated in Part B above in Column I, line 928.

### Lines 940 and 941 Investment Tax Credit (ITC) Designated 127(7)

Only testamentary trusts and communal organizations (Section 143) may designate the investment tax credit (ITC) to their beneficiaries.

On line 940 enter the beneficiary's share of the trust's investment in eligible property acquisitions or eligible expenditures. This amount, as calculated on Form T2038 (IND.), determines the amount of the investment tax credit available for designation to the beneficiary. The beneficiary's share should be recorded in Box 40, "Investment Eligible for ITC."

On line 941 (and in Box 41), enter the share of the trust's investment tax credit from Form T2038 (IND.), that is designated to a beneficiary and not deducted by the trust on Trust Schedule 11, line 1120.

Insert the applicable code number from Form T2038 (IND.) in the footnote space on the T3 Supplementary. See "Completing the T3 Supplementary form" for additional details.

## T3 Supplementary

### Completing the T3 Supplementary form

You must complete a T3 Supplementary form for all amounts allocated or designated to a RESIDENT beneficiary, including a preferred beneficiary who elects to be taxed on accumulating income of the trust.

It is important that you read and carefully follow these instructions when preparing T3 Supplementaries. If they are incomplete or incorrect, the assessment of the T3 return may be delayed while the T3 Supplementaries are returned to you for correction.

- Complete the T3 Supplementary legibly.
- **Trust year end** — Be sure to enter 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 1990, enter "1990" and "April" in the spaces provided for the year and month.
- **Amended or cancelled** — If you have to amend, cancel, or issue a duplicate of a T3 Supplementary previously submitted to the Department, 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 18, 1991
  2. SECOND AMENDED — December 6, 1991
- If the cancelled or amended T3 Supplementary changes the amount shown on a previous T3 Supplementary, you must file a revised T3 return and Trust Schedule 9 showing the change. The number (ex. FIRST AMENDED) and date of the change should be shown on the revised Trust Schedule 9.
- **Distribution** — Copies of all original and amended T3 Supplementaries should be distributed as instructed on the back of copy 5 and as set out below.
- **Preferred beneficiary election** — If there is an election to report income by a preferred beneficiary, and income is also paid to the same beneficiary, it is preferable to complete two separate T3 Supplementaries, one for income with respect to the election, and the second for all other income.
- **Tax deducted** — If tax was deducted on information slips received by the trust, this tax cannot be used to reduce the amount of income allocated to a beneficiary on the T3 Supplementary form. See Guide item, "line 86" for further information.
- Trust Schedule 9, Part B, lines 921 to 927, provides a summary of the income allocations or designations to be entered in Boxes 21 to 27. Part C, lines 930 to 944 provides a summary of other amounts designated that are to be entered in Boxes 30 to 42.

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

**\*Box 21**

For the 1990 taxation year, enter 1.33 (4/3) times the amount of any net taxable capital gains (excluding deemed taxable capital gains from eligible capital property reported in Box 26) designated to a beneficiary from Trust Schedule 9, Part B, line 921.

Be sure to complete Box 30, with the designated portion of the trust's eligible taxable capital gains for purposes of the beneficiary's capital gains deduction.

If Box 21 includes capital gains from qualified farm property or qualified small business corporation shares, these amounts must be identified to enable the beneficiary to claim the higher capital gains deduction on these dispositions. Put an asterisk \* beside the amount in Box 21. In the footnote space, below Boxes 41 and 42, write "qualified farm property" or "qualified small business corporation shares", as applicable, and show the amounts included in Box 21 and Box 30 that relate to the disposition of this property.

See Guide item, "Trust Schedule 9, Line 921" for further details.

**Box 22**

Enter the amount of pension benefits, that qualify for paragraph 60 (j) transfer to a Registered Pension Plan or Registered Retirement Savings Plan, designated to the beneficiary on Trust Schedule 9, line 922. Refer to Trust Schedule 7, "Pension Income Allocations/Designations" for more details.

**Box 23**

Enter the designated portion of the actual amount of taxable dividends received from taxable Canadian corporations from Trust Schedule 9, line 923.

**Box 24**

Enter the designated portion of the gross foreign business income from Trust Schedule 9, line 924.

**Box 25**

Enter the designated portion of the gross foreign non-business income from Trust Schedule 9, line 925.

**\*Box 26**

Enter the amount of all other income transferred to a beneficiary that is not recorded in Boxes 21 to 25 and Box 27.

Include deemed taxable capital gains from the disposition of eligible capital property, if any. Put an asterisk \* beside the amount in Box 26. In the footnote space below Boxes 41 and 42, write: (a) a description of the property, e.g. "eligible capital property — qualified farm property" or "eligible capital property — other"; (b) the taxable amount, and (c) the amount that qualifies for the capital gains deduction.

**Box 27**

Enter the amount of farming or fishing income designated to the beneficiary on Trust Schedule 9, line 927 that qualifies for a Section 119 election under block averaging provisions.

**\*Box 30**

For the 1990 taxation year, enter 1.33 (4/3) times the designated portion of the trust's eligible taxable capital gains (excluding deemed taxable capital gains from eligible capital property reported in Box 26) for the purpose of the beneficiary's taxable capital gains deduction. If Box 26 includes gains from qualified farm property or qualified small business corporation shares, put an asterisk in Box 30 and in the footnote space below Boxes 41 and 42, show the amount from these dispositions that qualifies for the capital gains deduction.

See Guide item, "Trust Schedule 9, line 921," for further details.

**Box 31**

Enter pension amounts transferred to the spouse (or common-law spouse) of the deceased that qualify for the pension income non-refundable tax credit. This amount is included in the beneficiary's income in Box 22 or Box 26.

**Box 32**

Enter the taxable amount of dividends from a taxable Canadian corporation — 1.25 (5/4) times the actual amount reported in Box 23.

**Box 33**

Enter the designated portion of the foreign business income tax paid which is based on the amount in Box 24.

**Box 34**

Enter the designated portion of the foreign non-business income tax paid which is based on the amount in Box 25.

**Box 35**

Enter the amount of death benefits designated to the beneficiary. See Guide item, "Trust Schedule 9, line 935." This amount is also included in Box 26.

**Box 36**

This is a spare box. Report in this box amounts such as pension income that are eligible for paragraph 60(1) transfer to an annuity for certain minors, from Trust Schedule 7 and charitable donations designated to the beneficiary of a communal organization. Provide details in the footnote space.

**Box 37**

Enter 1.33 (4/3) times the amount of allowable capital losses from insurance segregated fund trusts.

**Box 38**

Enter the portion of the Part XII.2 tax credit that is designated to the beneficiary. See Guide item, "Trust Schedule 10, Part XII.2 Tax."

**Box 39**

Calculate and enter the federal dividend tax credit that is 13.33 per cent of the taxable amount in Box 32.

**Box 40**

Report the portion of the trust's investment on which the beneficiary's share of the investment tax credit is based. (See Trust Schedule 9, line 940 and Trust Schedule 11, line 1120).

**Box 41**

Report the beneficiary's share of the investment tax credit designated. See the Calculation of Investment Tax Credit area on Form T2038 (IND), and insert the applicable code in the footnote space under Box 41. (See Trust Schedule 9, line 941 and Trust Schedule 11, line 1120).

**Box 42**

This box is available to report each beneficiary's portion of the following credits designated. Enter the type and amount of

- Manitoba Manufacturing Investment Tax Credit (Man.Mfg.) designated. (Trust Schedule 9, line 942). See Guide item, Trust Schedule 14, line 1415.
- Saskatchewan Livestock Investment Tax Credit (SLITC) designated. (Trust Schedule 9, line 943). See Guide item, Trust Schedule 14, lines 1430 to 1434.
- Saskatchewan Livestock Facilities Tax Credit (SLFTC) designated. (Trust Schedule 9, line 944). See Guide item, Trust Schedule 14, lines 1430 to 1434.

When more than one credit is designated to a beneficiary, prepare separate T3 Supplementaries for each credit. **These three credits are the only credits which may be included in Box 42.**

**Box 12**

Enter the beneficiary's **social insurance number (SIN)** in this box.

The Income Tax Act requires the trustee to make every reasonable effort to obtain the social insurance number of each individual beneficiary for whom a T3 Supplementary is prepared. The act also imposes a penalty on individuals who fail to provide a social insurance number when requested to do so. For more information, obtain Information Circular 82-2R, Social Insurance Number Legislation as it Relates to the Preparation of Information Slips.

