



PART 1.3 TAX ON LARGE INSURANCE CORPORATIONS

SCHEDULE 35

Name of corporation	Business Number	Taxation year end Year Month Day
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- This schedule is for use by insurance corporations that have Part 1.3 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 1.3 in respect of its capital, investment allowance, taxable capital, or taxable capital employed in Canada, or in respect of a partnership in which it has an interest.
- No Part 1.3 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 as defined by subsection 137.1(5) throughout the year, 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 carried on 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 processing incidental to or connected therewith) natural products belonging to or acquired from its members or customers.
- File the completed Schedule 35 with the *T2 Corporation Income Tax Return* within six months of the end of the taxation year.

Date filed (for departmental use only)	100	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Year</td> <td style="text-align: center;">Month</td> <td style="text-align: center;">Day</td> </tr> <tr> <td style="text-align: center;"> </td> <td style="text-align: center;"> </td> <td style="text-align: center;"> </td> </tr> </table>	Year	Month	Day			
Year	Month	Day						

Part 1 – Capital
Canadian resident corporation that carried on a life insurance business

To be completed by an insurance corporation that was resident in Canada 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 (see note below)	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		

Note: In the case of an insurance corporation incorporated without share capital, enter the amount of its members' contributions.

(continued on page 2)

Part 1 – Capital – continued from page 1
or

Canadian resident corporation that did not carry on a life insurance business

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 (see note below) **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 in respect of 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** _____

Note: In the case of an insurance corporation incorporated without share capital, enter the amount of its members' contributions.

Part 2 – Non-resident corporation that carried on an insurance business

To be completed by an insurance corporation that was throughout the year not resident in Canada 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.

Proportion of surplus funds derived from operations **301** _____

B) The corporation's attributed surplus for the year **302** _____

The greater of the amounts on lines 301 and 302 **303** _____

Any other surpluses relating to insurance businesses carried on in Canada **304** _____

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 in respect of 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 in respect of 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 in respect of 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") **390** _____ **G**

Capital for the year (amount E plus amount G) **390** _____

Part 3 – Investment allowance

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

All shares of the capital stock of related financial institutions (including related insurance corporations)	401	_____
All long-term debts of related financial institutions (including related insurance corporations)	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 asset determined above.
 2) In the case of an insurance corporation that was throughout the year not resident in Canada, include only those assets used or held by it in the year in the course of carrying on an insurance business in Canada.

Part 4 – 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 taxation year (amount H minus amount I) (if negative, enter "0")	500	=====

Part 5 – 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, in respect of 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	_____
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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	_____
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Subtotal ===== J

Part 6 – Canadian resident corporation that carried on a life insurance business

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

Amount J above

Taxable capital for the year (line 500)

Add: Total of amount described in subclause 181.3(1)(c)(ii)(A)(II) (amount HH, page 6)

521	_____
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Subtotal _____

Deduct: Total of amounts described in subclause 181.3(1)(c)(ii)(A)(III) (amount II, page 6)

525	_____
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Total _____

Canadian reserve liabilities at year end

Total reserve liabilities at year end

Total of amounts described in subclause 181.3(1)(c)(ii)(A)(V) (amount JJ, page 6)

Proportion of capital over reserve liabilities = (K x L) ÷ (M + N)

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	_____
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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	_____
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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	_____
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The total of each amount outstanding (including any accrued interest) as at the end of the year in respect of 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	_____
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Total deductions (add lines 541, 542, and 543) _____

Difference (line 531 minus amount P) (if negative, enter "0")

Taxable capital employed in Canada (amount J plus amount O plus amount Q)

590	=====
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(continued on page 4)

Part 6 – continued from page 3

or

Canadian resident corporation that did not carry on a life insurance business

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 from page 3	_____	J
Taxable capital for the year (line 500) _____	$\times \frac{\text{Canadian premiums for the year}}{\text{Total premiums for the year}}$	R
	$\frac{\text{611}}{\text{612}} = \text{650}$	
Taxable capital employed in Canada (amount J plus amount R)	<u>690</u>	

or

Non-resident corporation that carried on an insurance business

To be completed by an insurance corporation that was throughout the year not resident in Canada and carried on an insurance business in Canada at any time in the year.

