Canada Revenue Agency | Agence du revenu du Canada

2007 Supplement to the 2006 T4068 – *Guide for the T5013 Partnership Information Return*

You may need a copy of the 2006 T4068, *Guide for the T5013 Partnership Information Return*, along with this supplement to complete your 2007 Partnership Information Return.

T4068-1(E)

Canada

Before you start

Is this guide for you?

The purpose of this publication is to inform partnerships of the changes that may affect them for the 2007 tax year. Since few changes affect the 2007 Partnership Information Return for most partnerships, this supplement containing the changes and corrections for the 2007 tax year is being published rather than a full guide as in previous years.

The 2006 T4068, *Guide for the T5013 Partnership Information Return*, and this 2007 supplement contain the information needed to complete the 2007 T5013 partnership information return which, starting for the 2007 tax year, is also a Part IX.1 tax return for specified investment flow-through (SIFT) partnerships (see page 3). If you did not keep your 2006 guide, you can download a copy from our Web site at **www.cra.gc.ca/forms** or call **1-800-959-2221** to get a printed copy.

The 2006 versions of Forms T5013, T5013A and other partnership forms will not be revised for 2007. Any references in this supplemental guide to corrections for partnership forms and the T4068 guide relate to the 2006 versions which have to be used for filing the 2007 partnership information return.

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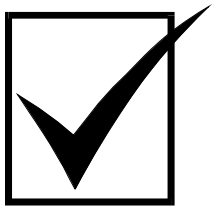

We review our publications every year. If you have any comments or suggestions that would help us improve them, we would like to hear from you.

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La version française de cette publication est intitulée *Supplément 2007 au T4068 – Guide pour la déclaration de renseignements des sociétés de personnes T5013 de 2006*.

What's new for 2007

T5013 information slip reporting for publicly traded partnerships

On July 4, 2007, Canada's Minister of Finance released draft legislation and explanatory notes for legislative amendments first proposed in the 2007 federal budget requiring the disclosure by publicly traded partnerships of information enabling investment managers to prepare information slips to investors on a timely basis.

These proposed changes to the *Income Tax Act* (the Act) and *Income Tax Regulations* (the Regulations) have since become law and apply to information in respect of taxation years or fiscal periods that end on or after July 4, 2007. New section 229.1 of the Regulations requires a **public partnership** or a **public investment partnership** to make information available with respect to allocations of income, losses, and capital so that the T5013 information return and related slips can be prepared on a timely basis.

This information is to be made available by posting it by the due date (explained below) on the Web site of CDS Innovations Inc., a subsidiary of the Canada Depository for Canadian Securities Limited. Partnerships that require access to the site's upload facility in this respect should send an email request to **cdsinnovations@cds.ca**.

Please note that this reporting requirement is separate from and does not replace the CRA filing requirements and due date for the T5013 partnership information return.

A "public partnership," at any time, means a partnership the partnership interests in which are, at that time, listed on a designated stock exchange in Canada if, at that time, the partnership carries on a business in Canada or is a Canadian partnership.

A "public investment partnership," at any time, means a public partnership of which 90% or more of the fair market value of the partnership property is, at that time, attributable to the fair market value of property of the partnership that is any of the following:

(a) units of public trusts (as defined in new subsection 204.1(1) of the Regulations);

(b) partnership interests in public partnerships;

(c) shares of the capital stock of public corporations; or

(d) any combination of properties referred to in paragraphs (a) to (c) above.

The **due date** for posting the required information is as follows:

- in the case of a **public partnership** that is **not** a public investment partnership, the day that is 60 days after the end of the fiscal period, or
- in the case of a public partnership that **is** a **public investment partnership**, the day that is 67 days after the end of the calendar year in which the fiscal period ends.

For background information, refer to News Release **2007-058** dated July 4, 2007, at the Department of Finance Canada Web site at **www.fin.gc.ca/news07/07-058e.html**.

Changes for specified investment flow-through (SIFT) partnerships

On October 31, 2006, the Minister of Finance announced a proposed distribution tax that would apply to certain publicly-traded partnerships and income trusts. Legislative amendments to the Act and the Regulations pertaining to these proposals have since been passed in Parliament under Bill C-52 and have become law.