**Box 14**

Space is provided on the T3 Supplementary (and on the T3 return) for a trust account number. If the trust has been assigned an account number, enter it here. Otherwise, leave this box blank until we give you the number.

**Note**

If more than one box requires an explanation in the footnote space under Boxes 41 and 42, prepare a separate

statement and attach one copy of the statement to each copy of the T3 Supplementary.

**\*Additional instructions for Boxes 21, 26 and 30.**

1. If the amount in Box 30 is less than the amount in Box 21, or if less than the full amount of the deemed taxable capital gain from Box 26 is eligible for the capital gains deduction, advise the beneficiary to recalculate Schedule 3 for purposes of the capital gains deduction, and to use the lesser amounts from Box 30 and Box 26 to prepare Form T657 or Form T657A.
2. The trustee has to give the beneficiary additional instructions if designating capital gains from
  - Qualified farm property — Boxes 21 and 30;
  - Qualified small business corporation shares — Boxes 21 and 30;
  - Eligible capital property-qualified farm property — Box 26;
  - Eligible capital property-other — Box 26.

**Box 21** — Inform each beneficiary that if an \* appears in Box 21, that part of the amount in Box 21 is a capital gain from the disposition of qualified small business corporation shares or qualified farm property. (The beneficiary reports the amounts on the T1 Schedule 3, line 513 or line 516, as applicable. The beneficiary will report on Schedule 3, line 533 any amount from Box 21 not reported on lines 513 and 516.)

**Box 26** — Inform each beneficiary that if an \* appears in Box 26, that part of the amount in Box 26 is either a deemed taxable capital gain from eligible capital property-other, to be reported on the T1 Schedule 3, line 544; or a deemed taxable capital gain from eligible capital property-qualified farm property, to be reported on Schedule 3, line 543. (The beneficiary will report on line 130 of the T1 return, any amount not reported on Schedule 3, lines 543 and 544.)

**Box 30** — Inform each beneficiary that if an \* appears in Box 30, that part of the amount in Box 30 should be entered as a capital gain from the disposition of qualified small business corporation shares or qualified farm property when recalculating Schedule 3 for purposes of the capital gains deduction on Forms T657 or T657A (as in item 1, above).

**Distributing the T3 Supplementary form**

Copies 1 and 2: Send **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: Send to the beneficiary's last known address within 90 days from the end of the trust's taxation year.

Copy 5: Keep with the trust records.

**Example — T3 Supplementary**

The trust has the following income and deductions:

Dividends from taxable Canadian corporations

Box 23 — Actual amount . . . . . \$ 1,000.00  
 Box 32 — Taxable amount . . . . . 1,250.00  
 Box 39 — Federal dividend tax credit . . . . . 166.67

Capital gains

Box 21 — Capital gains . . . . . \$10,000.00  
 Box 30 — Capital gains eligible for deduction . . . . . \$ 9,000.00

Farming/fishing income

Box 27 — Net amount . . . . . \$ 2,500.00

Other income

Interest income \$2,000.00  
 Less: Carrying charges .. 200.00 \$1,800.00  
 Rental income (net) 2,000.00  
 Upkeep, maintenance . . . . 500.00

Box 26 — Other income . . . . . \$4,300.00 \$ 4,300.00

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

The T3 Supplementary form should be completed as follows:

Trust Year Ending Year	21 Capital Gains	22 Pension Benefits	23 Actual Amount Dividends - TCC	24 Foreign Business Income	25 Foreign Non-Business Income	26 Other Income	27 Farming/Fishing Income
1990	10,000.00		1,000.00			4,300.00	2,500.00
Année	Gains en capital	Prestations de pension	Montant réél dividendes de CCI	Revenu étranger tiré d'entreprises	Revenu étranger non tiré d'entreprises	Autres revenus	Revenu de pêche/d'agriculture
Month	30 Capital Gains Eligible for Deduction	31 Eligible Pension Income	32 Taxable Amount Dividends - TCC	33 Foreign Business Income Tax Paid	34 Foreign Non-Business Income Tax Paid	35 Death Benefits	36
Dec.	Gains en capital admissibles pour déduction	Revenu de pensions admissible	Montant imposable dividendes de CCI	Imp. étr. payé sur rev tiré d'entreprises	Imp. étr. payé sur rev non tiré d'entreprises	Prestations consécutives au décès	
Mois	37 Insur. Segregated Fund Losses	38 Part XII.2 Tax Credit	39 Federal Dividend Tax Credit - TCC	40 Investment Tax Credit - Crédit d'impôt à l'investissement	41 Investment Tax Credit	42 Other Tax Credit	Autre crédit d'impôt
Fin d'année de la fiducie	Pertes sur fonds réservés d'assureur	Crédit d'impôt Partie XII.2	Crédit d'imp féd pour dividendes de CCI	Investissement	Crédit d'impôt	Type	Montant
	12 Social Insurance Number			14 Account Number	Footnotes		
	123 436 789			Numéro de compte	Notes:		

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

Beneficiary, John  
 100 8th Street  
 Anytown, Canada  
 T3T 3T3

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

Martin William estate  
 c/o A. Trustee  
 100 C Street  
 Anytown, Canada  
 T3S 3T3

• For Taxation Office  
 • Pour le bureau d'impôt

1



## TRUST SCHEDULE 10 — Lines 1001 to 1031

### Calculation of Part XII.2 Tax and Part XIII Non-Resident Withholding Tax

#### Part A. Calculation of Part XII.2 Tax and Refundable Part XII.2 Tax Credit for 1988 and Subsequent Taxation Years 104, 210 to 210.3 Lines 1001 to 1010

Part XII.2 tax is levied when a trust has “specified income,” a “designated beneficiary” and distributes (allocates or 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 10. Part XII.2 tax 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 on Trust Schedule 10 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 exempt from Part I tax under Subsection 149(1) if that person acquired an interest in the trust, directly or indirectly, from a beneficiary of the trust after October 1, 1987 (a person exempt from Part I tax is not a designated beneficiary if, after the later of October 1, 1987 and the creation of the trust, the interest was held continuously by a beneficiary exempt from tax by reason of Subsection 149(1), or if the tax exempt person is a trust governed by a registered retirement savings plan or registered retirement income fund and the trust acquired its interest from its beneficiary or the beneficiary’s spouse); or
- a trust resident in Canada (other than a testamentary trust or trust exempt from tax under Subsection 149(1)) or a partnership whose beneficiaries or members include a designated beneficiary.

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

- Box 38 on the T3 Supplementary is generally **not** completed for a designated beneficiary who is a Canadian resident;
- and**
- before calculating Part XIII non-resident withholding tax, the income payable to a non-resident beneficiary will be reduced by the non-resident’s share of the Part XII.2 tax. (See the comments under line 1009 below.)

#### Eligible beneficiary

“Eligible beneficiary” is a term used to identify a beneficiary, other than a designated beneficiary described above, and is generally a resident beneficiary.

An eligible beneficiary is entitled to a refundable Part XII.2 tax credit, in proportion to the share of trust income allocated or designated to that beneficiary. An amount equal to the Part XII.2 tax credit must be included in the beneficiary’s income. The credit, in effect, replaces the income that the beneficiary would have received if the trust had not been required to pay Part XII.2 tax.

#### Line 1006 Total Specified Income

Line 1006 is the total of lines 1001 to 1005, and it represents the specified income of a trust. If line 1006 is negative, Part XII.2 tax does not apply.

#### Line 1007 Amount Allocated or Designated to Beneficiaries

On line 1007, enter the total of the amounts from Columns I and II, Trust Schedule 9, Part B, line 928. Line 1007 must then be reduced by the Subsection 105(1)

taxable benefit amount reported on line 22 of the T3 return.

Part XII.2 tax does not apply to the "value of other benefits to recipients" reported on line 22 nor to the total amount in Column III, Trust Schedule 9, Part B for accumulating income under a preferred beneficiary election.

In effect, the total on line 1007 represents the following provisions of the Income Tax Act:

- the Subsection 104(6) deduction from trust income for the portion of the trust's income that is distributed to resident and non-resident beneficiaries and included in their income,
- the Subsection 104(30) deduction from trust income for the tax paid by the trust for the year under Part XII.2, and
- the Subsection 104(13) and Subsection 104(31) amounts to be included in the income of an eligible beneficiary from the trust.