Amount J from page 3	_____	J
Taxable capital for the year (line 500)	_____	S
Taxable capital employed in Canada (amount J plus amount S)	<u>790</u>	

Part 7 – Calculation of gross Part 1.3 tax

Taxable capital employed in Canada for the year (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 deductions	_____	811
Gross Part 1.3 tax: Line 811 _____ \times .00225 = _____		T
Where the taxation year of a corporation is less than 51 weeks, calculate the amount of tax payable as follows:		
Amount T _____ \times $\frac{\text{Number of days in the year ()}}{365}$ = _____		U
Gross Part 1.3 tax (amount T or U, whichever applies)	_____	820

Part 8 – Calculation of current year surtax credits

- Corporations can claim a credit against their Part 1.3 tax for the amount of Canadian surtax payable. 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 in respect of 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.

Current year surtax credit equals current year Canadian surtax payable

Canadian surtax payable – For an insurance corporation that was not resident in 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 plus lines 656 and 660 from the T2 return	_____	V
In any other case, the lesser of c and d below:		
c) line 600 from the T2 return _____ \times $\frac{\text{line 650 (of this schedule)}}{\text{line 500 (of this schedule)}}$ = _____		
d) line 700 plus lines 656 and 660 from the T2 return	_____	W
Current year surtax credit – enter V or W, whichever applies	_____	830

Part 9 – Calculation of Part I.3 tax credit available for carry-forward

Amount at line 830		X
Less: Part I.3 tax before deducting surtax credits (line 820)		Y
	Net amount	
If amount Y is <i>positive</i> : this excess may be used to reduce Part VI tax payable to the extent that the Part VI tax payable exceeds Part I tax credits on page 4 of Schedule 38		Z
If amount Y is <i>negative</i> : this represents the amount of unused surtax credit for 1992 and subsequent taxation years that may be carried forward (from previous years) to reduce Part I.3 tax payable in the current year		AA
Part I tax before deducting Part VI tax credits and Part I.3 tax credits		
Less the total of: Amount X above		
Part VI tax before deducting tax credits (amount FF on page 4 of Schedule 38)		
	Net amount	
Lesser of amounts Z and BB. This represents the maximum amount of Part I.3 tax credit that may be carried forward from tax years prior to 1992 and applied this year to reduce Canadian surtax payable (refer to Part 1 of Schedule 37 for unused Part I.3 tax credit balance)		CC
Note: The portion of amount CC carried forward should be entered at line 660 of the T2 return.		

Part 10 – Calculation of current year unused surtax credit

Amount Y (if positive)		
Less: Part I.3 tax credits claimed and carried forward from taxation years prior to 1992 (see amount CC)		DD
	Net amount	
Net amount from Part 11 on page 4 of Schedule 38		
Less the total of: Amount FF from line 830 of Schedule 38		
Amount X above		
	Net amount	
Current year unused surtax credit – the lesser of amounts DD and EE. Enter on Schedule 37	850	

Part 11 – Calculation of net Part I.3 tax payable

Gross Part I.3 tax (line 820)		FF
Deduct		
Current year surtax credit applied (the lesser of lines 820 and 830)	861	
Unused surtax credit from prior years applied	862	
Total (cannot exceed amount at line 820)		GG
Net Part I.3 tax payable (amount FF minus amount GG) (enter this amount at line 704 of the T2 return)	870	

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 Regulations 8605(1)(b) and 8605(1)(c)		(4) Any additional surplus contributed into the subsidiary per Regulation 8605(1)(d)	(5) Amounts to be included in clause 181.3(1)(c)(ii)(A)(II) Columns (2) - [(3)+(4)]	(6) Amounts to be included in clause 181.3(1)(c)(ii)(A)(III) Columns (3) - (2)	(7) Reserve liabilities per Regulation 8605(3) and included in 181.3(1)(c)(ii)(A)(V)
			Capital	Long-term debt				
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								

Totals	HH	II	JJ
	(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 per subparagraph 181.3(3)(b)(ii)	(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) The equity and consolidation methods of accounting cannot be used.
- 2) Complete table 2 as if the foreign insurance subsidiary was resident in Canada throughout the year.
- 3) Include in column (3), table 1, the cost of investments in respect of share capital or long-term debt.
- 4) The amount in column (5), table 1, for each subsidiary, cannot be less than zero.
- 5) Complete amounts as if the foreign life insurance subsidiary had to report to the Office of the Superintendent of Financial Institutions for that year.
- 6) Where a corporation has elected to apply the amendment to subparagraph 190.11(b)(i) to its 1991 and subsequent taxation years, the amendment under clause 181.3(1)(c)(ii)(A) will also apply to the corporation for those years.