Canada Customs and Revenue Agency | Agence des douanes et du revenu du Canada

SCHEDULE 35
Code 0101

PART I.3 TAX ON LARGE INSURANCE CORPORATIONS (2000 and later taxation years)

Name of corporation	Business Number	Taxation year end Year Month Day

- This schedule is for use by insurance corporations that have Part I.3 tax payable before the deduction of surtax credits.
- Parts, sections, subsections, paragraphs, and subclauses referred to on this schedule are from the federal *Income Tax Act.*
- Subsection 181(1) defines the terms "financial institution," "long-term debt," and "reserves."
- 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 the completed Schedule 35 with the *T2 Corporation Income Tax Return* no later than six months from the end of the taxation year.

Part 1 – Capital

To be completed by an insurance corporation that was resident in Canada at any time in the year and carried on a life insurance business at any time in the year

Add the following amounts at the end of the year:

Long-term debt	102			
Capital stock (or members' contributions if an insurance corporation incorporated without share capital)	103			
Retained earnings	104			
Contributed surplus	105			
Any other surpluses	106			
Subtotal			▶	A

Deduct the following amounts:

Deferred tax debit balance at the end of the year	121			
Any deficit deducted in computing the shareholders' equity at the end of the year	122			
Subtotal			▶	B
Capital for the year (amount A minus amount B) (if negative, enter "0")			190	

To be completed by an insurance corporation that was resident in Canada at any time in the year and throughout the year did not carry on a life insurance business

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 an insurance corporation incorporated without share capital)	203			
Retained earnings	204			
Contributed surplus	205			
Any other surpluses	206			
Subtotal			▶	C

Deduct the following amounts:

Deferred tax debit balance at the end of the year	221			
Any deficit deducted in computing the shareholders' equity at the end of the year	222			
The total amount of its deferred acquisition expenses for its property and casualty insurance business in Canada, to the extent that it can reasonably be attributed to an amount included in the amount determined at line 201 above	223			
Subtotal			▶	D
Capital for the year (amount C minus amount D) (if negative, enter "0")			290	

Part 1 – Capital (continued)

To be completed by an insurance corporation that was a non-resident of Canada throughout the year and carried on an insurance business in Canada at any time in the year

A) The amount, if any, by which the corporation's surplus funds derived from operations [as defined in subsection 138(12)] at the end of the year, computed as if no tax were payable under Part I.3 or Part VI for the year, exceed the total of all amounts, each of which is:

i) an amount on which it was required to pay, or would but for subsection 219(5.2) have been required to pay, tax under Part XIV for a preceding taxation year, except the portion, if any, of the amount on which tax was payable, or would have been payable, because of subparagraph 219(4)(a)(i.1); and

ii) an amount on which it was required to pay, or would but for subsection 219(5.2) have been required to pay, tax under subsection 219(5.1) for the year because of the transfer of an insurance business to which subsection 138(11.5) or (11.92) has applied.

Surplus funds from operations, as adjusted	301				
B) The corporation's attributed surplus for the year	302				
The greater of the amounts on lines 301 and 302					
Any other surpluses relating to insurance businesses carried on in Canada			303		
Long-term debt that may reasonably be regarded as relating to insurance businesses carried on in Canada			304		
Subtotal				▶	E

Add the amount by which:

Reserves for the year (other than reserves for amounts payable out of segregated funds) that may reasonably be regarded as having been established for insurance businesses carried on in Canada			331		

Exceed the total of the following amounts:

The total of each reserve [other than a reserve described in subparagraph 138(3)(a)(i)] that was included in the amount determined at line 331 above and was deducted in computing income under Part I for the year	341				
The total of each reserve described in subparagraph 138(3)(a)(i) that was included in the amount determined at line 331 above and was deductible under subparagraph 138(3)(a)(i) in computing income under Part I for the year	342				
The total of each amount outstanding (including any accrued interest) as at the end of the year for a policy loan [within the meaning of subsection 138(12)] made by the corporation that was deducted in computing the amount determined at line 342 above	343				
The total of its deferred acquisition expenses for its property and casualty insurance business in Canada, to the extent that it can reasonably be attributed to an amount included in the amount determined at line 331 above	344				
Total deductions (add lines 341, 342, 343, and 344)		▶	F		
Difference (line 331 minus amount F) (if negative, enter "0")				▶	G
Capital for the year (amount E plus amount G)				390	