#### Note

In effect, the trust withholds the Part XII.2 tax from income distributed to the beneficiaries. This way, each beneficiary pays a share of the tax in proportion to 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 their share of taxes on specified income. The total of Parts XII.2 and XIII taxes is approximately equal to the Part I tax plus provincial or territorial taxes that would apply to specified income had it been earned directly by the designated beneficiary.

#### Line 1008 Part XII.2 Tax

The lesser of the amounts on line 1006 or 1007 multiplied by 36 per cent is the amount of Part XII.2 tax payable by the trust. This amount should be entered on line 83 on page 4 of the T3 return.

Part XII.2 tax for the year should be calculated on the specified income at line 1006, unless the income distributed to the trust's beneficiaries after Part XII.2 tax is less than 64 per cent of the trust's specified income for the year. In this case, the Part XII.2 tax should be calculated on an amount that is 100/64 of the income allocated/designated to beneficiaries (Subsection 104(6) deduction) before calculating Part XII.2 tax. This grossed-up amount is equal to the amount on line 1007.

#### Note

Trust Schedule 10 does not provide for a third calculation contained in the Income Tax Act under Paragraph 210.2(1)(b). Paragraph 210.2(1)(b) refers to

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 Subsection 104(6) deductions. This third amount has been eliminated from the calculation on Trust Schedule 10 because it would never be less than line 1007, which is the amount determined under Paragraph 210.2(1)(c).

#### Line 1009 Adjustment for Part XIII Tax purposes

Line 1009 calculates the amount of Part XII.2 tax attributable to designated beneficiaries. The amount from line 1009 is entered in Part B, on line 1026 to reduce the income subject to Part XIII tax.

#### Line 1010 Part XII.2 Refundable Tax Credit for Eligible Beneficiaries

Line 1010 is the amount of Part XII.2 tax attributable to eligible beneficiaries and is the amount eligible for the Part XII.2 refundable tax credit for these 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 38 of the T3 Supplementary for each beneficiary:

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

where

- A is the Part XII.2 tax payable by the trust, which is the amount from line 1008;
- B is each beneficiary's share of the amount from line 1007, which is the trust income allocated or designated to the eligible beneficiaries; and
- C is the total allocations or designations for the year, which is the entire amount from line 1007.

#### Part B. Part XIII Non-resident Withholding Tax Lines 1020 to 1031

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

#### Line 1022 Amounts paid or payable other than capital distributions

Depending on the reconciliation made on line 1021, the amount on line 1021 would either be added to or subtracted from the amount on line 1020.

### Line 1025 Amounts not subject to Part XIII Tax — Other

One example of an adjustment to be entered on this line is amounts paid or credited to a beneficiary resident in the United States, derived from income sources outside Canada which are not subject to withholding tax by virtue of the Canada — U.S. Tax Convention.

### Line 1026 Part XII.2 Tax Amount

The amount of Part XII.2 tax attributable to designated beneficiaries is deducted on this line.

Part XII.2 tax is deducted here because the total amount in Column II on Trust Schedule 9, Part B, line 928 includes income under Subsection 104(31) (i.e., the Part XII.2 tax) which is not subject to Part XIII tax.

### Lines 1029 to 1031 Non-Resident Tax Payable

The rest of this schedule should be completed with reference to the NR-NR4A Summary for the trust. If you calculate a balance owing on line 1031, enter this amount on line 92, page 4 of the T3 return. Be sure to enter the payer's remittance no. in the boxes provided on both the schedule and the return.

#### Example — Part XII.2

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 1990 of \$1,400 represents

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

On Trust Schedule 10, "Part A. Calculation of Part XII.2 Tax and Refundable Part XII.2 Tax Credit" you would

- enter \$1,000 on lines 1001 and 1006 as there are no other sources of specified income. (The \$400 interest is NOT specified income);
- enter \$1,400 on line 1007 as this is the total amount from Columns I and II on Trust Schedule 9, Part B, line 928;
- enter the lesser of lines 1006 and 1007 (\$1,000) in the first blank space on line 1008;

- calculate 36 per cent of \$1,000 and enter the result (\$360) in the second blank space on line 1008;
- calculate the amount that is not subject to Part XIII non-resident tax by completing the entries in the area for line 1009 (i.e., divide \$700 by \$1,400 and multiply by \$360), and enter the result (\$180) on line 1009, and in Part B on line 1026; and
- calculate the amount of refundable Part XII.2 tax credit on line 1010 by subtracting line 1009 from line 1008. Enter the result (\$180) on the T3 Supplementary in Box 38.

Mr. Adam received \$520 but he will include \$700 (i.e., \$520 + \$180) in his income for the year. This amount, which will be entered on the T3 Supplementary in Box 26, is the one-half portion of the trust income that was to be distributed to him according to the terms of the trust agreement. On his T1 return for 1990, he will claim a refundable Part XII.2 tax credit of \$180.

Ms. Meg received \$520 and will include \$520 in her income for the year. This amount, which will be entered on the NR4/NR4A Supplementary, is the one-half portion of the trust income that was to be distributed to her according to the terms of the trust agreement. On Trust Schedule 10, Part B the trust will reduce the total income paid or payable to non-resident beneficiaries (line 1020 — \$700) by the Part XII.2 tax (line 1026 — \$180). The difference (line 1028 — \$520) is the amount subject to non-resident tax.

### Completing the NR4-NR4A Summary and NR4 Supplementary forms Part XIII Tax, 212(1)(c)

#### Non-resident beneficiaries

Every non-resident person must pay a Canadian income tax (non-resident tax) of 25 per cent 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 considered 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 10, Part B. Any balance due should be sent 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 for remitting future payments.

You must also complete Forms NR4-NR4A Summary and NR4 Supplementary. These forms are available from your district office.

For more information on non-resident income tax, obtain Information Circulars 76-12R4, Applicable Rate of Part XIII Tax on Amounts Paid or Credited to Persons in Treaty Countries, 77-16R3, Non-resident Income Tax, and Interpretation Bulletin IT-465R, Non-resident Beneficiaries of Trusts.

#### NR4-NR4A Summary

This is a summary of amounts paid or credited, or considered to be paid or credited to non-residents, and basically represents the total of amounts reported on the NR4 Supplementary form. 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 10, Part B, line 1028. Total non-resident tax withheld on Form NR4-NR4A Summary should agree with the non-resident tax payable on Trust Schedule 10, Part B, line 1029.

#### 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 totalling \$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 (except for taxable capital gains from a mutual fund trust), and are therefore totalled and reported as "estate or trust income" on the NR4 Supplementary.

#### Distributing the NR4 Supplementary form Regulation 202(8)

Copies 1 and 2: Send to the Department **with** the T3 return and **with** copies 1 and 2 of the NR4-NR4A Summary within 90 days from the end of the trust's taxation year.

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

Copy 5: Keep with trust records.

#### TRUST SCHEDULE 11 — Lines 1101 to 1130

#### Calculation of Federal Income Tax for the 1990 Taxation Year 122

#### Line 1101 Testamentary Trusts

All testamentary trusts are taxed using the "1990 rates of federal income tax" for individuals.

The individual rates also apply to an inter vivos trust (other than a mutual fund trust) that meets 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 1990;
- it did not carry on any active business in 1990;
- 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 meeting these conditions are referred to as "grandfathered inter vivos trusts."

#### Line 1107 Inter vivos trusts

An inter vivos trust is taxed at 29 per cent of its taxable income if it does **not** meet all of the conditions listed under line 1101 above.

#### Line 1109 Tax Adjustments ITAR 40 Provision

This line is used when adding to the trust's tax such items as the reduced tax that applies on lump-sum payments under ITAR 40. You do not need to enter an amount on this line. Specify ITAR 40 on this line and on line 02 on page 2, and the Department will calculate your tax adjustment.

#### Line 1111 Federal Dividend Tax Credit 121

The amount of the federal dividend tax credit that the trust may claim on dividends received in the 1990 taxation year is entered on this line.

The dividend tax credit is 66.67 per cent ( $\frac{2}{3}$ ) of the gross-up amount calculated on Trust Schedule 8, Part B, line 824.

#### Line 1112 Charitable Donations 118.1 or 104(6)

#### Testamentary trust

- If the donation is a one-time payment provided for in the deceased taxpayer's will, the donation must be claimed on the deceased taxpayer's T1 return either in the year of death or in the year preceding the year of

death. The T1 returns will be reassessed, if necessary, to allow the claim.

