



# Federal Foreign Tax Credits

## General information

This credit is for foreign income or profits taxes you paid on income you received from outside Canada and reported on your Canadian return. Tax treaties with other countries may affect whether you are eligible for this credit.

### Note

You may have deducted an amount on line 256 of your return for income that is not taxable in Canada under a tax treaty. In that case, do not include that income in your "Net foreign non-business income" (line 433) or in your "Net foreign business income". Also, do not include any foreign tax withheld from it in your "Non-business income tax paid to a foreign country" (line 431) or in your "Business income tax paid to a foreign country".

If you paid tax to more than one foreign country, and the total non-business income tax you paid to all foreign countries is more than \$200, you have to do a separate calculation for each country for which you claim a foreign tax credit. In that case, enter the total of your allowable federal foreign tax credit on Form T2209.

You have to do a separate calculation for business income taxes paid to each foreign country. In that case, use this form to calculate your credit for both non-business income taxes and the business income taxes paid to each foreign country. For tax years ending before March 23, 2004, you can carry unclaimed foreign business income taxes back three years and forward seven years. For tax years ending after March 22, 2004, the carry-forward period is 10 years.

In most cases, the foreign tax credit you can claim for each foreign country is whichever of the following two amounts is **lower**:

- the foreign income tax you actually paid; or
- the tax otherwise due in Canada on your net income from that country.

### Note

If you paid tax on income from foreign property (other than real property), your foreign tax credit for the income from that property cannot be more than 15% of your net income from that property. However, you may be able to deduct on line 232 of your return the part of the foreign taxes you paid over 15%.

Beginning in 2004, your contribution to a foreign public pension plan is considered as a non-business income tax for foreign tax credit purposes where the following **two** conditions apply:

- You are required to make the contribution under the legislation of the foreign country.
- It is reasonable to conclude that you will not be eligible for any financial benefit from your contribution considering that the employment in the foreign country was temporary and for a short period of time.

### Note

Contributions made under the U.S. *Federal Insurance Contributions Act (FICA)*, including Social security and Medicare taxes, **qualify** for this credit.

## How to claim

- Do all of your calculations in **Canadian** dollars.
- If you were a member of a partnership and are entitled to claim a part of the foreign taxes the partnership paid, include in your calculations the amount shown in the financial statements or in box 81 and box 82 of your T5013 slip.
- Claim the amount from line 10 of this form on line 405 of your Schedule 1. The amount on line 10 should not be more than the amount on line 429 of your Schedule 1.

Your federal foreign tax credit on non-business income may be less than the tax you paid to a foreign country.

If so, and you **were not a resident of Quebec on December 31, 2010**, you may be able to claim a provincial or territorial foreign tax credit. To help you calculate the credit, get Form T2036, *Provincial or Territorial Foreign Tax Credit*. Attach a completed copy of the form to your paper return.

If you **were a resident of Quebec on December 31, 2010**, see the guide for your provincial income tax return for Quebec.

Also, on line 232 of your return, you may be able to deduct the amount of net foreign taxes you paid for which you have not received a federal, provincial, or territorial foreign tax credit. This does not include certain taxes you paid, such as those on amounts you could have deducted under a tax treaty on line 256 of your return. For details, get Interpretation Bulletin IT-506, *Foreign Income Taxes as a Deduction From Income*.

### Note

You may have earned foreign income in your Tax-Free Savings Account (TFSA). In that case, do not include that income in your "Net foreign non-business income" (line 433). Also, do not include any foreign tax withheld from it in your "Non-business income tax paid to a foreign country" (line 431).

**Supporting documents** – If you are filing a paper return, include your documents, such as official receipts, that show the foreign taxes you paid, and a note showing your calculations. You must also include Form T2209. If you paid taxes to the U.S., attach your W-2 information slip, U.S. 1040 return, and any other supporting documents that apply. If you are filing electronically, keep all of your documents in case we ask to see them.



