

CT-3

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THE CORPORATION CAPITAL TAX ACT

CORPORATION CAPITAL TAX RESOURCE SURCHARGE

This bulletin has been prepared to help corporations determine the Corporation Capital Tax Resource Surcharge. It is a general guide and not a substitute for the legislation.

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

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

- A. Definition of a Resource Corporation
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A. DEFINITION OF A RESOURCE CORPORATION

Large resource corporations are subject to a Corporation Capital Tax Resource Surcharge. The Corporation Capital Tax Resource Surcharge applies to any corporation which has a value of Saskatchewan resource sales and which has, or would have, a value for taxable paid-up capital in the fiscal year without claiming the deduction for deferred exploration and development expenses. The rate of tax applied to the value of resource sales is 3.0%.

For example, a resource corporation will compute its taxable paid-up capital as follows:

Paid-up Capital		\$50,000,000
Less: Standard Exemption	\$10,000,000	
Investment Allowance	\$20,000,000	
Deferred Exploration and Development Expenses	<u>\$30,000,000</u>	<u>\$60,000,000</u>
Taxable Paid-up Capital		Nil

In the above example, the corporation will not be liable for the existing Corporation Capital Tax. The corporation will; however, be subject to the Resource Surcharge as it would have a value for taxable paid-up capital (\$20,000,000) without claiming the deferred exploration and development expenses permitted in clause 9(1)(d) of *The Corporation Capital Tax Act*.

The Resource Surcharge, for oil and gas corporations, equals the corporation's value of Saskatchewan resource sales multiplied by the applicable rate. The Resource Surcharge rate is 1.70% for all oil and gas wells with a finished drilling date on or after October 1, 2002, and for incremental oil related to new or expanded enhanced oil recovery projects or water flood projects having a commencement date on or after October 1, 2002. The Resource Surcharge rate for all other oil and gas wells is 3.0%.

Resource corporation includes any resource corporation which has assets in excess of \$100 million (including assets of all associated corporations). The assets of the associated group of corporations may be accounted for on a consolidated balance sheet basis. Resource corporations must provide a detailed consolidated balance sheet. The Minister may request an audited financial statement prepared by an independent auditor in the event of determining asset valuation.

B. VALUE OF SASKATCHEWAN RESOURCE SALES

For the purposes of determining the Resource Surcharge, a corporation's value of Saskatchewan sales will be defined to include the following resources:

Oil and Natural Gas

Value of resource sales means:

- in the case of Crown oil and gas, the product of:
 - the volume of oil and gas produced during each month in a fiscal year that is subject to Crown royalties pursuant to *The Crown Minerals Act* and the regulations made pursuant to that Act; and
 - the well-head value that is applied to the volume of the oil and gas mentioned above in determining the amount of the Crown royalties payable pursuant to *The Crown Minerals Act* and regulations made pursuant to that Act.
- in the case of freehold oil and gas the product of:
 - the volume of oil and gas produced during each month in a fiscal year that is subject to freehold production taxes pursuant to *The Freehold Oil and Gas Production Tax Act* and the regulations made pursuant to that Act; and
 - the well-head value that is applied to the volume of the oil and gas mentioned above in determining the amount of the freehold production taxes payable pursuant to *The Freehold Oil and Gas Production Tax Act* and the regulations made pursuant to that Act.

Exemptions for Oil and Gas

Freehold oil and freehold gas, as exempted pursuant to section 64 of *The Freehold Oil and Gas Production Tax Regulations, 1995*, will not be included in the calculation of total monthly production.

Uranium

Value of resource sales means "gross sales" as determined pursuant to the provisions of Part III of the Crown Mineral Royalty Schedule, 1986 to *The Mineral Disposition Regulations, 1986*.

Coal

Value of resource sales means:

- in the case of Crown coal, the gross sales of Crown coal as determined pursuant to the provisions of Part II of the Crown Coal Royalty Schedule to *The Coal Disposition Regulations, 1988*. However, the ex-mine cost allowance as determined pursuant to section 5 of the schedule is not deducted in determining the gross sales of Crown coal;
- in the case of freehold coal, the net value of freehold coal as determined pursuant to section 4 of the First Schedule "Freehold Coal Production Tax" to *The Mineral Taxation Act, 1983*. However, the ex-mine cost allowance as determined pursuant to section 5 of this schedule is not to be deducted in determining the net value of freehold coal.