- If the donation is not a one-time payment but will continue 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 2, line 25 and Trust Schedule 9, Part B).
- If the will provides that a donation may be made at the discretion of the trustee, the trustee has the choice of treating the charity as an income beneficiary and deducting the amount on line 25 or claiming a non-refundable tax credit on Trust Schedule 11, line 1112.

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

- 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 (page 2, line 25 and Trust Schedule 9, Part B).
- In all other cases, a non-refundable tax credit will be calculated on the amount of the donation on Trust Schedule 11, line 1112.

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

1. Charitable. Please see the *T1 General Tax Guide* for types of organizations that are included in this class.
2. Gifts to Canada, province or territory.
3. 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 item 1 immediately above, is limited to 20 per cent of the net income of the trust, line 28. The 20 per cent limit does not apply to gifts referred to in items 2 or 3 above. You may choose to claim any portion of your total donations up to the maximum limit. Any unused portion may be carried forward for five years.

### Line 1113 Minimum Tax Carryover from PREVIOUS year 120.2

If the trust paid minimum tax in the 1986 to 1989 taxation years, part or all of that amount may be deducted from 1990 taxes payable. APPENDIX C at the back of this Guide is provided to help you calculate your claim. Attach a copy of your calculation to the T3 return if a minimum tax carryover is being claimed.

### Line 1116 Surtax on income not subject to Provincial or Territorial Income Taxes 120(1)

**Canadian resident trusts** that carry on business through a permanent establishment in a foreign country are subject to the federal surtax of 52 per cent of their Basic Federal Tax attributable to the income earned in the foreign country.

**Non-resident trusts** that 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 that 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.

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

### Line 1118 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 on 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.

When the total of all business income taxes and non-business income taxes paid to foreign countries exceeds the total amount allowed as a foreign tax credit, the excess, or a portion thereof, may be deducted on Trust Schedule 11, line 1125 as an "Additional Federal Foreign Tax Credit" in computing the "Individual Surtax Payable" amount on Trust Schedule 11, line 1128. 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 a deduction on line 18, 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, Foreign Tax Credit and IT-201R, Foreign Tax Credit — Trust and Beneficiaries.

In completing Form T2209, please 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 on Trust Schedule 11, line 1118.

**Line 1119**  
**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 may be deducted from taxes. Proof of payment must be attached to the T3 return. This must be an official receipt signed by the registered agent of the registered party or by the official agent of the candidate.

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	_____
33½% of amount of total federal political contributions, over \$550	_____
Total allowable credit — (maximum \$500)	\$ _____

Enter the allowable credit amount on Trust Schedule 11, line 1119, "Federal Political Contribution Tax Credit."

**Line 1120**  
**Investment Tax Credit 127(5), (12.3),**  
**37(1), 13(7.1)**

A trust may earn investment tax credits on eligible properties and expenditures which are listed on Form T2038 (IND). Investment tax credits can be earned, for example, on certain buildings, machinery, or equipment to be used in Canada in farming, fishing, logging, or manufacturing.

Attach a completed copy of Form T2038 (IND) to the T3 return if

- an investment tax credit is earned in 1990; or
- a credit is being carried forward; or
- a credit is being carried back to previous years; or
- a refundable investment tax credit is claimed in 1990 (on line 88, page 4 of the T3 return).

The cost of eligible properties or expenditures must be reduced by a portion of the credit deducted, or refunded. The reduction takes place

- in the year following the year in which the credit is claimed, or
- in the year 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 previous year.

For example, the capital cost of property is reduced in 1991 by any ITC which is earned in 1990 and which is claimed or refunded on the 1990 return, or applied back to a previous year (1986 to 1989).

Investment tax credits, calculated on eligible property acquired or an eligible expenditure made by a trust before 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 on Trust Schedule 9, Part B, line 941, and must be excluded when 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 form 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, see the 1990 *Business and Professional Income Tax Guide*, the 1990 *Farming Income*

*Tax Guide* or the *1990 Fishing Income Tax Guide*; Interpretation Bulletin IT-331R, Investment Tax Credit and Information Circular 78-4R3, Investment Tax Credit Rates and its Special Release dated November 13, 1987.

## Note

### Minimum tax

For situations in which the trust may be subject to minimum tax and required to complete Trust Schedule 12 instead of continuing on Schedule 11, refer to Guide item, "Trust Schedule 12, Calculation of Minimum Tax."

**Lines 1124 to 1128 of Trust Schedule 11 and  
Lines 1248 to 1254 of Trust Schedule 12  
Individual Surtax Payable 180.1**

Trusts which are liable to pay tax under Part I of the Income Tax Act for a taxation year must pay an individual surtax of five per cent for taxation years ending in 1990 and subsequent years.

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

1. For a trust other than a mutual fund trust
  - The basic federal tax on Trust Schedule 11, line 1115 or, if subject to minimum tax, on Trust Schedule 12, line 1242.
2. For a mutual fund trust
  - The basic federal tax on Trust Schedule 11, line 1115 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 three per cent for taxation years ending in 1990 is applied on the amount by which the amounts described in 1 or 2 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 1125 of Trust Schedule 11 and  
Line 1251 of Trust Schedule 12  
Additional Federal Foreign Tax Credit**

The additional federal foreign tax credit (FFTC), calculated on Form T2209, is subtracted from the surtax calculated above.

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

- If the amount determined on line (i) of the special foreign tax credit calculation on Trust Schedule 12 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 on Trust Schedule 11, line 1125, or if the trust is subject to minimum tax, on Trust Schedule 12, line 1251.

- If an additional federal foreign tax credit is available to reduce the individual surtax payable, enter the amount determined on Form T2209, Part II, area F on Trust Schedule 11, line 1125, or if the trust is subject to minimum tax, on Trust Schedule 12, line 1251.

**Line 1127 of Trust Schedule 11 and  
Line 1253 of Trust Schedule 12  
Additional Investment Tax Credit**

The additional investment tax credit to be deducted from the individual surtax payable 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 T2038 (IND), and
- $\frac{3}{4}$  of the amount (line 1126 on Trust Schedule 11) by which the individual surtax otherwise payable exceeds the additional federal foreign tax credit calculated above.

**Line 1130 of Trust Schedule 11 and  
Line 1256 of Trust Schedule 12  
Refundable Quebec Abatement 120(2)**

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

The abatement is refundable and is provided in lieu of direct cost-sharing by the federal government under federal-provincial fiscal arrangements.

You should obtain Form T2203 from your district office to calculate the refundable Quebec abatement if

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

**TRUST SCHEDULE 12 — Lines 1201  
to 1269  
Calculation of Minimum Tax 127.5 to 127.55**

The following trusts are not subject to minimum tax

- a mutual fund trust,

- a related segregated fund trust,
- a trust that made an election in the taxation year under the block averaging provisions of Section 119 of the Income Tax Act, or
- a post-1971 spousal trust in the taxation year of the beneficiary spouse's death. This exemption for a spousal trust applies to a testamentary trust when the spouse died after December 31, 1971 or to an inter vivos trust created after June 17, 1971.

Any other trust is liable to pay a minimum tax if the net minimum tax payable (Trust Schedule 12, line 1234) exceeds the regular tax payable (Trust Schedule 12, line 1237). Any of the following conditions may attract minimum tax for 1990:

- Taxable dividends are reported; (on page 2, line 03)
- Taxable capital gains are reported; (on page 2, line 01)
- An election is made under ITAR 40 on pension benefits; (on page 2, line 02 and on Trust Schedule 11, line 1109)
- A loss is claimed resulting from, or increased by, capital cost allowance (CCA) on the rental of
  - Multiple-unit residential buildings (MURBs) (on page 2, line 09);
  - Certified films or videotapes (on page 2, line 06); or
- A loss is claimed resulting from, or increased by, resource and depletion allowances on resource properties (on page 2, line 06 or 10).

Complete Trust Schedule 12 to determine the net adjusted taxable income for minimum tax. Basically, Trust Schedule 12 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 grandfathered inter vivos trusts (see Guide item, "Trust Schedule 11, Line 1101, Testamentary Trusts.")
- gross-up amount of dividends retained by the trust; and
- non-deductible portion of business investment loss ( $\frac{1}{3}$  of allowable business investment loss on line 17).

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

**Line 1203**  
**Non-taxable portion of capital gains retained in the trust 127.52(1)(d)**

This amount would normally be equal to one third ( $\frac{1}{3}$ ) 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.