Previously, only members of a partnership were generally subject to tax. Under the new rules, a partnership that is a **specified investment flow-through (SIFT) partnership** is liable to pay tax under new Part IX.1, section 197 of the Act. In this case, the T5013 Summary (or "partnership information return") is now considered as the Part IX.1 partnership tax return which is required to be filed by a SIFT partnership under subsection 197(4).

For more details about the tax treatment of SIFT partnerships, see the heading "SIFT partnerships" on page 5.

Corrections to the T4068, *Guide for the T5013 Partnership Information Return*

Correction to "Partnerships that have to file a T5013 *Partnership Information Return*"

On page 11 of the 2006 T4068 guide, under the heading mentioned above, the third bullet that states "it was a partnership which had a member that was a corporation or trust" should be disregarded. The same applies to Example 3 on page 11.

Similarly, with respect to partnerships that do **no**t have to file a T5013 partnership information return, under the heading "Five partners or fewer" at the top of page 13, the second bullet that states "**none** of the partners is a corporation or trust" should be disregarded.

Note
These filing requirements will be re-examined during the next revision of the T4068 guide and any further changes will be communicated by the Canada Revenue Agency (CRA).

Foreign tax credits – Correction to references to "Lines 431 and 433"

For 2007, the *General Income Tax and Benefit Guide* for preparing individuals' personal income tax returns no longer has a reference to "Lines 431 and 433" for the purposes of the federal foreign tax credit calculation as these lines no longer exist on the Schedule 1, *Federal Tax*. Instead, it refers readers to Form T2209, *Federal Foreign Tax Credits*.

Consequently, the partnership forms and related instructions for information slips should also refer readers to Form T2209 instead of referring them to "Lines 431 and 433." Corrections will be made on the next revisions.

Corrections are also required to the generic box instructions for box 26-1 for the purpose of foreign tax credits, as explained below.

Reassignment of Box 26-1 and introduction of a new generic Box 26-2

For 2006, the T4068 guide omitted to include instructions for a generic box for "Foreign net rental income (loss)" to permit partners to calculate their foreign tax credits, where applicable. This affects the T5013 Summary and the T5013 and T5013A slips.

Consequently, for those partnerships that have foreign rental income or losses, the following changes apply:

Box 26-1 is changed to "Foreign net rental income (loss)" Its new instructions are as follows:

All partners – Enter the partner's share of the foreign rental income (or loss) already included in box 26. Report all amounts in Canadian dollars. Complete a generic box to identify each foreign country. For information on the generic box number, see the section called "Income from foreign countries" on page 29.

Box 26-2 is a new box but it now has the same information as the old box 26-1. Box 26-2 is now "Foreign rental income that is exempt from Canadian tax due to a tax convention or agreement". Its instructions are as follows:

All partners – Enter any part of foreign rental income that is exempt from Canadian tax due to a tax convention or agreement. Complete a generic box to identify each foreign country. For information on the generic box number, see the section called "Income from foreign countries" on page 29. The partner needs this information to complete Form T2209.

When partners are issued T5013 or T5013A slips containing generic boxes 26-1 and 26-2 in respect of foreign rental income or losses according to the preceding information, new instructions have to be given to the partner as the instructions sheets T5013-INST and T5013A-INST will not be revised for 2007.

In these cases, give the recipient of the T5013 slip, *Statement of Partnership Income*, or T5013A slip, *Statement of Partnership Income for Tax Shelters and Renounced Resource Expenses*, a copy of the note in the following box:

Instructions for recipient:

26-1 Foreign net rental income (loss) – These amounts are included in box 26. Use these amounts to calculate your foreign tax credit for the country named. For details, see forms T2209, *Federal Foreign Tax Credits*, and T2036, *Provincial or territorial Foreign Tax Credit*.

26-2 Foreign rental income that is exempt from Canadian tax due to a tax convention or agreement – These amounts are included in box 26-1. Use these amounts to calculate your foreign tax credit for the country named. For details, see forms T2209, *Federal Foreign Tax Credits*, and T2036, *Provincial or territorial Foreign Tax Credit.*

Other corrections

On page **35**, the last sentence of the first paragraph for completing Box 22-1 should state "If this amount is zero, the limited partner cannot claim any losses shown in boxes 20, 21, 22 and 23."

