Information Bulletin

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THE CORPORATION CAPITAL TAX ACT

ALLOWABLE DEDUCTIONS

This bulletin has been prepared to help corporations determine various deductions they may be entitled to when calculating taxable paid-up capital. It is a general guide and not a substitute for the legislation.

Changes to this bulletin are indicated by a (|) in the left margin.

The contents of this bulletin are presented under the following sections:

A. CAPITAL TAX EXEMPTIONS

There are two possible exemptions for Corporation Capital Tax as identified below. A total exemption of up to $20 million is available.

1. $10 Million Standard Exemption

All corporations are entitled to a base exemption of $10 million. This amount is deducted from the total Canadian paid-up capital in arriving at the taxable paid-up capital.

2. Additional Exemption

An additional exemption of up to $10 million is available for all corporations since January 1, 2005. Corporations have the option of deducting the additional exemption in determining taxable paid-up capital.

The additional exemption applies based upon the proportion of total salaries and wages that is paid in Saskatchewan by a taxable corporation and its associated corporations. If all of the salaries and wages of the corporation and its associated corporations are paid to Saskatchewan residents, then the associated corporation group will receive 100 per cent of the additional exemption. If a lesser proportion of total salaries and wages is paid in Saskatchewan, then the increase in the Corporation Capital Tax exemption will be reduced accordingly.

The Corporation Capital Tax additional exemption is calculated as follows:

Additional Exemption:

$$A \times \frac{B}{C} = \text{up to } \$10{,}000{,}000$$

Where:

(1) "A" means $10 million for corporation taxation years beginning on or after January 1, 2005; and,

(2) "B" means the salaries and wages paid in the fiscal year by the corporation to employees of its permanent establishments in Saskatchewan; and,

(3) "C" means the aggregate of all of the salaries and wages paid in the fiscal year by the corporation and all of its associated corporations.

B. INVESTMENT ALLOWANCE

1. General

In determining taxable paid-up capital, corporations may claim an investment allowance as a deduction from paid-up capital. This deduction is granted to minimize double- taxation that might result by including the qualified investments in the paid-up capital of the issuing corporations.

The investment allowance is determined using the following formula:

$$\frac{\text{Cost of Eligible Investments}}{\text{Total Assets (as adjusted)}} \times \text{Paid-up Capital (as adjusted)}$$

In no case may the investment allowance exceed the cost of eligible investments used in the numerator of the above fraction.

2. Cost of Eligible Investments

Investments qualifying for this deduction are:

- loans and advances in the nature of certificates of term deposits, bearer deposit notes, bearer discount notes, swap deposits or banker's acceptance notes with any bank, loan or trust corporation, if they have been outstanding for more than 90 days at the close of the fiscal year;
- bonds and other securities of governments, municipalities and school districts;
- bonds and debentures of other corporations;
- mortgages due from other corporations;
- shares in other corporations (at greater of book value or cost); and,
- amounts receivable from a related corporation whose head office is outside Canada, if they are outstanding for more than 90 days as at the close of the fiscal year.

Accounts receivable may be claimed for the investment allowance if they are:

- from the corporation's shareholders or from persons (individuals or corporations) related to its shareholders;
- from an unrelated corporation and outstanding for more than 90 days as at the close of the fiscal year;
- a portion of a long-term debt receivable from another corporation; or,
- from another corporation and secured by property of that corporation.

Cost is used in all cases except for shares in other corporations for which the greater of book value or cost may be used. Amounts shown on the balance sheet as leases receivable do not qualify for the investment allowance.

3. Total Assets (as adjusted)

Total assets used in the denominator of the fraction are those on the balance sheet, adjusted if necessary as follows:

Total assets may not be reduced by:

- any amount by which an asset is carried in the books of account or on the balance sheet in excess of cost. An example would be shares in a subsidiary corporation which are shown at equity value instead of original cost.

Total assets must be increased by:

- any amount by which the value of an asset has been written down and deducted from income or surplus where such amount is **not** deductible from income for income tax purposes. An example would be an investment in marketable securities written down to market values.

Total assets must be reduced by:

- $10 million exemption;
- additional exemption as determined in A(2);
- deferred exploration and development expenses deductible from income under the *Income Tax Act* (Canada);
- scientific research and experimental development expenditures deductible from income under the *Income Tax Act* (Canada); and,
- any amount by which the value of an asset has been written down and deducted from income or surplus where such amount **is** deductible, and has been deducted, from income for tax purposes (except a reserve deducted from income under paragraph 20(1)(n) or subparagraphs 40(1)(a)(iii) or 44(1)(e)(iii) of the *Income Tax Act* (Canada) if the amount is also booked).

4. Paid-up Capital (as adjusted)

Paid-up capital must be reduced by the following before being used in the formula for the investment allowance:

- $10 million exemption;
- additional exemption as determined in A(2);
- deferred exploration and development expenses deductible from income under the *Income Tax Act* (Canada); and,
- scientific research and experimental development expenditures deductible from income under the *Income Tax Act* (Canada).

C. DEFERRED EXPLORATION AND DEVELOPMENT EXPENSES

Corporations accumulate expenses incurred by them in exploration and development activities in Canada. These deferred expenses may be carried forward and deducted from income in computing income taxes in future years. As they are available for future deduction for income tax purposes they may be deducted from paid-up capital for capital tax purposes.
Note: Deferred exploration and development expenses do not include expenses renounced from another corporation.

Corporations have the option of deducting unused Canadian exploration and development tax pools in determining taxable paid-up capital. Previously, corporations were required to deduct these unused tax pools.

As an example, assume a mining corporation incurred Canadian exploration and development expenses of $1,000,000 which have been treated as follows:

1. $400,000 written off in the profit and loss statement with the balance of $600,000 shown as deferred expenses (asset) on the balance sheet; and,
2. $200,000 deducted from income in computing income tax with the balance of $800,000 available to reduce future income taxes.

Paid-up capital would be adjusted as follows:

(1)	add $200,000	the difference between the write-off for book purposes ($400,000) and the write-off for income tax purposes ($200,000)
(2)	deduct $800,000	the balance of the deferred expenses available for future income tax purposes.

The net result of the above is a reduction to paid-up capital of $600,000.

D. SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT EXPENDITURES

Corporations are permitted to deduct unused scientific research and experimental development tax pools in determining taxable paid-up capital. The deduction applies to expenditures that are incurred by the corporation and which are defined and deductible under the *Income Tax Act* (Canada), to the extent the expenses have not already been deducted for income tax purposes.

E. SASKATCHEWAN eTAX SERVICES (SETS)

Finance has made it possible to report and remit tax electronically through a secure, fast, easy and convenient online self-service portal. Several services are currently available to businesses through SETS:

- Register for secure, self-managed access to all your tax accounts.
- Apply for a new tax account.
- File and pay returns and amend previously filed returns.
- Make payments on account, including post-dated payments.
- View account balance and statement information.
- Authorize employees or accountants to file on your behalf.
- Receive notifications by email when a tax return should be filed. This replaces the paper forms usually sent in the mail.
- Submit a service request to update the mailing address or add a new business location.
- Submit a service request to receive tax information, interpretations or rulings related to your specific business activities.
- View and download up-to-date tax information promptly.
- Subscribe to receive email notifications when new and revised tax publications are available.

FOR FURTHER INFORMATION

Write:	Ministry of Finance Revenue Division PO Box 200 REGINA SK S4P 2Z6	Telephone: Email:	Toll Free 1-800-667-6102 Regina 306-787-6645 sasktaxinfo@gov.sk.ca

Internet: Tax bulletins, forms and information are available at saskatchewan.ca/business-taxes

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