Part 2 – Investment allowance

Add the carrying value at the end of the year of the following eligible investments of the insurance corporation that are non-segregated property within the meaning assigned by subsection 138(12):

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	

Notes:

1) A share of the capital stock or long-term debt of another financial institution (including another insurance corporation) that is exempt from Part I.3 tax is to be excluded from the value of any eligible investment determined above.

2) For taxation years ending after 2001, the eligible investments of the insurance 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.

3) In the case of an insurance corporation that was a non-resident of Canada throughout the year, its eligible investments should include only those used or held by the corporation in the year in the course of carrying on an insurance business in Canada.

Part 3 – Taxable capital

Capital for the year (line 190, 290, or 390, whichever applies)			H
Deduct: Investment allowance for the year (line 490)			I
Taxable capital for the year (amount H minus amount I) (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 (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 taxation year as a consequence of another person's default, or anticipated default, for a debt owed to the institution) that is tangible property used in Canada and that is non-segregated property within the meaning assigned by subsection 138(12) . . . **511** ______

Add:
Where the insurance corporation has an interest in a partnership at the end of the year, the proportion 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** ______

Subtotal ______ J

To be completed by an insurance corporation that was resident in Canada at any time in the year and carried on a life insurance business at any time in the year

Amount J above ______ J

Taxable capital for the year (line 500) ______

Add: Total of amounts described in subclause 181.3(1)(c)(ii)(A)(II) (amount BB, page 5) . . . . . **521** ______

Subtotal ______

Deduct: Total of amounts described in subclause 181.3(1)(c)(ii)(A)(III) (amount CC, page 5). . **525** ______

Total ______ ▶ ______ K

Canadian reserve liabilities at year end . . . **522** ______ L

Total reserve liabilities at year end . . . **523** ______ M

Total of amounts described in subclause 181.3(1)(c)(ii)(A)(V) (amount DD, page 5) . . . **524** ______ N

Proportion of capital over reserve liabilities = (K x L) ÷ (M + N) . . . **530** ______ O

Add the amount by which:

Reserves for the year (other than reserves for amounts payable out of segregated funds) that may reasonably be regarded as having been established in respect of insurance businesses carried on in Canada . . . **531** ______

Exceed the total of the following amounts:

The total of each reserve [other than a reserve described in subparagraph 138(3)(a)(i)] that was included in the amount determined in 531 above and was deducted in computing income under Part I for the year . . . **541** ______

The total of each reserve described in subparagraph 138(3)(a)(i) that was included in the amount determined in 531 above and was deductible under subparagraph 138(3)(a)(i) in computing income under Part I for the year . . . **542** ______

The total of each amount outstanding (including any accrued interest) as at the end of the year for a policy loan [within the meaning of subsection 138(12)] made by the corporation that was deducted in computing the amount determined in 542 above . . . **543** ______

Total deductions (add lines 541, 542, and 543) ______ ▶ ______ P

Difference (line 531 minus amount P) (if negative, enter "0") . . . ______ ▶ ______ Q

Taxable capital employed in Canada (amount J plus amount O plus amount Q) . . . **590** ______

To be completed by an insurance corporation that was resident in Canada at any time in the year and throughout the year did not carry on a life insurance business

Amount J above . . . ______ J

Taxable capital for the year (line 500) ______ x $\frac{\text{Canadian premiums for the year (611)}}{\text{Total premiums for the year (612)}}$ ______ = **650** ______ R

Taxable capital employed in Canada (amount J plus amount R) . . . **690** ______

To be completed by an insurance corporation that was a non-resident of Canada throughout the year and carried on an insurance business in Canada at any time in the year