An adjustment is required if either of the following relates to a disposition occurring before 1986, and is used in calculating the 1990 taxable capital gains on Trust Schedule 1:

- a capital gains reserve (on Trust Schedule 1, line 117); or
- a carry over of a listed personal property loss (on Trust Schedule 1, line 108).

To make the adjustment, use the Worksheet in APPENDIX B.

**Line 1222**  
**Non-capital losses of other years USED IN CURRENT YEAR 127.52(1)(i)(i)**

Non-capital losses of other years, which are claimed on line 51, page 4 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 1222.

**Line 1224**  
**Net capital losses of other years USED IN CURRENT YEAR 127.52(1)(i)(ii)**

The net capital loss for minimum tax purposes is adjusted to reflect 100 per cent 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 on line 1224, is one third 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 1226**  
**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 that were established before June 18, 1971 and that meet the conditions set out under Subsection 122(2) of the Income Tax Act. (See Guide item, "Trust Schedule 11, line 1101.")

The \$40,000 must be allocated among the trusts if more than one qualifying trust is formed from contributions by the same individual. 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. See Question 1 on page 1 of the T3 return and the related Guide item, Question 1 (Identification Area.)

If a notice in writing is sent 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 1248 to 1254**  
**Individual Surtax Payable**

Refer to Guide item, "Trust Schedule 11, lines 1124 to 1128" for details.

**Line 1256**  
**Refundable Quebec Abatement**

Refer to Guide item, "Trust Schedule 11, line 1130" for details.

**Lines 1260 to 1269**  
**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 11, line 1113).

**TRUST SCHEDULES 13 AND 14**  
**Provincial or territorial tax payable**

**Canadian resident trusts**

A trust is liable for provincial or territorial tax, at the rate applicable for the province or territory of residence, if it was a resident in a province (other than Quebec) or territory on the last day of its taxation year, and if it did not have income from a business with a permanent establishment outside the province or territory of residence.

Trust Schedule 13 provides space for calculating provincial income tax for Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick and Ontario.

Trust Schedule 14 provides space for calculating provincial income tax for Manitoba, Saskatchewan, Alberta, British Columbia, and territorial income tax for the Northwest Territories and Yukon.

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

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. To make this calculation, obtain Form T2203, Calculation of Tax in Respect of Multiple Jurisdictions and Form T691A, Minimum Tax Supplement — Multiple Jurisdictions.

A trust resident in a province (other than Quebec) or territory on the last day of its taxation year, having a federal foreign tax credit less than the tax paid to a foreign country should obtain Form T2036 from its district office to calculate any provincial or territorial foreign tax credit to which it may be entitled. Any credit is then applied against provincial or territorial income tax.

**Non-resident trusts**

A non-resident trust, carrying on a business through a permanent establishment in a province, is subject to provincial (or territorial) tax on the business income earned in that province. A non-resident trust, carrying on a business in Canada without a permanent establishment in Canada, may be subject to the federal surtax (Trust Schedule 11, line 1116) on the Canadian business income if the income is not exempt from Part I Tax in Canada by virtue of an income tax convention.

**Political contribution tax credit for Prince**  
**Edward Island, Nova Scotia, Manitoba,**  
**Alberta, British Columbia, Northwest**  
**Territories and the Yukon Territory**

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

- a registered political party of that province or territory,

- a registered constituency association of that province/territory, and/or
- 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:

Total political contributions in 1990	\$	_____
Allowable credit		
75% of first \$100 of total contributions is	\$	_____
50% of next \$450 of total contributions is		_____
33½% of total contributions exceeding \$500 is		_____
Total allowable credit — (maximum \$500) *	\$	_____

For **Alberta**, the allowable credit is calculated as follows:

Total Alberta political contributions in 1990	\$	_____
Allowable credit		
75% of first \$150 of total contributions is	\$	_____
50% of next \$675 of total contributions is		_____
33½% 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 1990	\$	_____
Allowable credit		
100% of first \$100 of total contributions is	\$	_____
50% of total contribution exceeding \$100 is		_____
Total allowable credit — (maximum \$500) *	\$	_____

\* To obtain the tax credit, enter this amount on the applicable "political contribution tax credit" line on Trust Schedule 13 or 14.

### Line 1345 Ontario Tax Reduction

If the trust is subject to minimum tax (from Trust Schedule 12), the trust is not entitled to claim an Ontario tax reduction on Trust Schedule 13, line 1345.

### Line 1403 Net Income Tax

The 2 per cent tax on line 1403 is generally applied to an amount which is the net income of the trust determined on line 28 on page 2 of the T3 return. If foreign income exempt from tax because of a tax convention is deducted at line 54, deduct the same amount from line 28 net income before calculating the tax on line 1403. See "line 1421" below.

### Line 1415 Manitoba Manufacturing Investment Tax Credit 149

The Manitoba manufacturing investment tax credit was available for 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 previous year, obtain Form T86, Manitoba Manufacturing Investment Tax Credit from your district office. One completed copy of Form T86 must be attached to the return. If the credit was retained by the trust, enter on Trust Schedule 14, line 1415, the amount to be claimed from Form T86.

If the credit is being designated to the beneficiaries, T3 Supplementary forms should be prepared indicating the designated credit amount in Box 42 and "Man. Mfg." in the type of credit area.

### Line 1421 Saskatchewan Flat Tax

Before applying the 2 per cent flat tax, reduce the net income amount from line 28 by any deduction claimed on line 54 for foreign income exempt from tax because of a tax convention. See "line 1403" above.

### Lines 1430 to 1434 Saskatchewan Tax Incentives

The Saskatchewan Tax Incentives Program provides for different tax credits to Saskatchewan residents investing 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 14, lines 1430 to 1434. 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 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 1444 — Alberta royalty tax rebate**  
**Line 89 (Page 4, T3 return) — Alberta royalty tax credit**

If, during 1990, 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 office.

The Alberta royalty tax rebate calculated on Form T79 is entered on Trust Schedule 14, line 1444. The Alberta royalty tax credit on Form T80 is entered at line 89 on page 4 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 1462**  
**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 on Trust Schedule 14, line 1462.

## APPENDIX A

### Cost of additions of depreciable assets

The following paragraphs cover some special rules that determine the cost of depreciable property to the trust, when the trust acquired the property by gift, inheritance or bequest.

#### 69(1), 73(1)

If the property was acquired **by inter vivos gift**, the **cost** is the fair market value of the property at the time it was acquired. An exception occurs if the property was acquired by an exclusive trust for the spouse of the settlor, if at the time both the settlor and the trust were resident in Canada. The exclusive trust would use the undepreciated capital cost of the property to the settlor unless the settlor elects to do otherwise.

#### 70(6)

If the property was 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 or her death, and the trust was resident in Canada immediately after the property vested in the trust, the **cost** amount for each property acquired is the undepreciated capital cost of the property to the settlor immediately before death.

#### 70(5)

If the property was acquired **by bequest or inheritance**, and the trust is not an exclusive trust meeting the conditions described in the above paragraph, the **cost** of each property 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.

#### 70(9)

If 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 **cost** of 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). For additional information, refer to Interpretation Bulletin, IT-349R2, Intergenerational Transfers of Farm Property on Death.

If the property is **Part XVII assets acquired by inter vivos gift, bequest or inheritance**, the **cost** is the fair market value of the property at the time it was acquired.

#### 73(3)

If the property is **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. The proceeds of disposition would be between the fair market value of the property and its undepreciated capital cost. (For the farmland, 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 Child and its Special Release.

#### Note

If 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.

If the original capital cost of depreciable property to the transferor is greater than the cost at which the trust acquires the property, the trust is considered to have acquired the property at its original capital cost and to have claimed the difference as capital cost allowance. As a result, any recapture or terminal loss will be deferred until the trust finally disposes of the property.

<b>APPENDIX B</b> <b>Trust Schedule 12 — Worksheet</b>
---

**LINE 1203**

Calculation of non-taxable portion of capital gains reported and retained in the trust for 1990 (to exclude listed personal property (LPP) losses and capital gain reserves relating to dispositions of capital property before 1986).