On page **37**, the information for the following boxes should reflect the following additional underlined text:

Canadian and foreign net business income (loss)

- **Box 35** – Business income (loss)
  All partners (other than limited partners)
- **Box 41** – Farming income (loss)
  All partners (other than limited partners)
- **Box 43** – Fishing income (loss)
  All partners (other than limited partners)

Canadian and foreign investments and carrying charges

- **Box 26** – Canadian and foreign net rental income (loss)
  All partners (other than limited partners)

Resource allowance deduction no longer available

For tax years that begin after December 31, 2006, the resource allowance deduction is no longer available.

Information about the amount eligible for a resource allowance deduction for prior tax years is available on page 42 of the T4068 guide under the heading "Box 95 – amount eligible for a resource allowance deduction."

Outdated references to the "CAIS program"

Further to the news release issued on July 4, 2007, by the Minister of Agriculture and Agri-Food, the Canadian Agricultural Income Stabilization (CAIS) Program is being replaced by a number of business risk management programs that have different names. Consequently, the references in the T4068 guide to the "CAIS program" should instead read the "AgriStability and AgriInvest programs."

Also, any references to publications or forms with "CAIS program" in the title should now be read as having "AgriStability and AgriInvest Program(s)" in the publication or form title.

Reporting of dollars and cents

On page 29 of the 2006 T4068 guide, the last bullet in the right-hand column states "Do **not** use a period to separate dollars and cents."

However, with respect to the 2006 T5013 and T5013A slips, since there is no grey shading provided on the forms to distinguish the cents from the dollars, the sentence should instead read "Use a **space** to separate dollars and cents."

Filer Identification Numbers

In Chapter 3 on page 10 of the T4068 guide, it states that the CRA issues (or has issued) filer identification numbers starting with the letters **HA**, **AA**, **CA**, and **GA**. Starting in 2008, the CRA will also be issuing filer identification numbers starting with the letters **HB**.

Corrections to T5013-INST, S*tatement of partnership income – Instructions for recipient*

Reassignment of Box 26-1 and new Box 26-2

For 2006, the T5013-INST instruction sheet omitted to include instructions for a generic box for "Foreign net rental income (loss)" to permit partners to calculate their foreign tax credits, where applicable. See the new instructions on page 4 for reporting amounts in boxes 26-1 and 26-2.

Corrections for T5013 Schedule 6, *Summary of Dispositions of Capital Property*

Line R should be revised to specify "add lines A to M and O to Q."

Corrections for T5013 Schedule 50, *Reconciliation of Partner's Capital Account*

The instructions for Column 7 should be revised to state: "Capital account at start of fiscal period (from column 12 of previous year's form or of Form T5015)."

Corrections for T5013 Schedule 125, *Partnership's Income Statement Information*

On page 3, in the section for commonly used field codes, under "Farming revenue and expenses," code 9543 should state: "NISA payments (for limited partnerships only)."

Correction for Form T5013A, *Statement of Partnership Income for Tax Shelters and Renounced Resource Expenses*

Box 119 – Adjusted at-risk amount

When using or filling in the 2006 version of Form T5013A, Box 119 should be disregarded and this box will be removed with the next forms revision.

Corrections to T5013A-INST, *Statement of Partnership Income for Tax Shelters and Renounced Resource Expenses – Instructions for recipient*

Reassignment of Box 26-1 and new Box 26-2

For 2006, the T5013A-INST instruction sheet omitted to include a generic box and instructions for "Foreign net rental income (loss)" to permit partners to calculate their foreign tax credits, where applicable. See the new instructions above for reporting amounts in boxes 26-1 and 26-2.

SIFT partnerships

On December 20, 2007, Canada's Minister of Finance announced proposed technical amendments to clarify the Specified Investment Flow-Through Entity (SIFT) tax rules. As draft legislation for these proposals was not released as at the time of writing of this guide, the proposed changes have not been included in this guide. For more information, see news release **2007-106** at the Department of Finance Web site at: **www.fin.gc.ca/news07/07-106e.html**

Part IX.1 tax applies on a SIFT partnership's income from **non-portfolio property** and on income from **carrying on a business in Canada** (a more detailed explanation follows on page 6). The tax rate under Part IX.1 reflects the general federal corporate rate for the tax year minus the corporate rate reduction that would apply for the tax year and minus the provincial abatement for the taxable income earned in a province, plus a provincial SIFT factor of 13%.

