Canada Revenue Agency / Agence du revenu du Canada

SCHEDULE 35
Code 0604

PART I.3 TAX ON LARGE INSURANCE CORPORATIONS
(2006 and later tax years)

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

- Use this schedule to determine if the total taxable capital employed in Canada of the insurance corporation and its related corporations is greater than $10,000,000 and to calculate an unused surtax credit.
- If the tax year starts after 2005, do not complete parts 5 and 9 (there is no Part I.3 tax payable for the days in the tax year that are after 2005).
- Parts, sections, subsections, paragraphs, subparagraphs, clauses, and subclauses referred to on this schedule are from the *Income Tax Act* and the *Income Tax Regulations*.
- 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 tax year by a corporation that was:
  1) bankrupt [as defined by subsection 128(3)] at the end of the year;
  2) 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);
  3) exempt from tax under section 149 throughout the year on all of its taxable income;
  4) neither resident in Canada nor carrying on a business through a permanent establishment in Canada at any time in the year; or
  5) 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.
- If you are subject to Part I.3 or provincial capital taxes, or you want to apply an unused surtax credit, file a completed copy of Schedule 35 with the *T2 Corporation Income Tax Return* no later than six months from the end of the tax year.
- This schedule may contain changes that had not yet become law at the time of publishng.

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 its shareholders' equity (including, for this purpose, the amount of any provision for the redemption of preferred shares) 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 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		
The total amount of its deferred acquisition expenses for its property and casualty insurance business in Canada, as long as 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	

* The amount at line 201 should be net of any amount recoverable through reinsurance, according to subparagraph 181.3(3)(c)(vii).

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 tax 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:

Amounts included at line 331 above [**other** than a reserve described in subparagraph 138(3)(a)(i)] and **deducted** in computing income under Part I for the year. . . . . **341** ____________

Amounts included at line 331 above and **deductible** under subparagraph 138(3)(a)(i) in computing income under Part I for the year . . . . **342** ____________

Amounts deducted in computing line 342 above that were 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 . . . **343** ____________

Deferred acquisition expenses for its property and casualty insurance business in Canada, as long as it can reasonably be attributed to an amount included 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** ____________

* The amount at line 331 should be net of any amount recoverable through reinsurance, according to clause 181.3(3)(d)(iv)(F).

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) 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 tax year as a consequence of another person's default, or anticipated default, for a debt owed to the institution) that is tangible, or for civil law corporeal, 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, its proportion of the total of all amounts, each of which is the carrying value of an asset of the partnership that is tangible, or for civil law corporeal, property used in Canada. This proportion is based on the financial institution's share of the partnership's income or loss for that period. . . . . . **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 PP, page 6) . . . . **521** ______

Subtotal ______

Deduct: Total of amounts described in subclause 181.3(1)(c)(ii)(A)(III) (amount QQ, page 6) **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 RR, page 6) . . . . . **524** ______ N

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

Complete lines P to R if the tax year starts before October 1, 2006.

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 . . . . . **531** ______ P

Exceed the total of the following amounts:

Amounts included at line 531 above [**other** than a reserve described in subparagraph 138(3)(a)(i)] and **deducted** in computing income under Part I for the year . . . . . **541** ______

Amounts included at line 531 above and **deductible** under subparagraph 138(3)(a)(i) in computing income under Part I for the year . . . . . **542** ______

Amounts deducted in computing line 542 above that were 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 . . . . . **543** ______

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

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

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

Part 4 – Taxable capital employed in Canada (continued)

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 (Canadian premiums for the year **611** _______ / Total premiums for the year **612** _______) = **650** _______ S

Taxable capital employed in Canada (amount J **plus** amount S) .... **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) .... _______ T

Taxable capital employed in Canada (amount J **plus** amount T) .... **790** _______

Part 5 – Calculation of gross Part I.3 tax

If the tax year starts after 2005, do not complete this part.

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

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

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

Line 811 _______ x (Number of days in the tax year in 2004 / Number of days in the tax year) _______ x 0.002 = ... _______ U

Line 811 _______ x (Number of days in the tax year in 2005 / Number of days in the tax year) _______ x 0.00175 = ... _______ V

Note: The Part I.3 tax rate is reduced to 0% for the days in the tax year that are after 2005.

Subtotal (**add** amounts U and V) _______ W

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

Amount W _______ x (Number of days in the year ( ) / 365) = ... _______ X

Gross Part I.3 tax (amount W or X, 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 590, 690, or 790, whichever applies) .... _______ AA

Deduct: Capital deduction claimed for the year (enter $50,000,000 or, for related corporations, the amount allocated on Schedule 36) **801** _______ x 1/5 = ... _______ BB

Excess (amount AA **minus** amount BB) (if negative, enter "0") _______ CC

Amount CC _______ x 0.00225 = ... _______ DD

Where the tax 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 DD _______ x (Number of days in the year ( ) / 365) = ... _______ EE

Gross Part I.3 tax for purposes of the unused surtax credit (amount DD or EE, whichever applies) .... **821** _______

Part 7 – 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) 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 for a company that carried on a life insurance business at any time in the year, enter amount **a** or **b** at line FF, whichever is less:

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

b) line 700 from the T2 return . . . . ______ **b** ______ FF

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

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

d) line 700 from the T2 return . . . . ______ **d** ______ GG

Current-year surtax credit available (amount FF or GG, whichever applies) . . . . **830** ______

Part 8 – Calculation of current-year unused surtax credit

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

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

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

A life insurance corporation that carried on business in Canada in the year must calculate amount II below. All other insurance corporations should skip to line 850 below.

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

Deduct:

Gross Part VI tax:

- for the days in the tax year before July 1, 2006 (line BBB from Schedule 38) . . . . ______
- for the days in the tax year after June 30, 2006 (line CCC 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") ______ II

Current-year unused surtax credit (For a life insurance corporation that carried on business in Canada in the year, enter amount HH or II, whichever is less. For other insurance corporations, enter amount HH.) . . . . **850** ______

Enter this amount at line 600 of Schedule 37.

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

If the tax year starts after 2005, do not complete this part.

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

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) ______ ▶ ______ KK

Net Part I.3 tax payable (amount JJ **minus** amount KK) . . . . **870** ______

Enter this amount at line 704 of the T2 return.

Part 10 – Calculation of gross Part I.3 tax for purposes of the small business deduction

This part is applicable only to corporations that are not associated in the current year, but were associated in the prior year.

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

Deduct:

Capital deduction claimed for the year (enter $10,000,000) . . . . ______ MM

Excess (amount LL **minus** amount MM) (if negative, enter "0") ______ NN

Gross Part I.3 tax for purposes of the small business deduction (amount NN x 0.00225) . . . . ______ OO

Enter this amount at line 415 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) Name of foreign insurance subsidiary	(2) Capital of foreign insurance subsidiary per Regulation 8605(1)(a) (from column 9 in table 2)	(3) Capital stock and long-term debt invested in the subsidiary per Regulation 8605(1)(b)		(4) Any additional surplus contributed into the subsidiary per Regulation 8605(1)(c)	(5) Amounts to be included in subclause 181.3(1)(c)(ii)(A)(II) Columns (2) - [(3)+(4)]	(6) Amounts to be included in subclause 181.3(1)(c)(ii)(A)(III) Columns [(3)+(4)] - (2)	(7) 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.								
					Totals	PP	QQ	RR
						(enter on page 3)	(enter on page 3)	(enter on page 3)

Table 2

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