PART I.3 TAX ON FINANCIAL INSTITUTIONS (2004 and later taxation years)

Name of corporation	Business Number	Taxation year-end Year Month Day

- This schedule is for use by financial institutions (other than insurance corporations) that have Part I.3 tax payable before deducting surtax credits (line 820 in Part 5). You should also use and file this schedule if you calculate a **gross Part I.3 tax for the purposes of unused surtax credit** (line 821 in Part 6) and a **current-year unused surtax credit** (line 850 in Part 8).
- Parts, sections, and subsections referred to on this schedule are from the federal *Income Tax Act* and the *Income Tax Regulations*.
- Subsection 181(1) defines the terms "financial institution," "long-term debt," and "reserves."
- Subsection 248(1) defines the terms "authorized foreign bank" and "Canadian banking business."
- Subsection 181(3) provides the basis to determine the carrying value of a corporation's assets or any other amount under Part I.3 for its capital, investment allowance, taxable capital, or taxable capital employed in Canada, or for a partnership in which it has an interest.
- No Part I.3 tax is payable for a taxation year by a corporation that was:
  1) a non-resident-owned investment corporation throughout the year;
  2) bankrupt [as defined by subsection 128(3)] at the end of the year;
  3) a deposit insurance corporation throughout the year, as defined by subsection 137.1(5), or deemed to be a deposit insurance corporation by subsection 137.1(5.1);
  4) exempt from tax under section 149 throughout the year on all of its taxable income;
  5) neither resident in Canada nor carrying on a business through a permanent establishment in Canada at any time in the year; or
  6) a corporation described in subsection 136(2) throughout the year, the principal business of which was marketing (including any related processing) natural products belonging to or acquired from its members or customers.
- File a completed copy of Schedule 34 with the *T2 Corporation Income Tax Return* no later than six months from the end of the taxation year.
- This schedule may contain changes that had not yet become law at the time of printing.

Part 1 – Capital

To be completed by a financial institution other than an authorized foreign bank

Reserves that were not deducted in computing income under Part I for the year	201			
Add the following amounts at the end of the year:				
Long-term debt	202			
Capital stock (or members' contributions if incorporated without share capital)	203			
Retained earnings	204			
Contributed surplus	205			
Any other surpluses	206			
Subtotal			▶	A
Deduct the following amounts:				
Deferred tax debit balance at the end of the year	221			
Any deficit deducted in computing its shareholders' equity (including, for this purpose, the amount of any provision for the redemption of preferred shares) at the end of the year	222			
Any amount deducted under subsection 130.1(1) or 137(2) in computing income under Part I for the year, to the extent that the amount may reasonably be regarded as being included in any of the amounts determined at lines 201 to 206	223			
Subtotal			▶	B
Capital for the year (amount A minus amount B) (if negative, enter "0")			290	

To be completed by an authorized foreign bank

Add the following amounts as at the end of the year in respect of the Canadian banking business:

10% of the bank's risk-weighted assets and exposures according to OSFI* risk-weighting guidelines, computed as if those guidelines applied	301	
All amounts that are not for a loss protection facility respecting asset securitization and that, the bank would deduct from its capital under OSFI* risk-based capital adequacy guidelines, if it was listed in Schedule II to the *Bank Act*	302	
Capital for the year (line 301 plus line 302)	390	

*Office of the Superintendant of Financial Institutions

Part 2 – Investment allowance

To be completed by a financial institution that was resident in Canada at any time in the year or by an authorized foreign bank (see note 4 below)

Add the carrying value at the end of the year of the following eligible investments of the financial institution:

All shares of the capital stock of related financial institutions	401	
All long-term debts of related financial institutions	404	
Investment allowance for the year	490	

In any other case, the investment allowance is nil.

Notes:

1) A share of the capital stock or long-term debt of another financial institution that is exempt from Part I.3 tax is to be excluded from the carrying value of any eligible investment determined above.
2) Where a credit union is a shareholder or member of another credit union, the two credit unions shall be deemed to be related to each other.
3) The eligible investments of the corporation should include only those of related financial institutions that are resident in Canada or are using the proceeds of the share or debt in a business carried on by the related financial institution through a permanent establishment in Canada.
4) In the case of an authorized foreign bank, its eligible investments should be the amount before the application of risk weights that would be reported under OSFI risk-weighting guidelines. The investments should include only those used or held by the corporation in the year in the course of carrying on its Canadian banking business.