The Part IX.1 tax payable by a SIFT partnership reduces the amount of income that will be subject to tax in the hands of the members of the partnership under Part I of the Act. The difference between the amount determined to be taxable under Part IX.1 and the Part IX.1 tax payable is deemed to be a dividend received by the partnership from a taxable Canadian corporation. The result is that members of the partnership who are Canadian-resident will be deemed to have received an "eligible dividend" that qualifies for the enhanced dividend tax credit (in the case of individuals) or that qualifies for inclusion in the General Rate Income Pool (in the case of corporations). A partner that is a corporation resident in Canada may also be eligible for a dividend deduction under section 112 of the Act.

Where a partnership would have been a "SIFT partnership" (as defined on page 6) had that definition been in force on October 31, 2006, the new rules for SIFT partnerships may be deferred until the partnership's 2011 tax year, unless the partnership exceeds the normal growth guidelines issued by the Department of Finance on December 15, 2006. See the section "Undue expansion and normal growth" on page 8.

The deferral to 2011 is accomplished by a provision that deems a SIFT partnership that would have existed on October 31, 2006, (had that definition been in force) **not** to be a SIFT partnership until its 2011 tax year **unless** it exceeds (after December 15, 2006) the normal growth guidelines issued by the Department of Finance Canada before its 2011 tax year, at which point it will be considered a SIFT partnership immediately.

For partnerships that would **not** have met the definition of a SIFT partnership on page 6 on October 31, 2006, the new rules are applicable for the first tax year of the partnership that ends **after 2006** in which the partnership meets the definition.

The following information provides more details on these new requirements:

What is a "SIFT partnership"?

A SIFT partnership is a partnership that meets the following conditions at any time in a tax year:

- the partnership is a **Canadian resident partnership** (see **Note 1** below);
- **investments in the partnership** are listed **or** traded on a stock exchange or other public market (see **Note 2** below); and
- the partnership holds one or more **non-portfolio properties** (see **Note 3** below).

Note 1
A "Canadian resident partnership" is a partnership that meets **any** of the following conditions:

(a) it is a Canadian partnership (a partnership of which all the members are resident in Canada);

(b) it would, if it were a corporation, be resident in Canada (including, for greater certainty, a partnership that has its central management and control in Canada); or

(c) it was formed under the laws of a province.

Note 2
"Investments in the partnership" means a property that is:

- a security of the partnership; or
- a right which may reasonably be considered to replicate a return on, or the value of, a security of the partnership (it also includes similar rights conferred by an entity **affiliated with** the partnership).

"Public market" is defined to include any trading system or other organized facility through which securities that are qualified for public distribution are listed or traded. Excluded from the definition, however, is any facility that operates solely for the issuance or redemption (or cancellation or acquisition) of a security by its issuer.

Note 3
In general, "portfolio investments" ordinarily refers to passive holdings such as stocks and bonds where the investor does not have active management or control of the securities issuer. The Act now also provides three important new definitions for the purposes of Part IX.1 tax – they are "taxable non-portfolio earnings," "non-portfolio earnings" and "non-portfolio property," as explained on this page and page 7.

How is Part IX.1 tax calculated?

Every partnership that is a "SIFT partnership" for a tax year is liable to a tax under Part IX.1 equal to the amount determined by the following formula:

A × (B + C)

where

A is the **taxable non-portfolio earnings** of the SIFT partnership for the tax year;

B is the **net corporate income tax rate** in respect of the SIFT partnership for the tax year; and

C is the **provincial** SIFT tax factor for the tax year (13%).

Amount "A"

The "taxable non-portfolio earnings" of a SIFT partnership (amount "**A**" in the preceding formula) means the lesser of the two following amounts:

(1) the amount that would be the SIFT partnership's income for the tax year, as determined under section 3, if it were a taxpayer for the purposes of Part I of the Act, as if subsection 96(1) did not include paragraph (d); **and**

(2) its **non-portfolio earnings** for the tax year.

As such, if a SIFT partnership has a net loss from a source that is **not** non-portfolio property, that loss will generally reduce the amount that is subject to Part IX.1 tax to the extent that it exceeds income from other sources (sources that are not non-portfolio properties). An example of an exception would be an allowable capital loss, if the partnership has no taxable capital gains against which to offset that loss.

Amount (1) above is calculated without reference to paragraph 96(1)(d) of the Act. For the purpose of calculating this limit, a SIFT partnership is permitted to claim deductions (and required to include amounts in income) under certain provisions of the Act applying to exploration, development and resource expenditures. Revenues and expenditures in tax years prior to the partnership becoming a SIFT partnership are not relevant to this calculation. Also, this calculation has no effect on the application of paragraph 96(1)(d) to members of the partnership under Part I of the Act.

