

CALCULATION OF CANADIAN MANUFACTURING AND PROCESSING PROFITS DEDUCTION (1998 and later taxation years)

Name of corporation	Business Number	Taxation year end Year Month Day
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- 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.
- **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*.
- Notes and definitions to help you complete this schedule are on page 4.
- 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 4.

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 note (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 note (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, 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

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

- 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)

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

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 4.

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) 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 (if negative, enter "0")

(ADJUBI) 130 _____

Part 4 – Calculation of cost of capital (C)

See notes 3, 5, 7, and 11 on page 4.

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 (C) **140** _____

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

See notes 3, 5, and 11 on page 4.

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 4.

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**

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) _____ **I**

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**

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 (L) **160** _____

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

See notes 3, 5, and 11 on page 4.

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 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) 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 S

Deduct:

Amounts deducted by the corporation pursuant to section 65 *
 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

All eligible corporations that have such profits

Canadian manufacturing and processing profits from Part 1 or Part 2, as applicable **200**
 Canadian-controlled private corporations throughout the taxation year only, **deduct** the least of amounts on lines 400, 405, and 410, or line 425 of the T2 return V

Taxable income from line 360 of the T2 return W

Deduct the total of:

1. The least of amounts on lines 400, 405, and 410, or line 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 = Y

Manufacturing and processing profits deduction – 7% of the lesser of amounts V and Y above (enter amount Z on line 616 of the T2 return) Z

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 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 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)