Potash

Value of resource sales means "gross revenue" as determined pursuant to section 5 of *The Potash Production Tax Regulations*.

C. VALUE OF RESOURCE SALES AND PARTNERSHIPS

For purposes of calculating the resource surcharge, corporations that have a value of resource sales with an interest in a resource partnership will be subject to new rules for taxation years ending after March 22, 2011. The federal government recently introduced new rules governing the reporting of partnership income for taxation years ending after March 22, 2011. As a result, those corporations with a partnership interest will be required to accrue the proportionate value of resource sales from the partnership for the portion of the partnership's fiscal period that falls within the corporation's taxation year.

Please see Appendix A for the calculation of the Resource Surcharge as it applies to a partnership.

Transition Rules for Partnerships

For the first taxation year after March 22, 2011, the corporate partner shall report the proportionate value of resource sales from the fiscal year of the partnership that ends within the corporation's taxation year plus the proportionate value of resource sales from the subsequent fiscal year of the partnership that accrues in the corporation's taxation year (stub period).

Corporations with an interest in a partnership, filing their first Corporation Capital Tax return for fiscal years ending after March 22, 2011, shall file as follows:

- Submit the Corporation Capital Tax return by the applicable due date.
- Report the proportionate value of resource sales for the partnership in accordance with the example in Appendix A. Include a worksheet similar to Appendix A.

Those corporations reporting a resource surcharge payable for the stub period (amount C in the Appendix times the applicable resource surcharge rate) have an additional three months after the due date of the return to remit payment for this amount. The additional resource surcharge owing for the stub period will accrue interest free for the additional three month period.

Those corporations that are delinquent in the payment of the stub period amount after the three month period will not be eligible for interest relief. Also, those corporations that are delinquent in the filing of the annual Corporation Capital Tax return will not be eligible to defer the stub period amount interest free.

D. VALUE OF RESOURCE SALES DEDUCTION

Small resource corporations may be entitled to an annual deduction of up to \$2,500,000 from the value of resource sales when calculating the Resource Surcharge.

Eligibility

Small resource corporations with gross assets of less than \$100 million may be entitled to a value of resource sales deduction. Gross assets are generally defined as the balance sheet value of total assets plus any amount written down and deducted from income or undivided profits, where the amount is not deductible under the *Income Tax Act* (Canada) or, if deductible, has not been deducted in computing taxable income for the fiscal year or a previous fiscal year. Gross assets also include reserves deducted pursuant to paragraph 20(1)(n) or subparagraphs 40(1)(a)(iii) or 44(1)(e)(iii) of the *Income Tax Act* (Canada).

Calculation

The value of resource sales deduction is to be deducted from the value of resource sales. The net value of resource sales will then be subject to the applicable Resource Surcharge rate.

The amount that a resource corporation may deduct from its value of resource sales is the lesser of:

- (a) its value of resource sales; and
- (b) the amount A calculated in accordance with the following formula:

$$A = \$2,500,000 \times \frac{B}{C} \times \frac{\text{number of days in fiscal year}}{365}$$

where:

- (i) "B" means the salaries and wages paid in the fiscal year by the corporation to employees of its permanent establishments in Saskatchewan; and
- (ii) "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.

E. DETERMINING TAX PAYABLE

The Corporation Capital Tax of a resource corporation equals the sum of the existing Corporation Capital Tax liability and the Resource Surcharge. As of July 1, 2008, the normal Corporation Capital Tax was eliminated. A resource corporation is required to continue to calculate their taxable paid-up capital on the annual SCT-1 Corporation Capital Tax return to determine if the Resource Surcharge is applicable. Corporations that meet the definition of a resource corporation and have a value of resource sales will apply the applicable rate times the value of resource sales.

