

CALCULATION OF CANADIAN MANUFACTURING AND PROCESSING PROFITS DEDUCTION (2000 and later taxation years)

Corporation's name	Business Number	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td colspan="3" style="text-align: center; padding: 2px;">Taxation year-end</td> </tr> <tr> <td style="width:33%; padding: 2px;">Year</td> <td style="width:33%; padding: 2px;">Month</td> <td style="width:34%; padding: 2px;">Day</td> </tr> <tr> <td style="height: 20px;"></td> <td></td> <td></td> </tr> </table>	Taxation year-end			Year	Month	Day			
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Year	Month	Day									

- Small manufacturing corporations that meet requirements 1 through 4 in Part 1 of this schedule should complete Part 1 only. All other corporations should complete Part 2. Corporations that generate electrical energy for sale, or produce steam for use in the generation of electrical energy for sale, or for 2000 and later taxation years corporations that produce steam for sale, must also complete Part 10 on page 4.
- **Note:** Income that is eligible for the small business deduction is not eligible for the manufacturing and processing profits deduction.
- Sections, subsections, and paragraphs referred to in this schedule are found in the federal *Income Tax Act*.
- Reference: Interpretation Bulletin IT-145R, *Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax*.
- See page 6 for notes and definitions to help you complete this schedule.
- Paragraph (f) under the definition of "manufacturing or processing" in subsection 125.1(3) has been amended to include the processing of foreign ore as a manufacturing and processing activity.

Part 1 – Small manufacturing corporations

See notes 1 to 6 on page 6.

To qualify as a small manufacturer, the corporation has to meet all of the following requirements:

1. its activities during the year were primarily manufacturing or processing in Canada of goods for sale or lease;
2. the following calculation totals \$200,000 or less:

active business income minus active business losses of the corporation for the year [this includes the corporation's share of active business income and active business loss for the fiscal period of each partnership of which the corporation was a member at any time in its year (see i) below]	100	
plus		
the active business income for the taxation year of each Canadian corporation with which the corporation was associated in the year (see ii) below)	105	
Total	110	
3. it was not engaged at any time during the year in the processing of foreign ore or foreign tar sands beyond certain stages as set out in regulation 5201 (c.1), (c.2), and (c.3), or in any activities that are excluded from manufacturing and processing by items (a) to (l) under the definition of "manufacturing or processing" in subsection 125.1(3); and
4. the corporation did not carry on any active business outside Canada at any time during the year.

If the corporation meets requirements 1 through 4, its Canadian manufacturing and processing profits are equal to line 100 above. Enter this amount on line 200 in Part 9 of this schedule.

If the corporation does not meet requirements 1 through 4, complete Part 2 below.

Partnerships and associated corporations – additional information

On a separate sheet of paper attached to this form, please provide the following information (if it applies):

- i) for partnerships – give the name, partnership identification number, and total income or loss from each active business carried on by each partnership of which the corporation was a member at any time in its taxation year; and
- ii) for associated corporations – give the name, account number, and total income from each active business for the taxation year carried on by each Canadian corporation with which the corporation was associated in the year.

Part 2 – Corporations that do not qualify as small manufacturers

Canadian manufacturing and processing profits (MP)

$$\text{ADJUBI (Part 3, line 130)} \times \left[\frac{\text{MC (Part 5, line 150)} + \text{ML (Part 7, line 170)}}{\text{C (Part 4, line 140)} + \text{L (Part 6, line 160)}} \right] = \text{(MP)}$$

Enter amount MP on line 200 in Part 9 of this schedule.

Part 3 – Calculation of adjusted business income (ADJUBI)

See notes 1, 3, and 5 on page 6.

Active business income **minus** active business losses of the corporation for the year (this includes the corporation's share of active business income and active business loss for the fiscal period of each partnership of which the corporation was a member at any time in its year (see i) in Part 1)

120 _____

Deduct:

Net resource income (amount U from Part 8)

A

Refund interest as defined in Regulation 5203(4)

25% of prescribed resource loss

125 _____

Adjusted business income – enter this amount in Part 2, and/or Part 10 if applicable (if negative, enter "0") ... **(ADJUBI)** **130** _____

Part 4 – Calculation of cost of capital (C)

See notes 3, 5, 7, and 11 on page 6.

Add: 1. Gross cost of the following property that was owned by the corporation at the end of the year and was used by it at any time during the year:

- depreciable assets eligible for capital cost allowance under Schedule II of the Regulations _____
 - timber limits and cutting rights (other than a timber resource property) _____
 - immovable wood assets (class 15) _____
 - industrial mineral mines _____
 - capital expenditures for scientific research and experimental development _____
 - Part XVII assets _____
- _____ x 10% _____ **B**

2. Rental cost for the use of property, which would be included in 1 if it were owned by the corporation at the end of the year _____ **C**

3. The corporation's share of the amounts that would be determined under 1 and 2 for a partnership of which the corporation was a member at any time in the year, if one were to substitute the word "partnership" for "corporation" and "its fiscal period" for "the year" _____ **D**

Cost of capital – enter this amount in Part 2 and Part 5, and/or Parts 10 and 11 if applicable (C) **140** _____

Part 5 – Calculation of cost of manufacturing and processing capital (MC)

See notes 3, 5, and 11 on page 6.

Cost of capital (from line 140, Part 4) _____ **E**

The portion of amount E that reflects the extent to which each property was used directly in qualified activities of the corporation during the year or in qualified activities of a partnership for the fiscal period of a partnership of which the corporation was a member at any time in the year _____ **F**

Cost of manufacturing and processing capital: $\frac{100}{85}$ of amount F (enter this amount in Part 2) (MC) **150** _____ *****

* not to exceed amount E

Part 6 – Calculation of cost of labour (L)

See notes 3, 5, 8, 9, and 11 on page 6.

1. Salaries and wages paid or payable to all employees for services performed during the year _____ **G**

Deduct: Salaries and wages included above that were:

- a) included in the gross cost of property (Part 4) other than property manufactured and leased during the year to other persons _____
 - b) related to an active business carried on outside Canada _____
 - c) related to activities engaged in for the purpose of earning resource profits as defined in section 1204 of the Regulations _____
 - d) included in the corporation's Canadian or foreign exploration and development expenses _____ **H**
- _____ **I**

Add: Salaries and wages referred to in 1, **less** the deductions in a) to d) for the fiscal period of a partnership of which the corporation was a member at any time in its year – corporation's share (attach calculation) _____

Subtotal – salaries and wages – enter this amount in Part 7 _____ **J**

2. Amounts paid or payable for the performance during the year by non-employees of functions relating to:

- a) management and administration _____
- b) scientific research and experimental development _____
- c) any service or function normally performed by employees of the corporation _____ **K**

Deduct: Amounts included above that were:

- d) included in the gross cost of property (Part 4), other than property manufactured by the corporation and leased during the year to other persons _____
 - e) related to an active business carried on outside Canada _____
 - f) related to activities engaged in for the purpose of earning resource profits as defined in section 1204 of the Regulations _____
 - g) included in the corporation's Canadian or foreign exploration and development expenses _____ **L**
- _____ **M**

Add: Amounts referred to in 2, **less** the deductions in d) to g) for the fiscal period of a partnership of which the corporation was a member at any time in its year – corporation's share (attach calculation) _____ **N**

Subtotal – other payments – enter this amount in Part 7 _____ **O**

Cost of labour (amount J + amount O) – enter this amount in Part 2, and/or Part 10 if applicable (L) **160** _____

Part 7 – Calculation of cost of manufacturing and processing labour (ML)

See notes 3, 5, and 11 on page 6.

Portion of salaries and wages (amount J, Part 6) that was paid or payable to employees for the time they were directly engaged in qualified activities of the corporation during the year or of the partnership during its fiscal period P

Add:

Portion of other payments (amount O, Part 6) that was paid or payable to non-employees for performing functions that would be directly related to qualified activities of the corporation during the year or of the partnership during its fiscal period, if they had been employees of the corporation or partnership Q

Total R

Cost of manufacturing and processing labour: $\frac{100}{75}$ of amount R (enter this amount in Part 2) (ML) **170** *

* not to exceed line 160 in Part 6

Part 8 – Calculation of net resource income

For corporations with resource activities

See notes 5, 10, and 11 on page 6.

Resource profits as defined in section 1204 of the Regulations for the year of the corporation (including its share of resource profits as a member of a partnership pursuant to subsection 1206(3) of the Regulations) S

Add:

Amounts (net of amounts deducted pursuant to repealed section 64, if applicable*) included in income pursuant to section 59** (including its share of such amounts as a member of a partnership) Subtotal

Amounts deducted by the corporation pursuant to section 65 * T

The corporation's income from the processing of foreign ore (subject to transitional measures) T

Net resource income – enter this amount at line A in Part 3 U

* other than amounts that were deducted in calculating resource profits

** other than amounts that were included in calculating resource profits

Part 9 – Manufacturing and processing profits deduction

For eligible corporations that have such profits

Canadian manufacturing and processing profits from Part 1 or Part 2, as applicable **200** V

Canadian-controlled private corporations throughout the taxation year only, **deduct** the least of amounts on lines 400, 405, 410, and 425 of the T2 return W

Taxable income from line 360 of the T2 return W

Deduct the total of:

1. The least of amounts on lines 400, 405, 410, and 425 of the T2 return X

2. Canadian-controlled private corporations throughout the taxation year only, enter the aggregate investment income from line 440 of the T2 return Y

3. Foreign business income tax credit from line 636 of the T2 return x 10/4 = Z

7% of the lesser of amounts V and Y above Z

Add:

Amount VV from Part 13 if the corporation is also claiming a deduction for generating electrical energy for sale AA

Manufacturing and processing profits deduction – Total of amounts Z and AA BB

Enter amount BB on line 616 of the T2 return.

Corporations that produce or process electrical energy or steam for sale

A corporation that only generates electrical energy for sale, or produces steam for use in the generation of electrical energy for sale, or for 2000 and later taxation years corporations that produce steam for sale, will need to complete Part 10. If the corporation has other eligible activities besides the generation of electrical energy or the production of steam, it will need to complete Part 2 and Part 10.

Part 10 is to be completed using all manufacturing and processing profits, including the generation of electrical energy for sale, or the production of steam for use in the generation of electrical energy for sale, or for **2000 and later taxation years** the production of steam for sale.

Part 2 is to be completed with the exclusion of the generation of electrical energy for sale, or production of steam for use in the generation of electrical energy for sale, or for **2000 and later taxation years** the production of steam for sale.

Part 10 – Corporations that produce or process electrical energy or steam for sale

Canadian manufacturing and processing profits (MPA)

$$\text{ADJUBI (Part 3, line 130)} \times \left[\begin{array}{l} \text{MCA (Part 11, line EE)} \\ \text{C (Part 4, line 140)} \end{array} + \begin{array}{l} \text{MLA (Part 12, line II)} \\ \text{L (Part 6, line 160)} \end{array} \right] = \text{(MPA)}$$

Enter amount MPA on line 210 in Part 13 of this schedule.

Part 11 – Calculation of cost of all manufacturing and processing capital (MCA) *

See notes 3, 5, and 11 on page 6.

Cost of capital (from line 140, Part 4)	_____	CC
The portion of amount CC that reflects the extent to which each property was used directly in qualified activities of the corporation during the year or qualified activities of a partnership during its fiscal period of which the corporation was a member at any time in the year	_____	DD
Cost of manufacturing and processing capital: $\frac{100}{85}$ of amount DD (enter this amount in Part 10)	_____	(MCA)** EE

* includes capital used directly in the generating of electrical energy for sale, or to produce steam for use in the generation of electrical energy for sale, or for 2000 and later taxation years the production of steam for sale

** not to exceed amount CC

Part 12 – Calculation of cost of all manufacturing and processing labour (MLA) *

See notes 3, 5, and 11 on page 6.

Portion of salaries and wages (amount J, Part 6) that was paid or payable to employees for the time they were directly engaged in qualified activities of the corporation during the year or of the partnership during its fiscal period	_____	FF
Add:		
Portion of other payments (amount O, Part 6) that was paid or payable to non-employees for performing functions that would be directly related to qualified activities of the corporation during the year or of the partnership during its fiscal period, if they had been employees of the corporation or partnership	_____	GG
Total	_____	HH
Cost of manufacturing and processing labour: $\frac{100}{75}$ of amount HH (enter this amount in Part 10)	_____	(MLA)** II

* includes labour used directly in the generating of electrical energy for sale, or to produce steam for use in the generation of electrical energy for sale, or for 2000 and later taxation years the production of steam for sale

** not to exceed line 160 in Part 6

Part 13 – Manufacturing and processing profits deduction for generating electrical energy for sale

For eligible corporations that have profits from generating electrical energy for sale, which includes the production of steam for use in the generation of electrical energy for sale, or for 2000 and later taxation years the production of steam for sale

Canadian manufacturing and processing profits from Part 10	210	_____		
Canadian-controlled private corporations throughout the taxation year only, deduct the least of amounts on lines 400, 405, 410, and 425 of the T2 return		_____	JJ	
		_____	▶	_____
				KK
Taxable income from line 360 of the T2 return		_____		LL
Deduct the total of:				
1. The least of amounts on lines 400, 405, 410, and 425 of the T2 return		_____		
2. Canadian-controlled private corporations throughout the taxation year only, enter the aggregate investment income from line 440 of the T2 return		_____		
3. Foreign business income tax credit from line 636 of the T2 return		_____	x 10/4 =	
		_____	▶	_____
				MM
				NN
Lesser of amount KK and amount NN		_____	OO	
Deduct:				
Lesser of amount V and amount Y from Part 9 *		_____	PP	
		_____	▶	_____
				QQ
Amount QQ	x	Number of days in the taxation year in 1999	x 1% =	
		Number of days in the taxation year		RR
Amount QQ	x	Number of days in the taxation year in 2000	x 3% =	
		Number of days in the taxation year		SS
Amount QQ	x	Number of days in the taxation year in 2001	x 5% =	
		Number of days in the taxation year		TT
Amount QQ	x	Number of days in the taxation year after 2001	x 7% =	
		Number of days in the taxation year		UU
Manufacturing and processing profits deduction for generating electrical energy for sale **		_____		VV
(Total of amounts RR, SS, TT, and UU.)				

* Enter "0" if the corporation is only claiming a manufacturing and processing profits deduction for generating electrical energy for sale.

** If the corporation is also claiming a manufacturing and processing profits deduction for other eligible activities, enter amount VV on line AA of Part 9. If the corporation is **only** claiming the deduction for generating electrical energy for sale, enter amount VV on line 616 of the T2 return.

Notes and definitions to help you complete this schedule

1. **Active business** in relation to any business carried on by a taxpayer resident in Canada, means any business other than a specified investment business or a personal services business.
2. **Active business income of an associated corporation** includes its share of the active business income for the fiscal period of a partnership of which it was a member at any time in the year.
3. **Fiscal period of a partnership** refers to the period coinciding with or ending in the taxation year of the corporation.
4. **Taxation year of an associated corporation** means any taxation year which coincides with or ends in the taxation year of the corporation completing this schedule.
5. **Year** means the taxation year of the corporation completing this schedule.
6. The term **associated** has the meaning given by section 256. See the *T2 Corporation Income Tax Guide* for more information.
7. To determine the cost of capital, where a property was used during the year:
 - (a) in an active business carried on outside Canada;
 - (b) to earn Canadian or foreign investment income as defined in subsection 129(4) (assuming that the subsection applies also to partnerships);
 - (c) in activities that earn resource profits as defined in section 1204 of the Regulations; or
 - (d) in activities referred to in items (a), (b), or (e) under the definition of "Canadian exploration and development expenses" in subsection 66(15), items (a) or (b) under the definition of "foreign exploration and development expenses" in subsection 66(15), items (a), (c), (f), or (i) under the definition of "Canadian exploration expense" in subsection 66.1(6), or items (a), (c), or (g) under the definition of "Canadian development expense" in subsection 66.2(5);that portion of the gross cost or rental cost reflecting the extent the property was so used by the corporation or the partnership (Regulation 5204) must be excluded from the gross cost or rental cost.
8. Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expense, and Canadian development expense are defined in subsection 66(15), subsection 66.1(6), and subsection 66.2(5) respectively. The corporation's Canadian or foreign exploration and development expenses include the share of the Canadian or foreign exploration and development expenses incurred by a partnership only if the corporation was a member of that partnership at the end of the partnership's fiscal period.
9. Salaries and wages paid or payable to employees or amounts paid or payable to non-employees by a partnership that are included in its Canadian or foreign exploration and development expenses will be excluded from the calculation of the partnership's "Cost of labour" only if these exploration and development expenses can be included in the corporate partner's exploration and development expenses (see note 8 above).
10. Regulation 5203 provides that a corporation's income from the processing of foreign ore be excluded from its net resource income (NRI) for the year. Transitional measures provide that the amount of income excluded from a corporation's NRI will be equal to a specified percentage of the excess of its foreign ore processing income for the year over its earned depletion base at the end of the year. The specified percentage is 10% effective January 1, 1990, and rises in 10% increments each year to 30% on January 1, 1992. The rate for 1993 is 50%, for 1994 is 64.3%, for 1995 is 71.4%, for 1996 is 78.6%, for 1997 is 85.7%, for 1998 is 92.9%, and 100% on January 1, 1999. If a corporation's taxation year straddles two calendar years, prorate the specified percentage based on the number of days in each calendar year.
11. The following terms are defined in the *Income Tax Regulations*:

Term	Income Tax Regulation
– Gross cost	5202 and 5204
– Net resource income	5203(3)
– Qualified activities	5202
– Rental cost	5202
– Resource activities	5203(2)
– Salaries and wages	5202
– Scientific research and experimental development	2900(1)