The "non-portfolio earnings" of a SIFT partnership for a tax year means the total of the following two amounts:

(a) the amount, if any, by which

i. the total of all of the SIFT partnership's income for the tax year from any **business** carried on by it **in Canada** and income from any **non-portfolio property** (other than income that is a taxable dividend received by the SIFT partnership)

is greater than

ii. the total of all of the SIFT partnership's losses for the tax year from any business carried on by it in Canada and from any non-portfolio properties

and

(b) the amount, if any, by which all **taxable capital gains** of the SIFT partnership from dispositions of **non-portfolio properties** during the tax year exceeds **allowable capital losses** of the SIFT partnership for the tax year from dispositions of **non-portfolio properties** during the tax year.

The term "non-portfolio property" of a partnership for a tax year means any of the three following types of properties:

(1) a security of a "subject entity" (as defined on page 7) if at that time the partnership holds

i. securities of the subject entity that have a total fair market value that is **greater than 10%** of the **equity value** of the **subject entity**; or

ii. securities of the subject entity that, together with all of the securities that the partnership holds of entities affiliated with the subject entity, have a total fair market value that is **greater than 50%** of the **equity value** of the **partnership**;

(2) a Canadian real, immovable or resource property, if at any time in the tax year the total fair market value of all properties held by the partnership that are Canadian real, immovable or resource properties is **greater than 50%** of the **equity value** of the **partnership**; or

(3) any property that the partnership, or a person or partnership with whom the partnership does not deal at arm's length, uses at that time in the course of carrying on business in Canada.

The "equity value" of an entity at any time is the total fair market value of all interests in the entity at that time. More specifically, it is the total fair market value of all of the issued and outstanding shares of a corporation if the entity is a corporation, of all of the income or capital interests in a trust if the entity is a trust, or of all of the interests in a partnership if the entity is a partnership.

The term "subject entity" means:

(a) a corporation resident in Canada;

(b) a trust resident in Canada;

(c) a Canadian resident partnership; or

(d) a non-resident person, or a partnership that is not described in (c) above, whose principal source of income is one or any combination of sources in Canada.

Amount "B" and amount "C"

The "net corporate income tax rate" (amount "**B**" in the formula on page 6) is the federal corporate rate for a tax year provided under paragraph 123(1)(a) of the Act **minus** the general rate reduction that would apply to the tax year under subsection 123.4(1) and **minus** the abatement for the taxable income earned in a province, as provided under subsection 124(1).

An amount of 13% (amount "**C**") represents the provincial SIFT tax factor for the tax year.

Note: the 2008 federal budget proposes a change in the calculation of the provincial component of the SIFT tax for a SIFT entity's 2009 and subsequent tax years.

Deemed dividends from a SIFT partnership

Part IX.1 tax payable by a SIFT partnership reduces the amount of "taxable non-portfolio earnings" that will be included in the income of the partnership members. This is because paragraph 96(1.11)(a) modifies the wording of paragraph 96(1)(f) of the *Act* where Part IX.1 tax is payable so as to reduce the allocation of partnership income to a member of the partnership by an amount representing the member's share of the "taxable non-portfolio earnings."

A portion of that allocation is deemed by paragraph 96(1.11)(b) to be a dividend received by the SIFT partnership from a taxable Canadian corporation. The SIFT partnership is deemed to have received a dividend in the tax year from a taxable Canadian corporation equal to the amount by which the partnership's taxable non-portfolio earnings for the tax year exceeds the tax payable by the partnership for the tax year under Part IX.1. This deemed dividend is allocated to the members of the partnership in the same proportion as the taxable non-portfolio earnings.

The allocation of income or loss among partners is generally a matter of the partnership agreement. Paragraph 96(1)(f) ensures that the character of allocated income, which depends on the source of the income, is maintained in the hands of the partner. Subsection 96(1.11) effectively changes the amount and character of that source, but does not affect the allocation that would derive from the partnership agreement.

The definition of "eligible dividend" in subsection 89(1) of the Act is amended to include the deemed dividends from a SIFT partnership under subsection 96(1.11) so that they qualify for the enhanced dividend gross-up and the enhanced dividend tax credit for an individual who is resident in Canada (and for the General Rate Income Pool account for a corporation that is resident in Canada).

New subsection 197(3) ensures that the calculation of non-portfolio earnings, and the corresponding Part IX.1 tax, is not affected by the deeming provisions in subsection 96(1.11).

Foreign tax credits

Subsections 126(1) and (2) of the Act provide rules under which a taxpayer may deduct, from tax otherwise payable, credits in respect of foreign income tax that they have paid on foreign non-business income and foreign business income, respectively. In the case of foreign-sourced income of a partnership, the tax credit is available to members of the partnership.

Some partnerships may have foreign-sourced income that is "non-portfolio earnings" that are taxable under Part IX.1. For the purpose of the application of the Act to the members of the partnership, the amount of partnership non-portfolio earnings that is allocable to partners is reduced by the amount of Part IX.1 tax payable, and the balance is deemed to be a dividend received by the partnership from a taxable Canadian corporation.

New subsection 126(8) ensures that, for the purpose of calculating foreign tax credits under section 126, the full amount of the taxable dividend applicable to that foreign-sourced income that is nonportfolio earnings ("grossed-up" by subsection 82(1), if applicable) is included in the foreign tax credit calculation.

In addition, the dividend is clarified as being from a foreign source, regardless of paragraph 96(1.11)(b), to the extent that the non-portfolio earnings are from a foreign source.

How do I declare the dividends deemed to be eligible dividends under subsection 96(1.11)?

On the **T5013 Summary** of the Information Return of Partnership Income:

- On page 2 in the area "Canadian and foreign investments and carrying charges," add the total amount of dividends deemed to be eligible dividends received by the SIFT partnership under subsection 96(1.11) to **Box 52**, "Actual amount of eligible dividends; "

- On page 2 under "Canadian and foreign investments and carrying charges," in **Box 52-1**, "Taxable amount of eligible dividends," add an amount that is 45% more than the total proportion of dividends reported in Box 52 under subsection 96(1.11) that are allocated to partners who are **individuals resident in Canada** (other than a trust that is a registered charity), **partnerships** and **trusts** (do not enter an amount if the partner is a corporation); and
- On page 2 under "Canadian and foreign investments and carrying charges," in **Box 52-2**, "Dividend tax credit for eligible dividends," for partners who are **individuals resident in Canada, partnerships** and **trusts** (other than a trust that is a registered charity) add an amount that is 18.9655% of the amount entered in Box 52-1 above. Do not enter an amount in Box 52-2 if the partner is a corporation.

Follow the instructions in the 2006 T4068 guide for completing boxes **52, 52-1**, and **52-2** on the information slips **T5013**, *Statement of Partnership Income*, and **T5013A**, *Statement of Partnership Income for Tax Shelters and Renounced Resource Expenses*. Box 52 on the T5013 and T5013A slips include the partner's share of amounts deemed to be eligible dividends received by a SIFT partnership based on the subsection 96(1.11) requirements and boxes 52-1 and 52-2 have to be completed accordingly.

How is the Part IX.1 tax declared?

Once you have calculated the Part IX.1 tax according to the formula provided under section 197 of the Act (see page 6), the Part IX.1 tax payable and related information is entered on the **T5013 Summary** on page 2, as follows:

- using the generic lines with a blank box where amounts can be entered in the "Other amounts and information" area, enter "**Part IX.1 tax**", use box number "**80-1**", and enter the amount of Part IX.1 tax payable for the tax year;
- using the generic lines with a blank box where amounts can be entered in the "Other amounts and information" area, enter "**Taxable NPF**", use box number "**80-2**", and enter the amount of taxable non-portfolio earnings for the tax year (amount "A" in the calculation on page 6).

Filing and payment due date for Part IX.1 tax

The Part IX.1 tax return is required to be filed on or before the deadline for which the partnership information return is required to be filed for the year under subsection 229(1) of the Regulations.

Where Part IX.1 tax applies for a tax year, the partnership has to file the Part IX.1 tax return **and** partnership information return.

You may choose to file a Part IX.1 tax return separately from the partnership information return. In this case, use a **separate T5013 summary**, mark "Part IX.1 tax return" at the top of the form, complete the identification area and fill in the rest of the form following the instructions under the above heading, "How is the Part IX.1 tax declared?"