The historical Resource Surcharge rates are as follows:

1. Coal, Potash and Uranium Corporations:

- April 1, 1993 to June 30, 2006 – 3.6%
- July 1, 2006 to June 30, 2007 – 3.3%
- July 1, 2007 to June 30, 2008 – 3.1%
- After June 30, 2008 – 3.0%

2. Oil and Gas Corporations:

- a) The Resource Surcharge rate for all oil and gas wells with a finished drilling date on or after October 1, 2002, and for incremental oil related to new or expanded enhanced oil recovery projects or water flood projects having a commencement date on or after October 1, 2002, is as follows:
 - October 1, 2002 to June 30, 2006 – 2.0%
 - July 1, 2006 to June 30, 2007 – 1.85%
 - July 1, 2007 to June 30, 2008 – 1.75%
 - After June 30, 2008 – 1.70%

b) The Resource Surcharge rate for all other oil and gas wells is as follows:

- April 1, 1993 to June 30, 2006 – 3.6%
- July 1, 2006 to June 30, 2007 – 3.3%
- July 1, 2007 to June 30, 2008 – 3.1%
- After June 30, 2008 – 3.0%

F. ELECTIVE DEDUCTIONS

Corporations have the option of deducting unused Canadian exploration and development expenses and the additional exemption in determining taxable paid-up capital.

Corporations have the option of deducting unused Canadian exploration and development expenses for fiscal years ending after March 31, 1999. They also have the option of deducting the additional exemption for fiscal years beginning on or after January 1, 2002.

For further information, please see Information Bulletin CT-2.

G. REPORTING REQUIREMENTS

Annual Returns

A corporation that has taxable paid-up capital or a corporation that is liable for the Resource Surcharge must file a Corporation Capital Tax return within six months of the close of the fiscal year. The return provides details of the calculation of the Resource Surcharge.

Instalment Payments

Corporations are required to make monthly instalments on or before the last day of the month during its fiscal year. If the monthly instalment payments amount to \$400 or less, a corporation is not required to remit monthly instalment payments but may pay the entire tax at the time of filing its return. Refer to Information Bulletin CT-4 for further details on the methods of determining instalments.

H. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

The Ministry of Finance has made it possible for corporations to report and remit Corporation Capital Tax instalment payments electronically through the use of a standard Internet connection. The Saskatchewan Electronic Tax Service (SETS) offers a secure, fast, easy and convenient alternative to filing instalments in a paper format.

Several E-File services are currently available through SETS, such as:

- File and pay Corporation Capital Tax instalment payments.
- File an instalment return and post-date the payment to the due date.
- View account balances for each fiscal year end.
- Authorize your accountant to file on your behalf.

Businesses may use SETS to file and pay returns for Provincial Sales Tax and other provincial taxes.

FOR FURTHER INFORMATION

Write: Ministry of Finance
Revenue Division
PO Box 200
REGINA SK S4P 2Z6

Telephone: Toll Free 1-800-667-6102
Regina 306-787-6645

Email: sasktaxinfo@gov.sk.ca

Fax: 306-787-9644

Internet: Tax bulletins, forms and information are available at www.sets.saskatchewan.ca/taxinfo.

To receive automatic email notifications when this or any other bulletin is revised, go to www.sets.saskatchewan.ca/subscribe.

Government website: Saskatchewan.ca.

Appendix A

Calculation of the Value of Resource Sales for Partnerships with Fiscal Years Ending after March 22, 2011

Every resource corporation with a taxation year that ends after March 22, 2011, and that is in partnership with any other person or corporation shall include, when computing its value of resource sales, its proportionate share of the value of resource sales of the partnership in the amount A calculated in accordance with the following formula:

$$A = B + C - D$$

where:

B means the proportionate share of the value of resource sales of the partnership from the fiscal period that ends in the taxation year;

C means the proportionate value of resource sales for the stub period of the partnership that falls within the taxation year; and

D means the amount calculated in C that was reported in the previous taxation year of the corporation.

Stub period as referred to in C means the proportionate value of resource sales from the subsequent fiscal year of the partnership that accrues within the corporation's taxation year.

Example: December 31, 2011 and 2012 Taxation Years

Assume:

- ABC Partnership – Proportionate Value of Resource Sales – January 31, 2011 FYE – \$15 million and \$12 million for the January 31, 2012 FYE.
- Stub Period – Proportionate Value of Resource Sales from February 2011 to December 2011 – \$11 million and \$14 million from February 2012 to December 2012.

<u>Resource Surcharge Calculation</u>	<u>2011</u>	<u>2012</u>
Calculated Value of Resource Sales – ABC Partnership	\$15	\$12
Stub Period	\$11	\$14
Stub Period - Prior Period	<u>n/a</u>	<u>(\$11)</u>
Total Value of Resource Sales	\$26	\$15