Part 3 – Taxable capital

Capital for the year (amount from line 290, or 390 on page 1, whichever applies)			C
Deduct: Investment allowance for the year (line 490)			D
Taxable capital for the year (amount C minus amount D) (if negative, enter "0")	500		

Part 4 – Taxable capital employed in Canada

The total of all amounts each of which is the carrying value at the end of the year of an asset of the financial institution (other than property held by the institution primarily for the purpose of resale that was acquired by the financial institution, in the year or the preceding year, as a result of another person's default or anticipated default on a debt owed to the institution) that is tangible property used in Canada	511	
Add: Where the financial institution has an interest in a partnership at the end of the year, its proportionate share of the total of all amounts, each of which is the carrying value of an asset of the partnership, that is tangible property used in Canada	512	

Taxable capital for the year (line 500) ________ x $\dfrac{\text{Canadian assets at year end (see note below)}}{\text{Total assets at year end (see note below)}}$ 611 / 612 ________ = 650 ________

Taxable capital employed in Canada . . . . . 690 ________

Note: The terms "Canadian assets" and "total assets" are defined in section 8600 of the *Income Tax Regulations.*

Part 5 – Calculation of gross Part I.3 tax

Taxable capital employed in Canada (line 690). . . . . ______

Deduct: Capital deduction claimed for the year (enter $50,000,000 or, for related corporations, the amount allocated on Schedule 36) . . . . **801** ______

Excess of taxable capital employed in Canada over capital deduction . . . . **811** ______

Line 811 ______ x $\frac{\text{Number of days in the taxation year before 2004}}{\text{Number of days in the taxation year}}$ ______ x 0.00225 = ... ______ E

Line 811 ______ x $\frac{\text{Number of days in the taxation year in 2004}}{\text{Number of days in the taxation year}}$ ______ x 0.002 = ... ______ F

Line 811 ______ x $\frac{\text{Number of days in the taxation year in 2005}}{\text{Number of days in the taxation year}}$ ______ x 0.00175 = ... ______ G

Line 811 ______ x $\frac{\text{Number of days in the taxation year in 2006}}{\text{Number of days in the taxation year}}$ ______ x 0.00125 = ... ______ H

Line 811 ______ x $\frac{\text{Number of days in the taxation year in 2007}}{\text{Number of days in the taxation year}}$ ______ x 0.000625 = ... ______ I

Note: The Part I.3 tax rate is reduced to 0% for the days in the taxation year that are after 2007.

Subtotal (add amounts E to I) ______ J

Where the taxation year of a corporation is less than 51 weeks, calculate the amount of gross Part I.3 tax as follows:

Amount J ______ x $\frac{\text{Number of days in the year (\quad)}}{365}$ = ... ______ K

Gross Part I.3 tax (amount J or K, whichever applies) . . . . **820** ______

Part 6 – Calculation of gross Part I.3 tax for purposes of the unused surtax credit

Taxable capital employed in Canada (line 690). . . . . ______ L

Deduct: Line 801 above ______ × 1/5 = ... ______ M

Excess (amount L minus amount M) (if negative, enter "0") ______ N

Amount N ______ x 0.00225 = ... ______ O

Where the taxation year of a corporation is less than 51 weeks, calculate the amount of gross Part I.3 tax for purposes of the unused surtax credit as follows:

Amount O ______ x $\frac{\text{Number of days in the year (\quad)}}{365}$ = ... ______ P

Gross Part I.3 tax for purposes of the unused surtax credit (amount O or P, whichever applies) . . . . **821** ______

Part 7 – Calculation of current-year surtax credit available

- Corporations can claim a credit against their Part I.3 tax for the amount of Canadian surtax payable for the year. This is called the surtax credit.
- Any unused surtax credit can be carried back three years or carried forward seven years. Unused surtax credits must be applied in order of the oldest first.
- Refer to subsection 181.1(7) of the Act when calculating the amount deductible for a corporation's unused surtax credits where control of the corporation has been acquired between the year in which the credits arose and the year in which you want to claim them.

For a corporation that was a non-resident of Canada throughout the year, enter amount **a** or **b** at line Q, whichever is less:

a) line 600 from the T2 return .... _______ **a**

b) line 700 from the T2 return .... _______ **b** _______ Q

In any other case, enter amount **c** or **d** at line R, whichever is less:

c) line 600 from the T2 return _______ x (line 650 of this schedule / line 500 of this schedule) _______ = _______ **c**

d) line 700 from the T2 return .... _______ **d** _______ R

Current-year surtax credit available (amount Q or R, whichever applies) .... **830** _______

Part 8 – Calculation of current-year unused surtax credit

Current-year surtax credit available (line 830) .... _______

Less: Gross Part I.3 tax for purposes of the unused surtax credit (line 821 of this schedule) .... _______

Net amount (if negative, enter "0") _______ S

Part I tax payable (line 700 of the T2 return) .... _______

Deduct:

Gross Part VI tax (line 830 from Schedule 38) .... _______

Gross Part I.3 tax for purposes of the unused surtax credit (line 821 of this schedule). .... _______

Subtotal _______ ▶ _______

Net amount (if negative, enter "0") _______ T

Current-year unused surtax credit (amount S or T, whichever is less) .... **850** _______

Enter this amount at line 600 of Schedule 37.

Part 9 – Calculation of net Part I.3 tax payable

Gross Part I.3 tax (line 820) .... _______ U

Deduct:

Current-year surtax credit applied (line 820 or 830, whichever is less) .... **861** _______

Unused surtax credit from previous years applied (amount from line 320 on Schedule 37) **862** _______

Subtotal (cannot exceed amount on line 820) _______ ▶ _______ V

Net Part I.3 tax payable (amount U minus amount V) .... **870** _______

Enter this amount at line 704 of the T2 return.