Taxable capital gains: an amount equal to  $\frac{1}{3}$  of line 119, Trust Schedule 1 \_\_\_\_\_ (A)

**Add:**

LPP loss (1985 and previous dispositions)  $\frac{1}{4}$  of line 108, Trust Schedule 1\* \_\_\_\_\_ (B)

Reserve (1985 and previous dispositions)  $\frac{1}{4}$  of amounts in Column 2, lines 210, 213 and 215, Trust Schedule 2\* \_\_\_\_\_ (C)

Add lines (B) and (C) \_\_\_\_\_ (D)

Add lines (A) and (D) \_\_\_\_\_ (E)

**Subtract:**

Reserve (1985 and previous dispositions)  $\frac{1}{4}$  of amounts in Column 1, lines 210, 213 and 215, Trust Schedule 2\* \_\_\_\_\_ (F)

Net taxable capital gains designated/allocated, Trust Schedule 9, Part B

Resident beneficiary ( $\frac{1}{3}$  of line 21) \_\_\_\_\_ (G)

Employee benefit plan ( $\frac{1}{3}$  of line 26)\*\* \_\_\_\_\_ (H)

Non-resident beneficiary ( $\frac{1}{3}$  of line 26)\*\* \_\_\_\_\_ (I)

**Subtotal**

(Add lines (F), (G), (H), and (I)) \_\_\_\_\_ (J)

**Total** (subtract line (J) from line (E), enter this amount on Trust Schedule 12, line 1203) \_\_\_\_\_ (K)

**Notes**

\* Use only those amounts from lines 108, 210, 213, and 215 that relate to 1985 and earlier dispositions of capital property.

\*\* Deduct  $\frac{1}{3}$  of the amount from Trust Schedule 9, line 926 (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.

<b>APPENDIX C</b> <b>Calculation of minimum tax carry-over</b>
---

**Minimum tax carry-over from previous years which can be applied in 1990**

Minimum tax carry-over available (from 1989 Trust Schedule 2B, line 294 or 1989 Appendix C, line (J)) \_\_\_\_\_ (A)

Tax Payable immediately before minimum tax carry-over (1990 Trust Schedule 11, line 1110) \_\_\_\_\_ (B)

**Subtract:**

Federal dividend tax credit \_\_\_\_\_ (C)

Charitable donations and gifts \_\_\_\_\_ (D)

Subtotal (add lines (C) and (D)) \_\_\_\_\_ > \_\_\_\_\_ (E)

Subtract line (E) from line (B) \_\_\_\_\_ (F)

**Subtract:**

Minimum amount (from 1990 Trust Schedule 12, line 1232) \_\_\_\_\_ (G)

**Maximum amount of minimum tax carry-over which can be applied in 1990** (subtract line (G) from line (F)) \_\_\_\_\_ (H)

**Minimum tax carry-over from previous year, applied in 1990**

Claim an amount NOT EXCEEDING the lesser of (A) or (H) (enter this amount on Trust Schedule 11, line 1113) \_\_\_\_\_ (I)

**Minimum tax carry-over available for 1991** (subtract line (I) from line (A))            (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.

## RELATED PUBLICATIONS

The following publications are available and may be obtained from your district office:

### Guides

1990 General Tax Guide  
 1990 Capital Gains Tax Guide  
 1990 Deceased Persons Income Tax Guide  
 1990 Farming Income Tax Guide  
 1990 Fishing Income Tax Guide  
 1990 Business and Professional Income Tax Guide  
 1990 Rental Income Tax Guide  
 1990 Pension and RRSP Tax Guide  
 Employers Guide to Source Deductions  
 Valuation Day Prices of Publicly Traded Shares  
 Retirement Compensation Arrangement Guide

### Interpretation Bulletins

IT-83R3	Non-profit Organizations — Taxation of Income from Property
IT-114	Discounts, Premiums and Bonuses on Debt Obligations
IT-120R3	Principal Residence
IT-132R2	Capital Property Owned on December 31, 1971 — Non-Arm's Length Transactions
IT-179	Change of Fiscal Period
IT-201R	Foreign Tax Credit — Trust and Beneficiaries
IT-217	Capital Property Owned on December 31, 1971 — Depreciable Property
IT-217 SR	Special Release
IT-236R2	Reserves — Disposition of Capital Property
IT-258R2	Transfer of Property to a Spouse
IT-258R2 SR	Special Release
IT-260R	Transfer of Property to a Minor
IT-268R3	Inter Vivos Transfer of Farm Property to Child
IT-268R3 SR	Special Release
IT-270R	Foreign Tax Credit
IT-281R	Elections on Single Payments from a Deferred Profit Sharing Plan
IT-285R	Capital Cost Allowance — General Comments
IT-286R2	Trusts — Amount Payable
IT-301	Death Benefits — Qualifying Payments
IT-305R3	Establishment of Testamentary Spouse Trust
IT-331R	Investment Tax Credit
IT-342R	Trusts — Income Payable to Beneficiaries
IT-349R2	Intergenerational Transfers of Farm Property on Death

IT-366R	Principal Residence — Transfers to Spouse, Spouse Trust or Certain Other Individuals
IT-366 SR	Special Release
IT-369R	Attribution of Trust Income to Settlor
IT-370	Trusts — Capital Property Owned on December 31, 1971
IT-372R	Trusts — Flow Through of Taxable Dividends and Interest to a Beneficiary
IT-372R SR	Special Release
IT-374	Meaning of "Settlor"
IT-377R	Director's, Executor's and Juror's Fees
IT-381R	Trusts — Deduction of Amounts Paid or Payable to Beneficiaries and Flow-Through of Taxable Capital Gains to Beneficiaries
IT-385R	Disposition of an Income Interest in a Trust
IT-394R	Preferred Beneficiary Election
IT-396R	Interest Income
IT-406R2	Tax Payable by an Inter Vivos Trust
IT-407R3	Disposition after 1987 of Canadian Cultural Property
IT-419	Meaning of Arm's Length
IT-446R	Legacies
IT-447	Residence of a Trust or Estate
IT-456R	Capital Property — Some Adjustments to Cost Base
IT-465R	Non-Resident Beneficiaries of Trusts
IT-484R	Business Investment Losses
IT-500	Registered Retirement Savings Plans (maturing after June 29, 1978) Death of Annuitant after June 29, 1978
IT-502	Employee Benefit Plans and Employee Trusts
IT-506	Foreign Taxes as a Deduction from Income
IT-508	Death Benefits — Calculation
IT-510	Transfers and Loans of Property made after May 22, 1985 to a Related Minor
IT-511	Interspousal Transfers and Loans of Property made after May 22, 1985
IT-520	Unused Foreign Tax Credits — Carryforward and Carryback
IT-524	Trusts — Flow Through of Taxable Dividends to a Beneficiary — After 1987

### Information Circulars

73-13	Investment Clubs
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	T184	Calculation of Capital Gains Refund for a Mutual Fund Trust
78-4R3	Investment Tax Credit Rates	T691A	Minimum Tax Supplement — Multiple Jurisdictions
78-4R3	Special Release	T2036	Calculation of Provincial Foreign Tax Credit
78-5R2	Communal Organizations	T2038(IND)	Investment Tax Credit (Individuals)
78-10R2	Books and Records Retention/Destruction	T2076	Valuation Day Value Election for Capital Properties Owned on December 31, 1971
78-14R2	Guidelines for Trust Companies and Other Persons Responsible for Filing T3R-IND and Other Returns	T2084	Capital Dispositions Supplementary Schedule Re: Bonds and Other Obligations
82-2R	Social Insurance Legislation as it Relates to the Preparation of Information Slips	T2203	Calculation of Tax in Respect of Multiple Jurisdictions
82-6	Requesting Clearance Certificates for Estates and Trusts	T2209	Calculation of Federal Foreign Tax Credit
89-4	Tax Shelter Reporting	T2210	Verification of Policy Loan Interest by Insurer
90-1	List of Forms and Publications Available for use by the Public	T2211	Calculation of Deemed Proceeds and Capital Gain Deferral on Disposition of Shares of a Small Business Corporation
<b>Forms</b>			
T1A	Request for Loss Carryback	PD7AR-NR	Non-resident Tax Remittance Form
T79	Alberta Royalty Tax Rebate Calculation and Application (Individuals)	NR4	Supplementary
T80	Alberta Royalty Tax Credit Calculation and Application (Individuals)	T3	Statement of Amounts Paid or Credited to Non-residents of Canada
T81	British Columbia Royalty and Deemed Income Rebate Calculation and Application	Supplementary	Statement of Trust Income
T86	Manitoba Manufacturing Investment Tax Credit	T4A	Supplementary
		Supplementary	Statement of Pension, Retirement, Annuity and Other Income