**(b) Net foreign non-business income** (see note below)

Net amount you calculate when the non-business income you earned in a foreign country is more than the non-business losses you incurred in that country. When you calculate the non-business income and losses, claim the allowable expenses and deductions relating to the foreign income or loss. Subtract the following from your foreign non-business income:

- any income from that foreign country for which you claimed a capital gains deduction;
- any income that was, under a tax treaty between Canada and that country, deductible as exempt from tax in Canada or in that country;
- any employment income from that country for which you claimed an overseas employment tax credit;
- any foreign resource and exploration and development deductions; and
- any deduction claimed under subsections 20(11) or 20(12) and under subsection 4(3) relating to the foreign income, including any deduction claimed for:
  - foreign union dues;
  - contributions to a foreign pension plan or a social security arrangement; and
  - foreign carrying charges.

Do **not** reduce your foreign non-business income by any deduction you claimed for a dividend you received from a controlled foreign affiliate. If your net foreign non-business income is more than your net income, use your net income in the calculation.

For more information on deductions claimed under subsections 20(11) and 20(12) of the Act, see Interpretation Bulletin IT-506, *Foreign Income Taxes as a Deduction from Income*.

**Note:** Only include your foreign non-business income for the part of the year you were a resident of Canada.

**(c) Net income** (see note below)

Line 236 of your return **plus** the amount on line 4 of Form T1206, *Tax on Split Income*, **minus** any:

- amount deductible as a Canadian Forces personnel and police deduction (line 244 of your return);
- amount deductible as an employee home relocation loan deduction (line 248 of your return);
- amount deductible as security options deductions (line 249 of your return);
- amount deductible as an other payments deduction (line 250 of your return);
- net capital losses of other years you claimed (line 253 of your return);
- capital gains deduction you claimed (line 254 of your return); and
- amounts deductible as net employment income from a prescribed international organization, as foreign income exempt under a tax treaty, or as adult basic education tuition assistance (included on line 256 of your return).

**(d) Basic federal tax** (see note below)

Line 429 of Schedule 1 **plus** any:

- federal dividend tax credit (line 425 of Schedule 1);
- overseas employment tax credit (line 426 of Schedule 1); and
- federal surtax on income you earned outside Canada (line 10 of Part 2 of Form T2203 or 48% of the amount from line 429 of Schedule 1);

**minus** any:

- refundable Quebec abatement (line 440 of your return or line 15 of Part 2 of Form T2203); and
- federal refundable First Nations abatement (line 441 of your return).

**Note:** If you were a resident of Quebec, **federal tax** is the amount on line 429 of Schedule 1 **plus** any:

- federal dividend tax credit (line 425 of Schedule 1); and
- overseas employment tax credit (line 426 of Schedule 1);

**minus** any:

- refundable Quebec abatement (line 440 of your return or line 15 of Part 2 of Form T2203).

**(e) Business income tax paid to a foreign country**  
(see note 1 below)

Total of business income or profits tax you paid to a country or a political subdivision of a country for the year (see note 2 below). It does not include any part of the business income tax that can be reasonably attributed to an amount that any other person or partnership has received or is entitled to receive from a country, or that was payable on income that was exempt from tax under a tax treaty between Canada and that country.

**Note 1:** Any amount of tax you paid to a foreign government in excess of the amount you had to pay according to a tax treaty is considered a voluntary contribution and does not qualify as foreign taxes paid.

**Note 2:** If you were a resident of Quebec, multiply this amount by 55%.

**(f) Unused foreign tax credits**

The carry-forward period for unused foreign **business** tax credits for a tax year ending after March 22, 2004, is 10 years.

**(g) Net foreign business income** (see note below)

Net amount by which the business income you earned in a foreign country is more than the business losses you incurred in that country. When you calculate the business income and losses, claim the allowable expenses and deductions relating to the foreign income or loss, including foreign resource and exploration and development deductions. Also reduce your foreign business income by any income from that country that was, under a tax treaty between Canada and that country, exempt from tax in Canada or in that country. If your net foreign business income is more than your net income, use your **net income** in the calculation.

**Note:** Include only the foreign business income for the part of the year you were a resident of Canada.

**(h) Basic federal tax**

Line 429 of Schedule 1 **plus** any:

- federal dividend tax credit (line 425 of Schedule 1); and
- overseas employment tax credit (line 426 of Schedule 1).