Amount J above . . . ______ J

Taxable capital for the year (line 500) . . . ______ S

Taxable capital employed in Canada (amount J plus amount S) . . . **790** ______

Part 5 – Calculation of gross Part I.3 tax

Taxable capital employed in Canada (line 590, 690, or 790, whichever applies) . . . . ______

Deduct: Capital deduction claimed for the year (enter $10,000,000 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 0.00225 = ... ______ T

Where the taxation year of a corporation is less than 51 weeks, calculate the amount of tax payable as follows:

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

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

Part 6 – Calculation of current-year surtax credit available

- Corporations can claim a credit against their Part 1.3 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 an insurance corporation that was a non-resident of Canada throughout the year, or a company that carried on a life insurance business at any time in the year, the lesser of a and b below:

a) line 600 from the T2 return . . . . ______

b) line 700 from the T2 return . . . . ______ ______ V

In any other case, the lesser of c and d below:

c) line 600 from the T2 return ______ x $\frac{\text{line 650 of this schedule}}{\text{line 500 of this schedule}}$ ______ = ______

d) line 700 from the T2 return . . . . ______ ______ W

Current-year surtax credit available – (amount V or W, whichever applies) . . . . **830** ______

Part 7 – Calculation of current-year unused surtax credit

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

Less: Gross Part I.3 tax (line 820) . . . . ______

Net amount (if negative, enter "0") ______ X

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 (line 820 of this schedule) . . . . ______

Subtotal ______ ► ______

Net amount (if negative, enter "0") ______ Y

Current-year unused surtax credit (amount X or Y, whichever is less) . . . . **850** ______

Enter this amount at line 600 of Schedule 37

Part 8 – Calculation of net Part I.3 tax payable

Gross Part I.3 tax (line 820) . . . . ______ Z

Deduct:

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

Unused surtax credit from previous years applied . . . . **862** ______

Subtotal (cannot exceed amount on line 820) ______ ► ______ AA

Net Part I.3 tax payable (amount Z minus amount AA) . . . . **870** ______

Enter this amount at line 704 of the T2 return

Complete the following tables to determine the amounts to use on page 3 to calculate the taxable capital employed in Canada of a Canadian resident corporation that carried on a life insurance business.

Table 1

	(1)	(2)	(3)		(4)	(5)	(6)	(7)
	Name of foreign insurance subsidiary	Capital of foreign insurance subsidiary per Regulation 8605(1)(a) (from column 9 in table 2)	Capital stock and long-term debt invested in the subsidiary per Regulation 8605(1)(b)		Any additional surplus contributed into the subsidiary per Regulation 8605(1)(c)	Amounts to be included in subclause 181.3(1)(c)(ii)(A)(II) Columns (2) - [(3)+(4)]	Amounts to be included in subclause 181.3(1)(c)(ii)(A)(III) Columns [(3)+(4)] - (2)	Reserve liabilities per Regulation 8605(3) to be included in subclause 181.3(1)(c)(ii)(A)(V)
			Capital stock	Long-term debt				
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								

	BB	CC	DD
Totals			
	(enter on page 3)	(enter on page 3)	(enter on page 3)

Table 2

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Name of foreign insurance subsidiary	Long-term debt	Capital stock or members' contributions	Retained earnings	Surpluses	Subtotal (2)+(3)+(4)+(5)	Deferred tax debit balance	Deficit deducted in computing shareholder's equity	Capital (6) - [(7)+(8)] enter in column 2 of table 1 above
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									

Notes

1) Do not use the equity or consolidation method of accounting.
2) Include in column 3 of table 1, the carrying value to its owner of the share of capital stock or long-term debt.
3) The amount in column 5 and the amount in column 6 of table 1, for each subsidiary, cannot be less than zero.
4) The amounts in column 7 of table 1 are those that would be reported by the foreign insurance subsidiary for that year if it had to report to the Office of the Superintendent of Financial Institutions (OSFI). All other amounts are those that would be reported by the foreign insurance subsidiary, if it were to prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP).