SCHEDULE 38
Code 0602

PART VI TAX ON CAPITAL OF FINANCIAL INSTITUTIONS (2006 and later tax years)

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

- This schedule is for use by a corporation that is a financial institution at any time during the year and is liable to pay capital tax under Part VI or would be liable if not for the deduction under subsection 190.1(3) of the *Income Tax Act*.
- "Financial institution," "long-term debt," and "reserves" have the meanings assigned by subsection 190(1).
- Parts, sections, subsections, subparagraphs, and clauses referred to on this schedule are from the federal *Income Tax Act* and the *Income Tax Regulations*.
- This schedule may contain changes that had not yet become law at the time of publishing.

Part 1 – Capital

To be completed by a financial institution other than an authorized foreign bank or a non-resident life insurance corporation

Add the following amounts as at the end of the year:

Reserves, except to the extent that they were deducted in computing income under Part I for the year (see note below)	101			
Long-term debt	102			
Capital stock (for a corporation incorporated without share capital, its members' contributions)	103			
Retained earnings	104			
Contributed surplus	105			
Any other surpluses	106			
Subtotal			►	A

Deduct:

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 redeeming preferred shares) at the end of the year	122			
Deductions			►	B

Capital for the year (amount A **minus** amount B) (if negative, enter "0") 190

Note: When calculating a life insurance corporation's capital for the year, do not add reserves.

To be completed by an authorized foreign bank

Add the following amounts at the end of the year for 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	201	
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*	202	

Capital for the year (line 201 **plus** line 202) 290

*Office of the Superintendent of Financial Institutions

Part 1 – Capital (continued)

To be completed by a life insurance corporation that was a non-resident of Canada throughout the year

The total of the following amounts computed at the end of the year:

The amount that is the greater of:

a) The amount, if any, by which its surplus funds derived from operations (as defined in subsection 138(12)) as of 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 previous tax year, except the part, 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; and ..... 301 ________

b) The attributed surplus for the year ..... 302 ________ ________ C

Any other surpluses relating to insurance businesses carried on in Canada ..... 303 ________ D

Long-term debt that may reasonably be regarded as relating to insurance businesses carried on in Canada ..... 304 ________ E

Capital for the year (total of amounts C, D, and E) ..... 306 ________ F

Complete lines G to I if one of the following conditions applies:

- the tax year starts before October 1, 2006; or
- you want to carry back unused Part I tax credits from a tax year starting after September 30, 2006, to a tax year ending before July 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 ..... 331 ________ G

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 made by the corporation ..... 343 ________

Total deductions (**add** lines 341, 342, and 343) ________ ► ________ H

Difference (amount G **minus** amount H) (if negative, enter "0") ..... ________ ► ________ I

Capital for the year with adjustment for reserves (amount F **plus** amount I) ..... 390 ________

Part 2 – Investments in related financial institutions

To be completed by a financial institution that was resident in Canada at any time in the year, by a life insurance corporation that was a non-resident of Canada throughout the year (see note 2 below), or by an authorized foreign bank (see note 3 below)

Add the carrying value at the end of the year of the following eligible investments of the financial institution. For an insurance corporation, include only eligible investments that are non-segregated property.

Any share of the capital stock of the related financial institutions ..... 401 ________

Any long-term debt of the related financial institutions ..... 404 ________

Subtotal (**add** lines 401 and 404) ________ ► ________ J

Plus: The amount of any surplus of the related financial institutions contributed by the corporation and not reflected in the carrying value of shares and long-term debts above ..... 411 ________ K

Total investments in related financial institutions (amount J **plus** amount K) ..... 490 ________

Notes:

1) The eligible investments of the corporation should include only those of related financial institutions that are resident in Canada or are using the surplus or proceeds of the share or debt in a business carried on by the related financial institution through a permanent establishment in Canada.

2) In the case of a life 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 (or amount of surplus contributed in the year) in the course of carrying on an insurance business in Canada.

3) 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 and should include only those used or held in the year (or amount of surplus contributed) by the corporation in the year in the course of carrying on its Canadian banking business.

Part 3 – Taxable capital

Complete this part if the tax year starts after September 30, 2006.

Capital for the year (line 190, 290 or 306 from page 1 or 2, whichever applies)		
Deduct: Total investments in related financial institutions (amount from line 490 on page 2)		
Taxable capital for the year (if negative, enter "0")	501	

Part 4 – Taxable capital employed in Canada

To be completed by a life insurance corporation that was resident in Canada at any time in the year

Complete this part if the tax year starts after September 30, 2006.

Taxable capital for the year (amount from line 501)				
Add: Total of amounts described in clause 190.11(b)(i)(B) (amount III on page 9)	551			
Subtotal				
Deduct: Total of amounts described in clause 190.11(b)(i)(C) (amount JJJ on page 9)	555			
Total			▶	L
Canadian reserve liabilities at year-end			552	M
Total reserve liabilities at year-end			553	N
Total of amounts described in clause 190.11(b)(i)(E) (amount from line KKK on page 9)			554	O
Taxable capital employed in Canada = (L × M) ÷ (N + O)			591	

To be completed by a financial institution other than a life insurance corporation

Taxable capital for the year (line 501) ________ × (Canadian assets at the end of the year **650** / Total assets at the end of the year **655**) ________ = **Taxable capital employed in Canada** **691** ________

To be completed by a life insurance corporation that was a non-resident of Canada throughout the year

Taxable capital employed in Canada (enter the amount from line 501) **791** ________

Part 5 – Taxable capital with adjustment for reserves

Complete this part if one of the following conditions applies:

- the tax year starts before October 1, 2006; or
- you want to carry back unused Part I tax credits from a tax year starting after September 30, 2006, to a tax year ending before July 1, 2006.

Capital for the year (line 190, 290 or 390 from page 1 or 2, whichever applies)		
Deduct: Total investments in related financial institutions (amount from line 490 on page 2)		
Taxable capital for the year with adjustment for reserves (if negative, enter "0")	500	

Part 6 – Taxable capital employed in Canada with adjustment for reserves

To be completed by a life insurance corporation that was resident in Canada at any time in the year

Complete this part if one of the following conditions applies:

- the tax year starts before October 1, 2006; or
- you want to carry back unused Part I tax credits from a tax year starting after September 30, 2006, to a tax year ending before July 1, 2006.

Taxable capital for the year (amount from line 500) . . . . ______

Add: Total of amounts described in clause 190.11(b)(i)(B) (amount III from page 9) . . . . **521** ______

Subtotal ______

Deduct: Total of amounts described in clause 190.11(b)(i)(C) (amount JJJ from page 9) . . . **525** ______

Total ______ ► ______ P

Canadian reserve liabilities at year-end . . . . **522** ______ Q

Total reserve liabilities at year-end . . . . **523** ______ R

Total of amounts described in clause 190.11(b)(i)(E) (amount KKK from page 9) . . . . **524** ______ S

Proportion of capital over reserve liabilities = (P × Q) ÷ (R + S) . . . . **530** ______ T

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** ______ U

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 made by the corporation . . . . **543** ______

Total deductions (**add** lines 541, 542, and 543) ______ ► ______ V

Difference (amount U **minus** amount V) (if negative, enter "0") . . . . ______ ► ______ W

Taxable capital employed in Canada with adjustment for reserves (amount T **plus** amount W) . . . . **590** ______

To be completed by a financial institution other than a life insurance corporation

Taxable capital for the year (line 500) ______ × $\dfrac{\text{Canadian assets at the end of the year (611)}}{\text{Total assets at the end of the year (612)}}$ ______ = **Taxable capital employed in Canada** **690** ______

To be completed by a life insurance corporation that was a non-resident of Canada throughout the year

Taxable capital employed in Canada (enter the amount from line 500) . . . . **790** ______

Part 7 – Calculation of current-year Part I tax credits

- Corporations can claim a credit against their Part VI tax for an amount that is equal to the portion of their Part I tax payable that exceeds the lesser of their Canadian surtax payable for the year and their gross Part I.3 tax. This is called a Part I tax credit.
- Unused Part I tax credit can be carried back three years or carried forward seven years. Any unused Part I tax credit must be applied in order, with the oldest applied first.
- If 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, see subsection 190.1(6) when calculating the amount deductible under Part VI for a corporation's unused surtax and Part I tax credits.

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

Deduct the lesser of:

Canadian surtax payable for the year (amount from line 830 of Schedule 34 or line 830 of Schedule 35) . . . . ______ Y

Gross Part I.3 tax (amount from line 820 of Schedule 34 or line 820 of Schedule 35) . . . . ______ Z

Enter amount Y or Z, whichever is less ______ ▶ ______ AA

Current-year Part I tax credit (amount X **minus** amount AA) (if negative, enter "0") . . . . **840** ______

Part 8 – Capital deduction – for the period before July 1, 2006

Complete this part if one of the following conditions applies:

- the tax year starts before July 1, 2006; or
- you want to carry back unused Part I tax credits from a tax year ending after June 30, 2006, to a tax year ending before July 1, 2006.

Basic amount 200,000,000

Add the lesser of:

i) . . . . 20,000,000 BB

AND

ii) The taxable capital employed in Canada for the year (line 590, 690, or 790 from page 4) (see note 1) . . . . ______

Deduct 200,000,000

Subtotal ______ × 1/5 = ______ CC

Lesser of amounts BB and CC . . . . ______

Capital deduction – for the period before July 1, 2006 . . . . ______ DD

Capital deduction claimed by this institution – for the period before July 1, 2006 (see note 2) . . . . ______ EE

Notes:

1. For financial institutions that are related at the end of the year, the taxable capital employed in Canada is generally equal to the total of the taxable capital employed in Canada of each member institution of the related group for the year.

2. For a financial institution that is not related to another financial institution at the end of the year, the "Capital deduction claimed by this institution" is amount DD calculated above. For financial institutions that are related at the end of the year, an agreement can be filed on behalf of the related group to allocate the capital deduction among the members of the group. If such an agreement is made, Schedule 39 must be completed and filed with this schedule and the "Capital deduction claimed by this institution" is the amount allocated to it in column 400 of Schedule 39. Where a financial institution has more than one tax year ending in the same calendar year and in two or more of those tax years is related at the end of the year to another financial institution that has a tax year ending in the same calendar year, the capital deduction of the financial institution for each tax year is the capital deduction for its first tax year.

Part 9 – Calculation of gross Part VI tax – for the period before July 1, 2006

Complete this part if one of the following conditions applies:

- the tax year starts before July 1, 2006; or
- you want to carry back unused Part I tax credits from a tax year ending after June 30, 2006, to a tax year ending before July 1, 2006.

Taxable capital employed in Canada (line 590, 690, or 790 from page 4) . . . . ______

Deduct: Capital deduction claimed by the institution (amount EE from Part 8) . . . . **804** ______

Excess amount (if negative, enter "0") . . . . **814** ______

Amount from line 814 . . . . ______ × 0.0125 = ... **824** ______ FF

If the tax year of the corporation is less than 51 weeks, calculate the gross Part VI tax as follows:

Amount FF . . . . . ______ × $\frac{\text{Number of days in the tax year ( )}}{365}$ = ... ______ GG

Gross Part VI tax – for the period before July 1, 2006 (enter amount FF or amount GG, whichever applies) . . . . **830** ______ HH

Part 10 – Calculation of unused Part I tax credit carried forward from previous years that can be applied this year – for the period before July 1, 2006

Complete this part if the tax year starts before July 1, 2006.

Gross Part VI tax (line 830 above) . . . . ______

Deduct: Current-year Part I tax credit (line 840 from page 5) . . . . ______

Excess ______ II

Balance of unused Part I tax credit carried forward from previous years (amount A from Schedule 42) . . . . ______ JJ

Unused Part I tax credit that can be carried forward and applied this year – for the period before July 1, 2006 . . . . ______ KK
(amount II or JJ, whichever is less)

Part 11 – Calculation of net Part VI tax payable – for the period before July 1, 2006

Complete this part if one of the following conditions applies:

- the tax year starts before July 1, 2006; or
- you want to carry back unused Part I tax credits from a tax year ending after June 30, 2006, to a tax year ending before July 1, 2006.

Gross Part VI tax (line 830 above) . . . . ______ LL

Deduct:

Part I tax credit applied from:

the current year (line 830 or line 840, whichever is less) . . . . **881** ______

previous years (cannot be more than amount KK above) . . . . **882** ______

Surtax credit applied from previous years (cannot be more than amount A on Schedule 37) **887** ______

Subtotal (**add** lines 881, 882, and 887) ______ ▶ ______ MM

Amount LL **minus** amount MM . . . . ______ NN

Net Part VI tax payable – for the period before July 1, 2006:

Amount NN ______ × $\frac{\text{Days in the tax year before July 1, 2006 ( )}}{\text{Days in the tax year ( )}}$ = ... ______ OO

Part 12 – Calculation of gross Part VI tax – for the period after June 30, 2006

Complete this part for **all** tax years ending after June 30, 2006.

Taxable capital employed in Canada
(For tax years starting before October 1, 2006, enter amount from line 590, 690, or 790, whichever applies.
For tax years starting after September 30, 2006, enter amount from line 591, 691, or 791, whichever applies.) . . . . ________

Deduct: Capital deduction claimed by this institution (see note below) . . . . **805** ________

Excess amount (if negative, enter "0") . . . . **815** ________

Amount from line 815 . . . . ________ × 0.0125 = ... **825** ________ PP

If the tax year of the corporation is less than 51 weeks, calculate the gross Part VI tax as follows:

Amount PP . . . . . ________ × $\frac{\text{Number of days in the tax year (\quad)}}{365}$ = ... ________ QQ

Gross Part VI tax – for the period after June 30, 2006 (enter amount PP or amount QQ, whichever applies) . . . . **831** ________ RR

Note: For a financial institution that is not related to another financial institution at the end of the year, the "Capital deduction claimed by this institution" is $1,000,000,000. For financial institutions that are related at the end of the year, an agreement can be filed on behalf of the related group to allocate the capital deduction among the members of the group. If such an agreement is made, Schedule 39 must be completed and filed with this schedule and the "Capital deduction claimed by this institution" is the amount allocated to it in column 450 of Schedule 39. Where a financial institution has more than one tax year ending in the same calendar year and in two or more of those tax years is related at the end of the year to another financial institution that has a tax year ending in the same calendar year, the capital deduction of the financial institution for each tax year is the capital deduction for its first tax year.

Part 13 – Calculation of unused Part I tax credit carried forward from previous years that can be applied this year – for the period after June 30, 2006

Complete this part for **all** tax years ending after June 30, 2006.

Gross Part VI tax (line 831 above). . . . . ________

Deduct: Current-year Part I tax credit (line 840 from page 5) . . . . ________

Excess ________ SS

Balance of unused Part I tax credit carried forward from previous years (amount A from Schedule 42) . . . . ________ TT

Unused Part I tax credit that can be carried forward and applied this year – for the period after June 30, 2006 . . . . ________ UU
(amount SS or TT, whichever is less)

Part 14 – Calculation of net Part VI tax payable – for the period after June 30, 2006

Complete this part for **all** tax years ending after June 30, 2006.

Gross Part VI tax (line 831 above) . . . . ________ VV

Deduct:

Part I tax credit applied from:

the current year (line 831 or line 840, whichever is less) . . . . **883** ________

previous years (cannot be more than amount UU above) . . . . **884** ________

Surtax credit applied from previous years (cannot be more than amount A on Schedule 37) **885** ________

Subtotal (**add** lines 883, 884, and 885) ________ ▶ ________ WW

Amount VV **minus** amount WW . . . . ________ XX

Net Part VI tax payable – for the period after June 30, 2006:

Amount XX ________ × $\frac{\text{Days in the tax year after June 30, 2006 (\quad)}}{\text{Days in the tax year (\quad)}}$ = ... ________ YY

Part 15 – Calculation of total net Part VI tax payable

Net Part VI tax payable for the period before July 1, 2006 (amount OO from Part 11)		ZZ
Net Part VI tax payable for the period after June 30, 2006 (amount YY from Part 14)		AAA
Total net Part VI tax payable (amount ZZ **plus** amount AAA)	890	

Enter this amount at line 720 of the T2 return.

Part 16 – Calculation of current-year unused Part I tax credit

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

Deduct:

Line 830 ______ × $\frac{\text{Days in the tax year before July 1, 2006 ( )}}{\text{Days in the tax year ( )}}$ = ______ BBB

Line 831 ______ × $\frac{\text{Days in the tax year after June 30, 2006 ( )}}{\text{Days in the tax year ( )}}$ = ______ CCC

Canadian surtax payable for the year (amount from line 830 of Schedule 34 or line 830 of Schedule 35) .... ______ DDD

Subtotal (**add** amounts BBB, CCC, DDD) ______ ► ______

Current-year unused Part I tax credit (if negative, enter "0") .... 870 ______

Enter this amount at line 600 on Schedule 42.

Part 17 – Calculation of current-year unused Part I tax credit from a tax year ending after June 30, 2006, that can be carried back to a tax year ending before July 1, 2006

Current-year unused Part I tax credit (line 870 above) .... ______ EEE

Deduct:

*Amount NN from Part 11 .... ______ FFF

Less: Total net Part VI tax payable (from line 890 above) .... ______ GGG

Excess (amount FFF **minus** amount GGG) .... ______ ► ______ HHH

Current-year unused Part I tax credit from a tax year ending after June 30, 2006, that can be carried back to a tax year ending before July 1, 2006 (amount EEE **minus** amount HHH) (if negative, enter "0") .... 871 ______

Complete Schedule 42 to request the carryback.

*This amount is the net Part VI tax payable for the current year using the rules applicable to the 2005 tax year.

Complete the following tables to determine the amounts to use in Part 4, on page 3, or Part 6, on page 4, in calculating 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 clause 190.11(b)(i)(B) Columns (2) - [(3)+(4)]	Amounts to be included in clause 190.11(b)(i)(C) Columns [(3)+(4)] - (2)	Reserve liabilities per Regulation 8605(3) to be included in clause 190.11 (b)(i)(E)
			Capital stock	Long-term debt				
1.								
2.								
3.								
4.								
5.								
6.								
7.								
8.								

	III	JJJ	KKK
Totals			
	(enter on page 3 or 4, whichever applies)	(enter on page 3 or 4, whichever applies)	(enter on page 3 or 4, whichever applies)

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) in 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).