



Calculation of Canadian Manufacturing and Processing Profits

Name of corporation	Account number	Taxation year-end		
		Day	Month	Year

- Small manufacturing corporations that meet requirements (a) through (d) in Area A of this schedule should complete Area A only. All other corporations should complete Area B.
- 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 *Income Tax Act*.
- Reference: Interpretation Bulletin IT-145R, *Canadian Manufacturing and Processing Profits – Reduced Rate of Corporate Tax*
- Notes and definitions to help you complete this schedule are on page 4.
- Subparagraphs 125.1(3)(b)(vi), (vi.1), and (vi.2) have been amended to include the processing of foreign ore as a manufacturing & processing activity. This amendment applies to 1990 and later taxation years.

Area A – Small manufacturing corporations

See notes 1 through 6 on page 4.

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

(a) its activities during the year were primarily manufacturing or processing in Canada of goods for sale or lease;

(b) 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 note (i) below))	(1)	_____
• add the active business income for the taxation year of each Canadian corporation with which the corporation was associated in the year (see note (ii) below)	+	_____
	Total	=====

(c) it was not engaged at any time during the year in the processing of foreign ore or in any activities that are excluded from manufacturing and processing by subparagraphs 125.1(3)(b)(i) to (ix) (e.g., farming, fishing, logging, construction, or resource income); and

(d) the corporation did not carry out any active business outside Canada at any time during the year.

If the corporation meets requirements (a) through (d), its Canadian manufacturing and processing profits are equal to line 1 above. Enter this amount on line 233 of the T2 return.

If the corporation does not meet requirements (a) through (d), complete Area B on page 2.

Partnerships and associated corporations – additional information

Please provide the following information (if it applies) on a separate schedule attached to this form:

- (i) for partnerships, give the name, partnership identification number, and total income or loss from each active business of 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 of each Canadian corporation with which the corporation was associated in the year.

Schedule 4 L – Calculation of cost of labour

See notes 3, 5, 7, 9, 10, and 12 on page 4.

(a) Salaries and wages paid or payable to all employees for services performed during the year			
Deduct: Salaries and wages included above that were:			
(A) included in the gross cost of property (Schedule 2) other than property manufactured & 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 & development expenses			
Add: Salaries & wages referred to in (a) 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 – to Schedule 5 (line 3)	(1)		
(b) 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			
Deduct: Amounts included above that were:			
(D) included in the gross cost of property (Schedule 2), 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			
Add: Amounts referred to in (b) 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)			
Subtotal – other payments – to Schedule 5 (line 4)	(2)		
Cost of labour (line 1 + line 2) – to Area B	(L)		

Schedule 5 ML – Calculation of cost of manufacturing and processing labour

See notes 3, 5, 7, and 12 on page 4.

(a) Portion of salaries & wages (from line 1, Schedule 4) 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	(3)		
Add: (b) Portion of other payments (from line 2, Schedule 4) 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	(4)		
	Total		
Cost of manufacturing & processing labour – to Area B = $\frac{100}{75}$ of Total	(ML)		*

* not to exceed amount L (from schedule 4).

Schedule 6 – Calculation of net resource income

(for corporations with resource activities)

See notes 5, 7, 11, and 12 on page 4.

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)			
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)			
Deduct: Amounts deducted by the corporation pursuant to section 65*			
The corporation's income from the processing of foreign ore (subject to transitional measures)			
Net resource income – to Schedule 1			

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

Notes and definitions to help you complete this schedule

1. **Active business** means any business carried on by a resident of Canada 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 Guide Item 21 of the *1991 T2 Corporation Income Tax Guide*.
7. For 1990 and later years, costs for eligible foreign ore processing will be included in the cost of capital and the cost of labour for the corporation, and will therefore also be included in the cost of manufacturing and processing capital and in the cost of manufacturing and processing labour.
8. 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 subparagraphs 66(15)(b)(i), (ii) or (v), subparagraphs 66(15)(e)(i) or (ii), subparagraphs 66.1(6)(a)(i), (ii), (iii) or (v) or subparagraphs 66.2(5)(a)(i),(ii) or (v);
 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.
9. Canadian exploration and development expenses, foreign exploration and development expenses, Canadian exploration expense, and Canadian development expenses are defined in paragraphs 66(15)(b) and (e), paragraph 66.1(6)(a), and paragraph 66.2(5)(a) 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.
10. 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 9 above).
11. 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 100%, effective January 1, 1999. If a taxation year of a corporation straddles two calendar years, prorate the specified percentage based on the number of days in each calendar year.
12. 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 & experimental development	2900(1)