<b>INDEX</b>
--------------

Topic	Page	Topic	Page
Actual Amount of Dividends .....	12, 23	Completing the NR4-NR4A Summary and NR4 Supplementary forms .....	35
Additional Federal Foreign Tax Credit .....	39	Contents of Guide .....	3
Additional Investment Tax Credit .....	39	Credits — Lines 85 to 89 .....	16
Adjusted Cost Base .....	18	Cumulative Gains Limit .....	21
Alberta Royalty Tax Rebate and Credit .....	43	Cumulative Net Investment Loss .....	22
Allocations/Designations .....	25	Death benefits .....	10, 28
Allocation/Designation of Losses .....	26	Deductions — Lines 12 to 18 .....	13
Allowable Business Investment Losses .....	13	Deduction from Taxable Income, Other .....	16
Annual Gains Limit .....	21	Deductions from Total Income, Other .....	14
APPENDIX A — Cost of additions of depreciable assets .....	44	Deductions, related to sources of income .....	14
APPENDIX B — Trust Schedule 12 — Worksheet .....	45	Deemed disposition — 21 year rule .....	17
APPENDIX C — Calculation of minimum tax carry-over .....	46	Deemed taxable capital gains .....	21
Assets Acquired Before 1972 .....	18	Designated Beneficiary .....	33
Basic Exemption — Minimum Tax .....	41	Designation of Non-taxable Dividends .....	24
Basic Information .....	4	Designations .....	25
Bad Debt from Eligible Capital Property .....	20	Distributing the T3 Supplementary form .....	31
Benefits from Trust, Taxable .....	15	Distributing the NR4 Supplementary form .....	36
Bonds .....	19	Distribution of Property to Beneficiaries .....	18
Books and Records .....	7, 21	Dividend Income .....	12, 24
British Columbia Royalty and Deemed Income Rebate .....	43	Dividend Tax Credit, Federal .....	36
Business Income .....	12	Dividends, Non-Taxable Received by a Trust .....	24
Business Investment Losses (Allowable) .....	13	Donations, Charitable .....	14, 36
Canadian Cultural Property .....	20	Elective Income — Resident Beneficiaries .....	27
Capital Dispositions .....	17	Election — Capital Losses .....	19
Capital Gains .....	17	Election — Preferred Beneficiary .....	27
Capital Gains Deduction .....	21, 26	Eligible Beneficiary .....	33
Capital Gains Deduction for a Spouse Trust .....	16, 22	Eligible Capital Property .....	20
Capital Gains Designated by a Trust to Beneficiaries .....	26	Eligible Pension Income .....	28
Capital Gains, Eligible Taxable .....	22	Eligible Taxable Capital Gains .....	22
Capital Gains, Net Taxable .....	21	Employee Benefit Plans .....	4, 9
Capital Properties, Other .....	19	Employee Trust .....	4, 10
Carrying Charges .....	13, 24	Employment related income .....	12
Certification — Page 4 .....	17	Exemption from 21-year rule .....	18
Charitable Donations .....	14, 36	Farming and Fishing Losses .....	15
Clearance Certificates .....	7	Farming Income .....	12
Communal Organization .....	9, 29	Federal Income Tax .....	36
Completing the T3 Return .....	11	Federal Dividend Tax Credit .....	36
Completing the T3 Supplementary form .....	29	Federal Foreign Tax Credit .....	37, 39
Completing the T3 Supplementary — Example ..	32	Federal Political Contribution Tax Credit .....	38
		Filing Requirements .....	4
		Final Return .....	7
		Fishing Income .....	12, 27
		Foreign Investment Income .....	12, 24
		Foreign Non-Business Income Tax Paid .....	28, 37

Topic	Page	Topic	Page
Foreign Tax Credit, Federal .....	37, 39	Non-taxable Dividends Received By A Trust .....	24
Forms Available for Filing .....	5	Non-taxable Portion of Capital Gains Retained by the Trust .....	40
Gross-up Amount of Dividends .....	15, 24	NR4 Supplementary .....	35
Guides .....	47	NR4-NR4A Summary .....	35
Identification Area (Page 1) .....	11	Ontario Tax Reduction .....	42
Income — Lines 01 to 10 .....	11	Other Capital Properties .....	20
Income Paid or Payable to Non-resident Beneficiaries .....	27	Other Deductions from Taxable Income .....	16
Income Paid or Payable to Resident Beneficiaries .....	26	Other Deductions from Total Income .....	14
Individual Surtax Payable .....	39, 41	Other Income .....	12
Information Circulars .....	47	Other Investment Income .....	12, 24
Information Slips .....	6	Outlays and Expenses .....	18
Inter Vivos Trust .....	8	Part XII.2 Tax (Trust Schedule 10) .....	33
Inter Vivos Trust — Tax Rates .....	36	Part XII.2 Tax Credit .....	29
Inter Vivos Trust — Taxation Year .....	7	Part XIII Tax, adjustment .....	34
Interest on Unpaid Taxes .....	7	Part XIII Tax, Non-resident withholding .....	34
Interspousal transfers and loans of property .....	8	Penalties .....	7, 31
Investment Income, Other .....	12, 24	Pension Benefits .....	11, 23
Investment Income, Foreign .....	12, 24	Pension Income, Eligible .....	28
Investment Loss, Cumulative Net .....	22	Personal Trust .....	11
Interpretation Bulletins .....	47	Personal-Use Property .....	20
Investment clubs .....	10	Political Contribution Tax Credit (Federal) .....	38
Investment Tax Credit .....	38	Political Contribution Tax Credit (Provincial and Territorial) .....	41
Investment Tax Credit (ITC) Designated .....	29	Preferred Beneficiary Election .....	27
Late Filing Penalties .....	7	Preferred Beneficiary .....	28
Listed Personal Property .....	16, 20	Principal Residence .....	20
Loss Applications .....	16	Privacy Act .....	8
Losses — Allocation/Designation .....	26	Provincial or Territorial Tax Payable .....	41
Losses, Farming and Fishing .....	15	Publications, Other (Forms, Information Slips, Returns) .....	47
Lump-sum payments — ITAR 40 .....	12, 36	Qualified Farm Property .....	19, 23
Manitoba Manufacturing Investment Tax Credit ..	42	Qualified Small Business Corporation Shares ....	19, 23
Median Rule .....	18	Quebec Abatement, Refundable .....	39, 41
Minimum Tax — Basic Exemption .....	41	Real Estate/Depreciable Property .....	20
Minimum Tax — Calculation, Trust Schedule 12 ..	39	Real Estate Rental Income .....	12
Minimum Tax — Carry-over from Previous Year ..	37	Reassessments .....	7
Minor, Trust for a .....	9	Records and Books .....	7, 21
Mutual Fund Trust .....	9	Refundable Part XII.2 Tax Credit .....	33
Net Capital Losses of Other Years .....	15, 40	Refundable Quebec Abatement .....	39, 41
Net Taxable Capital Gains .....	21	Registered Retirement Savings Plans (RRSP) ...	13
Non-Capital Losses of Other Years .....	15, 40	Related Publications .....	47
Non-Profit Organization .....	4, 10, 17	Rental Income, Real Estate .....	12
Non-resident Beneficiaries .....	35	Residence of Trust .....	7
Non-resident Withholding Tax — Part XIII ....	34	Reserves on Dispositions of Capital Property (Summary) .....	21
Non-resident trusts .....	5, 37, 41		
Non-resident — Income Paid or Payable .....	27		