If you choose to file a Part IX.1 tax return on a separate T5013 summary form, follow the instructions under the heading "How do I declare the dividends deemed to be eligible dividends under subsection 96(1.11)?" only when you complete the partnership information return (attach a note indicating you are filing a Part IX.1 tax return separately). This will avoid potential problems and duplication in issuing partners the income information slips.

New subsection 197(4) provides that, for tax years in which Part IX.1 tax is payable by a SIFT partnership, every person who was a member of the partnership in that year is responsible for the filing of the Part IX.1 return. However, if a member of the partnership who has authority to act for the partnership files the required return, subsection 197(5) provides that only that return need be filed.

The Part IX.1 tax payable by a SIFT partnership has to be paid no later than the filing due date for the partnership information return. Attach a cheque or money order payable to the Receiver General to the Part IX.1 tax return with the partnership's **filer identification number** and "**SIFT-Part IX.1**" written on the cheque or money order.

Section 197 provides that applicable penalties and interest may apply to overdue returns and payments for Part IX.1 tax.

Undue expansion and normal growth

The deferral to tax year 2011 of the measures applicable to SIFT partnerships that would have existed on October 31, 2006, (had that definition been in force) is conditional on a SIFT partnership's expansion not exceeding the "normal growth" guidelines issued by the Department of Finance on December 15, 2006.

Specifically, the Department of Finance will not recommend any change to the 2011 deferral date in respect of any SIFT whose equity capital grows as a result of issuances of new equity, in any of the intervening periods described below, by an amount that does not exceed the greater of $50 million and an objective "safe harbour" also described below.

The safe harbour amount will be measured by reference to a SIFT's market capitalization as of the end of trading on October 31, 2006. Market capitalization is to be measured in terms of the value of a SIFT's issued and outstanding publicly-traded units. For this purpose, it would not include debt (whether or not that debt carried a conversion right or was itself publicly-traded), options or other interests that were convertible into units of the SIFT.

For the period from November 1, 2006 to the end of 2007, a SIFT's safe harbour will be 40 percent of that October 31, 2006 benchmark. A SIFT's safe harbour for each of the 2008 through 2010 calendar years will be 20 percent of that benchmark, together allowing growth of up to 100 percent over the four-year transition period.

The following provide additional details of the Department of Finance's approach:

- The annual safe harbour amounts are cumulative: for example, a SIFT that issues no new equity in 2007 will as a result enjoy a greater safe harbour amount in 2008. The $50 million amounts, in contrast, are not cumulative.
- New equity for these purposes includes units and debt that is convertible into units; if attempts are made to develop other such substitutes for equity, those may be included as well.
- Replacing debt that was outstanding as of October 31, 2006 with new equity, whether through a debenture conversion or otherwise, will not be considered growth for these purposes. New, non-convertible debt can also be issued without affecting the safe harbour; however, the replacement of that new debt with equity will be counted as growth.
- An issuance by a SIFT of new equity will not be considered growth to the extent that the issuance is made in satisfaction of the exercise by another person or partnership of a right in place on October 31, 2006 to exchange an interest in a partnership, or a share of a corporation, into that new equity.
- The merger of two or more SIFTs each of which was publicly-traded on October 31, 2006, or a reorganization of such a SIFT, will not be considered growth to the extent that there is no net addition to equity as a result of the merger or reorganization.

References and links

The preceding information about the new SIFT provisions is to provide a simplified explanation of these changes affecting certain partnerships. For more details, see the text of Bill C-52 and the explanatory notes and information available at the Department of Finance Canada Web site at the following URL links:

Bill C-52:
www2.parl.gc.ca/HousePublications/Publication.aspx?Docid=3297650&file=4

Department of Finance explanatory notes:
www.fin.gc.ca/drleg/wmmBud07n_e.pdf

Proposed technical amendments to the SIFT legislation:
www.fin.gc.ca/news07/07-106e.html

For more information on the **Tax Fairness Plan** for publicly-traded partnerships and income trusts as announced by the Minister of Finance on October 31, 2006, refer to the following Web page:
www.fin.gc.ca/news06/06-061e.html

If you or any partner need more information about the Part IX.1 tax calculation or about the SIFT provisions affecting partnerships, call the **Income Tax Rulings** service at **613-957-8953**. As it is an automated telephone service, collect calls cannot be accepted. See the following link: **www.cra-arc.gc.ca/tax/taxprofessionals/services/menu-e.html**

Notes