Topic	Page	Topic	Page
Resource Allowance .....	14	Trust Schedule 4 — Calculation of Cumulative Net Investment Loss .....	22
Retirement Compensation Arrangement (RCA) ..	4, 10	Trust Schedule 5 — Calculation of Spouse Trust's Capital Gains Deduction .....	22
Saskatchewan Tax Incentives .....	42	Trust Schedule 6 — Calculation of Total Taxable Capital Gains and Beneficiary's Share of Eligible Taxable Capital Gains Attributable to Qualified Farm Property or Qualified Small Business Corporation Shares .....	23
Schedules .....	6	Trust Schedule 7 — Statement of Pension Income Allocation/ Designation .....	23
Segregated Fund Trust .....	4, 10, 26	Trust Schedule 8 — Statement of Investment Income and Calculation of Gross-up Amount of Dividends Retained by the Trust .....	23
Selected income to be taxed in the trust .....	25	Trust Schedule 9 — Summary of Income Allocations/ Designations to Beneficiaries .....	25
Specified Income .....	33	Trust Schedule 10 — Calculation of Part XII.2 Tax and Part XIII Non- resident Withholding Tax ..	33
Spouse Trust .....	8	Trust Schedule 11 — Calculation of Federal Income Tax for the 1990 Taxation Year .....	36
Spouse Trust — Capital Gains Deduction .....	23	Trust Schedule 12 — Calculation of Minimum Tax .....	39
Summary of Tax and Credits, Lines 81 to 91 ....	16	Trust Schedules 13 and 14 .....	41
Surtax on Income Not Subject to Provincial or Territorial Tax .....	37	Trustee Fees .....	13
Surtax — Individual .....	39, 41	Types of Trusts .....	8
T3 Return .....	5	Unit Trust .....	9
T3 Supplementary (Completing and Distributing)	29, 32	Upkeep, Maintenance, Taxes — Beneficiary .....	14
Tax Adjustments — ITAR 40 .....	36	Valuation Day Value Election .....	18
Taxable Benefits .....	14	Value of other benefits to beneficiary .....	14
Taxable Capital Gains Deduction — Spouse Trust	23	Who should file .....	4
Taxable Capital Gains .....	11, 20	What to file .....	4
Taxable Income of the Trust, Calculation .....	16	When to file .....	5
Taxation Year .....	6	Where to file .....	5
Testamentary Trust .....	8, 36		
Testamentary Trust — Taxation Year .....	6		
Testamentary Trust — 164(6) Election .....	18		
Territorial Tax Payable, Provincial or .....	41		
Total Income Allocations/Designations to Beneficiaries .....	15, 26		
Total Taxable Capital Gain .....	20		
Transfers and Loans to a Trust for a Minor .....	9		
Transfers and Loans of property, interspousal ....	8		
Trust for a Minor .....	9		
Trust Schedules .....	6, 17		
Trust Schedule 1 — Summary of Dispositions of Capital Property for 1990 and Subsequent Years .....	17		
Trust Schedule 2 — Calculation of Reserves on Dispositions of Capital Property and Calculation of Net Taxable Capital Gains	21		
Trust Schedule 3 — Calculation of Trust's Eligible Taxable Capital Gains and Beneficiary's Share Eligible for Capital Gains Deduction .....	21		

---

**AREA FOR YOUR NOTES AND CALCULATIONS**

DISTRICT TAXATION OFFICES	GENERAL ENQUIRIES		FORMS REQUEST
	ENGLISH SERVICES		LOCAL
	LOCAL	LONG DISTANCE	
<b>NEWFOUNDLAND</b> St. John's - Atlantic Place, A1C 5X6	772-2610	1-800-563-2600	772-5088
<b>PRINCE EDWARD ISLAND</b> Charlottetown - 94 Euston Street, C1A 8L3	628-4200	1-628-4200	628-4250
<b>NOVA SCOTIA</b> Halifax - 1256 Barrington Street, B3J 2T5 Sydney - 136 Charlotte Street, B1P 6K3	426-2210 564-7080	1-426-2210 1-564-7080	426-2151 564-7120
<b>NEW BRUNSWICK</b> Bathurst - 120 Harbourview Blvd., 4th Floor, E2A 4L8 Saint John - 65 Canterbury Street, E2L 4H9	548-7100 636-4600	1-800-222-9622 1-800-222-9622	548-7100 636-4618
<b>QUEBEC</b> Chicoutimi - 100 Lafontaine Street, Office 211, G7H 6X2 Laval - 3131 St. Martin Boulevard West, H7T 2A7 Montréal - 305 René-Lévesque Boulevard West, H2Z 1A6 Québec - 165 Pointe-aux-Lièvres Street South, G1K 7L3 Rimouski - 320 St. Germain East, 4th Floor, G5L 1C2 Rouyn-Noranda - 11 Terminus Street East, J9X 3B5	545-8026 956-9101 283-5300 648-3180 722-3111 764-5171	1-800-463-4421 1-800-363-2218 1-800-361-2808 1-800-463-4421 1-800-463-4421	545-8026 956-9115 283-5623 648-4083 722-3111 797-4299
Calls from area code 418 Calls from area code 819		1-800-567-6428 1-800-567-6403	
Sherbrooke - 50 Place de la Cité, J1H 5L8 St. Hubert - 5245 Cousineau Boulevard, Suite 200, J3Y 7Z7 Trois-Rivières - 25 des Forges St., Suite 411, G9A 2G4	564-5888 283-5300 373-2723	1-800-567-7360 1-800-361-2808 1-800-567-9325	821-8565 445-5264 373-2723
<b>ONTARIO</b> Belleville - 11 Station Street, K8N 2S3 Hamilton - 150 Main Street West, L8N 3E1 Calls from area code 416 Calls from area code 519 Kingston - 385 Princess Street, K7L 1C1 Kitchener - 166 Frederick Street, N2G 4N1 London - 451 Talbot Street, N6A 5E5 Mississauga - 77 City Centre Drive, L5A 4E9 Calls from area code 416 Calls from area codes 519, 705 North York - 36 Adelaide St. E., Toronto, M5C 2V4 Calls from area code 416 Calls from area codes 519, 705 Ottawa - 360 Lisgar Street, K1A 0L9 Calls from area code 613 Calls from area code 819 St-Catharines - 32 Church Street, L2R 3B9 Scarborough - 200 Town Centre Court, M1P 4Y3 Calls from area code 416 Calls from area code 705 Sudbury - 19 Lisgar Street South, P3E 3L5 Calls from area codes 613, 807 Thunder Bay - 201 North May Street, P7C 3P5 Toronto - 36 Adelaide St. E. Toronto, M5C 1J7 Calls from area code 416 Calls from area codes 519, 705 Windsor - 185 Ouellette Avenue, N9A 5S8 Calls from Essex County	969-3706 522-8671  545-8371 579-2230 645-4211 566-6700  869-1500  598-2275  688-4000 296-1950  671-0581  623-3443 869-1500  258-8302	1-800-267-8030  1-800-263-9200 1-800-263-9210 1-800-267-9447 1-800-265-2530 1-800-265-4900  1-800-387-1700 1-800-387-1710  1-800-387-1700 1-800-387-1710  1-800-267-8440 1-800-267-4735 1-800-263-5672  1-800-387-5229 1-800-387-5183 1-800-461-4060 1-800-461-6320 1-800-465-6381  1-800-387-1700 1-800-387-1710  1-800-265-4841	969-3707 572-2609  1-800-267-8043 579-8951 645-4244 566-6005  865-9469  957-8088  688-4000 296-0104  671-0596  623-2751 865-9469  252-3611
<b>MANITOBA</b> Winnipeg - 391 York Avenue, R3C 0P5	983-6350	1-800-282-8079	983-3942
<b>SASKATCHEWAN</b> Regina - 1955 Smith Street, S4P 2N9 Saskatoon - 201-21st Street East, S7K 0A8	780-6015 975-4595	1-800-667-7555 1-800-667-2083	780-6079 975-4577
<b>ALBERTA</b> Calgary - 220-4th Avenue South East, T2G 0L1 Calls from Southern Alberta Edmonton - 9700 Jasper Avenue, T5J 4C8 Calls from Northern Alberta Calls from North West Territories and North Eastern British Columbia	292-4101  420-3510	1-800-332-1410  1-800-232-1966 1-800-661-6451	292-4225  420-3544
<b>BRITISH COLUMBIA</b> Penticton - 277 Winnipeg Street, V2A 1N6 Vancouver - 1166 West Pender Street, V6E 3H8 Calls from Yukon Territory and North Western British Columbia Victoria - 1415 Vancouver Street, V8V 3W4	492-9200 689-5411  388-0121	1-800-642-8259 1-800-663-9033  1-800-663-0451 1-800-742-6108	492-9200 666-0337  388-3291
<b>HEARING DISABILITY</b> If you are deaf or have a hearing disability and have access to a telephone device for the Deaf, telephone 1-800-665-0354*.	<b>REGULAR HOURS OF TELEPHONE AND COUNTER SERVICE</b> Monday to Friday - 8:15 a.m. to 5:00 p.m. (holidays excepted)	Long Distance Calls: No charge to caller. Dial Direct, per instructions.	

---

**AREA FOR YOUR NOTES AND CALCULATIONS**

---

---

**AREA FOR YOUR NOTES AND CALCULATIONS**